



**Colorado**  
**Legislative**  
**Council**  
**Staff**

Room 029 State Capitol, Denver, CO 80203-1784

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**MEMORANDUM**

February 3, 2004

**TO:** Joint Budget Committee  
Senate and House Education Committees  
Office of State Planning and Budgeting

**FROM:** Legislative Council Staff, (303)-866-3521

**SUBJECT:** Report on the State Education Fund

**Summary**

This report analyzes the viability of the State Education Fund and how General Fund support of school finance and additional spending will impact the State Education Fund in the near term. Compared to a year ago, the economic assumptions that drive the estimates of revenue to and expenditures from the fund result in higher total funding for schools, but fewer local dollars and less income tax revenue diverted to the State Education Fund to support that funding. From FY 2003-04 to FY 2026-27, the average annual increase in the income tax diversion is expected to be 6.1 percent.

The projected state aid requirement to fund the obligations of Amendment 23 is \$2.924 billion in FY 2004-05. Cash funds of \$58.4 million are available to contribute to the state aid requirement, leaving a General Fund/State Education Fund obligation of \$2.866 billion in FY 2004-05. A General Fund appropriation increase of 6.9 percent annually through FY 2010-11 is projected to be necessary to fund Amendment 23 requirements. Appropriation increases that are less than 6.9 percent in the near term will cause "spikes" in appropriations in succeeding years. For FY 2004-05, personal income growth of an estimated 2.7 percent negates the maintenance-of-effort provision of Amendment 23, which requires a 5 percent increase in General Fund appropriations for school finance when personal income grows by at least 4.5 percent.

## Parameters of the Study

This report is prepared in accordance with section 22-55-104, C.R.S., which requires the Legislative Council Staff, in consultation with other legislative and executive branch offices, to issue an annual report on the State Education Fund. The report is required to address:

- the reasonableness of the assumptions used to forecast State Education Fund revenues and expenditures and the need to revise the assumptions;
- revenue projections for the State Education Fund;
- the projections of the amount of total state money, including sources other than the General Fund and State Education Fund, required to increase the statewide base per pupil funding amount and total categorical program funding by inflation plus one percentage point in FY 2004-05;
- the stability of the State Education Fund;
- an estimate of the tradeoffs of using State Education Fund money *versus* General Fund money for FY 2004-05 without adversely impacting the solvency of the State Education Fund or the ability of the General Assembly to comply in future years with the minimum funding requirements set forth in the state constitution; and
- estimates of the impact of various levels of General Fund appropriations above the minimum level on the amount of money available in the State Education Fund to provide funding in FY 2004-05 for additional programs that are consistent with the state constitution.

## Amendment 23 and the State Education Fund

Amendment 23 was passed by the state's voters at the General Election on November 7, 2000.<sup>1</sup> The constitutional amendment diverts an amount equal to one-third of one percent of Colorado taxable income to the State Education Fund. It also requires the statewide base per pupil funding amount for public schools and total state funding for categorical programs to be increased by at least the rate of inflation plus one percentage point for the first ten years (fiscal years 2001-02 through 2010-11) and by at least the rate of inflation thereafter. General Fund appropriations under the school finance act must increase by at least 5 percent annually for FY 2001-02 through FY 2010-11. This provision is known as maintenance of effort. When Colorado personal income increases by less than 4.5 percent between two calendar years, the

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<sup>1</sup> Appendix A contains the provisions of Amendment 23 and section 22-55-104, C.R.S.,

maintenance-of-effort provision does not apply for the following fiscal year. The provisions requiring specific increases in statewide base per pupil funding and in total state funding for categorical programs continue to apply when personal income growth is less than the 4.5 percent threshold. Money in the State Education Fund can be used to meet the funding requirements of Amendment 23. The General Assembly may also appropriate money from the State Education Fund for a variety of other education-related purposes.

### **Assumptions Used to Forecast Revenues and Expenditures**

Representatives from the Office of the State Auditor, Legislative Council Staff, Joint Budget Committee Staff, the Department of the Treasury, the Office of State Planning and Budgeting, and the Department of Education assisted in the review and preparation of this report. The basic framework of the model developed and used over the past three years is retained for the analysis in this report. However, the economic assumptions are revised to take into account more current information.

***Economic assumptions.*** The economic assumptions drive the estimates of revenues to and expenditures from the State Education Fund. They are a function of the economic outlook and therefore change on an annual basis. Revenue to the State Education Fund is down because of the economic slowdown. In fact, since this report was prepared last year, the estimate of the income tax diversion from FY 2003-04 through FY 2007-08 has decreased about \$128 million, from \$1.693 billion to \$1.565 billion. From FY 2003-04 through FY 2026-27, it has decreased 7.9 percent, or about \$1.2 billion. Other revisions to the economic assumptions include the following:

- Pupil count estimates for the near term are lower. The primary reason for the slower growth is lower migration due to slow employment growth. However, in the long term, pupil count estimates are increased. The State Demographer has increased the long-term forecast for the 5-to-17 age group based on information from the census and on in-migrants.
- The inflation forecast is lower than a year ago, both in the short term and in the long term. In the long term, the inflation rate is decreased from 3.5 percent to 3.3 percent to reflect a more recent historical pattern for inflation than had been used previously.
- Local revenue, which is comprised of property taxes and specific ownership taxes, is expected to be less than anticipated last year. Growth in local revenue is driven in large part by changes in assessed values, inflation, and changes in pupil enrollment, all of which are decreased from a year ago. In the current year, specific ownership taxes decreased 5.4 percent.

The changes to the variables in the model result in higher total funding for schools, but fewer local dollars to support that funding. Thus, the need for state aid increases, but less money is diverted to the State Education Fund to fund the requirements of Amendment 23. The end result is a higher projected annual increase in General Fund appropriations to comply with the provisions of Amendment 23.

