



Via Email and Electronic Comment Filing System

August 2, 2012

Julie Veach
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 and Observations on the FCC Rural Health Care Pilot Program

Dear Ms. Veach:

Pursuant to a request from Federal Communications Commission (FCC) staff, the Universal Service Administrative Company (USAC) is providing a summary of certain data points and observations from the federal Universal Service Rural Health Care (RHC) Pilot Program (Pilot Program or RHCPP).¹ The following data points and observations relate to funding and participation in the RHCPP and the traditional Rural Health Care Support Mechanism Program (Primary Program):

- From Primary Program inception through funding year 2010,² approximately 511 tribal entities³ received a total of \$212 million in funding commitments in the Primary Program. From Pilot Program inception through January 31, 2012 approximately 20 tribal entities have received \$1.44 million in funding commitments in the Pilot Program. Appendix A to this letter lists Pilot Program tribal entity funding commitments by state, from inception through January 31, 2012. In the Primary Program \$35,625,539 was committed to tribal entities to

¹ USAC filed responses to similar requests for data and observations on May 4, May 30, and June 27, 2012. Letter from Craig Davis, Vice President, Rural Health Care Division, USAC, to Sharon Gillett, FCC, dated May 4, 2012 (*USAC's May 4 Letter*). Letter from Craig Davis, Vice President, Rural Health Care Division, USAC, to Sharon Gillett, FCC, dated May 30, 2012 (*USAC's May 30 Letter*). Letter from Craig Davis, Vice President, Rural Health Care Division, USAC, to Sharon Gillett, FCC, dated June 27, 2012 (*USAC's June 27 Letter*).

² Funding year 2010 started July 1, 2010 and ended June 30, 2011.

³ Tribal entities for the purposes of this letter are those entities that have self-identified on the FCC forms that they are Indian Health Service locations and/or they are entities listed on the Indian Health Services website as an entity that is located on tribal lands or serves tribal populations. USAC obtained a listing of all health care facilities that are located on tribal lands or serve tribal populations by accessing the Indian Health Services "Find Health Care" lookup function at <http://www.ihs.gov/findhealthcare/> (last accessed June 25, 2012).

- fund health care facilities located on tribal lands or serving rural tribal populations for funding year 2010. Appendix B lists Primary Program funding commitments by state from funding year 1998 through funding year 2010.
- Appendix C details overall Primary Program funding commitments by state for funding years 2008, 2009 and 2010. Appendix D provides the Primary Program funding committed by eligible entity types for these three funding years. Appendix E lists Pilot Program funding commitments by eligible entity type from Pilot Program inception through July 19, 2012.
 - Approximately one fourth of health care providers (HCPs) participating in Pilot projects will have spent their allotment of Pilot Program funds by June 30, 2013 - the end of funding year 2012. By January 31, 2012, about two-thirds of active Pilot projects received commitments for the majority of their individual awards, while 44 percent of projects had received commitments for 81 percent or more of their awards. Some Pilot projects may not seek commitments for the full amount of their awards if, for example, the competitive bidding process or other cost savings allow the project to achieve its goals for less than the amount requested in the project's initial application. About a quarter of projects had yet to obtain commitments for more than 20 percent of their awards by this date. Only 14 projects, about 28 percent, had received disbursements of over half of their awards as of January 30, 2012.
 - As of June 30, 2012, the deadline for receipt of all funding requests in the Pilot Program, USAC received requests for funding commitments from all 50 active projects. As of July 3, 2012, USAC had 108 funding requests to be processed. USAC estimates⁴ that, once processed, total funding commitments requested for all 50 active projects will be \$368.62 million, which is 88.23 percent of the original total award amount of \$417.78 million. The 50 active projects requested funding commitments equal to 95.03 percent of the 50 projects' cumulative total original awards.
 - Of the \$368.62 million in estimated total commitments, as of July 3, 2012 there were 108 funding requests pending at USAC representing approximately \$91.60 million for 30 projects. USAC anticipates issuing all remaining funding commitments by the end of September 2012. Once all these funding commitments are processed, USAC expects to update the relevant data it has provided in this docket.
 - A majority of the Pilot projects that had obtained funding commitments as of January 31, 2012 each had more than 50% rural participation. As of that date, only six projects requested funding for rural HCPs only.

