



Overview of Revenue Stabilization and Revenue Reserve Funds

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Establishment of the Revenue Stabilization Fund

- During the 1980s, a general fund revenue reserve was routinely appropriated as part of Virginia's biennial budget
 - These ranged from a low of \$8.5 million in 1980 to a high of \$77.5 million in 1989
 - As the economy began to sour, a \$200 million revenue reserve was included in the 1990 budget, funded in part by \$95 million in budget reductions
- The 1990 Appropriation Act included language directing JLARC to establish a special subcommittee to review the executive budget process, including study of the possibility of establishing a "Rainy Day" fund
- JLARC's 1991 report proposed a constitutional amendment establishing such a Fund, which was approved by the 1991 and 1992 Sessions, and ratified by the voters in November 1992
 - The Fund took effect on January 1, 1993



Constitutional Provisions

- Article X, Section 8 of the Constitution establishes the Revenue Stabilization Fund, or “Rainy Day” Fund, and sets out the formulas used to calculate the required deposits and the total amount that can be in the Fund as well as circumstances allowing for withdrawals from the Fund
 - Individual income tax (withholding and nonwithholding), corporate income tax, and general sales and use tax are used to determine the deposits and caps
- Constitution requires the Auditor of Public Accounts to certify the tax revenues and the amount of required deposit (if any) each year
- Deposits are appropriated in the fiscal year following certification – in effect, 2 years after the year triggering such deposit
 - The deposit based on FY 2022 revenue collections will be certified November 2022 and appropriated for payment to the fund in FY 2024



Constitutionally Established Fund Cap

- First paragraph stipulates the maximum size of the Fund
- Based on a constitutional amendment approved by the voters in the November 2010 election, the total allowable balance in the Rainy Day Fund is 15% of the average revenues collected in the 3 preceding fiscal years
 - Calculation considers only the sources used to calculate deposits into fund – sales, income, and corporate taxes
 - Cap includes interest gained on Fund balances
- Based on FY 2020-2022 revenue collections from these sources, current cap is estimated to be about \$3.5 billion
 - Projected to increase to around \$3.7 billion in FY 2024



Super Deposit Provisions

- Legislation passed in the 2003 Session added a requirement in the Code for an additional deposit to the Revenue Stabilization Fund, or a “Super Deposit” if three conditions are met:
 - Revenue growth in a given fiscal year of 8 percent or greater
 - Revenue growth in given fiscal year of more than 1.5 times the average revenue growth in the preceding six fiscal years, and
 - Estimated revenue growth in the next fiscal year of at least 5 percent
- If such conditions are met, the Code requires the Governor to include in his budget recommendations an additional amount essentially equal to one half of the constitutionally required deposit
- To date, a Super Deposit has never been made
- The “Super Deposit” provisions were enacted prior to the establishment of the Revenue Reserve



Rainy Day Fund Deposit Calculation

(Based on FY 2022 Projected Collections)

Fiscal Year	Sales and Income Tax Revenues	% Growth Over Prior Year	Avg Growth Prior 6 Years
2022	\$26,420.9 million	12.69%	5.85%

Step 1: Calculate Difference Between Current Growth Rate & Average Growth Rate for the Prior Six Years

Current Growth:	12.69%
<u>Prior Six Year Avg.</u>	<u>5.85%</u>
Difference:	6.84%

Step 2: Take One-Half of the Difference

$$0.06848 / 2 = 0.03424$$

Step 3: Multiply Sales and Income Tax Revenues by the Result of Step 2

$$\$26,420.9 \text{ Million} * 0.03424 = \$904.65 \text{ million}$$



Conditions Required for Withdrawals From Revenue Stabilization Fund

- The third paragraph in Article X, Section 8 explains under what circumstances money may be transferred out of the Rainy Day Fund and limits the amount that can be transferred
 - The Fund may be accessed only if appropriations in an adopted budget exceed a revised budget submitted to the General Assembly by more than two percent of the certified tax revenues for the prior fiscal year, and then only one-half of the projected shortfall may be covered by the fund
- This also means that any mid-year reduction in a forecast eliminates the ability to access the Fund
- Fund cannot be accessed at the beginning of biennium regardless of economic conditions
 - An initial forecast based on a recession with negative 3% growth projected would not allow for a rainy day fund withdrawal



Establishment of the Revenue Reserve Fund

- Unlike the Revenue Stabilization Fund, which is governed by Constitutional provisions, the Revenue Reserve Fund was established by the General Assembly in the Appropriation Act in 2017
- The following year, legislation was adopted codifying the Revenue Reserve Fund and setting out its uses
- The intent was to establish a more flexible fund – the Rainy Day Fund provisions make it exceptionally difficult to withdraw funds which also leads to decisions to make withdrawals whenever allowable
- The Revenue Reserve fund is another tool to help address revenue shortfalls that are less than 2% (RDF requirement) and/or occur late in the fiscal year
 - It also encourages deposits in years where there is no mandatory RDF deposit



