



# Colorado Legislative Council Staff

Room 029 State Capitol, Denver, CO 80203-1784  
(303) 866-3521 • FAX: 866-3855 • TDD: 866-3472  
[www.colorado.gov/lcs](http://www.colorado.gov/lcs)  
E-mail: [lcs.ga@state.co.us](mailto:lcs.ga@state.co.us)

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## MEMORANDUM

February 1, 2017

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

**FROM:** Marc Carey, Principal Economist, 303-866-4102

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

### Summary

The forecast for the State Education Fund and the level of General Fund appropriations needed to pay for school finance have changed from when the General Assembly adjourned in May 2016. Property values grew rapidly in 2016, and are expected to continue to grow over the next few years. The increase in property values, however, is expected to be offset by a decline in the residential assessment rate (RAR) per the provisions of the Gallagher Amendment. Thus, property tax revenue available for the local share of school finance will not be as much as previously anticipated. In addition, expectations for income taxes have fallen, decreasing projected deposits into the State Education Fund and the General Fund for FY 2017-18. This report assumes the 2017 supplemental school finance bill is adopted, the value of the negative factor is \$828 million, and the balance in the State Education Fund is reduced to \$100 million in FY 2017-18 and beyond. As a result, General Fund support for school finance will need to increase 10.7 percent and 5.8 percent, respectively, in the next two budget years. This entails year-over-year increases in General Fund support for school finance of \$385 million in FY 2017-18 and \$232 million in FY 2018-19.

The model used to project the State Education Fund balance was updated to reflect actual data for the current budget year, the December 2016 Legislative Council Staff revenue and economic forecast, and the recent release of the 2016 inflation rate by the federal government. Increases in school finance and categorical funding are based on the actual inflation rate of 2.8 percent applicable for FY 2017-18. The income tax diversion to the State Education Fund is projected to grow at an average annual rate of 5.4 percent through FY 2017-18.

### Amendment 23 and the State Education Fund

Article IX, Section 17, of the Colorado Constitution, enacted by the voters at the November 2000 election as Amendment 23, created the State Education Fund (SEF). It diverts an amount equal to one-third of one percent of 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 in the current budget year and subsequent years. Money in the SEF may be used to meet these minimum education funding requirements. In addition, the General Assembly may appropriate money from the SEF for a variety of other education-related purposes as specified in the state constitution.

### **Requirements for a Study**

Following voter approval of Amendment 23, the Legislative Audit Committee contracted with Pacey Economics to develop a model to predict the impact of policy decisions and economic conditions on the balance of the SEF and on General Fund appropriations for public elementary and secondary education. As Pacey Economics noted, 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 SEF balance and the greater the amount of money available for public education programs. Appropriations for public education affect the amount of money available for other state programs because they compete for the same pool of money. The model developed by Pacey Economics provides a method to project school finance and categorical program spending under the requirements of Amendment 23. Legislative Council Staff 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 impact of different General Fund appropriations on the SEF balance, based on different scenarios for changing overall school finance funding.

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 a yearly report on the State Education Fund that addresses the following:

- the reasonableness of the assumptions used to forecast State Education Fund revenue and expenditures and revisions to the assumptions;
- revenue projections for the SEF;
- 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 rate of inflation in FY 2017-18;
- 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 SEF;
- an estimate of the maximum amount of money that can be appropriated from the SEF and the minimum amount of money that can be appropriated from the General Fund for FY 2017-18 to meet the Amendment 23 funding requirements without adversely impacting the solvency of the SEF or the ability of the General Assembly to provide the Amendment 23 minimum funding increases in the future; and
- estimates of various General Fund appropriation levels above the minimum level and their impact on the amount of money available in the SEF to provide funding in FY 2017-18 for additional programs that are consistent with the provisions of Amendment 23.

This year's report assumes passage of the 2017 supplemental budget bill for school finance, as approved by the Joint Budget Committee. This bill makes mid-year adjustments for education funding in FY 2016-17, reducing the value of the negative factor to \$828.3 million, and holds the negative factor at this level in FY 2017-18. The Joint Budget Committee, the Governor's Office, and the General Assembly will analyze in greater detail the FY 2017-18 appropriations from the General Fund and the SEF — and the laws that drive these appropriations — in the coming weeks. Thus, much will change during the 2017 legislative session that will affect the analysis presented in this report.

