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Universal Service Fund: Background and Options for Reform

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Angele A. Gilroy
Specialist in Telecommunications
Resources, Science, and Industry Division

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Universal Service Fund: Background and Options for Reform

Summary

The concept that all Americans should be able to afford access to the telecommunications network, commonly called the "universal service concept" can trace its origins back to the 1934 Communications Act. Since then, the preservation and advancement of universal service has been a basic tenet of federal communications policy, and Congress has historically played an active role in helping to preserve and advance universal service goals. The passage of the Telecommunications Act of 1996 (P.L.104-104) not only codified the universal service concept, but also led to the establishment, in 1997, of a federal Universal Service Fund (USF or Fund) to meet the universal service objectives and principles contained in the 1996 Act. According to Fund administrators, from 1998 through end of year 2005, $43.5 billion was distributed, or committed, by the USF, with all 50 states, the District of Columbia and all territories receiving some benefit.

The Federal Communications Commission (FCC) is required to ensure that there be "specific, predictable and sufficient...mechanisms to preserve and advance universal service." However, changes in telecommunications technology and the marketplace, while often leading to positive benefits for consumers and providers, have had a negative impact on the health and viability of the USF, as presently designed. These changes have led to a growing imbalance between the entities and revenue stream contributing to the fund and the growth in the entities and programs eligible to receive funding. The desire to expand access to broadband and address what some perceive as a "digital divide" has also placed focus on what role, if any, the USF should take to address this issue

There is a growing consensus among policy makers, including some in Congress, that significant action is needed not only to ensure the viability and stability of the USF, but also to address the numerous issues surrounding its appropriate role in a changing marketplace. How this concept should be defined, how these policies should be funded, who should receive the funding, and how to ensure proper management and oversight of the Fund are among the issues expected to frame the debate.

The current policy debate surrounding USF reform has focused on four major concerns: the scope of the program; who should contribute and what methodology should be used to fund the program; eligibility criteria for benefits; and concerns over possible program fraud, waste, and abuse. A separate and more narrowly focused issue, the impact of the Antideficiency Act (ADA) on the USF, has also become an issue of concern.

Legislative measures to address the reform, restructuring and expansion into broadband of the USF (S. 101, S. 711, H.R. 42) as well as those that address ADA compliance (H.R. 278, S. 609, S. 101) have been introduced in the 110th Congress.

This report will be updated as events warrant.

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Introduction

The concept that all Americans should be able to afford access to the telecommunications network is commonly called the "universal service concept." This concept can trace its origins back to the 1934 Communications Act.[1] Since then the preservation and advancement of universal service has been a basic tenet of federal communications policy, and Congress has historically played an active role in helping to preserve and advance universal service goals. In 1996 Congress passed the Telecommunications Act of 1996 (P.L. 104-104), which not only codified the universal service concept, but also led to the establishment of a federal Universal Service Fund (USF or the Fund) to meet the universal service objectives and principles contained in the 1996 Act. According to Fund administrators, from 1998 through end of calendar year 2005, $43.5 billion was distributed, or committed, by the USF, with all 50 states, the District of Columbia, and all territories receiving some benefit.[2]

Over the past decade the telecommunications sector has undergone a vast transformation fueled by rapid technological growth and subsequent evolution of the marketplace. A wide range of new services have become available, offered by a growing list of traditional as well as nontraditional providers. One of the results of this transformation is that the Nation's expectations for communications services have also grown. In the past, access to the public switched network through a single wireline connection, enabling voice service, was the standard of communications. Today the desire for simple voice connectivity has been replaced by the demand, on the part of consumers, business, and government, for access to a vast array of multifaceted fixed and mobile services. Consumers are also demanding greater flexibility and may choose to gain access to the same content over a variety of technologies, whether it be a computer, a television, or a mobile telephone. The trend towards sharing information, such as music or photographs, is also growing, making it necessary to ensure that network upload speeds match download capabilities. These advances require that networks transition into converged next-generation wireline and wireless broadband networks capable of meeting these demands. One of the challenges facing this transition is the desire to ensure that all

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[1] Communications Act of 1934, as amended [47 U.S.C.151*et seq*.].

[2] See [http://www.usac.org/about/universal-service/fund-facts/fund-facts.aspx].

citizens have access to an affordable and advanced telecommunications infrastructure so that all members of American society may derive the benefits.[3]

Technological advances such as the ability of the Internet to provide data, voice, and video, the bundling of service offerings, the advancement of wireless services, and the growing convergence of the telecommunications sector have, according to many policy makers, made it necessary to reexamine traditional policy goals such as the advancement of universal service mandates. These changes in technology and the marketplace, a declining funding base and significant increases in the amount of support disbursed by the Fund, have led to concerns that the USF is in need of reform. There is a growing consensus, among policy makers, including some in Congress, that significant action is needed not only to ensure the viability and stability of the USF, but also to address the numerous issues surrounding such reform. The 110th Congress may take a prominent role in this debate. How this concept should be defined, how these policies should be funded, who should receive the funding, and how to ensure proper management and oversight of the Fund are among the issues expected to frame the policy debate.

The Universal Service Concept

Since its creation in 1934 the Federal Communications Commission (FCC, or Commission) has been tasked with "... mak[ing] available, so far as possible, to all the people of the United States, ... a rapid, efficient, Nation-wide, and world-wide wire and radio communications service with adequate facilities at reasonable charges...."[4] This mandate led to the development of what has come to be known as the universal service concept.

The universal service concept, as originally designed, called for the establishment of policies to ensure that telecommunications services are available to all Americans, including those in rural, insular and high cost areas, by ensuring that rates remain affordable. During the twentieth century, government and industry efforts to expand telephone service led to the development of a complex system of cross subsidies to expand the network and address universal service goals. The underlying goal of the cross-subdization policy was to increase the number of subscribers to the network by shifting costs among network providers and subscribers. Profits from more densely populated, lower cost urbanized areas helped to subsidize wiring and operation costs for the less populous, higher cost rural areas. Higher rates and equipment charges for business and long distance customers helped to subsidize the charges for residential local calling. The funding for universal

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[3] For a discussion of issues relating to broadband deployment, access, and regulation see CRS Report RL33542, *Broadband Internet Regulation and Access: Background and Issues*, by Angele A. Gilroy and Lennard G. Kruger.

