Colorado
Legislative
Council
Staff

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MEMORANDUM

February 2, 2007

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

FROM: Deb Godshall, Assistant Director, 303-866-3521

SUBJECT: Report on the State Education Fund

Summary

The model developed by the Pacey Economics Group in February 2001 was updated to reflect actual data for the current budget year and Legislative Council Staff's December 2006 revenue forecast. The result in the short term is projected state aid costs that are higher than revenue changes, increasing the estimated annual growth rate for General Fund appropriations for school finance to 6.95 percent in order to avoid more significant increases in the near future. Mathematically, the minimum appropriation increase required by Amendment 23 of 5 percent is possible in FY 2007-08, but will drive considerably higher General Fund increases in the future.

The income tax diversion to the State Education Fund is projected to increase at an average annual rate of 6.6 percent. Interest income to the fund will depend on the fund balance. State aid to meet the minimum requirements of Amendment 23, net of cash fund revenue sources, is projected to increase $212.2 million. Of this amount, $132.4 million must be provided through the General Fund maintenance of effort requirement. Increases in school finance and categorical funding and revenue to the State Education Fund are based on an estimated inflation rate of 3.2 percent for 2006. The federal government will release the actual inflation rate later this month, which may result in adjustments to the projections.

Amendment 23 and the State Education Fund

Article IX, Section 17, of the Colorado Constitution, enacted by the voters at the November 7, 2000, election as Amendment 23, creates the State Education Fund. It diverts an amount equal to one-third of one percent of Colorado taxable income to the fund. It also requires the General Assembly to increase the statewide base per pupil funding amount under the school finance act and total state funding for categorical programs by at least the rate of inflation plus one percentage point for ten years (fiscal years 2001-02 through 2010-11) and by at least the rate of inflation thereafter. Money in the State Education Fund may be used to meet these minimum education funding requirements. In addition, the General Assembly may appropriate money from the State Education Fund for a variety of other education-related purposes as specified in the state constitution.

Amendment 23 also governs the appropriation of General Fund money for K-12 education. General Fund appropriations under the school finance act must increase by a minimum of 5 percent through FY 2010-11 in any year in which personal income grows by at least 4.5 percent. This provision is known as "maintenance of effort" or the MOE.

Requirements for a Study

Section 22-55-104 (3), C.R.S., requires an annual report on the State Education Fund that addresses the following:

- the reasonableness of the assumptions used to forecast State Education Fund revenues and expenditures and revisions to the assumptions;
- revenue projections for the State Education Fund;
- projections of the total amount of state money necessary to increase the statewide base per pupil funding amount and total categorical program funding by the Amendment 23 requirement of inflation plus one percentage point in FY 2007-08;
- projections of the amount of money available from sources of revenue other than the General Fund and the State Education Fund to meet the funding requirements of Amendment 23;
- the stability of the State Education Fund;

- an estimate of the maximum amount of money that can be appropriated from the State Education Fund and the minimum amount of money that can be appropriated from the General Fund for FY 2007-08 to meet the Amendment 23 funding requirements without adversely impacting the solvency of the State Education Fund or the ability of the General Assembly to provide the Amendment 23 minimum funding increases in the future; 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 2007-08 for additional programs that are consistent with the provisions of Amendment 23.

Assumptions to Forecast Revenue and Expenditures Have Been Updated

The framework of the model developed by Pacey Economics Group in February 2001 is retained for this report. The model was updated to incorporate actual data for FY 2006-07, including pupil counts, total school district funding, property and specific ownership taxes, and the state appropriation for both school finance and categorical programs. The state appropriation takes into account the Joint Budget Committee's action on January 22, 2007, to increase the appropriation for school finance by $21.1 million, all of which is appropriated from the State Public School Fund.

The model was also updated to reflect Legislative Council Staff's December 2006 revenue forecast. These updates include revisions to the amount of income tax revenue diverted to the State Education Fund, the inflation rate, district pupil counts, and district assessed values and therefore property taxes. The December forecast provides projections through FY 2011-12. After FY 2011-12, the Pacey model projects revenues to and expenditures from the fund using a variety of economic indicators. These indicators, which include productivity, state population growth, and growth in the five-to-seventeen population, were updated as well. Finally, projections for interest rates on three-month and thirty-year treasury notes were updated for purposes of estimating interest revenue to the State Education Fund.

The Updates to the Model Increase Pressure on State Aid

The model projects the minimum expenditures for school finance and categorical programs required by Amendment 23. It also projects revenue to the State Education Fund and local revenue that supports the school finance act. The updates to the model result in increases in expenditures that outpace revenue growth.

