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☞ Details: Legislative Audit Bureau Report 05-14: An Audit: Universal Service Fund, Public Service Commission

(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

2005-06

(session year)

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* Contents organized for archiving by: Stefanie Rose (LRB) (October 2012)



STATE OF WISCONSIN


Legislative Audit Bureau

22 E. Mifflin St., Ste. 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

Janice Mueller
State Auditor

DATE: September 21, 2005

TO: Karen Asbjornson and Pamela Matthews
Aides to the Joint Legislative Audit Committee

FROM: 
Dawn Allsen
Financial Audit Director

SUBJECT: Report 05-14: An Audit of the Universal Service Fund

We have completed a financial audit of the Universal Service Fund for fiscal year (FY) 2003-04, as required by the Public Service Commission (PSC) to fulfill its audit requirements under s. 196.281(2)(d), Wis. Stats. The Universal Service Fund, which is funded by assessments paid by telecommunications providers, supports telecommunications services and access that are provided by several state agencies, including the PSC and the Departments of Administration (DOA) and Public Instruction (DPI). We expressed an unqualified opinion on the Universal Service Fund's financial statements.

We also provide additional discussion of the programs operated by PSC, DOA, and DPI. The largest program supported by the Universal Service fund is DOA's Educational Telecommunications Access Program, which had expenditures totaling \$12.7 million during FY 2003-04. The most notable issue pertaining to the Educational Telecommunications Access Program is the new statewide network, BadgerNet Converged Network, which is expected to be available beginning January 1, 2006.

Eight of the 13 programs supported by the Universal Service Fund are operated by PSC. As we reported in past audits, expenditures for the PSC-operated programs historically had been significantly less than the amounts budgeted. However, increasing demand and expenditures are now presenting budgetary challenges for these programs. In response, the PSC reduced benefits and deferred certain payment requests in the last two fiscal years. If the growth in program demand and expenditures continues, the Legislature may be asked to reconsider statutory limits placed on PSC's annual assessment levels. We recommended that PSC report to the Joint Legislative Audit Committee by March 31, 2006, on the status of expenditures trends for the PSC-operated programs.

The Universal Service Fund began funding a portion of the state aids to public library systems in FY 2003-04. Previously, general purpose revenue funded all of the state aids to the public library systems. 2005 Wisconsin Act 25, the Biennial Budget Act, will double the amount of funding

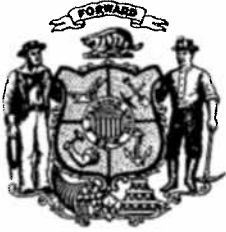
from the Universal Service Fund for the public library systems to \$8.4 million during the 2005-07 biennium. DPI is responsible for distributing the state aids to the library systems.

Finally, we note that a balance of \$165,000 had accumulated for the Newslines program, which provides sight-impaired individuals access to newspapers read over the telephone. Funds are transferred annually from the Universal Service Fund to DPI, which administers the program. PSC does not plan to transfer any additional funds to the program until this balance has been substantially reduced. We include a recommendation that PSC work with DPI to establish formal procedures for transferring funds for the Newslines program in the future.

The report will be released on Thursday, September 22nd, at 9:00 a.m. Please let us know if you have any questions regarding this report.

DA/km

Enclosures

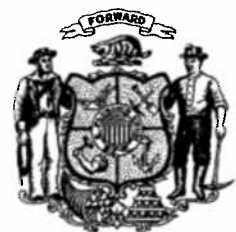


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**Report 05-14
September 2005**

An Audit

Universal Service Fund

Public Service Commission

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State Auditor - Janice Mueller

Audit Prepared by

Diann Allsen, Director and Contact Person
Cindy Simon
Joy Chen
Aimee Wierzba

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22 E. Mifflin St., Ste. 500
Madison, Wisconsin 53703
(608) 266-2818
Fax (608) 267-0410
Leg.Audit.Info@legis.state.wi.us

Janice Mueller
State Auditor

September 22, 2005

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

As requested by the Public Service Commission (PSC), we have completed a financial audit of the Universal Service Fund, which was established to ensure that all state residents receive essential telecommunications services and have access to advanced telecommunications capabilities. It is funded primarily through assessments on telecommunications providers, which totaled \$25.5 million in fiscal year (FY) 2003-04. Our audit report contains our unqualified opinion on the Universal Service Fund's financial statements for the fiscal years ending June 30, 2003 and 2004.

