

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 10.0% of the current year's General Fund revenues, excluding the beginning balance. Prior to Laws 2019, Chapter 54, the percentage was set at 7.0%.
- 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 2019

In CY 2018, Arizona adjusted personal income increased by 3.31%, with a trend growth rate of 3.29%. Since the CY 2018 "excess" growth rate was 0.02%, the formula recommend a deposit of \$2.0 million in FY 2019. 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. However, independent of the formula, the FY 2020 General Appropriation Act (Laws 2019, Chapter 263) appropriated \$271.1 million for deposit into the BSF in FY 2019.

Beginning in FY 2016, 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. Through FY 2019, the State Forester's outstanding unreimbursed claims balance could not exceed \$10.0 million. Beginning in FY 2020, Laws 2019, Chapter 269 increases the cap to \$20.0 million. The balance consists of the cumulative amount the State Forester has used for fire suppression claims less the amount it has reimbursed to the State Treasurer.

In FY 2019, the State Forester repaid \$6.0 million to the BSF, leaving an FY 2019 ending balance of \$4.0 million.

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

Laws 2018, Chapter 276 also allowed the Department of Public Safety to use up to \$23.3 million from the BSF in FY 2019 to provide temporary operating funding. Chapter 276 requires the BSF to be fully reimbursed by September 1, 2019. In August and September 2018, DPS withdrew \$10.0 million and \$13.3 million, respectively. DPS reimbursed the State Treasurer at the end of FY 2019.

FY 2020

In CY 2019, Arizona adjusted personal income increased by 3.50%, with a trend growth rate of 3.38%. Since the CY 2019 "excess" growth rate was 0.12%, the formula is expected to recommend a deposit of \$13.4 million in FY 2020. The Legislature did not authorize the deposit. However, independent of the formula, the FY 2020 General Appropriation Act (Laws 2019, Chapter 263) appropriated \$271.1 million for deposit into the BSF in FY 2020.

Laws 2019, Chapter 269 increases the maximum outstanding unreimbursed claims balance from \$10.0 million to \$20.0 million. By increasing the maximum balance, the State Forester will be able to pay any new claims until its outstanding balance reaches \$20.0 million. In FY 2020, the State Forester repaid \$2.3 million to the BSF, leaving an FY 2020 ending usage balance of \$1.7 million.

Chapter 263 also authorizes DES to use up to \$25.0 million from the BSF to provide funding for reimbursement grants in FY 2020. DES intends to spend the full \$25.0 million authorized by Chapter 263 to pay the immediate grant costs prior to reimbursement. Chapter 263 requires the BSF to be fully reimbursed by September 1, 2020.

Laws 2019, Chapter 54 adjusts the limit on the fiscal year-end BSF balance from 7.0% of General Fund revenues for the fiscal year to 10.0% of General Fund revenues for the fiscal year.

Laws 2020, Chapter 6 appropriated \$55.0 million from the BSF to the Public Health Emergencies Fund in FY 2020 to address the public health emergency related to COVID-19. Any monies that are unspent as of June 30, 2021, up to \$50.0 million, will revert to the BSF.

FY 2021

The University of Arizona's Economic and Business Research Center (EBR) currently projects that Arizona real

adjusted income will decrease by (4.50)% in CY 2020. Since this is (7.17)% below the estimated trend growth rate of 2.67% and below 2.0%, the formula is projected to recommend a withdrawal of from the BSF in FY 2021 in the amount of \$(762.4) million.

Laws 2020, Chapter 58 also authorizes DES to use up to \$25.0 million from the BSF to provide funding for reimbursement grants in FY 2021. Chapter 58 requires the BSF to be fully reimbursed by September 1, 2021.

STATUTORY CHANGES

The Budget Procedures Budget Reconciliation Bill (BRB) (Laws 2020, Chapter 58) makes the following statutory changes:

- As session law, continue to notwithstanding the requirements for any deposit to or withdrawals from the Budget Stabilization Fund through FY 2023.

