MEMORANDUM

February 4, 2003

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

FROM: Tom Dunn, Chief Economist, (303) 866-3521

SUBJECT: Report on the State Education Fund

Summary

This report analyzes the long-term viability of the State Education Fund and how additional spending and General Fund support of public school finance will impact the State Education Fund. The baseline model for the Stateline Education Fund utilizes the Legislative Council Staff December 2002 forecast of the economy, a 7.46 percent increase (current law) in General Fund appropriations for the state share of districts’ total program in FY 2002-03, and 5.8 percent increases thereafter.

The baseline model shows that the State Education Fund would become insolvent in FY 2008-09 absent other policy intervention by the General Assembly. The economic slowdown in Colorado, combined with the impact of much weaker capital gains realizations, are primarily responsible for the projected insolvency. In addition to less income diverted to the fund because of these factors, other contributing factors include decreases in estimates of available cash fund revenue and local tax support for education. Meanwhile, the estimates of inflation, the key driver for the amount of total education spending, are virtually unchanged since the last report.

The projected state aid requirement to fund total program spending is $2.638 billion in FY 2003-04, an increase of $157.5 million, or 6.35 percent.

Cash funds of $50.4 million are available to contribute to the state aid requirement for FY 2003-04.
An increase of General Fund spending by 5.8 percent in FY 2003-04 would require an additional $129.2 million. Each one-tenth of a percentage point increase would require an additional $2.23 million.

Avoiding insolvency will require substantially more General Fund appropriations than the 5.8 percent increases assumed in the baseline model. This report shows that if General Fund appropriations are increased by 6.55 percent in FY 2004-05 ($17.7 million more than in the baseline model) through FY 2013-14 (an additional $1.4 billion over the ten-year period), before reverting back to 5.8 percent thereafter, a $2.9 billion balance can be attained. Alternatively, a one-time increase in FY 2004-05 of 11.0 percent, or a total increase of $259.3 million, followed by annual increases of 5.8 percent, would create a modest $1.0 billion balance in FY 2026-27.

Elimination of additional spending programs from the State Education Fund would delay insolvency for the fund by only one year.

The State Education Fund will continue to be highly sensitive to changes in the economic climate and funding decisions by the General Assembly.

This report complies with section 22-55-104, C.R.S., which requires the staff of the Legislative Council, in consultation with other legislative and executive branch offices, to issue a report on the State Education Fund.¹ The report is required to address:

- the reasonableness of the assumptions used to forecast the revenues and expenditures and the need to revise the assumptions;
- revenue projections for the State Education Fund;
- the projections of the amount of total state moneys, including sources other than the General Fund and State Education Fund, required to increase the statewide base per pupil funding amount and total categorical program funding by inflation plus one percentage point in FY 2003-04;
- the stability of the State Education Fund;

¹ This statute was created in Senate Bill 01-204. The relevant section can be found in Appendix A.
• estimates of the impact of various levels of General Fund appropriations above
  the five percent required minimum level on the amount of moneys available in the
  State Education Fund to provide funding in FY 2003-04; and,

• an estimate of the tradeoffs of using State Education Fund moneys versus
  General Fund moneys for FY 2003-04 without adversely impacting the
  solvency of the State Education Fund or the ability of the General Assembly to
  comply in future years with the minimum funding requirements set forth in the
  state Constitution.

Initially, we provide a review of Amendment 23 which created the State Education Fund, as well as a review of recent events regarding the Fund.

Amendment 23 and the State Education Fund

Amendment 23 was passed by the state's voters at the general election on November 7, 2000. The constitutional amendment diverts an amount equal to one-third of one percent of Colorado taxable income from state income taxes to the State Education Fund (referred to hereafter as the SEF). The statewide base per pupil funding amount for public schools and total state funding for categorical programs must be increased by at least the rate of inflation plus one percentage point for the first ten years (fiscal years 2001-02 through 2010-11) and by at least the rate of inflation thereafter. General Fund appropriations under the school finance act must increase by at least five percent annually for FY 2001-02 through FY 2010-11. The latter provision is known as maintenance of effort. If Colorado personal income increases by less than 4.5 percent between two calendar years, the maintenance of effort provision does not apply for the following fiscal year. In 2001, personal income increased by only 3.8 percent. Thus, the maintenance of effort provision does not apply for FY 2002-03. (The General Fund appropriations increased by 7.46 percent for FY 2002-03.) However, provisions requiring specific increases in statewide base per pupil funding and in total state funding for categorical programs continue to apply even if personal income growth is less than the 4.5 percent threshold. Money in the SEF can be used to meet the funding requirements of Amendment 23. The General Assembly may also appropriate monies from the SEF for a variety of education-related purposes.

