

Overview of the Kansas Universal Service Fund

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Before the House Rural Revitalization Committee
February 18, 2019



Universal Service

Both the Kansas Telecommunications Act of 1996 and the Federal Telecommunications Act of 1996 contain provisions to develop universal service funds to maintain and enhance universal service.

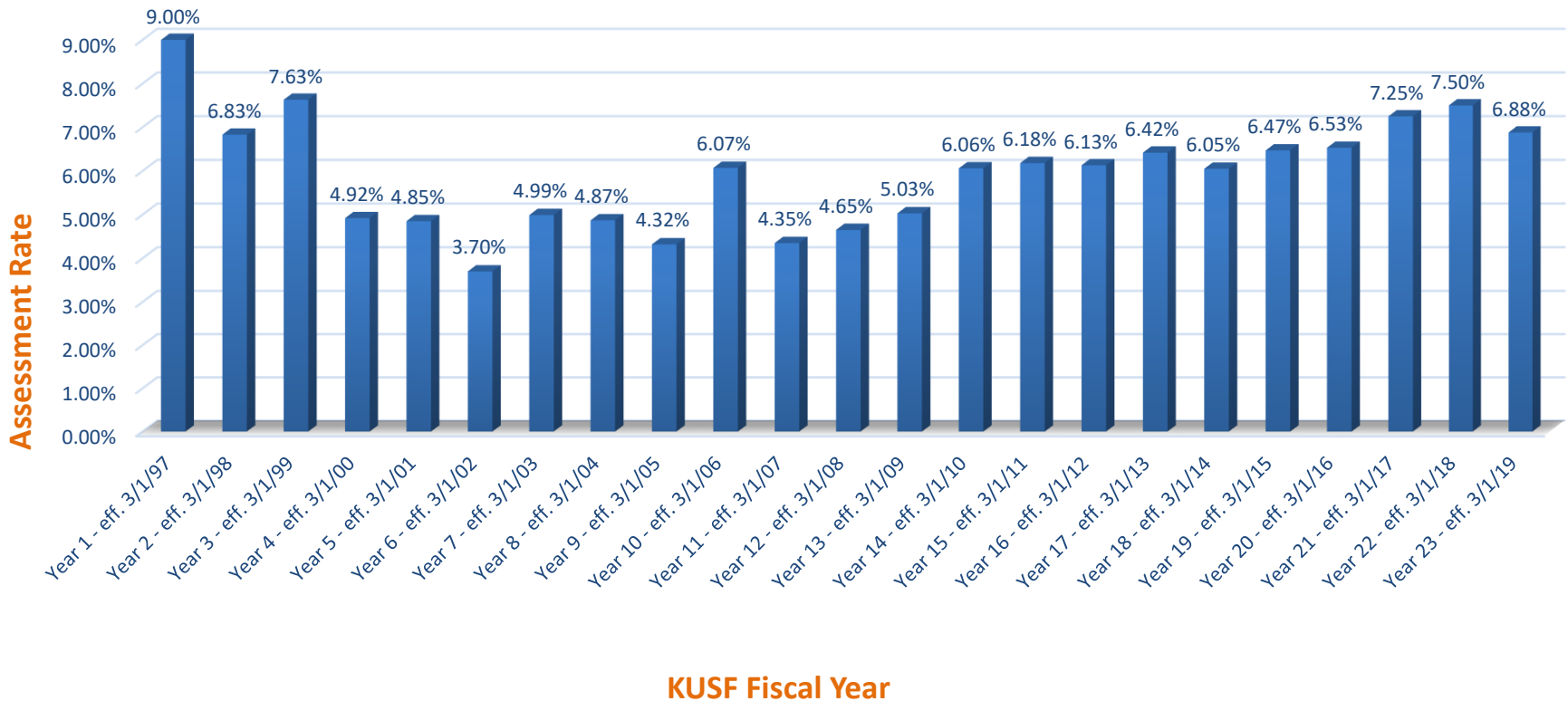
- Federal Universal Service Fund (FUSF) - 47 U.S.C. § 254
- Kansas Universal Service Fund (KUSF) – K.S.A. 66-2008

Kansas Universal Service Fund

- KUSF was created by the KCC and implemented March 1, 1997, as required by K.S.A. 66-2008.
- Purpose of the KUSF is to assure quality services are made available to all Kansans at affordable rates.
- Pursuant to K.S.A. 66-2008(a), every telecommunications carrier, telecommunications public utility, wireless telecommunications service provider and interconnected Voice over Internet Protocol (VoIP) provider that provides intrastate telecommunications services must contribute to the KUSF. The assessment may be passed through to customers, but carriers are not required to do so.
- Current KUSF assessment rate is 7.5% on intrastate revenues. The rate will decrease to 6.88% on March 1, 2019.

