Appendix E

ADMINISTRATIVE COSTS

for a

STATE

UNIVERSAL SERVICE FUND

This appendix contains information on the cost of administrating a state program of universal service. There is a description of costs and services provided to several states by the National Exchange Carriers Association and an estimate of cost if the WUTC were to administer the program. The WUTC favors administration by a contractor that is not tied financially to any contributors or recipients of the funds.

The chief difference between the approach taken by other states in their contracting and what the WUTC plans is the exclusion of an auditing function by other states. The WUTC would prefer that audits of carrier contribution and compliance with rules be done by a neutral, third party. Much of the difference in expected cost between what other states have done and the estimate prepared by the WUTC can be attributed to this difference.

The other difference is that the WUTC estimate is for a "stand alone" administration, rather than estimating the cost of integrating the administration into existing functions. We understand that carriers would prefer this separation. It would reduce the WUTC estimate if it were to assume integration.

Individual State Agency Fiscal Note

Bill Number:	Title:	Agency:
	AN ACT Relating to implementation of the Universal Service Fund.	Washington Utilities and Transportation Commission

Part I: Estimates

☐ No Fiscal Impact

Estimated Revenue to:

Fund	Fiscal Year 98	Fiscal Year 99	1997-99 Total	99-01 Biennium	01-03 Biennium
GF-State			0		
GF-Federal			0		
Other (specify)			0		
Universal Service Fund			0		
			0		
Total	0	0	0	597,556	500,056

Estimated Expenditures from:

	Fiscal Year 98	Fiscal Year 99	1997-99 Total	99-01 Biennium	01-03 Biennium
FTE Staff Years			0.0	4.0	4.0
Fund					
GF-State			0		
GF-Federal			0		
Other (specify)			0		
Public Service Revolving fund			0	597,556	500,056
			0		
Total	0	0	0	597,556	500,056

The revenue and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

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Request # 99-99
Bill #

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Universal telecommunications service has been public policy in Washington State, and throughout the nation, for more than sixty years. The goal of universal service is to provide all citizens access to the public telephone network at affordable prices. Universal service has depended on subsidies to maintain affordability. In Washington, average pricing has been used for decades to support the high-cost customer. Monopoly telecommunications providers have been permitted to charge above-cost prices in dense, urban areas in order to provide sufficient revenue to permit charging only the same average (and affordable) price to customers in high-cost locations such as remote rural areas. Monopoly providers have also been permitted to charge other companies above-cost prices for routing telephone traffic over their lines. These charges, known as access charges, provide substantial revenue to small telephone companies that service many high-cost customers. These subsidies are an impediment to new companies trying to enter the local telecommunications market. An unsubsidized provider cannot compete with a subsidized provider.

The federal Telecommunications Act of 1996 (the Act) was passed by Congress to encourage competition in the local telephone market. The Act supports the goal of universal service, but at the same time recognizes the need for changes in the methods used to achieve it. The Act calls for states to support universal service programs in a competitively and technologically neutral manner.

This fiscal note estimates the costs for the Commission to administer a Universal Service Program should legislation pass that requires such. The following assumptions are made:

- Revenue reports would be submitted to the Commission twice a year detailing telecommunication carrier revenues attributable to Washington. Approximately 800 reports per year would be received by the Commission. Penalties would be assessed for late reports.
- Monthly access line reports would be submitted to the Commission by eligible telecommunications carriers (SETCs) detailing the number and type of access lines subscribed to in high-cost locations.
- The Commission, twice yearly, would determine the monthly contributions that would be in effect for six month periods. Approximately 800 notices per year would be mailed to SETCs notifying them of the required contributions.
- Contributions would be paid monthly resulting in approximately 400 checks per month being receipted by the Commission. Penalties would be assessed for late paymetns.
- SETCs would apply to the Commission to receive payment from the state Universal Service fund. The Commission would review applications and other reports to determine approval or rejection of the request for funds.
- The Commission would disburse funds to approved SETCs. We estimate approximately 25 monthly payments to SETCs.
- The Commission would prepare a biennial budget for administering the Universal Service Fund and would establish bank accounts and take all other necessary steps to begin operations of a Universal Service Program.
- All expenses of administering the fund would be paid out of the Universal Service Fund.
- The Commission would implement an audit program to audit the use of Universal Service Fund payments and contributions.

II. B - Revenue Impact

This fiscal note assumes that all administrative costs incurred by the Commission in administering a Universal Service Program would be paid for out of the Universal Service Fund. Therefore revenues are shown as equal to expenditures.

