Colorado
Legislative
Council
Staff

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MEMORANDUM

February 1, 2008

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 forecast for the State Education Fund and the level of General Fund appropriations necessary to meet the funding requirements of Amendment 23 is significantly changed this year from previous years. A change in state law that increases property tax revenue to school districts and lower-than-anticipated pupil counts are the primary reasons for the more optimistic outlook. General Fund appropriation increases of 5 percent for school finance in the foreseeable future appear sufficient to pay for Amendment 23's funding requirements and grow the balance of the State Education Fund.

The model developed by Pacey Economic Group in February 2001 was updated to reflect actual data for the current budget year and Legislative Council Staff's December 2007 revenue and economic forecast. The result is less pressure on state financial resources. State aid to meet the minimum requirements of Amendment 23, net of cash fund revenue sources, is projected to increase $226.9 million in FY 2008-09. Of this amount, $139.2 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 2.9 percent. The actual rate will be released by the federal government later this month, which may result in adjustments to the projections. The income tax diversion to the State Education Fund is projected to increase at an average annual rate of 6.6 percent.

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

Following voter approval of Amendment 23, the Legislative Audit Committee contracted with Pacey Economics Group to develop a model to predict the results of policy decisions and economic conditions on General Fund appropriations for public elementary and secondary education and the balance of the State Education Fund. As the Pacey Economics Group indicated, the balance of the State Education Fund is integrally tied to the level of General Fund appropriations. The greater the level of increase in General Fund appropriations, the greater the State Education Fund balance and the greater the amount of money available for public education programs. Greater appropriations for public education affects the amount of money available for other state programs, however, because they compete for the same pool of money. The model developed by the Pacey Economic Group provides a method to project school finance and categorical program spending under the minimum funding increase requirements of Amendment 23. It also predicts the amount of income tax revenue diverted to the fund. Given the projections for revenue and spending, the model is used to estimate the affect of General Fund appropriation increases on the State Education Fund balance or, conversely, General Fund appropriations necessary to meet the funding requirements of Amendment 23.

State law anticipates an annual updating of the "Pacey model" to accommodate actual data and changes in policy or economic conditions. 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 2008-09;

- 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 2008-09 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 2008-09 for additional programs that are consistent with the provisions of Amendment 23.

Model Inputs for Forecasting Revenue and Expenditures Have Been Updated, Resulting in Less Pressure on State Resources

The basic framework of the model developed by Pacey Economics Group in February 2001 is retained for this report. Inputs to the model have been updated to incorporate law changes enacted by the General Assembly, actual school funding data for FY 2007-08, revisions to forecasts of economic indicators, and Legislative Council Staff's December 2007 pupil count and assessed value forecasts. The policy change enacted through Senate Bill 07-199, the 2007 school finance bill, which altered the method for calculating school district mill levies, accounts for the most dramatic change in the model. In addition, carrying the lower-than-expected pupil count in the current year forward to future years reduces anticipated expenditures for the school finance act. Both of these adjustments to the model reduce projections for the amount of state aid required to fund the provisions of Amendment 23 in the future.

Higher actual and projected assessed values and law change result in higher projected local revenues for school finance. Senate Bill 07-199 amended state law with respect to mill levies imposed by school districts under the school finance act. First, it established a cap on school district levies of 27 mills. Second, it required school districts that received voter approval to exceed their constitutional property tax revenue limit to levy the number of mills imposed in the preceding year, instead of allowing the levy to fall to generate the amount of revenue permitted by the property tax revenue limit. This latter requirement essentially institutionalizes the 2007 mill levy for all but the three districts that have not received approval to exceed their constitutional property tax revenue limit.

The change in the law combined with a statewide assessed value increase of 14 percent in the current year result in FY 2007-08 property tax revenues that are 11.8 percent higher than FY 2006-07 revenues. Without the law change, the percentage increase would have been 4.3 percent. Thus, the law change requires revisions to the assumptions in the model regarding property tax revenue that supports the school finance act. The assumptions hinge on how property tax and assessed value changes relate and the future projections for assessed value growth.

Growth in property tax revenues and the tax base are integrally related. We examined the relationship between assessed value growth and school district property tax revenues by looking at what would have happened if a constant mill levy been in place historically. The relationship was examined separately for each phase of the two-year property valuation cycle. In reassessment years, or odd-numbered years, the assessed values of school districts take into account both change in value of individual properties and expansion of the tax base that includes new construction and increased mineral production. In the second year of the cycle, or the nonreassessment year, assessed values are adjusted only for expansion of the tax base. Figures 1 and 2 illustrate the results.

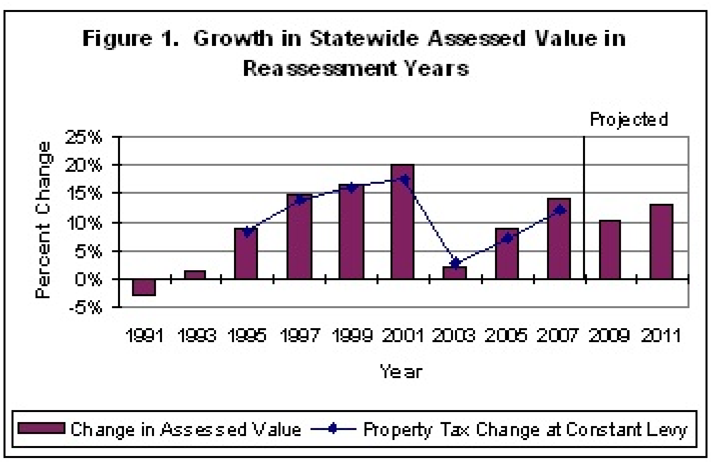


Figure 1 provides a history of statewide percentage increases in assessed value in reassessment years and the percentage change in property tax revenues for each of those years had districts' 1994 levies continued each year into the future. As the graph illustrates, property tax revenues track assessed value growth; however revenue growth is somewhat less than value growth, especially as time progresses. This situation occurs because property tax revenues are capped by law at the amount of revenue a school district receives through the school finance act and from categorical programs. When a school district reaches this cap, its mill levy falls, and the increase in property tax revenue is less than the increase in assessed value. We anticipate that, over time, current law will produce results similar to Figure 1: growth in assessed value—particularly in resort and mineral-rich communities—will outpace funding growth, levies will fall, and the increase in property tax revenue will be slightly less than the increase in assessed value.

