

## DECISION MEMORANDUM

**TO:** COMMISSIONER KJELLANDER  
COMMISSIONER RAPER  
COMMISSIONER ANDERSON  
COMMISSION SECRETARY  
LEGAL  
WORKING FILE

**FROM:** DANIEL KLEIN

**DATE:** AUGUST 9, 2018

**RE:** 2018 IDAHO UNIVERSAL SERVICE FUND ANNUAL REPORT AND  
RECOMMENDATIONS; CASE NO. GNR-T-18-06

### BACKGROUND

The Idaho Universal Service Fund (USF) rules were adopted under the general legal authority of the Telecommunications Act of 1988, Chapter 6, Title 62, *Idaho Code*, and the specific authority of *Idaho Code* § 62-610. The Commission established a universal service fund for the purpose of maintaining the universal availability of local exchange service at reasonable rates and to promote the availability of message telecommunications service (MTS) at reasonably comparable rates throughout the state of Idaho. *Idaho Code* § 62-610(1). The USF is funded through a statewide end-user surcharge on local exchange services and intrastate MTS and Wide Area Telephone Service (WATS) type services. The USF Administrator submits an Annual Report to the Commission detailing the program activities of the previous year and recommending surcharge rates to meet the next year's funding requirements. The Commission issues an Order in response to the Administrator's report, establishing statewide end-user surcharges to be in effect for the next twelve months beginning October 1.

### THE 2018 ANNUAL REPORT

On July 17, 2018, the Administrator of the Idaho USF, Alyson Anderson, filed the Annual Report for the USF fiscal year from July 1, 2017, through June 30, 2018. Included with the report is the Administrator's proposed budget for the next fiscal year—July 1, 2018 through June 30, 2019.

The current USF monthly surcharge rates are \$.25 per residential line, \$.44 per business line, and \$.009 per intrastate MTS/WTS billed minute. *See* Order No. 33851. Surcharge revenue for the year totaled \$1,889,493. Local exchange services contributed \$1,055,064 (56%), and \$834,429 (44%) was contributed by MTS/WATS services. Surcharge revenue from local exchange services increased by approximately \$407,397 and MTS/WATS surcharge revenue increased by approximately \$190,564. The Administrative expenses for the year were \$21,909. This amount includes the Administrator's salary, expenses, bank charges, and a tri-annual audit expense of approximately \$7,700.

Currently, eight qualifying incumbent local exchange carriers (ILECs) receive annual payments from the fund, and those payments remain unchanged at \$1,698,610. If no changes occur, the annual disbursements to the ILECs are expected to remain the same for the next fiscal year (July 1, 2018 through June 30, 2019). The end-of-year cash balance for fiscal year 2018, after applying bank charges and administrative expenses, was \$249,758.

#### **2016-2017 Administrative Budget**

Ms. Anderson proposes an annual administrative budget of \$16,160. This amount includes the Administrator's salary and other expenses.

#### **Local Residential and Business Service**

The USF surcharge is attached to residential and business lines, and long-distance billed minutes, of wireline companies. Thus, the Administrator annually obtains reports from these companies. As of May 1, 2018, companies reported an average monthly inventory of 122,347 residential lines and 114,359 business lines, for a total of 236,706 lines. This is a decrease in lines of approximately 37,593 (20%) with residential lines decreasing by 6% and business lines decreasing by 14%.

The adjusted statewide weighted average rates for one-party single line residential and business service and the corresponding threshold average rates are:

	2017 Statewide Weighted Average Rate	2018 Statewide Weighted Average Rate	125% Statewide Weighted Average Rate - 2017	125% Statewide Weighted Average Rate - 2018
<b>Residential Services</b>	\$21.83	\$22.09	\$27.28	\$27.62
<b>Business Services</b>	\$37.77	\$36.94	\$47.42	\$46.17

### **Switched Access Service**

Long distance service providers reported intrastate MTS/WATS billed minutes of 110,719,570 compared to the 2017 reported minutes of 125,154,200, a 12% decrease. The statewide average switched access rate was \$0.043, a change from last year's rate of \$0.031.

### **Funding Adjustments Review—Rule 106**

The Administrator also reviews the residential, business, and switched access rates of the recipient ILEC companies to determine eligibility to receive USF funding. A company's average one-party, single-line rate must equal or exceed the 125% statewide weighted average line rate and the average rates per minute for MTS/WATS access rate must exceed 100% of the statewide weighted average access rate. IDAPA 31.46.01.106. If the difference in the company's current average rate and the statewide average threshold rate is greater than three percent (3%), and the difference in the annual revenue associated with the company's current rate and the revenue associated with the statewide average threshold rates is over \$6,000, the company may need to revise rates to meet or exceed the statewide threshold rates. The Commission may also calculate the weighted statewide average rates by using the residence and business basic local exchange rates in effect on July 1, 2005, to determine the eligibility of ETCs for distributions from the USF. *See* Rule 106.04, and *Idaho Code* § 62-605(e).