Recent Events for the State Education Fund

This section chronicles the recent events for the SEF, including changes to the funding of additional programs from the fund and estimates of revenue diverted to the fund.

This year's report estimates that spending on additional programs from the SEF will be $9.5 million less in FY 2003-04 than estimated a year ago. Several changes to law were made

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2 The constitutional provisions of Amendment 23 can be found in Appendix B.
during the 2002 legislative session. The most significant was a change in the funding of teacher incentives. The additional spending will be $9.0 million less than previously anticipated. This program is scheduled to end after FY 2004-05. Spending on charter school and school district construction will be approximately $1.0 million less than anticipated a year ago. The school finance act, House Bill 02-1349, established several new programs funded from the SEF. Funding of $500,000 was provided for facility school summer programs. The bill provided $60,000 to assist persons seeking a national credential by paying a portion of the fees charged for the credential. It established an academic growth pilot program to use students' assessment scores over time to measure their academic growth and provided $229,000 in funding. The bill allowed charter schools to provide on-line programs and provided funding of $733,725 for up to 135 students per year who would not otherwise qualify for funding under the School Finance Act to enroll in on-line programs. It appropriated $1.0 million for a charter school debt reserve fund in FY 2002-03. Of the new programs, all but the charter school debt reserve fund are assumed to have ongoing appropriations from the SEF.

The economic downturn in Colorado as well as the impacts of the stock market downturn were far worse than anticipated a year ago. Thus, the amount of income tax revenue that was diverted to the SEF in 2001 was overstated by an estimated $59.2 million. This will be corrected with reduced diversions beginning in January 2003 and lasting through June 2003.

**Review and Revision of the Assumptions for the Forecast of Revenues and Expenditures**

Representatives from the Office of the State Auditor, Legislative Council staff, Joint Budget Committee staff, the Department of the Treasury, the Office of State Planning and Budgeting, and the Department of Education assisted in the review and preparation of this report. The basic framework of the model developed and used over the past two years was retained for analysis in this report. However, the economic assumptions are revised significantly in this report because of the economic downturn. The downturn was more severe than anticipated a year ago. Also, the recovery will be more modest than previously estimated.

**Economic assumptions.** The economic assumptions drive the estimates of revenues and expenditures of the SEF. They are a function of the economic outlook and will change on an annual basis. The revenues to the SEF will be less than anticipated because of the slowdown. Inflation estimates are slightly lower for the first two years but higher in the later years of the short-term forecast. Local government revenue will be less than anticipated a year ago. Growth in property values for both residential and nonresidential property is less than estimated a year ago. In addition, the residential assessment rate will decline more than estimated a year ago, reducing assessed values even further. The actual funded pupil count and the at-risk count for FY 2002-03 were higher than anticipated. However, projections of the school population for FY 2003-04 and later are lower. The changes to the variables in the model yield the result that substantially more monies must be drawn from the State Education Fund to fund the requirements of Amendment 23.
Methodological assumptions. Only one methodological change was made to the model. The previous versions of the model incorporated a conservative assumption for growth of revenue to the fund. The sum of the percentage change in population, inflation, and productivity had been multiplied by 85 percent and used as the estimated growth of income tax revenue. A modeling of the relationship between percentage changes in revenue relative to population, inflation, and productivity found that the relationship is just below 1. Thus, we changed our assumption for growth of revenue to 95 percent of the percentage changes in population, inflation, and productivity. This figure is still below the observed historical relationship and keeps an element of conservative assumptions in the model.

