Administration

Information Technology

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LFB Summary Items for Which an Issue Paper Has Been Prepared

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4	Consolidation of Telecommunications and IT Appropriations (Paper #127)
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May 14, 2015 | Joint Committee on Finance | Paper #125

Information Technology Security Expenditure Authority (DOA -- Information Technology)

[LFB 2015-17 Budget Summary: Page 43, #1]

CURRENT LAW

Information technology (IT) security for the state is provided by DOA's Division of Enterprise Technology (DET). Funding for DOA's IT services to state agencies appropriation, from which this function is funded, is $100,934,100 PR in 2014-15. Funding to the appropriation is from assessments to state agencies for services provided by DOA.

GOVERNOR

Provide $2,538,000 PR in 2015-16 and $2,661,000 PR in 2016-17 to DOA's printing, mail, communication, and information technology services to state agencies and veterans services appropriation (renamed under the bill to include veterans services to consolidate two information technology appropriations) for IT security services. The Budget in Brief indicates that the additional resources are intended to decrease the risk of a security breach.

DISCUSSION POINTS

1. The Department provides IT security services to state agencies with: (a) support provided by 8.0 PR positions in DET's Bureau of Security; (b) free open source software; and (c) resources made available to states by a non-profit organization, the Multi-State Information Sharing and Analysis Center. The Department is responsible for security of the network, data center, email, database management, and storage. State agencies are responsible for their own data, application, user, and desktop security.

2. Currently, the DET security team performs auditing, compliance, and monitoring of all security access logs from most application and database servers. In addition, DET monitors security to outside threats, and identifies potential vulnerabilities. Each month, the security team alerts agency staff to malicious computer code that is being downloaded, and issues instructions to staff to mitigate damage. Towards this end, the security team operates several applications to log, monitor, audit, and scan to find and remediate potential vulnerabilities. However, according to DOA, the decentralized nature of state IT systems leaves the state more vulnerable with regard to IT security. In particular, DOA notes that security risks have become more sophisticated over time, and recent examples of data breaches experienced by large corporations illustrate the scale of the problem. The administration's recommendation is intended to provide comprehensive, advanced IT security services that could be extended to protect state agencies in general.

3. Expenditure authority would be provided for supplies and services as follows, in order of highest to lowest priority: (a) managed security services contract ($1.5 million in 2015-16 and $1.7 million in 2016-17); (b) secure endpoint management ($419,000 in 2015-16 and $342,000 in 2016-17); (c) identity and access management ($237,000 annually); (d) distributed denial of service prevention and mitigation ($194,000 annually); and (e) security awareness training program ($188,000 annually).

4. Managed security services would be provided by certified security analysts, who would monitor all network traffic in and out of the state's data center for malicious computer code or data breaches. If provided, this service would enable the state to shut off a connection if data loss is detected, to minimize damages from a security breach.

5. Endpoint management refers to the centralized management of multiple devices, which in this case would be provided to minimize security exposure for the tens of thousands of devices, including personal computers, on the state's network. Depending on the services purchased, examples of endpoint management services might include facilitating improved policy enforcement, visibility and control of devices from a central console, applying specific actions to particular types of devices, or providing continuous security and software updates remotely.

6. Identity and access management ensures that only authorized users are permitted access to sensitive data. Services provided would aim to improve the management of information access and permissions.

7. Distributed denial of service prevention and mitigation would support DET's efforts to prevent and address distributed denial of service attacks (a specific type of cyber attack). According to DOA, attempted data breaches occur on a daily basis and the state has faced several denial of service attack threats in particular.

8. Finally, a security awareness training program would be provided to train state employees to recognize potential IT threats that may occur in the course of employees' daily work responsibilities. The Department indicates that security awareness can act as the state's first line of defense against a security threat.

9. By purchasing the above contractual services, DET indicates that the state would

provide additional layers of security protection, and would benefit from the provider's historical experience with security incidents of other customers. The administration argues that the current decentralized approach is inadequate to ensuring that state residents are fully protected from data breaches, which would damage the trust placed in the state in its management of sensitive information. The Committee could, therefore, approve the Governor's recommendation to provide $2,538,000 PR in 2015-16 and $2,661,000 PR in 2016-17 to DOA to purchase and provide IT security services and manage a security awareness training program. [Alternative 1]

10. If the Committee wishes to provide DOA a lesser amount of additional funding to strengthen IT security, it could provide funding for one or more of the security services that DOA has indicated are most important for the state's IT needs: (a) $2,350,000 PR in 2015-16 and $2,473,000 in 2016-17 for a managed security services contract, secure endpoint management, identity and access management, and distributed denial of service prevention and mitigation (would not fund an awareness program) [Alternative 2a]; (b) $2,156,000 PR in 2015-16 and $2,279,000 in 2016-17 for a managed security services contract, secure endpoint management, and identity and access management (would not fund distributed denial of service prevention or an awareness program) [Alternative 2b]; (c) $1,919,000 PR in 2015-16 and $2,042,000 in 2016-17 for a managed security services contract and secure endpoint management (would not fund identity access management, distributed denial of service prevention, or an awareness program) [Alternative 2c]; or (d) $1.5 million PR in 2015-16 and $1.7 million in 2016-17 for a managed security services contract [Alternative 2d].