[4] Communications Act of 1934, as amended, Title I sec.1[47 U.S.C. 151].

service objectives was built into the rate structure and effectively, most telephone subscribers have contributed to universal service goals for decades.[5]

With the advent of competition and the breakup of the Bell System, the complex system of cross subsidies that evolved to support universal service goals was no longer tenable. The Telecommunications Act of 1996 (P.L. 104-104; 47USC) codified the long-standing commitment by U.S. policymakers to ensure universal service in the provision of telecommunications services (Sec. 254). The 1996 Act also required that every telecommunications carrier that provides interstate telecommunications services be responsible for universal service support [Sec. 254(d)] and that such charges be made explicit [Sec. 254(e)].[6] The 1996 Act also expanded the concept of universal service to include, among other principles, that elementary and secondary schools and classrooms, libraries, and rural health care providers have access to telecommunications services for specific purposes at discounted rates [Sec. 254(b)(6) and 254(h).]

The Federal Universal Service Fund

Over the years this concept fostered the development of various FCC policies and programs to meet this goal. A new federal Universal Service Fund (USF or Fund) was established in 1997 to meet the specific objectives and principles contained in the 1996 Act. The USF is administered by the Universal Service Administrative Company (USAC), an independent-not-for-profit organization, under the direction of the FCC. The FCC, through the USF, offers universal service support through a number of direct mechanisms that target both providers of and subscribers to telecommunications services.[7] The USF provides support and discounts for providers and subscribers through four programs: high-cost support; low-income support; schools and libraries support; and rural health care support.[8]

High-Cost Program High-cost support, provided through the high cost program, is an example of provider-targeted support. Under the high cost program, eligible telecommunications carriers, usually those serving rural, insular, and high cost areas, are able to obtain funds to help offset the higher than average costs of

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[5] Specific federal programs such as the Rural Telephone Bank and Rural Utilities Service loan programs were also developed to assist high cost rural areas.

[6] Sec. 254 (d) also states that other providers of interstate telecommunications may be required to contribute to the preservation and advancement of universal service if it is in the public interest.

[7] Many states participate in or have programs that mirror FCC universal service mechanisms to help promote universal service goals within their individual states.

[8] For further information on the FCC's universal service support mechanisms see [http://www.fcc.gov/cgb/consumerfacts/universalservice.html].

providing telephone service.[9] This mechanism has been particularly important to rural America where the lack of subscriber density leads to significant costs.

Low-Income Program FCC universal service policies have been expanded to target low-income subscribers. Two income-based programs, Lifeline and Link-Up, established in the mid-1980s, were developed to assist economically needy individuals. The Link-Up program, established in 1987, assists low-income subscribers pay the costs associated with the initiation of telephone service, and the Lifeline program, established in 1984, assists low-income subscribers pay the recurring monthly service charges incurred by telephone subscribers.[10]

Schools and Libraries or "E-Rate" Program Under universal service provisions contained in the 1996 Act, elementary and secondary schools and classrooms, and libraries are designated as beneficiaries of universal service discounts. Universal service principles detailed in Section 254(b)(6) state that "Elementary and secondary schools and classrooms ... and libraries should have access to advanced telecommunications services..." The act further requires in Section 254(h)(1)(B) that services within the definition of universal service be provided to elementary and secondary schools and libraries for education purposes at discounts, that is at "rates less than the amounts charged for similar services to other parties."

The FCC established the Schools and Libraries Division within the Universal Service Administrative Company (USAC) to administer the schools and libraries or "E (education)-rate" program to comply with these provisions. Under this program, which became effective, January 1, 1998, eligible schools and libraries receive discounts ranging from 20 to 90 percent for telecommunications services depending on the poverty level of the school's (or school district's) population and its location in a high cost telecommunications area. Three categories of services are eligible for discounts: internal connections (e.g., wiring, routers and servers); Internet access; and telecommunications and dedicated services, with the third category receiving funding priority. Unlike the high-cost and low-income programs, the FCC established a yearly ceiling, or cap, of $2.25 billion for this program.

Rural Health Care Program Section 254(h) of the 1996 Act requires that public and non-profit rural health care providers have access to telecommunications services necessary for the provision of health care services at rates comparable to those paid for similar services in urban areas. Subsection 254(h)(1) further specifies that "to the extent technically feasible and economically reasonable" health care providers should have access to advanced telecommunications and information services. The FCC established the Rural Health Care Division (RHCD) within the USAC to administer the universal support program to comply with these provisions.

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[9] The high-Cost Fund consists of five sub-funds which address specific needs: High-Cost Loop Support; High-Cost Model Support; Local Switching Support; Interstate Common Line Support; and Interstate Access Support.

[10] Support is not given directly to the subscriber but to their designated telecommunications service provider, who in turn charge these subscribers lower rates.

Under FCC-established rules only public or non-profit health care providers are eligible to receive funding. Eligible health care providers, with the exception of those requesting only access to the Internet, must also be located in a rural area.[11] Similarly to the Schools and Libraries program, this support program went into effect on January 1, 1998 and a funding ceiling, or cap, was established, in this case at $400 million annually. The primary use of the funding is to provide reduced rates for telecommunications and information services necessary for the provision of health care.[12]

Funding

The USF receives no federal monies but is funded by mandatory contributions from telecommunications carriers that provide interstate service.[13] Under current rules, a carrier's contributions are assessed based on a percentage of its interstate and international end-user telecommunications revenues. This percentage is called the contribution factor. The FCC calculates the contribution factor based on anticipated funding needs of the USF in the upcoming quarter. This information is submitted quarterly, to the FCC, by USAC's universal service administrator. The contribution factor is calculated four times a year, on a quarterly basis, and may increase, decrease, or remain the same depending on the needs of the universal service programs drawing on the USF. The FCC's Wireline Competition Bureau releases a public notice stating the proposed factor. After 14 days, absent any FCC action, the factor becomes final. As shown in **Appendix A Table 1**, from 2000 to the first half of 2005 the contribution factor generally saw a steady increase. During that period the contribution factor varied from a low of 5.5 percent in the third quarter of 2000 to a high of 11.1 percent in the second quarter of 2005. Since reaching that high, the factor had begun to moderate; however, the contribution factor for the second quarter of 2007, at 11.7 percent, is a strong reversal of this trend, resulting in a significant increase from the first quarter 2007 contribution factor of 9.7 percent. (See Policy Options section of this report for a discussion of some of the reasons attributed to this increase.)

There are some exceptions to this funding process. Under the FCC's rules telecommunications providers are not required to contribute in a given year to universal service if their annual contributions to the program would be de minimis, that is less than $10,000 in that year, or if they provide only international services. Filers are also not required to contribute based on international revenues if their interstate end-user revenues meet the 12 percent rule, that is, if their interstate end-user revenues represent less than 12 percent of their combined interstate and international end-user revenues. In other cases the FCC has determined that selected

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[11] Any health care provider that does not have toll-free access to the Internet can receive support. Support is available for limited long distance charges for accessing the Internet. This has become an increasingly rare occurrence, however, and the last time such support was given was in 2001.

