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BillAnalysis

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A Glide Path to Market-Based Universal Service: Eliminating the Texas Universal Service Fund

House Bill 2659

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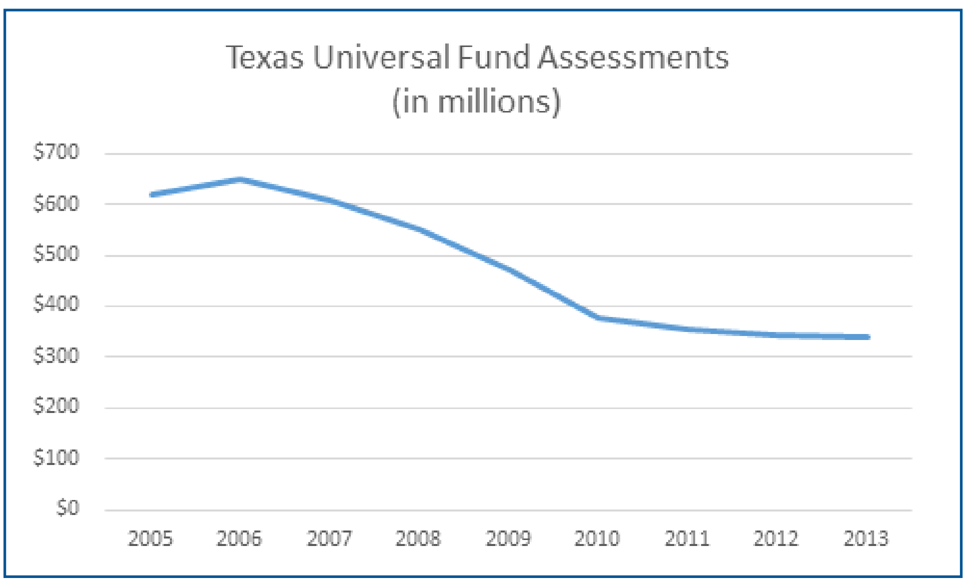
The Texas Universal Service Fund (TUSF) was originally established in 1987 to replace the hidden subsidies for rural telephone service that has existed in the era of monopoly telephone service. The TUSF was revenue neutral in its implementation. In other words, it replaced implicit subsidies in toll and access rates with an explicit portable subsidy going to the provider of local service. Policymakers recognized that subsidies collected through access charges were hindering the development of competitive markets in long distance and other services. The implementation of USF designed to assist in the transition to a competitive marketplace by reducing—though not eliminating—the market distortions caused by the subsidies.

The purpose of the TUSF was to ensure that rural Texans in high cost service territories received telephone service at a reasonable cost. This notion goes back as far as 1907 when AT&T coined the term, "One Policy, One System, Universal Service." The concept was adopted in federal law in the Communications Act of 1934. The purpose of the act was "to make available, so far as possible, to all the people of the United States a rapid, efficient, nationwide, and worldwide wire and radio communication service with adequate facilities at reasonable charges…"

In more recent years, however, it has become increasingly clear that the best way to provide all consumers, including those in rural areas, with low-cost, efficient telecommunications services is through the competitive market, not through government programs. This has been reflected in Texas telecommunications policy for close to 20 years.

In 1996, on the heels of landmark telecommunications reform passed by the Texas Legislature a year earlier, the Public Utility Commission of Texas (PUC) made the TUSF portable, with subsidies going to companies that won consumers' business. In 2008, the PUC ushered through a major reduction in the TUSF of $144 million per year, a 25 percent reduction. And in 2012, following the directive of the Texas Legislature in 2011, the PUC again reduced the USF by $96 million a year by January 1, 2017, completely eliminating the Texas High Cost Universal Service Plan, one of the TUSF's eleven programs. All in all, TUSF assessments on Texas consumers decreased from $618 million in 2005 to $338 million in 2013.



The reason for the remarkable success in reducing these subsidies has been the market-led expansion of low-cost basic and high-speed service throughout Texas, made possible by the simultaneous increase in competition. In fact, all of the major companies have agreed to forego subsidies from the TUSF in return for deregulation that will provide them the ability to compete in the market. This will continue to expand access to the broadband service in rural Texas, whether it is through fiber, wireless, or new technologies that don't exist today.

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However, HB 2659 would reverse the trend away from subsidies and toward competition. It would allow the Public Utility Commission to "disburse support to the small provider in fixed monthly amounts based on an annualized support amount the commission determines." The purpose of these disbursements would be to "permit the small provider the opportunity to earn a reasonable return." But of course this government-led approach takes Texas in the opposite direction of the tremendous expansion of access to telecommunications services through the competitive market in recent years.

The need for the TUSF is decreasing, not increasing. While in the short-term it may be hard to imagine local phone service in at least some parts of Texas without TUSF support, 15 years ago it would have been impossible to imagine the vast array of largely deregulated telecommunications services we receive today. And the rapid adoption rate of broadband and cellular technologies shows that there is no need to increase the TUSF or expand it into new areas.

No new services should be subjected to TUSF assessments, and no new technologies should be covered by fund payments. The task at hand is to prepare for the day when the market will be the primary means of meeting this goal and the TUSF can be eliminated. ✯

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