



July 2014

# TELECOMMUNICATIONS

## FCC Should Improve the Accountability and Transparency of High- Cost Program Funding

# GAO Highlights

Highlights of [GAO-14-587](#), a report to congressional requesters

## Why GAO Did This Study

The USF high-cost program targets financial support to rural areas where the cost to provide telecommunications service can be more than three-times greater than the cost in urban areas. High-cost program support offsets telecommunications carriers' costs and allows them to charge rural customers lower rates. In 2011, FCC issued the USF Transformation Order, whereby it adopted funding reforms so that the program could support both telephone and broadband service, and capped the program at \$4.5 billion annually.

GAO was asked to provide information on FCC's reform efforts for the high-cost program. This report examines (1) the extent to which FCC implemented the funding reforms adopted in the USF Transformation Order and stakeholders' views on FCC's efforts, (2) the extent to which FCC is collecting data to determine the effectiveness of these reforms, and (3) what changes, if any, states have made to their universal service funds since FCC adopted the reforms. GAO reviewed FCC orders, data collection forms, and other relevant documents; interviewed FCC officials and representatives of nine stakeholder associations; and surveyed utility commissions in all 50 states and the District of Columbia.

## What GAO Recommends

FCC should demonstrate how high-cost funds were used to improve broadband availability, service quality, and capacity, such as by conducting analyses of carrier data and reporting the information in an accessible manner. In response, FCC concurred with GAO's recommendation and intends to take action to address it.

View [GAO-14-587](#). For more information, contact Mark Goldstein, (202) 512-2834, [goldsteinm@gao.gov](mailto:goldsteinm@gao.gov).

July 2014

## TELECOMMUNICATIONS

### FCC Should Improve the Accountability and Transparency of High-Cost Program Funding

## What GAO Found

The Federal Communications Commission (FCC) has implemented four industry-wide reforms and the initial phases of two carrier-specific reforms for the Universal Service Fund's (USF) high-cost program. However, FCC has encountered delays implementing the subsequent phases and more complex carrier-specific funding reforms that require extensive cost modeling and stakeholder input. For example, although FCC planned to fully implement the reform specific to large carriers by January 2013, FCC officials said it will not be implemented until the end of 2014. FCC officials cited their efforts to gather stakeholder input as the primary cause of delays. Some stakeholders told GAO that the delays did not affect them while small, rural carriers said the resulting uncertainty had decreased their investment. Overall, the stakeholder groups GAO contacted generally supported FCC's reform efforts, but had concerns with aspects of the different reforms. For example, representatives of small, rural carriers stated that uncertainty about implementation of the reform affecting them has resulted in their decreased investment in broadband infrastructure.

While FCC collects and reports a range of data and information on high-cost program funding, GAO identified gaps in FCC's data analysis and reporting that limit FCC's ability to evaluate the program, demonstrate its effectiveness, and help ensure that the data collected will inform current and future reforms. These gaps include (1) a lack of transparency and accountability of high-cost spending and (2) poor accessibility and usability of data and information. Specifically, FCC has not traditionally demonstrated how high-cost funds were spent and the results of that funding because FCC had not collected data to do so. Representatives of competitive carriers and consumers told us FCC should increase all carriers' accountability for their use of high-cost funds by providing information on the results of the funding. Furthermore, FCC has not traditionally presented the high-cost program data and information it has collected in a manner that is easy and accessible for interested parties to use. Although FCC made improvements to its data collection and presentation that could help it address some of these gaps, FCC has not indicated what information it will make publicly available on a regular basis in the future. As a result, it is difficult for interested parties to use the information in meaningful ways, such as by making connections between the different sources of data, drawing conclusions about the program, and using the data to inform policy decision making. By improving the transparency and accountability of USF's high-cost spending, FCC and interested parties could better understand the effects of the reforms; determine those most successful in efficiently enhancing broadband availability, service quality, and capacity; and identify areas for improvement.

GAO's survey of state utility commissions in all 50 states and the District of Columbia showed that as of February 2014, few states reported making changes to their states' high-cost service programs because of FCC's 2011 reforms. Of the 24 states that reported having a state program, only 4 reported making changes to that program either wholly or in part because of FCC's reforms. Seven states reported that they were considering making changes as a result of the reforms; these changes ranged from reconsidering the amount of funds that their state program should provide to carriers to transitioning to a fund that supports advanced services, like broadband.

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## Abbreviations

CAF	Connect America Fund
CCA	Competitive Carriers Association
Comptel	Competitive Communications Association
ETC	eligible telecommunications carrier
FCC	Federal Communications Commission
GB	gigabyte
Gbps	1 billion bits per second
kbps	1,000 bits per second
Mbps	1 million bits per second
NARUC	National Association of Regulatory Utility Commissioners
NASUCA	National Association of State Utility Consumer Advocates
NCTA	National Cable and Telecommunications Association
NECA	National Exchange Carrier Association
OMB	Office of Management and Budget
USAC	Universal Service Administrative Company
USDA	U.S. Department of Agriculture
USF	Universal Service Fund
USTelecom	United States Telecom Association

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July 22, 2014

## Congressional Requesters

For many decades, federal policy has called for making affordable residential telephone service available to the greatest possible number of Americans, a policy known as “universal service.” At the federal level, the Federal Communications Commission (FCC) manages the collection and disbursement of funds to support universal service through its Universal Service Fund (USF), which includes programs designed to ensure access to affordable communications for schools, libraries, health care providers, and rural, high-cost, and low-income consumers. The USF programs are funded through mandatory payments from companies providing telecommunications services, and companies usually make these payments by passing the costs onto consumers as a line item fee on their telephone bill. Since 1998, USF has distributed about \$90 billion to telecommunications carriers in all 50 states, the District of Columbia, and all U.S. territories. Some states also collect funds from consumers for state universal service programs to further support carriers and universal service in their state. The USF high-cost program, which is the focus of this report, has traditionally targeted financial support to rural areas where, according to data from FCC, the cost to provide service can be more than three-times greater than the cost to provide service in urban areas. The support provided by the high-cost program has allowed carriers to charge rural customers lower rates than would otherwise be available to them. Since 2001, the high-cost program has grown substantially, increasing the annual amount of money collected from consumers and disbursed to carriers by 73 percent, from \$2.6 billion in 2001 to \$4.5 billion in 2013. Because of its substantial growth, there have been long-standing concerns about what the program is accomplishing and the cost burden it imposes on consumers.

Recognizing that broadband service is a critical component of the nation’s infrastructure and a key driver of economic growth, the *National Broadband Plan* provided a road map for FCC to reform the high-cost program to ensure that all Americans have access to broadband-capable

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networks.<sup>1</sup> In response to recommendations in the *National Broadband Plan*, FCC issued the USF Transformation Order in November 2011, which fundamentally reformed the high-cost program so that it could support both telephone and broadband service.<sup>2</sup> Specifically, the USF Transformation Order reforms require carriers that receive high-cost support to offer broadband services in their supported service areas, meet certain broadband performance requirements, and report regularly on associated broadband performance measures. FCC also adopted new rules to be used to determine the amount of subsidy any carrier would receive and, for the first time, capped the fund at \$4.5 billion and set limits on the amount of funds available to carriers. In April 2014, FCC adopted rules that proposed targeted adjustments to the USF Transformation Order.<sup>3</sup>

We were asked to provide information on FCC's USF Transformation Order reform efforts and on the effects to state universal service funds. This report examines (1) the extent to which FCC implemented the funding reforms adopted in the USF Transformation Order, and stakeholders' views on FCC's efforts, (2) the extent to which FCC is collecting data to determine the effectiveness of these reforms and how FCC intends to ensure that the data collected will inform current and future reforms, and (3) what changes, if any, states have made to their state universal service funds since FCC adopted the reforms in 2011.

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<sup>1</sup>In 2009, Congress required FCC to develop a broadband plan to ensure that every American has access to broadband capability including a detailed plan for providing this service at affordable rates. American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, § 6001(k)(1), 123 Stat. 115, 515 (2009). In 2010, an FCC task force issued the *National Broadband Plan*, which recommended reforming USF so it could support both telephone and broadband service. FCC, *Connecting America: The National Broadband Plan* (Washington, D.C.: Mar. 16, 2010).

<sup>2</sup>FCC, *Connect America Fund et al., Report and Order and Further Notice of Proposed Rulemaking*, 26 FCC Rcd 17663 (2011). There were several legal challenges to FCC's authority under the USF Transformation Order to use USF monies for deploying broadband-capable networks that were resolved in favor of FCC in a court decision by the 10<sup>th</sup> Circuit of the U.S. Court of Appeals. *Direct Communs. Cedar Valley, LLC v. FCC* (In re FCC 11-161), 2014 U.S. App. LEXIS 9637 (10th Cir., May 23, 2014).

<sup>3</sup> *Connect America Fund et al., Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking*, WC Docket No. 10-90 et al., FCC 14-54, 2014 FCC LEXIS 2060 (rel. June 10, 2014).

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In this report, we focused on the high-cost program funding reforms in the USF Transformation Order. Although FCC also made changes to intercarrier compensation in the USF Transformation Order, we did not review FCC's reform efforts related to intercarrier compensation because it is governed by a different system of federal and state rules than those governing universal service.<sup>4</sup> Specifically, we focused on four industry-wide reforms and four carrier-specific reforms, discussed later in this report. We selected these reforms because they were the ones we identified and reported on in our 2012 review of the high-cost program.<sup>5</sup> To determine the extent to which FCC has implemented the reforms, we reviewed the USF Transformation Order, other relevant orders, further notices of proposed rulemakings, and public notices that FCC issued after releasing the USF Transformation Order, and interviewed FCC officials. To gather industry stakeholder views on FCC's efforts, we interviewed nine associations that represent different types of telecommunications carriers, cable providers, state utility commissions, and consumers. We identified these associations based on our prior reports as well as filings with FCC regarding the USF Transformation Order. To evaluate FCC's data collection, analysis, reporting and presentation, and efforts to measure program effectiveness, we interviewed FCC officials and reviewed FCC documentation and online materials, such as key forms FCC uses to collect data from carriers, FCC's broadband and USF reports, FCC's performance goals and measures for the high-cost program, and FCC's online maps. We compared FCC's efforts with reports and guidance we published<sup>6</sup> related to program transparency and accountability and public data presentation—in particular, our findings related to federal data transparency lessons learned and the implementation of electronic government provisions—as well as relevant material from the Office of Management and Budget (OMB), such as its

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<sup>4</sup>Intercarrier compensation refers to the charges that one carrier pays to another carrier to originate, transport, and/or terminate telecommunications traffic.

<sup>5</sup>In our 2012 report, we examined the USF Transformation Order and FCC's plans for repurposing the high-cost program for broadband. GAO, *Telecommunications: FCC Has Reformed the High-Cost Program, but Oversight and Management Could be Improved*, [GAO-12-738](#) (Washington, D.C.: July 25, 2012).

<sup>6</sup>For example, see GAO, *Federal Data Transparency: Opportunities Remain to Incorporate Lessons Learned as Availability of Spending Data Increases*, [GAO-13-758](#) (Washington, D.C.: Sept. 12, 2013); and GAO, *Electronic Government Act: Agencies Have Implemented Most Provisions, but Key Areas of Attention Remain*, [GAO-12-782](#) (Washington, D.C.: Sept. 12, 2012).

