

## 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 2012

Arizona real adjusted personal income increased by 3.42% in CY 2011. Since this was 2.07% above the trend growth rate of 1.35%, the formula recommended a BSF deposit of \$167.4 million in FY 2012. This amount was less than the \$250.0 million BSF deposit authorized by Laws 2012, Chapter 294.

#### 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. The Legislature, however, did not authorize such deposit.

#### FY 2014

The University of Arizona's Economic and Business Research Center (EBR) estimates that Arizona real adjusted personal income will increase by 2.94% in CY 2013. Since this is 3.16% above the estimated trend growth rate of (0.22)%, the formula is expected to recommend a BSF deposit of \$282.0 million in FY 2014. A deposit of such amount cannot be made, however, since this would result in a BSF balance of more than \$150 million above the 7% cap.

Laws 2013, 1<sup>st</sup> Special Session, Chapter 9 provides that \$1.0 million in BSF interest earnings be deposited into the Arts Fund (administered by the Arizona Commission of the Arts) in FY 2014. Chapter 9 authorizes that \$1.0 million in interest earnings be transferred into the Arizona State Park Board's State Parks Revenue Fund in FY 2014 as well.

Table 1

**Budget Stabilization Fund <sup>1/</sup>**  
**(\$ in Thousands)**

	<b>Actual FY 2011</b>	<b>Actual FY 2012</b>	<b>Estimate FY 2013</b>	<b>Estimate FY 2014</b>
<b>General Fund Revenues</b>				
Adjusted Revenues	\$8,053,922.7	\$8,704,595.1	\$8,923,418.0	\$8,308,543.0
Statutory Limit of Revenues	7.0%	7.0%	7.0%	7.0%
Maximum Balance	563,774.6	609,321.7	624,639.3	581,598.0
<b>Arizona Personal Income in Prior CY</b>				
Real Adjusted Annual Income Growth	(0.42)%	3.42%	1.99%	2.94%
7-Year Average Income Growth	<u>1.92%</u>	<u>1.35%</u>	<u>0.32%</u>	<u>(0.22)%</u>
Annual Difference	(2.34)%	2.07%	1.67%	3.16%
<b>BSF Transactions</b>				
Beginning BSF Balance	0.0	0.0	250,062.8	454,101.7
BSF Formula Recommendation	(163,903.8)	167,370.4	145,576.6	281,980.0
<b>Actual Transfer In</b>				
Actual Appropriation – L'12, Ch. 294 <sup>2/</sup>	0.0	250,000.0	200,000.0	0.0
<b>Actual Transfer Out</b>				
Transfer of BSF Interest Income – L'13, 1 <sup>st</sup> SS, Ch. 9 <sup>3/</sup>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(2,000.0)</u>
Balance	0.0	250,000.0	450,062.8	452,101.7
Interest Earnings & Equity Gains/Losses <sup>4/</sup>	0.0	62.8	4,038.9	4,160.0
<b>Ending BSF Balance</b>	<b>\$ 0.0</b>	<b>\$ 250,062.8</b>	<b>\$ 454,101.7</b>	<b>\$ 456,261.7</b>
<b>Percent of Revenues</b>	<b>0.0%</b>	<b>2.9%</b>	<b>5.1%</b>	<b>5.5%</b>

<sup>1/</sup> BSF history prior to FY 2011 can be found on the JLBC website.

<sup>2/</sup> 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.

<sup>3/</sup> Laws 2013, 1<sup>st</sup> Special Session, Chapter 9 authorizes a total transfer of \$2.0 million in BSF interest earnings in FY 2014. Of this amount, \$1.0 million is appropriated for deposit in the Arts Fund administered by the Arizona Commission of the Arts and \$1.0 million to the State Parks Revenue Fund administered by the Arizona State Parks Board.

<sup>4/</sup> Estimated interest earnings for FY 2014 were provided by the State Treasurer's Office.