

## BUDGET STABILIZATION FUND

### Background

The Budget Stabilization Fund (BSF) for Arizona was enacted in 1990 (A.R.S. § 35-144). The fund is administered by the State Treasurer, who is responsible for transferring General Fund money into and out of the BSF as required by law. The BSF is designed to set revenue aside during times of above-trend economic growth and to utilize this revenue during times of below-trend growth.

### The Formula

The determination of the amount to be appropriated to (deposit) or transferred out (withdrawal) of the BSF is made using a formula based upon total annual Arizona personal income (excluding transfer payments) and adjusted for inflation.

The budget recommendations of the JLBC and the Governor include estimates of the amounts to be appropriated to or transferred from the BSF. The final determination of the amount to be appropriated or transferred is made based on calculations from the Arizona Economic Estimates Commission (EEC). The EEC determines the annual growth rate of inflation-adjusted total state personal income, the trend growth rate over the past 7 years, and the calculated appropriation to or transfer from the BSF. The EEC reports this calculation for the prior calendar year by June 1. The EEC calculations however, do not result in any automatic deposits or withdrawals, as they must be authorized by legislative action.

Key features of the BSF can be summarized as follows:

- The deposit into or withdrawal from the BSF for a given fiscal year is determined by comparing the annual growth rate of inflation adjusted Arizona Personal Income (AZPI) for the calendar year ending in the fiscal year to the trend growth rate of inflation adjusted AZPI for the most recent 7 years.
- Adjusted personal income in the BSF formula is defined as total Arizona personal income less transfer payments, adjusted by the gross domestic product price deflator index.
- If the annual growth rate exceeds the trend growth rate, the excess multiplied by General Fund revenue of the prior fiscal year would equal the amount to be deposited into the BSF.
- If the annual growth rate of Arizona personal income is both less than 2% and less than the trend growth

rate, the deficiency when multiplied by the General Fund revenue of the prior year would equal the amount to be withdrawn from the BSF. This 2% floor avoids withdrawing monies from the BSF when economic conditions are slowing but there is not a recession.

- By a two-thirds majority, the Legislature, with the concurrence of the Governor, can decrease a deposit or increase a withdrawal.
- The BSF's total balance cannot be larger than 7.0% of the prior year's General Fund revenues.
- In addition to the fixed income investments available to the Treasurer, the 1998 Legislature allowed the Treasurer to invest up to 25% of the BSF in equity securities (Laws 1998, Chapter 266).

### Alternative Uses

Laws 2000, 7th Special Session, Chapter 1 required that the refund payments for alternative fuel vehicle tax credits and Consumer Loss Recovery Fund liabilities would be funded by the Budget Stabilization Fund up to \$200 million. To date, approximately \$117 million has been paid from the BSF for alternative fuel costs. A total of \$130 million has been set aside for this purpose.

### Projected Deposits/Withdrawals

Based on projections for Arizona's economy, [Table 1](#) on the following page shows that the difference between real adjusted annual personal income growth and the 7-year average is estimated to be (3.59)% in FY 2003. In addition, real adjusted annual personal income growth is projected to be 1.67% for FY 2003. The combination of real adjusted personal income growth (3.59)% below the trend rate and less than 2.0% triggers a formula recommended transfer from the BSF to the General Fund of \$224.1 million. Funds are not available in the BSF for a transfer of this amount. Legislation enacted in the 46<sup>th</sup> Legislature, 1<sup>st</sup> Regular Session (Laws 2003, Chapter 262) provides for a \$30 million transfer from the BSF to the General Fund. This provision amended downward the original \$50 million transfer for FY 2003 as specified in Laws 2002, Chapter 327.

The BSF formula recommendation for FY 2002 was zero. While the estimated Arizona personal income growth was less than the trend growth rate for the year, it was above the 2% floor, resulting in no recommended transfer. Legislation passed in the 2nd and 3rd Special Sessions of the 45<sup>th</sup> Legislature, however, notwithstanding the existing

provisions of law and specified transfer amounts for FY 2002 as noted in Table 1.

income is expected to grow by more than 2%, thus not triggering a formula recommended withdrawal.

