

## Connect America Fund Solutions for Broadband Deployment in Insular Areas

### Overview

- ★ Insular areas are plagued by a severe economic crisis and pervasive poverty.
- ★ These prevailing economic conditions undermine efforts to deploy broadband.
- ★ The FCC has recognized that special, targeted universal service support mechanisms may be necessary for insular areas.
- ★ The FCC should take four specific steps in the CAF rulemaking to target support for broadband in insular areas.

### *Crippled Economies and Widespread Poverty*

- ★ Economic conditions in the Commonwealth of the Northern Mariana Islands, Guam, and the U.S. Virgin Islands require targeted universal service policies and mechanisms to ensure ubiquitous broadband deployment in these Territories.

★ The Northern Marianas.

- ★ GDP has decreased annually by an average of 4.2% since 2005.
- ★ Population has decreased, and local revenues have fallen by 35% from FY 2006 to FY 2010.
- ★ In 2004—before the economic depression took hold—median household income was \$17,138, 62% lower than the mainland U.S.

★ Guam.

- ★ 23% of the population lives below the national poverty level, more than twice the percentage for the U.S. as a whole.
- ★ Median income (\$40,373) is lower than all but three states in the U.S. mainland.
- ★ Consumer prices increased by 47.3% from 2000 to 2008, while median salaries dropped by 30%.

★ U.S. Virgin Islands.

- ★ Bleak economic conditions are getting worse.
- ★ Per capita income is 28% less than in the U.S. overall, and median household income is 33% less than for all U.S. households.
- ★ 24% of all families live below the national poverty level, compared to 9.9% in the U.S. overall.

☆ Tourism—the Virgin Islands’ main industry—is declining, with visitors in 2009 down 13% from the previous year.

★ Puerto Rico.

☆ A persistent four-year recession has increased unemployment in Puerto Rico to a rate of 16%, well above the 9.1% unemployment rate in the U.S. as a whole.

☆ Per capita income (\$10,056), and median household income (\$18,627), are just 37% and 36% of the levels in the U.S. as a whole, respectively.

☆ 41.4% of all families in Puerto Rico live below the national poverty level.

☆ After the loss of special tax incentives for U.S. firms operating in Puerto Rico, there is growing concern that the Commonwealth lacks the capacity to support economic growth.

### **Roadblocks to Broadband Deployment and Operations**

★ Broadband deployment and maintenance costs are high in the Northern Marianas, Guam, the Virgin Islands, and Puerto Rico.

★ Broadband providers in these Territories must contend with difficult terrain and a challenging climate.

- ★ Severe tropical weather conditions drive up broadband deployment and operational costs.
- ★ The Northern Marianas and Guam are geographically isolated (located 6,000 miles from the U.S. mainland), resulting in high transport costs.

### **USF Policies Have Recognized the Special Needs of Insular Areas**

- ★ Section 254(b)(3) of the Communications Act of 1934 specifically references the need for consumers in insular areas to have access to advanced services.
- ★ The FCC has concluded that insular areas pose special universal service challenges because of low income levels, low subscribership levels, and the unique difficulties “these areas face by virtue of their locations.” USF First Report and Order, 12 FCC Rcd 8776, 8839 (¶ 113) (1997).
- ★ The CAF NPRM states that some insular areas (as well as high-cost areas and Tribal areas) may need explicit support to maintain service because there may be no private business case to serve these areas. CAF NPRM at ¶ 492.
- ★ The FCC asks for comment on universal service reform measures designed to ensure that insular areas receive sufficient CAF support to maintain quality and affordable services.

## **A CAF Strategy for Bringing Broadband to Insular Areas**

The FCC should take specific steps in the CAF rulemaking to ensure that consumers in insular areas have sufficient access to affordable broadband services.

### **★ FIRST: ESTABLISH A PRIORITY FOR ONGOING CAF FUNDING IN INSULAR AREAS.**

- ★ In sizing the level of ongoing CAF support, the FCC should establish a priority for sufficient CAF funding for broadband deployment and services in insular areas.
- ★ A funding priority is warranted because of the unique challenges posed by constructing, deploying, and maintaining broadband infrastructure in insular areas.
- ★ One way to prioritize Phase II CAF funding for insular areas would be for the FCC to increase the level of available CAF support for insular areas by 20% annually over the next five years.

### **★ SECOND: DON'T APPLY REVERSE AUCTIONS FOR ONGOING SUPPORT IN INSULAR AREAS.**

- ★ Instead, allow eligible carriers serving insular areas to receive Phase II CAF support based on a cost model.
- ★ More than one carrier could receive support in a service area, but support would be portable.

☆ This approach, unlike reverse auctions, would account for the exceptionally high costs involved in bringing broadband to insular areas.

★ **THIRD: SET ASIDE PHASE I CAF FUNDS FOR INSULAR AREAS.**

☆ A set aside would help to accelerate broadband deployment in insular areas.

☆ Targeting support for insular areas would help solve the problem that there is no viable business plan for bringing broadband to insular areas if CAF support is insufficient.

☆ Without a set aside, it is unlikely that carriers serving insular areas could obtain funding through the proposed reverse auction process.

☆ At a minimum, the FCC should provide bidding credits for carriers seeking to serve insular areas with Phase I CAF support.

★ **FOURTH: EXEMPT INSULAR AREAS FROM THE PHASE-DOWN OF CETC FUNDING.**

☆ The FCC plans to phase down CETC high-cost support in 20% annual increments beginning next year.

☆ Applying the phase-down to insular areas would have a crippling effect on broadband deployment.

☆ The FCC also should amend the “interim” CETC cap imposed in 2008, so that it would no longer apply to insular areas.