Legislative Council Staff
Nonpartisan Services for Colorado's Legislature

Memorandum

January 31, 2026

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

FROM: Marc Carey, Chief School Finance Officer, 303-866-4102

SUBJECT: State Education Fund Report

Summary

Pursuant to Section 22-55-104, C.R.S., Legislative Council Staff, in consultation with the State Auditor, the State Treasurer, the Department of Education (CDE), the Office of State Planning and Budgeting, and the Joint Budget Committee (JBC), 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 2025 by February 1 of each year. This report provides a forecast of State Education Fund revenue and expenditures within the budgetary framework for school finance for FY 2025-26. It also provides three scenarios and associated projections for the upcoming budget year and three years following. Scenario presentations begin on page 11.

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 2025. Pupil enrollment both in terms of the overall count and the number of at-risk and English language learner (ELL) pupils declined from expectations. Property values recorded for the 2025 tax year exceeded the expectations of the December 2024 Legislative Council Staff forecast. In addition, expectations for income taxes have declined, decreasing projected deposits into the State Education Fund and the General Fund for FY 2025-26 and FY 2026-27.

This report assumes that the 2026 supplemental school finance bill, as approved by the Joint Budget Committee, will be adopted, and that the initial appropriation from the General Fund for FY 2025-26 will remain at its current level, while the appropriation from the State Education Fund will decrease by $103.5 million due to enrollment and property value changes.

The model used to project the State Education Fund balance was updated to reflect actual data for the current budget year, the December 2025 Legislative Council Staff revenue and economic forecast, and the recent release of the 2025 inflation rate by the federal Bureau of Labor Statistics. Increases in school finance and categorical funding are based on the actual inflation rate of 2.3 percent applicable for FY 2026-27. The income tax diversion to the State Education Fund is projected to increase at an average annual rate of 2.7 percent from FY 2024-25 through FY 2026-27.

Amendment 23 and the State Education Fund

Article IX, Section 17, of the Colorado Constitution, enacted by the voters in 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.

Study Requirements

Following voter approval of Amendment 23, the Legislative Audit Committee contracted for a model (SEF model), originally developed by Pacey Economics and maintained by Legislative Council Staff, 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. The balance of the SEF is integrally tied to the level of General Fund appropriations, as 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 SEF model 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 SEF 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.

Annual Report

State law anticipates an annual update of the SEF 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 SEF that addresses the following:

- the reasonableness of the assumptions used to forecast SEF 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 2026-27;
- projections of the amount of money available from sources of revenue other than the General Fund and the SEF 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 2026-27 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 2026-27 for additional programs that are consistent with the provisions of Amendment 23.

This year’s report assumes passage of the 2026 supplemental budget bill for school finance, as approved by the Joint Budget Committee, which makes mid-year adjustments for education funding in FY 2025-26. The JBC, the Governor's Office, and the General Assembly will analyze in greater detail the FY 2026-27 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 2026 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 chooses. In the 2026 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 2026-27, 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 $630.8 million at the end of FY 2025-26.

SEF Model Updates

The basic framework of the SEF model is retained for this report; there are no major changes in the structure of the model since this report was last published in 2025. Inputs to the model have been updated to incorporate legislation enacted by the General Assembly, actual school funding data for FY 2025-26, revisions to forecasts of economic indicators, and the most recent Legislative Council Staff forecast of pupil counts and assessed values. House Bill 24-1448 created a new school finance formula, and implementation of that formula began in FY 2025-26 with the passage of House Bill 25-1320. This report assumes that the General Assembly will approve the 2026 supplemental funding bill and continue to phase in the new formula according to current law.

Property Tax Projections

Property taxes and specific ownership taxes (SOTs) 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 2025-26, the local share totaled just over $4.63 billion.

In FY 2026-27, the total local share for school finance is projected to decrease by $22.2 million compared with FY 2025-26, and total $4.61 billion. The 0.5 percent decrease results from an expected decrease in assessed values in the 2026 non-reassessment year, largely attributable to a decrease in assessment rates to 25 percent for improved commercial and agricultural properties, and 26 percent for most other non-residential assessment rates.

