



# Colorado Legislative Council Staff

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## MEMORANDUM

February 3, 2014

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

**FROM:** Todd Herreid, Fiscal Director, 303-866-2633

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

### Summary

The forecast for the State Education Fund and the level of General Fund appropriations needed to pay for school finance have changed from when the General Assembly adjourned in May 2013. Property values have stabilized and are expected to grow modestly over the next few years, helping to boost the local contribution to school finance. Similarly, income tax receipts are growing faster than anticipated, increasing deposits into the State Education Fund and the General Fund. In addition, House Bill 12-1338 has increased the funding capacity from the State Education Fund, given the transfer of \$1.1 billion from the General Fund to the State Education Fund in December 2013. Assuming the 2014 supplemental school finance bill is adopted and the balance in the State Education Fund is gradually reduced to \$400 million<sup>1</sup> by the end of FY 2017-18, General Fund support for school finance will need to increase 3.7 percent annually under current law, or by \$110 million in FY 2014-15, to reach the targeted ending balance. Increases in total program funding above the current law amount will require corresponding more General Fund support to achieve a \$400 million ending balance in the State Education Fund.

The model used to project the State Education Fund balance was updated to reflect actual data for the current budget year and the December 2013 Legislative Council Staff revenue and economic forecast. Increases in school finance and categorical funding are based on an estimated inflation rate of 2.9 percent applicable for FY 2014-15. The income tax diversion to the State Education Fund is projected to grow at an average annual rate of 3.8 percent through FY 2015-16. The State Education Fund balance is projected to be \$1.2 billion at the end of FY 2014-15, falling to \$400 million by the end of FY 2017-18.

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<sup>1</sup>The Joint Budget Committee Staff and the Governor's Office of State Planning and Budgeting have proposed a policy of maintaining a \$400 million State Education Fund balance to provide temporary funding for K-12 education in the event of another recession.

## **Amendment 23 and the State Education Fund**

Article IX, Section 17, of the Colorado Constitution, enacted by the voters at the November 2000 election as Amendment 23, creates the State Education Fund (SEF). It diverts an amount equal to one-third of 1 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 in the current budget year and subsequent years. Money in the SEF may be used to meet these minimum education funding requirements. In addition, the General Assembly may appropriate money from the SEF for a variety of other education-related purposes as specified in the state constitution. However, Amendment 23 no longer imposes a "maintenance of effort" spending requirement from the General Fund, under which appropriations had to grow by at least 5 percent if certain conditions were met. This requirement expired after FY 2010-11.

### **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 SEF and on General Fund appropriations for public elementary and secondary education. As the Pacey Economics Group noted, the balance of the State Education Fund is integrally tied to the level of General Fund appropriations. The greater the level of increase in General Fund appropriations, the greater the SEF balance and the greater the amount of money available for public education programs. Appropriations for public education affect the amount of money available for other state programs because they compete for the same pool of money. The model developed by the Pacey Economics Group provides a method to project school finance and categorical program spending under the requirements of Amendment 23. Legislative Council Staff also predicts the amount of income tax revenue diverted to the fund. Given the projections for revenue and spending, the model is used to estimate the impact of General Fund appropriation increases on the SEF balance, given different scenarios for changing overall school finance funding.

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

- the reasonableness of the assumptions used to forecast State Education Fund revenue and expenditures and revisions to the assumptions;
- revenue projections for the SEF;
- projections of the total amount of state money necessary to increase the statewide base per pupil funding amount and total categorical program funding by the rate of inflation in FY 2014-15;
- projections of the amount of money available from sources of revenue other than the General Fund and the State Education Fund to meet the funding requirements of Amendment 23;
- the stability of the SEF;
- an estimate of the maximum amount of money that can be appropriated from the SEF and the minimum amount of money that can be appropriated from the General Fund for FY 2014-15 to meet the Amendment 23 funding requirements without adversely impacting the solvency of the SEF or the ability of the General Assembly to provide the Amendment 23 minimum funding increases in the future; and

- estimates of various General Fund appropriation levels above the minimum level and their impact on the amount of money available in the SEF to provide funding in FY 2014-15 for additional programs that are consistent with the provisions of Amendment 23.

This year's report assumes passage of the 2014 supplemental budget bill for school finance, as approved by the Joint Budget Committee. This bill makes mid-year adjustments for education funding in FY 2013-14. The Joint Budget Committee, the Governor's Office, and the General Assembly will analyze in greater detail the FY 2014-15 appropriations from the General Fund and the SEF — and the laws that drive these appropriations — in the coming weeks. In addition, the actual inflation rate applicable for FY 2014-15 will be released at the end of February. Thus, much will occur during the 2014 legislative session that will affect the analysis presented in this report.

