Colorado
Legislative
Council
Staff

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MEMORANDUM

February 1, 2002

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

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

SUBJECT: Report on the State Education Fund

Summary

This report analyzes the long-term viability of the State Education Fund and how additional spending and General Fund support of public school finance will impact the State Education Fund. The baseline model for the State Education Fund is based on the Legislative Council Staff forecast of the economy and a 5.8 percent annual appropriation increase from the General Fund. The fund balance is highly sensitive to changes in the economy and General Fund support.

The projected balance of the State Education Fund in FY 2025-26 is $2.376 billion, or $1.07 billion in 2002 dollars. The economic slowdown currently underway in Colorado, higher-than-anticipated inflation in the first two years, and the additional spending from the fund enacted in the 2001 legislative session have reduced the projected fund balance from the $10 billion estimate of a year ago. Nonetheless, if the General Fund appropriations for public school finance continue to increase by 5.8 percent annually and significant new spending programs are not enacted, the fund will remain solvent through FY 2025-26 with the revised economic assumptions.

The projected state aid requirement to fund total program funding is $2.443 billion in FY 2002-03, an increase of $212.8 million, or 9.5 percent.

Cash funds of $61.3 million are available to contribute to the state aid requirement for FY 2002-03.

An increase of General Fund spending by 5.8 percent would require an additional $121.2 million in FY 2002-03. Each one-tenth of a percentage point increase would require an additional $2.1 million.

If the FY 2001-02 General Fund appropriation for public school finance is reduced to the 5.0 percent minimum allowed (a decrease of $15.7 million), as is currently being discussed, the State Education Fund would perhaps become insolvent in the absence of future enhanced appropriations from the General Fund. A one-time General Fund increase of 6.64 percent, or $138.7 million, in FY 2002-03 would be sufficient to offset the impact of the FY 2001-02 reduction over the forecast period. Alternatively, an ongoing 5.9 percent appropriation beginning in FY 2002-03 would surpass the baseline balance by FY 2018-19.

If annual General Fund appropriations increase by 5.7 percent or less, the State Education Fund would be insolvent before FY 2025-26.

Inflation has a powerful impact on the State Education Fund balance. If inflation is one percentage point higher than currently projected in 2005, the State Education Fund balance would be insolvent in FY 2020-21.

One year of funding for the proposed "Closing the Learning Gap Initiative" with $6.0 million from the State Education Fund in FY 2002-03 would reduce the balance by $28.3 million in FY 2025-26.

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

- the reasonableness of the assumptions used to forecast the revenues and expenditures and the need to revise the assumptions;
- revenue projections for the State Education Fund;
- the projections of the amount of total state moneys, including sources other than the General Fund and State Education Fund, required to increase the statewide base per pupil funding amount and total categorical program funding by inflation plus one percentage point in FY 2002-03;
- the stability of the State Education Fund;
- estimates of the impact of various levels of General Fund appropriations above the five percent required minimum level on the amount of moneys available in the State Education Fund to provide funding in FY 2002-03; and,
- an estimate of the tradeoffs of using State Education Fund moneys versus General Fund moneys for FY 2002-03 without adversely impacting the solvency of the State Education Fund or the ability of the General Assembly

1. This statute was created in Senate Bill 01-204. The relevant section can be found in Appendix A.

to comply in future years with the minimum funding requirements set forth in the state Constitution.

Initially, we provide a review of Amendment 23 which created the State Education Fund.

Amendment 23 and the State Education Fund

Amendment 23 was passed by the state's voters at the general election on November 7, 2000.[2] The constitutional amendment diverts an amount equal to one-third of one percent of Colorado taxable income from state income taxes to the State Education Fund (referred to hereafter as the SEF). The statewide base per pupil funding amount for public schools and total state funding for categorical programs must be increased by at least the rate of inflation plus one percentage point for the first ten years (fiscal years 2001-02 through 2010-11) and by at least the rate of inflation thereafter. General Fund appropriations under the school finance act must increase by at least five percent annually from FY 2001-02 through FY 2010-11. The latter provision is known as maintenance of effort. Money in the SEF can be used to meet the funding requirements of Amendment 23. Additional programs for public school education that use monies from the SEF can be established by the General Assembly.

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

After the passage of Amendment 23, the State Auditor's Office contracted with Pacey Economics Group, a private consulting firm, to develop a forecast model of the revenues and expenditures of the SEF. Representatives from the Office of the State Auditor, Legislative Council Staff, Joint Budget Committee staff, the Department of Treasury, the Office of State Planning and Budgeting, and the Department of Education advised Pacey Economics Group on the development of the model and the assumptions in the model. These representatives also advised the Legislative Council Staff on this report. The basic framework of the Pacey Economics Group model was retained for this analysis.

Economic assumptions. The economic assumptions drive the estimates of revenues and expenditures of the SEF. They are a function of the economic outlook and will change on an annual basis. The assumptions for the initial years of the forecast period are generally more pessimistic now than when the model was developed. While the economic outlook one year ago was for only a slowdown in 2001, the nation entered a recession in March 2001 and the economy will remain weak through the first half of 2002. Colorado will follow this pattern. The recovery will be mild by recent historical standards. Estimated inflation for 2001 is higher than estimated at this time last year (the Denver-Boulder-Greeley inflation rate for 2001 will be released on February 20). However, the outlook for inflation in the near term is more positive because the economic slowdown will lead to smaller price pressures. As a result of changes in the economy, each economic and demographic variable in the model was re-estimated.

2. The constitutional provisions of Amendment 23 can be found in Appendix B.

The most significant change to an economic variable is for productivity. Productivity is one economic variable used to estimate the potential growth of income tax revenues to the SEF. The long-term potential for productivity is viewed as being lower than a year ago. This change is based on a revision of productivity increases from 1998 to 2000. The average growth of labor productivity in the nonfarm business sector was revised from 2.94 percent to 2.48 percent over the three-year period. Economists revised downward the long-run estimates of future productivity increases. Consequently, the potential revenue to the SEF from income taxes is estimated to be much lower than a year ago.