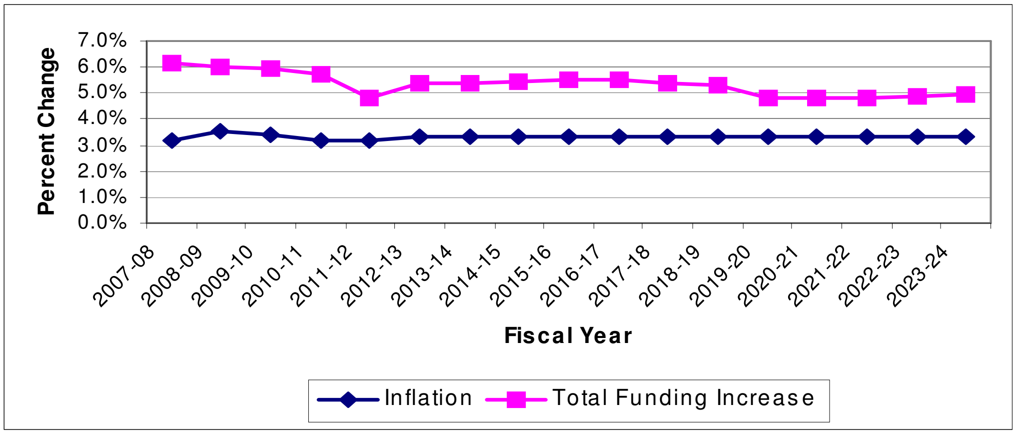
Expenditures are a function of the pupil count and inflation. Compared to a year ago, projected expenditures for both school finance and categorical programs are higher. Over the five years from FY 2007-08 through FY 2011-12, school finance funding is expected to be $709.5 million higher than it was projected a year ago, while categorical funding is expected to be $160.5 million higher.

The *increase in school finance expenditures* is attributable to higher pupil count and inflation projections. School finance funding is calculated by multiplying the statewide base funding level, as adjusted by the cost-of-living and size factors, by the pupil count. Additional funding is provided for at-risk pupils and on-line learning. There are no law changes that are scheduled to take effect in the 2007-08 budget year or thereafter. Thus, projected changes in expenditures result from the minimum increase in the statewide base and the number of pupils counted for funding purposes. In four of the next five years, inflation is projected to be higher than it was one year ago. Projected inflation rates for 2006, 2007, 2008, and 2010 are higher by 0.4 percent, 0.5 percent, 0.4 percent, and 0.3 percent, respectively. The inflation rate for any given calender year is used to increase the base in the succeeding fiscal year. For FY 2012-13 and thereafter, a consistent inflation rate of 3.3 percent is used for purposes of the model. This rate is the same as a year ago.

Based on pupil count projections, about 56,800 more students will be funded in the five-year time frame from FY 2007-08 through FY 2011-12 than estimated a year ago. The October 2006 count was just over 4,000 higher than anticipated last year at this time, including an additional 1,000 preschool FTE authorized by House Bill 06-1375. According to Legislative Council Staff's December 2006 forecast of school enrollments, the higher pupil counts in the next five years are attributable to escalating migration to Colorado because of the state's strong economy relative to the national economy and significantly higher birth rates during the past five years. For the long term, the rates of growth in the State Demographer's estimates of the five-to-seventeen population are used to project pupil counts. Although there has been no significant change in these growth rates over the past year, the pupil count to which rates are applied has increased, resulting in a higher number of pupils over the long term.

Figure 1 presents the model's growth rates for total school finance funding through FY 2023-24 in comparison with the inflation rates used in the model. It is an interesting graph because it shows the impact of growth in pupil counts on total expenditures. The sum of the increase in the base—inflation plus one percentage point through FY 2010-11 and inflation thereafter—plus the percentage change in pupils is a reasonable proxy for growth in total expenditures if there are no law changes. The expiration of the additional one percentage point increase in the base is clearly visible in FY 2011-12. However, growth in total funding increases again in the next year as a result of growth in pupils.

Figure 1. Percentage Increase in Total School Finance Funding Compared to Inflation



The *increase in total categorical expenditures* is also affected by the projected increase in the inflation rate compared to a year ago. However, the change in inflation is responsible for only a small portion—about 8 percent—of the increase in expenditures of $160.5 million over the next five years. Increases in appropriations above the minimum amount required by Amendment 23, particularly for special education during the 2006 legislative session, account for the lion's share of the increase in expenditures.

Updates result in less local revenue. The local share for school finance consists of property and specific ownership taxes. Over the next five years, the sum of these two local revenue sources is projected to be $135.4 million lower compared to a year ago. The reduction is primarily attributable to reduced projections for specific ownership taxes, although a change in an assumption in the model also reduces property taxes in the long term.

