Colorado
Legislative
Council
Staff

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MEMORANDUM

February 1, 2006

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

Assumptions in the model: The model was updated to reflect actual data for the current budget year and the Legislative Council Staff December 2005 revenue forecast. The result in the short term is higher state aid costs and diversions to the State Education Fund. Higher projections for federal mineral lease payment help offset the impact on the General Fund and State Education Fund.

State Education Fund revenue: The income tax diversion to the State Education Fund is projected to increase at an average annual rate of 6.1 percent. Interest income to the fund will depend on the fund balance.

State money necessary to meet Amendment 23 funding requirements: In FY 2006-07, $3,201.1 million of state funding is necessary to meet the minimum requirements of Amendment 23, assuming an inflation rate of 1.9 percent.

Non-General Fund and State Education Fund revenue available to meet funding requirements: In FY 2006-07, $84.7 million of revenue from sources such as federal mineral lease payments, interest on the Public School Fund, and proceeds from state lands, among others, is available to meet the funding requirements of Amendment 23.

Stability of the State Education Fund: Annual 6 percent increases in the General Fund appropriation are projected to be necessary to avoid spikes in the General Fund appropriation and to grow the balance in the State Education Fund.

Minimum General Fund increase: Current figures indicate that personal income grew by more than 4.5 percent in 2005, triggering the minimum General Fund increase of 5 percent for FY 2006-07. Given revenue projections for the State Education Fund, a 5 percent General Fund appropriation increase is mathematically feasible for FY 2006-07.

Funding for additional programs: An important component in reducing the long-term impact of funding additional programs is increasing the General Fund appropriation.

Amendment 23 and the State Education Fund

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

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

Requirements for a Study

Section 22-55-104 (3), C.R.S., requires Legislative Council Staff, in consultation with other legislative and executive branch offices, to prepare 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 revisions to the assumptions;

- revenue projections for the State Education Fund;

- projections of the total amount of state money necessary to increase the statewide base per pupil funding amount and total categorical program funding by the Amendment 23 requirement of inflation plus one percentage point in FY 2006-07;

- projections of the amount of money available from sources of revenue other than the General Fund and the State Education Fund to meet the funding requirements of Amendment 23;

- the stability of the State Education Fund;

- an estimate of the maximum amount of money that can be appropriated from the State Education Fund and the minimum amount of money that can be appropriated from the General Fund for FY 2006-07 to meet the Amendment 23 funding requirements without adversely impacting the solvency of the State Education Fund or the ability of the General Assembly to provide the Amendment 23 minimum funding increases in the future; and

- estimates of the impact of various levels of General Fund appropriations above the minimum level on the amount of money available in the State Education Fund to provide funding in FY 2006-07 for additional programs that are consistent with the provisions of Amendment 23.

Assumptions Used to Forecast Revenues and Expenditures

The framework of the model developed by Pacey Economics Group in February 2001 is retained for this report. The model was updated to incorporate actual data for FY 2005-06, including pupil counts, total school district funding, property and specific ownership taxes, and the state appropriation for both school finance and categorical programs. The state appropriation is based on the Joint Budget Committee's action on January 23, 2006, to increase the appropriation for school finance by $32.8 million, $12 million of which is appropriated from the State Public School Fund and the remaining $20.8 million is split equally between the General Fund and the State Education Fund.

The model was also updated to reflect Legislative Council Staff's December 2005 revenue forecast. These updates include revisions to the amount of income tax revenue diverted to the State Education Fund, the inflation rate, district pupil counts, and district assessed values and therefore property taxes. The December forecast provides projections through FY 2010-11. After FY 2010-11, the Pacey model projects revenues to and expenditures from the fund using a variety of economic indicators. These indicators, which include productivity, state population growth, and growth in the 5-to-17 population, were updated as well. Finally, projections for interest rates on one-year treasury notes and ten-year treasury bonds have been updated for purposes of estimating interest revenue to the State Education Fund.

Projections of revenue to the fund are more optimistic. Compared to the report of a year ago, the revisions to the Pacey model result in somewhat higher revenues to the State Education Fund. The increase in revenue to the fund is explained by higher projections for wages and income, resulting in income tax receipts that are greater than projected one year ago. Revenue to the State Education Fund is estimated at 7.2 percent of gross income tax receipts. Through the five-year forecast period, revenue to the fund is expected to be about $53 million greater than projected at this time last year. Through FY 2026-27, the model projects revenue to the fund to be $343 million higher than last year.

Projected expenditures for school finance increase in the short term. Similar to State Education Fund revenues, the revisions to the Pacey model result in higher expenditures for school finance, at least in the near term. The increase in education expenditures in the short term encompasses both total school district funding and state aid. School district funding through the school finance act is projected to be about $101 million higher through FY 2010-11 than projected a year ago. A portion of this increase relates to higher-than-anticipated pupil counts in the current year, which are carried forward to future years. Inflation rates are also projected to be higher in most years through FY 2010-11. The combination of higher inflation rates and higher pupil counts leads to greater funding for school districts through the school finance act in the next five years. Over the long term, the model actually projects lower total funding through the school finance act. Through FY 2026-27, the model projects school finance funding that is $365 million lower than a year ago. This decrease is primarily attributable to changes that occur when actual projections move forward a year and replace those generated by the model. In this case, pupil counts are lower in the long term than estimated a year ago.