Assessment Rates

The Gallagher Amendment in the Colorado Constitution was repealed by Amendment B in the 2020 general election. As a result, the residential assessment rate is no longer required to adjust 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 2020 legislative session, the General Assembly passed Senate Bill 20-223, which fixed the residential assessment rate at 7.15 percent and the nonresidential assessment rate at 29 percent indefinitely. In the years since, the General Assembly has adjusted assessment rates for residential and nonresidential property several times, and has passed several pieces of legislation, creating new subclasses of property and tweaking assessment rates.

Most recently, during the 2024 special session, the General Assembly passed HB 24B-1001, which modified residential and nonresidential assessment rates and valuation. While the bill steps down nonresidential assessment rates over the next few years, including to 25 percent for most classes of property in 2027, it also set a permanent residential assessment rate for school districts at 7.05 percent. The bill also implemented a school district property tax revenue limit that may temporarily lower the residential assessment rate for school districts below 7.05 percent if needed to meet this limitation.

Assessed Value and Property Tax Growth

Property taxes account for just over 94 percent of the local contribution to the School Finance Act. Yearly changes in property tax revenue depend upon changes in both the tax base, or assessed value, and changes in the tax rate, or mill levy, of school districts. After jumping 24.7 percent in 2023, and declining 2.8 percent in 2024, assessed values rose 9.4 percent in 2025. This resulted in $435 million more in property taxes for school finance in FY 2025-26 than the prior year.

School Finance Costs

Expenditures for school finance are a function of the formula in state law, pupil counts and inflation. Changes to inflation affect overall funding requirements for school finance and categorical programs. The statewide base per pupil funding level must increase by inflation each year, as specified by Amendment 23.

Under the new formula enacted in HB 24-1448, the base per pupil amount multiplied by the funded pupil count constitutes foundation funding. This is augmented by funding based on student characteristics, including at-risk funding, ELL funding, special education funding and funding for online and extended high school students. The formula also specifies funding based on district-specific characteristics, including cost of living factor funding, size factor funding and locale factor funding. All student and district adjustments are also based in part on base per pupil funding, with the exception of online and extended high school funding.

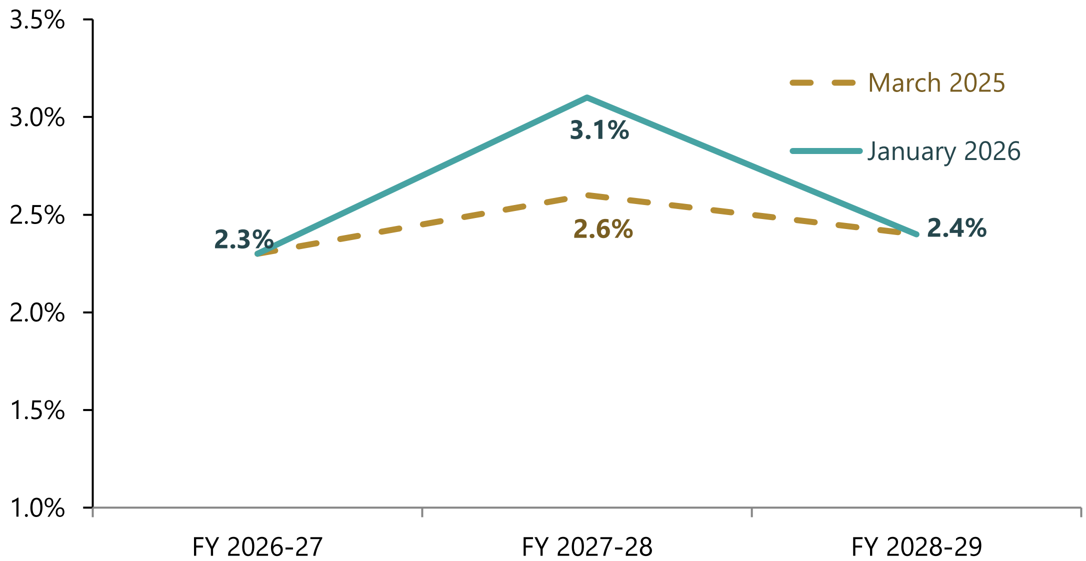
As amended by HB 25-1320, the new formula is phased in over seven years, with districts receiving the greater of either:

- in FY 2025-26 and FY 2026-27, actual FY 2024-25 total program funding, and thereafter total program funding under the old formula, plus 1 percent (“hold harmless”); or

- total program funding under the old formula, plus a percentage of the difference between the old and new formulas. This percentage is 30 percent in FY 2026-27 and increases annually through FY 2031-32, when the formula is fully implemented.

