



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873  
Email: [fiscal.bureau@legis.wisconsin.gov](mailto:fiscal.bureau@legis.wisconsin.gov) • Website: <http://legis.wisconsin.gov/lfb>

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Joint Committee on Finance

Paper #102

### **Modify TEACH Program and Transfer Federal Funds (Administration -- General Agency Provisions)**

[LFB 2019-21 Budget Summary: Page 22, #4 and Page 23, #5]

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#### **CURRENT LAW**

The Department of Administration (DOA) is responsible for administering the Technology for Educational Achievement (TEACH) program, which serves eligible educational entities by providing: (a) access to the Internet and two-way interactive video services through rate discounts and subsidized installation of data lines and video links; (b) information technology (IT) infrastructure grants (\$7.5 million annually); (c) grants for training teachers and librarians on the use of educational technology (\$1.5 million annually); and (d) curriculum grants to a consortium of school districts to develop and implement a technology-enhanced high school curriculum (\$25,000 annually). Public school districts, private schools, cooperative educational service agencies, technical college districts, charter school sponsors, juvenile correctional facilities, private and tribal colleges, public museums, and public libraries are eligible for funding under this program. State funding is provided through the segregated universal service fund (USF), which receives its funding through assessments on annual gross operating revenues from intrastate telecommunications providers. Base funding for the state-funded TEACH appropriation is \$15,984,200 SEG.

If funds from the USF are insufficient for the TEACH program, federal e-rate reimbursement monies may be utilized for certain expenses, to the extent revenue is available. The federal e-rate appropriation under DOA, which receives federal aid as reimbursement for a percentage of eligible telecommunications expenses for schools and libraries, is used to: (a) make payments on behalf of TEACH customers to telecommunications providers that are not covered by USF moneys; (b) pay administrative expenses relating to receipt and disbursement of e-rate revenue; and (c) pay down remaining debt from expenses prior to 2003-04 to finance educational technology infrastructure.

## GOVERNOR

Reduce funding for the TEACH program by \$6,025,000 SEG annually.

Modify program eligibility and grant awards as follows:

*Educational Telecommunications Access Program.* Specify that DOA may not charge educational agencies more than \$100 per month for each data line that operates at a speed of 1 gigabyte per second, rather than 1.544 megabits per second. Eliminate references to video links under the TEACH program.

*IT Infrastructure Grants.* Extend the July 1, 2019, sunset date for the IT infrastructure grant program to June 30, 2021. Limit the maximum amount that DOA may award in each year to rural school districts and public libraries to improve IT infrastructure to \$3,000,000. Specify that a school district's eligibility is based on membership in the most recent school year for which finalized data is available, instead of membership in the previous year. Further, specify that grant awards for public libraries, library branches, and school districts are based on the applicant's population in the first year of a fiscal biennium. Limit eligibility for public libraries and library branches to those that are located in rural territories, defined under the bill as "any territory, population, and housing units located outside urbanized areas or urban clusters." [Under current law, a location is considered a rural territory if it is defined by the U.S. Census Bureau as such. Current eligibility is further limited by the location's distance from an urbanized area or urban cluster.] Specify that a consortium of public libraries or a public library system is eligible if it contains three or more eligible public libraries or library branches and it applies for a grant.

*Educational Technology Training Grants.* Eliminate the educational technology training grant program, which provides funding to eligible consortia of school districts, public libraries, and public library systems to train teachers and librarians to use educational technology.

*Curriculum Grants.* Eliminate curriculum grants to develop and implement a technology-enhanced high school curriculum.

*E-Rate Transfer for Broadband Grants.* Transfer \$24,200,000 FED (\$6,900,000 in 2019-20 and \$17,300,000 in 2020-21) from DOA's federal e-rate aid appropriation to the USF, administered by the Public Service Commission. Transferred funds are intended for broadband expansion grants to construct broadband infrastructure in underserved areas.

## DISCUSSION POINTS

### **Educational Telecommunications Access Program**

1. Under current law, the TEACH program provides eligible entities access to the Internet and two-way interactive video services through rate discounts and subsidized installation of data lines and video links. For participants in the TEACH program, the difference between the cost to provide telecommunications access and the participant's monthly payment to the state is paid for by DOA with funding from the USF. If funding from the USF is insufficient for this purpose, federal e-rate

funds may be utilized, to the extent revenue is available. In 2017-18, expenditures for all components of the TEACH program totaled \$19,320,700 (\$11,418,900 SEG from the USF and \$7,883,800 FED from federal e-rate funds).