## Updated Revenue and Expenditure Forecasts

The General Assembly is able to allocate funding for public schools between the General Fund, the SEF, and other cash funds as it wishes. In the 2017 legislative session, the General Assembly will confront policy questions regarding the overall amount of state funding to allocate for school finance and other education-related programs in FY 2017-18 and how much money to retain in the SEF to pay for future increases in school finance. Under current law, the projected balance in the SEF is forecast to be just over \$107 million at the end of FY 2016-17.

The basic framework of the Pacey model is retained for this report; there are no major changes in the structure of the model since this report was last published in 2016. Inputs to the model have been updated to incorporate law changes enacted by the General Assembly, actual school funding data for FY 2016-17, revisions to forecasts of economic indicators, and the most recent Legislative Council Staff forecast of pupil counts and assessed values. Like prior school finance bills, House Bill 16-1422 included a negative factor that reduced the overall amount of funding for school finance by about \$831 million. In addition, this report assumes that the General Assembly will approve the 2017 supplemental funding bill, which lowers the value of the negative factor by another \$2.4 million in the current budget year to about \$828 million. Because current law holds the value of the negative factor constant in FY 2017-18, a comparison of subsequent budget years assumes that the value of the negative factor will remain at \$828 million indefinitely.

***Projections for property taxes are lower.*** Property and specific ownership taxes provide the local contribution for school district funding under the school finance act. When these local revenue sources produce more revenue, requirements for state aid decrease for a given level of education funding. In FY 2016-17, the local share totaled just under \$2.3 billion. In FY 2017-18, the total local share for school finance is projected to increase by \$23.9 million compared with FY 2016-17. The relatively small increase in 2017, is anticipated because substantial gains in residential market values will be offset by a projected 14 percent decline in the residential assessment rate.

The Gallagher Amendment in the Colorado Constitution requires an adjustment in the residential assessment rate in order to maintain a constant relationship between the statewide share of residential taxable value and the statewide share of nonresidential taxable value. Based on the projected market values of 2017 residential and nonresidential properties, Legislative Council Staff projects that the residential assessment rate for 2017 and 2018 will fall from 7.96 percent to 6.85 percent. The Division of Property Taxation in the Department of Local Affairs has also conducted a preliminary assessment and projects the rate to fall to 6.56 percent. The division will issue a final projection in April, and the General Assembly will pass a bill to set the rate for 2017 and 2018.

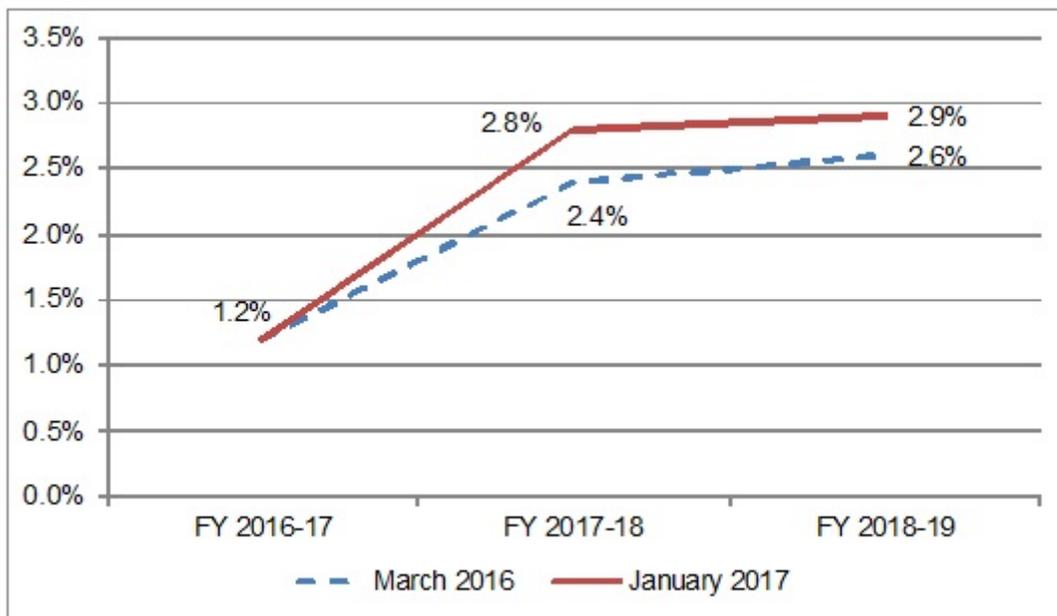
***Assessed value and property tax growth.*** Property taxes account for about 92 percent of the local contribution to the school finance act. Most school districts impose the same property tax rate, or mill levy, from year to year. Thus, yearly changes in tax revenue depend upon changes in the tax base, or assessed value, of school districts. After remaining relatively constant in 2012

and 2013, assessed values increased 3.3 percent in 2014 and jumped 15.1 percent in 2015. In 2016, however, assessed values fell 3.7 percent, largely due to a 8.1 percent drop in value for nonresidential property classes. This resulted in about \$15 million less in property taxes for school finance than the prior year.