## Updated Revenue and Expenditure Forecasts

Beginning with FY 2011-12, the General Assembly no longer has a maintenance of effort requirement under Amendment 23, and is thus able to allocate funding for public schools between the General Fund, the SEF, and other cash funds as it wishes. However, passage of House Bill 12-1338 transferred about \$1.1 million from the General Fund to the SEF in FY 2013-14. This additional one-time transfer raises policy questions for the General Assembly to consider regarding the overall amount of state funding to allocate for school finance and other education-related programs in FY 2014-15 and how much money to retain in the SEF to pay for future increases in school finance. Under current law, the projected balance in the SEF is forecast to be \$1.1 billion at the end of FY 2013-14.

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 2013. Inputs to the model have been updated to incorporate law changes enacted by the General Assembly, actual school funding data for FY 2013-14, revisions to forecasts of economic indicators, and the most recent Legislative Council Staff forecast of pupil counts and assessed values. Like the prior school finance bill, Senate Bill 13-260 included a negative factor that reduced the overall amount of funding for school finance by about \$1.0 billion. In addition, this report assumes that the General Assembly will approve the 2014 supplemental funding bill, which increases state aid by about \$55.4 million in the current budget year, accounting for slightly higher pupil counts as well as slightly lower contributions to school finance from local sources. A comparison of subsequent budget years assumes that total program will increase to raise the statewide average per pupil funding by at least the rate of inflation, as specified under Senate Bill 13-108.

***Projections for property and specific ownership taxes are higher.*** Property and specific ownership taxes provide the local contribution for school district funding under the school finance act. When these local revenue sources produce more revenue, requirements for state aid decrease for a given level of education funding. In FY 2014-15, the total local share for school finance is projected to increase by **\$41.1 million** compared with FY 2013-14.

***Assessed value and property tax growth.*** Property taxes account for about 93 percent of the local contribution to the school finance act. Most school districts impose the same property tax rate, or mill levy, from year to year. Thus, yearly changes in tax revenue depend upon changes in the tax base, or assessed value, of school districts. Assessed values declined 5.3 percent in 2010, and fell another 5.4 percent in 2011, accounting for an overall reduction in the local contribution for school finance. In 2012, assessed values increased 1.7 percent, which generated slightly higher property taxes than the prior year. In 2013, assessed values fell another 1.1 percent, but property taxes for school finance increased slightly because some of the larger Front Range

districts saw increases in value, while many mountain, Western Slope, and oil and gas districts saw decreases in value. In the following years, assessed values are expected to increase modestly, causing property taxes to increase further for school districts.<sup>2</sup>

In FY 2013-14, property taxes for school finance are estimated to total just over \$1.8 billion, with the forecast rising by **\$36.5 million**, or 2.0 percent in FY 2014-15 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. Counties collect most specific ownership taxes and 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 jurisdiction. Specific ownership taxes make up about 7 percent of the local contribution to school finance funding.

Specific ownership tax rates are set by state law and decrease as a vehicle ages. For example, a 2014 model-year passenger vehicle will pay a rate of 2.1 percent, while a 2006 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. During the last recession, new car sales dropped dramatically, which adversely affected specific ownership taxes. This caused the contribution of specific ownership taxes to the local share of school finance to fall from just over 8 percent to less than 7 percent.

Specific ownership tax receipts applied to the school finance act lag one year behind revenue collections; that is, specific ownership taxes collected in FY 2012-13 count as part of the local contribution for school finance funding in FY 2013-14. In the current budget year, specific ownership taxes for school finance increased \$3.3 million compared with the prior year, totaling \$130.9 million. The projection for FY 2014-15 expects a modest increase of **\$4.6 million** compared with the prior year, given a continued rebound in new car sales.

