



House Revenue Committee

HB 2184

Testimony of Brant Wolf

Oregon Telecommunications Association

April 2nd, 2019

The Oregon Telecommunications Association (OTA) represents telecommunications carriers that provide service throughout Oregon.

For the reasons detailed in my written and oral testimony, The OTA requests that this Committee give positive consideration to HB 2184. HB 2184 eliminates existing language in ORS 759.425 (7) which provides an exemption to wireless carriers from contributing to the Oregon Universal Service Fund (OUSF). The proposed legislation will allow Oregon Universal Service Fund (OUSF) funds to support continued deployment and maintenance of high speed broadband capable networks in rural Oregon. OUSF support is specifically dedicated to rural Oregon, it does not provide support to urban areas.

HB 2184 would also create a broadband grant program utilizing OUSF funds. Historically, the legislature has appropriated general fund dollars to support individual requests for assistance related to broadband projects. These project requests receive very little scrutiny by the legislature prior to the appropriation and to date, little if any follow up. The OTA believes that creating a professionalized broadband grant program will help eliminate duplicative spending by carefully scrutinizing requests for funds.

OUSF support is not a windfall for carriers. The support, in part, is in return for the mandated obligation to serve (Carrier of Last Resort or COLR found in ORS 759.506) and is a replacement for implied support that was formerly received through access charges. Support is provided to the carriers and is based on information reported to OPUC Staff. Support is not speculative in any way and the fund is carefully managed by OPUC Staff. It is also important to note that before any rural carrier receives OUSF support, all other forms of federal support are taken into account by OPUC Staff.

The proposed legislation does not seek and will not result in a larger surcharge amount. In fact, the legislation will result in a lower surcharge amount on over one million Oregonians currently paying this fee on their telecommunications bills.

OTA members believe asking the wireless industry to contribute to the OUSF is fully justified. Wireless carriers utilize the landline network in order to complete calls, text messages, etc. Formerly, access charges were paid to use rural landline networks. That method of compensation has been changed to an explicit USF form of compensation that in Oregon, the wireless carriers have not had to pay for almost 20 years.

Accompanying this testimony are documents related to the amount of taxes assessed on wireless devices in Oregon as well as recent information on state USF generally. This information demonstrates a couple of facts for the Committee to consider. The first is that of the 42 states that have universal service funds, 30 assess the surcharge on wireless. The second is that in Oregon, wireless devices are dead last nationwide in terms of taxes, fees, etc.

Rather than submit pages of written testimony what follows are bullet points meant to provide background on the OUSF generally as well as the effect of the proposed legislation if signed into law. My hope is both to answer questions you might have and prompt further discussion.

- The OUSF was created by the Legislature in 1999 with an exemption for wireless carriers
- Current support amounts total approximately 28 million and will be reduced by OPUC stipulation to 21.6 million by 2021. Passage of the legislation would result in a fund capped at 40 million dollars
- The current surcharge rate is 8.5% and is capped at 8.5% by law. The surcharge is assessed on wireline telephone customers and certain VoIP providers, not wireless or video service
- The largest contributors to the fund are CenturyLink, Comcast and Frontier Communications
- Wireless providers use the landline network supported by the OUSF to complete calls, transmit data and other uses
- The surcharge does not apply to internet access service, only voice service

Thank you for your consideration of this testimony and HB 2184. When the appropriate time comes, the OTA urges this Committee to pass HB 2184 to the Ways and Means Committee with a positive recommendation.