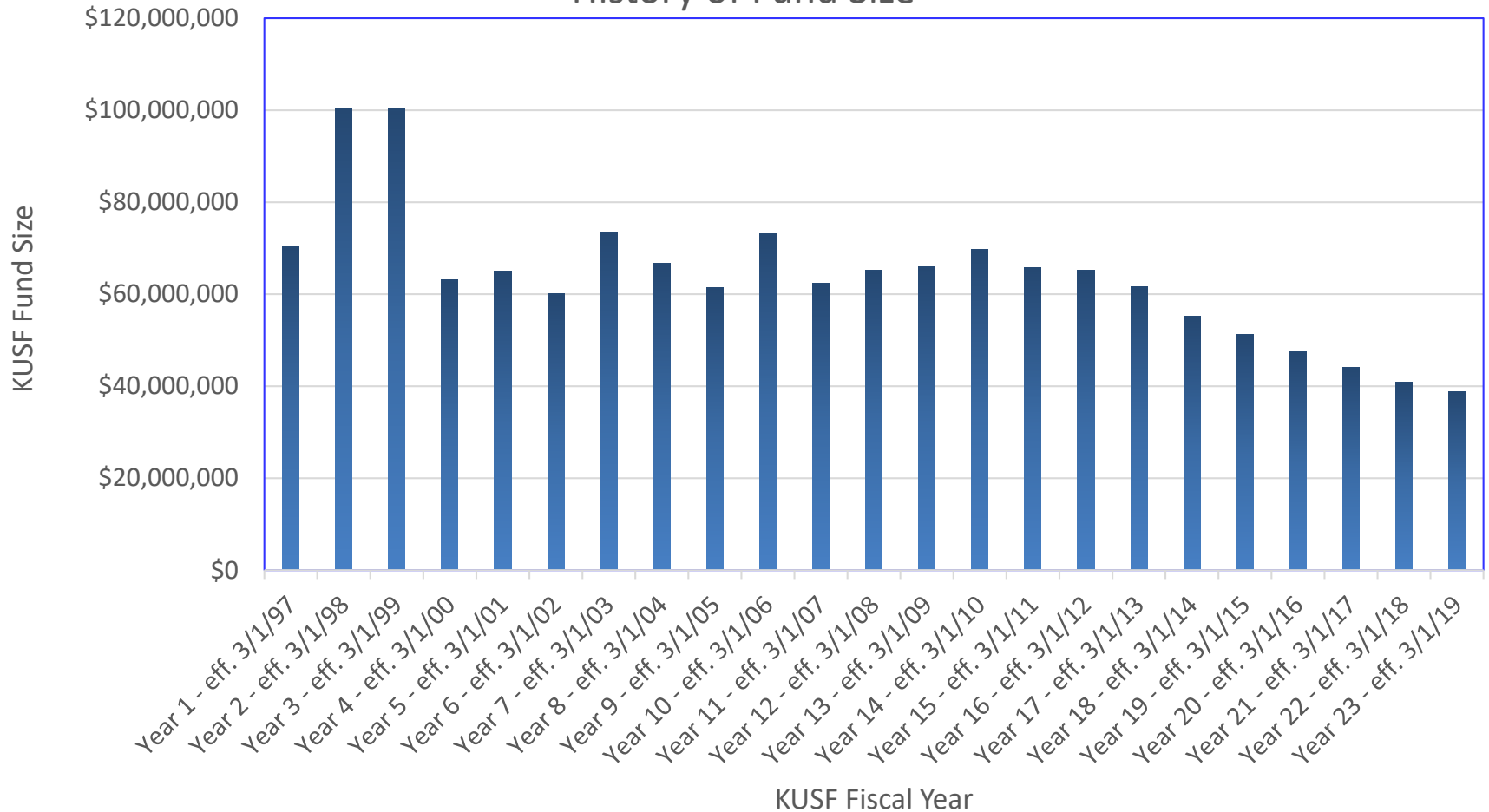
KUSF Assessment Rate

History of KUSF Assessment Rate



KUSF Fund Size

History of Fund Size

