

Long-Term Financing of the Universal Service Fund

House Committee on Ways and Means

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January 25, 2024



Outline of talk

1. Universal Service Fund History
2. Difference between E-911 and Dispatch
3. Revenue Trajectory
4. Revenue Needs
5. Potential Funding Options



Universal Service Fund Structure

- Includes the following programs in statutory funding order:
 - **Vermont Community Broadband Board** (1/6th of fund revenue)
 - **Fiscal Agent**
 - **Telecommunications Relay Services and Equipment Distribution:** Allows those with hearing or speech disabilities to place or receive telephone calls
 - **Vermont Lifeline:** Offers a \$4.25 monthly discount on telephone service for low-income consumers
 - **E-911:** The E-911 system reports phone number and location information to certified call-takers to allow for more efficient routing to the appropriate public safety dispatchers
 - **Connectivity Fund:** The Connectivity Fund supports both Connectivity Initiative grants and the High-Cost Program

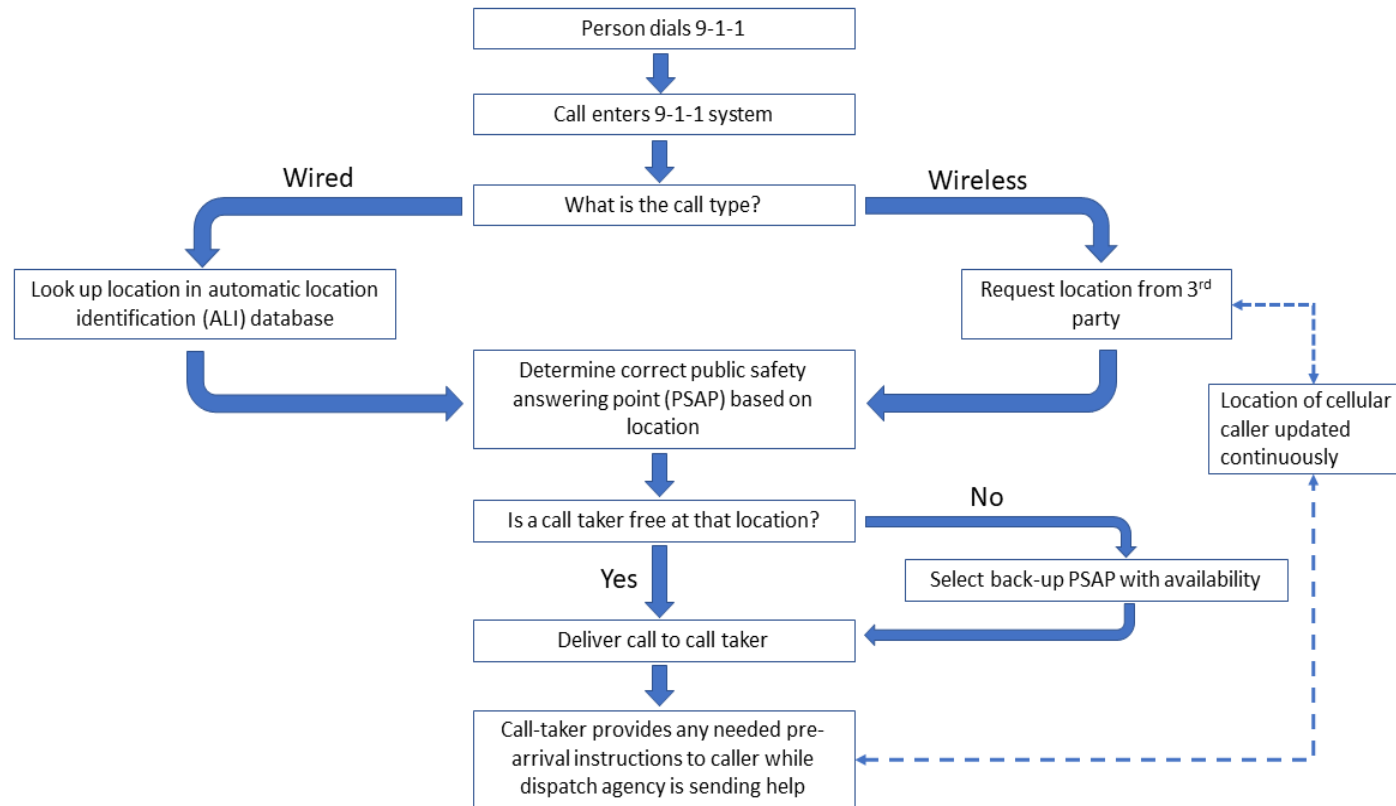


Universal Service Fund History

- Created by Act 197 (1994): Established the structure of the Fund and the E-911 Board
- Act 190 (2014): Set the Universal Service Charge (USC) at 2% of retail telecommunications services
 - Retail telecommunications charge paid by voice portions of wireline, wireless, and interconnected VoIP plans
- Act 79 (2019): Increased the USC from 2.0% to 2.4% 100% of the increase allocated to the Connectivity Fund
- Act 71 (2021): Changed the allocation of 1/6th of revenues from the USC to the Vermont Community Broadband Board



E-911 Calling in Vermont

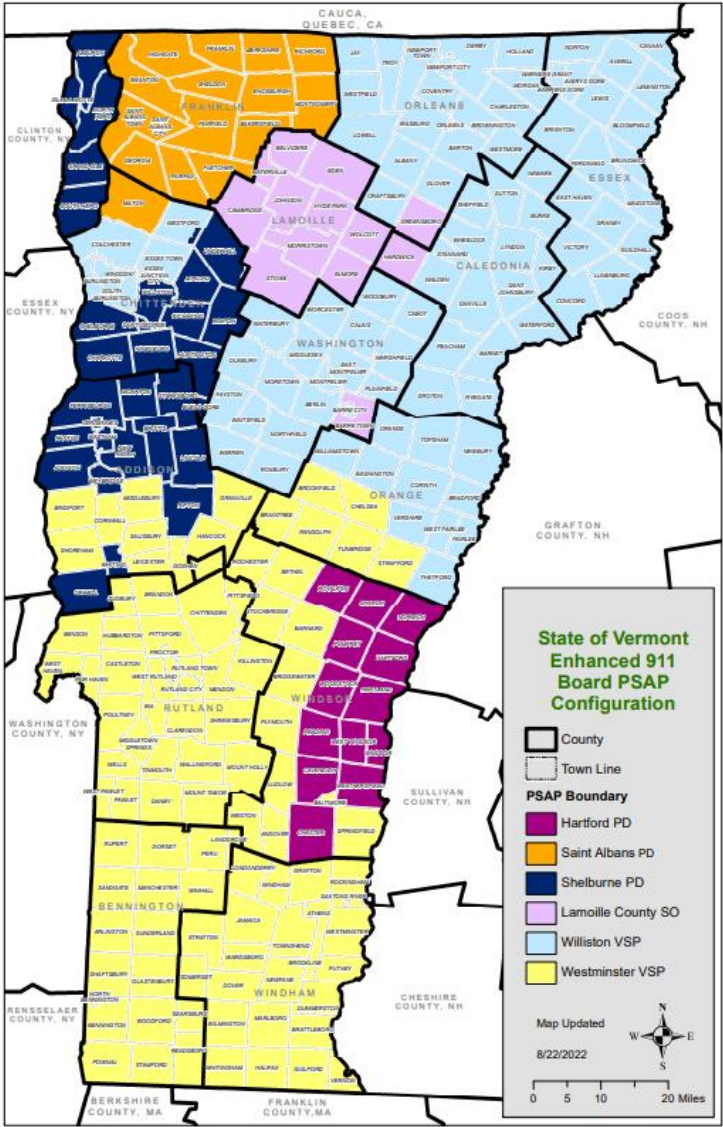


Source: Adapted from <https://e911.vermont.gov/forms-and-publications/system-information>