The increase in state expenditures totals about $186 million for the school finance act through FY 2010-11, which is greater than the increase in total school district funding of $101 million. The increase in state expenditures relative to the increase in total funding is due to reduced projections of revenue from property and specific ownership taxes over the next five years. The lower actual receipts in the current budget year compared to projections contribute to the estimated reduction in local taxes. More significant, however, is the change in the forecast for growth in assessed values on a year-to-year basis. Although Legislative Council Staff is forecasting higher assessed values each year through FY 2010-11 than it did a year ago, the percentage change in assessed values in some years, particularly FY 2009-10, is lower. Increases in school district property taxes from year to year are sensitive to the *change* in assessed value relative to the sum of the growth in pupils plus the inflation rate. The projected reduction in the growth in assessed value in FY 2009-10 from 7 percent to 2 percent this year reduces property taxes in that year and each year into the future. Through FY 2026-27, local taxes are reduced $994 million compared to a year ago, while state aid is increased $632 million. The reduction in local taxes through FY 2010-11 compared to a year ago is about $84 million.

Increase in federal mineral lease revenue acts to partially offset increase in General Fund and State Education Fund expenditures. The projected increase in federal mineral lease payments reduces the pressure that the higher state aid projection would otherwise have on General Fund appropriations and the State Education Fund balance in the short term. Through FY 2010-11, the projection for federal mineral lease payments is increased about $130 million. The increase through FY 2026-27 totals $337 million. Federal mineral lease payments for education are deposited into the State Public School Fund. The other primary sources of revenue for the State Public School Fund are interest on the Public School Fund (sometimes called the Permanent Fund) and rents and other income from state school trust lands. The transfer of revenue from these two sources to the State Public School Fund is capped by state law, however. Interest on the Public School Fund is capped at $19 million annually, while income from state school trust lands is capped at $12 million annually. Thus, the update to the model does not include any changes to these two revenue sources.

Updates to model do not result in significant changes overall. The changes to the variables in the model result in a similar, albeit somewhat lower, projection of consistent annual General Fund increases for school finance to maintain the solvency of the fund and to prevent "spikes" in the appropriation: 6 percent compared to 6.1 percent at this time last year. In both the short and long term, the increase in federal mineral lease revenue and higher diversions to the State Education Fund mitigate the impact of higher state aid projections on the General Fund. It is also noteworthy that the Joint Budget Committee's recommendation for the General Fund appropriation for the current budget year is $20 million higher than when this report was prepared last year.

Revenue Projections for the State Education Fund

One-third of one percent of Colorado taxable income on state income tax returns is deposited in the State Education Fund. Money is diverted to the fund monthly based on quarterly estimates of taxable income. Errors in the amount deposited in the fund in any fiscal year are corrected in the following fiscal year by adjusting the amount of the transfer. Any money remaining in the fund at the end of a fiscal year remains in the fund.

The projections of revenue to the fund in this report are based on Legislative Council Staff December 2005 estimates of Colorado taxable income through FY 2010-11. After FY 2010-11, the sum of the projected Denver-Boulder-Greeley inflation rate, the percentage change in Colorado's population, and the annual percentage change in productivity, multiplied by 95 percent, is used to estimate Colorado taxable income. Figure 1 shows the estimated diversion of income tax revenue 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 6.1 percent between FY 2005-06 and FY 2026-27.

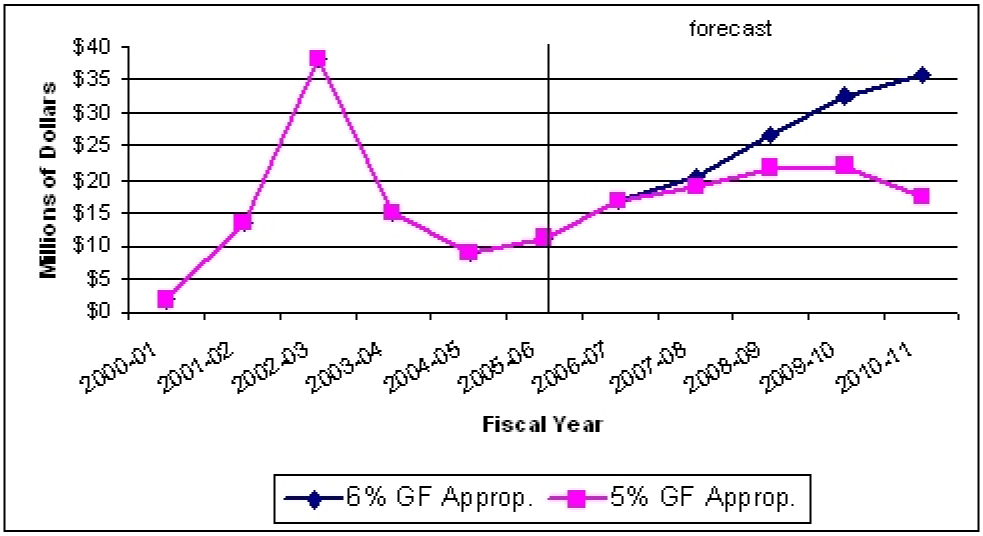
Figure 1. Projections of Income Tax Revenue to the State Education Fund (Millions of Dollars)