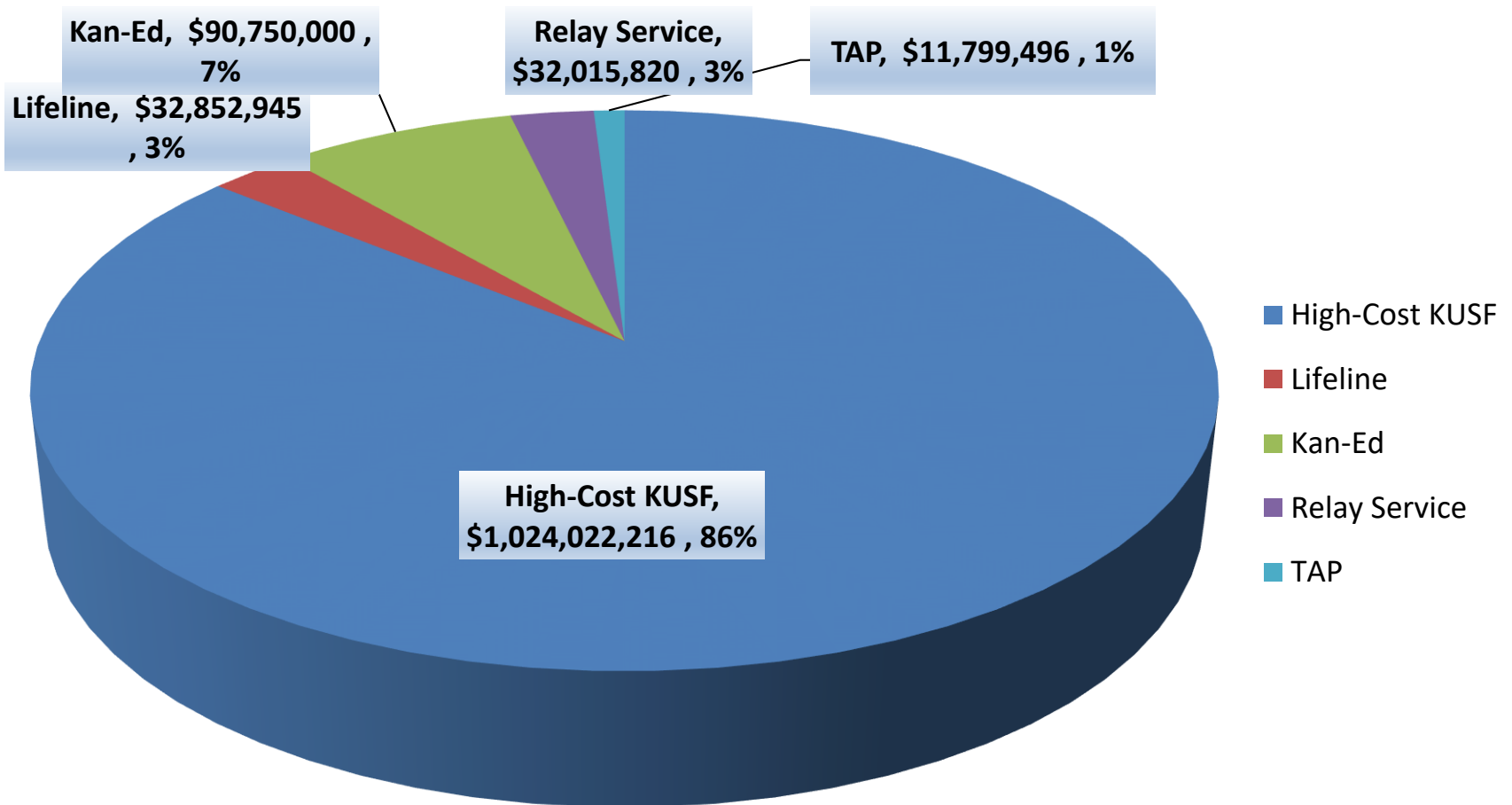


Kansas Universal Service Fund

The KUSF has funded five programs, which are:

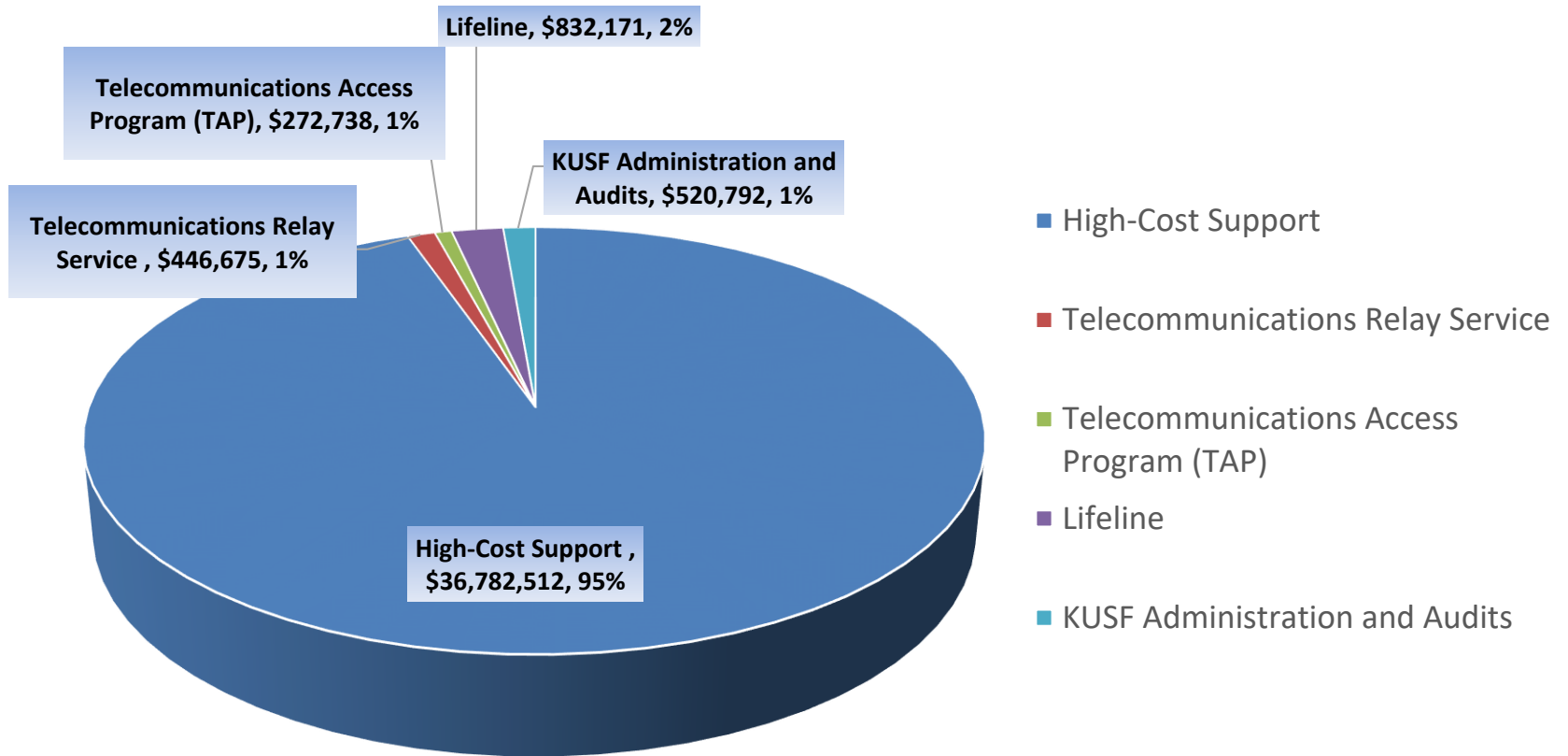
- High-Cost
- Lifeline (low income)
- Telecommunications Relay Service
- Telecommunications Access Program (TAP)
- Kan-Ed (No Longer Funded)

Total KUSF Support by Program (March 1, 1997 – February 28, 2019)



Expected KUSF Expenditures for KUSF Fiscal Year 23

March 1, 2019-February 28, 2020



Kansas Universal Service Fund

High-Cost Support

- Initial KUSF high-cost support amount available for incumbent local exchange carriers was equal to the revenue lost when access charge reductions were implemented pursuant to state statute.
- While the initial amount of KUSF support was set to replace lost access revenues, which was revenue neutral and not necessarily cost based, K.S.A. 66-2008(c) requires that the Commission periodically review the KUSF to determine if the cost to provide service justifies modification of support.

