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Put Universal Service Reform Near Top of FCC's Agenda

by
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With so much attention at the Federal Communications Commission the past few weeks focused on cable and other media issues, and the upcoming auction of wireless spectrum, it would be easy to ignore another very important communications policy issue: Universal Service Reform. To do so would be a mistake. Reforming the outdated, bloated, and inefficient universal service system has been delayed far too long. And the delay is not costless. It has the effect of impeding the more rapid development of an even more competitive marketplace that features less costly communications services.

Now that the Federal-State Joint Board on Universal Service (a panel of three FCC Commissioners and four state regulators) has issued a Recommended Decision to the FCC, reform of the universal should be one of the most important items on the FCC's agenda for 2008. Indeed, Kevin Martin, the FCC's Chairman, ought to make USF reform a top priority. Along with Commissioner Deborah Taylor Tate, who led the Joint Board effort, Chairman Martin has some good ideas on USF reform. And both have showed leadership in this difficult area. Working hard to achieve market-oriented reform results during 2008 would be a worthwhile expenditure of Commission and staff attention and resources, certainly near the top of the list of the objectives the agency should be pursuing at this time.

Currently, subscribers pay an 11% surcharge (read: *tax*) on all their interstate and international communications services to fund the federal Universal Service programs. The programs provide subsidies to companies serving so-called "high-cost" areas, to schools and libraries and rural health facilities for communications services, and to low income subscribers. The amount of annual USF subsidies is now approximately $7.7 billion (yes, read: *billion*) per year, with the largest component the $4.5 billion in subsidies for high-cost support. High-cost subsidies have been, by far, the fastest growing part of the USF support funding, with most of that growth attributable to support granted to wireless carriers.

In light of today's rapid technological advances and competitive marketplace changes, it would be easy to imagine even bolder reform proposals than those put forward by the Joint Board. Nevertheless, the recommendations reflect considerable hard work and thoughtfulness, and if adopted, in general, would lead to a subsidy support system that would be less wasteful and less efficiency-inhibiting.

The following reform recommendations are especially worthy of consideration.

- Cap the high-cost fund at its current level to prevent the unsustainable expansion this fund has experienced in the last several years.

- Eliminate the so-called "identical support rule" whereby wireless carriers newly-eligible to receive support receive subsidies based on the amount of support received by the incumbent wireline company rather than the amount of support which would cover their own costs.

- Engage in "reverse auctions" as a means of how to determine the distribution of support. Under this mechanism, the carrier bidding the lowest amount would "win" the subsidy to provide service to a designated area. (The Joint Board did not firmly recommend adoption of reverse auctions, but did suggest the concept is worthy of consideration.)

The Joint Board recommended establishing three separate support funds – a carrier-of-last-resort fund, a broadband fund, and a mobility find – with the amount of funding capped at approximately the $4.5 billion level of the current high-cost fund. The broadband fund would be tasked with facilitating construction of facilities for new broadband services to unserved areas. The mobility fund would be used to promote dissemination of wireless voice services to unserved areas. And the carrier-of-last-resort fund would support wireline carriers who provide this function.

A few of the Joint Board's observations are especially noteworthy because so often in the past discussions of universal service have been devoid of straight talk. Regarding the overall size of the subsidies, the Board said this:

> Many areas of government enterprise operate within a budget, and we think that high-cost funding can do likewise, provided that we are willing

> to make realistic estimates of the funding needed to meet the statutory requirement that we preserve and advance universal service. Over the longer term, we anticipate that total funding can and should be decreased as broadband and wireless infrastructure deployment becomes widespread throughout the country.

And regarding the wastefulness inherent in the aspect of the current regime that has led to such apparently uncontrollable growth, the Board had this to say:

> The Joint Board recognizes that the identical support rule has resulted in the subsidization of multiple voice networks in numerous areas and greatly increased the size of the high-cost fund. High cost support has been rapidly increasing in recent years due to increased support provided to competitive ETCs. These carriers receive high-cost support based on the per-line support that the incumbent LECs receive rather than the competitive ETCs' own costs. Support for competitive ETCs has risen to almost $1 billion. We believe it is no longer in the public interest to use federal universal service support to subsidize competition and build duplicate networks in high-cost areas…The rule bears little or no relationship to the amount of money competitive ETCs have invested in rural and other high-cost areas of the country."

Common-sense straight talk like this might not seem out of the ordinary in the context of private sector marketplace environments, or, even in the context of some other government-run funding programs. But, frankly, such directness is not the norm in the context of discussions about universal service, where the talk often turns to references about "the political realities of the square states," or the "way things have always been since shortly before Genesis."

Make no mistake. If I were Universal Service czar, I likely would propose more far-reaching reforms that would reduce the size of the annual USF support (and, therefore, the size of the 11% tax on consumers' long distance calls which funds the subsidies). Subsidies could be targeted more narrowly to help low-income persons who truly need financial support. But the state and federal regulators comprising the Joint Board deserve credit for putting meaningful proposals on the table as a positive step in the right direction.

Now, it is up to the full FCC to take concrete actions that will advance USF reform by stabilizing the size of the system, by making it more efficient through elimination of duplicative and non-targeted subsidies, and by making it more conducive to the further development of competition on a cost-effective, technology-neutral basis by employing distribution mechanisms such as reverse auctions.

USF reform is a subject on which FCC Chairman Martin has advocated market-oriented initiatives. USF reform should appear near the top of the Commission's to-do list going into 2008.

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