

The Critical Need for Universal Service Fund Contributions Modernization

Background

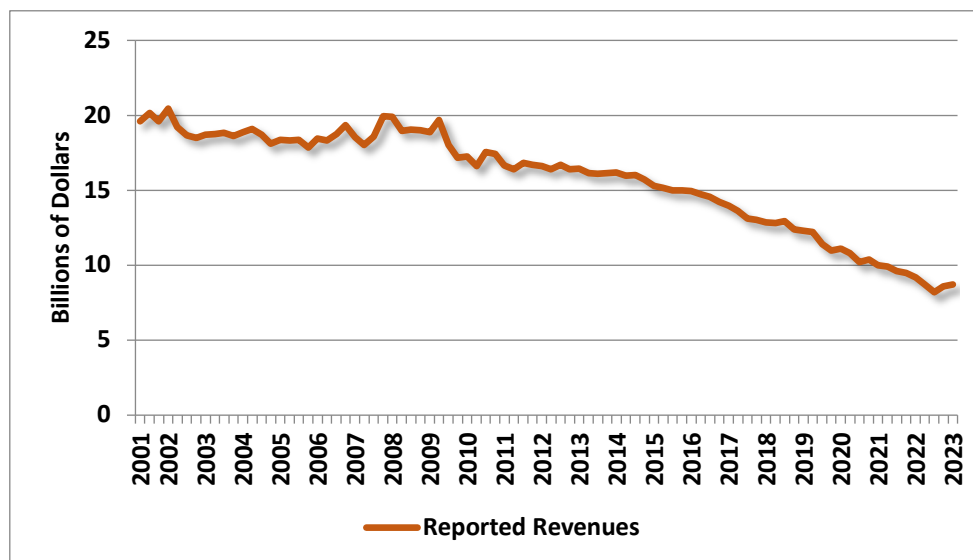
The Communications Act of 1934, as amended, established the Universal Service Fund (USF) to ensure that consumers in rural, insular and high-cost areas have access to communications services that are comparable to those available in urban areas at comparable prices. The USF was hugely successful in delivering voice services to consumers in rural areas and has been successful in getting broadband to many rural areas, particularly those traditionally served by small providers. The enabling and transformative powers of the Internet offer the promise of economic growth, high-quality and high-paying jobs, and an improved quality of life for rural Americans.

The USF doesn't just fund broadband network buildout in rural areas. In addition to supporting rural communications infrastructure (High-Cost Program), the USF also supports the provision of broadband to low-income consumers (Lifeline Program), schools and libraries (E-rate Program), and rural health care providers (Rural Health Care Program). Over the last decade, the FCC modernized the distributions of funding from the High Cost Program in a way that provides more certainty and stability for rural providers while moving it from a voice-centric to a broadband-centric program. The FCC has also reformed the E-rate, Lifeline and Rural Health Care Programs to focus them on broadband.

Problem

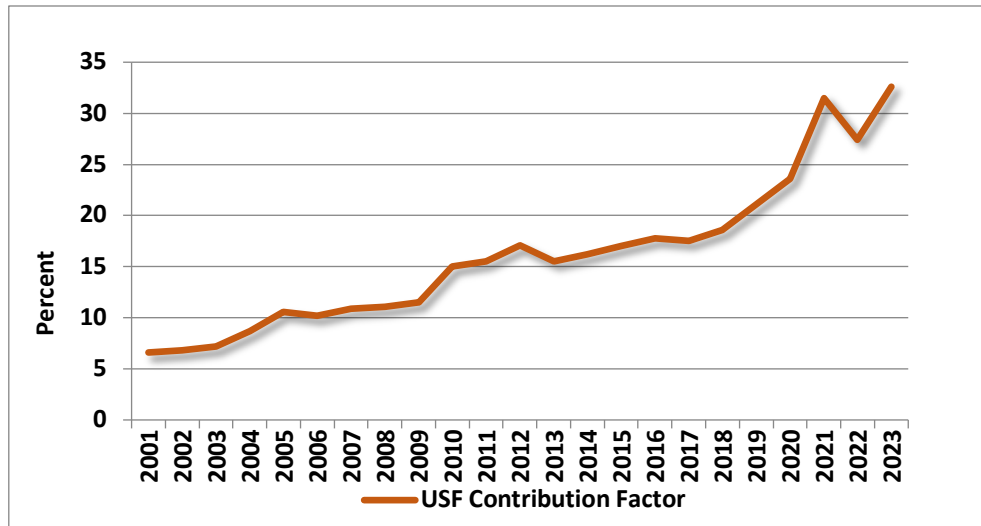
The universal service funding mechanism that makes rural broadband infrastructure investments possible today is paid for primarily from assessments on revenues from voice-based services (the percentage assessment is referred to as the USF contributions factor). This revenue has been steadily declining for decades.