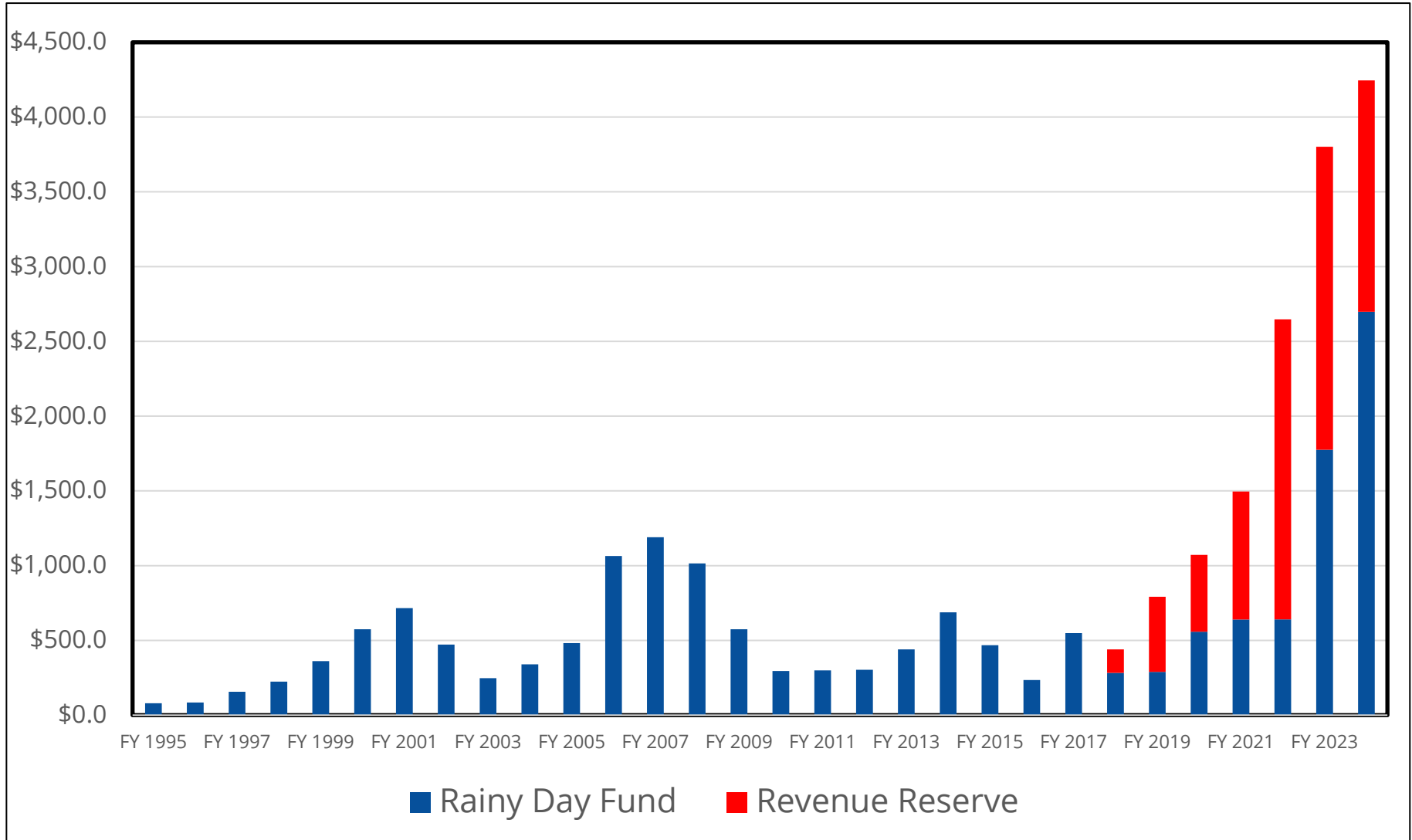
Revenue Reserve Fund

- Code requires a deposit into the revenue reserve fund in years in which general fund revenues do not result in a mandatory deposit but exceed the official forecast
 - The Code sets the required deposit at all the amount of the surplus, less any required deposit into the Water Quality Improvement Fund, up to 1% of the total GF revenues for the year
- The Code caps the total combined balances in the Rainy Day and Revenue Reserves at 15% of the average income and sales revenues for the three fiscal years immediately preceding
 - Budget Language included in Chapter 2 (Item 267.C.1) sets the cap at 20% through June 30, 2024



Total of All Reserves FY 2000 through FY 2024 (Projected) (Dollars in Millions)

Grand Total Fund Balances



Note: Projected total for FY 2024 includes \$904.6 million constitutionally required Revenue Stabilization Fund deposit from the FY 2022 revenue surplus and a \$498.7 million withdrawal from the revenue reserve.