Fiscal Year	Income Tax	Fiscal Year	Income Tax
FY 2005-06	$331.8	FY 2016-17	$653.3
FY 2006-07	$354.9	FY 2017-18	$693.0
FY 2007-08	$376.5	FY 2018-19	$734.2
FY 2008-09	$402.0	FY 2019-20	$777.1
FY 2009-10	$429.5	FY 2020-21	$822.4
FY 2010-11	$456.3	FY 2021-22	$870.1
FY 2011-12	$484.0	FY 2022-23	$920.2
FY 2012-13	$514.7	FY 2023-24	$973.3
FY 2013-14	$546.8	FY 2024-25	$1,029.4
FY 2014-15	$580.4	FY 2025-26	$1,089.1
FY 2015-16	$616.0	FY 2027-27	$1,152.2
		Total	$14,807.0

In addition to the income tax diversion, the State Education Fund also earns interest. Amendment 23 requires that all interest earned on money in the fund be deposited in the fund and be used before any principal is depleted. Since its creation, the fund has earned $81.1 million in interest. The fund can expect to earn interest whenever it contains a balance. However, the amount of interest earned is very sensitive to the size of the balance. The balance of the fund also affects the ability of the state treasurer to develop a long-term, sustainable investment strategy, thereby obtaining higher yields. For example, at the end of December, 2005, about 80 percent of the balance of the fund was invested with the "treasury pool," with an interest rate of approximately 3.7 percent. The remaining 20 percent was invested in longer term instruments, earning about 5.9 percent. This differential in interest rates translates to about $2.3 million in compounded interest earnings per $100 million annually.

At a 6 percent annual increase in General Fund appropriations, the balance of the fund is projected to grow from the estimated FY 2005-06 year-end balance of $177 million to $523 million in FY 2010-11. The increase in the fund balance corresponds to increased interest earnings, as illustrated in Figure 2. Figure 2 also shows interest earnings at the minimum, 5 percent General Fund appropriation increase.

Figure 2. State Education Fund Interest Earnings at 5 Percent and 6 Percent General Fund Appropriation Increases



Please note that interest earnings are predicated on the assumption that disbursements from the fund for school finance, which comprises an estimated 87 percent of total disbursements from the fund, occur as late in the fiscal year as possible. This practice maximizes interest earned on the fund.

Projections of the Amount of State Money Required to Meet Amendment 23 Funding Requirements for FY 2006-07

Amendment 23 requires that the statewide base per pupil funding amount for preschool through twelfth grade education increase annually by the rate of inflation plus one percentage point through FY 2010-11 and by the rate of inflation thereafter. The same increase requirement applies to total state funding for categorical programs. Meeting these two obligations is expected to require $3,201.1 million in state funding in FY 2006-07, an increase of 5.3 percent over the current budget year. About $84.7 million is expected to be available from revenue sources that traditionally support the school finance act and categorical programs. Subtracting these two numbers leaves a total of $3,116.4 million to be funded from a combination of General Fund and State Education Fund revenues. This figure is an increase of 5.7 percent over FY 2005-06. The derivation of these funding amounts is provided in Figure 3. Please note that the school finance and categorical program dollar amounts in Figure 3 are based on an estimated inflation rate of 1.9 percent for 2005; the actual inflation rate will be released by the federal government in late February.

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

Calculation of Funding Amounts		Estimated FY 2006-07 Dollar Amount	Dollar Change from FY 2005-06
School Finance			
1.	Total funding under the school finance act for base increase of inflation plus one percentage point	$4,766.1	$193.5
2.	Minus property and specific ownership taxes	$1,742.0	$39.6
3.	Equals state aid for the school finance funding formula	$3,024.0	$153.9
4.	Plus business incentive agreements	$2.2	$1.1
5.	Equals total state aid under the school finance act	$3,026.2	$155.0
6.	Minus State Public School Fund Revenue	$84.4	($6.5)
7.	Equals General Fund and State Education Fund for school finance	$2,941.9	$161.5
8.	Minus minimum General Fund appropriation increase of 5 percent	$2,658.7	$126.6
9.	Equals remaining General Fund and State Education Fund appropriation	$283.1	$34.9
Categorical Programs			
10.	Total funding for categorical programs with increase of inflation plus one percentage point	$174.8	$4.9
11.	Minus cash funds available for categorical programs	$0.3	($0.3)
12.	Equals General Fund and State Education Fund for categorical programs	$174.5	$5.2
Total: School Finance Plus Categorical Programs			
13.	Total state funding required for Amendment 23 (sum of lines 5 and 10)	$3,201.1	$159.9
14.	Total of other revenue available (sum of lines 6 and 11)	$84.7	($6.8)
15.	Total General Fund and State Education Fund for Amendment 23 (line 13 minus line 14)	$3,116.4	$166.7

Note: Numbers may not sum due to rounding

School finance funding. The projected statewide base per pupil funding amount in FY 2006-07 is $4,854.43, an increase of $136.81 over the current budget year. In conjunction with a 1.1 percent increase in the funded pupil count, total funding for school finance is projected to be $4,766.1 million, an increase of 4.2 percent or $193.5 million over the current budget year. The state portion of this funding when business incentive agreements and local property and specific ownership taxes are taken into account is $3,026.2 million, an increase of $155 million. Please note that these dollar amount do not take into account any additional funding that may be provided when new cost-of-living factors are incorporated into the funding formula.

Categorical programs. Total state funding for categorical programs is estimated at $174.8 million for FY 2006-07, an increase of $4.9 million, given the estimated inflation rate of 1.9 percent.

Total state funding. The sum of total state funding for school finance and for categorical programs provides the total required by Amendment 23, or $3,201.1 million. This amount is an increase of $159.9 million for FY 2006-07.