The *specific ownership tax* is levied on motor vehicles in lieu of the property tax. Although it is collected locally by counties, the tax rate is set by state law. The rate is higher when a vehicle is new and is reduced as the vehicle ages. Specific ownership tax receipts are distributed to all jurisdictions in a county in proportion to the dollar amount of property taxes collected in the county. The specific ownership taxes a school district receives, less those attributable to bond redemption and override levies, are counted toward a school district's local share for school finance funding. Specific ownership taxes were first included in the school district local share calculation in FY 1994-95.

From FY 1994-95 through FY 2002-03, specific ownership taxes included in the school finance act increased at an average annual rate of 7.7 percent, although the rate of increase declined in most years. From FY 2002-03 to FY 2006-07, specific ownership taxes for school finance declined from $180 million to $159.5 million. The reduction in specific ownership taxes is likely attributable to a combination of factors. First, growth in specific ownership taxes statewide has been relatively slow in recent years, dropping from double-digit percentage increases in the 1990s to 1.6 percent in 2002, and hovering in that range ever since. Second, school district property taxes as a percentage of total property taxes statewide is decreasing. Over the last eight years, school district property taxes have fallen from 56 percent of total taxes to 51 percent. Thus, school districts are receiving a smaller proportion of specific ownership taxes statewide. Finally, the percentage of school district specific ownership taxes included in the school finance calculation is likely decreasing. Based on property taxes collected for school district bond redemption funds and overrides, the percentage of school district specific ownership taxes included in the local share dropped from 73 percent to 60 percent in the same eight-year period. Thus, it appears that as long as specific ownership taxes were growing robustly, the portion of specific ownership taxes included in the local share grew. As growth in specific ownership taxes slowed, the effect of the decrease in the proportion of receipts that are included in the local share becomes more apparent. Therefore, the model has been adjusted to reflect lower specific ownership taxes in the local share.

Property taxes are by far the most important component of the local share, accounting for just about 91 percent of local taxes. For purposes of the model, property taxes are projected on a district-by-district basis for the next five years, through FY 2011-12. Thereafter, the model increases property taxes annually based on a percentage of the sum of inflation plus the statewide change in the pupil count. Because the change in each district's property tax revenue is limited to inflation plus the percentage change in its pupil count, the statewide calculation acts as a proxy for the maximum change in property taxes statewide. To date, the percentages applied have been 95 percent in reassessment years (odd-numbered years) and 55 percent in non-reassessment years (even-numbered years). The percentages were selected based on historical growth in property taxes since 1993, the year the current statutory requirement for school district property taxes was enacted. The higher percentage in reassessment years reflects the fact that growth in district assessed values in many districts can support the maximum allowable property tax increase—without violating the prohibition on mill levy increases. In non-reassessment years, when growth in assessed values is primarily limited to new construction and mineral production, property taxes grow at a slower rate.

After reviewing recent years' property tax growth relative to the maximum growth, we are reducing the percentage applied in reassessment years to 85 percent. In recent reassessment years, the state has experienced growth in assessed value that is less than maximum property tax revenue growth, a mismatch between the districts in which the pupil count and assessed values are growing, and disproportionate growth in pupil counts in districts with a very high percentage state share. Given that the percentage is an average of what is expected to happen over time, the 95 percent may be too optimistic. The change to 85 percent does not affect the model until FY 2012-13.

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 diverted to the fund monthly based on quarterly 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. Any money remaining in the fund at the end of a fiscal year remains in the fund.

The projections of revenue to the fund in this report are based on Legislative Council Staff's December 2006 estimates of Colorado taxable income through FY 2010-11. After FY 2010-11, 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. Figure 2 shows the estimated diversion of income tax revenue to the State Education Fund through FY 2027-28. The income tax revenues diverted to the fund increase at a compound average annual growth rate of 6.6 percent between FY 2006-07 and FY 2027-28.

Figure 2. Projections of Income Tax Revenue to the State Education Fund (Millions of Dollars)

Fiscal Year	Income Tax	Percent Change	Fiscal Year	Income Tax	Percent Change
FY 2006-07	$383.3	6.2%	FY 2017-18	$771.2	6.9%
FY 2007-08	$403.4	5.2%	FY 2018-19	$823.8	6.8%
FY 2008-09	$429.2	6.4%	FY 2019-20	$879.6	6.8%
FY 2009-10	$455.6	6.2%	FY 2020-21	$939.0	6.8%
FY 2010-11	$482.9	6.0%	FY 2021-22	$1,002.2	6.7%
FY 2011-12	$516.1	6.9%	FY 2022-23	$1,069.4	6.7%
FY 2012-13	$552.1	7.0%	FY 2023-24	$1,141.0	6.7%
FY 2013-14	$590.5	7.0%	FY 2024-25	$1,217.0	6.7%
FY 2014-15	$631.6	7.0%	FY 2025-26	$1,297.9	6.6%
FY 2015-16	$675.2	6.9%	FY 2026-27	$1,383.6	6.6%
FY 2016-17	$721.7	6.9%	FY 2027-28	$1,474.2	6.5%
			Total	$17,840.7	6.6%

Compared to a year ago, the income tax transfer to the State Education Fund is projected to be higher by $135.2 million through FY 2010-11. Over the course of the model, the increase is almost $1.9 billion.

