

TPRC Webinar:
Options for USF Funding Reform
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Universal Service Fund

FCC Must Reform USF Contributions Now:
An Analysis of the Options
September 2021

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TABLE 1. SUMMARY OF SERVICES THAT DO AND DO NOT CONTRIBUTE

Today's USF contribution base

ASSESSED	NOT ASSESSED
Voice, including mobile voice and interconnected VoIP	Broadband internet access service
Access to interexchange service	Wireless data, texting
Customer charges such as Universal Service Fee, Subscriber Line Charge and Access Recovery Charge	One-way VoIP
Cellular telephone, mobile radio, personal communications services	Intrastate services
Paging	Cable video
Dispatch and operator services	Direct Broadcast Satellite (DBS) video
Business data services/special access/private line service ¹⁰	
Wide area telecommunications services (WATS)	
Toll-free services	
900 services	
Telex, telegraph	
Video services (i.e., telecommunications services that deliver video signals to cable head-ends)	
Satellite services (i.e., space segment and earth station link-up for those who provide telecommunications service via satellite)	
Resale of interstate services	
Audio bridging services	
Payphone services	
Prepaid calling cards	

- Service providers contribute, based on their interstate and international telecommunications service revenues
- Assessment rate – known as the contribution factor – set quarterly based on projected disbursements and projected demand for the upcoming quarter
- Voice service (including VoIP) is assessed; broadband internet access service is not assessed

Myth

USF IS FUNDED BY A TAX ON OLD FASHIONED LANDLINE TELEPHONES.

Reality

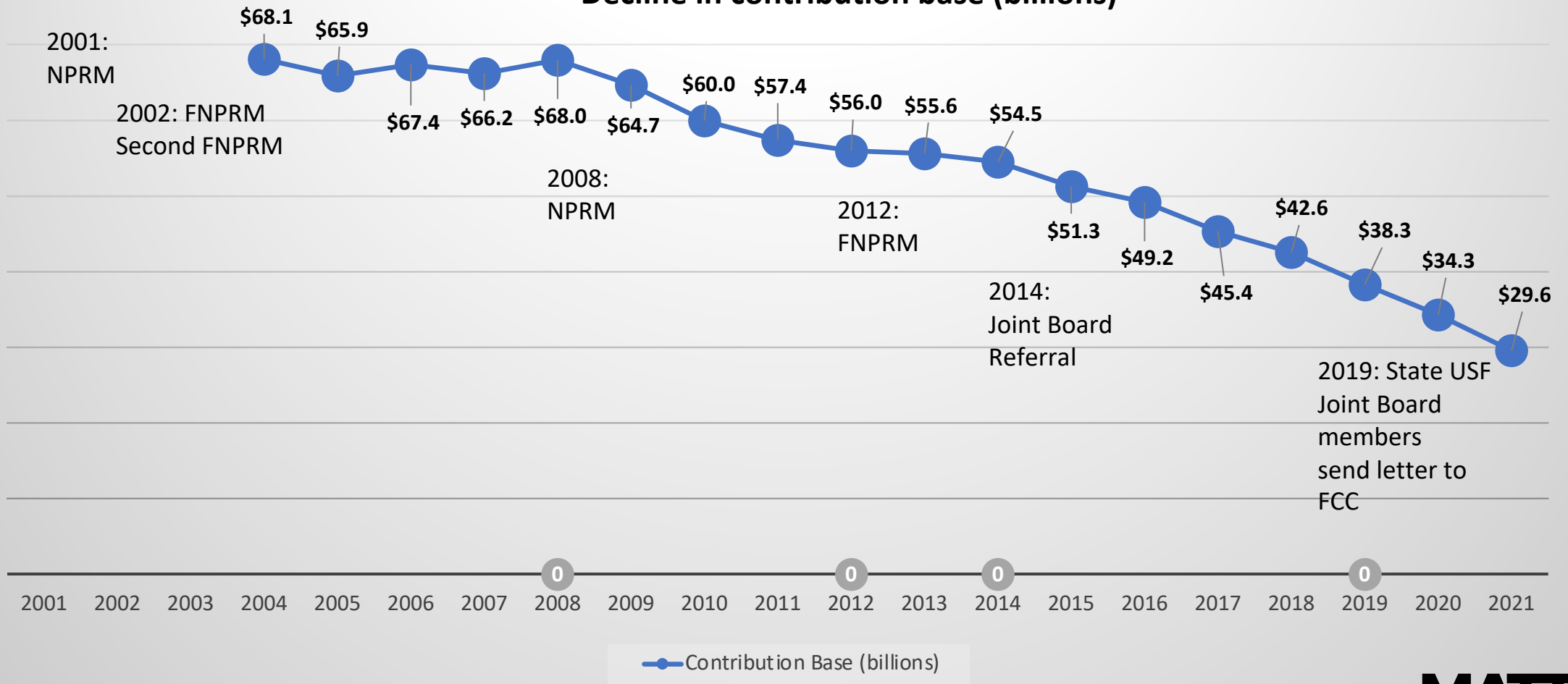
MOBILE OPERATORS AND VOIP PROVIDERS CONTRIBUTE TO USF AS WELL.

