

Universal Service Fund

Background and History: The Wisconsin Universal Service Fund (USF) was established under 1993 Wisconsin Act 496 to ensure that all state residents have access to essential and advanced telecommunications services. As part of the change in telecommunications regulation, the Act included explicit requirements for universal service. Universal service can be defined as getting and keeping people on the network, making certain that all customers, including customer groups with specific needs, have access to affordable telecommunications services, and providing access to advanced service capabilities. Act 496 required the Commission to establish a Universal Service Fund, appoint a USF Council, and promulgate rules on universal service including definitions of essential services and advanced service capabilities.¹⁴

The first universal service rules (Wis. Admin. Code ch. PSC 160) were approved in 1996. The rules were subsequently revised in 2000 and are currently in the process of being revised again.

The purpose of the USF is to provide funds for programs to: (1) assist customers in areas of the state that have relatively high costs of telecommunications services, low-income customers, and disabled customers in obtaining affordable access to a basic set of essential telecommunications services; and (2) assist in the deployment of advanced service capabilities of a modern telecommunications infrastructure throughout the state.

As provided in Wis. Stat. § 196.218(3), telecommunications providers in the state are required to contribute to the Universal Service Fund. Assessments are based on the providers' gross intrastate operating revenues as reported in their annual report to the Commission and the budget level approved in the state budget process. The assessment rate is a monthly rate and is adjusted annually. State tax dollars do not contribute to the Universal Service Fund.

Programs included under the broad umbrella of the USF consist of technology and consumer-oriented programs managed by the Commission and technology and education-oriented programs that direct funding to other state government entities. These latter programs include the Technology for Educational Achievement Program (TEACH) administered by the Department of Administration; the University of Wisconsin, which receives funding for BadgerNet services; and the Department of Public Instruction (DPI), which receives funding for library services, BadgerLink and

¹⁴This USF report is submitted in compliance with Wis. Stat. § 196.218(5r).

Newline for the Blind. While these programs receive USF funding,¹⁵ the Commission has no administrative authority over these programs. For purposes of this report, reference to the USF generally refers to the Commission portion of the USF.

Administration: While the Commission develops the overall policy and procedures for the USF and manages and operates several of the programs, it is required by statute to contract with a private firm to administer the fund.¹⁶ Responsibilities under that contract include sending USF assessment bills to providers, sending reimbursements to participants in the USF programs, and administering some of the USF programs under PSC direction.

The USF Council advises the Commission on the administration of the USF and on proposed rule changes. Currently, the Council is comprised of 13 members with 6 representing the telecommunications industry and 7 representing consumer groups. By statute, the majority of the Council members must be representatives from consumer groups. The Council met four times over FY06 and FY07 and discussed budget issues, program direction, and draft rule changes.

Budget: Initially, the USF was funded at \$8.0 million per year for FY98 to FY00. 2001 Wisconsin Act 16 capped the amount that telecommunications providers could be assessed for the Commission portion of the USF at \$6.0 million for FY05 and thereafter for each fiscal year. In 2007 Wisconsin Act 20, the Legislature removed the \$6.0 million budget appropriation cap for the USF. The appropriation for FY08 and FY09 remains at \$6.0 million for each year.

The expenditures over the past three fiscal years have remained fairly steady—between \$5.5 million and \$6 million. Because the budget appropriation remains at \$6.0 million, this trend is expected to continue for FY08 and FY09.

¹⁵ Recent appropriations for these non-Commission USF programs were as follows:

	FY05	FY06	FY07
TEACH	\$17,262,000	\$17,267,900	\$17,267,900
UW System	\$1,054,800	\$1,054,800	\$1,054,800
DPI	\$4,055,400	\$6,216,300	\$6,254,300

¹⁶ The currently-retained administrator of the USF is Wipfli, LLP.

Figure 5-1 shows USF expenditures since 2000.

