

*Via Email and Electronic Comment Filing System*

March 14, 2012

Sharon Gillett  
Chief, Wireline Competition Bureau  
Federal Communications Commission  
445 12th Street, SW  
Washington, DC 20554

Re: Rural Health Care Pilot Program, Docket No. 02-60  
USAC Observations on the FCC Rural Health Care Pilot Program

Dear Ms. Gillett:

Pursuant to a request from Federal Communications Commission (FCC) staff, the Universal Service Administrative Company (USAC) is providing a summary of certain observations of the federal Universal Service Rural Health Care (RHC) Pilot Program (Pilot Program or RHCPP). The observations relate to the characteristics of successful RHCPP participants, benefits of a consortium approach to filing applications in the Pilot Program, advantages of long-term pricing arrangements, the impact of including urban locations in the RHCPP, the impact of requiring RHCPP participants to submit sustainability plans, and other administrative items.

### **Characteristics of Successful Pilot Projects**

Several characteristics of successful RHCPP participants (Pilot Projects) have emerged as follows:

- **Strong Centralized Leadership** – Typically, successful Pilot Projects have been led by universities, state entities, a hospital or medical association, or were non-profits created to advance tele-health and tele-medicine initiatives in the state or region. These entities have administrative resources dedicated to their respective Pilot Projects.
- **Centralized Contracting and Invoicing** – Pilot Projects that have chosen to centralize contracting and invoicing have experienced less administrative burden than decentralized projects. Centralized Pilot Projects negotiated master services agreements with service providers that were signed on behalf of all the health care providers (HCPs) participating in the Pilot Project. Participating HCPs then are able to purchase services using the negotiated master services agreements. With a centralized approach, the Pilot Project has a lower administrative burden because

it is only required to file one FCC Form 466-A package with USAC to receive funding for all services purchased from a master services agreement. USAC generates a single funding commitment letter (FCL) based on the one FCC Form 466-A package. Because one FCL is generated, the Pilot Project submits a single invoice to USAC on a monthly basis to complete the funding process.

In contrast, decentralized projects require participating HCPs to sign their own contracts with the service providers. These projects typically file multiple FCC Form 466-A packages, resulting in multiple FCLs. Because the individual HCP signed the contract for services, the Pilot Project does not receive a master bill for services received. The Pilot Project must obtain from the HCPs the service provider invoices before the Pilot Project can submit a master invoice to USAC. The administrative burden is substantially higher for these projects and for USAC.

- **Familiarity with the FCC's 2007 RHCPP Selection Order**<sup>1</sup> – Pilot Projects with a good understanding of the *RHCPP Selection Order* and the Universal Service Rural Health Care Support Mechanism Program (Primary Program) rules and regulations were able to quickly organize and were some of the first to submit requests for proposal in the Pilot Program. These Pilot Projects demonstrated an understanding of the types of HCPs eligible to participate and the types of eligible expenses. The projects also had a better understanding of the invoice process outlined in the *RHCPP Selection Order*.
- **Health Care Community Buy-In** – Successful Pilot Projects had support within the health care community. HCPs had existing demand for bandwidth and the Pilot Project provided an opportunity to meet the demand. Successful Pilot Projects have reported increased demand from new HCPs, who initially chose not to participate, after seeing the benefits of participating in the Pilot Project.

### **Benefits of Consortium Based Filings**

- **Consortium Application Process** – The FCC's rules permit HCPs to file as a consortium.<sup>2</sup> However, the forms used to process funding requests in the Primary Program cannot accommodate consortium applications. Thus, each HCP in a consortium in the Primary Program must submit its own forms to obtain funding. To accommodate consortia in the RHCPP, the FCC created a consortium application process. The administrative efficiencies are as follows:
  - Consortia filed aggregated information for their HCP members. USAC in turn issued funding commitments at the consortium level which more easily accommodated site and service substitutions (see below), rather

---

<sup>1</sup> *In the Matter of Rural Health Care Support Mechanism*, WC Docket No. 02-60, Order, FCC 07-198, 22 FCC Rcd 20360 (2007) (*RHCPP Selection Order*).

<sup>2</sup> 47 C.F.R. § 54.601(b).

than filing individual forms for each participating HCP and each individual circuit.

