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October 7, 1997

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

Re: Federal-State Joint Board on Universal Service: CC Dkt No. 96-45

Dear Mr. Caton,

On October 7, the undersigned of BellSouth, Marvin Bailey and Michael Pabian of Ameritech, and Bryan McGannon of Bell Atlantic met with Irene Flannery, Lori Wright, Richard Smith, and Cheryl Leanza of the Universal Service Branch.

The discussion focused on several issues raised in connection with Petitions for Reconsideration of the FCC's May 8 Universal Service Order filed by USTA, NASTD, and others regarding the school and libraries discount program and in particular the treatment of state networks under that program. In addition, the LECs discussed a proposed methodology for calculating discounts for school districts and consortia submitted by USTA and offered potential rule language for implementing that proposal. They emphasized that from a provider's perspective, and in particular with regard to their ability to bill for discounts, it is important that school districts and consortia who are purchasing on behalf of individual eligible entities be assigned a single discount. All materials provided during the meeting are attached.

This notice is being filed today pursuant to Section 1.1206(b)(2) of the Commission's rules. If you have any questions concerning this filing, please do not hesitate to contact me.

Sincerely,

Mary L. Henze

Mary L. Henze
Director - Executive and
Federal Regulatory Affairs

cc: I. Flannery
L. Wright
C. Leanza
R. Smith

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STATE NETWORKS AND THE SCHOOLS & LIBRARIES FUND

State networks are not carriers.

- Carriers are providers of telecommunications service "for a fee directly to the public" (§3(44) and (46)).
- ¶800 notes that state networks are not even "other providers of telecommunications" that would be required to contribute under §254(d).
- Therefore, state networks are not entitled to reimbursement or credit under §254(h)(1)(B).

State networks may aggregate demand and obtain pro-rata discounts for eligible schools and libraries.

- In this capacity, they are consortia (¶ 478).
- Eligible services/providers are:
  - telecommunications services provided by telecommunications carriers (¶431)
  - Internet access, including:
    - transmission of information by a common carrier
    - transmission of information as part of a gateway
    - e-mail services (¶444)
  - internal connections (¶450)
- The procurement of switches and the construction of state-owned transport facilities for state-owned networks is not covered.

There is no reason to permit state networks to obtain reimbursement directly from the schools and libraries fund.

- There is no real administrative efficiency. In the case of telecommunications services, carriers will aggregate the appropriate discounts for these situations and with others and apply for a credit, thus reducing the number of cash-out transactions for the fund administrator.
- State network applications will tend to shield more information from scrutiny, risking the funding of an inappropriate portion of state-wide networks at the hands of the S&L fund, joepardizing the availability of the limited funding for intended purposes.

Proposed Rules Changes to Universal Service Order, Docket 96-45

Section 54.505 Discounts

(a) Discount Mechanism. (no changes)

(b) Discount Percentages. The discounts available to eligible schools and libraries shall range from 20 percent to 90 percent of the pre-discount price for all eligible services provided by eligible providers, as defined in this subpart. The discounts available to a particular school, library or consortium of only such entities shall be determined by indicators of poverty and high cost.

(1) For schools, the level of poverty shall be measured by the percentage of their student enrollment that is eligible for a free or reduced price lunch under the national school lunch program or a federally approved alternative mechanism.

(2) For libraries and library consortia, the level of poverty shall be based upon the percentage of student enrollment that is eligible for a free or reduced price lunch under the national school lunch program or a federally approved alternative mechanism in the public school district in which they are located. If the library is located in multiple public school districts, then their level of poverty shall be based upon the average of the percentage of students eligible for the national school lunch program in each of the school districts that children living in the library's location attend. Library systems (or districts) applying for discounted services on behalf of their individual branches shall calculate the system-wide percentage of eligible students using an unweighted average based on the percentage of student enrollment that is eligible for a free or reduced price lunch under the national school lunch program in each of the public school district(s) in which they are located for each of their branch location(s).