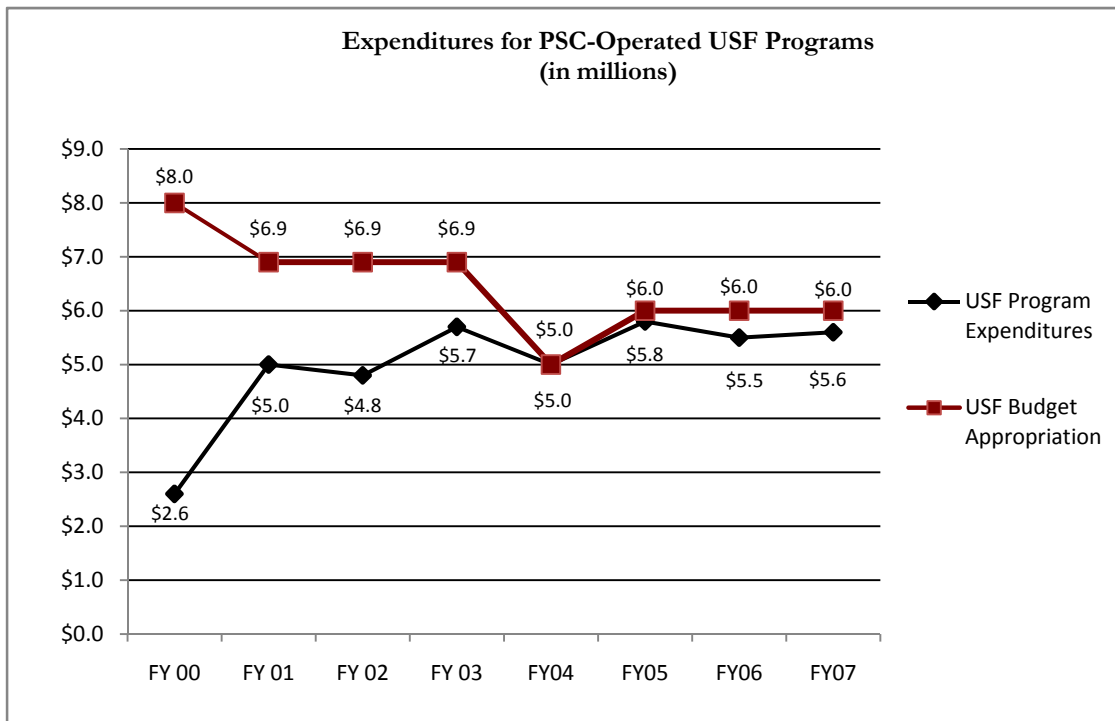


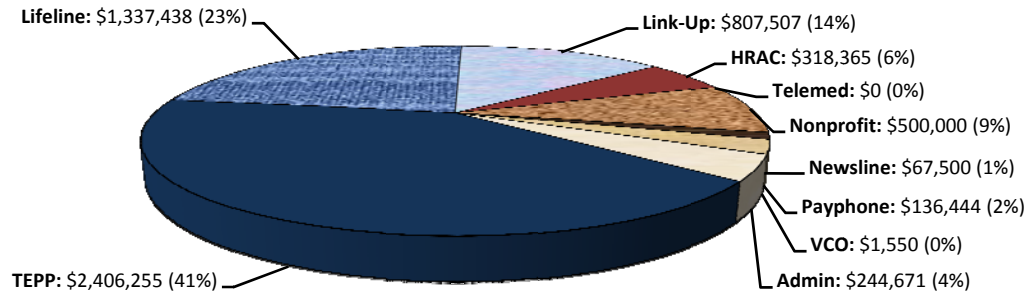
Figure 5-1

January 2008

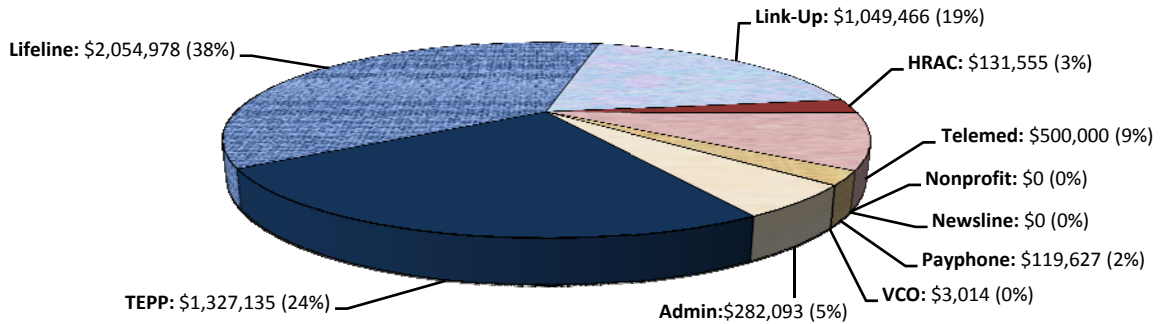
Source: PSC Staff

USF Programs: Nine Commission programs were funded by the USF to assist in providing telecommunications access to low-income households, disabled individuals and to households in high cost areas of the state and to provide grants to hospitals and clinics for advanced telecommunications equipment. Expenditures for the various USF programs for FY05, FY06, and FY07 are depicted in Figure 5-2. As of FY08, the Newline for the Blind program will no longer be funded by the Commission USF budget, but will instead be directly funded under the DPI USF programs. The budget summaries also include funding for administrative costs for the USF