USAC
Universal Service Administrative Company

Via Email and Electronic Comment Filing System

May 30, 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 Data on the FCC Rural Health Care Pilot Program

Dear Ms.Gillett:

The Universal Service Administrative Company (USAC) is supplementing the information provided to the Federal Communications Commission (FCC) in a letter submitted on May 4, 2012.[1] USAC is providing the information pursuant to a request from FCC staff for certain data points from the federal Universal Service Rural Health Care (RHC) Pilot Program (Pilot or RHCPP). The data points relate to funding and participation in the RHCPP and the traditional Rural Health Care Support Mechanism Program (Primary Program).

- The average reimbursement rate[2] for supported telecommunications services for health care providers (HCPs) in the Primary Program, excluding those located in Alaska, is 68.94 percent. The average reimbursement rate under the Primary program in Alaska is 97.89 percent. Appendix A provides the average rate of support per state.

- Below is a chart showing the percentage of bids received in response to FCC Form 465 postings for each funding year. The competitive bid process is initiated when a HCP files its FCC Form 465 and it is posted on the USAC website.[3] If a HCP does not receive any bids in response to its posted Form 465, the HCP may choose to enter into a contract for services without participating in additional competitive bidding. A small percentage of HCPs did not indicate whether they received bids on their funding requests because it was not a required response in

[1] Letter from Craig Davis, USAC, to Sharon Gillett, FCC, dated May 4, 2012 (*USAC's May 4 Letter*).
[2] The reimbursement rate is the percentage of the monthly support divided by the rural rate, where the monthly support is the difference between the urban and rural rate for telecommunications services. See 47 C.F.R. § 54.906(a). The reimbursement rate does not include internet access services, which are reimbursed at 25% of the monthly cost of service. 47 C.F.R. § 54.621(a).
[3] See USAC website at http://www.usac.org/rhc/tools/search-posted.aspx (last visited may 4, 2012).

order to electronically submit the FCC Form 466. If a HCP did not respond to the question, USAC followed up with the HCP to obtain a response before making a funding commitment.

Funding Year	Bids Received	No Bids Received	No Response on Form
2003	6.82%	86.08%	7.10%
2004	7.19%	85.78%	7.02%
2005	7.38%	85.88%	6.74%
2006	13.13%	81.48%	5.39%
2007	8.88%	85.81%	5.31%
2008	14.76%	81.56%	3.68%
2009	12.47%	84.52%	3.01%
2010	11.80%	85.63%	2.58%
Effective Rate 2006-2010	12.19%	84.00%	3.81%
Effective Rate 2007-2010	12.02%	84.46%	3.52%

- In the Pilot, all but three of the Pilot projects received more than one bid from vendors for some component of the project. Twenty-four Pilot projects received bids from six or more vendors and 14 of the Pilot projects received bids from more than ten vendors on some component of their project.

- The following Pilot projects received funding commitments for network operations centers and/or data centers: Bacon County Health Services, Inc.; California Telehealth Network; Greater Minnesota Telehealth Broadband Initiative; Health Information Exchange of Montana; Heartland Unified Broadband Network; Illinois Rural HealthNet Consortium; Iowa Rural Health Telecommunications Program; Michigan Public Health Institute; Missouri Telehealth Network; New England Telehealth Consortium; Northeast HealthNet; Northeast Ohio Regional Health Information Organization; Oregon Health Network; Southwest Telehealth Access Grid; St. Joseph's Hospital; West Virginia Telehealth Alliance; and Western New York Rural Area Health Education Center.

- In *USAC's May 4 Letter*, we state that approximately $139 million, or 65%, of committed funds have been committed to HCPs in rural locations. Approximately $78 million, or 35%, of committed funds have been committed to HCPs in urban locations.[4] USAC notes that the amount of funds that is attributed to urban locations is likely overstated. This occurred because shared equipment and services (*i.e.* equipment and services that benefit the entire network and not just one site), such as network design studies, switches, routers, and firewalls at data centers and/or at lead entities and other large urban facilities, are often charged to

[4] *Id*. at 3.

sites at urban locations, even though the shared equipment is used by all the network sites.

- Pilot projects have obtained services through long term contracts, pre-paid leases or Indefeasible Rights of Use (IRUs). Some projects have chosen to pursue a "one vendor solution" where the project announces in its request for proposals (RFP) that a vendor presenting a "one vendor solution" will receive a higher score for that particular metric. A "one vendor solution" allows a project covering a wide geographic area to only go through the competitive bid once. The "one vendor solution" also introduces administrative efficiencies by enabling a single monthly bill for the project thereby allowing the project to submit one USAC invoice per month. Projects that pursue a "one vendor solution" report to USAC that their ability to negotiate price reductions improved because of the economies of scale introduced through bidding the entire project at once.