In addition to the income tax diversion, the State Education Fund also earns interest. Amendment 23 requires that all interest earned on money in the fund be deposited in the fund and be used before any principal is depleted. Since its creation, the fund has earned $92.1 million in interest. The fund can expect to earn interest whenever it contains a balance. However, the amount of interest earned is very sensitive to the size and predictability of the fund balance. The predictability of the fund balance affects the ability of the state treasurer to develop a long-term investment strategy, thereby obtaining higher yields. For example, at the end of December, 2006, about 83 percent of the balance of the fund was invested with the "treasury pool," with an interest rate of approximately 3.9 percent. The remaining 17 percent was invested in longer term instruments, earning about 5 percent.

Please note that projections of interest earnings are predicated on the assumption that disbursements from the fund for school finance, which comprises an estimated 89 percent of total disbursements from the fund, occur as late in the fiscal year as possible. This practice maximizes interest earned on the fund.

Projections of the Amount of State Money Required to Meet Amendment 23 Funding Requirements for FY 2007-08

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 through FY 2010-11 and by the rate of inflation thereafter. The same increase requirement applies to total state funding for categorical programs. Meeting these two obligations is expected to require \$3,499.4 million in state funding in FY 2007-08, an increase of 7.3 percent over the current budget year. About \$128.8 million is expected to be available from cash fund revenue sources that traditionally support the school finance act and categorical programs. Subtracting these two numbers leaves a total of \$3,370.6 million to be funded from a combination of General Fund and State Education Fund revenues. This figure is an increase of 6.7 percent over FY 2006-07. The derivation of these funding amounts is provided in Figure 3. Please note that the school finance and categorical program dollar amounts in Figure 3 are based on an estimated inflation rate of 3.2 percent for 2006; the actual inflation rate will be released by the federal government later this month.

School finance funding. The projected statewide base per pupil funding amount in FY 2007-08 is \$5,068.15, an increase of \$204.28 over the current budget year. When combined with a 1.9 percent increase in the funded pupil count, total funding for school finance is projected to be \$5,083.8 million, an increase of 6.1 percent or \$293.4 million over the current budget year. Local property and specific ownership taxes are expected to increase 3.8 percent, resulting in an increase in state aid of 7.5 percent.

Categorical programs. Total state funding for categorical programs is estimated at \$209.7 million for FY 2007-08, an increase of \$8.5 million, given the estimated inflation rate of 3.2 percent.

Figure 3. State Money Required and Available to Meet Amendment 23 Funding Requirements (Millions of Dollars)

	Calculation of Funding Amounts	Estimated FY 2007-08 Dollar Amount	Dollar Change from FY 2006-07
	School Finance		
1.	Total funding under the school finance act for base increase of inflation plus one percentage point	$5,083.8	$293.4
2.	Minus property and specific ownership taxes	$1,795.3	$65.1
3.	Equals state aid for the school finance funding formula	$3,288.5	$228.3
4.	Plus business incentive agreements	$1.1	$0.2
5.	Equals total state aid under the school finance act	$3,289.7	$228.5
6.	Minus State Public School Fund Revenue	$128.5	$24.8
7.	Equals General Fund and State Education Fund for school finance	$3,161.2	$203.7
8.	Minus minimum General Fund appropriation increase of 5 percent	$2,781.3	$132.4
9.	Equals remaining General Fund and State Education Fund appropriation	$379.9	
	Categorical Programs		
10.	Total funding for categorical programs with increase of inflation plus one percentage point	$209.7	$8.5
11.	Minus cash funds available for categorical programs	$0.3	$0.0
12.	Equals General Fund and State Education Fund for categorical programs	$209.4	$8.5
	Total: School Finance Plus Categorical Programs		
13.	Total state funding required for Amendment 23 (sum of lines 5 and 10)	$3,499.4	$236.9
14.	Total of other revenue available (sum of lines 6 and 11)	$128.8	$24.8
15.	Total General Fund and State Education Fund required for Amendment 23 (line 13 minus line 14)	$3,370.6	$212.2

Note: Numbers may not sum due to rounding

Other Revenue Available to Meet State Funding Requirements of Amendment 23

In addition to General Fund and State Education Fund revenue, revenue from federal mineral leases, state school trust lands, and interest on the Public School Fund, among other smaller revenue sources, is available to meet the funding requirements of Amendment 23. These revenue sources are deposited in and appropriated from the State Public School Fund. The estimated amount available for FY 2007-08 for school finance is $128.5 million. This number assumes that the General Assembly will continue to pay the state match of just under $2.5 million for the National School Lunch Act from the State Public School Fund. Revenue from the Colorado Comprehensive Health Education Fund, which helps support funding for categorical programs, is expected to be $300,000 for FY 2007-08.

