

POLICYMAKER'S GUIDE TO CORPORATE WELFARE

Texas Universal Service Fund

The Issue

In terms of its telecommunications policy, Texas has continuously walked a couple of steps ahead of the national curve. The Legislature passed major telecom reform legislation in 1995 and 2005, both times significantly increasing competition in the market. Competition brought lower prices; for instance, interstate long distance rates fell 68 percent from 1984 to 2003, while intrastate rates fell 56 percent. Senate Bill 980, passed in 2011, opened up the market to competition from newer technologies, such as VoIP, broadband, and cable, providing consumers access to even more cost-effective services.

Despite these advancements, there remains one area of telecommunications policy where Texas falls behind—that is the taxes and fees laden on top of subscribers' monthly service bills. According to the Tax Foundation, the federal and state governments levied a combined 17.99 percent charge on Texans' wireless bill. The state portion amounted to 11.53 percent. As a comparison, the sales tax (state and local rates combined) is typically capped at 8.25 percent.

The Texas Universal Service Fund (TUSF) represents one key reason why the state levy is so high as compared to other services. Established in 1987, the TUSF assesses a 3.3 percent fee on the in-Texas portion of taxable communications receipts, which is then used, in the Texas Public Utility Commission's words, "to implement a set of programs to assist Texas residents, as needed, in obtaining basic telecommunications services."

Funds within the TUSF go toward a medley of programs, many of which are specially tailored to meet a single consumer's specific need. Relay Texas, for example, provides telephone access to the hearing impaired, while Lifeline alternatively offers discounts to qualified, low-income subscribers. A sizeable portion of the TUSF, however, is also given way to private companies in order to subsidize some of their infrastructure. Indeed, the largest outlays in FY 2015, a combined \$232.4 million, are described by the Texas Administrative Code as "financial assistance to telecommunications providers" and ostensibly offset the costs of delivering services in so-called high-cost rural areas.

There is a growing sense amongst Texas policymakers that the need for telecom subsidies has abated. Two of Texas' largest companies, AT&T and Verizon, have phased out their reliance on the TUSF and, as of January 1, 2017, will stop receiving the subsidy for high-cost services completely. In addition, the other large companies that qualified, CenturyLink and Windstream, were obliged to file their "financial need" with Texas Public Utility Commission by December 31, 2015 or face a 25 percent reduction. Smaller outfits have a similar "financial need" requirement, but the law gives them until December 31, 2016 to file their petition for continued support.

Total expenditures consequently have fallen by a significant degree, from \$335.9 million in FY 2013 to \$251.4 million in FY 2015, which has translated into savings for the Texas consumer. The Texas Public Utility Commission has reduced the TUSF by 41 percent since 2005 when the levy added 5.65 percent to customers' bills. There was an attempt in the 84th Legislature to expand the TUSF to include broadband, but the effort failed. In fact, based on the Tax Foundation's findings, Texas was the only state in 2015 to reduce their state's USF. Texas remains on a glide path toward lower rates.

The Arguments

Justification for the TUSF converges on two key observations: 1) the public good is served when all citizens have access to basic telecommunication services, and 2) the cost of providing such services in rural communities may be prohibitively expensive for consumers and/or companies to absorb on their own. At one point, telecommunication providers could diffuse that cost network-wide by weaving it into the rates for other services, such as long distance calls. After the Texas Legislature increased competition in the market, that model became unsustainable. The TUSF was seen as an alternative mechanism that could bridge the gap between the government's policy objective and contemporary technology.

Times have since changed. Even if the TUSF was once necessary, competition and improvements in technology have made access to some form of basic telecommunications services much more obtainable for rural communities. Connected Texas, a public/private initiative, estimates that 98.26 percent of Texas households in 2014 had available broadband of speeds of at least 1.5 Mbps/200 Kbps; this percentage increases once smaller bandwidths are taken into account as well as mobile services and older technologies. Access has improved to such a degree that recent policy debates over the TUSF have not centered on whether residents can connect to the wider world but whether the Legislature should expand the scope of TUSF to include plusher services. The TUSF—along with its federal counterpart—serves largely today as a subsidy to keep small, rural, inefficient telecom companies in business.

A common criticism of public subsidies is that stakeholders always have an incentive to extend the program's longevity even when the need has abated and the objective has either become moot or long since achieved. Such is the case with the TUSF; residents in the Texas countryside have near universal access to some form of telecommunications services, and that access grows ever closer to becoming self-sustaining. To expand TUSF's scope right at the moment when it should be scheduled for elimination would be an unneeded and expensive redundancy that stands in sharp contrast with Texas' decades-long commitment to a competitive telecommunications market.

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 and keep Texas on a glide path towards the subsidy's elimination. ★

Resources

[*Record High Taxes and Fees on Wireless Consumers in 2015*](#) by Joseph Henchman and Scott Mackey, Tax Foundation (Nov. 2015).

[*A Glide Path to Market-Based Universal Service*](#) by Bill Peacock, Texas Public Policy Foundation (April 2015).

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

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

