



REVENUE RESERVE FUND CALCULATIONS

FOR THE YEAR ENDED
JUNE 30, 2021

Auditor of Public Accounts
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P.O. Box 1295
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October 29, 2021

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>
2019	\$19,718,337
2020	20,476,114
2021	23,444,713
Average for three years	21,213,055
Maximum combined funds allowed (15% of average)	3,181,958
June 2021 balance of Revenue Stabilization Fund	<u>639,612</u>
Maximum Revenue Reserve Fund allowed	2,542,346
June 2021 balance of Revenue Reserve Fund	<u>855,790</u>
Maximum fund allowed less current Revenue Reserve Fund balance	<u>\$ 1,686,556</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, 2021, 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 2021 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 2023. As a result, no deposit to the Revenue Reserve Fund is required based on certified tax revenues for fiscal year 2021. However, Chapter 552 of the 2021 Acts of Assembly, Special Session I, appropriates \$650,000,000 for a voluntary deposit during fiscal year 2022. This amount is included in the Amount Required by Chapter 552, which is reported as an assigned component of fund balance in the Comptroller's 2021 General Fund Preliminary Annual Report. If the voluntary deposit is made to the Revenue Reserve Fund along with the required deposit to the Revenue Stabilization Fund in 2023, the total in the two funds could exceed the 15 percent maximum balance in fiscal year 2023. There will be a new maximum fund allowed calculation prior to the required deposit to the Revenue Stabilization Fund in fiscal year 2023 using the certified tax revenue collected in the three preceding fiscal years. Exhibit 2 provides the projected Revenue Reserve Fund balance compared to the current maximum Revenue Reserve Fund allowed.

Fiscal Year 2021 Activity

In accordance with Item 275 of Chapter 552 of the 2021 Acts of Assembly, Special Session I, there was a deposit of \$339,027,631 to the Revenue Reserve Fund during fiscal year 2021. 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, 2021.

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

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

Enclosures

DBC: 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>
Interest earned during fiscal year 2020	<u>10,655</u>
Balance as of June 30, 2020	<u>513,245</u>
Chapter 552, 2021 Acts of Assembly, Special Session I, deposit	339,028
Interest earned during fiscal year 2021	<u>3,517</u>
Balance as of June 30, 2021	<u>855,790</u>
Current balance as a percentage of maximum fund allowed	33.7%
Future deposits*	
Chapter 552, 2021 Acts of Assembly, Special Session I, voluntary deposit	<u>650,000</u>
Total projected fund balance	<u>\$1,505,790</u>

*A deposit is not required based on fiscal year 2021 calculations. However, Chapter 552, 2021 Acts of Assembly, Special Session I, indicates a voluntary future deposit during fiscal year 2022.

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, 2021. 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, 2021*	\$ 3,181,958
Less: Balance as of June 30, 2021	
Revenue Stabilization Fund	639,612
Revenue Reserve Fund	<u>855,790</u>
Remaining maximum combined funds allowed as of June 30, 2022*	1,686,556
Less: Planned deposit(s) during fiscal year 2022**	
Revenue Stabilization Fund	-
Revenue Reserve Fund (voluntary)	<u>650,000</u>
Remaining maximum combined funds allowed as of June 30, 2023*	1,036,556
Less: Planned deposit(s) during fiscal year 2023**	
Revenue Stabilization Fund (required)	1,127,733
Revenue Reserve Fund	<u>-</u>
Difference between the combined fund balance and maximum fund balance allowed as of June 30, 2023***	<u>(\$ 91,177)</u>
Percentage of maximum combined fund balance allowed	103%

*Fund maximum calculated based on the average annual income and retail sales tax revenues for fiscal years 2019, 2020, and 2021.

**Planned deposits do not include projected interest earnings.

***There will be a new maximum fund allowed calculation prior to the required deposit to the Revenue Stabilization Fund in fiscal year 2023 using the certified tax revenue collected in the three preceding fiscal years.

APPENDIX A

ESTABLISHMENT AND REQUIREMENTS OF THE FUND

Code of Virginia § 2.2-1831.2 establishes the special non-reverting 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 and 2019. 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.

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 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.

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.