The largest program supported by the Universal Service Fund is the Educational Telecommunications Access Program, which is administered by the Department of Administration. This program subsidizes new and existing data lines and video links to eligible educational institutions. In FY 2003-04, expenditures for these activities totaled \$12.7 million, or 54.2 percent of the Universal Service Fund's total expenditures and transfers. In January 2006, a new statewide data and video network is expected to be available to program participants, as well as to the State and other public-sector users.

Eight of the 13 programs supported by the Universal Service Fund are operated by the PSC. As we reported in past audits, expenditures for PSC-operated programs were significantly less than budgeted for several years. The Legislature subsequently limited the amount of assessments to support the PSC-operated programs to \$5.0 million in FY 2003-04 and \$6.0 million in FY 2004-05 and thereafter. However, increasing expenditures are now presenting budgetary challenges for these programs. In response, the PSC reduced benefits and deferred certain payment requests to subsequent fiscal years. If the growth in program demand and expenditures continues, the Legislature may be asked to reconsider the statutory limits on the PSC's annual assessment levels.

Funds are transferred annually to the Department of Public Instruction for the Newline program, which provides sight-impaired individuals access to newspapers read over the telephone. We found that a balance of almost \$165,000 has accumulated for the program. The PSC does not plan to provide additional funds to the program until the balance has been substantially reduced.

We appreciate the courtesy and cooperation extended to us by staff at the PSC, the departments of Administration and Public Instruction, and the Universal Service Fund's administrator, Wipfli LLP.

Respectfully submitted,

Janice Mueller
State Auditor

JM/DA/ss

Report Highlights ■

The Fund reported a balance of \$6.4 million as of June 30, 2004.

Recent growth in program expenditures is resulting in budgetary challenges for the PSC-operated programs.

The Fund began providing a portion of aid to the State's public library systems in FY 2003-04.

A balance of almost \$165,000 has accumulated in the Newslite Program.

A new statewide data and video network will provide higher-capacity data capabilities beginning in January 2006.

The Universal Service Fund was established under 1993 Wisconsin Act 496 to ensure that all state residents receive essential telecommunications services and have access to advanced telecommunications capabilities. It supports telecommunications services and access programs that are provided by several state agencies, including the Public Service Commission (PSC), the Department of Administration (DOA), the University of Wisconsin System, and the Department of Public Instruction (DPI).

The PSC is responsible for developing the overall policies and procedures related to the Universal Service Fund but is directed by statute to contract with a private firm to administer the Fund. At the request of the PSC, we completed a financial audit of the Universal Service Fund to fulfill audit requirements under s. 196.218(2)(d), Wis. Stats. Our audit report contains our unqualified opinion on the Fund's financial statements and related notes for the fiscal years ending June 30, 2003 and 2004.

As part of our financial audit, we also reviewed different aspects of the Universal Service Fund's programs, including growth in expenditures in PSC-operated programs, accumulation of a balance in the Newslite program, and planned implementation of a statewide data and video network that will affect the Educational Telecommunications Access Program.

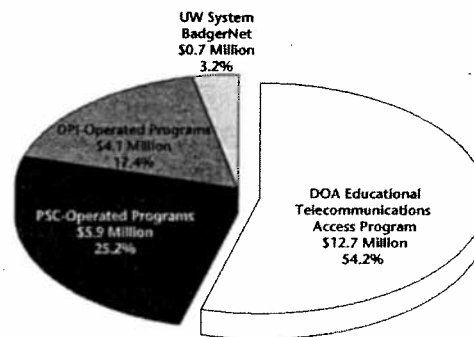
Fund Finances

The Universal Service Fund is funded primarily through assessments paid by telecommunications providers, which totaled \$25.5 million in fiscal year (FY) 2003-04. It also received \$106,000 in interest income and other revenues. Almost \$23.4 million was expended during FY 2003-04 on 13 programs supported by the Fund. The \$2.2 million by which revenues exceeded expenditures increased the Fund's balance at June 30, 2004, to \$6.4 million.