II. C - Expenditures

The impact on Commission expenditures includes the following:

1. Staff costs to administer the Universal Service Program including 1 Financial Manager, 1 Accountant, and 1 Fiscal Technician, and 1 auditor.
2. Consultant costs in the first year to design a computer data base to track contributions and payments, and associated late penalties.
3. Attorney General time as legal challenges arise in the early years of implementation, estimated at .5FTE for the first two years, .2FTE in the second two years, and .1FTE thereafter.
4. Goods and Services costs including mailing, printing and other overhead costs of the agency.
5. Travel costs for the Financial Manager and auditor.
6. Equipment costs for staff including 1 vehicle for the auditor position.

	99-01 BIEN.		01-03	03-05
	FY00	FY01	BIEN.	BIEN.
COST OF:				
Salaries:				
1-Financial Manager, Range 54-F, ($3,471/mo), 2,088 hrs	$41,652	$41,652	$83,304	$83,304
1-Revenue Auditor 3, Range 51-F, ($3,225/mo), 2,088 hrs	38,700	38,700	77,400	77,400
1-Accountant 2, Range 40-F, ($2,465), 2,088 hrs	29,580	29,580	59,160	59,160
1-Fiscal Tech., Range 32-F, ($2,045/mo), 2,088 hrs	24,540	24,540	49,080	49,080
Total Salaries	**134,472**	**$134,472**	**$268,944**	**268,944**
Benefits at 25% of salaries	33,618	33,618	67,236	67,236
Consultant	10,000	0	0	0
Goods and Services	47,562	47,562	95,124	95,124
Attorney General's Time (included in G&S)	32,100	32,100	32,100	12,840
Travel	18,326	18,326	36,652	36,652
Capitol Outlay (Equipment)	30,400	0	0	0
Capitol Outlay (Vehicle)	25,000	0	0	0
Total Costs:	**331,478**	**266,078**	**500,056**	**480,796**

III: Expenditure Detail

III. A - Expenditures By Object or Purpose

	Fiscal Year 98	Fiscal Year 99	1997-99 Total	99-01 Biennium	01-03 Biennium
FTE Staff Years				4.0	4.0
Salaries and Wages				268,944	268,944
Employee Benefits				67,236	67,236
Personal Service Contracts				10,000	0
Goods and Services				159,324	127,224
Travel				36,652	36,652
Capitol Outlays				55,400	0
Grants and Subsidies					
Debt Service					
Interagency Reimbursement					
Total	0	0	0	597,556	500,056

III. B - FTE Detail: ***List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA.***

Job Classification	Salary	FY 98 FTEs	FY 99 FTEs	1997-99 Total	1999-01	2001-03
Financial Manager	41,652				1.0	1.0
Revenue Auditor 3	38,700				1.0	1.0
Accountant 2	29,580				1.0	1.0
Fiscal Tech.	24,540				1.0	1.0
Total					4.0	4.0

III. C - Expenditures by Program (optional)

Program	Fiscal Year 96	Fiscal Year 97	1995-97 Total	97-99 Biennium	99-01 Biennium
			0		
			0		
			0		
			0		
			0		
Total	0	0	0	0	0

Part IV: Capital Budget Impact

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods.

Part V: New Rule Making Required

UNIVERSAL SERVICE PROGRAM
ESTIMATED EXPENDITURES

Salaries Position	Range	Annual Salary/Cost	FTE/Cost/ Days/Trips	Annual Amount	1st Yr	2nd Yr	3rd Yr	4th Yr	Thereafter
Financial Manager 2 (Administrator)	54-F	41,652	1	41,652	41,652	41,652	41,652	41,652	41,652
Revenue Auditor 3	51-F	38,700	1	38,700	38,700	38,700	38,700	38,700	38,700
Accountant 2	40-F	29,580	1	29,580	29,580	29,580	29,580	29,580	29,580
Fiscal Technician	32-F	24,540	1	24,540	24,540	24,540	24,540	24,540	24,540
Total Salaries			**4**		**134,472**	**134,472**	**134,472**	**134,472**	**134,472**
Benefits (25% of Salaries)					**33,618**	**33,618**	**33,618**	**33,618**	**33,618**
Goods & Services (12% of Salaries)					16,137	16,137	16,137	16,137	16,137
Equipment for new FTE (PC, Workstation, etc.)		7,600	4	30,400	30,400	0	0	0	0
*Rent	Annual	540,000	0.03	16,200	16,200	16,200	16,200	16,200	16,200
*Phone	Annual	145,000	0.03	4,350	4,350	4,350	4,350	4,350	4,350
*Utilities	Annual	78,559	0.03	2,357	2,357	2,357	2,357	2,357	2,357
*Insurance	Annual	137,000	0.03	4,110	4,110	4,110	4,110	4,110	4,110
* (4 fte / 160 fte =.03)									
Postage									
Mo. Billing (400 co. X 12 X .32)		4,800	0.32	1,536	1,536	1,536	1,536	1,536	1,536
Notices w/Report (400 co X 2 (est 6 pages +env)		800	0.78	624	624	624	624	624	624
Send Checks (25 co X 12 x.32)		300	0.32	96	96	96	96	96	96
Mail Rules & Instructions (400 X 2 X 36 pages)		800	1.93	1,544	1,544	1,544	1,544	1,544	1,544
If companies are billed monthly--shouldn't need additional costs for late letters									
Subtotal Postage				3,800	3,800	3,800	3,800	3,800	3,800
Printing Report (6 pages X 400 co X 2)		4,800	0.02	96	96	96	96	96	96
Printing Rules, Instructions (32 pages x 400 x 2 covers lost or misplaced copies)		25,600	0.02	512	512	512	512	512	512
Subtotal Printing costs				608	608	608	608	608	608
TOTAL GOODS AND SERVICES				**61,825**	**77,962**	**47,562**	**47,562**	**47,562**	**47,562**
Vehicle (CAPITOL OUTLAYS)		**25,000**	**1**	**25,000**	**25,000**	**0**	**0**	**0**	**0**
TRAVEL									
Auditor (50% of time - 1,000 hours)									
Instate (500 Hours) (Assumes 1/3 hrs = mileage only; 1/3 nonhigh cost trips; 1/3 high cost based on Seattle Rates)									
a. Miles Only 150 RT X .315 X 21 days(1/3 = 167 hrs / 8 = 21 days)		47.25	21	992	992	992	992	992	992
b. Nonhigh Cost 2 days ave. (1/3 = 21 days)									
Meals $30 X 21 days		30	21	630	630	630	630	630	630

