

**STATEMENT OF
CHAIRMAN JULIUS GENACHOWSKI**

Re: *Connect America Fund*, WC Docket No. 10-90, *A National Broadband Plan for Our Future*, GN Docket No. 09-51, *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135, *High-Cost Universal Service Support*, WC Docket No. 05-337, *Developing an Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Lifeline and Linkup*, WC Docket No. 03-109, Notice of Proposed Rulemaking.

“The Universal Service Fund is broken.” You don’t have to take my word for it. Those are the words of the bipartisan team of Lee Terry, Vice Chair of the House subcommittee that oversees communications, and Rick Boucher, then the Chairman of the subcommittee. The Intercarrier Compensation system is broken too. Neither program is up to the nation’s broadband challenge, and both are plagued with waste and inefficiency. So today I’m happy to join all my colleagues in putting forward a comprehensive plan with the twin goals of modernizing and streamlining these programs – of getting broadband infrastructure to rural America, promoting private investment and innovation, and cutting costs and constraining the fund’s growth. In doing so, we take a major step forward in implementing the National Broadband Plan.

Building on other recommendations of the Plan, we have already made important strides in the last year to reform aspects of USF: We’ve modernized our E-rate program so schools and libraries can get faster Internet connections and access 21st century learning tools. We’re updating our rural health care program so patients at rural clinics can benefit from broadband-enabled care like remote consultations with specialists anywhere in the country. These changes are helping deliver on the National Broadband Plan’s goal of ultra-high-speed broadband to anchor institutions in every community in the country. We’ve also proposed a Mobility Fund to spur the build out of advanced mobile wireless in areas not served by current-generation networks. On Lifeline/LinkUp, an important program for low-income Americans, we’ll be proposing reforms next month.

Today, we take on the largest part of the USF program – the part focused on supporting service for consumers in rural America – along with the intertwined Intercarrier Compensation system.

Universal service has been at the core of the FCC’s mission since the Communications Act of 1934 created the agency with the commitment to make vital communications services accessible to all Americans. Fifteen years ago today, our country recommitted to that goal with the Telecommunications Act of 1996.

Together, USF and ICC helped connect virtually every American to our 20th century communications grid, first bringing basic telephone service to places where there was no economic case for service, and then extending the benefits of mobile phone service to more and more areas across the country. But the communications landscape has fundamentally changed since then. The most recent statistics show that more than 25% of adults now live in households with only wireless phones, and voice-over-IP lines are growing rapidly as traditional phone lines decline. Broadband – high-speed Internet – now serves the role that telephone service once did. It is the indispensable infrastructure of the 21st century. Broadband has become vital for our economic future and global competitiveness, and it is a key building block for achieving common goals on education, health care, energy, and public safety.

Yet multiple studies show the U.S. lagging other countries on key broadband metrics. Roughly one-third of Americans aren't online – that figure is under 10% in Singapore. And too many parts of the country aren't connected at all. Up to 24 million Americans couldn't get broadband today even if they wanted it. The infrastructure simply isn't there.

We won't fully realize the promise of broadband and the fundamental American promise of opportunity for all if large swaths of our country are left out. Americans without broadband know this all too well: Americans like the 17-year-old girl in Alachua County, Florida who's doing her homework in the parking lot of the local library at night because her family can't get broadband at home. Or the firemen in Northern California, who missed out on a grant for public safety equipment because their dial-up connection kept kicking them off the application website.

A couple of months ago, I was in West Virginia with Chairman Rockefeller, who has long been a champion of serving the unserved. During our visit I spoke with people who can't get high-speed Internet or mobile coverage at their home or business, even though communities right next door are connected. How frustrating is that? This rural-rural digital divide is a problem in virtually every state and territory.

At the same time, USF and ICC have become riddled with inefficient, outdated rules and perverse incentives. For example, according to one study, approximately one hundred million dollars flow to phone companies each year to serve areas where competing providers, without a dollar of government support, offer voice service to all households. In many places, USF funds four or more phone companies to serve the same area. And it leaves hundreds of companies to control their own funding spigot, with guaranteed double-digit returns. Does that make sense?

On the ICC side, it can cost 10 times more to call a friend a few towns over than to call someone on the other side of the world. Because of the incentives our rules create, we have "traffic pumping" and "phantom traffic." And carriers are tangled in costly litigation about the treatment of VoIP traffic for purposes of ICC, creating real uncertainty.