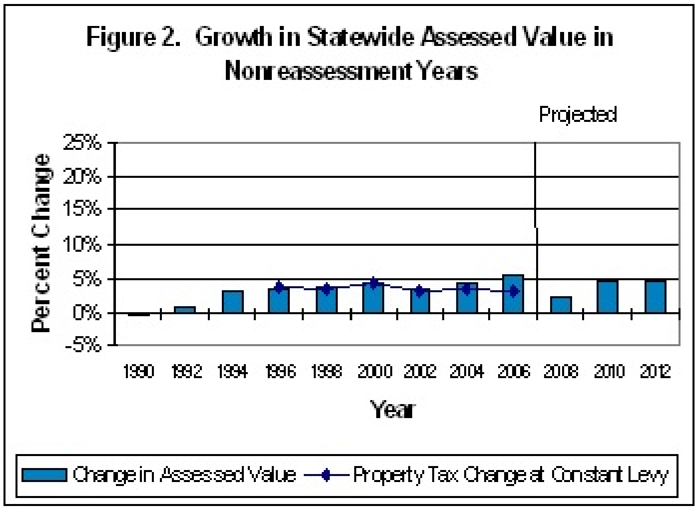
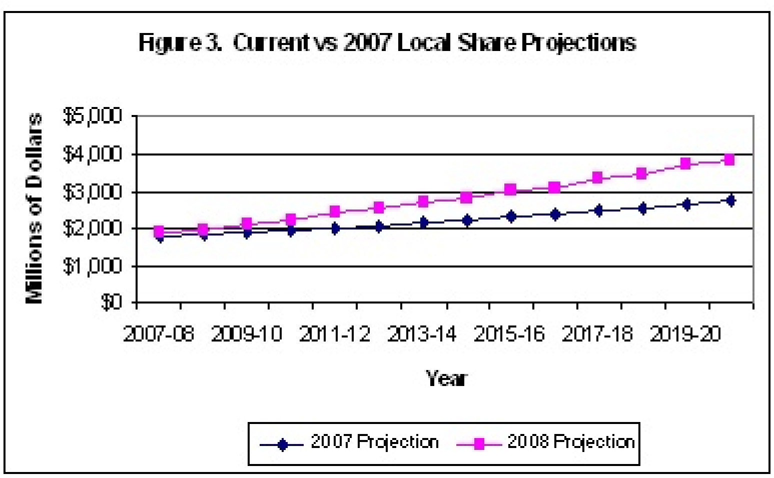


Figure 2 provides the same information as Figure 1, except it illustrates the relationship between property tax and assessed value growth in nonreassessment years. Growth rates are significantly lower and more stable than in reassessment years. In addition, the rate of growth in property tax revenues more closely mirrors the rate of growth in assessed value as school district property taxes are not affected as much by the cap.

Future projections for assessed value and property tax growth. For purposes of the Pacey model, property taxes are based on Legislative Council Staff's district-by-district projections of assessed value through FY 2012-13. For the next four years, these projections are $37.5 billion higher than at this time last year. For subsequent years, property tax revenue growth is based on historical average growth in assessed value in reassessment and nonreassessment years, adjusted downward to account for the three districts that are not required to impose the 2007 levy and the property tax cap. For reassessment years, the annual increase in the local share is assumed to be 8.2 percent through FY 2017-18, with slightly declining rates thereafter. For nonreassessment years, the annual rate of increase in the local share is assumed to be 2.6 percent.

Figure 3 shows the impact of the 2007 law change and updated assessed value projections on local contributions to the school finance act. In addition to property taxes, the local contribution includes specific ownership taxes, which comprise about 8 percent of total local funding. It is likely that the change in the method of calculating school district levies will also increase the portion of specific ownership tax revenues that fund the school finance act. However, specific ownership tax receipts applied to the school finance act are one year behind revenue collections; that is, specific ownership taxes collected in FY 2006-07 count as part of the local contribution for school finance funding in FY 2007-08. Thus, no actual data is currently available on the relationship between the change in the mill levy calculation and specific ownership tax



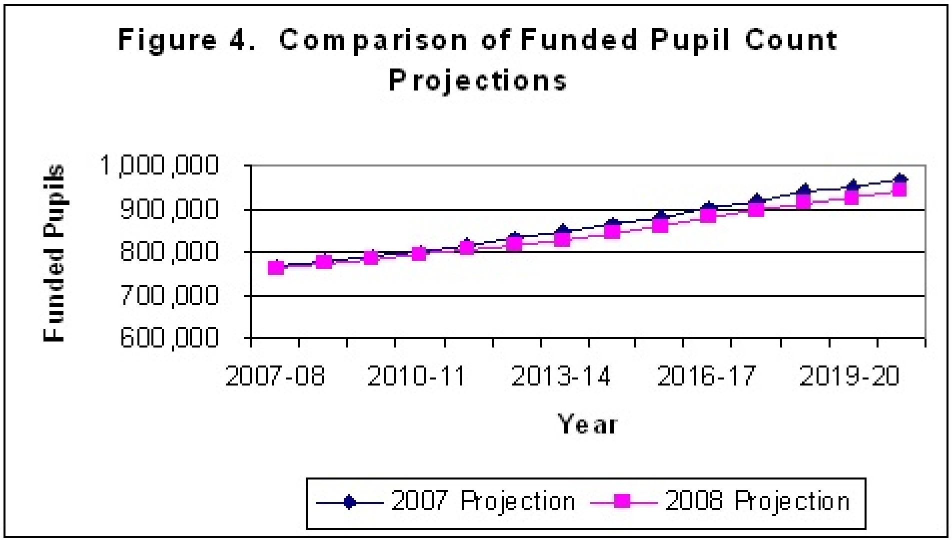
collections. From FY 2009-10 through FY 2012-13, an annual increase of 2.5 percent has been incorporated into the local contribution for school finance; thereafter, these taxes are included with property taxes and increase at the rates described above.

