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AUG 13 1998

Federal Communications Commission
Office of Secretary

Universal Service Cost Models for Schools and Libraries

Depicting Savings to the Universal Service Fund
Resulting from the Reimbursement Eligibility of
State Telecommunications Networks

Prepared by the Washington State Department of Information Services

Executive Summary

The current Universal Service rules established by the Federal Communications Commission have created incentives for schools and libraries to leave lower-cost, integrated state networks and to purchase higher-priced services directly from telecommunications carriers in order to receive higher discounts. As the cost models indicate, schools will seek to pay the lowest amount possible even if that means purchasing higher cost services, with a resulting inordinate draw on the Universal Service Fund.

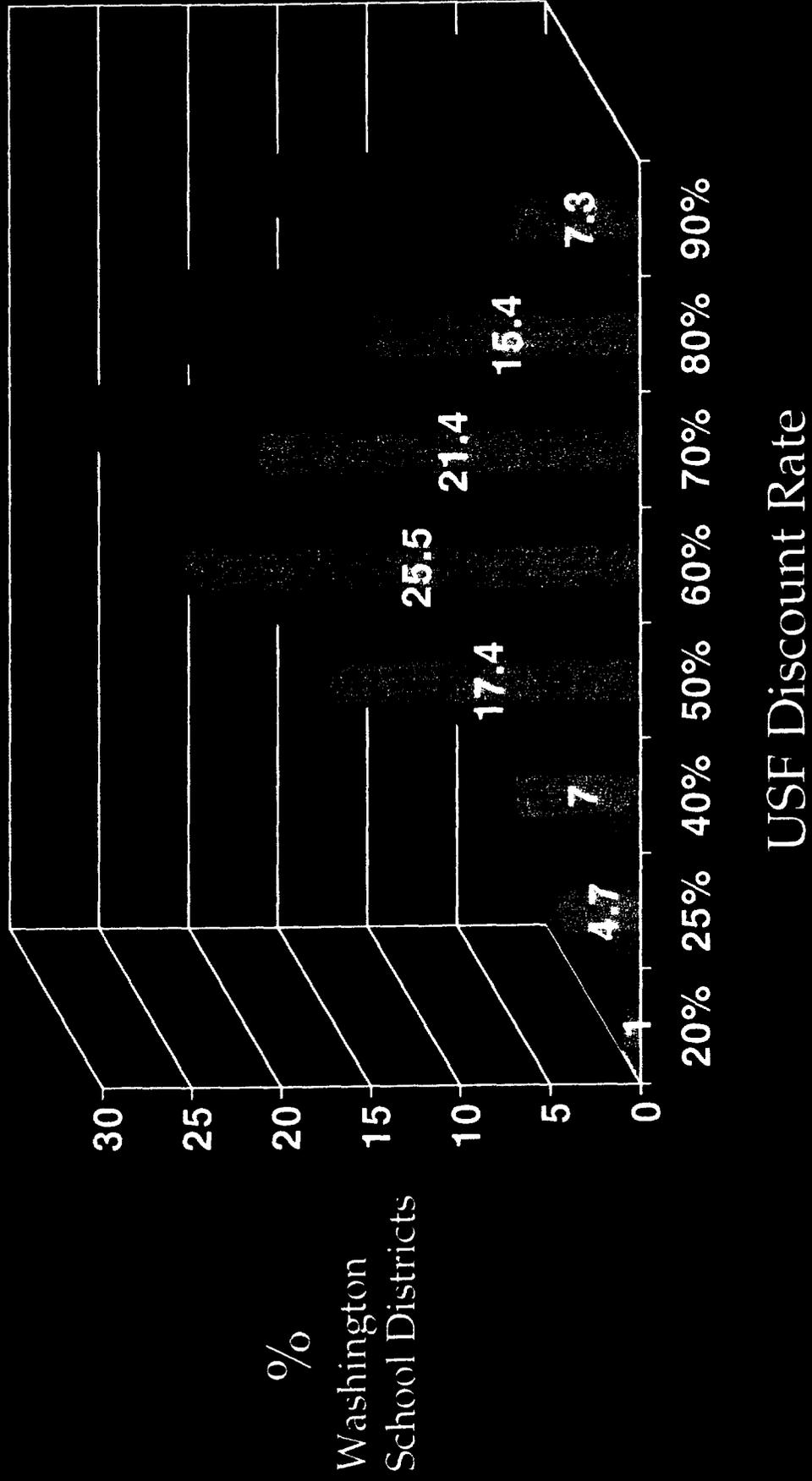
An economically rational decision maker at a school or library, with various purchasing options available, will seek that option which results in it paying the least for a particular service, even if the overall cost of that option is higher. This choice forces the other payor (the Universal Service Fund) to pay more than would be necessary with an option that is less expensive overall. From a system perspective, the current rules support an inefficient model which will deplete the Universal Service Fund more quickly than planned.

