

The Universal Slush Fund: Or How Out of Control is the Government Phone Tax?

It's time for a "needs" based system, not a "greed" based slush fund.

Why is Beaver Creek getting over \$10,000 a line in subsidies?

The Universal Service Fund (USF) has always had lofty, public interest goals: To make sure that all Americans have phone service, to help low income families pay for phone service, to help schools and libraries pay for phone and Internet, and similar programs that are supposed to help rural areas, the poor, and children.

And we support all of these goals. Unfortunately, at a hefty 13%-15% tax on interstate phone services, billions of dollars earmarked for that purpose are diverted to corporate profit and dividends; the USF is not based on the corporate need, but on corporate greed. The USF is out control.

And we don't like being charged by AT&T, Verizon and the host of other phone companies for other peoples' phone bills.

The USF is not audited for basics like the companies' total revenue and profits, much less the monies collected from services that are going over the line that is being subsidized. Virtually every other service besides "basic service", from directory calls or calling features or DSL or broadband or anything else is not examined. Worse, no audits are done of whether the companies are paying the right amount back to the USF fund, and very few audits are done for fraud, waste and other related items. The FCC, therefore, cannot know whether the companies actually need the money or even how they use the funds. Rather than crack down on waste, the FCC is considering growing this fund in the name of broadband while keeping in place a policy of not monitoring its effectiveness or use.

Let's put some facts on the table.

Congress recently asked the FCC to answer basic questions about the USF. The data the FCC provided shows that the largest earners of USF funds are Verizon and AT&T.

http://energycommerce.house.gov/index.php?option=com_content&view=article&id=2069:chairmen-waxman-boucher-ranking-members-barton-stearns-release-update-to-universal-service-fund-high-cost-support-program&catid=122:media-advisories&Itemid=55

Right now about \$8 billion dollars are collected and the majority goes to the "high-cost" fund. (Other areas are for the "E-rate" --- telecommunications discounts to schools & libraries, Lifeline and other assistance programs.)

Much of this high-cost money goes to Verizon and AT&T, whose 200+ companies got over \$3 billion from the Universal High Cost fund during the years 2007-2009.

<http://www.teletruth.org/docs/USFtopATTverizon.pdf>

They are also the largest recipient of E-Rate, the fund designed to bring service to schools and libraries.

To top it off, each year, the phone companies collect more USF funds than they spend by about \$170 million dollars each year.

<http://energycommerce.house.gov/documents/20100708/Request2.pdf>

It should also galls you to know that the FCC and USAC (Universal Service Fund Administrative Corporation) keep lying to the American public, claiming that "telecommunications providers" fund the USF, when in fact the USF is a tax on customers' bills --- a pass through tax where the phone companies actually make money from the "float" of collecting USF then keeping it for awhile.

<http://www.usac.org/about/universal-service/>

The USF goes to companies that are wealthy and are paying dividends to shareholders, paying millions in salaries to key executives, and even paying hundreds of thousands to those who have retired return as consultants.

<http://blog.thecorporatelibrary.com/blog/2010/05/executive-compensation-concerns-at-verizon.html>

And the USF does not promote competition. The FCC admitted that even in the areas where it funds the largest number of phone companies, price rises are significant year after year.

<http://energycommerce.house.gov/documents/20100708/Request6.pdf>

An out of control slush fund may be an understatement.

The FCC's Office of Inspector General's semi-annual report in 2008 claimed that there was a "100% erroneous payment level in the federal universal low income support program" --- meaning paying too much out, not too little. The FCC has since stepped back from that analysis but there was no final report we could find. Meanwhile the December 2008 audit report for the Schools & Libraries fund found an error rate of 13.8% representing overpayments of \$232 million dollars. An agency program is considered at risk if the "erroneous payment rate" exceeds 2.5% or \$10 million dollars.

A Bureaucracy Without Accountability

In 2000, the USF was funded by a 3.9 percent tax on all interstate calls and services. That has risen

to 15.3 percent by Q2 2010 (but the rate can vary from quarter to quarter).

USF money funds many things besides phone lines, such as dividends and salaries at certain lucky small rural phone companies, whose per line subsidies reach over \$10,000 per year. Here's the FCC report on the listings of these massive USF per line recipients:

<http://www.teletruth.org/docs/USFPerline.pdf>

An example? Beaver Creek phone cooperative received \$11,892 per line. . This amount is unfathomable when the average local bill, according to the FCC data is \$25 a month (the last FCC data is from 2008).

The company states: "Beaver Creek Cooperative Telephone Company (BCT) is a member-owned organization that provides friendly, high-quality, professional service at reasonable rates to the Beaver Creek and Oregon City region. At BCT we focus on combining advanced communications technologies with local customer service." <http://www.bctelco.com/index.asp>

Thus, it is clear that the company has revenues from other sources: broadband, long distance, Internet, even wireless and that the USF is paying for these ancillary services. They are not paid for by a successful, competitive telecommunications company ? they are provided by the US taxpayer. Beaver Creek even can pay dividends and ?awarded over \$230,000 in scholarships to local families the past 16 years.?

<http://www.bctelco.com/images/Minutes%202009%20Annual%20Meeting.pdf>

In fact, the company's pricing to the customers is cheaper than many other places in the US cities. <http://www.bctelco.com/images/PHONE-BC.pdf>

NOTE: BEAVER CREEK, the ski resort, is supposedly not affiliated with the phone company.

Conclusion: Fix The Slush Fund.

We want the USF to be "needs" based, not "greed" based. We want an investigation into the actual cost of these lines --- all revenues, all expenses and all profits from the services over the subsidized line.

Once each line is installed, does it really cost \$10,000 per year to provide service, or is pure profit, taken from the taxpayer? Does the long distance, DSL/broadband, Internet and every other service get a free ride at our expense?

Having a "needs" based for USF is not even a radical idea. When a customer calls to order "Lifeline" service, which is partially funded through USF, the customer must prove they are at or below the poverty line or have some other reason to be subsidized. And that's only for a few bucks a

month. We're giving these companies billions with no proof of actual need.

We demand that the USAC and the USF be held accountable for results. Taxation without representation is wrong. Investigate now.

Sincerely,

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