**Higher inflation increases overall funding requirements for school finance and categorical programs.** Expenditures for school finance are a function of pupil counts and inflation. The statewide base per pupil funding level must increase by inflation each year, as specified by Amendment 23. The base level is subsequently adjusted for cost-of-living and size factors unique to each school district, and multiplied by pupil count to determine each school district’s funding level prior to the application of the negative factor. The negative factor is a percentage cut in each school district’s total program funding that is determined annually by the General Assembly. The negative factor reduces the amount of state aid received by a district. Additional funding is also provided for at-risk and online pupils. The change in projected inflation rates is illustrated in Figure 1.

As described in more detail later in this report, a higher inflation forecast increases the overall cost of school finance. In addition, total state funding for categorical programs increases with a higher inflation rate. For FY 2017-18, the inflation rate was increased from the 2.4 percent forecast in March 2016 to the recently released actual rate of 2.8 percent. This increased total program funding before the negative factor by about \$29 million.

**Figure 1**  
**Comparison of Inflation Rate Projections**  
*(Legislative Council Staff Forecasts)*



**Revenue projections for the State Education Fund.** One-third of one percent of taxable income on state income tax returns is deposited in the SEF. This amount translates to about 7.2 percent of state income tax revenue. 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 stays in the fund.

The projections of revenue to the fund in this report are based on the December 2016 Legislative Council Staff revenue forecast. The income tax revenue deposited in the fund is expected to increase at an average annual growth rate of 5.4 percent between FY 2015-16 and FY 2017-18, as illustrated in Table 1. The table also compares the current projections of income tax revenue to the SEF with those from the March 2016 forecast. Actual income tax diversions to the fund for FY 2015-16 were \$600,000 higher than projected last March. However, income tax diversions over the next two years are expected to be \$100,000 less than what was projected in March 2016. For FY 2017-18, income tax revenue to the SEF is expected to total \$582.2 million.

In addition to the income tax diversion, the SEF also earns interest. Amendment 23 requires that all interest earned on money in the fund be retained in the fund and be used before any principal is depleted. The fund is currently invested in all short-term investments, called the treasury pool. The treasury pool is currently earning interest of about 0.5 percent annually. The relatively modest rate of return is attributed to the types and timing of investments, as much of the treasury pool is invested in fixed-income securities. These securities provide a guaranteed rate of return for the duration of the investment. As these securities mature, the rate of return will depend on available investment options and market conditions. Under the current practice of disbursing the school finance appropriation as late in the fiscal year as possible, the balance of the SEF builds over the course of the fiscal year, earning interest, and then drops at the end of the fiscal year when the most significant expense is paid.

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

Fiscal Year	December 2016 Forecast		March 2016 Forecast		Change in Projected State Education Fund Revenue
	Income Tax	Year-to-Year % Change	Income Tax	Year-to-Year % Change	
FY 2015-16	\$522.6	0.5%	\$522.0	0.4%	\$0.6
FY 2016-17	\$549.3	5.1%	\$546.7	4.7%	\$2.6
FY 2017-18	\$582.2	6.0%	\$584.9	7.0%	(\$2.7)
<b>Total</b>	<b>\$1,654.1</b>		<b>\$1,653.6</b>		<b>\$0.5</b>

### State Money Needed to Meet Amendment 23 Funding Requirements in FY 2017-18

Amendment 23 requires the statewide base per pupil funding amount for preschool through twelfth grade education to increase annually by the inflation rate. The same requirement applies to state funding for categorical programs. Under current law, meeting these two obligations is expected to cost the state nearly \$3.7 billion in FY 2017-18, as illustrated in line 10 of Table 2. This represents an increase of about \$184 million from the Amendment 23 requirements in FY 2016-17. Note that the school finance and categorical program dollar amounts in Table 2 are based on the recently released actual inflation rate of 2.8 percent for 2016.