Increased federal mineral lease payments continue to drive higher contributions to school finance funding from the State Public School Fund, although volatility in prices for natural gas make projections difficult. Through FY 2011-12, federal mineral lease revenue is increased a total of $127.5 million compared to a year ago. In later years, revenue projections are reduced to more historical levels, although the net change over the life of the model is still an increase. The two other major sources of revenue to the fund—interest on the Public School Fund and rents from state trust lands—do not change as the amounts transferred to the State Public School Fund are capped by law.

General Fund and State Education Fund Appropriations for FY 2007-08 and Their Impact on the Stability of the State Education Fund

This portion of the report addresses the statutory requirement for an estimate of the maximum amount of money that can be appropriated from the State Education Fund and the minimum amount of money that can be appropriated from the General Fund in FY 2007-08 without adversely affecting the solvency of the State Education Fund or the ability of the General Assembly to comply with Amendment 23's funding requirements in future years. The provisions of Amendment 23 govern the minimum appropriation from the General Fund for school finance. Through the 2010-11 fiscal year, Amendment 23 requires a minimum increase of 5 percent in the General Fund appropriation for school finance whenever Colorado personal income grows by 4.5 percent or more. No similar requirement exists for categorical programs.

Legislative Council Staff is projecting that personal income grew by 6.6 percent in 2006, thereby triggering the minimum increase in the appropriation for school finance for FY 2007-08. Figure 4 presents the actual growth in personal income since Amendment 23's adoption and Legislative Council Staff's forecast of growth through FY 2010-11, the final year of the maintenance of effort requirement. The projections indicate that the maintenance of effort requirement will be triggered each year in the future until it expires.

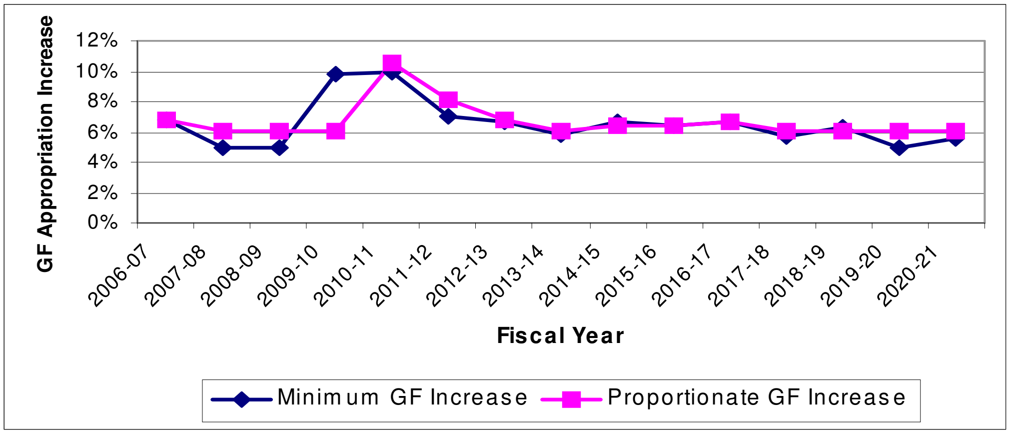
Figure 4. Personal Income Growth, Actual and Projected

Fiscal Year	Personal Income Growth (Actual)	General Fund Approp. Growth	Fiscal Year	Personal Income Growth (Projected)
FY 2001-02	10.0%	5.0%	FY 2007-08	6.6%
FY 2002-03	3.6%	3.1%	FY 2008-09	6.5%
FY 2003-04	0.8%	5.2%	FY 2009-10	6.2%
FY 2004-05	2.2%	4.2%	FY 2010-11	6.1%
FY 2005-06	5.8%	5.9%		
FY 2006-07	6.2%	6.8%		

Increasing the General Fund appropriation the minimum amount. A 5 percent increase in the General Fund appropriation for school finance translates to $132.4 million. Current projections indicate that the FY 2006-07 year-end balance of the State Education Fund plus the income tax diversion in FY 2007-08 provides sufficient revenue in FY 2007-08 to accommodate the minimum level of General Fund appropriations. The estimated year-end balance in FY 2007-08 under this scenario is $208 million. However, a 5 percent increase through FY 2010-11, when the maintenance of effort requirement expires, is not sustainable given current projections. General Fund appropriations would have to increase significantly, consuming almost two-thirds of the money available under the six-percent limit, within two years. Further, once the General Assembly depletes the balance in the State Education Fund, as would be the case with appropriation increases at the minimum level, the General Assembly's flexibility in responding to changing economic circumstances or budget situations is greatly reduced.