As described in detail later in this report, a change in the inflation forecast changes the overall cost of school finance and total state funding for categorical programs. For FY 2026-27, the recently released 2025 inflation rate of 2.3 percent is unchanged from the rate forecast in March 2025. Figure 1 illustrates the change in projected inflation rates through FY 2028-29.

Figure 1
Comparison of Inflation Rate Projections from Legislative Council Staff Forecasts



Source: U.S. Bureau of Labor Statistics and Legislative Council Staff Forecasts.
Reflects actual 2025 inflation and 2026 and 2027 projections from the LCS December 2025 forecast.

State Education Fund Revenue Projections

One-third of one percent of taxable income of state income tax returns is deposited in the SEF. This amount translates to about 8.1 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 2025 Legislative Council Staff revenue forecast. The income tax revenue deposited in the fund is expected to increase at an average annual growth rate of 2.7 percent between FY 2024-25 and FY 2026-27, as illustrated in Table 1.

Table 1 also compares the current projections of income tax revenue to the SEF with those from the March 2025 forecast. Actual income tax diversions to the fund for FY 2024-25 were $28.8 million lower than projected last March. Expected income tax diversions over the next two years have decreased by $212.3 million compared with projections from March 2025. For FY 2026-27, income tax revenue to the SEF is expected to total $1,119.0 million.

Table 1
Changes in Projections of Income Tax Revenue to State Education Fund
Dollars in Millions

Fiscal Year	Dec. 2025 Forecast Income Tax	Dec. 2025 Forecast Year-to-Year % Change	March 2025 Forecast Income Tax	March 2025 Forecast Year-to-Year % Change	Change in Projected SEF Revenue
FY 2024-25	$1,060.6	-12.3%	$1,089.4	-9.9%	-$28.8
FY 2025-26	$1,018.8	-3.9%	$1,151.5	5.7%	-$132.7
FY 2026-27	$1,119.0	9.8%	$1,198.6	4.1%	-$79.6
Total	**$3,198.4**		**$3,439.5**		**-$241.1**

HB 25-1320 created the Kids Matter Account within the SEF, and requires that the account receive 65 percent of one-tenth of one percent of federal taxable income, beginning in FY 2026-27. This diversion is expected to be $218 million in FY 2026-27 and higher amounts in future years and it not TABOR exempt.

Interest Earnings

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. As of September 2025, the treasury pool was earning interest of about 3.4 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 stays higher in the first part of the fiscal year, earning more interest than it otherwise would, then drops precipitously in the second half of the fiscal year when the more significant portion of school finance expenses are paid.

State Money Available to Meet Amendment 23 Funding Requirements

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 are expected to cost the state just over $3.3 billion in FY 2026-27, as illustrated in line 8 of Table 2. This represents an increase of about $84.4 million from the Amendment 23 requirements in FY 2025-26. Note that the school finance and categorical program dollar amounts in Table 2 are based on the recently released actual inflation rate of 2.3 percent for 2025.

School Finance Funding

Under current law, the projected statewide base per pupil funding amount for FY 2026-27 is $8,891.71, an increase of $199.90 over the current budget year. When combined with a 1.7 percent projected decrease in the funded pupil count and the continued phase in of the new formula, total funding for school finance is projected to be $10,189.1 million in FY 2026-27 (line 3). Local property and specific ownership taxes are expected to decrease by $22.5 million, resulting in a net increase in state aid of $213.5 million, assuming passage of the 2026 supplemental school finance bill (line 5).

Categorical Programs

Total state funding for categorical programs is estimated at $579.8 million for FY 2026-27, or an increase of $20.6 million (line 7). This estimate assumes an increase of 2.3 percent over the prior year plus an additional $7.7 million for special education based on the current statutory requirement that the special education categorical be funded at its own growth rate above inflation.[1] Total state funding for categorical programs and school finance will therefore increase by $234.1 million, as reflected in the last line of Table 2.

[1] This estimate is the cost of inflationary requirements specific to special education programs for children with disabilities required by Section 22-20-114 (1.3).

