

Department of Legislative Services
 Maryland General Assembly
 2017 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 370 (Senator Rosapepe, *et al.*)
 Education, Health, and Environmental Affairs
 and Budget and Taxation

Digital Equity for All Maryland Students Act of 2017

This bill establishes the School Broadband Upgrade Grant Program and a related fund to leverage federal funds that are available through the federal E-rate program to install or upgrade Internet access in every public school in the State. The Governor must provide \$9.0 million annually to the new fund for the program. The Maryland State Department of Education (MSDE) must administer the program, may adopt regulations to implement the bill, and must report annually to the General Assembly on grants awarded under the program.

The bill takes effect July 1, 2017, and terminates if the E-rate program expires and is not reauthorized.

Fiscal Summary

State Effect: General fund expenditures for the School Broadband Upgrade Grant Program increase by \$9.0 million annually beginning in FY 2018; special fund revenues and expenditures increase commensurately to provide grants to local school systems. It is assumed that the E-rate program remains in effect for the five years covered by this analysis. General fund expenditures by MSDE increase by \$75,800 in FY 2018 to administer the new grant program; out-year expenditures reflect annualization and inflation. **This bill establishes a mandated appropriation beginning in FY 2019.**

(in dollars)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
SF Revenue	\$9,000,000	\$9,000,000	\$9,000,000	\$9,000,000	\$9,000,000
GF Expenditure	\$9,075,800	\$9,096,200	\$9,100,300	\$9,104,700	\$9,109,300
SF Expenditure	\$9,000,000	\$9,000,000	\$9,000,000	\$9,000,000	\$9,000,000
Net Effect	(\$9,075,800)	(\$9,096,200)	(\$9,100,300)	(\$9,104,700)	(\$9,109,300)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

Local Effect: Local school system revenues increase by up to \$9.0 million from grants for eligible projects. Local school system expenditures increase to spend State grant funds and to provide the local share of project costs.

Small Business Effect: Potential meaningful. E-rate work is typically awarded to large telecommunications companies; small businesses may benefit to the extent that the telecommunications companies contract out aspects of their work to them.

Analysis

Bill Summary: The bill defines “Category 1 services” to be broadband infrastructure upgrades that bring broadband services into a school building or noninstructional facility of a school district. It defines “Category 2 services” as fiber construction within a school building.

The purpose of the program is to provide State matching funds for federal funding available through the E-rate program for both Category 1 and Category 2 services. In administering the program, MSDE must establish grant application and award procedures subject to guidelines in the bill, and make awards totaling up to \$9.0 million each year for Category 1 and Category 2 services. Grants to local school systems may not exceed the State’s share of a project’s costs, which is calculated based on the State share of the K-12 Foundation Program funding formula.

The School Broadband Upgrade Fund established by the bill is a special, nonlapsing fund. The fund may be used only for grant awards, and any expenditures from the fund may be made only in accordance with the State budget. Interest earnings accrue to the *general* fund.

Current Law/Background:

Wealth Equalized K-12 Foundation Program

The Foundation Program is the major State aid program for public schools, accounting for nearly half of State education aid. For each school system, a formula determines the State and local shares of a minimum per pupil funding level, or “foundation.” As a wealth-equalized formula, the State provides more aid per pupil to school systems in the less wealthy jurisdictions and less aid per pupil to school systems in the more wealthy jurisdictions. The calculation of the State and local shares of the minimum foundation for each of the 24 school systems is based on public school enrollment and county wealth. Computing State aid through the foundation program involves two steps. In the first step, a per pupil foundation level is identified. Then, through the wealth equalization formula,

the State and local shares of the foundation are calculated. The determination of the foundation level and the distribution of State aid are both specified in statute.

Although on the whole most State aid formulas including the Foundation Program are designed to have the State pay roughly one-half of program costs, the State's share for the less wealthy jurisdictions is higher than 50%, and the State's share for more wealthy jurisdictions is lower than 50%. **Exhibit 1** shows the local share of the K-12 foundation formula for fiscal 2018.

Exhibit 1
Local Share of K-12 Foundation Program

<u>County</u>	<u>FY 2018</u>
Allegany	29.4%
Anne Arundel	61.4%
Baltimore City	32.3%
Baltimore	48.0%
Calvert	46.9%
Caroline	26.9%
Carroll	47.3%
Cecil	37.7%
Charles	39.1%
Dorchester	33.9%
Frederick	42.8%
Garrett	60.3%
Harford	45.8%
Howard	56.1%
Kent	80.9%
Montgomery	68.7%
Prince George's	38.3%
Queen Anne's	57.3%
St. Mary's	42.4%
Somerset	27.5%
Talbot	85.0%
Washington	33.7%
Wicomico	27.0%
Worcester	85.0%

Source: Department of Legislative Services

E-rate Program

The federal Telecommunications Act of 1996 created four universal service programs to expand Internet access to underserved areas. Funding for the programs is collected from telecommunications companies, which typically pass on the cost to consumers through universal service fees. The Universal Service Administrative Company (USAC), an independent nonprofit company, collects the funds and administers the programs in collaboration with the Federal Communications Commission (FCC).

