

**SUBJECT:** Extending USF funds to certain entities through 2017

**COMMITTEE:** State Affairs — favorable, without amendment

**VOTE:** 12 ayes — Cook, Giddings, Craddick, Farney, Farrar, Geren, Harless, Huberty, Kuempel, Oliveira, Smithee, Sylvester Turner

0 nays

**WITNESSES:** For — (*Registered, but did not testify*: Jim Bellina, AMA Techtel)

Against — None

On — (*Registered, but did not testify*: Brian Lloyd, Public Utility Commission; Lucas Meyers, Texas Cable Association)

**BACKGROUND:** The Universal Service Fund (USF), which uses fees collected from telephone subscribers to subsidize service for rural customers and customers who need assistance, was established under Utilities Code, ch. 56, subch. B. SB 583 by Carona, enacted by the 83rd Legislature in 2013, established rules for ending USF support to competitive local exchange carriers (CLECs). It ends USF support in high-cost markets, such as rural areas, either 24 months after the incumbent local exchange carrier (ILEC) in a market deregulated or on December 31, 2017, two years after it was expected that all of the high-cost markets would deregulate. All CLECs associated with telephone cooperatives would lose USF funding in December 2017, while other CLECs would lose funding at the earlier of the two dates.

**DIGEST:** HB 1618 would amend Utilities Code, sec. 56.023(p) to extend Universal Service Fund (USF) funding to all competitive local exchange carriers (CLECs), not just those associated with telephone cooperatives, until December 31, 2017, or two years after the local incumbent local exchange carrier (ILEC) or telephone cooperative stops receiving USF support, whichever is later.

This bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2015.

**SUPPORTERS  
SAY:**

HB 1618 would bring fairness to the deregulation process in the Texas telephone market. The enactment of SB 583 by Carona in 2013 carved out a special provision for cooperative carriers in deregulated markets, but the small businesses that serve rural Texans also need Universal Service Fund (USF) support.

AT&T, one of the state's two largest incumbent telephone companies, deregulated its telephone business in July 2014, earlier than anticipated. This created a situation in which small competitive local exchange carriers (CLECs) that expected USF funding into 2017 found they would be losing it a year and a half early. This threatens their ability to continue to operate.

These small carriers based their business plans on USF funds continuing until 2017. Smaller telephone companies serving rural areas did not expect AT&T to deregulate as quickly as it did. These carriers need the USF support to serve rural customers and make plans for survival in the deregulated environment. HB 1618 would help ensure that competition continued in deregulated rural markets. It also would help smaller telephone companies continue to serve customers in rural Texas, where there is no longer an obligation to serve.

**OPPONENTS  
SAY:**

HB 1618 would cost consumers money by keeping the unnecessary USF fees on their phone bills. The Public Utility Commission estimates how much money will be needed for USF subsidies and then bases the USF fee on those needs. If the need for USF subsidies is lowered, as it would be under the current law, the USF fees would be lowered. HB 1618 would continue this outdated tax on phone service.

**OTHER  
OPPONENTS  
SAY:**

HB 1618 would not go far enough to support telecommunications infrastructure in rural Texas. Although it currently emphasizes traditional voice services, the USF plays an important role in building out Internet infrastructure to rural Texans. Without USF subsidies, many companies

that provide Internet access to rural Texans might not be able to stay in business. New federal guidelines that would emphasize Internet access over voice communication are expected to be phased in over the next few years. USF funds for rural voice carriers, particularly those that also provide Internet service, should continue until these new federal guidelines are in place.