***Other changes impacting the State Education Fund.*** In the 2003 Session, the General Assembly amended the Public School Finance Act of 1994 in order to reduce the level of state appropriations required to fund the act. Specifically, the General Assembly repealed, reversed, or changed several modifications that had been made or took effect since Amendment 23 was passed by the voters in November 2000. An estimated \$28.9 million in state savings resulting from the following changes:

- reducing districts' size factors by 0.0045 (\$16.4 million);
- increasing minimum per pupil funding by 1.4 percent rather than 2.9 percent (\$4.1 million);
- eliminating averaging of at-risk student counts and eliminating at-risk funding unrelated to federal free lunch program (\$4.0 million);
- temporarily reducing Colorado Preschool Program slots by 2,000 and removing the program's slots from the enrollment averaging formula (\$2.4 million);
- eliminating the Full-day Kindergarten Pilot Program (\$1.2 million);
- eliminating annual funding for 135 new on-line students who otherwise would not be eligible for funding (\$0.8 million).

The General Assembly has also made mid-year adjustments to the appropriation for school finance in each of the last two years, reducing the General Fund portion of the appropriation and increasing the portion from the State Education Fund. General Fund reductions associated with these adjustments totaled \$15.7 million in FY 2001-02<sup>2</sup> and \$90.2 million in FY 2002-03<sup>3</sup>. These actions increase the estimated average annual General Fund increase required in future fiscal years to maintain the solvency of the State Education Fund.

The General Assembly also made mid-year adjustments to the appropriation for the school finance in each of the last two years, increasing the appropriation from the State Education Fund in order to cover the costs of higher-than-anticipated enrollments, lower-than-anticipated local revenues, and lower-than-anticipated revenues to the State Public School Fund. These

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<sup>2</sup> House Bill 02-1368.

<sup>3</sup> Senate Bills 03-195, 03-197, 03-201, 03-248, and 03-258.

State Education Fund increases totaled \$9.4 million in FY 2001-02<sup>4</sup> and \$32.3 million in FY 2002-03<sup>5</sup>.

Finally, the General Assembly passed legislation to suspend or eliminate State Education Fund support for several programs, detailed below.

- The second year of funding for new textbooks, initially funded with \$15,018,300 from the State Education Fund for FY 2002-03, was eliminated.
- The Teacher Pay Incentive Program, funded with \$12,630,000 from the State Education Fund in FY 2001-02, was repealed.
- Funding for charter school capital construction was reduced from \$8,040,500 to \$5,000,000 for FY 2003-04.
- The Summer School Grant Program, funded with \$945,800 from the State Education Fund in FY 2001-02, was repealed.
- Funding for the Summer School Grant Program for Facility Schools, initially funded with \$500,000 from the State Education Fund in FY 2002-03, was eliminated.
- Funding for national credential fee assistance, funded with \$60,000 from the State Education Fund in FY 2002-03, was eliminated.

***Methodological assumptions.*** No methodological changes were made to the model this year.

## **Revenue Projections for the State Education Fund**

One-third of one percent of Colorado taxable income on state income tax returns is deposited in the State Education Fund. Money is transferred to the fund monthly based on quarterly revenue estimates of taxable income. Errors in the amount deposited in the fund in any fiscal year are corrected in the following fiscal year by adjusting the amount of the transfer.

The projections of revenue to the fund in this report are based on the Legislative Council Staff estimates of Colorado taxable income through FY 2008-09. For FY 2003-04, the revenue estimate also includes an \$8 million transfer to the fund for the statutory “truing up” of the amount of money that should have been diverted to the fund in FY 2002-03. After FY 2008-09, the sum of the projected Denver-Boulder-Greeley inflation rate, the percentage change in Colorado’s population, and the annual percentage change in productivity, multiplied by 95 percent, is used to estimate Colorado taxable income. Table 1 shows the estimated diversion of income tax revenues to the State Education Fund through FY 2026-27. The income tax revenues diverted

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<sup>4</sup> House Bill 02-1368.

<sup>5</sup> Senate Bills 03-201 and 03-258.

to the fund increase at a compound average annual growth rate of 6.1 percent between FY 2003-04 and FY 2026-27.

**Table 1**  
**Projections of Income Tax Revenue to the State Education Fund**  
**(Millions of Dollars)**

Fiscal Year	Income Tax	Fiscal Year	Income Tax
FY 2003-04	\$271.6	FY 2016-17	\$613.7
FY 2004-05	\$287.2	FY 2017-18	\$649.9
FY 2005-06	\$312.8	FY 2018-19	\$687.6
FY 2006-07	\$336.2	FY 2019-20	\$727.1
FY 2007-08	\$356.9	FY 2020-21	\$768.5
FY 2008-09	\$379.4	FY 2021-22	\$812.2
FY 2009-10	\$402.8	FY 2022-23	\$857.8
FY 2010-11	\$427.5	FY 2023-24	\$906.3
FY 2011-12	\$455.0	FY 2024-25	\$957.8
FY 2012-13	\$484.0	FY 2025-26	\$1,012.4
FY 2013-14	\$514.3	FY 2026-27	\$1,068.8
FY 2014-15	\$545.6	Total	\$14,413.9
FY 2015-16	\$578.6	Avg. Ann. Growth	6.1%

In addition to the income tax diversion, the State Education Fund also earns interest. The treasurer invests the balance of the fund in short-term and long-term instruments. Thus, the fund can expect to earn interest in any month in which there is a balance. However, the amount of interest earned is very sensitive to the size of the balance, and the size of the balance in the near term will depend upon the level of General Fund appropriations. In addition, it will depend upon the timing of payouts from the fund. State law does not prescribe when payouts from the fund occur, but the model is predicated on the majority of an annual payout occurring late in the fiscal year, thereby maximizing interest earned over the course of the year. In the current fiscal year, however, a fairly sizeable payout—\$216.5 million—occurred in November. Given these uncertainties, Table 1 does not include estimated interest earnings. In scenarios presented later in this report, however, the estimated interest rates for a one-year Treasury bill and a ten-year Treasury note are used to project interest earnings for the fund. The estimated interest rates are based on a forecast by Economy.com, a national economic forecasting firm.