programs. Administrative costs comprised about 5 percent of the USF budget for both FY06 and FY07. Comparisons of expenditures for Commission USF programs over the past three years are shown in Figure 5-2 and Figure 5-3.

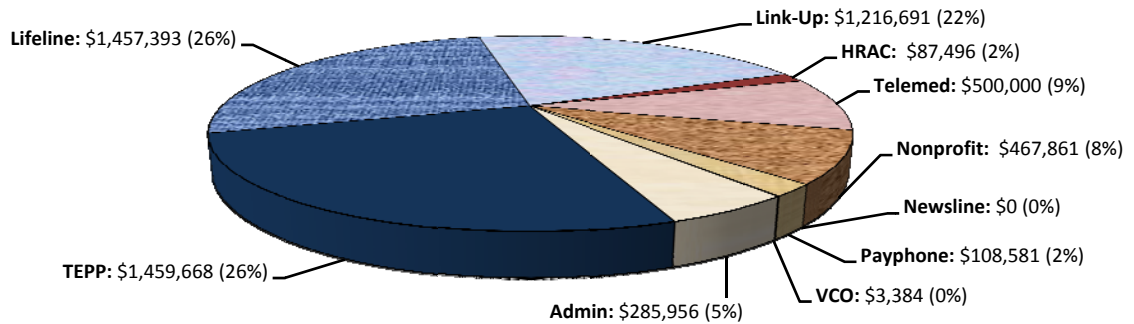
FY 2005 USF EXPENDITURES - \$5,819,730
 (Total Appropriation \$6,000,000)



FY 2006 USF EXPENDITURES - \$5,467,868
 (Total Appropriation \$6,000,000)



FY 2007 USF EXPENDITURES - \$5,587,030
 (Total Appropriation \$6,000,000)



TEPP: Telecommunications Equipment Purchase Program	Nonprofit: Nonprofit Access Grants
Lifeline: Lifeline	Newsline: Newsline for the Blind
Link-Up: Link-Up	Payphone: Public Interest Payphone
HRAC: High Rate Assistance Credit	VCO: Two Line Speech or Voice Carry Over
Telemed: Telemedicine Equipment Grants	Admin: Administration