Methodological assumptions. The initial model contained two assumptions that appear to understate the potential revenues for school finance. These assumptions are retained in this report.

The original model for the SEF included an assumption for the growth factor used in estimating income taxes. The annual growth rate for income taxes was postulated to be 85 percent of the sum of inflation, the percentage change in Colorado's population, and productivity. Preliminary research indicates that the relationship between income taxes and these three economic variables is closer to 100 percent than to 85 percent. A modeling of withholding taxes as a function of previous period withholding multiplied by this sum yielded a coefficient only very slightly larger than one. Nonetheless, this assumption was retained pending further research.

Additionally, the potential revenue from school finance property taxes may be understated. The relationship between the TABOR property tax limits of inflation and student population increases and actual revenue increases needs to be studied further.

The only change to a methodological assumption was for the interest rate and fund investment. The interest rate was a fixed amount throughout the forecast in the initial model. The interagency group reviewing the model recommended that a forecast of both short-term and long-term interest rates be employed in the model. The model was also modified to reflect the investment strategies of the state treasurer. The state treasurer will invest a portion of the fund balance in short-term instruments recognizing that moneys will be expended from the fund on a regular basis. To maximize overall returns, the remaining portion of the fund balance is invested in long-term instruments that have higher rates of return. We built in a conditional parameter to stop the investment in the long-term instruments if the short-term fund balance is anticipated to be insufficient to cover the needed withdrawals from the short-term fund. Additionally, another conditional parameter was used to liquidate the necessary amount of long-term investments should funds need to be shifted to the short-term fund to pay the estimated expenditures.

The funding of categorical programs is required to increase by the inflation rate plus one percentage point through FY 2010-11 and by the inflation rate thereafter. The model assumes that the required increase will be funded from the SEF. The additional programs passed by the General Assembly in 2001 are assumed to be funded from the SEF on an ongoing basis.[3]

3. These programs are described in Appendix C. The expenditures in the table are based on the original appropriation amounts.

Revenue Projections for the State Education Fund

One-third of one percent of Colorado taxable income is deposited in the State Education Fund. The treasurer invests the balance of the SEF in short-term and long-term instruments. The projections of the revenue to the fund are based on the Legislative Council Staff estimates of Colorado taxable income for the first six years of the forecast period. Thereafter, the sum of the projected Denver-Boulder-Greeley inflation rate, the percentage change in Colorado's population, and the annual percentage change in productivity is used to estimate Colorado taxable income. As mentioned previously, these factors have been multiplied by 85 percent.

The estimated interest rates for a one-year Treasury bill and a ten-year Treasury note are used to estimate interest earnings for the SEF. The estimated interest rates were supplied by DRI•WEFA, a national economic forecasting firm. The average spread between these rates is approximately one percent, but is more than two percent in the first two years of the forecast period.

Table 1 shows the estimated income tax revenues and interest earnings for the SEF. The income tax revenues that are diverted into the SEF will increase at a compound average annual growth rate of 6.7 percent between FY 2001-02 and FY 2025-26.

Table 1
Revenue Projections for the State Education Fund
millions of dollars

Fiscal Year	Income Tax	Interest Earnings	Fiscal Year	Income Tax	Interest Earnings
FY 2001-02	$317.2	$12.2	FY 2014-15	$771.7	$113.3
FY 2002-03	$339.5	$22.8	FY 2015-16	$822.7	$121.3
FY 2003-04	$366.3	$36.3	FY 2016-17	$875.8	$130.5
FY 2004-05	$396.2	$45.4	FY 2017-18	$931.0	$136.2
FY 2005-06	$431.5	$55.1	FY 2018-19	$988.6	$144.1
FY 2006-07	$462.2	$65.2	FY 2019-20	$1,049.6	$152.0
FY 2007-08	$491.5	$74.4	FY 2020-21	$1,113.4	$166.0
FY 2008-09	$524.4	$85.0	FY 2021-22	$1,179.9	$178.2
FY 2009-10	$560.0	$90.3	FY 2022-23	$1,252.3	$189.7
FY 2010-11	$598.6	$95.6	FY 2023-24	$1,329.4	$201.3
FY 2011-12	$637.1	$99.6	FY 2024-25	$1,409.6	$216.5
FY 2012-13	$678.9	$103.7	FY 2025-26	$1,493.8	$232.3
FY 2013-14	$723.9	$107.8	Total	$19,745.1	$2,876.6

Projections of the Amount of State Funds Needed to Meet the Funding Requirements for State Education for FY 2002-03

Amendment 23 required that the statewide base per pupil funding for preschool through twelfth grade education increase annually by the rate of inflation plus one percentage point for the first ten years (FY 2001-02 through FY 2010-11) and by the rate of inflation after ten years. This portion of education funding is often referred to as total program funding. The same annual increase applies to state funding for categorical programs.

The statewide base per pupil amount in FY 2001-02 is $4,202. Based on the projected inflation rate of 4.5 percent for 2001 and the requirement that per pupil funding escalate by the inflation rate plus one percentage point, the statewide per pupil funding amount for FY 2002-03 will be $4,433, or an additional $231 per student. The projected funded pupil count for FY 2002-03 is 715,158.4. Thus, the total program funding requirement is $4.126 billion. The estimated state contribution to business incentive agreements for FY 2002-03 is $3.0 million. Excluding the local share contribution to total program funding, the projected state aid requirement to *total program funding* is $2.443 billion in FY 2002-03, an increase of $212.8 million.

State funding for categorical programs in FY 2001-02 was $149.3 million. The new funding requirement in FY 2002-03 for *categorical programs* is $157.5 million, or an increase of $8.2 million.

What Revenues other than the State Education Fund and the General Fund are Available in FY 2002-03?

