## STATEMENT OF COMMISSIONER MICHAEL O'RIELLY

Re: *Universal Service Contribution Methodology*, WC Docket No. 06-122.

In my years working on communications policy, I have been tremendously focused on improving the effectiveness of our Universal Service Fund (USF) programs to bring broadband Internet to those without access. Part and parcel of that mission is to ensure the USF's sustainability for years to come, and to protect the hard-earned investments of consumers who pay for our subsidy programs. I have advocated on behalf of ratepayers to address a perennial problem of public choice: while there's never any shortage of special interest groups seeking additional spending, those who actually foot the bill are much less likely to spend time and resources to defend their own interests. Quite reasonably and appropriately, they're focused instead on their everyday, busy lives.

That is why I called on the Commission to begin this critical rulemaking. The Commission has time and again increased spending in each of the discrete sub-programs, often justifiably so. However, it has done so without the constraints of a topline budget, and in turn, without considering the effect of spending decisions for the whole USF enterprise and how to fairly and efficiently allocate scarce funds among the four programs. That is not a responsible way to run an $11 billion-plus fund, and not the way the vast majority of federal government programs—or American businesses and families, for that matter—operate.

More importantly, it's not fair to the American consumers who ultimately pay for the USF through line items on their telephone bills. At the very least, they deserve much more stability in knowing the overall amount they'll be on the hook for every month. That's especially true given the regressive nature of USF fees, and their disproportionate burden on lower- and middle-income Americans. Since the fee is generally spread among consumers on an equal and agnostic basis, low-income households pay a far greater share of their income to the USF than their high-income counterparts. And, the regressive nature of the fee is also why I believe with the core of my being we should never, ever apply it to broadband Internet access service. Doing so would effectively place a sin tax on the Internet—and thus runs totally counter to the goal of universal connectivity.

In other words, this NPRM is about protecting ratepayers and demanding more thoughtfulness on the Commission's part when it spends their money. Contrary to certain myths spread by knee-jerk opponents, this rulemaking is a first step in promoting better certainty and stability within the USF and will, in turn, help improve the viability of our broadband subsidies.

With that in mind, it seems necessary to set the record straight on several misconceptions that were peddled in the wake of the draft's circulation:

1. FACT: This NPRM initiates a dialogue and does NOT constitute a final order.

Some in Washington talk a good talk about promoting free expression and democratic dialogue. However, when it comes to considering policy ideas from my side of the political spectrum, they seem to throw those principles in the dustbin and seek to shut down debate. That is not a healthy way to determine public policy, and it is not the way I have chosen to conduct myself as a federal regulator. The bigger the marketplace of ideas the better, and, other than in a few limited circumstances, I have welcomed contrasting points of view.

Similarly, supporting this NPRM means welcoming healthy debate on how best to operate the USF. This is not a final order on adopting a budget, but a solicitation of public comment to provoke a dialogue on the way to final action. While I support the adoption of a budget as a general matter, even I am not sold on every idea contained in the draft—for example, the proposed budgetary amount itself and the proposal to combine the E-Rate and Rural Health Care budgets—but I am open to being convinced otherwise. My sincere hope is that we receive a robust record in response to the item, and I look forward to reviewing *thoughtful* comments submitted from all sides of the spectrum.

2. FACT: This NPRM's proposed budget would NOT cut funding to Universal Service.

More fundamentally, the proposals in this item would in no way, shape, or form cut funding to universal service. There is no "Hunger Games" scenario to be played among potential USF recipients and it is disingenuous to suggest otherwise. On the contrary: the proposed budget of $11.42 billion is more than $3 billion above current program disbursements and would be indexed to keep pace with inflation. That leaves plenty of wiggle room for justified spending increases, should disbursement levels need to rise in the future. And, according to projections cited in the item, a substantial delta between the budget and disbursements should remain for many years to come.

Moreover, should the need for a higher cap arise in the future, the Commission would in no way be precluded from raising that threshold. Doing so would merely require a Commission-level vote. However, such a decision would require a thoughtful notice and comment process and would be much more transparent and accountable than the status quo.

3. FACT: This NPRM is NOT a backdoor way to establish a budget on Lifeline.

Certain special interest groups have claimed—incorrectly—that establishing an overall budget is a roundabout way to cut funding to the Lifeline program for low-income Americans. After all, Lifeline is the only one of the USF sub-programs that lacks a self-enforcing cap. Even apart from the fact that the proposed budget would in no way cut funding to any of the programs (see point 2 above), Lifeline itself is significantly under its own "soft cap" limit, to the tune of more than $1 billion. While administration of the Lifeline program has been subject to criticism recently, those issues are in no way attributable to a budgetary shortfall.

As I have repeatedly made clear, I am more than willing to establish a cap on Lifeline directly, and without the USF cap proceeding as a surreptitious vehicle. Further, while I support hard caps on the sub-programs as a matter of fiscal responsibility and predictability, having an overall USF budget serves somewhat of a different purpose. It requires the Commission to examine the USF at a more macro level and encourages debate about priorities and implications for the fund as a whole before more spending is authorized. It would also encourage the Commission to focus on eliminating inefficiencies, fraud, and duplicative spending to a much greater extent.

I thank the Chairman for circulating this critical and long-awaited rulemaking. Establishing a cap will go a long way in supporting a predictable, efficient, and responsible USF, and I welcome having a reasoned and thorough record to help guide final action in the near future.