Revenue Projections for the State Education Fund

One-third of one percent of Colorado taxable income on the state’s income tax returns is deposited in the State Education Fund. The treasurer invests the balance of the SEF in short-term and long-term instruments. The projections of the revenue to the fund are based on the Legislative Council Staff estimates of Colorado taxable income for the first six years of the forecast period. For FY 2002-03, the revenue estimate also includes the $59.2 million reversion to the General Fund for the statutory “truing up” of the amount of money that should have been diverted to the SEF in 2001. After FY 2007-08, the sum of the projected Denver-Boulder-Greeley inflation rate, the percentage change in Colorado’s population, and the annual percentage change in productivity is used to estimate Colorado taxable income. As mentioned previously, these factors have been multiplied by 95 percent.

The estimated interest rates for a one-year Treasury bill and a ten-year Treasury note are used to estimate interest earnings for the SEF. The estimated interest rates were based on a forecast by Economy.com, a national economic forecasting firm.

Table 1 shows the estimated income tax revenues and interest earnings for the SEF. The income tax revenues diverted to the SEF will increase at a compound average annual growth rate of 6.24 percent between FY 2003-04 and FY 2026-27. Interest earnings to the SEF will be negligible or zero after FY 2009-10 because of a projected negative fund balance.

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3 See Section 22-55-103 (2) (b) (III), C.R.S.
Table 1
Revenue Projections for the State Education Fund

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<tr>
<th>Fiscal Year</th>
<th>Income Tax</th>
<th>Interest Earnings</th>
<th>Fiscal Year</th>
<th>Income Tax</th>
<th>Interest Earnings</th>
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<td>$0.0</td>
<td>Total</td>
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<td>$168.4</td>
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Projections of the Amount of State Funds Needed to Meet the Funding Requirements for State Education for FY 2003-04

Amendment 23 requires that the statewide base per pupil funding for preschool through twelfth grade education increase annually by the rate of inflation plus one percentage point for the first ten years (FY 2001-02 through FY 2010-11) and by the rate of inflation after ten years. The statewide base per pupil funding amount is then modified by various factors to determine the amount of operating funds available to each school district. This funding is often referred to as total program funding. The same annual increases are required for state funding for categorical programs.

The projected statewide per pupil funding amount in FY 2003-04 is $5,977, or a $180 increase. The increase is based on estimated inflation of 2.1 percent in 2002. The projected funded pupil count for FY 2003-04 is 726,330.6, an increase of 1.23 percent. Thus, the total
program funding requirement is $4.34 billion, an increase of 4.37 percent. The estimated state contribution to business incentive agreements is $3.0 million. Excluding the local share contribution to total program funding, the projected state aid requirement to total program funding is $2.638 billion in FY 2003-04, an increase of $157.5 million.

State funding for categorical programs in FY 2002-03 was $157.8 million. The new funding requirement in FY 2003-04 for categorical programs is $162.7 million, or an increase of $4.9 million.

What other Revenues are Available in FY 2003-04?

Cash funds such as mineral lease funds and school land board proceeds are also available to meet the school funding requirements. The estimated available amount for FY 2003-04 is $50.4 million. Table 2 shows the projected components of the state aid requirement to total program funding. Thus, $2,587.7 million of state aid must come from the General Fund and the State Education Fund to meet the total program funding requirement.

<table>
<thead>
<tr>
<th>Total Program</th>
<th>Plus: Business Incentive Agreements</th>
<th>Less: Local Share Revenue</th>
<th>Less: Cash Funds</th>
<th>Equals: General Fund and SEF for Total Program Funding</th>
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<td>$4,341.4</td>
<td>$3.0</td>
<td>$1,706.3</td>
<td>$50.4</td>
<td>$2,587.7</td>
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The Stability of the State Education Fund

The model projects income to the State Education Fund, interest earnings, the total program needs for education, other available revenues to satisfy educational funding requirements including local funding sources, and the necessary withdrawals from the SEF to satisfy the funding requirements. Specific additional programs for education that were approved by the General Assembly during the past two years have also been incorporated into the model.

Current baseline estimates. Figure 1 shows the projected year-end balance of the SEF using the baseline economic and demographic assumptions and a 5.8 percent increase in annual General Fund spending for public school finance beginning in FY 2003-04 and the current law appropriation increase of 7.46 percent for FY 2002-03. The 5.8 percent increase is based on the increase initially provided for FY 2001-02 and the assumed increase for most years in last
year’s baseline model. For comparison purposes, the baseline estimate from last year’s report is also included.

