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MEMORANDUM

February 1, 2018

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

FROM: Marc Carey, Principal Economist, 303-866-4102

SUBJECT: Report on the State Education Fund

Summary

Pursuant to Section 22-55-104 C.R.S., Legislative Council Staff is required to conduct a review of the model used to forecast revenue to and expenditures from the State Education Fund and the spending requirements for the Public School Finance Act of 1994 by February 1 of each year. This report provides a forecast of the State Education Fund revenue and expenditures within the budgetary framework for school finance for FY 2018-19.

The forecast for the State Education Fund and the level of General Fund appropriations needed to pay for school finance have changed since the General Assembly adjourned in May 2017. Pupil enrollment, both in terms of the overall count and the number of at-risk pupils, grew more slowly than expected, while property values grew faster than expected. In addition, expectations for income taxes have risen as a result of federal tax reform, increasing projected deposits into the State Education Fund and the General Fund for FY 2018-19. This report assumes the 2018 supplemental school finance bill and House Bill 18-1101 are adopted, the value of the budget stabilization factor is $822 million, and the balance in the State Education Fund is reduced to $100 million in FY 2018-19 and beyond. In addition, the report assumes that the appropriations for FY 2017-18 for the General Fund and the State Education Fund will remain at current levels, and that $91 million that has reverted to the State Public School Fund will be appropriated for school finance in FY 2018-19. As a result, General Fund support for school finance will decrease 1.5 percent in FY 2018-19, before increasing 8.9 percent in FY 2019-20. This entails a year-over-year decrease in General Fund support for school finance of $58 million in FY 2018-19 and an increase of $343 million in FY 2019-20.

The model used to project the State Education Fund balance was updated to reflect actual data for the current budget year, the December 2017 Legislative Council Staff revenue and economic forecast, and the recent release of the 2017 inflation rate by the federal government. Increases in school finance and categorical funding are based on the actual inflation rate of 3.4 percent applicable for FY 2018-19. The income tax diversion to the State Education Fund is projected to grow at an average annual rate of 5.8 percent through FY 2018-19.

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, created the State Education Fund (SEF). It diverts an amount equal to one-third of one percent of 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.

Requirements for a Study

Following voter approval of Amendment 23, the Legislative Audit Committee contracted with Pacey Economics to develop a model to predict the impact of policy decisions and economic conditions on the balance of the SEF and on General Fund appropriations for public elementary and secondary education. As Pacey Economics 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 Pacey Economics 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 different General Fund appropriations on the SEF balance, based on 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 2018-19;
- 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 2018-19 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 2018-19 for additional programs that are consistent with the provisions of Amendment 23.

This year's report assumes passage of the 2018 supplemental budget bill for school finance, as approved by the Joint Budget Committee. This bill makes mid-year adjustments for education funding in FY 2017-18, reducing the value of the budget stabilization factor to $822 million, and holds the budget stabilization factor at this level in FY 2018-19. The Joint Budget Committee, the Governor's Office, and the General Assembly will analyze in greater detail the FY 2018-19 appropriations from the General Fund and the SEF — and the laws that drive these appropriations — in the coming weeks. Thus, much will change during the 2018 legislative session that will affect the analysis presented in this report.

Updated Revenue and Expenditure Forecasts

The General Assembly is able to allocate funding for public schools between the General Fund, the SEF, and other cash funds as it wishes. In the 2018 legislative session, the General Assembly will confront policy questions regarding the overall amount of state funding to allocate for school finance and other education-related programs in FY 2018-19 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 nearly $162 million at the end of FY 2017-18.

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 last published in 2017. Inputs to the model have been updated to incorporate law changes enacted by the General Assembly, actual school funding data for FY 2017-18, revisions to forecasts of economic indicators, and the most recent Legislative Council Staff forecast of pupil counts and assessed values. Like prior school finance bills, Senate Bill 17-296 included a budget stabilization factor that reduced the overall amount of funding for school finance by about $828 million. In addition, this report assumes that the General Assembly will approve the 2018 supplemental funding bill, which lowers the value of the budget stabilization factor by another $5.9 million in the current budget year to about $822 million. Because current law holds the value of the budget stabilization factor constant in FY 2018-19, a comparison of subsequent budget years assumes that the value of the budget stabilization factor will remain at $822 million indefinitely.