Lower pupil counts and inflation reduce overall funding requirements for school finance. Expenditures for school finance are a function of the pupil count and inflation. They are 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 and on-line pupils. Projected changes in expenditures result primarily from the minimum increase in the statewide base and the number of pupils counted for funding purposes. Although forecasts for inflation have changed since last year, the lower-than-anticipated pupil count in the current budget year produces the more significant impact on the projected need for state aid under the school finance act over the long term.

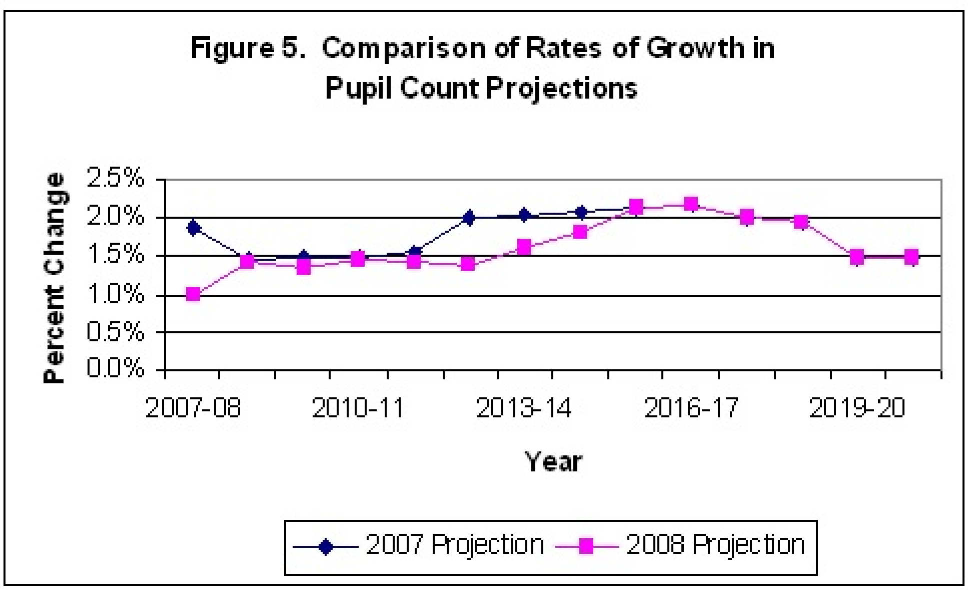
The actual, October 2007 pupil count permanently reduces the count for future years. For FY 2007-08, the actual funded pupil count was approximately 7,600 students lower than projected one year ago. According to Legislative Council Staff's December 2007 forecast of school enrollments by district, enrollments will increase at an average annual rate of 1.5 percent over the next five years. The increases in pupil enrollments are attributable to net migration to Colorado because of the state's strong economy relative to other states and its amenities. In particular, the strong energy industry on the western slope and troop movements to El Paso County are contributors to growth in the pupil count.

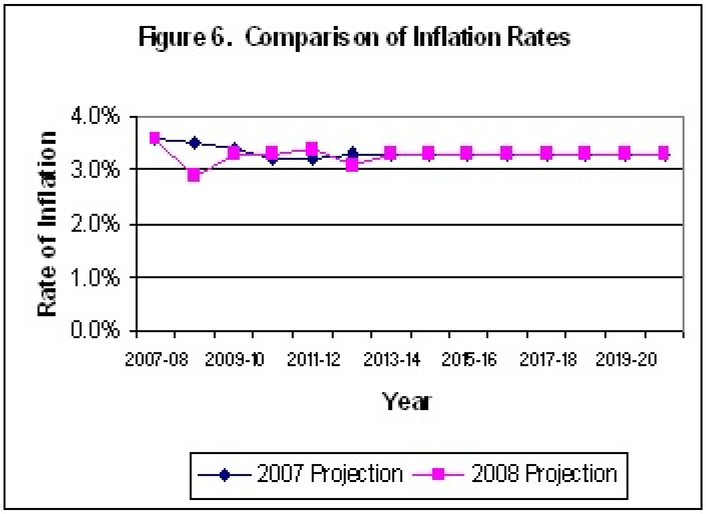
The growth rates over the next five years are based on the lower, actual count from October 2007, however. In addition, funding under the school finance act is based on a legal definition of "pupils" that incorporates an averaging formula for declining enrollment districts. As growth in pupil enrollment occurs in districts that have been declining in recent years, the number of pupils funded increases at a lesser rate than the increase in the number of pupils enrolled. We expect this phenomenon to occur in the next five years, given the projections for pupil enrollments in specific districts.

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, with some smoothing to transition from Legislative Council's district-by-district projections to the State Demographer's statewide projections. Although there has been no significant change in these growth rates over the past year, the pupil count to which rates are applied has decreased, resulting in fewer pupils over the long term. Figure 4 illustrates the change in the projections for the funded pupil count from last year to this year, while Figure 5 shows the change in the growth rates.



