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FISCAL IMPACT REPORT

SPONSOR <u>Padilla</u>	LAST UPDATED <u>3/05/2025</u>	ORIGINAL DATE <u>2/09/2025</u>
SHORT TITLE <u>Increase Rural Service Fund Allocations</u>	BILL	
	NUMBER	<u>Senate Bill 126</u>
	ANALYST <u>Rodriguez/Hilla</u>	

REVENUE* (dollars in thousands)

Type	FY25	FY26	FY27	FY28	FY29	Recurring or Nonrecurring	Fund Affected
Surcharge	\$0.0	\$10.0	\$10.0	\$10.0	\$10.0	Recurring	State Rural Universal Service Fund

Parentheses () indicate revenue decreases.

*Amounts reflect most recent analysis of this legislation.

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT* (dollars in thousands)

Agency/Program	FY25	FY26	FY27	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
PRC	Indeterminate but minimal	Indeterminate but minimal	Indeterminate but minimal	Indeterminate but minimal	Recurring	General Fund

Parentheses () indicate expenditure decreases.

*Amounts reflect most recent analysis of this legislation.

Sources of Information

LFC Files

Agency Analysis Received From

Public Regulation Commission (PRC)

Department of Finance and Administration (DFA)

Office of Broadband Access and Expansion (OBAE)

SUMMARY

Synopsis of Senate Bill 126

Senate Bill 126 (SB126) amends the Rural Telecommunications Act (RTA) (Chapter 63, Article 9H NMSA 1978) and increases the statutory total obligation cap of the state rural universal service fund (SRUSF) from \$30 million to \$40 million. The bill also increases the amount dedicated to the broadband program from SRUSF from \$30 million to \$40 million, less the amounts expended for the other programs pursuant to the act.

The effective date of this bill is July 1, 2025.

FISCAL IMPLICATIONS

SB126 would require PRC to increase its surcharge rate for the SRUSF to raise an additional \$10 million. The Department of Finance and Administration (DFA) estimates the surcharge rate would need to increase by 25 percent to raise the additional funds.

The proposed changes in SB126 are not expected to create any additional fiscal impact on the state because the fund's administration is already in place.

SIGNIFICANT ISSUES

State Rural Universal Service Fund. The state rural universal services fund (SRUSF), funded through assessments on telecommunications providers, was created to support rural telecommunications providers in expanding and maintaining infrastructure. Funding provides financial assistance to eligible telecommunication carriers operating in rural areas to cover the high costs of infrastructure development and maintenance to help reduce the financial burden on rural consumers. While originally focused on traditional telephone services, the act has been adapted to support broadband internet expansion.

The fund supports four programs and payments, in addition to legal, administrative, and audit fees:

- Access reduction support (ARS) provides reimbursements to rural local exchange carriers for revenue lost when the act required them to substantially reduce the access charges that they charged other carriers to complete calls using their “last mile” wires. In 2023, RTA was amended to cap the amount of ARS payments and eliminates ARS payments completely after 2026.
- Comparable carrier support is financial assistance to ensure that certain telecommunications carriers receive funding for access charge reductions. Only one company receives this type of assistance in New Mexico.
- The Low Income Telephone Assistance Program (LITAP) provides financial assistance to low-income customers on monthly voice service charges. PRC notes there has been a steady reduction in LITAP needs.
- The Broadband Program provides funding to eligible telecommunications carriers for the construction and maintenance of broadband infrastructure that connect unserved locations or augment existing broadband capabilities. Projects are awarded in collaboration with the Office of Broadband Access and Expansion (OBAE) and the Connect New Mexico Council (CNMC) and align with the New Mexico Broadband Plan. An increase in the SRUSF cap, as proposed in SB126, would increase the amount of funding available to award in the Broadband Program.

In 2024, the most recent public fund distribution showed that ARS payments accounted for over half of the total available funds, while the broadband program received approximately 40 percent of the funds. As noted above, a 2023 bill eliminates ARS payments completely after 2026. In accordance with Section 63-9H-6(S), PRC has opened a proceeding to hear from stakeholders regarding recommendations to provide the Legislature regarding the repurposing of ARS and to determine whether ARS payments should fund the broadband program. The outcome of that proceeding will be relayed to the Legislature in the PRC’s next annual report near the end of 2025.

In its 2021 report to the Legislature regarding the SRUSF, PRC recommended temporarily increasing the cap for the broadband program from \$30 million to \$40 million to address the demand for broadband and stated, “The RTA’s \$30 million cap is preventing the Broadband Program from being fully responsive to the urgent broadband access needs generated by the pandemic. Thus, the Commission believes that the cap is temporarily interfering with the Broadband Program’s purposes.”

Recent Surcharges. The fund is financed by a surcharge on intrastate retail telecommunications services per communication connection. A "communication connection" includes landlines, wireless voice connections, voice over internet protocol (VoIP) services, or equivalent services. PRC determines and approves the amount of the fund and the surcharge rate necessary to finance the fund on or before November 20 of each year. The current surcharge for the SRUSF is 79 cents, and the Department of Finance and Administration (DFA) states the 2025 fund balance is \$28.3 million. Below is a summary of recent per-communication connection surcharges, as established by PRC.

Year	Communication Connection Rate
2025	\$0.79
2024	\$1.13
2023	\$0.97
2022	\$0.95
2021	\$1.08

Possible Increases to Ratepayers. As noted in “Fiscal Implications”, DFA estimates the surcharge rate would need to increase by 25 percent to raise the additional funds. Since these surcharges are typically passed on to consumers by telecommunications providers, ratepayers may see higher costs on bills. However, the exact impact is hard to determine as some providers may absorb some of the costs.

ADMINISTRATIVE IMPLICATIONS

PRC notes an increase in the SRUSF cap will likely bring an increase in applications for funding, and PRC’s Telecommunications staff will have to absorb the additional work. However, the administration supporting this program already exists so the proposed changes in this bill would not likely create an additional fiscal impact.

OTHER SUBSTANTIVE ISSUES

Funding for Broadband Projects in New Mexico. While OBAE continues to obligate funding to internet service providers, tribal, and local governments for broadband expansion, expenditure of funds has been slow because broadband deployment is capital in nature. OBAE currently has \$97.9 million in unexpended and unencumbered funds from state funds.

In January 2025, OBAE opened its applications for the state’s \$675 million federal award for the Broadband Equity Access and Deployment (BEAD) program. The application is open for 29 entities to apply. OBAE has until July 2025 to get the final awardee list approved federally before funding can be released. OBAE will have seen almost \$942.1 million across state and federal funds flow through the office since its creation in 2021. Despite the funding the office is expected to receive, it anticipates a \$2.1 billion gap in funding for broadband deployment. In its updated three-year state plan, OBAE states that 60 percent of internet access will be via

broadband fiber, and the 40 percent would be aerial connections such as satellite. The LFC recommendation supports the reauthorization of the \$97.9 million unencumbered and unexpended balance for OBAE.

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