



Control Number: 50796



Item Number: 34

Addendum StartPage: 0

Public Utility Commission of Texas

Commissioner Memorandum

2020 JUL 30 AM 11:27

RECEIVED
PUBLIC UTILITY COMMISSION

TO: Commissioner Arthur C. D'Andrea
Commissioner Shelly Botkin

FROM: Chairman DeAnn T. Walker *DTW*

DATE: July 30, 2020

RE: July 31, 2020 Open Meeting – Item No. 25
Project No. 50796 – *Review of TUSF Rate*

All of us have received several letters from legislators related to the Texas Universal Service Fund. Today, I have sent letters to each of those legislators. For your information, I am attaching a representative copy of the letters.

DeAnn T. Walker
Chairman



Greg Abbott
Governor

Public Utility Commission of Texas

July 30, 2020

The Honorable Charles Perry
Capitol Office
Post Office Box 12068
Austin, Texas 78711-2910

Dear Senator Perry:

Thank you for your letter dated July 14 and 28, 2020 and our telephone conversation in which you expressed concerns related to the Texas Universal Service Fund. I sincerely appreciate your concern on behalf of your constituents. I have attached a document to provide some relevant information related to the fund that I hope will help clarify the issues faced by the Public Utility Commission of Texas on this issue. I believe that there are some fundamental policy issues regarding the fund and its use that should be addressed in the 2021 legislative session.

In order to maintain the solvency of the Texas Universal Service Fund, the Public Utility Commission of Texas would have to collect an additional \$100 million or a total of \$200 million annually. More specifically, the proposal to raise the Texas Universal Service Fund assessment from the current 3.3% to 6.4% would impose a \$100 million annual fee increase on the citizens of Texas, more than doubling the fees already being collected. During the current times of COVID19-related economic hardship, I have serious concerns with a state agency imposing an additional \$100 million fee on the citizens of Texas outside of the legislative process.

The decisions that I have had to make on this issue have been very difficult, and I have not made them without listening to everyone affected. I am open to considering other solutions to the problem, but I have serious reservations on imposing an additional \$100 million fee on the citizens of Texas at this time.

Please let me know if you would like to further discuss the issues. You can reach me at 512-936-7015.

Yours very truly,

A handwritten signature in black ink that reads "DeAnn T. Walker".

DeAnn T. Walker
Chairman



Texas Universal Service Fund

Background

The statutory purpose of the Texas Universal Service Fund (TUSF) is to enable telecommunication companies to provide **basic local telecommunication service** at reasonable rates in high cost **rural areas of the state**. The TUSF provides support to companies over a large portion of the state. The attached map shows which counties have a telecommunication company that is receiving TUSF support for some part of that county. Of 254 counties in Texas, only 21 counties are currently not receiving some measure of support from the TUSF: Aransas, Brazos, Collin, Crane, Dallas, Ector, El Paso, Grayson, Gregg, Jasper, Nacogdoches, Nueces, Orange, Rockwall, Refugio, San Patricio, Tarrant, Travis, Upton, Victoria, and Winkler. Telecommunication companies in such counties as Denton, Fort Bend, and Harris receive TUSF subsidies under the current statutory provisions.

State law does not allow the TUSF to fund internet service. While many companies provide both phone and internet services, companies are not allowed to subsidize internet service on one side of their company with TUSF funds from the telephone side of their company. Broadband services such as distance learning, telemedicine, and remote work should not be affected by changes to the TUSF.

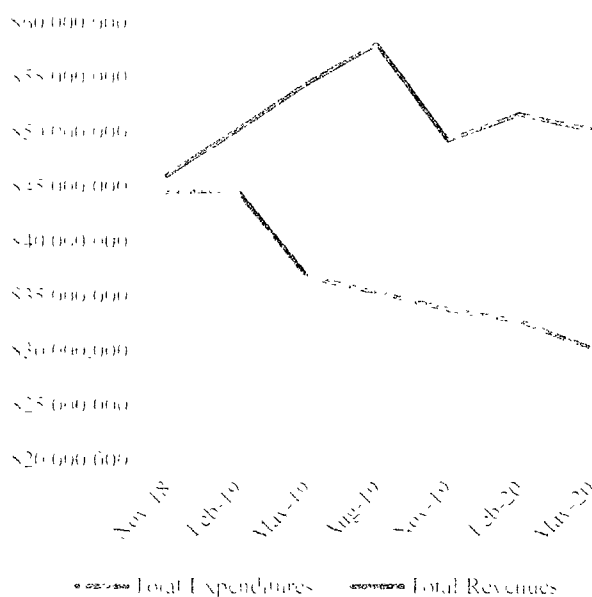
In addition to subsidizing basic local phone service in high-cost rural areas, the TUSF also provides assistance for low-income or disabled customers. This assistance accounts for approximately 10% of the TUSF expenditures and can easily be paid under the current funding mechanisms.