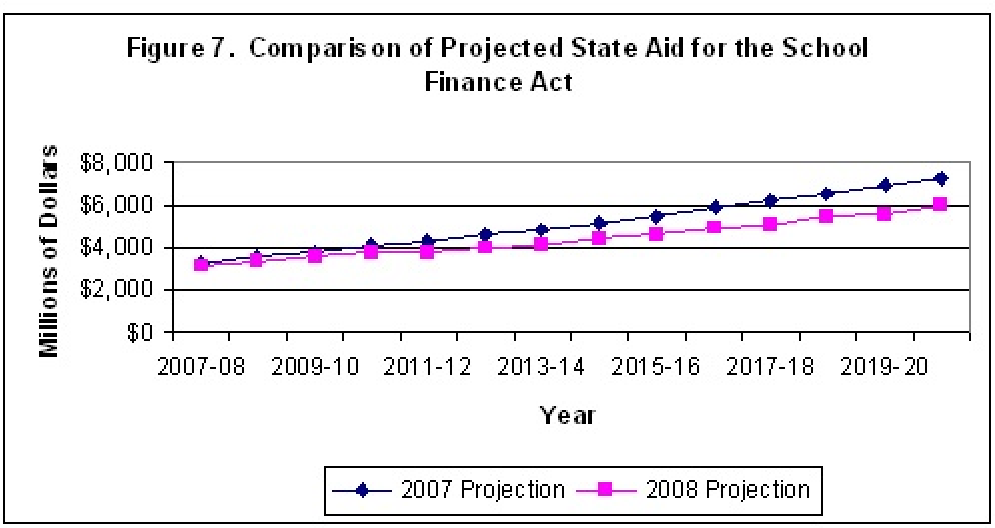
The pupil count projections incorporate an increase of 3,500 pupils in the Colorado Preschool and Kindergarten Program for FY 2008-09. This expansion of the program was enacted in Senate Bill 07-199. For funding purposes, these pupils are counted as half-time and therefore add 1,750 pupils to the statewide count.

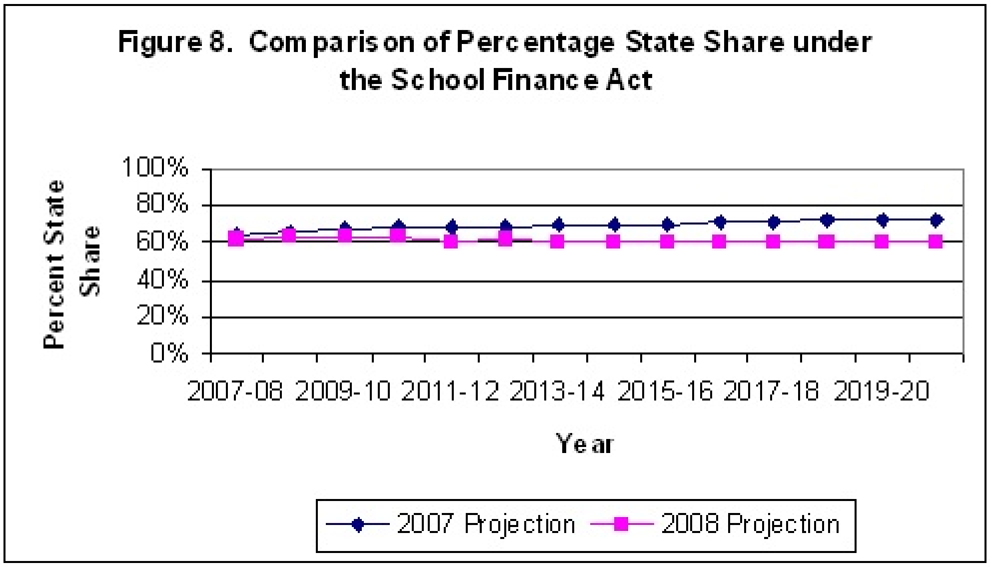




Change in inflation is not significant over the long term. Amendment 23 requires the statewide base funding level to increase by inflation plus one percentage point through FY 2010-11 and inflation thereafter. Thus, the inflation rate drives per pupil funding increases. Compared to a year ago, the inflation rate is lower in the immediate future and somewhat higher in the later years of Legislative Council Staff's December 2007 five-year forecast. For the long term, we continue to use an annual, 3.3 percent inflation rate. Figure 6 compares the current projections for inflation with those used in the model one year ago.

The net impact of property tax, pupil count, and inflation changes significantly reduce the need for state aid. The inflation rates and pupil counts determine the amount of funding school districts receive under the school finance act. With the changes to the assumptions in the model, total funding, and therefore the amount of state aid, is reduced over the life of the model. In addition, the local contribution, primarily through property tax revenue, is increased, which further reduces the need for state aid. Through FY 2012-13, the cumulative reduction in state aid is about $1.9 billion; through FY 2020-21, the reduction is $10 billion. Figure 7 illustrates the projected change in state aid, while Figure 8 shows the estimated change in the percentage state share attributable to these changes.





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.

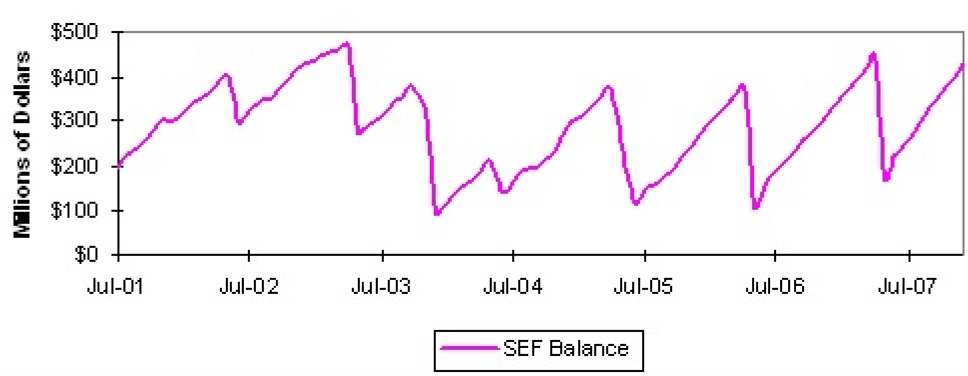
The projections of revenue to the fund in this report are based on Legislative Council Staff's December 2007 estimates of Colorado taxable income through FY 2011-12. After FY 2011-12, the sum of the projected Denver-Boulder-Greeley inflation rate, the percentage change in Colorado's population, and the annual percentage change in productivity, multiplied by 95 percent, is used to determine the annual diversion to the State Education Fund. Figure 9 shows the estimated diversion of income tax revenue to the fund through FY 2027-28. The income tax revenues deposited in the fund increase at a compound average annual growth rate of 6.6 percent between FY 2007-08 and FY 2027-28.