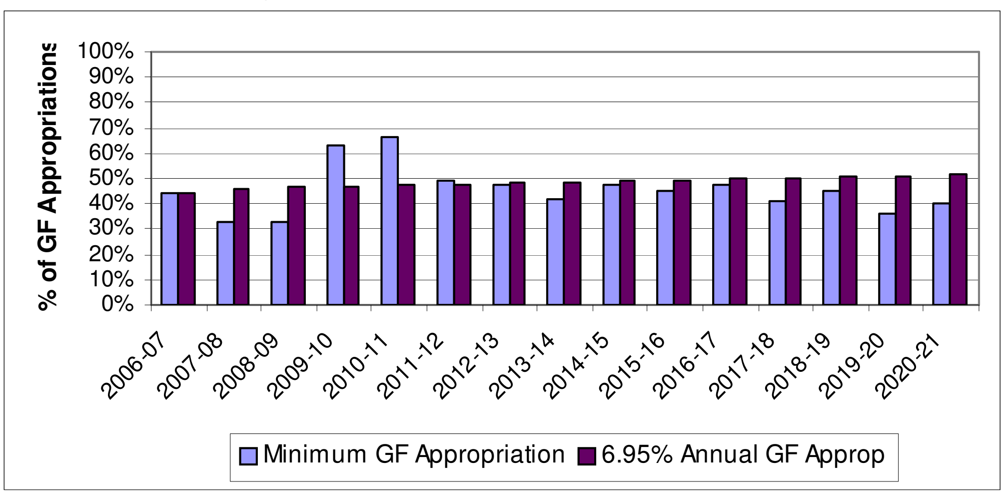
Increasing the General Fund appropriation proportionately. An increase in the General Fund appropriation for school finance of 6 percent maintains school finance's current share of the General Fund operating budget. As with the 5 percent increase, an increase of 6 percent in FY 2007-08 is doable, but it is not sustainable. When compared to a 5 percent increase, it simply delays the depletion of the State Education Fund by one year. Figure 5 compares the out-year General Fund increases for school finance under the 5 percent and 6 percent scenarios.

Figure 5. Comparison of Long-term General Fund Increases for School Finance with Minimum and Proportionate Increases in FY 2007-08



A General Fund increase of 6.95 percent in FY 2007-08 smoothes appropriation increases over time and stabilizes the State Education Fund in the near term. An annual appropriation increase of 6.95 percent eliminates the projected "spikes" in the percentage increase in General Fund appropriations illustrated in Figure 5. These spikes would be required to meet the funding requirements of Amendment 23. Further, school finance would consume a more consistent percentage of General Fund appropriations under the six-percent limit. Figure 6 illustrates this phenomenon by comparing the percentage of General Fund appropriations dedicated to school finance under both the minimum appropriation scenario and the 6.95 percent scenario.

Figure 6. Percentage of General Fund Appropriations Consumed by School Finance Under Two Scenarios



A 6.95 percent increase in the General Fund appropriation results in an average annual balance in the State Education Fund of about $200 million for the next five years. Please note, however, that the 6.95 percent increase does not produce healthy balances in the State Education Fund throughout the forecast period of the model. For the five years beginning in FY 2012-13, projected increases in expenditures that outpace revenue spend down the balance of the State Education Fund. Figure 7 depicts the projected balance in the State Education Fund over the long term with an annual 6.95 percent General Fund increase. For comparison purposes, the fund balance with the minimum General Fund increase is also provided.

