



Legislative Fiscal Bureau

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May 20, 2003

Joint Committee on Finance

Paper #630

Universal Service Fund Allocations for Public Library System Aid and for Other Purposes (DPI -- Administrative and Other Funding and PSC)

[LFB 2003-05 Budget Summary: Page 356, #6]

CURRENT LAW

Public library systems receive state aids in order to supplement public library services provided by local and county funds. In 2002-03, public library system aid totaled \$14,196,700 GPR.

The state segregated universal service fund (USF) receives its funding through assessments on annual gross operating revenues from intrastate telecommunications providers. The USF currently funds universal telecommunications services programs under the Public Service Commission (PSC), the telecommunications access program under the Technology for Educational Achievement in Wisconsin (TEACH) Board, BadgerLink under DPI, and Badgernet under the University of Wisconsin. Total assessments for the USF are budgeted at \$25,887,700 in 2002-03.

The PSC requires telecommunications providers to contribute annually to the USF to support the provision of essential telecommunications services and advanced telecommunications service capabilities in the state. The assessment must be sufficient to fund the amounts appropriated under certain statutorily enumerated DPI, PSC, TEACH Board and University of Wisconsin System telecommunications-related appropriations.

The monies credited to the USF may only be used to support certain specific purposes enumerated in statute. These authorized uses are the following: (1) obtaining affordable access to essential telecommunications services for customers who are either low-income, disabled or located in areas of the state with high telecommunications costs; (2) deploying advanced service capabilities of a modern telecommunications infrastructure throughout the state; (3) providing

video link service agreements between the TEACH Board and public libraries; (4) providing statewide Internet access to periodical information databases; (5) providing electronic services by the Department of Electronic Government to the University of Wisconsin campuses at River Falls, Stout, Superior and Whitewater; (6) providing data link and video line grants to public and private school districts; (7) promoting access to information and library services for the blind and visually impaired; (8) making grants for medical telecommunications equipment at nonprofit medical clinics and public health agencies; (9) providing annual payments to the Racine Unified School District for computer training; and (10) administering the USF.

GOVERNOR

Reduce funding by \$2,111,900 GPR annually and provide \$2,111,900 SEG annually for public library system aid. Create a SEG appropriation to be funded from the universal service fund to supplement the current GPR appropriation.

DISCUSSION POINTS

Public Libraries

1. Public library systems were created by the Legislature in 1971 to improve and extend public library services, promote resource sharing among libraries, and increase access to library materials and services by the state's residents. Serving a specific geographic region, each system provides special services and programs not offered by municipal and county libraries. Currently, there are 17 library systems serving all 72 counties and every state resident. Library systems receive state aids for coordination and supplementation of services beyond what could be provided by local and county funds.

2. Library systems do not oversee the administration of local libraries, which remain autonomous in regard to local services and operations. Although not required to do so, all local units of government that provide library services participate in a library system. Municipal funds support the costs of providing basic library services at a municipal library to residents who pay taxes for library services. A county board may provide funds to individual municipal libraries or to public library systems. County funds, which are required to be provided under current law, are most commonly used to provide library service or access to it for county residents not residing in a municipality that operates its own library.

3. Because public libraries operate on a calendar year basis, final statistics for operating income and expenditures is not yet available for 2002. The following table shows 2001 operating income amounts for public library services.

	<u>Amount</u> <u>(in Millions)</u>	<u>Percent</u>
Municipal funds	\$114.3	59.5%
County funds	39.5	20.6
State aid to public library systems	14.7	7.7
Federal grants	1.5	0.8
Contract income	0.9	0.5
Endowments, gifts and other income	<u>21.0</u>	<u>10.9</u>
 TOTAL	 \$191.9	 100.0%

4. State funds provided with GPR go directly to public library systems and are intended to fund system services required by statute. Such services include interlibrary loan, reference referral, consulting, continuing education, services to users with special needs, resource library services, collection development, and multi-type library cooperation. State aids are distributed according to a statutory formula. Until 1992-93, the amount appropriated for library system aids was targeted, by statute, at 13% of the total operating expenditures from local and county sources for public library services in the preceding year. However, because the actual percentage repeatedly fell below the 13% target, the 1993-95 budget repealed the target.

5. However, under 1997 Act 150, DPI is required to include in its biennial budget submission a request for funding equal to 13% of the total operating expenditures from local and county sources in the calendar year immediately preceding the calendar year which aid would be paid. The Department's 2003-05 biennial budget request includes a request for funding equal to 13% of total operating expenditures, which would represent an increase of \$7,393,400 GPR in 2003-04 and \$8,041,100 GPR in 2004-05 over base funding of \$14,196,700 GPR in 2002-03. The following table shows the level of state aid for public library systems and the percentage of total operating expenditures from local and county sources that aid represents between 1992-93 and 2002-03.