**School finance funding.** Under current law, the projected statewide base per pupil funding amount for FY 2017-18 is \$6,546.20, an increase of \$178.30 over the current budget year. When combined with a 0.8 percent increase in the funded pupil count, total funding for school finance is projected to be \$7,462.9 million, an increase of \$261.8 million over the current budget year, before application of the negative factor (line 3). Local property and specific ownership taxes are expected to increase by \$23.8 million, resulting in a net increase in state aid of \$238.0 million (line 5). Assuming passage of the 2017 supplemental school finance bill, the negative factor will remain at the level set in FY 2016-17, \$828.3 million, and state aid for school finance will increase by \$238.0 million (line 7).

**Categorical programs.** Total state funding for categorical programs is estimated at \$297.6 million for FY 2017-18, an increase of 2.8 percent over the prior year, or \$8.1 million (line 9). Total state funding for categorical programs and school finance must therefore increase by \$246.1 million, as reflected in the last row of Table 2.

**Table 2**  
**State Money Required to Meet School Finance Act Funding Requirements in FY 2017-18**  
**under Current Law, Assuming Passage of 2017 Supplemental School Finance Bill**  
*(Millions of Dollars)*

Calculation of Funding Amounts		Estimated FY 2017-18 Amount	Change from FY 2016-17
<b>School Finance</b>			
1	Total funding under the school finance act for base increase of inflation, before inclusion of other factors in school finance formula	\$5,668.3	\$199.5
2	Plus other factors included in school finance formula, before the negative factor	\$1,794.6	\$62.3
3	<b>Equals total school finance funding before negative factor</b>	<b>\$7,462.9</b>	<b>\$261.8</b>
4	Minus property and specific ownership taxes for school finance	\$2,281.5	\$23.8
5	Equals state aid for school finance before negative factor	\$5,181.4	\$238.0
6	Minus negative factor	(\$828.3)	\$0.0
7	<b>Equals state aid for school finance funding</b>	<b>\$4,353.1</b>	<b>\$238.0</b>
8	<b>Total school finance funding after negative factor (lines 4+7)</b>	<b>\$6,634.6</b>	<b>\$261.8</b>
<b>Categorical Programs</b>			
9	Total funding for categorical programs with a 2.8 percent increase in inflation	\$297.6	\$8.1
<b>Total: School Finance Funding Plus Categorical Programs</b>			
10	Total state funding required for school finance <b>base</b> and <b>categorical programs</b> (sum of lines 1 and 9) minus <b>local funding</b> (line 4)	\$3,684.4	\$183.8
11	Total state funding for school finance and categorical programs (sum of lines 7 and 9)	\$4,650.7	\$246.1

**Other Revenue Available to Meet State Funding Requirements of Amendment 23**

In addition to General Fund and SEF revenue, other revenue from federal mineral leases and state school trust lands is available to meet the funding requirements of Amendment 23 and the school finance act. These revenue sources are deposited in and appropriated from the State Public School Fund, as illustrated in Table 3. The estimated amount available in FY 2017-18 for school finance is \$74.7 million. This amount is based on federal mineral lease deposits of \$50.0 million, Permanent Trust Fund interest of \$21.0 million, a transfer of \$9.8 million to cover lost revenue from cancelled Roan Plateau leases and district audit recoveries, a beginning balance of \$12.5 million, an ending balance of \$5 million, and continuation of \$13.6 million in appropriations from the State Public School Fund. Because the revenue available in the State Public School Fund is projected to be \$74.7 million in FY 2017-18, the net result is a \$228.1 million increase in funding requirements from the General Fund and the SEF for FY 2017-18 compared with the prior year.

**Table 3**  
**Other Revenue for School Finance Act Funding Requirements under Current Law**  
*(Millions of Dollars)*

Other Revenue Amounts		Estimated FY 2017-18 Amount	Change from FY 2016-17
1	Total state funding required for school finance and categorical programs (Table 2, line 11)	\$4,650.7	\$246.1
2	Minus State Public School Fund revenue for school finance	\$74.7	\$18.0
3	Equals General Fund and State Education Fund for school finance and categorical programs (line 1 minus line 2)	\$4,576.0	\$228.1

