K-12 High Speed Network

Presented To:
Assembly Budget Subcommittee No. 2

April 18, 2005
Major Fiscal Issues

Budget Summary

Total Four-Year Activity, 2000-01 Through 2003-04
As of June 30, 2004

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<table>
<thead>
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</thead>
<tbody>
<tr>
<td>State Appropriations</td>
<td>$92.6</td>
</tr>
<tr>
<td>Actual Expenses</td>
<td>$65.2</td>
</tr>
<tr>
<td>Available Monies</td>
<td></td>
</tr>
<tr>
<td>Equipment replacement/transfers</td>
<td>$12.7</td>
</tr>
<tr>
<td>Reserve</td>
<td>8.4</td>
</tr>
<tr>
<td>Payment for services not yet received</td>
<td>4.8</td>
</tr>
<tr>
<td>Interest/dividend income earned on project investments</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Total—Available Monies</strong></td>
<td><strong>$27.4</strong></td>
</tr>
</tbody>
</table>

\(^a\) To date, no project equipment has been replaced, and CENIC does not have an equipment replacement schedule.

- In addition to unspent state funds, the project has $6.6 million in available E-Rate and California Teleconnect Fund (CTF) monies.

- In total, the project has $34 million in prior-year carryover monies.
Major Policy Issues

☑ Benefits of Project Unclear

• Project monies were not used to purchase computers, provide Internet access to school sites, develop online courses, or train teachers on how to integrate technology into their classrooms.

• A recent survey of county office education technology experts found that only 39 percent of respondents were even aware of any specific uses of the High Speed Network (HSN).

• The state has not yet clearly indicated what problem it is attempting to address or what it expects to achieve with a high speed K-12 network.

☑ Cost-Effectiveness of Project Unclear

• Lacking a clear objective, the state does not know if other alternatives exist or if these other alternatives would be more cost effective.

☑ Ownership of Network Unclear

• As of June 30, 2004, CENIC reported total network assets of $67.7 million. Despite being paid for almost entirely with state funds, CENIC’s view is that the state does not own the network.
LAO Recommendation

☑️ Suspend project pending results of an audit and a design and use study ($21 million in Proposition 98 General Fund savings).

- Submit an audit request to the Joint Legislative Audit Committee (JLAC) to determine: (1) project monies that remain available and potentially could be reverted to the state and (2) the assets that were purchased with state monies and could be claimed by the state.

- Depending upon audit results, Legislature could fund a network design and use study in 2006-07.

- Depending upon study results, Legislature could fund a network project and competitively contract for a network/service vendor in 2007-08.
Legislature Has Array of Other Budget-Year Alternatives

Alternative 1—Use “carryover” monies to sustain project pending results of audit and a design and use study ($20.5 million in Proposition 98 General Fund savings).

- Submit an audit request to JLAC to determine available prior-year monies and ownership of assets.
- Authorize the Department of Education (SDE) to contract with the Imperial consortium for the purpose of continuing all/most/some of CENIC network services. Authorize the use of up to $20.5 million in prior-year monies for these services.
- Provide SDE with $500,000 to contract for a network design and use study, with the intent in budget year plus one to competitively contract for network services.

Alternative 2—Appropriate up to Governor’s funding level to sustain project pending results of audit and design and use study but designate as one-time monies (savings would range from zero to $20.5 million in Proposition 98 monies).

- Submit an audit request to JLAC to determine available prior-year monies and ownership of assets.
- Provide up to $20.5 million in one-time monies for SDE to contract with the Imperial consortium for the purpose of continuing all/most/some of CENIC network services.
- Provide SDE with $500,000 to contract for a network design and use study, with the intent in budget year plus one to competitively contract for network services.

Alternative 3—Redirect up to $21 million to other education technology priorities (savings would range from zero to $21 million in Proposition 98 monies).

- Submit an audit request to JLAC to determine available prior-year monies and ownership of assets.
- Provide up to $21 million in budget-year monies for other high education technology priorities, such as purchasing computers, obtaining Internet connectivity, and funding online course development.