Colorado
Legislative
Council
Staff

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MEMORANDUM

February 3, 2010

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

FROM: Legislative Council Staff, 303-866-3521

SUBJECT: Report on the State Education Fund (revised)[1]

Summary

The forecast for the State Education Fund and the level of General Fund appropriations necessary to meet the funding requirements of Amendment 23 have changed from when the General Assembly adjourned in May 2009. The ongoing economic recession is affecting forecasts for property values and income tax receipts, which in turn are placing pressure on state aid appropriations to support the requirements of Amendment 23. Projected declines in General Fund revenue are putting pressure on the State Education Fund to support education funding.

The model developed by Pacey Economic Group in February 2001 was updated to reflect actual data for the current budget year and Legislative Council Staff's December 2009 revenue and economic forecast. State aid to meet the minimum requirements of Amendment 23, net of cash fund revenue sources, is projected to increase $269.1 million in FY 2010-11 under current law. Proposals are currently under consideration to change current law. Increases in school finance and categorical funding are based on an estimated inflation rate of -0.9 percent applicable for FY 2010-11. The actual rate will be released by the federal government in February 2010. The income tax diversion to the State Education Fund is projected to remain relatively flat in FY 2010-11. In the next four years, the income tax diversion will grow at an average annual rate of 3.8 percent through FY 2012-13.

[1] The report was revised to reflect an additional $20 million recision that was part of *Senate Bill 10-065* in FY 2009-10, which was not included in the February 1, 2010 report.

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 through FY 2010-11 and by at least the rate of inflation thereafter. Money in the State Education Fund may be used to meet these minimum education funding requirements. In addition, the General Assembly may appropriate money from the State Education Fund for a variety of other education-related purposes as specified in the state constitution.

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

Requirements for a Study

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

State law anticipates an annual updating of the "Pacey model" to accommodate actual data and changes in policy or economic conditions. Section 22-55-104 (3), C.R.S., requires a yearly report on the State Education Fund that addresses the following:

- the reasonableness of the assumptions used to forecast State Education Fund revenue and expenditures and revisions to the assumptions;

- revenue projections for the 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 2010-11;

- 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 2010-11 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 2010-11 for additional programs that are consistent with the provisions of Amendment 23.

This year presents unique challenges for compiling this report. The Joint Budget Committee and the Governor's Office are examining current year appropriations from the General Fund and State Education Fund—and the laws that drive these appropriations—to deal with the impact of the economic recession on state revenue. Future expenditures for school finance and categorical programs are dependent on actual data for the current year, which have not yet been finalized. In addition to examining current year appropriations, laws and expenditures for FY 2010-11 are being analyzed. Thus, much will occur in the next several weeks that will affect the analysis presented in this report.

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

When the General Assembly adjourned the 2009 legislative session, projections indicated that the General Assembly could appropriate the minimum required General Fund increase of 5 percent and meet the funding requirements of Amendment 23, but increasing budgetary strain would be imposed on the General Fund because of declining funds available in the State Education Fund. Through FY 2012-13, the projected balance for the State Education Fund was originally forecast to fall from $318 million in FY 2009-10 to $101 million in FY 2012-13. At that time, the projections included about $290 million in federal funds from the American Recovery and Reinvestment Act (ARRA), which helped support the State Education Fund. With more recent economic forecasts, projections have changed, resulting in higher than expected General Fund appropriations to meet the requirements of Amendment 23 and the federal funds have been reallocated to other areas of the budget, such as higher education.

The basic framework of the Pacey model is retained for this report; there are no major changes in the structure of the model since this report was published in 2009. Inputs to the model have been updated to incorporate law changes enacted by the General Assembly, including *Senate Bill 10-065* (the Department of Education supplemental bill); actual school funding data for FY 2009-10; revisions to forecasts of economic indicators; and Legislative Council Staff's December 2009 forecasts of pupil counts and assessed values. These updates result in total expenditures for school finance and categorical programs that are actually less than projected when the General Assembly adjourned the 2009 session. However, the expenditure reductions are partially offset by lower local tax collections of about $238 million through FY 2012-13. The net impact of the updating of the model is a cumulative decrease in state aid of $642 million in the next four years.

Projections for property and specific ownership taxes are lower. Property and specific ownership taxes provide the local contribution for school district funding under the school finance act. When these local revenue sources produce less revenue, requirements for state aid increase.

