

Universal Service Policy and the Role of the Federal Communications Commission

This is the fifth in a series of white papers intended to facilitate a robust dialogue on modernizing the laws governing the communications and technology sectors. This discussion, informed in part by responses to [previous white papers](#), seeks comment on universal service policy for the modern communications ecosystem and the federal and state roles in maintaining and advancing universal service.

Background

The principle of universal service has long been at the heart of federal and state telephone policy. A century ago, the United States achieved that goal by granting a legal monopoly to one company to deploy the same telephone service to all Americans.

Today, consumers are purchasing telephone services from a variety of operators, each deploying different technologies to meet consumer needs. As a result, voice service is becoming just another application riding over IP networks, and consumers are increasingly turning to broadband voice over Internet Protocol (VoIP) services from cable providers and third parties like Skype for connectivity.

The rapid change in communications technologies, shifts in consumer preferences, and their impact on competition raise fundamental questions for universal service policy. This white paper seeks comment on the principle of universal service in the modern communications ecosystem.

Principles of Universal Service

Recognizing the traditional role of states in bringing about universal telephone service, Congress created a Federal-State Joint Board on Universal Service to advise the FCC on universal service policy. Universal service policy is premised on six statutory principles that were codified in the Telecommunications Act and two non-statutory principles that have been adopted and implemented by the FCC:

1. Quality services should be available at just, reasonable, and affordable rates;
2. Access to advanced telecommunications and information services should be provided in all regions of the nation;
3. Consumers in all corners of the country, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas;
4. All providers of telecommunications services should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service;
5. There should be specific, predictable and sufficient federal and state mechanisms to preserve and advance universal service;

6. Elementary and secondary schools and classrooms, health care providers, and libraries should have access to advanced telecommunications services;
7. Universal service support mechanisms and rules should be competitively neutral; and,
8. Universal service support should be directed where possible to networks that provide advanced services as well as voice services.

In furtherance of these principles, the Universal Service Fund distributes approximately \$8 billion each year through four areas of funding: (1) the high-cost program, (2) the low-income program, (3) the schools and libraries (E-Rate) program, and (4) the rural healthcare program. The FCC funds these four programs by collecting contributions from wireline and wireless companies and VoIP providers as a percentage of their interstate and international end-user telecommunications revenues. Because these costs can be passed along to subscribers, consumers effectively pay for the Universal Service Fund, usually through a universal service charge or fee on their phone bill.

The High-Cost Program

The high-cost fund supports eligible telecommunications carriers (ETCs) that provide telephone and broadband service in areas that struggle to attract investment because of the high cost of network deployment. The goal of the fund is to ensure residents of these regions – for example, rural communities – have access to reasonably comparable service and rates as their urban counterparts. The high-cost fund supports a mix of programs including broadband and legacy programs that support telephone networks. Eligibility is largely based on the historical regulatory treatment of the fund recipients. The high-cost fund is currently in the middle of a five-year, \$4.5-billion-a-year budget that was adopted as part of a recent package of reforms and had actual disbursements of \$4.17 billion in 2013.

The Low-Income Program

The goal of the low-income fund is to provide more affordable telephone service to low-income individuals. High-cost ETCs are required to participate in the low-income program; wireless resellers and other providers may participate in the low-income program without becoming high-cost ETCs. The low-income program disbursed \$1.8 billion in 2013 and currently operates without a cap or budget.

In recent years, the size of the low-income program has doubled as ETCs have used the low-income subsidy to offer free cellphones and free service. The FCC has responded by eliminating some of the most-abused components of the program and imposing across-the-board auditing and eligibility requirements on ETCs, including the creation of a National Lifeline Accountability Database.

The Schools and Libraries (E-Rate) Program

The schools and libraries program, also known as the E-Rate program, offers discounts to qualifying schools and libraries on eligible services. Discounts range from 20 percent to 90 percent, primarily determined by the number of local schoolchildren qualifying for the free-or-

reduced-price lunch program. Each year, the FCC determines the services eligible for support, including traditional telephone services, paging, cellphone service, international calling, Internet access services, special access services, as well as internal connections (such as Wi-Fi routers or building wiring). The schools and libraries mechanism is capped at about \$2.4 billion per year, indexed for inflation, with unused funds available in future years. In 2013, the schools and libraries disbursed \$2.2 billion.

The Rural Healthcare Program

The rural healthcare program offers discounts to qualifying rural healthcare providers on eligible services. The legacy program discounts rural rates to the rates paid in urban areas for telecommunications services. The newer healthcare connect program supports connectivity for consortia of healthcare applicants. The rural healthcare mechanism is capped at \$400 million per year and disbursed \$159 million in 2013.

Questions for Stakeholder Comment

1. How should Congress define the goals of the Universal Service Fund? Should Congress alter or eliminate any of the six statutory principles, codify either of the principles adopted by the FCC, or add any new principles in response to changes in technology and consumer behavior?
2. Universal service was created to fund buildout in areas incapable of economically supporting network investment. How should our policies address the existence of multiple privately funded networks in many parts of the country that currently receive support?
3. What is the appropriate role of states and state commissions with respect to universal service policy?
4. What is the appropriate role of the Federal-State Joint Board on Universal Service in a broadband, IP-enabled, largely interstate world? What is the appropriate role of related joint boards, such as the Federal-State Joint Board on Separations or the Federal-State Conference on Advanced Services?
5. The Universal Service Fund is one of several federal programs that support buildout of communications facilities. Are current programs at other federal agencies, like the National Telecommunications and Information Administration (which oversaw the Broadband Technology Opportunities Program) or the Rural Utility Service (which oversees lending programs and oversaw the Broadband Initiatives Program) necessary?
6. How can we ensure that the Universal Service Fund is sufficiently funded to meet its stated goals without growing the fund beyond fiscally responsible levels of spending?

7. Are all of the funds and mechanisms of the current Universal Service Fund necessary in the modern communications marketplace?
8. In lieu of the current support mechanisms, could any of the programs be better managed or made more efficient by conversion to:
 - a. A state block grant program;
 - b. A consumer-focused voucher program;
 - c. A technology-neutral reverse auction; or,
 - d. Any other mechanism.

While these questions address universal service policy and the FCC's role in its formulation and application, the committee encourages comment on any aspect of competition policy and updating the Communications Act. Please respond by September 19, 2014, to commactupdate@mail.house.gov. For additional information, please contact David Redl at (202) 225-2927.