



HOUSE OF REPRESENTATIVES

January 13, 2020

House Revenue Committee

January Legislative Days Testimony from Rep Marsh:

Thank you, Chair Nathanson and members of the committee. I'm grateful for this opportunity to talk about Oregon's universal service fund and the need for modernization.

I want to start the introduction to Oregon's universal service fund with a slice of telecommunications history. Contemporary telecommunications regulation traces its beginnings to the Communications Act of 1934, which established the concept of universal service – the principal that all Americans should have access to communications services. The act described a nationwide, regulated telecommunications network...available to all the people of the United States...with adequate facilities at reasonable charges...through the use of wire and radio communications. Carriers were required to serve anyone who asked.

That worked pretty well for decades, until deregulation of telephone service began to threaten the provision of services to customers who cost more than others. In response, many states, including Oregon, established carrier of last resort obligations, or COLR. These obligations require certain telecommunications companies to continue to serve all customers in their service territory, even those in the most remote corners. Recognizing that the COLR obligation-imposed costs that couldn't be recouped, in 1999 the Oregon legislature established the universal service fund, which provides funding via a monthly surcharge on landlines to support local telephone companies that provide basic telephone service in high cost rural areas of the state. Revenue from the universal service fund supports the maintenance of infrastructure that is used to complete calls made from both landlines and cell phones, although cell phone users do not currently support the fund. Three years ago, the legislature approved use of the fund by carriers of last resort for broadband service, where applicable.

The Public Utility Commission sets the rate, manages the fund, and dispenses money from the universal service fund in a structured regulatory framework. Bryan Conway is here from the PUC if you have specific questions about the PUC's role or the fund's regulatory structure.

As I noted, the universal service fund initially was structured as a fee on landlines. It will not surprise you to learn that landlines have declined precipitously over the last 20 years. However, the obligation to serve high cost residents, and the need to maintain infrastructure used for all calls, cell or landline, has not changed. The fund rate is now set at 8.5%, the maximum allowed by law, and generated about \$28 million in the most recent year on record. This represents a significant reduction from the fund's maximum revenue of \$50 million generated through a 5.5% surcharge in 2002. At the same time, the state's telecommunications needs are more important than ever.

Recognizing the need to modernize the universal service fund, along with others I will be introducing the Rural Telecommunications Investment Act in the 2020 session. The Act, introduced in the 2019 session as HB 2184, and currently known as LC 1, takes the next step to modernize the universal service fund by making two changes:

First, the bill will expand the universal service fund to include cell phones and voice over internet protocol providers, also known as VOIP, in the universal service fund surcharge.

Expanding the mix of providers that contribute to the fund reflects consumer usage and is consistent with practice across the nation. Forty-two states provide universal service support; thirty include cell providers in their fund, and 28 include VOIP providers. Data from the Tax Foundation indicates that Oregon is last among 50 states in taxes and fees imposed on cell phone providers.

The surcharge on cell phones will be applied to just that portion of the bill that addresses intrastate voice calls. It will not apply to internet charges, texts, or inter-state voice. Costs per cell phone are estimated at \$4/year.

The second change proposed in the Rural Telecommunications Investment Act is creation of a broadband fund supported through revenues generated by the universal service fund. Over the past 15 years, broadband has joined traditional voice service as essential communications technology required for the 21st century. The FCC recognized this shift 20 years ago and has funded broadband services as part of its universal service fund since the passage of the 1996 Telecommunications Act.

The new Broadband Fund will support operation of the Broadband Office, established in 2019's House Bill 2173. Revenues will also be distributed via grants or loans to unserved or underserved areas of the state. The fund will be technology and provider neutral, supporting planning, technical assistance or infrastructure projects that best fit the needs of individual communities. Priority will go to school districts and public libraries, and the fund will provide the state match to be used to attract 90% federal funding our Connecting Schools Fund. The Broadband Fund will sunset in 2030.

And to be clear – we are a state with significant broadband service gaps. Despite the role that broadband plays in nearly every aspect of our lives, at least 400,000 Oregonians lack any or adequate internet. The numbers are likely much higher, because one of our challenges is the lack of accurate mapping. Two dozen school districts (more than 50 schools) across the state have no or insufficient broadband. And 37% of Oregon's public libraries fail to meet the FCC's standards for residential services. Since our public libraries are often the place we go to access technology, that's disturbing.

Inadequate service is an economic issue, because broadband applications are ubiquitous across business sectors. Schools rely on the internet for research, digital content, and testing. Our agricultural sector has increasingly turned to broadband-based strategies to increase yields and spur efficiency. Telehealth holds great promise to address healthcare outcomes and costs.

And broadband is fundamental to generational transition in many of our far-off regions. Anecdotal experience – as well as real research – indicates that young people settle in communities where technology is available.

Clearly, broadband is our most powerful economic development tool and critical to every community across the state. The broadband fund anticipated in the Rural Telecommunications Investment Act will allow the state to seed critical projects that may also leverage funding from federal or private sources.

And since we are the Revenue Committee, let me now turn to the revenue impacts.

RTIA caps the traditional universal service fund at its current level of \$28 million and the new broadband fund at \$5 million, generating maximum revenues of \$33/million year. The addition of cell and VOIP users significantly broadens the universal service fund base, enabling us to decrease the current surcharge. Accordingly, the bill caps the surcharge at 6%, down from the current maximum of 8.5%.

Please note that the PUC is planning to open a docket that is likely to mandate the participation of VOIP providers in the fund, with or without legislation. However, the 6% cap in the bill will decrease costs that would otherwise be allocated to both VOIP and landline users.

And it is important to understand that the 6% surcharge is a cap, not a guarantee. The PUC will continue to regulate the universal service fund in accordance to all stipulations and agreements now in place.

If revenue needs change in either the base fund or the broadband fund, the surcharge will be decreased in the regulatory process. The PUC will monitor the fund and adjust the surcharge accordingly so that revenues never exceed the goal.

Colleagues, since 1934 we've agreed that all Americans should have access to telecommunications services. With the modernization of our universal service fund Oregon will reaffirm our state's commitment to ensure that all residents have access to vital services.