Enclosed please find a collection of graphs that depict cost models which support our position. At Tab A, we portray the Washington State schools (K-12) as they currently qualify for USF discounts. This graph shows that the majority of Washington State schools qualify for 50% to 80% discounts. At Tabs B and C, please find depictions of cost models for Centrex and long distance services available to Washington Schools under current law and relevant Commission rules and under the relief being requested. The long distance products being compared are identical. The Centrex services being compared are virtually identical--the product available from the depicted state telecommunications network generally has more features than the carrier's product, but still ends up costing less.

W. HAY / FOLIO BMO / 2008 / FINE / RECYCLED

ALL STATE LEGAL BINDINGS PAPER RECYCLED

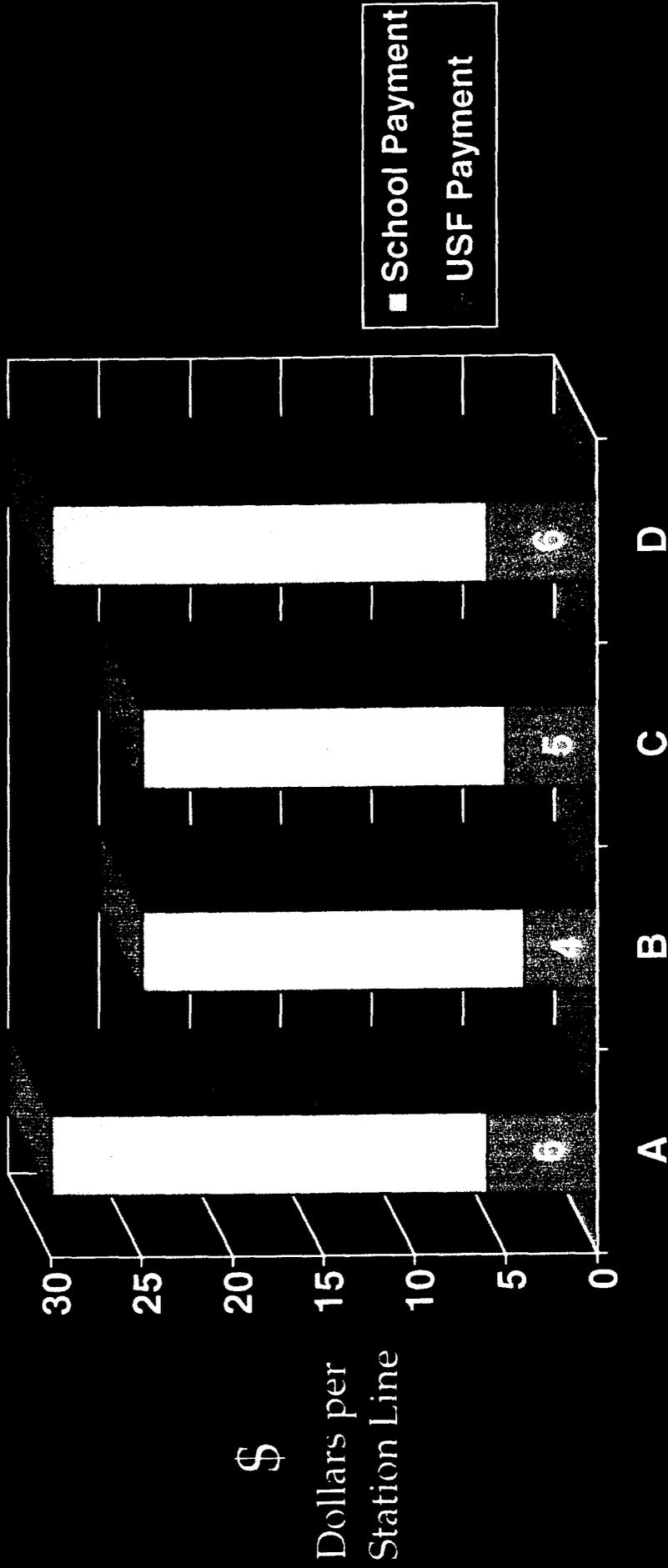
Distribution of USF Discount Rates for Washington State School Districts