**Projections of the Amount of State Funds Needed to Meet Education Funding Requirements for FY 2004-05**

Amendment 23 requires that the statewide base per pupil funding amount for preschool through twelfth grade education increase annually by the rate of inflation plus one percentage point

for the first ten years (FY 2001-02 through FY 2010-11) and by the rate of inflation after ten years. The same annual increases are required for state funding for categorical programs. Meeting these two obligations is expected to require \$2,924.3 million in state funds in FY 2004-05.

The projected statewide base per pupil funding amount in FY 2004-05 is \$4,693.71, an increase of \$123.40 over the current budget year. This increase is predicated on estimated inflation of 1.7 percent in 2003. This "base" amount is then modified by various factors to determine the amount of funding per pupil available to each school district, resulting in per pupil funding, on average, of \$6,105. The projected funded pupil count for FY 2004-05 is 728,575, an increase of 0.74 percent. Thus, the total funding requirement for school finance is \$4,447.9 million, an increase of 3.48 percent. The estimated state cost for business incentive agreements is \$4.7 million. Excluding the local contribution to *school finance funding*, the projected state aid requirement is \$2,757.6 million in FY 2004-05.

State funding for categorical programs in FY 2003-04 is \$162.4 million. The new funding requirement in FY 2004-05 for *categorical programs* is \$166.7 million, or an increase of \$4.4 million.

**Table 2**  
**Projected State Funding for Amendment 23 Requirements in FY 2004-05**  
**(Millions of Dollars)**

<b>School Finance</b>		
1.	Total Funding under the School Finance Act with Base Increase Equal to Inflation Plus One Percent	\$4,447.9
2.	<i>minus</i> the Local Share	<u>\$1,695.0</u>
3.	<i>equals</i> State Aid for School Districts	\$2,752.9
4.	<i>plus</i> Business Incentive Agreements	<u>\$4.7</u>
5.	<i>equals</i> State Aid under the School Finance Act	\$2,757.6
<b>Categoricals</b>		
6.	<i>plus</i> Categorical Program Funding with Increase of Inflation Plus One Percent	<u>\$166.7</u>
<b>Total State Funding for Amendment 23 (sum of lines 5 and 6)</b>		<b>\$2,924.3</b>

The figures on required state funds are presented with two caveats. The first caveat is that state funding for school finance and categorical programs is dependent on the inflation rate. The inflation rate used to develop the figures in this report for FY 2004-05 is still an estimate; the actual inflation rate will be released in mid February. The inflation rate could also affect the estimate for the local contribution to the school finance act. The second caveat is that a new cost-of-living study is required, by law, to be implemented in FY 2004-05. The impact of the

cost-of-living study on district cost-of-living factors is also dependent on the inflation rate. Thus, the projected state funding need does not include any changes from the cost-of-living study.

**Funding for additional programs.** State law requires the General Assembly to appropriate money from the State Education Fund for two programs created by statute. The total appropriation for these two programs is \$10 million in FY 2004-05 and each succeeding fiscal year. Five million dollars is dedicated to charter school capital construction and an equal amount is to be appropriated to the School Capital Construction Expenditures Reserve. The \$10 million requirement for FY 2004-05 compares to a \$15 million appropriation in FY 2003-04 for programs created by statute, all of which was for capital construction.

### Revenue Available to Meet State Funding Requirements of Amendment 23

In addition to the General Fund and State Education Fund, cash funds such as federal mineral lease revenue, school land proceeds, and interest on the Public School Fund are available to meet the funding requirements of Amendment 23. The estimated available amount for FY 2004-05 is \$58.1 million. This amount assumes that the General Assembly will continue to pay the state match for the National School Lunch Act from these cash fund revenues. The amount of the state match is just under \$2.5 million. In addition to this money, a small amount of cash funds—about \$300,000—is available for appropriation for the Comprehensive Health Education Program. Table 3 shows the effect of the available cash fund revenues on the total state funding need under Amendment 23. When these cash funds are considered, \$2,865.9 million of state money must come from the General Fund and the State Education Fund to meet the total Amendment 23 obligation. This amount is an increase of \$139.5 million over the current year's level, as adjusted by the Joint Budget Committee's supplemental recommendation.

**Table 3**  
**Calculation of General Fund and State Education Fund**  
**Requirement for FY 2004-05**  
**(Dollars in Millions)**

1.	Total State Funding for Amendment 23 Requirements	\$2,924.3
2.	<i>minus</i> Cash Funds for School Finance	\$58.1
3.	<i>minus</i> Cash Funds for Comprehensive Health	<u>\$0.3</u>
4.	<i>equals</i> General Fund and State Education Fund for Amendment 23	\$2,865.9

Legislation enacted in 2003 affects the amount of cash fund revenue available to meet Amendment 23 obligations. Senate Bill 03-248 limits the amount of interest earned on the Public School Fund that can be spent on education-related programs to \$19 million beginning in FY 2003-04. Interest earned in excess of \$19 million remains in the fund to build the fund balance, thus enabling the fund to earn more interest over the long term. The impact of this requirement