11. Finally, it could be argued that DOA should continue to prioritize the state's IT security, but should do so within its existing resources. Therefore, the Committee could delete the provision. [Alternative 3]

ALTERNATIVES

1. Approve the Governor's recommendation to provide $2,538,000 PR in 2015-16 and $2,661,000 PR in 2016-17 to DOA's IT services to state agencies appropriation to purchase and provide IT security services and to manage a security awareness training program.

2. Modify the provision to provide funding of a lower amount:

a. $2,350,000 PR in 2015-16 and $2,473,000 PR in 2016-17 for: (a) managed security services contract ($1.5 million in 2015-16 and $1.7 million in 2016-17); (b) secure endpoint management ($419,000 in 2015-16 and $342,000 in 2016-17); (c) identity and access management ($237,000 annually); and (d) distributed denial of service prevention and mitigation ($194,000 annually). [Reductions would be -$188,000 annually.]

ALT 2a	Change to Bill
PR	- $376,000

b. $2,156,000 PR in 2015-16 and $2,279,000 PR in 2016-17 for: (a) managed security services contract ($1.5 million in 2015-16 and $1.7 million in 2016-17); (b) secure endpoint management ($419,000 in 2015-16 and $342,000 in 2016-17); and (c) identity and access management ($237,000 annually). [Reductions would be -$382,000 annually.]

ALT 2b	Change to Bill
PR	- $764,000

c. $1,919,000 PR in 2015-16 and $2,042,000 PR in 2016-17 for: (a) managed security services contract ($1.5 million in 2015-16 and $1.7 million in 2016-17); and (b) secure endpoint management ($419,000 in 2015-16 and $342,000 in 2016-17). [Reductions would be -$619,000 annually.]

ALT 2c	Change to Bill
PR	- $1,238,000

d. $1.5 million PR in 2015-16 and $1.7 million PR in 2016-17 for a managed security services contract. [Reductions would be -$1,038,000 in 2015-16 and -$961,000 in 2016-17.]

ALT 2d	Change to Bill
PR	- $1,999,000

3. Delete provision.

ALT 3	Change to Bill
PR	- $5,199,000

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May 14, 2015 | Joint Committee on Finance | Paper #126

Information Technology Positions and Equipment Transfer Authority (DOA -- Information Technology)

[LFB 2015-17 Budget Summary: Page 43, #2]

CURRENT LAW

The Department of Administration (DOA) provides information technology (IT) security and desktop management services for many state agencies. State agencies are permitted to employ staff and manage their own equipment relating to IT security and desktop management services.

GOVERNOR

Provide DOA with the authority to, in consultation with an executive branch agency that has a Secretary serving at the pleasure of the Governor, transfer any full-time equivalent position that is related to the provision of IT security or desktop management services from that agency to DOA. In addition, permit DOA to transfer any incumbent employee occupying the transferred position. Require DOA to assess "the appropriate executive branch agency appropriation account" for the costs to pay salary and fringe benefits associated with the position.

Specify that the probationary status of an incumbent employee transferred under the provision would be determined by DOA, except that the employee would receive credit towards any probationary period for the time that the employee had been employed in any unclassified position immediately prior to the appointment.

Permit the Department to transfer IT equipment or systems in addition to any transferred IT security or desktop management services positions, if the equipment or system is required by DOA to carry out IT security or desktop management services for the agency. Under the bill, the Department may assess the agency for the provision of such services to that agency.

Create a continuing PR appropriation for the receipt of assessments paid by agencies for the purpose of funding transferred positions, employees, and equipment related to IT security or desktop management services.

DISCUSSION POINTS

1. According to the administration, the provision is intended to apply to the following executive branch agencies: (a) Agriculture, Trade and Consumer Protection; (b) Children and Families; (c) Corrections; (d) Financial Institutions; (e) Office of the Commissioner of Insurance; (f) Health Services; (g) Military Affairs; (h) Natural Resources; (i) Revenue; (j) Office of State Employment Relations; (k) Tourism; (l) Transportation; and (m) Workforce Development. The Department indicates that the purpose of the provision is to "achieve efficiencies in desktop management services and improve data security" by expanding the resources of DOA's Division of Enterprise Technology (DET) through an increase in the number of staff and variety of skills in serving the state's overall IT security and desktop management needs. Further, the administration indicates that, "In addition to the ability to increase the numbers of staff, DET would have the ability to transfer qualified, existing staff to fulfill expanded roles."