E-911 Calling in Vermont

- 6 Public Service Answering Points (PSAPs) in Vermont:
 - Williston VSP
 - Westminster VSP
 - Hartford PD
 - Saint Albans PD
 - Shelburne PD
 - Lamoille County Sherriff's Office
- PSAPs receive and handle emergency calls from the public



Source: <https://e911.vermont.gov/forms-and-publications/system-information>



Revenue Trajectory

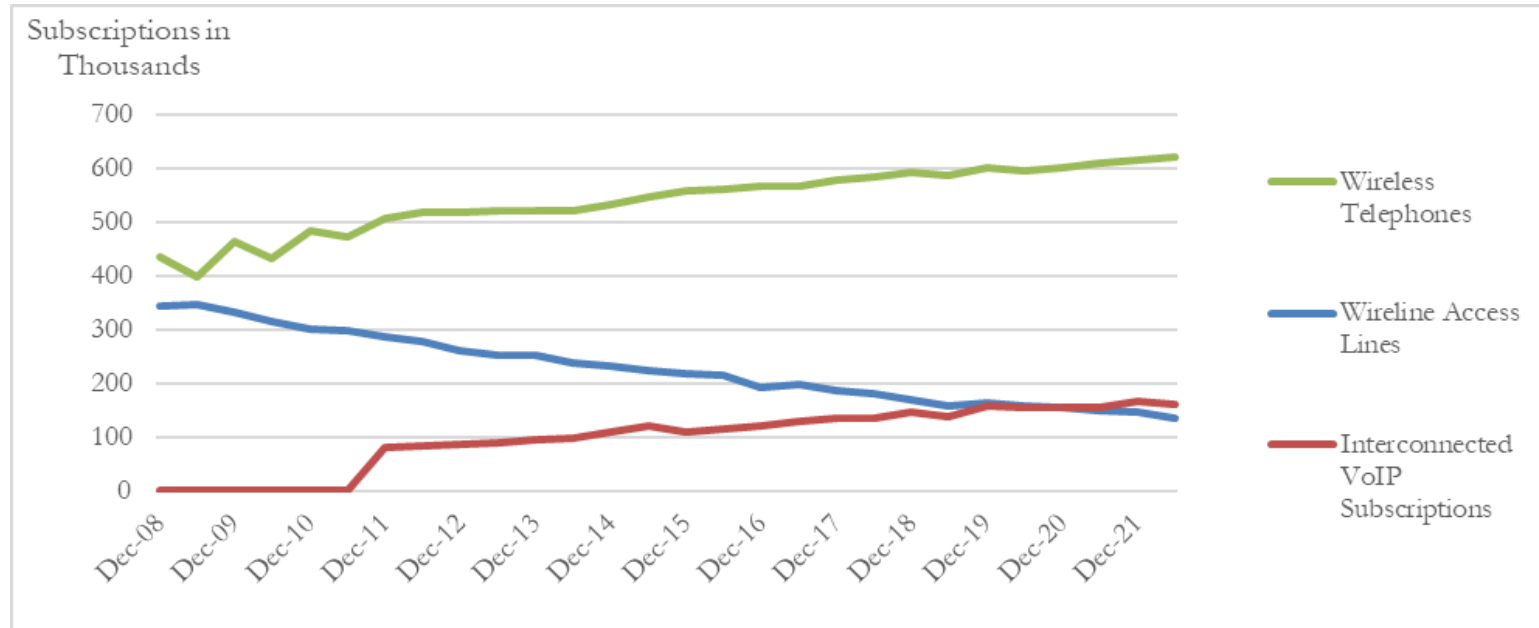
Table 1: Decline in the VUSF base

Fiscal Year	2015	2016	2017	2018	2019	2020	2021	2022
Universal Service Charge	2.0%	2.0%	2.0%	2.0%	2.0%	2.4%	2.4%	2.4%
Telecommunications Base (millions \$)	338.95	327.95	312.80	291.95	268.00	247.21	224.67	209.29
Revenue (millions \$)	6.78	6.56	6.26	5.84	5.36	5.93	5.39	5.02
Percent Decrease from Previous Year		-3.3%	-4.6%	-6.7%	-8.2%	-7.8%	-9.1%	-6.8%