- The consortia application process allows all members of a consortium to be known at the competitive bidding stage, allowing for bulk buying opportunities for the consortium, which benefits the participating HCPs and the universal service fund (USF) by reducing overall costs.
  - Funding requests are submitted at the consortium level, with a single package and a single review process for competitive bidding compliance, evergreen contract status, eligible expense review and funding calculation.
  - The FCC requirement that all network members be identified when submitting a FCC Form 466-A package allows for accurate calculations necessary to fund shared services and network backbone.<sup>3</sup>
- **Lead Entity Responsibility** – The FCC required Pilot Projects to identify the organization that would be legally and financially responsible for the conduct of activities supported by the RHCPP.<sup>4</sup> The FCC also required Pilot Projects to designate a lead project coordinator to work with USAC to coordinate the application process.<sup>5</sup> The single point of contact was beneficial in that there was one point of contact for both USAC and all participating HCPs. Having one point of contact for each project allowed for consistency in information dissemination between USAC, the Pilot Project and the HCPs.
  - **Letter of Agency Requirement** – Because a lead entity was responsible for each Pilot Project, the project was required to obtain Letters of Agency (LOA) from each participating HCP. This allowed the lead entity to file forms on behalf of the participating HCPs in the Pilot Project.<sup>6</sup> Certifications in the LOA ensured that the participating HCPs had actively chosen to participate in the network. The LOAs also helped USAC determine the HCPs’ eligibility at the initial stages of the FCC Form 465 package review.
  - **Site and Service Substitution** – The consortium application process allows USAC to more efficiently process requests to substitute HCP sites and services as a Pilot Project’s network changes over the years.<sup>7</sup> The ability to handle this function administratively is possible due to the nature of the application process, as follows:
    - Funding commitments are made at the consortium level, not to the individual HCPs and individual circuits. If HCP participation in the consortium changes or a circuit changes, the underlying detail is modified by USAC in its electronic filing system known as “SharePoint” for accurate data collection without having to modify the actual funding

---

<sup>3</sup> *RHCPP Selection Order*, ¶ 89.

<sup>4</sup> *Id.*, ¶ 19.

<sup>5</sup> *Id.*, ¶ 95.

<sup>6</sup> *Id.*, ¶ 87.

<sup>7</sup> *Id.*, ¶ 86 (provides a specific methodology to add new members by submitting an updated FCC Form 465 Attachment).

commitment. In the Primary Program, any modification requires a new application and a new funding commitment for each HCP impacted.

- Typically commitments are issued to the Pilot Project for the length of the contract. As bandwidth needs change and participation in the network changes during the initial term of the contract, modifications can be accommodated within the existing funding commitment. The administrative efficiencies of this process are substantial.

### **Advantages of Long-Term Pricing Arrangements and Annual Filing Waiver**

- **Waiver of Annual Filing Requirement** – In the Primary Program, HCPs are required to submit requests for funding every year.<sup>8</sup> The FCC waived this requirement for Pilot Projects.<sup>9</sup> In the RHCPP, USAC issues funding commitments based on the length of the initial term of the contract. In comparison, in the Primary Program, USAC issues a funding commitment for the 12 months of the funding year regardless of the contract term. The waiver of the annual filing requirement created numerous administrative efficiencies for the Pilot Projects and for USAC as illustrated in the following comparison of the RHCPP and Primary Program:
  - In the RHCPP a project that signs a five year contract for recurring services for circuits and internet for a total of 100 rural entities files four forms with USAC in order to receive a funding commitment for the entire five year contracting period. The forms are completed for the entire project with a listing of all participating entities being submitted via an excel spreadsheet. The forms include the FCC Form 465 package, FCC Form 466-A package (which includes the Network Cost Worksheet), and the FCC Form 467.
  - To receive funding in the Primary Program, the same project and the same entities would need to file annually a total of 100 FCC Form 465s, 100 FCC Form 466s, 100 FCC Form 466-As and 200 FCC Form 467s for a total of 2,500 forms over a five year period.
- Projects were incentivized by the annual filing waiver to sign long term contracts with service providers if they chose to purchase monthly recurring services. Projects chose to sign these long term contracts because it allowed them to lock in stable prices for the initial contract term and it allowed for a single funding request submission to USAC to obtain a commitment for the entire contract period or for less time if the award cap would not accommodate funding for the entire contract period.

### **RHCPP Inclusion of Urban Locations**

---

<sup>8</sup> 47 C.F.R. § 54.623(d).

<sup>9</sup> *RHCPP Selection Order*, ¶ 86.

