

MEMORANDUM

TO: Joint Budget Committee

FROM: Craig Harper (303-866-3481)

SUBJECT: Department of Education BEST Program Cash Grants Appropriation

DATE: March 14, 2014

Senate Bill 14-112 (BEST Cash Grants Appropriation) has now passed both houses and been sent to the Governor. The bill makes cash grants from the Building Excellent Schools Today (BEST) Program subject to legislative appropriation beginning in FY 2014-15. The bill does not include an appropriation clause to support cash grants in FY 2014-15. Therefore, staff recommends providing funding for cash grants in the FY 2014-15 Long Bill.

Staff recommends that the Committee: (1) create a new line item in the FY 2014-15 Long Bill to support BEST cash grants; and (2) appropriate \$32,000,000 cash funds from the Public School Capital Construction Assistance Fund to support cash grants in FY 2014-15.

To parallel the line item supporting BEST COP payments (Public School Capital Construction Assistance Board – Lease Payments), staff recommends titling the new line item “Public School Capital Construction Assistance Board – Cash Grants”.

Background

House Bill 08-1335 created the BEST program to increase state financial assistance for public school capital construction and allow projects to be completed more quickly. Rather than relying on annual General Fund appropriations, current law credits revenues from six sources to the Public School Capital Construction Assistance (PSCCA) Fund:

- 50 percent of the gross amount of revenues from income and mineral royalties derived from state public school lands (\$61.7 million in FY 2012-13);
- all interest proceeds payable to the State under the terms of lease-purchase agreements (\$3.5 million in FY 2012-13);
- all local matching moneys for COP projects (\$10.3 million in FY 2012-13);
- lottery proceeds that would otherwise be transferred to the General Fund (\$8.6 million in FY 2012-13);
- interest and investment income earned on the PSCCA Fund (\$1.7 million in FY 2012-13); and
- beginning in January 2014 (pursuant to Amendment 64 and Proposition AA) the first \$40.0 million in excise taxes collected from recreational marijuana sales each fiscal year.

Prior to FY 2014-15, moneys in the PSCCA Fund have been continuously appropriated to the Department for the purpose of making cash grants. With the enactment of S.B. 14-112, the program’s cash grants will be subject to annual legislative appropriation beginning in FY 2014-15.

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FY 2014-15 Cash Grants

While State Land Board revenues have been (and will remain) a key driver of BEST funding, the addition of retail marijuana revenues beginning in FY 2013-14 both increases the funding available and complicates projections. As the JBC Staff has discussed previously with the Committee, marijuana revenues in FY 2014-15 are uncertain because: (1) there is inherent uncertainty in the revenue projections (the State may not collect \$40.0 million in excise taxes in FY 2014-15); and (2) the State's ability to retain the revenues is also uncertain.

Consistent with the JBC Staff recommendations for other FY 2014-15 requests to use retail marijuana revenues, staff recommends that the General Assembly appropriate marijuana revenues to BEST in the year after the revenues are collected. Thus, the staff recommendation for FY 2014-15 includes approximately \$11.5 million in marijuana excise tax revenues *that the Department anticipates collecting in FY 2013-14*. The following table shows the program's anticipated revenues and expenditures for FY 2013-14 through FY 2017-18 under the staff recommendation for FY 2014-15. Please note that the projections assume \$40.0 million per year in marijuana revenues beginning in FY 2014-15.