Projections for property taxes. 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 2017-18, the local share totaled just over $2.5 billion. In FY 2018-19, the total local share for school finance is projected to increase by $35.5 million compared with FY 2017-18. The relatively small increase is because 2018 is a non-reassessment year for most property.

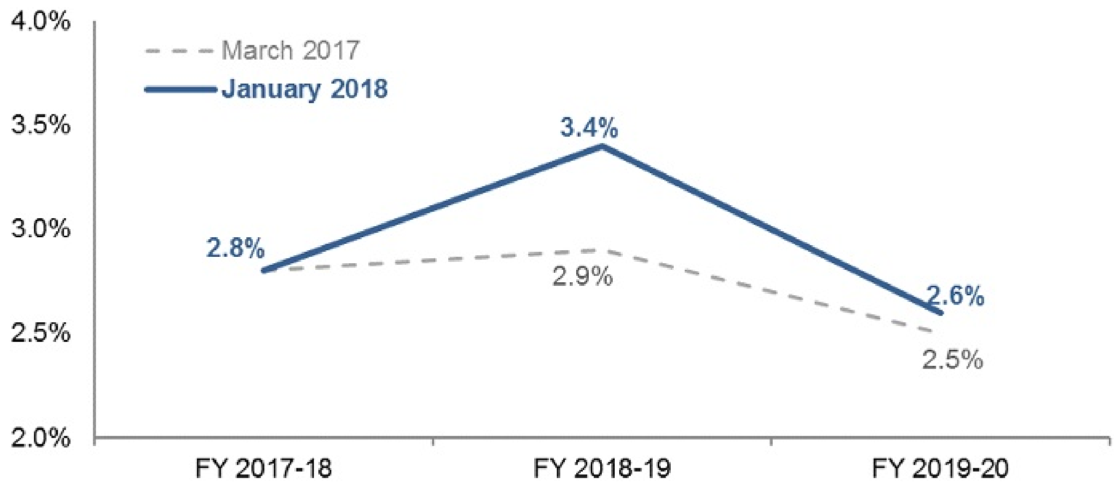
The Gallagher Amendment in the Colorado Constitution requires an adjustment in the residential assessment rate in order to maintain a constant relationship between the statewide share of residential taxable value and the statewide share of nonresidential taxable value. During the 2017 legislative session, the General Assembly passed House Bill 17-1349, which reduced the residential assessment rate for 2017 and 2018 from 7.96 percent to 7.2 percent.

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. After jumping 15.1 percent in 2015 and falling 3.7 percent in 2016, assessed values jumped 9.3 percent in 2017. This resulted in about $91 million more in property taxes for school finance than the prior year.

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 budget stabilization factor. The budget stabilization factor is a percentage cut in each school district's total program funding that is determined annually by the General Assembly. The budget stabilization 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 increases with a higher inflation rate. For FY 2018-19, the inflation rate was increased from the 2.9 percent forecast in March 2017 to the recently released actual rate of 3.4 percent. This increased total program funding before the budget stabilization factor by nearly $38 million.

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



Source: U.S. Bureau of Labor Statistics and Legislative Council Staff Forecasts.

Revenue projections for the State Education Fund. One-third of one percent of 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 2017 Legislative Council Staff revenue forecast. The income tax revenue deposited in the fund is expected to increase at an average annual growth rate of 5.8 percent between FY 2016-17 and FY 2018-19, as illustrated in Table 1. The table also compares the current projections of income tax revenue to the SEF with those from the March 2017 forecast. Actual income tax diversions to the fund for FY 2016-17 were $10 million lower than projected last March. Income tax diversions over the next two years have also fallen by $23.6 million from what was projected in March 2017. For FY 2018-19, income tax revenue to the SEF is expected to total $606.2 million.