2. Under the bill as introduced, funding authority for the TEACH program would be reduced by \$6,025,000 SEG annually. Remaining expenditure authority would total \$9,959,200 SEG annually. However, the administration indicates that it intended to reduce the amount of funding allocated for TEACH grants while maintaining total expenditure authority for the program, thereby increasing the amount available for subsidized Internet access. The Department indicates that, under the bill as introduced, it may be unable to meet program obligations. The effect of this is a \$0 SEG annual change to the base and a \$6,025,000 SEG annual change to the bill.

3. Under current law, an approved applicant's monthly payments to the state may not exceed \$100 per month for each data line or video link that relies on a transport medium operating at a speed of 1.544 megabits per second or less, and may not exceed \$250 per month for each data line or video link that operates at a higher speed. However, as the program is currently administered, monthly payments of \$100 and \$250 cover up to 100 megabits and 1 gigabit per second, respectively. The Governor's recommendation would further increase the speed covered by the \$100 fee in statute, from 1.544 megabits per second to 1 gigabyte per second (approximately 5,000 times the current statutory speed). According to the administration, the covered speed increase is intended to "align the fees with the service available and to provide an incentive to eligible entities to receive service" through the TEACH program. The administration estimates that the rate change would reduce fee revenue by \$500,000 annually (from \$1,200,000 to \$700,000). Under the proposal, approximately 280 customers would experience a fee decrease from \$250 to \$100 per month.

4. The Department indicates that fee revenues are applied as a refund of expenditures, thereby increasing the amount that can be spent from the USF appropriation for the TEACH program. Therefore, to the extent that the rate decrease results in a loss of fee revenues, the reduction in rates could reduce the amount that can be spent overall to support the program. On the other hand, the lower rates may incentivize participation in the program, thereby increasing available fee revenues and spending for the program. To encourage participation, the Committee could approve the Governor's proposal to limit charges to no more than \$100 per month for each data line that operates at a speed of 1 gigabyte per second, rather than 1.544 megabits per second. [Alternative A1] However, it should be noted that DOA currently has the authority to implement the change administratively. Therefore, the Committee could instead decide to take no action, thereby maintaining the current rates in statute. [Alternative A2]

5. In 2017-18, the TEACH program provided approximately \$612,700 to subsidize video links at 191 public school sites. However, the administration indicates that, due to changes in technology, audiovisual communication capacity is now available through data lines and no longer needs to be provided separately. Therefore, the Governor recommends removing references to video links from the program's statutes. The Committee could approve the Governor's proposal to eliminate the authority to subsidize video links under the TEACH program. [Alternative A3]

6. On the other hand, current statutory language permits but does not require DOA to provide separate service for video links and data lines. The Department indicates that it will no longer

offer separate service for video links because the capacity for video communication is now included in data lines. Given that the proposed change would not affect program administration, the Committee could take no action and maintain current statutory language. This alternative may be selected in addition to Alternative A1 or A2. [Alternative A4]

### **IT Infrastructure Grant Awards**

7. The Department provides competitive block grants for IT infrastructure to rural school districts, public libraries, and library branches. Infrastructure grants were first provided under 2015 Act 55, with a sunset date of June 30, 2017. Under 2017 Act 59, the grant program was reauthorized for the 2017-19 biennium, with a sunset date of July 1, 2019. The administration argues that extending the sunset to June 30, 2021, "will allow eligible entities to apply and meet continuing needs" while prompting "a review of spending priorities in each biennium." Given the precedent of extending the infrastructure grant program, the Committee could approve the Governor's proposal to extend the sunset. [Alternative B1] Alternatively, the Committee could take no action, thereby allowing the grant program to sunset on July 1, 2019. [Alternative B2]

8. In 2017-18, the TEACH program awarded infrastructure grants totaling \$7,823,700 to 251 school districts and 24 libraries. In 2018-19, DOA may award up to \$7,500,000 annually for infrastructure grants. However, based on the parameters of grant awards, 435 entities are eligible in 2018-19 to apply for grants totaling \$4,406,100. The administration indicates that applications declined in 2018-19 because eligible entities may have already installed IT infrastructure or may not need assistance given the low cost of IT infrastructure. For example, 45 entities are eligible to apply for \$100 or less in grant funding in 2018-19. As of April, 2019, approximately \$807,400 has been awarded.

9. If the program sunset is extended, the Committee could approve the Governor's proposal to reduce the amount awarded to \$3,000,000 per year. [Alternative B3] Given the amounts awarded in 2017-18, the Committee could instead decide to take no action, thereby maintaining current funding levels (\$7,500,000 per year). [Alternative B4]

### **IT Infrastructure Grant Eligibility**

10. To qualify for IT infrastructure grants under current law, a school district's membership in the previous school year divided by the district's area in square miles must be 16 or less (an increase from 13 in the 2015-17 biennium). The administration recommends that the application process consider membership in the most recent school year for which finalized data is available, rather than membership in the previous year, because the final compilation of data by the Department of Public Instruction may not yet be available to DOA during the award process.