Figure 7. State Education Fund Balance Under Two Appropriation Scenarios

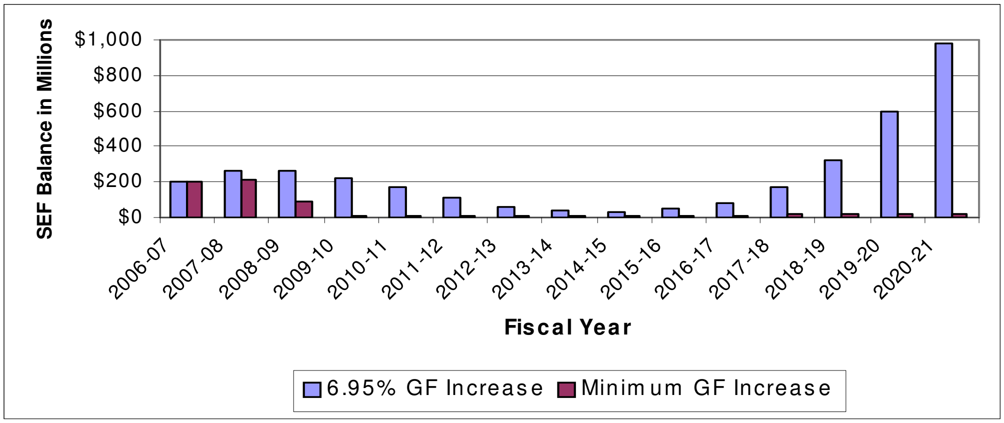
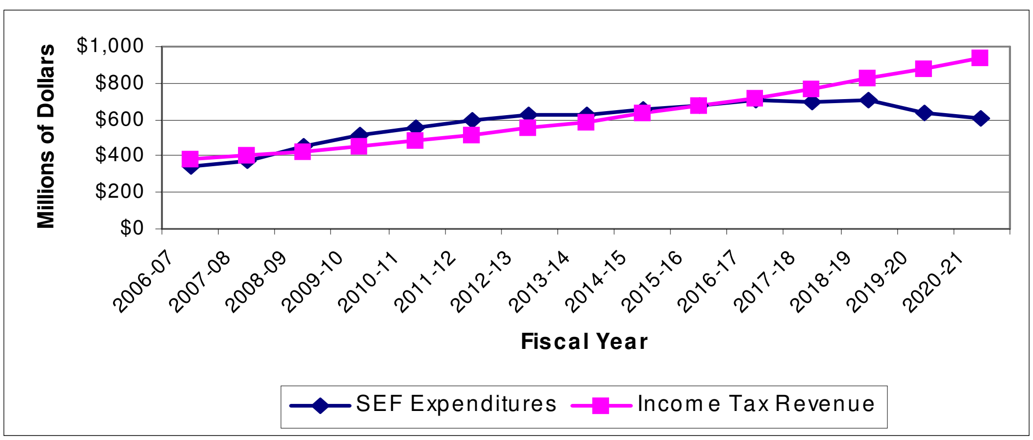


Figure 8 may provide insight on why the balance of the State Education Fund is projected to be as low as it is five to ten years in the future. Even with a 6.95% General Fund appropriation increase for the next fifteen years, expenditures from the State Education Fund exceed the income tax transfer until FY 2015-16.

Figure 8. State Education Fund Expenditures vs. Revenue



In projecting the ramifications of various levels of General Fund appropriations on the General Fund and State Education Fund, we assumed that the increase for categorical programs required by Amendment 23 would come from the State Education Fund. This funding mechanism has been the practice in every year except the current budget year, when the General Fund also contributed to the increase in categorical funding. In addition, we assumed that the General Assembly would not appropriate money from the State Education Fund for programs authorized by statute, but for which funding appears to be discretionary. Including funding for these programs would have increased State Education Fund disbursements by $2.05 million annually.

Funding for Additional Programs

The final requirement for this report is an estimate of the impact of various levels of General Fund appropriations above the minimum desired level on the amount of money in the State Education Fund. The purpose of this requirement is to determine whether funding can be provided in FY 2007-08 for programs that are permitted but not required by Amendment 23. Figure 9 provides the increase in the State Education Fund balance with General Fund appropriation increases of between 5 percent and 8 percent at half-percentage-point increments. Five percent is the mathematical minimum level of General Fund appropriations identified in this report for FY 2007-08, while a 6.95 percent increase provides more benefit to the fund over the long term.

Figure 9. Impact of Additional General Fund Appropriations on the State Education Fund Balance in FY 2007-08

Increase in General Fund Appropriation	State Education Fund Balance	Increase in Balance from 5% GF Approp	Increase in Balance from 6.95% GF Approp
5.00%	$207.6	N/A	N/A
5.50%	$220.9	$13.3	N/A
6.00%	$234.2	$26.6	N/A
6.50%	$247.5	$39.9	N/A
7.00%	$260.8	$53.2	$1.3
7.50%	$274.1	$66.5	$14.6
8.00%	$287.4	$79.8	$27.9

The long-term impact of funding additional programs from the State Education Fund depends on several factors: whether programs are ongoing or limited to a single year; whether funding grows over time; and most importantly, whether the General Fund appropriation is actually increased to offset the cost of the programs. For example, if the General Assembly appropriates money from the State Education Fund for additional programs and increases the General Fund appropriation for school finance by a corresponding amount, there would be no negative impact on the balance of the fund, regardless of whether funding is ongoing or one-time in nature. In fact, when funding is one-time in nature, the balance of the fund can actually grow because the increase in the appropriation compounds over time, more than making up for a one-time appropriation for additional funding. On the other hand, when appropriations from the State Education Fund increase and there is no corresponding increase in the General Fund appropriation for school finance, the appropriation from the State Education Fund simply shifts to the General Fund over the long term, especially when the balance of the State Education Fund is not significant. For example, a $20 million refinance in the current year's appropriation for school finance—that is, shifting $20 million of the appropriation from the General Fund to the State Education Fund—would increase the annual General Fund growth rate from 6.95 percent to 7.2 percent.

