

**Before the  
Federal Communications Commission  
Washington, DC 20554**

In the Matter of	)	
	)	
	)	WC Docket No. 06-122
Universal Service Contribution Methodology	)	
	)	

**COMMENTS OF  
AD HOC TELECOMMUNICATIONS USERS COMMITTEE**

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## SUMMARY

The Universal Service Fund (“USF”) faces an immediate crisis, caused by a funding methodology that relies upon an unstable base of revenues. The current contribution factor of 24.4% is obscenely high. It imposes huge external costs on end-users’ already limited and constrained IT budgets; it diverts money that could be directed toward network investment or product innovation into a government program that lacks an overall budget limit; it distorts market choices by driving end-users to non-assessed services because they are 24.4% cheaper. At current contribution requirements, the system is not sustainable because, put simply, it costs end-users too much. New technologies are now enabling business customers to move their network connectivity to basic internet circuits, which is made all the more appealing because the Commission has ensured that these services are not assessed the extraordinarily high, tax-like USF surcharge. In the coming quarters, that movement of services will further accelerate the reduction in the base of assessable revenues and cause the contribution factor to move ever upward.

Ad Hoc supports the Commission’s proposal in this proceeding to adopt an overall budget cap for the Universal Service Fund (“USF”). An overall budget cap is a basic and common-sense method for ensuring good governance of USF programs and responsible stewardship of USF contributions. As the various budget mechanisms currently in place for the individual USF program have shown, budgets for billion dollar USF programs are reasonable, effective, and they promote responsible disbursement of limited resources. At the same time, reasonable flexibility and mechanisms for adjusting the budget caps allow for expansion of USF programs when deliberate policy

decisions are made to spend more USF money on particular program objectives. A budget cap set at current disbursement levels of \$9 billion will prevent unrestrained and unintended growth in USF disbursements.

A budget cap will not, however, solve the real crisis dragging down USF. Nor is it likely reduce the contribution factor. Over the last five years, disbursements from USF have remained relatively flat; the contribution factor, however, has increased by some 45%. Solving this problem requires the Commission to reform the fundamental problems with the contribution methodology. Therefore, the Commission should immediately: (i) fix the current revenues based system by expanding the revenues base to include assessment of broadband internet access, estimated to reduce the contribution factor to around 5%; (ii) adopt a telephone numbers-based assessment for every assigned telephone number, resulting in a monthly per-number assessment of approximately \$1.00; or (iii) quickly move toward adopting a connections based methodology, understanding that the lack of connections data and the historical challenge of agreeing upon speed based assessments suggests this will be a complicated and long term project.

The current contribution factor of 24.4% should be strong signal to the Commission that the time to fix USF is now.

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**COMMENTS OF  
AD HOC TELECOMMUNICATIONS USERS COMMITTEE**

The Ad Hoc Telecommunications Users Committee (“Ad Hoc”) hereby submits its Comments in response to the Commission’s May 31, 2019, Notice of Proposed Rulemaking in the above-captioned proceeding.<sup>1</sup>

**BACKGROUND**

Ad Hoc is a longstanding organization of corporate enterprise customers that individually and collectively purchase large quantities of wireline and wireless telecommunications and information services. Its membership includes many Fortune 500 companies from a wide variety of industries including manufacturing, financial services, consumer products, shipping and logistics, and transportation. Ad Hoc’s membership does not include any telecommunications carriers or manufacturers of telecommunications equipment.

Most importantly for purposes of this proceeding, Ad Hoc members and other corporate end-users contribute billions of dollars to the Universal Service Fund (“USF”)

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<sup>1</sup> *Universal Service Contribution Methodology*, WC Docket No. 06-122, Notice of Proposed Rulemaking, FCC 19-46 (rel. May 31, 2019) (the “*Notice*” or “*NPRM*”).

through their purchases of telecommunications services which are currently assessed at a shockingly high rate of 24.4%.<sup>2</sup> As payors into USF seeing no apparent future limit to how much they will be required to contribute, end-users have a profound interest in the amounts disbursed by USF to achieve policy objectives, and in the stability and fairness of the methodology used to collect funds for USF.