Eight of the 13 programs currently supported by the Universal Service Fund are operated by the PSC, with expenditures totaling \$5.9 million in FY 2003-04. However the largest program, the Educational Telecommunications Access Program, is operated by DOA. This program subsidizes data lines and video links to eligible educational institutions. As shown in Figure 1, its expenditures of \$12.7 million represented 54.2 percent of the Fund's total expenditures and transfers in FY 2003-04.

Figure 1

Universal Service Fund Expenditures and Transfers¹ FY 2003-04



¹ Expenditures and transfers totaled \$23.4 million in FY 2003-04.

During FY 2003-04, the Universal Service Fund also provided \$4.1 million for three programs administered by DPI, and it paid more than \$700,000 to the University of Wisconsin System to provide four campuses access to voice, data, and video services through BadgerNet, the State's current voice, data, and video telecommunications infrastructure.

PSC-Operated Programs

The eight programs operated by the PSC include programs that:

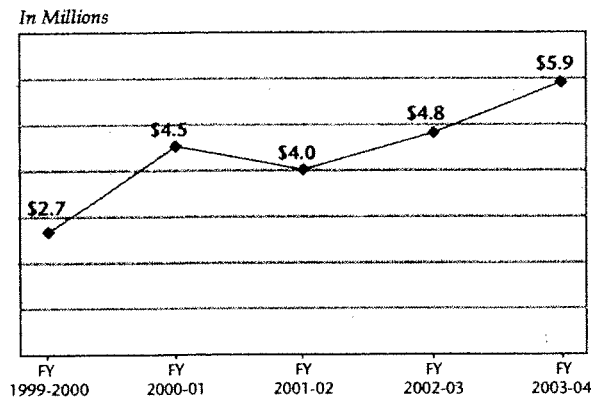
- provide low-income or disabled individuals affordable access to basic telephone and information services;
- lessen the financial effect of high rate increases on users in some parts of the state; and
- assist nonprofit medical clinics or public health agencies in the purchase of medical telecommunications equipment.

For several years after the first PSC-operated programs were established in 1996, expenditures were significantly less than budgeted. In 2001, the Legislature limited the amount that telecommunications providers could be assessed to support the PSC-operated programs to \$5.0 million in FY 2003-04 and \$6.0 million in FY 2004-05 and thereafter.

However, with the addition, expansion, and promotion of the PSC-operated programs, expenditures for operations and administration have increased significantly since FY 1999-2000, as shown in Figure 2. Increasing expenditures have resulted in budgetary challenges. Because the PSC did not have sufficient spending authority, it deferred decisions to pay on more than \$544,000 in FY 2003-04 payment requests until FY 2004-05, and more than \$740,000 in FY 2004-05 payment requests until FY 2005-06.

The deferred payment requests were related to two programs for which administrative code permits, but does not require, the PSC to reimburse telecommunications providers for waiving telephone connection charges or reducing monthly telephone rates to lower-income individuals. The PSC believes it has the authority to not pay or to defer consideration of payment requests for these two programs if constrained by budgetary limits.

Figure 2

Expenditures¹ for PSC-Operated Programs

¹ Expenditures reported in the financial statements.

Based on expenditure trends in FY 2003-04, the PSC anticipated early in FY 2004-05 that spending authority would be insufficient to cover expected requests for payments during that year. In response, the PSC reduced benefits in the program that helps people with disabilities acquire special telecommunications equipment and did not provide any medical telecommunications grants during FY 2004-05.

