

# Overview of the Kansas Universal Service Fund

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Before the Statewide Broadband Task Force, Subcommittee 3

July 17, 2019



# Universal Service

Both the Kansas Telecommunications Act of 1996 and the Federal Telecommunications Act of 1996 contain provisions to develop universal service funds to maintain and enhance universal service.

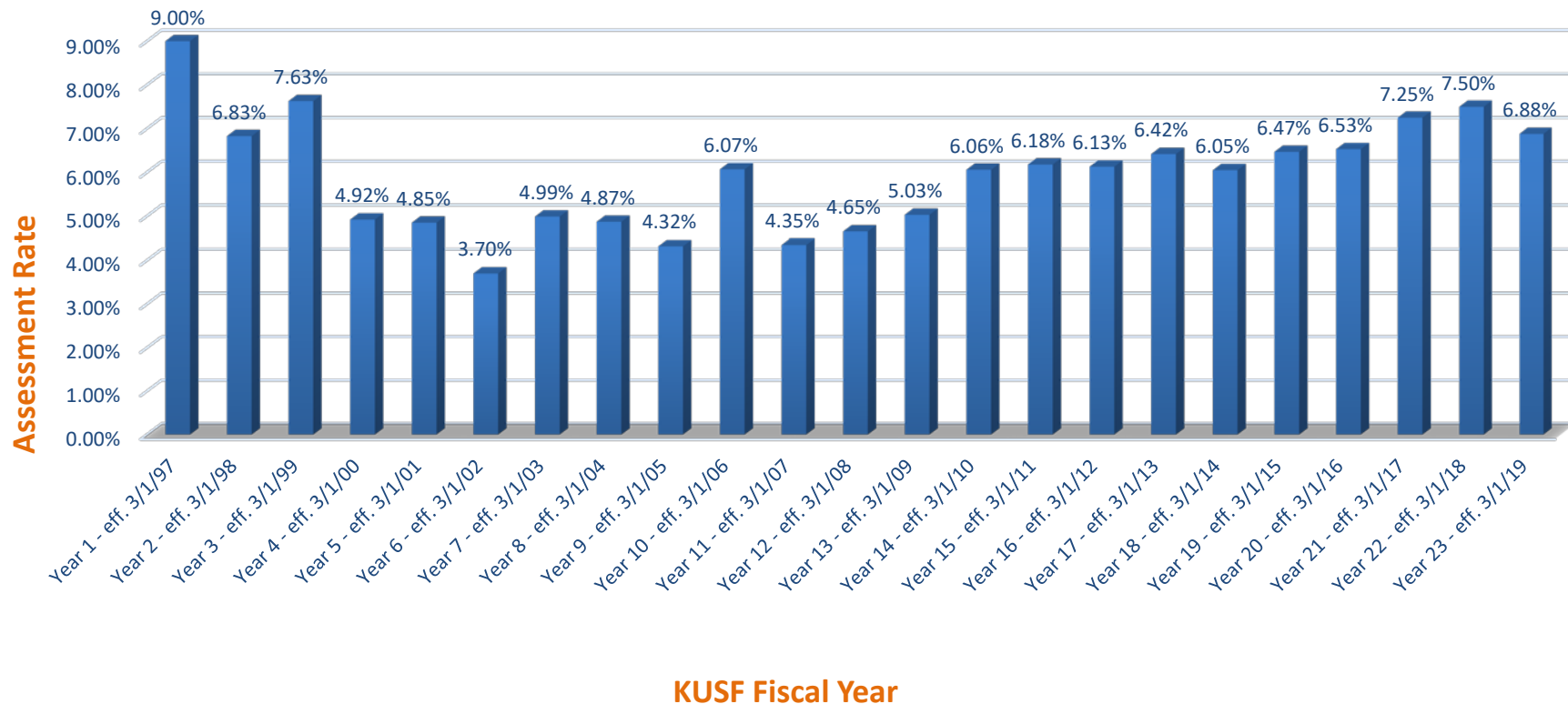
- Federal Universal Service Fund (FUSF) supports voice and broadband (12/2016).
- Kansas Universal Service Fund (KUSF) supports voice only.