[12] For additional information on this program, including funding commitments, see the RHCD website: [http://www.universalservice.org/rhc/].

[13] These companies include wireline telephone companies, wireless telephone companies, paging service providers and interconnected Voice over Internet Protocol (VoIP) providers.

categories of providers, for example, wireless carriers and interconnected VoIP providers, may, but are not required to, base their contributions on an FCC-established revenue percentage, or "safe harbor," that attempts to estimate the percentage of the provider's total revenues that are interstate and international end-user revenues.[14] The current safe harbor for wireless carriers and VoIP providers is set at 37.1 percent and 64.9 percent of total revenues, respectively.[15]

Many assessed providers have chosen, but are not required, to recover USF contributions directly from their customers. They pass through universal service payments directly to consumers and earmark a universal service charge on subscriber's bills. This is legal and a common industry practice. However, if an assessed provider does choose to collect USF fees directly from their customers the provider is not permitted to recover, through a federal universal service line item on a customer's bill, an amount that exceeds the universal service charge contribution factor.[16]

Disbursements

According to USAC, universal service support disbursements, for calendar year 2006, totaled about $6.6 billion.[17] **Figure 1**, below, shows the breakdown of 2006 USF disbursements as a percentage by individual program. High Cost support accounted for 61.8 percent of total disbursements, or $4.1 billion. Schools and Libraries support represented 25.2 percent of disbursements, totaling $1.7 billion.[18] Low Income support was 12.4 percent of disbursements, totaling $820.4 million. Commitments for Rural Health Care support were about $40.6 million, or 0.6 percent of disbursements.[19] Although subscribers benefit from the USF, only companies that provide the services draw money directly from the fund.

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[14] These providers have expressed concern over their inability to distinguish between their interstate and intrastate revenues. However, in lieu of using the safe harbor percentage they do have the option to submit traffic study data to show that they should contribute less.

[15] *FCC Updates Approach for Assessing Contributions to the Federal Universal Service Fund*. Available at [http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-266030A1.pdf].

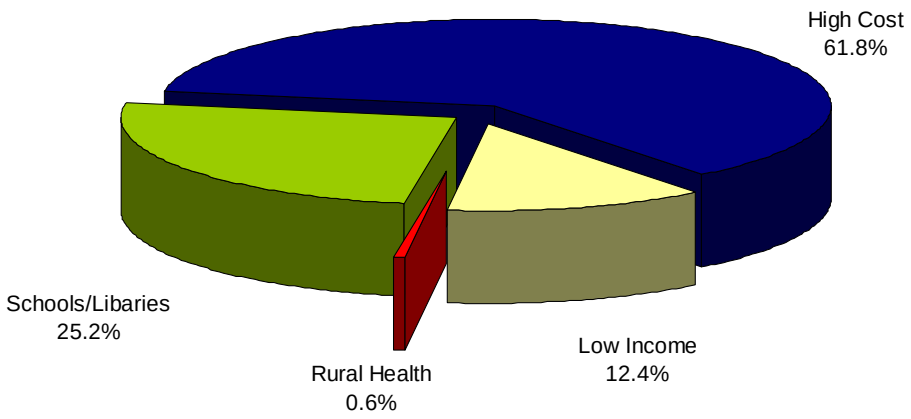
[16] It should also be noted that an assessed provider is not permitted to collect any fees from a lifeline or link-up subscriber, unless that subscriber has incurred long-distance charges.

[17] These figures are based on USAC 2006 unaudited financial data. Detailed data, including state-specific information, on USF support can be found in the Universal Service Company 2006 Annual Report at [http://www.usac.org/_res/documents/about/pdf/USAC-annual-report-2006.pdf].

[18] Disbursements for the schools and libraries support program and the rural health care program operate on a school year calendar and represent commitments as of December 31, 2006 for the funding year which runs from July 1- June 30. Therefore, these figures do not represent the full yearly commitment made to these programs.

[19] See footnote 16, above.

Figure 1. USF Disbursements by Program 2006



Source: Data from USAC 2006 Annual Report (unaudited data).

Appendix A Table 2, provides data on USF payments and contributions broken down by state and program for 2005. The data show that service providers (and their subscribers) in every state, territory and commonwealth received, to varying degrees, some 2005 USF payments. For example, all received at least some payments from both the Low Income program and the Schools and Libraries program. The allocation of benefits vary depending on which individual program is examined. However, when overall net dollar flow[20] is examined 23 states and the District of Columbia were net contributors to the 2005 USF program as a whole. The service providers in the remaining 27 states and 5 territories were net receivers, that is they received more payments from the USF, for 2005, than estimated contributions. Although there is some variation within programs and among states in any given year, on the whole whether a particular state is a net receiver of, or contributor to the USF program, is a fairly stable pattern.[21] In general, rural states with low population density typically tend to benefit most as they receive significant funding from the High Cost program, but tend to contribute less to the USF program overall, since they tend to generate lower telecommunications revenues.

[20] Contribution allocation among states is an FCC staff estimate. Net dollar flow is annual payments minus estimated contributions.

[21] For a breakdown of USF distributions and contributions by state for previous years see Table 1.12 of the FCC's Universal Service Monitoring Report. Monitoring reports issued since 1991 are available at [http:www.fcc.gov/wcb/iatd/monitor.html].

Policy Options

The FCC is required to ensure that there be "specific, predictable and sufficient ... mechanisms to preserve and advance universal service."[22] However, changes in telecommunications technology and the marketplace, while often leading to positive benefits for consumers and providers, have had a negative impact on the health and viability of the USF, as presently designed. These changes have led to a growing imbalance between the entities and revenue stream contributing to the fund and the growth in the entities and programs eligible to receive funding. The desire to expand access to broadband and address what some perceive as a "digital divide" has also placed focus on what role, if any, the USF should take to address this issue.[23]

The current policy debate surrounding USF reform has focused on four major concerns: the scope of the program; who should contribute and what methodology should be used to fund the program; eligibility criteria for benefits; and concerns over possible program fraud, waste, and abuse. A separate and more narrowly focused issue, the impact of the Antideficiency Act (ADA) on the USF, also has become an issue of concern.

Program Scope

One of the major policy debates surrounding universal service is whether access to advanced telecommunications services (i.e., broadband) should be incorporated into universal service objectives. The term universal service, when applied to telecommunications, refers to the ability to make available a basket of telecommunications services to the public, across the nation, at a reasonable price. As directed in the 1996 Telecommunications Act [Section 254(c)], a federal-state Joint Board was tasked with defining the services which should be included in the basket of services to be eligible for federal universal service support; in effect using and defining the term "universal service" for the first time. The Joint Board's recommendation, which was subsequently adopted by the FCC in May 1997, included the following in its universal services package: voice grade access to, and some usage of, the public switched network; single line service; dual tone signaling; access to directory assistance; emergency service such as 911; operator services; access and interexchange (long distance) service.

