

Introduction to the Universal Service Fund

House Committee on Ways and Means

Daniel Dickerson

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- USF programs

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Background

What is the universal service charge?

What is the universal service fund?

What are USF-funded programs



Background – universal service charge

- Created in 1994 to increase telecommunications access for VT households – 30 V.S.A. Chapter 18
- Who pays?
 - Imposed on all retail telecommunications service provided to a Vermont address – to be collected by provider
 - Imposed on all retail sales of prepaid wireless telecommunications service subject to sales and use tax – as of January 1, 2020
- Current Charge = 2.4%
 - 2.0% to the Universal Service Fund (USF)
 - 0.4% to the VT Community Broadband Fund (As of FY 2022)



Background – universal service fund

- Also created in 1994
- Managed by a fiscal agent (Solix).
- Primary revenue source is universal service charge
- After paying fiscal agent, USF dollars support multiple programs:
 - VT telecommunications relay service
 - VT Lifeline program
 - Enhanced 911 Services
 - Connectivity Fund



Background – USF programs

- VT telecommunications relay service (TRS)
 - Free service for all Vermonters to connect individuals who are deaf, deaf-blind, hard-of-hearing, or have a speech disability to users of standard telephones
 - Fiscal agent sends \$ from USF to the State to pay for TRS administration
 - Current TRS program administrator: Sprint
- VT Equipment Distribution Program (VTEDP)
 - Grant program administered by VT Center for Independent Living to provide telecommunications equipment to low-income Vermonters
 - Falls under the umbrella of TRS



Background – USF programs

Source: <https://publicservice.vermont.gov/lifeline-telecommunications-program>

- Lifeline program
 - Lifeline is a FCC program to assist low-income consumers with communications services
 - Offers discounts for monthly telephone service, broadband internet service, or bundled packages from participating providers
 - Vermont offers an additional discount on telephone service only – funded through the USF



Background – USF programs

Source: <https://e911.vermont.gov/>

- Enhanced 9-1-1 program
 - System of devices that can determine location and identity of caller that summons emergency assistance
 - Program managed by a Board and staff
 - Largest annual expenditure of USF dollars
 - Fiscal agent sends \$ from USF to the State for deposit in the Enhanced 911 special fund
 - USF revenues have not been sufficient to fully fund E911 in recent years – E911 has ended last two fiscal years in deficit
 - One-time General Fund transfer to E911 Fund in FY23 - \$1,300,000



Background – USF programs

Source:

- **Connectivity Initiative**

- Program to provide broadband capable of 100 Mbps symmetrical to each service location in Vermont
- Administered by VT Community Broadband Board – previously housed within Dept. of Public Service
- Receives 55% of any remaining USF dollars each year – as determined by fiscal agent

- **High-Cost Program**

- Program to fund telecommunications build-out in high-cost areas of the state
- Receives 45% of any remaining USF dollars each year – as determined by fiscal agent



USF revenues



USF Revenues

- Prior to State FY 2015 – USC rate set by Public Service Board (now Public Utility Commission) through docket
- Rate was 1.6%, 1.82% and 1.8% in three years prior to FY15 – years started on Sept. 1 and ended on Aug. 31
- Rate set in statute at 2.0% starting July 1, 2015
- Rate increased to 2.4% starting July 1, 2019
 - The extra 0.4% went to the Connectivity Fund for two years
 - **As of July 1, 2021, the 0.4% now goes to the VT Community Broadband Fund - this raised \$758k in FY22 that is not included in USF revenue charts below**
- If Prepaid wireless transactions subject to sales and use tax, now subject to USC – as of January 1, 2020

