

October 2, 2017

**Filed Via ECFS**

Marlene H. Dortch, Secretary  
Federal Communications Commission  
445 12th Street, SW  
Washington, DC 20554

**RE: *Connect America Fund*, WC Docket No. 10-90; Comprehensive Review of the Universal Service Fund Management, Administration and Oversight, WC Docket No. 05-195**

Dear Ms. Dortch:

On Thursday, September 28, 2017, Derrick Owens and Gerry Duffy representing WTA – Advocates for Rural Broadband (WTA) met with Jay Schwarz, Wireline Advisor to Chairman Ajit Pai, to discuss the status of, and questions and concerns regarding, the apparently pending plans to transfer to the U.S. Treasury, the Universal Service Fund (USF) dollars currently managed by the Universal Service Administrative Company (USAC); and to discuss the status, timing and scope of the Commission’s promised sixth-year review of the High-Cost Support budgets adopted in 2011.

WTA noted that the only information it has about the possible transfer of USF funds to the Treasury is contained in the attached August 8, 2017 notice on the USAC website. Particularly given the facts that USAC administration of the USF was debated and discussed at length by industry stakeholders and other members of the public in CC Docket No. 97-21 (*Changes in the Board of Directors of the National Exchange Carrier Association, Inc.*) and WC Docket No. 05-195 (*Comprehensive Review of the Universal Service Fund Management, Administration and Oversight*) and that issues were resolved and regulations adopted in a series of formal Commission orders, WTA wonders why there has not yet been commenced a formal rulemaking wherein the proposed transfer plans and revised USF administration procedures and rules could be reviewed, analyzed and commented upon by interested stakeholders. For example, WTA believes that there may need to be changes to Section 54.702(b) of the Commission’s Rules which gave USAC responsibility “for billing contributors, collecting contributions to the universal service support mechanisms, and distributing universal service support funds.”

WTA expressed questions and concerns about the mechanics of Treasury involvement. How does it “reduce risk” and “ensure continued strong financial management” by interposing a new group of Treasury offices and employees between collection and distribution functions that have been performed by USAC since 1999? Who will actually distribute moneys for the differing High-Cost, Lifeline, E-Rate and Rural Health Care mechanisms – USAC or Treasury? Who is in a better position to monitor compliance, answer questions and resolve problems with respect to the four USF

mechanisms – Treasury officials who administer hundreds or thousands of different programs or USAC officials who focus entirely on the four USF mechanisms? Exactly what specific new financial management strengths might Treasury bring to USF administration that USAC does not and cannot provide? How is the loss of the substantial interest revenues generated by the private bank account employed by USAC a benefit to the USF program?

WTA and its members are very concerned about certain statements in the GAO Report (*Additional Action Needed to Address Significant Risks in FCC's Lifeline Program*, GAO-17-538, May 2017) that appears to have initiated or accelerated the apparent transfer plans. For example, assertions that “having the funds in the Treasury could allow USF payments to be used to offset other federal debts” (p. 23) and that “if the USF were held in the Treasury, the Secretary of the Treasury would have more cash on hand, which could reduce the Treasury’s need to borrow cash and its associated borrowing costs” (pp. 23-4) raise significant and legitimate fears on the part of WTA members and other USF recipients that transfer to the Treasury will result in the elimination of the existing Connect America Fund (CAF) Reserve and the diversion of other essential USF support to general governmental uses. Even if assurances were to be provided by the present FCC and Treasury Department that USF dollars would be “walled off” in some manner, there would still be concerns that such assurances would not be effective or that they would be terminated or modified by future FCC or Treasury officials.

Most of all, WTA is concerned about the increased levels of unpredictability likely to be injected into USF administration and revenue streams by the contemplated transfer to Treasury. WTA members and other rural local exchange carriers (RLECs) must employ 10-to-30-year loans to extend and upgrade their broadband networks, and will not be able to obtain or repay such loans if their critical USF revenue streams are periodically disrupted or otherwise become uncertain. Whereas current USF mechanisms are supplied by industry contributions and kept separate under USAC’s administration, transfer to the Treasury poses a new and uncertain danger that USF revenue streams would become subject to government shut-downs and other increasingly frequent federal budget disputes.

For all of these reasons, WTA believes that the contemplated transfer should be detailed and discussed in a public and transparent formal rulemaking before any concrete and difficult-to-reverse steps are taken.

WTA also inquired about the status of the sixth-year review of the High-Cost program budget that the Commission promised in the 2011 *USF-ICC Transformation Order* and during the ensuing Tenth Circuit appeal thereof. WTA understands that, at the very minimum, the Commission needs to order USAC to continue billing and collecting the full \$4.5 billion amount of the High-Cost Program budget, and urges it to do so. WTA also believes that changes in broadband demand and economic conditions since 2011 require increases in the High Cost Program budgets. It notes, in particular, that the funding benchmark for the Alternative Connect America Cost Model (ACAM) Path remains below the optimal \$200 per location level, and that the budget control mechanism “haircuts” for Rate of Return (RoR) Path carriers have already risen precipitously to double-digit levels that deter investment and disrupt operations and maintenance.

Pursuant to Section 1.1206(b) of the Commission's Rules, this submission is being filed for inclusion in the public record of the referenced proceeding.

Respectfully submitted,

/s/ Gerard J. Duffy

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Attachment: USAC August 8, 2017 Notice

cc: Jay Schwarz

## Attachment

### **8/8/2017 – Transfer of USF Funds to U.S. Treasury**

In coordination with the FCC, USAC is formulating the plan to transfer the funds of the Universal Service Fund (USF) to the U.S. Department of Treasury. The USF funds are currently held at a third party banking institution. This transfer of funds to the U.S. Treasury will reduce risk and ensure continued strong financial management of the USF. USAC remains the independent, not-for-profit administrator of the USF programs under the guidance of the FCC.

While no action is required by any USF program participants at this time, USAC is committed to proactively communicating with all stakeholders through the course of this transition and will provide detailed transition information beginning in November of 2017. We anticipate the transfer to be complete during 2018.

Please email [CustomerSupport@usac.org](mailto:CustomerSupport@usac.org) with any immediate questions, using the subject line "Treasury."