

ARIZONA BUDGET STABILIZATION FUNDS

Arizona now has 3 funds which can be used for budget contingencies. These are the Budget Stabilization Fund, the Temporary Assistance for Needy Families (TANF) Stabilization Fund, and the AHCCCS Medical Services Stabilization Fund.

Budget Stabilization Fund - Background

The Budget Stabilization Fund (BSF) for Arizona was created in 1990 (A.R.S. § 35-144). The fund is administered by the State Treasurer, who is responsible for transferring General Fund monies 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. It is designed to provide revenue stabilization across a typical business cycle. Under the economic formula which drives the BSF, the first payment into the fund was required in FY 1994.

The Formula

The determination of the amount to be appropriated to (a deposit) or transferred out of (a withdrawal) the BSF is made using a formula based upon total annual Arizona personal income (excluding transfer payments) and adjusted for inflation. Essentially, when annual growth is above trend, monies are deposited into the BSF, whereas, when growth is below trend, monies are withdrawn from the BSF. A change to the formula was made in statute in 1998 (Laws 1998, Chapter 6, 4th Special Session) which allows withdrawals only when annual adjusted income growth is both *below 2% and below the 7-year average trend*. The intent of this is to avoid withdrawals from the BSF when annual growth levels are gradually declining after an extended high growth period.

The annual budget recommendations of the Governor and JLBC Staff include estimates of appropriations to or transfers from the BSF, for the upcoming year based on the formula requirements. By June 1 of that following year, the Arizona Economic Estimates Commission (EEC) subsequently makes a determination of the annual growth rate of inflation-adjusted total state personal income, the trend growth rate over the past 7 years, and the appropriation to or transfer from the BSF. The Legislature ultimately must approve any appropriations or transfers.

Key features of the Arizona BSF can be summarized as follows:

- The deposit into the BSF (or withdrawal from the BSF) for a given fiscal year is determined by comparing the annual growth rate of inflation adjusted Arizona Personal Income (AZPI) for the calendar year

ending in the fiscal year to the trend growth rate of inflation adjusted AZPI for the most recent 7 years.

- If the annual growth rate exceeds the trend growth rate, the excess 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 is less than the trend growth rate by 2% or more, the deficiency, when multiplied by the General Fund revenue of the prior year, would equal the amount to be withdrawn from the BSF.
- By a two-thirds majority, the Legislature, with the concurrence of the Governor, can decrease a deposit or increase a withdrawal.

Appropriations (Deposits) to BSF

The 1998 Legislature appropriated \$75,115,000 to the BSF for FY 1999 (Laws 1998, Chapter 2, 4th Special Session). With this deposit, the total BSF balance at the end of FY 1999 is projected to be \$385,124,000, or approximately 7% of General Fund revenue. Laws 1997, Chapter 199 had originally capped the BSF balance at 6.33% of General Revenue in FY 1999 and 7% in FY 2000 and thereafter. Laws 1998, Chapter 6, 4th Special Session allows balances in excess of 6.33% to stay in the BSF in FY 1999.

Table 6 shows the actual deposits to the BSF for FY 1997 and FY 1998 as well as estimates of BSF balances for FY 1999 through FY 2001. *(For a further history of the BSF, please see the JLBC Staff's Summary of Recommendations and Economic and Revenue Forecast published in January 1999.)*

TANF Stabilization Fund - Background

Laws 1997, Chapter 300 created a new Temporary Assistance for Needy Families (TANF) Stabilization Fund. The Stabilization Fund, authorized in A.R.S. § 46-138.03, shall be used to supplement existing appropriations when caseloads for the TANF program operated by the Department of Economic Security (DES) exceed budgeted projections. The fund, administered by DES, consists of monies appropriated to it by the Legislature and is subject to legislative appropriation.

The Legislature appropriated \$5,141,000 from the General Fund to the TANF Stabilization Fund in FY 1998. Laws 1998, Chapter 208 allowed the transfer of \$2,000,000 from the fund in FY 1999 to begin implementation of a new computer system for TANF eligibility determination.