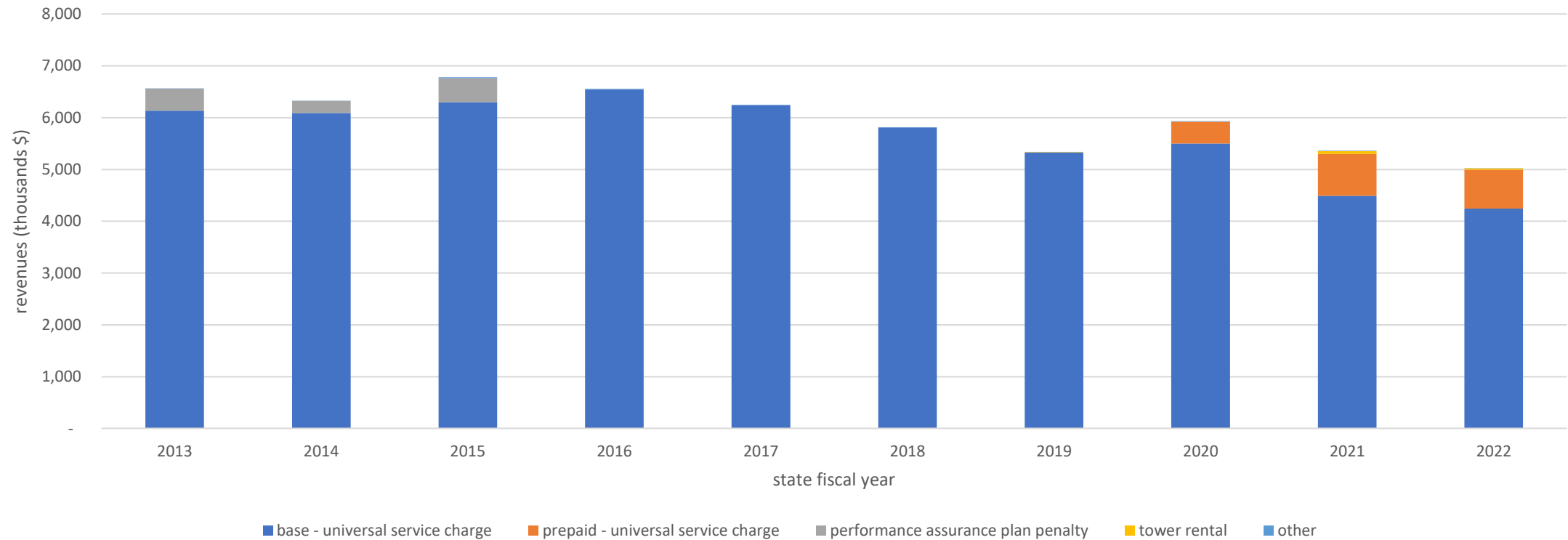


USF revenues

Source: Universal Service Fund annual audit statements

<https://publicservice.vermont.gov/regulated-utilities/telecommunications/vermont-universal-service-fund>

