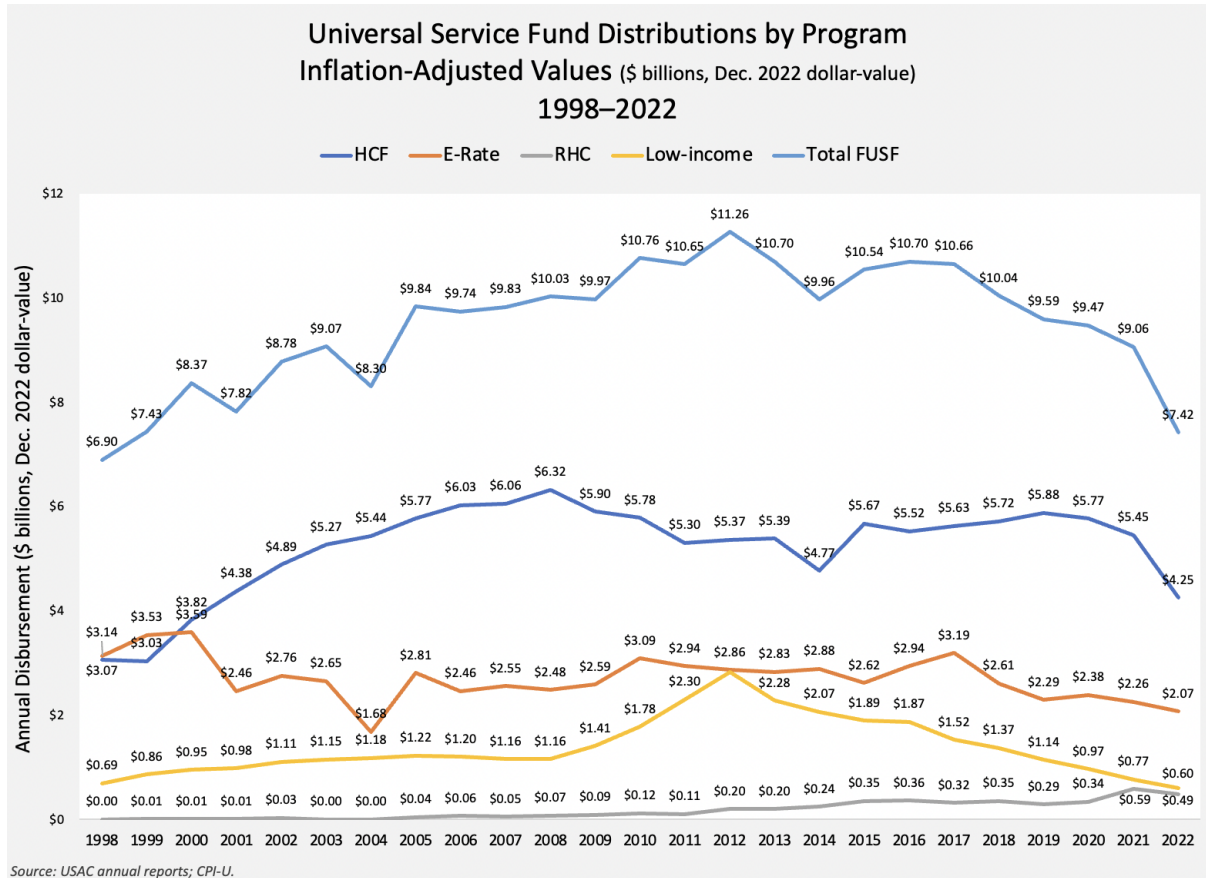


## **The Future of USF Doesn't Depend on False Assumptions and Flawed Fixes**

- **Congressional energy and exploration on the state of broadband support programs should focus on renewing the successful and bipartisan Affordable Connectivity Program (“ACP”).**
  - Contrary to recent claims by Republican leadership in the House and Senate Commerce committees, ACP and its predecessors have made tremendous strides in closing the digital divide.
  - ACP connects millions of people who report no prior broadband subscription; but just as importantly, it makes the high price of broadband more affordable for tens of millions more. In fact, according to the most recent Census data, low-income households and people of color are far more likely to report having temporarily lost home internet connections due to difficulty paying.
  - The Digital Divide is not just a question of haves and have nots, it's about which plans people can afford. ACP lets millions adopt wired broadband for the first time, or choose more robust mobile services than the FCC's Lifeline program allows. Census data shows that the divide between white and non-white low-income households' wired broadband adoption closed as of late 2021.
- **Concerns about ACP may feed into a long-running debate over funding for the FCC's predecessor Universal Service Fund (“USF”), but that debate too often relies on mistaken impressions and false assumptions.**
  - There have been a lot of headlines inside the Beltway about the increasing “contribution factor” for USF, on bills for the interstate portion of services (like landline phones and mobile voice) that the FCC still classifies as telecommunications services.
  - But looking at that contribution factor alone, without understanding the denominator being assessed and the actual amounts people are paying out of pocket, is mathematical malpractice.
  - Congress must not be fooled: The USF contributions system is not in a “death spiral.” This notion has long been pushed by representatives of very large corporations, who want to shift their USF contribution burden onto households and small businesses.
- **Any discussion about the supposed need to change the FCC's existing USF programs needs to start with these key facts about the size of USF and the contributions that go into the fund.**
  - The total amount collected for USF is stable, and it's declining in inflation-adjusted terms.
  - In the past decade, marketplace changes have resulted in residential households and small businesses seeing their monthly USF contribution burden slightly decline, while large corporations have seen their USF payments slightly increase.
  - Many proposals to “reform” the contribution system would saddle households and small businesses with as much as \$4 billion in additional USF contribution burden now borne by large businesses. This is bad policy and bad politics, all to solve a crisis that simply doesn't exist.