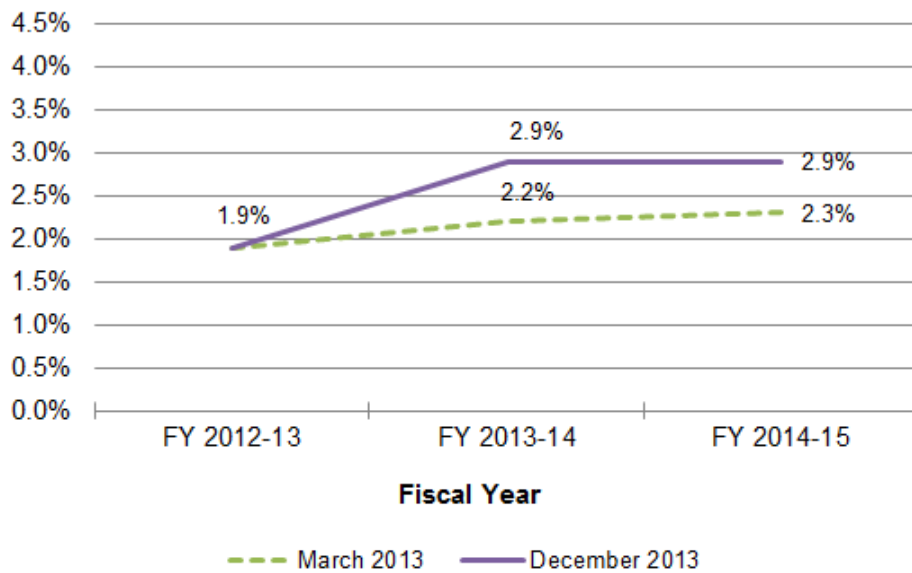
***Higher inflation increases overall funding requirements for school finance and categorical programs.*** Expenditures for school finance are a function of pupil counts and inflation. The statewide base per pupil funding level must increase by inflation each year, as specified by Amendment 23. The base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

As described in more detail later in this report, a higher inflation forecast increases the overall cost of school finance. In addition, total state funding for categorical programs is increased by higher projections for inflation. For FY 2014-15, the inflation forecast was raised from 2.3 percent in March 2013 to 2.9 percent in December 2013.

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<sup>2</sup>Legislative Council Staff, Focus Colorado: Economic and Revenue Forecast, December 20, 2013.

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



**Revenue projections for the State Education Fund are higher.** One-third of 1 percent of Colorado taxable income on state income tax returns is deposited in the SEF. This amount translates to about 7.2 percent of state income tax revenue. Money is diverted to the fund monthly, based on quarterly estimates of taxable income. Errors in the amount deposited in the fund in any fiscal year are corrected in the following fiscal year by adjusting the amount of the transfer. Any money remaining in the fund at the end of a fiscal year stays in the fund.

The projections of revenue to the fund in this report are based on the December 2013 Legislative Council Staff revenue forecast. The income tax revenue deposited in the fund is expected to increase at an average annual growth rate of 3.8 percent between FY 2012-13 and FY 2015-16, as illustrated in Table 1. The figure also compares the current projections of income tax revenue to the SEF with those from the March 2013 forecast. Actual income tax diversions to the fund for FY 2012-13 were \$54.7 million higher than projected last March. Income tax diversions over the next three years are expected to be \$70.4 million more than what was projected in March 2013. For FY 2013-14, income tax revenue to the SEF is expected to total \$494.1 million.

The projected rise in revenue to the SEF compared to last year results from an improving economy and its impact on income tax revenues. Corporate income tax revenue has exhibited strong growth, which is expected to continue, albeit at a somewhat slower pace. Job growth and wage hikes are expected to positively affect growth in individual income taxes.

In addition to the income tax diversion, the SEF also earns interest. Amendment 23 requires that all interest earned on money in the fund be deposited into the fund and be used before any principal is depleted. The fund is currently invested in all short-term investments, called the treasury pool. The treasury pool is currently earning interest of 1.0 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. Because of the \$1.1 billion transfer to the SEF this year,

the fund is expected to earn significantly more interest than in prior years, which may also provide opportunities for longer term investments. Under the current practice of disbursing the school finance appropriation as late in the fiscal year as possible, the balance of the SEF builds over the course of the fiscal year, earning interest, and then drops at the end of the fiscal year when the most significant expense is paid.

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

Fiscal Year	December 2013 Forecast		March 2013 Forecast		Change in Projected State Education Fund Revenue
	Income Tax	Year-to-Year % Change	Income Tax	Year-to-Year % Change	
FY 2012-13	\$486.3	19.3%	\$431.6	5.9%	\$54.7
FY 2013-14	\$494.1	1.6%	\$465.6	7.9%	\$28.5
FY 2014-15	\$515.9	4.4%	\$493.2	5.9%	\$22.7
FY 2015-16	\$543.2	5.3%	\$524.0	6.2%	\$19.2
<b>Total</b>	<b>\$2,039.5</b>		<b>\$1,914.4</b>		<b>\$125.1</b>

**State Money Needed to Meet Amendment 23 Funding Requirements in FY 2013-14**

Amendment 23 requires the statewide base per pupil funding amount for preschool through twelfth grade education to increase annually by the inflation rate in FY 2011-12 and each year thereafter. The same requirement applies to state funding for categorical programs. Under current law, meeting these two obligations is expected to cost the state just under \$3.4 billion in FY 2014-15, as illustrated in line 10 of Table 2. This represents an increase of \$175.6 million from the Amendment 23 requirements in FY 2013-14. Note that the school finance and categorical program dollar amounts in Table 2 are based on an estimated inflation rate of 2.9 percent for 2013; the actual inflation rate will be released by the federal government in February 2014.