Assessed value and property tax growth. Property taxes account for about 92 percent of the local contribution to fund the school finance act. Most school districts impose the same property tax rate, or mill levy, from year to year. Thus, yearly changes in tax revenue depend upon changes in the tax base, or assessed value, of school districts. Assessed values are projected to grow more slowly over the next four years than they have in recent history. High foreclosure rates, tighter mortgage loan requirements, and a slumping housing market are affecting values in the residential sector, while the state's economic downturn is expected to slow growth in values of commercial property. Oil and gas prices have fueled growth in assessed values for oil and gas properties in recent years, but these values follow the trend in oil and gas prices, which are expected to decline.[2]

The lower assessed value forecast in December 2009 relative to 2008 reduces the projection of school district property tax collections by about $226 million through FY 2012-13. Although property tax collections came in higher than anticipated in FY 2009-10, they are projected to fall in the next two fiscal years because of falling energy prices and the ongoing effects of the economic recession. In FY 2010-11 and FY 2011-12, property taxes are projected to fall $30 million and $52 million, respectively, compared with the prior year.

Specific ownership taxes. In addition to property taxes, the local contribution includes specific ownership taxes. Specific ownership taxes are paid annually on motor vehicles instead of property taxes. Counties collect most specific ownership taxes and

[2] Legislative Council Staff, *Focus Colorado: Economic and Revenue Forecast,* December 18, 2009

distribute them to all governments in the county that collect property taxes, like school districts and special districts. By law, counties distribute specific ownership tax revenue to governments in proportion to the amount of property taxes collected by each. Specific ownership taxes make up about 8 percent of the local contribution to school finance funding.

Specific ownership taxes had been a declining source of revenue to fund the school finance act earlier in the decade. It appeared that the decline in revenue was attributable to several factors: the recession and increase in gas prices that affected automobile sales and the types of cars purchased and led to lower rates of growth in specific ownership tax collections statewide; the decrease in the proportion of total property taxes collected by school districts; and, within school district property taxes, the decrease in the proportion of property taxes that are directed to the school finance act. The change in the method of calculating school district mill levies for school finance purposes, implemented in FY 2007-08, is expected to stem the slide in specific ownership taxes for school finance.[3] In fact, specific ownership taxes that fund school finance increased slightly in the last two years. Although only two years of history are available on the change in the mill levy calculation, it shows a stabilization of the proportion of statewide property taxes collected by school districts.

Specific ownership tax rates are set by state law and decrease as a vehicle ages. For example, a 2010 model-year passenger vehicle will pay a rate of 2.1 percent, while a 2004 model-year passenger vehicle will pay a rate of 0.45 percent. Consequently, increases in specific ownership tax collections are sensitive to purchases of new vehicles. The media has widely reported on the national decline in sales of motor vehicles in the past two years. In Colorado, sales of motor vehicles and auto parts dropped 7.5 percent from July through October, 2009, compared to the same period a year earlier.

Specific ownership tax receipts applied to the school finance act are one year behind revenue collections; that is, specific ownership taxes collected now in FY 2009-10 count as part of the local contribution for school finance funding in FY 2010-11. Because auto sales are expected to remain sluggish in the short term, the projection for specific ownership taxes applied to the school finance act was lowered modestly. Through FY 2012-13, this portion of the local share was reduced about $12 million.

Total local share change. Through FY 2012-13, school districts' property and specific ownership taxes are projected to fall $238 million, compared with the projection last year.

Lower inflation reduces overall funding requirements for school finance and categorical programs. Expenditures for school finance are a function of the pupil count and inflation. They are calculated by multiplying the statewide base funding level, as