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.

Estimated Balance of State Education Fund

Assumes FY 06-07 Supplemental of $21.1M Is Appropriated from the State Public School Fund

	State Education Fund (Millions of Dollars)					General Fund (Millions of Dollars)		
Fiscal Year	Income Tax Revenue to the State Education Fund	Annual Amount of Spending for School Finance	Total State Education Fund Spending	Change in Spending from Prior Year	State Education Fund Balance*	General Fund Approp	Dollar Increase in General Fund Approp	General Fund Approp Increase
2000-01	$164.3	$0.0	$0.0	N/A	**$166.2**	$1,974.7	N/A	N/A
2001-02	$272.9	$101.6	$154.5	$154.5	**$298.5**	$2,073.4	$98.7	5.00%
2002-03	$197.9	$296.9	$330.7	$176.2	**$202.4**	$2,137.6	$64.2	3.10%
2003-04	$278.7	$316.5	$351.7	$21.0	**$142.6**	$2,247.9	$110.3	5.16%
2004-05	$313.9	$313.4	$347.2	($4.6)	**$118.4**	$2,342.8	$94.9	4.22%
2005-06	$360.8	$299.9	$335.8	($11.4)	**$152.9**	$2,480.5	$137.7	5.88%
2006-07	$383.3	$308.6	$345.8	$10.0	**$205.6**	$2,648.8	$168.4	6.79%
2007-08	$403.4	$328.2	$369.0	$23.2	**$259.5**	$2,832.9	$184.1	6.95%
2008-09	$429.2	$402.6	$452.8	$83.8	**$259.7**	$3,029.8	$196.9	6.95%
2009-10	$455.6	$456.1	$515.9	$63.1	**$223.0**	$3,240.4	$210.6	6.95%
2010-11	$482.9	$485.8	$555.3	$39.3	**$172.4**	$3,465.6	$225.2	6.95%
2011-12	$516.1	$514.9	$592.0	$36.7	**$116.1**	$3,706.4	$240.9	6.95%
2012-13	$552.1	$539.1	$624.3	$32.4	**$61.0**	$3,964.0	$257.6	6.95%
2013-14	$590.5	$530.4	$624.0	($0.3)	**$42.3**	$4,239.5	$275.5	6.95%
2014-15	$631.6	$553.5	$655.8	$31.8	**$32.6**	$4,534.2	$294.6	6.95%
2015-16	$675.2	$563.3	$674.5	$18.7	**$48.3**	$4,849.3	$315.1	6.95%
2016-17	$721.7	$589.0	$709.4	$35.0	**$77.3**	$5,186.3	$337.0	6.95%
2017-18	$771.2	$563.1	$693.1	($16.4)	**$174.9**	$5,546.8	$360.4	6.95%
2018-19	$823.8	$565.7	$705.5	$12.5	**$319.3**	$5,932.3	$385.5	6.95%
2019-20	$879.6	$490.9	$640.9	($64.6)	**$593.5**	$6,344.6	$412.3	6.95%
2020-21	$939.0	$441.7	$602.3	($38.7)	**$982.2**	$6,785.5	$440.9	6.95%
2021-22	$1,002.2	$341.0	$512.4	($89.9)	**$1,547.1**	$7,257.1	$471.6	6.95%
2022-23	$1,069.4	$377.6	$560.3	$47.9	**$2,164.2**	$7,656.2	$399.1	5.50%
2023-24	$1,141.0	$417.5	$611.8	$51.5	**$2,837.4**	$8,039.1	$382.8	5.00%
2024-25	$1,217.0	$503.7	$710.0	$98.3	**$3,527.7**	$8,441.0	$402.0	5.00%
2025-26	$1,297.9	$551.4	$770.0	$60.0	**$4,279.1**	$8,863.1	$422.1	5.00%
2026-27	$1,383.6	$649.2	$880.7	$110.6	**$5,049.4**	$9,306.2	$443.2	5.00%
2027-28	$1,474.2	$701.2	$945.9	$65.2	**$5,887.6**	$9,771.5	$465.3	5.00%

* *The figures are calculated to require a minimum year-end balance equal to the interest earned on the fund in the current year.*

Legislative Council Staff, 1/31/2007