



State Universal Service Funds: Contribution and Distribution 2014

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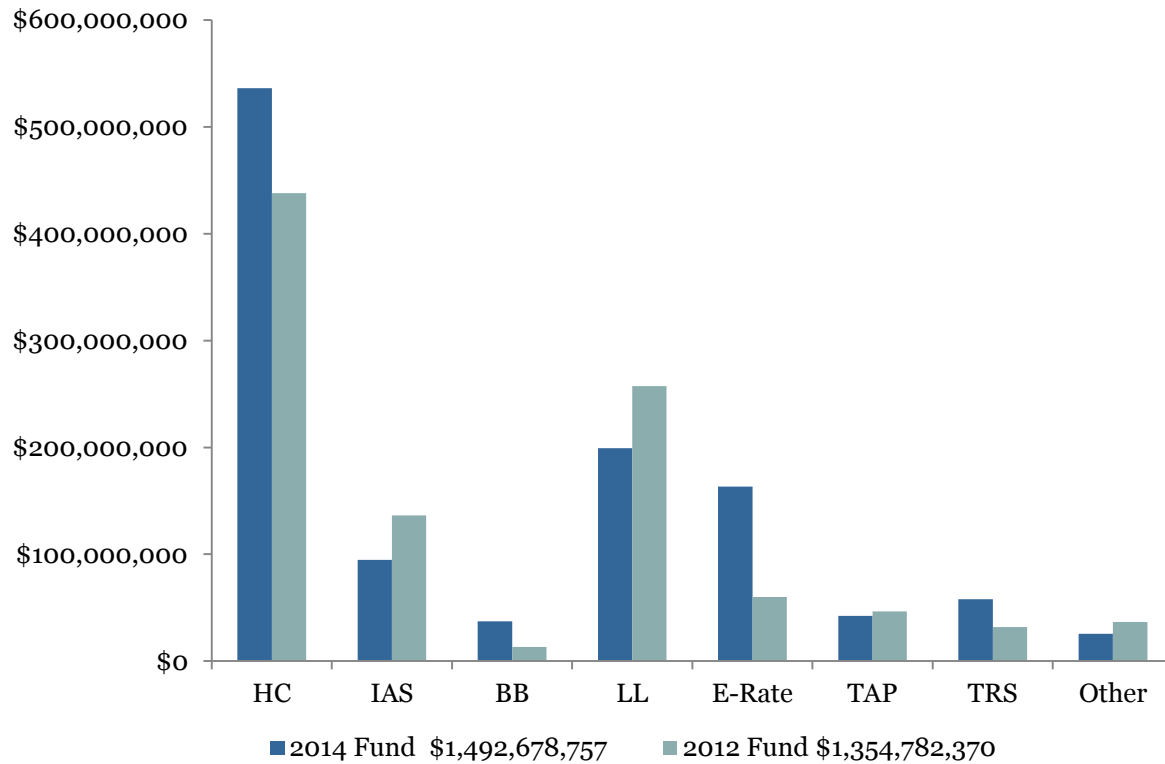
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State Universal Service Funds at a Glance

- 44 states and the District of Columbia have state-specific funds
 - ✦ High Cost: 22 states
 - ✦ Intrastate access reform: 3 states
 - ✦ Broadband: 5 states (CA, DE, NE, ME, WVA)
 - ✦ Telecommunications equipment program (TAP): 14 states
 - ✦ Relay service (TRS): 19 states
 - ✦ E-Rate: 5 states
 - ✦ Lifeline: 17 states
 - ✦ Other: 4 states support public payphones, hearing aids, and other special services for the hearing and visually impaired
- No funds in AL, FL, MA, NJ, TN, VA, but some targeted support
 - MA: state grants for broadband deployment and TRS
 - FL: companies must provide Lifeline service

