# 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 required to be made no later than 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 2015***

In CY 2014, Arizona real adjusted personal income grew by 2.12%, with a trend growth rate of (0.26)%. Since the "excess" growth rate in CY 2014 was 2.38%, the formula recommended a BSF deposit of $198.4 million in FY 2015. The Legislature did not authorize the deposit.

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

***FY 2016***

In CY 2015, Arizona real adjusted personal income increased by 3.07%, with a trend growth rate of 0.42%. Since the CY 2015 "excess" growth rate was 2.65%, the formula recommended a BSF deposit of $236.8 million in FY 2016. The Legislature did not authorize the deposit.

The FY 2017 General Appropriation Act (Laws 2016, Chapter 117) authorizes the Department of Child Safety and Department of Economic Security to use up to $35.0 million each from the BSF to provide funding for reimbursement grants in FY 2016. Chapter 117 requires the BSF to be fully reimbursed by September 1, 2016.

**Table 1**

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

| General Fund Revenues | Actual FY 2014 | Actual FY 2015 | Estimate FY 2016 | Estimate FY 2017 |
|---|---|---|---|---|
| Adjusted Revenues [2/] | $8,337,631.3 | $8,934,730.0 | $9,164,014.2 | $9,369,828.5 |
| Statutory Limit of Revenues | 7.0% | 7.0% | 7.0% | 7.0% |
| Maximum Balance | 583,634.2 | 625,431.1 | 641,481.0 | 655,888.0 |
| Arizona Personal Income in Prior CY | | | | |
| Real Adjusted Annual Income Growth | 0.85% | 2.12% | 3.07% | 3.14% |
| 7-Year Average Income Growth | (0.38)% | (0.26)% | 0.42% | 2.13% |
| Annual Difference | 1.23% | 2.38% | 2.65% | 1.01% |
| BSF Transactions | | | | |
| Beginning BSF Balance | 454,101.7 | 455,333.9 | 457,627.4 | 461,427.4 |
| BSF Formula Recommendation | 112,163.1 | 198,435.6 | 236,770.3 | 92,556.5 |
| *Actual Transfer In* | | | | |
| None | 0.0 | 0.0 | 0.0 | 0.0 |
| *Actual Transfer Out* | | | | |
| Transfer of BSF Interest Income – L'13, 1st SS, Ch. 9 [3/] | (2,000.0) | 0.0 | 0.0 | 0.0 |
| Transfer of BSF Interest Income – L'14, Ch. 9 [4/] | 0.0 | (1,000.0) | 0.0 | 0.0 |
| Transfer of BSF Interest Income – L'16, Ch. 117 [5/] | 0.0 | 0.0 | 0.0 | (1,500.0) |
| SUBTOTAL | (2,000.0) | (1,000.0) | 0.0 | (1,500.0) |
| Balance | 452,101.7 | 454,333.9 | 457,627.4 | 459,927.4 |
| Interest Earnings & Equity Gains/Losses [6/] | 3,232.2 | 3,293.5 | 3,800.0 | 3,900.0 |
| **Ending BSF Balance** | **$ 455,333.9** | **$ 457,627.4** | **$ 461,427.4 [7/]** | **$ 463,827.4** |
| **Percent of Revenues** | **5.5%** | **5.1%** | **5.0%** | **4.9%** |

1/ BSF history prior to FY 2014 can be found on the JLBC website.
2/ Actual General Fund revenue for FY 2014 and FY 2015, as determined by the Economic Estimates Commission (EEC). Estimated General Fund revenue for FY 2016 and FY 2017, as reflected in the May 2016 enacted budget forecast.
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 appropriated $1.0 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2015.
5/ Laws 2016, Chapter 117 appropriates $1.5 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2017.
6/ Interest earnings for FY 2016 and FY 2017 were estimated by the JLBC Staff based on information provided by the State Treasurer's Office.
7/ This amount excludes payments and reimbursements of BSF monies for wildland fire suppression claims provided under Laws 2016, Chapter 219.

***FY 2017***

The University of Arizona's Economic and Business Research Center (EBR) currently projects that Arizona real adjusted personal income will increase by 3.14% in CY 2016. Since this is 1.01% above the estimated trend growth rate of 2.13%, the formula is projected to recommend a BSF deposit of $92.6 million in FY 2017.

Laws 2016, Chapter 117 appropriates $1.5 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2017.

***Statutory Changes***

The FY 2017 Budget Procedures Bill (Laws 2016, Chapter 127) suspends the requirement that the Legislature appropriates monies to or transfer monies from the Budget Stabilization Fund pursuant to A.R.S. § 35-144 for FY 2017, FY 2018, and FY 2019.

Laws 2016, Chapter 219 authorizes BSF monies to be used to pay certain wildland fire suppression claims by the State Forester. The State Forester is required to certify a claim that has not yet been reimbursed by a federal agency and then the State Treasurer must pay the claim from the fund. After a federal agency makes payment on a claim, the State Forester must reimburse the Treasurer within 45 days. The Treasurer is required to deposit the reimbursed amount into the BSF. Not more than $10 million in unreimbursed claims can be outstanding from the fund at any time.