Table 1

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

	Actual FY 2018	Actual FY 2019	Actual FY 2020	Estimate FY 2021
General Fund Revenues				
Adjusted Revenues	\$10,036,152.7 ^{2/}	\$11,131,305.9	\$10,633,466.8	\$11,037,529.4
Statutory Limit of Revenues	7.0%	7.0%	10.0% ^{3/}	10.0% ^{3/}
Maximum Balance	702,530.7	779,191.4	1,063,346.7	1,103,752.9
Arizona Personal Income in Prior CY				
Real Adjusted Annual Income Growth	2.61%	3.31%	3.50%	(4.50)%
7-Year Average Income Growth	<u>3.15%</u>	<u>3.29%</u>	<u>3.38%</u>	<u>2.67%</u>
Annual Difference	(0.54)%	0.02%	0.12%	(7.17)%
BSF Transactions				
Beginning BSF Balance	461,446.9	457,786.0	742,968.0	978,531.0
BSF Formula Recommendation	0.0	2,007.2	13,357.6	(762,419.6)
Actual Transfer In				
General Fund Appropriation	0.0	271,107.0 ^{4/}	271,107.0 ^{4/}	0.0
Actual Transfer Out				
State Forester Claims ^{5/6/}	(6,498.3)	6,028.8	2,281.0	0.0
Arts Commission ^{7/8/}	(1,500.0)	(2,000.0)	0.0	0.0
ADE Rural Assistance ^{9/}	(2,600.0)	0.0	0.0	0.0
DPS Operating Funding ^{10/}	0.0	0.0	0.0	0.0
DHS Public Health Emergencies Fund ^{11/}	0.0	0.0	(55,000.0)	0.0
DES Reimbursement Grants ^{12/13/14/}	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
SUBTOTAL	(10,598.3)	4,028.8	(52,719.0)	0.0
Balance	450,848.6	732,921.8	961,356.0	978,531.0
Interest Earnings & Equity Gains/Losses ^{15/}	6,937.4	10,046.2	17,175.0	15,000.0
Ending BSF Balance	\$457,786.0	\$742,968.0	\$978,531.0	\$993,531.0
Percent of Revenues	4.6%	6.7%	9.2%	9.0%

^{1/} BSF history prior to FY 2018 can be found on the JLBC website.

^{2/} Actual General Fund revenue for FY 2018, as determined by the Economic Estimates Commission.

^{3/} Laws 2019, Chapter 54 adjusts the limit on the fiscal year-end BSF balance from 7.0% to 10.0% of General Fund revenues for the fiscal year.

^{4/} Laws 2019, Chapter 263 appropriates \$271.1 million from the General Fund in each of FY 2019 and FY 2020 for deposit into the BSF.

^{5/} Laws 2016, Chapter 219 authorizes BSF monies to be used by the State Forester to pay certain wildland fire suppression claims, not to exceed \$10.0 million. The monies must be reimbursed to the State Treasurer within 45 days of a federal agency's payment on the claim.

^{6/} Laws 2019, Chapter 269 increases the maximum outstanding balance to \$20.0 million beginning in FY 2020.

^{7/} Laws 2017, Chapter 305 appropriated \$1.5 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2018.

^{8/} Laws 2018, Chapter 276 appropriated \$2.0 million from BSF interest earnings to the Arizona Commission on the Arts in FY 2019.

^{9/} Laws 2017, Chapter 305 appropriated \$2.6 million from BSF interest earnings to the Department of Education for rural assistance in FY 2018.

^{10/} Laws 2018, Chapter 276 authorized the Department of Public Safety (DPS) to use up to \$23.3 million in BSF monies for temporary operating funding in FY 2019. DPS reimbursed this amount prior to September 2019, as required by Chapter 276.

^{11/} Laws 2020, Chapter 6 appropriated \$55.0 million in FY 2020 from the BSF to DHS Public Health Emergencies Fund for costs to address the COVID-19 public health emergency. Any unspent monies as of June 30, 2021 up to \$50.0 million of the total will revert to the BSF.

^{12/} Laws 2018, Chapter 276 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 2018. Chapter 276 required the BSF to be fully reimbursed by September 1, 2018. DES did not use any of these monies.

^{13/} Laws 2017, Chapter 305 appropriated \$2.6 million from BSF interest earnings to the Department of Education for reimbursement grants in FY 2020. Chapter 263 requires the BSF to be fully reimbursed by September 1, 2020. DES intends to spend the full \$25.0 million authorized by Chapter 263.

^{14/} Laws 2020, Chapter 58 authorizes the DES to use up to \$25.0 million from the BSF to provide funding for reimbursement grants in FY 2021. Chapter 58 requires the BSF to be fully reimbursed by September 1, 2021.

^{15/} Interest earnings for FY 2021 were estimated by the JLBC Staff based on information provided by the State Treasurer's Office.