Due to Significant Deposits We are Approaching the Caps

- The combined balances are reaching the 15% cap, future deposits to the Rainy Day Fund will continue consistent with the constitutional requirements for the fund
 - Funds will either be transferred out of the Revenue Reserve or the combined cap will have to be increased

Fiscal Year End	15% RSF Constitutional Maximum	Combined Statutory Maximum (20% - FY23 & FY24)	RSF Balance	RRF Balance	Combined Balance	RSF Balance	RRF Balance	Combined Balance
FY 2021	\$2,949.5	\$2,949.5	\$639.6	\$855.8	\$1,495.4	2.7%	3.7%	6.4%
FY 2022	\$3,182.0	\$3,182.0	\$640.9	\$2,006.3	\$2,647.2	2.4%	7.6%	10.0%
FY 2023	\$3,517.1	\$4,689.4	\$1,775.1	\$2,026.3	\$3,801.4	7.2%	8.3%	15.5%
FY 2024	\$3,719.4	\$4,959.2	\$2,697.5	\$1,547.9 *	\$4,245.4	10.4%	6.0%	16.4%

* Chapter 1 of the 2022 Special Session included a \$1.1 billion deposit into the revenue reserve fund in FY 2022, which included \$498.7 million to be transferred to the Rainy Day Fund in FY 2024



Rules Governing Reserve Funds

Provision	Rainy Day Fund	Revenue Reserve
Balance at Close FY 22	\$640.9 million	\$2,006.3 million
Trigger to Access	2% shortfall from forecast in ADOPTED budget	Shortfall greater than 1%, less than 2%
Alternate Trigger	None	If Governor announces shortfall after review of May revenue collections
Trigger Requirements	Set in Constitution – inflexible	Set in Code – Can be overridden in budget
Limits on Use	No more than lesser of 50% of fund or 50% of shortfall in one year	No more than 50% of fund in one year
Code/Constitutional Citations	Article X, Section 8 Constitution § 2.2-1828. Creation of Revenue Stabilization Fund	§ 2.2-1831.4. Decline in forecasted revenues



Recommended Modifications

- Budget Language included in Chapter 2 (Item 267.C.2) required the Secretary of Finance to prepare a report to include options for the adjustment or removal of the combined cap on the funds
 - Report was submitted September 1, 2022
 - Report recommends maintaining the combined balance at 15% (stating the General Assembly should “consider” removing the temporary increase to 20%)
 - In addition, the report recommends the formation of a workgroup to consider modifications to the Statutory Super Deposit and to consider simplification of the Revenue Stabilization Fund Deposit formula



HAC Recommendations

1. Eliminate Super Deposit to Revenue Stabilization Fund
2. Establish new “super deposit” to the Revenue Reserve Fund when combined balances fall below 10%
 - Triggered if revenue growth is 8 percent or greater; and is more than 1.5 times the average revenue growth in the preceding six fiscal years
 - Eliminate trigger of “estimated revenue growth in the next fiscal year of at least 5 percent”
3. Return to 15% combined cap contingent on a minimum balance (5% or 7%?) in the Revenue Reserve Fund?



Appendix



Article X, Section VIII, Virginia Constitution

The General Assembly shall establish the Revenue Stabilization Fund. The Fund shall consist of an amount not to 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 three fiscal years immediately preceding. The Auditor of Public Accounts shall compute the fifteen percent limitation of such fund annually and report to the General Assembly not later than the first day of December. "Certified tax revenues" means the Commonwealth's annual tax revenues derived from taxes on income and retail sales as certified by the Auditor of Public Accounts.

The General Assembly shall make deposits to the Fund to equal at least fifty percent of the product of the certified tax revenues collected in the most recently ended fiscal year times the difference between the annual percentage increase in the certified tax revenues collected for the most recently ended fiscal year and the average annual percentage increase in the certified tax revenues collected in the six fiscal years immediately preceding the most recently ended fiscal year. However, growth in certified tax revenues, which is the result of either increases in tax rates on income or retail sales or the repeal of exemptions therefrom, may be excluded, in whole or in part, from the computation immediately preceding for a period of time not to exceed six calendar years from the calendar year in which such tax rate increase or exemption repeal was effective. Additional appropriations may be made at any time so long as the fifteen percent limitation established herein is not exceeded. All interest earned on the Fund shall be part thereof; however, if the Fund's balance exceeds the limitation, the amount in excess of the limitation shall be paid into the general fund after appropriation by the General Assembly.