Universal Service Fund - 10-year revenues

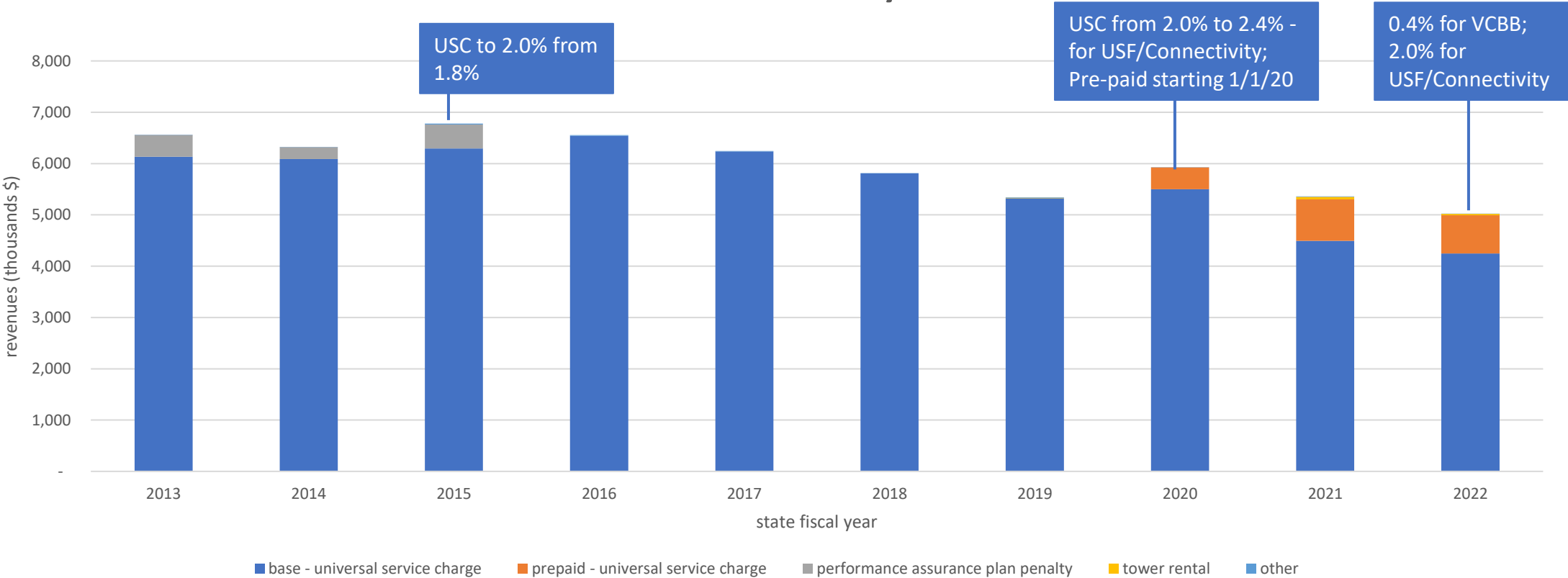


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Universal Service Fund - 10-year revenues



USF revenues

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USF Annual Revenues (in thousands \$)						
state fiscal year	base - universal service charge	prepaid - universal service charge	performance assurance plan penalty	tower rental	other	total
2013	6,134	-	427	-	1	6,562
2014	6,089	-	233	-	4	6,326
2015	6,294	-	467	-	18	6,779
2016	6,543	-	-	-	13	6,556
2017	6,237	-	-	-	9	6,246
2018	5,811	-	-	-	4	5,815
2019	5,327	-	-	7	7	5,341
2020	5,501	424	-	-	8	5,933
2021	4,493	808	-	53	8	5,362
2022	4,246	747	-	28	2	5,023

