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Technology for Educational Achievement Program (DOA -- Information Technology)

[LFB 2015-17 Budget Summary: Page 45, #5 and #6]

CURRENT LAW

The technology for educational achievement (TEACH) program provides support for telecommunications access primarily through rate discounts and subsidized installation of data lines and video links to eligible educational institutions and libraries. Base funding for the TEACH program, which is funded through the state segregated universal service fund (USF), is $16,984,200 SEG annually. An educational agency may only request either one data line or one video link through the TEACH program.

GOVERNOR

Rename DOA's telecommunications access for school districts appropriation to the telecommunications access for educational agencies appropriation. Repeal and transfer segregated USF expenditure authority from the following appropriations to the renamed appropriation for educational agencies generally: (a) telecommunications access for private and technical colleges and libraries ($5,016,000 annually); (b) telecommunications access for private schools ($694,300 annually); (c) telecommunications access for state schools ($82,500 annually); and (d) telecommunications access for juvenile correctional facilities ($86,300 annually). Modify statutory language for the educational agencies appropriation to retain provisions of the current law TEACH program appropriations to be eliminated. Specify that on June 30 of each odd-numbered year, the unencumbered balance of the consolidated appropriation must be transferred to an appropriation created under the Public Service Commission to receive unexpended USF moneys for broadband expansion grants.

Allow educational agencies to make a request to DOA under the TEACH program for access to more than one data line and more than one video link. Require DOA to develop criteria to use in evaluating whether to provide more than one data line and video link to an educational agency. Specify that the criteria must include an educational agency's current bandwidth, equipment, and readiness, as well as the available providers and any other economic development in the geographical area which the agency serves.

DISCUSSION POINTS

1. According to the Executive Budget Book and an errata letter submitted subsequent to the introduction of the budget bill, individual accounts would be maintained under the combined appropriation to maintain separate accounting for each category of educational agency for which a separate appropriation currently exists. The administration indicates that the intent of the provision is to ensure that appropriated TEACH program funding is fully expended for educational telecommunications access and that each educational agency type would be allocated funding that reflects amounts appropriated under current law. Funding for the program exceeded expenditures by $205,400 in 2011-12; $525,400 in 2012-13; and $198,000 in 2013-14.

2. It should be noted that on April 15, 2015, the Committee acted in executive session on the Public Service Commission's budget to delete the proposal to create a broadband expansion grants appropriation to receive USF revenues transferred from the unencumbered balances of various USF appropriation accounts at the end of each fiscal year. As a result, Alternative 1 of this paper (the Governor's recommendation) does not include provisions related to the reversion of unencumbered balances on June 30 of each odd-numbered fiscal year.

3. According to the Budget in Brief, the proposal to expand the number of data lines and video links provided to educational entities is intended to assist rural schools in particular. The administration indicates that the proposed expansion would be funded using an existing balance in DOA's federal e-rate aid appropriation. Federal e-rate aid, which serves as an additional source of funding for educational telecommunications access, is used for TEACH program expenses when the segregated Universal Service Fund appropriations for each educational agency type have been completely expended.

4. The USF receives its funding through assessments on annual gross operating revenues from intrastate telecommunications providers. Total USF funding of $16,984,200 SEG annually is provided to separate TEACH program appropriations for different types of educational institutions and libraries as follows: (a) school districts ($11,105,100); (b) private and technical colleges and libraries ($5,016,000); (c) private schools ($694,300); (d) state schools ($82,500); and (e) juvenile correctional facilities ($86,300).

5. The TEACH program provides support for telecommunications access primarily through rate discounts and subsidized installation of data lines and video links to eligible educational institutions and libraries. By statute, an approved applicant's monthly payments to the state may not exceed $100 per month for each data line or video link that relies on a transport medium operating at a speed of 1.544 megabits per second or less, and may not exceed $250 per month for each data line or video link that operates at a higher speed. Since July, 2008, the connections provided at those rates have operated at higher speeds than is required; monthly

payments of $100 and $250 cover up to 10 megabits and 100 megabits per second, respectively. The difference between the cost to provide access (what DOA pays the telecommunications service provider under its negotiated telecommunications and data transmission contract for service through BadgerNet) and the monthly payment made by educational institutions and libraries to the state is paid for with funding from the USF and federal e-rate reimbursement.

6. In addition to revenue provided from the state Universal Service Fund, the program is supported by federal funding for e-rate reimbursement. E-rate moneys are used to fund ongoing TEACH program expenditures not covered by USF appropriations, as well as to pay down remaining debt from previously incurred expenses to finance educational technology infrastructure under s. 16.995 of the statutes. In recent years, federal e-rate revenues have exceeded expenditures. As a result, the federal e-rate appropriation revenue balance has grown. The opening balance of the federal e-rate appropriation in 2014-15 was $32 million. The following entities are eligible to receive federal e-rate funding: (a) elementary schools; (b) secondary schools; (c) libraries that are eligible for assistance from a state library administrative agency under the federal Library Services and Technology Act (Public Law 104-208) and whose budgets are completely separate from any schools (including, but not limited to, elementary and secondary schools, colleges, and universities); and (d) consortia of eligible schools and libraries.