2005 Wisconsin Act 25 establishes annual appropriations of \$6.0 million for the PSC-operated programs in the 2005-07 biennium. The PSC believes it can limit FY 2005-06 expenditures to the \$6.0 million level. However, its ability to quickly respond to future cost increases without significantly affecting its programs may be limited. Consequently, regular monitoring of future expenditure trends for the PSC-operated programs will be important. Furthermore, if growth in program demand and expenditures continues, the Legislature may be asked to reconsider statutory limits on the PSC's annual assessment levels.

Library Aids

For several years, the Universal Service Fund supported two programs administered by DPI: the BadgerLink program, which provides statewide on-line access to reference databases of magazines and newspapers, and the Newline program, which is an electronic information program that allows sight-impaired

individuals to listen to newspapers read over the telephone. Beginning in FY 2003-04, the Fund also helps to support the State's public library systems.

Until FY 2003-04, general purpose revenue (GPR) funded state aid to the public library systems. 2003 Wisconsin Act 33 shifted \$2.1 million in funding for public library aid payments from GPR to the Universal Service Fund for each year of the 2003-05 biennium. 2005 Wisconsin Act 25 further reduces GPR for library systems aid by \$2.2 million and increases funding from the Universal Service Fund by another \$4.2 million over the 2005-07 biennium. Under Act 25, the Fund will pay 28.3 percent of library systems state aid in FY 2005-06.

Newsline Program

The PSC annually transfers funds from the Universal Service Fund to DPI for the Newsline program, which is operated by the National Federation of the Blind. Transfers in each of the last three years have been \$67,500. However, we found that in seven of eight years since the program's inception in FY 1997-98, the funds made available to DPI have exceeded the Newsline program expenditures. As a result, a balance of almost \$165,000 has accumulated for the program.

DPI did not inform the PSC that these funds were not being fully spent, and the PSC did not monitor or require any reporting of program expenditure levels. In light of the accumulated balance we identified, the PSC has not budgeted any funding for the Newsline program in FY 2005-06, and it does not plan to provide any additional funds to DPI for the program until the balance has been substantially reduced.

Educational Telecommunications Access Program

The Educational Telecommunications Access Program, which is administered by DOA, pays for the equipment and installation costs of data lines and video links, and for ongoing service costs in excess of monthly charges paid by eligible institutions. Data line or video link services are provided by a consortium of telecommunications providers under contract with DOA. Almost \$91.0 million has been expended for the program through FY 2004-05.

After completion of an assessment of the State's future educational technology needs and a competitive procurement process, the State entered into a five-year contract with the same consortium for a new

statewide network, which will be known as the BadgerNet Converged Network. The new network is designed to provide higher data capability and video access on the same network to the State of Wisconsin and other public-sector users. It is expected to be available beginning January 1, 2006.

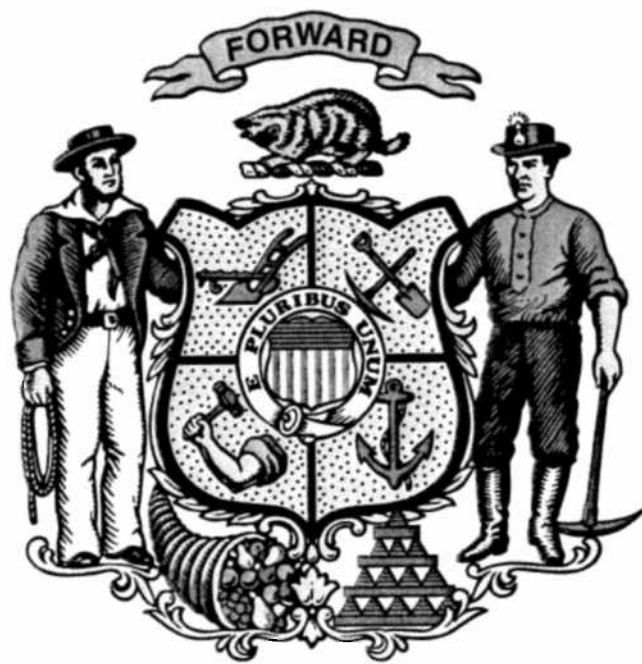
Monthly charges to participants in the Educational Telecommunications Access Program will remain the same: \$100 or \$250 per month, depending on the speed of their Internet data line or video link. Monthly costs to the Universal Service Fund will be \$2,769 per video link and will range from \$500 to \$1,190 per data line.

