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

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms	)	CC Docket No. 98-171
	)	
Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990	)	CC Docket No. 90-571
	)	
Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size	)	CC Docket No. 92-237 NSD File No. L-00-72
	)	
Number Resource Optimization	)	CC Docket No. 99-200
	)	
Telephone Number Portability	)	CC Docket No. 95-116
	)	
Truth-in-Billing and Billing Format	)	CC Docket No. 98-170

COMMENTS OF PAETEC COMMUNICATIONS, INC.

PaeTec Communications, Inc. ("PaeTec") is a full-service, facilities-based competitive local exchange carrier ("CLEC") that provides a broad range of telecommunications services nationally to business and residential customers. PaeTec by its counsel, hereby respectfully submits its Comments in response to the Commission's Further Notice of Proposed Rulemaking ("FNPRM") in the above referenced dockets.

The FCC seeks comment regarding the administration of the federal universal service program; specifically, whether or not the current system of contribution recovery could be made "more fair and understandable for consumers."[1] PaeTec believes that the current system can be improved by redirecting the proceeds of the current telecommunication excise tax and eliminating the current contribution recovery system entirely.

Universal service as public policy is an admirable and achievable goal that benefits not only recipients of funds, but all telecommunications users nationwide as well, by ensuring the ubiquity of telecommunications services. The current process of *distributing* universal service funds appears to be working adequately, but the process of *collecting* USF contributions is fraught with a bureaucratic complexity that runs counter to principles of economic efficiency and fairness, imposes unreasonable burdens on carriers, creates confusion for end-users and detracts from the worthy purposes of universal service.

A better method of funding the universal service program would involve a direct, equitable tax on all telecommunications users, so that the burden of raising public revenue would be distributed according to the benefits that taxpayers generally receive from using public goods and services provided by government. A new telecommunications tax, however, is not only outside the purview of the FCC but would be subject to intense political scrutiny and would be unlikely to win support of the legislative and executive branches of the federal government.

As an alternative, the use of an existing tax for universal service purposes is an economically efficient, fair, politically tenable and practical solution. As all consumers of

[1] Federal-State Joint Board on Universal Service, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, *Further Notice of Proposed Rulemaking*, FCC 02-43 para. 15 (rel. Feb. 26, 2002).

telecommunications services in the United States are aware, the federal telecommunications excise tax (FET) is levied at a rate of three percent of the amount paid by individuals and businesses for local and toll (long distance) telecommunications services. This long standing tax, designed initially to help fund the cost of the Spanish-American War,[2] is now relegated to servicing revenue requirements of the federal general fund.[3] With legislative endorsement, this tax could be applied towards funding the federal universal service program, with dollars to spare. The FCC reported that its first quarter 2002 universal service support requirements totaled over $1.385 billion.[4] If one projects this requirement per annum (i.e. $5.54 billion), the revenues gained from the FET more than cover the amount required to support universal service. The 1999 US Congress Joint Committee on Tax, Schedule of Present Excise Taxes projected the FET on telecommunications as contributing $6.7 billion and $7.1 billion to the general fund in 2002 and 2003, respectively.[5]

Redirecting the proceeds of this tax would have a two-fold, positive effect. First, it would eliminate large portions of the bureaucracy currently in place both in government and in telecommunications carrier organizations to support contribution collection for universal service. Secondly, the redirection of the FET would eliminate the subjective, implicit and sometimes exorbitantly high, "pass-through" rates assessed by carriers on the end-user customer. Carriers

[2] Spanish War Act of 1898 Sched. A, chap. 448, 30 Stat. 448, 460 (repealed 1902; subsequently reenacted, repealed and reenacted numerous times)(currently codified at I.R.C. § 4251).
[3] Congressional Research Service, Library of Congress, Order Code RS20119, *Telephone Excise Tax* 2 (1999).
[4] Proposed Second Quarter Universal Service Contribution Factor, *Public Notice*, DA 02-562 at 2 (Mar. 8, 2002).
[5] Schedule of Present Federal Excise Taxes (as of January 1, 1999), JCS-2-99, at 35 (1999).

would merely collect a set tax rate and remit to the appropriate federal authority, reducing the costs of telecommunications services to end-users and thus improving consumer welfare.

PaeTec urges consideration of this proposal in this proceeding. We believe it meets the FCC's requirements for a sustainable and equitable universal service program for participants and contributors alike.

Respectfully submitted,

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