ALL-STATE LFGAL 800-722-0510 EDST: RECYCLED



USF Savings Achieved Where School Has a 20% Discount for Centrex Service

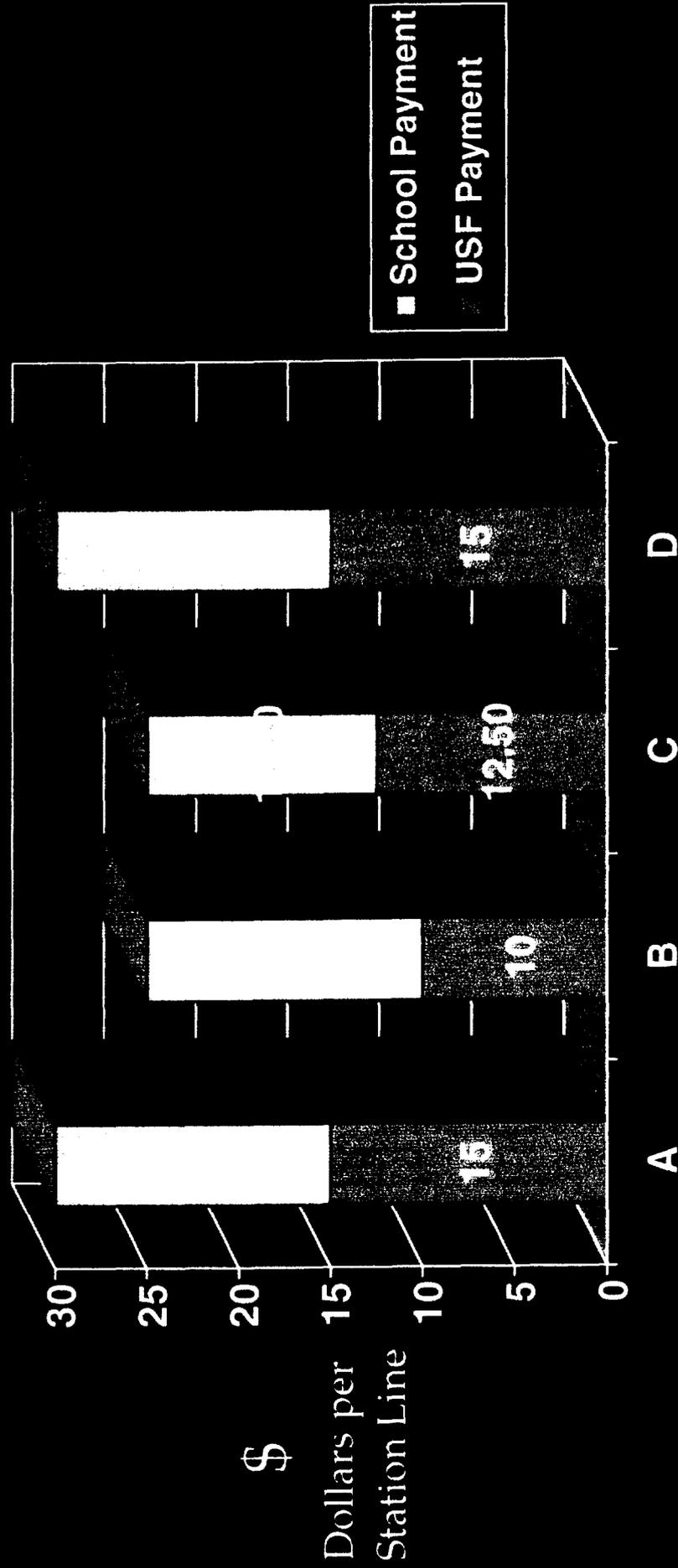


A - Current Rules, Purchase from Carrier
 B - Current Rules, Purchase from DIS
 C - Proposed Change, Purchase from DIS
 D - Proposed Change, Purchase from Carrier

