



REVENUE RESERVE FUND CALCULATIONS

FOR THE YEAR ENDED
JUNE 30, 2019

Auditor of Public Accounts
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P.O. Box 1295
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November 1, 2019

Dear General Assembly Member:

REVENUE RESERVE FUND

This Office is providing a report of the required calculations for the Revenue Reserve Fund pursuant to § 2.2-1831.3 of the Code of Virginia. Appendix A provides historical information concerning the establishment of the Fund and the requirements surrounding it.

CALCULATION OF MAXIMUM FUND ALLOWED (Dollars in Thousands)

<u>Years</u>	<u>Tax Revenues</u>
2017	\$17,600,496
2018	18,794,912
2019	19,718,337
Average for three years	18,704,582
Maximum combined funds allowed (15% of average)	\$ 2,805,687
June 2019 balance of Revenue Stabilization Fund	<u>289,302</u>
Maximum Revenue Reserve Fund allowed	2,516,385
June 2019 balance of Revenue Reserve Fund	<u>502,590</u>
Maximum fund allowed less current Revenue Reserve Fund balance	<u>\$ 2,013,795</u>

The Revenue Reserve Fund in combination with the Revenue Stabilization Fund may not exceed 15 percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales as certified by the Auditor of Public Accounts for the previous three fiscal years. As shown above, the balance of the Revenue Reserve Fund as of June 30, 2019, does not exceed the maximum fund allowed.

CALCULATION OF DEPOSIT

A deposit to the Revenue Reserve Fund is required in years in which general fund revenues do not result in a mandatory deposit to the Revenue Stabilization Fund. Certified tax revenues for fiscal year 2019 resulted in a positive difference between last year's revenue growth and the average growth; therefore, a mandatory deposit to the Revenue Stabilization Fund is required in fiscal year 2021. As a result, no deposit to the Revenue Reserve Fund is required based on certified tax revenues for fiscal year 2019. However, within the 2019 General Fund Preliminary Annual Report, the Comptroller included an assigned fund balance of \$270,820,000 for a voluntary Revenue Reserve deposit. This deposit is in addition to the \$222,783,000 deposit included in Chapter 854, 2019 Acts of Assembly. As Exhibit 2 projections show, the appropriated and voluntary deposits will not cause the fund to exceed the maximum Revenue Reserve Fund allowed.

Fiscal Year 2019 Activity

In accordance with Item 266 of Chapter 854 of the 2019 Acts of Assembly, there was a deposit of \$342,727,895 to the Revenue Reserve Fund during fiscal year 2019. There have been no withdrawals from the fund since its establishment in fiscal year 2018. Exhibit 1 provides the funding progress of the Fund through June 30, 2019.

Should you have any questions concerning this information, please contact me.

AUDITOR OF PUBLIC ACCOUNTS

Enclosures

LDJ: clj

Exhibit 1

SCHEDULE OF FUNDING PROGRESS (Dollars in Thousands)

	<u>Amounts</u>
Chapter 1, 2018 Acts of Assembly deposit	\$156,395
Interest earned during fiscal year 2018	<u>44</u>
Balance as of June 30, 2018	<u>156,439</u>
 Chapter 854, 2019 Acts of Assembly deposit	 342,728
Interest earned during fiscal year 2019	<u>3,423</u>
Balance as of June 30, 2019	<u>\$502,590</u>
 Current balance as a percentage of maximum fund allowed	 20.0%
 Future deposits*	
Chapter 854, 2019 Acts of Assembly deposit	222,783
2019 General Fund Preliminary Annual Report voluntary deposit	<u>270,820</u>
 Total projected fund balance	 <u>\$996,193</u>

*A deposit is not required based on fiscal year 2019 calculations. However, Chapter 854, 2019 Acts of Assembly, indicates a future deposit during fiscal year 2020 and the 2019 General Fund Preliminary Annual Report indicates a voluntary future deposit.

Exhibit 2

PROJECTED REVENUE RESERVE FUND BALANCE COMPARED TO MAXIMUM FUND ALLOWED (Dollars in Thousands)

We performed our calculations using the maximum combined funds allowed as of June 30, 2019. There will be a new maximum combined funds allowed calculation in future years based on future certified tax revenues.