Table 2
State Money Required to Meet School Finance Act Funding Requirements
FY 2026-27 Under Current Law
Assuming passage of 2026 supplemental school finance bill
Millions of Dollars

Line	Calculation of Funding Amounts	Estimated FY 2026-27	Change from FY 2025-26
1	Total funding under the School Finance Act for base increase of inflation	$7,358.6	$41.3
2	Other factors in school finance formula	$2,830.5	$149.7
3	Total program	$10,189.1	$191.0
4	Minus property and specific ownership taxes for school finance	$4,610.8	-$22.5
5	State aid for school finance funding	$5,578.3	$213.5
6	**Total school finance formula funding (lines 4+5)**	**$10,189.1**	**$191.0**
7	Total funding for **categorical programs** with inflationary increase	$579.8	$20.6
8	Total state funding required for school finance base and categorical programs (sum of lines 1 and 7) minus local funding (line 4)	$3,327.6	$84.4
9	**Total state funding for school finance and categorical programs** (sum of lines 5 and 7)	**$6,158.1**	**$234.1**

State Public School Fund

In addition to General Fund and SEF revenue, other revenue, including federal mineral lease and marijuana sales tax revenue, 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. In addition, beginning in FY 2025-26, revenue to the BEST (Building Excellent Schools Today) program is capped, and any revenue above the cap is reallocated to the fund. Tables 3A and 3B shows expected sources of revenue to and obligations from the State Public School Fund in FY 2026-27.

Table 3A
Expected Revenue to the State Public School Fund
Millions of Dollars

Line	Revenue Sources	Estimated FY 2026-27
1	Beginning Balance	$103.6
2	Federal Mineral Lease Revenue	$57.1
3	State Audit Recoveries	$1.0
4	Marijuana Sales Tax Revenue	$19.6
5	Revenue above BEST cap	$20.7
6	**Total Revenue to State Public School Fund (sum lines 1-5)**	**$202.0**

Table 3B
Expected Expenditures from the State Public School Fund
Millions of Dollars

Line	Expenditures	Estimated FY 2026-27
7	School Finance Payments	$168.2
8	Other Appropriations	$9.2
9	Targeted Ending Balance	$24.6
10	**State Public School Fund Total Obligations (sum lines 7-9)**	**$202.0**

Note: Assumes December 2025 Legislative Council Staff Forecast. Totals may not sum due to rounding.

The estimated amount from the State Public School Fund available in FY 2026-27 for school finance is $168.2 million (line 7). This amount is based on a beginning balance of $103.6 million, federal mineral lease deposits of $57.1 million, $1.0 million in district audit recoveries, $19.6 million in marijuana sales tax revenue, and $20.7 million in reallocated revenues from the BEST cap. This amount also assumes $9.2 million in other appropriations from the fund, and a targeted ending balance of $24.6 million. HB 24-1448 also ended the payment of any Permanent Fund interest to the State Public School Fund, beginning in FY 2026-27.

These assumptions have implications for the required appropriations from the General Fund and the State Education Fund. As Table 4 shows, the total state funding requirement for school finance and categorical programs in FY 2026-27 is $6,158.1 million, an increase of $234.1 million over the prior year. Netting out the available contribution from the State Public School Fund leaves $5,989.9 million for FY 2026-27 to be paid from a combination of the General Fund and the SEF, an increase of $136.6 million compared with the prior year.

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

Line	Other Revenue Amounts	Estimated FY 2026-27	Change From FY 2025-26
1	Total state funding required for school finance and categorical programs (Table 2, line 9)	$6,158.1	$234.1
2	State Public School Fund revenue for school finance	$168.2	$97.5
3	General Fund and State Education Fund for school finance and categorical programs (line 1 minus line 2)	$5,989.9	$136.6

Three Scenarios: General Fund, SEF Appropriations and SEF Balance

This portion of the report presents three different funding scenarios for school finance, how they impact the projected balance of the SEF in the coming years, 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.