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 retained in 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 about 0.1 percent annually. The modest rate of return is attributed to the types and timing of investments, as 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 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 State Education Fund
(Millions of Dollars)

	December 2017 Forecast		March 2017 Forecast		
Fiscal Year	**Income Tax**	**Year-to-Year % Change**	**Income Tax**	**Year-to-Year % Change**	**Change in Projected State Education Fund Revenue**
FY 2016-17	$540.0	3.3%	$550.0	5.2%	($10.0)
FY 2017-18	$574.2	6.3%	$585.3	6.4%	($11.1)
FY 2018-19	$606.2	5.6%	$618.7	5.7%	($12.5)
Total	**$1,720.4**		**$1,754.0**		**($33.6)**

State Money Needed to Meet Amendment 23 Funding Requirements in FY 2018-19

Amendment 23 requires the statewide base per pupil funding amount for preschool through twelfth grade education to increase annually by the inflation rate. The same requirement applies to state funding for categorical programs. Under current law, meeting these two obligations is expected to cost the state nearly $3.7 billion in FY 2018-19, as illustrated in line 10 of Table 2. This represents an increase of about $205 million from the Amendment 23 requirements in FY 2017-18. Note that the school finance and categorical program dollar amounts in Table 2 are based on the recently released actual inflation rate of 3.4 percent for 2017.

School finance funding. Under current law, the projected statewide base per pupil funding amount for FY 2018-19 is $6,768.77, an increase of $222.57 over the current budget year. When combined with a 0.6 percent increase in the funded pupil count, total funding for school finance is projected to be $7,751.2 million, an increase of $300.9 million over the current budget year, before application of the budget stabilization factor (line 3). Local property and specific ownership taxes are expected to increase by $35.5 million, resulting in a net increase in state aid of $265.4 million (line 5). Assuming passage of the 2018 supplemental school finance bill, the budget stabilization factor will be set at $822.4 million in FY 2017-18, and state aid for school finance will increase by $265.4 million (line 7).

Categorical programs. Total state funding for categorical programs is estimated at $307.7 million for FY 2018-19, an increase of 3.4 percent over the prior year, or $10.1 million (line 9). Total state funding for categorical programs and school finance must therefore increase by $275.5 million, as reflected in the last row of Table 2.

Table 2
State Money Required to Meet School Finance Act Funding Requirements in FY 2018-19 under Current Law, Assuming Passage of 2018 Supplemental School Finance Bill
(Millions of Dollars)

	Calculation of Funding Amounts	Estimated FY 2018-19	Change from FY 2017-18
1	Total funding under the school finance act for base increase of inflation, before inclusion of other factors in school finance formula	$5,892.6	$230.0
2	Plus other factors included in school finance formula, before the budget stabilization factor	$1,858.6	$70.9
3	**Equals total program funding before Budget Stabilization factor**	**$7,751.2**	**$300.9**
4	Minus property and specific ownership taxes for school finance	$2,542.4	$35.5
5	Equals state aid before Budget Stabilization factor	$5,208.8	$265.4
6	Minus Budget Stabilization factor	($822.4)	$0.0
7	**Equals state aid for school finance funding**	**$4,386.4**	**$265.4**
8	**Total school finance funding after BS factor (lines 4+7)**	**$6,928.8**	**$300.9**
	Categorical Programs		
9	Total funding for categorical programs with a 3.4 percent increase in inflation	$307.7	$10.1
	Total: School Finance Funding Plus Categorical Programs		
10	Total state funding required for school finance **base** and **categorical programs** (sum of lines 1 and 9) minus **local funding** (line 4)	$3,657.9	$204.6
11	Total state funding for school finance and categorical programs (sum of lines 7 and 9)	$4,694.1	$275.5

Other Revenue to Meet State Funding Requirements under Amendment 23: State Public School Fund

In addition to General Fund and SEF revenue, other revenue from federal mineral leases and state school trust lands 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.

Two important changes have occurred which affect revenue to this fund on a one-time basis in FY 2018-19. First, beginning in FY 2018-19, Senate Bill 17-267 continuously appropriated 12.59 percent of marijuana sales tax revenue to the fund. This report assumes that House Bill 18-1101, which makes this money subject to annual appropriations in FY 2019-20, will pass and become law. Second, because local tax revenue was higher than expected in 2017, there is more money available than has been appropriated. According to the Office of Legislative Legal Services, this money will revert to the State Public School Fund. Table 3 shows expected sources of revenue to and obligations from the State Public School Fund in FY 2018-19.