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2012 digital government strategy.<sup>7</sup> To understand the roles of the Universal Service Administrative Company (USAC) and the National Exchange Carrier Association (NECA) with respect to FCC's efforts, we reviewed material and interviewed officials from those entities.<sup>8</sup> To determine what changes states have made, we surveyed the state utility commissions of all 50 states and the District of Columbia and analyzed the responses. The survey included questions about changes states made to their state high-cost programs wholly or in part because of FCC's 2011 reforms and how FCC's reforms have affected states, among other things. To ensure that our survey questions and skip pattern were clear and logical and that states could answer the questions without undue burden, we pretested our survey with five states: Arkansas, Maine, Maryland, Tennessee, and Texas. We selected the pretest states to provide for variation in program characteristics and geographic location. We administered the survey from January through February 2014 and received a 100 percent response rate. Further details on our scope and methodology are provided in appendix I and a copy of our survey is provided in appendix II.

We conducted this performance audit from August 2013 to July 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

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### Universal Service and the USF High-Cost Program

The 1996 Telecommunications Act specified that consumers in "rural, insular, and high-cost areas" should have access to telecommunication services and rates that are "reasonably comparable" to consumers in

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<sup>7</sup>OMB, *Digital Government: Building a 21st Century Platform to Better Serve the American People* (Washington, D.C.: May 23, 2012).

<sup>8</sup>USAC is the non-profit corporation that administers USF programs under FCC's direction. NECA is a non-profit association established by FCC to perform telephone industry tariff filings and revenue distributions.



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urban areas.<sup>9</sup> USF provides financial support (i.e., subsidies) to carriers through four different programs, each targeting a particular group of telecommunications users. Appendix III contains a list of these programs. One of these programs—the high-cost program—provides subsidies to both wireline and wireless telecommunications carriers that provide telecommunications services—including basic (i.e., landline) and wireless (i.e., mobile) service—in rural, insular, and other remote areas where the costs of providing service is high.<sup>10</sup> The subsidies are intended to offset the carriers’ high costs, thereby allowing them to provide services and rates that are reasonably comparable to those that consumers in low-cost—generally urban—areas receive. In 2012, support for the four programs totaled \$8.7 billion, but the high-cost program accounted for almost 50 percent of USF support.

The support a carrier can receive depends on various factors, including its status as either the “incumbent” carrier in a given area or a competitor and the number of lines it claims in its service area. Incumbent carriers are telephone carriers that were in existence when Congress passed the 1996 Telecommunications Act and were members of NECA, and competitive carriers are carriers that compete with these incumbents. These incumbent carriers are further classified as either “rural”—generally small carriers serving primarily rural areas—or “nonrural”—generally large carriers serving both rural and urban areas. Most small rural carriers are subject to rate-of-return regulation and are thus referred to as rate-of-return carriers.<sup>11</sup> These carriers serve 5 percent or less of U.S. households. Nonrural carriers are usually larger and subject to price-cap regulation, and are thus referred to as price-cap carriers.<sup>12</sup> The price-cap carriers provide service to approximately 95 percent of households. A carrier’s service area is usually the service territory where a carrier

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<sup>9</sup> Pub. L. No. 104-104, § 101(a), 110 Stat. 71 (1996).

<sup>10</sup> Wireline carriers are providers of traditional landline telecommunications services involving connections to the public switched telephone network by wire (or fiber) local loops that terminate in fixed locations at customer premises, such as residences. Wireless carriers are providers of wireless telecommunications services, operating with electromagnetic waves, such as providing cellular telephone service.

<sup>11</sup> Rate-of-return regulation is a form of rate regulation wherein the carrier is allowed to recover its costs and earn a predetermined rate (or profit).

<sup>12</sup> Price-cap regulation is a form of rate regulation wherein the carrier may charge rates for regulated services up to an allowable cap, which is adjusted based on factors beyond the carrier’s control, such as inflation.

State governments play a role in implementing the federal high-cost program, as do other entities. As shown in figure 1, there were 24 states as of February 2014 that had established high-cost programs to further fund carriers and universal service in their states. States usually fund their programs through a fee or tax levied directly on consumers or, like the federal program, by requiring companies providing telecommunications services to make payments, costs that the companies are allowed to pass on to consumers.

A map of the United States where states are colored either dark blue or white. The dark blue states are: Wash., Ore., Idaho, Nev., Calif., Wyo., Utah, Colo., Ariz., N. Mex., Alaska, Hawaii, Tex., La., Ark., Ill., Ind., Pa., N.Y., Maine, and S.C. The white states are: Mont., N. Dak., S. Dak., Minn., Wis., Mich., Ohio, W. Va., Va., N. C., Tenn., Miss., Ala., Ga., Fla., Mo., Iowa, N. J., Del., Md., D.C., R.I., Conn., Mass., N.H., and Vt. A legend at the bottom center shows a dark blue square followed by the text 'States with a high-cost service program'.

GAO-14-587 USF High-Cost Program Reforms

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While FCC has overall responsibility for the federal high-cost program—including making and interpreting policy, overseeing program operations, and ensuring compliance with its rules—it delegated responsibility for administering the day-to-day operations of the program to USAC. State regulatory commissions are primarily responsible for determining carriers' eligibility to participate in the program by certifying them as eligible telecommunications carriers (ETCs).

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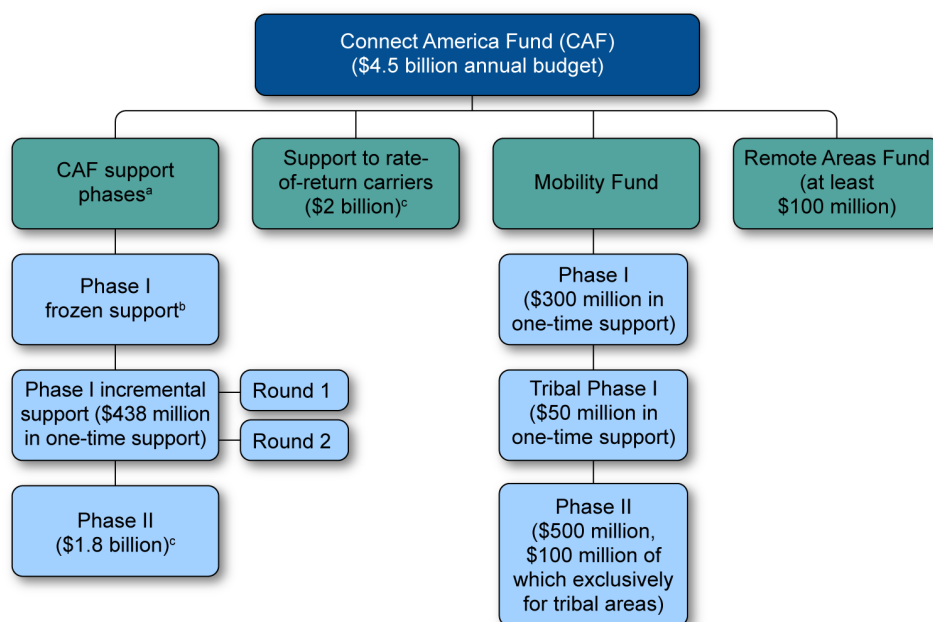
## The USF Transformation Order and April 2014 Report and Order

FCC adopted the USF Transformation Order in November 2011 in response to recommendations made in the *National Broadband Plan*. The *National Broadband Plan* determined the minimum speed carriers needed to provide consumers in rural and high-cost areas to enable them to use critical broadband applications in a manner reasonably comparable to broadband subscribers in urban areas. The plan also concluded that millions of Americans did not have access to broadband infrastructure and recommended, among other things, creating a fund to address broadband availability gaps in unserved areas. Finally, the plan recommended creating a fund to provide support for deployment of wireless networks. Thus in the USF Transformation Order, FCC adopted new rules to fundamentally change the high-cost program by extending the program to support broadband-capable networks. FCC created the Connect America Fund (CAF) and, within CAF, a number of other support mechanisms to improve the level of wireline and wireless broadband service available in unserved areas. (See fig. 2.) FCC set a budget of \$4.5 billion annually for CAF until 2017, by taking a number of actions, including eliminating certain types of support, designing new ways to distribute CAF funds to carriers, and setting caps for rate-of-return carriers' capital and operating expenses.<sup>13</sup> According to the USF Transformation Order, the estimates of the funding necessary for CAF components and legacy high-cost mechanisms represented FCC's predictive judgment as to how best to allocate limited resources at that time. In the USF Transformation Order, FCC also established five performance goals and three performance measures for the program. (See app. III for a full list of these goals and measures.)

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<sup>13</sup>For more information on the USF Transformation Order, see [GAO-12-738](#).

**Figure 2: Connect America Fund Support Mechanisms**



Source: GAO presentation of FCC information. | GAO-14-587

<sup>a</sup>CAF Phase I and CAF Phase II funds are for areas currently served by incumbents that are price-cap carriers.

<sup>b</sup>Price-cap carriers receive CAF Phase I frozen support until FCC implements CAF Phase II.

<sup>c</sup>This amount includes CAF support that carriers receive to replace intercarrier compensation.

To assure broadband subscribers the minimum level of service recommended in the *National Broadband Plan*, FCC established public interest obligations for all broadband carriers eligible to receive high-cost funds. Prior to the implementation of the USF Transformation Order, carriers were not required to meet any specific broadband performance standards in exchange for receiving high-cost funds. In the USF Transformation Order, FCC requires carriers receiving funds to provide broadband service to customers at prices reasonably comparable to prices charged in urban areas and to meet certain requirements for broadband speed, latency, and capacity as described below:

- Broadband speed is described in download and upload capabilities and is measured by the number of bits of data transferred per second and includes kilobits per second (1,000 bits per second—kbps), megabits per second (1 million bits per second—Mbps), and gigabits (1 billion bits per second—Gbps). Download speed refers to the rate

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at which data is transferred from the carrier to the consumer. Upload speed refers to the rate at which data is transferred from the consumer to the broadband carrier. In the USF Transformation Order, FCC required carriers to provide service at the speed of 4 Mbps download and 1 Mbps upload. In April 2014, FCC proposed to revise the broadband performance obligations to require minimum speeds of 10 Mbps download.<sup>14</sup>

- Latency is a measure of the time it takes for a packet of data to travel from one point to another in the carrier's network and affects a consumer's ability to use real-time applications, including interactive voice or video communication.<sup>15</sup> FCC requires carriers to provide service with sufficiently low latency to enable use of real-time applications.
- Capacity is the total volume of data sent and/or received by the end user over a period of time and is often measured in gigabytes (GB) per month.<sup>16</sup> Some broadband service providers impose monthly data usage limits, restricting users to a pre-determined quantity of data, and these limits typically vary between wireline and wireless services. FCC requires carriers to offer service with capacity usage limits reasonably comparable to usage limit offerings in urban areas.

In April 2014, FCC adopted an order that made targeted adjustments to the USF Transformation Order; we refer to this order as the April 2014 Report and Order. FCC explained the need for the order by noting that in the USF Transformation Order, FCC had sought comment on several issues related to the continuing implementation of the Connect America Fund. The April 2014 Report and Order adopted rules to address several of these issues, among other things, as explained below.

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<sup>14</sup>Connect America Fund et al., Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking, WC Docket No. 10-90 et al., FCC 14-54, 2014 FCC LEXIS 2060 (rel. June 10, 2014).

<sup>15</sup>Data traveling through a network are broken up into packets, each of which is independently routed through a network and reassembled at the final destination.