# Kansas Universal Service Fund

- KUSF was created by the KCC and implemented March 1, 1997, as required by K.S.A. 66-2008.
- Purpose of the KUSF is to assure quality services are made available to all Kansans at affordable rates.
- Pursuant to K.S.A. 66-2008(a), every telecommunications carrier, telecommunications public utility, wireless telecommunications service provider and interconnected Voice over Internet Protocol (VoIP) provider that provides intrastate telecommunications services must contribute to the KUSF. The assessment may be passed through to customers, but carriers are not required to do so. Any contributions in excess of distributions collected in any reporting year shall be applied to reduce the estimated contribution that would otherwise be necessary for the following year.
- Current KUSF assessment rate is 6.88% on intrastate telecommunications revenues (March 2019 – Feb. 2020).
- The legislature did not establish an “end date” for the KUSF.

# KUSF Assessment Rate

## History of KUSF Assessment Rate

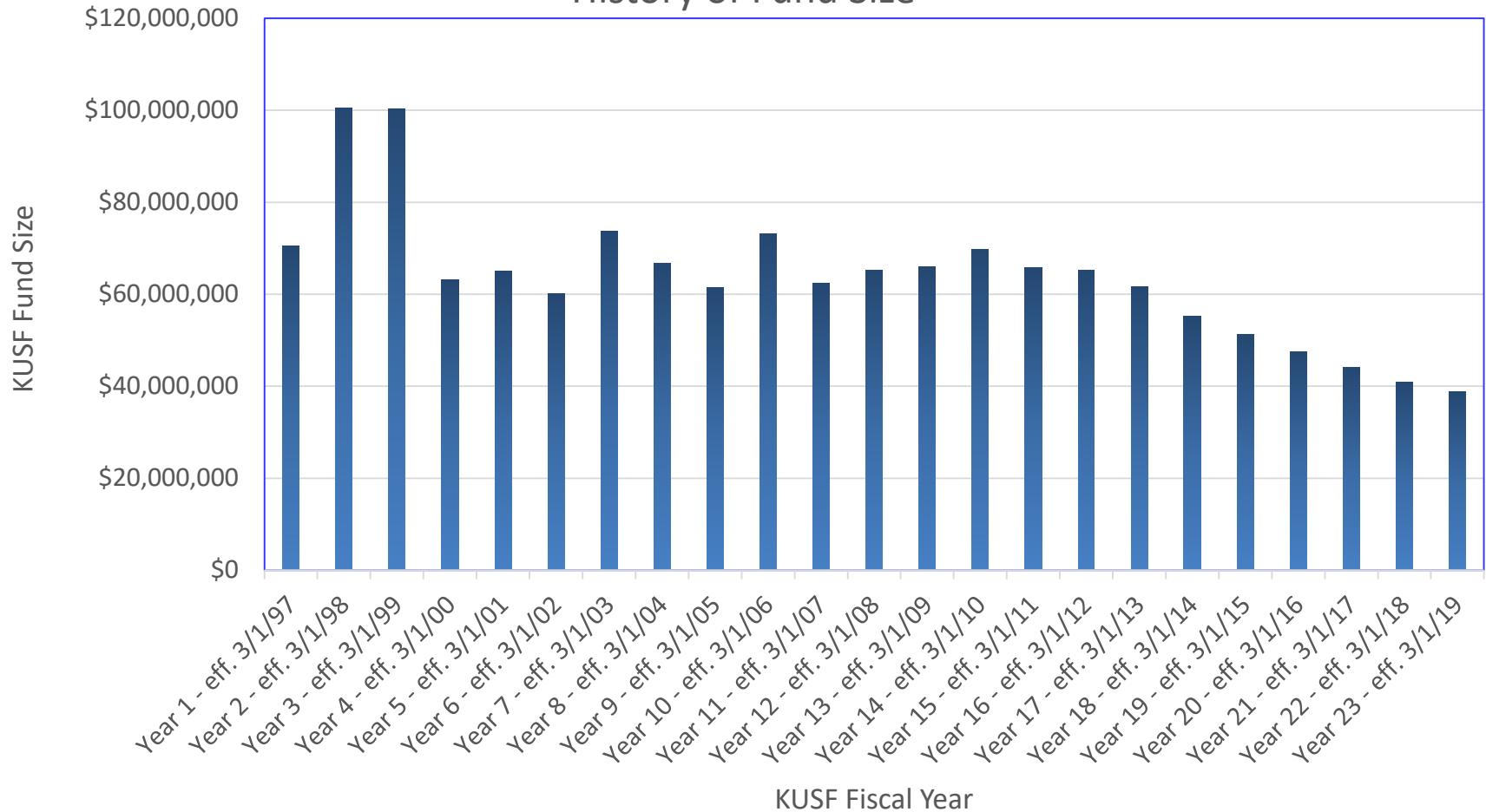


# Assessment Rates

- Federal USF Assessment Rate – 24.4% (3<sup>rd</sup> Quarter)
- KUSF Assessment Rate – 6.88% of net retail revenue
- States with similar USF rates:
  - Nebraska - 6.95% for business, residential \$1.75 per connection
  - New Mexico - \$1.24 per residential & business connection
  - Oklahoma – 6.28% of total intrastate retail revenue (7/1/2019)
  - Oregon - 8.50% of gross retail revenue