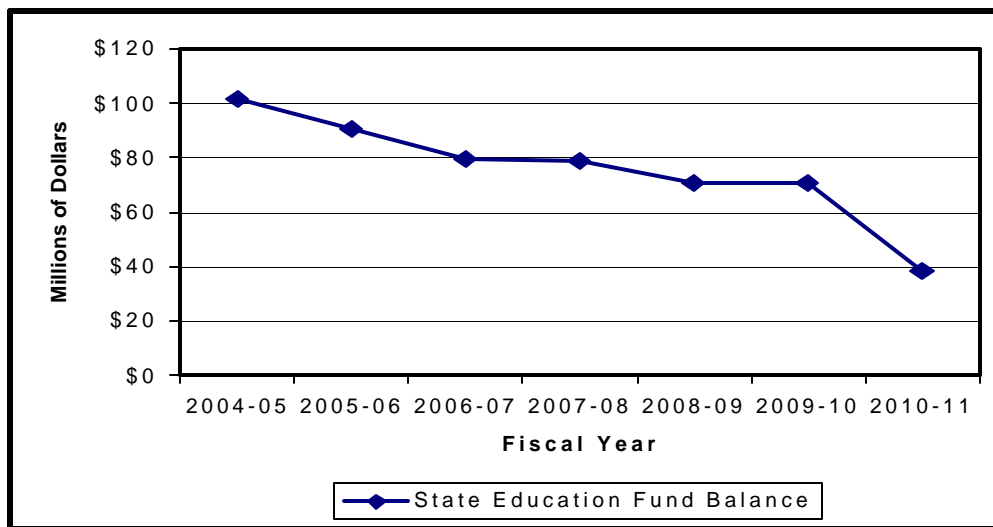


on available revenues depends on the interest earned on the fund. If this requirement had been in effect for the last five fiscal years, the reduction in available revenue would have ranged from zero in FY 1998-99 to \$2.1 million in FY 2001-02.

### Stability of the State Education Fund

The model projects income to the State Education Fund, interest earnings, the total funding requirements for education, local funding sources, and the necessary withdrawals from the fund to satisfy funding requirements given specified levels of General Fund appropriations. Assuming that the economic assumptions that drive these projections are reasonable, it will be difficult to maintain a balance in the fund through FY 2010-11 without significant General Fund appropriation increases. FY 2010-11 is a benchmark year because it is the last year that the additional one percentage point is required in addition to inflation. Thus, given that the model projects fund balances based on the minimum constitutional requirements, balances in the fund accrue more rapidly after the one-percentage-point requirement lapses. The projections of the State Education Fund balance through FY 2010-11 raise the question of the minimum balance that should be used for purposes of projections to protect against forecast errors. Figure 1 shows the estimated fund balances through FY 2010-11 with annual General Fund appropriation increases of 6.9 percent.

**Figure 1. State Education Fund Balance with Annual 6.9 Percent General Fund Increases**



The annual appropriation increase of 6.9 percent provides for a balance each year through FY 2010-11, albeit less than \$100 million per year. In the short term, the balance provides some protection against forecast errors, while also providing consistency in General Fund appropriations. In the long term, the State Education Fund balance grows significantly at a 6.9 percent General Fund increase, allowing for lesser rates of appropriations growth.

## General Fund and State Education Fund Appropriations for FY 2004-05

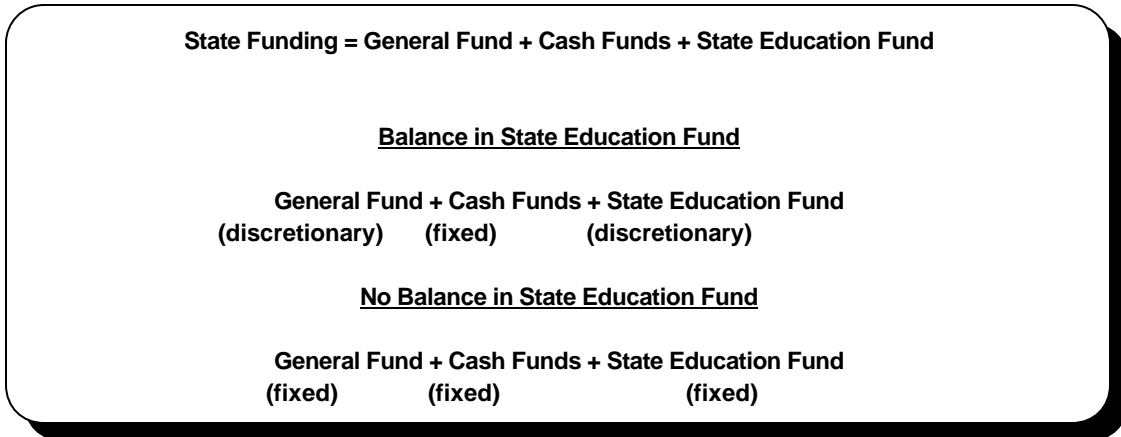
Amendment 23 requires a minimum increase of 5 percent in the General Fund appropriation for school finance through FY 2010-11 whenever Colorado personal income grows by 4.5 percent or more. No similar requirement exists for categorical programs, although money in the State Education Fund cannot be used to supplant the level of General Fund appropriations that existed for categorical programs on December 28, 2000. In the three fiscal years since Amendment 23 has been in effect, the 5 percent maintenance of effort has been required only once; Colorado personal income grew less than 4.5 percent in two of the three fiscal years. Legislative Council Staff is projecting that personal income will grow by less than 4.5 percent for FY 2004-05 as well, thereby negating the requirement for a minimum increase in General Fund appropriations. Table 4 presents the actual growth in personal income since Amendment 23 took effect and Legislative Council Staff's forecast through FY 2008-09.

**Table 4**  
**Colorado Personal Income Growth**

<b>Fiscal Year</b>	<b>Personal Income Growth</b>	<b>Fiscal Year</b>	<b>Personal Income Growth</b>
FY 2001-02	11.4%	FY 2005-06	4.1%
FY 2002-03	3.6%	FY 2006-07	4.7%
FY 2003-04	0.8%	FY 2007-08	5.4%
FY 2004-05	2.7%	FY 2008-09	5.6%

