



Legislative Fiscal Bureau

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

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Joint Committee on Finance

Paper #711

Infrastructure Financial Assistance Program Sunset (TEACH Board)

[LFB 2003-05 Budget Summary: Page 398, #3 and #5]

CURRENT LAW

Under current law, school districts, Milwaukee and Racine charter schools, and public libraries may apply for loans and grants to fund the upgrading of electrical wiring in buildings already in existence when the TEACH program began, and installation and upgrading of computer network wiring. Schools and libraries are required to pay the debt service on the loans that represent 50% of the financial assistance, and the state pays the debt service for the grants, which represent the other half of the assistance.

GOVERNOR

Sunset the infrastructure financial assistance program by specifying that no financial assistance could be provided under the program after the effective date of the bill. Eliminate eligibility for charter school sponsors. Allow municipalities to obtain loans under the program on behalf of public libraries. Provide that monies received by the federal E-rate aid appropriation, after paying administrative expenses relating to the receipt and disbursement of those funds, would be used for loan forgiveness and debt service payments under this program, rather than to offset educational technology block grants as under current law. Require that 50% of the E-rate funds be used to forgive the repayment of loans provided to school districts and public library boards, or to municipalities on behalf of public library boards, and 50% be used for debt service payments. Require that if funds under this provision were insufficient to fully forgive loans, then loans would be forgiven on a prorated basis.

DISCUSSION POINTS

Sunset of Infrastructure Financial Assistance Program

1. Under current law, the TEACH infrastructure financial assistance program offers loans and grants to school districts and public libraries to fund the upgrading of electrical wiring in buildings in existence on October 14, 1997, the date that the TEACH program began. Assistance is also available for the installation and upgrading of computer network wiring. Schools and libraries pay the debt service on loans, which represent 50% of the assistance, and the state pays debt service on the other half, the grant portion of the assistance. There is no sunset date for this program specified under current law.

2. The TEACH Board established the application procedure for, and the terms and conditions of, the infrastructure financial assistance. The Board also determined the interest rates on the loan portion of the program, which have to be as low as possible but sufficient to fully pay all interest expenses incurred by the state and to provide reserves that will ensure against losses from payment delinquency or default. For loans approved in 2002-03, school districts and public libraries can choose a loan term of two to ten years, the maximum allowed, and they are charged a 5.0% interest rate and closing costs for their portion of the loan.

3. Loan proceeds are generated through the issuance of state general obligation bonds and offered to schools and libraries either under a lease purchase or general obligation bonding agreement. Funding for the grant portion of the program also is derived from the issuance of general obligation bonding. The bonding is issued by the Building Commission, at the request of the TEACH Board and with the approval of the Governor.

4. Under current law, \$100 million in bonding is authorized for schools. The bonding authorization for libraries was lowered from \$10 million to \$3 million under 2001 Act 16 (the 2001-03 state budget). As of the end of calendar year 2002, the TEACH Board had approved \$90.2 million in bonding for 185 school districts, and \$277,700 for nine public libraries. Although TEACH continued to accept loan applications through March 19, 2003, staff from TEACH indicate that at most \$90.5 million of bonding would be needed to fund all pending applications.

5. The following table lists total appropriated amounts for debt service on the infrastructure financial assistance program in 2002-03, and budgeted amounts under SB 44 for 2003-04 and 2004-05.

<u>Appropriation</u>	<u>2002-03</u>	<u>SB 44</u>		<u>Fund Source</u>
		<u>2003-04</u>	<u>2004-05</u>	
Debt Service for Schools	\$2,877,800	\$5,197,200	\$6,467,800	GPR
Debt Service for Libraries	24,900	73,900	159,500	GPR
Debt Service for Schools--Local Share	2,421,800	3,206,800	4,487,000	PR
Debt Service for Libraries--Local Share	23,800	72,700	158,200	PR

6. Under SB 44, municipalities may accept TEACH wiring loans or loan forgiveness on behalf of public libraries. This provision codifies current practice, because under current law public library boards are not granted the authority to incur debt. However, public library boards are authorized under current law to cooperate with municipalities in a number of respects. The proposed change would, therefore, clarify that municipalities could accept bond proceeds on behalf of public library boards.