Source: JFO Analysis



Revenue Trajectory

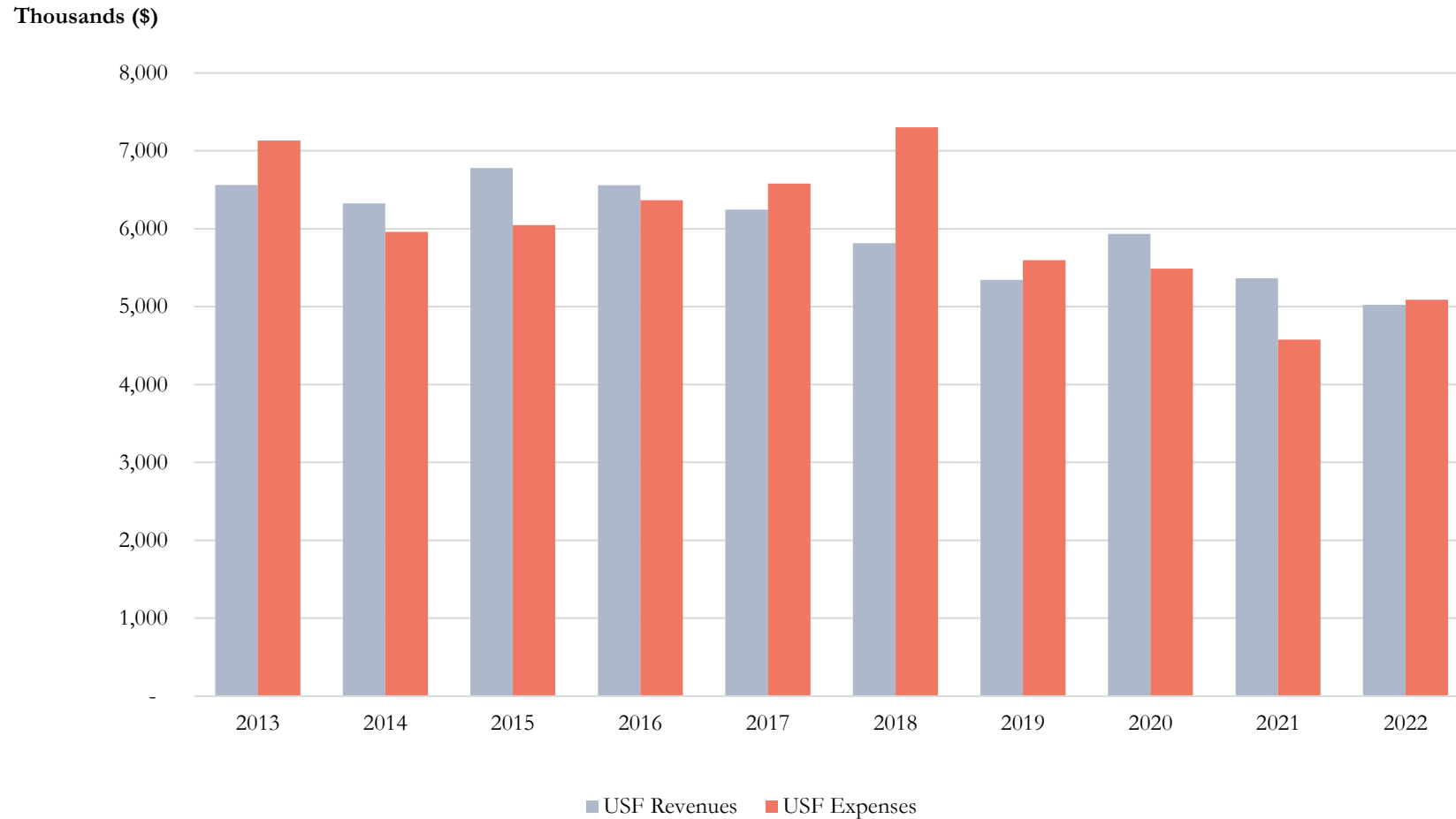


Source: Federal Communications Commission Voice Telephone Service Report

- The decrease in the telecommunications base and VUSF revenues largely caused by the decrease in wireline access lines and associated increase in wireless subscriptions