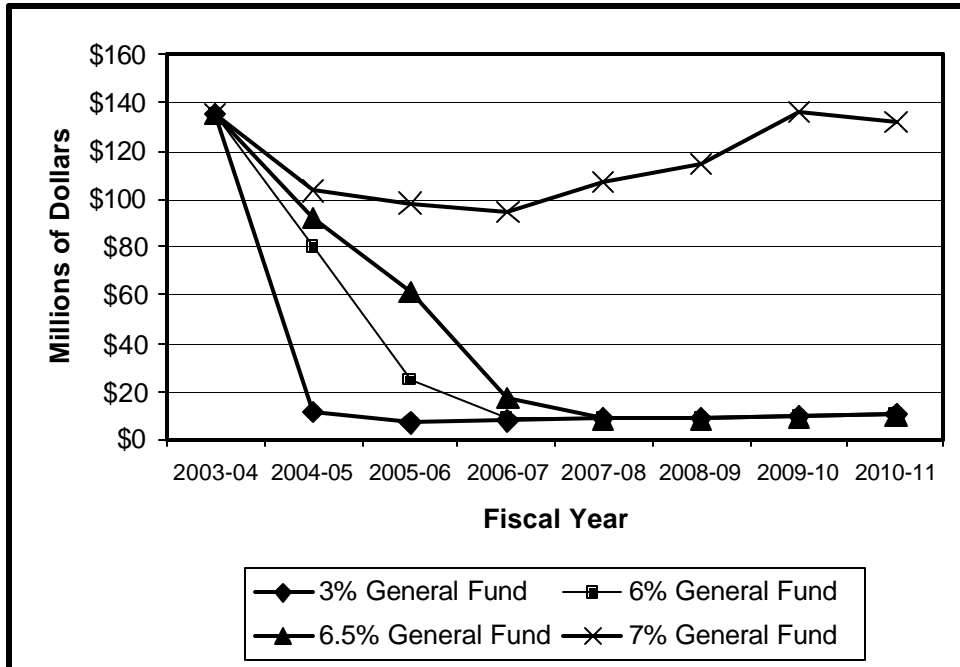
When the State Education Fund has a balance, the General Assembly has discretion over the amount of General Fund money to appropriate to meet the Amendment 23 funding requirements, within the parameters of Amendment 23. When the State Education Fund does not have a balance, the General Fund appropriation is dictated by Amendment 23. That is, the minimum funding requirements drive total state aid, and with a fixed amount of money in the State Education Fund, the General Fund provides the remaining money. Figure 2 illustrates this phenomenon.

**Figure 2. State Funding for Amendment 23**



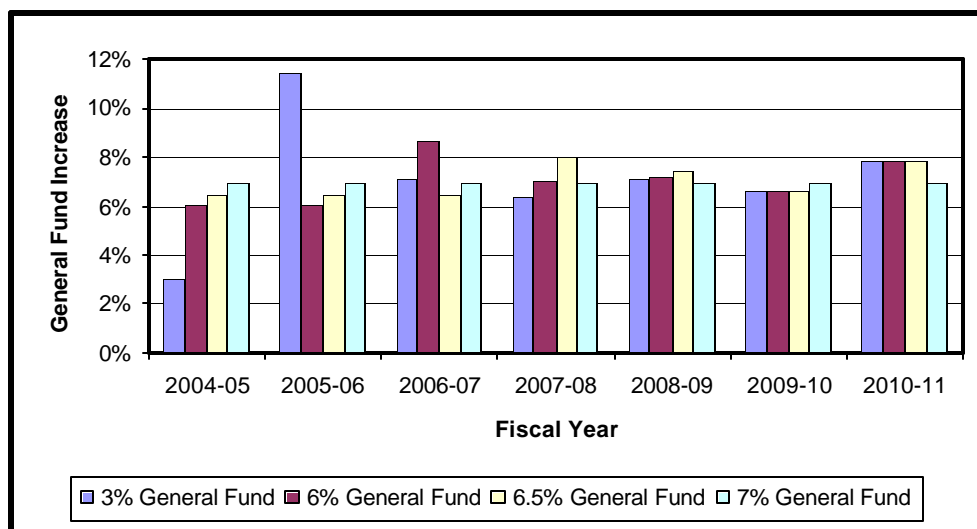
*General Fund appropriations for FY 2004-05.* Figure 3 shows the impact of a 3 percent, 6 percent, 6.5 percent, and 7 percent General Fund appropriation increase in FY 2004-05 on the balance of the State Education Fund through FY 2010-11. A General Fund appropriation increase of about 3 percent is the minimum appropriation that could sustain the funding requirements of Amendment 23 in the upcoming budget year. An appropriation increase at this level would essentially leave the State Education Fund without a balance, however, at the end of the fiscal year. At 6 percent and 6.5 percent, the depletion of the fund would be delayed two years. At 7 percent, the depletion of the fund would be delayed four years.

**Figure 3. State Education Fund Balance at Varying General Fund Appropriation Increases in FY 2004-05**



In addition to looking at the balance of the State Education Fund, it is interesting to examine how the appropriation increases in Figure 3 affect General Fund increases in the future. As noted earlier, once the State Education Fund does not have a balance, the General Fund appropriation level is fixed, assuming all current law provisions of the school finance act. The impact of 3 percent, 6 percent, 6.5 percent, and 7 percent appropriation increases in FY 2004-05 on out-year appropriations is illustrated in Figure 4. It shows the annual General Fund appropriation as indicated, unless that appropriation does not provide sufficient revenue to pay for Amendment 23 obligations. In that case, it shows the actual General Fund increase required to fund those obligations. For example, with a 3 percent General Fund increase in FY 2004-05, the General Fund appropriation is projected to "spike" in FY 2005-06. In contrast, it will "spike" in FY 2006-07 with a 6 percent General Fund appropriation in FY 2004-05. A General Fund appropriation of 7 percent allows for consistent annual increases in appropriations through FY 2010-11.

**Figure 4. General Fund Increases Required to Meet Amendment 23 Funding Requirements**



**Impact of General Fund increases for Amendment 23 on available General Fund revenues.** Table 5 illustrates the increase in General Fund appropriations for Amendment 23 as a percentage of the total increase in General Fund appropriations. It shows the proportion that the specified General Fund appropriation is of projected total new General Fund. In those instances when the General Fund increase indicated for a column does not provide sufficient revenue, it shows the actual General Fund increase required to fund the obligations of Amendment 23. For example, a 6.5 percent increase in the General Fund appropriation for school finance in FYs 2004-05, 2005-06, and 2006-07 is projected to consume 88 percent, 120 percent, and 64 percent of available revenue. In FYs 2007-08 and 2008-09, the appropriation increases jump to 7.9 percent and 7.5 percent, respectively. These appropriation increases represent 59 percent and 56 percent of available revenue.