Cellular Network

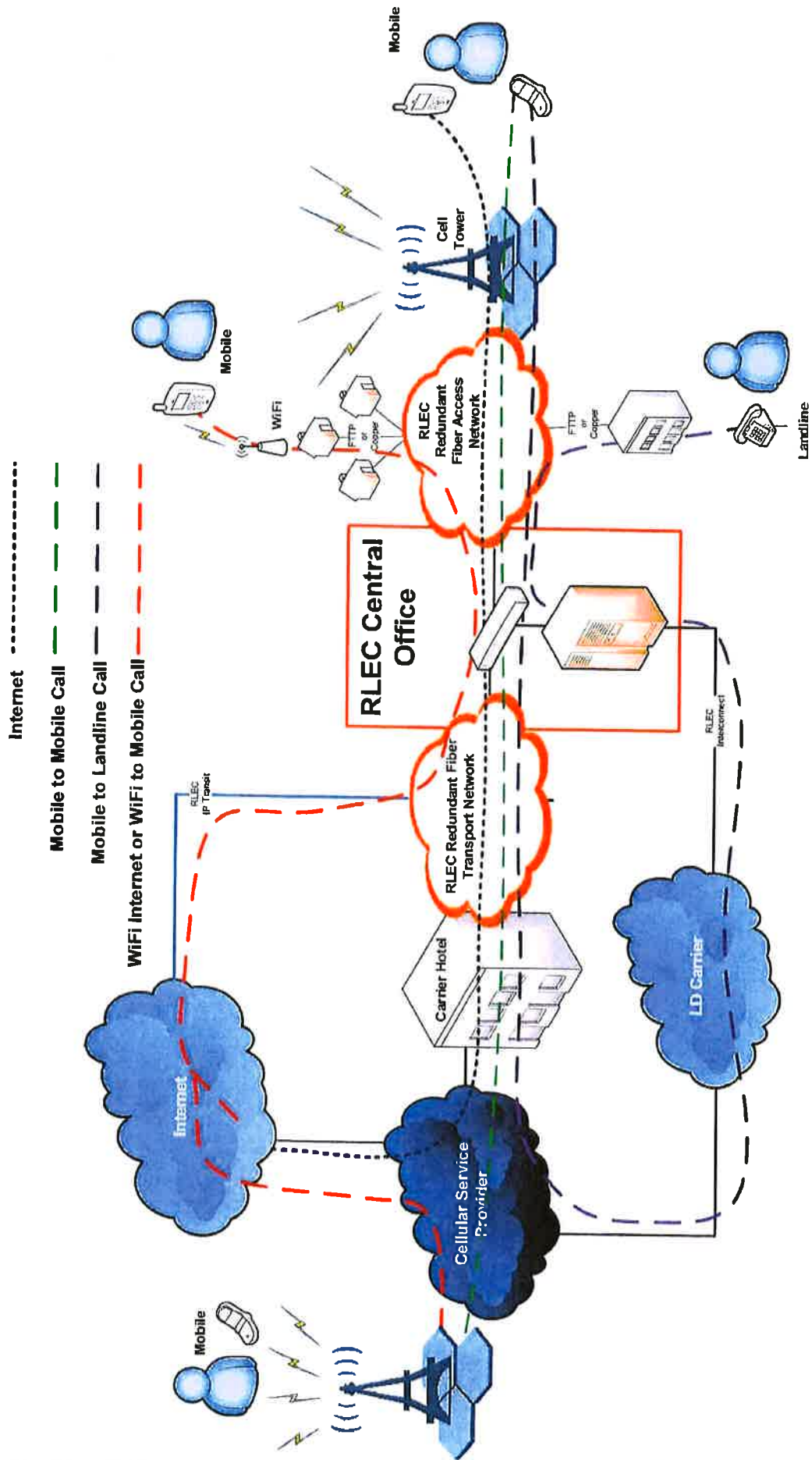


Table 2. Taxes, Fees, and Government Charges on Wireless Service, July 2018

Source: Methodology from COST, "50-State Study and Report on Telecommunications Taxation," May 2005. Updated July 2018 using state statutes, FCC data, and local ordinances.