⁴ This estimate is based on the assumption that all outstanding funding requests are for eligible expenses and eligible health care providers.

- From Pilot Program inception through July 19, 2012, USAC issued commitments for 3,047 HCPs participating in the RHCPP. Of those HCPs, 1,006 were located in urban areas and 2,041 were located in rural areas. Urban sites make up 33.02% of all Pilot participants that received funding commitments as of July 19, 2012.
- In a March 14, 2012 letter to the FCC summarizing observations on the RHCPP, USAC provided funding information attributable to construction of HCP owned networks and attributable to carrier owned networks.⁵ The information below was current as of January 31, 2012.

- ***Funding attributable to construction of HCP-owned networks*** - RHCPP funding for network construction purposes has been used by eight projects. Of those, only two projects are entirely construction projects. The remaining six projects have constructed only portions of their networks.

Infrastructure/Outside Plant (Engineering)	\$ 2,340,000
Infrastructure/Outside Plant (Construction)	\$ 32,870,000
Network Equipment, including Engineering and Installation	\$ 10,310,000
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. As of January 31, 2012 projects requested \$20.55 million for carrier infrastructure/facility upgrades necessary for carriers to be able to provide the broadband services requested by HCPs. Only five projects have requested funding for the annual subscription fee for Internet2 service.⁶ USAC has not received a funding request for National Lambda Rail service.

RHCPP funding for network design has been used by six projects. As of January 31, 2012, three of the six projects had 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, five projects have experienced significant delays. The sixth project sought funding for

⁵ Letter from Craig Davis, Vice President, Rural Health Care Division, USAC, to Sharon Gillett, FCC, dated March 14, 2012, 7-8 (*Observations Letter*).

⁶ The six projects are the California Telehealth Network, Iowa Health System, North Carolina Telehealth Network, St. Joseph's Hospital, and the Texas Health Information Network Collaborative.

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	\$156,640,000
Internet 2/NLR/Internet Connection	\$ 565,000
Network Equipment, including Engineering and Installation	\$ 9,000,000
Network Management/Maintenance/Operations	\$ 2,600,000
Cost (not captured elsewhere)	

- Through conversations with Pilot projects, USAC observed that projects were able to obtain lower rates for services and to realize other purchasing efficiencies because the services were competitively bid and the projects purchased services for a consortium of HCPs. In situations where a project chose to bid as a whole network, service providers appeared more willing to provide large discounts because the Pilot projects had a large number of HCP sites. In cases where a project chose to bid in phases, for example by stakeholder group or by region, these same cost efficiencies were not experienced. For most Pilot projects, the competitive bidding process has been successful in attracting multiple bids from a range of different service providers.

In cases where a project chose to approach the competitive bidding process as a whole network, and thus issued a single request for proposals (RFP), all HCP sites appear on the Form 465 attachment (those with broadband available to them and those without). Vendor bids must include service plans that will provide broadband connections to sites where broadband might not already be available. Pilot Projects report that the whole network bidding process thus allowed HCPs to obtain high speed broadband connections where none previously existed.

- USAC observed through discussions with Pilot projects that the competitive bidding process and project-wide RFPs produced efficiencies and economic benefits because vendors worked together to provide the requested network services. Projects that chose this path have reported that collaboration reduced the administrative burden because they did not have to negotiate and contract with a number of different service providers to create their networks. The one-vendor solution allows the project to have a single invoice and a single point of contact for network connectivity issues, which also leads to network efficiencies.
- Based on discussions with Pilot projects and observations during the course of the Pilot program, USAC believes that these consortium arrangements provided the individual HCPs with lower rates, higher bandwidth and greater service quality as well as long-term rate stability.

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Also, projects were better able to secure higher bandwidth connections and better service quality and reliability guarantees because they had the benefit of bulk buying and competitive bidding.

- Finally, projects that requested multi-year contracts that were eligible for funding and pre-paid leases usually obtained term discounts and lower rates.

Please contact me if you have questions concerning this information.

Sincerely,

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