Other Revenue Available to Meet State Funding Requirements of Amendment 23

In addition to General Fund and State Education Fund revenue, revenue from federal mineral leases, state school trust lands, and interest on the Public School Fund, among other smaller revenue sources, is available to meet the funding requirements of Amendment 23. The estimated amount available for FY 2006-07 is $84.7 million: $84.4 million for school finance and $300,000 for categorical programs. The amount for school finance is higher than historical levels because of increased federal mineral lease payments, but it is a reduction of $6.5 million from the current budget year. The Joint Budget Committee's supplemental recommendation for FY 2005-06 increases the appropriation for school finance by $12 million from these revenues, thereby reducing the potential for a rollforward to FY 2006-07. In addition, revenue from the Colorado Comprehensive Health Education Fund is expected to be $300,000 for FY 2006-07, a decrease of $300,000 from the current budget year's appropriation. The $84.7 million assumes that the General Assembly will continue to pay the state match for the National School Lunch Act from the State Public School Fund. The amount of the state match is just under $2.5 million.

Stability of the State Education Fund

Since the creation of the State Education Fund in late 2000, the state experienced an economic recession that resulted in significantly less revenue being diverted to the fund than was originally anticipated when the Pacey model was created in 2001. In addition, appropriations from the fund have been higher than expected even though total funding for school districts has been lower. In three of the five fiscal years since expenditures from the fund have been permitted, appropriations from the fund have exceeded annual revenue to the fund. Thus, the balance of the fund is lower than originally anticipated.

As mentioned previously, an increase of 6 percent annually would provide consistent General Fund increases, eliminating a projected spike in the appropriation in a future year. In addition, it would provide some stability to the balance of the State

Education Fund. Over the next five years, the model projects the balance of the fund to average $415 million with General Fund appropriation increases of 6 percent. Figure 4 illustrates the annual balances for the next five years at this appropriation level. Exhibit 1 provides more detail on the long-term impact of the 6 percent annual General Fund increases.

Figure 4. State Education Fund Balances at General Fund Appropriation Increases of 6 Percent Annually

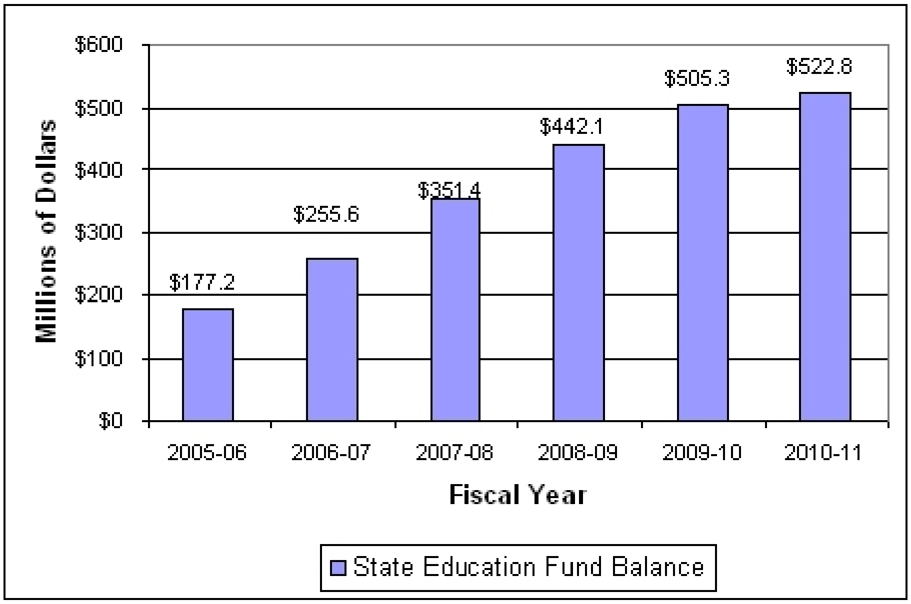
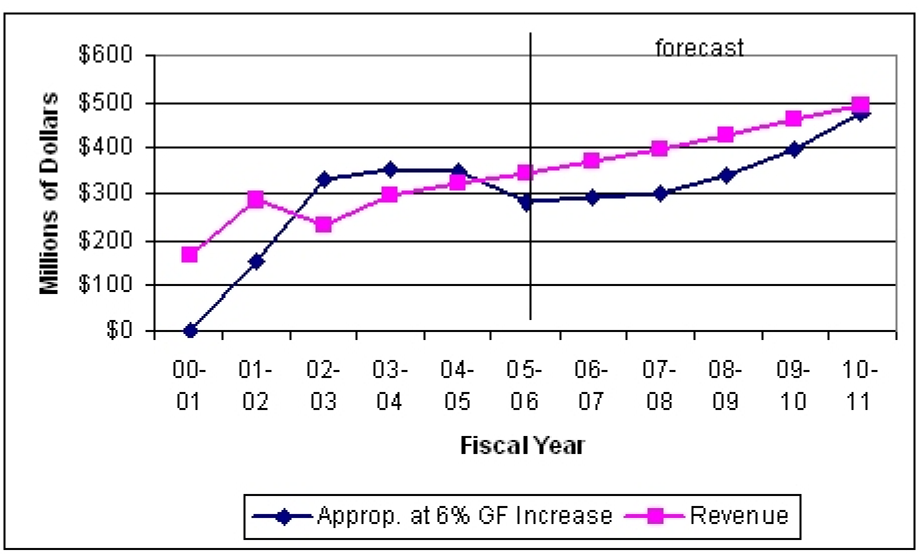


Figure 5 illustrates how the trend of appropriating more money than is deposited in the fund would be reversed with annual General Fund appropriation increases of 6 percent.