**Table 5. Impact of General Fund Increases for School Finance  
on General Fund Appropriations**

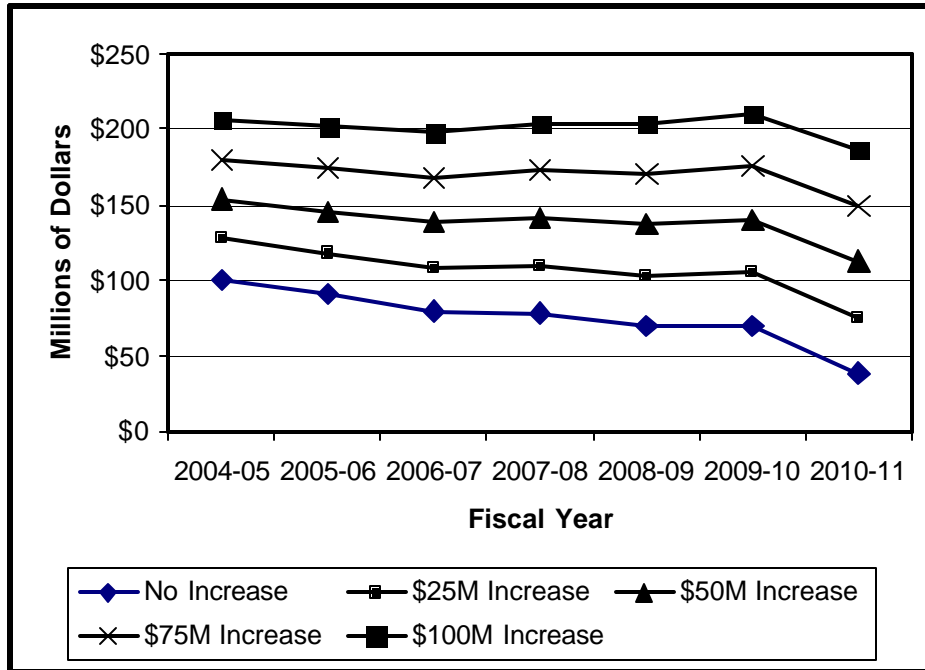
Fiscal Year	Growth in General Fund Appropriations (\$ in millions)	School Finance Appropriation Increase as Percent of General Fund Appropriation Increase if General Fund Appropriation Increase for School Finance Is:						
		7.5 Percent	7 Percent	6.5 Percent	6 Percent	5.5 Percent	5 Percent	4.5 Percent
<b>FY 2004-05</b>	\$165.6	102%	95%	88%	81%	75%	68%	61%
<b>FY 2005-06</b>	\$129.6	140%	130%	120%	110%	116%	134%	151%
<b>FY 2006-07</b>	\$258.8	75%	70%	64%	85%	92%	88%	84%
<b>FY 2007-08</b>	\$367.5	57%	52%	59%	53%	49%	49%	49%
<b>FY 2008-09</b>	\$389.6	58%	53%	56%	54%	54%	54%	54%
<b>State Education Fund Balance</b>		\$334.9	\$114.5	—	—	—	—	—

Notes:

- The figures in the "Growth in General Fund Appropriations" column are based on the Legislative Council Staff December 2003 forecast with the following changes: the population for 2003 is updated, and the Joint Budget Committee recommendations of January 22, 2004, are incorporated, including \$33.4 million in supplemental requests.
- Shading in the chart indicates that the requirements of Amendment 23 cannot be met under current law at the appropriation level indicated. In those instances, the percentage figures in the table reflect the actual amount required to be appropriated rather than the indicated level.

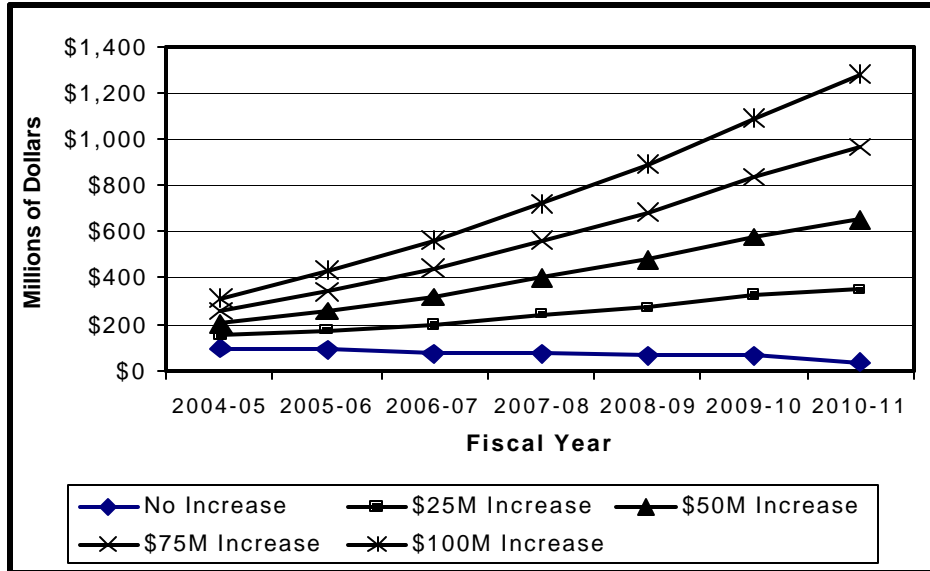
**Impact of a cash infusion on the State Education Fund.** Figure 5 presents the impact of appropriating \$25 million, \$50 million, \$75 million, and \$100 million to the State Education Fund in FY 2003-04. The benchmark for comparison is a 6.9 percent annual increase in General Fund appropriations. The effect of interest earnings on the fund is illustrated by the fact that an additional \$100 million to the fund results in an increase in the fund balance of almost \$150 million by FY 2010-11.

