Department of Planning and Budget
2023 Fiscal Impact Statement

1. **Bill Number:** HB1841

   House of Origin ☒ Introduced ☐ Substitute ☐ Engrossed

   Second House ☐ In Committee ☐ Substitute ☐ Enrolled

2. **Patron:** Knight

3. **Committee:** Appropriations

4. **Title:** Revenue Stabilization Fund and Revenue Reserve Fund; required deposits.

5. **Summary:** Eliminates the requirement that certain revenues be deposited in the Revenue Stabilization Fund that are in excess of the deposits required by the Constitution of Virginia. Adds a new requirement that additional deposits be made to the Revenue Reserve Fund if general fund revenues exceed certain amounts in a fiscal year. The bill enables the combined balance of the Revenue Stabilization Fund and the Revenue Reserve Fund to exceed 15 percent of average annual tax revenues derived from taxes on income and retail sales if the balance of the Revenue Reserve Fund does not exceed six percent of such revenues.

6. **Budget Amendment Necessary**: A language amendment to Item 267 would be required to remove a conflict with the proposed bill. A budget amendment would be required in the future to appropriate any deposits to the RRF as required by this legislation.

7. **Fiscal Impact Estimates:** Preliminary, see Item 8.

8. **Fiscal Implications:** The bill eliminates the requirement for a statutory deposit to the Revenue Stabilization Fund (RSF). Statutory deposits are currently required when three conditions are met: i) annual growth in certified tax revenues meets or exceeds eight percent in the most recently ended fiscal year; ii) current year growth exceeds 1.5 times the average revenue growth for the preceding six years; and iii) estimated general fund revenues for the fiscal year in which the deposit is to be made increase by five percent or more over the immediately preceding fiscal year. Since becoming a requirement in 2003, statutory deposits have been made only twice – once in fiscal year 2005 and once in fiscal year 2007. Removing this requirement does not impact any Constitutionally required mandatory RSF deposit.

   The bill replaces the RSF statutory deposit with a statutory deposit to the Revenue Reserve Fund (RRF), with two similar criteria triggering the deposit: i) annual growth in certified tax revenues meets or exceeds eight percent in the most recently ended fiscal year and ii) current year growth exceeds 1.5 times the average revenue growth for the preceding six years. If the conditions are met, the resulting deposit is calculated based on the same formula currently used to calculate the RSF statutory deposit. The formula is equal to 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 tax revenues collected in the six fiscal years immediately preceding the most recently ended fiscal year.

To demonstrate how such provisions would have impacted deposits in the past, Table 1 documents what deposits would have been made to the RRF if this bill's provisions had been in effect since the RRF's inception on July 1, 2019.

TABLE 1 – Scenario of RRF deposits that would have been required under HB1841
(Dollars in Millions)

Fiscal year	Total Certified Tax Revenues	Annual Perecentage Increase (1)	Six Year Average (2)	Ratio of (1)/(2) [1.5 or more trigger criteria]	Deposit Required under HB1841
2019	$19,718.3	4.91%	4.13%	1.19	**$0.0**
2020	$20,476.1	3.84%	4.08%	0.94	**$0.0**
2021	$23,444.7	14.50%	4.88%	2.97	**$563.9**
2022	$26,420.9	12.69%	5.85%	2.17	**$452.3**

Under the provisions of this bill, deposits of $563.9 million and $452.3 million would have been required to be made into the RRF based on certified revenues collected in fiscal years 2021 and 2022. It is assumed the deposit would have occurred in the following fiscal year, which under this example would have been fiscal years 2022 and 2023, respectively. For reference, a voluntary deposit of $650.0 million was made to the RRF in fiscal year 2022. The current Appropriation Act does not include a voluntary or required deposit to the RRF in fiscal year 2023.

The bill does not change the existing RRF deposit requirement in Code but adds a new deposit requirement. Under existing RRF deposit requirements, RRF deposits are only required when there is not a mandatory deposit to the RSF. Under the provisions of this bill, this new deposit would be required in any year in which the criteria are met, regardless of whether there is a mandatory deposit to the RSF.

Under existing Code provisions, the combined balance of the RSF and RRF may not exceed 15 percent of certified tax revenues. The bill amends this provision to allow the combined balance of the two funds to exceed 15 percent of certified tax revenues if the balance of the RRF alone does not exceed six percent of certified tax revenues. Table 2 documents the actual and projected year end balances of the two funds as a percentage of certified tax revenues.

TABLE 2 –Year end balances of RSF and RRF, as a percentage of certified tax revenues

Status	Fiscal Year End	RSF Balance	RRF Balance	Combined Balance
Actual	FY 2021	2.7%	3.7%	6.4%
Actual	FY 2022	2.4%	7.6%	10.0%
Projected	FY 2023	7.1%	8.1%	15.2%
Projected	FY 2024	10.5%	6.0%	16.6%

Based on the projections in Table 2, at fiscal year-end 2023 the combined balance is projected to exceed the 15 percent combined threshold and the RRF balance is projected to exceed six percent, which under existing Code provisions and the provisions of this bill, would require the excess amount to be reverted from the RRF to the general fund. The projected reversion amount, based on the projected revenues and balances for fiscal year 2023, would be approximately $284.3 million. The actual reversion would depend on actual balances and revenue collections at the time of the calculation.

Paragraph C, Item 267 of the budget bill (HB1400/SB800) raises the combined balance threshold from 15 percent to 20 percent. This budget provision would conflict with the provisions in the bill. Under the budget provision, the balances are not projected to reach the 20 percent threshold to trigger a reversion to the general fund.

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

10. **Technical Amendment Necessary:** Yes – lines 49 through 51. The bill amends § 2.2-1831.3 paragraph F to allow the combined balance of the RSF and RRF to exceed 15 percent under certain conditions. It is recommended that a similar provision found under § 2.2-1829 paragraph D (as re-lettered in the bill) also be amended to conform.

11. **Other Comments:** None.

Date: January 20, 2023
File: HB1841.docx