# KUSF Fund Size

History of Fund Size

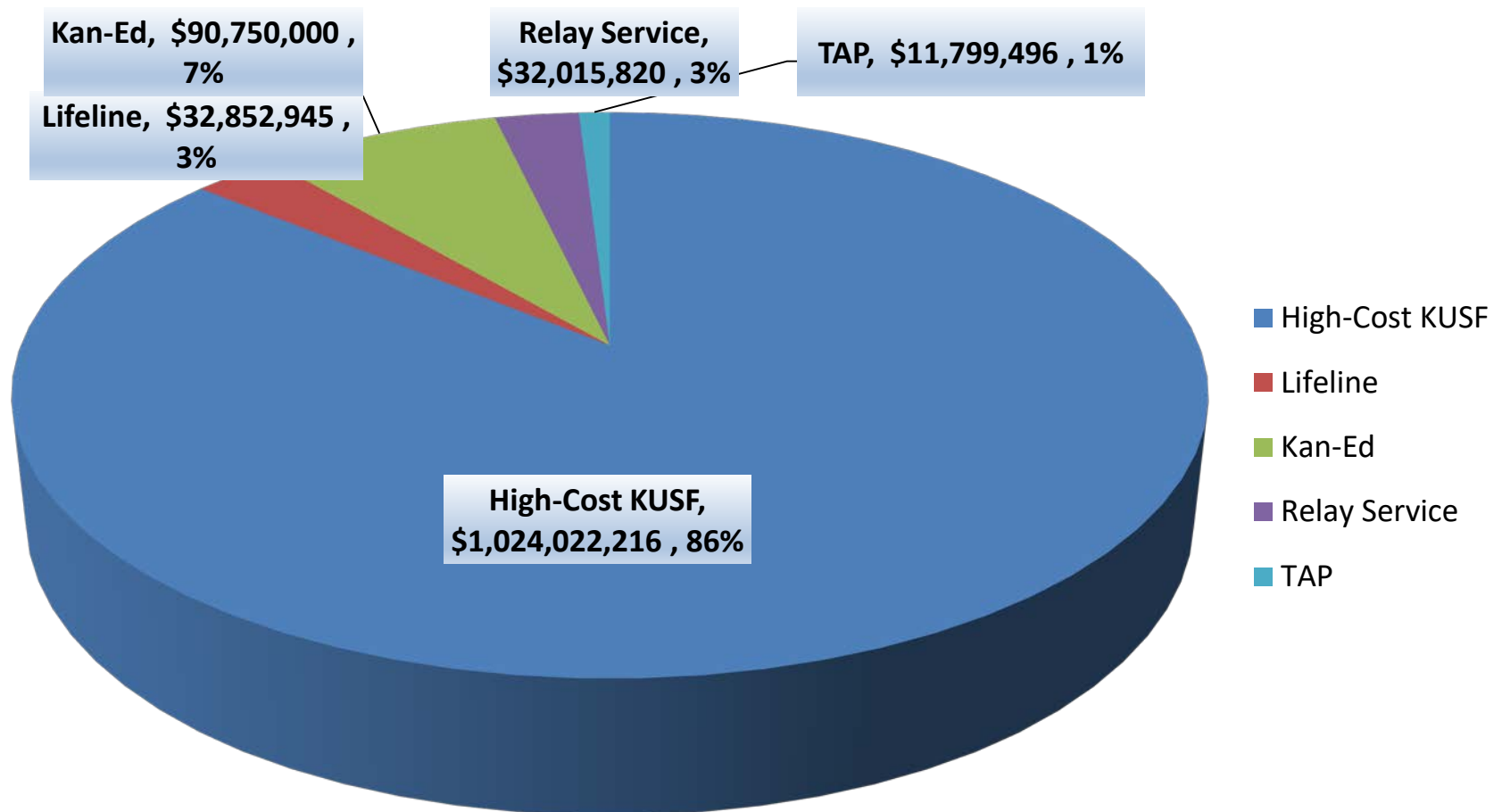


# Kansas Universal Service Fund

The KUSF has funded five programs, which are:

- High-Cost
- Lifeline (low income)