- From a network design perspective allowing urban entity participation was beneficial to the projects. In the Primary Program, circuits are only eligible for funding if one end of the circuit terminates at an eligible rural entity. HCPs who wish to create a tele-health network in the Primary Program may be incentivized to design a network to maximize funding by ensuring that all connections within the network terminate at an eligible rural entity, resulting in network inefficiencies. Because of the decision by the FCC to waive the rural requirement in the RHCPP and thus allow urban HCPs to be eligible for funding, the Pilot Projects were able to design their networks with maximum network efficiency in mind, without regard to the impact on funding (as there would be no impact).
- For most Pilot Projects, urban centers provided necessary leadership to bring disparate stakeholders together to form the network. Stakeholders include different health care disciplines and market competitors. This allowed for an environment that encouraged the stakeholders in the state or region to join together to bid for services and create a broadband network that would benefit everyone.
- Urban centers typically have information technology (IT) expertise and technology typically not found in rural areas. The participation of urban HCPs in the RHCPP, and especially the leadership from the urban HCPs within the Pilot Projects, have resulted in those urban entities providing their IT expertise to their rural counterparts to assist with connectivity issues, training rural staff on how to utilize the new resources, and equipment installation.
- Health care specialists are primarily located in urban areas. In order for rural patients to have access to these specialists via a tele-health connection, a broadband connection back to the urban center is necessary. Typically, networks are designed in a way that results in the urban center(s) being the “hub” of the network. In order for the urban entity to act as a “hub” for the network, equipment such as routers, firewalls, servers and switches are necessary. Because urban HCPs are natural hubs for telemedicine networks and were allowed to receive funding in the RHCPP the financial hardship of purchasing equipment was no longer a barrier to entry for the urban centers.

### **Impact of Sustainability Plans**

- The FCC required that the Pilot Projects submit sustainability plans because it sought to ensure the long term success of the Pilot Projects.<sup>10</sup> Plans submitted by projects vary widely but all show thoughtful planning as to the HCPs network use and planned network use, demonstration of administrative function necessary to maintain the network, and a demonstration of a financial model that would ensure sustainability.

---

<sup>10</sup> *RHCPP Selection Order*, ¶ 54.

- The FCC's Frequently Asked Question (FAQ) #24, which outlines what should be presented in a sustainability plan, was very beneficial to the Pilot Projects as they began the process of drafting plans.<sup>11</sup> The areas of sustainability detailed in FAQ #24 also allowed for enough structure to provide for a certain amount of uniformity amongst the plans submitted by projects. It was beneficial that the responses were narrative in nature, which allowed each Pilot Project to address each area of sustainability as it related to its unique project.

### **Other Observations**

- **Funding of 85% of Eligible Cost** – Currently in the Primary Program funding is calculated in one of three ways. Funding for telecommunications service is calculated as the difference between the urban rate and the rural rate charged for the service<sup>12</sup> or support is calculated based on service mileage.<sup>13</sup> Support for internet service is 25 percent of the monthly cost of service.<sup>14</sup> In the RHCPP, funding is calculated at a flat rate of up to 85 percent for any eligible expense.<sup>15</sup> For a consortium filing for multiple HCPs, calculating 85 percent funding is significantly easier than calculating support in the Primary Program which, for telecommunications services, requires determining the urban rural differential or a mileage based calculation.

USAC reviewed information for 18 HCPs participating in the RHCPP who would also be eligible for funding in the Primary Program. USAC calculated the HCPs available Primary Program funding and found that the eligible funding percentages for the HCPs under the Primary Program would have ranged between 51.04% and 89.79%.

- **Funding of Eligible Equipment** – In the RHCPP, certain types of equipment such as servers, firewalls, routers and switches, which are necessary for a broadband connection, are eligible for funding.<sup>16</sup> Upgrading circuits and/or creating a private network typically require upgrading equipment as well. Because the RHCPP funded certain equipment purchases or leases, Pilot Projects were not restricted to only upgrading in accordance with what their existing equipment would allow. If a one Gigabit per second (Gbps) circuit was necessary for the provision of health care, the Pilot Project could obtain funding for both the circuit and the necessary equipment. In the Primary Program, equipment leases and equipment purchases are not eligible for funding. While HCPs receiving funding in the Primary Program can obtain any bandwidth necessary for the

---

<sup>11</sup> See FCC's Frequently Asked Questions about the Pilot Program, <http://www.fcc.gov/encyclopedia/rural-health-care-pilot-program>, #24 (FAQ 24).

<sup>12</sup> 47 C.F.R. § 54.609(a).

<sup>13</sup> 47 C.F.R. § 54.609(a)(ii).

<sup>14</sup> 47 C.F.R. § 54.621(a).

<sup>15</sup> *RHCPP Selection Order*, ¶ 2.

<sup>16</sup> *Id.*, ¶¶ 74-75.

