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SFA**BILL ANALYSIS**

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Senate Bill 1 (Substitute S-1 as reported)
Sponsor: Senator Gerald Van Woerkom
Committee: Technology and Energy

CONTENT

The bill would amend the Michigan Telecommunications Act to require a local telephone service provider to obtain approval from the Michigan Public Service Commission (PSC) to assess or impose an intrastate end-user common line (EUCL) charge.

Currently, the Act prohibits a provider of basic local exchange service from assessing or imposing on end-users an intrastate subscriber line charge or end-user line charge. (In July 2001, however, the U.S. Court of Appeals for the Sixth Circuit issued a preliminary injunction against this prohibition, and the parties recently settled the case.) Under the bill, the Act's prohibition would apply *except* upon a filing and approval of the PSC under Section 304 of the Act (which requires rates to be "just and reasonable" and establishes procedures for providers to apply for, and the PSC to consider, rate alterations). A provider would be considered in compliance with the bill if its rates and charges had been reviewed and approved by the PSC within three years of the bill's effective date. The filing and approval requirement would not apply to basic local exchange providers with 250,000 or fewer customers in Michigan.

The bill also would allow a provider that was assessing or imposing an intrastate subscriber line charge or EUCL on the bill's effective date to continue to assess or impose the line charge if, within 210 days of the bill's effective date, the provider submitted a filing pursuant to Section 304 to the PSC; if the line charge were not greater than the amount assessed or imposed on the bill's effective date; and if the provider made any necessary adjustments to the line charge after the PSC issued its decision.

MCL 484.2310

Legislative Analyst: Julie Koval

FISCAL IMPACT

The bill would have an indeterminate, although likely negative, impact on State revenues. Any impact would affect both General Fund/General Purpose and School Aid Fund revenues.

The bill essentially would require Public Service Commission approval of any end user line charges or subscriber charges on telephone bills. The fiscal impact of the bill would depend upon the decisions made by the PSC regarding the charges. If the PSC were to approve such charges at current levels, the bill would have no fiscal impact. At one extreme, the PSC could prohibit such charges, which would reduce use tax revenues by approximately \$9.1 million to \$9.2 million, assuming that the 2002 agreements with Ameritech and Verizon to lower the end user line charges are implemented. However, the PSC could disallow the line charges and instead allow providers to increase rates to offset the loss of revenue, in which case revenues would be unaffected. At another extreme, if telecommunications providers successfully argued that the current line charges are insufficient, the providers would receive increases in the charges and/or rates, in which case use tax revenues would increase.

School Aid Fund revenues would experience one-third of any fiscal impact on use tax revenues, while the remaining fiscal impact would affect General Fund/General Purpose revenues. General Fund revenues also could be reduced because a portion of the assessments the largest

telecommunications providers face under the telephone and telegraph property tax is based upon a taxpayer's income. If elimination of end user line charges or subscriber charges were to result in a net reduction in taxpayer income, then the assessments could be lower also. The magnitude of any assessment reduction that would result from the bill is unknown and depends upon a wide variety of factors. Based on available information, under the bill assessments could decline approximately 3%, which would result in a \$4.2 million reduction in General Fund revenues under the telephone and telegraph property tax.

Similarly, if the bill resulted in lower business income or altered gross receipts, General Fund revenues under the Single Business Tax (SBT) Act could fall. Whether the charges are included in the SBT base depends upon the filing method a taxpayer chooses. If the line charges were eliminated and the tax base were reduced, and taxpayers filed under a method in which business income is included in the tax base, then SBT revenues could be reduced by approximately \$3.0 million.

This estimate is preliminary and will be revised as new information becomes available.

Date Completed: 2-5-03

Fiscal Analyst: David Zin

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.