Department of Planning and Budget
2019 Fiscal Impact Statement

1. **Bill Number:** HB2354

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

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

3. **Committee:** Appropriations

4. **Title:** Revenue Stabilization Fund and Revenue Reserve Fund; maximum amounts.

5. **Summary:** Provides that the combined funds in the Revenue Stabilization Fund and Revenue Reserve Fund shall not exceed 15 percent of average income and sales tax revenues for the past three years. Under current law, the amount in the Revenue Stabilization Fund shall not exceed 15 percent of average income and sales tax revenues for the past three years, and the amount in the Revenue Reserve Fund shall not exceed two percent of general fund revenues for the prior year.

6. **Budget Amendment Necessary**: No.

7. **Fiscal Impact Estimates:** Indeterminate; see Item 8.

8. **Fiscal Implications:** This legislation would establish a 15 percent fund maximum on the combined amount in the Revenue Stabilization Fund (RSF) and the Revenue Reserve Fund (RRF) based on the 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. Section 2.2-1829 A is amended to remove the 15 percent fund maximum on the Revenue Stabilization Fund. This proposed change doesn't appear to have any substantive impact or contradict the 15 percent RSF limit authorized in the constitution since the combined amount permitted in both funds cannot exceed 15 percent.

   The proposed legislation would authorize any amount in excess of the RSF limitation be paid to the general fund from either the Revenue Stabilization Fund or the Revenue Reserve Fund. While the transfer out of either fund would allow the combined funds to remain below the 15 percent limitation, the decision on which excess funds to transfer would have policy implications and may contradict the constitutional limitations pertaining to transfers out of the RSF. Article X, Section 8 states that "…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." In the absence of this provision being met, the excess amounts would have to be transferred out of the RRF, thereby reducing flexibility to use the RRF as authorized in the appropriation act to mitigate any potential revenue or transfer shortfalls that may arise during the biennium.

HB 2354 also amends Section 2.2-1831.3 to remove the RRF's two percent cap on the total general fund revenues for the prior fiscal year. Eliminating this two percent cap is consistent with amendments included in the Governor's introduced budget. As noted above, the proposed cap would be set at 15 percent fund maximum on the combined amount in the RSF and RRF based on the 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. Consistent with the amendments proposed for Section 2.2-1829, the legislation would authorize any amount in excess of the combined RSF and RRF limitation be paid to the general fund from either the RSF or RRF with the same potential limitations applied to the more flexible use of the RRF.

A combined 15 percent fund maximum based on revenues forecasted in HB1700/SB1100 is approximately $2.8 billion in fiscal year 2020. Also based on HB1700/SB1100, the combined RSF and RRF are estimated to total approximately $1.55 billion. Given the gap between the fund maximum and the estimated fund balance in fiscal year 2020, this legislation would not likely impact either fund balance anytime soon and does not require a budget amendment. However, if the combined fund balance approaches the proposed 15 percent fund maximum in the future, this proposed legislation could restrict flexibility to address revenue shortfalls to the extent funds are required to be transferred from the RRF to the general fund so that the combined fund maximum balance is not exceeded.

In addition, if approved, the Governor's introduced budget would authorize the Governor to transfer funds from the RRF "… to address payment of: 1) deferrals, disallowances, and repayments required by the federal government; 2) unbudgeted obligations including costs resulting from settlements and litigation; 3) emergencies and natural disasters; 4) economic development incentives authorized by the General Assembly and the Governor; and, 5) any required deposits to the Revenue Stabilization Fund that are not otherwise supported by this act." To the extent funds were transferred out of the RRF to maintain the 15 percent combined limit on the RSF and RRF, the ability to address these uses could also be limited.

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

10. **Technical Amendment Necessary:** No.

11. **Other Comments:** None.