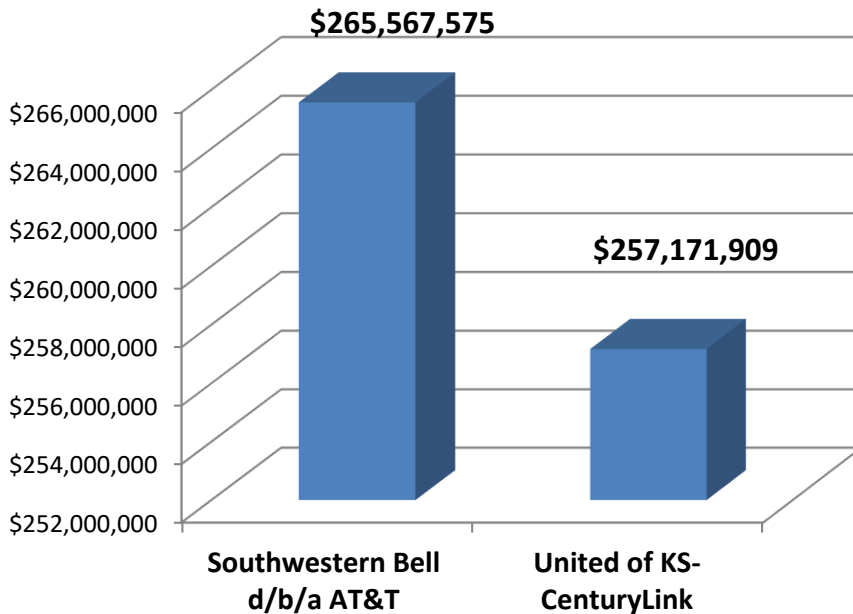
Kansas Universal Service Fund

High-Cost Support – Price Cap Carriers

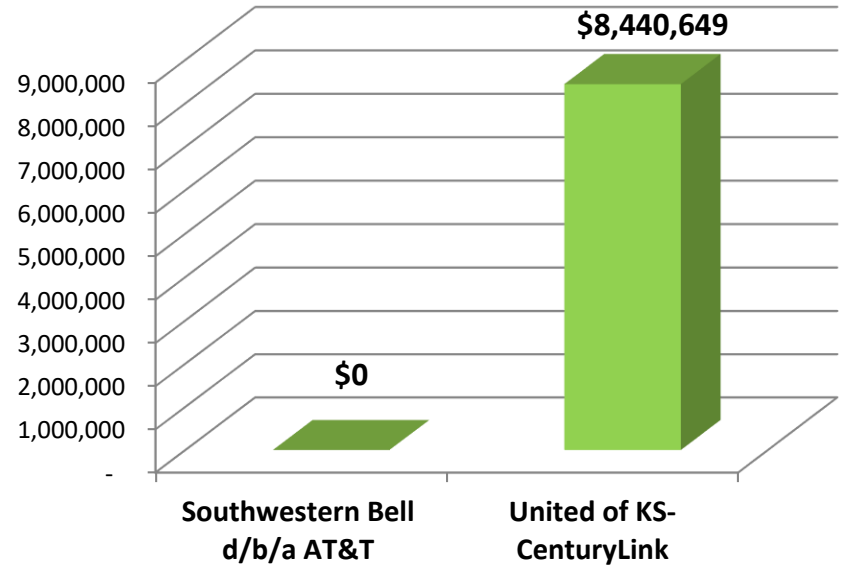
- Implementing a cost-based KUSF – Price Cap Carriers
 - FCC determined that support for price cap carriers, such as AT&T & CenturyLink, should be based on the cost to provide service if the network were being built given current technology rather than based on historical costs. The FCC developed a model to determine the forward looking costs of providing service and support.
 - The KCC followed suit with the KUSF high-cost model for AT&T & CenturyLink.
 - Pursuant to HB 2201 (K.S.A. 66-2008(c)(5)), AT&T ceased receiving KUSF support January 1, 2014.

High-Cost Support for Carriers that Elected Price Cap Regulation (AT&T & CenturyLink)

**Total High-Cost KUSF Received by AT&T & CenturyLink
March 1997-February 2019**



Annual High-Cost KUSF Disbursements Forecasted to be Provided to AT&T & CenturyLink During KUSF Fiscal Year 23 (March 2019-February 2020)



* AT&T was under price cap regulation until 10/7/11 when it became an electing carrier.

Kansas Universal Service Fund

High-Cost Support – ROR Carriers

- Cost-based KUSF – Rate of Return Carriers
 - Rate of Return (ROR) carriers' support based on embedded costs (K.S.A. 66-2008(e)).
 - Completed 55 ROR carrier audits, including 2nd and 3rd audits of some carriers.