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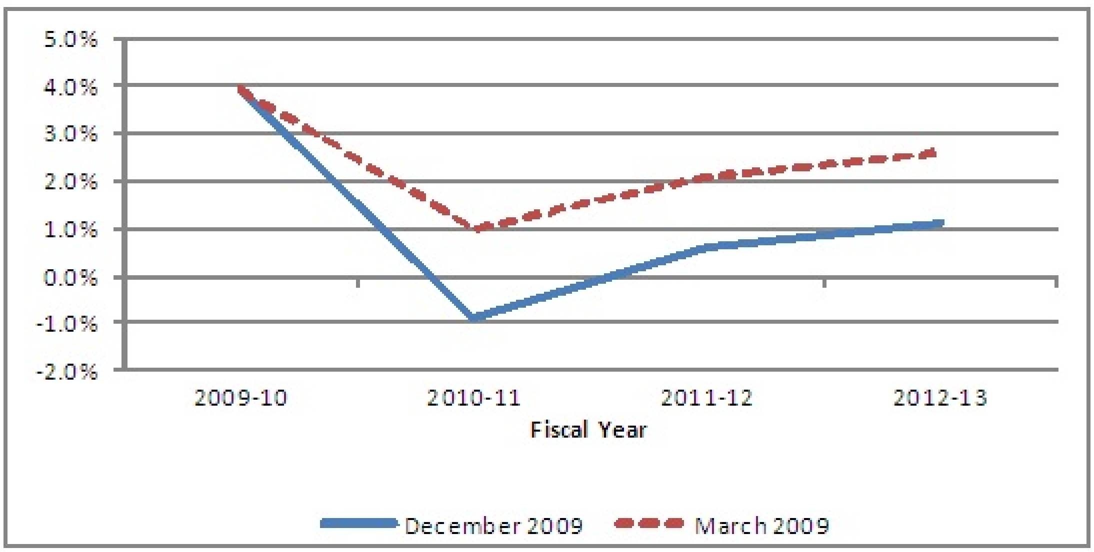
[3] Senate Bill 07-199, contains provisions sometimes referred to as the mill levy stabilization or mill levy freeze, which prevents most school district mill levies from falling in the future. This will act to maintain school district property taxes and the share of specific ownership taxes allocated to school districts.

adjusted by the cost-of-living and size factors, by the pupil count. Additional funding is provided for at-risk and on-line pupils. Projected changes in expenditures result primarily from the required increase in the statewide base and the number of pupils counted for funding purposes. The forecast for school finance funding is lower than last year's projection because of decreasing forecasts for both pupils and inflation. Through FY 2012-13, school finance funding is $714 million less than what was anticipated last year. The change in projected inflation rates is illustrated in Figure 1.

Total state funding for categorical programs is also affected by lower projections for inflation. In the next four years, total projected state expenditures for categorical programs will decrease by $166 million.

Figure 1
Comparison of Inflation Rates
(Legislative Council Staff Forecasts)



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. This amount translates to about 7.2 percent of state income tax revenue. Money is diverted to the fund monthly based on quarterly estimates of taxable income. Errors in the amount deposited in the fund in any fiscal year are corrected in the following fiscal year by adjusting the amount of the transfer. Any money remaining in the fund at the end of a fiscal year stays in the fund.

The projections of revenue to the fund in this report are based on Legislative Council Staff's December 2009 revenue forecast. The income tax revenue deposited in the fund is expected to increase at a compound average annual growth rate of 3.8 percent between FY 2008-09 and FY 2012-13, as illustrated in Figure 2. Figure 2 also compares the current projections of income tax revenue to the State Education Fund to those that were used to project fund balances when the General Assembly adjourned the 2009 legislative session. Income tax diversions to the fund are expected to be $155 million less than what was projected last year.

Figure 2
Projections of Income Tax Revenue to the State Education Fund
(Millions of Dollars)

Fiscal Year	December 2009 Forecast		March 2009 Forecast		Change in Projected State Education Fund Revenue
	Income Tax	Percent Change	Income Tax	Percent Change	
FY 2008-09	$339.9	-16.7%	$355.5	-12.9%	($15.6)
FY 2009-10	$335.6	-1.3%	$346.7	-2.5%	($11.1)
FY 2010-11	$354.5	5.6%	$378.1	9.1%	($23.6)
FY 2011-12	$378.0	6.6%	$424.7	12.3%	($46.7)
FY 2012-13	$394.2	4.3%	$451.9	6.4%	($57.7)
Total	$1,802.2	3.8%	$1,956.9	6.2%	($154.7)

The projected drop in revenue to the State Education Fund compared to last year results from the deteriorating economy and its effect on income tax revenues. Fewer jobs, weaker pay increases, decreases in the stock market that affect capital gains, tight credit markets that inhibit small business growth, and lower energy prices are all expected to negatively affect growth in individual income taxes. Corporate income taxes are expected to suffer from declining demand for goods and services, which will constrain sales growth and squeeze profit margins.

