Colorado
Legislative
Council
Staff

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MEMORANDUM

February 3, 2005

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

This report analyzes the viability of the State Education Fund and how General Fund support of school finance and the State Education Fund's support of other education programs will impact the State Education Fund in the near term. Compared to a year ago, the economic assumptions that drive the estimates of revenue to and expenditures from the fund result in lower total funding for schools and more income tax revenue diverted to the State Education Fund. From FY 2004-05 to FY 2026-27, the average annual increase in the income tax diversion is expected to be 6.0 percent.

The projected state aid requirement to fund the obligations of Amendment 23 is $3.010 billion in FY 2005-06. Cash funds of $99.1 million are available to contribute to the state aid requirement, leaving a General Fund/State Education Fund obligation of $2.911 billion in FY 2005-06. Based on current estimates of personal income growth, the General Fund appropriation for school finance must increase by at least 5 percent, or $118.4 million, in FY 2005-06 to fulfill the maintenance of effort requirements of Amendment 23. The funding requirements of Amendment 23 can be met with a 5 percent General Fund increase in FY 2005-06, although increases as low as 5 percent are not sustainable over the long term. Appropriation increases of less than 6.1 percent in the near term will cause "spikes" in appropriations in succeeding years.

Parameters of the Study

Section 22-55-104 (3), C.R.S., requires Legislative Council Staff, in consultation with other legislative and executive branch offices, to issue an annual report on the State Education Fund. The report is required to address:

- the reasonableness of the assumptions used to forecast State Education Fund revenues and expenditures and the need to revise the assumptions;
- revenue projections for the State Education Fund;
- the projections of the amount of total state money, including sources other than the General Fund and State Education Fund, required to increase the statewide base per pupil funding amount and total categorical program funding by inflation plus one percentage point in FY 2005-06;
- 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 2005-06 without adversely impacting the solvency of the State Education Fund or the ability of the General Assembly to provide the minimum funding increases required by the state constitution; and
- estimates of the impact of various levels of General Fund appropriations above the minimum level on the amount of money available in the State Education Fund to provide funding in FY 2005-06 for additional programs that are consistent with the state constitution.

Amendment 23 and the State Education Fund

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

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[1] Appendix A contains the provisions of Amendment 23 and section 22-55-104, C.R.S.,

is known as maintenance of effort. When 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. The provisions requiring specific increases in statewide base per pupil funding and in total state funding for categorical programs continue to apply when personal income growth is less than the 4.5 percent threshold. Money in the State Education Fund may be used to meet the funding requirements of Amendment 23. The General Assembly may also appropriate money from the State Education Fund for a variety of other education-related purposes.

Assumptions Used to Forecast Revenues and Expenditures

The basic framework of the model developed by Pacey Economics Group in February 2001 is retained for the analysis in this report. The underlying economic assumptions, however, are a function of the economic outlook and are revised annually to take into account more current information. These assumptions drive the estimates of taxable income and, therefore, of revenues to the State Education Fund. They also drive the estimates of minimum expenditures for school finance and for categorical programs under current law. Much of the data to update the model through FY 2009-10 comes from the Legislative Council Staff December 2004 economic and revenue forecast. Population data for out years is based on the State Demographer's population forecast.

The most significant change in the assumptions in the model today compared to this time last year is the inflation forecast. Compared to last year, inflation is 1.5, 0.9, 0.5, and 0.2 percentage points *lower* for FYs 2005-06, 2006-07, 2007-08, and 2008-09, respectively. The lower inflation rates mean that the required minimum expenditures under Amendment 23 cost the state less money. For example, a difference in inflation of 1.5 percentage points in FY 2005-06 translates into about $67.2 million for school finance and $2.5 million for categorical programs, for a total of just under $70 million. This $70 million reduction is carried forward each year into the future. The decreases in the forecast for inflation reduce state aid for the school finance act by about $950 million through FY 2010-11.

