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Testimony of Scott Mackey
House Committee on Energy and Technology

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Mr. Chairman and committee members, thank you for the opportunity to testify on issues related to the Vermont Universal Service Fund. I am the managing partner at Leonine Public Affairs, and I work for a coalition of wireless providers on state tax issues across the country. Today I appear on behalf of AT&T, T-Mobile, U.S. Cellular, and Verizon.

I understand that the committee is considering whether to change the basis for the imposition of the state Universal Service Fund charge from a percentage of retail voice telecommunications services to a flat amount per access line. This testimony provides a brief overview of the key issues that the committee may need to consider if it moves forward with such a change:

- **Definition of Access Line** – It is critical that the definition of access lines be limited to voice telephony lines capable of dialing 911. Otherwise, broadband access lines, machine to machine wireless lines, and other lines not capable of dialing 911 could be swept into the fee.
- **Impact on low- and moderate-income families with family share wireless plans** – As the administration pointed out in the January memo, a flat per month charge would make the charge more regressive. In particular, it would shift more of the burden of the charge to families with multi-line plans because of the way wireless pricing works. Typically, the first wireless access line is priced higher than additional lines added to the same plan. With a percentage imposition, the fees on these lower-priced additional lines are proportionately lower. For example, a four-line family share plan where the voice portion of the service costs \$20 for the first line and \$10 for each additional line would pay \$0.48 cents for the first line and \$0.24 for each additional line for a total of \$1.20. Under a flat per line charge of \$0.60 per month, the charge would increase to \$2.40 per month. Under current law, the effective rate of the fee is 2.4% while under the proposal the effective rate would be 4.8%.
- **Shifting the burden from wireline to wireless and from businesses to consumers** – Businesses spend more per line on telecommunications service than consumers, and businesses also spend more on wireline service than wireless service. Therefore, a shift to a flat per-line charge would shift more of the overall funding burden for the USF from businesses to consumers. This would be especially true if the legislature does what some other states have done and caps the number of per-line charges at a single business location.

- **Prepaid wireless** – If the legislature decides to shift to a per-line charge, we recommend that the charge on prepaid wireless service be kept on a percentage basis. Otherwise, retailers throughout Vermont that are collecting the charge at the point of sale would have to re-program their systems to change the collection methodology. The percentage collection basis aligns with the state sales tax that is also collected at the point of sale by retailers.
- **Administrative issues** – The wireless companies can administer a flat fee without too much difficulty; however, the implementation of a switch to a flat fee takes time so they need a minimum of 90 days to update their billing systems.
- **Rate changes** – Rates should be set by the Legislature and not by the PUC or another administrative agency. This provides more direct accountability and tends to discourage frequent rate changes that add to compliance costs.

Thank you for the opportunity to share these issues with the committee.