Figure 5. Annual State Education Fund Appropriations Compared to Revenue (Income Tax Plus Interest)



General Fund and State Education Fund Appropriations for FY 2006-07

This portion of the report addresses the statutory requirement for an estimate of the maximum amount of money that can be appropriated from the State Education Fund and the minimum amount of money that can be appropriated from the General Fund to meet the funding requirements of Amendment 23 in FY 2006-07 without adversely affecting the solvency of the State Education Fund or the ability of the General Assembly to comply with the amendment's funding requirements in future years. The provisions of Amendment 23 govern the minimum appropriation from the General Fund for school finance. Through the 2010-11 fiscal year, Amendment 23 requires a minimum increase of 5 percent in the General Fund appropriation for school finance whenever Colorado personal income grows by 4.5 percent or more. No similar requirement exists for categorical programs.

Legislative Council Staff is projecting that personal income grew by 6.3 percent in 2005, thereby triggering the minimum increase of 5 percent in the General Fund appropriation for school finance for FY 2006-07. Figure 6 presents the actual growth in personal income since Amendment 23's adoption and Legislative Council Staff's forecast of growth through FY 2010-11, the final year of the maintenance of effort requirement. The projections indicate that the maintenance of effort requirement will be triggered each year in the future until it expires. Historical data shows the impact of the recession on the maintenance of effort requirement. In the five fiscal years Amendment 23 has been in effect, the required 5 percent increase in General Fund appropriations has been triggered twice: in FYs 2001-02 and 2005-06. However, the General Assembly appropriated at least 5 percent in three of the fiscal years, including FY 2003-04 when personal income growth did not meet the threshold of 4.5 percent.

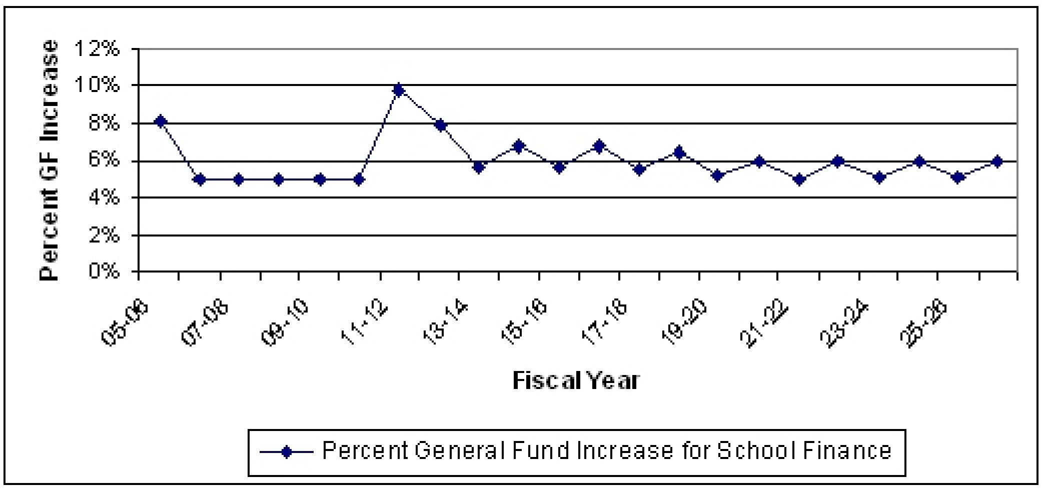
Figure 6. Personal Income Growth, Actual and Projected

Fiscal Year	Personal Income Growth (Actual)	General Fund Approp. Growth	Fiscal Year	Personal Income Growth (Projected)
FY 2001-02	10.0%	5.0%	FY 2006-07	6.3%
FY 2002-03	3.6%	3.1%	FY 2007-08	6.8%
FY 2003-04	0.8%	5.2%	FY 2008-09	6.6%
FY 2004-05	2.2%	4.2%	FY 2009-10	6.7%
FY 2005-06	5.8%	8.1%	FY 2010-11	6.8%

A 5 percent increase in the General Fund appropriation for school finance translates to $126.6 million. Current projections indicate that the FY 2005-06 year-end balance of the State Education Fund plus the income tax diversion in FY 2006-07 provides sufficient revenue in FY 2006-07 to accommodate the minimum level of General Fund appropriations. Assuming this minimum level of appropriation from the General Fund, continuation of the General Assembly's practice of funding the Amendment 23 increase in categorical programs from the State Education Fund, and appropriation of the $5 million for charter school capital construction that the General Assembly is required by law to appropriate from the State Education Fund, the estimated year-end FY 2006-07 balance is $230.2 million. The appropriation from the State Education Fund would increase $34.5 million, from its current level of $284.1 million to $318.6 million in FY 2006-07.

Figure 7 displays the long-term impact of increases in General Fund appropriations that meet only the minimum requirements of Amendment 23. Because of the draw down in the balance of the fund through FY 2010-11, the model projects a "spike" in the General Fund increase in FY 2011-12 of about 9.8 percent. This increase consumes about 60 percent of the General Fund moneys expected to be available for appropriation under the 6 percent limit in that year. A detailed chart of this scenario is attached as Exhibit 2.