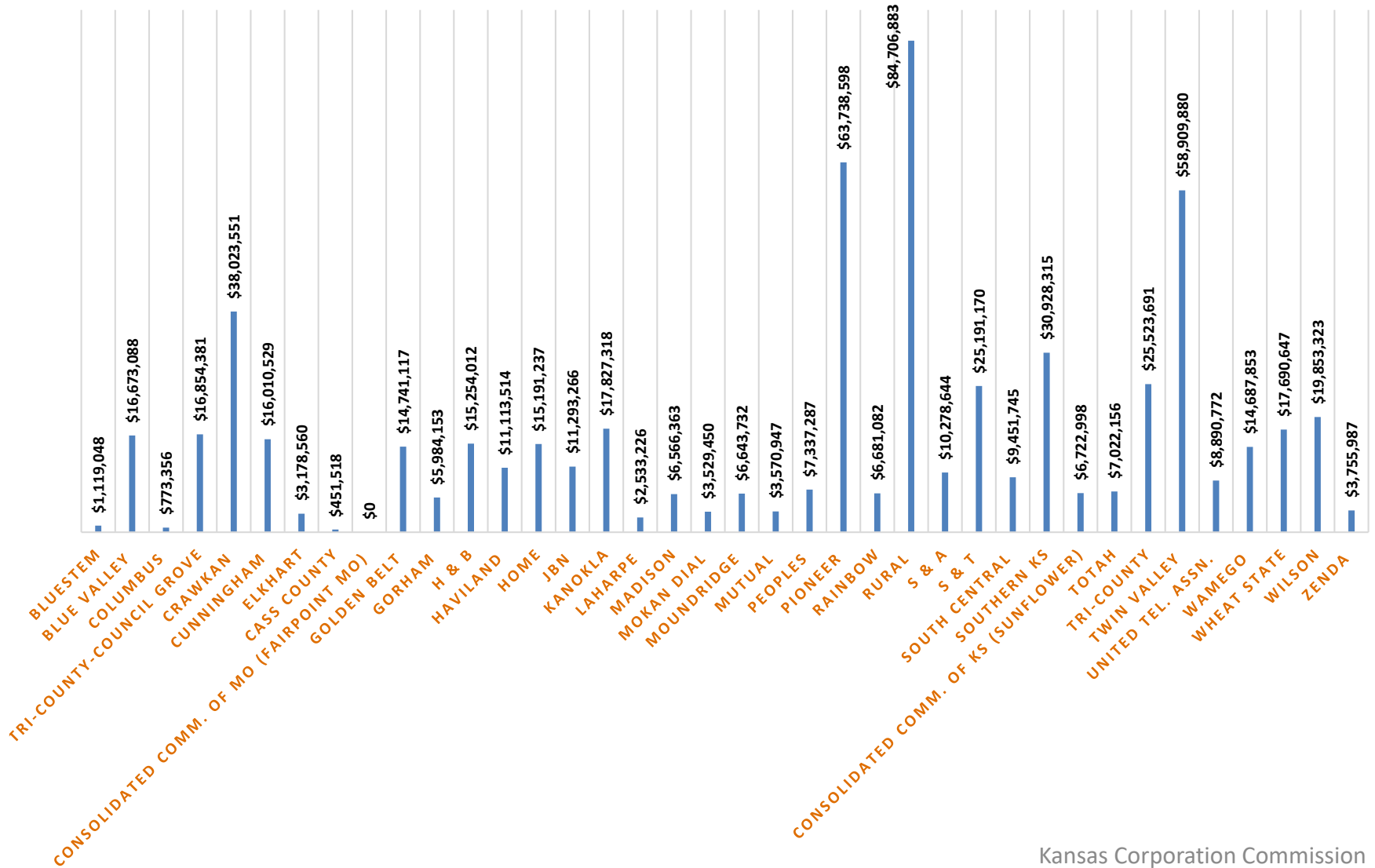
Kansas Universal Service Fund

Audit Overview

- Timeline of audits
 - 240 day timeframe under which Commission makes its determination
 - Based on a filed Procedural Schedule
- Staff and consultants sponsor testimony over various topics
 - Separations (Interstate vs. Intrastate)
 - Regulated and non-regulated allocations
 - Affiliate transactions
 - Rate base and income statement adjustments
 - Capital Structure, cost of long-term debt, and return on equity