### **ADMINISTRATOR'S OPTIONS**

The Administrator reports that over the last several year, both the number of local access lines and intrastate MTS/WATs billed minutes have, on the average, steadily declined. As a result, it is difficult to accurately calculate the funding requirements necessary to maintain adequate fund balances throughout the fiscal year. With this in mind, the Administrator presents the following funding options.

## **ADMINISTRATOR'S OPTIONS**

### **OPTION 1: STATUS QUO**

If current surcharge levels (\$.25 per residential line, \$.44 per business line, and \$.009 per intrastate MTS/WATS billed minute) are maintained and no additional IUSF funding is authorized, the fund will increase by approximately \$252,562 (page 76). The 2018-2019 IUSF authorized disbursements will be \$1,698,610. MTS/WATS services would contribute approximately 50% of the surcharge revenue and local exchange services would contribute 50% of the surcharge revenue. The fund would have a balance of approximately \$502,320 at June 30, 2019.

### **OPTION 2: ADJUST FUNDING TO MEET STATEWIDE AVERAGES & MAINTAIN SURCHARGE RATES**

Idaho Universal Service Fund Rule 106.02 indicates that to continue receiving IUSF funding after the first year of eligibility, the company may need to revise rates to meet or exceed the statewide threshold rates. If the rate is below the statewide threshold rate, and the difference between the rate is greater than 3% and \$6,000, the company must revise rates equal or exceed 100% of the statewide average for MTS/WATS access service, and 125% of the statewide average for local exchange service. The following applies Rule 106 to each company currently drawing from the IUSF.

- ATC Communications should increase local residential and business rates. ATC Communications annual IUSF draw would be reduced by \$68,103.
- Cambridge Telephone Company should reduce toll switched access rates and increase local residential and business rates. Cambridge Telephone Company annual IUSF draw would be reduced by \$18,260.
- Columbine Telephone /Silver Star Telecom should increase toll switched access, local residential, and business rates. Silver Star Telecom annual IUSF draw would be reduced by \$107,550.
- Direct Communications Rockland should increase local residential and business rates. Direct Communications Rockland annual IUSF draw would be reduced by \$24,401.
- Fremont Telecom should increase toll switched access rates, and increase local residential and business rates. Fremont Telecom annual IUSF draw would be decreased by \$89,973.

- Inland Telephone Company should decrease toll switched access rates. Inland Telephone Company annual IUSF draw would be increased by \$12,312.
- Midvale Telephone Company should increase local residential and business rates. Midvale Telephone Company annual IUSF draw would be reduced by \$26,403.
- Rural Telephone Company should increase local residential rates. Rural Telephone Company annual IUSF draw would be reduced by \$13,111.

The 2018-2019 IUSF authorized disbursements, including the adjustments to company funding per Rule 106, will be \$1,363,121. If current surcharge levels are maintained at \$.25 per residential line, \$.44 per business line, and \$.009 per intrastate MTS/WATS billed minute, the fund will increase by approximately \$588,052 (page 76). MTS/WATS services would contribute 50% of the total surcharge revenue and local exchange services would contribute 50% of the total surcharge revenue. The fund would have a balance of approximately \$837,809 at June 30, 2019.

#### OPTION 3: ADJUST INVENTORIES, MAINTAIN FUNDING LEVELS & MAINTAIN SURCHARGE RATES

In order to more accurately calculate future fund balances, the inventories have been adjusted according to the most recent five-year trend. Thus, the residential lines have been reduced 12%, the business lines reduced 12% and the MTS/WATS billed minutes have been reduced 9%. If the surcharge rates are maintained at \$.25 per residential line, \$.44 per business line, and \$.009 per intrastate MTS/WATS billed minute and IUSF disbursements are maintained at current levels, the fund will increase by approximately \$46,206 (page 77). MTS/WATS services would contribute approximately 52% of the surcharge revenue and local exchange services would contribute 48% of the surcharge revenue. The fund would have a balance of approximately \$295,963 at June 30, 2019.

#### OPTION 4: ADJUST INVENTORIES, MAINTAIN FUNDING & MAINTAIN SURCHARGE RATES

In order to more accurately calculate future fund balances, the inventories have been adjusted according to the most recent five-year trend. Thus, the residential lines have been reduced 12%, the business lines reduced 12% and the MTS/WATS billed minutes have been reduced 9%. If the surcharge rates are maintained at \$.25 per residential line, \$.44 per business

line, and \$.009 per intrastate MTS/WATS billed minute and IUSF disbursements are maintained at current levels, the fund will increase by approximately \$381,695 (page 77). MTS/WATS services would contribute approximately 48% of the surcharge revenue and local exchange services would contribute 52% of the surcharge revenue. The fund would have a balance of approximately \$631,452 at June 30, 2019.