2. In general, under state statute, no position, regardless of funding source or type, may be created or abolished unless authorized by: (a) the Legislature through legislative enactment; (b) the Joint Committee on Finance under the process specified under s. 13.10 of the statutes for GPR- or SEG-funded positions, which requires approval at a meeting of the Committee; or (c) the Governor in creating or abolishing federally-funded positions. The creation or elimination of positions funded from program revenue can be requested by the administration to the Joint Committee on Finance under the 14-day passive review process specified under s. 16.505 of the statutes.

3. Under the Governor's 2013-15 recommended budget (2013 AB 40), a provision was included which would have provided the Governor with the authority to transfer IT positions and equipment relating to IT infrastructure services. The Finance Committee deleted the provision and instead specified a process by which agencies could jointly request the transfer of any positions, IT equipment, or IT systems associated with IT infrastructure services to DOA under terms specified in a 14-day passive review request to the Committee. Terms specified would have included: (a) payment of salaries and fringe benefits; (b) payment for IT equipment or systems; (c) payment for IT infrastructure services; and (d) addressing of any privacy concerns in transferring any data. In addition, an annual appropriation would have been created for assessments received from transferring agencies for the provision of IT services.

4. The specified passive review process for transferring IT positions was deleted in the Governor's partial veto of 2013 Act 20. According to the veto message, the provision and specified process were deleted because "they are unnecessary and will impede the ability of the executive branch to manage state government operations in the most efficient and effective way possible." In addition, the Governor indicated that "The Division of Enterprise Technology already provides services to over 21,000 users and will use this expertise, as well as the ability to leverage economies of scale on hardware and software purchases and enterprisewide licensing. I will direct the

department, in consultation with the information technology executive steering committee, to proceed with the information technology infrastructure services consolidation through memoranda of understanding with additional executive branch agencies. The department can include a request to formalize those agreements in the 2015-17 biennial budget." In accordance with the 2013 Act 20 veto message, under another 2015-17 recommended budget provision, the Governor proposes the transfer of 5.0 positions from the Department of Workforce Development (DWD) to DOA associated with IT infrastructure services. In addition, the budget recommendations include the deletion of 5.0 additional positions from DWD, 2.0 positions from the Department of Transportation, and 2.0 positions from the Department of Revenue "to reflect infrastructure functions that have already transitioned" to DOA.

5. The bill does not specifically define IT security or desktop management services. In addition, DOA indicates that because the state civil service system does not have position classifications specifically identified as related to IT security or desktop management, positions subject to transfer under the provision could vary. Examples of position classifications which would qualify as relating to IT security or desktop management were not provided. The Department indicates it would consult with agencies to determine which positions perform these functions.

6. Under the bill, the transferring agency would continue to pay the salaries and fringe benefits of any positions transferred. Further, DOA could assess the agency for the provision of IT security or desktop management services. If a position were transferred to DOA under the provision, the agency would effectively lose control over that portion of its budget. In essence, DOA would be funding its staff on an ongoing basis directly from the appropriations of another agency. Transferred positions could be funded from GPR, PR, or SEG program fees or federal revenue. Further, it could be argued that the provision in the bill reduces the incentive to minimize inefficient use of resources by placing budgetary decision-making authority with an entity (DOA) that is not responsible for the cost of the decision (borne by the transferring agency).

7. Positions in state agencies from which positions could be transferred are funded from various sources, including GPR, SEG, FED, and PR. The salaries and fringe benefits of most IT positions currently employed by DOA are funded from an annual program revenue appropriation from assessments to state agencies. Under the bill, a separate continuing appropriation would be created to fund the transferred positions. Transferring agencies would continue to fund the positions from the positions' current sources of funding. The bill does not specify that the transferred positions would serve only the transferring agency, nor does it guarantee any minimum level of IT security or desktop management services to the transferring agency. In addition, according to the administration, if the provision is approved, DOA's Division of Enterprise Technology (DET) can "identify positions currently performing security functions at agencies that can augment DET security staffing as the division's security services offerings expand." Further, the administration indicates that, "As with any other DOA service, transferring staff from other agencies to provide more central services does not mean the transferred positions will serve only the agencies from which they are transferred."