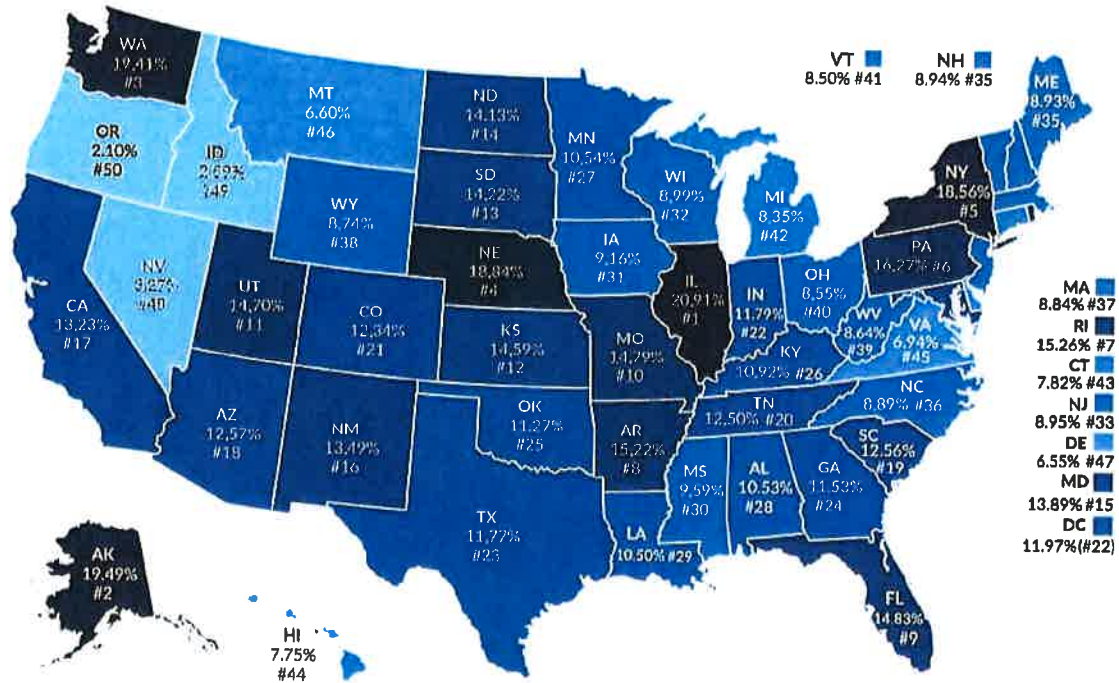
	2018 Wireless State-Local Rate	2018 Federal USF Rate	2018 Combined Federal/State/Local Rate
1 Illinois	20.91%	6.64%	27.55%
2 Alaska	19.49%	6.64%	26.13%
3 Washington	19.41%	6.64%	26.05%
4 Nebraska	18.84%	6.64%	25.48%
5 New York	18.56%	6.64%	25.20%
6 Pennsylvania	16.27%	6.64%	22.91%
7 Rhode Island	15.26%	6.64%	21.90%
8 Arkansas	15.22%	6.64%	21.86%
9 Florida	14.83%	6.64%	21.47%
10 Missouri	14.79%	6.64%	21.43%
11 Utah	14.70%	6.64%	21.34%
12 Kansas	14.59%	6.64%	21.23%
13 South Dakota	14.22%	6.64%	20.86%
14 North Dakota	14.13%	6.64%	20.77%
15 Maryland	13.89%	6.64%	20.53%
16 Puerto Rico	13.67%	6.64%	20.31%
17 New Mexico	13.49%	6.64%	20.13%
18 California	13.23%	6.64%	19.87%
19 Arizona	12.57%	6.64%	19.21%

20 South Carolina	12.56%	6.64%	19.20%
21 Tennessee	12.50%	6.64%	19.14%
22 Colorado	12.34%	6.64%	18.98%
District of 23 Columbia	11.97%	6.64%	18.61%
24 Indiana	11.79%	6.64%	18.43%
25 Texas	11.77%	6.64%	18.41%
26 Georgia	11.53%	6.64%	18.17%
27 Oklahoma	11.27%	6.64%	17.91%
28 Kentucky	10.92%	6.64%	17.56%
29 Minnesota	10.54%	6.64%	17.18%
30 Alabama	10.53%	6.64%	17.17%
31 Louisiana	10.50%	6.64%	17.14%
32 Mississippi	9.59%	6.64%	16.23%
33 Iowa	9.16%	6.64%	15.80%
34 Wisconsin	8.99%	6.64%	15.63%
35 New Jersey	8.95%	6.64%	15.59%
36 New Hampshire	8.94%	6.64%	15.58%
37 Maine	8.93%	6.64%	15.57%
38 North Carolina	8.89%	6.64%	15.53%
39 Massachusetts	8.84%	6.64%	15.48%
40 Wyoming	8.74%	6.64%	15.38%
41 West Virginia	8.64%	6.64%	15.28%

42 Ohio	8.55%	6.64%	15.19%
43 Vermont	8.50%	6.64%	15.14%
44 Michigan	8.35%	6.64%	14.99%
45 Connecticut	7.82%	6.64%	14.46%
46 Hawaii	7.75%	6.64%	14.39%
47 Virginia	6.94%	6.64%	13.58%
48 Montana	6.60%	6.64%	13.24%
49 Delaware	6.55%	6.64%	13.19%
50 Nevada	3.27%	6.64%	9.91%
51 Idaho	2.59%	6.64%	9.23%
52 Oregon	2.10%	6.64%	8.74%
Weighted Avg.	12.46%	6.64%	19.10%
Simple Avg.	11.44%	6.64%	18.08%

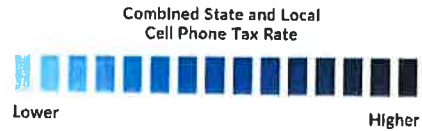
How High Are Cell Phone Taxes in Your State?

Taxes, Fees, and Government Charges on Wireless Service, July 2018



Note: The local tax rate is calculated as the average of the tax in the largest city and the capital city. DC's rank does not affect other states' rankings, but the figure in parentheses indicates where it would rank if included.