11. The Governor additionally recommends modifying the distribution of funds under the IT infrastructure grant program such that the award amount is based on a school district's membership in the first year of the fiscal biennium. Under current law, the amount awarded is determined by the following formula: \$7,500 for eligible districts with fewer than 750 students; \$10 per student for eligible districts with between 750 and 1,500 students; and \$15,000 for eligible districts with more than 1,500 students. Current law does not specify when membership is measured for the purpose of

calculating awards.

12. Under 2017 Act 142, public libraries and library branches were added to the list of eligible recipients for IT infrastructure grants and education technology training grants. Under current law, a public library or library branch is eligible if it: (a) is in a municipality defined as rural by the U.S. Census Bureau; (b) is in a municipality with a population of 20,000 or less; and (c) meets additional criteria based on distance from an urbanized area or urban cluster. The administration intends the proposal to eliminate superfluous language since the latter requirement does not appear to exclude any areas. For example, eligible locations are defined under part (c) as those "less than or equal to 5 miles from an urbanized area, more than 5 miles but less than or equal to 25 miles from an urbanized area, or more than 25 miles from an urbanized area." However, it could be argued that the inclusion of unnecessary language has not had any effect on program administration.

13. Given existing delays in the compilation of data and potential redundancies under current law, the Committee could approve the Governor's proposal to: (a) modify the application process such that a school district's eligibility for IT infrastructure grants is based on membership in the most recent school year for which finalized data is available; (b) specify that membership data utilized to distribute IT infrastructure grants be from the first year of the biennium; and (c) modify the definition of rural territory for the purpose of determining eligibility for IT infrastructure and education technology training grants. [Alternative C1]

14. In addition, the Governor recommends adding a consortium of public libraries and a public library system to the list of eligible recipients for IT infrastructure grants, provided that it contains three or more eligible public libraries or library branches and it applies for a grant. The administration indicates that the proposal is intended to "provide administrative flexibility for libraries who may not apply individually, and may result in increased utilization of these funds by libraries." In 2017-18, \$14,800 of infrastructure grants were awarded to public libraries and library branches (out of \$15,000,000 available to libraries and rural school districts). The Committee could decide to approve the Governor's recommendation to expand the list of eligible recipients of the IT infrastructure grant program to include consortia of public libraries and public library systems. [Alternative C2]

15. It should be noted that the Department has not indicated difficulties with administering IT infrastructure grants under current law. Further, the effect of modifying eligibility criteria on program administration or on applicants is unknown at this time. Therefore, the Committee could take no action, thereby maintaining current eligibility criteria for IT infrastructure grants. [Alternative C3]

### **Education Technology Training Grants**

16. The Department also provides grants to consortia of three or more rural school districts to train teachers on the use of educational technology. Under 2017 Act 142, rural public libraries and library branches were added to the list of eligible recipients of technology training grants. The Department indicates that it will begin to provide awards to eligible public libraries and library branches in 2018-19. Under current law, \$1,500,000 annually is budgeted for technology training grants. In 2017-18, the TEACH program awarded technology training grants totaling \$1,499,600 to 27 consortia representing 201 rural school districts.

17. The administration recommends eliminating technology training grants "due to the determination that these funds are better spent on enhancing broadband infrastructure in high need areas around the state." The Committee could approve the Governor's recommendation to eliminate the technology training grant program. [Alternative D1] Given continued demand for the program, as allocated funds have been consistently granted, the Committee could instead take no action, thereby maintaining current funding levels. [Alternative D2]

### **Curriculum Grants**

18. The Department provides grants to consortia of school districts to develop and implement a technology-enhanced high school curriculum. Under current law, \$25,000 annually is budgeted for curriculum grants. In 2017-18, the TEACH program awarded one curriculum grant of \$24,984 to the Embarrass River Valley Instructional Network Group, which consists of eight school districts. The Group was also the sole grant recipient in 2016-17.

19. The administration recommends eliminating the curriculum grant program because "these funds are better spent on enhancing broadband infrastructure." The Committee could approve the Governor's recommendation to eliminate the curriculum grant program. [Alternative E1] Given continued demand for the program, as allocated funds have been consistently granted, the Committee could instead take no action, thereby maintaining current funding levels. [Alternative E2]

### **E-Rate Transfer for Broadband Grants**

20. The federal e-rate appropriation under DOA receives federal aid as reimbursement for a percentage of eligible telecommunications expenses for schools and libraries. As a continuing appropriation, the closing balance at the end of each fiscal year remains in the appropriation and can be utilized in the subsequent fiscal year. Under 2017 Act 59, DOA was authorized to provide one-time transfers from the federal e-rate appropriation of \$7,500,000 to the USF and \$5,000,000 to the PSC for broadband expansion grants. In 2017-18, DOA spent \$20,383,800 from the federal e-rate appropriation, including authorized transfers. The closing balance in 2018-19 is estimated to total \$35,635,500.