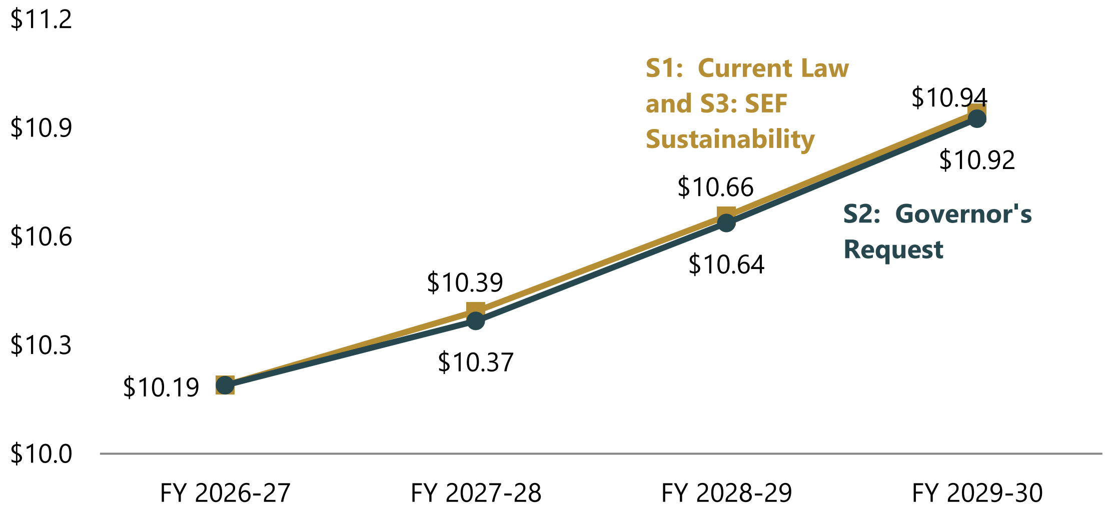
For purposes of the current law scenario, solvency of the SEF is defined as an ending balance above $500 million in FY 2026-27, above $300 million in FY 2027-28, above $150 million in FY 2028-29 and $150 million in FY 2029-30. These amounts are used to estimate the General Fund and SEF appropriations needed to fund overall increases in school finance.

The scenarios are as follows:

- The first scenario is based on current law and projects total program, assuming the new school finance formula is implemented as specified in current law.
- The second scenario assumes that the new formula is implemented according to the specifications of the Governor's January 15, 2026, revised budget request, including a proposed, phased in reallocation of a portion of district SOT revenue over several years.
- The third scenario is an attempt at a sustainable middle ground. It has the same, higher total program requirements as Scenario 1, and also includes a more gradual reallocation of the SOT revenue.

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.

Scenario 1: Current Law

This scenario assumes that the supplemental school finance bill is adopted, the new school finance formula is implemented as specified in current law and targets the ending balance thresholds for the SEF referenced above: above $500 million in FY 2026-27, above $300 million in FY 2027-28, above $150 million in FY 2028-29 and $150 million in FY 2029-30. Table 5 shows total school finance funding, total state aid, appropriations from the SEF and General Fund, and the corresponding ending balance of the SEF under this scenario.

Table 5
Scenario 1: Current Law
Millions of Dollars

Fiscal Year	Total School Finance Funding	Total State Aid	SEF Appropriation	General Fund Appropriation	General Fund Change from Prior Year	SEF Balance
2025-26	$9,998	$5,635	$905	$4,389	$150	$631
2026-27	$10,189	$5,578	$883	$4,527	$138	$518
2027-28	$10,393	$5,736	$970	$4,670	$143	$349
2028-29	$10,657	$5,937	$1,026	$4,817	$147	$159
2029-30	$10,941	$5,947	$884	$4,969	$152	$150

"Total state aid" includes appropriations from the State Public School Fund.

Scenario 2: Governor's Revised Request

If the Governor's revised request is adopted, implementation of the new formula will occur according to the original 6-year schedule instead of the 7-year schedule specified in current law, with corresponding increases to the annual phase-in percentages. In addition, beginning in FY 2027-28, the Governor's proposal moves to 2-year pupil count averaging, as opposed to the 3-year averaging in current law. Relative to current law, the switch to 2-year averaging saves around $50 million annually, with about half of this amount offset by the faster phase-in schedule. As Figure 2 shows, total program requirements are very similar under both proposals.

The Governor's proposal also requires that SOT revenue currently allocated to districts levying mill levy overrides or bond mills be accounted as local share revenue. In FY 2027-28, half of the additional revenue would be included. In FY 2028-29 and beyond, all of this additional SOT money up to total program would be included in the local share. This additional SOT contribution is estimated at $97 million in FY 2027-28, $195.3 million in FY 2028-29, and $196.4 million in FY 2029-30. In a few cases, the inclusion of the additional SOT revenue means that property tax revenue may get pushed into a district's total program reserve fund. This happens as the additional SOT revenue drives down a district's total program levy but increases its categorical buyout and total program reserve levy. Statewide, the excess totals $2.6 million across the 4-year time horizon.

