

- SUBJECT:** Telecom service discounts for certain public interest groups
- COMMITTEE:** State Affairs — favorable, without amendment
- VOTE:** 9 ayes — Cook, Frullo, Geren, Harless, Hilderbran, Huberty, Oliveira, Solomons, Turner
- 0 nays
- 4 absent — Menendez, Craddick, Gallego, Smithee
- SENATE VOTE:** On final passage, April 19 — 28-3 (Birdwell, Estes, Nelson)
- WITNESSES:** For — (*Registered, but did not testify:* Allen Beinke, Texas Association of Community Health Centers; Jennifer Bergland, Texas Computer Education Association; Marty De Leon, Texas Library Association; Joe Lovelace, Texas Council of Community Centers; Denise Rose, Texas Hospital Association; Matthew Wall, Texas Hospital Association; Stacy Wilson, Community Care)
- Against — None
- BACKGROUND:** Utilities Code, ch. 58 requires local telecommunications service providers to provide private network services to:
- an educational institution;
 - a library;
 - a nonprofit telemedicine center;
 - a public or not-for-profit hospital; or
 - a legally constituted consortium or group of the above.
- These customers are charged 105 percent of the cost of providing service. The obligation to provide service at this price expires on January 1, 2012.
- DIGEST:** SB 773 would extend the date for which local telecommunications providers must provide the public service rate until January 1, 2016.
- The bill would allow providers to charge up to 110 percent of cost.

SB 773 also would add health centers to the list of customers that could request private network services at the reduced cost. The bill would define health centers as a federally qualified health center service delivery site.

The bill would take effect on September 1, 2011.

**SUPPORTERS
SAY:**

SB 773 would extend the state telecom discount for digital services for voice, video, and data to libraries, schools, colleges, hospitals, and telemedicine centers. These entities use the discounts to purchase high-speed broadband services from incumbent local exchange carriers. Existing law allows telephone carriers to recoup 105 percent of their costs of providing these services. SB 773 would allow them to recoup up to 110 percent of their costs.

Without the state telecom discount, these institutions, which rely heavily on the discount to fulfill their missions, may have to cut programs, eliminate positions, and pass on the cost to the public or local taxpayers to cover these broadband services. According to the fiscal note, if SB 773 were enacted, the University of Texas System, for example, would expect a cost savings of \$20.3 million in fiscal 2012-15 and a savings of \$6.8 million in fiscal 2016.

The bill would not perpetuate unfair prices. The permitted collectible rates are 105 percent of the long-run incremental cost of providing the private network service, an industry calculation that is based on the cost of the infrastructure. The calculation uses the long-term cost of infrastructure because it represents most of the cost of providing service. If the infrastructure already is in place, it does not cost much for the telecom to provide the service to these eligible groups. This calculation is performed in the first year an eligible customer requests the discounted service. The bill would allow providers to collect up to 110 percent of the long-term cost of infrastructure to address changes in the industry that occurred since the 1990s when the program first began.

**OPPONENTS
SAY:**

SB 773 would extend a program that interferes with telecom markets. The state's public policy goal has been to deregulate these markets. The bill would continue a program that forces private businesses to provide services to certain customers at a substantial discount over what the market would bear. Under current law, providers are allowed to charge up to 105 percent of the cost of providing service in the year an eligible entity first requested the state discount. Many providers have thus been fixed at

rates they were charging in the mid- to late 1990s. These customers are either independently large or part of large consortiums that have both the bargaining size and sophistication to negotiate favorable contracts on their own.