Department of Planning and Budget
2018 Fiscal Impact Statement

1. **Bill Number:** HB763

House of Origin	☐ Introduced	☒ Substitute	☐ Engrossed
Second House	☒ In Committee	☐ Substitute	☐ Enrolled

2. **Patron:** Jones, S.C.

3. **Committee:** Finance

4. **Title:** Revenue Reserve Fund created.

5. **Summary:** Creates the Revenue Reserve Fund ("the Fund") to offset shortfalls in the budget of two percent or less of certified tax revenues collected. A deposit to the Fund may be required whenever there is a fiscal year 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, provided that the total amount in the Fund does not exceed two percent of total general fund revenues for the prior fiscal year. Any amount in excess of this two percent threshold is to be deposited into the general fund.

   The State Comptroller is required to calculate, and the Auditor of Public accounts is required to confirm, the deposit into the Fund by taking the amount of general fund revenue in excess of the official forecast for the prior fiscal year less any deposit to the Virginia Water Quality Improvement Fund pursuant to subsection A of § 10.1-2128, *Code of Virginia*. The deposit shall not exceed one percent of the total general fund revenues for the prior fiscal year. The Governor is required to include in "The Budget Bill" an amount for deposit into the Fund at least equal to the amount determined by the State Comptroller.

   A withdrawal from the Fund would be permitted when a revised general fund forecast is presented to the General Assembly that reflects a decline when compared with total general fund revenues collected and the decrease is two percent or less of certified tax revenues collected in the most recently ended fiscal year. Any withdrawal or transfer from the fund shall not exceed 50 percent of the amount in the fund. A withdrawal is also permitted if in any fiscal year, after review of the May general fund revenue collections, the Governor certifies to the General Assembly that he anticipates a revenue shortfall of such magnitude that without expenditures from the Fund he anticipates the Commonwealth will be unable to meet the requirements of the Appropriation Act and result in a cash deficit.

6. **Budget Amendment Necessary**: Yes - Item 266, HB30. Budget language in HB30, as introduced, provides for a similar process for a Revenue Cash Reserve with some key differences which would need to be resolved to provide conformity:
   a) HB30 as introduced does not limit a deposit to years when there is no mandatory deposit to the Revenue Stabilization Fund. This legislation does limit deposits to those years.

b) HB30 as introduced does not establish a maximum amount that can be in the Cash Reserve/the Fund. This legislation limits the amount in the Fund to two percent of general fund revenues in the most recently ended fiscal year.

c) HB30 as introduced requires the State Comptroller to reflect 50 percent of the general fund surplus in excess of the revenue forecast, after removing any amounts for required commitments, as an amount committed to the Revenue Cash Reserve. This legislation requires general fund revenues in excess of the official forecast for the prior fiscal year, less any deposit to the Virginia Water Quality Improvement Fund pursuant to subsection A of § 10.1-2128, *Code of Virginia*, to be committed to the Revenue Reserve Fund so long as such amount does not exceed one percent of general fund revenues collected in the most recently ended fiscal year.

d) HB30 as introduced allows the State Comptroller to draw against the balances of the Revenue Cash Reserve for an amount equal to any shortfall in general fund revenue or transfer collections from the official forecast contained in the Appropriation Act. This legislation allows withdrawals from the Fund in two ways: The first way requires withdrawals from the Fund to meet the following criteria: i) a revised general fund forecast must be presented to the General Assembly; ii) the revised forecast shows a decrease of two percent or less of certified tax revenues collected in the most recently ended fiscal year; and iii) no more than 50 percent of the amount in the Fund may be used. The second way requires the Governor, after review of the May general fund revenue collections, to certify to the General Assembly that he anticipates a revenue shortfall of such magnitude that without expenditures from the Fund he anticipates the Commonwealth will be unable to meet the requirements of the Appropriation Act and therefore result in a cash deficit.

Note: Amendments to HB30 adopted by the House of Delegates address the issues noted above.

7. **Fiscal Impact Estimates:** Indeterminate. See Item 8.

8. **Fiscal Implications:** This legislation would establish the Revenue Reserve Fund ("the Fund") which would be used to offset shortfalls in the budget of two percent or less of certified tax revenues collected, compared to the most recently ended fiscal year.

   Deposits into the Fund would be required in any fiscal year when general fund revenues exceed the official forecast and such surplus does not result in a mandatory deposit to the Revenue Stabilization Fund pursuant to the Constitution of Virginia, and when the total amount in the fund is less than two percent of total general fund revenues from the previous fiscal year.

   Deposits would be made from the general fund revenue in excess of the official forecast for the prior fiscal year less any deposit to the Virginia Water Quality Improvement Fund pursuant to subsection A of § 10.1-2128, *Code of Virginia*. The deposit is limited to being no more than one percent of the total general fund revenues for the prior fiscal year.

A deposit required under the bill would reduce the resources available for appropriation, but would not impact revenues as the deposit is based on general fund revenues already collected that are in excess of the official forecast. Existing law requires the State Comptroller to assign 67 percent of the remaining amount of the general fund balance that is not otherwise restricted, committed, or assigned for other usage within the general fund to be assigned for deposit into the Transportation Trust Fund. The remaining 33 percent is assigned for nonrecurring expenditures. In years in which a deposit to the Revenue Reserve fund is required, the amounts available to be deposited in the Transportation Trust Fund or used for nonrecurring expenditures would be reduced.

The deposit of funds into the Fund would require a general fund appropriation in the year that the deposit is to be made. The size and frequency of deposits will vary based on whether a mandatory deposit to the Revenue Stabilization Fund is required, as well as revenues collected in a given fiscal year. Since these factors will not be definitively known until the end of the fiscal year, the actual deposit amounts are currently indeterminate.

This legislation would not become effective until fiscal year 2019 if enacted. The table below contains estimates based on the current revenue estimates for fiscal years 2018, 2019, and 2020, as included in HB29 and HB30 in order to demonstrate the scale of potential deposits to the Fund as well as the potential maximum amount allowed to be in the Fund.

	FY2018 GF Estimates (HB29)	**FY2019 GF Estimates (HB30)**	**FY2020 GF Estimates (HB30)**
Estimated GF Revenue Collections (millions)	$19,328.2	$20,096.5	$20,892.3
Two percent fund maximum (millions)	$386.6	$401.9	$417.9
One percent deposit maximum (millions)	$193.3	$201.0	$208.9
Amount included for deposit in Budget Bills (millions)	$156.4	$50.0	$220.7

As mentioned previously, the actual amount of a deposit would depend on the actual general fund revenues collected in excess of the official forecast and so may differ than the amount shown as the deposit and fund maximums shown in the table.

This legislation limits Revenue Reserve Fund deposits to years when general fund revenues do not result in a mandatory deposit to the Revenue Stabilization Fund. Based on the current revenue forecast, a mandatory deposit to the Revenue Stabilization Fund is not projected to be required in fiscal years 2019, 2020, or 2023, but is projected to be required in fiscal years 2021, 2022, and 2024 based on the Department of Taxation's six-year revenue forecast.

9. **Specific Agency or Political Subdivisions Affected:** Department of Accounts, Department of Planning and Budget, Auditor of Public Accounts

10. Technical Amendment Necessary: No.

11. Other Comments: None.

Date: February 26, 2018
File: HB763H1