In addition to the income tax diversion, the State Education Fund also earns money. Amendment 23 requires that all interest earned on money in the fund be deposited in the fund and be used before any principal is depleted. The fund is invested in both short-term investments—the "treasury pool"—and long-term investments, although the majority of the fund is invested with the treasury pool. The treasury pool is currently earning 2.34 percent. The relatively modest rate of return is attributed to the types and timing of investments: much of the treasury pool is invested in fixed income securities. These securities provide a guaranteed rate of return for the duration of the investment. As these securities mature, the rate of return will depend on available investment options and market conditions. Under the current practice of disbursing the school finance appropriation as late in the fiscal year as possible, the balance of the State Education Fund builds over the course of the fiscal year, earning interest, and then drops at the end of the fiscal year when the most significant expense is paid.

Projections of the Amount of State Money Required to Meet Amendment 23 Funding Requirements for FY 2010-11

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. Under current law, meeting these two obligations is expected to require just under $4.0 billion in state funding in FY 2010-11, an increase of 6.1 percent over the current budget year. The derivation of this funding amount 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 -0.9 percent for 2009; the actual inflation rate will be released by the federal government on February 19, 2010. The numbers in Figure 3 also reflect the impacts of *Senate Bill 10-065* (the Department of Education Supplemental bill), which reduced school finance funding by about $130 million in FY 2009-10.

School finance funding. Under current law, the projected statewide base per pupil funding amount for FY 2010-11 is $5,513.19, an increase of $5.51 over the current budget year. When combined with a 1.0 percent increase in the funded pupil count, total funding for school finance is projected to be $5,787.5 million, an increase of 3.6 percent or $199.9 million over the current budget year. Local property and specific ownership taxes are expected to decrease 1.3 percent, resulting in an increase in state aid of 6.5 percent.

Categorical programs. Total state funding for categorical programs is estimated at $230.4 million for FY 2010-11, an increase of $0.2 million.

Figure 3
State Money Required to Meet Amendment 23 Funding Mandates in FY 2010-11 under Current Law (Millions of Dollars)

	Calculation of Funding Amounts	Estimated FY 2010-11 Amount	Change from FY 2009-10
	School Finance		
1.	Total funding under the school finance act for base increase of inflation plus one percentage point	$5,787.5	$199.9
2.	Minus property and specific ownership taxes	$2,041.0	($27.7)
3.	Equals state aid for the school finance funding formula	$3,746.5	$227.6
	Categorical Programs		
4.	Total funding for categorical programs with increase of inflation plus one percentage point	$230.4	$0.2
	Total: School Finance Plus Categorical Programs		
5.	Total state funding required for Amendment 23 (sum of lines 5 and 6)	$3,976.9	$227.9

Note: Numbers may not sum due to rounding

Other Revenue Available to Meet State Funding Requirements of Amendment 23

In addition to General Fund and State Education Fund revenue, other revenue from federal mineral leases and state school trust lands, among other smaller sources, are available to meet the funding requirements of Amendment 23. These revenue sources are deposited in and appropriated from the State Public School Fund. The estimated amount available for FY 2010-11 for school finance is $62 million. The $62 million is based on federal mineral lease deposits of $54 million and deposits from rents and royalties from state trust lands of $11 million. The $62 million assumes continuation of appropriations from the State Public School Fund for three specific programs: just under $2.5 million to pay the state match for the National School Lunch Act; $530,000 to provide supplemental on-line programs and for a grant program; and $35,000 for distributing school laws.

Figure 4
Other Revenue for Amendment 23 Funding Requirements under Current Law and Appropriations (Millions of Dollars)

Other Revenue Amounts		Estimated FY 2010-11 Amount	Change from FY 2009-10
1.	State Public School Fund revenue	$61.8	($41.3)
2.	Plus Comprehensive Health Education Fund	$0.0	$0.0
3.	Equals total other revenue	$61.8	($41.3)
4.	Total state funding required for Amendment 23 (Figure 3, line 5)	$3,976.9	$227.9
5.	General Fund and State Education Fund for Amendment 23 funding requirements (line 4 minus line 3)	$3,915.1	$269.1

Note: Numbers may not sum due to rounding

General Fund and State Education Fund Appropriations for FY 2010-11 and Their Impact on the Stability of the State Education Fund

At the close of FY 2008-09, the balance of the State Education Fund was $331.0 million. The situation has changed significantly since that time. Higher requirements for state aid in the current budget year, lower projections for future local taxes, and lower projections for the income tax diversion to the State Education Fund indicate that a significant increase in General Fund appropriations will be required in FY 2010-11 to maintain funding with current law requirements. It should be noted that although the requirements in law for this report relate to the State Education Fund, funding for K-12 education has to be reconciled with the overall budget.

