



United States Senate

WASHINGTON, DC 20510-0905

BILL NELSON
FLORIDA

Oct. 22, 2009

1814

The Honorable Julius Genachowski
Chairman
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Dear Chairman Genachowski:

I'm a strong backer of the federal government's universal service program to ensure affordable service for rural telephone customers, hook up public schools to the Internet and establish 9-1-1 networks. To help achieve those goals, the residents in my state pay millions of dollars each year in fees imposed on their monthly phone bills.

But I'm increasingly concerned about the formula used to determine who pays what into the Universal Service Fund. Floridians are paying far more than they get back from the federal government for local universal service projects, as illustrated by the attached *Tampa Tribune* article.

I urge you to take immediate action to fix the universal service program in a way that creates equity and sustains funding for the program. I agree with U.S. Rep. Henry Waxman that more transparency in the program is needed. But I'd also like to hear from you regarding further plans the commission may have to address this inequity and bring more fairness to consumers.

I look forward to receiving your prompt response. Please do not hesitate to contact me or my legislative counsel on this issue, Clint Odom. His number is 202-224-8749.

Sincerely,

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

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State loser in phone game

By RICHARD MULLINS

rmullins@tampatrib.com

When cellular and home phone customers in the United States open their bills each month, they see about a dozen puzzling taxes and fees at the bottom.

Some fees support 911 networks or phone service for those with hearing loss. Others, including network access and subscriber line charges, boost an average bill by at least \$17 a month.

Behind those fees lies a complex system of government subsidies, aimed at taxing all phone customers, in part to support universal service for rural phone customers, schools and others.

Florida customers are the biggest losers in that system, each year sending \$300 million more out of state than Florida gets back for local projects, the largest dollar deficit of any state. And the gap is growing.

Hillsborough County schools receive some money, but often a fraction of what other districts get to buy fiber optic data lines, wireless routers and broadband Internet for schools.

"Los Angeles, New York, Miami seem to always get funded, and sometimes there's nothing left by the time anyone in Washington gets to our application," said David Smith, who organizes grants for better phone and data access at Hillsborough County schools.

Now some in Congress say the system must change, especially for Florida, before federal stimulus money is used to fund better broadband links nationally.

The number of fees tacked onto phone bills has grown over several decades.

When communities started building 911 systems, governments and phone companies used the fees to build call centers, about 50 cents per month, per customer.

The subscriber line charge can cost customers \$6.50 per month and reimburses phone companies for costs to connect callers to long-distance lines. Other fees cover the physical cost of providing the phone line.

Universal service charges began soon after 1996 reforms that opened phone markets to more competition.

Occasionally, fees disappear from bills. Three years ago, Congress ended the federal excise tax of 3 percent, placed on telegraph lines to help pay for the Spanish-American War.

Money goes up

Federal law requires phone companies to contribute to the Universal Service Fund, and phone

companies can choose to pass on the costs to customers. Most do, including Bright House and Verizon.

For most customers, the service fund fee adds about a dollar per month. In 2007, Florida customers paid \$481 million in fund fees, and Florida received \$183 million back - a deficit of \$298 million.

"Florida obviously stands out as the largest relative outflow," said David Bergman, an Ohio official who is one of the few helping organize pressure to reform the fund program.

Administrators in Washington are still calculating 2008 data, but Bergman said Florida's contribution could grow to \$485 million, with \$178 coming back - a deficit of \$307 million. Some members of Congress estimate more.

Some states may score big with the system, getting back more money in 2008 than they paid into the fund: Alaska, a surplus of \$209 million; Kansas, \$174 million; and Mississippi, \$259 million, by Bergman's estimate.

Money comes down

No one reason explains why Florida pays more than it receives. Rather, it's a combination of programs run by the Universal Service Administrative Co., manager of the fund's four projects.

Those projects aim to even out the cost of service to urban and rural areas, help lower-income customers, provide for medical technology grants in rural areas, and upgrade technologies in schools and libraries. Only schools and libraries receive money in Hillsborough.

And even with that, Hillsborough County is at a disadvantage, Smith said.

Federal formulas take into account poverty levels and the number of children receiving subsidized meals in schools. If Hillsborough receives a grant, USAC discounts the award, sometimes by 33 percent, while other districts with higher poverty levels receive 100 percent.