**I. THE UNIVERSAL SERVICE FUND CURRENTLY FACES AN EXISTENTIAL CRISIS CAUSED BY A RAPIDLY DISAPPEARING SOURCE OF FUNDS TO SUPPORT ITS PROGRAMMED EXPENDITURES.**

For over two decades, Ad Hoc has participated in the Commission's USF proceedings.<sup>3</sup> We have consistently encouraged and supported efforts by the Commission to set clear and achievable USF policy priorities and outcomes, to adopt mechanisms that will ensure recipients of USF funding deliver their subsidized services cost effectively, and to collect funds for USF according to a fair, non-discriminatory, and stable contribution mechanism. We have also repeatedly urged the Commission to address the well-known problems with USF disbursements and the unstable revenues-based contribution methodology.<sup>4</sup> And to that end, we have always participated in Commission proceedings that have considered alternative methodologies, presenting to the Commission viable

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<sup>2</sup> Proposed Third Quarter 2019 Universal Service Contribution Factor, Public Notice, DA 19-559 (rel. Jun. 12, 2019).

<sup>3</sup> See, e.g., Comments of the Ad Hoc Telecommunications Users Committee on the NPRM, CC Docket 96-45 (filed Jun. 25, 2001); Reply Comments of the Ad Hoc Telecommunications Users Committee, WC Docket No. 10-90 (filed Aug. 11, 2010) ("Ad Hoc 2010 Reply Comments"); Comments of the Ad Hoc Telecommunications Users Committee on the NPRM and FNPRM, WC Docket No. 10-90 (filed Apr. 18, 2011) ("Ad Hoc 2011 Comments"); Comments of the Ad Hoc Telecommunications Users Committee on the FNPRM, WC Docket No. 06-122 (filed Jul. 9, 2012) ("Ad Hoc 2012 Comments"); Reply Comments of the Ad Hoc Telecommunications Users Committee, WC Docket No. 06-122 (filed Aug. 6, 2012) ("Ad Hoc 2012 Reply Comments").

<sup>4</sup> See Ad Hoc 2011 Comments at 1.

alternatives to the current system and requirements for any new methodology to obtain support of the enterprise end-user community.<sup>5</sup>

The long period of inaction, inattention, and endless reconsideration of a fully mature record must now end. Although Ad Hoc has historically supported the national policy goal of promoting universal connectivity, the current USF disbursement and funding model is no longer sustainable by end-users at the currently mandated contribution levels. Quite simply, the costs of USF to end-users have grown too high.

Most businesses in America do not know much about the Universal Service Fund, particularly the details of the mechanisms that control disbursements or mandate contributions. Not surprisingly, they are too focused on developing new and innovative products, deploying advanced technology to compete in global markets, and creating jobs in communities across the country. What they do know about USF is the 24.4% surcharge that appears each month on their invoice for telecommunications services. In other words, they know how much USF costs *them*, that it raises their cost to purchase essential telecommunications services by nearly 25%, and that this cost has consistently continued to increase over time. They have not seen any meaningful action from successive Commissions to stabilize—let alone, reduce—the ever escalating contribution factor that diverts scarce dollars in their IT and technology budgets to a government program that operates without an overall budget cap and relies upon an evaporating source of revenues to fund ever larger and more expensive policy objectives.

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<sup>5</sup> Ad Hoc 2012 Comments; Ad Hoc 2012 Reply Comments.

The actual impact on businesses is clear. By imposing a tax-like surcharge of nearly 25% on basic telecom services, including types of network connectivity heavily relied upon by businesses, USF assessments distort market choices. Due to the ridiculously high contribution factor, business customers are now forced to make decisions about the network services they purchase that are not based solely on the desired service features, functionality, and pricing available—all features of a competitive market. Instead they must consider whether a service carries a 24.4% USF surcharge or whether a reasonable substitute is available that escapes assessment. And, as we describe in Section III below, technology advances have enabled businesses to escape heavily surcharged services by deploying services the Commission has chosen to exempt from USF assessments which were previously unfit for widespread deployment in enterprise networks.