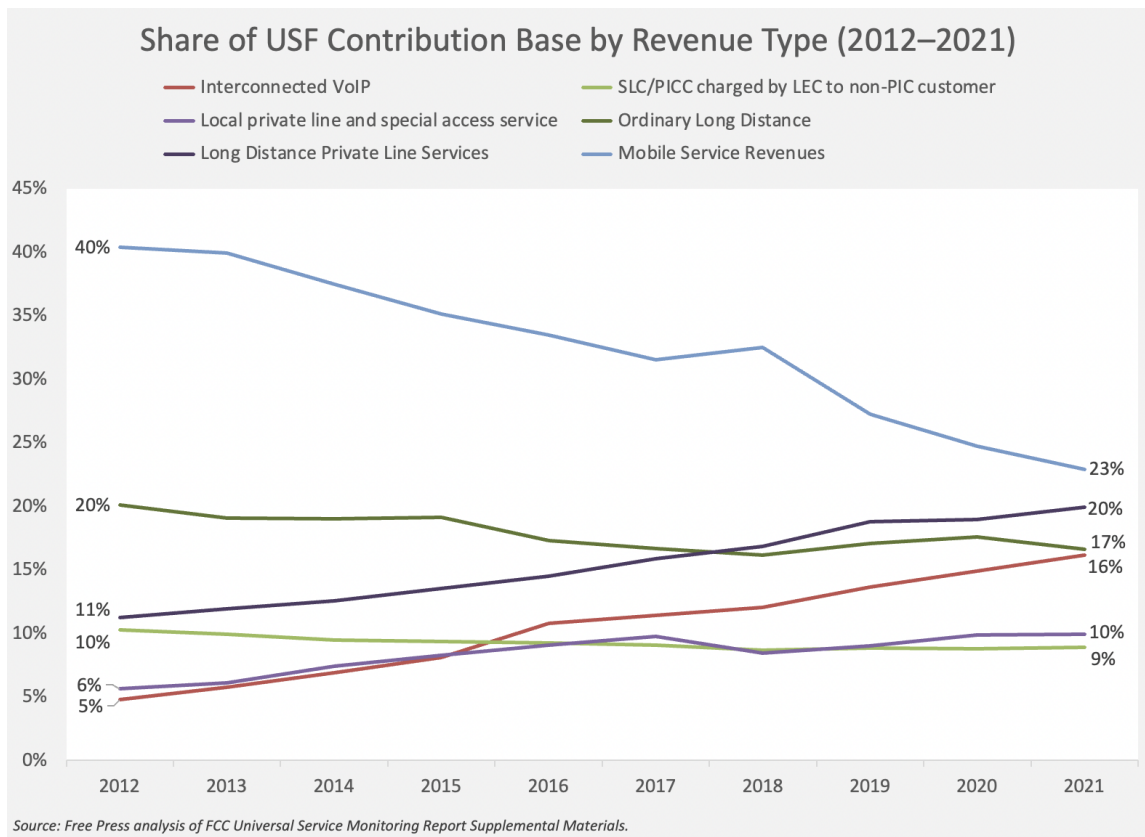
## Further Analysis, Data, and Facts on the State of USF Expenditures Contributions

The total amount of money collected for USF continues to decline. On an inflation-adjusted basis, USF disbursements in 2022 were 34 percent below the 2012 level, the fund’s peak year.



Because of changes in purchasing behavior, the average residential consumer has seen their contribution burden decline, as the burden borne by very large businesses increased. Families and small businesses are paying slightly less into USF today than they did a decade ago, primarily due to an overall decline in mobile interstate telecom revenues.

This decline in assessable mobile revenues means that the relative burden for USF funding has shifted slightly away from consumers, and towards very large businesses which purchase enterprise-level interstate telecom services.