Other revisions to the economic assumptions include the following:

- Pupil count estimates are higher. These estimates reflect the higher-than-anticipated October 2004 count and an improving economy. Although an increase in the pupil count increases state costs for school finance, in this case it is simply tempering the reduction from lower inflation rates.

- Estimates for local revenue, which is comprised of property taxes and specific ownership taxes, are decreased from last year, although not significantly. Through FY 2010-11, the cumulative reduction in the local share is 0.3 percent. Growth in property tax revenue is driven in large part by changes in assessed values, inflation, and pupil enrollment. Although the inflation forecast is down, the pupil count forecast is up. For the second consecutive year, specific ownership taxes decreased, this year by about 1.8 percent.

- The forecast for the income tax diversion to the State Education Fund is up $67.5 million through FY 2010-11 and just under $600 million through FY 2026-27.

In addition to these updates to the model, we have also increased the cash fund contribution from the State Public School Fund to school finance. The State Public School Fund primarily receives its revenues from interest on the Public School Fund (sometimes called the Permanent Fund), rents from state school trust lands, and federal mineral lease royalties. The interest on the Public School Fund is capped by statute at $19 million, and rents from state school trust lands have been relatively stable in recent years. Federal mineral lease royalties are increasing, however. The federal government receives royalties equal to 12.5 percent of the value of production on federal lands. The federal government transmits one-half its royalties to the state, which are then distributed to various funds and local governments through a formula contained in statute. According to the Department of Local Affairs, federal lands are accounting for an increasing proportion of gas production in the state. Although gas prices tend to be cyclical, leading to year-to-year volatility in receipts, the trend seems to indicate sustainable, higher federal mineral lease royalties. As a result, the cash fund contribution to school finance is increased $16.3 million annually.

The changes to the variables in the model result in lower total funding for schools. Through FY 2010-11, the reduction is about $907 million for school finance and categorical programs. About $871 million of this amount is a reduction in state aid requirements. At the same time, more money is diverted to the State Education Fund to fund the requirements of Amendment 23, compared to a year ago. The end result is a lower projected annual increase in General Fund appropriations to comply with the provisions of Amendment 23.

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 revenue estimates of taxable income. Errors in the amount deposited in the fund in any fiscal year are corrected in the following fiscal year by adjusting the amount of the transfer.

The projections of revenue to the fund in this report are based on the Legislative Council Staff estimates of Colorado taxable income through FY 2009-10. For FY 2004-05, the revenue estimate includes a $20.4 million diversion to the fund for the statutory "truing up" of the amount of money that should have been diverted to the fund in prior years. After FY 2009-10, the sum of the projected Denver-Boulder-Greeley inflation rate, the percentage change in Colorado's population, and the annual percentage change in productivity, multiplied by 95 percent, is used to estimate Colorado taxable income. Table 1 shows the estimated diversion of income tax revenues to the State Education Fund through FY 2026-27. The income tax revenues diverted to the fund increase at a compound average annual growth rate of 6.0 percent between FY 2004-05 and FY 2026-27.

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

Fiscal Year	Income Tax	Fiscal Year	Income Tax
FY 2004-05	$311.8	FY 2016-17	$640.2
FY 2005-06	$316.8	FY 2017-18	$678.5
FY 2006-07	$340.3	FY 2018-19	$718.2
FY 2007-08	$365.3	FY 2019-20	$760.0
FY 2008-09	$393.4	FY 2020-21	$802.0
FY 2009-10	$420.7	FY 2021-22	$848.7
FY 2010-11	$446.6	FY 2022-23	$896.9
FY 2011-12	$475.3	FY 2023-24	$947.9
FY 2012-13	$505.3	FY 2024-25	$1,002.0
FY 2013-14	$536.8	FY 2025-26	$1,059.4
FY 2014-15	$569.7	FY 2026-27	$1,120.0
FY 2015-16	$604.1	Total	$14,760.5

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

Projections of the Amount of State Money Needed to Meet Education Funding Requirements for FY 2005-06

Amendment 23 requires that the statewide base per pupil funding amount for preschool through twelfth grade education increase annually by the rate of inflation plus one percentage point for the first ten years (FY 2001-02 through FY 2010-11) and by the rate of inflation thereafter. The same annual increases are required for state funding for categorical programs. Meeting these two obligations is expected to require $3,009.6 million in state money in FY 2005-06.