**Figure 5. State Education Fund Balance with 6.9 Percent General Fund Increases and Varying Appropriations to Fund**



**Impact of a refinancing on the State Education Fund.** In contrast to Figure 5, Figure 6 shows the impact of refinancing the FY 2003-04 appropriation in increments of \$25 million up to \$100 million. The refinancing involves increasing the General Fund appropriation and reducing the State Education Fund appropriation by an equal amount. The impact on the State Education Fund is much more dramatic over time because appropriation increases of 6.9 percent are applied to increasing amounts of money. Alternatively, with a \$25 million refinancing, the General Fund appropriation could be reduced three-tenths of a percentage point, to 6.6 percent, annually, and the State Education Fund balance would be higher in FY 2010-11 than it is at the 6.9 percent annual increase level.

**Figure 6. State Education Fund Balance with 6.9 Percent General Fund Increases and Varying Refinance Amounts**



**Funding for Additional Programs**

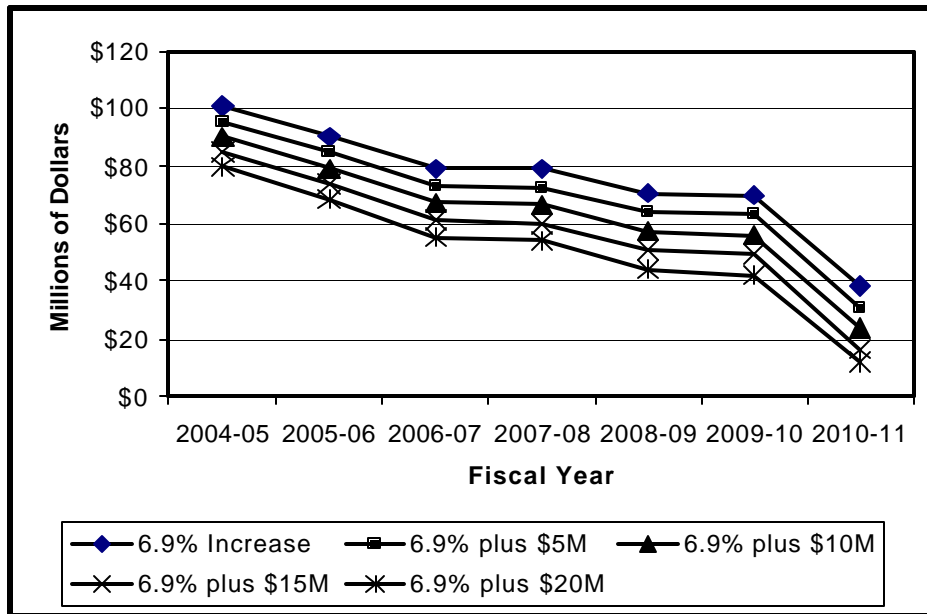
The final requirement for this report is an estimate of the impact on the State Education Fund of various additional levels of State Education Fund appropriations for programs that are permitted, but not required, by Amendment 23. Currently, the on-going requirement for such additional programs is \$10 million annually. Table 6 shows the impact on the FY 2004-05 year-end balance of additional State Education Fund appropriations of \$5 million, \$10 million, \$15 million, and \$20 million. The basis for the analysis is a 6.9 percent General Fund increase.

**Table 6. Impact of Additional State Education Fund Appropriations on the Fund Balance in FY 2004-05 (Millions of Dollars)**

Additional State Education Fund Appropriation of:	Fund Balance
No Increase	\$101.0
\$5 Million	\$95.7
\$10 Million	\$90.5
\$15 Million	\$85.2
\$20 Million	\$80.0

Figure 7 shows the impact of these one-time examples of increases in expenditures from the State Education Fund on the fund balance in FY 2010-11. Given the narrow margins on which the fund is projecting to be operating, these increases will likely result in higher General Fund appropriations to pay for Amendment 23 requirements.

**Figure 7. State Education Fund Balance with 6.9 Percent General Fund Appropriations and Varying Additional Appropriations**





**Article IX, Section 17  
Colorado Constitution**

**Section 17. Education - Funding.** (1) **Purpose.** In state fiscal year 2001-2002 through state fiscal year 2010-2011, the statewide base per pupil funding, as defined by the Public School Finance Act of 1994, article 54 of title 22, Colorado Revised Statutes on the effective date of this section, for public education from preschool through the twelfth grade and total state funding for all categorical programs shall grow annually at least by the rate of inflation plus an additional one percentage point. In state fiscal year 2011-2012, and each fiscal year thereafter, the statewide base per pupil funding for public education from preschool through the twelfth grade and total state funding for all categorical programs shall grow annually at a rate set by the general assembly that is at least equal to the rate of inflation.

(2) **Definitions.** For purposes of this section: (a) "Categorical programs" include transportation programs, English language proficiency programs, expelled and at-risk student programs, special education programs (including gifted and talented programs), suspended student programs, vocational education programs, small attendance centers, comprehensive health education programs, and other current and future accountable programs specifically identified in statute as a categorical program.

(b) "Inflation" has the same meaning as defined in article X, section 20, subsection (2), paragraph (f) of the Colorado constitution.

(3) **Implementation.** In state fiscal year 2001-2002 and each fiscal year thereafter, the general assembly may annually appropriate, and school districts may annually expend, monies from the state education fund created in subsection (4) of this section. Such appropriations and expenditures shall not be subject to the statutory limitation on general fund appropriations growth, the limitation on fiscal year spending set forth in article X, section 20 of the Colorado constitution, or any other spending limitation existing in law.