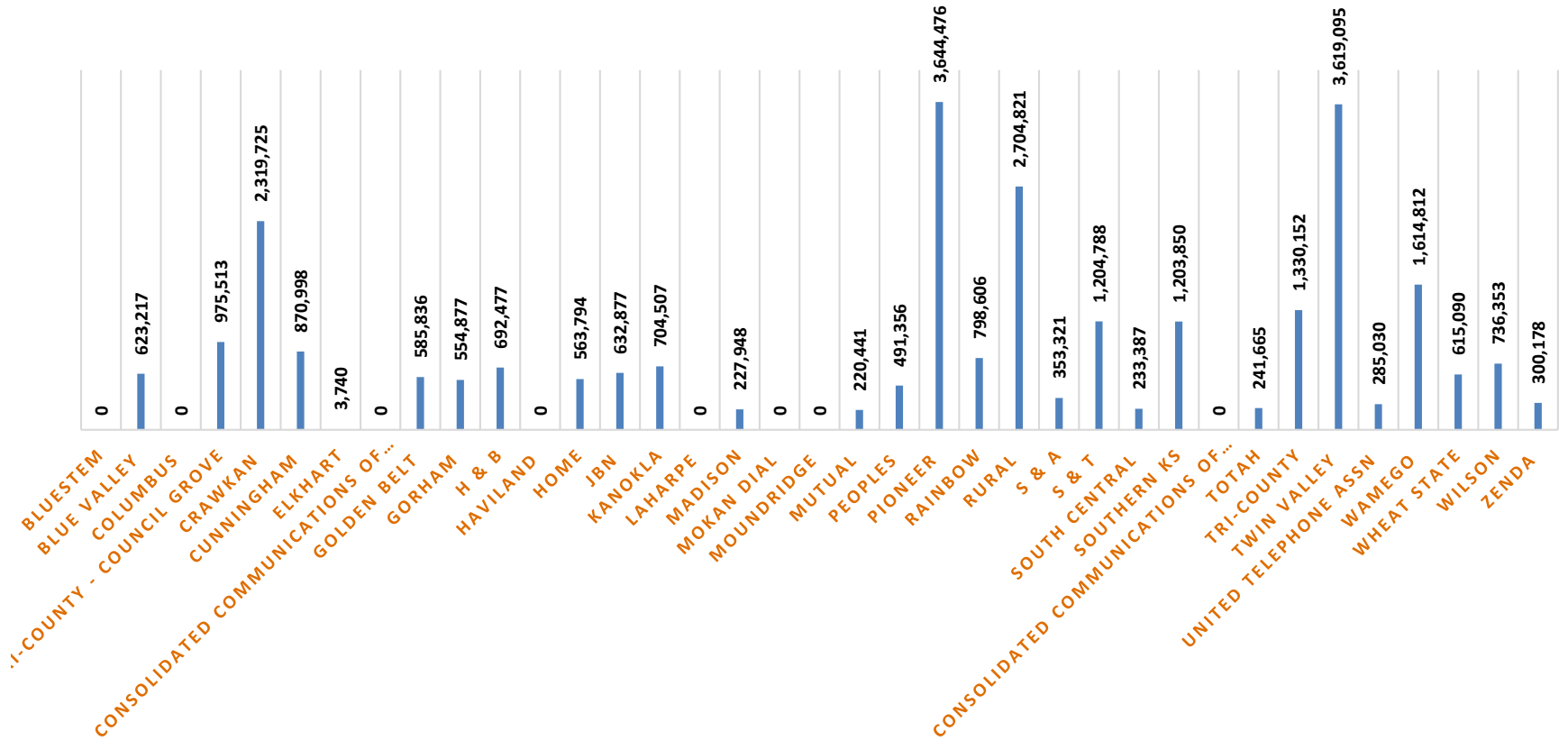
Kansas Universal Service Fund

Total High-Cost KUSF Received by ROR Carriers Since Inception

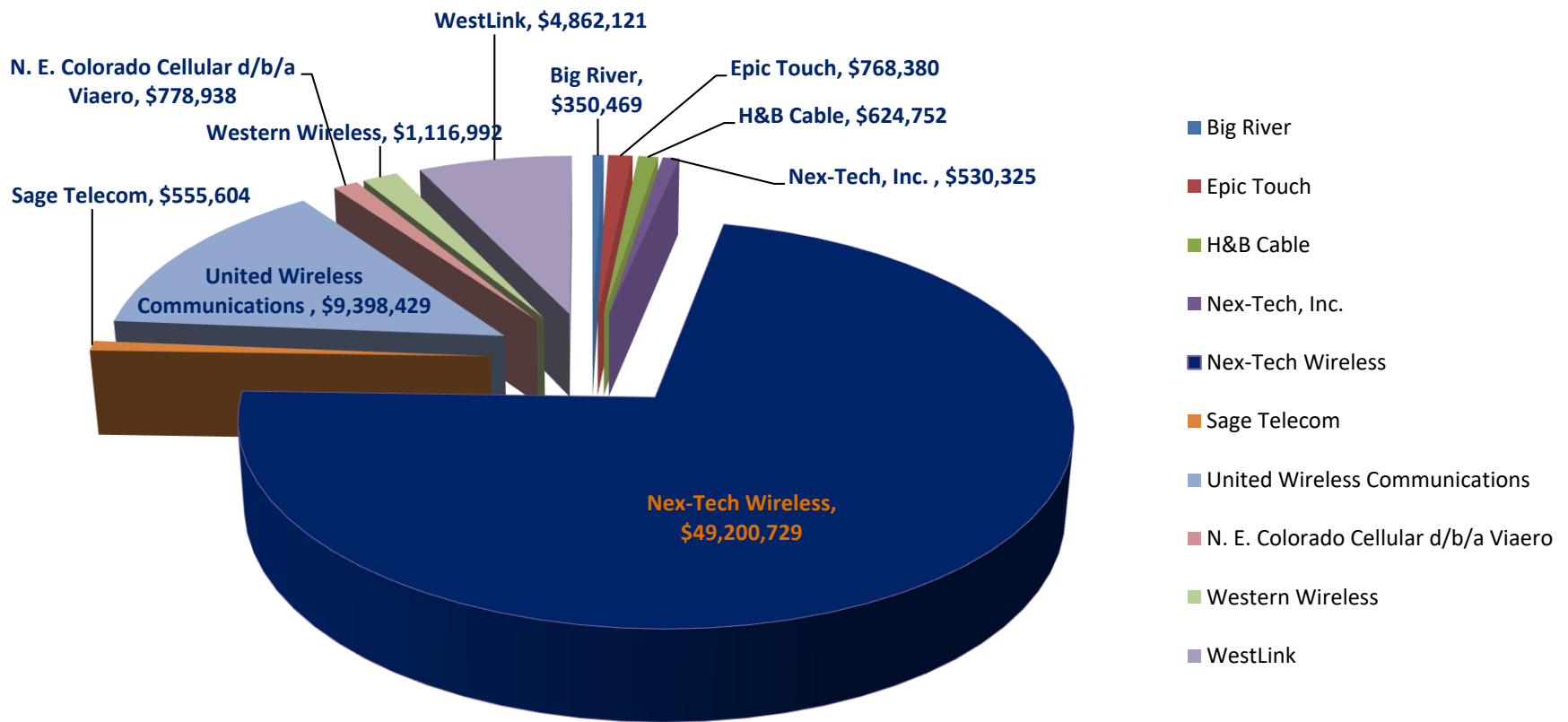


Kansas Universal Service Fund

Forecasted ROR Disbursements for KUSF Fiscal Year 23 (3/19-2/20)