Figure 5-2

January 2008

Source: PSC Staff

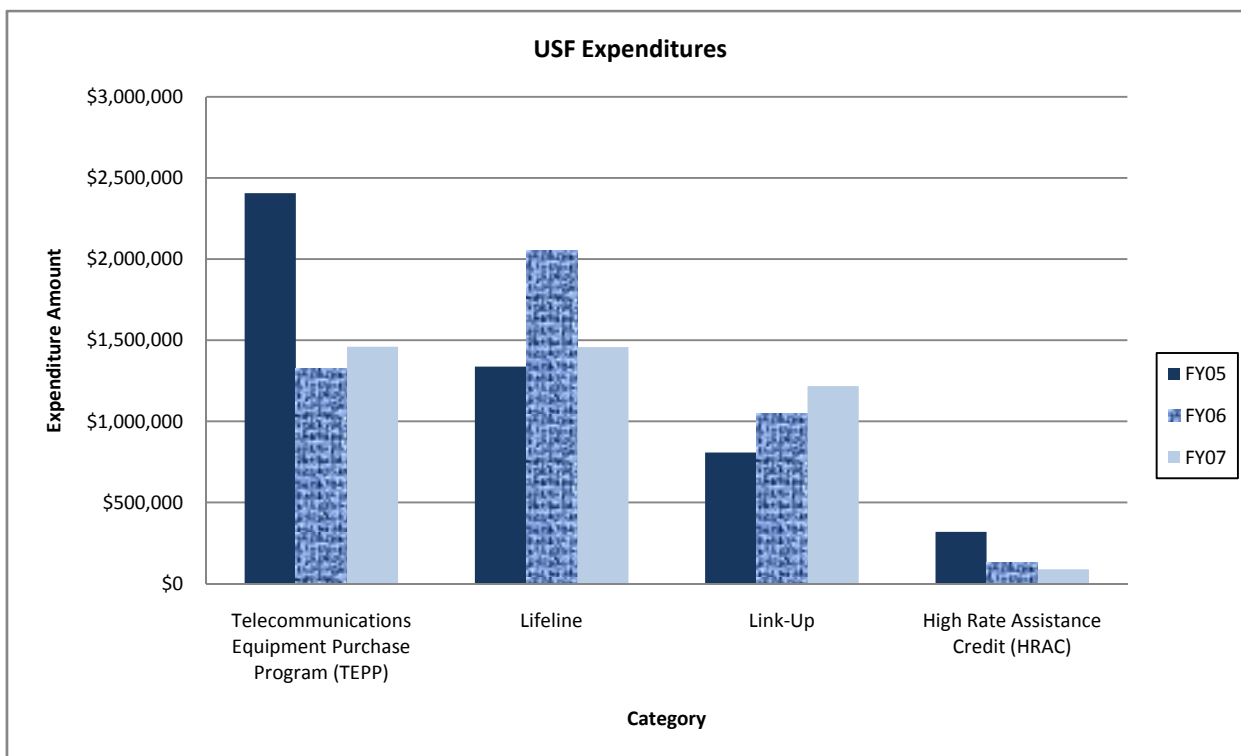


Figure 5-3

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Source: PSC Staff

Telecommunications Equipment Purchase Program (TEPP): TEPP assists persons with disabilities to purchase certain telecommunications equipment so that they can use the telephone system. Examples of equipment that can be purchased with the vouchers include amplified phones, TTYs,¹⁷ speech amplified phones, and signaling systems. Vouchers are given to the qualifying individuals and these vouchers are used to pay vendors for a portion of the cost of the necessary telecommunications equipment. Voucher values vary for different types of disabilities because the typical equipment needs of persons in different disability categories varies in price. In most cases, the purchaser must make a \$100 co-payment when purchasing the equipment. If the co-payment and voucher are not sufficient to cover the equipment price, the purchaser pays the additional amount. Low-income eligible individuals may qualify for funding to pay the \$100 co-payment.¹⁸ Over the biennium, about \$2.8 million in vouchers were used by over 12,000 disabled individuals to assist them in using the telephone.

Two-line Voice or Speech Carryover: Two-line voice or speech carryover is a service that some persons with hearing or speech impairments use to communicate over the telephone. With carryover service, a TTY or CapTel telephone is used only in one direction for the call when the user is able to either speak or hear, but not both. This very small program reimburses providers that have customers that use two-line voice or speech carryover and require a second line. USF rules

¹⁷ TTYs are electronic typewriter devices that hearing impaired or speech impaired persons use to send or receive typed messages.

¹⁸ The Telecommunications Assistance Program (TAP) may be able to pay the \$100. TAP is a program of the Office for the Deaf and Hard of Hearing (Department of Health & Family Services). TAP is only for persons who are deaf or severely hard of hearing in a low-income household.

allow a customer to get a second line without a service connection charge and without a monthly charge for most of the costs of that second line. Many CapTel phone users use the two-line voice feature which has resulted in increased expenditures for this program. Expenditures for this program have increased from \$1,550 in FY05 to \$3,014 in FY06 and \$3,384 in FY08. Total program costs remain small as compared to other USF programs. Customers who use this carryover service report that it is very valuable.

High Rate Ceiling Credits: The high rate ceiling credit program provides USF payments to local exchange service providers to reimburse them for credits given to customers to keep local rates at affordable levels. Monthly service rates are compared to median household incomes for each county. If the rate that a telecommunications company charges exceeds the threshold established in the rules, the customers only pay the threshold price and the USF pays the company the necessary increment it needs. Adjustments in funding levels for this program are dependent on changes in income levels for the county and changes in local service rates.