The projected statewide base per pupil funding amount in FY 2005-06 is $4,745.62, an increase of $79.33 over the current budget year. This increase is predicated on estimated inflation of 0.7 percent in 2004. This "base" amount is then modified by various factors to determine the amount of funding per pupil available to each school district, resulting in per pupil funding, on average, of $6,182. The projected funded pupil count for FY 2005-06 is 737,292, an increase of 1.1 percent. Thus, the total funding requirement for school finance is $4,557.8 million, an increase of 2.9 percent. The estimated state cost for business incentive agreements is $2.3 million. Excluding the local contribution to *school finance funding*, the projected state aid requirement is $2,841.0 million in FY 2005-06.

State funding for categorical programs in FY 2004-05 is $165.8 million. The new funding requirement in FY 2005-06 for *categorical programs* is $168.6 million, an increase of $2.8 million.

Table 2. Projected State Funding for Amendment 23 Requirements in FY 2005-06
(Millions of Dollars)

School Finance		
1.	Total Funding under the School Finance Act with Base Increase Equal to Inflation Plus One Percent	$4,557.8
2.	*minus* the Local Share	$1,719.0
3.	*equals* State Aid for School Districts	$2,838.8
4.	*plus* Business Incentive Agreements	$2.3
5.	*equals* State Aid under the School Finance Act	$2,841.0
Categoricals		
6.	*plus* Categorical Program Funding with Increase of Inflation Plus One Percent	$168.6
Total State Funding for Amendment 23 Requirements (line 5 plus line 6)		$3,009.6

Note: Numbers may not sum due to rounding.

The figures on required state funding are presented with an important caveat. That is, estimated state funding for school finance and categorical programs is dependent on the inflation rate. The inflation rate used to develop the figures in this report for FY 2005-06 is still a forecast; the actual inflation rate will be released in mid February. The inflation rate could also affect the estimate for the local contribution to the school finance act.

Funding for additional programs. State law requires the General Assembly to appropriate money from the State Education Fund for two programs created by statute. The total appropriation for these two programs is $10 million in FY 2005-06 and each succeeding fiscal year. Five million dollars is dedicated to charter school capital construction and an equal amount is to be appropriated to the School Capital Construction Expenditures Reserve.

Revenue Available to Meet State Funding Requirements of Amendment 23

In addition to the General Fund and State Education Fund, cash funds such as federal mineral lease royalties, school lands proceeds, and interest on the Public School Fund are available to meet the funding requirements of Amendment 23. The estimated available amount for FY 2005-06 is $98.8 million. This amount is higher than projections in previous years because of increased federal mineral lease royalties, as discussed earlier. The increase in the projection for the current year has resulted in revenue that is greater than the appropriation, providing a rollforward for FY 2005-06. Further, the revenue projection for FY 2005-06 has been increased above earlier levels. The $98.8 million assumes that the General Assembly will continue to pay the state match for the National School Lunch Act from these cash fund revenues. The amount of the state match is just under $2.5 million. The $98.8 million also takes into account the Joint Budget Committee's supplemental recommendation for FY 2004-05. In addition to this money, a small amount of cash funds—about $300,000—is available for appropriation for the Comprehensive Health Education Program. Table 3 shows the effect of the available cash fund revenues on the total state funding need under Amendment 23.

