



April 14, 2008

## NTU Comments on USF Reform (CC 96-45 & WC 05-337)

Dear Federal Communications Commission:

On behalf of the 362,000 members of the National Taxpayers Union (NTU), I am writing to offer our views on the notice of proposed rulemaking (CC Docket No. 96-45) regarding the Universal Service Fund (USF). NTU supports the use of reverse auctions to reduce the unacceptable and unsustainable amount of taxpayer dollars going to the “high cost” portion of the USF.

As we have stated in previous filings, NTU believes the USF needs to be done away with entirely. The many examples of abuse and fraud in the USF are undeniable:

- Big Bend Telephone of Alpine, Texas, which serves 6,000 customers, spent \$3.6 million (25 percent of total operating costs) on corporate overhead in one year, yet received \$9.6 million and \$3.3 million in federal and state universal service funds, respectively.
- XIT Rural Telephone Cooperative, which serves just 1,500 ranchers, farmers, and others in the Texas Panhandle, received \$2.6 million in federal universal service subsidies.
- The Gambino crime outfit was able to collect millions from the USF (before getting caught) by controlling a Missouri rural phone firm from 1996 to 2003.

Short of complete USF termination, however, the FCC’s next step should be to ensure that service to “high cost” areas is underwritten in a more responsible manner. The current system of awarding generous subsidies based on telecommunications companies’ historic costs provides no incentive for those companies to operate efficiently. In contrast, a reverse auction system will create inducements for companies, whether incumbent or new to the market, to operate at maximum efficiency in order to offer low bids in the auctions. Reverse auctions are a rational way to award support; more businesses and governments are utilizing this method for procurement purposes. Consider, for example:

- In Connecticut, a reverse auction process successfully resulted in more than \$20 million in savings on energy purchases.
- The State Department completed 4,700 reverse auctions (worth \$169 million) and realized a savings of \$17.6 million. From 2002 to 2005, the average savings on commercial products and technology have been 6 to 10 percent of estimated costs.

If the federal government insists on continuing foolish economic practices like those embodied in USF subsidies, taxpayers insist that the company capable of delivering the service for the lowest price (as determined by reverse auctions) should prevail.

Sincerely,

A handwritten signature in black ink that reads "Kristina Rasmussen". The signature is written in a cursive, flowing style.

Kristina Rasmussen  
Director of Government Affairs