**School finance funding.** Under current law, the projected statewide base per pupil funding amount for FY 2014-15 is \$6,126.95, an increase of \$172.67 over the current budget year. When combined with a 1.4 percent increase in the funded pupil count, total funding for school finance is projected to be \$6,815.6 million, an increase of \$284.5 million over the current budget year, before application of the negative factor (line 3). Local property and specific ownership taxes are expected to increase \$41.1 million, resulting in a net increase in state aid of \$243.4 million (line 5). Assuming passage of the supplemental school finance bill, the negative factor will increase by \$43.4 million and state aid for school finance will increase by \$200.0 million compared with the previous year (line 7).

**Categorical programs.** Total state funding for categorical programs is estimated at \$276.7 million for FY 2014-15, an increase of 2.9 percent over the prior year, or \$7.8 million.

**Table 2**  
**State Money Required to Meet School Finance Act Funding Requirements in FY 2014-15**  
**under Current Law, Assuming Passage of 2014 Supplemental School Finance Bill**  
*(Millions of Dollars)*

Calculation of Funding Amounts		Estimated FY 2014-15 Amount	Change from FY 2013-14
<b>School Finance</b>			
1	Total funding under the school finance act for base increase of inflation, before inclusion of other factors in school finance formula	\$5,063.9	\$208.9
2	Plus other factors included in school finance formula, before the negative factor	\$1,751.7	\$75.6
3	<b>Equals total school finance funding before negative factor</b>	<b>\$6,815.6</b>	<b>\$284.5</b>
4	Minus property and specific ownership taxes for school finance	\$1,979.9	\$41.1
5	Equals state aid for school finance before negative factor	\$4,835.7	\$243.4
6	Minus negative factor	(\$1,047.6)	(43.4)
7	<b>Equals state aid for school finance funding</b>	<b>\$3,788.1</b>	<b>\$200.0</b>
8	<b>Total school finance funding after negative factor (lines 4+7)</b>	<b>\$5,768.0</b>	<b>\$241.1</b>
<b>Categorical Programs</b>			
9	Total funding for categorical programs with a 2.9 percent increase in inflation	\$276.7	\$7.8
<b>Total: School Finance Funding Plus Categorical Programs</b>			
10	Total state funding required for school finance <b>base</b> and <b>categorical programs</b> (sum of lines 1 and 9) minus <b>local funding</b> (line 4)	\$3,360.7	\$175.6
11	Total state funding for school finance and categorical programs (sum of lines 7 and 9)	\$4,064.8	\$207.8

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

In addition to General Fund and SEF revenue, other revenue from federal mineral leases and state school trust lands, among other smaller sources, is available to meet the funding requirements of Amendment 23 and the school finance act. These revenue sources are deposited in and appropriated from the State Public School Fund, as illustrated in Table 3. The estimated amount available in FY 2014-15 for school finance is \$68.7 million. This amount is based on federal mineral lease deposits of \$60.5 million, Permanent Trust Fund interest of \$11.0 million, a beginning fund balance of \$0.2 million, and continuation of \$3.0 million in appropriations from the State Public School Fund for three specific programs: just under \$2.5 million pays for the state match for the National School Lunch Act; \$480,000 provides supplemental online educational programs and a grant program; and \$35,000 goes for printing and distributing school laws. Because the revenue available in the State Public School Fund is projected to fall by \$6.7 million in FY 2014-15, the net result is a \$206.7 million increase in funding requirements from the General Fund and the SEF for FY 2014-15 compared with the prior year.

