Colorado Legislative Council Staff

SB16-035

REVISED FISCAL NOTE

(replaces fiscal note dated March 29, 2016)

FISCAL IMPACT: ☒ State ☒ Local ☐ Statutory Public Entity ☐ Conditional ☐ No Fiscal Impact

Drafting Number:	LLS 16-0744	**Date:**	April 8, 2016
Prime Sponsor(s):	Sen. Johnston	**Bill Status:**	Senate Finance
		Fiscal Analyst:	Kori Donaldson (303-866-4976)

BILL TOPIC: THE PUBLIC SCHOOL FUND

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018	FY 2019-20
State Revenue			
Permanent Fund		up to $20 million	up to $50 million
State Transfers			
Permanent Fund		(up to $10 million)	(up to $20 million)
Public School Capital Construction Assistance Fund		up to $10 million	up to $20 million
State Expenditures			
Public School Capital Construction Assistance Fund		up to $10 million	up to $20 million
Permanent Fund	up to $7,500	up to $407,500	up to $407,500
Appropriation Required: None.			
Future Year Impacts: Ongoing revenue and expenditure impacts.			

Summary of Legislation

The bill, ***as amended by the Senate State, Veterans, and Military Affairs Committee***, creates the Public School Fund Investment Board (board) to oversee investment of the Public School Fund (or Permanent Fund) and broadens the allowable investment options for the fund. The board is charged with establishing policies concerning allowable investments of the fund and the distribution of income and interest earnings. The bill allows the board to hire a private fund manager to advise it about fund investments.

Under current law, the first $21 million in interest earned from investments on the Permanent Fund is used to pay costs of K-12 education through the annual School Finance Act. Beginning in FY 2017-18, the distribution formula is changed as outlined below:

Order of distribution of interest and income earned on the Permanent Fund under SB 16-035.

1. $21 million to pay for the costs of K-12 education through the annual School Finance Act, unless less than $21 million is earned on the Permanent Fund, in which case board expenses are paid first and the remaining earnings are allocated to K-12 education;

2. Board expenses, including any costs incurred to hire a professional fund manager;
3. $10 million, less the amount paid in board expenses, to the Public School Capital Construction Assistance Fund for the Building Excellent Schools Today (BEST) program. This amount increases to $20 million, less the amount paid in board expenses, beginning in FY 2019-20; and
4. Remaining moneys are distributed as determined by board policy.

Interest and income that is not distributed by June 30 of any fiscal year become part of the principal of the Permanent Fund.

Background

Under current law, the greater of 50 percent, or $40 million, of State Land Board School Trust revenue goes to the BEST program. School trust moneys also fund State Land Board operations (about $10.5 million per year). Any remaining moneys are deposited into the Permanent Fund. The Permanent Fund is inviolate and only interest and income earned on investments may be expended. Income from the fund is used to support K-12 education through the School Finance Act (up to $21 million); any remaining moneys are used to grow the size of the trust.

According to the State Land Board, in FY 2014-15 the Permanent Fund earned $22.8 million in interest income. The average rate of return on fund investments is 2.8 percent per year. The fund is invested in fixed income investments. The State Land Board reports that states such as Idaho, Texas, and Oklahoma invest their state land trust funds in more diversified assets and average a rate of return of 5 to 8 percent per year.

State Revenue

To the extent that the board authorizes the use of higher income yielding investment strategies, this bill could increase state revenue through increased interest and income earnings from the Permanent Fund. However, diversifying the type of authorized investments can also increase the risk and volatility of the investments. According to the State Land Board, diversifying the fund investment strategies could result in annual returns of between 4 and 8 percent, depending on the length and type of investments chosen by the board. By FY 2019-20, the third year after investment diversification is authorized, fund earnings could grow from $26.2 million to as much as $76.4 million based on a rate of return of 8.0 percent versus the standard 2.8 percent. A more modest investment strategy could yield $46.4 million in fund earnings for FY 2019-20, based on a 5 percent rate of return.

State Transfers

Beginning in FY 2017-18, the bill transfers up to $10 million from the Permanent Fund to the Public School Capital Construction Assistance Fund on behalf of the BEST Program. This amount increases to up to $20 million in FY 2019-20. The transfer is subject to availability and is offset by expenditures made by the board for travel and other necessary expenses, or to pay a professional fund manager.

State Expenditures

Beginning in FY 2016-17, the bill will increase state expenditures by up to $7,500 a year to pay costs for the Public School Investment Board. Beginning in FY 2017-18, the bill may increase state expenditures to the BEST program by up to $10 million. This amount increases to $20 million in FY 2019-20 and is subject to availability. Additionally, if the board opts to hire a professional fund manager, the bill may increase state expenditures by up to $400,000 beginning in FY 2017-18.

Public School Investment Board costs. The bill authorizes reimbursement for travel and other necessary expenses for five board members. The board is required to meet quarterly. The maximum annual cost, based on an overnight stay, mileage, meals, and parking is $375 a person x 5 people x 4 meetings, or $7,500. The actual cost is anticipated to be less since it is unlikely that every board member will require mileage reimbursement or an overnight stay.

Professional fund manager. The bill authorizes the board to hire a professional fund manager, beginning in FY 2017-18, to oversee the investment of the Permanent Fund. The cost of a fund manager is typically determined by the size of the fund managed. Based on the size of the Permanent Fund (about $900 million), a professional fund manager is expected to cost between $150,000 and $400,000 a year, depending on his or her level of involvement in managing the fund. This fiscal note assumes that if the board decides to hire a professional fund manager, the State Treasurer's Office will submit a regular budget request to the Joint Budget Committee for an appropriation to pay the associated costs.

School District Impact

To the extent that additional revenue is allocated to the BEST program, some school districts will increase expenditures for authorized capital construction projects awarded through the BEST grant process.

Under current law, school districts and Boards of Cooperative Educational Services (BOCES) may submit a separate estimate of fiscal impacts within seven days of a bill's introduction. Estimates submitted by districts or BOCES for this bill can be found on the Legislative Council website at this address: http://1.usa.gov/23AxLIT

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State and Local Government Contacts

Education	Natural Resources	Information Technology
Treasury		