Figure 9. 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	$395.1	6.2%	FY 2017-18	$772.7	6.9%
FY 2007-08	$414.6	4.9%	FY 2018-19	$826.5	7.0%
FY 2008-09	$429.5	3.6%	FY 2019-20	$883.3	6.9%
FY 2009-10	$456.1	6.2%	FY 2020-21	$943.5	6.8%
FY 2010-11	$484.5	6.2%	FY 2021-22	$1,007.4	6.8%
FY 2011-12	$517.2	6.7%	FY 2022-23	$1,075.0	6.7%
FY 2012-13	$552.3	6.8%	FY 2023-24	$1,147.0	6.7%
FY 2013-14	$590.8	7.0%	FY 2024-25	$1,223.2	6.6%
FY 2014-15	$631.9	7.0%	FY 2025-26	$1,304.0	6.6%
FY 2015-16	$675.7	6.9%	FY 2026-27	$1,389.8	6.6%
FY 2016-17	$722.6	6.9%	FY 2027-28	$1,480.6	6.5%
				Total $17,923.3	6.6%

In addition to the income tax diversion, the State Education Fund also earns money. 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 earned $100.3 million through the end of FY 2006-07. The fund can expect to earn interest whenever it contains a balance. The balance of the fund is invested in both short-term investments—the "treasury pool"—and long-term investments. Under the current practice of disbursing the school finance appropriation as late in the fiscal year as possible, the balance of the fund builds over the course of the fiscal year, earning interest, and then drops at the end of the fiscal year when the most significant appropriation is paid out. Figure 10 illustrates this "sawtooth" phenomenon.

Figure 10. Monthly Balance of State Education Fund



Projections of the Amount of State Money Required to Meet Amendment 23 Funding Requirements for FY 2008-09

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 $3,598 million in state funding in FY 2008-09, an increase of 7 percent over the current budget year The derivation of this funding amount is provided in Figure 11. Please note that the school finance and categorical program dollar amounts in Figure 11 are based on an estimated inflation rate of 2.9 percent for 2007; the actual inflation rate will be released by the federal government later this month. In addition, this amount does not include the results of the cost-of-living study, which will also be available later this month.

School finance funding. The projected statewide base per pupil funding amount for FY 2008-09 is $5,286.03, an increase of $198.42 over the current budget year. When combined with a 1.4 percent increase in the funded pupil count, total funding for school finance is projected to be $5,343.7 million, an increase of 5.4 percent or $275.7 million over the current budget year. Local property and specific ownership taxes are expected to increase 2.6 percent, resulting in an increase in state aid of 7.2 percent.

Categorical programs. Total state funding for categorical programs is estimated at $218.7 million for FY 2008-09, an increase of $8.2 million.

Figure 11. State Money Required to Meet Amendment 23 Funding Mandates (Millions of Dollars)

Calculation of Funding Amounts		Estimated FY 2008-09 Amount	Change from FY 2007-08
	School Finance		
1.	Total funding under the school finance act for base increase of inflation plus one percentage point	$5,343.7	$275.7
2.	Minus property and specific ownership taxes	$1,965.6	$49.8
3.	Equals state aid for the school finance funding formula	$3,378.1	$225.9
4.	Plus business incentive agreements	$1.2	$1.2
5.	Equals total state aid under the school finance act	$3,379.2	$227.0
	Categorical Programs		
6.	Total funding for categorical programs with increase of inflation plus one percentage point	$218.7	$8.2
	Total: School Finance Plus Categorical Programs		
7.	Total state funding required for Amendment 23 (sum of lines 5 and 6)	$3,598.0	$235.3

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, revenues from federal mineral leases, state school trust lands, and interest on the Public School Fund, among other smaller revenue sources, are available to meet the funding requirements of Amendment 23 for the school finance act. These revenue sources are deposited in and appropriated from the State Public School Fund. The estimated amount available for FY 2008-09 for school finance is $111.4 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; it does not include other programs that received money from the fund in FY 2007-08. Revenue from the Colorado Comprehensive Health Education Fund, which helps support funding for categorical programs, is expected to be $300,000 for FY 2008-09.

Figure 12. Other Revenue for Amendment 23 Funding Requirements
(Millions of Dollars)

Other Revenue Amounts		Estimated FY 2008-09 Amount	Change from FY 2007-08
1.	State Public School Fund revenue	$111.4	$8.3
2.	Plus Comprehensive Health Education Fund	$0.3	$0.0
3.	Equals total other revenue	$111.7	$8.3
4.	Total state funding required for Amendment 23 (Figure 11, line 7)	$3,598.0	$235.3
5.	General Fund and State Education Fund for Amendment 23 funding requirements (line 4 minus line 3)	$3,486.2	$226.9

Note: Numbers may not sum due to rounding

Increased projections for federal mineral lease payments continue to drive higher contributions to school finance funding from the State Public School Fund. Through FY 2011-12, Legislative Council Staff's December 2007 forecast of federal mineral lease revenue is incorporated into the model. These revenues increase at a compound average annual rate of 18 percent. Given the volatility of prices, revenue projections in later years are reduced to more historical levels. 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 at $19 million and $12 million, respectively.