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

Other Revenue Amounts		Estimated FY 2014-15 Amount	Change from FY 2013-14
1	Total state funding required for school finance (Table 2, line 7)	\$3,788.1	\$200.0
2	Minus State Public School Fund revenue	\$68.7	(\$6.7)
3	Equals General Fund and State Education Fund for School finance funding requirements (line 1 minus line 2)	\$3,719.4	\$206.7

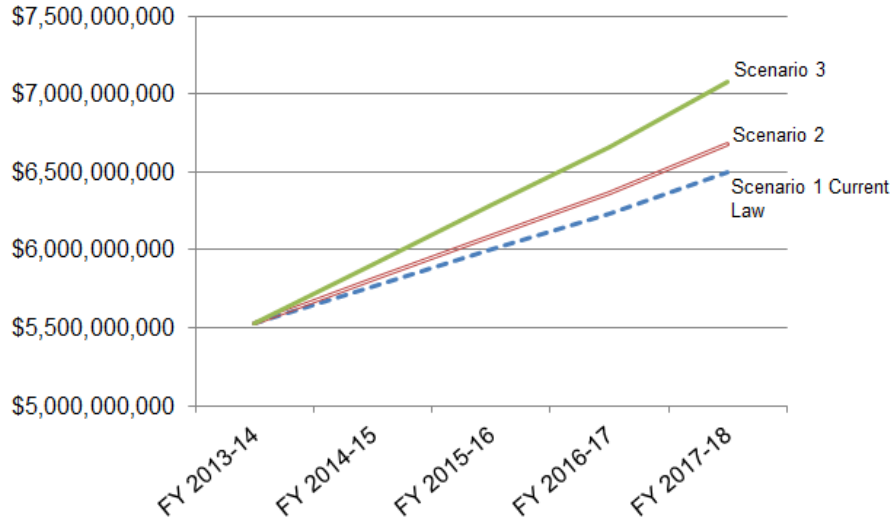
*Note: Numbers may not sum due to rounding.*

### **General Fund and SEF Appropriations for FY 2014-15 and the SEF Fund Balance**

This portion of the report presents three different funding scenarios for school finance and how they impact the projected balance of the SEF in FY 2014-15 and subsequent years, given the one-time deposit of \$1.1 billion into the SEF in FY 2013-14, resulting from HB 12-1338. In particular, it addresses the statutory requirement for an estimate of the maximum amount of money that can be appropriated from the SEF and the minimum amount of money that can be appropriated from the General Fund without adversely affecting the solvency of the SEF. For purposes of defining the solvency of the SEF, a minimum ending balance of \$400 million in FY 2017-18 is used to estimate the General Fund and SEF appropriations that will be needed to fund overall increases in school finance. All three scenarios assume a fixed annual growth rate for General Fund appropriations to achieve this targeted ending balance in the SEF. The first scenario is based on current law and projects the minimum General Fund contribution for school finance over the next four years to raise the statewide average per pupil revenue by inflation, while leaving a balance of \$400 million in the SEF at the end of FY 2017-18. The second and third scenarios increase total program funding from current law by \$43 million and \$143 million, respectively, in FY 2014-15 and subsequent years. These two scenarios correspond with either: (a) maintaining the existing value of the negative factor in the school finance formula through FY 2017-18 (Scenario 2); or (b) reducing the value of the negative factor by \$100 million annually (Scenario 3). Figure 2 illustrates these different funding scenarios.



**Figure 2  
Total Program Funding Scenarios**



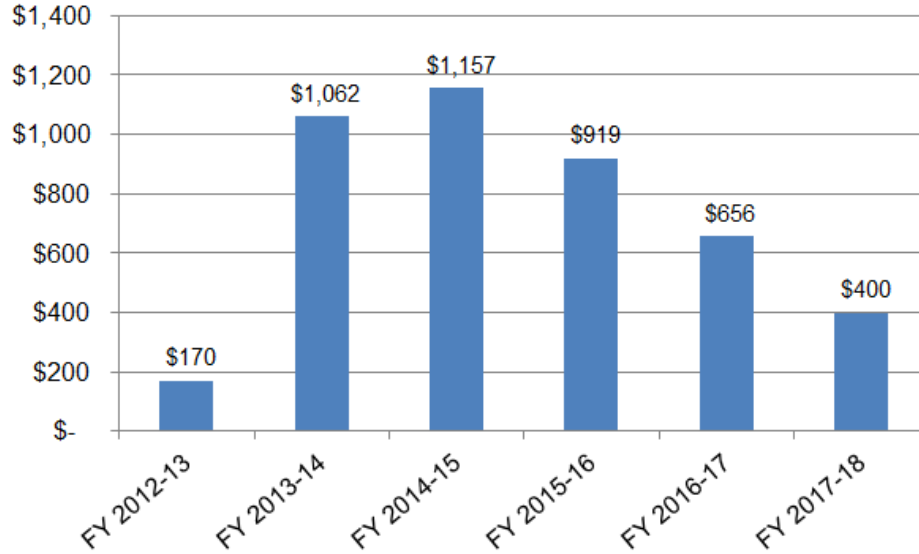
*Scenario 1, Current Law.* The statewide average per pupil funding must increase by at least inflation in FY 2014-15 and subsequent years under current law. If the minimum SEF ending balance at the end of FY 2017-18 is \$400 million, General Fund appropriations will have to increase 3.7 percent in each of the next four years, or by \$110 million in FY 2014-15. The SEF contribution to school finance will increase as well, growing at an average annual rate of 6.6 percent over the period from FY 2013-14 to FY 2017-18. Table 4 shows total school finance funding, total state aid, appropriations from the SEF and General Fund, and the corresponding balance of the SEF under this scenario. Figure 3 shows the overall projected change in the SEF ending balance under current law, with the balance projected at about \$1.1 billion in FY 2013-14, falling to \$400 million in FY 2017-18.