Table 3
Revenue Sources for the State Public School Fund
(Millions of Dollars)

	Revenue Sources	Estimated FY 2018-19
1	Beginning Balance	$96.1
2	Federal Mineral Lease Revenue	$47.6
3	Permanent Trust Fund Interest	$21.0
4	State Audit Recoveries	$2.0
5	Marijuana Sales Tax Revenue	$20.6
6	**Total Revenue to State Public School Fund** (sum lines 1-5)	$187.3
7	School Finance Payments	$148.1
8	Other Appropriations	$13.6
9	Targeted Ending Balance	$25.6
10	**Total Obligations State Public School Fund** (sum lines 7- 9)	$187.3

The estimated amount available in FY 2018-19 for school finance is $148.1 million (line 7). This amount is based on a beginning balance of $96.1 million, federal mineral lease deposits of $47.6 million, Permanent Trust Fund interest of $21.0 million, $2.0 million in district audit recoveries, and current expectations of $20.6 million for marijuana sales tax revenue. This amount also assumes a continuation of $13.6 million in other appropriations from the fund, and a targeted ending balance of $25.6 million including both the marijuana money and a $5 million buffer.

These assumptions have implications for the required appropriations for the General Fund and the State Education Fund. As Table 4 shows, the total state funding requirement for school finance and categoricals in FY 2018-19 is $4.694 billion, an increase of $275. 5 million over the prior year. Netting out the available contribution from the State Public School Fund leaves a funding requirement from the General Fund and the SEF of $4.546 billion for FY 2018-19, an increase of $200.6 million compared with the prior year.

Table 4
Other Revenue for School Finance Act Funding Requirements under Current Law
(Millions of Dollars)

	Other Revenue Amounts	Estimated FY 2018-19	Change from FY 2017-18
1	Total state funding required for school finance and categorical programs (Table 2, line 11)	$4,694.1	$275.5
2	Minus State Public School Fund revenue for school finance	$148.1	$74.9
3	Equals General Fund and State Education Fund for school finance and categorical programs (line 1 minus line 2)	$4,546.0	$200.6

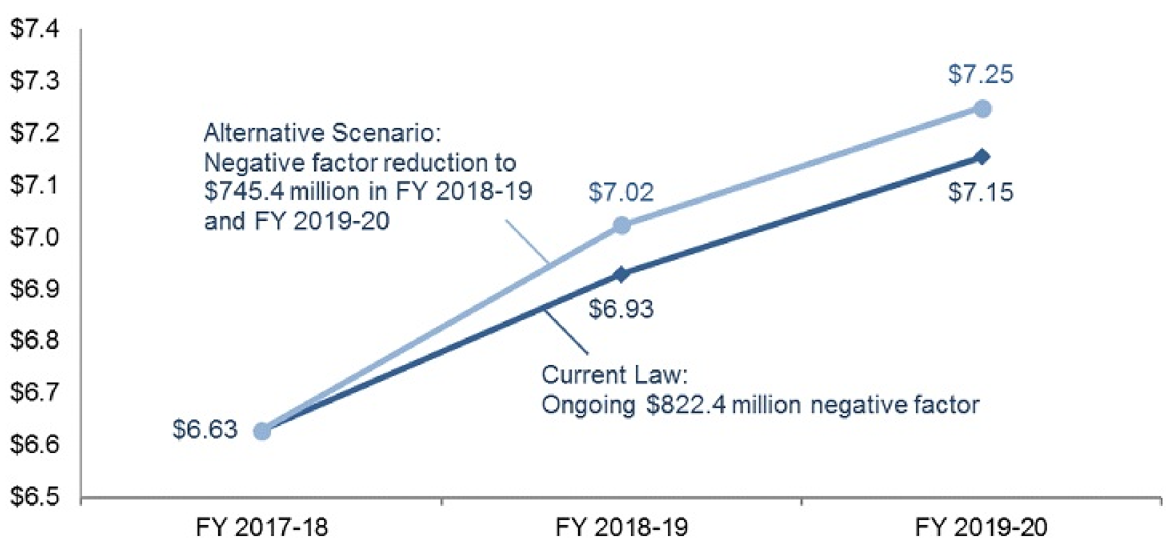
Note: Numbers may not sum due to rounding.