10-year VUSF Fiscal History



Source: *VUSF Audited Financial Statements*



E-911 Revenue and Expenses

<i>Enhanced E-911 Revenue and Expenses</i>							
	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Carryforward	891,912	1,010,242	1,015,616	1,282,174	286,415	35,200	(612,552)
Revenue	4,761,608	4,842,364	4,831,183	4,237,882	3,902,612	3,963,299	3,415,155
Expenses	4,643,278	4,836,990	4,564,626	5,233,640	6,024,227	4,540,651	4,576,977
Other Sources					1,800,000		1,300,000
Balance	1,010,242	1,015,616	1,282,174	286,415	35,200	(612,552)	(474,374)

Source: Department of Finance and Management Special Fund Reports

- E-911 largely bears the impact of the downturn in VUSF revenues
- Revenue decreased from \$4.8 million in FY 2018 to \$3.4 million in FY 2023
- Expenses ranged between \$4.5 million to \$6.0 million
- To bridge the gap, the E-911 board has received two appropriations from the General Fund in FY 2021 and FY 2023



Universal Service Fund Revenue Need

<i>Estimated Universal Service Fund Revenue Needs (in millions)</i>					
Program	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Fiscal Agent	0.13	0.13	0.14	0.14	0.14
TRS and Equipment	0.25	0.26	0.26	0.27	0.28
Lifeline	0.12	0.11	0.11	0.10	0.09
E-911	5.00	5.10	5.20	5.30	5.41
Vermont Community Broadband Board (1/6 of total revenue need)	1.09	1.11	1.13	1.15	1.18
Total Revenue Need	6.59	6.71	6.84	6.97	7.10

Source: JFO Analysis

- Program need determined by historical trends and budget requests plus a conservative 2% inflator.
- Revenue need projected to increase from nearly \$6.6 million in FY 2025 to \$7.1 million in FY 2029.



Universal Service Funding Gap

<i>Estimated Universal Service Fund Revenue Gap (in millions)</i>					
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Estimated Revenue Needs	6.59	6.71	6.84	6.97	7.10
Estimated Revenue Generated by the 2.4% Charge	<u>4.48</u>	<u>4.31</u>	<u>4.15</u>	<u>4.00</u>	<u>3.85</u>
Difference Between Revenue and Need	-2.11	-2.40	-2.69	-2.97	-3.25

- Gap between forecasted revenue and expenses expected to increase from \$2.1 million to almost \$3.3 million.
- The gap driven by both increased needs and sharply declining revenues.



Continuing the Retail Telecommunications Charge

Table 5: Estimated Universal Service Charge (in \$ millions)

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Estimated Revenue Needs	6.59	6.71	6.84	6.97	7.10
Estimated Revenue Generated by the Existing 2.4% Charge	4.48	4.31	4.15	4.00	3.85
Size of Retail Telecommunications Base	186.68	179.70	172.98	166.51	160.28
Necessary Charge to Generate Sufficient Revenue	3.53%	3.74%	3.95%	4.18%	4.43%

- To keep pace with the estimated revenue needs of the VUSF, the current retail telecommunications charge would need to increase to an estimated 4.4% by FY 2029.
- The rapid decline in the telecommunications base means that periodic action would need to be taken to keep pace with the revenue needs of the fund.
- The burden of the retail charge falls more heavily on landline users, who are more likely to be older and more rural.



