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## **Universal Service Fund: Change is on the Way**

*By Nancy Vyskocil*

On February 8 the Federal Communication Commission (FCC) issued a Notice of Proposed Rule Making (NPRM) relating to broadband access and the use of the Universal Service Fund.

The NPRM states that “while most Americans have access to broadband, as many as 24 million Americans, one in thirteen of us, live in areas where there is no access to any broadband network, fixed (e.g., DSL or cable internet service) or mobile.” In Northwest Minnesota, almost 3,700 households fall into this category.<sup>1</sup> This is the primary reason that the IMPACT 20/20 Taskforce for Broadband is urging changes to the Universal Service Fund (USF) that would include support for high-speed broadband.

It is safe to say that the current process is not working and that we need change in the USF to bring Broadband to every American household. The differences in opinion occur when the discussion turns to the funding of USF and how it will be used to provide maximum benefit to the country. Currently, USF does not underwrite the cost of high-speed broadband – it is only used to underwrite the cost of telephone service. The February 8 NPRM proposes to change the use of the USF to include support for high-speed broadband.

The NPRM is long (289 pages) and complex. The process of change will be lengthy and the end result may be significantly different from the current contents of the NPRM. However, the Commissioners appear to be ready to deal with the tough issues.

### **Understanding Universal Service**

The concept of Universal Service began with the Communications Act of 1934. Since then and up to the early 1980’s, local telephone service in high cost rural areas has been supported by a cost-sharing methodology. During this period the industry was comprised of the “Bell” system and a multitude of small rural independent local telephone companies. The Bell system’s “long line” company (AT&T) paid the local companies a pro-rata share of their respective costs relating to the ability of the Bell system to access the network of the local companies. The Bell system needed this access so that long distance toll calls could be completed. This system enabled the entire communications industry the ability to provide virtually everyone with a connection to the world.

The early 1980’s saw competition enter the market place. The “Bell System” was broken up under court-ordered divestiture. This divestiture effectively ended the funding of universal service that had worked so well for the prior 50 years. The old cost settlement system was replaced with an “access charge” regimen and a cost-pooling concept. Long distance companies were required to pay to local companies a per-minute access charge that was intended to recover the pro-rated cost of accessing the local company’s network. Additionally, various pooling mechanisms were established under FCC order to help level the costs of providing service between low-cost urban areas and high-cost rural areas. This was the advent of the Universal Service Fund.

Twelve years later, the Telecommunications Act of 1996 was enacted. The Act changed the entire landscape of the industry. One of the principal components of the Act was the concept of universal service and specifically the funding of the Universal Service Fund and the distributions from the Fund. The definition was broadened to specifically address quality and reasonably priced services, access to advanced telecommunication services, access for rural, low-income and high-cost regions and access to advanced telecommunication services for schools, health care and libraries.

Participation by communication companies was mandated with the goal of making advanced telecommunication services available to everyone at affordable rates. The fund is currently supported by communication companies that are required to pay into the fund. Distributions are intended to cover four areas of need. The largest of the programs provides money to local telephone companies in high-cost areas to help build and support the networks that would not be economically viable without support. The low-income portion of the fund includes the Link-Up America program and the Lifeline program. Both of these programs are aimed at individual low-income households. The balance of the Fund is used to provide subsidies for rural health care and schools and libraries.

### **In Summary**

In the years since the enactment of the Telecommunications Act of 1996 the entire communications concept has evolved. The network that was built and successfully used for many years for voice communications is not always adequate for the current broadband needs of our society. The industry recognizes this. The regulators recognize this. Indeed, society in general recognizes this. There is general consensus that access to broadband is essential in today's world.

Stay tuned. Change is coming, but the devil is always in the details. The IMPACT 20/20 Task Force for Broadband will make every effort to keep you informed of additional developments and notify you when key legislation is under consideration.

*For more information on the NPRM go to: [http://www.fcc.gov/Daily\\_Releases/Daily\\_Business/2011/db0209/FCC-11-13A1.pdf](http://www.fcc.gov/Daily_Releases/Daily_Business/2011/db0209/FCC-11-13A1.pdf). The comments of the Chairman and some other Commissioners begin at page 276 and give a good deal of insight into their thoughts, desires and goals.*

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<sup>1</sup> Source: April 2010 U.S. Census Track Data