  - Some projects have chosen to initiate services via a single RFP but do not require a single vendor solution. Through the Pilot, these projects have been able to bid the entire project via a single RFP and provide a range of service provider options for their participating HCPs. The ability to bid the entire project via a single RFP does introduce administrative efficiencies because the project goes through the competitive bid process one time. By bidding all services via one RFP the projects are also able to better coordinate services and can obtain a broad geographic reach of participants.

  - Through the competitive bid process, projects found that many of the HCPs did not have access to the carrier owned facilities necessary to provide the requested broadband services. As of January 31, 2012, 412 HCPs have requested funding necessary for carriers to upgrade facilities in order to provide the requested broadband services. The facility upgrades include last mile and/or middle mile construction in addition to plant upgrades. Pilot projects report to USAC that the ability to fund carrier owned upgrades via the Pilot funds was an important element in providing broadband capability to HCPs located in those areas.

  - Some Pilot projects have chosen to purchase a pre-paid lease. Others have chosen to purchase IRUs that provide the project and its participating HCPs with dark fiber, which provides them with the ability to increase broadband exponentially over the life of the IRU for little or no additional cost. One project reports that via the use of an IRU and factoring in the cost of purchasing the optical switch necessary to use the fiber, they are able to provide 1 Gbps symmetrical service to fifty hospitals at a cost of $7,680.00 per year, per hospital or an average of $640.00 per month, per hospital. This project reports unlimited flexibility in providing for the broadband needs of its members in the future. Because the projects control its fiber via the IRU, the project only needs to modify or change equipment to continually increase

bandwidth speeds. An IRU with a different provider to HCPs in rural areas has allowed this project to provide 100 Mbps symmetrical service at a cost of $1,300 per month. The project reports that these rural HCPs previously paid $700.00 per month for a T-1 (1.544 Mbps) connection.

- As of April 30, 2012, USAC received requests from projects for 15 site substitutions and 60 service substitutions. The impact of the site and service substitutions requested was a net decrease in the demand on the fund by $247,075.56. Projects are requesting three types of service substitutions: (1) the carrier has upgraded its facilities and can now provide services via fiber; (2) a participating HCP wants to increase its bandwidth; and (3) a participating HCP wants to disconnect a service.

  - In cases where the project is requesting a service substitution because the carrier can now provide an upgraded service, typically the cost of the service goes down. For example, one project requested the ability to upgrade its copper bonded T1 (9.24 Mbps) service that cost $4,552.50 per month with the upgraded Ethernet at 20 Mbps at a cost of $3,920.00 per month. Because the carrier was upgrading its facilities, it was able to provide an improved broadband service at a higher bandwidth speed, for less cost.

  - Projects also request to disconnect services such as a separate internet connection. In some cases HCPs choose to purchase both a broadband service (such as Ethernet or MPLS) and a separate internet connection. The HPC later chooses to disconnect the internet service. In these cases, the HCP continues to have the ability to access the internet via the existing broadband connection. Disconnecting the internet service reduces the commitment to that participating HCP.

  - Site substitutions are either for a new location that wishes to join the network or a one-for-one exchange of participants on the network. In cases where dollars were committed for a location that later chose not to participate, the project is able to replace that participant with another HCP.

  - Service substitutions are for network participants that change supported services where funds were committed. When that new provider chooses a different service that costs less there is a corresponding reduction in the cost to the Universal Service Fund for that connection.

- USAC estimates that 13 Pilot projects will exhaust their allocated funding either in the last few months of Funding Year 2011 or during Funding Year 2012.[5] HCPs will be required to pay the full cost of service provided subsequent to the

[5] Funding Year 2011 began on July 1, 2011 and ends June 30, 2012. Funding Year 2012 begins July 1, 2012 and ends June 30, 2013. 47 C.F.R. § 54.623(b).

end of funding unless bridge funding becomes available.[6] Additional expenses may cause the project, or HCPs within the project, to disconnect service.

Please contact me if you have questions concerning this information.

Sincerely,

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

[6] *See* Wireline Competition Bureau Seeks Comment on Funding Pilot Program Participants Transitioning out of the Rural Health Care Pilot Program in Funding Year 2012, Public Notice, WC Docket No. 02-60, DA 12-273 (rel. Feb. 27, 2012).