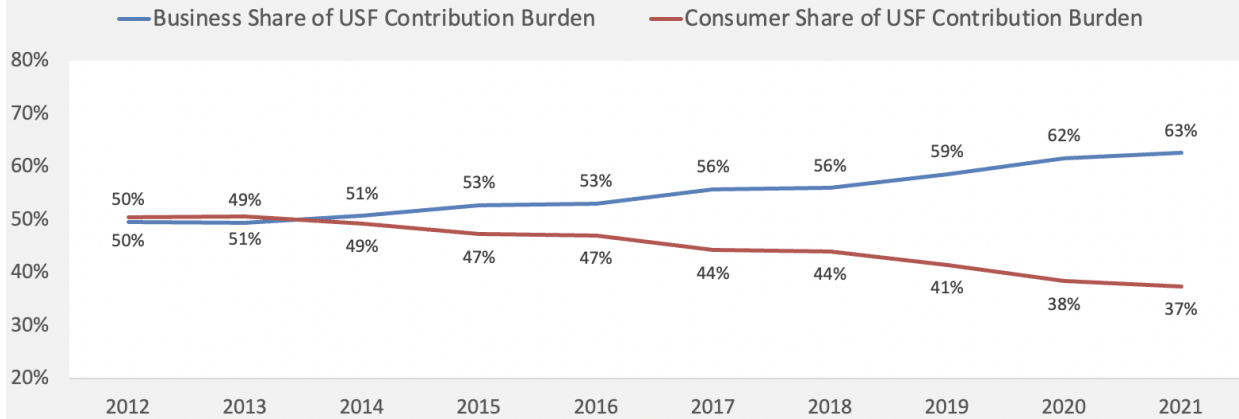


This data indicates that over the past several years, consumers’ USF contribution burden from their mobile subscriptions is in sharp decline; their burden from circuit-switched telephony is in decline; and their burden from long distance is in decline. And although the overall contribution burden shouldered by VoIP services increased, the average family’s USF burden from VoIP is in decline too, because the percentage of households subscribing to VoIP is rapidly declining.

Free Press estimates that the share of USF contributions passed through to businesses increased from approximately 50 percent of the fund in 2012 to approximately 63 percent of the fund in 2021 -- an estimate that closely matches the most recent one from the FCC in the agency’s August 2022 report on the Future of USF.

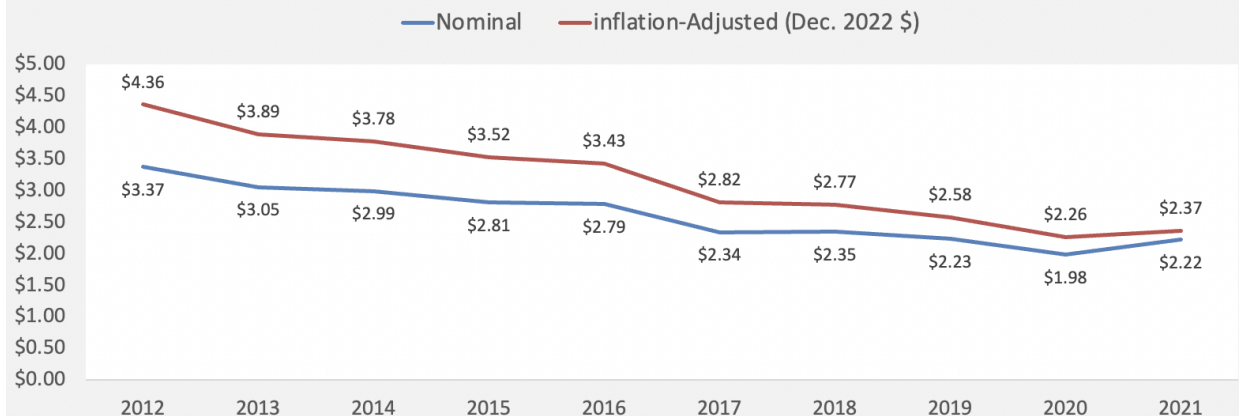
This means the share of the USF contribution burden passed through to residential consumers declined from approximately 50 percent in 2012 to approximately 37 percent in 2021. And because the nominal size of USF remained flat during this period, and the real, inflation-adjusted value of the overall fund declined, this means that residential consumers are paying less in USF contributions today, even as the contribution factor rises.

### Share of USF Contribution Burden - Business vs. Consumer 2012-2021



Source: Free Press analysis of FCC Universal Service Monitoring Report Supplemental Materials.