Table 3. Calculation of General Fund and State Education Fund Requirement for FY 2005-06
(Dollars in Millions)

1.	Total State Funding for Amendment 23 Requirements	$3,009.6
2.	*minus* Cash Funds for School Finance	$98.8
3.	*minus* Cash Funds for Comprehensive Health	$0.3
4.	*equals* General Fund and State Education Fund for Amendment 23	$2,910.6

When cash funds are considered, $2,910.6 million of state money must come from the General Fund and the State Education Fund to meet the total Amendment 23 obligation. This amount is an increase of $68.9 million over the current year's level, as adjusted by the Joint Budget Committee's supplemental recommendation. Table 4 shows the derivation of the $68.9 million increase.

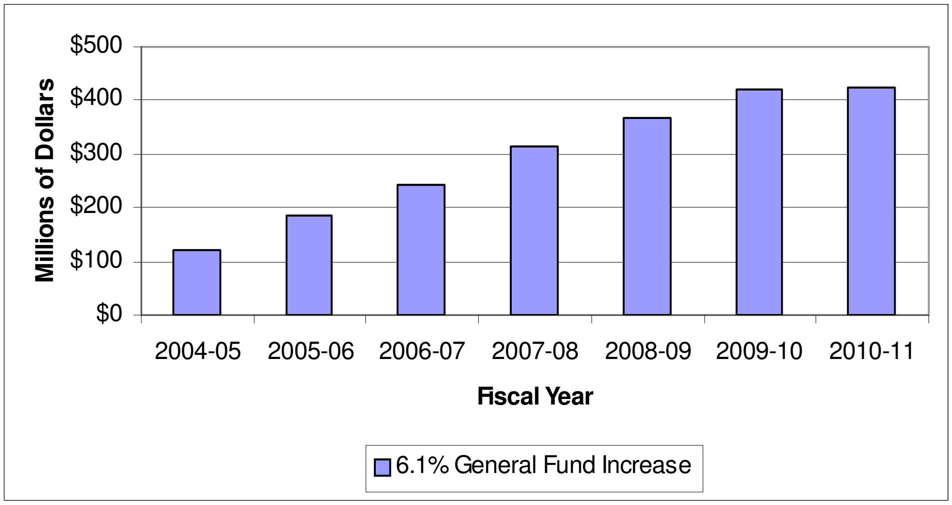
Table 4. FY 2005-06 General Fund and State Education Fund Increase
(Dollars in Millions)

1.	FY 2005-06 Estimated General Fund and State Education Fund for Amendment 23	$2,910.6
2.	FY 2004-05 General Fund and State Education Fund for Amendment 23	$2,841.7
3.	FY 2005-06 Increase for Amendment 23	$68.9
	Components of Increase	
4.	Increase in School Finance Funding	$127.4
5.	*plus* Increase in Categorical Funding	$2.8
6.	*plus* Increase in Funding for Business Incentive Agreements	$0.1
7.	*equals* Total Funding Increase	$130.3
8.	*minus* Local Share Increase	$-30.4
9.	*minus* Cash Fund Increase	$-31.1
10.	equals Total General Fund and State Education Fund Increase	$68.9

Stability of the State Education Fund

The model projects income to the State Education Fund, interest earnings, the total funding requirements for education, local funding sources, and the necessary withdrawals from the fund to satisfy funding requirements given specified levels of General Fund appropriations. The higher the level of General Fund appropriations, the more stable or "solvent" the State Education Fund becomes. FY 2010-11 is a benchmark year because it is the last year that the additional one percentage point is required in addition to inflation. Thus, given that the model projects fund balances based on the minimum constitutional requirements, balances in the fund can be expected to accrue more rapidly after the one-percentage-point requirement lapses with continuing levels of General Fund increases. Figure 1 shows the estimated fund balance through FY 2010-11 with annual General Fund appropriation increases of 6.1 percent. Exhibit 1, attached, provides the long-term forecast for the fund balance with a 6.1 percent annual increase in General Fund appropriations.