- provision of healthcare, the HCP may not purchase or upgrade equipment necessary for using the bandwidth with Primary Program funding.
- **Funding Calculation Efficiencies** – Maximum Allowable Distance (MAD) and the Standard Urban Distance (SUD) (calculations used to determine support in the Primary Program) were not applicable in the RHCPP because support is based on a flat rate of 85 percent reimbursement.<sup>17</sup> If the MAD and SUD were required to calculate funding for each location and each circuit in the RHCPP, it would have added a layer of complexity that could have prevented projects from choosing the most efficient way to design the network and resulted in additional data collection requirements. Calculating funding for telecommunication services in the Primary Program for high bandwidth circuits is increasingly difficult as these types of services are not tariffed and charges are not mileage based. USAC is unable to find urban rates for services that are not tariffed, and HCPs that have these services in the Primary Program are responsible for finding and documenting their own urban rates. Calculating support based on the 85 percent rate was less administratively burdensome for USAC.
  - **Request for Proposal Requirement** – Requiring Pilot Projects to define the scope of the project (typically by issuing a request for proposal (RFP)) was beneficial because they were required to put in writing the Pilot Projects’ vision for the part of the network that was being bid at that time.<sup>18</sup> It also allowed USAC an opportunity to review the proposals and discuss any programmatic issues that may arise once a request for funding (FCC Form 466-A package) was submitted. Unfortunately, USAC’s review of RFPs for programmatic concerns led some Pilot Projects to believe that USAC “approved” the RFP and thus any expenses would be eligible for funding even though eligibility of expenses was not determined until later when the Form 466-A package was reviewed.
  - **RHCPP Primarily Funds Recurring Services** – The RHCPP is typically referred to as a program that allows HCPs to construct their own networks. In fact, very few Pilot Projects constructed their own networks. Almost all Pilot Projects have used their funding for carrier leased services, with a significant number using the funding to purchase long term pre-paid leases or IRUs. Funding has been requested as follows (as of February 29, 2012):
    - **Funding attributable to construction of HCP-owned networks** - RHCPP funding for network construction purposes has been used by 10 projects. Of those, only 2 projects are entirely construction projects. The remaining 8 projects have constructed only portions of their networks.

Infrastructure/Outside Plant (Engineering)	\$ 2,351,000
--	--------------

<sup>17</sup> See 47 C.F.R. 54.609 (discusses MAD and SUD) and *RHCPP Selection Order*, ¶ 2 (support is 85 percent of the cost of eligible expenses).

<sup>18</sup> *Id.*, ¶ 86.

Infrastructure/Outside Plant (Construction)	\$ 33,310,000
Network Equipment, including Engineering and Installation	\$ 10,300,000
Network Management/Maintenance/Operations Cost (not captured elsewhere)	\$ 1,455,000

- **Funding attributable to carrier owned networks** - RHCPP funding to establish networks using carrier leased services has been used by 48 projects. To date, projects have requested \$18.9 million for carrier infrastructure/facility upgrades necessary for carriers to be able to provide the broadband services requested by HCPs. Only 5 projects have requested funding for the annual subscription fee for Internet2 service.<sup>19</sup> USAC has not received a funding request for National Lambda Rail service.

RHCPP funding for network design has been used by 6 projects. As of February 29, 2012, 5 of the 6 projects have not established broadband connections for their network members. The early focus on the design of the network, separate from the implementation, required completing the RHCPP administrative process to request funding twice – once for the network design and once for the implementation. As a result, the 5 projects have experienced significant delays. The sixth project sought funding for network design for its Network Operations Center (NOC) only; this project chose to implement connections for the HCPs simultaneous with completion of the NOC network design resulting in no project delay.

Network Design	\$ 1,900,000
Leased/Tariffed facilities or services	\$162,752,000
Internet 2/NLR/Internet Connection	\$ 565,000
Network Equipment, including Engineering and Installation	\$ 9,160,000
Network Management/Maintenance/Operations Cost (not captured elsewhere)	\$ 2,648,000

- **Implementation of Future Order** – The implementation of the RHCPP began once the *RHCPP Selection Order* was released in 2007, but required a very tight time line for implementation. It would be beneficial that any future order be released well in advance of the effective date. A lead time of, preferably, 12 months would allow USAC time to do the following to prepare for accepting requests for funding:
  - Modify its existing systems to accommodate any changes made to the Rural Health Care Support Mechanism;

<sup>19</sup> The five projects are the California Telehealth Network, Iowa Health System, North Carolina Telehealth Network, St. Joseph's Hospital, and the Texas Health Information Network Collaborative.

Sharon Gillett  
Chief, Wireline Competition Bureau, FCC  
March 14, 2012  
Page 9 of 9

- Develop internal resources necessary to implement the order;
- Develop public resources for applicants such as updated information on the website, guidance documents, frequently asked questions and webinars;
- Develop applicant forums, such as participant calls, to allow applicants to raise questions/concerns/issues in advance of the effective date of the order that can be addressed with the FCC and/or USAC as appropriate; and
- Conduct training events to prepare applicants for the new process outlined in the order.

Please contact me if you have questions concerning this information.

Sincerely,

/s/ Craig Davis  
Vice President, Rural Health Care Division