The focus of this portion of the report is future balances of the State Education Fund: it addresses the statutory requirement for an estimate of the maximum amount of money that can be appropriated from the State Education Fund and the minimum amount of money that can be appropriated from the General Fund in FY 2010-11 without adversely affecting the solvency of the State Education Fund or the ability of the General Assembly to comply with Amendment 23's funding requirements in future years. The provisions of Amendment 23 govern the minimum appropriation from the General Fund for school finance. Through the 2010-11 fiscal year, Amendment 23 requires a minimum increase of 5 percent in the General Fund appropriation for school finance whenever Colorado personal income grows by 4.5 percent or more.

Legislative Council Staff is projecting that personal income will *decrease* 1.5 percent in 2009, which means that the minimum General Fund increase in the appropriation for school finance for FY 2010-11 is not required under the requirements of Amendment 23. Figure 5 presents the actual growth in personal income since Amendment 23's adoption and the Legislative Council Staff forecast of growth through FY 2010-11, the final year of the maintenance of effort requirement.

Figure 5
Personal Income Growth, Actual and Projected

Fiscal Year	Personal Income Growth	General Fund Approp. Growth*	Fiscal Year	Personal Income Growth	General Fund Approp. Growth
FY 2001-02*	10.0%	5.0%	FY 2006-07*	6.2%	7.1%
FY 2002-03*	3.6%	3.1%	FY 2007-08*	7.3%	5.0%
FY 2003-04*	0.8%	5.2%	FY 2008-09*	6.0%	5.0%
FY 2004-05*	2.2%	4.2%	FY 2009-10*	3.3%	5.0%
FY 2005-06*	5.8%	5.9%	FY 2010-11	-1.5%	n/a

** Actual personal income growth based on figures published in December within the fiscal year*

The following paragraphs describe two scenarios that were analyzed for purposes of General Fund appropriations and State Education Fund balances. The description of the scenarios is followed by projections of the impact on appropriations and fund balances.

Scenario 1: Current law. Scenario 1 assumes that the General Assembly funds the School Finance Act as specified under current law. Under this scenario, the State Education Fund balance would fall to $6.4 million in FY 2010-11, requiring a General Fund increase of $214 million over funding for FY 2009-10. The General Fund increase represents 7.0 percent growth over the prior year.

Scenario 2: Budget modifications for FY 2010-11. Scenario 2 builds upon the proposal submitted to the Joint Budget Committee by the Governor in November 2009. This proposal includes a $223 million reduction in General Fund support for the school finance act and a cut in total program funding under the act from the FY 2009-10 base. The

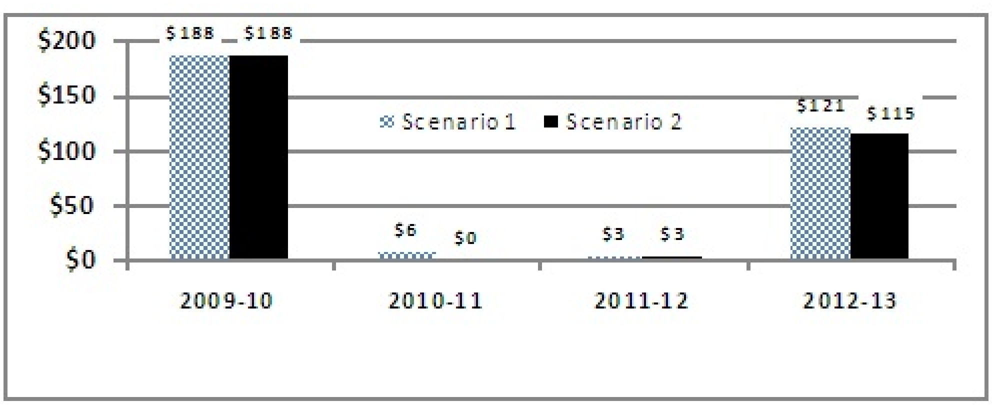
General Fund appropriation estimates in Figure 6 assume a level of cuts in total program funding such that a minimal State Education Fund balance is achieved in FY 2010-11. For instance, total program funding under the school finance act is assumed to fall by $231 million in FY 2010-11 to maintain a positive State Education Fund balance. This represents a reduction in total program funding of about 4.1 percent compared with the prior year. Relative to current law in FY 2010-11, the reduction in total program represents a decrease of 7.5 percent.