Figure 1. State Education Fund Balance with Annual 6.1 Percent General Fund Increases



An annual appropriation increase of 6.1 percent results in an average fund balance through FY 2010-11 of about $325 million per year. On average, the fund balance remains relatively constant until FY 2021-21, when a 6.1 percent General Fund appropriation begins to accumulate a significant fund balance, allowing for lesser rates of appropriations growth. At that time, the 6.1 percent increase in General Fund appropriations essentially covers the increase in the cost of school finance. Thus, withdrawals from the State Education Fund stop growing while the diversion continues to increase each year.

General Fund and State Education Fund Appropriations for FY 2005-06

Amendment 23 requires a minimum increase of 5 percent in the General Fund appropriation for school finance through FY 2010-11 whenever Colorado personal income grows by 4.5 percent or more. No similar requirement exists for categorical programs, although money in the State Education Fund cannot be used to supplant the level of General Fund appropriations that existed for categorical programs on December 28, 2000. In the four fiscal years since Amendment 23 has been in effect, the 5 percent maintenance of effort has been required only once (FY 2001-02); Colorado personal income grew less than 4.5 percent in three of the four fiscal years. Legislative Council Staff is projecting that personal income grew by more than 4.5 percent in 2004, however, which means that the requirement for a minimum increase in General Fund appropriations will likely apply for FY 2005-06. After accounting for the Joint Budget Committee's supplemental recommendation, a 5 percent increase in General Fund appropriations totals $118.4 million. Table 4 presents the actual growth in personal income since Amendment 23 took effect and Legislative Council Staff's forecast through FY 2008-09. The personal income growth figures through FY 2004-05 are the most recent released by the Bureau of Economic Analysis and published in the December Legislative Council Staff revenue forecast within each respective budget year.

Table 5. Colorado Personal Income Growth

Fiscal Year	Personal Income Growth (Actual)	Fiscal Year	Personal Income Growth (Estimated)
FY 2001-02	10.0%	FY 2005-06	5.3%
FY 2002-03	3.6%	FY 2006-07	5.6%
FY 2003-04	0.8%	FY 2007-08	5.7%
FY 2004-05	2.2%	FY 2008-09	5.4%

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

Figure 2. State Funding for Amendment 23

State Funding = General Fund + Cash Funds + State Education Fund

<u>Balance in State Education Fund</u>

General Fund	+ Cash Funds	+ State Education Fund
(discretionary)	(fixed)	(discretionary)

<u>No Balance in State Education Fund</u>

General Fund	+ Cash Funds	+ State Education Fund
(fixed)	(fixed)	(fixed)

General Fund appropriation for FY 2005-06. Figure 3 shows the impact of four scenarios of General Fund appropriation increases on the balance of the State Education Fund through FY 2010-11. These scenarios are:

- *Scenario 1:* A 6.1 percent General Fund increase each year, beginning in FY 2005-06. A 6.1 percent increase is the estimated percentage necessary to provide consistent appropriation increases — without any "spikes" — throughout the forecast period of the model.

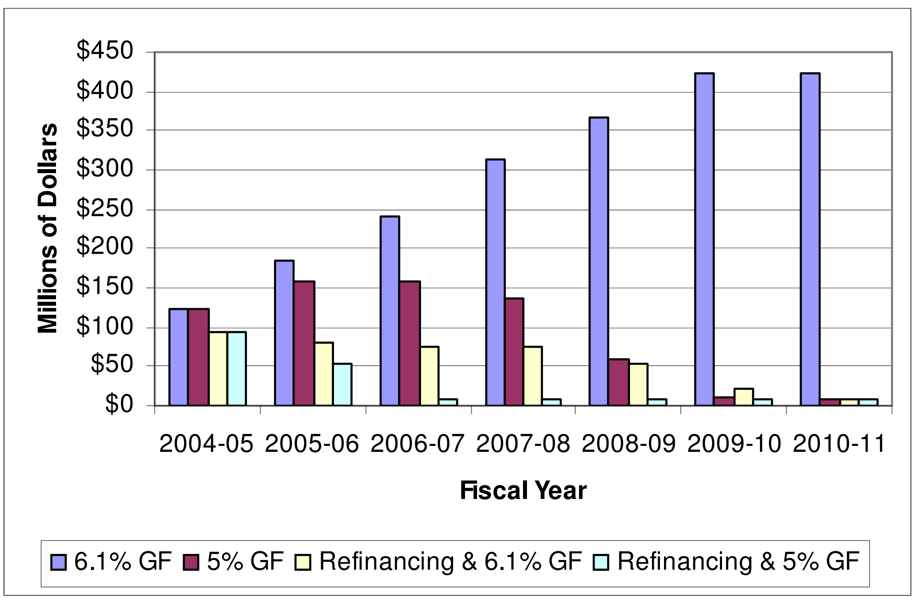
- *Scenario 2:* A General Fund increase equal to the greater of 5 percent or the percentage that is necessary to meet the minimum funding requirements of