General Fund and State Education Fund Appropriations for FY 2008-09 and Their Impact on the Stability of the State Education Fund

At the close of FY 2006-07, the balance of the State Education Fund, at $225.1 million, was at its highest level in five years. The balance for the current budget year is projected to be even higher. The focus of this portion of the report is future balances of the State Education Fund: it 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 2008-09 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 percent in 2007, thereby triggering the minimum increase in the appropriation for school finance for FY 2008-09. Figure 13 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 13. Personal Income Growth, Actual and Projected

Fiscal Year	Personal Income Growth	General Fund Approp. Growth**	Fiscal Year	Personal Income Growth	General Fund Approp. Growth**
FY 2001-02*	10.0%	5.0%	FY 2006-07*	6.2%	7.1%
FY 2002-03*	3.6%	3.1%	FY 2007-08	7.0%	5.0%
FY 2003-04*	0.8%	5.2%	FY 2008-09	6.0%	n/a
FY 2004-05*	2.2%	4.2%	FY 2009-10	5.1%	n/a
FY 2005-06*	5.8%	5.9%	FY 2010-11	6.9%	n/a

** Actual personal income growth based on figures published in December within the fiscal year*
*** General Fund appropriation growth levels for FYs 2006-07 and 2007-08 include actions by the Joint Budget Committee to date on supplementals*

Current status of FY 2007-08 school finance appropriation. On January 23, 2008, the Joint Budget Committee took preliminary steps to reduce the appropriation for school finance for FY 2007-08 to meet actual requirements. As part of its action, the committee reduced the General Fund appropriation for the current budget year by $33.9 million, bringing the General Fund appropriation to its minimum level of a 5 percent increase. In addition, the committee reduced the appropriation from the State Education Fund by $66.8 million, bringing the appropriation from the fund in the current budget year to $293.2 million.

Increasing the General Fund appropriation the minimum amount. Based on the Joint Budget Committee's preliminary actions on the school finance appropriation, a 5 percent increase in the General Fund appropriation translates to $139.2 million for

FY 2008-09. Current projections indicate that the FY 2007-08 year-end balance of the State Education Fund of $371 million plus the income tax diversion in FY 2008-09 provide sufficient revenue in FY 2008-09 to accommodate the minimum level of General Fund appropriations. The estimated year-end balance in FY 2008-09 under this scenario is $445 million. Further, given the revised assumptions in the model, an annual, 5 percent increase in the General Fund appropriation is sustainable in the foreseeable future. Figure 14 illustrates the estimated balance of the State Education Fund under current law with annual, 5 percent increases in the General Fund appropriation. Please note that these General Fund appropriation increase levels continue even after the requirement for such an increase expires. For comparison purposes, Figure 14 includes the projected balance of the State Education Fund if there is no reduction in the current year's General Fund appropriation. That is, it assumes that the $33.9 million reduction in the General Fund appropriation is instead taken from the State Education Fund.

Figure 14. State Education Fund Balance with Annual, 5 Percent General Fund Increases

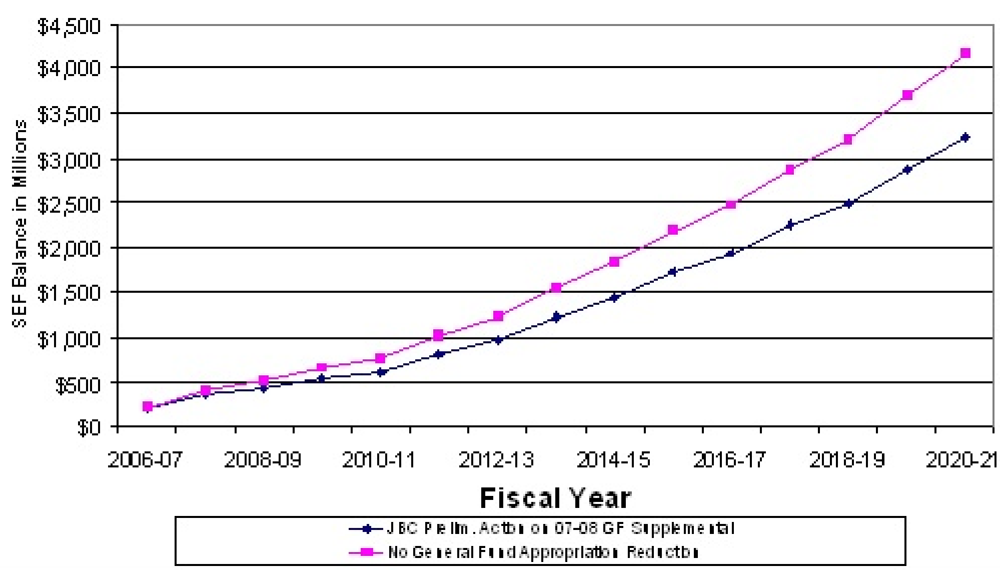
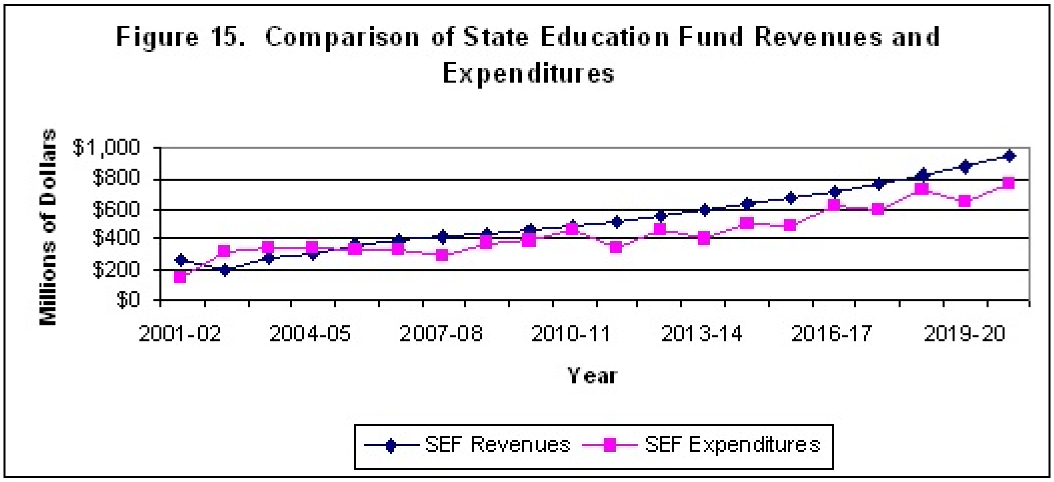