Lodging $50 (21 days / 2 = 10 nights)	50	10	500	500	500	500	500	500
Mileage $47.25 RT x 10 RTs	47.25	10	473	473	473	473	473	473
NONHIGH COST EST.			1,603	1,603	1,603	1,603	1,603	1,603
c. High Cost 2 days ave. (1/3 = 21 days)								
Meals $38 X 21 days	38	21	798	798	798	798	798	798
Lodging $116 (21 days / 2 = 10 nights)	116	10	1,160	1,160	1,160	1,160	1,160	1,160
Mileage $47.25 RT x 10 RTs	47.25	10	473	473	473	473	473	473
HIGH COST EST.			2,431	2,431	2,431	2,431	2,431	2,431
INSTATE TRAVEL			5,026	5,026	5,026	5,026	5,026	5,026
Out-of-State (500 Hours) (Based on Washington, D.C.)			10,500	10,500	10,500	10,500	10,500	10,500
(500 / 8 = 62.5 days a year X $168 daily rate)								
Administrator (2 weeks) (Assumes 2 trips of 7 days each)								
Out-of-State (Washington D.C.)	1,400	2	2,800	2,800	2,800	2,800	2,800	2,800
(6 nights/7 days--Airfare 350; Hotel 756; & Meals 294)								
Total Travel			**18,326**	**18,326**	**18,326**	**18,326**	**18,326**	**18,326**
Consultant (Computer Program)				**10,000**	**0**	**0**	**0**	**0**
Attorney (1st & 2nd yr)	64,200	0.5	32,100	32,100	32,100			
Attorney (3rd & 4th yr)	64,200	0.25	16,050			16,050	16,050	
Attorney (Thereafter)	64,200	0.1	6,420					6,420
Attorney General's Time		**N/A**		**32,100**	**32,100**	**16,050**	**16,050**	**6,420**
ESTIMATED TOTAL				**331,478**	**266,078**	**250,028**	**250,028**	**240,398**

Vermont, Arkansas, Wyoming, Arizona, Oklahoma, Kansas, and Texas contract with National Exchange Carriers Association (NECA). The size of each state's universal service fund, the number of access lines included, the bidding process, and NECA's administrative fees and responsibilities we address below.

SIZE OF FUND

Oklahoma	$12 million	Arizona	$900,000
Vermont	$ 5 million (down from 6)	Kansas	$100,000
Arkansas	$ 7 million	Wyoming	$ 3 million

ACCESS LINES INCLUDED

Oklahoma did not state the number of lines covered by the fund. Their contribution is based on both regulated and non-regulated lines. Vermont has 400,000 access lines and funding is provided for two projects, E911 and TRS, Lifeline is not funded. Arkansas has 1,381,000 lines, with incumbent only receiving universal service funding. All access lines in Arizona are covered by the fund. Their fund is based on two levies; half on a per access line basis and half from intrastate toll review. The program will be going through a review within a week and the number of lines will change at that time. Kansas has 1.5 million access lines.

Wyoming is in the midst of several rate cases and the number of access lines continues to change. The number is approximately 50,000 lines. The fund applies to residential local basic exchanges, what the representative calls "non-complex business."