Figure 7. Percent Increase in General Fund Appropriations at Minimum Requirements of Amendment 23



In addition to creating a one-time spike in the appropriation increase, Figure 7 illustrates the impact of the property tax reassessment cycle on state aid for school districts. In years in which a reassessment occurs, the model projects higher increases in property taxes and therefore lower increases in state aid. In non-reassessment year, state aid picks up a larger share of the increase in funding and, thus, the General Fund appropriation increase is higher.

Figure 8 compares the balance of the State Education Fund through FY 2010-11 with the minimum General Fund increase as required by Amendment 23 and annual 6 percent General Fund increases.

Figure 8. Comparison of State Education Fund Balances with Minimum and 6 Percent Annual General Fund Increases

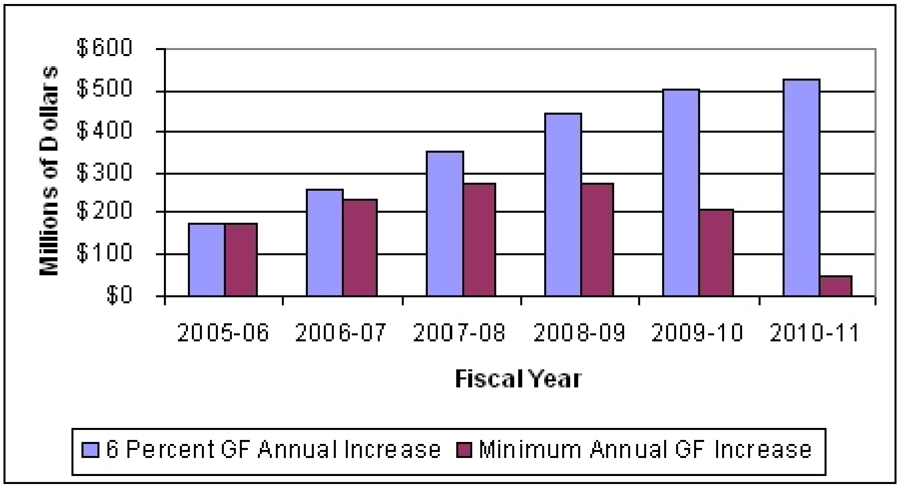


Figure 9 compares the long-term impact of appropriating the minimum required increase under Amendment 23 with annual increases of 6 percent. It attempts to quantify the tradeoff between the two General Fund appropriation growth rates in terms of interest earnings and the State Education Fund balance. Through FY 2010-11, the higher, 6 percent annual appropriation increase results in General Fund appropriations that are $439 million higher than the minimum increase. It also produces a balance in the State Education Fund that is almost $475 million higher than the minimum increase. The difference between these two numbers is interest earnings, which are generated because of the higher fund balance. By the end of the forecast period in FY 2026-27, $761 million more in General Fund appropriations results in a State Education Fund balance that is $1.3 billion higher than at the minimum appropriation level.

Figure 9. Comparison of Impact of Minimum and 6 Percent General Fund Appropriation Increases (Millions of Dollars)

Component	Minimum General Fund Increase	Annual 6% Increase	Difference: 6% Minus Minimum
Cumulative General Fund Appropriations: FY 06-07 through FY 10-11	$14,691.2	$15,130.3	$439.1
FY 10-11 State Education Fund Balance	$48.2	$522.8	$474.6
Cumulative Interest Earnings: FY 06-07 through FY 10-11	$96.9	$132.4	$35.5
Cumulative General Fund Appropriations: FY 06-07 through FY 26-27	$106,581.9	$107,342.8	$760.9
FY 26-27 State Education Fund Balance	$18.9	$1,333.0	$1,314.1
Cumulative Interest Earnings: FY 06-07 through FY 26-27	$316.2	$869.4	$553.2

Funding for Additional Programs

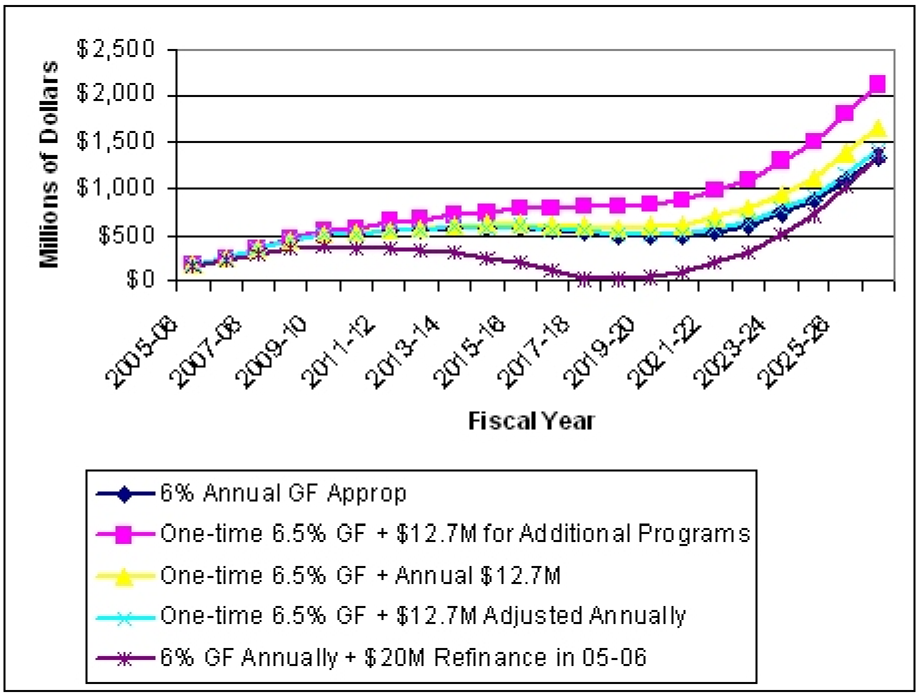
The final requirement for this report is an estimate of the impact of various levels of General Fund appropriations above 5 percent on the amount of money in the State Education Fund to provide funding in FY 2006-07 for programs that are permitted, but not required, by Amendment 23. Figure 10 provides the increase in the State Education Fund balance with General Fund appropriation increases of between 5 percent and 7 percent at quarter-percentage-point increments. Five percent is the mathematical minimum level of General Fund appropriations identified in this report for FY 2006-07, while a 6 percent increase provides more benefit to the fund over the long term.