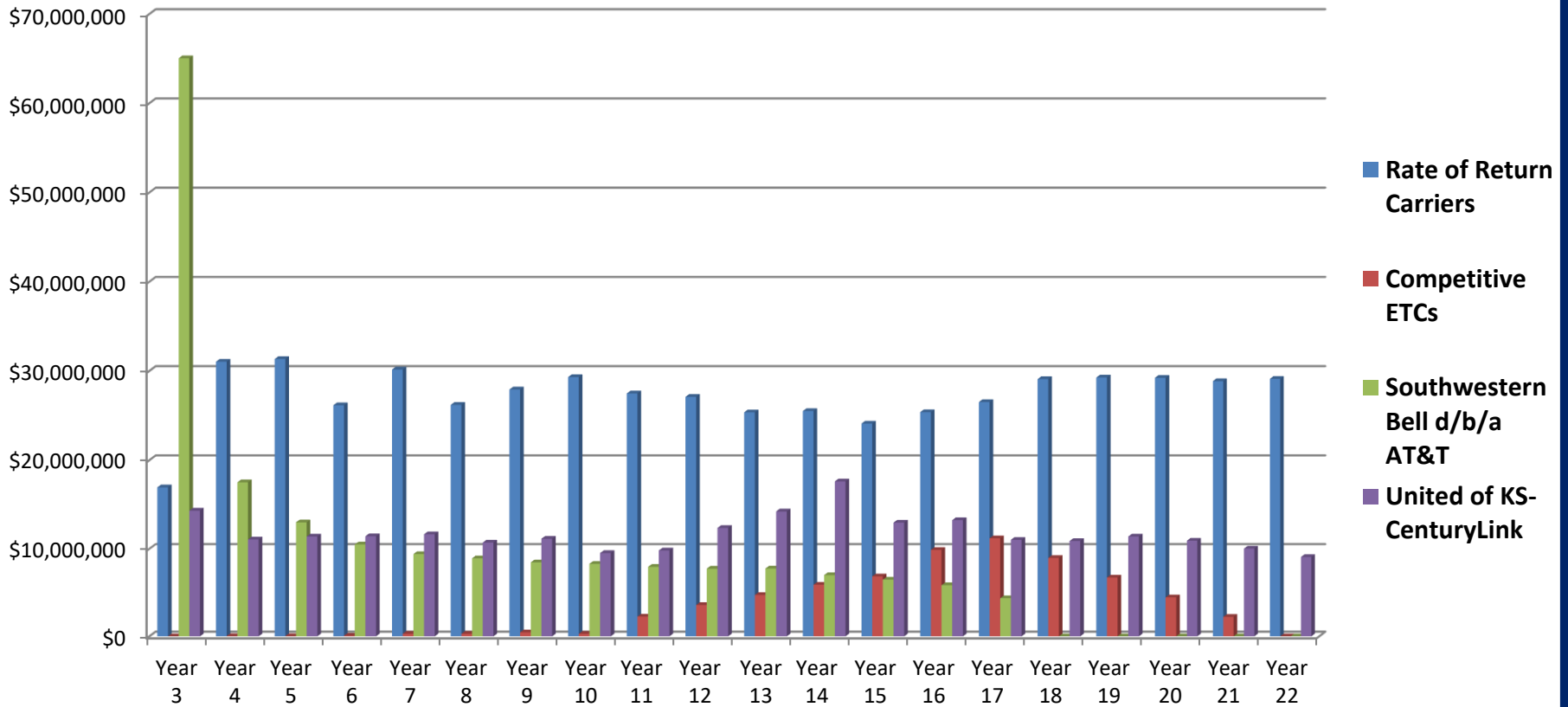


Total High-Cost KUSF Disbursed to Competitive ETCs



Kansas Universal Service Fund

KUSF High-Cost Support Received by Year



KUSF Fiscal Year (March – February)

Thank you. Questions?

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