K-12 High Speed Network

L E G I S L A T I V E   A N A L Y S T ' S   O F F I C E

Presented To:
Assembly Budget Subcommittee No. 2

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Major Fiscal Issues

Budget Summary

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

State Appropriations	$92.6
Actual Expenses	$65.2
Available Monies	
Equipment replacement/transfers[a]	$12.7
Reserve	8.4
Payment for services not yet received	4.8
Interest/dividend income earned on project investments	1.5
Total—Available Monies	**$27.4**

[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.