Some policy makers have expressed concern that the FCC-adopted definition is too limited and does not take into consideration the importance and growing acceptance of advanced services such as broadband and Internet access. They point to a number of provisions contained in the Universal Service section of the 1996 Act to support their claim. Universal service principles contained in Section 254(b)(2) state that "Access to advanced telecommunications services should be provided to all regions of the Nation." The subsequent principle (b)(3) calls for consumers in

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[22] 47 U.S.C. Sec. 254 (b)(5).

[23] For a discussion of the issues surrounding the "digital divide" see CRS Report RL30719, *Broadband Internet Access and the Digital Divide: Federal Assistance Programs*, by Lennard G. Kruger and Angele A. Gilroy.

all regions of the Nation including "low-income" and those in "rural, insular, and high cost areas" to have access to telecommunications and information services including "advanced services" at a comparable level and a comparable rate charged for similar services in urban areas. Such provisions, they state, dictate that the FCC expand its universal service definition.

The 1996 Act does take into consideration the changing nature of the telecommunications sector and allows for the universal service definition to be modified if future conditions warrant. Section 254(c)of the act states that "universal service is an evolving level of telecommunications services" and the FCC is tasked with "periodically" reevaluating this definition "taking into account advances in telecommunications and information technologies and services." Furthermore, the Joint Board is given specific authority to recommend "from time to time" to the FCC modification of the definition of the services to be included for federal universal service support. The Joint Board, in July 2002, concluded such an inquiry and recommended that at that time no changes be made in the list of services eligible for universal service support. The FCC, in a July 10, 2003 order (FCC 03-170) adopted the Joint Board's recommendation, thereby leaving unchanged the list of services supported by Federal universal service. However the Joint Board is again in the process of reevaluating the USF program and it is anticipated that recommendations to expand the program to include broadband services to the list of supported services may be among those suggested. This process is a lengthy one, however, and once the Joint Board has forwarded its recommendations the FCC is given up to one year to complete a proceeding to consider them.[24]

Other policy makers caution that a more modest approach is appropriate given the "universal mandate" associated with this definition. Also at issue is the uncertainty and costs associated with mandating nationwide deployment of such advanced services as a universal service policy goal. Some have expressed concern that given the pressures currently facing the Fund, and their impact on the contribution factor, the inclusion of broadband services, at this time, is taking on too large a mandate. Current policy concerns regarding both the contribution and distribution mechanisms should be addressed first, they state, prior to any expansion of the USF definition. Furthermore, they state, the USF has already taken on limited broadband deployment responsibilities through the E-rate and Rural Health Care programs, and indirectly through the High Cost program, as funding is used to upgrade existing telephone networks. If ubiquitous broadband deployment is a national policy goal, they state, policymakers should not place further stress on the USF program but should seek out other means of achieving this goal which may be more effective, such as providing economic incentives, easing economic regulation, encouraging municipal ownership, expanding other existing programs or establishing a new program.[25]

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[24] It should be noted that the FCC is not required to implement the recommendations of the Federal-State Joint Board, however, the presence of three FCC commissioners on the Board gives much weight to their recommendations.

[25] For example, the USDA's Rural Utilities Service has a broadband loan and grant program for rural areas. For information on this program see CRS Report RL33816, *Broadband*

(continued...)

Contribution Methodology

One of the major policy questions surrounding USF reform is to what degree, if any, there should be a change in the way the program is funded. A consensus has been forming that some reform to broaden the contribution base is needed. How this should be accomplished however, remains open to debate. Proposals range from modest options to expand the existing funding base, to broadening the base to include *intrastate* revenues, to calling for a complete restructuring of the contribution methodology.

Expanding the Base. One option is to broaden the base of entities that must contribute to the Fund, by calling for technology neutral funding. The FCC has taken a number of actions, over the years, to expand the pool of contributors, thereby broadening the base of entities supporting the Fund.[26] For example, in 1998 the FCC established a revenue percentage, or safe harbor, of 15 percent of revenues for determining the USF contribution for wireless carriers. That percentage has been increased twice since and is currently set at 37.1 percent. In a June 2006 decision, the FCC further expanded the pool of contributors by requiring that providers of interconnected VoIP contribute to the USF.[27] Some policy makers have recommended that the list of providers be expanded to include broadband providers which were removed from the base when the FCC ruled that Internet access services are information services, not telecommunications services. However, they generally recommend that this expansion be contingent on the understanding that USF support be used to upgrade the telecommunications infrastructure to include broadband capabilities.

Intrastate Revenues. Another proposal calls for broadening the revenue base by assessing fees on *intrastate* as well as interstate/international revenues. Although this would provide an additional source for USF funds, many state that this option may not be available absent Congressional action to specifically designate intrastate revenues as a source for federal USF contributions. The recommendation for specific Congressional clarification is based, to a large part, on a successful court challenge of an earlier attempt by the FCC to collect support for the E-rate program based on combined interstate and intrastate revenues. In the case of *Texas Office of Public Utility Counsel v. FCC* (183F.3d; 393;1999) the United States Court of Appeals, 5th Circuit concluded that "...the agency (FCC) exceeded its jurisdictional authority when it assessed contributions for sec. 254(h), 'schools and libraries' programs based on combined intrastate and interstate revenues of interstate telecommunications providers and when it asserted its jurisdictional authority to do

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[25] (...continued)
Loan and Grant Programs in the USDA's Rural Utilities Service, by Lennard G. Kruger.

[26] However, it should be noted that in a reversal of this trend, the FCC, in an August 2005 decision, exempted digital subscriber line (DSL) service from USF assessments on the basis of its August 2005 "information service" classification.

[27] See *FCC Updates Approach For Assessing Contributions To The Federal Universal Service Fund*, available at [http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-266030A1.pdf].

the same on behalf of high-cast support." Proponents of including intrastate revenues cite technological and marketplace changes which have eroded the distinction between interstate and intrastate services as well as the growth of combined calling plans in support of such action. Some, however, have expressed concern over the potential negative impact that the inclusion of intrastate revenues may have on state-supported USF programs since many are funded by intrastate telecommunications revenues.