(3) Urban/rural classifications. (no changes)

(c) Matrix. (no changes)

(d) School district(s), multiple school districts, or consortia of schools or schools and libraries. A single and consistent discount percentage for all service requests of service providers will be calculated for each school district(s), multiple school districts operating as a consortia, or for consortia of schools and libraries. This single discount percentage can be calculated according to the following rules:

(1) Discounts for schools that aggregate their purchases of eligible services with other schools will be determined by weighting the discount percentages of the individual schools as determined in the matrix by the percentage of each schools' students of the total number of students for all participating schools. For example, school districts applying for eligible services on behalf of their eligible schools will calculate the district-wide discount percentage by multiplying each schools' discount as determined by the matrix by the percent of students in each school as a percent of the total school district.. The sum of the weighting of all schools is the discount for the entire district. The discount will be rounded to the nearest (1 or 5)%. Similarly, if multiple school districts or some portions of schools in multiple school districts apply as consortia for discounts for services, each school's discount will be weighted by the percentage of its students of the aggregate total of all students in all participating schools.

(2) Libraries aggregating purchases with school(s), school districts(s): If library or library consortia elect to aggregate their purchases of eligible services with other school(s) or school district(s), then the discount for the library or library consortia will be determined by the level of poverty and high cost (urban/rural) of those participating school(s) or school district(s). Each library or library consortia will receive the discount percentage of the participating school(s) or school district(s) as determined in (b)(1) above.

(i) In order to prevent gaming of the discounts, each eligible library or library consortia aggregating its purchases with school(s) or school district(s) must be participating in the consortia with a nearby school. That is, each participating library must be located within a school district from which at least one school in that district is a member of the consortia.

(3) If consortia of schools, school districts, libraries, or any combination of each elects to allocate billing from service providers for portions of services used back to its individual members or districts, then each consortia should strive to ensure that each participating member of the consortia receives the individual discount to which it is entitled. This is true also for libraries and library consortia participating in consortia with schools or school districts.

(e) Consortia including rural health care providers, public sector governmental customers, and ineligible private sector members.

(1) The rules allow for rural health care providers and public sector governmental customers to participate in consortia with schools and libraries but not to receive the benefits of any discounts afforded to schools and libraries. Under specific provisions where pre-discount prices are exclusively provided at generally tariffed rates, ineligible private sector members may also participate in consortia with schools and libraries but not receive the benefits of any discounts afforded to schools and libraries.

(2) In these cases, the governance authority with fiduciary responsibility for the consortia serving as the applicant and the billed party for the consortia must separate projected usage of the requested services for schools and libraries from that of all other members of the consortia. Methods for determining discounts for schools and libraries will be as cited above and will not be affected by these consortia membership arrangements. However, the consortia will remain responsible for allocating bills internally for services provided correctly among all users so as to ensure that the discounts accrue only to eligible schools and libraries.

(f) Term of Discounts: All discounts for individual schools/libraries, school/library districts or for consortia of school districts or schools and libraries will be in effect for the calendar year to the extent that funding is available from the Fund Administrator. Revisions to discount percentages created by the changing of such determinant factors as percent students eligible for free and reduced price lunch or consortia membership changes will be accepted with the annual reapplication process in July of each year. Service providers must honor such discount changes effective on January1 of each succeeding calendar year.

(g) Interstate and Intrastate Services. (no changes)

Section 54.601 (b)(3) eliminate language regarding telcommunications carriers recordkeepng responsibilities with consortia re: allocation of costs.

TABLE 1

EXAMPLE OF DISCOUNT CALCULATIONS FOR MULTIPLE SCHOOLS, LIBRARIES

This example assigns a single specific and consistent discount rate to various combinations of schools and libraries. It does not allocate bills to school, library members based on their unique individual discount rates. That process is displayed on Table 2.

