

Testimony of Charles Storrow, KSE Partners, LLP, on behalf of AT&T
H.870—Increase in Universal Service Fund Fee

Background Information on the Universal Service Fund and USF Fee

- The USF is funded by a fee on retail telecommunications services and, per 30 V.S.A. §7521(a) is to be collected by telecommunications providers from their customers.
 - Until June 2014 the fee rate was set by the PSB to cover the budgets for the programs funded by the USF. In FY 2014 the fee was 1.81%
 - Act 190 (2014) increased and fixed the fee at 2.0%. Per the findings in Act 190 the increase in the fee was estimated to raise an additional \$650,000.
 - Act 191 (2014) (fee bill) extended the USF fee to prepaid calling plans. Per the findings in Act 190 this was estimated to raise an additional \$450,000.
- Currently, purchasers of telecommunications services pay the following in taxes and fees:
 - Vermont Sales Tax: 6.0% (7.0% in local option municipalities)
 - Federal USF 6.46% (18.2% on interstate and international calls).
 - VT USF 2.0%
 - TOTAL: 14.46% (15.46% in local option towns)
- A 0.5% increase in the USF fee will raise \$1.5 million dollars. Approximately 80% of that new revenue which will come directly from Vermont consumers (wireless telecom providers pay the USF fee on prepaid calling plans out of their pockets).
- In FY 2015 the USF took in \$6,778,883 and expended \$6,047,158. Expenses included a one-time \$450,000 payment to Communications and Information Technology Internal Service Fund per the FY2015 budget bill.
- At the end of FY2015 the USF had a balance of \$3,067,365. As of February 29, 2016 the USF had a balance of \$3,131,765.
- Audit of the USF done for FY 2014 and FY 2015 noted that adjustments were required in order for the fund's financial statements to be properly stated and the fact such adjustments had to be made "constitutes a deficiency in the VUSF's internal control over financial reporting processes and routine and non-routine and non-systematic transactions, that could potentially result in a material misrepresentation of the

financial activity and financial position of the VUSF.”

Two adjustments: in FY2014 and FY2015 the fund administrator overpaid E911 \$72,818 and \$30,633, respectively.

Also, fund administrator was not regularly posting deposits to appropriate accounts. Normally there should be approximately \$100,000 in the unapplied receipts account. At the end of FY2015 there was \$1,237,939 in the unapplied receipts account.

See Waggoner, Frutiger & Daub, LLP, Certified Public Accountants, Vermont Universal Service Fund Financial Statements Years Ended June 30, 2015 and 2014 (10/26/2015).

- To its credit, the Department of Public Service hired a new fund administrator.

Programs Funded by the USF

- To the extent monies are available the USF funds the following, in order of priority:
 - Fiscal agent’s fee.
 - Relay service for the hearing impaired.
 - Lifeline program.
 - E911
 - Connectivity Fund, which is split between:
 - High Cost program (45%). Created by Act 190 (2014)—provides money to telecommunications provider for deployment of broadband internet service (4/1 mbps service) in “high cost areas.” Program has yet to be operationalized due to lack of required implementation order from the PSB. Per a memo dated 07/31/2014 the PSB solicited comments regarding an implementation order, and comments were submitted that summer and fall of 2014, but no order has been issued. \$1.345 million dollars have accrued for use in the high cost program but have yet to be disbursed.
 - Connectivity Initiative (55%). Also created by Act 190 (2014)—successor to the VT Telecommunications Authority. Administered by the Department of Public Service. Provides grants and other support for the deployment of broadband internet service (10/1 mpbs). Per Jim Porter’s testimony on 04/01/2016 the Connectivity Initiative is supposed to

support the deployment of broadband internet service to approximately 30,000 locations, which is estimated to cost \$100 million.

- On or by September 1 of each year the Fiscal Agent is to determine the amount of money available for the Connectivity Fund. 30 V.S.A. §7516.
- The Department just learned (last Friday, April 1) that for FY2016 there is \$1,140,655 available to the Connectivity Fund, of which \$627,360 will be available for the Connectivity Initiative program.

State Supported Broadband and Telecom Projects Have Been Expensive and/or Ineffective

- In FY 2015 the Department awarded \$885,944 in grants to EC Fiber, Comcast and Fairpoint to provide internet service to 173 addresses (average of \$5,121 per address) in nine towns. If future projects involve spending approximately \$5,000 per location it will cost \$150,000,000 to provide connectivity to 30,000 locations.
- Previously, VTA awarded VTel \$2.6 million to help VTel be able to provide voice service over its wireless broadband network. VTel bought something called “IMS Core” with the money but to date there is no voice service.
- CoverageCo Project—network of small cell sites mounted on utility poles. Project calls for 404 sites, of which 128 installed. The state, via the VTA, has invested \$3,214,795 in the CoverageCo project. Federal monies have also been invested. The network that has been created to date provides 2G service, which is virtually obsolete.

Other Resources That Available for Expanding Broadband Internet Coverage

- Fairport is receiving \$8.6 million per year for 6 years from the federal “Connect America Fund II” to expand its broadband network in unserved/underserved areas in Vermont. Fairpoint must use this money to provide service that has at least 25 mbps down/4 mbps up speeds.
- VTel has received tens of millions of federal dollars to create a statewide wireless broadband internet network. Anecdotally, at least some of that network is in fact operational.
- Given the amount of federal funding Fairpoint is receiving for broadband deployment and the \$750,000 capital budget appropriation to the Connectivity Initiative the USF fee

should not be increased at this point in time.

- Section 4 of H.870, as amended by the House Corrections & Institutions Committee, appropriates \$750,000 to the Connectivity Initiative from the FY2017 Capital Budget Adjustment Act.

Conclusion

The USF fee should not be raised at this time. The ability of the Connectivity Initiative to expand broadband internet coverage in a meaningful and cost effective manner is unknown. The Department is just beginning to get its arms around the USF's finances. It has a \$750,000 appropriation from the capital bill that is specifically designated for the Connectivity Initiative. That money should be used for the Connectivity Initiative in FY2017 and the USF fee should not also be raised.