**Table 4  
SEF Balances Under Current Law, Assuming a \$400 Million SEF Balance in FY 2017-18,  
and 3.7 Percent Annual Growth in General Fund Appropriations for School Finance  
(Millions of Dollars)**

Fiscal Year	Current Law					
	Total School Finance Funding	Total State Aid*	State Education Fund Appropriation	General Fund Appropriation	General Fund Change from Prior Year	State Education Fund Balance
2012-13	\$5,298	\$3,380	\$345	\$2,852	\$180	\$170
2013-14	\$5,527	\$3,588	\$524	\$2,989	\$137	\$1,062
2014-15	\$5,768	\$3,788	\$620	\$3,099	\$110	\$1,157
2015-16	\$6,002	\$3,903	\$619	\$3,214	\$114	\$919
2016-17	\$6,232	\$4,073	\$667	\$3,333	\$119	\$656
2017-18	\$6,498	\$4,209	\$677	\$3,456	\$123	\$400

\*Includes appropriations from the State Public School Fund.

**Figure 3**  
**SEF Balances Under Current Law, Assuming a \$400 Million SEF Balance in FY 2017-18,**  
**and 3.7 Percent Annual Growth in General Fund Appropriations for School Finance**  
*(Millions of Dollars)*



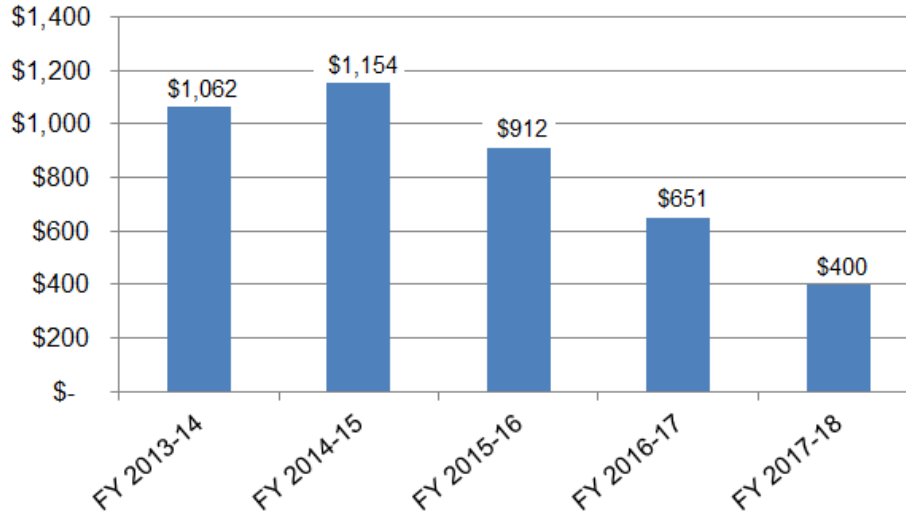
*Scenario 2, Constant Negative Factor.* If the value of the negative factor is kept at its current level of \$1.004 billion for the next four years, school finance funding will increase by about \$43 million in FY 2014-15 compared with current law. Table 5 shows total school finance funding, total state aid, appropriations from the SEF and General Fund, and the corresponding balance of the SEF under this scenario. Assuming the SEF balance at the end of FY 2017-18 is \$400 million, General Fund appropriations will have to increase 5.0 percent in each of the next four years, or by \$150 million in FY 2014-15 to maintain this funding option. Figure 4 illustrates the ending balance for the SEF under this scenario.