Six different discount scenarios are presented on this chart:
1.) Individual School discounts are column f
2.) Schools aggregate to district level; weighted discounts are in Column H
3.) 3 School Districts combine into consortia; consortia discount is column J
4.) Individual Library discounts match school districts in Column H
5.) Library Districts join school consortia; apply discounts from column J
6.) Library Districts may wish to combine as library consortium exclusively;
In that case, discount % is 60% (average of 45% and 75%)

Note: The chart is used only to determine discounts. Allocation of billing is determined by governance authority according to rules of the consortium.

A	B	C	D	E	F	G	H	I	J
	No. Students	Free/Red Lunch Studnts	% Free/Red Lunch Studnts	Geography	School Discount %	Student % of District	District Discount %	Student % of Consortium	Consortium Discount %
District 1	800	300	37.5%	Mix			57.6%=60%		
School A	100	15	15.0%	Urban	40%	12.0%	4.8%	2.5%	1.0%
School B	300	100	33.3%	Rural	60%	38.0%	22.8%	7.5%	4.5%
School C	400	185	46.3%	Urban	60%	50.0%	30.0%	10.0%	6.0%
District 2	1800	1200	67.0%	Urban			85.6%=85%		
School D	1000	800	80.0%	Urban	90%	55.6%	50.0%	25.0%	22.5%
School E	800	400	50.0%	Urban	80%	44.4%	35.6%	20.0%	16.0%
District 3	1400	150	10.7%	Mix			45.7%=45%		
School F	700	55	7.9%	Urban	40%	50.0%	20.0%	17.5%	7.0%
School G	300	15	5.0%	Urban	40%	21.4%	8.6%	7.5%	3.0%
School H	400	80	20.0%	Rural	60%	28.6%	17.1%	10.0%	6.0%
Tot 3 Districts	4000	1650	41.3%						66.0%=65%
Libr Dist A	(Serves School Districts 1 and 2)						72.5%=75%		66.0%=65%
Branch 1							(avg of 60%		
Branch 2							and 85%)		
Branch 3									
Libr Dist B	(Serves School District 3)						45.7%=45%		66.0%=65%
Branch 4									
Branch 5									

Table 2

EXAMPLE OF WEIGHTED BILLING ALLOCATION BASED ON INDIVIDUAL SCHOOL/LIBRARY DISCOUNTS
SAMPLE WORKPAPERS

This example displays one method by which a consortium may allocate a bill from a service provider to its members based upon some negotiated allocation of the bill. Simultaneously the methodology assigns to each member its unique discount rate which it is entitled.

Assume the previous consortium orders a service from a provider for which it receives a bill of $1000/month.

1.) The consortium negotiates some method of allocation of the bill based on estimated usage, per cent networked computers, etc.
2.) A weighted discount is determined by multiplying the negotiated allocation percentage times the payment balance percentage
3.) Each school, library determines what portion their weighted discount is of the total consortium's weighted discount.
This number becomes the weighted percentage to be applied to the provider's bill. It thus employs some measure of usage, and the appropriate discount for the individual school, libraray
4.) Determine monthly billing by multipling the weighted percentage times the monthly bill

A	B	C	D	E	F	G
	Negotiated Allocation Percentage	Discount Percentage	Payment Balance Percentage	Weighted Dscnt Contrbtn (Col B * Col D)	Weighted Percentage (Col E / Col E Tot)	Monthly Billing
District 1						
School A	3.0%	40%	60%	1.8	4.6%	$46
School B	7.0%	60%	40%	2.8	7.1%	$71
School C	9.0%	60%	40%	3.6	9.2%	$92
District 2						
School D	15.0%	90%	10%	1.5	3.8%	$38
School E	10.0%	80%	20%	2	5.1%	$51
District 3						
School F	20.0%	40%	60%	12	30.6%	$306
School G	7.0%	40%	60%	4.2	10.7%	$107
School H	9.0%	60%	40%	3.6	9.2%	$92
Libr Dist A						
Branch 1	6.0%	75%	25%	1.5	3.8%	$38
Branch 2	2.0%	75%	25%	0.5	1.3%	$13
Branch 3	3.0%	75%	25%	0.75	1.9%	$19
Libr Dist B						
Branch 4	8.0%	45%	55%	4.4	11.2%	$112
Branch 5	1.0%	45%	55%	0.55	1.4%	$14
Total All	100.0%			39.20		$1,000.00

customer paying the lowest corresponding price.