As the Commission well knows, this potentially large scale migration will only hasten the “USF death spiral” about which the Commission was warned nearly twenty years ago.<sup>6</sup> As more end-users migrate to non-assessed services, the revenue base currently assessed will decrease, perhaps sharply, requiring the contribution factor to rise further. And this pattern will continue with no end in sight, requiring an even larger increase in the contribution factor, if not quarter by quarter, then year to year, to make up for the rapidly disappearing revenue. The Commission has a responsibility and an obligation to fix this problem—now—by addressing the underlying issues that have

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<sup>6</sup> Comments of the Coalition for Sustainable Universal Service on the FNPRM, CC Docket No. 96-45 (filed April 22, 2002); Comments of the Ad Hoc Telecommunications Users Committee on the FNPRM, CC Docket No. 96-45 (filed April 22, 2002) (“Ad Hoc 2002 Comments”).



caused the factor to increase so dramatically over time. If the Commission continues to delay, it threatens the continued existence of USF.

## **II. THE COMMISSION SHOULD ADOPT A COMPREHENSIVE USF BUDGET CAP AS AN INITIAL, INCREMENTAL STEP TOWARD STABILIZING THE FUND.**

Ad Hoc supports the Commission's proposal to establish an annual combined USF budget cap.<sup>7</sup> From the perspective of private sector businesses, a budget is not an option or a vague concept. It is an essential, organizing limit around which priorities are established and, if expenses exceed available funds, pursuant to which difficult choices must be made. And, just like the owners and shareholders of private businesses, taxpayers and consumers that fund USF coffers should know that disbursements of the funds they provide are made thoughtfully to achieve well-established and achievable program objectives constrained by an overall budget amount. An overall budget cap is a basic and common-sense method for good governance and stewardship of USF contributions.<sup>8</sup>

### **A. USF COMPONENT PROGRAMS ALREADY OPERATE UNDER VARIOUS BUDGET CONTROLS THAT CONSTRAIN WASTEFUL DISBURSEMENT WHILE STILL PERMITTING ACHIEVEMENT OF PROGRAM OBJECTIVES**

The Commission need look no further than the current budget mechanisms applied to each of the four USF programs for evidence that budget caps are effective

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<sup>7</sup> NPRM at ¶ 9.

<sup>8</sup> Ad Hoc has called for budgets and spending discipline in Universal Service programs for many years, particularly in the bloated High Cost Fund where it was desperately needed. Ad Hoc 2011 Comments at 40-41. As described in Section II.A.1, *infra*, the notional budget cap of \$4.5 billion that the Commission adopted in 2012 has served the renamed Connect America Fund well, and broadband deployment has been accomplished more efficiently and effectively by working within an established budget amount.

tools for program management. Indeed, various budget caps on the four USF programs, both notional and firm, have been part of USF administration since the Fund's inception as part of the Telecommunications Act of 1996. These individual component budget caps directed funds toward their most efficient use while still meeting the needs of the program's constituents. Most importantly, however, the budget caps did not constrain evolution and *thoughtful* expansion of the various programs; instead, the caps have been adjusted and modified over the years as required to satisfy evolving program requirements. The Commission's success in using separate budget controls for the Fund's component programs strongly suggests that an overall budget cap for USF provide would provide similar benefits to the program as a whole.

**1. The \$4.5 billion budget adopted for the High Cost/Connect America Fund demonstrates the effectiveness of budget caps on disciplining and focusing USF disbursements.**

In 2011, the Commission adopted a notional budget cap of \$4.5 billion for the many varied components of the High Cost Fund ("HCF").<sup>9</sup> The cap was adopted at a time when the Commission appeared to face two irreconcilable issues: on the one hand, demand for HCF dollars was growing at an aggressive, uncontrollable and, ultimately unsustainable rate; on the other hand, the Commission sought to transform HCF to fund deployment of broadband service to areas that were un-served or underserved while ensuring that LECs dependent on HCF funds remained solvent. By carefully examining each of the dozen subsidy programs that operated as part of the

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<sup>9</sup> See *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663 (2011) *aff'd*, *In re FCC 11-161*, 753 F.3d 1015 (10th Cir. 2014).