The current baseline model projects that the SEF balance will drop below zero in FY 2008-09 and reach a deficit of $5.6 billion by FY 2026-27. In comparison, the previous baseline model projected that the SEF balance would remain positive, reaching $2.4 billion after 25 years. The more pessimistic outlook for revenue to the SEF is primarily responsible for the difference.

Proposal to refinance General Fund appropriations with the State Education Fund. The Governor proposed that increases in General Fund appropriations for education be limited to 5.0 percent for FY 2002-03 and 3.82 percent for FY 2003-04. The Joint Budget Committee (JBC) recommended the 5.0 percent appropriation for FY 2002-03 as part of the supplemental package during the week of January 27. A negative supplemental and a statutory change are required for FY 2002-03 when appropriations were increased by 7.46 percent. The JBC will consider the FY 2003-04 increase during figure setting. Figure 1 also indicates the proposal to refinance using the SEF.

If both features of this proposal are eventually adopted, they would drive the SEF balance in FY 2026-27 to a deficit of $10.6 billion. The fund would be insolvent in FY 2005-06, or three years earlier than in the baseline scenario. If a 5.8 percent increase is assumed for FY 2003-04 rather than the 3.82 percent increase recommended by the Governor, the SEF would be insolvent in FY 2006-07.

Implementation of the Joint Budget Committee recommendations on optional spending programs. The SEF cannot become insolvent. Thus, either optional spending must be reduced or the General Fund maintenance of effort must be increased above the 5.8 percent
level in the baseline scenario. The JBC has voted to introduce legislation to reduce spending or enhance revenue in the SEF. These recommendations include:

- elimination of bonuses for the second year of the two-year School Improvement Grant Program, saving $150,000 for the SEF in FY 2002-03;

- elimination of the state funding of new textbooks in FY 2002-03, saving $15.0 million for the SEF;

- elimination of the final three years of the Teacher Pay Incentive Program, saving $4.2 million annually from FY 2002-03 through FY 2004-05;

- use of an additional $4.4 million of spillover lottery money to satisfy the Giardino lawsuit, saving $4.4 million in SEF money for FY 2002-03;

- permanent elimination of the Facility Summer School Grant Program, saving $0.5 million annually for the SEF;

- permanent elimination of the Summer School Grant Program, saving nearly $1.0 million annually;

- the transfer of $768,458 from various cash funds to the SEF for FY 2002-03; and,

- a requirement for charter schools to revert unspent capital construction funds as of June 30, 2003, to the SEF. We incorporated a reversion of $1 million from the original appropriation of $7.8 million for illustrative purposes.

In addition, the Committee has discussed introducing legislation to modify the funding of charter school and school district capital construction to improve the long-term solvency of the SEF. For illustrative purposes, we assumed a one-third reduction in spending beginning in FY 2003-04, saving $5.4 million in the first year and $206.7 million over the 24-year period. These moves would reduce optional spending from the SEF by an estimated $277 million. They would reduce the deficit in the SEF by an estimated $310.9 million in FY 2026-27. The first deficit would occur one year later — FY 2009-10 — than the baseline scenario.

Most of these items are contained in Senate Bill 02-183. Combined with the refinancing proposals for FY 2002-03 and FY 2003-04, the State Education Fund would still be insolvent in FY 2005-06.

Many interested parties have asked what the impact of the optional spending programs has been on the State Education Fund balance. For FY 2001-02 and FY 2002-03, a total of $89.8 million was appropriated for optional programs. We estimate that a total of $732 million will be spent on these programs from FY 2003-04 through FY 2026-27. If optional spending
is canceled for the reminder of the forecast period, the SEF would still become insolvent in FY 2009-10, only one year later than the baseline estimate.

**Alternative revenue projections.** The Governor’s Office of State Planning and Budgeting also forecasts the amount of income tax revenue that is diverted to the SEF. While the sum of their estimates of the diversion for the first six years are less than the Legislative Council Staff projections, the OSPB projection for the sixth year is higher. Application of the same growth factors to the sixth year yields higher overall revenue estimates for the SEF. Thus, the SEF balance in FY 2026-27 is slightly higher than in the baseline projection — a deficit of $5.55 billion compared with a deficit in the baseline model of $5.61 billion.