- Telecommunications Relay Service
- Telecommunications Access Program (TAP)
- Kan-Ed (No Longer Funded)

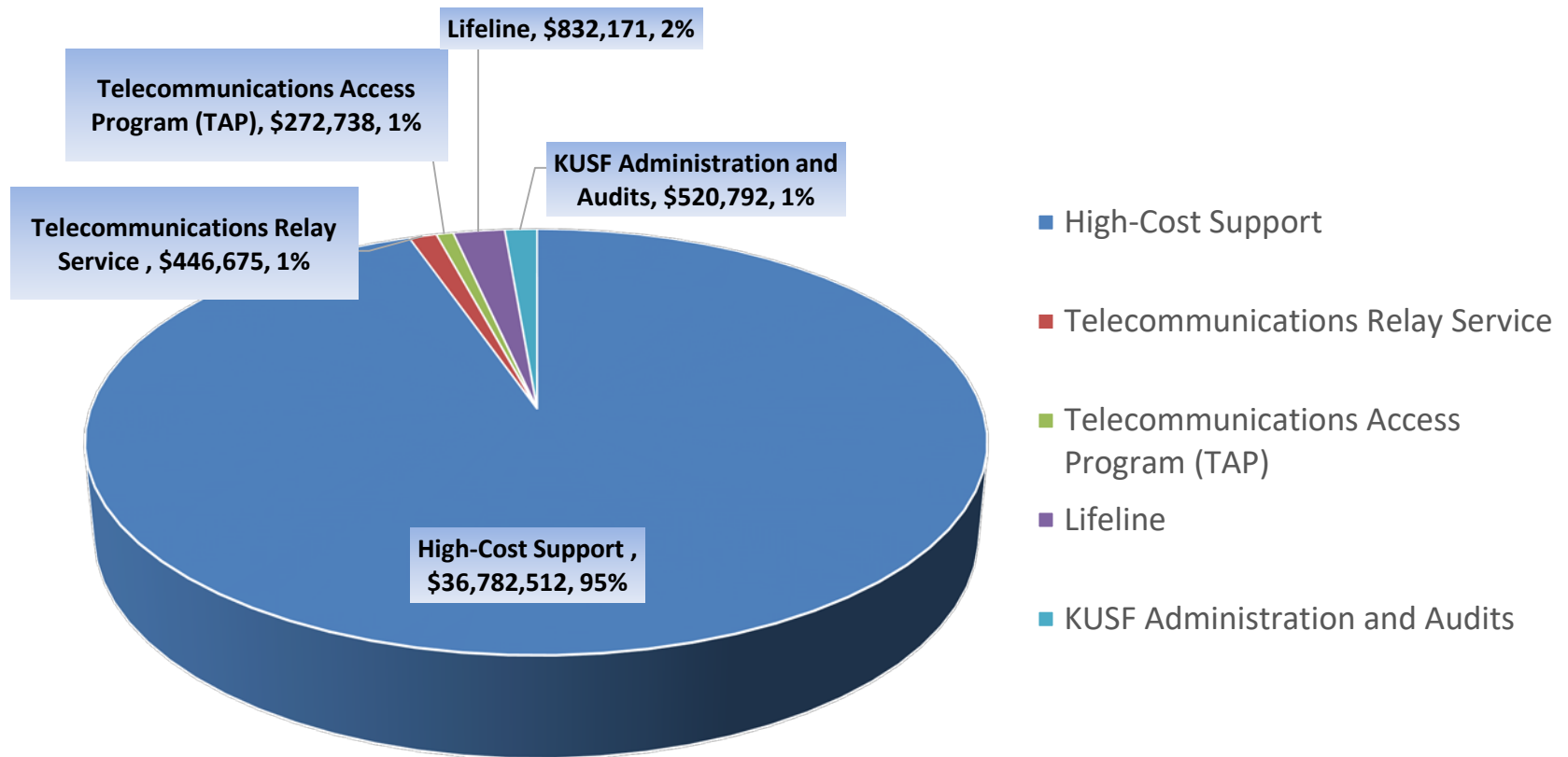
# Total KUSF Support by Program (March 1, 1997 – February 28, 2019)





