

Recommendation Regarding General Principles of Implementation for Universal Service Reform

PREFACE

America is on the verge of vast new broadband-driven digital transformation that promises to make life more livable, businesses more productive, jobs more plentiful, and the Internet more accessible. However, at the dawn of this digital age, many of those who could benefit the most from this economically empowering technology are also among those most likely to be left without access because of where they live or how much money they make.

The United States has now fallen to 16th among industrialized nations in deploying broadband services. According to the Department of Commerce, 95 percent of new jobs created will demand computer skills. But the fact only 30 percent of U.S. households subscribe to broadband services reflects too few choices, unaffordable prices, and limited (or lack of) service available. Almost 60 percent of households with incomes above \$150,000 now have a broadband connection, while less than 10 percent of households with incomes below \$25,000 have a connection. The broadband penetration rate in urban and suburban households is almost double the rate in rural areas. Though growing, rural Internet penetration has remained roughly 10 percentage points behind the national average. About 50 percent of African-Americans and 50 percent of Latinos own home computers, as compared to 75 percent of whites. Forty-one percent of African-Americans, 38 percent of Latinos, but 67 percent of whites, have Internet access at home. Furthermore, Internet growth exhibits declining increases in penetration, with approximately 25 percent of households not likely to come online in the foreseeable future.

President Bush has set a national goal of achieving universal, affordable broadband access by 2007. Moreover, as soon as possible thereafter, the President urges, consumers should have plenty of choices when it comes to broadband carriers. President Bush argues that the more choices there are, the more prices will decrease, leading to more broadband users, saying “And the more users there will be, the more likely it is America will stay on the competitive edge of world trade.” He also believes more ubiquitous broadband use will lead to more innovation in medical treatment and education.

THE PROMISE AND THE CHALLENGE

- **Broadband is now becoming vital to our personal success and daily lives.** Many only know broadband as a faster version of their slow dial up Internet connection. However broadband offers so much more. High-speed Internet connections provide a constant, unbroken connection to the Internet. It’s not just about checking e-mail or surfing the web, it will soon be an indispensable communication technology affecting the way we learn, the way we work, and the way we communicate. Soon broadband will enable us to make phone calls to anywhere in the world, watch a digital TV show anytime we want, listen to the radio from anywhere in the world, and surf the web all over a single connection. All of our basic communications – telephone, radio, television, e-mail, and Internet will all be available through a single broadband connection.
- **Broadband access is essential to our country’s economic competitiveness.** Broadband is fast becoming a necessary part of our economic, personal, and public well being; access to information is the currency of the 21st century. Broadband makes businesses more productive, jobs more plentiful, and the Internet more accessible. Access to high-speed broadband is an essential tool for growing jobs, maintaining our economic leadership, and unleashing the next wave of breakthrough innovations.
- Recognizing broad band’s potential, **President Bush has laid out an ambitious agenda of achieving ubiquitously available affordable broadband by 2007.** Universal broadband availability would not only unleash an estimated \$500 billion in economic growth and the more than 1.2 million high-wage jobs, but it could help bridge the digital divide and unleash a new wave of innovations, transforming almost every aspect of our lives. But to achieve this goal, broadband’s reach needs to be extended to every corner, community, and city in America. At this time however, the United States is becoming a follower - not a leader - in the global broadband economy. We are far from achieving the President’s 2007 broadband goal.

The nearly 70-year commitment Congress and this nation have had to universal service has been indispensable in providing the same opportunities for rural and low income Americans to participate in the nation’s economy. Just

as rural electrification in the 1930s led to a surge of economic growth and raised living standards across rural America, Universal Service can play the same role in the Internet era. The Telecommunications Act of 1996 took an important first step in linking universal service and broadband access. The Act created the E-rate program as part of the universal service fund to make broadband universally available in every school, classroom, and library in America. The E-Rate has been enormously successful in improving broadband access for libraries and schools. In this decade, one of the central questions policymakers must now answer is how to extend benefits of broadband and the opportunities it delivers to all Americans.

RECOMMENDATION

As consumer representatives, the Federal Communications Commission's Consumer Advisory Committee strongly supports the Universal Service programs that have delivered essential communications services to low-income households, rural areas, schools, libraries, and rural health clinics. While we recognize the fiscal crisis of falling receipts and expanding expenses in the program demands fundamental reform, we view the current predicament as both a challenge and an opportunity. We believe that as communications technologies evolve, universal service must evolve with it. We support the expansion of the Universal Service Fund (USF) support to broadband as the organizing principle to overhaul its contribution and distribution systems. The CAC looks to universal service reform as an opportunity to extend the burden of contributions more equitably *and* to broaden the scope of distributions more effectively.

Thus, the CAC recommends that universal service reform:

- Explicitly expand universal service to broadband and set a level of service and a target price comparable to dominant technology in urban areas
- Include a revised definition of broadband to ensure appropriate levels of service
- Broaden the base of universal service contributions, equitably assessed and technology neutral, to stabilize the financial future of the USF
- Since the Telecom Relay Service (TRS), a telephone service that allows persons with hearing or speech disabilities to place and receive telephone calls, is also currently funded thru dwindling interstate telecommunications revenues, its funding mechanism should be reformed along with the USF contribution funding mechanism to put it on a more sustainable economic foundation.
- Tighten the oversight and controls that ensure disclosure of how the USF's distributions are spent, who qualifies to spend them, and what the results of that spending yield, with increased data collection to make these assessments, including determining the capacity of lines in service areas, as a key component to understanding how and where to make effective strategic investments in infrastructure
- Find the right balance for universal service subsidy. If the subsidy is too big, investment does not flow to the most efficient provider and rate paying consumers are overly burdened without a commensurate benefit. Inter-industry wrestling over revenue must be exposed to scrutiny and resolved fairly. Consumer contributions to the USF should produce a tangible social and economic benefit in the form of a more robust network and catalyzed economic growth.
- Invest in a technology neutral manner that promotes the least costly, most efficient systems that meet robust quality of service standards
- Begin a transitional phase leading to a point when all USF eligible carriers offer broadband compatible networks
- Discipline the size of the fund through rigorous oversight, realistic maximum allocations, forward-looking cost assessments where appropriate, and sliding scales of eligibility and reimbursement. The FCC and state utility commissions should work in tandem to develop new protocols that make sense for a USF that supports 21st Century communications services.
- Protects and builds upon the of the E-rate program's success in connecting communities to the future through schools, libraries, and health care centers
- Reform USF in conjunction with a comprehensive set of broadband policies. These should include:
 - Opening more of the spectrum for unlicensed wireless broadband
 - Focusing on competition-inducing policies that counterbalance mergers
 - Making direct strategic investment in rural broadband infrastructure
 - Encouraging community-level programs to develop and expand access to broadband service, low-cost equipment and technology training.

Note: This recommendation was tabled. During the discussion, it was felt that universal service should be a high priority for the next CAC. Before the motion to table passed, the Committee with six abstentions decided to include language in the recommendation which would permit USF funding for equipment and services used by people with disabilities. The abstaining members were: NCI, t-mobile, CTIA, AT&T, NCTA, and ACTPHE. In addition, the Committee asked its chairperson to write a letter to the Commission indicating the importance of the universal service issue.

Tabled November 3, 2006