Finally, the Governor's proposal also assumes increases in the General Fund contributions of $50 million in FY 2026-27, $175 million in FY 2027-28, $200 million in FY 2028-29 and $100 million in FY 2029-30. Table 6 shows total school finance funding, total state aid, appropriations from the SEF and General Fund, and the corresponding ending balance of the SEF under this scenario.

Table 6
Scenario 2: Governors Revised Request
Millions of Dollars

Fiscal Year	Total School Finance Funding	Total State Aid	SEF Appropriation	General Fund Appropriation	General Fund Change from Prior Year	SEF Balance
2025-26	$9,998	$5,635	$905	$4,389	$150	$631
2026-27	$10,189	$5,578	$971	$4,439	$50	$429
2027-28	$10,366	$5,613	$904	$4,614	$175	$327
2028-29	$10,637	$5,724	$816	$4,814	$200	$347
2029-30	$10,925	$5,738	$731	$4,914	$100	$491

"Total state aid" includes appropriations from the State Public School Fund.

Scenario 3: SEF Sustainability

This scenario mirrors Scenario 1, except that the reallocation of SOT revenue would begin a year earlier in FY 2026-27. In that year, a quarter of the additional SOT revenue would be reallocated to the local share, followed by half in FY 2027-28, three-quarters in FY 2028-29, and 100 percent in FY 2029-30 and beyond. The additional SOT contribution is estimated at $48 million in FY 2026-27, $97 million in FY 2027-28, $146 million in FY 2028-29, and $196 million in FY 2029-30. Again, the inclusion of the additional SOT revenue means that property tax revenue may be pushed into a district's total program reserve fund for some districts. Statewide, the excess totals $1.9 million across the 4-year time horizon.

In addition, the General Fund contribution for FY 2026-27 would increase by an amount equal to $50 million plus the reallocated SOT revenue. This $50 million base would be grown by three percent in the following years through FY 2029-30. Under these assumptions, General Fund appropriations would need to increase $98 million in FY 2026-27, $149 million in FY 2027-28, and nearly $200 million in FY 2028-29 and $251 million in FY 2029-30. Table 7 shows total school finance funding, total state aid, appropriations from the SEF and General Fund, and the corresponding ending balance of the SEF under this scenario.

Table 7
Scenario 3: SEF Sustainability
Millions of Dollars

Fiscal Year	Total School Finance Funding	Total State Aid	SEF Appropriation	General Fund Appropriation	General Fund Change from Prior Year	SEF Balance
2025-26	$9,998	$5,635	$905	$4,389	$150	$631
2026-27	$10,189	$5,531	$876	$4,487	$98	$528
2027-28	$10,393	$5,640	$909	$4,636	$149	$422
2028-29	$10,657	$5,792	$862	$4,835	$199	$397
2029-30	$10,941	$5,754	$573	$5,086	$251	$699

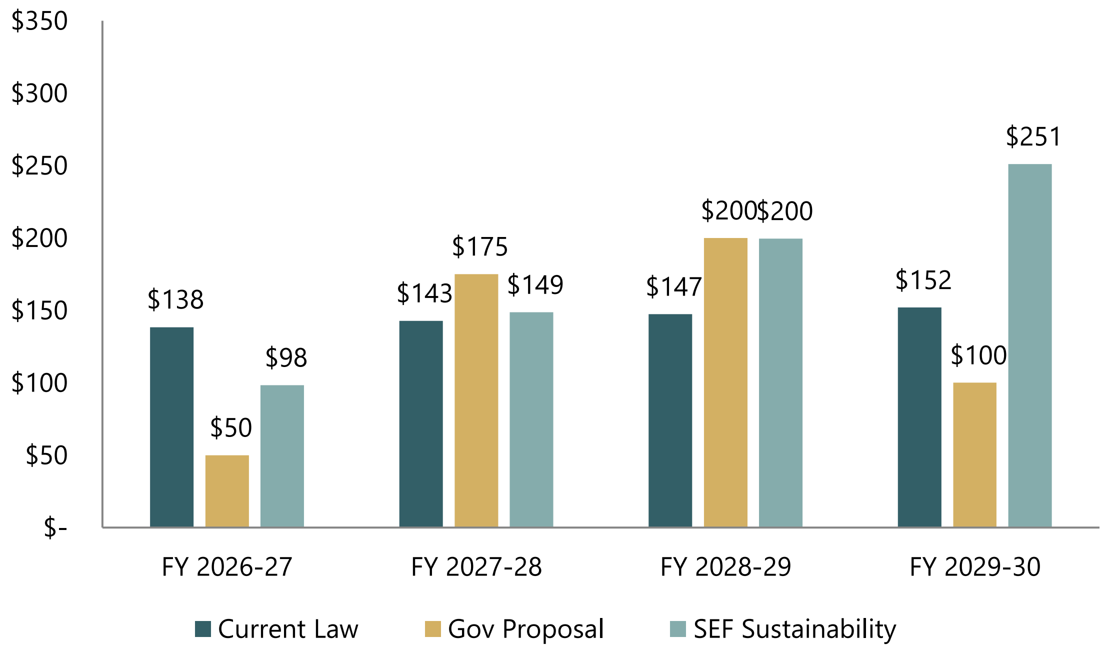
"Total state aid" includes appropriations from the State Public School Fund.