# Expected KUSF Expenditures for KUSF Fiscal Year 23

March 1, 2019-February 28, 2020



# Kansas Universal Service Fund

## High-Cost Support

- Initial KUSF high-cost support amount available for incumbent local exchange carriers (LECs) was equal to the revenue lost when access rates were reduced to match interstate rates, were implemented pursuant to state statute (K.S.A. 66-2005). (Access charges are payments made between carriers to complete calls.)
- While the initial amount of KUSF support was set to replace lost access revenues, on a revenue-neutral basis and not necessarily cost based, K.S.A. 66-2008(c) requires that the Commission periodically review the KUSF to determine if the cost to provide service justifies modification of support.

# Kansas Universal Service Fund

## High-Cost Support – Price Cap Carriers

- Implementing a cost-based KUSF – Price Cap Carriers
  - FCC determined that Federal USF support for price cap carriers, such as AT&T & CenturyLink, should be based on the cost to provide service if the network were built using current technology rather than based on a company's historical costs. The FCC developed a model to determine the forward looking costs of providing service and Federal USF support.
  - The KCC followed suit and adopted a KUSF high-cost model for AT&T & CenturyLink.
  - Pursuant to HB 2201 (K.S.A. 66-2008(c)(5)), AT&T ceased receiving KUSF support January 1, 2014.
  - CenturyLink continues to receive model-based support.

# Kansas Universal Service Fund

## High-Cost Support – ROR Carriers

- Cost-based KUSF – Rate of Return Carriers
  - Rate of Return (ROR) carriers' support is based on each company's embedded (historical) costs (K.S.A. 66-2008(e)).
  - ROR carriers' support capped at \$30 million (K.S.A. 66-2008(e)(3)).
  - Completed 55 ROR carrier audits, including 2<sup>nd</sup> and 3<sup>rd</sup> audits of some carriers.
  - Golden Belt Telephone filed a request for an increase of approximately \$2.6 million in its KUSF support on June 5, 2019. (KCC Order due by Jan. 31, 2020). Full request = over \$30 million cap.

# Kansas Universal Service Fund

## ROR Audit Overview

### ➤ Timeline of audits

- 240 day timeframe under which Commission makes its determination
- Based on a filed Procedural Schedule

