

An Audit:

Universal Service Fund

Public Service Commission

July 2003

Report Highlights ■

The Fund supports Internet access in schools and libraries.

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.

PSC-operated programs increase telecommunications access.

The Fund supports telecommunications services and access programs that are provided by several state agencies, including the Public Service Commission (PSC), the Technology for Educational Achievement (TEACH) Board, the University of Wisconsin System, and the Department of Public Instruction. It is funded through assessments paid by telecommunications providers, which totaled \$22.3 million in fiscal year (FY) 2001-02.

Almost \$4 million was lapsed to the General Fund during the 2001-03 biennium.

Several provisions in the 2003-05 Biennial Budget Act affect the Fund.

At the request of the PSC, we completed a financial audit of the Universal Service Fund. Our audit report contains our unqualified opinion on the Fund's financial statements and related notes for the fiscal years ending June 30, 2002 and 2001.

Key Facts and Findings

The Universal Service Fund is funded through assessments paid by telecommunications providers.

Telecommunications providers paid a total of \$22.3 million in FY 2001-02.

We have issued an unqualified opinion on the Fund's FY 2001-02 financial statements.

Fund expenditures and transfers totaled \$18.9 million during FY 2001-02.

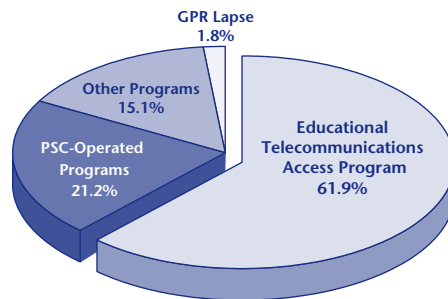
Subsequent to GPR lapses, the Fund had a balance of \$4.8 million as of June 30, 2003.

Subsidies and grants have provided for 834 data lines and video links throughout the state.

Educational Telecommunications Access Program

The largest program supported by the Universal Service Fund is the Educational Telecommunications Access Program, which subsidizes new and existing data lines and video links to public and private K-12 schools, colleges, public libraries, and others. The program has been operated by the TEACH Board.

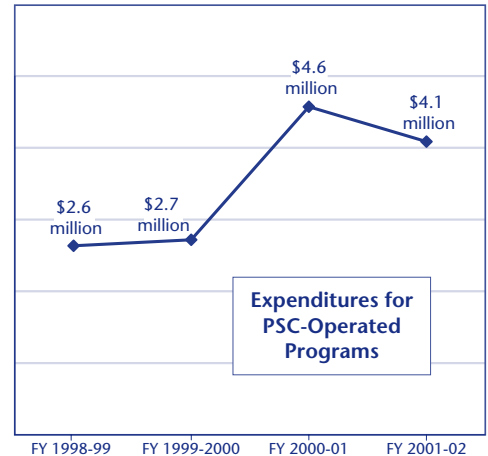
In FY 2001-02, Educational Telecommunications Access Program expenditures were \$11.7 million, which was 61.9 percent of the Universal Service Fund's total expenditures and transfers.



PSC-Operated Programs

Eight other programs supported by the Universal Service Fund help people with disabilities acquire special telecommunications equipment, lessen the financial effect of rate increases on users, and serve low-income individuals. These programs are operated by the PSC.

Until recently, the PSC-operated programs spent significantly less than their budgets. However, with the addition, expansion, and promotion of these programs, expenditures for their operation and administration have increased.



During FY 2001-02, expenditures for PSC-operated programs included:

- \$1.6 million for the Telecommunications Equipment Purchase Program, which provides financial assistance to help persons with disabilities in acquiring special telecommunications equipment;
- \$1.5 million for the Lifeline and Link-up America programs, which provide support for low-income individuals to establish and receive basic telephone services;

- \$275,000 for the Medical Telecommunications Equipment Program, which awards grants on a competitive basis to nonprofit medical clinics or public health agencies for the purchase of medical telecommunications equipment;
- \$235,000 for the Access Program or Project by Nonprofit Groups program, which provides grants to nonprofit groups for programs or projects that facilitate affordable access to telecommunications and information services;
- \$130,000 for the Public Interest Pay Telephone Program, which ensures that pay telephones remain or are installed at locations where there is a public need;
- \$101,000 for the Rate Ceiling Credit Program, which lessens the financial effects of rapid rate increases on users;
- \$850 for the Two-Line Voice Carryover Program, which provides a second telephone line for hearing-impaired customers for teletype service; and
- \$200,000 for administrative expenses.

Under limits established in 2001 Wisconsin Act 16, the 2001-03 Biennial Budget Act, the assessments that fund these programs have been reduced to \$5.0 million in FY 2003-04 and \$6.0 million in FY 2004-05 and each year thereafter.

Lapses to the General Fund

In response to projected budget deficits for the 2001-03 biennium, several bills were enacted that required state agencies to lapse funds to the General Fund. A total of \$340,000 was lapsed from the Universal Service Fund in FY 2001-02, and \$3,639,000 was lapsed in FY 2002-03.

Required Lapses to the General Fund		
Act	FY 2001-02	FY 2002-03
2001 Act 16	\$200,000	\$ 200,000
2001 Act 109	140,000	200,000
2003 Act 1	0	3,239,000
Total	\$340,000	\$3,639,000

First, the 2001-03 Biennial Budget Act required the Department of Administration (DOA) to recommend lapses from various agencies to the General Fund totaling \$18.8 million each year in both FY 2001-02 and FY 2002-03. DOA's recommendations included lapses of \$200,000 from the Universal Service Fund in both years.

Second, 2001 Wisconsin Act 109 required the Fund to lapse another \$340,000 to the General Fund: \$140,000 in FY 2001-02, and \$200,000 in FY 2002-03.

Finally, subsequent budget adjustment legislation, 2003 Wisconsin Act 1, required the Universal Service Fund to lapse another \$3,239,000 during FY 2002-03. Following these lapses, the Universal Service Fund had a balance of approximately \$4.8 million as of June 30, 2003.

New Budget Provisions

Under 2003 Wisconsin Act 33, the 2003-05 Biennial Budget Act, the TEACH Board is eliminated and administration of the Educational Telecommunications Access Program is moved to DOA.

Other Universal Service Fund-related provisions in the 2003-05 Biennial Budget Act include:

- shifting \$4.2 million of public school library aid payments from general purpose revenue (GPR) funding to the Universal Service Fund for the 2003-05 biennium and allowing the PSC to assess telecommunications providers for the library aid payments; and
- specifying that public museums are eligible for the Educational Telecommunications Access Program.

Additional Information

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