The General Assembly may appropriate an amount for transfer from the Fund to compensate for no more than one-half of the difference between the total general fund revenues appropriated and a revised general fund revenue forecast presented to the General Assembly prior to or during a subsequent regular or special legislative session. However, no transfer shall be made unless the general fund revenues appropriated exceed such revised general fund revenue forecast by more than two percent of certified tax revenues collected in the most recently ended fiscal year. Furthermore, no appropriation or transfer from such fund in any fiscal year shall exceed more than one-half of the balance of the Revenue Stabilization Fund. The General Assembly may enact such laws as may be necessary and appropriate to implement the Fund.



Code Provisions Governing Rainy Day Fund

§ 2.2-1828. Creation of Revenue Stabilization Fund.

There is established a fund to be known as the Revenue Stabilization Fund (the "Fund") for the stabilization of the expected revenues of the Commonwealth. The Fund shall be available to offset, in part, anticipated shortfalls in revenues when appropriations based on previous forecasts exceed expected revenues in subsequent forecasts.

§ 2.2-1829. Reports of Auditor of Public Accounts; Fund deposits and withdrawals.

A. On or before December 1 of each year, the Auditor of Public Accounts shall report to the General Assembly the certified tax revenues collected in the most recently ended fiscal year. The Auditor shall, at the same time, provide his report on (i) the 15 percent limitation and the amount that could be paid into the Fund and (ii) the amount necessary for deposit for the next fiscal year into the Fund in order to satisfy the mandatory deposit requirement of Article X, Section 8 of the Constitution of Virginia. The Governor shall include any such amount in his budget bill submitted to the General Assembly pursuant to § [2.2-1509](#). A schedule of deposits may be provided for in the Appropriation Act.

B. If the report of the Auditor of Public Accounts, pursuant to subsection A, indicates that the annual percentage increase in the certified tax revenues collected in the most recently ended fiscal year is eight percent or greater than the certified tax revenues collected for the immediately preceding fiscal year and that such annual percentage increase in the certified tax revenues for the most recently ended fiscal year is also equal to or greater than 1.5 times the average annual percentage increase in the certified tax revenues collected in the six fiscal years immediately preceding the most recently ended fiscal year, the Governor shall include in his budget recommendations, submitted to the General Assembly in the subsequent session pursuant to § [2.2-1509](#), an additional amount for deposit to the Fund in excess of any mandatory deposit to the Fund required by Article X, Section 8 of the Constitution of Virginia. Such additional amount shall be equal to at least 25 percent of the product of the certified tax revenues collected in the most recently ended fiscal year multiplied by the difference between the annual percentage increase in the certified tax revenues collected for the most recently ended fiscal year and the average annual percentage increase in the certified



Code Provisions Governing Rainy Day Fund

tax revenues collected in the six fiscal years immediately preceding the most recently ended fiscal year. Any such additional deposits to the Fund shall be included in the Governor's budget recommendations submitted to the General Assembly in the subsequent session pursuant to § [2.2-1509](#) only if the estimate of general fund revenues prepared in accordance with § [2.2-1503](#) for the fiscal year in which the deposit is to be made is at least five percent greater than the actual general fund revenues for the immediately preceding fiscal year.

C. The State Comptroller shall draw such warrants as appropriated and the State Treasurer shall deposit such warrants into the Fund. No amounts shall be withdrawn from the Fund except pursuant to appropriations made by the General Assembly in accordance with § [2.2-1830](#). However, if any amounts accrue, such as through interest or dividends, to the credit of the Fund in excess of the 15 percent limitation calculated by the Auditor of Public Accounts, any excess shall be paid into the general fund pursuant to Article X, Section 8 of the Constitution of Virginia.

D. For the purposes of the Comptroller's preliminary and final annual reports as required by § [2.2-813](#), all balances remaining in the Fund on June 30 of each fiscal year shall be considered to be a portion of the fund balance of the general fund of the state treasury.

§ 2.2-1830. Decline in forecasted revenues.

In the event that a revised general fund forecast presented to the General Assembly reflects a decline when compared to total general fund revenues appropriated, and the decrease is more than two percent of certified tax revenues collected in the most recently ended fiscal year, the General Assembly may appropriate an amount for transfer from the Fund to the general fund to stabilize the revenues of the Commonwealth. However, in no event shall the transfer exceed more than one-half of the forecasted shortfall in revenues.

§ 2.2-1831. Sources or components of "general fund revenues."

Any revised general fund revenue forecast presented to the General Assembly for purposes of this article shall consist of the same revenue sources or components as those on which the total general fund revenues appropriated are based.



Requirements Governing Use of Revenue Reserve Fund

§ 2.2-1831.4. Decline in forecasted revenues.

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.

When the General Assembly is not in session, after review of the May general fund revenue collections and certification to the General Assembly that actions to curtail spending will not be sufficient to avoid a cash deficit, the Governor may withdraw amounts appropriated to the Fund to avoid such cash deficit.