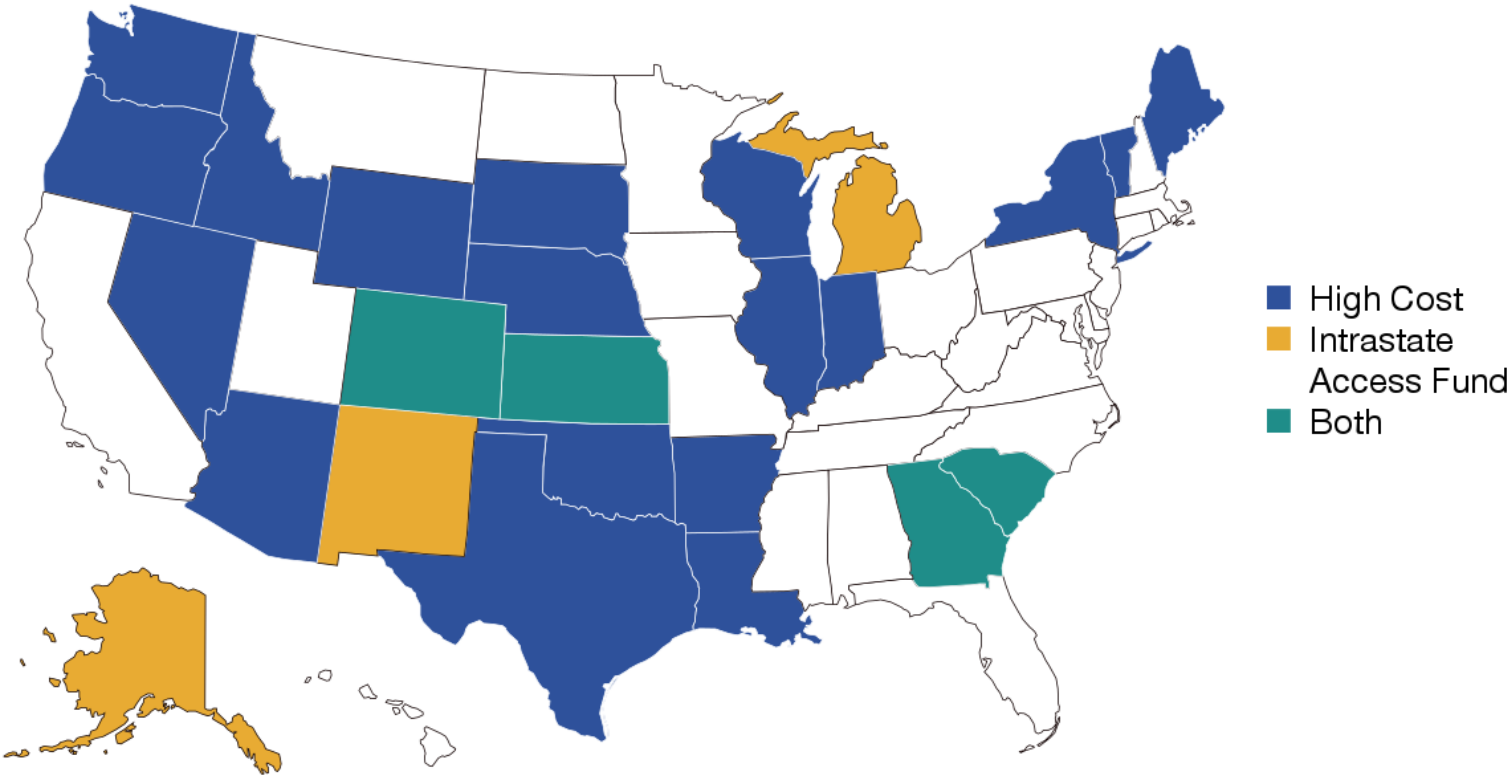


Total State USF Expenditures Grew 9% between 2012 and 2014, from \$1.35B to \$1.49B



Texas funds USF as a single lump sum. Texas spending included in total but not in individual areas. No data received from Hawaii.

State Universal Service Funds: High Cost and Intrastate



Key Fund Changes – 2012 to 2014

- Total USF funding increased 9% between 2012 and 2014
 - High cost funding increased 18%
 - Broadband funding increased 62%, primarily due to increased funding in CA
 - E-Rate funding increased 63%
- Lifeline funding decreased 29%, from \$257.2M to \$199.3M due to more stringent enrollment requirements
 - Idaho reduced LL funding from \$3.50/mo to \$2.50
- Total TAP funding stayed flat, while TRS funding increased slightly
- Kansas reduced HC funding by \$4M
 - Support capped for competitive ETCs with phase-out in 2018
 - No support for deregulated carriers
 - Rural LEC support capped at \$30M
- DE added a broadband fund (2014 expenditures not yet available)

Note: Data based on survey responses from 49 states and the District of Columbia.

Fund contributors differ among states

Provider Type	# States	States
Wireline (ILECs/CLECs)	50	All respondents
Wireless	25	Alaska, Arizona, Arkansas, California, Colorado, Connecticut, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Michigan, Nebraska, Nevada, New Mexico, North Dakota, Ohio, Oklahoma, South Dakota, Texas, Utah, Wisconsin, Wyoming
Cable	8	Arkansas, Georgia, Kentucky, Maine, Maryland, Nevada, New Hampshire, Wyoming
VoIP	10	Arizona, California, DC, Kansas, Louisiana, Minnesota, Nebraska, New Mexico, Ohio, Wisconsin
IXCs	32	Alaska, Arkansas, Arizona, California, Colorado, Connecticut, Delaware, DC, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maine, Maryland, Michigan, Missouri, Nebraska, Nevada, New Mexico, New York, Ohio, Oklahoma, Pennsylvania, South Carolina, Texas, Utah, Wisconsin, Wyoming
Other	13	Arkansas, Arizona, Colorado, Georgia, Michigan, Nebraska, New Mexico, Ohio, Pennsylvania, South Dakota, Texas, Washington, Wyoming