8. With regard to the funding of transferred positions, it could be argued that the provision would: (a) reduce the incentive to minimize inefficient use of resources by placing

budgetary decision-making authority (such as recruitment and hiring practices to fill vacant positions) with an entity that is not responsible for the cost of the decision; (b) distort the appearance of the budgets of both the transferring agency and DOA; and (c) subsidize the provision of IT security and desktop management services to other state agencies from the original funding sources (which include GPR, SEG, FED, and PR). Depending on the circumstances, in some cases this method of funding may run contrary to original legislative intent.

9. The provision also allows DOA to require an agency that is subject to a position transfer to transfer to DOA any IT equipment or systems required to carry out IT services for the transferring agency. The bill does not specify that the transferring agency must be reimbursed for the depreciated value of these assets. Further, the bill does not specify that DOA will assume payment responsibilities for any related debt or for equipment or systems that are being leased.

10. The Committee could choose to approve the Governor's recommendation. Under this alternative, DOA would be allowed to transfer any full-time equivalent IT position, equipment, or systems relating to IT security or desktop management services, as defined by DOA, and would require the transferring agency to pay DOA for the cost of salaries and fringe benefits for the transferred position. [Alternative 1]

11. However, it could be argued that providing this authority would result in a reallocation of legislatively enacted position authority and funding provided by the Legislature for specific agencies, programs, and purposes. To the extent that positions and funding are reallocated without legislative oversight, the functions of state government could be modified by the administration in a manner contrary to legislative intent. In addition, given that the Governor indicated through the 2013 Act 20 veto message that existing statutory authority provided to DOA was sufficient to accomplish the purpose of the provision when it was included in the 2013-15 recommended budget, the Committee could choose to delete the provision. As noted in the Governor's 2013 Act 20 veto message regarding the partial veto of the provision (item #21 of the veto message, "Information Technology Infrastructure Transfers"), the consolidation of IT services can be accomplished through memoranda of understanding with executive branch agencies, which can be formalized in subsequent budget proposals. [Alternative 2]

ALTERNATIVES

1. Approve the Governor's recommendation to: (a) provide DOA with the authority to transfer any full-time equivalent position and IT equipment or systems that are related to the provision of IT security or desktop management services from an executive branch agency to DOA; and (b) require DOA to assess the agency from which it transferred the positions for the costs to pay salary and fringe benefits associated with the positions.

2. Delete provision.

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May 14, 2015 Joint Committee on Finance Paper #127

Consolidation of Telecommunications and IT Appropriations (DOA -- Information Technology)

[LFB 2015-17 Budget Summary: Page 44, #4]

CURRENT LAW

The Department of Administration (DOA) maintains separate annual PR appropriations, as required under statute, for providing information technology services and telecommunications services to state agencies. Revenue to each appropriation is from assessments to state agencies for services provided. The Department's appropriation for printing, mail, communication, and information technology services to state agencies appropriation is funded $100,934,100 PR in 2014-15. The Department's appropriation for telecommunications services to state agencies and veterans services is funded $18,261,200 PR in 2014-15.

GOVERNOR

Rename DOA's annual appropriation for printing, mail, communication, and information technology services to state agencies to consolidate the appropriation with DOA's annual telecommunications services to state agencies and veterans services appropriation. The renamed appropriation would remain an annual appropriation.

Transfer $18,371,000 PR in 2015-16 and $18,371,700 PR in 2016-17 and 7.1 PR positions annually to the consolidated appropriation for printing, mail, communication, and information technology services to state agencies and veterans services. Repeal the telecommunications services to state agencies and veterans services appropriation. Modify the consolidated appropriation language to incorporate the additional revenue sources and expenditure purposes of the repealed telecommunications appropriation.

DISCUSSION POINTS

1. The bill provision consolidating DOA's IT services and telecommunications services to state agencies appropriations would transfer all base funding and position authority, including standard budget adjustments, from the telecommunications appropriation to the IT services appropriation. No net increase in expenditure or position authority is provided under the proposal.

2. The statutory language of the consolidated appropriation would be modified to include the existing statutory language of the telecommunications appropriation, including language regarding veterans services.

3. The administration indicates that the purpose of the consolidation is to improve the efficiency of accounting for revenues and expenditures relating to telecommunications and IT services. According to DOA, telecommunications services are increasingly being transitioned from analog-based services to data-based services. As a result, DOA indicates that although the services now commonly resemble one another, and share infrastructure such as broadband connections, the determination of which expenses are attributable to telecommunications and which are attributable to IT continues to be performed to conform to the separate appropriations under state statute. The administration argues that this practice is otherwise unnecessary and inefficient. Therefore, the Committee could approve the Governor's recommendation to consolidate the appropriations, including funding and position authority. [Alternative 1]

4. Funding to DOA's telecommunications services to state agencies and veterans services appropriation is $18,261,200 PR in 2014-15. This appropriation supports the costs of telecommunications services and DOA staff associated with these services. Historical data relating to expenditure authority and actual expenditures for the appropriation are shown in the table below.