State Network is Better Option

17% Savings of USF

USF Savings Achieved Where School Has a 50% Discount for Centrex Service

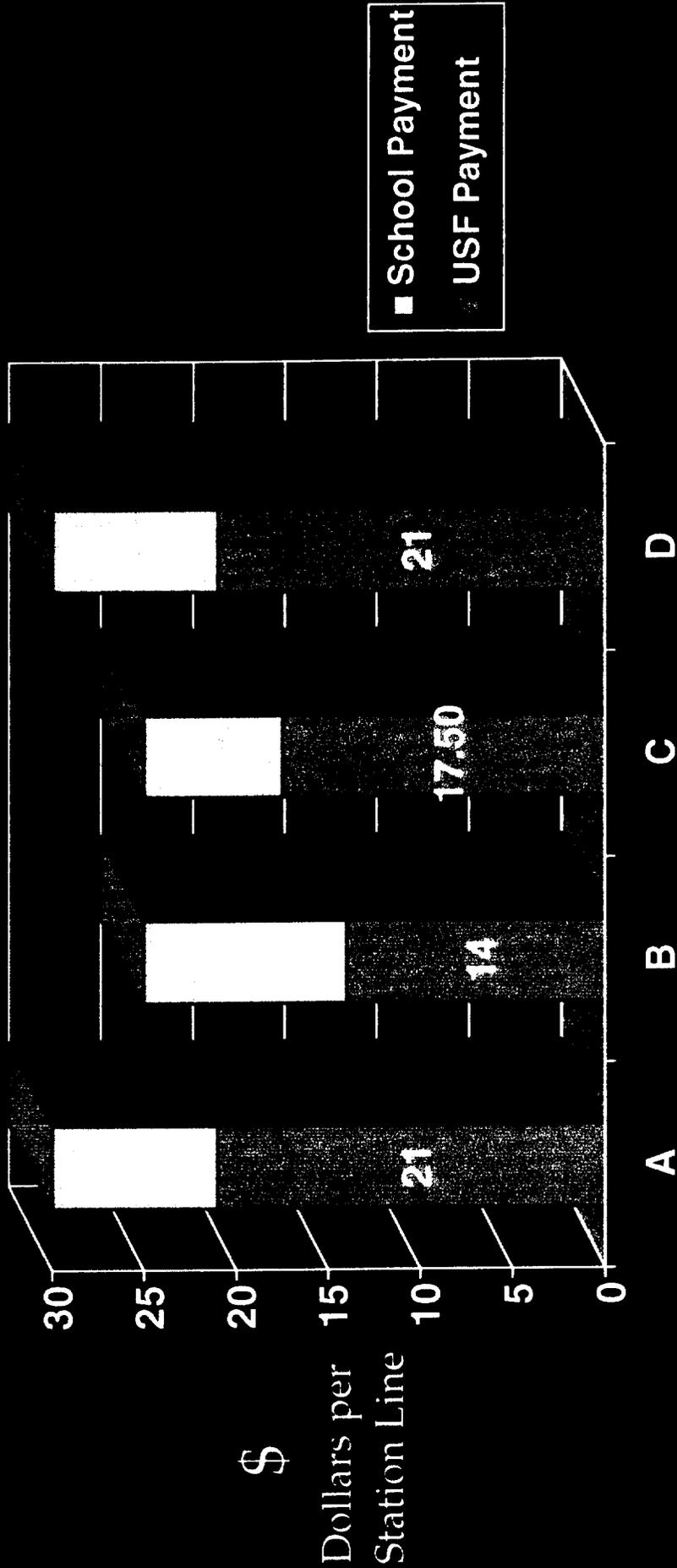


A - Current Rules, Purchase from Carrier
 B - Current Rules, Purchase from DIS
 C - Proposed Change, Purchase from DIS
 D - Proposed Change, Purchase from Carrier

