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TELECOMMUNICATIONS SERVICES FOR SCHOOLS

Senate Bill 637 (Substitute S-1) First Analysis (7-8-97)

Sponsor: Sen. Leon Stille
Senate Committee: Technology and Energy
House Committee: Advanced Technology and Computers

THE APPARENT PROBLEM:

The federal Telecommunications Act of 1996 made many important changes to the regulation of telecommunications services in the nation. Among many things, the act requires that telecommunication carriers providing services on an interstate (between states) or an intrastate (state-wide) level provide telecommunications services to eligible schools and libraries at a discount. Carriers can then be reimbursed by the Universal Service Support Fund. For elementary and secondary schools, the discount is based on the percentage of students eligible for the federal school lunch program. For libraries, the discount is based on the percentage of students eligible for the school lunch program in the district in which the library is located. The discounts for interstate services range from 20 percent for urban schools and 25 percent for rural schools with less than one percent of eligible students to a 90 percent discount for both urban and rural schools with 75 to 100 percent of eligible students. Discounts are to be offered on all commercially available telecommunications services, internal connections, and Internet access.

To be eligible, a school or library would first have to submit a technology plan to the Michigan Department of Education for approval and solicit bids for the desired services. An application, along with the approved plan and accepted bid, would then be submitted to the Universal Service Support Fund administrator. The carrier would then be reimbursed by the fund for the discount provided to the school or library for both interstate and intrastate services.

However, recent Federal Communications Commission (FCC) rules require that in order to participate in the Universal Service Support program, states must first adopt at least the same discounts for intrastate services as the federal discounts for interstate services. FCC rules have also put an annual cap on the fund of \$2.25

billion, with the last \$250 million reserved for the most needy of

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schools and libraries. Reportedly, the money will be distributed, beginning January 1, 1998, on a first-come, first-served basis. Originally, the deadline for schools and libraries to submit applications for eligibility was July 1, 1997, but the new FCC rules won't be effective until at least July 17, 1997. The delays in establishing this new program have resulted in a delay of developing and distributing application forms. Though it is not clear as to when applications must be in for eligibility for the program, what is clear is that the state must adopt, as a minimum, the same discount for intrastate telecommunication services to eligible schools and libraries as the discount rates for interstate services. According to the Office of Attorney General, the Michigan Public Service Commission may lack the necessary authority to adopt the discounted rates for intrastate services. Therefore, legislation has been proposed to adopt the same discount rates for intrastate telecommunications services as is applicable to interstate services so that Michigan schools and libraries could apply for discounted telecommunications services.

THE CONTENT OF THE BILL:

The federal Telecommunications Act of 1996 (Public Law 104-104, 110 Stat. 56) requires that telecommunications carriers provide interstate services to elementary and secondary schools and libraries at discounted rates as established by the Federal Communications Commission, and allows the carriers to be reimbursed for the discount. Senate Bill 637 would amend the Michigan Telecommunications Act to require that all providers of telecommunications services within the state that receive federal universal service support reimbursement for providing interstate telecommunication services at a discount to eligible elementary and secondary schools under the federal legislation also provide intrastate telecommunication services at the same discounted rate to eligible elementary and secondary

schools. (House Bill 4997, which recently passed the House, would make the same amendment with regard to discount services to eligible libraries.)

MCL 484.2375

FISCAL IMPLICATIONS:

According to the Senate Fiscal Agency, the bill would not have a fiscal impact on the state. It would reduce the cost of intrastate telecommunications services, including two-way interactive communications, internal connections, and Internet connections, to public and private nonprofit elementary and secondary schools. However, though the schedule of discounts set by the Federal Communications Commission would provide discounts of 20 percent to 90 percent, with disadvantaged schools receiving the higher discounts, the value of the discounts that would be received by schools is unknown. (7-1-97)

ARGUMENTS:

For:

The new Universal Service Support program has the potential of enabling many schools and libraries to update and expand their telecommunications systems by qualifying for discounts from 20 percent up to 90 percent on both interstate and intrastate services. Qualifying services would be any commercially available telecommunications service (e.g., call forwarding and call waiting), internal connections, and Internet access. However, to be eligible to receive the discount from telecommunications carriers, schools and libraries must first submit a technology plan to the Michigan Department of Education and use a competitive bid process to select a carrier. The plan and the selected carrier would then be added to the application to the Universal Service Support program. Telecommunications carriers would be reimbursed from the fund for the interstate and intrastate services provided at a discount to the schools and libraries.

According to recently adopted Federal Communications Commission (FCC) rules, in order for carriers to receive a reimbursement for either intrastate or interstate services, or both, a state must first adopt, at a minimum, the discount rates set by the FCC for interstate services. Further, a carrier will not provide a discount to a school or library if it is not assured of reimbursement. The FCC directives also set a July 1, 1997 deadline for schools and libraries to make application for the discounts that are scheduled to begin January 1, 1998. However, since the FCC rules were not published in the Federal Register until June 17, 1997, they will not be effective until July 17, 1997.

(The rules become final 30 days after publication in the Federal Register.) Therefore, it is

expected that schools and libraries will have at least until then to submit applications in order to receive the telecommunications discounts. Due to recent changes in the Michigan Telecommunication Act, the Office of Attorney General has concluded that the Public Service Commission may not have sufficient statutory authority to adopt the discount rates. The bill, together with House Bill 4997, is therefore necessary to provide the framework for Michigan schools and libraries to be prepared to submit the required applications and receive the discount that will be provided by telecommunications carriers because of the Universal Service Support fund. As it is commonly believed that the fund, which will be capped at \$2.25 billion a year, will be distributed on a first-come, first-served basis, it is all the more important that the necessary framework be established in a timely fashion so that Michigan schools and libraries will be prepared to meet any federal application deadline that may be announced shortly.

Response:

Telecommunications services representatives have voiced support for the discounts provided to the schools and libraries under the Universal Service Support, but would oppose opening the Telecommunications Act to other amendments.

POSITIONS:

There are no positions on the bill.

Analyst: S. Stutzky

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.