Figure 15 provides insight into why the balance of the State Education Fund begins to increase over time. Beginning in FY 2005-06, revenues to the fund in terms of the income tax diversion consistently exceed expenditures from the fund, even at a 5 percent General Fund appropriation increase. This situation is a change from the years immediately following the adoption of Amendment 23, when a number of factors, including a recession, required significant expenditures from the State Education Fund to meet Amendment 23 funding requirements. Going forward into the future, the expenditures line in Figure 15 demonstrates the impact of the reassessment cycle for property values on state expenditures for school finance. With the General Fund appropriation increasing at a constant rate, the increase in state funding required in the nonreassessment year—the year in which property taxes are assumed to grow at a lesser rate—is defaulting to the State Education Fund.



Complying with Amendment 23's funding requirements in the future. The minimum school finance and categorical program funding requirements of Amendment 23 exist regardless of economic conditions or state revenue receipts. Thus, requirements for school funding can increase at the same time state revenues are decreasing. The State Education Fund provides a mechanism to buffer other state programs from the impacts of declining General Fund revenues. For example, a General Fund revenue reduction of $400 million, or about one-half of one percent, would begin to affect the amount of money available for programs funded under the General Fund appropriations limit. If money is available in the State Education Fund, it can absorb a larger portion of funding for K-12 education. In the event of a severe or lengthy recession, reliance on the fund could extend for several years if money is available in the fund, providing an opportunity for General Fund revenues to recover. Therefore, an issue the General Assembly may want to consider in setting its goals for the balance in the State Education Fund is the role the fund plays in the management of overall General Fund expenditures.

Assumptions used in projecting the State Education Fund balance. In projecting the minimum level of General Fund appropriations required to meet the funding mandates of Amendment 23, we assumed that the increase for categorical programs would be appropriated from the State Education Fund. In contrast, the practice in the last three years has been for the General Fund to share in the increase in funding for these programs. In addition, we assumed that the General Assembly would continue to appropriate money from the State Education Fund for programs that are authorized by statute and that received funding in the current budget year. In FY 2007-08, the General Assembly appropriated $7.1 million for these programs, including charter school capital construction, summer school programs, civic education, financial literacy, family literacy, and national teacher credentialing.

Funding for Additional Programs

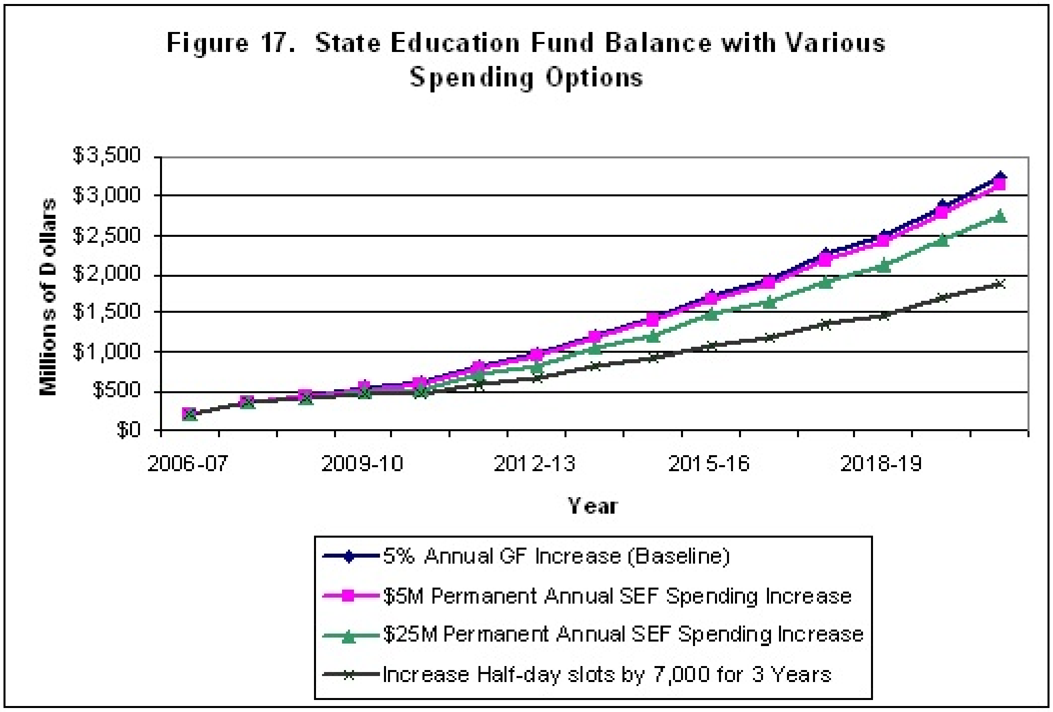
The final requirement for this report is an estimate of the impact of various levels of General Fund appropriations above the minimum desired level on the amount of money in the State Education Fund. The purpose of this requirement is to determine whether funding can be provided in FY 2008-09 from the State Education Fund for programs that are permitted but not required by Amendment 23. Figure 16 provides the balance in the State Education Fund with a General Fund appropriation increases of 5 percent in FY 2008-09 and then at General Fund appropriation increases at additional half percent increments. Five percent is the minimum level of General Fund appropriations identified in this report for FY 2008-09.

