

The Universal Service Fund: A Communication Success Story

BACKGROUND

The federal Universal Service Fund (USF) was created by the Telecommunications Act of 1996 (Telecom Act), but the principle of universal service goes back to the 1930s, when telephone companies and policymakers committed to the goal of making sure everyone in the country had access to telephone service at affordable rates. This goal was largely achieved through the industry's implicit cross-subsidization of rural and urban networks, federal low-interest loans for rural networks, and, after the introduction of long-distance competition and the break-up of the Bell System, explicit subsidies provided by USF.

In the Telecom Act, Congress codified this program and set several guiding principles of universal service, including:

- All Americans should have access to advanced telecommunications and information services at just, reasonable, and affordable rates.
- Consumers living in rural areas and low-income consumers should have access to reasonably comparable communications services at rates that are reasonably comparable to those available to consumers living in urban areas.
- There should be specific, predictable and sufficient mechanisms to preserve and advance universal service.
- All providers of telecommunications services should make an equitable contribution to the preservation and advancement of universal service.

To achieve the Congressionally-mandated goals, the Federal Communications Commission (FCC) created four USF programs that today serve the following purposes:

High Cost Program

Purpose: Construction, maintenance, and upgrades of networks in rural areas.

\$4.54 billion

Lifeline Program

Purpose: Support communications needs of low-income Americans.

\$813 million

E-Rate Program

Purpose: Support broadband connection needs of schools and libraries.

\$2.36 billion

Rural Health Care Program

Purpose: Support broadband connections for rural health care facilities.

\$577 million

Over the years as technology has advanced and consumer needs have change, these four programs have been modernized and are no longer voice-centric support mechanisms but rather support both voice and broadband buildout and adoption.

NEEDED FUNDING MODERNIZATION

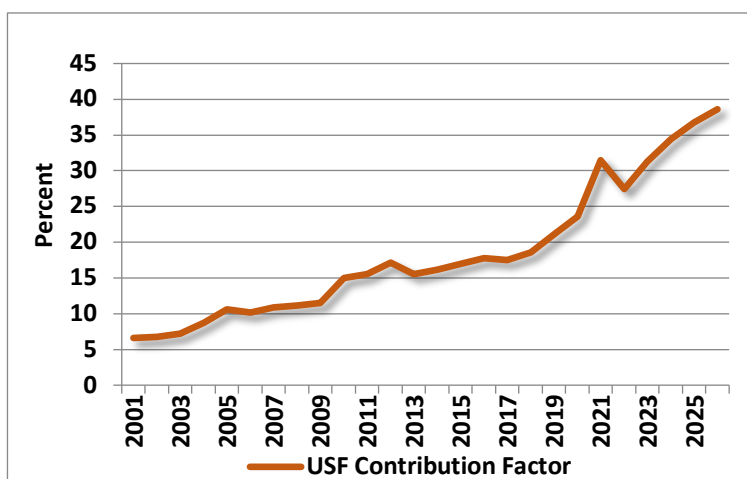
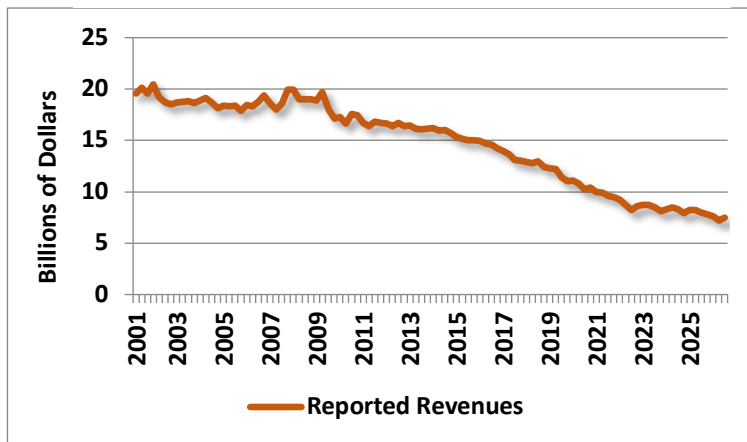
USF is funded by an assessment on a portion of wireline and wireless telephone revenues, primarily long-distance revenue. As less money is earned from selling voice service, the amount of assessable revenue has been declining. This revenue, on a quarterly basis, has declined from around \$17 billion 15 years ago to around \$8 billion today. Declining revenue means that in order to continue to meet the needs of the fund, the percentage assessed on that revenue must go up. This percentage, or contributions factor, has risen to over **42% in 2026**, up from 5.5% when the contribution factor was initially assessed, a more than 600% increase.

These trends are not expected to change, which makes the current mechanism unsustainable. Modernization is needed to align the contributions mechanism with the fact that the vast majority of USF funding is going toward broadband, so those who make significant profits off of a ubiquitous broadband network should contribute an equitable amount to maintain the fund.

Various reports have found that if policymakers were to include ISP revenue and/or the revenue of large content and edge providers the factor could drop below 4%, spreading the burden across a far wider base. The FCC found that including ISP revenue could reduce the factor to 3.3% while adding edge provider revenue would drop it to approximately .4%.¹ Two industry studies found similar results when looking at assessing ISP revenue.² In addition, another recent study found that edge provider assessments could reduce the factor to .8-.2%.³

A new, modern USF funding mechanism would not only shift the burden away from telephone customers but would also ensure that rural broadband networks are built and maintained, low-income customers can afford vital broadband connections, and school, libraries, and rural health care facilities are connected to the Internet. Policymakers should shift the responsibility of funding USF away from solely long-distance users to *users of the broadband network*. The FCC already has the authority to assess ISPs for contributions⁴, but Congress would need to provide authority to assess edge providers. **It is time for Congress and the FCC to act to put USF on a sustainable path for the future.**

Reported Assessable Quarterly Revenues



¹ FCC Chairwoman Jessica Rosenworcel, letter to Sen. Ben Ray Lujan, Jan. 12, 2024.

<https://docs.fcc.gov/public/attachments/DOC-400113A1.pdf>

² The Brattle Group, "The Economics of Universal Service Fund Reform," Aug. 24, 2023.

https://www.incompas.org/Files/filings/2023/The%20Economics%20of%20USF%20Reform%20Brattle_FINAL.pdf

Mattey Consulting, "USForward," Sept. 2021.

https://www.matteyconsult.com/_files/ugd/179aad_d610eca6ebd54082829f245229ec8c0e.pdf

³ Roselyn Layton, "Future of Universal Service. Financial Projections for Contributions," WC Docket No. 06-122, Oct. 28, 2024. <https://www.fcc.gov/ecfs/document/1028285351631/1>

⁴ Section 254 of the Telecom Act allows the FCC to assess telecommunications services, and there is a telecommunications service component of broadband Internet access service (BIAS) even if BIAS is regulated as a Title I service.