Cash funds such as mineral lease funds and school land board proceeds are also available to meet the school funding requirements. The estimated available amount for FY 2002-03 is $61.3 million. Table 2 shows the projected components of the state aid requirement to total program funding.

Table 2
State Aid for Total Program Funding, FY 2002-03
millions of dollars

Total Program	Plus: Business Incentive Agreements	Less: Local Share Revenue	Less: Cash Funds	Equals: General Fund and SEF for Total Program Funding
$4,126.0	$3.0	$1,685.8	$61.3	$2,381.9

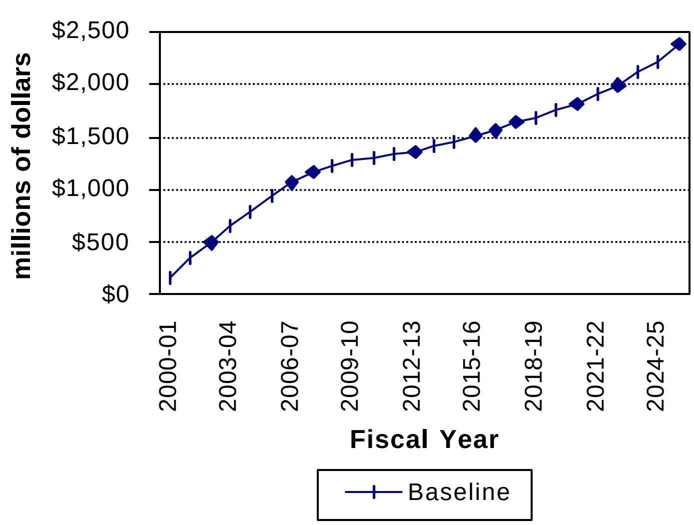
The Stability of the State Education Fund

The model projects income to the State Education Fund, interest earnings, the total program needs for education, other available revenues to satisfy educational funding requirements including local funding sources, and the necessary withdrawals from the SEF to satisfy the funding requirements. Specific additional programs for education that were approved by the General Assembly in the 2001 session have been incorporated into the model.

It should be noted that this model is a static model. The following analyses typically adopt a change to only one variable at a time and do not recognize that the change would affect other economic variables or future funding decisions. However, in the real world, a change to one economic assumption will impact other aspects of the economy. For example, when inflation is higher, it is very likely that wages would increase to a greater extent and thus increase the income taxes that are diverted to the SEF. Interest rates would increase in the short term and thus also increase the earnings in the fund. Both secondary impacts would tend to at least partially offset the required increase in expenditures and ameliorate the resulting decline in the balance of the SEF. Similarly, an economic slowdown would generally result in lower inflation rates and the decrease in required expenditures would partially offset the reduced income and earnings of the SEF. The General Assembly can also increase General Fund support of public school finance and supplant the use of the SEF to preserve its balance.

Figure 1 shows the projected year-end balance of the SEF using the *baseline* economic and demographic assumptions and a 5.8 percent increase in annual General Fund spending for public school finance. The 5.8 percent increase is based on the increase provided for FY 2001-02. The fund balance reaches $2.38 billion in FY 2025-26.

Figure 1. State Education Fund Balance with Baseline Assumptions



In order to examine the stability of the SEF, a number of alternative economic and funding assumptions can be introduced to the model. A comparison of the resulting fund balance to the baseline model is made. In this report, the following alternative scenarios are presented:

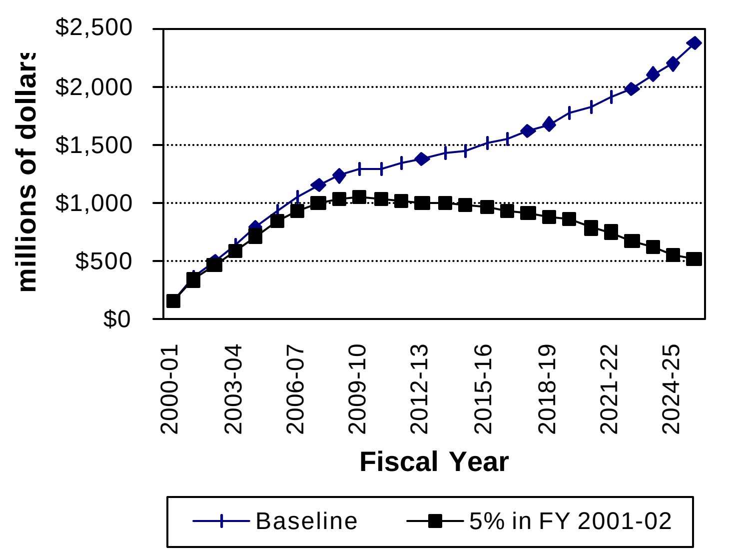
- reducing the 5.8 percent General Fund appropriation increase for public school finance to a 5.0 percent increase in FY 2001-02;

- providing for catchup spending after FY 2001-02 to account for the reduced General Fund spending in FY 2001-02;
- different levels of General Fund spending for education throughout the forecast period;
- weaker revenue projections in the initial years of the forecast period;
- higher inflation;
- a continuation of new programs funded from the SEF; and,
- enacting new programs for FY 2002-03 and later.

Reducing the General Fund spending for public school finance to 5.0 percent in FY 2001-02. Amendment 23 provided for a minimum 5.0 percent increase for General Fund spending for public school finance. Senate Bill 01-129 specified that the General Fund spending increase by 5.8 percent in FY 2001-02. The economic downturn is placing pressure on the General Fund budget in the current budget year. The Joint Budget Committee has discussed reducing the appropriation in FY 2001-02 to a 5.0 percent increase. This would save $15.7 million for the General Fund budget, but require a $15.7 million increase in spending from the State Education Fund. After FY 2001-02, the 5.8 percent appropriation is resumed. However, without an adjustment in future years, the General Fund contribution would be permanently reduced.