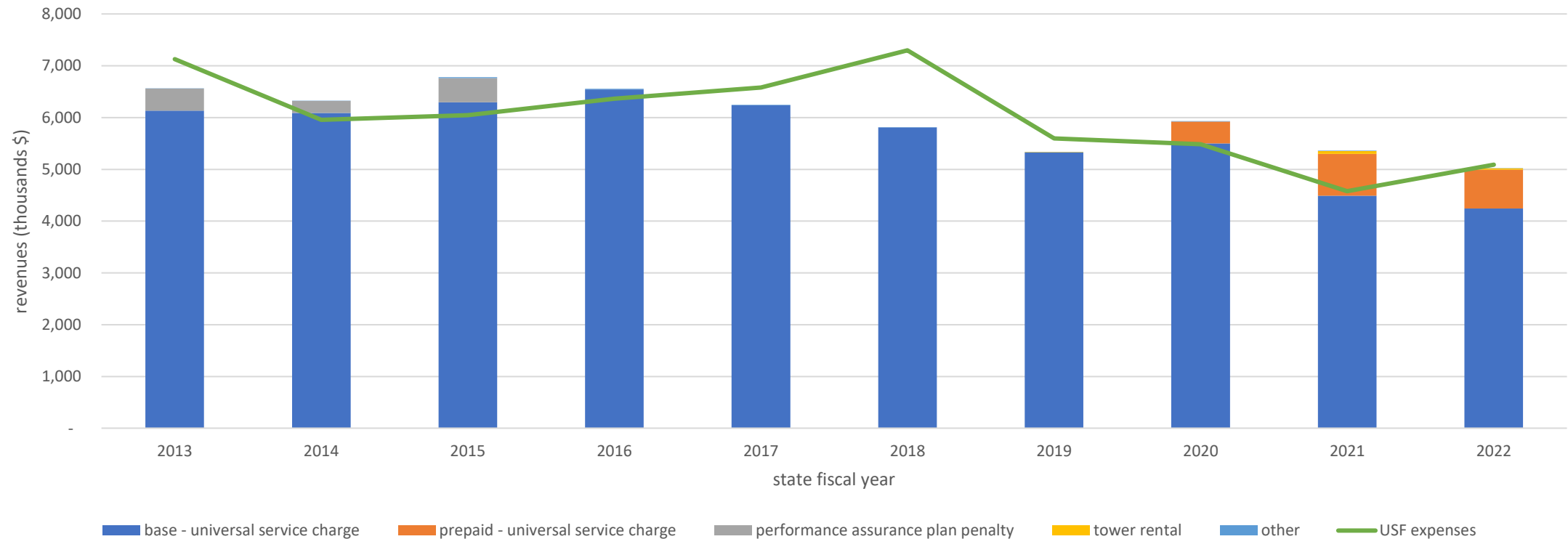


USF revenues (with expense trendline)

Source: Universal Service Fund annual audit statements

<https://publicservice.vermont.gov/regulated-utilities/telecommunications/vermont-universal-service-fund>

Universal Service Fund - 10-year revenues and expenses



USF expenses



USF Expenses

- As noted above, several programs receive USF funding
- The largest program (by cost) is E 9-1-1 – however as USC revenues have declined so have transfers to E 9-1-1 fund
- Administrative costs and telecom relay service costs have been relatively stable
- Lifeline expenses have declined over time
- Transfers to connectivity fund have been sporadic; big transfers in FY17-18 due to USF end-of-year balances
- As of FY22 VT Community Broadband Fund now gets some of USC

