

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 2017

In CY 2016, Arizona adjusted personal income increased by 3.17%, with a trend growth rate of 2.26%. Since the CY 2016 "excess" growth rate was 0.91%, the formula recommended a BSF deposit of \$84.3 million in FY 2017. The Legislature did not authorize the deposit.

A.R.S. § 35-144 authorizes BSF monies to be used by the State Forester to pay wildland fire suppression claims. When a federal agency makes payment on the claim, the State Forester must reimburse the State Treasurer for that amount 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.

In each month of FY 2017, BSF monies were used by the State Forester to pay wildland fire suppression claims. At the end of FY 2017, the fund had \$2.9 million in outstanding unreimbursed claims, which the State Forester reimbursed to the Treasurer upon federal payment on the claims.

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

The FY 2018 General Appropriation Act (Laws 2017, Chapter 305) authorized the Department of Economic Security (DES) to use up to \$25.0 million from the BSF to provide funding for reimbursement grants in FY 2017. Chapter 305 required the BSF to be fully reimbursed by September 1, 2017. DES withdrew \$25.0 million in July 2017 and reimbursed the State Treasurer for that amount in September 2017.

FY 2018

In CY 2017, Arizona adjusted personal income increased by 2.61%, with a trend growth rate of 3.15%. Since the CY 2017 growth rate was (0.54)% lower than the trend growth rate, but still higher than 2.0%, the formula did not recommend a withdrawal. A deposit requires the most recent calendar year growth rate to exceed the trend growth rate. The Legislature did not authorize any deposit or withdrawal.

As of May 2018, the fund has \$5.7 million in outstanding unreimbursed wildland fire suppression claims, which the State Forester will reimburse to the Treasurer upon federal payment on the claims.

Laws 2017, Chapter 305 appropriated \$1.5 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2018.

Additionally, Laws 2017, Chapter 305 appropriated \$2.6 million from BSF interest earnings to the Department of Education for financial assistance to school districts and charter schools located in counties with a population of less than 500,000. The distribution also applies to school districts and charter schools that primarily serve homeless or special needs students, regardless of location. The

distribution is proportionally allocated based on average daily membership counts from the 2016-2017 school year.

The FY 2019 General Appropriation Act (Laws 2018, Chapter 276) authorizes the Department of Economic Security (DES) to use up to \$25.0 million from the BSF to provide funding for reimbursement grants in FY 2018. Chapter 276 requires the BSF to be fully reimbursed by September 1, 2018.

FY 2019

The University of Arizona's Economic and Business Research Center (EBR) currently projects that Arizona real adjusted personal income will grow by 3.20% in CY 2018. Since this is 0.21% above the estimated trend growth rate of 2.99%, the formula is projected to recommend a BSF deposit of \$20.6 million in FY 2019.

Laws 2018, Chapter 276 appropriates \$2.0 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2019.

Laws 2018, Chapter 276 also allows the Department of Public Safety to use up to \$23.3 million from the BSF in FY 2019 to provide temporary operating funding. It also requires the BSF to be fully reimbursed by September 1, 2019.

STATUTORY CHANGES

The FY 2019 Budget Procedures Budget Reconciliation Bill (Laws 2018, Chapter 279) 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 2019, FY 2020, and FY 2021.

Table 1

Budget Stabilization Fund ^{1/} (\$ in Thousands)				
	Actual FY 2016	Actual FY 2017	Estimate FY 2018	Estimate FY 2019
General Fund Revenues				
Adjusted Revenues	\$9,265,881.5 ^{2/}	\$9,358,542.0 ^{2/}	\$9,820,549.7	\$10,305,301.5
Statutory Limit of Revenues	7.0%	7.0%	7.0%	7.0%
Maximum Balance	648,611.7	655,097.9	687,438.5	721,371.1
Arizona Personal Income in Prior CY				
Real Adjusted Annual Income Growth	3.07%	3.17%	2.61%	3.20%
7-Year Average Income Growth	<u>0.42%</u>	<u>2.26%</u>	<u>3.15%</u>	<u>2.99%</u>
Annual Difference	2.65%	0.91%	(0.54)%	0.21%
BSF Transactions				
Beginning BSF Balance	457,627.4	460,846.5	461,446.9	458,268.2
BSF Formula Recommendation	236,770.3	84,319.5	0	20,623.2
Actual Transfer In				
None	0.0	0.0	0.0	0.0
Actual Transfer Out				
Transfer of BSF Monies – L'16, Ch. 219 ^{3/}	(587.8)	(2,902.0)	(5,678.7)	0.0
Transfer of BSF Interest Income – L'16, Ch. 117 ^{4/}	0.0	(1,500.0)	0.0	0.0
Transfer of BSF Interest Income – L'17, Ch. 305 ^{5/}	0.0	0.0	(1,500.0)	0.0
Transfer of BSF Interest Income – L'17, Ch. 305 ^{6/}	0.0	0.0	(2,600.0)	0.0
Transfer of BSF Interest Income – L'18, Ch. 276 ^{7/}	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>(2,000.0)</u>
SUBTOTAL	(587.8)	(4,402.0)	(9,778.7)	(2,000.0)
Balance	457,039.6	456,444.5	451,668.2	456,268.2
Interest Earnings & Equity Gains/Losses ^{8/}	3,806.9	5,002.4	6,600.0	6,600.0
Ending BSF Balance	\$460,846.5	\$461,446.9	\$458,268.2	\$462,868.2
Percent of Revenues	5.0%	4.9%	4.7%	4.5%

^{1/} BSF history prior to FY 2016 can be found on the JLBC website.

^{2/} Actual General Fund revenue for FY 2016 and FY 2017, as determined by the Economic Estimates Commission.

^{3/} Laws 2016, Chapter 219 authorizes BSF monies to be used by the State Forester to pay certain wildland fire suppression claims. The monies must be reimbursed to the State Treasurer within 45 days of a federal agency's payment on the claim.

^{4/} Laws 2016, Chapter 117 appropriated \$1.5 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2017.

^{5/} Laws 2017, Chapter 305 appropriated \$1.5 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2018.

^{6/} Laws 2017, Chapter 305 appropriated \$2.6 million from BSF interest earnings to the Department of Education for rural assistance in FY 2018.

^{7/} Laws 2018, Chapter 276 appropriates \$2.0 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2019.

^{8/} Interest earnings for FY 2018 and FY 2019 were estimated by the JLBC Staff based on information provided by the State Treasurer's Office.