Staff Recommendation - BEST Cash Grants					
	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18
Beginning of Year Unallocated Balance	\$34,275,000	\$58,447,770	\$89,197,770	\$91,947,770	\$79,697,770
SB 13-214 Required Reserve	<u>39,000,000</u>	<u>39,000,000</u>	<u>39,000,000</u>	<u>39,000,000</u>	<u>39,000,000</u>
Total Beginning of Year Balance	\$73,275,000	\$97,447,770	\$128,197,770	\$130,947,770	\$118,697,770
Fiscal Year Revenue Projections					
State Land Board Revenues	\$60,000,000	\$60,000,000	\$60,000,000	\$45,000,000	\$40,000,000
Marijuana Excise Tax	11,422,770	40,000,000	40,000,000	40,000,000	40,000,000
Colorado Lottery Spillover	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Interest Earnings	<u>1,750,000</u>	<u>1,750,000</u>	<u>1,750,000</u>	<u>1,750,000</u>	<u>1,750,000</u>
Total New Revenues	\$74,172,770	\$102,750,000	\$102,750,000	\$87,750,000	\$82,750,000
Total Revenues Available (excluding reserve)	\$108,447,770	\$161,197,770	\$191,947,770	\$179,697,770	\$162,447,770
Expenditures					
State Share COP Payments	\$34,000,000	\$39,000,000	\$39,000,000	\$39,000,000	\$39,000,000
Program Administration	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Estimated Cash Grants	<u>15,000,000</u>	<u>32,000,000</u>	<u>60,000,000</u>	<u>60,000,000</u>	<u>60,000,000</u>
Total Expenditures	\$50,000,000	\$72,000,000	\$100,000,000	\$100,000,000	\$100,000,000
Projected Year-end Unallocated Balance	\$58,447,770	\$89,197,770	\$91,947,770	\$79,697,770	\$62,447,770

Staff notes the following about the recommendation:

- First, the recommendation assumes that marijuana revenues will remain available for BEST cash grants and will not be utilized for other purposes (as proposed in H.B. 14-1292 (Student

Success Act)). The use of those revenues for other purposes would inherently reduce the funding available for BEST cash grants.

- Second, the recommendation is intentionally conservative with respect to marijuana revenues in FY 2014-15. As discussed above, the revenue stream is uncertain (both in terms of what the State will collect and what the State will be able to retain). As a result, staff recommends a conservative Long Bill appropriation. The recommendation reduces that uncertainty in future years by transitioning to a system of spending marijuana revenues the year after they are collected.
- Third, the recommendation is for the Long Bill appropriation which could be increased (or decreased) through a supplemental appropriation if revenue collections warrant an increase mid-year.
- Fourth, staff notes that the Department has planned to spend \$60.0 million on cash grants in FY 2014-15 (\$28.5 million more than the staff recommendation), assuming the receipt and retention of \$40.0 million in retail marijuana tax revenues in FY 2014-15. Thus, the staff recommendation constrains cash grants in FY 2014-15 below the Department's anticipated expenditures.
- Fifth, as indicated by the significant unallocated balance at the end of each year, the General Assembly could appropriate additional funds for cash grants in FY 2014-15 even if marijuana revenues are lower than expected. However, the Department's expectation to spend \$60.0 million per year on cash grants in future years will spend down the "excess" fund balance over time if State Land Board revenues decline as projected in the table. Spending more than the staff recommendation in FY 2014-15 would accelerate the depletion of the fund balance.

Alternatives

Given the significant anticipated fund balance in the PSCCA Fund, the Committee could increase the appropriation for FY 2014-15. Based on current revenue estimates (and the estimated lottery proceeds and interest earnings both appear to be conservative), the program could spend more in FY 2014-15 without threatening the solvency of the cash fund. Staff offers three options for the Committee's consideration.

1. *Staff Recommendation:* Appropriate \$32.0 million for cash grants in the FY 2014-15 Long Bill, with the option to increase the appropriation mid-year based on revenue collections.
2. *Department Plan:* Appropriate \$60.0 million for cash grants in FY 2014-15. Doing so would reduce the year-end fund balance at the end of FY 2014-15 but would allow for additional grants in that year. If revenues (marijuana or otherwise) were significantly below projections, the Department could simply spend less in FY 2014-15 or the Committee could reduce the appropriations mid-year through a supplemental.
3. *Another Amount:* The Committee could appropriate a different amount for FY 2014-15 (e.g., \$45.0 million) as a compromise between the staff recommendation and the Department's plan.