21. The Governor recommends the transfer of \$24,200,000 FED (\$6,900,000 in 2019-20 and \$17,300,000 in 2020-21) from DOA's federal e-rate appropriation to the USF for broadband expansion grants. The administration estimates that it would have sufficient funding to maintain the TEACH program and to provide the recommended transfer to the USF if expenditure authority for the TEACH program appropriation is not reduced, as indicated in the errata letter. Further analysis of the proposed federal e-rate transfer is addressed in a subsequent budget paper relating to the broadband expansion grant program.

### **Fiscal Effect of the Errata**

22. As noted previously, funding authority for the TEACH program would be reduced by \$6,025,000 SEG annually under the bill as introduced. However, the administration indicates that it intended to reduce the amount of funding allocated for TEACH grants while maintaining total expenditure authority for the program, thereby increasing the amount available for subsidized Internet

access. The Department indicates that, under the bill as introduced, it may be unable to meet program obligations due to this reduction. Specifically, under current law, the TEACH program serves eligible educational entities by providing access to the Internet and two-way interactive video services through rate discounts and subsidized installation of data lines and video links. Public school districts, private schools, cooperative educational service agencies, technical college districts, charter school sponsors, juvenile correctional facilities, private and tribal colleges, public museums, and public libraries are eligible for funding under this program. A reduction in expenditure authority, in combination with the transfer of e-rate funding for broadband expansion, could significantly limit the extent to which DOA could continue to provide subsidized Internet access to these entities. The effect of the errata is a \$0 SEG annual change to the base and a \$6,025,000 SEG annual increase to bill funding (\$12,050,000 SEG over the biennium).

## **ALTERNATIVES**

### **A. Educational Telecommunications Access Program**

The Committee may select more than one alternative under this section.

1. Approve the Governor's recommendation to limit charges to no more than \$100 per month for each data line that operates at a speed of 1 gigabyte per second. [This alternative may be selected in addition to Alternative A3 or A4.]
2. Take no action regarding the proposal to limit charges to no more than \$100 per month for each data line that operates at a speed of 1 gigabyte per second, thereby maintaining current law. [This alternative may be selected in addition to Alternative A3 or A4.]
3. Approve the Governor's recommendation to eliminate the authority to subsidize video links under the TEACH program. [This alternative may be selected in addition to Alternative A1 or A2.]
4. Take no action regarding the proposal to eliminate the authority to subsidize video links under the TEACH program, thereby maintaining current law. [This alternative may be selected in addition to Alternative A1 or A2.]

### **B. IT Infrastructure Grant Awards**

The Committee may select more than one alternative under this section.

1. Approve the Governor's recommendation to extend the sunset of the IT infrastructure grant program to June 30, 2021. [This alternative may be selected in addition to Alternative B3 or B4.]
2. Take no action with regard to extending the sunset date. The IT infrastructure grant program will sunset effective July 1, 2019.

3. Approve the Governor's recommendation to reduce the amount awarded under the IT infrastructure grant program to \$3,000,000 per year. [This alternative may be selected with Alternative B1.]

4. Take no action with regard to the amount awarded, thereby maintaining the current funding level of \$7,500,000 annually. [This alternative may be selected with Alternative B1.]

### **C. IT Infrastructure Grant Eligibility**

The Committee may select more than one alternative under this section.

1. Approve the Governor's recommendations to: (a) modify the application process such that a school district's eligibility for IT infrastructure grants is based on membership in the most recent school year for which finalized data is available; (b) specify that membership data utilized to distribute IT infrastructure grants be from the first year of the biennium; and (c) modify the definition of rural territory for the purpose of determining eligibility for IT infrastructure and education technology training grants. [This alternative may be selected with Alternative C2.]

2. Approve the Governor's recommendation to expand the list of eligible recipients for the IT infrastructure grant program to include a consortium of public libraries and a public library system. [This alternative may be selected with Alternative C1.]

3. Take no action with regard to the recommendations to modify IT infrastructure grant eligibility.

### **D. Education Technology Training Grants**

1. Approve the Governor's recommendation to eliminate the technology training grant program.

2. Take no action, thereby maintaining the current grant program and funding of \$1,500,000 SEG annually.

### **E. Curriculum Grants**

1. Approve the Governor's recommendation to delete the curriculum grant program.

2. Take no action, thereby maintaining the current grant program and funding of \$25,000 SEG annually.

Prepared by: Angela Miller