<u>Fiscal Year</u>	<u>Aid to Public Library Systems</u>	<u>Percent of Local and County Sources</u>
1992-93	\$11,072,200	11.63%
1993-94	11,538,200	11.38
1994-95	11,772,200	10.95
1995-96	11,772,200	10.49
1996-97	11,772,200	9.91
1997-98	12,863,800	10.30
1998-99	13,249,800	10.02
1999-00	13,749,800	9.96
2000-01	14,749,800	10.08
2001-02	14,749,800	9.40
2002-03	14,196,700	--

6. The Governor's recommendation for 2003-05 would retain the overall funding level for public library systems at the 2002-03 level. However, SB 44 would reduce GPR funding by \$2,111,900 annually and provide \$2,111,900 SEG annually for public library system aid from the USF.

7. The USF was created under 1993 Act 496, which substantially deregulated the telecommunications industry in Wisconsin, in order to ensure that all state residents receive essential telecommunications services and have access to advanced telecommunication capabilities such as the Internet. Essential services include: (a) single party service with touch tone capability; (b) line quality capable of carrying facsimile and data transmissions; (c) equal access; (d) emergency services number capability; (e) a statewide telecommunications relay service for the hearing impaired; and (f) blocking of long distance toll services. These programs were designed to ensure telecommunications access for low-income residents, provide assistance to disabled residents, provide safeguards against fluctuations in price, and provide grants to institutions for advanced telecommunication services.

8. Under 1997 Act 97 (the 1997-99 state budget), which established the TEACH Board, a USF funded telecommunications access program was created. The TEACH access program provides funding to eligible educational entities, including public libraries, to subsidize their access to telecommunications data lines and video links. In addition, Act 27 established a USF funded program to provide the UW System with funds to reimburse the Department of Administration for BadgerNet telecommunications services provided to the UW campuses at River Falls, Stout, Superior, and Whitewater. BadgerNet is the state's telecommunications network that transports voice and data video, and eventually broadcast formats, statewide. Under 1999 Act 9 (the 1999-01 state budget), a USF funded appropriation under DPI was created to fund statewide Internet access to periodical and reference information databases as part of BadgerLink, in cooperation with the state's public libraries.

9. The PSC assesses telecommunications utilities that have annual gross intrastate telecommunication revenues of greater than \$200,000. Telecommunications providers are allowed to fully recover their share of assessment costs for USF expenditures, except those related to universal telecommunications service programs under the PSC. Other expenditures may be recovered through a "pass-through" adjustment applied only to subscribers' local exchange service rates.

10. The following table summarizes the amounts that were appropriated in 2002-03 to the various programs funded from the USF, as well as funding proposed for 2003-05 under SB 44.

<u>Appropriation</u>	2002-03 Budgeted Amount	SB 44 2003-04	SB 44 2004-05
Public Service Commission			
Universal Telecommunications Services	\$6,880,000	\$5,000,000	\$6,000,000
Public Instruction			
Periodical/Reference Databases (BadgerLink)	1,850,200	1,886,900	1,943,500
Supplemental Aid to Public Library Systems	0	2,111,900	2,111,900
TEACH Board			
Computer Training	175,000	0	0
Telecommunications Access for School Districts	9,613,700	10,893,400	11,324,200
Telecommunications Access for Private and Technical Colleges and Libraries	4,670,000	4,735,500	5,066,000
Telecommunications Access for Private Schools	1,340,600	708,100	701,300
Telecommunications Access for Residential Schools	70,000	75,000	68,200
Telecommunications Access for Correctional Facilities	233,400	112,500	102,300
University of Wisconsin System			
Telecommunications Services (BadgerNet)	<u>1,054,800</u>	<u>1,054,800</u>	<u>1,054,800</u>
TOTAL	\$25,887,700	\$26,578,100	\$28,372,200

11. Including the proposed \$2,111,900 annually to fund public library system aids, the budget bill would authorize a total of \$21,578,100 in 2003-04 and \$22,372,200 in 2004-05 from the USF pass-through assessment. It might be undesirable to extend the use of this funding to additional entities, for purposes that could be considered outside those originally intended to be funded through the USF. While USF assessments are viewed as a fee, it could be argued that it is similar to a general fund tax. As a matter of tax policy, the state does not earmark taxes for specific programs. For example, the occupational tax on beer in 2004-05 would be \$9.9 million under the bill, and tobacco products, \$17.9 million. At \$22.4 million, the USF pass-through assessment would be larger than these two separate general fund taxes. Because the pass-through assessment affects millions of telephone customers and has reached a level similar to that of other general fund taxes, it might be desirable to eliminate this assessment for public libraries and, instead, continue to fund libraries from the general fund. This would have the advantage of keeping public libraries on a par with all general fund programs, so that they would compete for resources and receive the same level of oversight as other general fund activities.

