

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.
- A.R.S. § 37-1305(E)(4) and A.R.S. § 35-144 allows the BSF to be used for the advance payment of wildfire suppression claims. Upon reimbursement of those claims by other entities, those monies are to be deposited into the BSF.
- 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%.
- Laws 2022, Chapter 308 Budget Implementation Budget Reconciliation Bill (BRB) continues to notwithstanding the requirements for any deposit to or withdrawals from the BSF through FY 2025. Chapter 308 also notwithstanding the 10% BSF cap for FY 2023.
- 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 2022

In CY 2021, Arizona real adjusted personal income increased by 2.57%, with a trend growth rate of 3.46%. Since this was (0.89)% below the trend growth rate of 3.46% but 0.57% above the 2.0% floor, the formula recommended no BSF deposit or withdrawal in FY 2022.

In FY 2022, the State Forester reimbursed \$4.6 million to the BSF for wildfire suppression claims.

Laws 2021, Chapter 408 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 2022. Chapter 408 required the BSF to be fully reimbursed by September 1, 2022. DES withdrew these monies and reimbursed them prior to September 1, 2022.

FY 2023

The University of Arizona's Economic and Business Research Center (EBR) currently projects that Arizona real adjusted personal income will increase by 0.37% in CY 2022. Since this is (2.48)% below the estimated trend growth rate of 2.85% and below the 2% floor, the BSF formula is projected to recommend a withdrawal of \$(413.8) million in FY 2023. *(For more details, see Table 1.)*

Laws 2022, Chapter 321 diverts \$425.0 million of General Fund Transaction Privilege Tax (TPT) revenues to the BSF in even monthly installments during FY 2023.

FY 2024

EBR currently projects that Arizona real adjusted personal income will increase by 1.32% in CY 2023. Since this is (1.26)% below the estimated trend growth rate of 2.58%, and below the 2% floor, the BSF formula is projected to recommend a withdrawal of \$(194.6) million in FY 2024. *(For more details, see Table 1.)*

Statutory Changes

The Baseline would, as session law, continue to notwithstanding the requirements for 1) any deposit to or withdrawals from the Budget Stabilization Fund through FY 2026 and 2) a 10% BSF cap for FY 2024.

Table 1

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

	Actual FY 2022	Estimate FY 2023	Estimate FY 2024
General Fund Revenues			
Adjusted Revenues	\$16,684,762.3	\$15,445,385.8	\$15,304,414.8
Statutory Limit of Revenues	10.0%	10.0%	10.0%
Maximum Balance ^{2/}	1,668,476.2	1,544,538.6	1,530,441.5
Arizona Personal Income in Prior CY			
Real Adjusted Annual Income Growth	2.57%	0.37%	1.32%
7-Year Average Income Growth	3.46%	2.85%	2.58%
Annual Difference	(0.89)%	(2.48)%	(1.26)%
BSF Transactions			
Beginning BSF Balance	974,736.2	982,163.7	1,427,163.7
BSF Formula Recommendation	0.0	(413,782.1)	(194,611.9)
Actual Transfer In			
General Fund Appropriation ^{3/}	0.0	425,000.0	0.0
Actual Transfer Out			
State Forester Claims ^{4/}	4,596.8	0.0	0.0
DES Reimbursement Grants ^{5/6/}	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
SUBTOTAL	4,596.8	0.0	0.0
Balance	979,333.0	1,407,163.7	1,427,163.7
Interest Earnings & Equity Gains/Losses ^{7/}	2,830.7	20,000.0	20,000.0
Ending BSF Balance	\$982,163.7	\$1,427,163.7	\$1,447,163.7
Percent of Revenues	5.9%	9.2%	9.5%

^{1/} BSF history prior to FY 2022 can be found on the JLBC website.

^{2/} Laws 2022, Chapter 308 is notwithstanding the 10% BSF cap for FY 2023.

^{3/} Laws 2022, Chapter 321 diverts \$425 million from General Fund Transaction Privilege Tax (TPT) revenues to the BSF in FY 2023.

^{4/} Laws 2019, Chapter 269 authorizes BSF monies to be used by the State Forester to pay certain wildland fire suppression claims, not to exceed \$20.0 million. The monies must be reimbursed to the State Treasurer within 45 days of a federal agency's payment on the claim.

^{5/} Laws 2020, Chapter 58 authorized DES to use up to \$25.0 million from the BSF to provide funding for reimbursement grants in FY 2021. Chapter 58 required the BSF to be fully reimbursed by September 1, 2021. These monies were spent and repaid by September 1, 2021.

^{6/} Laws 2021, Chapter 408 authorized DES to use up to \$25.0 million from the BSF to provide funding for reimbursement grants in FY 2022. Chapter 408 required the BSF to be fully reimbursed by September 1, 2022. These monies were spent and repaid by September 1, 2022.

^{7/} Net earnings for FY 2023 and FY 2024 were estimated by the JLBC Staff based on information provided by the State Treasurer's Office.