Numbers or Connections. Another proposal calls for a shift in the basis of support away from revenues to a completely new methodology based on working numbers or connections. Under this proposal contributions for USF would be assessed based on a monthly flat fee, or charge, per working telephone number. Since users need a discrete number to connect to the public switched network, supporters claim this proposal would lead to a more stable assessment, would be technologically neutral, would spread contributions over a broader base, and would be easier to administer.[28] Opponents, however, state that using a numbers-based approach shifts the burden of USF from high volume users directly to all subscribers as a regressive fixed charge. This, they state, not only adds a financial burden on low volume subscribers, who may be elderly, and/or on low and fixed incomes, but could possibly lead to subscriber drop-off, thereby defeating the purpose of the USF program.[29]

Distribution Methodology

Another major issue facing USF reform concerns the eligibility criteria used to distribute USF funds. Over the past decade (1997-2007) annual USF receipts have grown from $1.8 billion to an estimated $7.2 billion and the contribution factor needed to support this growth has more than doubled to reach an all time high of 11.7 percent for the second quarter of 2007. This significant rise in the funding level, and subsequently the contribution factor, has led to an examination of the Fund's eligibility criteria and distribution methodology as concerns have been voiced over the long term sustainability of the Fund and the cost burden it imposes on contributors.

Examination of USF program revenue flows, since 2003, shows that three of the four programs, Low Income, Schools and Libraries, and Rural Health Care, have been relatively stable or declining. However, the High Cost program has experienced significant growth (31 percent), with disbursements increasing from $3,261.1 million to $4,270.8 million over the four year period; and as a result, is the major factor

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[28] For a more detailed discussion supporting this proposal see The USF by the Numbers Coalition, *The Benefits of a Numbers-Based Collection for Universal Service*. Available at [http://files.ctia.org/pdf/PositionPaper_numberscoalition_USF.pdf].

[29] For a more detailed discussion opposing a numbers-based proposal see *Losing Numbers: How America's Most Vulnerable Consumers Could Suffer Under Universal Service Fund Reform.* Available at [http://keepusffair.org/KeepUSFFair/resources.html].

contributing to the USF's recent overall growth.[30] Within the High Cost program the growth can be traced to support given to competitive eligible telecommunications carriers. For example, payments for competitive eligible telecommunications carriers, which are largely wireless carriers, increased from $1 million in 2000, to $126.7 million in 2003, but are estimated by USAC to total $1 billion for 2006 and potentially may go as high as $2.5 billion by 2009.[31] On the other hand, while incumbent eligible telecommunications carriers still receive the majority of funds from the High Cost program, revenues disbursed in 2003 and 2007 decreased from $3.2 million to $3.1 million.[32]

Hence, most policy discussions regarding the distribution methodology focus on proposals to stem the growth of the High Cost Program by limiting eligibility criteria and/or controlling the amount of funding disbursed. A variety of proposals, to be used on their own or in combination, are being discussed including limiting USF support to a single line per household, eliminating the "identical cost rule," using reverse auctions to determine eligibility, placing a cap (or ceiling) on funds, and improving targeting.

Primary or Single Line Limitation. As presently designed, USF support is available to multiple lines per household. Some policy makers have proposed that one way to curb the increase in funding requirements is to limit eligibility criteria. USF funding, they state, should be limited to a single or primary line, not multiple access.[33] The universal service mandate, they claim, is not to artificially construct a competitive marketplace with multiple carriers in areas that are not able to support a single carrier, but to ensure that high cost areas receive service at a reasonable rate. The use of USF funds to support multiple carriers in high cost areas, they claim, is an abuse of funds and places unnecessary strain on those supporting the program. Others however, have argued that limiting USF support to a single provider relegates those areas to a lower standard, which does not fulfill the universal service principle to afford consumers in rural, insular and high cost areas, access to telecommunications and information services that are "...reasonably comparable to those services provided in urban areas..."(Sec. 254 [b] [3]). High cost areas, they state, should have the benefits and choices of competition and the opportunity to select from a variety of providers just like other regions of the nation. Line limitations, opponents state, will only discourage investment in rural infrastructure.

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[30] Testimony of Billy Jack Gregg, Director, Consumer Advocate Division, Public Service Commission of West Virginia, before the Senate Commerce, Science, and Transportation Committee, March 1, 2007. Available at [http://commerce.senate.gov /public/index.cfm?FuseAction=Hearing.Hearing_ID=1819].

[31] Testimony of FCC Chairman Kevin Martin before the Federal-State Joint Board on Universal Service, February 20, 2007. Available at [http://hraunfoss.fcc.gov/edocs _public/attachmatch/DOC-271011A1.pdf].

[32] *Ibid.*, Gregg. More specifically, revenues disbursed between 2003 and 2007 decreased from $3,234.9 million to $3,105.3 million.

[33] It should be noted, however, that the 109th Congress enacted legislation prohibiting the FCC from using any of its FY2006appropriated funds to change its rules, or regulations, to limit USF support payments to a single connection, or primary line (PL. 109-108, Title VI, Sec. 622).

Reverse Auctions. One proposal under consideration for selecting an eligible carrier is the use of reverse auctions, or competitive bidding. Under this method a geographic area would be designated as high cost, providers interested in offering service would be asked how little universal service support they would need to provide service and the provider that submits the *lowest* bid, all else equal, would receive the funds.[34] This approach, in theory, would result in a decrease in funding for High Cost support since it would be based on low bids submitted by providers instead of on the current method that is based on the embedded costs of the incumbent telecommunications provider in the area. This, supporters claim, will lead to the use of the most efficient technology and will relieve the growing pressure on USF funds. However, there is no single methodology that must be used and the reverse auction concept could be designed in a number of ways and impose a variety of requirements and obligations. For example, some support a phased-in approach to reverse auctions where it is used solely to select a competitive carrier for an area while the designated incumbent eligible telecommunications carrier remains under the present system indefinitely, or for a specific time period. Others suggest that an auction system could reward the lowest bidder with the most support, but still give other participants some limited support. Still others suggest the establishment of a pilot program to test for successes and/or unintended consequences. On the other hand, others have expressed reservations about adopting reverse auctions stating that many questions remain about how to implement reverse auctions, how to administer the costs associated with their adoption, and the long term impact they would have on consumers as well as providers. Concerns were also expressed that a reverse auction would not create a favorable environment for network investment and high cost areas could be left with inferior networks.