Change in General Fund Appropriations Under Each Scenario

Figure 3 illustrates year the over year changes in General Fund appropriations required under current law and the two alternate scenarios. In Scenario 1, General Fund increases are relatively flat over time, increasing by 3.15 percent annually in order to hit targeted ending balance thresholds. The specified increases in the Governor's proposal are more volatile, starting at $50 million in FY 2026-27, topping out at $200 million in FY 2028-29 before slowing to

$100 million in FY 2029-30. Under Scenario 3, the General Fund increases increase by around $50 million annually, enabled by the increasing share of SOT revenue reallocated to the local share.

Figure 3
Year-Over-Year Change in General Fund Appropriations Required for School Finance
Millions of Dollars

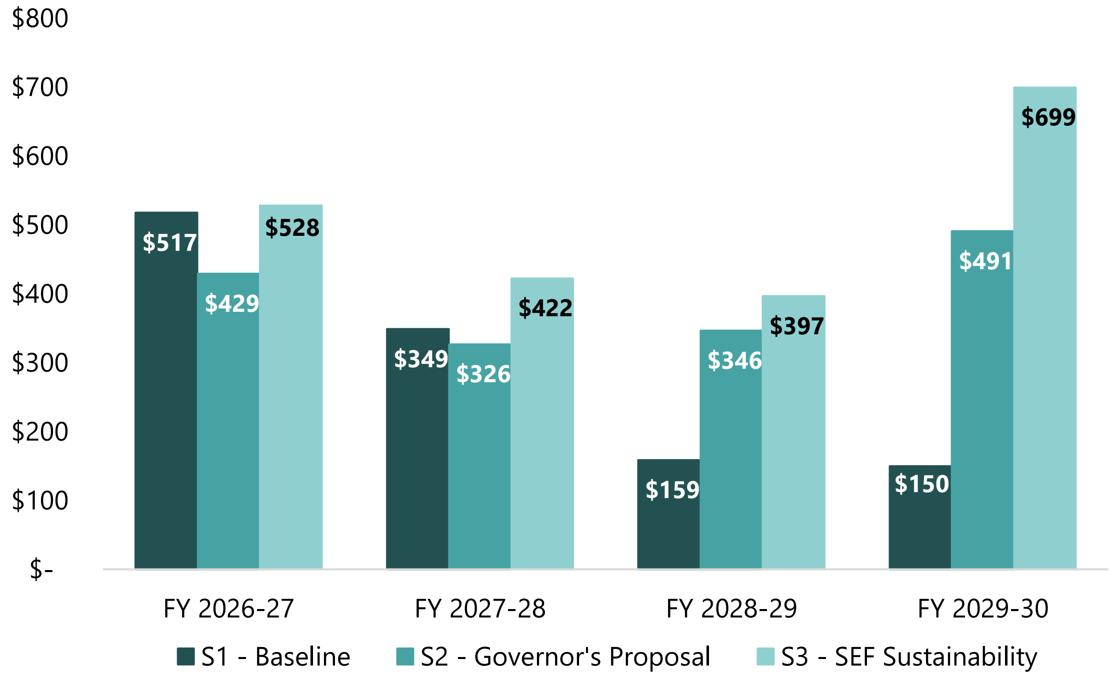


To provide context for the level of these increases, it is instructive to look at historical appropriations. In FY 2025-26, the General Fund contribution increased by $150 million. During the prior two fiscal years, General Fund appropriations were held constant due to the relatively large balances available in the SEF. In the ten years prior to that, General Fund appropriations increased every year (other than the FY 2020-21 pandemic year), with year-over-year increases ranging from $29 million to just over $300 million, and averaging nearly $200 million. The annual increases contemplated under these three scenarios are thus within, although at the upper end, of the range of increases occurring during this period.