<sup>16</sup>A "byte" equals 8 bits.

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## Although FCC Has Not Implemented All Funding Reforms Adopted in the USF Transformation Order, Stakeholders Generally Supported FCC's Reform Efforts

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### FCC Has Implemented Industry-Wide and Some Carrier-Specific Funding Reforms

FCC has implemented several of the funding reforms it adopted in the USF Transformation Order, and the various stakeholder groups we contacted were generally supportive of FCC's reform efforts. In particular, FCC implemented (1) industry-wide reforms (that is, the reforms applied to all carriers receiving high-cost support), (2) CAF Phase I, and (3) Mobility Fund Phase I. CAF Phase I and Mobility Fund Phase I are carrier-specific reforms that were designed to immediately disburse funding to those carriers and spur broadband deployment in rural areas.

#### Industry-Wide Reforms

- Eliminating identical support. High-cost support for carriers in areas already served by an incumbent, referred to as identical support, will be phased out over a 5-year period, ending in 2016. Representatives of large carriers told us they supported this reform.
- Eliminating 100 percent overlap. High-cost support for carriers in areas where an unsubsidized competitor offers voice and broadband service at speeds of at least 4 Mbps download and 1 Mbps upload will be phased out over 3 years. Representatives of cable providers told us this was one of the best reforms FCC made.
- Establishing a \$250 monthly per-line support cap. High-cost support for carriers will be capped at \$250 per line, per month; support over \$250 per line per month will be phased out over 3 years for carriers

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above this cap.<sup>17</sup> Representatives of consumers and large carriers told us they supported this reform.

- Establishing broadband public interest obligations. High-cost support will only be provided to carriers that meet FCC's requirements for broadband speed, latency, capacity, and price. Most stakeholder groups we contacted were supportive of FCC's adoption of public interest obligations for all carriers. Representatives of consumers supported the public interest obligations, stating that companies receiving public money should be providing quality service. Representatives of competitive carriers told us this reform was absolutely necessary and one of the best reforms FCC made. However, representatives of small, rural carriers told us it will be difficult for many carriers to achieve the 1 Mbps upload speed requirement without more funding to help deploy new infrastructure.

### **CAF Phase I**

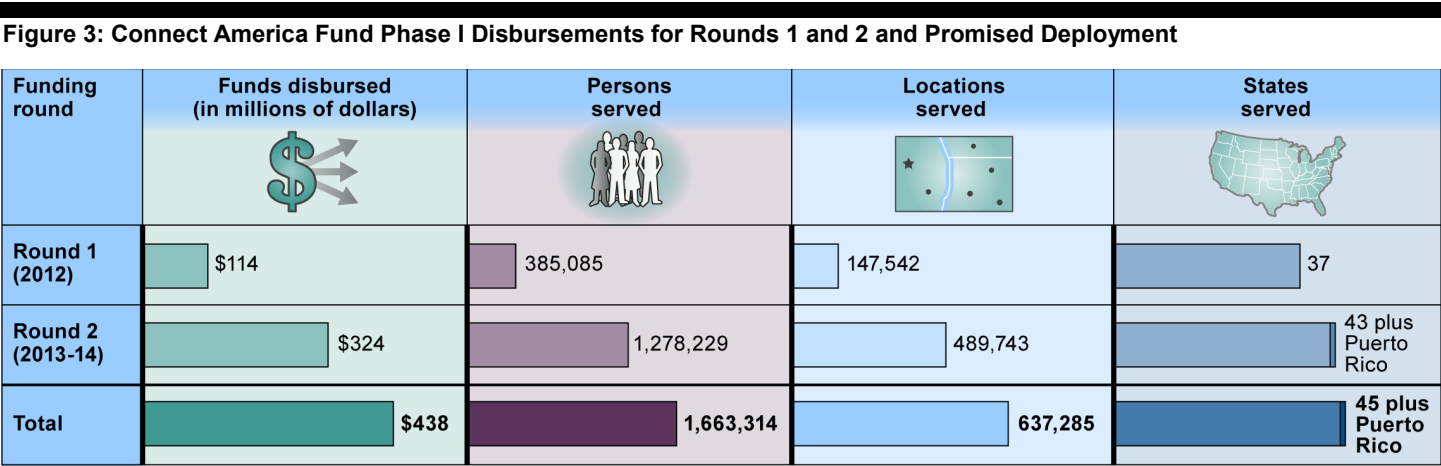
In CAF Phase I, FCC took two distinct actions: FCC froze the existing high-cost support amounts to price-cap carriers, which in 2012 was approximately \$1.2 billion, and made up to \$600 million available in additional funding to price-cap carriers to extend broadband-capable infrastructure; FCC refers to the additional funding as incremental support. Of the \$600 million that FCC made available, approximately \$438 million was disbursed to carriers in two rounds. In round one, funding was offered to carriers promising to deploy new infrastructure to areas lacking Internet access. Price-cap carriers accepting this support were to be paid \$775 for each new home, office, or community anchor institution to which these carriers deployed infrastructure.<sup>18</sup> In round two, funding was offered to price-cap carriers promising to deploy new infrastructure as well as upgrade existing infrastructure. As part of round two, FCC established a process whereby parties could challenge whether a location was already served by an existing provider and thus ineligible

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<sup>17</sup>In the USF Transformation Order, FCC made provision for carriers to apply for a waiver if they believed they could not operate under these rules.

<sup>18</sup>FCC defines community anchor institutions as schools, libraries, medical and healthcare providers, public safety entities, community colleges and other organizations that provide support services to facilitate greater use of broadband service by vulnerable populations.

for support.<sup>19</sup> FCC estimated that the funding under both rounds of CAF Phase I would result in the promised deployment of broadband-capable infrastructure to a total of more than 1.66 million people, as shown in figure 3.



Source: GAO presentation of FCC information. | GAO-14-587

Stakeholder response to CAF Phase I was mixed. Representatives of price-cap carriers told us their members were reasonably satisfied with Phase I and viewed it as a sensible program that has worked well, while representatives of wireless carriers told us that the Phase I support should have been distributed through competitive bidding and been open to all eligible carriers, rather than made available only to incumbent price-cap carriers.

**Mobility Fund Phase I**

In Mobility Fund Phase I, FCC made \$300 million available in one-time support to wireless carriers. These funds were made available to accelerate high-speed wireless network deployment in areas where service would not be deployed without federal support but which could be

<sup>19</sup>Over 80 interested parties participated in this challenge process, and on January 10, 2014, FCC issued an order adjudicating these challenges. See *Connect America Fund*, Order, 29 FCC Rcd 181 (Wireline Comp. Bur. 2014) (*Phase I Challenge Process Resolution Order*).



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made profitable once the necessary infrastructure had been deployed or upgraded. Those wireless carriers wishing to receive Mobility Fund Phase I support were asked to indicate the amount of one-time support they would require to achieve the defined performance standards for a specified number of road miles, in a process FCC refers to as a “reverse auction.”<sup>20</sup> FCC held the reverse auction in September 2012 and received 795 winning bids to provide upgraded or new service to eligible census blocks containing approximately 84,000 road miles in 31 states and 1 territory. Representatives of wireless carriers were pleased to receive funding for broadband deployment but told us that given the increased consumer demand for wireless service, they would have preferred to see a larger part of CAF dedicated to the Mobility Fund that is made available specifically for wireless carriers.

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### **FCC’s Implementation of the More Complex Carrier-Specific Funding Reforms Has Been Delayed, and Stakeholders’ Views Reflect Varying Concerns**

FCC has encountered delays in implementing the more complex carrier-specific funding reforms adopted in the USF Transformation Order, and stakeholders have voiced concerns about the delays as well as various aspects of the reforms. FCC recognized that these carrier-specific funding reforms would require extensive cost modeling and input from stakeholders and could not be immediately implemented. These reforms were intended to establish methodologies to provide funds that would enable price-cap, wireless, and rate-of-return carriers to support both voice and broadband services. Specifically, the four reforms that have not yet been implemented are referred to as (1) CAF Phase II, (2) Mobility Fund Phase II, (3) limits on capital and operating expenses for rate-of-return carriers, and (4) Remote Areas Fund. As discussed below, the stakeholder groups we contacted had concerns with specific aspects of the different reforms, depending on a number of factors, including whether the stakeholders were incumbents or competitors and, if incumbents, whether the stakeholders are regulated as price-cap or rate-of-return carriers.

#### **CAF Phase II**

In designing a mechanism to distribute funds in price-cap territories, FCC determined that in CAF Phase II it would provide \$1.8 billion annually in

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<sup>20</sup>The carrier who submits the lowest bid will receive high-cost support to deploy the broadband-capable network in areas for which they bid. FCC sometimes refers to this competitive bidding process as a “reverse auction” since the lowest bid wins.

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support to those areas through a combination of a new forward-looking cost model and a competitive-bidding process. Specifically, FCC planned to develop a model that could be used for each census block in high-cost areas to determine the amount of support required to extend and sustain a broadband-capable network. FCC would offer each price-cap carrier monthly model-based support for a period of 5 years in exchange for a state-level commitment to serve specified areas within the state that were not served by an unsubsidized competitor. If that offer were not accepted, FCC would determine support through a competitive-bidding process.

In the USF Transformation Order, FCC planned to have adopted the model and the competitive bidding process by the end of 2012 and to have begun implementing CAF Phase II by January 2013. However, the reform has not yet been implemented. FCC officials cited their efforts to gather stakeholder input as the primary factor affecting their ability to meet their original deadlines for implementing CAF Phase II.<sup>21</sup> In particular, FCC held numerous workshops to solicit stakeholder input on the model, issued several public notices seeking additional comment, released 11 versions of the model, and adopted the Phase II cost model in April 2014.<sup>22</sup> Following adoption of the model, FCC commenced the challenge process to determine the final list of census blocks eligible for model-based support.<sup>23</sup> However, FCC officials told us that the challenge process will take at least 90 days; after which time, FCC will make offers to carriers that the carriers can either accept or decline. FCC officials do not expect carriers to receive Phase II model-based support until the end

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<sup>21</sup>FCC develops regulations (or rules) through a process that is largely defined in the Administrative Procedure Act, 5 U.S.C. §553, which requires FCC to provide the public with notice of its proposed and final rules and offer the public an opportunity to comment as the rules are developed.

<sup>22</sup>*Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order, DA 14-534 (Wireline Comp. Bur. rel. Apr. 22, 2014).

<sup>23</sup>On May 16, 2013, FCC's Wireline Competition Bureau released the *Phase II Challenge Process Order* implementing FCC's requirement that CAF Phase II provide an opportunity for interested parties to challenge the determination of whether an area is served by an unsubsidized competitor, and thus ineligible for the offer of model-based Phase II support. This order established a process for filing challenges and the format in which challenges must be made. See *Connect America Fund et al.*, 28 FCC Rcd 7211, Report and Order, DA 13-1113 (Wireline Comp. Bur. rel. May 16, 2013). On June 30, 2014, FCC commenced the Phase II challenge process. *Wireline Competition Bureau Commences Connect America Phase II Challenge Process*, WC Docket Nos. 10-90, 14-93, Public Notice, DA 14-942 (Wireline Comp. Bur. rel. June 30, 2014).

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of 2014 at the earliest. In addition to the delay described above, FCC has also not finalized the specific form of the competitive-bidding mechanism it will use if a price-cap carrier declines to accept model-based support; during the time of our review, FCC officials did not provide a date by which they expected this to be complete. In the April 2014 Report and Order, FCC proposed to streamline the competitive-bidding process to allow non-traditional providers, such as cable and satellite providers, to become eligible for support.