Fiscal Year	Appropriation	Expended or Encumbered	Unobligated Authority
2009-10	$20,393,300	$17,970,000	$2,423,300
2010-11	20,393,300	15,785,300	4,608,000
2011-12	18,301,900	6,803,200	11,498,700
2012-13	18,301,900	4,451,700	13,850,200
2013-14	18,261,200	3,378,900	14,882,300

5. As shown in the table, from 2011-12 through 2013-14 statutory expenditure authority for DOA's telecommunications services appropriation has exceeded actual expenditures and encumbrances by more than $10 million annually. In addition, expended or encumbered funds for the appropriation decreased by $1 million to $2 million every year for the past five years. According to DOA, expenditures from the agency's telecommunications appropriation have decreased over time due to a change in billing practices for telecommunications services. Prior to 2011-12, DOA paid telecommunications invoices for state agencies and billed agencies individually for their expenses. Beginning in 2011-12, agencies were billed directly for telecommunications services by the state's service provider. The administration argues that expenditure authority for the appropriation should not be reduced because the state's contract with its telecommunications provider expires at the end of 2015-16, and the terms of the new contract are unknown at this time.

6. However, it could be argued that, until the terms of the contract are known, expenditure authority for the appropriation should be reduced to more closely align expenditure authority with actual expenditures. In addition, if the consolidation of DOA's telecommunications and IT appropriations is approved, the agency's main IT services to state agencies appropriation would be provided excess expenditure authority that could be used for purposes unrelated to telecommunications services. Therefore, the Committee could choose to reduce expenditure authority for the appropriation by some amount, such as: (a) $12 million PR annually [Alternative 2a]; (b) $10 million PR annually [Alternative 2b]; or (c) $8 million PR annually [Alternative 2c]. A funding reduction could be applied to the consolidated appropriation under Alternative 1, or to the telecommunications appropriation if the consolidation provision is not approved. If expenditure authority is reduced by the Committee and the terms of the state's future contract for telecommunications services ultimately requires an increase in expenditure authority, DOA could submit a request to the Committee under the 14-day passive review process specified in s. 16.515 of the statutes at that time.

7. Finally, if the Committee wishes for DOA to continue separately identifying revenues and expenditures associated with telecommunications services to state agencies and IT services to state agencies, it could delete the provision. [Alternative 3]

ALTERNATIVES

1. Approve the Governor's recommendation to rename DOA's annual appropriation for printing, mail, communication, and information technology services to state agencies to consolidate the appropriation with DOA's annual telecommunications services to state agencies and veterans services appropriation. The renamed appropriation would remain an annual appropriation. Transfer $18,371,000 PR in 2015-16 and $18,371,700 PR in 2016-17 and 7.1 PR positions annually to the consolidated appropriation for printing, mail, communication, and information technology services to state agencies and veterans services.

2. Reduce expenditure authority for DOA's telecommunications services to state agencies by:

a. $12.0 million PR annually;

ALT 2a	Change to Bill
PR	- $24,000,000

b. $10.0 million PR annually; or

ALT 2b	Change to Bill
PR	- $20,000,000

c. $8.0 million PR annually.

ALT 2c	Change to Bill
PR	- $16,000,000

3. Delete provision.

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May 14, 2015 | Joint Committee on Finance | Paper #128

Technology for Educational Achievement Program (DOA -- Information Technology)

[LFB 2015-17 Budget Summary: Page 45, #5 and #6]

CURRENT LAW

The technology for educational achievement (TEACH) program provides support for telecommunications access primarily through rate discounts and subsidized installation of data lines and video links to eligible educational institutions and libraries. Base funding for the TEACH program, which is funded through the state segregated universal service fund (USF), is $16,984,200 SEG annually. An educational agency may only request either one data line or one video link through the TEACH program.

GOVERNOR

Rename DOA's telecommunications access for school districts appropriation to the telecommunications access for educational agencies appropriation. Repeal and transfer segregated USF expenditure authority from the following appropriations to the renamed appropriation for educational agencies generally: (a) telecommunications access for private and technical colleges and libraries ($5,016,000 annually); (b) telecommunications access for private schools ($694,300 annually); (c) telecommunications access for state schools ($82,500 annually); and (d) telecommunications access for juvenile correctional facilities ($86,300 annually). Modify statutory language for the educational agencies appropriation to retain provisions of the current law TEACH program appropriations to be eliminated. Specify that on June 30 of each odd-numbered year, the unencumbered balance of the consolidated appropriation must be transferred to an appropriation created under the Public Service Commission to receive unexpended USF moneys for broadband expansion grants.