SEF Ending Balance Under Each Scenario

Figure 4 illustrates the projected ending balances of the SEF under current law and the two alternate scenarios. In Scenario 1, SEF ending balances decline steadily over time, although they remain above the target thresholds of $300 million in FY 2027-28 and $150 million in FY 2028-29 and FY 2029-30. Due to the reallocation of SOT revenue, SEF ending balances under the Governor's proposal rebound after FY 2027-28, topping out at $491 million in FY 2029-30. Under Scenario 3, SEF ending balances follow a similar pattern, increasing to around $700 million in FY 2029-30, also enabled by the increasing share of SOT revenue reallocated to the local share.

Figure 4
Projected SEF Ending Balances Under Three Scenarios
Millions of Dollars



Funding for Additional Programs

The final requirement for this report is an estimate of the impact that various levels of General Fund appropriations above the minimum have on the amount of money in the SEF. The purpose of this requirement is to determine whether funding can be provided in FY 2026-27 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 2026-27 through FY 2029-30. These projections are based on current law requirements for total school finance funding as reflected in the 2026 supplemental school finance bill, and assume the new formula is implemented as specified in current law, with the target ending balances for the SEF as described in Scenario 1 above after that. Appendix B is the text of Amendment 23.

Appendix A
Estimated Balance of State Education Fund under Current Law
Dollars in Millions

Assumes passage of 2026 supplemental school finance bill, implementation of the new school finance formula as required under current law, and the SEF target ending balances described in Scenario 1.

Fiscal Year	Revenue to the SEF	SEF Spending for School Finance	SEF Spending for Categorical Programs	Total SEF Spending	Change in SEF from Prior Year	SEF Balance	GF Approp for School Finance	Change in GF Approp from Prior Year	Percent Change in GF Approp from Prior Year	Total School Finance Act Funding	Change in Spending from Prior Year
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	$642.8	$228.1	$155.9	$541.4	-$232.6	$208.7	$3,892.4	$301.2	8.4%	$6,628	$255
2018-19	$718.3	$404.0	$166.0	$760.5	$219.1	$176.0	$3,921.9	$29.5	0.8%	$7,067	$439
2019-20	$687.5	$406.7	$173.7	$726.0	-$34.5	$166.7	$4,166.4	$244.5	6.2%	$7,606	$539
2020-21	$1,036.3	$297.9	$180.7	$614.9	-$111.1	$541.4	$3,752.9	-$413.5	-9.9%	$7,238	-$368
2021-22	$1,268.1	$474.8	$197.6	$783.8	$168.9	$930.9	$4,040.8	$287.9	7.7%	$7,989	$751
2022-23	$1,495.7	$638.4	$277.6	$1,041.2	$257.4	$1,454.3	$4,238.7	$197.9	4.9%	$8,439	$450
2023-24	$1,209.0	$460.8	$334.2	$1,060.1	$3.9	$1,674.1	$4,238.7	$0.0	0.0%	$9,174	$735
2024-25	$1,206.6	$1,279.1	$377.7	$1,884.7	$824.6	$1,058.8	$4,238.7	$0.0	0.0%	$9,779	$605
2025-26	$1,018.8	$905.4	$395.5	$1,482.4	-$402.3	$630.8	$4,388.7	$150.0	3.5%	$9,998	$219
2026-27f	$1,368.2	$883.0	$416.0	$1,499.4	$17.1	$517.6	$4,527.2	$138.5	3.2%	$10,189	$191
2027-28f	$1,417.1	$970.5	$439.0	$1,601.5	$102.0	$348.8	$4,670.0	$142.8	3.2%	$10,393	$204
2028-29f	$1,474.9	$1,025.6	$458.5	$1,676.8	$75.4	$159.0	$4,817.3	$147.3	3.2%	$10,657	$264
2029-30f	$1,535.1	$884.0	$478.4	$1,555.9	-$121.0	$150.0	$4,969.3	$152.0	3.2%	$10,941	$285

Appendix B

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.