7. Similarly, the bill authorizes municipalities to accept the loan forgiveness payments from E-rate monies that are authorized by the bill. This change would be necessary to allow municipalities, which have incurred debt on behalf of public library boards, to benefit from the associated loan forgiveness proposed by the Governor.

8. Under the bill, eligibility for Milwaukee and Racine charter school sponsors is removed, due to DOA concerns regarding the legality of the state's issuing tax-exempt bonds for the purposes of charter schools. However, given that charter schools are public, nonsectarian entities, it is unclear whether this change would be necessary.

9. Proponents of the sunset for the infrastructure program argue that, given the context of the state budget, and because the state's share of debt service costs for these projects is funded with GPR, future commitments under this program should be limited. Some argue that at this time it is desirable to limit the amount of debt the state incurs. If the bill's sunset for the program would be approved, the Committee could eliminate the remaining unused bonding authority for both schools and libraries, totaling approximately \$12.5 million.

10. Also, one could argue that the infrastructure program has to a large extent accomplished the goal of preparing the state's classrooms to take advantage of the Internet and advanced educational technology. As the Legislative Audit Bureau noted in its 2002 report on the TEACH Board, by the end of 2000-01, the Board had assisted in wiring 18,700 K-12 classrooms. In total, 90.8% of public school classrooms in Wisconsin have Internet access, compared to 73% in 1999, when infrastructure loans were first offered.

11. The Audit Bureau noted that in 2000, the TEACH Board surveyed school districts not participating in the infrastructure program, in order to assess future demand for the program. A total of 246 nonparticipating districts responded, and 86% reported having a level of wiring that TEACH considered sufficient for most purposes. Also, 51% indicated that their wiring infrastructure would be adequate for the next ten years.

12. On the other hand, opponents of this sunset provision note that only nine public libraries have participated in the program to date. The Audit Bureau cited a TEACH survey of libraries in April, 2001, noting that shared automated systems, which libraries use to manage circulation, are a higher funding priority than data and electrical wiring improvements. Also, libraries are often located in smaller buildings than schools, and staff indicated that only small amounts of assistance are needed in order to reach a sufficient level of wiring. Libraries also reported insufficient funding for debt service payments. Libraries have few options to generate

revenue and, unlike school districts, have not received technology block grants from the state.

Use of Federal E-Rate Monies

13. TEACH staff currently coordinates a statewide consortium of school districts, public libraries, and private schools to apply for the Education rate program, or E-rate, discounts. The E-rate program was created under the federal Telecommunications Act of 1996. The program is administered by Schools and Libraries Division (SLD) of the Universal Service Administrative Company, a nonprofit created by the Federal Communications Commission for this purpose. In general, the program provides discounts of up to 90% of the amount of telecommunications services bills, and is funded through the federal universal service fund. The percentage discount is based on a matrix that takes into account a community's percentage low-income population and rural or urban status. Due to the nature of TEACH's long-term contracts for the telecommunications access and infrastructure financial assistance programs, and its coordinated statewide consortium application for this program, TEACH receives quarterly E-rate cash payments, in lieu of ongoing discounts on bills as services are rendered.

14. In a letter to TEACH staff from April, 2001, the president of SLD responded to TEACH inquiries regarding the appropriate use of the state's E-rate cash reimbursements. The letter indicates that, since the cash payment is a reimbursement for funds the state has already invested as its share of E-rate funded services, the use of that cash is beyond the scope of SLD's responsibility. However, the letter noted that the E-rate cash reimbursement was predicated on TEACH's certification that applicants had secured access to resources necessary to take full advantage of the discounts, such as funding for hardware and the non-discounted portions of telecommunications services.

15. Under 2001 Act 16, these E-rate payments were primarily used to offset GPR funding for the TEACH educational technology block grant program in the 2001-03 biennium, generating an equivalent lapse to general fund. A total of \$4,664,000 in E-rate funding was used for this purpose in 2001-02. It is estimated that \$3,200,000 in E-rate funds will be received for 2002-03 and used to offset block grants. A small amount of E-rate funding in each year was provided for 1.0 position under TEACH to coordinate the statewide consortium. It is estimated that the state will receive \$4,415,000 annually in E-rate payments in 2003-05, of which \$115,000 annually is budgeted for administrative costs.