7. It should be noted that certain educational entities that are eligible for the TEACH program are not eligible for federal e-rate reimbursement and may be funded from state USF moneys only. The following entities that may qualify to receive state-funded TEACH program assistance are ineligible to receive federal e-rate funds: (a) schools operating as for-profit businesses; (b) schools with endowments exceeding $50.0 million; (c) post-secondary educational institutions such as colleges and universities; and (d) libraries with budgets that are not completely independent from the budget of any educational institution.

8. Under current law, school districts may each be provided only one data line or one video link. Under 2015 AB21/SB21, each educational agency could request more than one data line and more than one video link. Under the proposal, DOA would be required to develop criteria to use in evaluating whether to provide more than one data line or video link. Currently, the TEACH program serves approximately 1,000 customers. The Department estimates that up to an additional 2,000 customers could be added under the proposal. This would result in higher monthly subsidies for telecommunications services as well as one-time expenditures for fiber optic telecommunication line installation. However, DOA is also currently renegotiating terms of the BadgerNet contract, which ends in 2016-17. To the extent that DOA is able to negotiate lower rates for the state, the cost of monthly subsidies could be reduced to some degree. The final terms of the agreement are not known at this time.

9. The Department provided information regarding estimated TEACH program expenditures and revenues under the 2015-17 budget provision which would expand the program. The following assumptions were provided by DOA: (a) federal e-rate revenue of $10 million annually for 2015-16 and 2016-17; (b) federal e-rate revenue of 60% of rate payments by the state from two program years prior in 2017-18 and 2018-19 (e-rate revenue is based on the percentage of students who receive free or reduced price lunch and funding is typically received by the state two to three years after application); (c) customer payments of $100 per month per customer for 80% of

customers, and $250 per month per customer for 20% of customers; (d) fiber installation costs of $47,000 per site added; (e) debt service estimates provided by DOA's Capital Finance Office; and (f) monthly rate payments based on estimated 2014-15 base expenditures of $22 million, which would increase in proportion to the number of customers added, with any assumed rate decrease beginning in 2016-17 (the first year of the renegotiated BadgerNet contract). In addition, an opening e-rate balance of $34.4 million FED is estimated for 2015-16 based on revenue received in the current fiscal year. It should be noted that any of the above assumptions could differ from actual revenues or expenditures.

10. Based on the information provided by the administration, the attachment to this paper provides several examples of revenues and expenditures of the TEACH program that could be realized under different assumptions.

Under the first scenario in the attachment, an additional 250 sites would be added per year, for a total of an additional 1,000 customers over four years. In addition, a BadgerNet rate reduction of 25% is assumed beginning in 2016-17, when the program will operate under the renegotiated contract. The figures provided under the first scenario show that with a rate reduction of 25%, the current e-rate revenue balance would not be sufficient to fully fund the addition of 250 sites in the fourth year, with a shortfall in revenue needed to support expenditures of -$1.9 million in 2018-19.

Under the second scenario, the expansion is assumed to be the same (1,000 customers over four years), and a higher renegotiated rate reduction of 35% is assumed. These assumptions result in a positive closing e-rate balance of $9.7 million in 2018-19.

Under the third scenario, a full expansion to 2,000 additional sites within four years is assumed, adding 500 sites per year. In addition, a larger rate reduction of 50% is assumed. The figures shown for the third scenario demonstrate that even with a 50% BadgerNet rate reduction, expanding the program by 500 customers each year could cause the e-rate revenue balance to be fully expended within the first two years, with a shortfall in revenue needed of -$44.7 million in 2018-19.

11. Closing balance deficits in the attachment are shown for the e-rate appropriation under the second and third scenario for the purpose of illustrating how differing assumptions can result in different outcomes for the program. Depending on several factors, including the number of customers added and renegotiated BadgerNet contract rates, the TEACH program expansion under the budget may not fully fund demand from educational agencies for additional data lines and video links. However, under the budget provision, DOA is required to exercise discretion with regard to providing additional data lines and video links. The Department has indicated that program administrators would evaluate the financial status of the program on a continuous basis in order to operate the program within the state's capacity to support it.

12. The administration argues that the USF-funded TEACH program appropriations for specific types of educational entities should be consolidated into one because the appropriations are not always fully expended by the end of each fiscal year, and other customers could benefit from additional program funds. Fund balances in separate appropriations may not be transferred except as authorized by law or by the Joint Committee on Finance acting under s. 13.10 of the statutes. In addition, there is a federal e-rate appropriation balance that has accumulated over time, and DOA

anticipates that lower rates will be charged to the state under a renegotiated BadgerNet contract, which would further contribute to growth in net revenue for the program due to lower expenditures. Therefore, the Committee could approve the Governor's recommendation to consolidate the TEACH appropriations and allow educational agencies to apply for more than one data line and more than one video link. Under this alternative, DOA would be required to develop criteria to use in evaluating whether to provide more than one data line and video link to an educational agency, including an agency's current bandwidth, equipment, readiness, and the available providers and any other economic development in the geographical area which the agency serves. [Alternative 1]