50% Greater Draw on USF

17% Savings of USF

USF Savings Achieved Where School Has a 70% Discount for Centrex Service



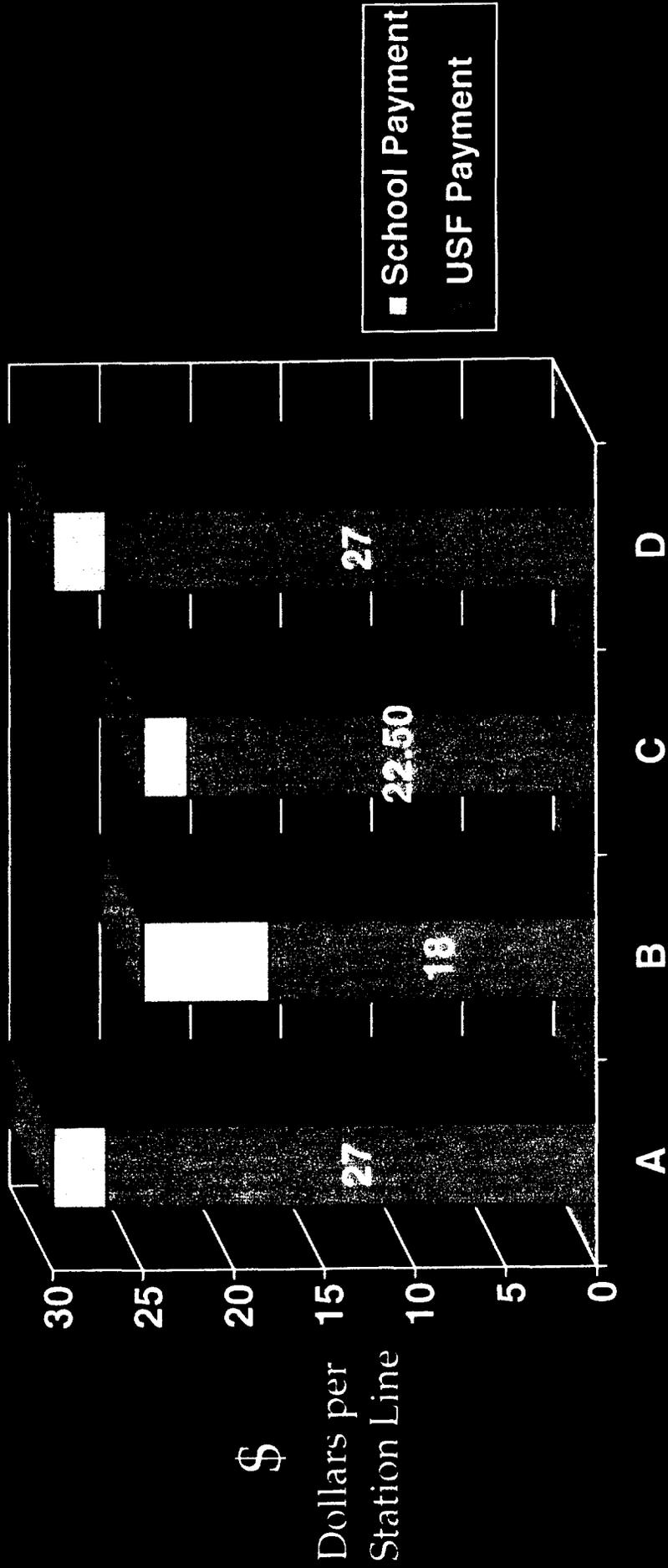
A - Current Rules, Purchase from Carrier
 B - Current Rules, Purchase from DIS

C - Proposed Change, Purchase from DIS
 D - Proposed Change, Purchase from Carrier

50% Greater Draw on USF

17% Savings of USF

USF Savings Achieved Where School Has a 90% Discount for Centrex Service



A - Current Rules, Purchase from Carrier
 B - Current Rules, Purchase from DIS

C - Proposed Change, Purchase from DIS
 D - Proposed Change, Purchase from Carrier