**Table 5**  
**SEF Balances Under Scenario 2, Assuming a \$400 Million Balance in FY 2017-18, and**  
**5.0 Percent Annual Growth in General Fund Appropriations for School Finance**  
*(Millions of Dollars)*

Fiscal Year	Scenario 2					
	Total School Finance Funding	Total State Aid*	State Education Fund Appropriation	General Fund Appropriation	General Fund Change from Prior Year	State Education Fund Balance
2012-13	\$5,298	\$3,380	\$345	\$2,852	\$180	\$170
2013-14	\$5,527	\$3,588	\$524	\$2,989	\$137	\$1,062
2014-15	\$5,811	\$3,831	\$624	\$3,139	\$150	\$1,154
2015-16	\$6,088	\$3,989	\$621	\$3,297	\$158	\$912
2016-17	\$6,361	\$4,201	\$665	\$3,463	\$166	\$651
2017-18	\$6,674	\$4,385	\$672	\$3,636	\$174	\$400

\*Includes appropriations from the State Public School Fund.

**Figure 4**  
**SEF Balances Under Scenario 2, Assuming a \$400 Million SEF Balance in FY 2017-18,**  
**and 5.0 Percent Annual Growth in General Fund Appropriations for School Finance**  
*(Millions of Dollars)*



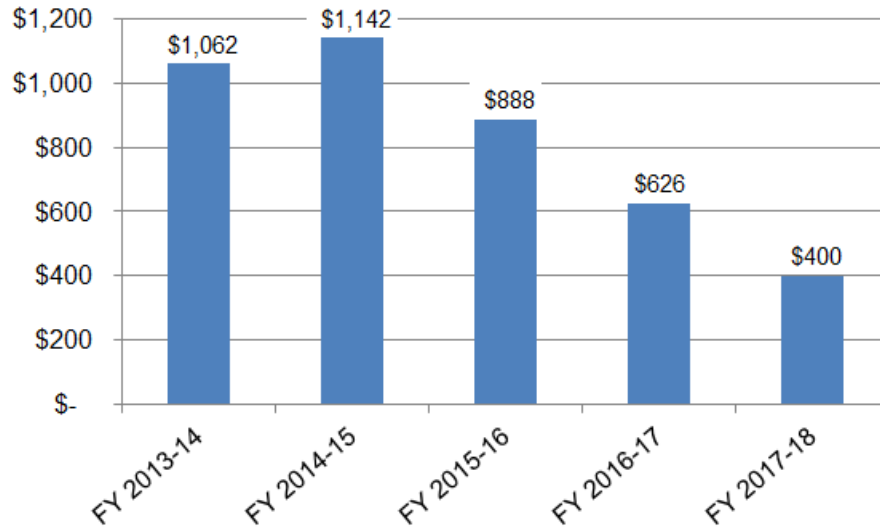
*Scenario 3, Negative Factor Buy-down.* If the value of the negative factor is reduced by \$100 million annually for the next four years, school finance funding will increase by about \$143 million in FY 2014-15 compared with current law. Table 6 shows total school finance funding, total state aid, appropriations from the SEF and General Fund, and the corresponding balance of the SEF under this scenario. Assuming the SEF balance at the end of FY 2017-18 is \$400 million, General Fund appropriations will have to increase 8.0 percent in each of the next four years, or by \$238 million in FY 2014-15 to maintain this funding option. Figure 5 illustrates the ending balance for the SEF under this scenario.

**Table 6**  
**SEF Balances Under Scenario 3, Assuming a \$400 Million SEF Balance in FY 2017-18,**  
**and 8.0 Percent Annual Growth in General Fund Appropriations for School Finance**  
*(Millions of Dollars)*

Fiscal Year	Scenario 3					
	Total School Finance Funding	Total State Aid*	State Education Fund Appropriation	General Fund Appropriation	General Fund Change from Prior Year	State Education Fund Balance
2012-13	\$5,298	\$3,380	\$345	\$2,852	\$180	\$170
2013-14	\$5,527	\$3,588	\$524	\$2,989	\$137	\$1,062
2014-15	\$5,911	\$3,931	\$635	\$3,227	\$238	\$1,142
2015-16	\$6,288	\$4,189	\$634	\$3,485	\$257	\$888
2016-17	\$6,661	\$4,501	\$665	\$3,763	\$278	\$626
2017-18	\$7,074	\$4,785	\$646	\$4,063	\$300	\$400

\*Includes appropriations from the State Public School Fund.