Maximum combined funds allowed as of June 30, 2019	\$ 2,805,705
Projected balance of Revenue Stabilization Fund*	<u>629,654</u>
Projected maximum Revenue Reserve Fund allowed	\$ 2,176,051
Projected balance of Revenue Reserve Fund**	<u>996,193</u>
Projected difference between Revenue Reserve Fund balance and maximum Revenue Reserve Fund allowed	<u>\$1,179,858</u>
Projected percentage of maximum Revenue Reserve Fund allowed	46%

*The projected Revenue Stabilization Fund Balance as included within the [2019 Revenue Stabilization Fund Certification Letter](#), Exhibit 2.

**The projected balance of the Revenue Reserve Fund includes all anticipated future deposits.

APPENDIX A

ESTABLISHMENT AND REQUIREMENTS OF THE FUND

Code of Virginia § 2.2-1831.2 establishes the special nonreverting fund known as the Revenue Reserve Fund. All funds received on its behalf shall be paid into the state treasury and credited to the Fund. Interest earned on moneys in the Fund will remain in the Fund. At the end of each fiscal year the Fund does not revert to the general fund. The Governor and General Assembly can use the fund to offset certain anticipated shortfalls in revenues when appropriations based on previous forecasts exceed expected revenues in subsequent forecasts.

The General Assembly established the fund during the 2018 session and, subsequently, appropriated amounts for deposit into the fund in fiscal years 2018, 2019, and 2020. Pursuant to Code of Virginia § 2.2-1831.3, on November 1 of each year, the Auditor of Public Accounts is required to report on the amount that can be paid into the Fund and the amount by which the amount in the fund is less than the maximum amount permitted.

Deposits to the Fund

Pursuant to Code of Virginia § 2.2-1831.3, in fiscal years in which general fund revenues do not result in a mandatory deposit to the Revenue Stabilization Fund as required by Article X, Section 8 of the Constitution of Virginia, the Comptroller, at the end of the fiscal year, will commit within his annual report, the amount of general fund revenue in excess of the official forecast for that prior fiscal year, less any deposit to the Virginia Water Quality Improvement Fund, for deposit into the Revenue Reserve Fund. The amount committed for deposit into the Revenue Reserve Fund shall not exceed one percent of the total general fund revenues for the prior fiscal year. Subsequently, the Governor will recommend appropriations from the general fund or amend current general fund appropriations to include an amount for deposit into the Revenue Reserve Fund at least equal to the amounts committed by the Comptroller and confirmed by the Auditor of Public Accounts.

For fiscal year 2019, § 3-5.21 of Chapter 854, 2019 Acts of Assembly, requires certified tax revenues to not include any amounts transferred from the general fund to the Taxpayer Relief Fund that will be used to provide refunds pursuant to the fourth enactment of Chapters 17 and 18, 2019 Acts of Assembly. Further, general fund revenue collections used for calculating the required deposit to the Revenue Reserve Fund shall not include any amounts transferred to the Taxpayer Relief Fund. Therefore, certified tax revenues and total general fund revenue collections used in determining the deposit to the Revenue Reserve Fund and maximum fund allowed will not include any refunds associated with nor amounts transferred to the Taxpayer Relief Fund.

Maximum Fund Allowed

Code of Virginia § 2.2-1831.3 requires the combined amount in the Revenue Reserve Fund and the Revenue Stabilization Fund to not exceed fifteen percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales as certified by the Auditor of Public Accounts for the previous three fiscal years.

Withdrawals from the Fund

Code of Virginia § 2.2-1831.4 describes the circumstances under which withdrawals from the Fund may occur. In the event that a revised general fund forecast presented to the General Assembly reflects a decline when compared with total general fund revenues appropriated, and the decrease is two percent or less of general fund resources collected in the most recently ended fiscal year, the General Assembly may appropriate an amount for transfer from the Fund, not to exceed 50 percent of the amount in the Fund, to the general fund to stabilize the revenues of the Commonwealth. Additionally, when the General Assembly is not in session, after review of the May general fund revenue collections, the Governor may withdraw amounts appropriated to the Fund when actions to curtail spending is insufficient to avoid a cash deficit.