Identical Cost Rule. The criteria used for the distribution of funds for the High Cost program has also come under scrutiny. High Cost program fund distribution is based on what is known as the "identical cost rule." Under this rule funds are distributed to competitive eligible telecommunications carriers based on the embedded costs, or per line support, of the incumbent carrier. Typically the incumbent carrier is a wireline carrier while the competitive carrier is a wireless carrier. The infrastructure costs associated with the investment and maintenance of a wireline system are generally significantly higher than those associated with a wireless system. Therefore some have questioned whether basing funding levels on the incumbent carrier's costs, particularly when support is based on a more expensive infrastructure, is reasonable, or even fair. Switching to a more refined distribution methodology, more reflective of a carrier's actual costs they claim, would help to alleviate some of the pressure facing funding of the High Cost program. Furthermore they state, it is anticipated that the growth in competitive eligible telecommunications carriers will be increasing based on the number of applications pending at the FCC, and that therefore addressing this issue is of growing significance.

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[34] The provider would be required to meet certain "carrier of last resort" obligations, which would be detailed when the bids are solicited. For example, the carrier would be required to offer a specific package of services and provide that service to the entire designated service area (regardless of cost), and would have to meet interconnection mandates.

Capping. Some have also proposed placing a cap, as a temporary or permanent measure, on the funds available for distribution to competitive eligible telecommunications carriers through the High Cost program. Supporters of capping claim that it will prevent the uncontrolled growth of this part of the High Cost program, which is the major contributor to the overall growth in the USF. In turn they state, this will bring stability to the Fund and the USF contribution factor. They note that both the E-rate and the Rural Health Care programs operate under yearly caps, and with the exception of the Low Income program which has been relatively stable, the High Cost program is the only program with no built-in restraints on its growth. Others however are opposed to implementing a cap. They point out that placing a cap on an existing program, such as the High Cost program, could lead to confusion and be very disruptive. The dynamic, they state, is very different than capping programs, such as the E-rate and Rural Health Care, at their inception. The High Cost program, they claim, is an ongoing program responsible for providing basic voice service and connection to the network, a fundamental tenet of the universal service mandate. The placing of a cap on this program, they claim, could have significant unintended consequences which could undermine universal service goals.

Improved Targeting. An additional proposal calls for making a better effort to target areas of need by using better mapping technology (geographic information systems or GIS) or modeling to determine support for eligible telecommunications carriers. Some claim that the designated areas for support are too large and cover areas which might not be in need of USF support. Designating areas for USF support that do not need such subsidies only encourages the influx of eligible carriers into areas that they might choose to enter absent such support, they claim, and leads to the use of funds which may be more appropriately used elsewhere. Taking a more refined and precise approach, they state, will result in using funds more effectively in areas that truly need support. While most support such efforts, many see such proposals to be more long term efforts which are still under development.

Fraud, Waste, and Abuse

Directly related to the funding issue are concerns expressed by policy makers over the potential for possible fraud, waste, or abuse of the program. While all USF programs have the potential for mismanagement, the E-rate program, "due to its materiality and an initial assessment of its potential for waste, fraud, and abuse..."[35] has been singled out for particular attention. The ability to ensure that only eligible services are funded, that funding is disbursed at the proper level of discount, that alleged services have been received, and the integrity of the competitive bidding process is upheld have been questioned. A series of Government Accountability Office (GAO) reports raising concerns about the financial oversight of the E-rate program prompted additional Congressional scrutiny.[36] The USAC, as the

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[35] Federal Communications Commission Office of the Inspector General, Semiannual Report to Congress, April 1, 2006 – September 30, 2006, p.8. Available at [http://www.fcc.gov/oig/oigreportssemiannual.html].

[36] For example, see *Schools and Libraries Program: Actions Taken to Improve Operational* (continued...)

administrator responsible for the management and oversight of the USF, initiated a number of measures to address specific E-rate concerns and extended them to all USF programs. These measures include establishing a whistleblower hotline to report violations and conducting random and targeted audits of USF program participants and contributors. In 2006, USAC took additional action by initiating "...a large-scale beneficiary audit program" and "...expects to conduct more than 450 audits of program beneficiaries and contributors by mid-2007."[37]

The FCC's Office of the Inspector General (OIG) has also been active in pursuing oversight of the USF focusing on the E-rate program in particular. Since 2002 the OIG has included in its semi-annual reports coverage of its specific efforts to oversee E-rate program activity, including audits, to ensure program integrity.[38] More recently, however, the OIG has also expanded its audit efforts to include the remaining three USF programs and audits of USF contributors. Despite this activity, however, the OIG continues to cite the need for additional resources, stating that "...the primary obstacle to an effective, independent oversight program has been, and continues to be, inadequate audit and investigative resources so that OIG can conduct its own audits and provide adequate support to investigations."[39] The FCC's Enforcement Bureau is the primary entity within the FCC tasked with enforcing the provisions of the Communications Act, including those related to Section 254 (universal service). The Enforcement Bureau pursues violators and initiates enforcement actions including notices of liability, suspensions, consent decrees, and debarments.[40]

The Department of Justice (DOJ) has also taken an active role in pursuing instances of deliberate fraud related, in particular, to the E-rate program. The Antitrust Division of the DOJ has established a task force to investigate E-rate fraud and has prosecuted a number of individuals and companies leading to fines, restitution, program debarments and imprisonment.[41]

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[36] (...continued)
Procedures Prior to Committing Funds (March 1999) GAO/RCED-99-51; *Schools and Libraries Program: Application and Invoice Review Procedures Need Strengthening* (December 2000) GAO-01-105; *Schools and Libraries Program: Update on E-Rate Funding* (May 2001) GAO-01-672; *Greater Involvement Needed by FCC in the Management and Oversight of the E-Rate Program* (February 2005) GAO=05=151. Available at [http://www.gao.gov/docsearch/topic/php].

[37] USAC 2006 Annual Report, p.11. Available at [http://www.usac.org/_res/documents /about/pdf/usac-annual-report-2006.pdf].

[38] Semiannual Reports issued by the FCC's OIG are available at [http://www.fcc.gov /oig/oigreportssemiannual.html].

[39] Semiannual Report to Congress, April 1, 2006 – September 30, 2006,of the Inspector General, p. 8.

[40] A brief overview of the Enforcement Bureau's USF enforcement responsibilities and a list of recent enforcement actions is available at [http://www.fcc.gov/eb/usfc/].

[41] For example, see *Six Corporations And Five Individuals Indicted In Connection With Schemes To Defraud The Federal E-Rate Program.* Available at [http://www.usdoj.gov

As the 110th Congress continues its review of the USF it is likely that all four of the USF programs will be subject to oversight to prevent any fraud, waste, or abuse. Concerns about fraud and abuse are shared by both critics and supporters of the program. Critics of the E-rate program have used examples of fraud, waste, and abuse to call for a halt to the program or at a minimum its suspension until additional safeguards are in place. Supporters also want to ensure the integrity of all four programs since the misuse of funds or unreasonable administrative costs not only leave the program vulnerable to critics, but would only decrease available funding to meet the program's goals.

