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Extreme Make-Over: USF

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The Federal-State Joint Board on Universal Service (Joint Board) has issued a Recommended Decision (RD) urging the FCC to address the long-term reform issues facing the high-cost universal service support system and to make fundamental revisions in the structure of existing Universal Service mechanisms. The Joint Board recommended a number of sweeping changes in the current USF support regime:

- Establishing three separate “funds” with distinct budgets and purposes: one to support wireline voice services (“Provider of Last Resort Fund”), one to facilitate construction of wireless services in unserved areas (“Mobility Fund”), and one to facilitate construction of new broadband services to unserved areas (“Broadband Fund”);
- Eliminating the “identical support rule” under which competitive carriers receive support based on the incumbent’s cost of service, rather than on the competitor’s cost of service. Savings from elimination of that rule will provide funds for the Mobility and Broadband Funds. While that may sound like taking money from one pocket and putting it in the other, the RD suggests that rather than providing for on-going support of operations, the primary objective of the Mobility and Broadband Funds should be the expansion of geographic coverage, and support from these funds should therefore be targeted for capital spending for new construction in unserved areas;
- Imposing a cap on the total amount of high-cost funding at \$4.5 billion, which is approximately equal to the 2007 level of high-cost funding;
- Transitioning away from existing funding mechanisms and transferring some or all of the savings to the new Funds and mechanisms described above. During the transition, wireless competitive ETCs would receive reduced levels of support under the identical support rule, but would be eligible to seek funding from the Mobility Fund. The Board anticipates

that this transition will be revenue neutral, with about \$1.0 billion of funding per year eventually being distributed through the new Mobility Fund. Since the overall fund size will be capped at \$4.5 billion, any reductions in support for wireless carriers in year 1 will be available for disbursements from the Mobility Fund in year 2, and so forth;

- Capping each of the current POLR support mechanisms at their 2007 levels. “Modernization” of the POLR programs should result in savings that could be transferred to the Broadband Fund. Possible reforms include: applying a rates test as a condition or an adjustment to cost-based support; considering LEC costs on a comprehensive basis, as opposed to separate programs for loop and switching costs; considering unregulated revenues in calculating carriers’ need for support; making the Local Switching Support mechanism more sensitive to high costs; providing more limits on support for operating expenses; targeting support to only one service provider in an area; and reducing or eliminating, over time, the support to areas with multiple providers;
- Making support for operation and maintenance available for a limited period of time, thus eliminating Mobility and Broadband support once the objectives of geographic coverage in an area have been met; and
- Providing support to only one wireline, one wireless, and one broadband provider in any given area, once the transition is complete.

In addition to these recommendations, the Board suggested that the FCC seek further comment on a number of issues:

- how to allocate funds among the states;
- how to determine unserved areas for both broadband and wireless coverage;
- how to define “broadband service” for purposes of USF, given that the current 200 kbps definition is outdated;
- whether the proposed high-cost fund transition will have an impact on Lifeline and Linkup initiatives; and
- how to transition support from areas that no longer need support to areas unserved by either broadband or mobility providers.

The FCC will now have to decide what to do with these recommendations. Since numerous interested parties will be vying over how big a piece of the \$4.5 billion pie they receive, swift action should not be anticipated.