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 BSF is also known as the "Rainy Day Fund."

The Formula

There is a statutory formula to calculate the amount to be appropriated to (deposit) or transferred out (withdrawal) of the BSF. The formula is based on total annual Arizona personal income (excluding transfer payments) adjusted for inflation.

The January budget documents of the JLBC 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 real adjusted state personal income, its 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. In practice, the formula has only served as a general guideline and has rarely been used to determine the actual deposit or withdrawal.

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 real adjusted Arizona Personal Income (AZPI) for the calendar year ending in the fiscal year to its 7-year trend growth rate.

- Real adjusted personal income in the BSF formula is defined as Arizona personal income less transfer payments, adjusted by the gross domestic product price deflator index.

- Trend growth rate is defined as the average annual growth rate of real adjusted personal income for the most recent 7 calendar years.

- If the annual growth rate exceeds the trend growth rate, the "excess" percent 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 real adjusted 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 current year's General Fund revenues, excluding the beginning balance.

- In addition to the fixed income investments, the Treasurer is allowed to invest up to 25% of the BSF in equity securities (A.R.S. § 35-314.02).

Deposits/Withdrawals

FY 2013

In CY 2012, Arizona real adjusted personal income grew by 1.99%, with a trend growth rate of 0.32%. Since the CY 2012 "excess" growth rate was 1.67%, the formula recommended a BSF deposit of $145.6 million in FY 2013. This amount was less than the $200.0 million BSF deposit authorized by Laws 2012, Chapter 294.

FY 2014

In CY 2013, Arizona real adjusted personal income grew by 0.85%, with a trend growth rate of (0.38)%. Since the "excess" growth rate in CY 2013 was 1.23%, the formula recommended a BSF deposit of $112.2 million in FY 2014. The Legislature, however, did not authorize such deposit.

Laws 2013, 1st Special Session, Chapter 9 deposited $1.0 million in BSF interest earnings into the Arts Fund (administered by the Arizona Commission on the Arts) in FY 2014. In addition, Chapter 9 authorized the transfer of $1.0 million in interest earnings into the Arizona State Park's Board's State Parks Revenue Fund in FY 2014.

FY 2015

The University of Arizona's Economic and Business Research Center (EBR) estimates that Arizona real adjusted personal income increased by 1.67% in CY 2014. Since this is 2.12% above the estimated trend growth rate of (0.45)%, the formula is projected to recommend a BSF deposit of $177.4 million in FY 2015. A deposit of such amount could not be made, however, since this would

Table 1

Budget Stabilization Fund [1/]
($ in Thousands)

General Fund Revenues	Actual FY 2013	Actual FY 2014	Estimate FY 2015	Estimate FY 2016
Adjusted Revenues	$9,106,020.7	$8,369,078.8	$8,576,683.8	$8,774,277.4
Statutory Limit of Revenues	7.0%	7.0%	7.0%	7.0%
Maximum Balance	637,421.4	585,835.5	600,367.9	614,199.4
Arizona Personal Income in Prior CY				
Real Adjusted Annual Income Growth	1.99%	0.85%	1.67%	1.39%
7-Year Average Income Growth	0.32%	(0.38)%	(0.45)%	0.09%
Annual Difference	1.67%	1.23%	2.12%	1.30%
BSF Transactions				
Beginning BSF Balance	250,062.8	454,101.7	456,736.9	459,786.9
BSF Formula Recommendation	145,576.6	112,163.1	177,424.5	114,496.9
Actual Transfer In				
Actual Appropriation – L'12, Ch. 294 [2/]	200,000.0	0.0	0.0	0.0
Actual Transfer Out				
Transfer of BSF Interest Income – L'13, 1st SS, Ch. 9 [3/]	0.0	(2,000.0)	0.0	0.0
Transfer of BSF Interest Income – L'14, Ch. 9 [4/]	0.0	0.0	(1,000,0)	0.0
SUBTOTAL	0.0	(2,000,0)	(1,000.0)	0.0
Balance	450,062.8	452,101.7	455,736.9	459,786.9
Interest Earnings & Equity Gains/Losses [5/]	4,038.9	4,635.2	4,050.0	4,160.0
Ending BSF Balance	**$ 454,101.7**	**$ 456,736.9**	**$ 459,786.9**	**$ 463,946.9**
Percent of Revenues	**5.0%**	**5.5%**	**5.4%**	**5.3%**

1/ BSF history prior to FY 2013 can be found on the JLBC website.
2/ Laws 2012, Chapter 294 authorized the transfer of $250.0 million in FY 2012 and $200.0 million in FY 2013 from the General Fund to the BSF.
3/ Laws 2013, 1st Special Session, Chapter 9 authorized a total transfer of $2.0 million in BSF interest earnings in FY 2014. Of this amount, $1.0 million was appropriated for deposit in the Arts Fund administered by the Arizona Commission on the Arts and $1.0 million to the State Parks Revenue Fund administered by the Arizona State Parks Board.
4/ Laws 2014, Chapter 9 appropriates $1.0 million from BSF interest earnings to the Arizona Commission on the Arts for FY 2015.
5/ Estimated interest earnings for FY 2015 and FY 2016 was provided by the State Treasurer's Office.

result in a BSF balance that would exceed the 7% cap in FY 2015 by $33.7 million. The FY 2015 budget enacted in April 2014 did not include any deposit into the BSF.

Laws 2014, Chapter 9 deposited $1.0 million in interest earnings from the BSF to the Arizona Commission on the Arts in FY 2015.

FY 2016

If no deposits or withdrawals are authorized by the Legislature for FY 2015 and FY 2016, the BSF will have an estimated ending balance of $463.9 million in FY 2016. The maximum BSF balance (under the 7% statutory cap) for FY 2016 is estimated to be $614.2 million.

EBR currently projects that Arizona real adjusted personal income will grow by 1.39% in CY 2015. Since this is 1.30% above the estimated trend growth rate of 0.09%, the formula is projected to recommend a BSF deposit of $114.5 million in FY 2016.

STATUTORY CHANGES

The Baseline would, as session law, continue to withstand the requirements for any deposit to or withdrawals from the Budget Stabilization Fund.