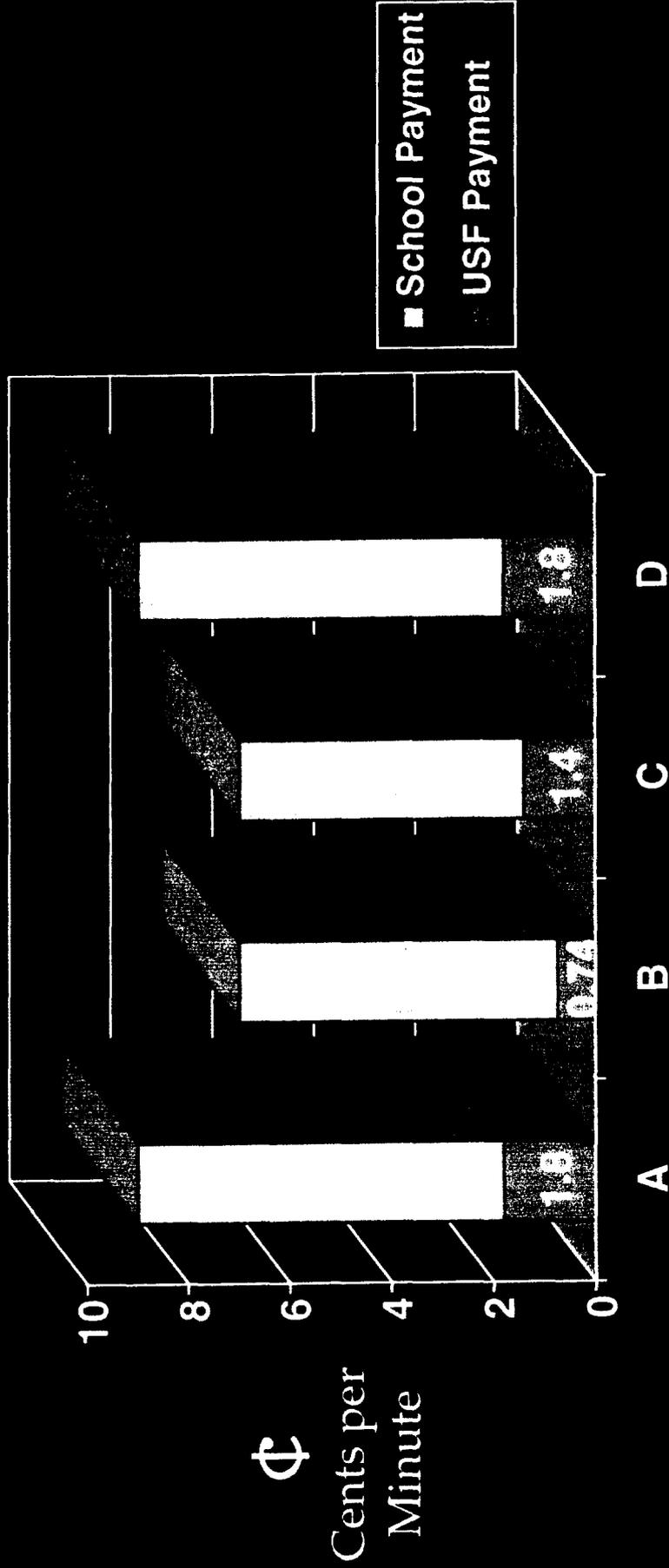
50% Greater Draw on USF

18% Savings of USF

ALL STATE LEGAL (800) 222-2510 BUSY1 RECYCLED



USF Savings Achieved Where School Has a 20% Discount for Long Distance Service

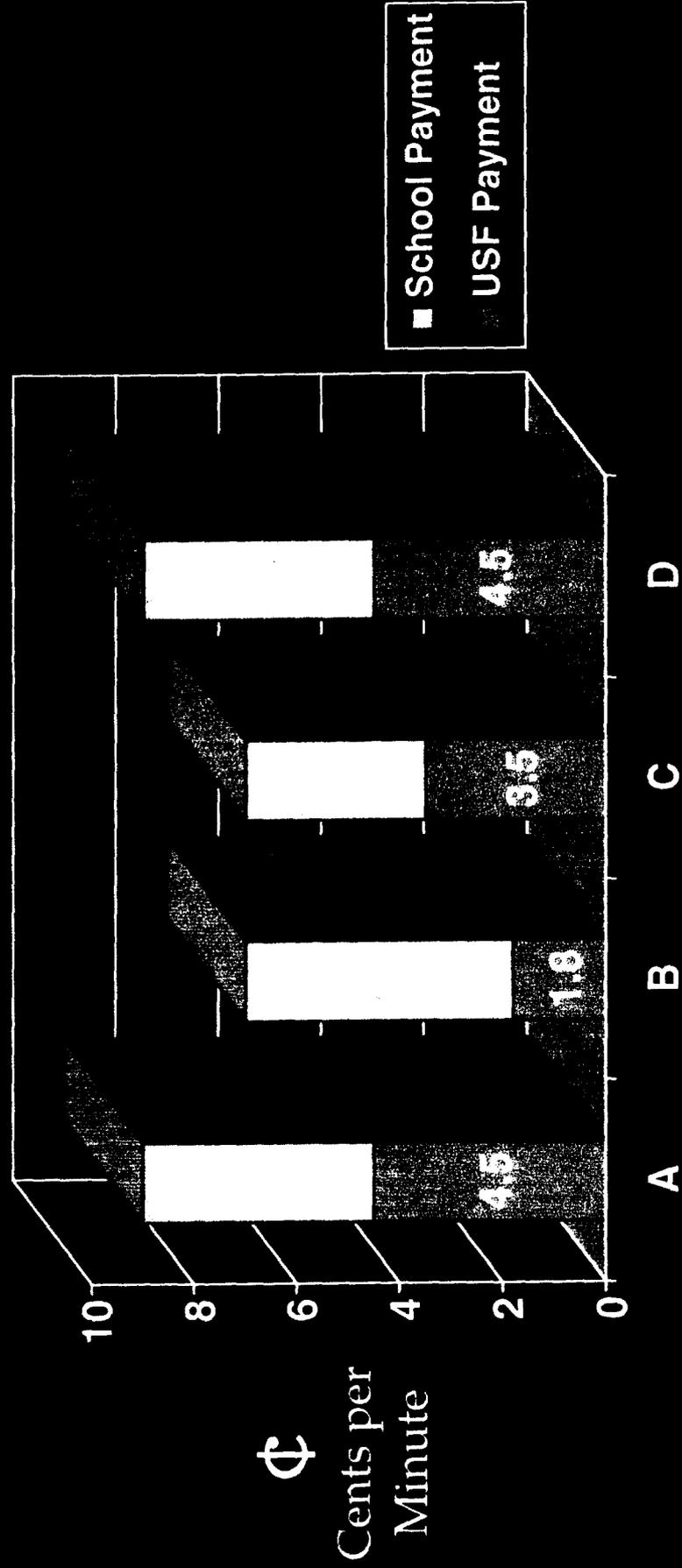


A - Current Rules, Purchase from Carrier C - Proposed Change, Purchase from DIS