HCF, the Commission reduced overall program demand for funds for traditional wireline voice services that theretofore comprised the core of HCF (by, among other things, squeezing out wasteful, ineffective, and unnecessary subsidization).<sup>10</sup> The result: HCF introduced new, market-based mechanisms to promote broadband deployment (e.g., CAF models and auctions), and disbursements have generally been at the \$4.5 billion budget, without any inflation adjustments, since 2011.<sup>11</sup>

**2. The Schools and Libraries Program, subject to a budget cap since inception, demonstrates that budget caps discipline spending and can be adjusted to permit program expansion warranted by deliberate policy decisions.**

In 1997, the Commission established an annual funding cap for the newly created Schools and Libraries (or “E-rate”) program. The cap was set at \$2.25 billion following the recommendation of the Federal-State Joint Board on Universal Service.<sup>12</sup> The E-rate program operated under that cap until 2010 at which point the cap was allowed to adjust with inflation.<sup>13</sup> A budget cap did not destroy E-rate or underfund its recipients; instead, it evolved to meet the communications needs of the nation’s schools and libraries throughout the subsequent years. Again, following a deliberate policy

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<sup>10</sup> Ad Hoc was an active participant throughout the comprehensive USF reform proceeding that overhauled the existing HCF program components to fund broadband deployment within the \$4.5 billion budget cap. See Ad Hoc 2011 Comments; Comments of the Ad Hoc Telecommunications Users Committee on the Public Notice, CC Docket No. 96-45 (filed Aug. 24, 2011).

<sup>11</sup> NPRM at ¶ 11.

<sup>12</sup> *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776 (1997) at ¶ 529.

<sup>13</sup> See *Schools and Libraries Universal Service Support Mechanism, A National Broadband Plan for our Future*, CC Docket No. 02-6, GN Docket No. 09-51, Order, 25 FCC Rcd 18762 (2010) at ¶¶ 35-40.

decision to increase E-rate funding, the Commission comprehensively expanded the services that the program would subsidize and substantially increased the budget of the program by \$1.5 billion.<sup>14</sup> While it is certainly true that the original budget cap, then modified for inflation, mandated efficient use of limited funds, when the Commission carefully determined that additional funds were needed, the budget cap was commensurately raised. Spending did not just increase without first revisiting the program's priorities and objectives. When those were revisited, so too was the budget cap.

**3. The Low Income Program demonstrates the consequences of an uncapped program, resulting in unintended and unlawful expansion of disbursements.**

In contrast to the successful operation of the E-rate program under a budget cap, the Low Income Program ("Lifeline") underwent significant and sudden growth that required aggressive Commission intervention to rein in unplanned program expenditures. When the Commission developed rules for the Lifeline program (which, having been established in 1985, predated the current Universal Service Fund program) following passage of the Telecommunications Act of 1996, it did not establish a budget cap of any kind. In 2005, the Commission made a significant, policy-driven modification to Lifeline program rules to permit subsidization of wireless services. The broadening of the subsidized services in a program with no budget or cap of any kind proved

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<sup>14</sup> See *Modernizing the E-rate Program for Schools and Libraries*, WC Docket No. 13-184, Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd 8870 (2014); *Modernizing the E-rate Program for Schools and Libraries*, WC Docket No. 13-184, Second Report and Order and Order on Reconsideration, 29 FCC Rcd 15538 (2014).

problematic. Sharp growth in the demand for subsidized services, including some fraud and abuse, caused a significant and somewhat unexpected spike in required disbursements with no mechanisms in place to keep the Lifeline program on a sustainable trajectory of expenditures.

A crisis in the program forced Commission action to re-establish Lifeline on a solid budgetary footing: in 2012, the Commission implemented certain operational changes<sup>15</sup> to include enhanced subscriber verification and enrollment processes. The changes significantly reduced the fraud and abuse issues in the program and, notably, reduced program expenditures by 40% in less than 5 years.<sup>16</sup> Most importantly, in 2016, the Commission modified the list of services eligible for subsidization to include broadband and placed the program under a notional budget cap of \$2.25 million with an allowance for inflation adjustment.<sup>17</sup> Three years later, the Lifeline program still operates well below this cap.<sup>18</sup>

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<sup>15</sup> See *Lifeline and Link Up Reform and Modernization et al.*, WC Docket No. 11-42 et al., Report and Order and Further Notice of Proposed Rulemaking, 27 FCC Rcd 6656 (2012).

<sup>16</sup> See Gately, Susan and Golding, Helen, *An Analysis of the “Unconfirmed” and “Deceased” Subscriber Findings in the 2017 GAO Lifeline Report*, attached to Comments of Tracfone Wireless, Inc., WC Docket No. 11-42 (filed Feb. 21, 2018).