Figure 6 demonstrates the impact of the two scenarios on General Fund appropriations and appropriation increases through FY 2011-12. General Fund appropriations are based on a 5 percent increase, unless the requirements of Amendment 23 cannot be met with such an increase. For example, in Scenario 1, a General Fund appropriation increase of 7.0 percent ($214 million) is required to meet Amendment 23 funding mandates in FY 2010-11. When money does not exist in the State Education Fund to meet the funding requirements of law, the General Fund must make up the difference. The balance of the State Education Fund under these two scenarios is depicted in Figure 7. Under each scenario, the balance of the State Education Fund is essentially depleted is FY 2010-11.

Figure 6
General Fund Appropriations and School Finance Appropriations Under Two Scenarios
(Millions of Dollars)

	Scenario 1				Scenario 2			
Fiscal Year	General Fund Approp	General Fund Increase	Total School Finance	School Finance Change	General Fund Approp	General Fund Increase	Total School Finance	School Finance Change
2009-10	$3,077	$147	$5,588	$239	$3,077	$147	$5,588	$239
2010-11	$3,291	$214	$5,788	$200	$2,854	($223)	$5,356	($231)
2011-12	$3,584	$293	$5,885	$97	$3,152	$298	$5,446	$90
Total	$9,952	$654	$17,261	$536	$9,083	$222	$16,390	$98

Figure 7
State Education Fund Balance Under Two Scenarios, by Fiscal Year ($ Millions)



Funding for Additional Programs

The final requirement for this report is an estimate of the impact of various levels of General Fund appropriations above the minimum desired level on the amount of money in the State Education Fund. The purpose of this requirement is to determine whether funding can be provided in FY 2010-11 from the State Education Fund for programs that are permitted but not required by Amendment 23. Given projections for General Fund revenue and State Education Fund balances, it is highly unlikely that additional funding can be provided from either source to expand programs.

Appendices

Appendix A contains projected State Education Fund balances and General Fund increases through FY 2011-12, based on Scenario 2, which is partly reflected in the November 2009, proposal by the Office of State Planning and Budgeting. Appendix B is a copy of Amendment 23.

Appendix A

Estimated Balance of State Education Fund Scenario 2: Assumes General Fund reduction of $223 million and School Finance cut of $231 million (Dollars in Millions)											
	State Education Fund						General Fund			School Finance Act	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Fiscal Year	Revenue to the State Education Fund	Spending for School Finance	Spending for Categorical Programs	Total State Education Fund Spending	Change in Spending from Prior Year	State Education Fund Balance*	General Fund Approp for School Finance	Dollar Increase in General Fund Approp	Percent General Fund Approp Increase	Total School Finance Act Funding	Change in Spending from Prior Year
2007-08	$407.9	$259.1	$35.5	$301.7	($35.3)	**$349.3**	$2,790.5	$132.9	5.00%	$5,068	$278
2008-09	$461.3	$362.2	$77.4	$494.0	$192.3	**$331.0**	$2,930.1	$139.5	5.00%	$5,349	$280
2009-10	$335.6	$339.2	$88.5	$488.1	($5.9)	**$187.8**	$3,076.6	$146.5	5.00%	$5,588	$239
2010-11	$354.5	$399.9	$88.8	$548.5	$60.4	**$0.1**	$2,853.6	($223.0)	-7.25%	$5,356	($231)
2011-12	$378.0	$228.1	$90.1	$378.1	($170.4)	**$2.8**	$3,152.1	$298.5	10.46%	$5,446	$90

Appendix B

Article IX, Section 17
Colorado Constitution

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

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

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

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

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

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

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