Amendment 23, beginning in FY 2005-06. A General Fund appropriation increase of 5 percent is the minimum permitted by Amendment 23 given the current forecast for personal income growth.

- *Scenario 3:* A refinancing of the FY 2004-05 appropriation that reduces the General Fund appropriation by $50 million and increases the State Education Fund and State Public School Fund appropriations by $29.2 million and $20.8 million, respectively. The balance of the State Education Fund in this scenario is based on a General Fund increase of 6.1 percent, unless a higher appropriation increase is necessary to meet the minimum requirements of Amendment 23.

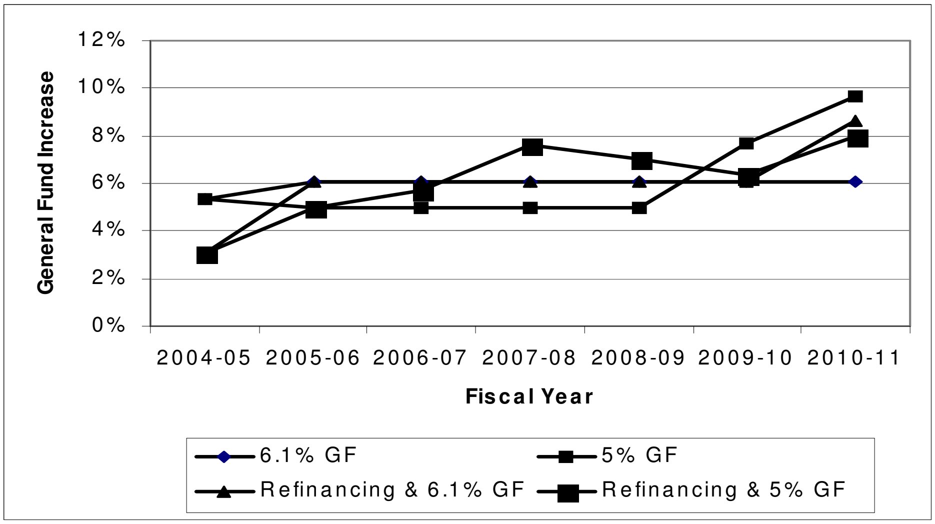
- *Scenario 4:* The same refinancing plan as in Scenario 3, except the balance of the State Education Fund is based on a General Fund increase of 5 percent, unless a higher appropriation increase is necessary.

Figure 3. State Education Fund Balance at Varying General Fund Appropriation Increases