#### **OPTION 5: ADJUST INVENTORIES, ADJUST FUNDING TO MEET STATEWIDE AVERAGES & DECREASE SURCHARGE RATES**

In order to more accurately calculate future fund balances, the inventories have been adjusted according to the most recent five-year trend. Thus, the residential lines have been reduced 12%, the business lines reduced 12% and the MTS/WATS billed minutes have been reduced 9%. If the local surcharge rates are decreased to \$.22 per residential line, \$.37 per business line and the MTS/WATS rate are increased to \$.007 per intrastate billed minute, as well as IUSF disbursements adjusted per Rule 106, the fund will increase by approximately \$57,069 (page 78). MTS/WATS services would contribute approximately 49% of the surcharge revenue and local exchange services would contribute 51% of the surcharge revenue. The fund would have a balance of approximately \$306,826 at June 30, 2019.

#### **ADMINISTRATOR'S RECOMMENDATION**

The Administrator recommends that the Commission adopt Option 3; maintain the company disbursements at the current level, and maintain the surcharge rates at \$.25 per residential line, \$.44 per business line, and \$.009 per intrastate MTS/WATS billed minute. The fund balance on June 30, 2019, would be approximately \$295,963, an amount that would allow the fund to meet all obligations as well as provide a reserve balance.

#### **STAFF ANALYSIS AND RECOMMENDATION**

Staff has reviewed the calculations, supporting documentation, and recommendations contained in the Administrator's Annual Report. Staff also notes the impact to Rule 106 by the Federal Communication Commission's (FCC) USF/ICC Transformation Order, FCC 11-161, released on November 18, 2011, and the subsequent FCC 14-54, Seventh Order on Reconsideration, released on June 10, 2014. The first FCC Order established a schedule to reduce intrastate terminating access rates, including transport and reciprocal compensation, to

bill-and-keep by July 1, 2019. The second FCC Order established a four-year transition of voice services to a rate floor of \$20.46 for carriers that receive federal high cost support. In April, 2017, the FCC froze the rates at \$18.00 and issued a Notice of Proposed Rulemaking and Order seeking comments on the rate for basic voice services. Stakeholder's argued that higher prices for basic voice service in rural high cost areas created a significant and legitimate rate shock for rural customers. Therefore, the FCC has provided a freeze on the rate floor at \$18.00 pending further review and comments.

Given these Orders and uncertainty at the FCC, it makes it impractical for the Commission to apply Rule 106 to determine eligibility for the eight companies that receive state USF disbursements. All eight USF-funded companies have residential rates of \$25.76<sup>1</sup>. If Rule 106 is strictly applied, all eight companies would be required to increase the residential local exchange rate from the current \$25.76 to \$27.62 and the business local exchange rate to \$46.17. Staff acknowledges that the funding elements are impermanent and difficult to predict. Staff, therefore, agrees with Ms. Anderson's recommendation to the Commission to adopt Option 3 to maintain the current surcharge rates of \$.25 per residential line, \$.44 per business line, and \$.009 per intrastate MTS/WATS billed minute. This option will provide an adequate funding level for the 2018-2019 USF fiscal year.

A very important concern of Staff and the Administrator has been trying to fund the IUSF in a declining industry where land lines are being replaced with new technologies such as VoIP and cell phones. Per Commission Order No. 33851 the Staff and the Administrator initiated a generic docket before the Commission in order to allow a public forum for stakeholders to participate in a discussion of the IUSF as it relates to the current legal and regulatory framework, its place in the evolving telecommunications landscape, and universal telecommunications services in Idaho generally. Staff convened a workshop on January 17, 2018, Stakeholders filed position papers by January 31, 2018, Staff filed a summary report on April 4, 2018, Stakeholders filed reply comments on April 25. Staff will be filing a further report in August, and will be scheduling a workshop in September. Line counts and MTS/WATs minutes continue to decline each year. All parties agree that legislative changes are needed to the current IUSF Statutes.

---

<sup>1</sup> On September 2, 2009, Commission Order No. 30894 was issued notifying the USF recipient companies that residential rates must be increased to the statewide threshold rate of \$25.76 to continue to receive funding. All eight companies complied by increasing the residential rates.

Staff would like Stakeholders to bring legislative language changes to the upcoming workshop in hopes of coming to agreement on a path forward to bring before the Idaho Legislature in 2019.

Finally, Staff recommends that the Administrator continue to provide quarterly cash flow analysis to it. The quarterly cash flow review will allow Staff to monitor any anomalies that may arise and to proactively respond to any unforeseen cash flow impacts due to further declines in line counts or minutes.

### **COMMISSION DECISION**

Does the Commission wish to approve the Administrator's USF 2018-2019 budget?

Does the Commission wish to adopt the Administrator and Staff's recommended funding Option 3?

Does the Commission wish to adopt a different funding option?

Does the Commission wish to continue the requirement for the Administrator to file quarterly cash flow reports to monitor revenue impacts from unforeseen changes in line counts or access minutes?



Daniel Klein

i:\udmemos\2018 IUSF Report DM