12. Given the context of the budget bill for 2003-05, the Committee could consider restoring GPR funding for public library systems in lieu of segregated revenue from the USF. Under the bill, the state's commitment to fund two-thirds of partial school revenues would be eliminated. It is likely that, under revenue limits, school districts would replace this state aid with property tax revenue. Counties and municipalities that provide the bulk of funding for public libraries might be reluctant to further increase property taxes in order to replace the state aid for systems that would be

lost if USF funding were deleted and no GPR were provided in its place.

13. On the other hand, given the state's fiscal constraints, it might be desirable to approve the Governor's recommendation to use this alternative funding source for public library systems. Some have argued that, because public libraries help to provide access to the Internet across the state at no charge to state residents, it would be reasonable to use USF monies to fund public library systems.

USF Modifications

14. Minor technical and corrective modifications are required to implement the Governor's recommendation to fund a portion of public library system aid from the USF. In addition, a review of the authorized uses of the USF has determined that the PSC does not have explicit statutory authority to assess telecommunications providers for the costs of certain programs currently being funded from the USF. Finally, under several USF-funded TEACH Board appropriations being transferred to DPI, incorrect references to Department of Electronic Government (DEG) appropriations remain in the bill. These statutory references should be modified to reflect the proposed elimination of DEG and the transfer of its appropriations structure to DOA.

15. *Universal Service Fund Assessments to Fund Supplemental Public Library System Aid.* The purposes for which the PSC may expend monies from the USF are specified under s. 196.218(5) of the statutes. Utilization of USF funds to support a portion of public library system aids has not been enumerated as an authorized use of these monies. In addition, the new SEG annual appropriation created under the bill to fund supplemental public library system aid has not been included in the statutory enumeration of appropriations used by the PSC to determine the annual amount of telecommunications provider assessments for the USF.

16. If the Committee believes that it would be desirable to shift a portion of current public school library aid payments from GPR funding to USF-supported funding, the statutory purposes of the USF should be amended to authorize its use for these aid payments and the SEG-funded public library system supplemental aid appropriation should be enumerated under the list of appropriations that the PSC uses to determine annual USF assessment amounts.

17. *PSC Authority to Assess for Certain USF Programs.* Three existing appropriations supported from the USF are not currently referenced in the listing of appropriations that the PSC uses to determine the total annual USF assessment. These appropriations are the following:

- An annual grant to the Racine Unified School District for computer training for teachers and pupils [s. 20.275(1)(q) of the statutes];
 - Telecommunications access grants to state schools [s. 20.275(1)(tu) of the statutes];
- and
- Telecommunications access grants to secured juvenile correctional facilities [s.

20.275(1)(tw) of the statutes].

18. The appropriation supporting an annual grant to the Racine Unified School District and the associated authorized use of the USF for this purpose would be repealed under the bill. Consequently, this appropriation would not need to be added to the enumeration of appropriations. The remaining two appropriations and programs would be transferred under the bill to DPI and continued in that agency. The renumbered appropriations for providing telecommunications access grants to state schools and for providing telecommunications access grants to secured juvenile correctional facilities should be added to the enumeration of appropriations used by the PSC to set USF annual assessments.

19. *Appropriation Cross Reference Changes.* Several appropriations under the TEACH Board funded from the USF would be transferred to DPI. These appropriations provide payments from the USF to telecommunications providers for various programs, to the extent that the costs of telecommunications access have not been funded from appropriations under DEG. DEG would be abolished under the bill, and its current appropriations structure would be revised and recreated under DOA. The various TEACH Board appropriations transferred to DPI continue to reference the DEG appropriations. The bill should be modified to insert the correct references to DOA appropriations.

ALTERNATIVES

A. Public Libraries

1. Approve the Governor's recommendation to reduce funding by \$2,111,900 GPR annually and provide \$2,111,900 SEG annually for public library system aid. Create a SEG appropriation to be funded from the USF to supplement the current GPR appropriation.

2. Modify the Governor's recommendation to eliminate \$2,111,900 SEG annually provided under the bill and the supplemental SEG appropriation created under the bill for public library system aid.

<u>Alternative A2</u>	<u>SEG</u>
2003-05 FUNDING (Change to Bill)	- \$4,223,800

3. Delete provision, which would eliminate \$2,111,900 SEG annually and provide \$2,111,900 GPR annually for public library systems to maintain base level funding.

<u>Alternative A3</u>	<u>GPR</u>	<u>SEG</u>	<u>TOTAL</u>
2003-05 FUNDING (Change to Bill)	\$4,223,800	- \$4,223,800	\$0

B. USF Modifications

1. Modify the Governor's recommendations to provide statutory language that would: (a) include the payment of supplemental public library system aid as an authorized use of the universal service fund; (b) enumerate the SEG appropriations funding supplemental public library system aid, telecommunications access grants to state schools and telecommunications access grants to secured juvenile correctional facilities under the listing of appropriations used by the PSC to set annual universal service fund assessments; and (c) insert correct references to DOA appropriations in various universal service fund-supported TEACH Board appropriations being transferred under the bill to DPI.

2. Maintain current law.

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