Table 6

**ESTIMATED CHANGES TO THE BUDGET STABILIZATION FUND
FY 1997 THROUGH FY 2001**
(\$ in Millions)

	Actual FY 1997	Actual FY 1998	Actual FY 1999	Estimate FY 2000	Estimate FY 2001
General Fund Revenues ^{1/}	5,039,857,800	5,229,384,500	5,540,785,800	5,795,202,800	6,109,823,800
Maximum Balance	251,992,900	294,623,500	N/A	405,664,200	427,687,700
Maximum % of Revenues	5.000%	5.634%	N/A	7.000%	7.000%
Adjusted Annual Income Growth	6.5%	5.7%	7.1%	5.7%	4.7%
Adjusted 7-Year Income Growth	3.8%	4.5%	5.6%	6.2%	6.2%
Annual Difference	2.7%	1.2%	1.5%	-0.5%	-1.5%
BSF Formula Recommendation ^{2/}	127,766,000	58,966,000	75,822,800	0	0
Beginning Balance	233,130,000	245,810,900	291,670,000	385,124,300	402,454,800
Actual Deposit/Withdrawal	0	30,000,000	75,115,000	--	--
Effective Interest Rate	5.4%	5.7%	5.0%	4.5%	5.0%
Interest Earnings	12,680,900	15,859,100	18,339,300	17,300,600	20,122,700
Ending Balance	245,810,900	291,670,000	385,124,300	402,454,800	422,577,600
Ending Balance As A % of GF Revenue	5.0%	5.6%	7.0%	6.9%	6.8%

^{1/} Total revenues less beginning balance forward.

^{2/} The Economic Estimates Commission determines this by multiplying prior year revenues times the annual difference from trend growth.

N/A - Not Applicable.

Laws 1999, Chapter 6, 1st Special Session included an excess balance transfer of \$3,141,000 from the Stabilization Fund to the General Fund in FY 1999. This will reduce the expected fund balance on June 30, 1999 to \$0. This transfer was made because the state has a large balance of federal TANF Block Grant monies "on account" with the federal government that can be used should caseloads increase.

**Medical Services Stabilization Fund –
Background**

The AHCCCS Medical Services Stabilization Fund is authorized in A.R.S. § 36-2922. It is to be used if the appropriation for AHCCCS in a fiscal year is insufficient to cover the cost of AHCCCS medical services. AHCCCS must notify the Chairperson of the Joint Legislative Budget Committee and the Director of the Governor's Office of Strategic Planning and Budgeting that the appropriation is insufficient, and the JLBC Staff may recommend that AHCCCS withdraw an amount from

the Medical Services Stabilization Fund to cover the shortfall.

A.R.S. § 36-2921A(2) authorizes the monthly transfer of \$1,250,000 (\$15,000,000 per year) from the Medically Needy Account of the Tobacco Tax and Health Care Fund to the Medical Services Stabilization Fund. In addition, Laws 1996, Chapter 368 authorized an additional one-time transfer of \$30,000,000 to the Stabilization Fund. Interest earnings are retained in the fund. At the end of FY 1998, the fund balance was \$80,231,500. Laws 1998, Chapter 4, 4th Special Session discontinued the monthly transfer to the Medical Services Stabilization Fund after July 1, 1998.

Laws 1998, Chapter 214 also authorized \$8,000,000 from the Medical Services Stabilization Fund be expended in FY 1999 for Healthcare Group, a health insurance program for small businesses and local governments administered within AHCCCS. Laws 1999, Chapter 313 continued this \$8,000,000 appropriation in FY 2000.

The 3 stabilization funds are summarized over the period FY 1998 through FY 2001 in Table 7.

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>FY 2001</u>
BSF	\$291,670	\$385,124	\$402,455	\$422,578
TANF Fund	5,141	0	0	0
AHCCCS Fund	80,231	77,493	73,367	77,036
	<u>\$377,042</u>	<u>\$462,617</u>	<u>\$475,822</u>	<u>\$499,614</u>