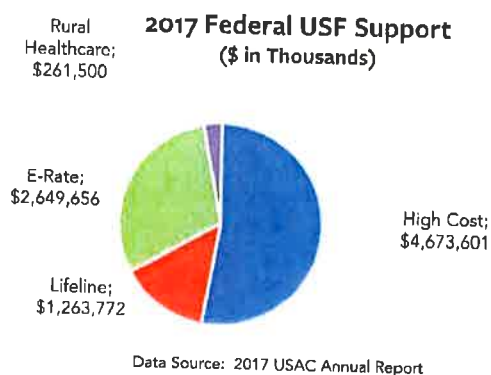
Source: Tax Foundation Calculations



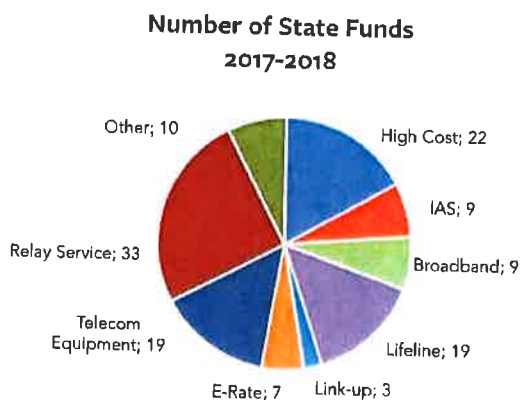
State Universal Service Funds: Updating the Numbers¹

Sherry Lichtenberg, Ph.D., Principal for Telecommunications Research and Policy

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.



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.

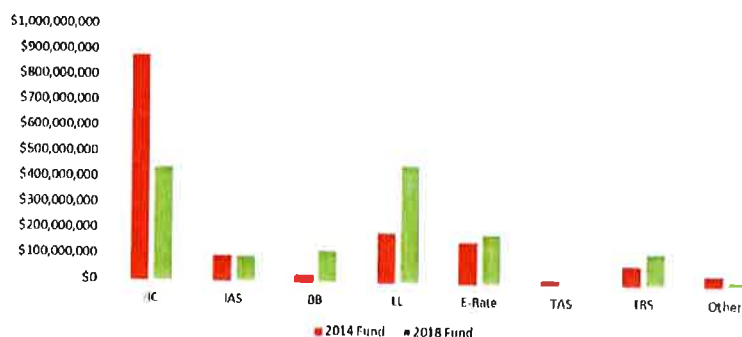
State universal service support totaled \$1.7B in 2017, with the monies distributed across a variety of areas, including high-cost support, intrastate access support (IAS), broadband support, lifeline support, and support for the hard of hearing, to name just a few. The largest state universal service 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 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 NRRRI'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.

About NRRRI



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

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

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

ORDER NO. 03-082

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BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1017

In the Matter of the Investigation into)
Expansion of the Oregon Universal Service) ORDER
Fund to Include the Service Areas of Rural)
Telecommunications Carriers.)

DISPOSITION: POLICY ISSUES ADOPTED FOR SERVICE AREAS
OF RURAL TELECOMMUNICATIONS CARRIERS.

ORDER SUMMARY

In this order, we bring rural telecommunications carriers into the Oregon Universal Service (OUS) program. In doing so, we take another step along the path of encouraging competition among carriers to provide a variety of local as well as toll services. Federal and state legislation mandates the opening of the national telecommunications network to competition. A necessary step in that process is the determination of appropriate costs, particularly those that apply to would-be new competitors. In this order we adopt a type of embedded cost methodology to determine the costs of rural carriers. The information and expertise required to determine costs by a forward-looking econometric model are not now available in usable form. We will address costing issues for rural carriers as information and expertise become available.

Historically, telecommunications rates have included many implicit subsidies of one service by other services. That approach is inconsistent with open competition. The natural tendency of new carriers is to provide service only for the most profitable services, leaving high-cost services to be provided by incumbent carriers. The universal service program is designed to reduce or eliminate implicit subsidies and instead use explicit subsidies for the services that need support. The subsidies will be portable among the carriers that provide the supported services.

Including rural carriers in the Oregon Universal Service Fund (OUSF) will bring all Oregon carriers into the universal service program. Until now, the OUSF has included only Oregon's two largest incumbent telecommunications carriers. With this order, the program can support a high-cost carrier, whether the carrier is large or small. The FCC has not adopted a final set of rules for determining the costs of rural carriers. We could wait until it adopts final rules, but we are moving forward now to make the