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State Universal Service Funds: Updating the Numbers[1]

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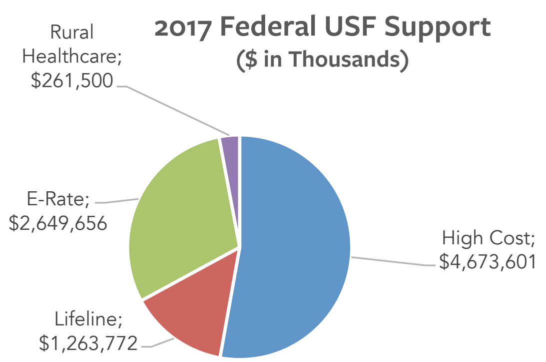
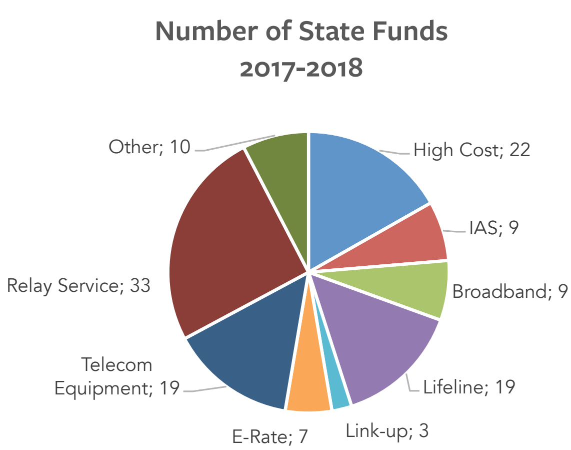
Universal Service is a key component of both Federal and State communications policy. Its goal is to ensure that all citizens, regardless of where they live, have access to robust, reliable communications services, including broadband, at affordable rates, with "reasonably comparable service" across the country. The four federal Universal Service Funds (USF), High Cost/Connect America, Schools and Libraries (E-Rate), Lifeline, and Rural Healthcare provide financial incentives to carriers (and, in the case of the Lifeline fund, consumers) to build and adopt voice and broadband services. The four federal funds totaled over $8.8B in 2017.



Data Source: 2017 USAC Annual Report



In the spirit of cooperative federalism, where the states and the federal government work together to support all citizens, many states have chosen to supplement the support provided by the federal program in order to broaden the services they provide to their citizens. The state funds not only expand the reach of the federal program, but also address the specific communications issues faced by each state's consumers, such as, providing public access payphones, and increasing consumer access to voice and broadband support through equipment programs and specialized access for the hard of hearing and visually impaired. State universal service programs are a key component of the goal of providing all citizens with access to the communications tools they need to participate in the 21st century economy.

Forty-two states and the District of Columbia provide some form of State universal service support in addition to the Federal funds.[2] Eight states, Alabama, Delaware, Florida, Hawaii, Massachusetts, New Jersey, New Hampshire, Tennessee, and Virginia, have no state funds. Massachusetts, Delaware, and West Virginia have no state USF funds but provide broadband support through state grant programs.[3] And Florida ensures access to services for its low income residents by mandating that all carriers in the state provide Lifeline service under the federal program.

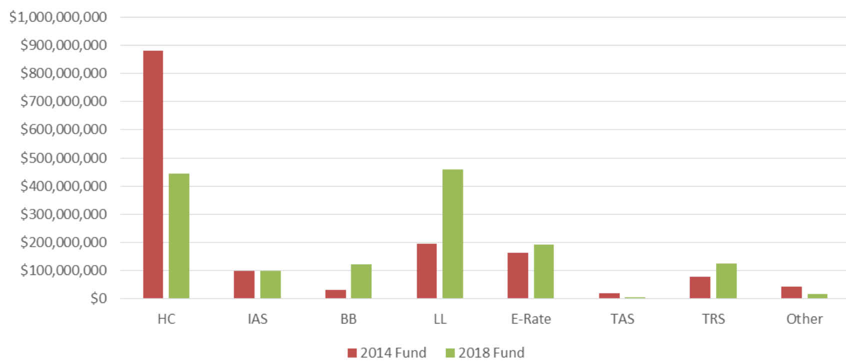
State universal service support totaled $1.7B in 2017, with the monies distributed across a variety of areas, including high-cost support, intrastate access support (IAS), broadband support, lifeline support, and support for the hard of hearing, to name just a few. The largest state universal service funds are California ($792.7M) and Texas ($216M). The Texas fund is not designated to separate programs but is a lump sum distributed as required.