The expenditures for this program have varied drastically over the past six years. The peak of expenditures over that period was \$1.5 million and the lowest level of expenditures was \$5,000. The trend for expenditures appears to be down with FY06 expenditures totaling \$131,555 and FY07 expenditures totaling \$87,496. In FY06, 19 telephone exchanges that served over 8,000 residential lines, received USF funding to provide a credit to customers that reduced their monthly rate. In FY07, 15 telephone exchanges that served over 5,000 residential lines, received USF funding to provide a credit to customers that reduced their monthly rate.

Lifeline and Link-Up: The Lifeline and Link-Up programs make telephone service more accessible for low-income Wisconsin residents. Lifeline provides a lower monthly rate for telephone service for low-income consumers. Link-Up requires telecommunications providers to waive service connection charges when low-income consumers establish or move their telephone service. The Lifeline and Link-Up programs are provided jointly by the FCC and the State of Wisconsin. Providers are reimbursed from the USF for rate credits given to Lifeline customers and for the waived charges applicable to Link-Up customers.

In FY06, USF expenditures for the Lifeline program were \$2,055,000; of which, \$554,000 were due to a deferral of expenses from FY05. Lifeline provided lower priced service to over 90,000 low-income customers. In the same year, over \$1 million was spent to provide Link-Up services to almost 30,000 customers enabling them to have telephone connection fees waived. This included \$186,000 in FY05 expenses that was deferred to FY06. The need to defer decisions on payment of FY05 expenses to FY06 was due to the assessment caps placed on the USF. In FY07, \$1,457,000 was expended to provide over 85,000 low-income customers with discounted service through the Lifeline program and over 30,000 customers had telephone service installed under the Link-Up program. Since FY01, Lifeline and Link-Up have experienced some fluctuation in growth; however, the trend appears to be toward increased participation levels.

Newsline for the Blind: Newsline for the Blind enables blind persons to access audio news stories over the telephone. The Department of Public Instruction did not need additional funding from the USF for FY06 and FY07 because it had surplus funding from prior years that it used to fund the program. Blind and physically handicapped users have access to over 200 newspapers

because of this program. The program averages about 2,000 users per year with about 1,200 calls per month. Beginning in FY08, the Commission USF will no longer fund this program. Instead, DPI will receive USF funding directly.

Nonprofit Group – Access Programs or Projects: Nonprofit organizations were awarded \$467,000 in USF grants in FY07. The purpose of these grants is to develop or support programs or projects that facilitate the affordable access to telecommunications and information services. Applicants must be nonprofit organizations and must provide a 50 percent match for the total project cost. The projects must assist in providing telecommunications or information services to low-income or disabled customers, or must assist in deploying advanced telecommunications services.

In FY07, 19 applications were submitted and the Commission-approved 18 grants for a total of \$467,000. Table C1, in Appendix C, provide information on grants that were awarded. USF Map 1 indicates the counties where grant funds were awarded. Examples of projects that received funding include providing Internet access and training to low-income youth, seniors and unemployed adults, providing outreach and assistance to individuals with disabilities in obtaining and installing telecommunications equipment and providing Internet access for applying for food stamps at food pantries. Sufficient dollars were not available in the Universal Service Fund budget to operate this grant program for FY06 because of the \$6.0 million assessment cap then imposed on the USF by Wis. Stat. § 196.218(3)3.a.

Medical Telecommunications Equipment Program: Nonprofit medical clinics and public health agencies can receive grants from the USF to purchase telecommunications equipment. Purchase of medical telecommunications equipment under this grant program must promote technologically advanced medical services, enhance access to medical care in rural areas of the state, or enhance access to medical care to underserved populations or person with disabilities in the state. Applicants for this program must be a nonprofit clinic serving federally designated health professional shortage areas, medically underserved areas, medically underserved populations, or are a public health agency.

In FY06, 37 applications for grants were submitted and the Commission-awarded 15 grants totaling \$500,000. In FY07, 25 applications for grants were submitted and the Commission-approved 19 of the applications, again for a total of \$500,000 in grants. Examples of projects that received funding include teleradiology systems, home health care monitoring equipment, and video conferencing equipment. Tables C2 and C3, in Appendix C, provide information on grants that were awarded. USF Map 2 and USF Map 3 indicate the counties where the grants were awarded.

Public Interest Payphones: This program provides funding for placement of pay telephones when they are needed for the public interest but might not otherwise be provided. Under the PSC rules, when a pay telephone is installed after being designated as a public interest pay telephone, the provider of that telephone may be reimbursed for the costs associated with provision of the service, less any federal universal service support or revenues generated at the pay telephone. About 90 public interest payphones are located throughout the state in schools, parks, libraries, recreation facilities, boat landings, medical clinics, and village halls. Budget expenditures have varied from

year-to-year because of timing of reimbursement requests. About 35 phones have been removed because of extremely low usage or because the locations were no longer appropriate.