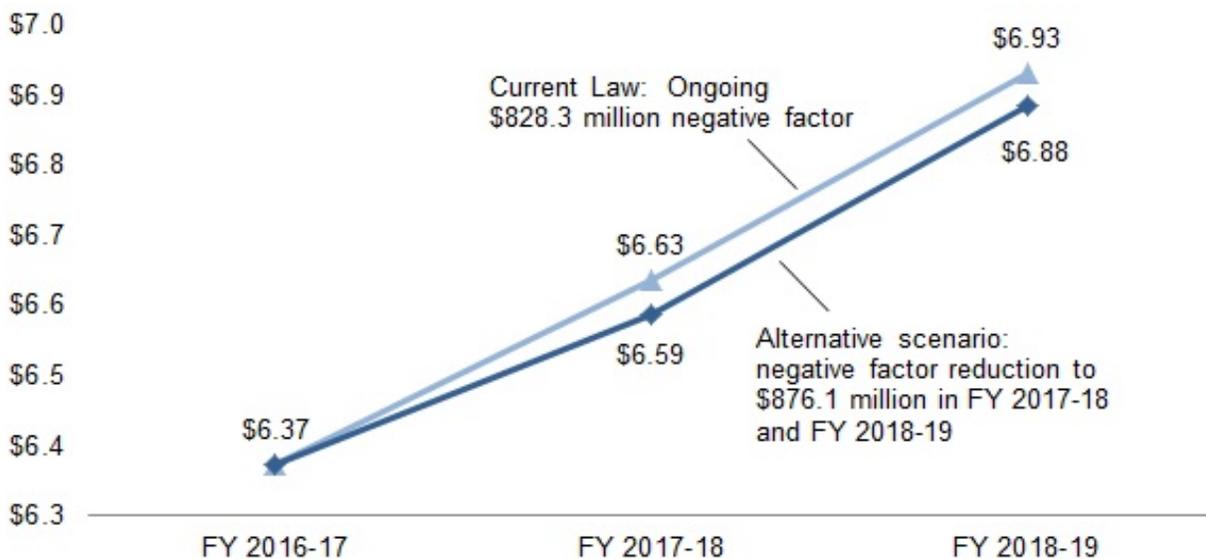
*Note: Numbers may not sum due to rounding.*

**General Fund and SEF Appropriations and the SEF Fund Balance under Two Scenarios**

This portion of the report presents two different funding scenarios for school finance, how they impact the projected balance of the SEF in FY 2016-17 and FY 2017-18, and what each scenario entails for General Fund support for school finance. These scenarios are intended to address the statutory requirement for an estimate of the maximum amount of money that can be appropriated from the SEF and the minimum amount of money that can be appropriated from the General Fund without adversely affecting the solvency of the SEF. For purposes of defining the solvency of the SEF, a minimum ending balance of \$100 million is used to estimate the General Fund and SEF appropriations that will be needed to fund overall increases in school finance.

The first scenario is based on current law and projects the General Fund contribution for school finance over the next two years, assuming the value of the negative factor remains at \$828.3 million. The alternative scenario partially reflects the Governor's request that the negative factor rise to a level of \$876.1 million in FY 2017-18. Figure 2 illustrates projected total program funding under each of these funding scenarios.

**Figure 2**  
**Total Program Funding Scenarios**  
*(Billions of Dollars)*



*Current law scenario.* Assuming the supplemental school finance bill is adopted, the negative factor will be set at \$828.3 million. If the minimum SEF ending balance at the end of FY 2017-18 is assumed to be \$100 million, General Fund appropriations will have to increase by \$385 million, or 10.7 percent. In FY 2018-19, General Fund appropriations will have to increase by \$232 million, or 5.8 percent, as the SEF balance remains at \$100 million. Table 4 shows total school finance funding, total state aid, appropriations from the SEF and General Fund, and the corresponding balance of the SEF under this scenario.

