

SENATE BILL REPORT

SB 6572

As Reported by Senate Committee On:
Ways & Means, February 26, 2014

Title: An act relating to the expenditure limit for the state universal communications services program.

Brief Description: Concerning the expenditure limit for the state universal communications services program.

Sponsors: Senator Braun.

Brief History:

Committee Activity: Ways & Means: 2/25/14, 2/26/14 [DPS].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 6572 be substituted therefor, and the substitute bill do pass.

Signed by Senators Hill, Chair; Honeyford, Capital Budget Chair; Hargrove, Ranking Member; Keiser, Assistant Ranking Member on the Capital Budget; Ranker, Assistant Ranking Member on the Operating Budget; Bailey, Becker, Billig, Braun, Conway, Dammeier, Hasegawa, Hatfield, Hewitt, Kohl-Welles, Padden, Parlette, Rivers, Schoesler and Tom.

Staff: Sherry McNamara (786-7402)

Background: Federal Universal Services Fund. Universal services is the long-standing policy of the United States and the state of Washington to enable everyone, regardless of location, to have access to affordable high-quality telephone and, more recently, internet services.

In 2011 the Federal Communications Commission (FCC) made changes in access to the Federal Universal Service Fund's High Cost Program. The High Cost Program was created to keep telephone service affordable for customers in areas where, absent a subsidy, telephone service would be more expensive than the national average. Fees, surcharges, and subsidies supported telephone companies in rural and remote areas. The FCC approved a six-year transfer process to transition from the High Cost Program to the Connect America

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Fund for broadband internet expansion, that will end the High Cost Program subsidies in 2018.

Incumbent Local Exchange Carriers (ILECs). Small, rural wire line phone companies, known as rural ILECs, are experiencing a reduction of their revenues because of the regulatory changes made by the FCC in 2011. After conducting earnings reviews of ILECs, the Utilities and Transportation Commission (UTC) concluded that in order to address the declining financial condition of the state's small telephone companies and the potential for rate increases and service disruption to telecommunications consumers in rural areas, a temporary targeted universal service fund should be established.

Temporary State Universal Communications Service Program. In 2013 the Legislature enacted Chapter 8, Laws of 2013 2nd sp session (2E2SHB 1971), a comprehensive communications services bill that affected a number of taxes on landline and wireless telephone service. The state and local retail sales and use tax exemption for residential telephone services was eliminated. Excise taxes funding the Washington Telephone Assistance Program and Telecommunications Relay Service were eliminated. A state Universal Communications Services Program (Program) was established to begin on July 1, 2014, and expire on July 1, 2019.

The Program is funded by legislative appropriations to the Universal Communications Services Account. The maximum amount appropriated each year cannot exceed \$5 million. The UTC operates the Program account, establishes benchmarks to calculate distributions and adopts rules, including eligibility criteria for receiving a distribution.

Account Distributions. A communications provider is eligible to receive distributions from the account if:

- the communications provider has fewer than 40,000 access lines in Washington;
- the customers of the provider are at risk of rate instability or service interruptions absent distributions to the provider; and
- the provider meets any other criteria established by the UTC.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (Recommended Substitute): An intent section clarifies that there is a need greater than \$5 million for rural ILECs in the state.

The expenditures from the Program must be \$5 million per fiscal year, less the UTC's administrative costs.

Appropriation: None.

Fiscal Note: Requested on February 25, 2014.

Committee/Commission/Task Force Created: No.

Effective Date: The bill takes effect on July 1, 2014.

Staff Summary of Public Testimony: PRO: The proposed substitute clarifies the need is greater than \$5 million and that \$5 million must be spent each year.

OTHER: The proposed substitute is an agreement with stakeholders and the UTC is happy with the bill. The UTC will not need any additional money for rulemaking.

Persons Testifying: PRO: Betty Buckley, WA Independent Telecommunications Assn.

OTHER: Ann Rendahl, UTC.