The TUSF is funded by a fee of 3.3% on the intrastate voice portion of each customer's bill. Landline and cell phone customers pay this fee. Voice over internet protocol (VOIP) and cable telephone do not pay the fee, nor is the fee assessed against the data portion of a cellular phone bill.

Total revenues from the TUSF have steadily declined since 2006, but fell abruptly in the second half of 2019. At that time, some cellular phone companies reassessed how much of their customer usage was from data versus voice. They reallocated a larger portion of each customer's bill to data and a smaller portion to voice. Because the voice portion of the bill was smaller, the amount paid to the TUSF decreased.

Annually, the PUC collects approximately \$100 million for the TUSF. In the last fiscal year, the TUSF disbursed approximately \$198 million. Therefore, in order to maintain the solvency of the TUSF, the PUC would have to collect an additional \$100 million or a total of \$200 million annually from Texas citizens.

TUSF Quarterly Revenues and Expenditures

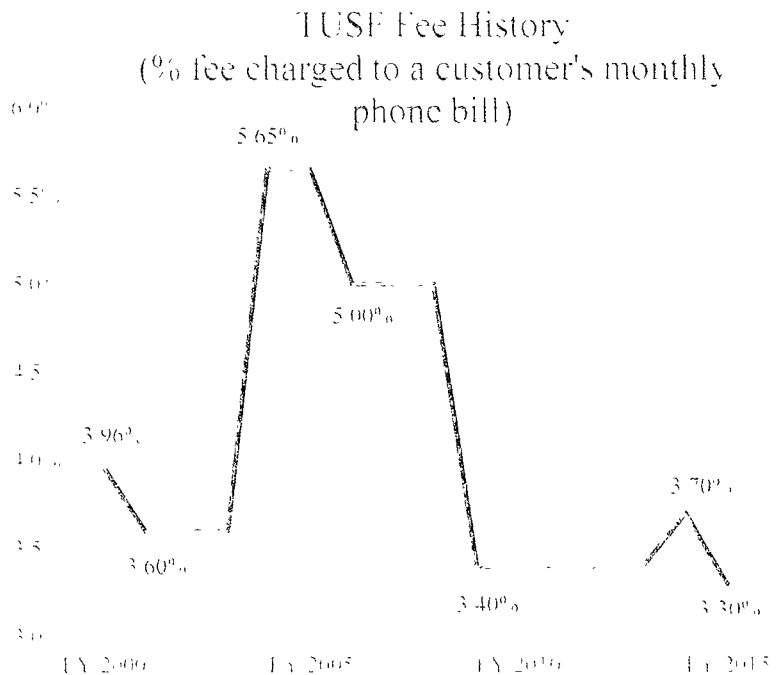


Texas Universal Service Fund

Options to Address Shortfall

Three options have been proposed by telecommunication companies to address the impending shortfall of the TUSF.

- **Increase the fee.** The Commission would have to increase the fee from 3.3% to a minimum of 6.4%. In the history of the fee, it has never been higher than 5.65%. This change would increase revenue, but would not stop the overall decline in revenue due to line loss from people discontinuing their home phone service and relying only on a cellular phone. Increasing the fee would also not protect against the current cause of the revenue decline, cell phone companies changing how much of each customer's bill is data versus voice. Projections show that the 6.4% increase would match revenue to expenditures only through August 2021 and that an additional increase would be needed after that time.