Representatives of price-cap carriers noted that although FCC is behind on its timelines, the original timelines were quite ambitious given the complexity of the reforms being implemented, and noted that FCC's rulemaking process can draw out a proceeding. Representatives of rate-of-return carriers echoed this observation, noting that building cost models was a complex undertaking and could be a significant factor in explaining the delays. Wireless carriers and cable providers would like FCC to move more quickly to implement CAF Phase II so that they can have an opportunity to provide service and receive USF support. With regard to the implementation of CAF Phase II, representatives of price-cap carriers and consumer groups generally did not have concerns with CAF Phase II, while representatives of competitive carriers did. Representatives of price-cap carriers told us they have generally not been negatively affected by the process and, overall, view the reforms positively. Representatives of consumer groups told us they hope that changing the fund to support broadband will increase the demand for broadband and lead to lower rates, particularly in rural areas. However, representatives of competitive carriers—primarily cable and wireless providers—were critical of the process. While they supported the changes, they would like the process to have been more competitively neutral, giving them the opportunity to compete for access to CAF funds earlier in the process. The current methodology only allows competitors the opportunity to compete for funding after the incumbent price-cap carrier has refused to serve an area for the amount of support FCC offers. In the USF Transformation Order, FCC discussed the solicitation of comments on this issue but determined that given the decades-old system currently in place, the approach it adopted would best serve consumers in the affected areas.

### **Mobility Fund Phase II**

FCC is establishing Mobility Fund Phase II to provide ongoing support for wireless services in areas that are not profitable to serve without federal support. FCC set the fund amount at \$500 million annually, up to \$100

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million of which is to be designated for Tribal lands. To implement the reform, FCC is developing a funding distribution methodology and determining eligible geographic areas and providers. Although in the USF Transformation Order FCC expected to implement this reform between July and September 2013, using a reverse auction, and to begin disbursing funds in 2014, this reform has not yet been implemented. FCC officials stated that because there has been rapid private sector expansion of improved mobile broadband service since the USF Transformation Order was adopted in 2011, FCC is considering retargeting the Mobility Fund Phase II support. In the April 2014 Report and Order, FCC sought comment on whether to retarget the fund to provide support for a higher level of service.

In commenting on the delays in implementing this reform, in addition to FCC's lengthy rulemaking process, representatives of wireless carriers noted that implementation has been affected by the changes in FCC leadership that have occurred since the USF Transformation Order was adopted: these changes include the departure of one Chairman, the installation of an interim Chairman, and the replacement of the interim Chairman by a newly appointed one. These representatives also stated that carriers are reluctant to invest in additional deployment until the Mobility Fund Phase II funding mechanism is complete and they have a better understanding of the funding they will receive. According to these representatives, 39 percent of households now rely on wireless telephone service and wireless providers are paying 44 percent of USF funds, therefore they believe more than \$500 million in annual funds should have been made available for wireless carriers. However, representatives of consumer groups told us they are concerned about wireless service becoming a substitute for wireline, given the pricing structure for wireless broadband. They said wireless plans usually place limits on the amount of data a customer can download and when those limits are exceeded, the service can become quite expensive.

#### **Limits on Capital and Operating Expenses for Rate-of-Return Carriers**

In the USF Transformation Order, FCC adopted a rule to limit the reimbursable capital and operating expenses used to determine the level of high-cost support for rate-of-return carriers and to maintain total

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funding for rate-of-return carriers at approximately \$2 billion per year;<sup>24</sup> FCC has since reconsidered this reform. Under the previous universal service rules, FCC distributed high-cost funds to rate-of-return carriers based on their actual costs. Some carriers were reimbursed for up to 100 percent of their eligible expenditures, faced no FCC-imposed limits, and had no incentive to be more efficient. To carry out the new rule, FCC proposed using regression analyses to estimate the appropriate levels of capital and operating expenses for each rate-of-return study area and to limit expenses based on these estimates.

In April 2012, FCC adopted two regression models, one each for establishing the capital and operating expense limits of rate-of-return carriers and put the model in effect in July 2012. Over an 18-month period ending on December 31, 2013, 107 study areas received decreased funding and 769 study areas received increased funding due to these limits on capital and operating expenses.<sup>25</sup> In response to petitions for reconsideration of these models, FCC continued to refine the models and, in an order released February 2013, determined that it would be better to use a single regression model for both capital and operating expenses for a service area, rather than the two that were originally planned. However, by the end of 2013, FCC had not yet determined how to do so. In the April 2014 Report and Order, FCC concluded that placing caps on the amount of support available to rate-of-return carriers had not encouraged new investment in broadband capable networks as intended, and FCC eliminated the rule. FCC stated in the order that it would continue to evaluate alternative ways to ensure that rate-of-return carriers have structural incentives to operate efficiently and sought comment on how to do so.<sup>26</sup>

Representatives of rate-of-return carriers stated that for their members, the primary effect of the implementation delays has been the increased level of uncertainty and the resulting decreased level of investment in broadband infrastructure. They told us that uncertainty about future

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<sup>24</sup>Connect America Fund; High-Cost Universal Service Support, WC Docket Nos. 10-90, 05-337, Order, DA 12-646, 27 FCC Rcd 4235 (Wireline Comp. Bur. rel. Apr. 25, 2012).

<sup>25</sup>FCC, *Universal Service Implementation Progress Report*, WC Docket No. 10-90, at Fig. 5 (Mar. 18, 2014).

<sup>26</sup>Connect America et al., WC Docket No. 10-90 et al., Report and Order et al., FCC 14-54, paras.127-36 (rel. June 10, 2014).

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implementation of the caps on rate-of-return carriers' expenditures is the primary cause of decreased investment. In our prior work, we found that, according to stakeholders, uncertainty regarding future USF high-cost support has led some carriers to reduce or eliminate broadband infrastructure investment.<sup>27</sup> In addition, the U.S. Department of Agriculture (USDA) reported in its fiscal year 2012 performance report that "the level of uncertainty caused by the new USF and intercarrier compensation revisions directly impacted the level of demand for the infrastructure loan program."<sup>28</sup> Regarding the reform itself, representatives of rate-of-return carriers told us that their members were critical of the imposition of these limits. They said their members believed they were being asked to provide more services (i.e., both voice and broadband) with less support. While these representatives recognized that some changes were needed to increase the efficiency of the fund, they believe the methodology outlined in the USF Transformation Order is an overcorrection of the problem and have proposed an alternative methodology to FCC. On the other hand, representatives of competitive carriers supported the reform. FCC noted that in the USF Transformation Order, rate-of-return carriers currently receive about \$2 billion in high-cost program support but serve less than 5 percent of the access lines in America; FCC also noted that the reforms for rate-of-return carriers are meant to increase incentives for these carriers to be efficient in their use of public resources. Representatives of three different associations representing competitive carriers told us that if the current caps on expenditures are not adopted, FCC must design some other mechanism for limiting the amount of USF funds going to rate-of-return carriers. Representatives of one competitor association told us they believe simply eliminating the reform that caps funds for these expenses would be harmful to competitors.

### **Remote Areas Fund**

In the USF Transformation Order, FCC adopted a reform aimed at ensuring availability of affordable voice and broadband services to the

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<sup>27</sup>GAO, *Telecommunications: USDA Should Evaluate the Performance of the Rural Broadband Loan Program*, [GAO-14-471](#) (Washington, D.C.: May 22, 2014).

<sup>28</sup>USDA, *USDA Fiscal Year 2012 Annual Performance Report* (Washington, D.C.: 2012). USDA's Rural Utilities Service has three programs that provide loans for broadband infrastructure projects: the Rural Broadband Access Loan and Loan Guarantee program, the Broadband Initiatives Program, and the Telecommunications Infrastructure Loan Program.

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most remote and hard-to-serve areas where FCC said the cost of deploying traditional terrestrial broadband networks is extremely high. Under this reform, FCC established an annual budget of at least \$100 million to ensure that those Americans living in such areas, which FCC estimated as numbering less than 1 percent of American households, can obtain affordable broadband. In the USF Transformation Order, FCC sought comment on how best to implement the Remote Areas Fund, and expected to finalize the reform in 2012 with implementation in 2013. FCC's Wireline Competition Bureau released a public notice seeking further comment on issues related to the implementation of the Remote Areas Fund in January 2013.<sup>29</sup> However, as of May 2014, FCC had not yet implemented this reform and FCC officials told us this issue was still to be decided. Representatives of cable providers told us there is a need for FCC to address this issue and establish clear conditions under which these funds will be disbursed.

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## FCC's Ability to Ensure Current and Future USF Reforms Are Informed by Data Is Limited

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### FCC Has Gaps in Data Analysis and Reporting

While FCC collects and reports a range of data and information on high-cost program funding, we have identified gaps in FCC's data analysis and reporting that limits its ability to evaluate the program, demonstrate its effectiveness, and ensure that the data collected will inform current and future reforms. Specifically, FCC is limited by (1) a lack of transparency and accountability of high-cost spending and (2) poor accessibility and usability of data and information.

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<sup>29</sup>Wireline Competition Bureau Seeks Further Comment on Issues Regarding the Design of the Remote Areas Fund, WC Docket No. 10-90, Public Notice, 28 FCC Rcd 265 (Wireline Comp. Bur. 2013).

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## **Lack of Transparency and Accountability of High-Cost Spending**

In our prior work, we have concluded that transparency of spending—that is, reporting the amount spent, who receives the funds, what funds are spent on, and the results of that spending—is essential to improving accountability.<sup>30</sup> Transparency allows policy decision makers and the public to access important information—including information they could use to judge program effectiveness—and provides opportunities for increased oversight. FCC also emphasized the importance of spending accountability in the USF Transformation Order. Specifically, the order stated that the billions of dollars that the high-cost program disburses each year come from American consumers and businesses and that funding recipients must be held accountable for how they spend that money.

FCC collects and reports a broad range of data from carriers, and FCC and USAC use this data to manage the high-cost program and, according to FCC, to ensure accountability; however, FCC has not traditionally demonstrated how funds were spent and the results of that funding. FCC collects information from carriers on broadband subscription, prices, services and speeds offered, unfulfilled requests for service, complaints received, and financial information, among other things, and requires carriers to certify their compliance with a variety of other program requirements.<sup>31</sup> FCC reports some of this data and other data and information through a variety of mechanisms. For example, FCC provides information about Internet access in the United States in its Internet access service reports<sup>32</sup> and on the status of broadband deployment in the United States in its broadband progress reports.<sup>33</sup> Starting in September 2014, FCC plans to use some of the data it collects to

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<sup>30</sup>[GAO-13-758](#).

<sup>31</sup>FCC collects this information through FCC Form 477 (Local Telephone Competition and Broadband Reporting), Form 481 (Carrier Annual Reporting Data Collection), and Form 499-A (Annual Telecommunications Reporting Worksheet). Not all carriers must file all of these forms.

<sup>32</sup>For most recent report, see, FCC, *Internet Access Services: Status as of December 31, 2012* (Washington, D.C.: December 2013).

<sup>33</sup>For most recent report, see, FCC, *Eighth Broadband Progress Report*, FCC 12-90 (Washington, D.C.: Aug. 21, 2012).



