2019-20

Telecommunications

The Issue

Texas has recently been one step ahead of the rest of the country in telecommunications, passing major telecom reform legislation in both 1995 and 2005. Thanks to a bill passed by the 79th Legislature—SB 5—local telephone service for more than 15 million Texans was significantly deregulated as of January 1, 2006. This was a major step forward in reducing costs and bringing new technologies and services to millions of Texans.

Texas again took the lead in 2011. The Legislature passed SB 980, an omnibus telecommunications deregulation bill. This legislation allows new technology and innovation such as VOIP, broadband, and cable to compete in the market. The law ended specific tariffing requirements and removed monopoly relic regulation. Ultimately, it will increase competition in the marketplace and lower costs for Texas consumers.

There is nevertheless still room for improvement. Texas consumers are particularly burdened with high tax rates on telecommunications services. The taxes and fees that consumers pay include state and local sales taxes, municipal franchise fees, and charges for the Texas Universal Service Fund (USF). In fact, Texans pay higher rates on the purchase of most telecommunications services (except satellite) than they do on fireworks and hard liquor. Only cigarettes are taxed at a higher rate.

During the 85th Legislature, the House State Affairs Committee passed legislation that expanded USF for small providers. The bill reversed the previous glide path phasing out the USF as improvements in technology make accessibility easier and cheaper. The federal government already subsidizes broadband access in rural areas. Expanding the state USF is an unneeded and expensive redundancy that stands in sharp contrast with the state's decade-long commitment to a freer telecommunications market.

The Facts

- The current Texas Universal Service Fund is 3.3% of taxable communications receipts. It funds a collection of programs, including Tel-Assistance, Lifeline, the Small Local Exchange Carriers Universal Service Fund, and the Texas High-Cost Universal Service Plan.
- Upon deregulation, interstate long distance rates fell 68% from 1984 to 2003, while intrastate rates fell 56%. The slower decline of intrastate rates is due largely to state regulators who have kept intrastate access charges artificially high in order to maintain subsidies of local phone rates.
- Texas has slowly been phasing out the Universal Service Fund. Total expenditures in FY2013 amounted to $335.9 million. By FY2015, that number had been reduced to $251.4 million.

Recommendations

- Do not expand Universal Service Fund subsidies or fees to new services or technologies, e.g., broadband. Examine ways to further reduce the Universal Service Fund.
- Eliminate the "tax on a tax" aspect of the state and local sales taxes.
- Restructure Municipal Franchise Fees to reflect the marginal costs of providing services through the right-of-way.

Resources

A Glide Path to Market-Based Universal Service: Eliminating the Texas Universal Service Fund by Bill Peacock, Texas Public Policy Foundation (March 2017).

Telecommunications Taxes in Texas by Bill Peacock and Chris Robertson, Texas Public Policy Foundation (April 2009).

Testimony Presented to the House Committee on Regulated Industries: Regarding Telecommunications Taxes and Technology Deployment by Bill Peacock, Texas Public Policy Foundation (June 2008).

Q&A on the Texas Universal Service Fund by Bill Peacock, Texas Public Policy Foundation (Aug. 2006).

Consumer Choice and Telecommunication Contracts by Chris Robertson, Texas Public Policy Foundation (April 2009).

Testimony Regarding the NFL Network Dispute by Bill Peacock, Texas Public Policy Foundation (Dec. 2007).

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