Antideficiency Act Compliance

A more narrowly focused policy issue relating to the operation of the USF deals with Antideficiency Act (ADA) compliance. With the guidance of the Office of Management and Budget (OMB) the FCC decided, in August of 2004, that the accounting requirements contained in the ADA should be applied to the operation of the USF. Under this accounting methodology, the government is precluded from incurring obligations prior to the funds being available. E-rate fund commitment letters, which are issued far in advance of actual funds payment, were considered to be obligations. Therefore ADA compliance requires that the funds be on hand to cover obligations and the program was required to have the cash on hand to cover all of the commitment letters. USAC changed the timing of its funds distribution in order to meet this requirement, leading to a temporary four-month suspension (from August through November 2004) of E-rate funding commitments. The temporary halt in the disbursement of E-rate funding commitments, the concern that funding for other USF programs might be disrupted and that compliance might necessitate a significant increase in USF revenues, brought this issue to Congressional attention.

The 108th Congress enacted legislation to provide for a one-year exemption (through December 31, 2005) from the ADA for the USF (P.L. 108-494). Since then the temporary one-year exemption has been extended twice, once to December 31, 2006 in conjunction with the Science, State, Justice, and Commerce appropriations measure (P.L. 109-108) and once again for an additional one-year exemption (until December 31, 2007) as part of the CR2007 (H.J.Res. 20; P.L. 110-5). Whether the USF program should be required to comply with the accounting provisions contained in the ADA and if so what consequences that may have for USF programs is expected to continue to be an issue. Once again this exemption will expire and the 110th Congress may choose to address this issue in a variety of ways. It may continue to enact legislation to provide short-term relief by extending the temporary exemption. Also it could choose to enact legislation to provide the USF program with a permanent exemption from ADA requirements, or it may choose to take no further action allowing the temporary exemption to expire, thereby requiring the FCC to ensure, through whatever steps it deems necessary, that the USF is in full compliance with ADA requirements.

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[41] (...continued)
/opa/pr/2005/April/05_at_169.htm].

The FCC has resolved, at least temporarily, any compliance problems. FCC Chairman Martin, in response to questioning during his September 2006 Senate confirmation hearing, stated that the Commission has concluded that the ADA does apply to the USF. However, he assured Commerce Committee members that funds will be sufficient and that E-rate program commitment letters will not be delayed.[42] Some, however, have continued to express concern that the actions taken by the FCC are only temporary and that ADA compliance may jeopardize disbursements for not only the E-Rate program, but possibly other USF programs, and may cause a significant increase in the contribution factor.

[42] Remarks by Chairman Martin during confirmation hearings before the Senate Commerce, Science and Transportation Committee, September 12, 2006.

Activity in the 110th Congress

The 110th Congress is taking an active role regarding USF oversight and reform. Legislative measures to address the reform, restructuring, and expansion into broadband of the USF have been introduced (S. 101, S. 711, H.R. 42) and the Senate Commerce Committee held a March 1, 2007 hearing on the challenges facing the USF. FCC oversight hearings held by the Senate Commerce Committee and the House Telecommunications Subcommittee, as well as hearings on broadband deployment held by the House Small Business Committee included examination of USF issues.

A provision to extend for one year (until December 31, 2007) the USF exemption from the Antideficiency Act (ADA) was passed as part of the FY2007 continuing resolution (H.J.Res. 20) and was signed into law (P.L. 110-5). Two stand alone measures (H.R. 278, S. 609) as well as a provision contained in S. 101 calling for a permanent ADA exemption also have been introduced. It is anticipated that the 110th Congress will continue its oversight and examination of the USF, but it remains unclear whether any legislation to address the myriad issues surrounding the USF will be enacted.

Legislation

H.J.Res. 20 (Obey)

Revised Continuing Appropriations Resolution, 2007. An appropriations measure that contains a provision to extend for one year (until December 31, 2007) the USF exemption from the Antideficiency Act. Signed into law (PL. 110-5) February 15, 2007.

H.R. 42 (Velázquez)

A bill to amend the Communications Act of 1934 to continue in effect and expand the Lifeline Assistance Program and the Link Up Program, and for other purposes. Introduced January 4, 2007; referred to the Subcommittee on Telecommunications and the Internet February 2, 2007.

H.R. 278 (Cubin)

A bill to amend section 254 of the Communications Act of 1934 to provide that the funds received as universal service contributions and the universal service support programs established pursuant to that section are not subject to certain provisions of Title 31, United states Code, commonly known as the Antideficiency Act. Introduced January 5, 2007; referred to the Subcommittee on Telecommunications and the Internet February 2, 2007.

S. 101 (Stevens)

A bill to update and reinvigorate universal service provided under the Communications Act of 1934 and to exempt universal service contributions and disbursements from the Antideficiency Act. Introduced January 4, 2007; referred to the Committee on Commerce, Science, and Transportation January 4, 2007.

S. 609 (Rockefeller)

A bill to amend Section 254 of the Communications Act of 1934 to provide that funds received as universal service contributions and the universal service support programs established pursuant to that section are not subject to certain provisions of Title 31, United States Code, commonly known as the Antideficiency Act. Introduced February 15, 2007; referred to the Committee on Commerce, Science, and Transportation February 15, 2007.

S. 711 (Smith)

A bill to amend the Communications Act of 1934 to expand the contribution base for universal service, establish a separate account within the universal service fund to support the deployment of broadband service in unserved areas of the United States, and for other purposes. Introduced February 28, 2007; referred to the Committee on Commerce, Science, and Transportation February 28, 2007.

Appendix A

Table 1. Universal Service Fund Contribution Factors

Year	Quarter	Factor
2000	First	5.9 %
	Second	5.7
	Third	5.5
	Fourth	5.7
2001	First	6.7%
	Second	6.9
	Third	6.9
	Fourth	6.9
2002	First	6.8%
	Second	7.3
	Third	7.3
	Fourth	7.3
2003	First	7.3%
	Second	9.1
	Third	9.5
	Fourth	9.2
2004	First	8.7%
	Second	8.7
	Third	8.9
	Fourth	8.9
2005	First	10.7%
	Second	11.1
	Third	10.2
	Fourth	10.2
2006	First	10.2%
	Second	10.9
	Third	10.5
	Fourth	9.1
2007	First	9.7%
	Second	11.7

Source: Quarterly Public Notices on universal service contribution factors. Federal Communications Commission.