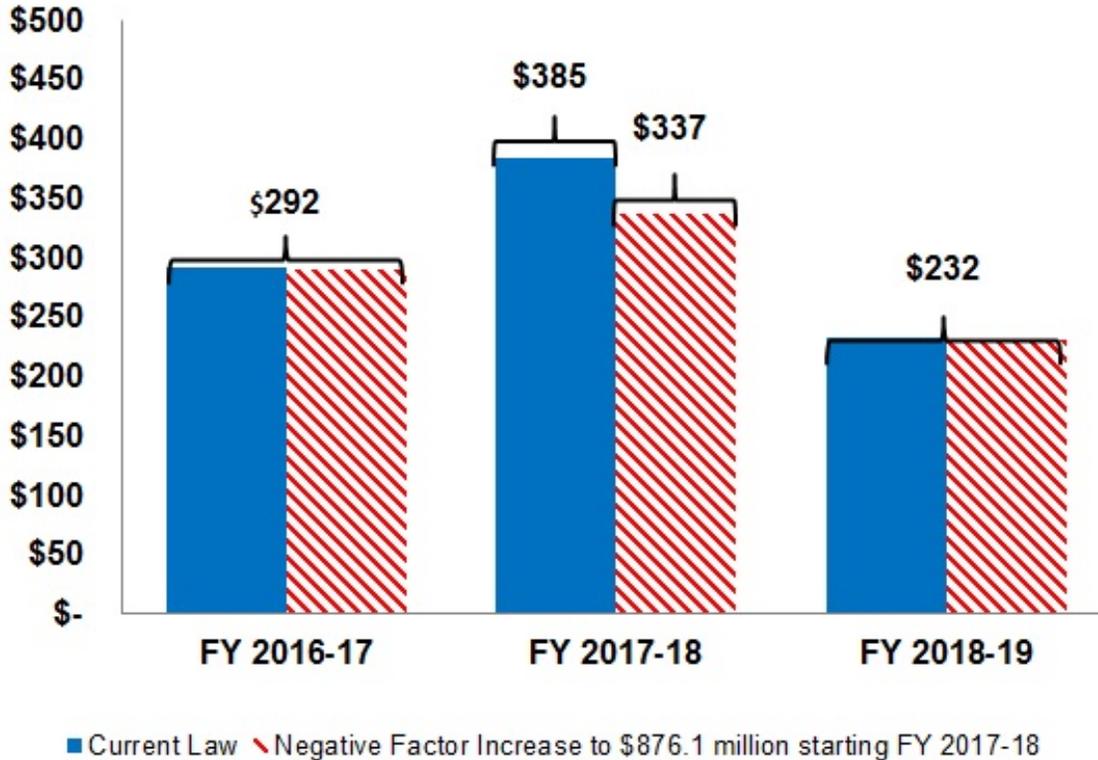
**Table 4**  
**SEF Balances Under Current Law,**  
**Assuming a \$100 Million SEF Balance in FY 2017-18 and Thereafter**  
*(Millions of Dollars)*

Fiscal Year	Current Law					
	Total School Finance Funding	Total State Aid*	State Education Fund Appropriation	General Fund Appropriation	General Fund Change from Prior Year	State Education Fund Balance
2016-17	\$6,373	\$4,115	\$467	\$3,591	\$292	\$107
2017-18	\$6,635	\$4,353	\$302	\$3,976	\$385	\$100
2018-19	\$6,932	\$4,591	\$321	\$4,209	\$232	\$100
2019-20	\$7,181	\$4,667	\$322	\$4,283	\$74	\$100
2020-21	\$7,437	\$4,858	\$350	\$4,447	\$164	\$100

\*Includes appropriations from the State Public School Fund.

*Alternate scenario, negative factor increases to \$876.1 million.* If the value of the negative factor increases by about \$47.8 million in FY 2017-18 and subsequent years following the Governor's request, total program funding will decrease correspondingly. With the SEF balance at its assumed minimum level in FY 2017-18 under either scenario, General Fund appropriations would decrease \$47.8 million in FY 2017-18 relative to current law. In FY 2018-19, General Fund appropriations would increase by \$232 million under both current law and the alternate scenario. Figure 3 illustrates the year-over-year increase in General Fund support needed for school finance under current law and the alternate scenario.

**Figure 3**  
**Year-over-Year General Fund Appropriations Growth Required for School Finance**  
*(Millions of Dollars)*



**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 SEF. The purpose of this requirement is to determine whether funding can be provided in FY 2017-18 from the SEF for programs that are permitted but not required by Amendment 23. Given projections for General Fund revenue and SEF balances, it is possible that additional funding could be provided from either source to expand programs, although this may adversely affect school finance funding.

**Appendices**

Appendix A contains historical data on school finance funding; SEF revenue, appropriations, and fund balances; and General Fund appropriations for school finance. It also shows projected SEF revenue, appropriations, and fund balances along with General Fund contributions to school finance for the period from FY 2016-17 through FY 2019-20. These projections are based on current law requirements for total school finance funding as reflected in the supplemental school finance bill, and assume the negative factor remains at \$828.3 million and a minimum SEF balance of \$100 million. Appendix B is the text of Amendment 23.