<sup>17</sup> *Lifeline and Link Up Reform and Modernization et al.*, WC Docket No. 11-42 et al., Third Report and Order, Further Report and Order, and Order on Reconsideration, 31 FCC Rcd 3962 (2016) at ¶¶ 400, 403; 47 CFR § 54.423.

<sup>18</sup> NPRM at ¶ 11.

**B. THE COMMISSION SHOULD ESTABLISH AN OVERALL BUDGET CAP AT CURRENT DISBURSEMENT LEVELS, ESTABLISHING SENSIBLE MECHANISMS FOR ADJUSTMENTS WHEN REQUIRED**

The record is clear: budget caps have successfully disciplined USF spending on a program by program basis. They have been adopted so as to maintain sufficient flexibility for adjustment when required to fulfill specific program objectives, established through deliberate policy decisions. With this track record of success, adoption of a single comprehensive budget cap at this time of crisis in confidence regarding the viability of the of the entire USF program, is a common-sense step forward.

Given that a budget cap will logically require the prioritization of expenditures and promote efficiency in the disbursement of USF dollars, Ad Hoc strongly encourages the Commission to adopt an initial USF budget cap roughly equal to the amount of current disbursements of \$9 billion.<sup>19</sup> Although this budget amount falls below programmed expenditures (which currently exceed demand for funds), establishing the budget cap at current disbursements will enable the Commission to address the real source of crisis in the Universal Service Fund—the structurally flawed contribution methodology which is built on the unstable foundation of a rapidly collapsing revenue base for telecommunications service. Until the Commission can adopt reforms to control the explosive growth in the quarterly contribution factor—which will continue to skyrocket even if disbursements remain at current levels—it should not disburse additional funds which will simply aggravate this problem. Upon completion of a proceeding to reform the contribution methodology and evidence that implementation of those reforms has

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<sup>19</sup> *Id.*

been successful, the Commission could then raise the USF budget cap to current programmed expenditures of \$11.4 billion with appropriate adjustment mechanisms warranting upward or downward adjustments to the cap.

### **III. THE COMMISSION WILL NEVER RESOLVE THE CURRENT USF CRISIS UNTIL IT REFORMS THE BROKEN CONTRIBUTION METHODOLOGY**

The Commission must not lose sight of the real problem with USF: a contribution methodology that relies upon a quickly evaporating basis of carrier revenues for interstate and international telecommunications services. Through years of inattention, neglect, avoidance, delay and deliberate policy decisions to exclude from assessment revenues attributable to broadband internet access, the Commission has endangered the viability of USF by keeping in place a contribution methodology whose demise has long been predicted. Simply put, a funding source based upon a nearly 25% assessment of specific services has reached the end of its viability. And worse, the assessment will continue to grow, and grow more rapidly than in the past, making it completely unsustainable.

#### **A. ADOPTION OF A BUDGET CAP WILL NOT SOLVE THE REAL PROBLEM CAUSING THE CURRENT CRISIS IN USF.**

While adoption of a budget cap will lessen the likelihood of unrestricted growth in fund disbursements, USF expenditures are not the primary cause of the astonishing growth in the contribution factor. Indeed, as the Commission's own reporting of disbursement shows, USF expenditures over the last five years have remained

relatively flat.<sup>20</sup> Yet, during that same period, the contribution factor has increased dramatically: from 16.8% in Q1 2015 to the current 24.4%, a dramatic 45% increase.

The reason for the disparity between stable disbursements and increasing contribution obligations is well known by the Commission. The assessed carrier revenue base is collapsing. In 2015, assessed carrier revenues totaled \$60.5 billion.<sup>21</sup> For 2019, assessed carrier revenues are estimated to total \$47.5 billion.<sup>22</sup> Consideration of the data over a longer term underscores the recent, dramatic worsening of the problem: since 2004, the assessed revenue base has fallen by \$28 billion. But nearly half that decline—\$13 billion—occurred in the last four years.

The following table illustrates the point:

<b>Year</b>	<b>Assessed Revenue Base</b>
2004	\$75.8 billion
2015	\$60.5 billion
2016	\$58.4 billion
2017	\$53.7 billion
2018	\$51.0 billion
2019	\$47.5 billion (est.)

Therein lies the simple explanation for why capping disbursements will do little to arrest the growth of the contribution factor. The real cause of the current crisis in USF is the funding mechanism, not the amounts of disbursements.