13. However, it could be argued that separate appropriations ensure that each type of educational entity specified is guaranteed a set amount of funding, which would no longer be the case if the appropriations are consolidated. Therefore, the Committee could delete the proposal to consolidate the appropriations and permit the program expansion so that TEACH customers can apply for more than one data line and more than one video link and also be guaranteed a set amount of segregated state funding under the program. [Alternative 2]

14. In addition to the concern above, it could be argued that, given that the terms of the renegotiated BadgerNet contract are yet to be determined, and that the receipt of federal e-rate revenue is dependent on federal budgeting and program circumstances, it is possible that the cost to operate the program and revenue available for the program to use in the future are uncertain. The Committee could, therefore, delete the provision. [Alternative 3]

ALTERNATIVES

1. Approve the Governor's recommendation [as modified by the Committee's previous actions taken on April 15, 2015, to delete the proposal to create a broadband expansion grants appropriation to receive USF revenues transferred from the unencumbered balances of various USF appropriation accounts at the end of each fiscal year] to: (a) consolidate DOA's TEACH program appropriations and maintain individual accounts within the appropriation, as specified in the administration's errata letter, to track educational agency types separately; (b) permit educational agencies to make a request to DOA under the TEACH program for access to more than one data line and more than one video link; and (c) require DOA to develop criteria to use in evaluating whether to provide more than one data line and video link to an educational agency, including an agency's current bandwidth, equipment, readiness, and the available providers and any other economic development in the geographical area which the agency serves.

2. Modify the provision to delete changes which would consolidate TEACH appropriations.

3. Delete provision.

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Attachments

ATTACHMENT

Scenario One
250 Sites Added Annually; 25% Lower BadgerNet Rate

	2015-16	2016-17	2017-18	2018-19
Opening E-Rate Balance	$34,400,000	$22,609,800	$14,343,500	$8,888,100
Revenue				
USF Funding	$16,984,200	$16,984,200	$16,984,200	$16,984,200
Federal E-Rate Funds	10,000,000	10,000,000	16,500,000	14,850,000
Customer Payments	1,950,000	2,340,000	2,730,000	3,120,000
Total Revenue	$28,934,200	$29,324,200	$36,214,200	$34,954,200
Expenditures				
Fiber Installation	$11,750,000	$11,750,000	$11,750,000	$11,750,000
Debt Service	1,474,400	1,090,500	1,044,600	969,000
Monthly Rate Payments	27,500,000	24,750,000	28,875,000	33,000,000
Total Expenditures	$40,724,400	$37,590,500	$41,669,600	$45,719,000
Net Revenue	-$11,790,200	-$8,266,300	-$5,455,400	-$10,764,800
Closing E-Rate Balance	$22,609,800	$14,343,500	$8,888,100	-$1,876,700

Scenario Two
250 Sites Added Annually; 35% Lower BadgerNet Rate

	2015-16	2016-17	2017-18	2018-19
Opening E-Rate Balance	$34,400,000	$22,609,800	$17,643,500	$16,038,100
Revenue				
USF Funding	$16,984,200	$16,984,200	$16,984,200	$16,984,200
Federal E-Rate Funds	10,000,000	10,000,000	16,500,000	14,850,000
Customer Payments	1,950,000	2,340,000	2,730,000	3,120,000
Total Revenue	$28,934,200	$29,324,200	$36,214,200	$34,954,200
Expenditures				
Fiber Installation	$11,750,000	$11,750,000	$11,750,000	$11,750,000
Debt Service	1,474,400	1,090,500	1,044,600	969,000
Monthly Rate Payments	27,500,000	21,450,000	25,025,000	28,600,000
Total Expenditures	$40,724,400	$34,290,500	$37,819,600	$41,319,000
Net Revenue	-$11,790,200	-$4,966,300	-$1,605,400	-$6,364,800
Closing E-Rate Balance	$22,609,800	$17,643,500	$16,038,100	$9,673,300

Scenario Three
500 Sites Added Annually; 50% Lower BadgerNet Rate

	2015-16	2016-17	2017-18	2018-19
Opening E-Rate Balance	$34,400,000	$5,749,800	$-10,736,500	$-22,096,900
Revenue				
USF Funding	$16,984,200	$16,984,200	$16,984,200	$16,984,200
Federal E-Rate Funds	10,000,000	10,000,000	19,800,000	13,200,000
Customer Payments	2,340,000	3,120,000	3,900,000	4,680,000
Total Revenue	$29,324,200	$30,104,200	$40,684,200	$34,864,200
Expenditures				
Fiber Installation	$23,500,000	$23,500,000	$23,500,000	$23,500,000
Debt Service	1,474,400	1,090,500	1,044,600	969,000
Monthly Rate Payments	33,000,000	22,000,000	27,500,000	33,000,000
Total Expenditures	$57,974,400	$46,590,500	$52,044,600	$57,469,000
Net Revenue	-$28,650,200	-$16,486,300	-$11,360,400	-$22,604,800
Closing E-Rate Balance	$5,749,800	$-10,736,500	$-22,096,900	-$44,701,700