

## **The FCC Must Act Now to Save USF**

### **The USF is critical for connectivity, yet it is in crisis, and the FCC must act soon to stabilize it.**

- Here is a [short explainer video](#) to learn more about the Universal Service Fund (USF), how it works, and the issues it faces.
- USF has helped millions of families, community anchor institutions, and small businesses connect to voice and broadband services. But it is under significant duress.
- USF is funded by assessing a fee (“contribution factor”) on interstate and international telecom revenues, which have been declining as broadband subscriptions/revenues have increased.
- The contribution factor is steadily increasing, adds about 30% to customers’ telecom bills, and is expected to reach almost 50% by 2027 if no action is taken. **Such a high fee is unsustainable, harms consumers, and causes market distortions.**
- The FCC has been looking at USF contribution reform for over two decades.
- Historically, services that are supported by USF subsidies are required to contribute to USF.
  - o The FCC has diverged from its practice of assessing all services that receive USF support.
  - o Today, BIAS providers *receive* support from USF, but BIAS revenues do not contribute.
  - o Telecom revenues are declining while broadband revenues are rising.
- The USForward Coalition, with over 340 organizations, supports the FCC modernizing USF and funding it through BIAS revenues (see the [Call to Action and USForward Report](#)).
- The FCC has the authority to assess a USF fee on BIAS now, without federal legislation.
- Waiting for direction from Congress is inconsistent with the FCC’s statutory obligation to preserve and advance universal service by ensuring it is sustainable and predictable.

### **Modernizing the USF so that it is sustainable and equitable will benefit consumers.**

- Assessing BIAS revenues is smart, stable, transparent, equitable, fast policy that can save USF. Doing so would increase the pool of contributors to USF (including businesses that purchase BIAS) and would bring the USF fee down to less than 4%.
- A new economic report by the Brattle Group found that assessing BIAS revenues is the best path forward as it is the least distortionary option.
- “But what about price increases on broadband?”
  - o The Brattle Report found that consumers will not face a significant price increase. In fact, many will save money due to the significant decrease of the contribution factor on their phone service.
  - o Any price increase would be nominal—about \$2—and the price for voice service would decline due to the USF rate decreasing, including for the 40 million households that still have a home phone service.
  - o Businesses today pay more for their BIAS services than consumers and would continue to bear higher USF fees.
  - o An [NTCA Report](#) (and [recent update](#)) show that the rate of broadband adoption would not change if the FCC were to assess broadband.
  - o The FCC can exempt low-income customers from paying a USF fee on BIAS, just as it does for voice services today.

### **Proposals to assess tech companies for USF are based on various flawed assumptions.**

- Every business that uses a USF-assessed service pays into USF, including tech companies.
- Tech companies invest billions of dollars every year in internet infrastructure and services, which reduces network strain and costs for BIAS providers (e.g. data centers, subsea cables, and CDNs).
- An [Analysys Mason Report](#) found the following:

- **Tech companies spent \$883 billion on global internet infrastructure from 2011-2021.** This is in addition to their investments in innovative content/applications for end users.
- **From 2018-2021, tech companies invested more than \$120 billion annually,** increasing their digital infrastructure investment over 50%.
- These investments bring traffic closer to end users, improve the quality of service, and **save BIAS providers \$5–\$6.4 billion annually.**
- While traffic volumes have grown significantly, costs for BIAS providers have remained stable over time. As such, claims that tech companies should pay into USF based on bandwidth usage fail to consider that usage does not increase costs for BIAS providers.
- Tech companies should not be required to also pay for BIAS providers’ last-mile facilities, which customers already pay for.
- Unlike BIAS providers, tech companies do not request or receive USF funding for these investments. Furthermore, Congress allocated tens of billions of dollars to help BIAS providers build and operate their networks through recent legislation.

**Assessing edge providers is rife with numerous problems and contrary to the public interest.**

- The Brattle Report found that including tech in the contribution base would greatly distort the marketplace, harm competition, and raise prices for consumers.
- There is no real proposal for how to assess edge providers without distorting the market. In any case, such a proposal would:
  - Result in Delay by requiring an act of Congress.
    - The FCC lacks authority to regulate edge providers, so it would take years (if ever) to implement.
    - This leaves USF funding open to a slow, political, unreliable process.
  - Expand Government Regulation. Vastly expand the size of FCC authority and regulation over all online content and services.
  - Potentially Increase the Size of USF. If edge providers were assessed, their services may need to be supported as well.
  - Challenging to Implement. Nearly every consumer and business today has an online presence. Determining which edge providers are subject to assessment would be nearly impossible and an administrative nightmare for the FCC to implement.
  - Risks Skewing Online Market and Competition. Only charging certain services could invite opportunistic arbitrage.
    - For example, charging only streamers but not charging their competitors—cable, broadcast, and DBS—could skew the video market. Consumers may choose the services that do not have USF obligations.
  - Not Stable or Predictable. The online market is constantly changing. What is popular today may not be tomorrow, risking further USF revenue decline.
  - Dangerous for U.S. Companies Abroad. If certain companies are required to fund ISP networks through the USF, we can expect that every country will follow, and U.S. companies will be subsidizing broadband providers around the world.