TPRC Webinar: Options for USF Funding Reform
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Today’s USF contribution base

- Service providers contribute, based on their interstate and international telecommunications service revenues
- Assessment rate – known as the contribution factor – set quarterly based on projected disbursements and projected demand for the upcoming quarter
- Voice service (including VoIP) is assessed; broadband internet access service is not assessed
History of USF Contributions Reform

Decline in contribution base (billions)

2001: NPRM
2002: FNPRM
Second FNPRM
2008: NPRM
2012: FNPRM
2014: Joint Board Referral
2019: State USF Joint Board members send letter to FCC


Contribution Base (billions)
Why are USF assessable revenues declining?

**Myth**
USF revenues are declining because consumers are dropping landline telephones.

**Reality**
A significant cause of the declining USF contribution base is that mobile revenues subject to assessment have declined dramatically in the last decade.

![Graph showing declining revenues from 2010 to 2019](chart.png)

Source: FCC, 2020 USF Monitoring Report Table 1.2. These figures are total end user revenues (intrastate, interstate and international).
Contribution factor projected to rise to 40% by 2025 – a looming crisis

FCC has sought comment multiple times in the last two decades on three primary proposals:

• Broadband internet access revenues
• Flat fee per connection, both voice and broadband
• Flat fee per phone number

USForward Report recommendation: expand the current contribution base by assessing broadband internet access service (BIAS) revenues
USForward report projected contribution factor would drop to less than 4% if BIAS included in the contribution base

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<tr>
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<th>2021</th>
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<th>2024</th>
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<tbody>
<tr>
<td><strong>USF DEMAND (BILLIONS)</strong></td>
<td>$9.7</td>
<td>$9.6</td>
<td>$8.9</td>
<td>$9.6</td>
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<tr>
<td><strong>TOTAL REVENUE (BILLIONS)</strong></td>
<td>$255.2</td>
<td>$266.9</td>
<td>$276.7</td>
<td>$286.0</td>
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<td><strong>TELECOM REVENUE</strong></td>
<td>$29.6</td>
<td>$28.1</td>
<td>$26.7</td>
<td>$25.4</td>
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<td><strong>BROADBAND REVENUE</strong></td>
<td>$225.6</td>
<td>$238.8</td>
<td>$250.0</td>
<td>$260.6</td>
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<td><strong>CONTRIBUTION FACTOR</strong></td>
<td>3.8%</td>
<td>3.6%</td>
<td>3.2%</td>
<td>3.4%</td>
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Source: FCC Ten-Year Forecast of program demand from Table 2; estimated telecom revenues from Figure 4; estimated broadband revenues from Table 5; assumes the full amount of end user retail broadband revenues would be assessable, and that broadband internet access service is a wholly interstate service, so that all retail revenues would be subject to federal USF.

* USForward Report used FY 2022 Budget FCC’s Ten-Year Forecast of USF Demand. The more recent FY 2023 FCC budget indicates that actual USF demand in FY 2021 was $8.7b; FY 2022 demand projected to be $8.5b; FY 2023 projected to be $8.3b.
Why expand the contribution base to include broadband revenues?

- **Smart** – it’s common sense to use broadband revenues to fund programs that support broadband access
- **Stable** – broadband revenues are expected to remain stable with potential for modest growth
- **Fast** – the FCC has authority to act, and this reform can be implemented more quickly than alternatives
- **Transparent** – assessing broadband revenues provides greater assurance of accuracy than alternatives previously considered by the FCC (e.g., assessing connections) and mitigates gamesmanship
- **Equitable** – those bearing contribution obligations today aren’t the most significant users of networks and services