

## 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 January budget documents of the Joint Legislative Budget Committee and the Governor are to include estimates of the amounts to be appropriated to or transferred from the BSF for the upcoming budget year. The final determination of the amount to be appropriated or transferred is based on calculations from the Arizona Economic Estimates Commission (EEC). This final calculation is not made until June 1 of the budget year. 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 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rate, the deficiency when multiplied by the General Fund revenue of the prior year would equal the amount to be withdrawn from the BSF.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% 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. Between FY 2001 and FY 2005, an amount of \$118.8 million has been paid from the BSF for alternative fuel costs. A total of \$130 million has been set aside for this purpose for the last several years. The Executive has since determined that a maximum of \$122 million will be needed for the claims. As a result, \$8 million was transferred from the BSF to the General Fund in FY 2005.

### Deposits/Withdrawals

In FY 2004, Arizona personal income grew by 1.98%, with a trend growth rate of 4.7%. Since annual growth was both less than 2% and less than the trend, the BSF formula recommended a withdrawal. The recommended transfer was \$(169.5) million. However, funds were not available in the BSF for a transfer of this amount.

In FY 2005, the annual income growth figure is estimated to be 5.53%, with the trend growth rate at 4.68%. Since the annual income growth is 0.85% above the trend, the formula would result in a BSF deposit of \$56.8 million in FY 2005. In the 2004 Legislative Session, the Legislature enacted additional appropriations to the BSF in FY 2005 conditional upon General Fund revenues exceeding certain targets. The FY 2004 General Fund revenue surplus resulted in a FY 2005 BSF deposit of \$22.8 million. The revenue surplus for the first 4 months of FY 2005 triggered a BSF deposit of \$67.6 million, and the revenue surplus for November and December of 2004 triggered an additional BSF deposit of \$66.1 million. Thus, as a result of the

conditional appropriations provided in the 2004 General Appropriations Act, an amount of \$156,490,500 was deposited into the BSF in FY 2005.

In FY 2006, the annual income growth figure is estimated to be 5.25%, with the trend growth rate at 4.11%. Since annual income growth exceeds the trend by 1.14%, the formula would result in a BSF deposit of \$87 million in FY 2006. However, the Legislature did not authorize such a deposit in the 2005 Legislative Session.

The January FY 2006 JLBC Budget included a BSF formula recommendation of \$188.6 million, which primarily reflected a higher real adjusted personal income growth rate than currently projected.

The 2005 General Appropriations Act includes 2 conditional appropriations (or "triggers") to the BSF in FY 2006. The first trigger would deposit all excess General Fund revenues collected in the first half of FY 2006, while the second trigger would deposit all excess revenues generated in the second half of FY 2006.

**Table 1**

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

	Actual FY 2003	Actual FY 2004	Estimate FY 2005	Estimate FY 2006
<b>General Fund Revenues</b>				
Adjusted Revenues	\$6,217,459.1	\$6,690,143.3	\$7,629,901.4	\$7,916,291.8
Statutory Limit of Revenues	7.00%	7.00%	7.00%	7.00%
Maximum Balance	435,222.1	468,310.0	534,093.1	554,140.4
<b>Arizona Personal Income in Prior CY <sup>1/</sup></b>				
Real Adjusted Annual Income Growth	1.67%	1.98%	5.53%	5.25%
7-Year Average Income Growth	5.26%	4.70%	4.68%	4.11%
Annual Difference	(3.59)%	(2.72)%	0.85%	1.14%
<b>BSF Transactions</b>				
Beginning BSF Balance	64,719.3	13,765.7	13,524.8	164,749.7
BSF Formula Recommendation	(224,085.4)	(169,505.0)	56,813.9	86,980.9
<b>Actual Transfer In</b>				
Conditional Appropriation - L'04, Ch. 275, Part 1 <sup>2/</sup>	0.0	0.0	22,832.3	0.0
Conditional Appropriation - L'04, Ch. 275, Part 2 <sup>1/</sup>	0.0	0.0	67,593.5	0.0
Conditional Appropriation - L'04, Ch. 275, Part 3 <sup>3/</sup>	0.0	0.0	66,064.8	0.0
Conditional Appropriation - L'05, Ch. 286, Part 1 <sup>4/</sup>	0.0	0.0	0.0	0.0
Conditional Appropriation - L'05, Ch. 286, Part 2 <sup>5/</sup>	0.0	0.0	0.0	0.0
SUBTOTAL	0.0	0.0	156,490.5	0.0
<b>Actual Transfer Out</b>				
ASH Construction Fund Payments <sup>6/</sup>	(17,500.0)	0.0	0.0	0.0
Payment of Alternative Fuel Credits <sup>7/</sup>	(5,528.7)	(643.2)	(1,283.9)	(3,200.0)
BSF Transfer to GF - L'03, Ch. 262 <sup>8/</sup>	(30,000.0)	0.0	0.0	0.0
BSF Transfer to GF - L'04, Ch. 275	0.0	0.0	(8,000.0)	0.0
SUBTOTAL	(53,028.7)	(643.2)	(9,283.9)	(3,200.0)
Balance	11,690.6	13,122.5	160,731.4	161,549.7
Interest Earnings & Equity Gains/Losses	2,075.1	402.3	4,018.3	8,077.5
<b>Ending BSF</b>	<b>\$13,765.7</b>	<b>\$13,524.8</b>	<b>\$164,749.7</b>	<b>\$169,627.2</b>
<b>Percent of Revenues</b>	<b>0.2%</b>	<b>0.2%</b>	<b>2.2%</b>	<b>2.1%</b>

<sup>1/</sup> The CY 2006 real adjusted personal income growth rate is a JLBC estimate, whereas growth rates in prior years reflect EEC calculations.

<sup>2/</sup> Actual FY 2004 revenues were \$135.7 million above the budget forecast, which triggered an appropriation in the amount of \$22.8 million to the BSF.

<sup>3/</sup> Actual revenues for the first 4 months of FY 2005 were \$135.2 million above the budget forecast, which triggered an appropriation in the amount of \$67.6 million to the BSF. Actual revenues in November and December of 2004 were \$132.1 million above the budget forecast, which triggered an additional appropriation in the amount of \$66.1 million to the BSF.

<sup>4/</sup> If actual revenues exceed the budget forecast for the first 6 months of FY 2006, then the total amount of such excess revenues will be appropriated to the BSF.

<sup>5/</sup> If total FY 2006 revenues exceed the budget forecast, then the total amount of such excess revenues, minus any amount appropriated under footnote 4, will be appropriated to the BSF.

<sup>6/</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>7/</sup> The Alternate Fuels payout of BSF money was \$(118.8) million between FY 2001 and FY 2005. It is estimated that the ultimate total could be \$(122) million. \$3.2 million remains in reserve.

<sup>8/</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 modified to \$(30) million by Laws 2003, Chapter 262.