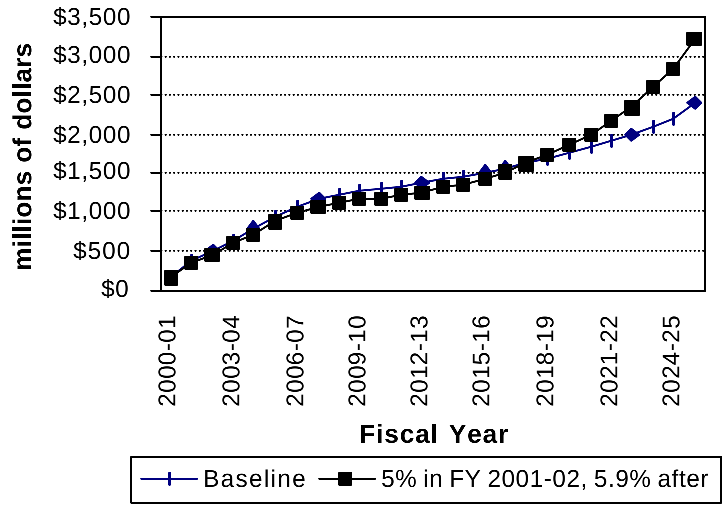
Figure 2 shows that under the spending parameters of the previous paragraph, the SEF balance reaches a peak in FY 2009-10 and then begins to decline. While not reaching zero during the forecast period, the SEF would perhaps eventually become insolvent absent other intervention.

Figure 2. State Education Fund Balance with 5% General Fund Support in FY 2001-02



Catching up General Fund spending for public school finance after the initial reduction in FY 2001-02. Figure 2 shows that the State Education Fund balance would decline and perhaps eventually become negative. Increased General Fund spending beyond the 5.8 percent level after FY 2001-02 could prevent this from occurring. For example, if General Fund spending increased 5.9 percent annually after FY 2001-02, the SEF balance would surpass the baseline balance in FY 2018-19. The maximum reduction in the SEF balance is $117.1 million in FY 2011-12. By FY 2025-26, the alternative balance would be $824 million higher than in the baseline model. Figure 3 shows these results.

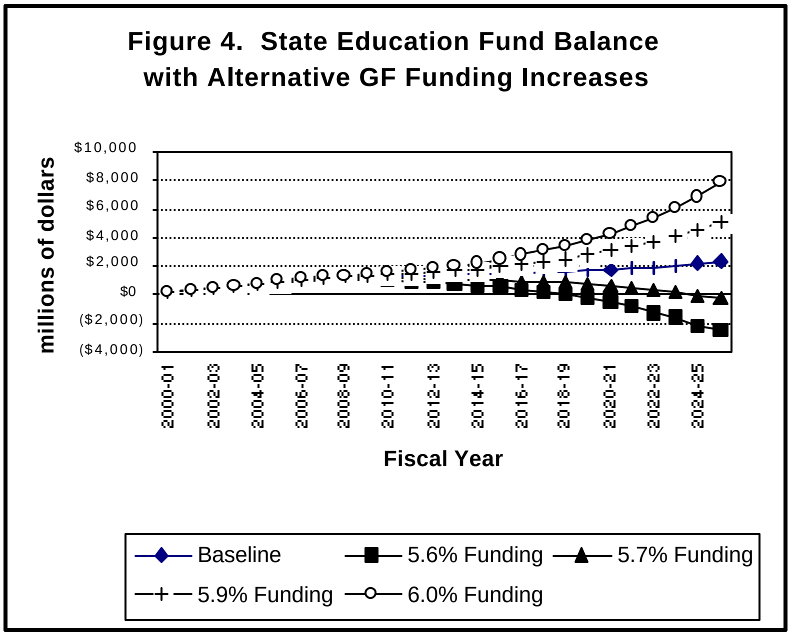
Figure 3. State Education Fund Balance with 5% GF Spending in FY 2001-02, 5.9% thereafter



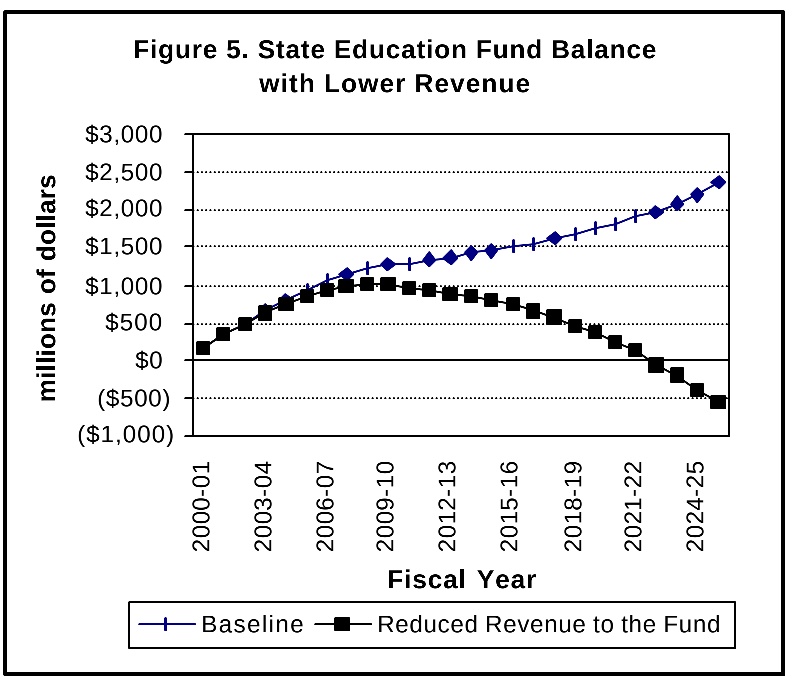
Alternatively, a more significant one-time boost could be provided in FY 2002-03 before resuming the 5.8 percent appropriation level. If the initial increase was 6.64 percent, or $138.7 million, in FY 2002-03, the $15.8 million SEF balance differential in this alternative model would gradually narrow. The alternative fund balance would exceed the baseline balance in FY 2023-24. By FY 2025-26, the alternative balance would be $8.5 million higher than in the baseline model.