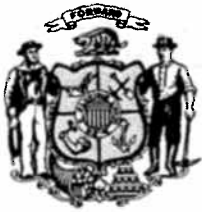
Recommendations

We include recommendations for the Public Service Commission to:

- ☑ change administrative code to require that telecommunications providers submit requests for payments for their services under the Lifeline, Link-Up America, and High Rate Assistance Credit programs by April 1 of the next fiscal year (*p. 13*);
- ☑ report to the Joint Legislative Audit Committee by March 31, 2006, on expenditure trends, cost projections, and its plans to address any projected payment requests that exceed spending authority in PSC-operated Universal Service Fund programs (*p. 13*); and
- ☑ work with DPI to establish formal procedures for transferring funds for the Newsline program based on actual program expenditures (*p. 16*).

■ ■ ■ ■





Public Service Commission of Wisconsin

Daniel R. Ebert, Chairperson
Robert M. Garvin, Commissioner
Mark Meyer, Commissioner

610 North Whitney Way
P.O. Box 7854
Madison, WI 53707-7854

March 30, 2006

Representative Suzanne Jeskewitz
Co-Chairperson, Joint Legislative Audit Committee
State Capitol – 314 North
PO Box 8953
Madison, WI 53708

Re: Response to Recommendations in the Report of the Audit of the
Universal Service Fund, September 2005

Dear Representative Jeskewitz:

In September 2005, the Legislative Audit Bureau (LAB) issued a report on its financial audit of the Universal Service Fund (USF). One of the recommendations in the report was that the Public Service Commission (Commission) report to the Joint Legislative Audit Committee by March 31, 2006, on USF expenditure trends and cost projections for FY06, and on plans to address any projected payment requests that exceed the Commission's spending authority for the Commission USF programs. Attached is the Commission's report that fulfills this requirement.

This report provides information on the expenditures through February 2006 and expenditure projections through the end of the current fiscal year. At this point, the Commission does not expect to have any payment requests that exceed its spending authority for fiscal year 2006. Additional information on spending trends for the major Commission USF programs will soon be available in a report to the Legislature on Investments in Advanced Telecommunications Infrastructure in Wisconsin and the Universal Service Fund. This report is expected to be released in April and will be available on the Commission's website at <http://psc.wi.gov/utilityinfo/tele/infrastructureCompetitive/infrastructure-index.htm>.

If you have any questions on the attached report or on the USF, please contact me at (608) 266-3843 or at anita.sprenger@psc.state.wi.us.

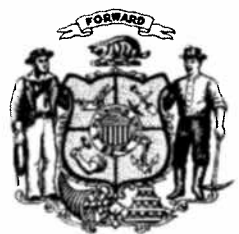
Sincerely,

Anita Sprenger
Manager, Universal Service Fund

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Enclosure

cc: Diann Allsen - LAB



Universal Service Fund Expenditures for Fiscal Year 2006

A Public Service Commission Report to the Joint Legislative Audit Committee

Background: The Universal Service Fund (USF) was established under 1993 Wisconsin Act 496 to ensure that essential telecommunications services are available to all state residents. An annual financial audit of the Fund is required. The Legislative Audit Bureau conducted the most recent audit and issued a report in September 2005. The report recommended that the Public Service Commission (Commission) report to the Joint Legislative Audit Committee by March 31, 2006, on USF expenditure trends and cost projections, and on plans to address projected payment requests that exceed the Commission's spending authority for the Commission USF programs.

Budget History: The FY 2001 budget appropriation for the Commission USF programs was \$8.0 million. In FY2002 and 2003 the appropriation was \$6.9 million. As a result of 2001 Wisconsin Act 16, the Legislature capped the amount that telecommunications providers could be assessed for the Commission portion of the USF. That legislation resulted in the USF budget appropriation being capped at \$5.0 million for FY04 and \$6.0 million for FY05 and thereafter for each fiscal year.