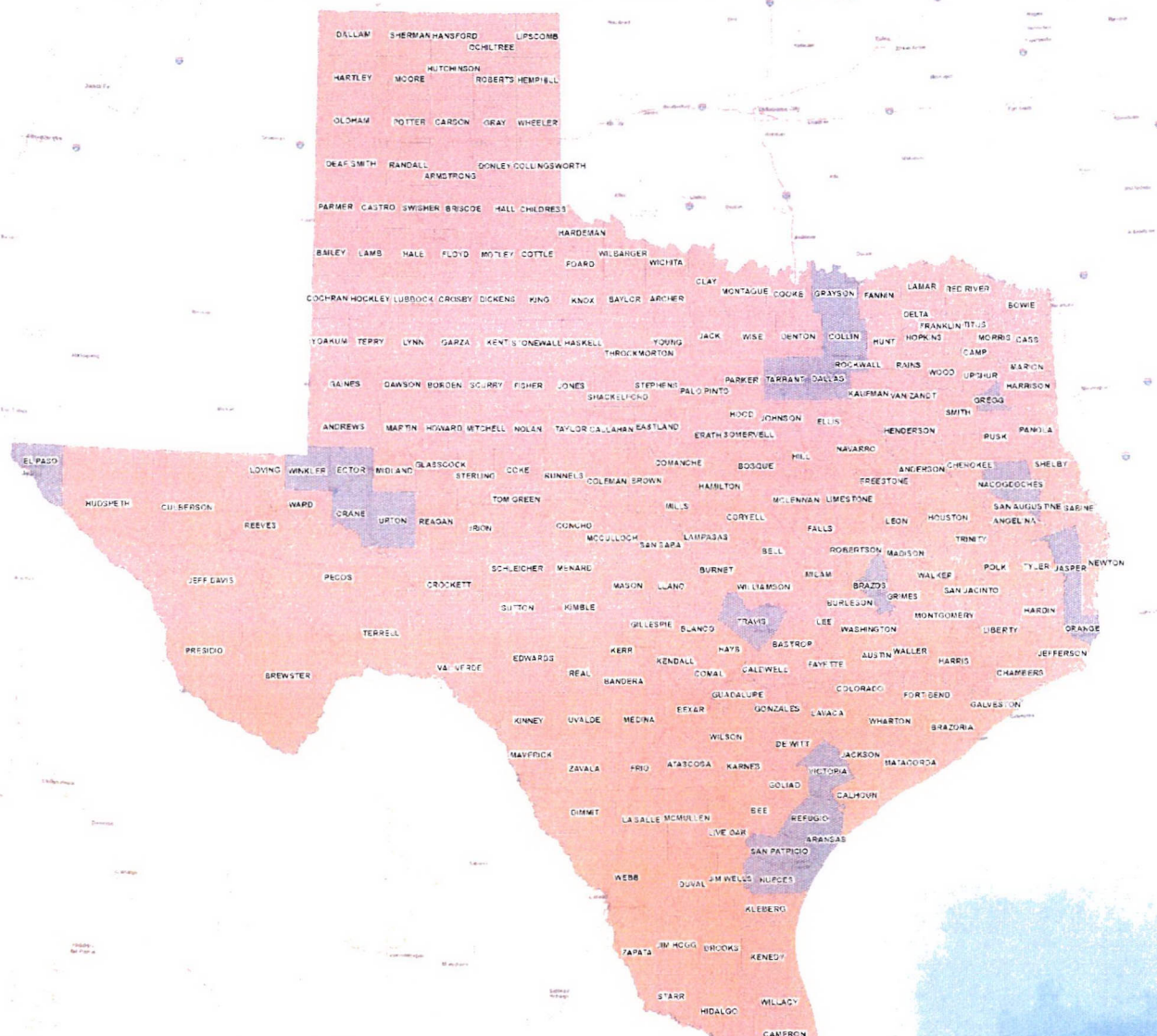
- **Change the fee to a connection based assessment.** Currently, the fee is assessed as a percentage of a customer's bill; in other words, it is a revenue-based assessment. The telecommunication companies have proposed to instead charge each customer a fixed fee or a connections-based assessment. There is not a consensus on how the customer connections should be defined; therefore, there are no projections on the fees that would have to be collected from consumers in Texas. However, the fee would have to be sufficient to cover the shortfall.

The telecommunication companies have advocated that the increase in the fee would impact customers by approximately \$0.50 a month. If the assertions are correct, then the additional tax impacts across the State of Texas would be approximately \$100 million annually.

- **Require VOIP customers to begin paying the fee.** In 2011, the PUC rejected the assessment of the TUSF on VOIP customers. There is disagreement among telecommunication providers on whether the PUC has the statutory authority to assess the fee on VOIP customers. In addition, legislators stated at the time that this issue is one of policy for the legislature to determine.

Texas Universal Service Fund

High-Cost Support by County in 2020



233 Counties with High-Cost Support
 21 Counties with no High-Cost Support