This sets up competition between districts to highlight their most impoverished schools, Smith said.

"Miami-Dade has poorer students, so, as a consequence, they get higher funding than we do," Smith said. Miami-Dade received \$12 million in 2008, the most in Florida, followed by Broward, Orange County, Palm Beach, Duval and Collier. Hillsborough received \$1.9 million.

"We recently were awarded \$3.5 million," he said. "So that's something."

That money will be used to upgrade broadband networks, making classroom computers more efficient at Forest Hills Elementary, Carver Exceptional Center, Jackson Elementary and Oak Park Elementary.

"This will be like going from dial-up to broadband," Smith said.

Reforming the fund

In theory, this is how federal systems work, said Bergman, the Ohio official. If every state paid and received the same amount, there would be no point. Instead, some states subsidize others.

That's where Bergman said Florida loses. Florida may have fewer rural areas and qualifying companies, schools and libraries applying for grants.

Some in Washington say the system must change.

Cliff Stearns of Florida and Joe Barton of Texas recently said the Universal Service Fund has "ballooned" and strayed from its original purpose. In some cases, they note one phone provider can receive \$16,834 per line in subsidies, while other providers receive none.

The fund's size has grown from \$5.7 billion in 2004 to more than \$7 billion in 2008. "Failure to reform the fund falls on the backs of American consumers," they wrote in a protest letter to the Federal Communications Commission.

U.S. Rep. Kathy Castor, D-Tampa, issued a statement praising the overall goal of the Universal Service Fund. But she also said her office estimates Florida's net contribution is \$317 million, "more than any other state in the union. Is this equitable?"

Fraud, frozen grants

In recent years, law enforcement agencies have investigated fraud within the program. The Department of Justice issues a dozen or more indictments each year of school officials, administrators and phone companies defrauding the system.

FCC officials recently stepped in.

"The commission took a look at this and decided we need to overhaul universal service," said FCC spokesman Mark Wigfield. The rate charged on customer bills kept growing and "we needed to stop this."

The solution was to freeze grant levels in some programs at March 2008 levels, effectively cementing Florida's place in the system.

Other groups are entering the debate. Some consumer advocacy groups, including Consumers Union, are calling for the FCC to declare Internet broadband access eligible for Universal Service Fund support.

Castor and others question how a new round of economic stimulus grants could be divided to promote wider broadband access: Will the awards follow current service fund formulas and deepen Florida's deficit?

An advocate of government reform, U.S. Rep. Henry Waxman, a California Democrat, recently asked the FCC for specific data on service fund grants.

"The goals of universal service are as important now - in the age of broadband - as they have ever been," he said in a statement. "The Universal Service Fund, however, must be completely transparent. USF dollars are collected from consumers, and the American public should know exactly where its money is going."



OFFICE OF
THE CHAIRMAN

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

March 3, 2010

The Honorable Bill Nelson
United States Senate
716 Hart Senate Office Building
Washington, D.C. 20510

Dear Senator Nelson:

Thank you for your letter regarding the contribution methodology for the universal service fund (USF). Specifically, you urge the Commission to take immediate action to fix the method for contributing to the USF in a manner that creates equity and sustains the availability of funding.

The USF is among the most powerful tools for ensuring the availability of affordable voice service and enabling the widespread deployment of high-speed broadband networks throughout the country. The Commission has a tough job ahead of it to make sure that the USF accomplishes the mandate set out by Congress of being specific, predictable, and sufficient, while sustainable and strong enough to support the advanced technologies that will keep the United States competitive in the global economy. Central to this enterprise is the tenet that telecommunications providers should contribute to the fund on an equitable and nondiscriminatory basis.

The Commission is actively considering comprehensive reform of the USF, including examining the methodology for assessing contributions. The Commission has released a series of *Public Notices* seeking comment on various aspects of the USF as part of its proceeding to develop a national broadband plan. Please be assured that the Commission will consider carefully innovative methods for equitably assessing contributions to the USF that ensure its sustainability.

I appreciate your sharing your thoughts with me on this critically important issue. I look forward to continuing a constructive dialogue with you on these matters.

Sincerely,

A handwritten signature in black ink, appearing to read "Julius Genachowski".

Julius Genachowski