Looking at these problems, some say we should eliminate the Universal Service Fund altogether. I disagree. While the world has changed, the importance of universal service has not. We simply shouldn't let millions of Americans be bypassed by the broadband revolution. Instead, we must streamline and modernize the program.

Some say the Universal Service Fund doesn't need major change, that the status quo is largely fine. I disagree with that too. The program is not getting the job done, and tinkering won't be enough. It's leaving millions on the outside looking in, wasting taxpayer dollars every year, and growing without constraint. That's unacceptable. We need to be responsible fiscal stewards, to get the most bang for our USF buck. Particularly in light of its inefficiencies, we need to control the costs of USF.

The reform proposal we are putting forward rests on four pillars:

- Modernizing USF and ICC to support broadband networks;
- Ensuring fiscal responsibility by controlling costs and constraining the size of the Fund;
- Demanding accountability from both USF recipients and the government itself;
- Enacting market-driven and incentive-based policies to maximize the impact of scarce program resources and the benefits to all consumers.

It also calls for a sensible but certain transition – one that gives participating companies sufficient runway to adapt, with no overnight flash cuts, but with clear milestones and a firm path forward.

In the first stage of this transition, we propose cutting waste and inefficiency from the current program, and shifting funding, as it becomes available, to the Connect America Fund. So we'll fund broadband for unserved areas out of savings from existing programs. Throughout the transition, we will ensure that all Americans keep robust, reliable voice service and can make calls from their homes.

Like any big transition, this one won't be easy, and it will take time. But we stand ready to work with Congress and all parties on ideas for accelerating the transition, so we can provide broadband to more unserved areas faster.

I'm very pleased to be joined by all four of my colleagues in adopting today's proposals. This NPRM builds on a history of bipartisan commitment to reform on this issue. When we released the Broadband Plan last year, we unanimously affirmed the need for USF and ICC reform, and today we take the next step to deliver on that joint commitment, with complete agreement on the need to move forward quickly. Fixing these programs is not a partisan issue. It's simply the right thing to do.

Now let me turn to what's next: We plan to move expeditiously. At the same time, as with all our efforts, we will run a fact-based, data-driven, open, and participatory process. In recognition of the federal-state partnership that undergirds USF and ICC, we are providing a special opportunity for comment for the state members of the Joint Board. And in the coming weeks, there will be ample opportunity for input from all, including through public workshops on key issues.

I call on all stakeholders to engage with us in this process, and I look forward to all input and ideas, especially on the hard issues, consistent with the pillars for reform I outlined earlier.

To those who say the Connect America Fund should fund the highest possible speeds and all bells and whistles: Bring us your specific proposals – but you must show us how much it would cost and who would pay for it, consistent with our commitment to fiscal responsibility and accountability.

To providers concerned the Connect America Fund won't help them build out wired or wireless broadband networks, but will support only their competitors or providers in other areas: Work with us to maximize the number and types of providers that can compete for support. A technology-neutral approach is key to putting scarce resources to the best possible use.

To those who receive ICC: Help us develop sensible transition paths that maximize predictability while minimizing disruption.

To those who pay ICC: Work with us to ensure that reforms ultimately benefit consumers, which will be the true measure of the success of our efforts.

I understand that change is not easy, but we all agree: Ignoring the problems with USF and ICC is no longer an option. This is not a question of *if* we should reform the system, but *how* we reform it.

If we care about the U.S. having world-class 21st century infrastructure, if we care about U.S. leadership in innovation and our global competitiveness, if we care about fiscal responsibility and market-based solutions to public policy challenges, we have to move forward with USF and ICC reform as we propose to do today.

Let me conclude by thanking the remarkable staff that worked on this item—those sitting at the table today and all the many others who have worked so hard over the past months and especially the past few weeks. What they say about the post office has been true here at the FCC: the team really did work through snow and rain and dark of night to get this done. They edited and crunched numbers around the clock straight through Martin Luther King weekend to prepare the item for circulation, and have worked tirelessly in the weeks since to incorporate input from my fellow Commissioners, helping refine and improve it.

I also want to extend my thanks to the National Broadband Plan team, whose excellent and groundbreaking work laid the foundation for the proposals we are voting on today. Thank you all.

Finally, thank you to my colleagues and their staffs for working together on this important item.

I am proud to cast my vote for this item to modernize and streamline USF and ICC.