

2015 Connectivity Fund Report

A report to the Connectivity Advisory Board

Produced by:

The Department of Public Service
Division for Telecommunications and Connectivity
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I. Overview

This report contains an accounting of monies available to the Connectivity Fund and a projection of revenues for the connectivity fund for fiscal year 2016 (“FY16”), as required by 30 V.S.A. § 202f (h). The Statute directs the Commissioner of Public Service to “submit to the Connectivity Advisory Board an accounting of monies in the Connectivity Fund and anticipated revenue for the next year.”

The Vermont Universal Service Fund (VUSF) is a special fund supported through an assessment on telecommunications services provided within Vermont. The fund supports four programs:

- (1) Vermont Telecommunications Relay Service (and Equipment Distribution);
- (2) Vermont Lifeline Program;
- (3) Enhanced 911; and
- (4) Connectivity Fund

In 2014, the Vermont General Assembly set the assessment rate at 2%. This charge is assessed on telecommunications services. These services include telephone, mobile wireless voice, and prepaid wireless. VoIP providers also contribute to the fund. The rate is collected on telecommunications services only, and broadband Internet service revenues are not subject to the assessment.

The Connectivity Fund supports two programs: (1) the High Cost Program, and (2) the Connectivity Initiative. The High Cost Program provides financial support to Vermont Eligible Telecommunications Carriers (“VETCs”) for lines operating in FCC designated high cost areas. The Connectivity Initiative is a grant program administered by the Department of Public Service for the purpose of expanding broadband technologies to underserved areas. 30 V.S.A. § 202f requires the Department of Public Service to provide an accounting of monies in the Connectivity Fund and anticipated revenues for the next year. This report was produced to comply with this mandate.

II. FY2015 Connectivity Funding

In December of 2014 the Public Service Board announced the amount of monies available to the Connectivity Fund.¹ The Board identified \$1,926,699.58 available to the Connectivity Fund. The Board committed the entirety of the account balance available on August 31, 2014. This decision was not based on revenue projections. 30 V.S.A. § 1715b at the time

¹ At the time, the Board was responsible for oversight of the VUSF. This oversight included identification of monies available to the Connectivity Fund. In 2015, the General Assembly transferred responsibility for the VUSF to the Department of Public Service.

mandated that the Connectivity Fund be equally divided between the High Cost Fund and the Connectivity Initiative. The Connectivity Initiative received \$963,349.79.

In April of 2015, the Department of Public Service awarded grants to Telephone Operating Company of Vermont (“FairPoint”), ECF Holdings LLC, and Comcast. The value of these grants total \$885,953.32.

The Department awarded grants through a competitive bidding process. Service providers bid on “eligible census blocks” chosen by the Department. The Department chose census blocks that included locations least likely to benefit from future upgrades to existing services. From the E-911 database of addresses, locations with fiber and cable access were excluded. Locations served with service at 4/1 Mbps by rural telephone companies were excluded. Locations with a funded solution in place were also excluded. The remaining locations have access to DSL and wireless service at speeds slower than 4/1 Mbps. This group of 16,370 underserved locations are spread over 2,793 census blocks. While all of these qualify for Connectivity Initiative funding, the 2015 list of census blocks was chosen because they each contain some wireless-only locations. The list included 268 census blocks that contain 1771 underserved locations.

Through these grants, the Connectivity Division was able to serve a total of 175 of the hardest to serve locations in the towns of Bradford, Jamaica, Norwich, Pittsfield, Randolph, Reading, Rochester, and Royalton. ECFiber was awarded \$365,304.00 to serve 105 locations with fiber to the premises in Pittsfield, Norwich, Randolph, and Royalton. Comcast was awarded \$230,649.32 to serve 15 locations in Norwich, Jamaica, and Rochester with data over cable service. Fairpoint plans to bring DSL service to 55 locations in Bradford and Reading with \$290,000. All providers are required to make available broadband speeds of at least 10/1 Mbps.

