

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.
- The BSF's total balance cannot be larger than 10% of the current year's General Fund revenues, excluding the beginning balance.
- Laws 2026, Chapter 138, the State Budget Implementation Budget Reconciliation Bill (BRB), continues to notwithstanding the requirements for any deposit to or withdrawals from the BSF through FY 2028. Chapter 138 also notwithstanding the 10% BSF cap for FY 2027.
- 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 2025

Based on the EEC estimate of May 29, 2025, Arizona real adjusted personal income increased by 3.19% in CY 2024, with a trend growth rate of 3.96%. Since the annual growth rate of 3.19% was (0.77)% below the trend growth rate but above the 2.0% floor, the formula recommended no BSF deposit or withdrawal in FY 2025. (*For more details, see Table 1.*)

In FY 2025, the State Forester withdrew \$(15.4) million from the BSF for the advance payment of wildfire

suppression claims and repaid \$8.8 million to the BSF for outstanding claims.

Laws 2024, Chapter 209 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 2025. Chapter 209 required the BSF to be fully reimbursed by September 1, 2025. A total of \$(25.0) million was withdrawn from the BSF at the end of FY 2025, and this amount was reimbursed to the BSF in the early part of FY 2026.

FY 2026

Based on the EEC estimate of May 29, 2026, Arizona real adjusted personal income increased by 0.54% in CY 2025, with a trend growth rate of 3.80%. Since the annual growth rate of 0.54% was (3.26)% below the trend growth rate and below the 2.0% floor, the formula recommended a withdrawal from the BSF of \$(536.6) million in FY 2026. The enacted budget did not include this withdrawal. (*For more details, see Table 1.*)

In FY 2026, the State Forester withdrew \$(8.4) million from the BSF for the advance payment of wildfire suppression claims and repaid \$15.6 million to the BSF for outstanding claims.

Laws 2025, Chapter 233 authorized DES to use up to \$25.0 million from the BSF to provide funding for reimbursement grants in FY 2026. Chapter 233 requires the BSF to be fully reimbursed by September 1, 2026. A total of \$(25.0) million was withdrawn from the BSF at the end of FY 2026, and this amount is required to be reimbursed to the BSF in the early part of FY 2027.

FY 2027

The University of Arizona's Economic and Business Research Center (EBRC) currently projects that Arizona real adjusted personal income will increase by 1.04% in CY 2026. Since this is (2.17)% below the estimated trend growth rate of 3.21% and below the 2.0% floor, the BSF formula is projected to recommend a BSF withdrawal of \$(368.5) million in FY 2027. The enacted FY 2027 budget did not include this withdrawal from the BSF. (*For more details, see Table 1.*)

Laws 2026, Chapter 126 authorizes DES to use up to \$25.0 million from the BSF for reimbursement grants in FY 2027. Chapter 126 requires the BSF to be fully reimbursed by September 1, 2027.

Statutory Changes

The State Budget Implementation BRB (Laws 2026, Chapter 138), as session law, continues to notwithstanding

the requirements for 1) any deposit to or withdrawals from the Budget Stabilization Fund through FY 2028 and 2) a 10% BSF cap for FY 2027.

Table 1

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

<u>General Fund Revenues</u>	Actual FY 2025	Estimate FY 2026	Estimate FY 2027
Adjusted Revenues	\$16,459,760.6	\$16,979,368.1	\$17,534,499.2
Statutory Limit of Revenues	10.0%	10.0%	10.0%
Maximum Balance ^{2/}	1,645,976.1	1,697,936.8	1,753,449.9
<u>Arizona Personal Income in Prior CY</u>			
Real Adjusted Annual Income Growth	3.19%	0.54%	1.04%
7-Year Average Income Growth	3.96%	3.80%	3.21%
Annual Difference	(0.77)%	(3.26)%	(2.17)%
<u>BSF Transactions</u>			
Beginning BSF Balance	1,485,992.1	1,545,367.3	1,618,078.0
BSF Formula Recommendation	0.0	(536,588.2)	(368,452.3)
<u>Actual Transfer In</u>			
State Forester Claims ^{3/}	8,791.5	15,602.4	0.0
DES Reimbursement Grants ^{4/5/6/}	<u>25,000.0</u>	<u>25,000.0</u>	<u>25,000.0</u>
SUBTOTAL	33,791.5	40,602.4	25,000.0
<u>Actual Transfer Out</u>			
State Forester Claims ^{3/}	(15,420.3)	(8,407.5)	0.0
DES Reimbursement Grants ^{4/5/6/}	<u>(25,000.0)</u>	<u>(25,000.0)</u>	<u>0.0</u>
SUBTOTAL	(40,420.3)	(33,407.5)	0.0
Balance	1,479,363.3	1,552,562.2	1,643,078.0
Interest Earnings & Equity Gains/Losses ^{7/}	66,004.0	65,515.8	60,000.0
Ending BSF Balance	\$1,545,367.3	\$1,618,078.0	\$1,703,078.0
Percent of Revenues ^{2/}	9.39%	9.53%	9.71%

^{1/} BSF history prior to FY 2025 can be found on the JLBC website.

^{2/} Laws 2026, Chapter 138 is notwithstanding the 10% BSF cap for FY 2027. The notwithstanding of the 10% BSF cap for FY 2026 was authorized by Laws 2025, Chapter 246.

^{3/} 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 million at any time. The monies must be reimbursed to the State Treasurer within 45 days of a federal agency's payment on the claim. Positive amounts represent reimbursement to the BSF by the State Forester and negative amounts represent withdrawals from the BSF by the State Forester.

^{4/} Laws 2024, Chapter 209 authorized DES to use up to \$25 million from the BSF to provide funding for reimbursement grants in FY 2025. Chapter 209 required the BSF to be fully reimbursed by September 1, 2025. A total of \$(25) million was withdrawn from the BSF in FY 2025 and this amount was reimbursed to the BSF in the early part of FY 2026.

^{5/} Laws 2025, Chapter 233 authorized DES to use up to \$25 million from the BSF to provide funding for reimbursement grants in FY 2026. A total of \$(25) million was withdrawn from the BSF in FY 2026 and this amount must be fully reimbursed by September 1, 2026

^{6/} Laws 2026, Chapter 126 authorizes DES to use up to \$25 million from the BSF to provide funding for reimbursement grants in FY 2027. Chapter 126 requires the BSF to be fully reimbursed by September 1, 2027.

^{7/} Net earnings for FY 2027 were estimated by the JLBC Staff based on information provided by the State Treasurer's Office.