 B - Current Rules, Purchase from DIS D - Proposed Change, Purchase from Carrier

State Network is Better Option

23% Savings of USF

USF Savings Achieved Where School Has a 50% Discount for Long Distance Service

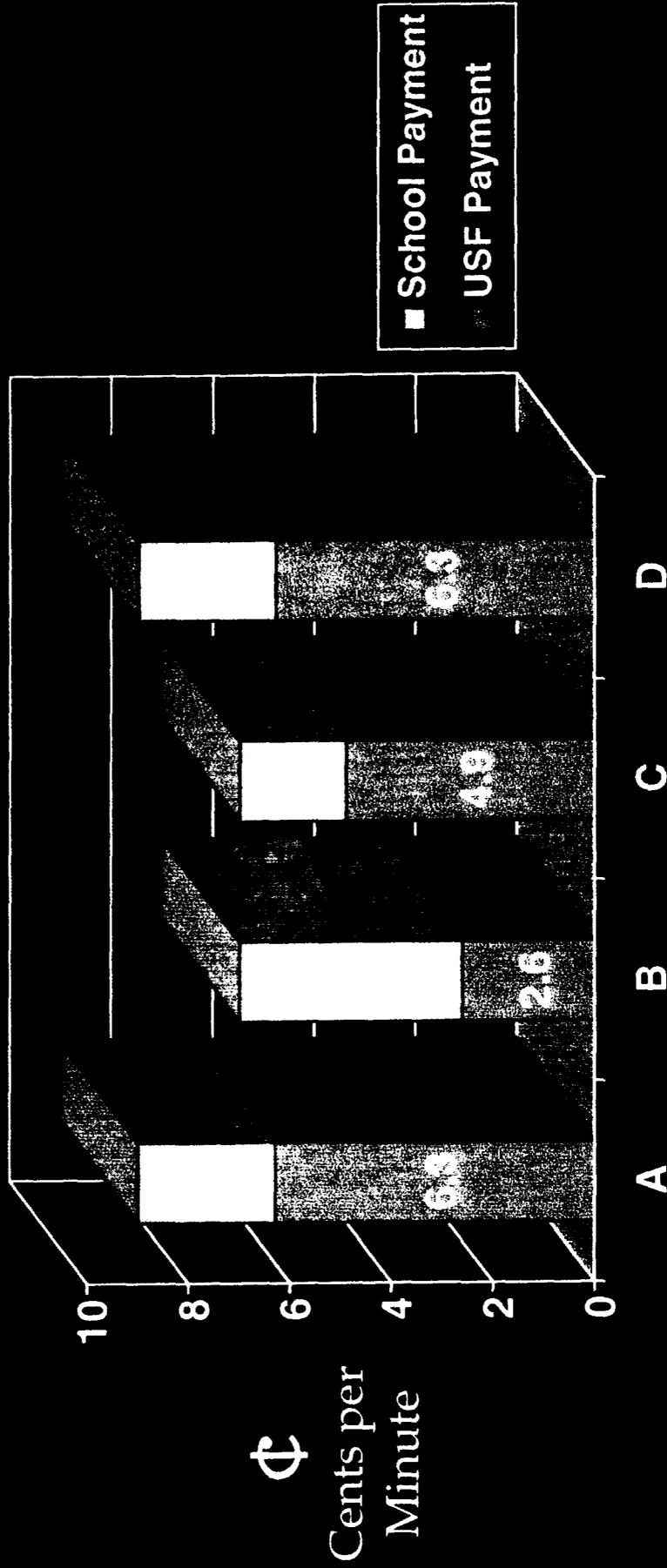


A - Current Rules, Purchase from Carrier C - Proposed Change, Purchase from DIS
 B - Current Rules, Purchase from DIS D - Proposed Change, Purchase from Carrier