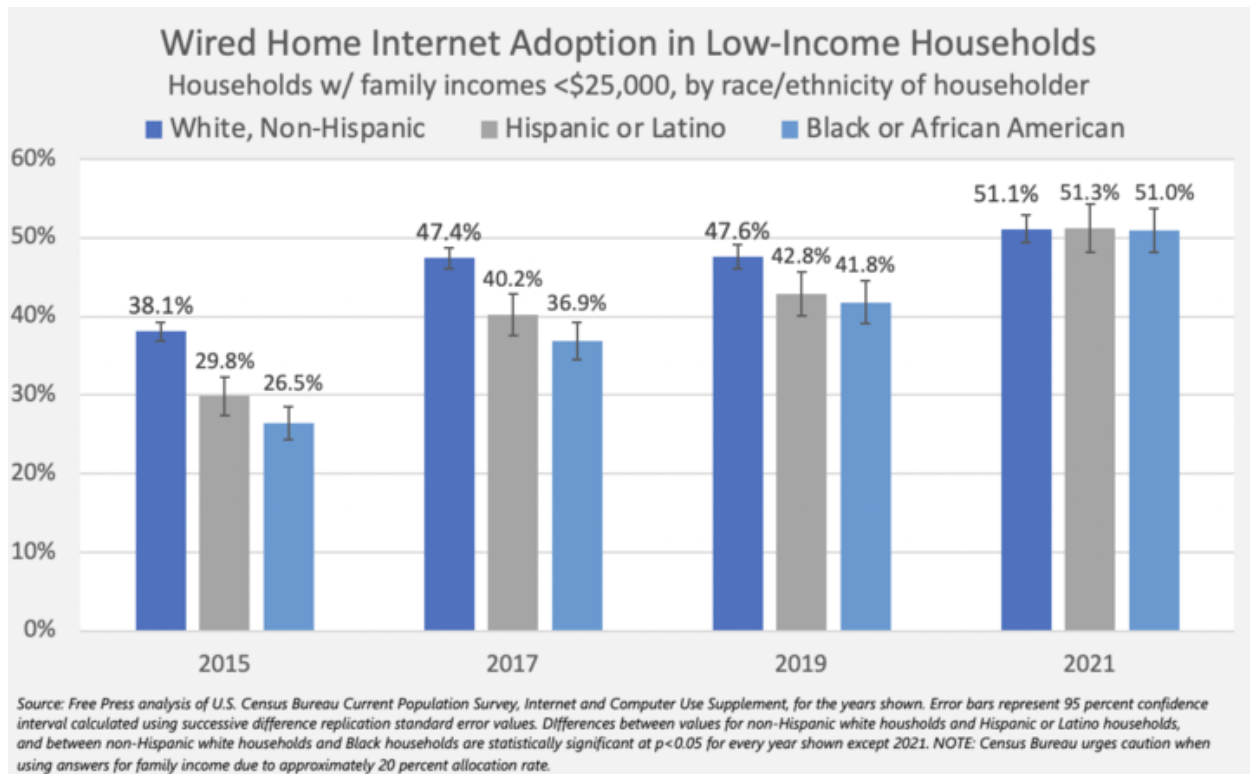
### Average Household Monthly USF Contribution 2012-2021



Source: Free Press analysis of FCC Universal Service Monitoring Report Supplemental Materials.

### **ACP and Congress’s Other Broadband Investments in Pandemic Response Bills Are Closing the Digital Divide in Meaningful and Measurable Ways.**

The wired broadband adoption divide between white and non-white low-income households closed for the first time in 2021. According to Census data, in 2015 some 38% of low-income white households had wired broadband, versus 30% of Latinx and 27% of Black households. That gap persisted in the 2017 and 2019 Census data, but not in the 2021 data, which showed 51% of all low-income households adopting wired broadband, regardless of race/ethnicity. This is strong circumstantial evidence that various low-income subsidy programs (both public and private), particularly the Emergency Broadband Benefit (“EBB”), have helped to narrow and in some cases close the race/ethnicity digital divide to a large degree. But that doesn’t mean these gaps won’t reappear if financial support is pulled.



## Conclusion

Congress’s focus in 2023 must be renewing the funding for ACP. The program is working, as internet service providers and public interest, civil rights, and consumer advocates alike all agree. There should be no question that Congress can and should get this done, without resorting in the short-term to supposed fixes in the FCC’s contribution mechanism that actually would balloon USF’s burdens and overall outlay.

Independent of the ACP question though, and over the longer term for federal universal service programs that pre-dated ACP, USF is stable. Any move to “broaden” the contribution base to retail broadband services would needlessly but significantly shift the USF contribution burden away from large businesses and onto residential households and small businesses.

This shift would hurt low-income households the most. Taxing broadband via USF’s regressive fee system would result in an approximate \$4 billion annual wealth transfer from consumers and small businesses to giant companies. There is simply no good reason to adjust the current status quo contribution policies until broadband is properly classified as a telecommunications service and brought back within the statute, especially given the fact that the total size of the USF is not increasing. And even then, broadening the base would be of dubious merit based on the distributional analysis that shows how much such a change would harm families and small businesses.