Federal USF Programs: The information above relates to the state created and funded Wisconsin universal service program. The federal government also has a universal service fund that provides funding through some federal programs to support universal service objectives. Per the Federal Telecommunications Act of 1996, preserving and advancing universal service is a function of both federal and state universal service programs.¹⁹ The previously described state specific programs are funded solely through assessments on Wisconsin intrastate telecommunications revenues. The federal USF programs are funded through national assessments on telecommunications revenues. Funding universal service through national programs maintains the competitiveness of the State of Wisconsin as assessments are no higher in Wisconsin than any other state. In some cases, federal USF programs complement state USF programs (i.e., for low-income customers), and in other instances, the federal USF addresses needs not duplicated by the Wisconsin USF. Many rural companies in Wisconsin have costs that are higher than national average costs and are eligible for federal support under the federal USF programs.

¹⁹ 47 U.S.C. § 254(b)(5)

The following is a description of the federal universal service support programs and the funding from them that was provided to Wisconsin telecommunications companies in 2005 and 2006.

Federal Universal Service Programs	2005 Amount	2006 Amount
<p>Low Income This support is commonly known as Lifeline and Link-Up. It provides discounts that make basic local telephone service affordable for low-income customers. Low income support is administered by the state in a partnership with the federal government. The dollars shown here are the federal contributions to this program.</p>	\$8,900,000	\$9,100,000
<p>Rural Health Care This support provides reduced rates to rural health care providers for telecommunications and Internet services so they pay no more than their urban counterparts for the same or similar telecommunications services.</p>	\$1,200,000*	\$2,300,000*
<p>Schools and Libraries This support referred to as E-rate support, provides affordable telecommunications and Internet access services to connect schools and libraries to the Internet. This support goes to service providers that provide discounts on eligible services to eligible schools, school districts, libraries, and consortia of these entities.</p>	\$15,600,000*	\$19,300,000*
<p>High Cost Loop This support provides financial assistance to rural telephone companies for providing the “last mile of connection” when the cost of this service exceeds 115 percent of the national average cost per loop.</p>	\$39,200,000	\$37,100,000
<p>High Cost Model This support provides carriers with support for all intrastate costs per line that exceed two standard deviations of the national average cost per loop.</p>	\$0	\$0
<p>Interstate Access Support This support helps price-cap telephone companies recover some of their fixed interstate access charges.</p>	\$400,000	\$300,000
<p>Interstate Common Line Support This support helps rate-of-return telephone companies recover some of their fixed interstate access charges.</p>	\$62,300,000	\$66,800,000
<p>Local Switching Support This support provides financial assistance designed to reduce the high fixed switching costs for carriers that serve 50,000 loops or fewer.</p>	\$28,400,000	\$30,000,000
Total 2005 and 2006 Federal Support to Wisconsin	\$156,000,000	\$164,900,000

*Includes only actual disbursements. Additional dollars have been committed but are not included.

Table 5-A January 2008 Source: Universal Service Administrative Company 2006 Annual Report

The FCC is in the process of reviewing the rules for the Universal Service Fund (and the issue is a topic of interest in Congress). The Commission will continue to monitor these rules and provide comments when appropriate.²⁰ The Commission also recognizes that universal service concerns are very much intertwined with issues of competition and intercarrier compensation. All these issues carry heavy price tags and require broad and creative thinking on all fronts to assure the maintenance and promotion of competition, the protection of service to consumers, and the creation of a fair, rational and efficient system of compensation among providers.

Recommendations: The Commission recommends that the annual USF report requirement be changed to a biennial report. This would remove an additional reporting requirement that does not appear to be essential. Keeping the same timeframe for the USF reporting requirement as the biennial infrastructure report and combining these reports into one publication would be an efficient way for the Legislature and the Commission to keep informed.

²⁰ On June 28, 2007, the Commission filed comments urging the Federal-State Joint Board on Universal Service to break the current gridlock on choosing and implementing serious USF reform. The Commission suggested the use of geographically limited pilot and trial programs and shadow billing as reasonable options to break that gridlock.