In FY 2004, the annual personal income growth figure is estimated to be less than the trend growth, but personal

**Table 1**

**Budget Stabilization Fund  
(\$ in Thousands)**

	Actual <u>FY 2001</u>	Actual <u>FY 2002</u>	Estimate <u>FY 2003</u>	Estimate <u>FY 2004</u>
<u>General Fund Revenues</u>				
Adjusted Revenues	6,181,782.6	6,678,329.6	6,448,961.0	6,033,043.9
Statutory Limit of Revenues	7.000%	7.000%	7.000%	7.000%
Maximum Balance	432,724.8	467,483.1	451,427.3	422,313.1
<u>Arizona Personal Income in Prior CY</u>				
Real Adjusted Annual Income Growth	7.31%	2.10%	1.67%	3.00%
7-Year Average Income Growth	6.84%	5.78%	5.26%	4.81%
Annual Difference	0.47%	-3.68%	-3.59%	-1.81%
<u>BSF Transactions</u>				
Beginning BSF Balance	407,666.3	391,523.8	64,719.3	13,765.7
BSF Formula Recommendation	28,013.2	0.0	(224,085.4)	0.0
<u>Actual Transfer In</u>				
ASH Reimbursement from Settlement Fund <sup>1/</sup>	20,000.0	0.0	0.0	0.0
Alternative Fuel Repayment from GF to BSF	16,000.0	0.0	0.0	0.0
<u>Actual Transfer Out</u>				
ASH Construction Fund Payments <sup>2/</sup>	(20,000.0)	(20,000.0)	(17,500.0)	0.0
Payment of Alternative Fuel Credits <sup>3/</sup>	(49,425.3)	(61,942.9)	(5,528.7)	(13,103.1)
BSF Transfer to GF - 45th Legislature, 2nd Special Session	0.0	(119,000.0)	0.0	0.0
BSF Transfer to GF - 45th Legislature, 3rd Special Session	0.0	(47,150.0)	0.0	0.0
BSF Transfer to GF - 45th Legislature, 3rd Special Session <sup>4/</sup>	0.0	(84,397.9)	0.0	0.0
BSF Transfer to GF - 46th Legislature, 1st Regular Session <sup>5/</sup>	0.0	0.0	(30,000.0)	0.0
Balance	374,241.0	59,033.0	11,690.6	662.6
Interest Earnings & Equity Gains/Losses	17,282.8	5,686.3	2,075.1	1,000.0
<b>Ending BSF Balance</b>	<b>391,523.8</b>	<b>64,719.3</b>	<b>13,765.7</b>	<b>1,662.6</b>
<b>Percent of Revenues</b>	<b>6.3%</b>	<b>1.0%</b>	<b>0.2%</b>	<b>0.0%</b>

Footnotes

<sup>1/</sup> Based on the passage of Proposition 204 and an Attorney General opinion, the reimbursement to the BSF for Arizona State Hospital Construction costs is the last priority in the use of Tobacco Settlement Funds.

<sup>2/</sup> Pursuant to Laws 2003, 1st Special Session, Chapter 1, in FY 2003 the amount of \$13.4 million was subsequently transferred from the Arizona State Hospital Capital Construction Fund to the General Fund.

<sup>3/</sup> The Alt. Fuels payout of BSF money was \$(116.9) million combined between FY 2001 and FY 2003. \$13.1 million remains in

<sup>4/</sup> Since revenues fell below the budgeted total in FY 2002, the BSF was used to make up the difference. A total of \$84.4 million was withdrawn to balance the FY 2002 budget.

<sup>5/</sup> The FY 2003 transfer to the General Fund was originally supposed to be in the amount of \$(50) million, according to Laws 2002, Chapter 327. This amount was amended to \$(30) million by Laws 2003, Chapter 262.