



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #630

Universal Service Fund Allocations for Public Library Aids (DPI -- Administrative and Other Funding)

[LFB 2005-07 Budget Summary: Page 412, #9]

CURRENT LAW

Public library systems receive state aids in order to supplement public library services provided by local and county funds. In 2004-05, public library system aid totaled \$12,084,800 GPR and \$2,111,900 SEG from the state universal service fund.

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 Department of Administration (formerly under the Technology for Educational Achievement Board, or TEACH), BadgerLink and public library system aids under DPI, and BadgerNet under the University of Wisconsin. Total assessments for the USF are budgeted at \$28,373,200 in 2004-05.

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, DOA 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 DOA and public libraries; (4) providing statewide Internet access to periodical information databases; (5) providing electronic services by the DOA to the UW campuses at River Falls, Stout, Superior, and Whitewater; (6) providing data link and video line grants to public and private schools; (7) promoting access to information and library services for the blind and visually impaired; (8) providing state aid to public library systems; (9) making grants for medical telecommunications equipment at nonprofit medical clinics and public health agencies; and (10) administering the USF.

GOVERNOR

Reduce public library system aid by -\$1,400,000 GPR in 2005-06 and -\$787,400 GPR in 2006-07 from base level funding of \$12,084,800 GPR. Provide \$2,111,900 SEG annually above base level funding \$2,111,900 SEG to increase public library system aid. The segregated revenue is from the universal service fund.

The proposed funding under the bill, compared to the adjusted base, is shown in the following table:

	<u>2004-05</u> <u>Adjusted Base</u>	<u>Governor's Recommendation</u>	
		<u>2005-06</u>	<u>2006-07</u>
GPR	\$12,084,800	\$10,684,800	\$11,297,400
SEG	<u>2,111,900</u>	<u>4,223,800</u>	<u>4,223,800</u>
Total	\$14,196,700	\$14,908,600	\$15,521,200
Change to Prior Year (All Funds)			
Amount		\$711,900	\$612,600
Percent		5.0%	4.1%

DISCUSSION POINTS

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 are not yet available for 2004. The following table shows 2003 income amounts for public library services.

	Amount (in Millions)	<u>Percent</u>
Municipal Funds	\$123.5	59.5%
County Funds	44.5	21.4
State Aid to Public Library Systems	14.2	6.8
Federal Grants	2.0	1.0
Contract Income	1.1	0.6
Endowments, Gifts and Other Income	<u>22.3</u>	<u>10.7</u>
Totals	\$207.6	100.0%

4. State funds 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 in which aid would be paid. The Department's 2005-07 biennial budget submission includes a request for funding equal to 13% of total operating expenditures, which would represent an increase of \$10,055,200 GPR in 2005-06 and \$11,025,300 GPR in 2006-07 over base level funding of \$12,084,800 GPR and \$2,111,900 SEG. The following table shows the level of state aid for public library systems between 1994-95 and 2004-05, as well as the proposed funding for 2005-07 under AB 100.

<u>Fiscal Year</u>	<u>Aid to Public Library Systems</u>	<u>Percent Change Over Prior Year</u>
1994-95	\$11,772,200	2.0%
1995-96	11,772,200	0.0
1996-97	11,772,200	0.0
1997-98	12,863,800	9.3
1998-99	13,249,800	3.0
1999-00	13,749,800	3.8
2000-01	14,749,800	7.3
2001-02	14,749,800	0.0
2002-03	14,196,700	-3.8
2003-04	14,196,700	0.0
2004-05	14,196,700	0.0
2005-06	14,908,600*	5.0
2006-07	15,521,200*	4.1

*Proposed under AB 100.

6. The Governor's recommendation for 2005-07 would increase the overall funding level for public library systems over the base by \$711,900 in 2005-06 and \$1,324,500 in 2006-07. However, AB 100 would reduce GPR funding by \$1,400,000 GPR in 2005-06 and \$787,400 GPR in 2006-07 and provide an additional \$2,111,900 SEG annually for public library system aid above the base level \$2,111,900 SEG 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 telecommunications 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 telecommunications services.

8. Under 1997 Act 27, which established the now eliminated TEACH Board, a USF-funded telecommunications access program was created under TEACH. Now administered by DOA, the 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 DOA 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, data, and video statewide. Under 1999 Act 9, 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. Finally, under 2003 Act 33, a second USF-funded appropriation under DPI was created to fund a portion of state aid payments to public library systems.

