

FEDERAL UNIVERSAL SERVICE FUND

This memorandum provides information regarding the federal universal service fund, including background information on the establishment of the federal universal service fund, information on federal universal service fund programs, and information on federal universal service fund contributions and disbursements.

BACKGROUND INFORMATION

The Federal Communications Commission (FCC), under direction from the United States Congress, established a federal universal service fund to ensure that all people in the United States have access to fast, efficient, nationwide communications services at reasonable charges. Prior to the Telecommunications Act of 1996, the federal universal service fund was a mechanism by which interstate long-distance telephone carriers were assessed fees to subsidize telephone service to low-income households and high-cost areas. The Telecommunications Act of 1996 expanded the definition of universal service to include rural health care providers and eligible schools and libraries.

FEDERAL UNIVERSAL SERVICE FUND PROGRAMS

The Universal Service Administrative Company (USAC) is a private, not-for-profit corporation that is responsible for administering the federal universal service fund and related programs under regulations promulgated by the FCC. The federal universal service fund programs include the:

- High-cost program.
- Low-income program.
- Rural health care program.
- Schools and libraries program.

High-Cost Program

The high-cost program provides support to telecommunications service providers that serve residents in areas of the United States that are more costly to serve. The program is intended to ensure that all individuals, including those in rural, isolated, and high-cost areas, have access to affordable telecommunications services.

The components of the high-cost program include:

- High-cost loop support - This component provides support for the "last mile" of connection for rural companies in service areas where the cost to provide the service exceeds 115 percent of the national average cost per line.
- Long-term support - This component helps to offset interstate access charges for rate-of-return regulated carriers.
- Local switching support - This component provides assistance to telecommunications providers to reduce the fixed switching costs for companies serving fewer than 50,000 lines.

- Interstate access support - This component provides assistance to offset interstate access charges for price cap companies.

Low-Income Program

The low-income program assists eligible low-income individuals with the establishing and maintaining of telecommunications services by discounting services provided by local telephone companies. The components of the low-income program include:

- Lifeline - This component reimburses telephone companies for discounting low-income individuals' monthly phone bills. With this component, individuals are eligible to receive discounts on services such as dual tone multifrequency, single-party service, access to emergency services, access to operator services, access to long-distance service, and access to directory assistance. The discounts range from \$5.25 to \$11.35 per month depending on matching available from each of the states.
- Link Up - This component reimburses local service providers for providing discounted connection charges to eligible low-income individuals. The individuals qualifying for the component are eligible to save up to 50 percent on installation fees, not to exceed \$30. The program also includes a plan to encourage local telephone companies to offer low-income telephone subscribers a deferred payment schedule for installation charges.
- Toll limitation service - This component compensates telephone companies for offering no-cost toll limitation service to low-income individuals. The telephone companies are required to provide at least one type of toll limitation service, either toll blocking, which prevents the placement of any long-distance calls, or toll control, which limits the amount of long-distance calls to a preset amount selected by the individual.

The low-income program has been expanded by the FCC to include additional discounts for low-income individuals on federally recognized tribal lands, including Indian reservations and Alaskan Native lands.

The qualifications for participating in the low-income program vary by state. States that administer their own low-income programs have their own eligibility requirements. In states that rely solely on the federal low-income programs, an individual must participate in one of the following programs in order to qualify for support: Medicaid, food stamps, Supplemental Security Income, federal public housing assistance, or low-income home energy assistance program.

Rural Health Care Program

The rural health care program provides support to telecommunications companies who provide reduced rates to rural health care providers for telecommunications services related to the use of telemedicine and telehealth. The goal of the program is to ensure that health care providers serving rural communities pay no more than urban health care providers for telecommunications services necessary for the provision of health care.

In order to participate in the program, rural health care providers such as higher educational institutions, community health centers, local health departments or agencies, not-for-profit hospitals, and rural health clinics submit a form requesting telecommunications services to the USAC. The USAC posts the form on its web site to seek companies to provide the requested services. The rural health care provider selects a telecommunications company from the responses, and the company provides the telecommunications services to the rural health care provider at discounted prices by using funds from the federal universal service fund. The rural health care provider may receive discounts on telecommunications services such as monthly telecommunications charges, installation charges, and long-distance Internet connection charges.

Schools and Libraries Program

The schools and libraries program, also known as the e-rate program, provides support to telecommunications companies who make telecommunications affordable for schools and libraries in the United States. Generally, any school that meets the Elementary and Secondary Education Act of 1965 definition of schools and any library that receives assistance from a state's library administrative agency under the Library Services and Technology Act is eligible to participate in the program.

Under the program, schools and libraries receive discounts on telephone services, Internet access, and internal connections within school and library buildings. The discounts range from 20 percent to 90 percent, depending on the household income level of students in the community and whether or not the school or library is located in an urban or rural area.

In order to participate in the program, schools and libraries must develop an approved technology plan that

demonstrates the relationship between the information technology to be supported and the curriculum or library objectives. The school or library issues a request for proposals for a contract for selected services, and after the school or library selects a vendor, the services may be ordered. Using funds from the federal universal service fund, the vendor provides the services to the school or library at discounted prices.

FEDERAL UNIVERSAL SERVICE FUND CONTRIBUTIONS AND DISBURSEMENTS

All companies that provide telecommunications services between states, including long-distance telephone companies, local telephone companies, wireless telephone companies, paging companies, and pay phone providers, are required to provide contributions to the federal universal service fund. The amount of contributions is based on a specific percentage or contribution factor of interstate and international revenues. The contribution factor is adjusted four times each year to properly account for changes in the demand for universal service funding, programming changes enacted by the FCC, or other necessary adjustments. Information regarding federal universal service fund contributions by states is not available; however, the FCC reports that rural states typically receive more disbursements from the fund than they contribute to the fund.

All telecommunications companies providing eligible universal service fund services may receive disbursements from the federal universal service fund. The federal universal service fund disbursements for calendar year 2001 totaled \$4.658 billion, including \$2.602 billion for the high-cost program, \$584 million for the low-income program, \$8 million for the rural health care program, and \$1.464 billion for the schools and libraries program. The state of North Dakota received federal universal service funding totaling \$30,716,000, of which \$27,732,000 was for the high-cost program, \$1,389,000 was for the low-income program, \$341,000 was for the rural health care program, and \$1,254,000 was for the schools and libraries program. Information regarding federal universal service fund disbursements by state for the year 2001 is attached as an appendix.

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