Table 2. USF Support by State 2005

Universal Service Support Mechanisms by State: 2005
(Annual Payments and Contributions in Thousands)

State or Jurisdiction	Payments from USF to Service Providers [1]						Estimated Contributions [2]		Estimated Net Dollar Flow [3]
	High-Cost Support	Low-Income Support	Schools & Libraries	Rural Health Care	Total				
					Amount	% of Total	Amount	% of Total	
Alabama	$109,343	$3,224	$28,023	$19	$140,609	2.16%	$95,271	1.44%	$45,338
Alaska	120,274	7,374	15,909	14,949	158,506	2.43%	22,070	0.33%	136,435
American Samoa	2,318	60	2,421	0	4,799	0.07%	184	0.00%	4,614
Arizona	74,550	20,310	36,008	675	131,543	2.02%	125,949	1.91%	5,595
Arkansas	140,997	2,369	15,662	120	159,148	2.44%	58,606	0.89%	100,542
California	98,866	304,668	220,789	456	624,779	9.58%	716,580	10.85%	-91,802
Colorado	79,277	3,514	11,256	120	94,167	1.44%	121,551	1.84%	-27,384
Connecticut	2,249	5,315	19,307	0	26,871	0.41%	100,797	1.53%	-73,926
Delaware	259	277	377	0	913	0.01%	24,842	0.38%	-23,929
Dist. of Columbia	0	893	10,840	0	11,733	0.18%	31,241	0.47%	-19,508
Florida	91,450	17,761	53,437	107	162,755	2.50%	474,550	7.18%	-311,795
Georgia	111,693	8,282	50,126	114	170,215	2.61%	212,680	3.22%	-42,465
Guam	19,165	421	3,093	0	22,679	0.35%	3,402	0.05%	19,278
Hawaii	29,525	694	1,812	277	32,308	0.50%	28,039	0.42%	4,268
Idaho	55,055	3,923	2,797	153	61,928	0.95%	32,363	0.49%	29,565
Illinois	63,506	9,291	73,442	196	146,435	2.25%	267,388	4.05%	-120,953
Indiana	56,632	5,716	12,516	112	74,976	1.15%	122,711	1.86%	-47,734
Iowa	90,336	6,198	10,042	186	106,762	1.64%	60,490	0.92%	46,272
Kansas	178,684	3,149	10,545	290	192,668	2.96%	58,672	0.89%	133,996
Kentucky	83,600	7,537	26,481	720	118,338	1.81%	80,627	1.22%	37,711
Louisiana	111,241	2,414	41,487	5	155,147	2.38%	90,833	1.38%	64,314
Maine	28,812	8,795	9,099	49	46,755	0.72%	29,995	0.45%	16,760
Maryland	4,327	502	12,644	0	17,473	0.27%	147,285	2.23%	-129,813
Massachusetts	3,634	14,270	20,954	0	38,858	0.60%	157,471	2.38%	-118,613
Michigan	53,575	11,425	34,722	694	100,416	1.54%	187,795	2.84%	-87,380
Minnesota	113,352	5,993	19,911	845	140,101	2.15%	106,743	1.62%	33,358
Mississippi	209,251	3,619	29,364	133	242,367	3.72%	58,511	0.89%	183,855
Missouri	85,146	5,396	36,291	118	126,951	1.95%	126,036	1.91%	915
Montana	76,731	2,631	3,807	542	83,711	1.28%	23,456	0.36%	60,255
Nebraska	55,890	2,406	6,254	746	65,296	1.00%	37,675	0.57%	27,620
Nevada	29,639	4,075	3,166	36	36,916	0.57%	68,888	1.04%	-31,972
New Hampshire	8,732	632	1,736	2	11,102	0.17%	34,363	0.52%	-23,261
New Jersey	1,332	14,530	39,404	0	55,266	0.85%	246,120	3.73%	-190,854
New Mexico	58,511	10,655	17,819	293	87,278	1.34%	45,014	0.68%	42,264
New York	51,833	52,544	298,250	6	402,633	6.18%	406,561	6.15%	-3,928
North Carolina	80,179	14,504	36,946	149	131,778	2.02%	200,447	3.03%	-68,669
North Dakota	62,718	3,804	2,956	503	69,981	1.07%	14,669	0.22%	55,312
Northern Mariana Is.	668	85	1,364	0	2,117	0.03%	1,056	0.02%	1,061
Ohio	37,754	35,022	57,444	45	130,265	2.00%	224,776	3.40%	-94,511
Oklahoma	120,188	32,358	44,003	129	196,678	3.02%	74,099	1.12%	122,579
Oregon	68,469	7,307	11,394	22	87,192	1.34%	82,192	1.24%	5,000
Pennsylvania	65,504	19,156	67,149	75	151,884	2.33%	276,859	4.19%	-124,976
Puerto Rico	133,786	13,286	2,966	0	150,038	2.30%	52,930	0.80%	97,107
Rhode Island	44	4,622	6,925	0	11,591	0.18%	22,577	0.34%	-10,986
South Carolina	76,322	2,869	27,579	41	106,811	1.64%	95,834	1.45%	10,978
South Dakota	77,788	7,280	5,434	469	90,971	1.40%	15,846	0.24%	75,125
Tennessee	54,684	6,141	59,517	61	120,403	1.85%	125,508	1.90%	-5,105
Texas	230,017	72,330	274,218	132	576,697	8.84%	434,538	6.58%	142,159
Utah	23,579	2,927	7,542	363	34,411	0.53%	49,090	0.74%	-14,678
Vermont	35,244	2,842	1,236	20	39,342	0.60%	16,024	0.24%	23,318
Virgin Islands	22,618	158	3,976	102	26,854	0.41%	6,739	0.10%	20,115
Virginia	87,312	2,257	25,263	299	115,131	1.77%	193,412	2.93%	-78,280
Washington	94,387	19,823	16,679	64	130,953	2.01%	145,534	2.20%	-14,581
West Virginia	66,318	710	7,658	91	74,777	1.15%	42,624	0.65%	32,153
Wisconsin	130,225	8,829	21,021	940	161,015	2.47%	111,194	1.68%	49,821
Wyoming	56,598	1,395	684	100	58,777	0.90%	14,719	0.22%	44,058
Total	$3,824,186	$808,568	$1,861,745	$25,568	$6,520,067	100.00%	$6,605,426	100.00%	-$85,359

Notes: Figures may not add due to rounding. Support payments do not include quarterly true-ups. USF is an abbreviation for the Universal Service Fund.

[1] Data from USAC Annual Report

[2] Estimated contributions include administrative cost of approximately $85 million, as shown in USAC's Annual Report.

Allocation of contributions among states is an FCC staff estimate.

[3] Net dollar flow is positive when payments from USF to carriers exceed contributions to USF. Total is negative because of administrative expenses.

Source: Universal Service Monitoring Report, Table 1.12, Federal Communications Commission. December 2006