16. Under SB 44, the Governor would eliminate the educational technology block grant program, and provide that E-rate monies be used instead for debt service payments under the infrastructure financial assistance program, after paying administrative expenses. The bill requires that 50% of E-rate funds be used to forgive, on a prorated basis, the repayment of loans provided to school districts and public library boards, and that 50% be used for the state's debt service payments on the grant portion. DOA staff indicates this provision was intended to follow the current law structure of the program, with the state splitting expenses with recipients evenly.

17. Because the state can use these E-rate payments for any purpose, the Committee

could allocate the entire amount of E-rate monies to the state's debt service costs. One can argue that schools and libraries are already receiving a significant discount on the total costs of the wiring under the original program, since 50% of the funding is provided as a grant. Moreover, schools and libraries committed to the current levels of debt service payments with no anticipation of loan forgiveness. Given the context of a state budget with limited GPR resources, it may be desirable to maximize GPR savings by using all E-rate proceeds to offset the state's portion of these debt service costs.

18. Conversely, because educational technology block grants and training and technical assistance grants are eliminated under the bill, it may be desirable to use all E-rate proceeds to help schools and public libraries pay their portion of debt service costs. Since block grants are categorical aids that are outside revenue limits, schools would have fewer educational technology resources overall if block grants were eliminated. In the context of this loss of revenue, one could argue that the state should help offset that loss with E-rate funds, and could assist public libraries, which would not receive any increase to public library aids.

ALTERNATIVES

A. Infrastructure Program Sunset

A1. Approve the Governor's recommendation to: (a) sunset the infrastructure financial assistance program as of the effective date of the bill; (b) allow municipalities to obtain loans under the program on behalf of public libraries; and (c) eliminate eligibility for charter school sponsors.

A2. Modify the Governor's recommendation to also reduce bonding authorized for school districts by \$9.8 million and for public libraries by \$2.7 million.

<u>Alternative A2</u>	<u>BR</u>
2003-05 FUNDING (Change to Bill)	- \$12,500,000

A3. Delete provision, except clarify current law to allow municipalities to obtain loans under the program on behalf of public libraries.

B. Use of E-rate Funds

B1. Approve the Governor's recommendation to require that all monies received by the federal E-rate aid appropriation, after paying administrative expenses relating to the receipt and disbursement of those funds, would be used for loan forgiveness and debt service payments under this program, rather than to offset educational technology block grants as under current law. Require that 50% of the E-rate funds be used to forgive the repayment of loans provided to school districts and public library boards, or to municipalities on behalf of public library boards, and 50% be used for debt service payments. Require that if funds under this provision were insufficient to fully

forgive loans, then loans would be forgiven on a prorated basis.

B2. Modify the Governor's recommendation to require that all monies received by the federal E-rate aid appropriation, after paying administrative expenses relating to the receipt and disbursement of those funds, would be used to reduce state GPR debt service costs under this program. This would reduce state GPR debt service costs by \$2,150,000 GPR annually, and would increase local debt service costs by \$2,150,000 PR annually.

<u>Alternative B2</u>	<u>GPR</u>	<u>PR</u>	<u>Total</u>
2003-05 FUNDING (Change to Bill)	- \$4,300,000	\$4,300,000	\$0

B3. Modify the Governor's recommendation to require that all monies received by the federal E-rate aid appropriation, after paying administrative expenses relating to the receipt and disbursement of those funds, would be used to reduce school district and public library PR debt service costs under this program. Delete the estimated GPR-Lapse included in SB 44 of \$2,150,000 annually and reduce local debt service costs by \$2,150,000 PR annually.

<u>Alternative B3</u>	<u>GPR-Lapse</u>	<u>PR</u>
2003-05 FUNDING (Change to Bill)	- \$4,300,000	- \$4,300,000

B4. Delete provision. (This would leave federal E-rate monies unallocated, unless the TEACH block grant program would be restored, in which case they would offset block grant program GPR expenditures as under current law.) Delete the estimated GPR-Lapse included in SB 44 of \$2,150,000 annually and increase local debt service costs by \$2,150,000 PR annually.

<u>Alternative B4</u>	<u>GPR-Lapse</u>	<u>PR</u>
2003-05 FUNDING (Change to Bill)	- \$4,300,000	\$4,300,000

Prepared by: Layla Merrifield