

## 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.
- Beginning in FY 2020, 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 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 recommended 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 increased the maximum outstanding unreimbursed claims balance for the State Forester 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 for wildfire suppression purposes.

Chapter 263 also 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 2020. Chapter 263 required the BSF to be fully reimbursed by September 1, 2020. DES withdrew these monies and reimbursed them prior to September 1, 2020.

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 unspent monies as of June 30, 2021, up to \$50.0 million, revert to the BSF.

#### **FY 2021**

In CY 2020, Arizona adjusted personal income increased by 1.19%, with a trend growth rate of 3.54%. Since this is (2.35)% below the trend growth rate of 3.54% and below 2.0%, the formula recommended a withdrawal from the BSF in FY 2021 in the amount of \$(255.7) million. However, the Legislature did not authorize the withdrawal.

In FY 2021, the State Forester borrowed \$11.3 million from the BSF for wildfire suppression claims.

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.

#### **FY 2022**

The University of Arizona's Economic and Business Research Center (EBR) currently projects that Arizona real adjusted income will increase by 3.28% in CY 2021. Since this is below the estimated trend growth rate of 3.45%, but above 2.0%, the formula is projected to recommend no deposits or withdrawals in FY 2022. (*For more details, see Table 1.*)

Laws 2021, Chapter 408 authorizes DES to use up to \$25.0 million from the BSF to provide funding for reimbursement grants in FY 2022. Chapter 408 requires the BSF to be fully reimbursed by September 1, 2022.

#### **STATUTORY CHANGES**

The Budget Procedures BRB, as session law, continues to notwithstanding the requirements for any deposit to or withdrawals from the Budget Stabilization Fund through FY 2024.

Table 1

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

	<b>Actual FY 2020</b>	<b>Estimate FY 2021</b>	<b>Estimate FY 2022</b>
<b>General Fund Revenues</b>			
Adjusted Revenues	\$10,879,587.1 <sup>2/</sup>	\$13,638,897.5	\$13,403,286.9
Statutory Limit of Revenues	10.0%	10.0%	10.0%
Maximum Balance	1,087,958.7	1,363,889.8	1,340,328.7
<b>Arizona Personal Income in Prior CY</b>			
Real Adjusted Annual Income Growth	3.50%	1.19%	3.28%
7-Year Average Income Growth	<u>3.38%</u>	<u>3.54%</u>	<u>3.45%</u>
Annual Difference	0.12%	(2.35)%	(0.17)%
<b>BSF Transactions</b>			
Beginning BSF Balance	742,968.2	978,531.3	974,797.8
BSF Formula Recommendation	13,357.6	(255,670.3)	0.0
<b>Actual Transfer In</b>			
General Fund Appropriation	271,107.0 <sup>3/</sup>	0.0	0.0
<b>Actual Transfer Out</b>			
State Forester Claims <sup>4/5/</sup>	2,281.0	(11,269.1)	0.0
DHS Public Health Emergencies Fund <sup>6/</sup>	(55,000.0)	0.0	0.0
DES Reimbursement Grants <sup>7/8/9/</sup>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
SUBTOTAL	(52,719.0)	(11,269.1)	0.0
Balance	961,356.2	967,262.2	974,797.8
Interest Earnings & Equity Gains/Losses <sup>10/</sup>	17,175.1	7,535.6	7,500.0
<b>Ending BSF Balance</b>	\$978,531.3	\$974,797.8	\$982,297.8
<b>Percent of Revenues</b>	9.0%	7.1%	7.3%

<sup>1/</sup> BSF history prior to FY 2020 can be found on the JLBC website.

<sup>2/</sup> Actual General Fund revenue for FY 2020, as determined by the Economic Estimates Commission.

<sup>3/</sup> Laws 2019, Chapter 263 appropriated \$271.1 million from the General Fund in each of FY 2019 and FY 2020 for deposit into the BSF.

<sup>4/</sup> 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.

<sup>5/</sup> Laws 2019, Chapter 269 increases the maximum outstanding balance to \$20.0 million beginning in FY 2020.

<sup>6/</sup> 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 revert to the BSF.

<sup>7/</sup> Laws 2019, Chapter 263 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 2020. Chapter 263 required the BSF to be fully reimbursed by September 1, 2020. These monies were spent and repaid by September 1, 2020.

<sup>8/</sup> Laws 2020, Chapter 58 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.

<sup>9/</sup> Laws 2021, Chapter 408 authorizes DES to use up to \$25.0 million from the BSF to provide funding for reimbursement grants in FY 2022. Chapter 408 requires the BSF to be fully reimbursed by September 1, 2022.

<sup>10/</sup> Interest earnings for FY 2022 were estimated by the JLBC Staff based on information provided by the State Treasurer's Office.