Allow educational agencies to make a request to DOA under the TEACH program for access to more than one data line and more than one video link. Require DOA to develop criteria to use in evaluating whether to provide more than one data line and video link to an educational agency. Specify that the criteria must include an educational agency's current bandwidth, equipment, and readiness, as well as the available providers and any other economic development in the geographical area which the agency serves.

DISCUSSION POINTS

1. According to the Executive Budget Book and an errata letter submitted subsequent to the introduction of the budget bill, individual accounts would be maintained under the combined appropriation to maintain separate accounting for each category of educational agency for which a separate appropriation currently exists. The administration indicates that the intent of the provision is to ensure that appropriated TEACH program funding is fully expended for educational telecommunications access and that each educational agency type would be allocated funding that reflects amounts appropriated under current law. Funding for the program exceeded expenditures by $205,400 in 2011-12; $525,400 in 2012-13; and $198,000 in 2013-14.

2. It should be noted that on April 15, 2015, the Committee acted in executive session on the Public Service Commission's budget to delete the proposal to create a broadband expansion grants appropriation to receive USF revenues transferred from the unencumbered balances of various USF appropriation accounts at the end of each fiscal year. As a result, Alternative 1 of this paper (the Governor's recommendation) does not include provisions related to the reversion of unencumbered balances on June 30 of each odd-numbered fiscal year.

3. According to the Budget in Brief, the proposal to expand the number of data lines and video links provided to educational entities is intended to assist rural schools in particular. The administration indicates that the proposed expansion would be funded using an existing balance in DOA's federal e-rate aid appropriation. Federal e-rate aid, which serves as an additional source of funding for educational telecommunications access, is used for TEACH program expenses when the segregated Universal Service Fund appropriations for each educational agency type have been completely expended.

4. The USF receives its funding through assessments on annual gross operating revenues from intrastate telecommunications providers. Total USF funding of $16,984,200 SEG annually is provided to separate TEACH program appropriations for different types of educational institutions and libraries as follows: (a) school districts ($11,105,100); (b) private and technical colleges and libraries ($5,016,000); (c) private schools ($694,300); (d) state schools ($82,500); and (e) juvenile correctional facilities ($86,300).

5. The TEACH program provides support for telecommunications access primarily through rate discounts and subsidized installation of data lines and video links to eligible educational institutions and libraries. By statute, 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. Since July, 2008, the connections provided at those rates have operated at higher speeds than is required; monthly

payments of $100 and $250 cover up to 10 megabits and 100 megabits per second, respectively. The difference between the cost to provide access (what DOA pays the telecommunications service provider under its negotiated telecommunications and data transmission contract for service through BadgerNet) and the monthly payment made by educational institutions and libraries to the state is paid for with funding from the USF and federal e-rate reimbursement.

6. In addition to revenue provided from the state Universal Service Fund, the program is supported by federal funding for e-rate reimbursement. E-rate moneys are used to fund ongoing TEACH program expenditures not covered by USF appropriations, as well as to pay down remaining debt from previously incurred expenses to finance educational technology infrastructure under s. 16.995 of the statutes. In recent years, federal e-rate revenues have exceeded expenditures. As a result, the federal e-rate appropriation revenue balance has grown. The opening balance of the federal e-rate appropriation in 2014-15 was $32 million. The following entities are eligible to receive federal e-rate funding: (a) elementary schools; (b) secondary schools; (c) libraries that are eligible for assistance from a state library administrative agency under the federal Library Services and Technology Act (Public Law 104-208) and whose budgets are completely separate from any schools (including, but not limited to, elementary and secondary schools, colleges, and universities); and (d) consortia of eligible schools and libraries.

7. It should be noted that certain educational entities that are eligible for the TEACH program are not eligible for federal e-rate reimbursement and may be funded from state USF moneys only. The following entities that may qualify to receive state-funded TEACH program assistance are ineligible to receive federal e-rate funds: (a) schools operating as for-profit businesses; (b) schools with endowments exceeding $50.0 million; (c) post-secondary educational institutions such as colleges and universities; and (d) libraries with budgets that are not completely independent from the budget of any educational institution.

8. Under current law, school districts may each be provided only one data line or one video link. Under 2015 AB21/SB21, each educational agency could request more than one data line and more than one video link. Under the proposal, DOA would be required to develop criteria to use in evaluating whether to provide more than one data line or video link. Currently, the TEACH program serves approximately 1,000 customers. The Department estimates that up to an additional 2,000 customers could be added under the proposal. This would result in higher monthly subsidies for telecommunications services as well as one-time expenditures for fiber optic telecommunication line installation. However, DOA is also currently renegotiating terms of the BadgerNet contract, which ends in 2016-17. To the extent that DOA is able to negotiate lower rates for the state, the cost of monthly subsidies could be reduced to some degree. The final terms of the agreement are not known at this time.