USAC's Schools and Libraries Program, better known as the E-rate program, provides discounts of up to 90% to help eligible schools and libraries connect to the Internet. Eligible grant recipients include public and most nonprofit elementary and secondary schools as well as all public and many private libraries. To receive E-rate funding, eligible recipients must first conduct a competitive procurement to obtain the most cost-effective proposal to provide the goods or services requested. Eligible expenses are divided into Category 1 and Category 2 costs, consistent with the definitions used in the bill. After selecting a vendor, recipients then apply to USAC for E-rate funding, which is based on the proportion of low-income families served by the recipient. Recipients must provide the balance of the cost of the goods or services being provided. MSDE advises that dedicated State funds have not been available to cover the costs not paid for by the E-rate program.

In a recent order, the FCC established an enhanced match for Category 1 costs only. The enhanced match increases the E-rate subsidy by up to 10% for a dollar-for-dollar match for state funds dedicated to Category 1 projects. For example, a district with a 70% E-rate subsidy currently pays 30% of Category 1 costs; with the enhanced match, if the state contributes 10%, the E-rate subsidy increases by 10%, leaving the district to pay for just 10% of project costs.

Exhibit 2 shows the five-year projected Category 2 costs to provide universal Internet coverage to all schools for each local school system in the State, the share of those costs eligible for reimbursement by E-rate, and the funding gap for each system. Comparable data on Category 1 costs were not available from USAC but are believed to be no higher than Category 2 costs.

Exhibit 2
Five-year Category 2 E-rate Costs

<u>System</u>	<u>Category 2 Costs</u>	<u>E-rate Share</u>	<u>E-rate Contribution</u>	<u>Funding Gap</u>
Allegany	\$1,252,350	85%	\$1,064,498	\$187,853
Anne Arundel	11,371,450	50%	5,685,725	5,685,725
Baltimore City	11,861,750	85%	10,082,488	1,779,263
Baltimore	15,729,400	60%	9,437,640	6,291,760
Calvert	2,397,450	60%	1,438,470	958,980
Caroline	794,450	80%	635,560	158,890
Carroll	3,927,900	50%	1,963,950	1,963,950
Cecil	2,274,800	70%	1,592,360	682,440
Charles	3,840,700	60%	2,304,420	1,536,280
Dorchester	695,350	80%	556,280	139,070
Frederick	5,929,900	50%	2,964,950	2,964,950
Garrett	571,700	70%	400,190	171,510
Harford	5,560,800	50%	2,780,400	2,780,400
Howard	7,761,350	50%	3,880,675	3,880,675
Kent	298,650	80%	238,920	59,730
Montgomery	22,160,150	60%	13,296,090	8,864,060
Prince George's	17,791,050	80%	14,232,840	3,558,210
Queen Anne's	1,120,800	60%	672,480	448,320
St. Mary's	426,100	85%	362,185	63,915
Somerset	2,554,000	60%	1,532,400	1,021,600
Talbot	644,850	70%	451,395	193,455
Washington	3,316,100	80%	2,652,880	663,220
Wicomico	2,076,200	80%	1,660,960	415,240
Worcester	950,350	70%	665,245	285,105
Total	\$125,307,600		\$80,553,000	\$44,754,600

Source: Universal Service Administrative Company

The \$44.8 million funding gap over five years translates into annual costs of just less than \$9.0 million. Overall, the State and local school districts will share these costs equally, but the cost sharing will vary on a county-by-county basis in accordance with the K-12 foundation formula; the local shares are shown in Exhibit 1. Thus, the State share of Category 2 costs is expected to be approximately \$4.5 million (one-half of the total); as Category 1 costs are believed to be no higher than Category 2 costs, the State's share of

those costs is also estimated to be \$4.5 million, for a total of \$9.0 million available in State grants annually.

State Fiscal Effect: General fund expenditures for MSDE increase by \$9.0 million annually beginning in fiscal 2018; there is a corresponding \$9.0 million increase in special fund revenues and expenditures to provide grants to local school systems. Although the mandated appropriation does not take effect until fiscal 2019, this analysis assumes that the Governor elects to include funding for the program in fiscal 2018 as well.

Administering a grant program of this size requires a full-time program manager to develop a proposal process, establish criteria for program awards, process grant applications, and monitor compliance with program requirements. As the bill requires that moneys in the fund be used only for grant awards, it is assumed that general funds support program operation. Therefore, general fund expenditures increase by \$75,762 in fiscal 2018, which accounts for a 90-day start-up delay from the bill's July 1, 2017 effective date. This estimate reflects the cost of hiring one program manager to administer the grant program for MSDE. It includes salaries, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salary and Fringe Benefits	\$70,653
Operating Expenses	<u>5,109</u>
Total FY 2018 State Expenditures	\$75,762

Future year expenditures reflect full salaries with annual increases and employee turnover and ongoing operating expenses.

Local Fiscal Effect: Although the E-rate program supports projects for public and private schools and libraries, the bill references only public schools as being eligible for funding under the new State program. Therefore, local school systems receive up to \$9 million in grants to cover a portion of Category 1 and Category 2 projects for schools seeking to install or upgrade Internet access. Local school systems that receive State grants must provide the local share of project costs. Specific allocations to local school districts and public libraries will depend on their respective need for the funds, whether they apply for grants from the program, and their share of the K-12 Foundation Program formula.

Additional Information

Prior Introductions: None.

Cross File: HB 975 (Delegate Frick – Ways and Means).

Information Source(s): Department of Information Technology; Baltimore City; Maryland State Department of Education; Universal Service Administrative Company; Public School Construction Program; Department of Legislative Services

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