Prior to the cap being established, the Commission and USF Council focused on expanding, promoting or adding USF programs to fulfill the obligations of universal service. Previous Legislative Audit Bureau reports for the annual financial audits recommended that the Commission expand its outreach efforts because of under spending the USF appropriation through FY 2002.

The success of the Commission's outreach efforts resulted in steadily rising USF expenditures until 2003. By FY 2004, the Commission had to defer decision on payment of some program expenses. In FY04, it deferred over \$500,000 in expenditures to the next fiscal year, and in FY05, it deferred over \$700,000 to the next fiscal year. In FY 2005, the Commission made significant program changes and did not fund one of the grant programs as a means to reverse the overall USF program growth.

Current Budget: To stay within the \$6.0 million assessment cap for FY 2006, the Commission will likely again not be able to fund one of two USF grant programs. Outreach efforts for various USF programs for this fiscal year continue to be very limited. Also, telecommunication providers have not made significant reimbursement requests from prior years that need to be funded. As a result, the projected expenditure level for Commission USF programs for FY 2006 is \$5,977,350 (see attached table).

Program Expenditures: The attached table provides the FY 2006 budget and expenditures for each USF program. A description of each of these programs is provided in the Legislative Audit Bureau report. Expenditures for the current fiscal year include payments made through February 28, 2006. Details for each program projection are provided below:

Telecommunications Equipment Purchase Program – The program changes made in September and October of 2004 and the more limited outreach we have conducted for this program have significantly reduced the monthly expenditures for this program. This reduced level of expenditure has now continued for about 16 months and appears to be fairly stable. A monthly average of expenditures for the current fiscal year was calculated and that was used to determine expenses for the remaining four months; a cushion of about \$150,000 was added in case trends reverse and more vouchers are used in the latter third of the fiscal year.

High Rate Ceiling Credit – Revised credit amounts and payments for three quarters of the fiscal year were estimated to determine expenses for the remaining fiscal year. Through February 2006, only one quarter of expenses was paid to the two major providers receiving credits for this program. One of the providers receiving credits through this program has recently received a rate order that will reduce rates and reduce the reimbursement to it through this program. This rate reduction has been factored into the projected budget. No other significant program changes are expected in the remaining fiscal year.

Lifeline and LinkUp – Expenditures for Lifeline and LinkUp continue to slowly increase, likely due to providers' efforts to be in compliance with Federal requirements for Lifeline. Again, Commission outreach efforts for these programs have been limited because of the assessment cap. The deferred amounts for FY 2005 and two quarters of FY 2006 for all but one of the major providers are reflected in the expenditures paid for these programs through February 28, 2006.

Newsline for the Blind – No change is expected since zero dollars are budgeted for this program. The Department of Public Instruction will spend down an accumulated reserve to meet its budget requirements for this program.

Non-Profit Groups – Access Grant Program – Insufficient funds are expected to be available to fund this grant program in FY 2006. This grant program received funding in FY 2005.

Telemedicine Grant Program – Availability of funds for this grant program was announced in early March and grants totaling \$500,000 are expected to be awarded this May. This grant program did not receive funding in FY 2005.

Universal Service Fund Expenditures for Fiscal Year 2006

A Public Service Commission Report to the Joint Legislative Audit Committee

Background: The Universal Service Fund (USF) was established under 1993 Wisconsin Act 496 to ensure that essential telecommunications services are available to all state residents. An annual financial audit of the Fund is required. The Legislative Audit Bureau conducted the most recent audit and issued a report in September 2005. The report recommended that the Public Service Commission (Commission) report to the Joint Legislative Audit Committee by March 31, 2006, on USF expenditure trends and cost projections, and on plans to address projected payment requests that exceed the Commission's spending authority for the Commission USF programs.