Figure 16. Impact of Additional General Fund Appropriations on the State Education Fund Balance in FY 2008-09

Increase in General Fund Appropriation	State Education Fund Balance	Increase in Balance from 5% GF Approp
5.00%	$445.2	N/A
5.50%	$459.2	$14.0
6.00%	$473.2	$28.0
6.50%	$487.2	$42.0
7.00%	$501.2	$56.0
7.50%	$515.2	$70.0
8.00%	$529.2	$84.0

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.

Figure 17 shows the impact on the balance of the State Education Fund under different types of expenditure scenarios. First, it shows the balance with annual General Fund increases of 5 percent (the baseline model). Second, it presents the balance with an ongoing $5 million increase in State Education Fund appropriations for new or expanded programs. Third, the amount of ongoing appropriations is increased to $25 million. Lastly, the pupil count is increased to expand half-day slots by 7,000 pupils for each of three years, such as expanding preschool or full-day kindergarten slots. In this last example, the expenditure begins at about $20 million, grows to about $75 million in the third year based on pupil count and inflation increases, and then grows by inflation thereafter. In all cases, an annual increase of 5 percent in General Fund appropriations is maintained.



Appendices

Appendix A contains projected State Education Fund balances given annual, 5 percent General Fund increases and the other assumptions detailed in this memorandum. Appendix B is a copy of Amendment 23.

Estimated Balance of State Education Fund

2.9% Inflation, December 2007 Legislative Council Revenue Forecast, Actual FY 2007-08 School Finance Data

	State Education Fund (Millions of Dollars)						General Fund (Millions of Dollars)		
(1) Fiscal Year	(2) Income Tax Revenue to the State Education Fund	(3) Spending for School Finance	(4) Spending for Categorical Programs	(5) Total State Education Fund Spending	(6) Change in Spending from Prior Year	(7) State Education Fund Balance	(8) General Fund Approp for School Finance	(9) Dollar Increase in General Fund Approp	(10) Percent General Fund Approp Increase
2000-01	$164.3	$0.0	$0.0	$0.0	N/A	**$166.2**	$1,974.7	N/A	N/A
2001-02	$272.9	$101.6	$7.2	$154.5	$154.5	**$298.5**	$2,073.4	$98.7	5.00%
2002-03	$197.9	$296.9	$15.7	$330.7	$176.2	**$202.4**	$2,137.6	$64.2	3.10%
2003-04	$278.7	$316.5	$20.3	$351.7	$21.0	**$142.6**	$2,247.9	$110.3	5.16%
2004-05	$313.9	$313.4	$23.7	$347.2	($4.6)	**$118.4**	$2,342.8	$94.9	4.22%
2005-06	$360.8	$299.9	$25.5	$335.8	($11.4)	**$152.9**	$2,480.5	$137.7	5.88%
2006-07	$395.4	$299.8	$26.3	$336.9	$1.2	**$225.1**	$2,657.7	$177.2	7.14%
2007-08	$414.6	$258.6	$27.5	$293.2	($43.8)	**$370.8**	$2,790.5	$132.9	5.00%
2008-09	$429.5	$339.3	$35.7	$382.2	$89.0	**$445.2**	$2,930.1	$139.5	5.00%
2009-10	$456.1	$333.2	$45.2	$385.4	$3.3	**$550.1**	$3,076.6	$146.5	5.00%
2010-11	$484.5	$400.8	$55.0	$462.8	$77.4	**$612.4**	$3,230.4	$153.8	5.00%
2011-12	$517.2	$287.9	$63.1	$358.0	($104.8)	**$816.8**	$3,391.9	$161.5	5.00%
2012-13	$552.3	$375.5	$70.7	$453.3	$95.3	**$972.8**	$3,561.5	$169.6	5.00%
2013-14	$590.8	$312.8	$79.0	$398.9	($54.3)	**$1,231.3**	$3,739.6	$178.1	5.00%
2014-15	$631.9	$407.7	$87.7	$502.4	$103.5	**$1,442.5**	$3,926.6	$187.0	5.00%
2015-16	$675.7	$376.1	$96.6	$479.8	($22.6)	**$1,733.0**	$4,122.9	$196.3	5.00%
2016-17	$722.6	$510.7	$105.9	$623.6	$143.8	**$1,943.2**	$4,329.0	$206.1	5.00%
2017-18	$772.7	$467.5	$115.4	$589.9	($33.7)	**$2,250.3**	$4,545.5	$216.5	5.00%
2018-19	$826.5	$598.8	$125.2	$731.2	$141.2	**$2,487.7**	$4,772.8	$227.3	5.00%
2019-20	$883.3	$512.2	$135.4	$654.7	($76.5)	**$2,873.1**	$5,011.4	$238.6	5.00%
2020-21	$943.5	$612.9	$145.9	$765.9	$111.2	**$3,230.2**	$5,262.0	$250.6	5.00%
2021-22	$1,007.4	$517.8	$156.8	$681.7	($84.2)	**$3,757.1**	$5,525.1	$263.1	5.00%
2022-23	$1,075.0	$630.3	$168.0	$805.3	$123.7	**$4,258.4**	$5,801.3	$276.3	5.00%
2023-24	$1,147.0	$545.6	$179.6	$732.2	($73.1)	**$4,934.8**	$6,091.4	$290.1	5.00%
2024-25	$1,223.2	$675.3	$191.5	$873.9	$141.7	**$5,584.8**	$6,396.0	$304.6	5.00%
2025-26	$1,304.0	$590.5	$203.9	$801.4	($72.5)	**$6,426.5**	$6,715.8	$319.8	5.00%
2026-27	$1,389.8	$733.6	$216.6	$957.3	$155.9	**$7,246.6**	$7,051.5	$335.8	5.00%
2027-28	$1,480.6	$634.5	$229.8	$871.4	($85.9)	**$8,289.3**	$7,404.1	$352.6	5.00%

Appendix B

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.