General Fund and SEF Appropriations and the SEF Fund Balance under Two Scenarios

This portion of the report presents two different funding scenarios for school finance, how they impact the projected balance of the SEF in FY 2017-18 and FY 2018-19, and what each scenario entails for General Fund support for school finance. These scenarios are intended to address 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 $100 million is used to estimate the General Fund and SEF appropriations that will be needed to fund overall increases in school finance.

The first scenario is based on current law and projects the General Fund contribution for school finance over the next two years, assuming the value of the budget stabilization factor remains at $822.4 million. The alternative scenario reflects the Governor's request that the budget stabilization factor fall to a level of $728.3 million in FY 2018-19. Figure 2 illustrates projected total program funding under each of these funding scenarios.

Figure 2
Total Program Funding Scenarios
(Billions of Dollars)



Source: Legislative Council Staff State Education Fund Model.

Current law scenario. Assuming the supplemental school finance bill is adopted, the budget stabilization factor will be set at $822.4 million. If the minimum SEF ending balance at the end of FY 2018-19 is assumed to be $100 million, General Fund appropriations will decrease by $58 million, or 1.5 percent, due to the one-time money from the State Public School Fund. In FY 2019-20, General Fund appropriations will have to increase by $343 million, or 8.9 percent, as the SEF balance remains at $100 million. 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.

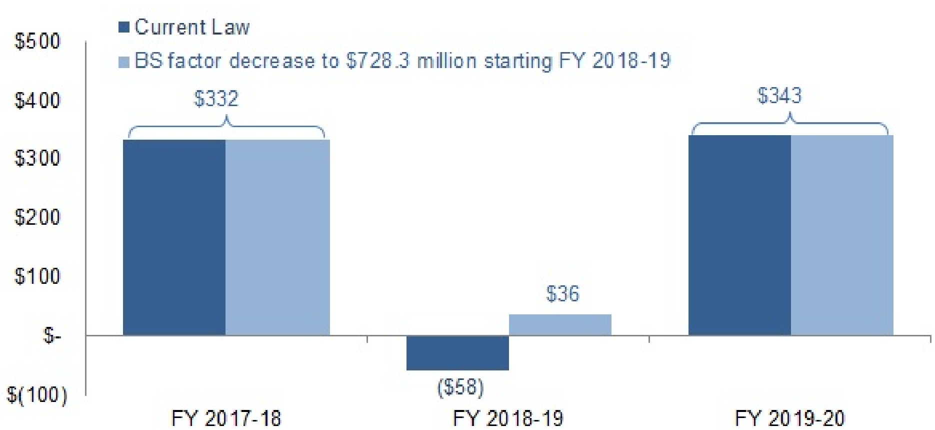
Table 4
SEF Balances Under Current Law,
Assuming a $100 Million SEF Balance in FY 2018-19 and Thereafter
(Millions of Dollars)

Fiscal Year	Total School Finance Funding	Total State Aid*	State Education Fund Appropriation	General Fund Appropriation	General Fund Change from Prior Year	State Education Fund Balance
2017-18	$6,628	$4,121	$229	$3,923	$331	$162
2018-19	$6,929	$4,386	$373	$3,865	($58)	$100
2019-20	$7,153	$4,565	$300	$4,208	$343	$100
2020-21	$7,367	$4,681	$327	$4,298	$90	$100
2021-22	$7,596	$4,856	**$331**	**$4,468**	**$170**	$100

**Includes appropriations from the State Public School Fund.*

Alternate scenario, budget stabilization factor decreases to $728.3 million. If the value of the budget stabilization factor decreases by about $94.1 million in FY 2018-19 and subsequent years following the Governor's request, total program funding will increase correspondingly. With the SEF balance at its assumed minimum level in FY 2018-19 under either scenario, General Fund appropriations would increase $36.4 million in FY 2018-19 year-over-year. In FY 2019-20, General Fund appropriations would increase by $343 million under both current law and the alternate scenario. Figure 3 illustrates the year-over-year increase in General Fund support needed for school finance under current law and the alternate scenario.