1 State Universal Service Funds: Updating the Numbers will be available in 2019.

2 State fund information is based on responses to NRRI's 2018 State USF survey. The number of states without funds or with only limited funding will increase by the end of 2018 when Alaska discontinues support for Lifeline and public interest payphones and other states sunset their funds.

3 The Delaware and West Virginia grant programs have expired, but will continue to provide support until those funds are fully expended.

2014 - 2017 State Fund Size Comparison



State universal service funding decreased approximately 8% (from$1.8M to $1.7M) between 2014 and 2017.

The decrease was primarily a result of reductions in high-cost support in California and Colorado, and an overall reduction in the Texas fund. California reduced high-cost support from $92M in 2014 to $71M in 2017. Colorado eliminated support in areas with unsubsidized, competitive providers, sweeping those funds into the state broadband fund. And Texas reduced the size of its fund from $336M to $216M.

The reduction in the size of the State High Cost Fund was tempered by significant increases in Lifeline and broadband funding, with California expanding both programs significantly. California added wireless providers to the Lifeline program in 2014, increasing the program size from $150M to $429M. The state also increased its broadband program from $22M in 2014 to $76M in 2017. In addition to these expenditure increases, Vermont and Wisconsin added broadband funds to their state USF during this time period, raising total broadband funding from $27.7M in in 2014 to $81.9M in 2017.

A key issue facing both the federal and state USF is the mix of providers that contribute to the program, as well as the methodology used to compute that assessment. As consumers increasingly move from traditional wireline service to VoIP and other communications services like text messaging, revenues have shifted away from the traditional services supporting the program. The federal USF program is funded by wireline, wireless, and interconnected VoIP providers. The state program calls upon a larger mix of vendors.

Contributors to the State USF vary by state and often by fund. All of the state funds assess traditional wireline carriers, including competitive local exchange carriers (CLECs). Twenty-nine states assess interexchange (long distance) carriers. Thirty states assess wireless providers. Seventeen assess cable voice providers, while twenty-eight also assess interconnected VoIP providers, a number that has grown significantly from 2014 to 2017. Eight states assess end users, while six states assess paging companies (although the number of these providers is diminishing as this segment of the market transitions to new technologies). Finally, the state of Washington funds its USF through a contribution from the state's general fund. The Washington fund is scheduled to sunset in 2020, with funding ceasing in 2019. Funding for Lifeline and Linkup ceased in 2015.

Three states, Alaska, Nebraska, and New Mexico, made significant changes to their funds in 2018 in response to changing needs and diminishing revenue collections.

The Alaska Regulatory Commission (RCA) voted to cap the state USF surcharge at 10% to counter decreases in reported intrastate revenues and to cancel the fund in June 2023, after a review beginning in June 2021. Alaska also discontinued its Lifeline and Public Payphone programs in 2018.[4]

4 See Alaska Docket R-18-001, available at http://rca.alaska.gov//RCAWeb/ViewFile.aspx?id=c901c683-c802-4ff9-a012-d7877dc92f1c

Nebraska and New Mexico moved to connections-based funding mechanisms in 2018 in the hope of providing more stability of the fund. Nebraska instituted a hybrid funding mechanism, basing residential and small business (mass markets) USF contributions on connections and continuing to assess large business on intrastate revenues.[5] New Mexico instituted a connections-based surcharge similar to the Nebraska surcharge in August 2018, although with no distinction between mass market and large businesses.[6] Other states are reviewing the Nebraska and New Mexico decisions and may move to similar methodologies in the future.

Universal Service remains a key part of state initiatives to ensure that all citizens retain access to voice and broadband communications regardless of where they live. Tracking these programs may help states to determine the best way to meet these needs in the future.

About the Author

Dr. Sherry Lichtenberg is NRRI's Principal for Telecommunications Research and Policy. She supports state public utility commissions, industry, and others in understanding key telecommunications issues. She has published numerous papers on telecommunications policy, including a yearly review of telecommunications legislation and studies of quality of service, competition, state universal service funds, and broadband service quality.

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The National Regulatory Research Institute (NRRI) was established in 1976 as the research arm of the National Association of Regulatory Utility Commissioners (NARUC). NRRI provides research, training, and technical support to State Public Utility Commissions. NRRI and NARUC are co-located in Washington, DC.

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5 See Case NUSF-100, available at http://psc.nebraska.gov/orders/ntips/NUSF-100.PI-193.72.pdf

6 See w Mexico Case No. 17-00202-UT, available at https://www.gvnwusf.com/Portals/4/Documents/Orders/17-00202-UT%20Final%20Order%20Adopting%20Recommended%20Decision.pdf?ver=2018-08-24-144155-120