Alternative funding levels from the General Fund. This section analyzes what happens if funding levels from the General Fund are either *permanently* lower or higher than the 5.8 percent currently used in the baseline model. Four levels are analyzed: 5.6 percent, 5.7 percent, 5.9 percent, and 6.0 percent. Figure 4 shows the resulting fund balances for each scenario.

The SEF would become insolvent with either a permanent 5.6 percent or 5.7 percent funding level from the General Fund. The fund balance in the SEF would be much more robust with higher funding levels.



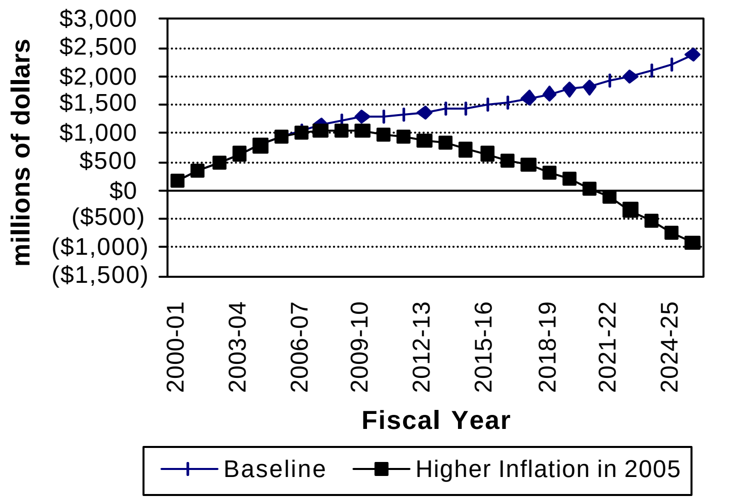
Weaker revenue projections for the State Education Fund. The economic slowdown has led to lower projections for the income taxes diverted to the SEF. The baseline uses the revenue projections from Legislative Council Staff through FY 2006-07 and then applies a growth factor equal to the sum of inflation, the percentage change in the state's population, and productivity. The growth factor is multiplied by 85 percent to be conservative. The Office of State Planning and Budgeting (OSPB) also estimates the amount of income taxes that are diverted to the SEF. Their estimate is $104.3 million lower than the Legislative Council Staff estimate for the initial six years of the forecast period. If OSPB's estimate is used, the SEF would reach a peak in FY 2009-10 and would become insolvent in FY 2022-23. Figure 5 shows the resulting fund balance.



Higher inflation has a powerful impact on the model. One year ago, the consensus forecast for the Denver-Boulder-Greeley inflation rate in 2001 was 3.15 percent. The baseline model now uses a 4.5 percent inflation rate in 2001. The higher inflation rate in 2001 reduces the FY 2025-26 fund balance by *$5.5 billion* relative to the original assumption of the inflation rate. Inflation is such an important variable because of its impact on the required increases in per student expenditures. When inflation is higher than expected, it *permanently* ratchets up the statewide base per pupil funding amount.

The higher inflation rate in 2001 was mostly related to persistent high energy costs in the first half of the year. However, energy costs frequently boost the overall inflation rate as they are very volatile. Higher energy costs will recur periodically during the forecast period. Figure 6 shows the impact of an inflation rate that is one percentage point higher than the projected inflation rate of 3.1 percent in 2005. The SEF would become insolvent in FY 2021-22.

Figure 6. State Education Fund Balance with Higher Inflation in 2005

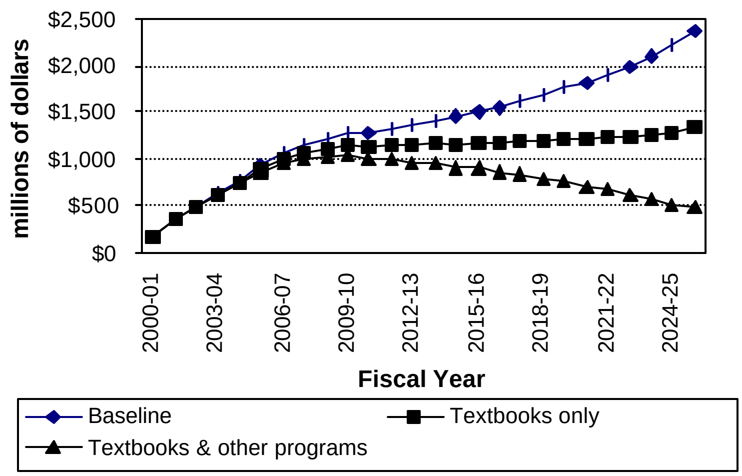


The General Assembly could provide an immediate increase in General Fund support to prevent the insolvency that results from the higher inflation rate. Under this scenario, the higher inflation rate would begin to affect the SEF balance in FY 2006-07. If the General Fund appropriation was increased by 7.775 percent (an increase of $54 million from the 5.8 percent level) for FY 2007-08, the SEF balance would surpass the baseline balance by $6.0 million in FY 2025-26. The maximum gap between the projected balances would be $67.4 million in FY 2014-15. Alternatively, an increase of 7.64 percent ($48.2 million) one year earlier would eliminate the gap in the fund balances by FY 2025-26.

Extending the special programs enacted in 2001. The General Assembly created several new programs during the 2001 legislative session that utilize the State Education Fund monies. Some of the programs are statutorily authorized for only a few years. For example, the additional funding for new textbooks pursuant to House Bill 01-1222 was for two years. The estimated funding for the second year is $15.0 million. If the $21 per student funding is continued through the end of the forecast period, an additional $409.6 million would need to be appropriated from the SEF. Interest earnings to the fund would be reduced by $615 million. The SEF balance would decline by $1.025 billion by the end of the forecast period. The balance would decline slightly in several years of the forecast period, but the fund does not reach the point where it appears headed for insolvency.

