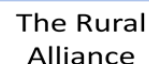


FOR IMMEDIATE RELEASE



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## **FLAWED USF WHITE PAPER BASED ON FAULTY ASSUMPTIONS ABOUT FUND MECHANICS**

***Rural advocates rebut misleading conclusions with facts about allocation of high-cost USF support***

WASHINGTON (March 7, 2011) — Representatives of the National Exchange Carrier Association (NECA), the National Telecommunications Cooperative Association (NTCA), the Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO), the Rural Alliance, and the Western Telecommunications Alliance (WTA) today refuted inaccurate assertions in a recently released white paper that a substantial portion of federal USF support goes to discretionary corporate expenses. They found that faulty assumptions and erroneous calculations led the paper to overstate dramatically the portion of USF that supports such expenses.

The paper, “The Universal Service Fund: What Do High-Cost Subsidies Subsidize?,” is based on a review of USF high-cost loop data submitted by NECA to the FCC. It asserts that “of each dollar distributed to recipient firms, about \$0.59 goes to ‘general and administrative expenses.’” The associations, however, have identified several faults with the methodology used in — and the conclusion reached by — the paper.

First and foremost, the FCC’s recently released notice of proposed rulemaking observed that corporate expenses account for only 13% of high-cost loop support—not the 59% claimed in the paper. Furthermore, the paper demonstrates a fatal misunderstanding of how expenses are actually supported by USF. Strict application of the paper’s methodology (*i.e.*, correlating any given expense account to federal high-cost loop support) would yield the impossible proposition that in aggregate a single dollar of USF support pays for more than \$1.00 of expenses.

For example, using 2010 ratios of expense to support yields the following : \$1.37 of depreciation expense, \$0.87 of plant-specific operating expenses, *and* \$0.57 in corporate expenses. In sum, the paper’s methodology leads to the illogical conclusion that each \$1 of USF support could

somehow cover no less than \$2.81 of expenses. The fatal flaw of the paper is its incorrect assumption that all expenses *incurred* by USF recipients are *actually supported* by USF. The paper ignores that USF recipients are in fact required to run their businesses efficiently precisely because they do *not* receive full recovery of all expenses through USF.

The FCC's recent finding that corporate expenses account for 13% of high-cost loop support is more accurate and reflective of what expenses are actually supported by the USF system. The associations also noted that corporate operating expenses for activities such as accounting and finance functions, managing vendors, and regulatory compliance efforts are directly related and essential to the provision of sustainable, high-quality, and affordable services in rural areas. The associations urged policy-makers to take a more careful and complete look at the workings of USF in considering how to reform this critical cost recovery mechanism.

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***The National Exchange Carrier Association (NECA)** is a membership association of U.S. local telephone companies, dedicated to keeping customers connected on state-of-the-art communications networks. Our services help more than 1000 members across rural America deliver voice, video and data on high-speed multi-use broadband systems. Visit us at [www.neca.org](http://www.neca.org)*

***The National Telecommunications Cooperative Association** is the premier association representing more than 570 locally owned and controlled telecommunications cooperatives and commercial companies throughout rural and small-town America. NTCA provides its members with legislative, regulatory and industry representation; meetings; publications and educational programs; and an array of employee benefit programs. Visit us at [www.ntca.org](http://www.ntca.org).*

***The Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO)** represents approximately 470 small local telecommunications companies serving primarily rural areas of the United States and Canada. OPASTCO membership includes both commercial companies and cooperatives, which range in size from fewer than 100 to 100,000 access lines, and collectively serve more than 3 million customers. OPASTCO represents rural telecommunications interests before federal regulatory bodies and Congress, provides publications, and holds two conventions annually in January and July of each year, addressing the needs of the small telecommunications industry. The association has an affiliate 501(c)(3) nonprofit, the Foundation for Rural Education and Development (FRED). Visit the OPASTCO website at [www.opastco.org](http://www.opastco.org).*

*The primary focus of the **Rural Alliance** is intercarrier compensation reform, but the group is also the assisting Rural Associations in their efforts to develop a rational USF and ICC reform plan for rural ILECs.*

***Western Telecommunications Alliance** is a trade association whose membership is comprised of approximately 250 rural telecommunications carriers providing high-quality voice, video and data services throughout rural areas in the 24 states west of the Mississippi River. On average, WTA member companies serve fewer than 3,000 access lines with fewer than 500 customers in each exchange. WTA's members serve some of the most rural and hard-to-serve communities in the country and are on the forefront of bringing 21st Century telecommunications services to rural America.*