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populate the National Broadband Map.<sup>34</sup> FCC also provides information specific to the high-cost program. The USAC Disbursement Tool contains specific information on the amount of high-cost funds disbursed, which interested parties can search by year and month, company name, state, study area, or by the service provider's USAC identification number.<sup>35</sup> FCC reports some of this information in its USF monitoring reports. Thus, interested parties can use the USAC Disbursement Tool to identify the amount of funds carriers received and which carriers received those funds. However, parties cannot use any of these reporting mechanisms to access information on how carriers used those funds or the results of the funding. Representatives of competitive carriers and consumers told us FCC should increase all carriers' accountability for their use of high-cost funds by providing this type of information.

FCC's current voice and broadband availability performance measures also do not demonstrate results of funding because they do not show how high-cost funds contributed to the outcomes that are being measured. For example, FCC states that it will measure its goal of ensuring universal broadband availability by collecting the number of new locations that gain access to broadband service. As a measure of the program's efficiency, the FCC will measure the change in the number of new locations per million of USF dollars spent. However, these measures count all locations that gain access through any means, not those that gained access specifically through the use of high-cost funds. Representatives of competitive carriers said that FCC's performance measures do not provide evidence that the high-cost program is in any way responsible for improving broadband availability and service quality. As a result of not demonstrating how funds were spent or what they accomplished, interested parties' ability to hold funding recipients accountable for their use of the public's money is limited, and it is difficult for consumers to see what they gained from the money they paid. Additionally, FCC may lack important information that could help it make future policy decisions and identify areas for improvement.

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<sup>34</sup>Within the Department of Commerce, the National Telecommunications and Information Administration launched the National Broadband Map in 2011 in collaboration with FCC. The map measures broadband availability in the United States by speed and technology type. See [broadbandmap.gov](http://broadbandmap.gov). In 2013, FCC assumed responsibility for maintaining and updating the map.

<sup>35</sup>See <http://www.usac.org/hc/tools/disbursements/> (accessed Apr. 16, 2014).

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## Poor Accessibility and Usability of Data and Information

OMB's 2012 digital government strategy stresses the importance of improving the quality, accessibility, and usability of government data.<sup>36</sup> For example, the strategy calls for creating, managing, and presenting data in customer-centric and user-friendly ways. Additionally, we have previously reported on the use of government websites that consolidate information in one place, with the goal of increasing accountability.<sup>37</sup> For example, the Federal Funding Accountability and Transparency Act of 2006 required OMB to establish a single, searchable website accessible to the public that would provide information on government spending.<sup>38</sup> The website OMB created—[usaspending.gov](http://usaspending.gov)—provides trends over time, interactive graphics, and summaries, among other things. Although we found that data reliability on these websites could be improved, we noted the benefits they provide by making data available in a manner that is easy and accessible. Such benefits can help policy decision makers and the public use the information in meaningful ways.

FCC has not traditionally presented its broadband and high-cost program data and information in a manner that is easy and accessible for interested parties to use, or at a geographic level that would allow them to draw conclusions about areas subsidized by the program. Representatives of competitive carriers told us that it is difficult to make connections between the different sources of information and draw conclusions about the program's effects. For example, as described above, interested parties can find data—reported by census block or tract—on broadband access through the relevant reporting mechanisms, and data—reported by study area code—on high-cost fund disbursements in the USAC Disbursement Tool. However, there is no place where an interested party can go to easily see which study area codes correspond with which census blocks or tracts to draw conclusions about broadband service in areas that were subsidized by the high-cost program. Additionally, the USAC Disbursement Tool and the USF

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<sup>36</sup>OMB, *Digital Government: Building a 21st Century Platform to Better Serve the American People* (Washington, D.C.: May 23, 2012).

<sup>37</sup>For example, see [GAO-12-782](#) and GAO, *IT Dashboard: Agencies Are Managing Investment Risk, but Related Ratings Need to Be More Accurate and Available*, [GAO-14-64](#) (Washington, D.C.: Dec. 12, 2013).

<sup>38</sup>31 U.S.C. § 6101 note.

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monitoring reports are comprised almost entirely of lists of data. Representatives of competitive carriers and small rural carriers said that, rather than presenting a “data dump,” FCC should present information in a way that makes it easier to interpret. Representatives of competitive carriers suggested that FCC use an online dashboard format that identifies the carriers that received funds, the amount of funds received, what the funds were used for, and the results carriers achieved. These representatives noted that FCC could update this information regularly and plot it over time. As a result of not presenting data in an accessible manner, interested parties may find it difficult to use the information in meaningful ways, such as by using the information to better assess the program’s performance, efficiency, and effects in specific areas. In April 2014, FCC officials said that FCC is committed to providing broadband and USF information in the most user-friendly format possible and that they plan to continue to add relevant information to their Connect America webpage.<sup>39</sup> FCC also acknowledged that the USF monitoring reports need to be revamped and is considering ways to improve them, including by potentially moving information online.

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### FCC Has Improved Its Data Collection Efforts, but Has Not Indicated What Information Will Be Made Available on a Regular Basis

Recently, FCC has made a number of improvements to its data collection and presentation that could eventually help it address some of these gaps. Most notably, beginning September 2014, FCC plans to collect information on broadband deployment from all carriers and, beginning July 2014, require all carriers that receive high-cost funds to file 5-year build-out plans and report progress on those plans in their annual reports to FCC and their respective state commissions.<sup>40</sup> In those progress reports, carriers must include:

- maps detailing their progress towards meeting their planned targets;
- an explanation of how much universal service support they receive and how it was used to improve service quality, coverage, or capacity; and
- an explanation regarding any network improvement targets that have not been fulfilled in the prior calendar year.

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<sup>39</sup>See <http://www.fcc.gov/encyclopedia/connecting-america> (accessed Apr. 16, 2014).

<sup>40</sup>FCC waived the requirement for 2014 for price-cap carriers to file 5-year plans, pending implementation of CAF Phase II. See *Connect America Fund*, WC Docket No. 10-90, DA 14-591 (Wireline Comp. Bur. rel. May 1, 2014).

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In November 2012, FCC also began collecting study area boundary data from incumbent carriers and is in the process of reconciling overlaps and gaps in the submissions. Additionally, FCC presented data on CAF and Mobility Fund Phase I funds and potential locations where carriers will use those funds in interactive, online maps. FCC's map for the first round of CAF Phase I funding allows interested parties to see which states received funds, the total amount of funds received in that state, and the number of locations, counties, and census blocks receiving support.<sup>41</sup> The Mobility Fund Phase I map<sup>42</sup> and the map for the second round of CAF Phase I<sup>43</sup> present similar information. Consumer representatives told us that the interactive maps are helpful steps in the right direction and that FCC should present more information like this. FCC also presented CAF Phase I and other information in its March 2014 report on the impact of FCC's reforms on incumbent carriers.<sup>44</sup> For example, the report provides estimates of the number of people that carriers will serve using CAF Phase I funds and compares other information by state and by the type of carrier (i.e., price-cap or rate-of-return).

While these are positive steps, FCC has not indicated what high-cost program information it will make available on a regular basis in the future. As of April 2014, FCC officials said FCC has not decided what information it will provide on the results of the funding for CAF Phase II, Mobility Fund Phase II, and funds provided to rate-of-return carriers, in part due to the fact that final rules regarding the reforms have not been finalized. Additionally, while FCC's maps presented information on the amount of funds received by state and the number of locations, counties, and census blocks receiving support, FCC has not decided at what geographic levels it will present information in the future. Finally, FCC officials stated that the March 2014 report was a one-time report and that as of April 2014, FCC did not have plans to produce similar reports in the future. However, FCC officials stated that FCC was considering

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<sup>41</sup>See <http://www.fcc.gov/maps/connect-america-fund-caf-phase-i> (accessed Apr. 16, 2014).

<sup>42</sup>See [http://apps.fcc.gov/auction901/map/auction\\_result\\_ext.html](http://apps.fcc.gov/auction901/map/auction_result_ext.html) (accessed Apr. 16, 2014).

<sup>43</sup>See <http://www.fcc.gov/maps/connect-america-fund-phase-i-round-two> (accessed Apr. 16, 2014).

<sup>44</sup>FCC, *Universal Service Implementation Progress Report WC Docket No. 10-90* (Washington, D.C.: Mar. 18, 2014).

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incorporating elements of this report into the annual USF Monitoring Report but will likely not make decisions about what analysis it will conduct and how it will present that information until after September 2014; that is, after its first round of new data on broadband deployment and carrier 5-year build-out plans and progress reports are due.

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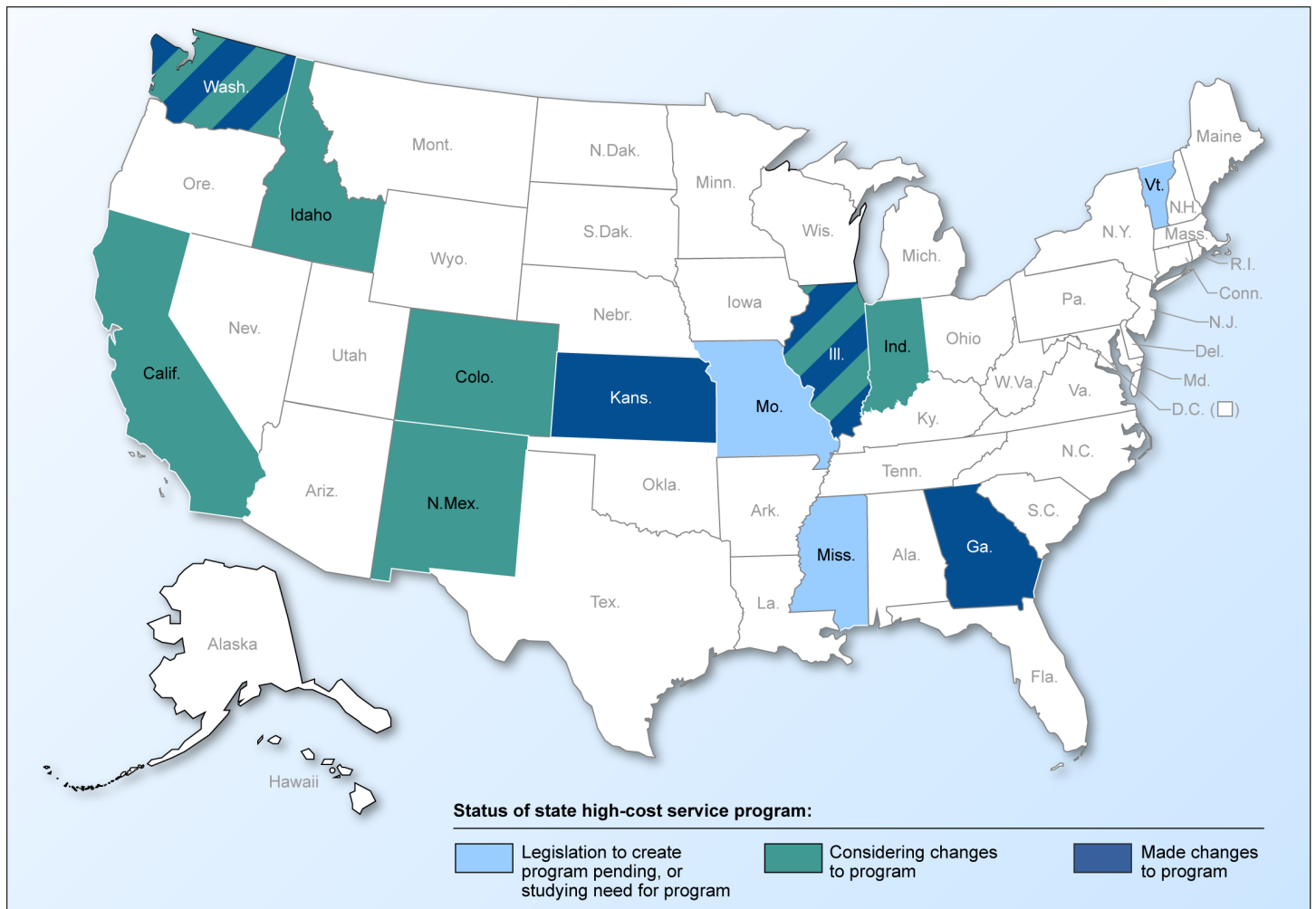
## Few States Reported Making Changes to Their State High-Cost Service Programs Thus Far as a Result of FCC's 2011 USF Reforms

Our survey of state utility commissions in all 50 states and the District of Columbia showed that few states reported making changes thus far to their state high-cost service programs as a result of the reforms FCC adopted in the USF Transformation Order.<sup>45</sup> Of the 24 states that reported having a state high-cost service program, only 4 reported making changes to that program either wholly or in part because of FCC's reforms. Only one state that reported not having a state high-cost service program—Mississippi—said that it had pending legislation to create one either wholly or in part because of FCC's reforms. In April 2014, this legislation failed to pass and, as of May 2014, it is unclear if the legislation will be reintroduced. Seven states with a program reported that they are still considering making changes wholly or in part as a result of the reforms, and 2 states that reported not having a program—Missouri and Vermont—reported that they are studying the need for one. (See fig. 4.)