Senate Bill 01-098 appropriated $13.3 million for four years for teacher incentives while Senate Bill 01-129 appropriated approximately $3 million for two years for school improvement grants. If these programs were extended through FY 2025-26, in combination with the additional textbook funds, the SEF balance would decline by $1.9 billion. The fund gradually declines after reaching a peak and appears headed to insolvency. Figure 7 shows the impact of extending these programs.

Figure 7. State Education Fund Balance Added Spending for Books and Other Programs



Enacting new programs for FY 2002-03. The Governor has proposed a new $6.0 million program from the State Education Fund for the "Closing the Learning Gap Initiative." If this program is funded for FY 2002-03 only, the balance of the SEF would be reduced by $28.3 million by FY 2025-26. A five-year funding of the program would reduce the SEF balance by $131.8 million.

Figures 8 and 9 show the resulting SEF balances for one-year and five-year funding of new programs at various funding levels. Additional funding levels of $10 million, $25 million, and $50 million in FY 2002-03 *only* would not severely affect the SEF balance over the long term. Funding levels of $10 million, $25 million, and $50 million for five years (using no inflation or student growth during the five years) would not bring the SEF balance to the point of potential insolvency during the forecast period. Additional funding of $60 million for five years would bring several years of a year-over-year decline in the fund balance, but the balance would still increase.

Figure 8. State Education Fund Balance
Additional Programs for One Year

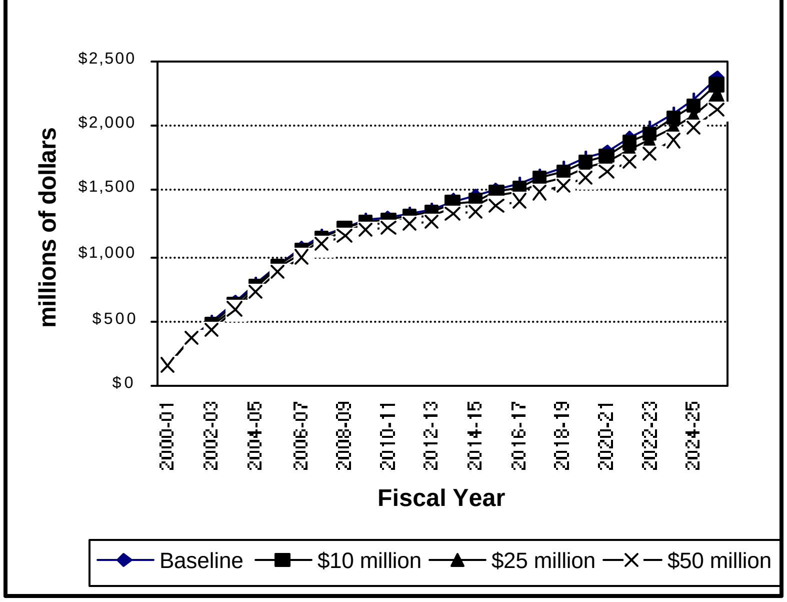


Figure 9. State Education Fund Balance
Additional Programs Each Year for 5 Years

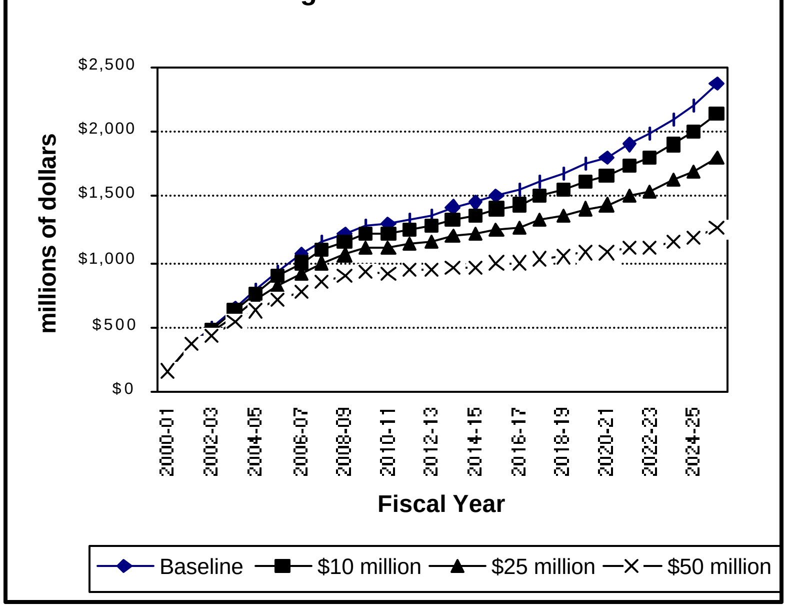


Table 3 shows the impact on the SEF balance of different General Fund appropriation increases combined with various amounts of ongoing appropriations from the SEF for new programs. While Table 3 indicates the combinations that would result in a negative fund balance absent policy intervention, some scenarios would result in a declining fund balance that would eventually lead to insolvency.

Table 3
Estimated State Education Fund Balance
Analysis of Various Appropriations and Spending Levels
millions of dollars

