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Universal Service Fund Reform: Who Pays and Who Receives?

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Overview

- Why do local governments care?
- A brief history of telephone subsidies
- The FCC's Goals in Reform
- Carrier Compensation—Who Pays?
- Life Line/E-rate/High Cost Areas—Who Receives?
- Conclusion

Why Local Governments Care

- Government as large user
  - internal networks (WANs/I-Nets/Middle Mile networks)
  - User rates/fees
- Government as Landlord
  - Fair value for use of rights of way
  - Multiplication of providers
- Local Consumer Broadband Adoption Rates
  - Consumer rates
  - Services to entire community
- Economic Development
  - Competition restricting rates/expanding services

A brief history of telephone subsidies

- Commitment to Universal Telephone Service
  - Uniform long distance rates ("Access Charges/SLC")
  - Universal rural service ("High Cost Fund")
  - Subsidies for Low Income Subscribers ("Life Line")
- 1996 Telecommunications Act: Advanced Services for
  - Schools & Libraries ("E-Rate")
  - Rural Health Services

A brief history of telephone subsidies

- Problems Developed
  - $6B annually, and growing
  - Collected solely from traditional voice telephone subscribers
    - Not paid by VoIP
    - Not paid by wireless
  - $2.2 B inadequate for schools and libraries
  - Not available for broadband services
  - High Cost Fund widely gamed
  - Life Line not getting to enough recipients

The FCC's Goals in Reform

- Preserve universal voice service
- Make broadband service universal
- Make advanced wireless service universal
- Maintain "reasonably comparable rates" in "all regions of the nation"
- Cap the Fund at $4.5B annually
  - Use competition for grants to increase efficiency in distributions
  - Simplify administration of Life Line Funds

Carrier Compensation—Who Pays?

- This is the proceeding that starts April 27
- Various statements to date:
  - Comparable competitive services should pay
  - SLC is frozen, with an additive of $1.20-$1.80 per year
  - Price caps reduce 10% per year
  - IP and non-IP should pay the same

High Cost Areas—Who Receives?

- These proceedings are well underway
- Carriers, including Cellular, shift to "bill & keep" for interconnection charges
- "Mobility Fund" to extend wireless services
- High Cost Fund carriers
  - Reverse auctions to qualify
  - Must provide broadband
  - Must be carrier of last resort
  - No access stimulation
  - No phantom traffic
  - Phase out terminating switching rates (to enough IP)

Life Line/E-Rate—Who Receives?

- Life Line—encourages broadband adoption in low-income neighborhoods
- Current rulemaking:
  - Subsidies can pay for any voice services, including “bundles”
  - Subsidies can pay for broadband
  - Easier to qualify; harder to cheat
  - New Fund for Digital Learning Centers
- E-Rate—allows funds to be used as needed
  - No longer restricted to “carrier services”
  - Available for inside wiring improvements
  - Allowing applicants to lease dark or lit fiber from non-profit and for-profit entities

Conclusion—Concerns of Local Governments

- Government as large user
  - internal networks (WANs/I-Nets/Middle Mile networks)
  - User rates/fees, examples:
    - End of “free” conference call services
    - Increased VoIP charges
  - Cheaper Broadband for schools
- Government as Landlord
  - Arbitrage of franchise fees as Broadband takes over
  - Will wireless pay into the system?
- Local Consumer Adoption Rates
- Economic Development
  - Limits to Urban to rural subsidies
  - Some rebalancing of prices among end-user voice services
  - Wired and wireless broadband expansion in rural areas
  - More Broadband for businesses (and government)


Q&A

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