Budget History: The FY 2001 budget appropriation for the Commission USF programs was \$8.0 million. In FY2002 and 2003 the appropriation was \$6.9 million. As a result of 2001 Wisconsin Act 16, the Legislature capped the amount that telecommunications providers could be assessed for the Commission portion of the USF. That legislation resulted in the USF budget appropriation being capped at \$5.0 million for FY04 and \$6.0 million for FY05 and thereafter for each fiscal year.

Prior to the cap being established, the Commission and USF Council focused on expanding, promoting or adding USF programs to fulfill the obligations of universal service. Previous Legislative Audit Bureau reports for the annual financial audits recommended that the Commission expand its outreach efforts because of under spending the USF appropriation through FY 2002.

The success of the Commission's outreach efforts resulted in steadily rising USF expenditures until 2003. By FY 2004, the Commission had to defer decision on payment of some program expenses. In FY04, it deferred over \$500,000 in expenditures to the next fiscal year, and in FY05, it deferred over \$700,000 to the next fiscal year. In FY 2005, the Commission made significant program changes and did not fund one of the grant programs as a means to reverse the overall USF program growth.

Current Budget: To stay within the \$6.0 million assessment cap for FY 2006, the Commission will likely again not be able to fund one of two USF grant programs. Outreach efforts for various USF programs for this fiscal year continue to be very limited. Also, telecommunication providers have not made significant reimbursement requests from prior years that need to be funded. As a result, the projected expenditure level for Commission USF programs for FY 2006 is \$5,977,350 (see attached table).

**Public Service Commission - Universal Service Fund
FY06 Budget and Expenditures**

USF PROGRAM	FY 2006 Budget \$	FY 2006 Expenditures Through 2/28/06 \$	Total Projected Expenditures for FY 2006¹ \$
Telecommunications Equipment Purchase Program	1,900,000	903,329	1,500,000
High Rate Ceiling Credit	290,000 ²	69,427	190,000
Lifeline	1,700,000	1,610,510 ³	2,300,000
Link-up	1,000,000	767,449 ⁴	1,150,000
Newsline for the Blind	0	0	0
Non-Profit Groups – Access Grant Program	307,000	0	0
Telemed Equipment Grant Program	307,000	0	500,000
Public Interest Payphones	212,000	34,850 ⁵	34,850
Two-Line Voice Carryover	2,000	1,573	2,500
Administration	282,000	197,851	300,000
Total for FY06	6,000,000	3,584,989	5,977,350⁶

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¹ Includes fourth quarter payments that will be made in July, 2006. While these are accrued in FY06, they could be paid out of FY07 dollars without considering them deferred.

² Does not assume any significant rate changes in rural high cost areas of the state due to the FCC's Intercarrier Compensation Reform Plan or due to provider rate changes.

³ Includes payments of \$553,773 that were deferred from FY05.

⁴ Includes payments of \$186,297 that were deferred from FY05.

⁵ An additional \$70,692 has been spent in FY06 and \$51,000 additional dollars are projected to be spent. However, remaining encumbered dollars from FY05 will be used for these expenses so that those amounts will not be included in FY06 expenses.

⁶ In the 13th month of FY05, WISMART payments of \$112,595 were made but not reflected in the funds cash basis final program expenditures as of June 30, 2005. (\$18,300 Administration, \$34,207 LinkUp, \$60,069 Lifeline and \$18 2LVCO expenses).

Public Interest Payphones – Additional expenditures will be made in this program that are not reflected in the attached table, because the Commission is spending down the encumbered dollars from the previous fiscal year. In addition, the costs for this program have decreased because of adjusted costs per phone as submitted by the providers and because fewer phones are in the program. No additional public interest payphones have been approved for the program in the past three years because of the assessment cap.

Two-Line Voice Carryover – The expenditure projection for this program determined by extrapolating the average expenses for the first eight months for the full year. No change in spending trends is expected.

Administration – The expenditure projection includes expenditures through February 28, 2006 and estimated costs for five months of management fees for the USF administrator, printing costs, program verification fees and interpreter fees.

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