9. The PSC assesses telecommunications utilities that have annual gross intrastate telecommunications revenues of greater than \$200,000. The amount of the assessment is governed by the total amounts appropriated from the USF, less any carry-over from the prior year. 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 2004-05 to the various programs funded from the USF, as well as funding proposed for 2005-07 under AB 100.

<u>Appropriation</u>	2004-05 Budgeted <u>Amount</u>	AB 100 <u>2005-06</u>	AB 100 <u>2006-07</u>
Public Service Commission			
Universal Telecommunications Services	\$6,000,000	\$6,000,000	\$6,000,000
Public Instruction			
Periodical/Reference Databases (BadgerLink)	1,943,500	1,992,500	2,030,500
Supplemental Aid to Public Library Systems	2,111,900	4,223,800	4,223,800
Administration			
Telecommunications Access for School Districts	11,325,200	11,330,100	11,330,100
Telecommunications Access for Private and Technical Colleges and Libraries	5,066,000	5,066,000	5,066,000
Telecommunications Access for Private Schools	701,300	701,300	701,300
Telecommunications Access for Residential Schools	68,200	68,200	68,200
Telecommunications Access for Correctional Facilities	102,300	102,300	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	\$28,373,200	\$30,539,000	\$30,577,000

11. Including the proposed \$2,111,900 annually to fund public library system aids, the budget bill would authorize a total of \$24,539,000 in 2005-06 and \$24,577,000 in 2006-07 from the USF pass-through assessment. Another \$6.0 million would be assessed for programs under the PSC, which cannot be recovered through the pass-through adjustment to subscribers. While USF assessments are viewed as a fee, it could be argued that it is similar to a general fund tax. At \$24.6

million, the USF pass-through assessment generates a significant amount of revenue, affects millions of telephone customers, but does not provide a direct benefit or service to those same customers. As a result, it might be desirable to eliminate this assessment for public libraries and instead return to funding libraries solely from the general fund. This alternative 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 widespread discussion of a property tax freeze for 2005-07, counties and municipalities that provide the bulk of funding for public libraries might be reluctant or unable to further increase property taxes in order to replace the state aid for systems that would be lost if USF funding would be deleted and no GPR funding would be provided in its place. To address this concern, the Committee could consider restoring GPR funding for public library systems in lieu of segregated revenue from the USF.

13. On the other hand, given the state's fiscal constraints, it might be desirable to approve the Governor's recommendation to continue 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 is reasonable to use USF monies to fund public library systems. Using this reasoning, the Committee could consider converting a significant portion of public library system funding to segregated revenue from the USF. As an example, 50% of public library system aid could be drawn from the USF. Under this alternative, GPR funding of \$10,684,800 in 2005-06 and \$11,297,400 in 2006-07 would be reduced and replaced with USF monies. One could argue that extending the state's current policy of subsidizing libraries with USF monies would help ensure universal public access to the Internet while preserving scarce state tax dollars.

ALTERNATIVES

1. Approve the Governor's recommendation.

2. Modify the Governor's recommendations to delete \$4,223,800 SEG annually and provide \$4,223,800 GPR annually for total public library system funding of \$14,908,600 GPR in 2005-06 and \$15,521,200 GPR in 2006-07.

<u>Alternative 2</u>	<u>GPR</u>	<u>SEG</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	\$8,447,600	-\$8,447,600	\$0

3. Modify the Governor's recommendations to delete \$711,900 SEG in 2005-06 and \$1,324,500 SEG in 2006-07. Under this alternative, public library aid would be level funded over the biennium.

<u>Alternative 3</u>	<u>SEG</u>
2005-07 FUNDING (Change to Bill)	- \$2,036,400

4. Modify the Governor's recommendations by -\$3,230,500 GPR and \$3,230,500 SEG in 2005-06 and by -\$3,536,800 GPR and \$3,536,800 SEG in 2006-07. Under this alternative, total public library funding would equal \$7,454,300 GPR and \$7,454,300 SEG in 2005-06 and \$7,760,600 GPR and \$7,760,600 SEG in 2006-07.

<u>Alternative 4</u>	<u>GPR</u>	<u>SEG</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	- \$6,767,300	\$6,767,300	\$0

5. Delete the provision.

<u>Alternative 5</u>	<u>GPR</u>	<u>SEG</u>	<u>TOTAL</u>
2005-07 FUNDING (Change to Bill)	\$2,187,400	- \$4,223,800	- \$2,036,400

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