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<sup>20</sup> *Id.*

<sup>21</sup> Universal Service Administrative Co., FCC Filings, “Contribution Base Summary” for each quarter found at <https://www.usac.org/about/tools/fcc/filings/default.aspx>.

<sup>22</sup> *Id.*



## **B. THE COMMISSION'S INACTION ON CONTRIBUTION METHODOLOGY REFORM HAS LED TO THE CURRENT CRISIS**

The Commission has been warned about and has long been aware of this inevitable outcome. As far back as 2002, Ad Hoc has been identifying this obvious trend and urging the Commission to take action.<sup>23</sup> Yet at every opportunity, successive Commissions have chosen to do nothing.

In 2011, the Commission's comprehensive undertaking to overhaul USF programs inexplicably set aside reforms of the contribution methodology.<sup>24</sup> Having completed its initial reform of USF disbursement mechanisms, the Commission opened a new proceeding on contribution methodology, resulting in a refresh of the record which yielded no new information or options for reformation but confirmed the underlying structural flaw in the current system that would continue to cause a rise in the contribution methodology. Rather than proceed toward a reform of the system, the Commission kicked the can down the road by referring consideration of the issue to a Federal-State Joint Board in 2014.<sup>25</sup> Despite the Joint Board's failure to produce any agreed-upon public recommendation, the Commission continued to defer to the Joint Board when the Commission reclassified broadband internet access which, by any measure, warranted assessment of broadband internet access revenues.<sup>26</sup> Amazingly,

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<sup>23</sup> Ad Hoc 2002 Comments.

<sup>24</sup> Ad Hoc 2011 Comments.

<sup>25</sup> *Federal State Joint Board on Universal Service*, WC Docket No. 96-45, Order, 29 FCC Rcd 9784 (2014).

<sup>26</sup> *Protecting and Promoting the Open Internet*, GN Docket No. 14-28, Report and Order on Remand, Declaratory Ruling, and Order, 30 FCC Rcd 5601 (2015) at ¶¶ 488-9.

the Joint Board over the last five years has produced no public recommendation, no indication of agreement on a proposal for a path forward—in short, nothing.

### **C. BUSINESS CUSTOMERS ARE BEGINNING A SIGNIFICANT MOVEMENT TOWARD SUBSTITUTING NONASSESSED SERVICES FOR NETWORK ACCESS**

Historically, enterprise customers relied upon specific forms of network access subject to USF assessment. Due to service reliability limitations, lack of service guarantees, poor availability, and consumer-focused terms and conditions, businesses were not able to widely deploy broadband internet access in their network topologies.

Technological advancements have dramatically changed this restriction. Enterprise customers have begun a seismic shift in their network architecture characterized by so-called “Internet First” strategies. Through the use of newly available SD-WAN technology, end-users can assume greater control of their network management and can widely deploy cheaper internet circuits in place of traditional access forms. The disparate treatment of internet access circuits for USF purposes makes the economic rationale for this transition even more compelling. When faced with a choice for network access that is 24.4% cheaper than a non-assessed service, any consumer would substitute functionally equivalent non-assessed services if possible. SD-WAN now makes that choice feasible for business customers in many instances. And with consumers widely enjoying internet access speeds that rival traditional business-only connection speeds, basic internet access circuits are no longer a significant “step-down” in available bandwidth for small and medium-sized business locations.

Needless to say, this movement to non-assessed services will accelerate the reduction in assessed carrier revenues which, in turn, will accelerate required increases in the contribution factor. USF funding faces clear and imminent danger if the Commission does not act to reform or stabilize the funding mechanism.

**D. THE COMMISSION SHOULD PROCEED IMMEDIATELY WITH ADOPTION OF STRAIGHTFORWARD, COMMON SENSE REFORMS TO THE CONTRIBUTION METHODOLOGY**

The time for inaction has passed. The Commission has a well-developed record on options for contribution methodology reforms.<sup>27</sup> Although the underlying problem has worsened, the number of options available to the Commission have not increased. By undertaking a focused effort aimed at stabilizing the funding source for USF and fairly distributing contribution obligations across all services that benefit from USF subsidies, the Commission can alleviate the current crisis facing USF. If it does nothing, the entire program will be in jeopardy.