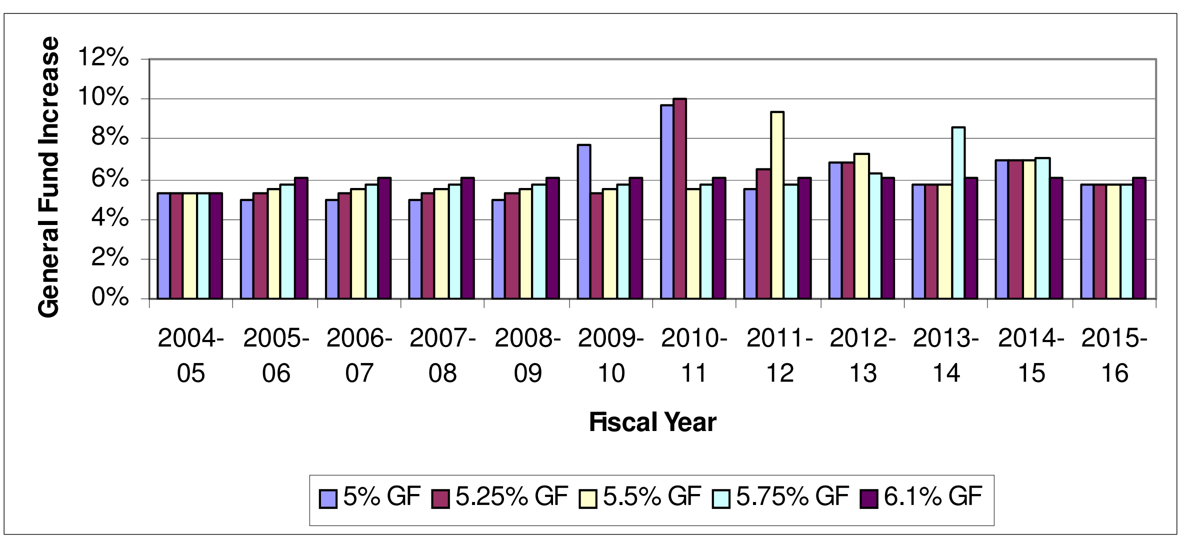
In addition to looking at the balance of the State Education Fund, it is interesting to examine how the appropriation increases used to generate Figure 3 affect the need for General Fund increases in the future. As noted earlier, once the State Education Fund does not have a balance, the General Fund appropriation level is fixed, assuming all current law provisions of the school finance act. In the four scenarios detailed above, all but Scenario 1 — the 6.1 percent annual increases — have a higher percentage increase in General Fund appropriations at some point between now and FY 2010-11. For example, Scenario 2 calls for a General Fund appropriation increase of 5 percent, unless a higher increase is necessary. In FY 2009-10, an estimated increase of 7.7 percent would be required to fund the minimum expenditures in Amendment 23. An even larger increase, 9.7 percent, would be necessary in FY 2010-11. The impact of the four scenarios on out-year appropriations is illustrated in Figure 4. Exhibits 1 through 4, attached, provide more detail on the scenarios.

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



As previously indicated, the minimum General Fund increase of 5 percent for school finance amounts to $118.4 million in FY 2005-06. A 6.1 percent General Fund increase is $144.4 million. Given the $26 million range between these two numbers, Figure 5 presents the required General Fund increases in the future with increases of 5.25, 5.5, and 5.75 percent in addition to 5 percent and 6.1 percent in FY 2005-06. The graph expands the number of years for which estimates are provided to illustrate years in which the increase in the appropriation must be larger to meet the requirements of Amendment 23.

Figure 5. Comparison of Future General Fund Appropriation Increases at Varying Rates for FY 2005-06



A preceding section of this report addresses the total increase in General Fund and State Education Fund spending necessary to meet the funding requirements of Amendment 23 in FY 2005-06. As indicated in Table 4 on page 8, that amount is $68.9 million. Again, the minimum increase in the General Fund appropriation for school finance is $118.4 million. As a result, the State Education Fund appropriation can actually decrease in FY 2005-06. Table 6 shows the decrease in the State Education Fund appropriation based on the increases in the General Fund appropriation in Figure 5 (appropriation increases between 5 percent and 6.1 percent at quarter-percentage-point increments).