9. The Department provided information regarding estimated TEACH program expenditures and revenues under the 2015-17 budget provision which would expand the program. The following assumptions were provided by DOA: (a) federal e-rate revenue of $10 million annually for 2015-16 and 2016-17; (b) federal e-rate revenue of 60% of rate payments by the state from two program years prior in 2017-18 and 2018-19 (e-rate revenue is based on the percentage of students who receive free or reduced price lunch and funding is typically received by the state two to three years after application); (c) customer payments of $100 per month per customer for 80% of

customers, and $250 per month per customer for 20% of customers; (d) fiber installation costs of $47,000 per site added; (e) debt service estimates provided by DOA's Capital Finance Office; and (f) monthly rate payments based on estimated 2014-15 base expenditures of $22 million, which would increase in proportion to the number of customers added, with any assumed rate decrease beginning in 2016-17 (the first year of the renegotiated BadgerNet contract). In addition, an opening e-rate balance of $34.4 million FED is estimated for 2015-16 based on revenue received in the current fiscal year. It should be noted that any of the above assumptions could differ from actual revenues or expenditures.

10. Based on the information provided by the administration, the attachment to this paper provides several examples of revenues and expenditures of the TEACH program that could be realized under different assumptions.

Under the first scenario in the attachment, an additional 250 sites would be added per year, for a total of an additional 1,000 customers over four years. In addition, a BadgerNet rate reduction of 25% is assumed beginning in 2016-17, when the program will operate under the renegotiated contract. The figures provided under the first scenario show that with a rate reduction of 25%, the current e-rate revenue balance would not be sufficient to fully fund the addition of 250 sites in the fourth year, with a shortfall in revenue needed to support expenditures of -$1.9 million in 2018-19.

Under the second scenario, the expansion is assumed to be the same (1,000 customers over four years), and a higher renegotiated rate reduction of 35% is assumed. These assumptions result in a positive closing e-rate balance of $9.7 million in 2018-19.

Under the third scenario, a full expansion to 2,000 additional sites within four years is assumed, adding 500 sites per year. In addition, a larger rate reduction of 50% is assumed. The figures shown for the third scenario demonstrate that even with a 50% BadgerNet rate reduction, expanding the program by 500 customers each year could cause the e-rate revenue balance to be fully expended within the first two years, with a shortfall in revenue needed of -$44.7 million in 2018-19.

11. Closing balance deficits in the attachment are shown for the e-rate appropriation under the second and third scenario for the purpose of illustrating how differing assumptions can result in different outcomes for the program. Depending on several factors, including the number of customers added and renegotiated BadgerNet contract rates, the TEACH program expansion under the budget may not fully fund demand from educational agencies for additional data lines and video links. However, under the budget provision, DOA is required to exercise discretion with regard to providing additional data lines and video links. The Department has indicated that program administrators would evaluate the financial status of the program on a continuous basis in order to operate the program within the state's capacity to support it.

12. The administration argues that the USF-funded TEACH program appropriations for specific types of educational entities should be consolidated into one because the appropriations are not always fully expended by the end of each fiscal year, and other customers could benefit from additional program funds. Fund balances in separate appropriations may not be transferred except as authorized by law or by the Joint Committee on Finance acting under s. 13.10 of the statutes. In addition, there is a federal e-rate appropriation balance that has accumulated over time, and DOA

anticipates that lower rates will be charged to the state under a renegotiated BadgerNet contract, which would further contribute to growth in net revenue for the program due to lower expenditures. Therefore, the Committee could approve the Governor's recommendation to consolidate the TEACH appropriations and allow educational agencies to apply for more than one data line and more than one video link. Under this alternative, DOA would be required to develop criteria to use in evaluating whether to provide more than one data line and video link to an educational agency, including an agency's current bandwidth, equipment, readiness, and the available providers and any other economic development in the geographical area which the agency serves. [Alternative 1]

13. However, it could be argued that separate appropriations ensure that each type of educational entity specified is guaranteed a set amount of funding, which would no longer be the case if the appropriations are consolidated. Therefore, the Committee could delete the proposal to consolidate the appropriations and permit the program expansion so that TEACH customers can apply for more than one data line and more than one video link and also be guaranteed a set amount of segregated state funding under the program. [Alternative 2]

14. In addition to the concern above, it could be argued that, given that the terms of the renegotiated BadgerNet contract are yet to be determined, and that the receipt of federal e-rate revenue is dependent on federal budgeting and program circumstances, it is possible that the cost to operate the program and revenue available for the program to use in the future are uncertain. The Committee could, therefore, delete the provision. [Alternative 3]