150% Greater Draw on USF

23% Savings of USF

USF Savings Achieved Where School Has a 70% Discount for Long Distance Service

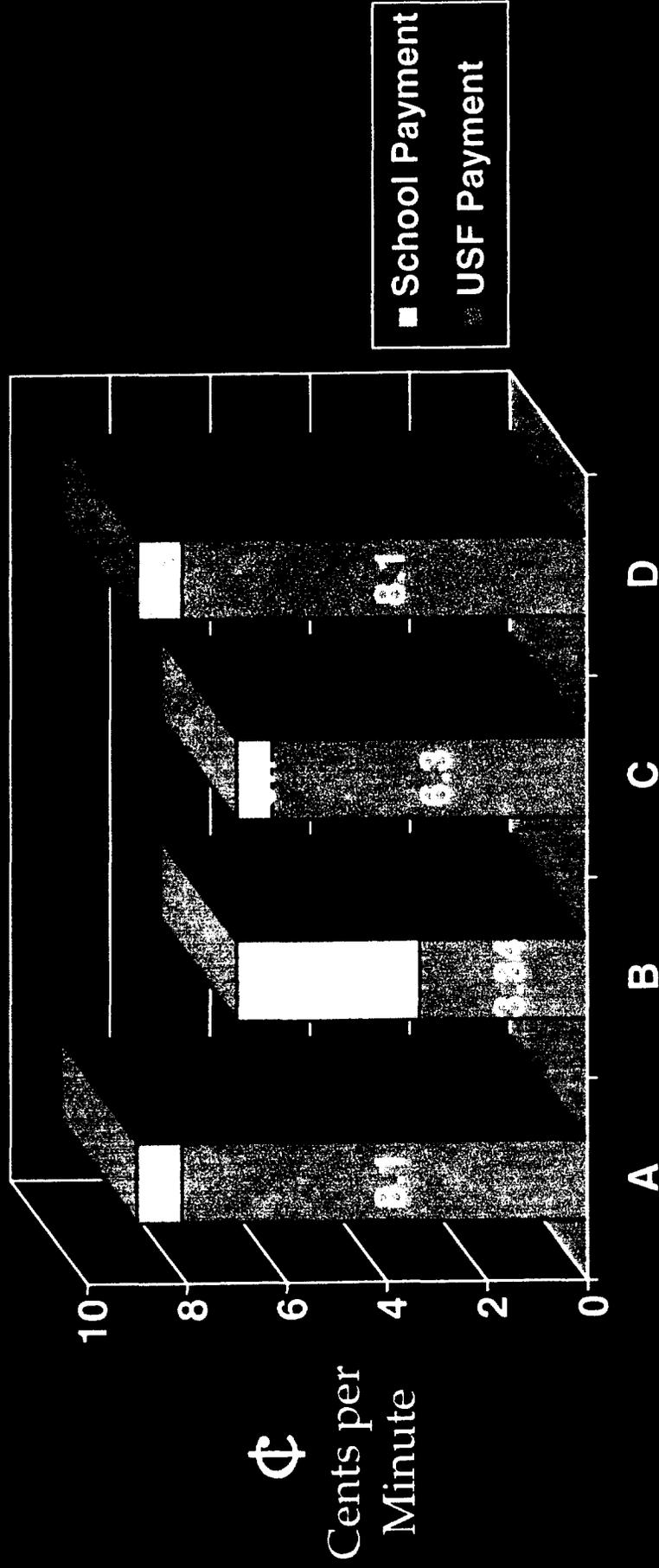


A - Current Rules, Purchase from Carrier C - Proposed Change, Purchase from DIS
 B - Current Rules, Purchase from DIS D - Proposed Change, Purchase from Carrier

142% Greater Draw on USF

22% Savings of USF

USF Savings Achieved Where School Has a 90% Discount for Long Distance Service



A - Current Rules, Purchase from Carrier C - Proposed Change, Purchase from DIS
 B - Current Rules, Purchase from DIS D - Proposed Change, Purchase from Carrier

142% Greater Draw on USF

22% Savings of USF