ONE HUNDRED ELEVENTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON ENERGY AND COMMERCE
2125 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515–6115

MAJORITY (202) 225–2927
FACSIMILE (202) 225–2525
MINORITY (202) 225–3641

energycommerce.house.gov

June 9, 2009

The Honorable Michael J. Copps
Acting Chairman
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Dear Acting Chairman Copps:

We are writing to express our continued concern about the state of the Universal Service Fund and to request additional information about one measure of the health of the Fund – the contribution factor.

The Fund was created to help provide Americans access to basic telephone service. Unfortunately, the Fund has strayed from that purpose and ballooned in size to over $7 billion per year. Moreover, the cost of the failure to reform the Fund falls on the backs of American consumers who pay a percentage of their long-distance phone bills to support the Fund. This percentage, or contribution factor, has jumped from 2.1 percent in 1997 to 11.3 percent in 2009 because demands on the Fund have grown while industry revenues have declined. But rather than bring demand under control, the Commission has simply raised the tax on consumers by increasing the contribution factor to bring in more revenue.

The Universal Service Administrative Company (USAC), the Fund administrator, recently submitted its projections for program demands and industry revenues. Based on these filings, the Commission's Office of Managing Director will soon release a Public Notice proposing a contribution factor for the third quarter of 2009. If the Commission takes no further action on the projections, the proposed contribution factor will be deemed approved 14 days from release.

Based on USAC projections, it is expected that the Commission will once again need to fill a gap between program demands and industry revenues. Specifically, the Commission will need to increase the contribution factor to approximately 12.9 percent unless it draws on another source of revenue (such as unused E-rate funds). Both options are troubling and underscore the need for universal service reform.

Raising the contribution factor means higher phone bills for American consumers. Higher phone bills could make service unaffordable for some of these consumers, jeopardizing the very goal of universal service – ensuring the entire nation has basic phone service. Moreover, raising the contribution factor does nothing to fix the underlying problems with the Fund.

Likewise, diverting funds from another source, such as the E-rate fund that provides basic phone and Internet service to schools and libraries, to compensate for excesses in other segments of the Fund simply perpetuates these excesses and a bloated government program. For example, just last week, the Committee on Energy and Commerce published data from the Commission showing that the Fund subsidizes scores of telephone providers in the same market even when there are other providers serving the market without a penny of support. These subsidies can be as high as $16,834 per telephone line per year, and all providers in the market are eligible for the same amount of subsidy regardless of their actual costs of providing service or whether some can do it more efficiently.

This system is unsustainable – and the trends of increasing demands and declining revenues are accelerating. American consumers should not bear the burden of paying more and more to support a broken system while universal service reform languishes. It is time to implement market-based reforms.

To start, the Commission should provide the public with additional information about program demands and industry revenues. Although Public Notices concerning proposed contribution factors provide figures on program demands and industry revenues, they do not provide information on other sources of revenue that impact the contribution factor, or on the underlying reasons for the size of the figures or changes to the figures over time. This information would be useful in understanding the state of the Fund and considering the most effective ways to reform the Fund.

Therefore, we urge the Commission to instruct its Office of Managing Director to include the following information in each Public Notice of the proposed contribution factor, beginning with the Public Notice for the third quarter of 2009:

1. Whether any sources of revenue other than industry revenues were used to impact the contribution factor and, if so, how much from each source.

2. A summary of the reasons why the projected demand increased (or decreased) from the previous quarter.

3. A summary of the reasons why the projected industry revenues decreased (or increased) from the previous quarter.

Should the Office of Managing Director not include such information in such Public Notices, we request that you nonetheless provide the information to us at the Committee on Energy and Commerce no later than the date of the release of each Public Notice of a proposed contribution factor.

Sincerely,

Joe Barton
Ranking Member
Committee on Energy and Commerce

Cliff Stearns
Ranking Member
Subcommittee on Communications, Technology, and the Internet

cc: The Honorable Henry A. Waxman
Chairman
Committee on Energy and Commerce

The Honorable Rick Boucher
Chairman
Subcommittee on Communications, Technology, and the Internet