

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

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 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. In practice, the formula has only served as a general guideline and has infrequently 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 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” 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 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 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.

Deposits/Withdrawals

FY 2010

Arizona real adjusted personal income declined by (7.19)% in CY 2009. Since this was both less than 2.0% and the trend growth rate of 4.68%, the formula recommended a BSF withdrawal of \$(768.7) million in FY 2010. This recommendation could not be implemented, however, since the remaining BSF balance of \$2.8 million was used to help balance the FY 2010 budget.

FY 2011

Arizona real adjusted personal income is estimated to decline by (0.58)% in CY 2010. Since this is both less than 2.0% and the trend growth rate of 1.80%, the BSF formula is expected to recommend a BSF withdrawal of \$(149.8) million in FY 2011. The EEC will issue a formal recommendation based on the BSF formula in the first week of June. Regardless of the amount recommended by EEC, the recommendation cannot be implemented, however, since the fund was depleted in the spring of 2010 when Laws 2010, 7th Special Session, Chapter 1 authorized the transfer of the remaining BSF balance of \$2.8 million to the General Fund.

FY 2012

Arizona real adjusted personal income is forecast to increase by 1.96% in CY 2011. Since this is 0.76% above the expected trend growth rate of 1.19%, the formula is projected to recommend a BSF deposit of \$59.0 million in FY 2012. Under Laws 2011, Chapter 28, the Legislature is not required to make any BSF deposits in FY 2012.

Table 1

Budget Stabilization Fund ^{1/}
(\$ in Thousands)

	Actual FY 2009	Actual FY 2010	Estimate FY 2011	Estimate FY 2012
General Fund Revenues				
Adjusted Revenues	\$6,966,898.5	\$6,297,247.5	\$7,762,446.1	\$8,369,515.8
Statutory Limit of Revenues	7.0%	7.0%	7.0%	7.0%
Maximum Balance	487,682.9	440,807.3	543,371.2	585,866.1
Arizona Personal Income in Prior CY				
Real Adjusted Annual Income Growth	(0.98)%	(7.19)%	(0.58)%	1.96%
7-Year Average Income Growth	<u>3.22%</u>	<u>4.68%</u>	<u>1.80%</u>	<u>1.19%</u>
Annual Difference	(4.20)%	(11.87)%	(2.38)%	0.76%
BSF Transactions				
Beginning BSF Balance	218,640.5	2,767.1	0.0	0.0
BSF Formula Recommendation	(369,161.5)	(768,687.6)	(149,817.7)	58,994.6
<i>Actual Transfer In</i>	0.0	0.0	0.0	0.0
<i>Actual Transfer Out</i>				
Conditional Transfer – L'08, Ch. 53 ^{2/}	(73,000.0)	0.0	0.0	0.0
Fund Transfer to General Fund – L'08, Ch. 285 ^{3/}	(20,000.0)	0.0	0.0	0.0
Fund Transfer to General Fund – L'09, 1 st SS., Ch. 1 ^{4/}	(130,000.0)	0.0	0.0	0.0
Fund Transfer to General Fund – L'10, 7 th SS., Ch. 1 ^{5/}	<u>0.0</u>	<u>(2,767.1)</u>	<u>0.0</u>	<u>0.0</u>
SUBTOTAL	(223,000.0)	(2,767.1)	0.0	0.0
Balance	(4,359.5)	0.0	0.0	0.0
Interest Earnings & Equity Gains/Losses	7,126.6	0.0	0.0	0.0
Ending BSF Balance	\$ 2,767.1	\$ 0.0	\$ 0.0	\$ 0.0
Percent of Revenues	0.0%	0.0%	0.0%	0.0%

^{1/} BSF history prior to FY 2009 can be found on the JLBC website.

^{2/} Laws 2008, Chapter 53 provided that if the FY 2008 General Fund ending balance were less than \$0, the Treasurer would be required to transfer an amount equal to the negative ending balance plus \$1.0 million. The amount of transfer was determined to be \$(73.0) million. Actual BSF withdrawal was made in FY 2009.

^{3/} Laws 2008, Chapter 285 authorized a transfer of \$(20.0) million to the General Fund to help balance the FY 2009 budget.

^{4/} Laws 2009, 1st Special Session, Chapter 1 authorized a transfer of \$(130.0) million to the General Fund to help balance the FY 2009 budget. This transfer brought the BSF balance to \$2.8 million.

^{5/} Laws 2010, 7th Special Session, Chapter 1 authorized a transfer of \$(2.8) million to the General Fund to help balance the FY 2010 budget. This transfer brought the BSF balance to \$0.