(4) **State Education Fund Created.** (a) There is hereby created in the department of the treasury the state education fund. Beginning on the effective date of this measure, all state revenues collected from a tax of one third of one percent on federal taxable income, as modified by law, of every individual, estate, trust and corporation, as defined in law, shall be deposited in the state education fund. Revenues generated from a tax of one third of one percent on federal taxable income, as modified by law, of every individual, estate, trust and corporation, as defined in law, shall not be subject to the limitation on fiscal year spending set forth in article X, section 20 of the Colorado constitution. All interest earned on monies in the state education fund shall be deposited in the state education fund and shall be used before any principal is depleted. Monies remaining in the state education fund at the end of any fiscal year shall remain in the fund and not revert to the general fund.

(b) In state fiscal year 2001-2002, and each fiscal year thereafter, the general assembly may annually appropriate monies from the state education fund. Monies in the state education fund may only be used to comply with subsection (1) of this section and for accountable education reform, for accountable programs to meet state academic standards, for class size reduction, for expanding technology education, for improving student safety, for expanding the

availability of preschool and kindergarten programs, for performance incentives for teachers, for accountability reporting, or for public school building capital construction.

(5) **Maintenance of Effort.** Monies appropriated from the state education fund shall not be used to supplant the level of general fund appropriations existing on the effective date of this section for total program education funding under the Public School Finance Act of 1994, article 54 of title 22, Colorado Revised Statutes, and for categorical programs as defined in subsection (2) of this section. In state fiscal year 2001- 2002 through state fiscal year 2010-2011, the general assembly shall, at a minimum, annually increase the general fund appropriation for total program under the "Public School Finance Act of 1994," or any successor act, by an amount not below five percent of the prior year general fund appropriation for total program under the "Public School Finance Act of 1994," or any successor act. This general fund growth requirement shall not apply in any fiscal year in which Colorado personal income grows less than four and one half percent between the two previous calendar years.

**Title 22, Article 55**  
**State Policies Relating to Section 17 of Article IX**  
**of the State Constitution**

**22-55-104. Procedures relating to state education fund revenue estimates - legislative declaration.** (1) The general assembly finds and declares that:

(a) Section 17 (4) (a) of article IX of the state constitution requires that a portion of state income tax revenues be deposited in the newly created state education fund.

(b) Section 17 (4) (b) of article IX of the state constitution authorizes the general assembly to annually appropriate moneys from the state education fund to comply with the required increase in funding for preschool through twelfth grade public education and for categorical programs.

(c) In order to ensure the availability of moneys in the state education fund to comply with the increase in funding for preschool through twelfth grade public education and for categorical programs, the general assembly must preserve the fund, foster its growth, and protect its solvency.

(d) To preserve the fund, foster its growth, and protect its solvency, the general assembly must restrict appropriations from the fund and make an annual determination of the maximum amount that may be appropriated from the fund based on analyses prepared on a regular basis.

(2) (a) By March 1, 2002, and by March 1 of each year thereafter, the general assembly, acting by joint resolution sponsored by the chair and vice-chair of the joint budget committee, shall certify the amount of moneys in the state education fund that should be considered available for appropriation for the next state fiscal year. The joint resolution shall be prepared by the joint budget committee, in cooperation with the education committees of the senate and house of representatives, and introduced after taking into consideration the review of the model conducted by the staff of the legislative council pursuant to subsection (3) of this section. The joint resolution shall include, but need not be limited to, the following information:

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(I) The amount of total state moneys required to meet the funding requirements of sections 22-55-106 and 22-55-107 for the next state fiscal year;

(II) The amount of state moneys available from funds other than the general fund and the state education fund to meet the funding requirements of sections 22-55-106 and 22-55-107 for the next state fiscal year;

(III) Revenue projections for the state education fund for the next state fiscal year;

(IV) The maximum amount of moneys that can be appropriated from the state education fund and the minimum amount of moneys that can be appropriated from the general fund pursuant to section 22-55-105 to meet the funding requirements of sections 22-55-106 and 22-55-107 for the next state fiscal year without adversely impacting the solvency of the state education fund or the ability of the general assembly to comply with said funding requirements in future years; and

(V) The impact of various levels of general fund appropriations above the minimum level identified pursuant to subparagraph (IV) of this paragraph (a) on the amount of moneys available in the state education fund to provide funding in the next state fiscal year for programs that may be authorized by law and that are consistent with section 17 (4) (b) of article IX of the state constitution.

(b) The general assembly should not appropriate an amount of moneys from the state education fund for the next state fiscal year that exceeds the amount of moneys certified in the joint resolution.

(3) By February 1, 2002, and by each February 1 thereafter, the staff of the legislative council, in consultation with the state auditor, the office of state planning and budgeting, the state treasurer, the department of education, and the joint budget committee, shall cause to be conducted a review of the model used to forecast revenues in and expenditures from the fund and the spending requirements of the "Public School Finance Act of 1994", article 54 of this title. Copies of the review shall promptly be transmitted to the joint budget committee, and the office of state planning and budgeting, and the education committees of the senate and the house of representatives. The review shall include, but need not be limited to, the following:

(a) A determination of the reasonableness of the assumptions used to forecast the revenues and expenditures;

(b) A revision of the assumptions as necessary;

(c) Information on the financial stability of the fund;

(d) Projections of the amount of total state moneys required to meet the funding requirements of sections 22-55-106 and 22-55-107 for the next state fiscal year;

(e) Projections of the amount of state moneys available from funds other than the general fund and the state education fund to meet the funding requirements of sections 22-55-106 and 22-55-107 for the next state fiscal year;

(f) Revenue projections for the state education fund;

(g) An estimate of the maximum amount of moneys that can be appropriated from the state education fund and the minimum amount of moneys that can be appropriated from the general fund to meet the funding requirements of sections 22-55-106 and 22-55-107 for the next state fiscal year without adversely impacting the solvency of the state education fund or the ability of the general assembly to comply with said funding requirements in future years; and

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(h) Estimates of the impact of various levels of general fund appropriations above the minimum level identified pursuant to paragraph (g) of this subsection (3) on the amount of moneys available in the state education fund to provide funding in the next state fiscal year for programs that may be authorized by law and that are consistent with section 17 (4) (b) of article IX of the state constitution.