



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 10, 2001

Joint Committee on Finance

Paper #870

Public Library Financial Assistance for Communications Hardware (TEACH)

[LFB 2001-03 Budget Summary: Page 628, #3 and Page 632, #13]

CURRENT LAW

Under the TEACH infrastructure financial assistance program, school districts and public libraries may apply for loans and grants to fund the upgrading of electrical wiring in buildings in existence on October 14, 1997, and installation and upgrading of computer network wiring. Schools and libraries are required to pay the debt service on the loans, which represent 50% of the financial assistance, and the state pays the debt service for the grants, which are the other half of the financial assistance. Under current law, \$10 million of general obligation bonding is authorized for libraries for infrastructure loans.

GOVERNOR

Authorize the TEACH Board to grant infrastructure financial assistance to public library boards for the purchase of communications hardware, 50% of which would be in the form of a loan and 50% of which would be in the form of a grant. Specify that any financial assistance could only be used to purchase communications servers, routers, hubs or switches that enable a computer network in a library building to be directly connected to the Internet, and could not be used to purchase personal computers. Require the Board to establish, on a per building basis, the maximum amount of financial assistance available under this provision. Require that loan terms under this provision could not exceed four years. Authorize \$5 million of general obligation bonding for this purpose.

Reduce the current general obligation bonding authorized for public library wiring loans from \$10 million to \$5 million.

Require public library boards receiving infrastructure assistance for communications hardware to apply for a federal E-rate discount for any hardware purchased with the assistance.

DISCUSSION POINTS

1. The Board set up two application processes for wiring loans. Schools and libraries that began projects prior to August 14, 1998, could apply under the fast start process. TEACH approved four fast start loans for public libraries for a total of \$447,600. Libraries that have started more recent projects may apply for a loan under the standard start process. So far, eight libraries have applied for wiring loans under the standard start program, for a total of approximately \$105,000.

2. According to TEACH staff, program demand by libraries for the wiring loan program has been limited thus far because the program in large part does not address the specific needs of libraries. While schools often require large capital investments for data wiring and related electrical support in numerous classrooms throughout buildings, wiring projects in libraries tend to be smaller, centralized and much less expensive.

3. Libraries reported to TEACH significant need, however, for financial assistance to acquire the necessary equipment to make use of network wiring once it is in place. Libraries are in need of communications hardware, such as servers, routers, hubs and switches, all of which are necessary for Internet connection but currently ineligible for funding under the infrastructure financial assistance program. The acquisition of this equipment requires a large, one-time capital outlay and few resources exist to finance it. This hardware is eligible for E-rate discounts, and under the proposal libraries would be required to apply for a discount on any hardware purchased with this assistance. However, this type of communications hardware falls into the "internal connections" classification, which has lowest priority under the E-rate program and thus, is rarely funded. School districts have financed such equipment with TEACH educational technology block grants; however, libraries are ineligible for such grants. According to TEACH and the Department of Public Instruction, no other significant funding source is available to public libraries for this purpose.

4. According to TEACH, the average cost for a router is \$2,000, with a range of \$1,850 to \$2,600 per router. Hubs and switches cost approximately the same, although only one of these is needed with a router at any given site. The average cost for a server is \$8,000. Therefore, the total average cost for the hardware for direct Internet connection per library would be approximately \$12,000. It is estimated that a maximum of 237 public libraries, public library branches, and public library systems could request financial assistance for direct Internet connection. Therefore, total bonding is estimated to be \$2,844,000. The annual debt service over four years assuming an interest rate of 4.5% would be an estimated \$790,000. TEACH's share of the debt service would be an estimated \$395,000 annually, beginning in 2002-03.

5. Given the low utilization of the wiring loan program thus far, the Committee could reduce the total amount of general obligation bonding authorized for it, in lieu of or in addition to

altering the program to fund hardware for libraries. Additionally, it appears from TEACH's estimates that the full \$5 million of bonding that would be authorized under the bill for communications hardware would exceed projected demand. The Committee could reduce the amount of bonding authorized in the bill for this purpose to \$3 million and still allow eligible libraries to participate in the program.

ALTERNATIVES TO BASE

1. Approve the Governor's recommendation to modify the financial assistance program for public libraries. Reduce general obligation bonding authorized for wiring loans from \$10 million to \$5 million. Authorize \$5 million of general obligation bonding for communications hardware for public libraries. Provide \$395,000 GPR in 2002-03 for estimated debt service cost of bonding issued for communications hardware for public libraries.

Alternative 1	GPR
2001-03 FUNDING (Change to Base) <i>[Change to Bill]</i>	\$395,000 \$0

2. Modify the Governor's recommendation to reduce general obligation bonding authorized for wiring loans for public libraries from \$10 million to \$3 million. Authorize \$3 million of general obligation bonding for communications hardware for public libraries.

Alternative 2	GPR	BR
2001-03 FUNDING (Change to Base) <i>[Change to Bill]</i>	\$395,000 \$0	- \$4,000,000 - \$4,000,000

3. Delete the Governor's recommendation. Instead, reduce general obligation bonding authorized for wiring loans for public libraries from \$10 million to \$3 million. Reduce estimated debt service funding associated with the deletion of the proposed bonding for communications hardware for public libraries by \$395,000 GPR in 2002-03, as a change to the bill.

Alternative 3	GPR	BR
2001-03 FUNDING (Change to Base) <i>[Change to Bill]</i>	\$0 - \$395,000	- \$7,000,000 - \$7,000,000

4. Maintain current law. Reestimate debt service by -\$395,000 in 2002-03 as a change to the bill.

Alternative 4	GPR
2001-03 FUNDING (Change to Base)	\$0
<i>[Change to Bill</i>	<i>- \$395,000]</i>

Prepared by: Layla Merrifield