The federal Universal Service Fund (USF) was created to help ensure all Americans have access to high quality and affordable telecommunications. Currently, telecommunications carriers that provide interstate and/or international telecommunications services pay a percentage of their interstate/international revenues into the federal USF, which supports four distinct programs – High Cost, Low Income, Schools & Libraries and Rural Health Care. In some states, wireline and wireless telecommunications companies also pay into a state USF. Under both systems, federal and state, there are detailed rules governing whether and how carriers pay into the funds and whether and how much USF support an eligible carrier may draw out of the fund. Most industry experts and regulators agree the current funding and distribution mechanisms are broken. The debate is now about how to fix the problems.

Contrary to allegations made by some landline carriers, the wireless industry is not part of the problem. The wireless industry’s contributions to the USF have grown as more Americans choose wireless services, and the industry has proposed a solution that would fix the problems with today’s federal USF.

WHY THE SYSTEM IS BROKEN: WIRELESS IS NOT THE PROBLEM

From 1998 through 2004, the FCC’s total universal service programs grew by about 157 percent. The high cost program – the largest and fastest growing of the universal service programs – grew by 106 percent, with the incumbent local telephone companies responsible for over 80 percent of the growth in that fund.

In any single year, the High Cost program amounts to more than 60 percent of the total support distributed to primarily rural and non-rural incumbent local exchange carriers. During the past seven years, $18.3 billion in High Cost funding has been distributed – $17.8 billion going to the traditional local telephone companies. During the same period, $534 million has gone to new entrants – about $513 million to wireless companies. Wireless service providers contributed almost 33 percent of the total federal Universal Service Fund in 2004, but received only about 7 percent of the funds distributed.
THE WIRELESS PROPOSED SOLUTION

CTIA and the wireless industry believe that universal service policies should rely on competition and market forces to guide the introduction, growth and deployment of new technologies and new services. Ironically, if the universal service program were established today, there would be little question that the majority of federal support would be directed to the most modern and cost-efficient telecommunications technology – wireless.
As the FCC has recognized, the current interstate telecommunications revenue-based contribution system is increasingly incompatible with the emerging multi-dimensional telecommunications market. Accelerating consumer demand of Internet Protocol-enabled, broadband and other information services that are not subject to USF assessments places the current universal service contribution system at risk, because these changes are resulting in a universal contribution base that will continue to decline.

To address these problems, CTIA has proposed a numbers- and capacity-based contribution methodology, whereby all switched connections are assessed based on working telephone numbers and non-switched connections are assessed based on capacity units. CTIA has designed its proposal to ensure that no consumer groups will be unfairly disadvantaged because of the transition to a numbers- and capacity-based system. CTIA recommends that the Universal Service Administrative Company should transition to the new system over a period of no more than 12 months, collecting numbers and capacity data for at least two calendar quarters prior to implementation of the new system.

CTIA’s proposal addresses the need for a sustainable and predictable universal service contribution base and the legitimate concerns of low volume and/or low average revenue per unit customers. The proposal provides a number of consumer benefits:

- Customers in rural areas will no longer be penalized with higher federal universal service contribution costs when they call beyond their local calling areas;
- The proposal will help bridge the digital divide by exempting residential broadband connections associated with a number from separate contribution obligations;
- The average residential customer will pay about the same in federal universal service pass through charges – no more than $3.00 per month – than she or he pays today under the revenue-based system; and,
- Even customers that make little or no long-distance calls could see lower federal universal service contribution costs.

The proposed methodology also adheres to the universal service contribution reform principles outlined in the Telecommunication Act of 1996:

- Ensure that all providers of interstate telecommunications contribute on an equitable and nondiscriminatory basis;
- Ensure that individual consumer groups do not bear an unreasonable and unfair share of contribution obligations;
- Minimize opportunities for telecom providers to avoid contribution obligations; and
- Minimize administrative burdens and/or costs of operating the universal service mechanisms.
CTIA also recognizes the need to curb growth in the size of the universal service fund. The Association has proposed combining the current five high-cost universal service mechanisms that encourage and reward incumbent local telephone company inefficiency into one mechanism that calculates support for both incumbents and competitors based on the most efficient technology in a small geographic area. Although CTIA has suggested that a forward-looking cost model could be used to calculate support, it is open to other market-driven proposals (such as reverse auctions) that would encourage and reward efficiency. CTIA also has proposed shorter-term reforms within the context of the current embedded cost mechanisms that would reduce support for carriers that do not need it and potentially increase support to those carriers with legitimate needs.