Table 6. Estimated Reduction in FY 2005-06 State Education Fund Appropriation at Varying General Fund Appropriation Increases
(Millions of Dollars)

Percent Increase in General Fund Appropriation	General Fund Appropriation Increase	State Education Fund Appropriation Decrease
5.00%	$118.4	($49.6)
5.25%	$124.3	($55.5)
5.50%	$130.2	($61.4)
5.75%	$136.1	($67.3)
6.10%	$144.4	($75.6)

The range of options available for increasing the General Fund appropriation for school finance raises the question of the impact of selecting the minimum increase versus a greater increase. Table 7 compares the long-term impacts of appropriating the minimum required increase under Amendment 23 with annual increases of 6.1 percent. The minimum required increase is the same as Scenario 2, described on page 10. Exhibit 5, attached, provides a more detailed comparison.

Table 7. Comparison of Impact of Minimum and 6.1 Percent General Fund Appropriation Increases
(Millions of Dollars)

Component	Minimum General Fund Increase	Annual 6.1% Increase	Difference: 6.1% Minus Minimum
Cumulative GF Appropriations: FY 04-05 through FY 10-11	$19,580.3	$19,935.5	$355.2
Compound Average Annual Growth Rate	6.2%	6.1%	-0.1%
FY 2010-11 State Education Fund Balance	$8.2	$422.9	$414.6
Cumulative Interest Earnings: FY 04-05 through FY 10-11	$83.2	$142.7	$59.5

Component	Minimum General Fund Increase	Annual 6.1% Increase	Difference: 6.1% Minus Minimum
Cumulative GF Appropriations: FY 04-05 through FY 26-27	$111,636.5	$112,702.4	$1,065.9
Compound Average Annual Growth Rate	5.9%	6.1%	0.2%
FY 2026-27 State Education Fund Balance	$18.4	$1,559.3	$1,540.9
Cumulative Interest Earnings: FY 04-05 through FY 26-27	$295.3	$770.3	$475.0

Through FY 2010-11, the higher annual appropriation increase results in General Fund appropriations that are $355 million higher than the minimum increase. It also produces a balance in the State Education Fund that is almost $415 million higher than the minimum increase. The difference between these two numbers is interest earnings, which are generated because of the higher fund balance. The higher fund balance then creates a cushion to fall back on during the middle of the forecast period, as withdrawals from the fund can be higher to maintain the consistent, 6.1 percent appropriation increase. By the end of the forecast period in FY 2026-27, $1.07 billion more in General Fund appropriations results in a balance in the State Education Fund that is $1.54 billion higher than at the minimum appropriation level.

Funding for Additional Programs

The final requirement for this report is an estimate of the impact on the State Education Fund of various additional levels of State Education Fund appropriations for programs that are permitted, but not required, by Amendment 23. Currently, the on-going requirement for such additional programs is $10 million annually. Table 8 shows the impact on the FY 2005-06 year-end balance with additional State Education Fund appropriations of $5 million, $10 million, $15 million, and $20 million. The basis for the analysis is a 5 percent General Fund increase.

Table 8. Impact of Additional State Education Fund Appropriations on the Fund Balance in FY 2005-06

Additional State Education Fund Appropriation of:	Fund Balance ($ in Millions)
No Increase	$158.0
$5 Million	$152.9
$10 Million	$147.8
$15 Million	$142.7
$20 Million	$137.6

Appendix A

Article IX, Section 17
Colorado Constitution

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

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

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

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

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

(b) In state fiscal year 2001-2002, and each fiscal year thereafter, the general assembly may annually appropriate monies from the state education fund. Monies in the state education fund may only be used to comply with subsection (1) of this section and for accountable education reform, for accountable programs to meet state academic standards, for class size reduction, for expanding technology education, for improving student safety, for expanding the availability of preschool and kindergarten programs, for performance incentives for teachers, for accountability reporting, or for public school building capital construction.

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

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

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

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

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

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

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

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

(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 (g) of this subsection (3) on the amount of moneys available in the state education fund to provide funding in the next state fiscal year for programs that may be authorized by law and that are consistent with section 17 (4) (b) of article IX of the state constitution.