Estimated Balance of State Education Fund Under Current Law

Assumes Passage of 2017 Supplemental School Finance Bill, Negative Factor Remains at \$828.3 Million Through FY 2019-20, and Minimum \$100 Million State Education Fund Ending Balance in FY 2017-18 and Subsequent Years

(Dollars in Millions)

(1)	State Education Fund						General Fund			School Finance Act	
	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Fiscal Year	Revenue to the State Education Fund	Spending for School Finance	Spending for Categorical Programs	Total State Education Fund Spending*	Change in Spending from Prior Year	State Education Fund Balance	General Fund Approp for School Finance	Dollar Increase in General Fund Approp from Prior Year	Percent % General Fund Approp from Prior Year	Total School Finance Act Funding	Change in Spending from Prior Year
2001-02	\$272.9	\$101.6	\$7.2	\$154.5	\$154.5	\$298.5	\$2,073.4	\$98.7	5.0%	\$3,857	
2002-03	\$197.7	\$296.9	\$15.7	\$330.7	\$176.2	\$202.4	\$2,137.6	\$64.2	3.1%	\$4,160	\$303
2003-04	\$278.7	\$316.5	\$20.3	\$351.7	\$21.0	\$142.6	\$2,247.9	\$110.3	5.2%	\$4,298	\$139
2004-05	\$313.9	\$313.4	\$23.7	\$347.2	(\$4.5)	\$118.4	\$2,342.8	\$94.9	4.2%	\$4,430	\$132
2005-06	\$360.8	\$299.9	\$25.5	\$335.8	(\$11.4)	\$152.9	\$2,480.5	\$137.7	5.9%	\$4,573	\$142
2006-07	\$395.4	\$299.8	\$26.3	\$336.9	\$1.1	\$225.1	\$2,657.7	\$177.2	7.1%	\$4,790	\$218
2007-08	\$407.9	\$259.1	\$35.5	\$301.7	(\$35.2)	\$349.3	\$2,790.5	\$132.8	5.0%	\$5,069	\$278
2008-09	\$461.3	\$362.2	\$77.4	\$494.0	\$192.3	\$331.0	\$2,930.1	\$139.6	5.0%	\$5,349	\$281
2009-10	\$329.0	\$339.6	\$88.2	\$482.2	(\$11.8)	\$188.2	\$3,076.3	\$146.2	5.0%	\$5,588	\$239
2010-11	\$592.9	\$284.0	\$89.3	\$423.7	(\$58.5)	\$363.4	\$2,797.7	(\$278.6)	-9.1%	\$5,442	(\$146)
2011-12	\$416.7	\$511.1	\$93.7	\$654.3	\$230.6	\$133.8	\$2,671.8	(\$125.9)	-4.5%	\$5,232	(\$210)
2012-13	\$545.3	\$345.5	\$102.5	\$511.2	(\$143.1)	\$183.4	\$2,852.3	\$180.5	6.8%	\$5,298	\$66
2013-14	\$1,597.6	\$527.4	\$127.1	\$740.9	\$229.7	\$1,048.9	\$2,985.3	\$133.0	4.7%	\$5,527	\$229
2014-15	\$583.7	\$668.4	\$136.5	\$967.6	\$226.7	\$685.6	\$3,184.0	\$198.7	6.7%	\$5,933	\$406
2015-16	\$547.9	\$630.3	\$144.3	\$944.3	(\$23.3)	\$297.0	\$3,299.3	\$115.3	3.6%	\$6,240	\$307
2016-17	\$574.6	\$467.2	\$147.8	\$774.0	(\$170.3)	\$100.0	\$3,591.2	\$291.9	8.8%	\$6,373	\$133
2017-18	\$607.5	\$302.1	\$155.9	\$617.3	(\$156.7)	\$100.0	\$3,976.3	\$385.1	10.7%	\$6,635	\$262
2018-19	\$641.3	\$321.1	\$164.5	\$645.3	\$28.0	\$100.0	\$4,208.7	\$232.4	5.8%	\$6,932	\$297
2019-20	\$650.5	\$322.2	\$172.1	\$654.4	\$9.1	\$100.0	\$4,283.2	\$74.5	1.8%	\$7,181	\$249

\*Includes other spending on education-related programs, such as facility school funding, student assessments, and charter school capital construction.

**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.