Figure 10. Impact of Additional General Fund Appropriations on the State Education Fund Balance in FY 2006-07

Increase in General Fund Appropriation	State Education Fund Balance	Increase in Balance from 5% GF Approp	Increase in Balance from 6% GF Approp
5.00%	$230.2	N/A	N/A
5.25%	$236.5	$6.3	N/A
5.50%	$242.9	$12.7	N/A
5.75%	$249.3	$19.1	N/A
6.00%	$255.6	$25.4	N/A
6.25%	$262.0	$31.8	$6.4
6.50%	$268.3	$38.1	$12.7
6.75%	$274.6	$44.4	$19.0
7.00%	$281.0	$50.8	$25.4

The long-term impact of funding additional programs from the State Education Fund depends on whether programs are ongoing or limited to a single year; if programs are ongoing, whether funding grows over time; and most importantly, whether the General Fund appropriation is actually increased to offset the cost of the programs. For example, if the General Assembly chose to appropriate $12.7 million from the State Education Fund for additional programs and increased the General Fund appropriation from 6 percent to 6.5 percent in FY 2006-07 for this purpose, the model indicates that there would be no negative impact on the balance of the fund in the short term, regardless of whether funding is ongoing or one-time in nature. In fact, when funding is one-time in nature, the balance of the fund can actually grow because the increase in the appropriation compounds over time, more than making up for a one-time appropriation for additional funding. Figure 11 provides examples of the impact of various scenarios for additional funding on the balance of the State Education Fund. The point of comparison is the balance of the fund with annual 6 percent General Fund appropriation increases. In three scenarios, the General Fund appropriation is increased to 6.5 percent in FY 2006-07, returning to a 6 percent increase in following years. The scenarios for funding for additional programs associated with the 6.5 percent General Fund increases include a one-time $12.7 million appropriation, a continuing appropriation of $12.7 million, and a continuing appropriation of $12.7 million that grows over time by the sum of the percentage change in the pupil count and the inflation rate. For purposes of comparison, Figure 11 also includes a $20 million refinance in the appropriation for FY 2005-06 in which the General Fund appropriation is reduced by $20 million and the State Education Fund appropriation is increased by a corresponding amount.

Figure 11. Impact on the State Education Fund Balance of Various Scenarios for Additional Funding in FY 2006-07



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.

Exhibit 1

Estimated Balance of State Education Fund

JBC Recommendation for FY 2005-06 Supplemental; Appropriation Increase Equal to 6 Percent Annually Thereafter*

	State Education Fund (Millions of Dollars)					General Fund (Millions of Dollars)		
Fiscal Year	Spending for School Finance & Categoricals	Annual Amount of Additional Spending	Total State Education Fund Spending	Change in Spending from Prior Year	State Education Fund Balance*	General Fund Approp	Dollar Increase in General Fund Approp	General Fund Approp Increase
2000-01	N/A	$0	$0.0	N/A	**$166.2**	$1,974.7	N/A	N/A
2001-02	$108.8	$45.7	$154.5	$154.5	**$298.5**	$2,073.4	$98.7	5.00%
2002-03	$312.6	$18.0	$330.7	$176.2	**$202.4**	$2,137.6	$64.2	3.10%
2003-04	$336.7	$15.0	$351.7	$21.0	**$144.1**	$2,247.9	$110.3	5.16%
2004-05	$337.1	$10.0	$347.2	($4.6)	**$118.5**	$2,342.8	$94.9	4.22%
2005-06	$273.8	$10.3	$284.1	($63.1)	**$177.2**	$2,532.1	$189.3	8.08%
2006-07	$288.3	$5.0	$293.3	$9.2	**$255.6**	$2,684.1	$151.9	6.00%
2007-08	$296.3	$5.0	$301.3	$8.1	**$351.4**	$2,845.1	$161.0	6.00%
2008-09	$333.0	$5.0	$338.0	$36.6	**$442.1**	$3,015.8	$170.7	6.00%
2009-10	$393.9	$5.0	$398.9	$60.9	**$505.3**	$3,196.8	$180.9	6.00%
2010-11	$469.5	$5.0	$474.5	$75.6	**$522.8**	$3,388.6	$191.8	6.00%
2011-12	$482.1	$5.0	$487.1	$12.5	**$556.3**	$3,591.9	$203.3	6.00%
2012-13	$539.1	$5.0	$544.1	$57.0	**$566.0**	$3,807.4	$215.5	6.00%
2013-14	$558.3	$5.0	$563.3	$19.2	**$589.7**	$4,035.8	$228.4	6.00%
2014-15	$624.6	$5.0	$629.6	$66.3	**$582.5**	$4,278.0	$242.1	6.00%
2015-16	$648.2	$5.0	$653.2	$23.7	**$587.6**	$4,534.7	$256.7	6.00%
2016-17	$724.1	$5.0	$729.1	$75.8	**$554.5**	$4,806.7	$272.1	6.00%
2017-18	$746.9	$5.0	$751.9	$22.8	**$537.4**	$5,095.1	$288.4	6.00%
2018-19	$814.1	$5.0	$819.1	$67.3	**$493.7**	$5,400.9	$305.7	6.00%
2019-20	$816.6	$5.0	$821.6	$2.5	**$489.3**	$5,724.9	$324.1	6.00%
2020-21	$861.7	$5.0	$866.7	$45.1	**$485.5**	$6,068.4	$343.5	6.00%
2021-22	$852.3	$5.0	$857.3	($9.4)	**$539.9**	$6,432.5	$364.1	6.00%
2022-23	$899.0	$5.0	$904.0	$46.7	**$601.4**	$6,818.5	$386.0	6.00%
2023-24	$889.2	$5.0	$894.2	($9.8)	**$730.2**	$7,227.6	$409.1	6.00%
2024-25	$940.3	$5.0	$945.3	$51.1	**$872.4**	$7,661.2	$433.7	6.00%
2025-26	$927.4	$5.0	$932.4	($12.9)	**$1,096.5**	$8,120.9	$459.7	6.00%
2026-27	$979.0	$5.0	$984.0	$51.6	**$1,333.0**	$8,608.1	$487.3	6.00%