**Figure 5**  
**SEF Balances Under Scenario 3, Assuming a \$400 Million SEF Balance in FY 2017-18,**  
**and 8.0 Percent Annual Growth in General Fund Appropriations for School Finance**  
*(Millions of Dollars)*



**Funding for Additional Programs**

The final requirement for this report is an estimate of the impact of various levels of General Fund appropriations above the minimum desired level on the amount of money in the SEF. The purpose of this requirement is to determine whether funding can be provided in FY 2014-15 from the SEF for programs that are permitted but not required by Amendment 23. Given projections for General Fund revenue and SEF balances, it is possible that additional funding could be provided from either source to expand programs, although this may adversely affect school finance funding.

**Appendices**

Appendix A contains historical data on school finance funding; SEF revenue, appropriations, and fund balances; and General Fund appropriations for school finance. It also shows projected SEF revenue, appropriations, and fund balances along with General Fund contributions to school finance for the period from FY 2014-15 through FY 2017-18. These projections are based on current law requirements for total school finance funding as reflected in SB 13-108, and assume 3.7 percent General Fund spending growth each year and a minimum \$400 million balance in the SEF at the end of FY 2017-18. Appendix B is the text of Amendment 23.

**Estimated Balance of State Education Fund Under Current Law**  
**Assumes Passage of 2014 Supplemental School Finance Bill and 3.7% Annual Growth in the General Fund Contribution to**  
**School Finance Through FY 2017-18 to Maintain \$400 million State Education Fund Ending Balance in FY 2017-18**  
*(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 from Prior Year	Percent % General Fund Approp from Prior Year	Total School Finance Act Funding	Change in Spending from Prior Year
2001-02	\$272.9	\$101.6	\$7.2	\$154.5	\$154.5	\$298.5	\$2,073.4	\$98.7	5.0%	\$3,857	
2002-03	\$197.7	\$296.9	\$15.7	\$330.7	\$176.2	\$202.4	\$2,137.6	\$64.2	3.1%	\$4,160	\$303
2003-04	\$278.7	\$316.5	\$20.3	\$351.7	\$21.0	\$142.6	\$2,247.9	\$110.3	5.2%	\$4,298	\$139
2004-05	\$313.9	\$313.4	\$23.7	\$347.2	(\$4.5)	\$118.4	\$2,342.8	\$94.9	4.2%	\$4,430	\$132
2005-06	\$360.8	\$299.9	\$25.5	\$335.8	(\$11.4)	\$152.9	\$2,480.5	\$137.7	5.9%	\$4,573	\$142
2006-07	\$395.4	\$299.8	\$26.3	\$336.9	\$1.1	\$225.1	\$2,657.7	\$177.2	7.1%	\$4,790	\$218
2007-08	\$407.9	\$259.1	\$35.5	\$301.7	(\$35.2)	\$349.3	\$2,790.5	\$132.8	5.0%	\$5,069	\$278
2008-09	\$461.3	\$362.2	\$77.4	\$494.0	\$192.3	\$331.0	\$2,930.1	\$139.6	5.0%	\$5,349	\$281
2009-10	\$329.0	\$339.6	\$88.2	\$482.2	(\$11.8)	\$188.2	\$3,076.3	\$146.2	5.0%	\$5,588	\$239
2010-11	\$592.9	\$284.0	\$89.3	\$423.7	(\$58.5)	\$363.4	\$2,797.7	(\$278.6)	-9.1%	\$5,442	(\$146)
2011-12	\$416.7	\$511.1	\$93.7	\$654.3	\$230.6	\$133.8	\$2,671.8	(\$125.9)	-4.5%	\$5,232	(\$210)
2012-13	\$543.3	\$345.5	\$102.5	\$511.2	(\$143.1)	\$170.4	\$2,852.3	\$180.5	6.8%	\$5,298	\$66
2013-14	\$1,612.9	\$523.6	\$127.1	\$738.4	\$227.2	\$1,061.9	\$2,989.1	\$136.8	4.8%	\$5,527	\$229
2014-15	\$902.7	\$619.9	\$134.9	\$847.7	\$107.8	\$1,157.3	\$3,099.4	\$110.4	3.7%	\$5,768	\$241
2015-16	\$568.5	\$618.6	\$142.9	\$855.3	\$8.9	\$919.1	\$3,213.9	\$114.4	3.7%	\$6,002	\$234
2016-17	\$603.9	\$667.2	\$150.0	\$911.9	\$57.4	\$656.1	\$3,332.6	\$118.7	3.7%	\$6,233	\$231
2017-18	\$641.8	\$677.2	\$157.3	\$930.0	18.9	\$400.0	\$3,455.7	\$123.1	3.7%	\$6,498	\$265

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

**Article IX, Section 17  
Colorado Constitution**

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

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

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

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

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

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

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