

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 2023, Chapter 145 Budget Implementation Budget Reconciliation Bill (BRB) continues to notwithstanding the requirements for any deposit to or withdrawals from the BSF through FY 2026. Chapter 145 also notwithstanding the 10% BSF cap for FY 2024.
- 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 2023

Based on the EEC estimate of May 28, 2023, Arizona real adjusted personal income increased by 1.10% in CY 2022, with a trend growth rate of 3.19%. Since this was (2.09)% below the trend growth rate of 3.19% and below the 2% floor, the BSF formula recommended a withdrawal of \$(349.1) million in FY 2023. (For more details, see Table 1.)

The FY 2023 budget did not incorporate the formula recommendation. Instead, Laws 2022, Chapter 321

diverted \$425.0 million of General Fund Transaction Privilege Tax (TPT) revenues to the BSF in even monthly installments during FY 2023.

In FY 2023, the State Forester withdrew \$(7.3) million from the BSF for the advance payment of wildfire suppression claims and repaid \$13.4 million to the BSF for outstanding claims.

Laws 2022, Chapter 313 authorized DES to use up to \$25 million from the BSF to provide funding for reimbursement grants in FY 2023. Chapter 313 required the BSF to be fully reimbursed by September 1, 2023. A total of \$(25) million was withdrawn from the BSF in FY 2023, which was reimbursed to the BSF in the early part of FY 2024.

FY 2024

The University of Arizona's Economic and Business Research Center (EBR) currently estimates that Arizona real adjusted personal income increased by 2.60% in CY 2023. Since this is (0.5)% below the estimated trend growth rate of 3.10%, but above the 2% floor, the BSF formula is projected to recommend no deposit to or withdrawal from the BSF in FY 2024. *(For more details, see Table 1).*

Through the first 5 months of FY 2024, the State Forester withdrew \$(12.6) million from the BSF for the advance payment of wildfire suppression claims and repaid \$42,000 to the BSF for outstanding claims.

Laws 2023, Chapter 133 authorizes DES to use up to \$25.0 million from the BSF to provide funding for reimbursement grants in FY 2024. Chapter 133 requires the BSF to be fully reimbursed by September 1, 2024.

FY 2025

EBR currently projects that Arizona real adjusted personal income will increase by 3.19% in CY 2024. Since this is 0.17% above the estimated trend growth rate of 3.02%, the BSF formula is projected to recommend a deposit of \$24.9 million in FY 2025. *(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 2027 and 2) a 10% BSF cap for FY 2025.

Table 1

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

	Actual FY 2023	Estimate FY 2024	Estimate FY 2025
General Fund Revenues			
Adjusted Revenues	\$15,702,335.8	\$14,666,705.3	\$15,392,441.4
Statutory Limit of Revenues	10.0%	10.0%	10.0%
Maximum Balance ^{2/}	1,570,233.6	1,466,670.5	1,539,244.1
Arizona Personal Income in Prior CY			
Real Adjusted Annual Income Growth	1.10%	2.60%	3.19%
7-Year Average Income Growth	<u>3.19%</u>	<u>3.10%</u>	<u>3.02%</u>
Annual Difference	(2.09)%	(0.50)%	0.17%
BSF Transactions			
Beginning BSF Balance	982,163.7	1,424,381.2	1,486,830.4
BSF Formula Recommendation	(349,119.6)	0.0	24,933.4
Actual Transfer In			
General Fund Appropriation ^{3/}	425,000.0	0.0	0.0
State Forester Claims ^{4/}	13,394.7	42.0	0.0
DES Reimbursement Grants ^{5/6/}	<u>0.0</u>	<u>25,000.0</u>	<u>0.0</u>
SUBTOTAL	438,394.7	25,042.0	0.0
Actual Transfer Out			
State Forester Claims ^{4/}	(7,304.2)	(12,592.8)	0.0
DES Reimbursement Grants ^{5/6/}	<u>(25,000.0)</u>	<u>0.0</u>	<u>0.0</u>
SUBTOTAL	(32,304.2)	(12,592.8)	0.0
Balance	1,388,254.2	1,436,830.4	1,486,830.4
Interest Earnings & Equity Gains/Losses ^{7/}	36,127.0	50,000.0	30,000.0
Ending BSF Balance	\$1,424,381.2	\$1,486,830.4	\$1,516,830.4
Percent of Revenues ^{2/}	9.07%	10.14%	9.85%

^{1/} BSF history prior to FY 2023 can be found on the JLBC website.

^{2/} Laws 2023, Chapter 145 is notwithstanding the 10% BSF cap for FY 2024.

^{3/} Laws 2022, Chapter 321 diverted \$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 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.

^{5/} Laws 2022, Chapter 313 authorized DES to use up to \$25 million from the BSF to provide funding for reimbursement grants in FY 2023. Chapter 313 required the BSF to be fully reimbursed by September 1, 2023. A total of \$(25) million was withdrawn from the BSF in FY 2023 and this amount was reimbursed to the BSF in the early part of FY 2024.

^{6/} Laws 2023, Chapter 133 authorizes DES to use up to \$25 million from the BSF to provide funding for reimbursement grants in FY 2024. Chapter 133 requires the BSF to be fully reimbursed by September 1, 2024.

^{7/} Net earnings for FY 2024 and FY 2025 were estimated by the JLBC Staff based on information provided by the State Treasurer's Office.