BIDDING PROCESS

Vermont has opened the program to bids twice since it began in 1994. At that time seven bids were received. NECA was the only agency bidding while the other six bids were from individuals. No banks or auditing firms submitted bids. NECA was awarded the contract. When the program was opened for bids in 1997, only three bids were received, NECA's and two from individuals. NECA was again given the contract. The representative had hoped bids would come from banking institutions but he could generate no interest.

Kansas established its fund in January 1997. Bids were received from NECA, MECA, an accounting firm and a bank. Of the four, NECA and MECA were considered because of their experience with administering other funds. NECA was awarded the contract based on references from other agencies. Their contract is currently for 18 months, with the possibility of an extension.

Arkansas had no time to open their program to the bidding process. The legislature created the program in February 1997 with the directive that the program be up and running with the first disbursements made by October 1, 1997. NECA was chosen because of its past experience with other state programs and the positive references from those states.

Oklahoma did not open its program for bids. NECA was chosen based on information, experience, and performance records with other states.

Arizona has had an established universal service fund since 1989. From 1989 until 1997, the fund was administered by U S WEST. The commission asked U S WEST to assume this responsibility and the company provided the service as a courtesy; no administration fee was paid to U S WEST. The commission issued an order as guidelines for the administering process. When the fund was restructured in 1997, the program was open to bids. NECA was awarded the contract. Arizona is currently revising the rules of the state universal service fund.

Wyoming opened the bidding process to banks, CPA firms, accounting firms, and NECA. Only one bid was returned - NECA's. The representative from Wyoming thinks that other potential bidders felt that it was just an exercise and that contracting with NECA was a done deal. She suggests that when the offer for bids is sent out, the offer is carefully worded to eliminate any possible preconception.

COST OF ADMINISTRATION

Vermont	\$ 90,000 per year	Kansas	would not comment
Arizona	\$ 40,000 per year	Oklahoma	would not comment
Arkansas	\$168,000 per year	Wyoming	\$ 40,000 per year

While Arizona pays a set amount each year, the fee will vary based on an annual review. The estimate for the administration of the state universal service fund for Arkansas was $ 1 million. NECA's fee is "reasonable" and considerably less than the original estimate. Arkansas is based on 400 dispersals per year with $1330 additional charge for each 100 transactions. The anticipated fee will be $168,000 for 1999 and a $500 per month increase in the year 2000. Additional anticipated expenses are covered including any travel expenses if a NECA representative is required to testify before the state commission.

Oklahoma paid an initial fee to set up the fund and pay monthly based on the annual contracted fee. NECA was chosen because they are a 'not for profit' agency and charge just enough to cover costs.

NECA charged a start up fee to Wyoming with an annual set fee. The contract is for two years.

ADMINISTRATIVE RESPONSIBILITIES INCLUDED

Routine administration of the funds includes establishing a database, calculating the monthly contribution based on monthly reports from carriers, monthly billing statements for contribution owed, and monthly disbursement of funds.

NECA has investment responsibilities of the surplus funds for Oklahoma. NECA serves in a management capacity only, Oklahoma commission keeps control of the over-all administration of the program as required by state statute.

Arkansas, by contrast, can have no administrative input as stated in the statute. NECA has complete and total control of the administration of the fund. It establishes lists, databases, calculates assessments, mailing of notices. It is responsible for disbursements.

NECA has routine administrative responsibilities in Wyoming as is done in other states. NECA receives monthly statements from carriers and bases amounts from information included in those reports. The collections and distributions of funds had been done quarterly but have recently changed to a monthly schedule. The Wyoming program is growing very rapidly and revision has been required.

AUDITING THE FUND

Each state has some method of an auditing or review process for the fund with varying levels of formality. NECA audits its own books in Arkansas with a review conducted by an outside auditor. There is an annual internal review and the commission may request an examination of the books and records or may designate an authorized person to provide the examination. NECA audits its books in Vermont and in Kansas where a review is done with the commission.

Arizona's rules require an outside audit of the books. The auditing fee is paid from the fund. Oklahoma has an outside auditing firm that is paid from the fund.

While Wyoming has provided for audits in the rules, no audit has been done. NECA is responsible for having records in order whenever an audit is called. Wyoming will contract with an outside auditing firm. There has been no auditing process of the carriers at this time. It has been on a type of 'honor system' with the form stipulating "information provided correct under penalty of perjury." A more formal auditing process may be established in the near future.

STAFFING

Oklahoma has an administrator, coordinator, and three or four commission analysts who work with the fund, but no dedicated staff. NECA has a director, state manager, and support staff.

In Kansas the commission representative spends about 1/3 of his time and half of another staff time on the fund. He does not recommend in-house administration of the fund. He feels it is definitely a business and requires a full focus to be successful.

Wyoming designates one FTE from the Rates and Pricing Section to the state USF with one attorney who is consulted as needed.