ALTERNATIVES

1. Approve the Governor's recommendation [as modified by the Committee's previous actions taken on April 15, 2015, to delete the proposal to create a broadband expansion grants appropriation to receive USF revenues transferred from the unencumbered balances of various USF appropriation accounts at the end of each fiscal year] to: (a) consolidate DOA's TEACH program appropriations and maintain individual accounts within the appropriation, as specified in the administration's errata letter, to track educational agency types separately; (b) permit educational agencies to make a request to DOA under the TEACH program for access to more than one data line and more than one video link; and (c) require DOA to develop criteria to use in evaluating whether to provide more than one data line and video link to an educational agency, including an agency's current bandwidth, equipment, readiness, and the available providers and any other economic development in the geographical area which the agency serves.

2. Modify the provision to delete changes which would consolidate TEACH appropriations.

3. Delete provision.

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Attachments

ATTACHMENT

Scenario One
250 Sites Added Annually; 25% Lower BadgerNet Rate

	2015-16	2016-17	2017-18	2018-19
Opening E-Rate Balance	$34,400,000	$22,609,800	$14,343,500	$8,888,100
Revenue				
USF Funding	$16,984,200	$16,984,200	$16,984,200	$16,984,200
Federal E-Rate Funds	10,000,000	10,000,000	16,500,000	14,850,000
Customer Payments	1,950,000	2,340,000	2,730,000	3,120,000
Total Revenue	$28,934,200	$29,324,200	$36,214,200	$34,954,200
Expenditures				
Fiber Installation	$11,750,000	$11,750,000	$11,750,000	$11,750,000
Debt Service	1,474,400	1,090,500	1,044,600	969,000
Monthly Rate Payments	27,500,000	24,750,000	28,875,000	33,000,000
Total Expenditures	$40,724,400	$37,590,500	$41,669,600	$45,719,000
Net Revenue	-$11,790,200	-$8,266,300	-$5,455,400	-$10,764,800
Closing E-Rate Balance	$22,609,800	$14,343,500	$8,888,100	-$1,876,700

Scenario Two
250 Sites Added Annually; 35% Lower BadgerNet Rate

	2015-16	2016-17	2017-18	2018-19
Opening E-Rate Balance	$34,400,000	$22,609,800	$17,643,500	$16,038,100
Revenue				
USF Funding	$16,984,200	$16,984,200	$16,984,200	$16,984,200
Federal E-Rate Funds	10,000,000	10,000,000	16,500,000	14,850,000
Customer Payments	1,950,000	2,340,000	2,730,000	3,120,000
Total Revenue	$28,934,200	$29,324,200	$36,214,200	$34,954,200
Expenditures				
Fiber Installation	$11,750,000	$11,750,000	$11,750,000	$11,750,000
Debt Service	1,474,400	1,090,500	1,044,600	969,000
Monthly Rate Payments	27,500,000	21,450,000	25,025,000	28,600,000
Total Expenditures	$40,724,400	$34,290,500	$37,819,600	$41,319,000
Net Revenue	-$11,790,200	-$4,966,300	-$1,605,400	-$6,364,800
Closing E-Rate Balance	$22,609,800	$17,643,500	$16,038,100	$9,673,300

Scenario Three
500 Sites Added Annually; 50% Lower BadgerNet Rate

	2015-16	2016-17	2017-18	2018-19
Opening E-Rate Balance	$34,400,000	$5,749,800	$-10,736,500	$-22,096,900
Revenue				
USF Funding	$16,984,200	$16,984,200	$16,984,200	$16,984,200
Federal E-Rate Funds	10,000,000	10,000,000	19,800,000	13,200,000
Customer Payments	2,340,000	3,120,000	3,900,000	4,680,000
Total Revenue	$29,324,200	$30,104,200	$40,684,200	$34,864,200
Expenditures				
Fiber Installation	$23,500,000	$23,500,000	$23,500,000	$23,500,000
Debt Service	1,474,400	1,090,500	1,044,600	969,000
Monthly Rate Payments	33,000,000	22,000,000	27,500,000	33,000,000
Total Expenditures	$57,974,400	$46,590,500	$52,044,600	$57,469,000
Net Revenue	-$28,650,200	-$16,486,300	-$11,360,400	-$22,604,800
Closing E-Rate Balance	$5,749,800	$-10,736,500	$-22,096,900	-$44,701,700

ADMINISTRATION

Information Technology

LFB Summary Item for Which No Issue Paper Has Been Prepared

Item #	Title
3	Self-Funded Portal Appropriation Increase