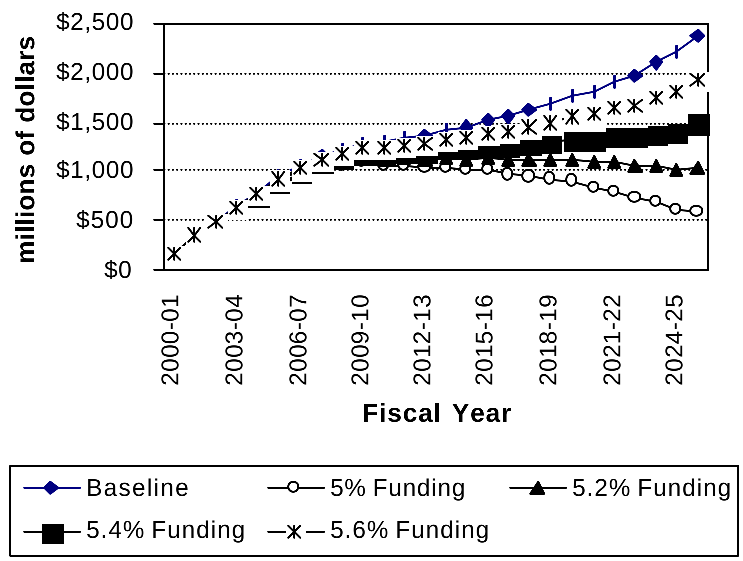
Increase in General Fund for Total Program	Fiscal Year	Additional Education Spending, millions of dollars			
		$0	$10	$25	$50
6.0%	2005-06	$986.9	$941.2	$873.3	$759.0
	2010-11	$1,596.3	$1,474.4	$1,293.3	$989.1
	2015-16	$2,472.1	$2,242.6	$1,901.7	$1,329.5
	2020-21	$4,226.4	$3,836.6	$3,254.4	$2,279.6
	2025-26	$7,800.7	$7,153.8	$6,186.4	$4,570.7
5.8%	2005-06	$936.9	$891.6	$823.1	$709.6
	2010-11	$1,294.1	$1,172.8	$990.4	$687.3
	2015-16	$1,512.9	$1,284.3	$940.6	$369.1
	2020-21	$1,816.8	$1,427.0	$841.1	**-$131.5**
	2025-26	$2,375.7	$1,727.8	$754.2	**-$772.9**
5.6%	2005-06	$887.8	$842.2	$773.3	$659.6
	2010-11	$995.3	$873.7	$690.8	$386.8
	2015-16	$568.0	$338.9	**-$5.3**	**-$561.1**
	2020-21	**-$536.4**	**-$898.3**	**-$1,393.5**	**-$2,106.1**
	2025-26	**-$2,473.9**	**-$2,891.7**	**-$3,461.9**	**-$4,299.5**

Impact of Different General Fund Appropriation Levels for FY 2002-03

Figure 2 showed that a 5.0 percent General Fund appropriation in FY 2001-02 would eventually push the State Education Fund into insolvency absent any other future action by the General Assembly to increase appropriations to prevent the insolvency. This section examines other levels of increases in General Fund support for education in FY 2002-03 and their impact on the solvency of the SEF. In each case, the increase is assumed to revert to 5.8 percent in FY 2003-04. Figure 10 shows the impact of one-time variances from the 5.8 percent level in FY 2002-03. Increases above the 5.8 percent baseline increase are not shown because they would enhance the balance of the SEF.

A one-time increase of 5.0 percent in FY 2002-03 would eventually push the SEF to insolvency. A 5.2 percent support level would likely create insolvency for the fund, but it would be far past the end of the forecast period. Either a 5.4 percent or 5.6 percent increase in General Fund appropriations in FY 2002-03 would still keep the fund solvent. The lower increase would reduce the fund balance by nearly $900 million, while the 5.6 percent increase would reduce the balance by $447 million.

Figure 10. State Education Fund Balance Varying One-Time Increases in FY 2002-03



Moneys Required from the State Education Fund

Table 4 shows the amount of money that will be required from the State Education Fund with the baseline assumptions. There are two components. First, total education spending, comprised of total program spending, categorical programs, and business incentive agreements, is compared to the traditional sources of funding from the General Fund, cash funds, and local tax support. This component is identified as the shortfall. Second, spending on new programs passed in 2001 is assumed to come from the SEF. These programs are described in Appendix C. Reducing the General Fund contribution to public school finance or creating additional programs that use the SEF would increase the spending from the SEF.

Table 4
Spending from the State Education Fund
millions of dollars

Fiscal Year	Shortfall for Public School Finance and Categorical Spending	Additional Spending for Optional Programs	Total Spending from State Education Fund	State Education Fund Balance at Year End
FY 2001-02	$86.2	$45.9	$132.1	$363.5
FY 2002-03	$187.0	$47.7	$234.2	$491.6
FY 2003-04	$220.0	$30.4	$250.4	$643.8
FY 2004-05	$269.7	$31.8	$301.5	$783.8
FY 2005-06	$313.5	$20.1	$333.6	$936.9
FY 2006-07	$387.1	$21.9	$409.0	$1,055.3
FY 2007-08	$440.8	$23.8	$464.6	$1,156.7
FY 2008-09	$515.3	$25.8	$541.1	$1.224.9
FY 2009-10	$561.7	$28.1	$589.8	$1,285.4
FY 2010-11	$654.9	$30.7	$685.5	$1,294.1
FY 2011-12	$659.8	$33.2	$693.0	$1,337.8
FY 2012-13	$716.8	$36.0	$752.8	$1,367.5
FY 2013-14	$737.6	$39.0	$776.7	$1,422.5
FY 2014-15	$811.6	$42.3	$853.9	$1,453.7
FY 2015-16	$838.9	$45.8	$884.7	$1,512.9
FY 2016-17	$918.0	$49.6	$967.6	$1,551.6
FY 2017-18	$940.9	$53.8	$994.7	$1,624.0
FY 2018-19	$1,022.3	$58.4	$1,080.7	$1,676.0
FY 2019-20	$1,055.0	$63.3	$1,118.3	$1,759.3
FY 2020-21	$1,153.2	$68.7	$1,221.9	$1,816.8
FY 2021-22	$1,189.3	$74.5	$1,263.8	$1,911.0
FY 2022-23	$1,290.9	$80.8	$1,371.7	$1,981.4
FY 2023-24	$1,324.8	$87.6	$1,412.4	$2,099.7
FY 2024-25	$1,425.6	$95.1	$1,520.7	$2,205.1
FY 2025-26	$1,452.3	$103.2	$1,555.5	$2,375.7

Appendix A

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

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

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

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

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

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

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

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

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

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

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

(b) The general assembly should not appropriate an amount of moneys from the state education fund for the next state fiscal year that exceeds the amount of moneys certified in the joint resolution.