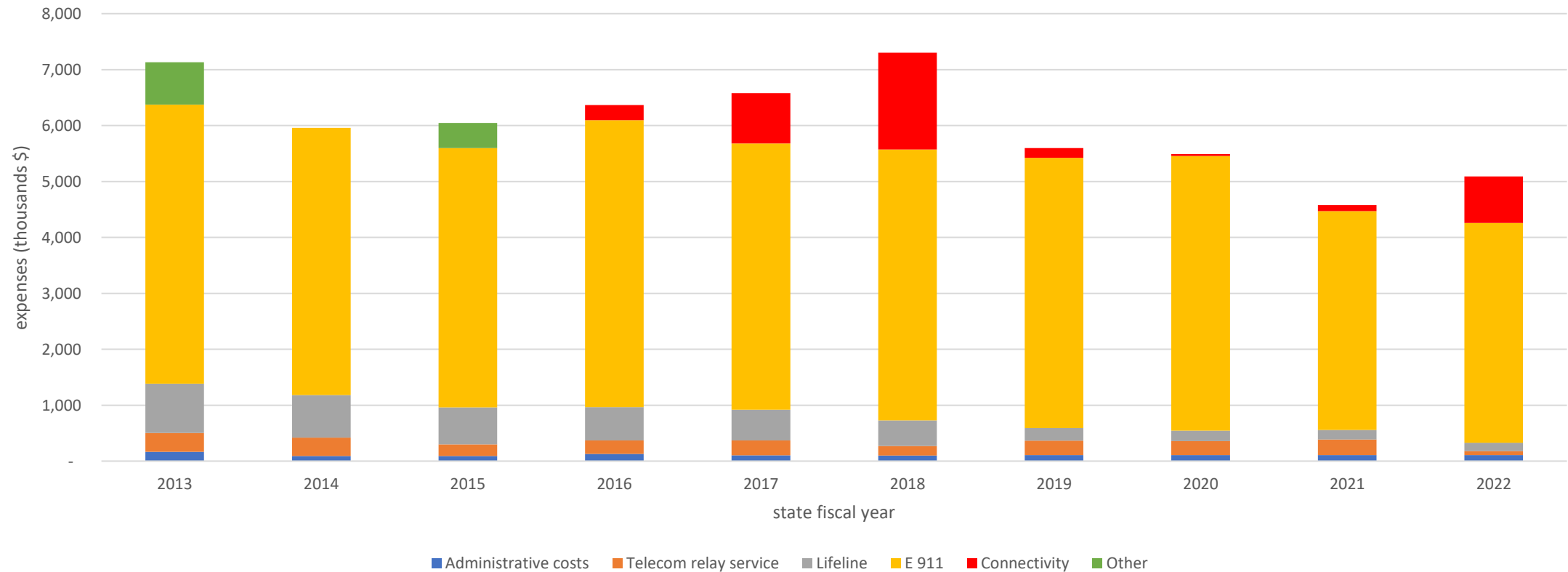


USF expenses

Source: Universal Service Fund annual audit statements

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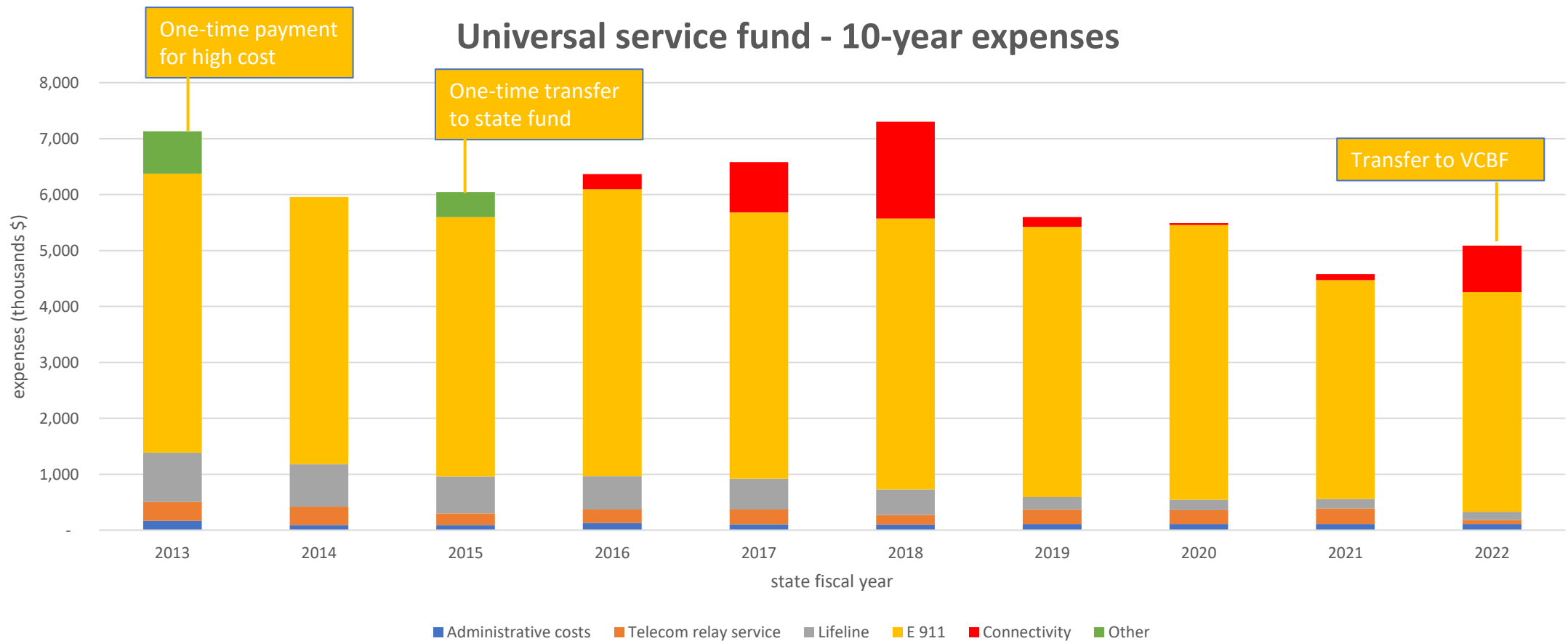
Universal service fund - 10-year expenses



USF expenses

Source: Universal Service Fund annual audit statements

<https://publicservice.vermont.gov/regulated-utilities/telecommunications/vermont-universal-service-fund>



USF Expenses

Source: Universal Service Fund annual audit reports

<https://publicservice.vermont.gov/regulated-utilities/telecommunications/vermont-universal-service-fund>