Per Line Charge

- Before discussing the fiscal implications of a per line charge, need to differentiate between **prepaid** and **postpaid** wireless users:
 - Prepaid voice subscribers: Buy a certain number of voice minutes or data up front
 - Postpaid voice subscriptions: consumers receive a bill at the end of the month for services they used the previous month
- In H.657, only postpaid subscribers would pay the per line fee. Prepaid users would continue to be charged the 2.4% retail charge.
 - This arrangement avoids charging prepaid consumers a per line charge every time they buy more minutes, which could occur more than once per month



Other States - Per Line Charge

Table 7: Other State E-911 Funding Mechanisms

Service Type	Number of States Using a Per Line Charge	Number of States Using a Percentage Charge	No Charge	No Response
Wireline	47	3	0	0
Wireless	48	1	0	1
Prepaid	30	19	0	1
VoIP	44	0	2	4

Source: Federal Communications Commission 14th Annual 911 Fee Report

- Nearly all other states use a per line fee on wireless and wireline (landline) consumers to fund E-911
- A sizable number of states use a percentage charge on prepaid wireless plans.



Per Line Charge

Table 6: Per Line Fee Revenue Estimate (in millions \$)

Per Line Charge Amount	Estimated Revenue Generated By Per line Charge	Estimated Revenue Including Prepaid 2.4% Retail Charge
\$0.40	\$4.02	\$4.26
\$0.45	\$4.52	\$4.76
\$0.50	\$5.02	\$5.26
\$0.55	\$5.53	\$5.77
\$0.60	\$6.03	\$6.27
\$0.65	\$6.53	\$6.77
\$0.70	\$7.03	\$7.28
\$0.75	\$7.54	\$7.78
\$0.80	\$8.04	\$8.28
\$0.85	\$8.54	\$8.79

- The above table shows the estimated amount of revenue generated by a monthly per line charge on postpaid subscribers.
- The continued 2.4% retail charge on prepaid customers adds an additional \$240,000 to each per line amount



Per Line Charge Considerations

- **Advantages:**

- Simplicity – a line would be charged \$0.70 per month
- Stability – the number of lines has increased by 3% between June 2016 and December 2021. Contrast this with the steadily decline in the telecommunications base.

- **Disadvantages:**

- Regressivity – since the per line charge is the same regardless of income, it is slightly regressive
 - Could be addressed by several different policy levers
- Commercial application - businesses may have many different extensions but only a few inbound and outbound lines.
- Inflation - Inflation could diminish the real value of revenue generated by the charge since it does not adjust along with prices



General Fund Appropriations

- Since Universal Service Fund programs have strong public good benefits, the report explored moving programs to the General Fund.
- 2022 Agency of Administration report recommended moving E-911 to the General Fund. The revenue need over the study period range from \$6.6 million to \$7.1 million.
- Since 2021, the Legislature has used \$5.125 million of General Fund to support the E-911 Board.
 - Considerations:
 - Placing USF programs in the General Fund requires programs to compete for funding within the broader budget process.



Alternative Structures

- Vermont one of the only states to fund E-911 out of a state level Universal Service Fund.
- Because of the structure of the VUSF, policy actions to address the shortfall in funding for E-911 also allocate more funding to the Vermont Community Broadband Board.
- Policymakers could consider dedicating separate funding sources for the VUSF and E-911. For example, funding E-911 from its own dedicated fund while keeping other initiatives within the VUSF, and implementing separate per line fees dedicated to each.
 - Considerations:
 - Injects more complexity into the system
 - The federal government places extra scrutiny of charges dedicated to E-911 on consumer phone bills, and states diverting funding from those charges risk losing federal funds



Conclusion

- Vermont's current E-911 funding structure is an outlier: it is one of only two states that provide E-911 funds through its Universal Service Fund (USF) and the only one to rely solely on a state USF for the entirety of dedicated statewide E-911 funding.
- Alternative funding approaches are needed to address the decline in telecommunications revenue.
- JFO estimates that to keep VUSF on track for long-run sustainable funding, as currently structured, funding in FY 2025 would need to increase by \$2.1 million for a total of \$6.6 million. With inflation, the total annual cost would increase to approximately \$7.1 million by fiscal year 2029.
 - These revenues could be generated with a \$0.70 monthly per line charge