§ 54.505 Discounts.

(a) *Discount Mechanism.* Discounts for eligible schools and libraries shall be set as a percentage discount from the pre-discount price.

(b) *Discount Percentages.* The discounts available to eligible schools and libraries shall range from 20 percent to 90 percent of the pre-discount price for all eligible services provided by eligible providers, as defined in this subpart. The discounts available to a particular school, library, or consortium of only such entities shall be determined by indicators of poverty and high cost.

(1) For schools and school districts, the level of poverty shall be measured by the percentage of their student enrollment that is eligible for a free or reduced price lunch under the national school lunch program or a federally-approved alternative mechanism. School districts applying for eligible services on behalf of their individual schools may calculate the district-wide percentage of eligible students using a weighted average. For example, a school district would divide the total number of students in the district eligible for the national school lunch program by the total number of students in the district to compute the district-wide percentage of eligible students. Alternatively, the district could apply on behalf of individual schools and use the respective percentage discounts for which the individual schools are eligible.

(2) For libraries and library consortia, the level of poverty shall be based on the percentage of the student enrollment that is eligible for a free or reduced price lunch under the national school lunch program or a federally-approved alternative mechanism in the public school district in which they are located. If the library is not in a school district then its level of poverty shall be based on an average of the percentage of students eligible for the national school lunch program in each of the school districts that children living in the library's location attend. Library systems applying for discounted services ~~or facilities~~ on behalf of their individual branches shall calculate the system-wide percentage of eligible families using an unweighted average based on the percentage of the student enrollment that is eligible for a free or reduced price lunch under the national school lunch program in the public school district in which they are located for each of their branches or facilities.

(3) The administrator shall classify schools and libraries as "urban" or "rural" based on location in an urban or rural area, according to the following designations.

(i) Schools and libraries located in metropolitan counties, as measured by the Office of Management and Budget's Metropolitan Statistical Area method, shall be designated as urban, except for those schools and libraries located within metropolitan counties identified by census block or tract in the Goldsmith Modification.

(ii) Schools and libraries located in non-metropolitan counties, as measured by the Office of Management and Budget's Metropolitan Statistical Area method, shall be designated as

rural. Schools and libraries located in rural areas within metropolitan counties identified by census block or tract in the Goldsmith Modification shall also be designated as rural.

(c) *Matrix.* The administrator shall use the following matrix to set a discount rate to be applied to eligible interstate services ~~and facilities~~ purchased by eligible schools, school districts, libraries, or library consortia based on the institution's level of poverty and location in an "urban" or "rural" area.

SCHOOLS & LIBRARIES DISCOUNT MATRIX	DISCOUNT LEVEL	
HOW DISADVANTAGED?	urban discount	rural discount
% of students eligible for national school lunch program		
< 1	20	25
1-19	40	50
20-34	50	60
35-49	60	70
50-74	80	80
75-100	90	90

(d) *Consortia.* Consortia applying for discounted services ~~or facilities~~ on behalf of their members shall calculate the portion of the total bill eligible for a discount using a weighted average based on the share of the pre-discount price for which each eligible school or library agrees to be financially liable. Each eligible school, school district, library or library consortia will be credited with the discount to which it is entitled.

(e) *Interstate and Intrastate Services.* Federal universal service support for schools and libraries shall be provided for both interstate and intrastate services.

(1) Federal universal service support under this subpart for eligible schools and libraries in a state is contingent upon the establishment of intrastate discounts no less than the discounts applicable for interstate services.

(2) A state may, however, secure a temporary waiver of this latter requirement based on unusually compelling conditions.