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<sup>45</sup>States and the District of Columbia submitted responses to our survey from January through February 2014, thus their responses to our survey reflect information up to that time unless otherwise specified.

**Figure 4: States That Changed Their High-Cost Service Programs Wholly or in Part Because of FCC's Universal Service Fund's Transformation Order Reforms, as of February 2014**



Sources: GAO survey results and Map Resources. | GAO-14-587

Note: States and the District of Columbia submitted responses to our survey from January through February 2014, thus their responses to our survey reflect information up to that time.

Specifically, four states made the following changes to their state programs either wholly or in part because of FCC's reforms:

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- Georgia reported that it made changes related to the intercarrier compensation portion of FCC's USF Transformation Order reforms.<sup>46</sup>
  - Illinois reported that it took expected changes to federal high-cost funding levels into account when setting the state's funding levels, among other things. This action was done carrier by carrier; thus, funds increased or decreased for each carrier based upon how much funding the carrier received from the federal high-cost program.
  - Kansas passed legislation prohibiting rate-of-return carriers from using state funding to offset any loss in federal universal service funding. The legislation also sets a \$30 million cap on the state's funding to these carriers and phases out competitive ETC support over 4 years. This law became effective July 1, 2013.
  - Washington reported that it is transitioning to a new fund that will increase support from about \$1 million in 2012, up to \$5 million per year for 2014 through 2018. Washington also reported that its new fund is intended to provide direct support to small incumbent carriers in the state to help them adjust to changes resulting from FCC's reforms.

The seven states considering making changes reported prospective changes ranging from reconsidering the amount of funds that their state's program should provide, to transitioning to a fund that supports advanced services. Examples include:

- California reported that it initiated a rulemaking to consider a number of items related to the state's high-cost service program. As part of the rulemaking, California is reviewing (1) the amount of program funds it should provide in the future, (2) alternative program models to consider, and (3) opening the rate-of-return carriers' service territories to competition, among other things.
- In May 2014, Colorado passed legislation that creates a new fund to support broadband deployment in unserved areas, in addition to the state's current high-cost fund. The Colorado Public Utilities

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<sup>46</sup>As previously noted, this report does not address FCC's reform efforts related to intercarrier compensation.

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Commission will be reviewing its program rules to consider a number of items.

- Illinois is discussing with interested parties whether and how a long-term replacement to its current interim program should account for FCC's reforms.
- Indiana considered whether to change its state program shortly after FCC released the USF Transformation Order but decided that it needed a better understanding of the long-term effects of FCC's reforms on Indiana's rural carriers. Thus far, it has not eliminated the possibility of changing the program.
- New Mexico is considering a number of changes to its state program. As previously described, carriers often pay their contributions to the federal and state high-cost programs by charging their customers. Among other things, New Mexico is considering establishing a cap on the surcharge carriers can charge customers and establishing flexible broadband build-out awards that could include mobile broadband providers.

Although states cited a wide variety of effects the reforms have had on their states, the most frequent responses were that there have been no effects yet, that it is too early to tell, or that the implications are still unknown. Twenty-one states and the District of Columbia reported this response. For instance, Iowa reported that the implications of the reforms are still being unveiled as FCC continues implementing them, and Oregon reported that it is too early to ascertain actual effects, in part due to the legal challenges to FCC's reforms.<sup>47</sup> The other most frequently reported effects were mixed, as follows:

- Nine states said that the reforms have either reduced carrier support in their states or that carriers are concerned about possible support reductions.<sup>48</sup> For instance, Mississippi reported that carriers that invested in facilities with the expectation that they would receive

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<sup>47</sup>As noted earlier, the legal challenges to FCC's authority under the USF Transformation Order were resolved in favor of FCC in a court decision by the 10<sup>th</sup> Circuit of the U.S. Court of Appeals in May 2014.

<sup>48</sup>Reduced support as a result of the reforms could be due to a variety of reasons, including, as previously described, the elimination of identical support.



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funding from the federal high-cost program are negatively affected by having that funding reduced.

- Seven states reported that carriers have increased or may increase the rates they charge customers for their service, with most of these states citing FCC's establishment of a local rate floor that carriers that are receiving high-cost support must meet.<sup>49</sup> For instance, Arizona reported that six companies that received federal high-cost funds have increased their rates in each of the last 2 years to meet the local rate's floor.
- Six states expressed concern about the effects of the reforms on carriers' investment in their state, with another four expressing concern over the effects the reforms will have on carriers' ability to provide service to their customers. For instance, Montana reported that loss of federal high-cost funding has caused wireless carriers to stop their deployment of cellular service in remote areas of Montana, and Pennsylvania reported that it is concerned that loss of federal funding may undermine small carriers' ability to provide service.
- Six states said that the reforms will or could result in additional broadband deployment, with most of these citing CAF.
- Four states reported that the reforms could or already have increased the demand for funds from their state program. For instance, Nevada reported that FCC's reforms have increased the number of requests for funding from its state program, and Oklahoma reported that FCC's reforms have put more pressure on its state program because Oklahoma's statutes permit any reduction in federal high-cost funding to be replaced by Oklahoma's state program.

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## Conclusions

In 2011, FCC undertook the difficult task of reforming the high-cost program to support broadband service and has made progress implementing some of these reforms. As FCC continues to implement its reforms, it is important that it be able to empirically evaluate the high-cost program, demonstrate its effectiveness, and assess potential shortcomings, rather than, as we concluded in our 2012 report, assume that the program's subsidies going to carriers are positively affecting

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<sup>49</sup>FCC established local rate floors to ensure that universal service funding is not subsidizing artificially low local rates in rural areas.

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subscribership without collecting data to support that assumption. It is also important, as FCC stated in its USF Transformation Order, that funding recipients be held accountable for their use of billions of dollars of the public's money. However, FCC has a limited ability to evaluate the program, demonstrate its effectiveness, or hold funding recipients accountable. In particular, FCC does not demonstrate how carriers use the funds they receive or the results of that funding because FCC traditionally has not collected such data. FCC's current voice and broadband availability performance measures also do not demonstrate results because these measures do not link the outcomes that are being measured to the high-cost program itself. Furthermore, FCC has not traditionally presented USF data and information in a manner that is easy and accessible for interested parties to use or at a geographic level that would allow them to draw conclusions about areas subsidized by the program. Although FCC officials said that FCC is committed to providing USF information in the most user-friendly format possible and is considering ways to improve reporting, it nevertheless remains difficult for interested parties to use the information in meaningful ways, such as by

- making connections between the different sources of data,
- drawing conclusions about the program,
- using the data and information to inform policy decision making, and
- determining what was gained from the money paid to USF.

By improving the transparency and accountability of USF high-cost spending, FCC could better understand the effects of the reforms, determine the reforms that were most successful in efficiently enhancing broadband availability, service quality, and capacity, identify areas for improvement, and ensure the data it collects will inform current and future reforms.

In July 2012, we recommended that FCC establish a specific data-analysis plan for the carrier data the FCC planned to collect related to the high-cost program and make the information publicly available.<sup>50</sup> FCC has not yet developed such a data-analysis plan; we continue to believe that this recommendation has merit and should be fully implemented to help FCC determine the overall effectiveness of the Connect America Fund, as well as improve the oversight and transparency of the high-cost program.

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<sup>50</sup> [GAO-12-738](#).

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## Recommendation for Executive Action

To improve accountability and transparency of the high-cost program, the Chairman of FCC should demonstrate how high-cost funds were used to improve broadband availability, service quality, and capacity at the smallest geographic area possible, such as by conducting analyses of carrier data and publicly reporting this information, at least annually, in a manner that is easy and accessible for interested parties to use.

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## Agency Comments

We provided a draft of this report to FCC for its review and comment. FCC provided written comments (reprinted in app. IV) and technical comments, which we incorporated as appropriate. In its written comments, FCC stated that it agreed with our recommendation and noted that it will actively seek to improve the transparency and accessibility of the data it collects and explore mechanisms to present the data in user-friendly formats. For example, to address our recommendation, FCC intends to make key statistics available in an aggregated form for the general public and report additional data on FCC's website so that the information is more accessible. Further, FCC stated it intends to analyze, aggregate, and report carrier-submitted data on a granular level to permit FCC and the public to determine whether carriers are providing broadband in a manner that comports with CAF's goals and obligations.

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We are sending copies of this report to the FCC Chairman and appropriate congressional committees. In addition, the report is available at no charge on our website at <http://www.gao.gov>.

If you or your staff have any questions concerning this report, please contact me at (202) 512-2834 or [goldsteinm@gao.gov](mailto:goldsteinm@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix V.