The options available to the Commission are limited and straightforward:

**1. Expand the current revenue base to include broadband Internet access**

Although it will not solve the structural flaws in the current system which relies on sometimes arbitrary line-drawing regarding which services contribute and which do not, inclusion of broadband internet access revenues will solve the *primary* problem facing the current system—lack of assessable revenues to support current disbursement

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<sup>27</sup> *Universal Service Contribution Methodology*, WC Docket No. 06-122, Further Notice of Proposed Rulemaking, 27 FCC Rcd 5357 (2012).

obligations. Most importantly, inclusion for broadband internet access revenues will, by most estimates, reduce the contribution factor to 5% or lower, a dramatic improvement and step forward toward stabilizing USF.

Ad Hoc does not consider preservation of the current revenue-based system to be the *best* option available to the Commission, but expansion of the revenue base will solve the most serious problem facing the current system, at least for the near future. It will also deliver much needed relief to those that must labor under the oppressive and market distorting surcharge currently applicable to assessed services by reducing the contribution factor significantly.

Furthermore, USF focuses subsidies on broadband internet access. It is therefore common sense and sound economic theory that the revenues from those services fund the subsidies provided. Recognizing that assessment of broadband internet access is politically controversial, Ad Hoc notes that expansion of the revenue base to include broadband would nevertheless solve the immediate crisis facing USF. We also note that if the Commission does not include revenues from broadband internet access in any future revenues-based system, it will lack sufficient revenues from other services to be a viable option for shoring up USF funding.

## **2. Adopt a numbers-based assessment methodology**

Ad Hoc has long promoted and supported adoption of a numbers-based assessment methodology. We have previously provided a detailed explanation of how to adopt and implement such a methodology<sup>28</sup> so will not repeat the information here.

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<sup>28</sup> Ad Hoc 2012 Comments; Ad Hoc 2012 Reply Comments.

However, we note the primary benefits of assessing each assigned telephone number from the North American Numbering Plan: administrative efficiency, elimination of line drawing between services that are assessed and those that are not, and stability (and, indeed, growth) in the base of assigned numbers, creating a reliable and predictable funding mechanism. The most recent available data still indicates that a per-number assessment would fall within the affordable range of \$1.00 per assigned number per month. Furthermore, a numbers-based methodology is service agnostic (wireline or wireless), customer agnostic (business and consumer), and easily manageable to promote USF policy objectives (exempting from assessment those numbers associated with services subsidized by the Low Income fund). Concerns, repeated year after year, that numbers will disappear with technology changes have been disproven year after year by the consistent growth in the use of assigned numbers.

### **3. Construct a connections-based methodology from scratch**

Although an assessment model based upon “connections” to the network is superficially appealing, development and execution of a connections model is actually challenging and potentially quite risky. There is little record evidence establishing a reliable database of connections currently in use. Development of such a database will take a significant amount of time, during which the current contribution factor will continue to grow dramatically. Assessment variations, likely based on the speed of the connection, will be a necessary component of any connections-based model and must be made without discriminating based on the ultimate use of the connection. Yet consensus on such assessments, especially based upon the lack of reliable data, has proven difficult to achieve in the past. In short, adoption of a connections-based

methodology is a long-term project, and the Commission does not have the luxury of continuing this effort over the long term. Furthermore, it is entirely unclear how a connections-based methodology can even exist without assessing the primary connection to the network—broadband internet access service.

If the discussion above seems familiar, it is because the underlying problem in the contribution methodology and the available solutions have not changed for nearly twenty years. The impact of the problem, however, has worsened dramatically so as to threaten the stability of the entire USF system. Ad Hoc urges the Commission to prioritize reform of the contribution methodology as the most important item on its USF agenda. Otherwise, USF cannot continue to support the current programs at predicted disbursement levels.

#### **IV. CONCLUSION**

In accordance with the foregoing, Ad Hoc urges the Commission to adopt the proposed budget cap but also re-focus its USF reform efforts on the real problem underlying the stability of USF—the flawed contribution methodology. The available solutions have not changed, and the time for the Commission to adopt a path forward is now.

Respectfully submitted,

AD HOC TELECOMMUNICATIONS USERS  
COMMITTEE

By:

A handwritten signature in black ink, appearing to read "Andrew Brown", is written over a horizontal line.

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