Reported Revenues for the Purpose of Assessing Universal Service Fund Contributions



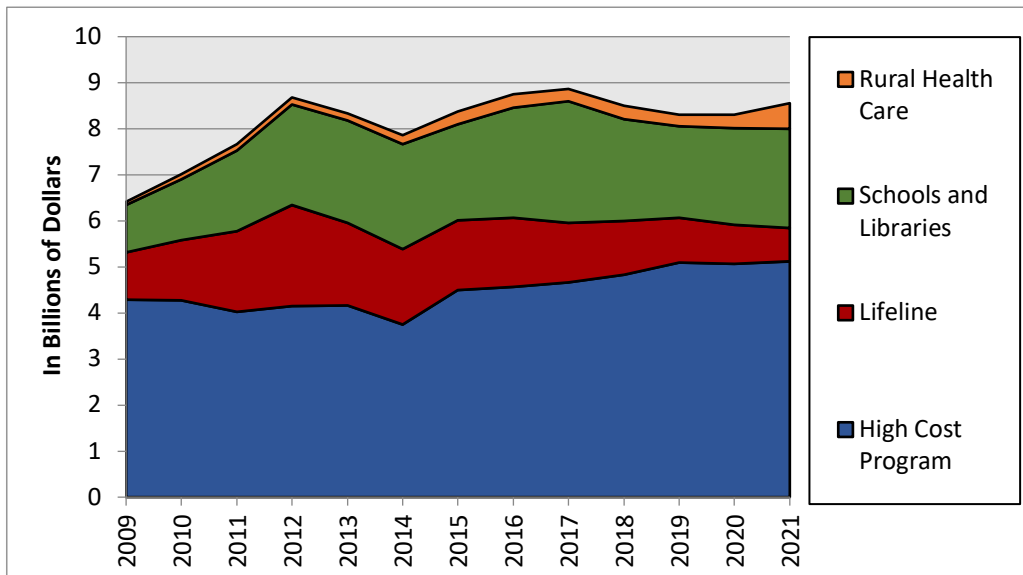
To make up for the declining revenue and increased distributions from the fund, the USF contributions factor has had to increase. For the first quarter of 2023, the USF contributions factor will be over 32%, up from less than 10% 15 years ago. This is not sustainable and unfair to voice service customers.

USF Contribution Factor (quarterly rate averaged over the year)



Unless the funding mechanism is modernized to take into account the realities of a broadband world, the promise that broadband holds for rural America will be wasted, and worse, rural areas will continue to see a serious out-migration of businesses and jobs and a decline in quality of life.

USF Distributions by Program 2009-2021



Solution

The nation's history with major infrastructure initiatives demonstrates that we have the vision and ability to design, build, and pay for the facilities and tools necessary to open new markets and drive economic growth and job creation. Programs that fund infrastructure investment through equitable assessments on those that will directly benefit from that infrastructure are not so much a tax, as they are a user fee. The USF is one of the few federally-administered programs that actually pays for itself.

It is time the FCC modernize the contributions mechanism so that it is not based on the long-distance revenue of voice providers, but is assessed on broadband. In order to stay viable, a new, modern USF funding mechanism is needed that equitably spreads the cost of needed broadband infrastructure across all service providers that stand to benefit from such investment and allows universal service funding to be sustainable for the long run.