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

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

(b) A revision of the assumptions as necessary;

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

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

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

(f) Revenue projections for the state education fund;

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

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

Appendix B
Amendment 23 Text

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.

Enacted by the People November 7, 2000 -- Effective upon proclamation of the Governor, December 28, 2000.

Appendix C
2001 Legislation Appropriating Money from the State Education Fund

Topic	Bill Number	Description	FY 2001-02 Approp	Approp from State Ed Fund Required	Duration of Program
Preschool Pupils	SB01-129	Increases the number of preschoolers funded under the school finance act by 1,000 students, to 10,050 students.	$2,720,000	no	indefinite
At-risk Count	SB 01-129	• Permits averaging of school district at-risk counts for up to three years; • Expands the definition of at-risk pupils to include students with limited proficiency in English who either take the CSAP test in a language other than English or who take the CSAP test but their test score is not included in a school's academic performance rating because of the length of time the student attended a Colorado public school; and • Increases the at-risk concentration factor from 0.34 to 0.36 for districts with more than 50,000 students. The at-risk count is funded through the school finance act.	$6,148,480	no	indefinite
Track Student Value Added	SB01-129	Requires the Department of Education to modify its data reporting system so that it can be used to measure a student's academic progress on the CSAPs from year to year and over time.	$388,000	no	indefinite
School Improvement Grants	SB 01-129	• Creates a grant program to provide money to schools rated as "unsatisfactory" to implement school improvement plans; • Provides two-year grants of $75,000 for elementary schools, $100,000 for middle or junior high schools, and $125,000 for high schools; • Makes receipt of a grant contingent upon the local board submitting a school improvement plan to the State Board of Education; and • Provides an additional $25,000 in the second year of the program to any school that improves by at least half a point from the standard deviation over the preceding year's total score.	$2,900,000	yes	two years (through FY 2002-03)
Charter School Capital Construction	SB 01-129	Provides qualified charter schools with 130 percent of the minimum transfer for capital reserve/risk management, or $322 per pupil in FY 2001-02.	$5,308,961	yes	indefinite
School District Capital Construction	SB 01-129	Requires the General Assembly to appropriate to the School Capital Construction Expenditures Reserve the same amount of money that is appropriated for charter school capital construction. (The School Capital Construction Expenditures Reserve provides school districts with state money primarily to address immediate safety hazards or health concerns within existing school facilities.)	$5,308,961	yes	indefinite

Topic	Bill Number	Description	FY 2001-02 Approp	Approp from State Ed Fund Required	Duration of Program
Summer School Program	SB01-129	Creates a grant program to provide $100 for each student who scores at the "unsatisfactory" proficiency level on the third or fourth grade reading CSAP and who participates in a summer school reading program provided by the district.	$945,800	no	indefinite
Full-day Kindergarten	SB01-91	Provides funding through the school finance act for full-day kindergarten for students who attend a school that received an academic performance rating of "unsatisfactory" for the previous school year.	$2,853,075	no	five years (through FY 2005-06)
Teacher Pay Incentives	SB01-98	• Creates a four-year grant program for teachers at public schools that receive an academic performance rating of "low" or "unsatisfactory;" • Provides that the grant money can only be used to provide bonuses (or associated costs) to reward outstanding performance, recruit or retain teachers, or defray housing costs; • Provides additional money to schools that receive a "significant improvement" or "improvement" rating after the first year of the four-year program; and • Allocates both the basic grant money and the additional money to schools on a per pupil basis by dividing the appropriation by the total number of students enrolled in all eligible schools.	$12,630,000	no	four years (through FY 2004-05)
Assessments/ Accountability	SB01-98	• Requires the Department of Education to review and update all assessments as necessary to maintain their integrity.	$411,953	no	indefinite
		• Requires the scores of all students who took the CSAP in a language other than English (i.e., Spanish) to be included in the 2000-01 school academic performance ratings.	$25,000	N/A	one year
		• Expands school accountability reports to include information on student enrollment stability and students eligible for free lunch. Although the change in the accountability reports is on-going, an appropriation is only needed for the first year.	$50,000	N/A	one year
Studies	SB01-98	• Requires the Department of Education and an appointed study committee to study the administration of assessments for students whose dominant language is not English.	$50,000	N/A	six months
		• Requires the Department of Education to contract for a study of the use of the curriculum-based, achievement college entrance examination.	$50,000	N/A	six months

Topic	Bill Number	Description	FY 2001-02 Approp	Approp from State Ed Fund Required	Duration of Program
School Textbooks	HB 01-1272	• Provides $20 per student in FY 2001-02 and $21 per student in FY 2002-03 to purchase new textbooks; • requires school districts to adopt a plan on the use of the money; • requires that the moneys first be used to provide up-to-date textbooks in reading, writing, math, science; and • requires charter schools to receive their proportionate share of the textbook money.	$14,095,340	no	two years (through FY 2002-03)
Science and Technology Education Center Grants	HB 01-1365	• Provides development and operating moneys to nonprofit science and technology education centers that provide science and technology education activities, materials, and educational workshops for students and their teachers; • limits the amount of a grant to a new center to $500,000 and to an operating center to $200,000; and • requires centers to match the amount of a state grant.	$1,400,000	no	ten years (through FY 2010-11)
School Finance and Categoricals	SBs 01-212 and 01-129	• Provides the difference between the total state aid need for school finance and the 5.8 percent increase in the General Fund appropriation and traditional cash fund appropriations; and • Provides the required "inflation plus one percentage point," or five percent, increase in categorical programs, including programs for special education, gifted and talented students, transportation, small attendance centers, English language proficiency, expelled and at-risk students, suspended students, vocational education, and comprehensive health education.	$58,786,257 $7,215,347	N/A N/A	indefinite indefinite
		Total FY 2001-02 Appropriations from State Education Fund	$121,287,174		