### ➤ Staff and consultants sponsor testimony over various topics

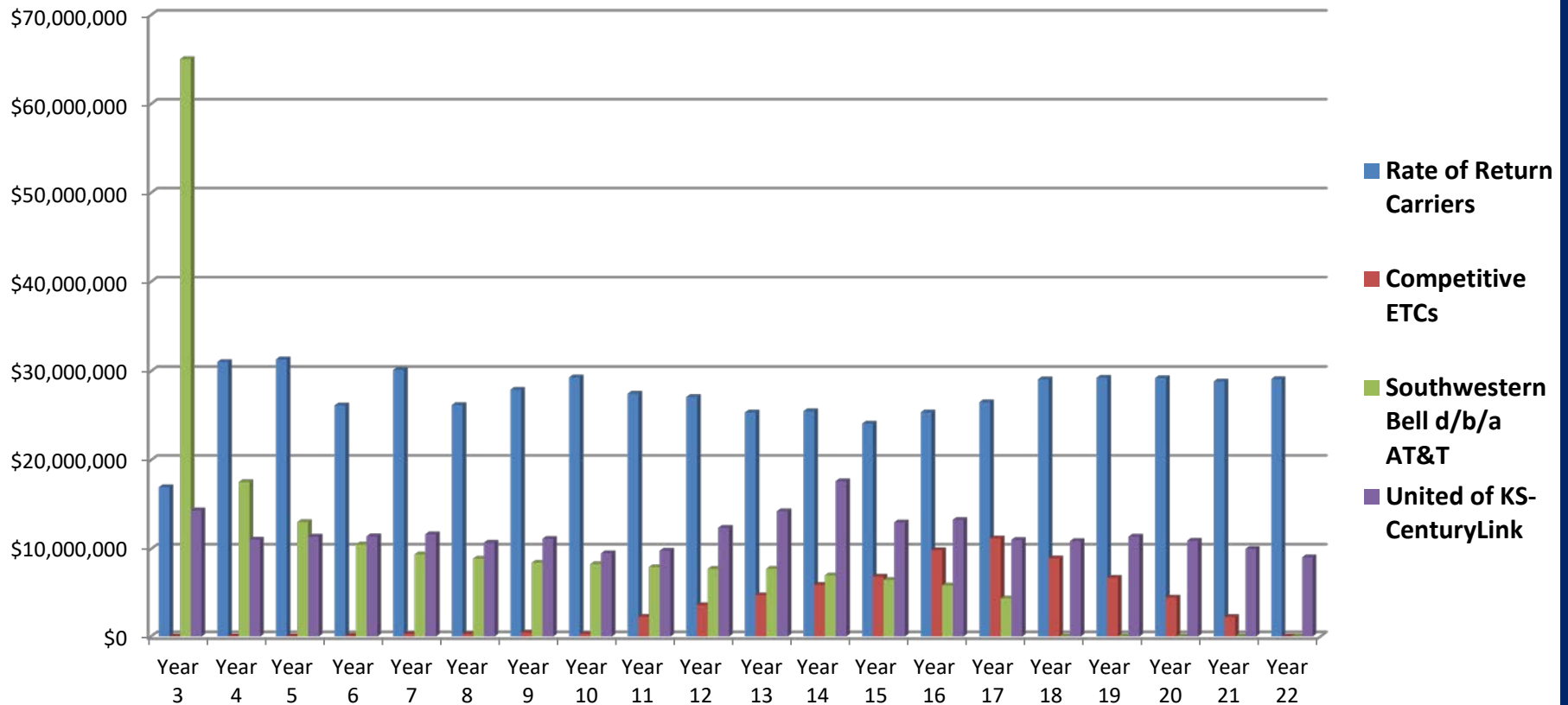
- Separations (Interstate vs. Intrastate)
- Regulated and non-regulated allocations
- Affiliate transactions
- Rate base and income statement adjustments
- Capital Structure, cost of long-term debt, and return on equity

# Kansas Universal Service Fund

- All KUSF Eligible Telecommunications Carriers (ETCs) are *eligible* to receive support from the KUSF. This includes 37 incumbent carriers and 8 competitive ETCs.
- Pursuant to the Identical Support Rule, the competitive ETCs **received** the same amount of per-line support as the incumbent local exchange carrier.
- Pursuant to HB 2201 (K.S.A. 66-2008(c)(4)):
  - the KCC capped all competitive ETC high-cost support and discontinued the use of the identical support rule as of March 1, 2013; and
  - Competitive ETC support was phased-out in annual equal increments over 5 years, beginning March 1, 2014. Competitive ETC support eliminated March 1, 2018.

# Kansas Universal Service Fund

## KUSF High-Cost Support Received by Year



KUSF Fiscal Year (March – February)

# Kansas Universal Service Fund Complexities/Considerations

- Interstate vs. Intrastate
  - Recovery
- Structure of Fund
  - Funding level
  - New audits of all ROR Carriers?
  - CenturyLink's support is currently model-based
  - Funding mechanism for competitive ETCs?



# Thank you. Questions?

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