Before the Federal Communications Commission
Washington, D.C. 20554

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

Comments of Mark A. Jamison

Visiting Scholar

July 29, 2019

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I am a visiting scholar with the American Enterprise Institute, and I am Director and Gunter Professor of the Public Utility Research Center and Director of the Digital Markets Initiative at the University of Florida. While I am honored to have these affiliations, the comments I am filing with the Federal Communications Commission (hereafter FCC or Commission) are my own and may not reflect the views of any of the organizations with which I am affiliated.

The substance of my comments can also be found in my blog on this issue, which was published June 5, 2019.[1] I make two basic points regarding why forming an explicit overall cap on the universal service fund (hereafter USF) is good policy: (1) It provides clarity for stakeholders, provides transparency on how the FCC decides how much to spend on USF, and subjects USF to deliberate analysis of the benefits and opportunity costs of the USF; and (2) It makes clear that the individual USF programs compete with each other for funds, which should lead to more rigorous analysis of the relative benefits of the individual programs.

The Commission's May 15, 2019, Notice of Proposed Rulemaking (hereafter Notice) proposed formally establishing an overall cap on the Commission's USF. The proposal attracted much criticism in the media. It appears that most critics say they disapprove of there being a cap. It is difficult to understand how the critics can mean what they say. There are always caps on spending because resources are limited and there are competing demands for them. So the real issue is not whether the FCC should have a cap – it already has a vague implicit cap – but whether the cap should be explicit and based on deliberate analysis and debate.

There should be no objection to making transparent and clear the decisions that the FCC makes

[1] Mark A. Jamison, "Should the Federal Communications Commission cap spending on universal service?" *AEIdeas* June 5, 2019 < https://www.aei.org/publication/should-the-federal-communications-commission-cap-spending-on-universal-service/>.

on how many funds to commit to USF. A stated cap would provide stakeholders with clarity for their planning. My understanding from speaking with USF recipients over the years is that they find planning difficult because they are unsure how much money might be available in any given year. And they find themselves making repeated efforts to ensure that the funds they seek will be available. An explicit cap should decrease this uncertainty and decrease regulatory costs.

Also, an explicit cap should ensure that the FCC follows a transparent and analytically-based decision-making process for setting the cap. Presumably the FCC will have a proceeding for setting the actual cap. Having such a proceeding would require stakeholders to provide substantive analyses as to the tradeoffs that are made when committing funding to USF rather than to other purposes, such as household budgets. As I said in my blog, spending money for USF always involves tradeoffs:

> "For every million dollars the FCC spends on universal service, the telecommunications customers that fund the programs are spending a million dollars less on housing, education, and the like. Is that a good tradeoff? We don't know. This would also be an important topic that is raised by the presence of a cap, and another important study for FCC economists."

As the FCC observed in its Notice, each of the four elements of the USF — the high-cost fund (also known as the Connect America Fund or CAF), Lifeline, E-Rate, and Rural Health Care — already has a cap, although some are more formal than others. The individual caps do not appear to have seriously constrained the FCC's spending, as the Notice notes and as I say in my blog:

> "The E-Rate, Rural Health Care, and Lifeline funds all spend less than their caps. In the words of the FCC: 'In funding year 2018, the E-Rate cap was $4.06 billion and demand for actual support was $2.77 billion. . . . (T)he Lifeline program disbursed approximately $1.263 billion in calendar year 2017 and is on track to spend approximately $1.212 billion in 2018, compared to budgets of $2.25 billion and $2.279 billion in the respective years.' 'In June 2018, the Commission raised the RHC program funding cap to $571 million, beginning in funding year

2017, to address current and future demand for supported services by health care providers. . . . In funding year 2016, RHC demand was approximately $556 million, and the total amount of qualifying funding requests was approximately $408 million.' According to the FCC's Federal-State Joint Board Monitoring Report for 2018,[2] the FCC spent $261.5 million for Rural Health Care subsidies in 2017." (footnote added)

"The Connect America Fund spent slightly more than its budget by drawing upon reserves. In the words of the FCC: 'For years 2012-2017, the budget [for the Connect America Fund] was set at no more than $4.5 billion per year, with an automatic review trigger if the budget was threatened to be exceeded. . . . The Connect America Fund . . . disbursed $4.692 billion in 2017, of which approximately $480 million came from the CAF reserves.'"

These individual program limits are not a substitute for an explicit cap on USF. As I state in my blog:

"Even though there are individual caps on each of the four elements of the FCC's USF, having an overall cap would force the agency to explicitly examine the tradeoffs. For example, at a recent Senate hearing on rural broadband, some Senators described situations their constituents had conveyed to them about students from low income households not having broadband at home and so being dependent on broadband at school. This raises the question: Do low income households benefit more from Lifeline, E-Rate, or the Connect America Fund? If the programs' benefits are unequal at the margin, then there are good arguments for reallocating monies towards programs that give more bang for the buck. To my knowledge, this question hasn't been studied and would be an excellent topic of study for the FCC's Office

[2] Federal Communications Commission, "Universal Service Monitoring Report 2018," https://docs.fcc.gov/public/attachments/DOC-357769A1.pdf (accessed July 29, 2019).

of Economics and Analytics."

Thank you for considering my comments. Congratulations on your forward thinking.

Respectfully Submitted,

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