**Increasing the General Fund Maintenance of Effort to Preserve the Stability of the State Education Fund**

Assuming that the economic assumptions of the model are reasonable, one method to prevent shortfalls in the SEF is to increase General Fund appropriations. This would reduce the withdrawals from the SEF that are necessary to meet the total funding requirements of Amendment 23. Two scenarios are presented: first, for the baseline case and, second, for the adoption of the Governor's and JBC's recommendations to refinance General Fund appropriations with the SEF.

**Baseline scenario.** Figure 2 shows two possible ways to preserve the stability of the SEF. Given the difficult decisions that must be made for the budget in FY 2003-04, General Fund appropriations were not assumed to increase above the baseline scenario until FY 2004-05. General Fund appropriations then increase by 6.55 percent through FY 2013-14 and by 5.8 percent thereafter. The SEF balance reaches nearly $2.9 billion after 25 years. However, the growth path of the balance is still precarious over the first part of the forecast period, not differing substantially from the estimated balance at the end of FY 2002-03. Alternatively, these increases could be combined with the JBC's recommendations to reduce spending on additional programs. This scenario provides additional “comfort” in the initial years and would boost the SEF balance to $3.5 billion in FY 2026-27.
Refinancing scenario. If the proposals to refinance General Fund appropriations with the SEF are approved, appropriations would have to increase by larger amounts than described in the previous paragraph. If General Fund appropriations increased by 10.0 percent in 2004-05, 9.0 percent in FY 2005-06 and FY 2006-07, and 7.0 percent in FY 2007-08, increases could resume at 5.8 percent thereafter and yield a balance of nearly $3.5 billion by FY 2026-27. The 10.0 percent increase in FY 2004-05 would total $226.0 million, or as much as 70 percent of the allowable General Fund appropriations increase. Another way to consider the magnitude of the 10.0 percent increase is that it would be approximately $95 million more than a 5.8 percent increase. Other combinations of significant increases in the initial years would also restore solvency to the SEF.

Impact of a One-Time General Fund Appropriation Increase

This section analyzes the impact on the SEF balance with a one-time larger appropriation amount for FY 2004-05. Again, two scenarios are presented: first, for the baseline case and, second, for the refinancing scenario.

Baseline scenario. Figure 3 indicates that even one-time spending increases of up to 10 percent in FY 2004-05, followed by annual increases of 5.8 percent, would not be sufficient to prevent deficits in the SEF. An 11 percent increase in FY 2004-05, or nearly double the baseline increase of 5.8 percent, would yield a surplus of $982 million by FY 2026-27. However, an 11 percent increase, or $259.3 million, would take up as much as 80 percent of the allowable General Fund appropriations increase in FY 2004-05.
Refinancing scenario. To achieve solvency with refinanced appropriations in FY 2002-03 and FY 2003-04, the one-time increase in appropriations in FY 2004-05 would have to be significantly larger. A 16 percent increase in General Fund appropriations would yield a balance of $853 million in FY 2026-27.

Moneys Required from the State Education Fund

Table 3 shows the amount of money that will be required from the State Education Fund with the baseline assumptions. There are two components. First, total education spending, comprised of total program spending, business incentive agreements, and categorical programs, is compared to the traditional sources of funding from the General Fund, cash funds, and local tax support. The difference is identified as the shortfall that will come from the SEF. Second, spending on new programs passed over the last two years is assumed to come from the SEF. The projected balance in the State Education Fund is also shown.
Table 4
Spending from the State Education Fund
millions of dollars

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Shortfall for Public School Finance and Categorical Programs</th>
<th>Additional Spending for Optional Programs</th>
<th>Total Spending from State Education Fund</th>
<th>State Education Fund Balance at Year End</th>
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</tr>
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<td>$42.7</td>
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Appendix A

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

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

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

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

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

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

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

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

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

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

(V) The impact of various levels of general fund appropriations above the minimum level identified pursuant to subparagraph (IV) of this paragraph (a) on the amount of moneys available in the state education fund to provide funding in the next state fiscal year for programs that may be authorized by law and that are consistent with section 17 (4) (b) of article IX of the state constitution.
(b) The general assembly should not appropriate an amount of moneys from the state education fund for the next state fiscal year that exceeds the amount of moneys certified in the joint resolution.

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

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

(b) A revision of the assumptions as necessary;

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

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

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

(f) Revenue projections for the state education fund;

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

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

Article IX, 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.