Mark L. Goldstein  
Director, Physical Infrastructure Issues

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*List of Requesters*

The Honorable Rob Bishop  
House of Representatives

The Honorable Bruce Braley  
House of Representatives

The Honorable Larry Bucshon  
House of Representatives

The Honorable Bill Cassidy  
House of Representatives

The Honorable Howard Coble  
House of Representatives

The Honorable Mike Coffman  
House of Representatives

The Honorable Tom Cole  
House of Representatives

The Honorable K. Michael Conaway  
House of Representatives

The Honorable Tom Cotton  
House of Representatives

The Honorable Kevin Cramer  
House of Representatives

The Honorable Rick Crawford  
House of Representatives

The Honorable Peter DeFazio  
House of Representatives

The Honorable Scott DesJarlais, M.D.  
House of Representatives

The Honorable Sean Duffy  
House of Representatives

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The Honorable Jeff Duncan  
House of Representatives

The Honorable Blake Farenthold  
House of Representatives

The Honorable John Fleming, M.D.  
House of Representatives

The Honorable Cory Gardner  
House of Representatives

The Honorable Chris Gibson  
House of Representatives

The Honorable Sam Graves  
House of Representatives

The Honorable Tim Griffin  
House of Representatives

The Honorable Morgan Griffith  
House of Representatives

The Honorable Brett Guthrie  
House of Representatives

The Honorable Vicky Hartzler  
House of Representatives

The Honorable Richard Hanna  
House of Representatives

The Honorable Doc Hastings  
House of Representatives

The Honorable Jaime Herrera Beutler  
House of Representatives

The Honorable Ron Kind  
House of Representatives

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The Honorable Steve King  
House of Representatives

The Honorable Doug Lamborn  
House of Representatives

The Honorable Dave Loebsack  
House of Representatives

The Honorable Billy Long  
House of Representatives

The Honorable Frank D. Lucas  
House of Representatives

The Honorable Blaine Luetkemeyer  
House of Representatives

The Honorable Cynthia Lummis  
House of Representatives

The Honorable Luke Messer  
House of Representatives

The Honorable Markwayne Mullin  
House of Representatives

The Honorable Randy Neugebauer  
House of Representatives

The Honorable Kristi Noem  
House of Representatives

The Honorable Rick Nolan  
House of Representatives

The Honorable Bill Owens  
House of Representatives

The Honorable Steve Pearce  
House of Representatives

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The Honorable Ed Perlmutter  
House of Representatives

The Honorable Collin C. Peterson  
House of Representatives

The Honorable Tom Petri  
House of Representatives

The Honorable Jared Polis  
House of Representatives

The Honorable Reid Ribble  
House of Representatives

The Honorable Tom Rice  
House of Representatives

The Honorable Harold Rogers  
House of Representatives

The Honorable Kurt Schrader  
House of Representatives

The Honorable Adrian Smith  
House of Representatives

The Honorable Lamar Smith  
House of Representatives

The Honorable Steve Stockman  
House of Representatives

The Honorable Lee Terry  
House of Representatives

The Honorable Mac Thornberry  
House of Representatives

The Honorable Scott Tipton  
House of Representatives

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The Honorable David G. Valadao  
House of Representatives

The Honorable Tim Walberg  
House of Representatives

The Honorable Tim Walz  
House of Representatives

The Honorable Melvin L. Watt  
House of Representatives

The Honorable Peter Welch  
House of Representatives

The Honorable Ed Whitfield  
House of Representatives

The Honorable Steve Womack  
House of Representatives

The Honorable Don Young  
House of Representatives



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# Appendix I: Objectives, Scope, and Methodology

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This report examines (1) the extent to which FCC implemented the funding reforms adopted in the USF Transformation Order, and stakeholders' views on FCC's efforts, (2) the extent to which FCC is collecting data to determine the effectiveness of these reforms and how FCC intends to ensure that the data collected will inform current and future reforms, and (3) what changes, if any, states have made to their state universal service funds since FCC adopted the reforms in 2011. In the USF Transformation Order, FCC focused on repurposing the USF high-cost program to support broadband; thus, we focused on the high-cost program funding reforms in the USF Transformation Order. Although FCC also made changes to intercarrier compensation in the USF Transformation Order, we did not review FCC's reform efforts related to intercarrier compensation. Intercarrier compensation refers to the charges that one carrier pays to another carrier to originate, transport, and/or terminate telecommunications traffic. The intercarrier compensation regimes are governed by a different system of federal and state rules than those of universal services; therefore, we decided not to review intercarrier compensation. Specifically, we focused on four industry-wide reforms and four carrier-specific reforms, which we selected because those were the funding reforms we identified and reported on during our prior review of the high-cost program in 2012.<sup>1</sup>

To review the extent to which FCC implemented the funding reforms adopted in its USF Transformation Order, we reviewed FCC documentation and interviewed FCC officials. Specifically, we reviewed the USF Transformation Order to determine the implementation timelines and deadlines FCC established. To ascertain steps FCC has taken to implement the reforms, whether it clarified or modified its timelines, and factors affecting implementation, we reviewed relevant orders, further notices of proposed rulemakings, and public notices that FCC issued after releasing the USF Transformation Order. We also reviewed other FCC documents, such as presentations to stakeholders, press releases, statements from FCC Commissioners, and other related items provided

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<sup>1</sup>[GAO-12-738](#). As this report shows, the reforms we focused on were (1) eliminating identical support, (2) eliminating 100 percent overlap, (3) establishing a \$250 monthly per line support cap, (4) establishing public interest obligations, (5) Connect America Fund Phases I and II, (6) Mobility Fund Phases I and II, (7) limits on capital and operating expenses for rate-of-return carriers, and (8) the Remote Areas Fund.

by FCC officials and on FCC's website.<sup>2</sup> We interviewed FCC officials from the Wireline Competition Bureau, Wireless Telecommunications Bureau, and Office of General Counsel to further understand and clarify FCC's actions and the factors affecting implementation. We compared FCC's actions to the timelines and deadlines it established. To obtain stakeholder views on FCC's efforts, we interviewed associations that represent different types of telecommunications carriers (such as large and small carriers, incumbent and competitive carriers, and wireless carriers), cable providers, state utility commissions, and consumers. We also reviewed documentation that these associations provided to us, such as comments they filed with FCC, studies and reports that they or others conducted, and presentations. We identified these associations based on our prior reports as well as filings with FCC regarding the USF Transformation Order. Table 1 contains a list of the industry stakeholders we contacted.

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<sup>2</sup>For example, see <http://www.fcc.gov/encyclopedia/price-cap-resources>, <http://www.fcc.gov/encyclopedia/rate-return-resources>, and [http://wireless.fcc.gov/auctions/default.htm?job=auction\\_summary&id=901](http://wireless.fcc.gov/auctions/default.htm?job=auction_summary&id=901) (accessed Apr. 16, 2014).

**Table 1: Industry Stakeholders Contacted**

Industry group name	Representation
Competitive Carriers Association (CCA)	Represents competitive wireless carriers and stakeholders.
Competitive Communications Association (Comptel)	Represents competitive communications service providers and their supplier partners.
CTIA – The Wireless Association	Represents wireless carriers and their suppliers, as well as providers and manufacturers of wireless data services and products.
National Association of Regulatory Utility Commissioners (NARUC)	Represents state public service commissions that regulate utility services.
National Association of State Utility Consumer Advocates (NASUCA)	Represents the interests of utility consumers.
National Cable and Telecommunications Association (NCTA)	Represents cable operators, including cable companies that provide broadband and digital telephone service
New America Foundation	Represents the public interest on a variety of issues, including technology and communications networks.
NTCA – The Rural Broadband Association	Represents independent, community-based telecommunications companies that serve rural areas and small towns.
United States Telecom Association (USTelecom)	Represents telecommunications service providers and suppliers, with members ranging from large publically traded communications corporations to small companies and cooperatives.

Source: GAO and industry information. | [GAO-14-587](#)

To evaluate the extent to which FCC is collecting data to determine the effectiveness of its high-cost program reforms and how FCC intends to ensure that the data collected will inform current and future reforms, we reviewed documentation and conducted interviews. Specifically, we reviewed FCC documentation and online materials to evaluate FCC's data collection, analysis, usage, reporting, and presentation, and to learn about changes to these elements. For example, we reviewed:

- key forms that FCC uses to collect data from carriers, such as Form 477 (Local Telephone Competition and Broadband Reporting), Form 481 (Carrier Annual Reporting Data Collection Form), Form 499-A (Annual Telecommunications Reporting Worksheet), and Form 690 (Mobility Fund Phase I Annual Report);
- reports related to broadband and USF, such as the Internet access service reports,<sup>3</sup> broadband progress reports,<sup>4</sup> *National Broadband*

<sup>3</sup>For most recent report, see, FCC, *Internet Access Services: Status as of December 31, 2012* (Washington, D.C.: December 2013).

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*Plan*,<sup>5</sup> FCC's March 2014 report on the impact of their reforms on incumbent carriers,<sup>6</sup> and its USF monitoring reports;

- the USF Transformation Order—including the performance goals and measures FCC established for the high-cost program in this order—and other relevant orders, further notices of proposed rulemakings, and public notices that FCC issued after releasing the USF Transformation Order; and
- FCC's website overall, and specific material on FCC's website related to the reforms, such as the online maps displaying information on the first phases of the Connect America Fund and the Mobility Fund, and on FCC's efforts to collect data on carriers' service area boundaries.

We also interviewed FCC officials, as described above, to learn more about their efforts and reviewed other data they provided us during these interviews. We also reviewed material from the Universal Service Administrative Company (USAC), which is the non-profit corporation that administers FCC's USF programs, and interviewed USAC officials. For example, we reviewed sample audits of high-cost funding recipients and USAC's website, including its online high-cost funding Disbursement Tool. We also interviewed officials from the National Exchange Carrier Association—a non-profit association established by FCC to perform telephone industry tariff filings and revenue distributions—to learn about its role in FCC's efforts. We compared FCC's efforts with reports and guidance we published<sup>7</sup> related to program transparency and accountability and public data presentation—in particular, our findings related to federal data transparency lessons learned and the implementation of electronic government provisions—as well as relevant material from the Office of Management and Budget (OMB), such as its 2005 assessment of the high-cost program<sup>8</sup> and 2012 digital government

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<sup>4</sup>For most recent report, see, FCC, *Eighth Broadband Progress Report*, FCC 12-90 (Washington, D.C.: Aug. 21, 2012).

<sup>5</sup>FCC, *Connecting America: The National Broadband Plan* (Washington, D.C.: Mar. 16, 2010).

<sup>6</sup>FCC, *Universal Service Implementation Progress Report WC Docket No. 10-90* (Washington, D.C.: Mar. 18, 2014).

<sup>7</sup>For example, see [GAO-13-758](#), [GAO-12-782](#), and [GAO-14-64](#).

<sup>8</sup>OMB, *Program Assessment – Universal Service Fund High Cost* <http://www.whitehouse.gov/sites/default/files/omb/assets/OMB/expectmore/detail/10004451.2005.html> (accessed Apr. 16, 2014).

strategy.<sup>9</sup> We also reviewed our prior reports related to the high-cost program<sup>10</sup> and reports from the Congressional Research Service.<sup>11</sup> To learn about their views on FCC's efforts, we interviewed the industry stakeholders identified in table 1 above.

To review what changes, if any, states have made to their state universal service funds since FCC adopted its high-cost program reforms in 2011, we surveyed all 50 states and the District of Columbia and analyzed the responses. The survey included questions about changes states made to their state high-cost programs wholly or in part because of FCC's reforms, changes states are considering making, and how FCC's reforms have affected states, among other things. See appendix II for a copy of the survey. To ensure that our survey questions and skip pattern were clear and logical, that states could answer the questions without undue burden, and to obtain suggestions, we pretested our survey with five states: Arkansas, Maine, Maryland, Tennessee, and Texas. We selected the pretest states to provide for variation in program characteristics and geographic location. We emailed our survey to staff at each of the state utility commissions. We identified contacts to email our survey to with the help of NARUC, which is the non-profit, national association that represents the state regulatory utility commissions, and took steps to verify the contacts NARUC provided. We reviewed the survey responses for completeness and, as necessary, sent follow-up emails and made follow-up telephone calls to clarify responses. We received responses from all 50 states and the District of Columbia, for a 100 percent response rate. We administered the survey from January through February 2014.

We conducted this performance audit from August 2013 to July 2014 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that

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<sup>9</sup>OMB, *Digital Government: Building a 21st Century Platform to Better Serve the American People* (Washington, D.C.: May 23, 2012).