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C O N S U L T I N G L L C

History of USF Contributions Reform

Decline in contribution base (billions)



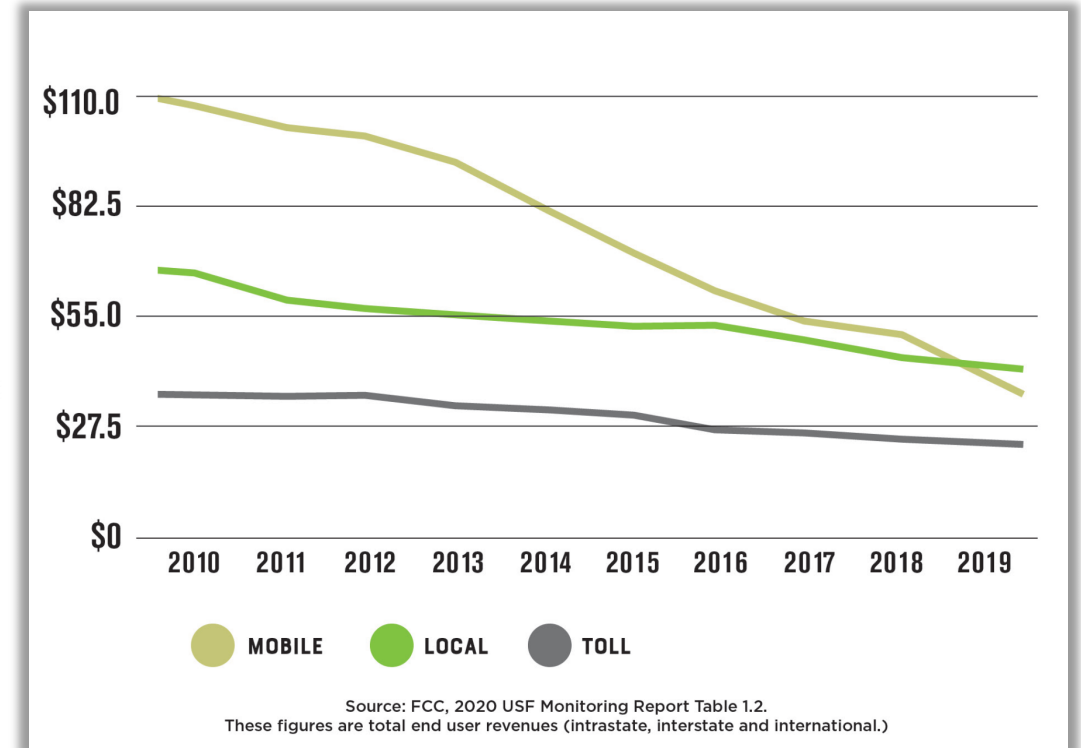
Why are USF assessable revenues declining?

Myth

USF REVENUES ARE DECLINING BECAUSE CONSUMERS ARE DROPPING LANDLINE TELEPHONES.

Reality

A SIGNIFICANT CAUSE OF THE DECLINING USF CONTRIBUTION BASE IS THAT MOBILE REVENUES SUBJECT TO ASSESSMENT HAVE DECLINED DRAMATICALLY IN THE LAST DECADE.



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Contribution factor projected to rise to 40% by 2025 – a looming crisis

FCC has sought comment multiple times in the last two decades on three primary proposals:

- Broadband internet access revenues
- Flat fee per connection, both voice and broadband
- Flat fee per phone number

USForward Report recommendation: expand the current contribution base by assessing broadband internet access service (BIAS) revenues

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USForward report projected contribution factor would drop to less than 4% if BIAS included in the contribution base

	2021	2022	2023	2024
USF DEMAND (BILLIONS)	\$9.7	\$9.6	\$8.9	\$9.6
TOTAL REVENUE (BILLIONS)	\$255.2	\$266.9	\$276.7	\$286.0
TELECOM REVENUE	\$29.6	\$28.1	\$26.7	\$25.4
BROADBAND REVENUE	\$225.6	\$238.8	\$250.0	\$260.6
CONTRIBUTION FACTOR	3.8%	3.6%	3.2%	3.4%

Source: FCC Ten-Year Forecast of program demand from Table 2; estimated telecom revenues from Figure 4; estimated broadband revenues from Table 5; assumes the full amount of end user retail broadband revenues would be assessable, and that broadband internet access service is a wholly interstate service, so that all retail revenues would be subject to federal USF.

* USForward Report used FY 2022 Budget FCC's Ten-Year Forecast of USF Demand. The more recent FY 2023 FCC budget indicates that actual USF demand in FY 2021 was \$8.7b; FY 2022 demand projected to be \$8.5b; FY 2023 projected to be \$8.3b.

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Why expand the contribution base to include broadband revenues?

- **Smart** – it's common sense to use broadband revenues to fund programs that support broadband access
- **Stable** – broadband revenues are expected to remain stable with potential for modest growth
- **Fast** – the FCC has authority to act, and this reform can be implemented more quickly than alternatives
- **Transparent** – assessing broadband revenues provides greater assurance of accuracy than alternatives previously considered by the FCC (e.g., assessing connections) and mitigates gamesmanship
- **Equitable** – those bearing contribution obligations today aren't the most significant users of networks and services