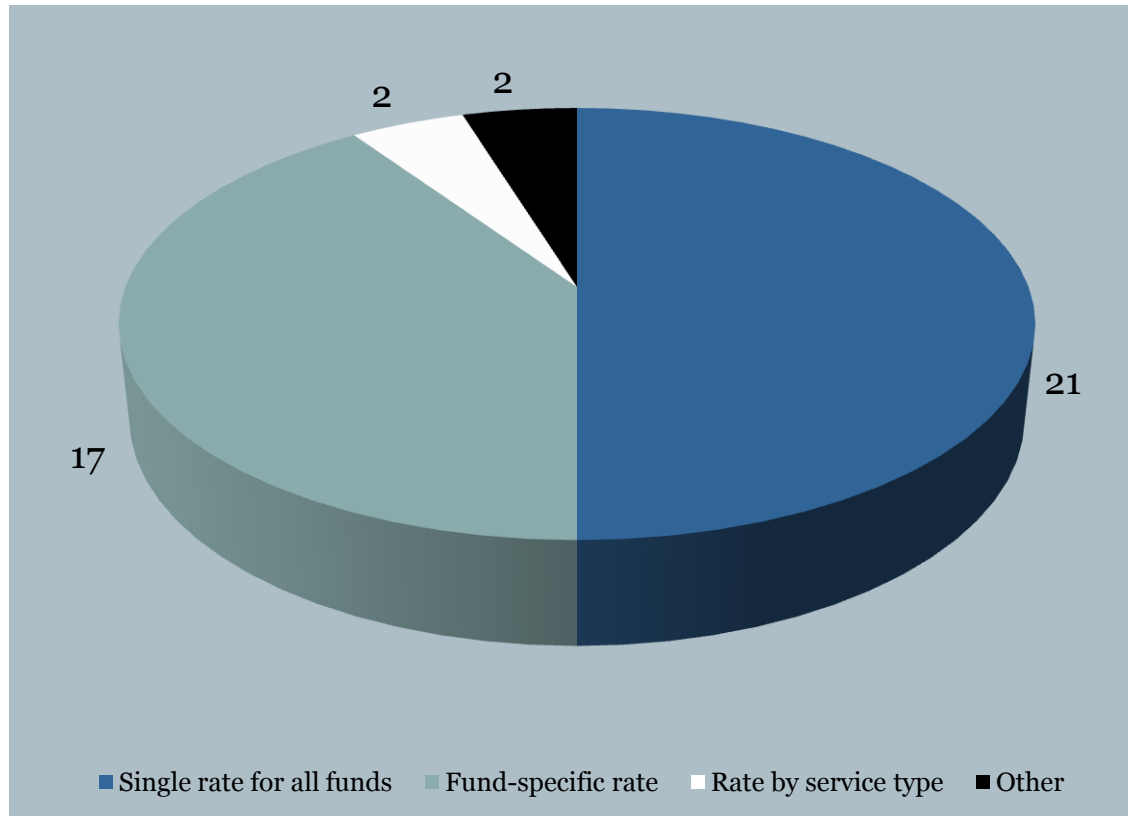
1 VoIP provider contributes voluntarily in New York. 1 cable company contributes voluntarily in Utah. Some VoIP providers contribute voluntarily in Oregon.

The basis for contribution also differs across states

Revenues Assessed	# States	States
Gross intrastate retail revenues	16	Alaska, Arkansas, California, Colorado, Connecticut, Delaware, DC, Georgia, Iowa, Louisiana, Oklahoma, Oregon, Texas, Utah, Wisconsin, Wyoming
Net intrastate retail revenues	12	Illinois, Indiana, Kansas, Maine, Michigan, Missouri, Nebraska, Nevada, New Mexico, New York, Pennsylvania, South Carolina
Charge per access line/trunk	15	Arizona, Idaho, Kentucky, Maryland, Minnesota, Mississippi, Montana, New Hampshire, North Carolina, North Dakota, Ohio, Rhode Island, South Dakota, Vermont, West Virginia
Direct state funding	1	Washington



States Use Multiple Assessment Methods



Distribution requirements differ by state

- Carriers in high cost areas
 - Primarily rural wireline carriers; ILEC specifically excluded in PA and ME
 - Determined by commission proceedings
 - Tied to the presence of “effective competition”
- End user pricing may not exceed rate benchmarks
 - Former RBOC basic service rate
 - Individual rates set by commission proceedings
 - Support set by cost models (NECA or individual proceedings)
- State benchmark rates will change over time to reflect FCC benchmarks
- Lifeline, TAP, and TRS funds distributed on a per subscriber basis

Legislation and pending dockets will result in additional changes in 2015

- Reductions in high cost and IAS funding
 - CO will transfer HC monies from areas with “effective competition” to broadband
 - ME legislature will evaluate proposals to eliminate/change HC support for COLRs
 - California and Nebraska are examining HC support and contribution
 - New Mexico reduced IAS funding from 3.4% to 3%, effective 1/15/15
- West Virginia broadband development fund (\$895K) sunset 12/31/14
- Legislation pending in Wyoming would remove state Lifeline support
- Legislation in South Carolina could require wireless and VoIP providers to contribute to the state USF