III. FY 2016 Connectivity Initiative Funding

The VUSF can support a contribution of \$87,000 to the Connectivity Fund.

a. Methodology

The monies available to the Connectivity Fund were calculated using financial data ending June 30, 2015. The audited financials of the VUSF indicate that the fund ended the fiscal year with a cash balance of \$ 2,311,935. This balance includes last year’s contribution to the Connectivity Fund as Connectivity Fund monies were never segregated on the VUSF’s books. Therefore, for purposes of calculating the available funding for FY16, the FY15 contribution was removed from the starting balance. Additionally, the VUSF received performance assurance penalties from Telephone Operating Company of Vermont. By an Order of the Board, these penalties were redirected to the Connectivity Initiative.² The fund received \$298,041 in PAP penalty payments after the issuance of the Order. This amount was removed from the starting

² Petition of Telephone Operating Company of Vermont, LLC d/b/a FairPoint Communications, Docket 7506, Order of 03/25/15, at 25.

cash balance. After these amounts were removed, the cash available to the Connectivity Fund is \$87,000.

b. Connectivity Initiative

The Connectivity Initiative is entitled, by statute, to 55% of the funds available to the Connectivity Fund. In addition, the *Connectivity Initiative* has a balance of \$77,396.47 remaining after last year's grant awards. The Connectivity Initiative also receives available PAP income. The total available for this year's round of grants is \$423,287.47.

c. High Cost Program

The High Cost fund is apportioned 45% of the available connectivity balance. In FY15, the apportioned amount was 50% or \$963,349.79. These funds remain unspent as the Public Service Board is entertaining petitions by telephone companies to become VETCs. Once VETC status is granted, those telephone companies will be eligible to draw high cost funds. This year's apportionment totals \$39,150.00. The total amount committed to the High Cost Program at this time is \$1,002,499.79.

IV. FY16 Revenue Projections.

The Department projects that over the next year, revenues from the VUSF will provide for a modest contribution to the Connectivity Fund. The Department predicts an estimated \$361,245 will be available for the Connectivity Fund in FY17.

The Department bases these projections on carrier revenues of \$320,875,687. Although carrier revenues are likely to be higher, this number was derived by averaging the last three years of actual contributions to the fund.³ The Department believes that these projections represent a conservative, but realistic prediction of contributions to the fund. Likewise, expenses were estimated using averages of the last three years, except where there is a fixed budget (such as for Enhanced 911). The projections do not include PAP payments, which go directly to the Connectivity Initiative.⁴

V. 2016 Connectivity Initiative Grant Program

This year, the Division intends to revamp its grant program with an eye toward leveraging Connectivity monies with community and private support. The Connectivity Division is actively meeting with town representatives to identify needs in eligible census blocks. Through partnerships between communities, broadband service providers, and the Department, this Division will target investment where that investment can be supported with local and private contributions. As an example, the Department would use town and provider generated data to

³ The Department relied on the audited financials of the 2013, 2014, and 2015.

⁴ The Department anticipates a reduction in PAP penalty payments as a result of the PAP Order and therefore has chosen to exclude PAP penalty revenues from the FY15 projections.

identify a group of census blocks where service is insufficient. The Division would then work with a service provider to develop a strategy for serving that area. Such a plan could use Connectivity funding and local grants to extend cable service to that area. The Division will also foster greater synergies between private and state organizations by leveraging the state’s existing fiber infrastructure for use in grant funded deployment projects. This strategy will give the Division the ability to target its grant funds in areas where such funding will produce the greatest benefit.

Summary Table

Contribution Year	Connectivity Fund Total:	Connectivity Initiative:	High Cost Program:
FY15	\$1,926,699.58	\$963,349.79	\$963349.79
FY16	87,000	\$423,287.47*	39,150.00
FY17 Projections	361,150.00		

* Includes \$298,041.00 in PAP penalties and \$77,396.47 carry forward from FY 15.