



Legislative Fiscal Bureau

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Joint Committee on Finance

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Public Library Aids (DPI -- Administrative and Other Funding)

Bill Agency

[LFB 2007-09 Budget Summary: Page 475, #7]

CURRENT LAW

Public library systems receive state aids in order to supplement public library services provided by local and county funds. In 2006-07, public library system aid totaled \$11,297,400 GPR and \$4,223,800 SEG from the 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 (DOA), BadgerLink and public library system aid under the Department of Public Instruction (DPI), and BadgerNet under the University of Wisconsin System (UW System). Total assessments are budgeted at \$30,577,000 in 2006-07.

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 the statutorily enumerated DPI, PSC, DOA, and UW 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

telecommunications services to private colleges, technical college districts, public library systems and boards, and public museums; (4) providing statewide Internet access to periodical information databases; (5) providing electronic services by 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

Provide \$616,800 SEG in 2007-08 and \$1,262,300 SEG in 2008-09 above base level funding of \$11,297,400 GPR and \$4,223,800 SEG to increase public library system aid. The segregated revenue is from the universal service fund.

DISCUSSION POINTS

1. Public library systems were created by the Legislature in 1971 in order 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 individually. 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 county and local 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 by law 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 must 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. Counties may also provide services themselves through county libraries.

3. Because public libraries operate on a calendar year basis, final statistics for operating income and expenditures are not yet available for 2006. The following table shows 2005 income amounts for public library services.

2005 Operating Income for Public Library Services

	<u>Amount</u> <u>(In Millions)</u>	<u>Percent</u>
Municipal funds	\$131.6	59.8%
County funds	47.8	21.7
State aid to public library systems	14.2	6.5
Federal grants	2.2	1.0
Contract income	1.7	0.8
Endowments, gifts and other income	<u>22.5</u>	<u>10.2</u>
 Total	 \$220.0	 100.0%

4. State funds go directly to public library systems and are intended to fund system services that are required by statute. Such services include interlibrary loan, reference referral, continuing education, services to users with special needs, resource library services, collection development, and multi-type library cooperation. However, systems have the authority to develop programs that meet area needs and support such programs with state aid. State aids are distributed according to a statutory formula based on the amount of state aid each system received in the prior year.

5. 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 amount must include a recommendation for state aid for public libraries and recommendations for the funding of other public library services, as determined in conjunction with libraries and systems. The Department's 2007-09 biennial budget request included a request for state aid equal to 13% of total operating expenditures, which would represent an increase of \$9,639,400 GPR in 2007-08 and \$10,394,200 GPR in 2008-09 over base funding of \$11,297,400 GPR and \$4,223,800 SEG in 2006-07. DPI also requested \$382,000 GPR in 2007-08 and \$401,000 GPR in 2008-09, in the appropriation for aid to public library systems, to cover the costs of delivery of materials for statewide interlibrary loan service, which would provide all state residents with access to participating public, academic, and other libraries' collections. The following table shows the level of state aid for public library systems between 1996-97 and 2006-07, as well as the proposed funding for 2007-09 under SB 40.

<u>Fiscal Year</u>	<u>Aid to Public Library Systems</u>	<u>Percent Change Over Prior Year</u>
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	-3.7
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
2007-08	16,138,000*	4.0
2008-09	16,783,500*	4.0

*Proposed under SB 40.

6. The Governor's recommendation for 2007-09 would increase overall funding for public library systems over the base by \$616,800 in 2007-08 and \$1,262,300 in 2008-09. The additional aid would be funded from the USF.

7. The USF was created under 1993 Act 496, which substantially deregulated the telecommunications industry in Wisconsin. The USF was intended to ensure that all state residents receive essential telecommunications services and have access to advanced 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. Under 2005 Act 25, funding for public library system aid was reduced by

\$2,187,400 GPR over the biennium, and USF funding was increased by \$2,111,900 SEG annually.

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 2006-07 to the various programs funded from the USF, as well as funding proposed for 2007-09 under SB 40.

<u>Appropriation</u>	<u>2006-07</u>	<u>Governor</u>	
		<u>2007-08</u>	<u>2008-09</u>
Public Service Commission			
Universal Telecommunications Services	\$6,000,000	\$6,000,000	\$6,000,000
<i>Pass-Through Assessments</i>			
Public Instruction			
Periodical/Reference Databases (BadgerLink)	2,030,500	2,167,700	2,219,000
Supplemental Aid to Public Library Systems	4,223,800	4,840,600	5,486,100
Administration			
Telecommunications Access for School Districts	11,330,100	11,340,700	11,340,700
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			
Telecommunication Services (BadgerNet)	<u>1,054,800</u>	<u>1,054,800</u>	<u>1,054,800</u>
<i>Subtotal -- Pass-Through Assessments</i>	\$24,577,000	\$25,341,600	\$26,038,400
Total	\$30,577,000	\$31,341,600	\$32,038,400