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

Exhibit 2

Estimated Balance of State Education Fund

JBC Recommendation for FY 2005-06 Supplemental; Appropriation Increase Equal to the Minimum Required to Fund the School Finance Act Thereafter*

	State Education Fund (Millions of Dollars)					General Fund (Millions of Dollars)		
Fiscal Year	Spending for School Finance & Categoricals	Annual Amount of Additional Spending	Total State Education Fund Spending	Change in Spending from Prior Year	State Education Fund Balance*	General Fund Approp	Dollar Increase in General Fund Approp	General Fund Approp Increase
2000-01	N/A	$0	$0.0	N/A	**$166.2**	$1,974.7	N/A	N/A
2001-02	$108.8	$45.7	$154.5	$154.5	**$298.5**	$2,073.4	$98.7	5.00%
2002-03	$312.6	$18.0	$330.7	$176.2	**$202.4**	$2,137.6	$64.2	3.10%
2003-04	$336.7	$15.0	$351.7	$21.0	**$144.1**	$2,247.9	$110.3	5.16%
2004-05	$337.1	$10.0	$347.2	($4.6)	**$118.5**	$2,342.8	$94.9	4.22%
2005-06	$273.8	$10.3	$284.1	($63.1)	**$177.2**	$2,532.1	$189.3	8.08%
2006-07	$313.6	$5.0	$318.6	$34.5	**$230.2**	$2,658.7	$126.6	5.00%
2007-08	$349.8	$5.0	$354.8	$36.2	**$270.9**	$2,791.7	$132.9	5.00%
2008-09	$417.5	$5.0	$422.5	$67.8	**$272.2**	$2,931.3	$139.6	5.00%
2009-10	$512.8	$5.0	$517.8	$95.3	**$205.8**	$3,077.8	$146.6	5.00%
2010-11	$626.4	$5.0	$631.4	$113.6	**$48.2**	$3,231.7	$153.9	5.00%
2011-12	$527.1	$5.0	$532.1	($99.2)	**$10.5**	$3,546.8	$315.1	9.75%
2012-13	$520.2	$5.0	$525.2	($7.0)	**$9.3**	$3,826.3	$279.5	7.88%
2013-14	$551.1	$5.0	$556.1	$30.9	**$9.8**	$4,043.0	$216.7	5.66%
2014-15	$585.2	$5.0	$590.2	$34.1	**$10.3**	$4,317.3	$274.3	6.78%
2015-16	$621.3	$5.0	$626.3	$36.1	**$10.9**	$4,561.6	$244.3	5.66%
2016-17	$659.2	$5.0	$664.2	$37.9	**$11.5**	$4,871.6	$310.0	6.80%
2017-18	$699.5	$5.0	$704.5	$40.3	**$12.2**	$5,142.5	$270.9	5.56%
2018-19	$741.4	$5.0	$746.4	$41.9	**$12.9**	$5,473.6	$331.1	6.44%
2019-20	$785.0	$5.0	$790.0	$43.6	**$13.6**	$5,756.5	$282.9	5.17%
2020-21	$831.0	$5.0	$836.0	$46.0	**$14.4**	$6,099.1	$342.6	5.95%
2021-22	$879.5	$5.0	$884.5	$48.4	**$15.2**	$6,405.4	$306.3	5.02%
2022-23	$930.4	$5.0	$935.4	$50.9	**$16.0**	$6,787.1	$381.7	5.96%
2023-24	$984.3	$5.0	$989.3	$54.0	**$16.9**	$7,132.4	$345.4	5.09%
2024-25	$1,041.3	$5.0	$1,046.3	$57.0	**$17.9**	$7,560.2	$427.8	6.00%
2025-26	$1,102.0	$5.0	$1,107.0	$60.7	**$18.9**	$7,946.2	$386.0	5.11%
2026-27	$1,166.1	$5.0	$1,171.1	$64.1	**$18.9**	$8,421.0	$474.8	5.98%

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

Legislative Council Staff, 1/29/2006