Figure 3
Year-over-Year General Fund Appropriations Growth Required for School Finance
(Millions of Dollars)



Source: Legislative Council Staff State Education Fund Model.

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 2018-19 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 2017-18 through FY 2020-21. These projections are based on current law requirements for total school finance funding as reflected in the supplemental school finance bill, and assume the budget stabilization factor remains at $822.4 million and a minimum SEF balance of $100 million. Appendix B is the text of Amendment 23.

Estimated Balance of State Education Fund Under Current Law
Assumes Passage of 2018 Supplemental School Finance Bill, Budget Stabilization Factor Remains at $822.4 Million Through FY 2020-21, and Minimum $100 Million State Education Fund Ending Balance in FY 2017-18 and Subsequent Years
(Dollars in Millons)

	State Education Fund						General Fund			School Finance Act	
(1) Fiscal Year	(2) Revenue to the State Education Fund	(3) Spending for School Finance	(4) Spending for Categorical Programs	(5) Total State Education Fund Spending*	(6) Change in Spending from Prior Year	(7) State Education Fund Balance	(8) General Fund Approp for School Finance	(9) Dollar Increase in General Fund Approp from Prior Year	(10) Percent % General Fund Approp from Prior Year	(11) Total School Finance Act Funding	(12) 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	$352.5	$21.8	$142.6	$2,247.9	$110.3	5.2%	$4,298	$138
2004-05	$313.9	$313.4	$23.7	$347.2	($5.3)	$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	$143
2006-07	$395.4	$299.8	$26.3	$336.9	$1.1	$225.1	$2,657.7	$177.2	7.1%	$4,790	$217
2007-08	$407.9	$259.1	$35.5	$301.4	($35.5)	$349.3	$2,790.5	$132.8	5.0%	$5,069	$279
2008-09	$461.3	$362.2	$77.4	$494.2	$192.8	$331.0	$2,930.1	$139.6	5.0%	$5,349	$280
2009-10	$329.0	$339.6	$88.2	$482.0	($12.2)	$188.2	$3,076.3	$146.2	5.0%	$5,588	$239
2010-11	$592.9	$284.0	$89.3	$427.2	($54.8)	$363.4	$2,797.7	($278.6)	-9.1%	$5,442	($146)
2011-12	$416.7	$511.1	$93.7	$654.3	$227.1	$133.8	$2,671.8	($125.9)	-4.5%	$5,232	($210)
2012-13	$545.3	$345.5	$102.5	$511.2	($143.1)	$183.4	$2,852.3	$180.5	6.8%	$5,298	$66
2013-14	$1,597.6	$527.4	$127.1	$740.9	$229.7	$1,048.9	$2,985.3	$133.0	4.7%	$5,527	$229
2014-15	$583.7	$668.4	$136.5	$960.2	$219.3	$691.4	$3,184.0	$198.7	6.7%	$5,933	$406
2015-16	$547.9	$630.3	$144.3	$947.6	($12.6)	$302.3	$3,299.3	$115.3	3.6%	$6,240	$307
2016-17	$565.3	$467.2	$147.8	$774.0	($173.6)	$102.2	$3,591.2	$291.9	8.8%	$6,373	$133
2017-18	$599.5	$228.6	$155.9	$541.4	($232.6)	$161.8	$3,923.2	$332.0	9.2%	$6,628	$255
2018-19	$631.2	$372.9	$166.0	$695.8	$154.4	$100.0	$3,865.5	($57.7)	-1.5%	$6,929	$301
2019-20	$628.5	$300.0	$174.0	$631.2	($64.6)	$100.0	$4,208.1	$342.6	8.9%	$7,153	$224
2020-21	$660.8	$326.5	$181.9	$666.1	$34.9	$100.0	$4,297.8	$89.7	2.1%	$7,368	$215

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.