11. Including the proposed \$616,800 in 2007-08 and \$1,262,300 in 2008-09 to increase library system aids, the budget bill would authorize a total of \$25,341,600 in 2007-08 and \$26,038,400 in 2008-09 from the USF pass-through assessment. Another \$6,000,000 annually would be assessed for programs under the PSC, which cannot be recovered through the pass-through to subscribers. While USF assessments are viewed as a fee, it could be argued that it is similar to a general fund tax. At \$26.0 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. Therefore, it might be desirable to eliminate this assessment for public libraries and replace this funding with general fund revenue. 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 concern for controlling property taxes, counties and municipalities that provide the bulk of funding for public libraries might be reluctant or unable to further increase property taxes to replace system revenue if USF funding were to be deleted and no GPR were provided in its place. In addition, federal funding under the Library Services and Technology Act (LSTA) would be jeopardized if the state were to reduce its support for public libraries. Under federal maintenance of effort statutes, the state allotment under LSTA is decreased by the same percentage that state support decreases. LSTA grants to Wisconsin totaled \$3.1 million annually for calendar years 2006 and 2007.

13. In the context of the state's fiscal constraints, it might be desirable to approve the Governor's recommendation to continue to use the USF as an alternative funding source for public library systems. Some would argue that, because public libraries help to provide access to the Internet across the state at no charge to state residents, and libraries benefit from a number of other USF-funded programs, it is reasonable to use USF monies to fund public library systems directly. According to the 2006-07 biennial report on library development, as of 2005, over 4,300 Internet-connected computers were accessible to the public in public libraries. It could be argued 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.

14. Alternatively, in order to generate GPR savings, the Committee could consider using an unencumbered balance from the USF to partially offset the cost of this program on a one-time basis. The Public Service Commission (PSC) indicates that a carryover balance of \$9.2 million SEG has accumulated over several years, but due to limited expenditure authority, cannot be used for the currently authorized USF appropriations. This balance represents a one-time funding source, and therefore could be used to offset GPR in the first year of the biennium. The GPR appropriation would remain unchanged under this alternative for 2008-09, so that the base level GPR funding would be intact for the following biennial budget process. Funding for public library systems under this alternative, including the Governor's recommended increase, would equal \$2,097,400 GPR and \$14,040,600 SEG in 2007-08 and \$11,297,400 GPR and \$5,486,100 SEG in 2008-09.

15. On the other hand, the Committee could choose to direct the PSC to use the USF carryover balance to offset total assessments on telecommunications providers in the first year. Including the Governor's recommendation public library aid, the overall USF pass-through assessment would equal \$16,141,600 SEG in 2007-08, rather than the anticipated total of \$25,341,600 SEG in that year under the bill. Under this alternative, GPR expenditures for public library aid would remain unchanged in each year of the biennium.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation, to provide \$616,800 SEG in 2007-08 and \$1,262,300 SEG in 2008-09 above base level funding \$11,297,400 GPR and \$4,223,800 SEG.

ALT 1	Change to Bill Funding	Change to Base Funding
SEG	\$0	\$1,879,100

2. Modify the Governor's recommendation to delete \$4,840,600 SEG in 2007-08 and \$5,486,100 SEG in 2008-09 and provide \$4,840,600 GPR in 2007-08 and \$5,486,100 GPR in 2008-09 for total public library funding of \$16,138,000 GPR in 2007-08 and \$16,783,500 GPR in 2008-09.

ALT 2	Change to Bill Funding	Change to Base Funding
GPR	\$10,326,700	\$10,326,700
SEG	<u>-10,326,700</u>	<u>-8,447,600</u>
Total	\$0	\$1,879,100

3. Modify the Governor's recommendation to reduce GPR and increase SEG by \$9,200,000 in 2007-08 and direct the Public Service Commission to fund the SEG increase with unencumbered carryover balance funds from the USF. Total public library funding would equal \$2,097,400 GPR and \$14,040,600 SEG in 2007-08 and \$11,297,400 GPR and \$5,486,100 SEG in 2008-09.

ALT 3	Change to Bill Funding	Change to Base Funding
GPR	-\$9,200,000	-\$9,200,000
SEG	<u>9,200,000</u>	<u>11,079,100</u>
Total	\$0	\$1,879,100

4. Modify the Governor's recommendation to direct the Public Service Commission to expend \$9,200,000 SEG in USF carryover funds and reduce overall USF pass-through assessments by an equivalent amount in 2007-08. Overall USF-funded expenditures would remain unchanged compared to the bill.

ALT 4	Change to Bill		Change to Base	
	Revenue	Funding	Revenue	Funding
SEG	-\$9,200,000	\$0	-\$9,200,000	\$1,879,100

5. Delete the Governor's recommendation and reduce funding by \$616,800 in 2007-08 and \$1,262,300 SEG in 2008-09. Also, direct the Public Service Commission to expend \$9,200,000 SEG from USF carryover funds and reduce overall USF pass-through assessments by an equivalent amount in 2007-08.

ALT 5	Change to Bill		Change to Base	
	Revenue	Funding	Revenue	Funding
SEG	-\$9,200,000	-\$1,879,100	-\$9,200,000	\$0

6. Delete provision.

ALT 6	Change to Bill	Change to Base
	Funding	Funding
SEG	-\$1,879,100	\$0

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