USF Annual Expenses (in thousands \$)							
state fiscal year	Administrative costs	Telecom relay service	Lifeline	E 911	Connectivity	Other	total
2013	168	335	885	4,987		756	7,131
2014	94	327	763	4,773	-	-	5,957
2015	94	209	659	4,635	-	450	6,047
2016	132	242	591	5,130	270	-	6,365
2017	106	266	549	4,761	898	-	6,580
2018	103	171	456	4,842	1,729	-	7,301
2019	108	258	227	4,831	172	-	5,596
2020	109	250	186	4,913	30	-	5,488
2021	110	279	169	3,911	108	-	4,577
2022	110	71	150	3,926	-	832	5,089

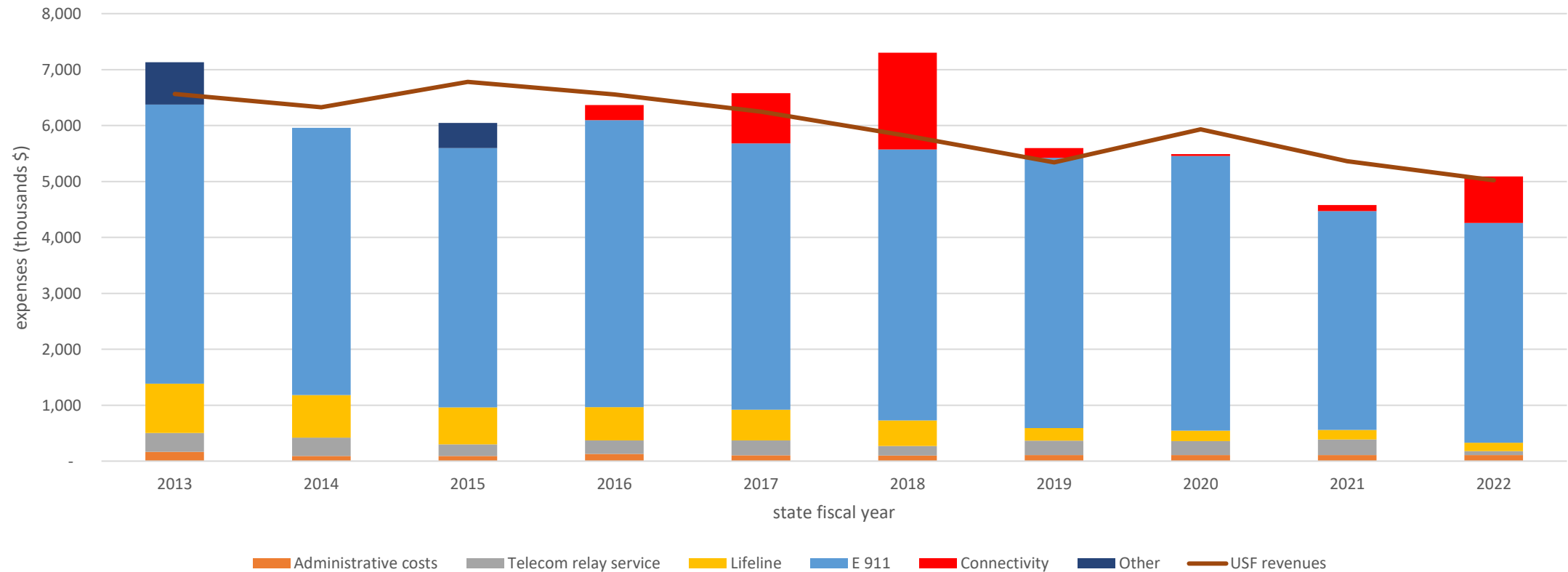


USF expenses

Source: Universal Service Fund annual audit statements

<https://publicservice.vermont.gov/regulated-utilities/telecommunications/vermont-universal-service-fund>

Universal service fund - 10-year expenses and revenues



Takeaways

- USF managed by fiscal agent, not by State – State does receive dollars from USF for certain programs
- USC revenues have been in decline – people dropping cable service and land lines; bundling services
- Internet is a no-go for USC – federal preemption
- E 9-1-1 fund not receiving sufficient transfers from USF – A one-time transfer of \$1.3m from General Fund was included in Act 185 of 2022
- Bright spot – significant federal funding for broadband has reduced pressure on USF for connectivity/high-cost funding