<sup>10</sup>[GAO-12-738](#); GAO, *Telecommunications: FCC Needs to Improve Performance Management and Strengthen Oversight of the High-Cost Program*, [GAO-08-633](#) (Washington, D.C.: June 13, 2008); and GAO, *Telecommunications: Federal and State Universal Service Programs and Challenges to Funding*, [GAO-02-187](#) (Feb. 4, 2002).

<sup>11</sup>For example, see Congressional Research Service, *Broadband Internet Access and the Digital Divide: Federal Assistance Programs*, RL30719 (Washington, D.C.: July 17, 2013).

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the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

# Appendix II: Copy of Survey to State Utility Commissions



United States Government Accountability Office

## Universal Service Fund's High-Cost Program

### Introduction

The U.S. Government Accountability Office (GAO) is an agency that gathers and analyzes information for Congress. Over 60 members of Congress requested we explore issues related to the modernization of the Universal Service Fund's (USF) high-cost program. In October 2011, under the USF Transformation Order (FCC 11-161), the Federal Communications Commission (FCC) adopted new rules to fundamentally reform the high-cost program, requiring carriers to support networks capable of providing both broadband and voice service, and adopting new rules to be used to determine the amount of subsidy any carrier would receive. For the first time, FCC placed caps on the size of the fund and set limits on the amount of funds available for certain types of carrier expenses, among other things. These reforms resulted in some carriers receiving less funding than in previous years.

In addition to the federal USF high-cost program, some states have also set up a program that targets carriers serving rural or high-cost areas in their states. In this survey, we refer to this as a "state high-cost service program," though states may have different names for their programs.

As part of our review, we are collecting information from states. This survey is being distributed to all 50 state commissions and the District of Columbia. We plan to issue a report on this matter later this year.

### Completing and Returning the Questionnaire

Please complete this short survey within 2 weeks of receipt. We understand that there are great demands on your time. However, your participation in our study is essential for us to provide the requested information to Congress. We appreciate your time and effort in completing this survey.

This questionnaire can be completed by filling it out onscreen using MS Word, and returned via e-mail to [PadillaN@gao.gov](mailto:PadillaN@gao.gov) and [ZearfossN@gao.gov](mailto:ZearfossN@gao.gov).

### Instructions for Completing the Questionnaire Onscreen

- Please use your mouse to navigate, clicking on the field or check box ☐ you wish to answer.
- To select a check box or a button, click on the center of the box.
- To change or deselect a check box response, click on the check box and the 'X' will disappear.
- To answer a question that asks you to write a comment, click on the answer box and begin typing. The box will expand as you type.

## START HERE

1a. Does your state have a state high-cost service program that is independent or supplemental to the federal USF high-cost program?

Yes ..... ☐

No..... ☐ →Skip to Question 4a

1b. If yes, how much does your state high-cost service program collect annually? Please identify the period upon which the amount is based (e.g. January 2012-December 2013, October 2012-September 2013, etc.). Please describe in the box below.

1c. If yes, was your state's high-cost service program created, either wholly or in part, as a result of the USF reforms adopted in FCC 11-161?

Yes ..... ☐

No..... ☐

2a. Did your state make changes to its high-cost service program either wholly or in part because of the USF reforms adopted in FCC 11-161?

Yes ..... ☐

No..... ☐ →Skip to Question 3a

2b. If yes, please describe the changes and the reason for the changes in the box below.



3a. Is your state considering making changes to its high-cost service program either wholly or in part because of the USF reforms adopted in FCC 11-161?

Yes ..... ☐

No ..... ☐ →Skip to Question 5a

3b. If yes, please describe the changes your state is considering and the reasons for the changes in the box below. *(After you answer, please skip to Question 5a)*

4a. If you answered “no” to question 1a, does your state have pending legislation to create a high-cost service program either wholly or in part as a result of the USF reforms adopted in FCC 11-161?

Yes ..... ☐

No ..... ☐ →Skip to Question 5a

4b. If yes, in the box below, please explain the reason why your state is considering creating a high-cost service program, including why it is needed.

5a. With regard to the federal USF high-cost program, carriers receiving money from the fund have to submit cost data to the FCC and certify that they have spent the money they received in the previous year in the prescribed manner. In the box below, please describe how your state commission currently verifies the data carriers provide to FCC.

5b. Is your state planning to make any changes to the way in which it currently verifies the data carriers provide to FCC as a result of the USF reforms adopted in FCC 11-161?

Yes ..... ☐

No ..... ☐ →Skip to Question 6

5c. If yes, please describe in the box below.

6. Overall, how, if at all, have the USF reforms adopted in FCC 11-161 affected your state (such as challenges, benefits, possible impacts/effects on carriers and/or consumers, etc.). Please describe in the box below.

7. If you have additional comments on the USF reforms adopted in FCC 11-161, please provide them in the box below. These comments will not be reported by state but will be aggregated by expressed areas of concern.

8. Please provide your name and contact information in the box below in case we have any follow-up questions.

Your Name	Click here to enter text.
Title	Click here to enter text.
Phone	Click here to enter text.
Email	Click here to enter text.

THANK YOU VERY MUCH FOR YOUR ASSISTANCE!

# Appendix III: Additional Information on USF and the High-Cost Program

USF is comprised of four different programs designed to ensure access to affordable communications for schools, libraries, health care providers, and rural and low-income consumers. One of these programs—the high-cost program, which is the focus of this report—provides subsidies to telecommunications carriers that provide telecommunications services in rural, insular, and other remote areas where the costs of providing service is high. Table 2 describes the four universal service programs and table 3 shows the performance goals and measures for the high-cost program in particular.

Table 2: USF Programs

Program	Description
High-cost	Assists customers living in high-cost, rural, or insular areas through financial support to telephone carriers, thereby lowering rates for local and long-distance service.
Schools and libraries (federal E-Rate program)	Assists eligible schools and libraries through discounted telecommunications and information services. Discounts available for local and long-distance telephone service, Internet access, and internal connection projects.
Low income	Assists qualifying low-income customers through discounted installation and monthly telephone services and free toll limitation service.
Rural health care	Assists health care providers located in rural areas through discounts for telecommunications and Internet access services. Discounts are provided to make rates for facilities in rural areas reasonably comparable to those in nearby urban areas.

Source: GAO based on FCC information. | GAO-14-587

Table 3: FCC’s High-Cost Program Performance Goals and Measures

Goals	Measures
Preserve and advance universal availability of voice service.	FCC will use the telephone penetration rate, which measures subscription to telephone service.
Ensure universal availability of voice and broadband to homes, businesses, and community anchor institutions.	FCC will collect the number of residential, business, and community anchor institution locations that newly gain access to broadband services. As an efficiency measure, FCC will use the change in the number of homes, businesses, and community anchor institutions passed or covered per million USF dollars spent.
Minimize the universal service contribution burden on consumers and businesses.	FCC will divide the amount of the total inflation-adjusted expenditures of the high-cost program and Connect America Fund each year by the number of American households and measure it as a monthly dollar figure.
Ensure universal availability of mobile voice and broadband where Americans live, work, and travel.	FCC has not yet developed measures for this goal.
Ensure reasonably comparable rates for voice and broadband services in all regions of the nation.	FCC has not yet developed measures for this goal.

Source: GAO based on FCC information. | GAO-14-587

# Appendix IV: Comments from the Federal Communications Commission



Federal Communications Commission  
Washington, D.C. 20554

July 9, 2014

Mr. Mark L. Goldstein  
Director, Physical Infrastructure Issues  
Government Accountability Office  
441 G St, NW  
Washington, DC 20548

Dear Mr. Goldstein:

Thank you for the opportunity to review the draft Government Accountability Office (GAO) Report regarding the Commission's reform efforts for the federal universal service (USF) high-cost program. The high-cost program is designed to promote the goals of section 254 of the Communications Act of 1934, as amended (the Act), that consumers in rural and other high-cost areas of the country have access to services that are reasonably comparable to those in urban areas, at reasonably comparable rates.<sup>1</sup> In the *USF/ICC Transformation Order*, the Commission comprehensively reformed and modernized the high-cost program to ensure that infrastructure capable of delivering voice and broadband service, both fixed and mobile, is available to consumers throughout the nation.<sup>2</sup> The Commission is dedicated to achieving the universal service goals of section 254 of the Act, and welcomes suggestions on making further improvements to the high-cost program.

GAO's draft report provides an assessment of (1) the Commission's implementation of reforms adopted in the *USF/ICC Transformation Order* and stakeholders' views on the Commission's reform efforts; (2) the Commission's data collection measures to determine the effectiveness of these reforms; and (3) the changes, if any, states have made to their universal service funds in response to the Commission's reforms.<sup>3</sup> The draft report recommends that the Commission improve the accountability and transparency of high-cost funding in the wake of the *USF/ICC Transformation Order* by demonstrating how high-cost funds are being used to improve broadband availability, service quality, and capacity, such as by conducting analyses of carrier data and reporting the information annually in an accessible manner.<sup>4</sup> We agree, and already are working on initiatives in this area as described below.

The Commission is committed to improving the data we collect from eligible telecommunications carriers (ETCs) receiving high-cost support to ensure that this support is advancing our goal of preserving and extending service in high-cost areas, to better understand the effects of recent reforms, and to inform potential reforms in the future. As noted in the draft report,<sup>5</sup> ETCs are required to file annual reports with

<sup>1</sup> 47 U.S.C. § 254.

<sup>2</sup> *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663 (2011), *aff'd sub nom. In re* FCC 11-161, \_\_ F.3d \_\_, 2014 WL 2142106 (10th Cir. May 23, 2014) (*USF/ICC Transformation Order*).

<sup>3</sup> GAO Draft Report at 12-26. Our comments are limited to GAO's assessment of the Commission's implementation of high-cost reforms adopted in the *USF/ICC Transformation Order* and the Commission's data collection measures to determine the effectiveness of these reforms.

<sup>4</sup> *Id.* at 27.

<sup>5</sup> *Id.* at 18.

the Universal Service Administrative Company (USAC).<sup>6</sup> Such reports provide the Commission and states, U.S. Territories, and Tribal governments with a factual basis to determine whether high-cost recipients are using high-cost support to deploy voice and broadband-capable networks. These annual reports were first filed in 2013. Additional information was reported for the first time this year. For example, on July 1, 2014, rate-of-return carriers were required to file five-year plans that show how they plan to use the funding they receive to provide voice services and extend broadband service in their study areas,<sup>7</sup> and they will be required in future years to file progress reports for these plans. Initial disbursements of Mobility Fund Phase I support were paid during 2013, and in 2014, recipients of such support will file their first annual reports providing coverage data to show how support was used.<sup>8</sup>

Under Commission direction, USAC has produced a preliminary data analysis plan, and we will be working to refine that plan in the months ahead and analyze the data that has been submitted in the annual reports. This is a core component of our ongoing efforts to hold ETCs accountable for their use of high-cost support.

The Commission also is actively seeking ways to improve the transparency and accessibility of the data we collect. For example, we intend to make key statistics derived from information contained in the annual reports available in an aggregated form for the general public. We are working to report more data on the Commission's website so that it is more accessible, and we will continue to develop maps that we will post on the Commission's website that will visually demonstrate to the general public where high-cost support is targeted.<sup>9</sup> Moreover, we are evaluating the content and form of our annual universal service monitoring report, which historically has been the primary vehicle for providing universal service-related data to the public.<sup>10</sup> For example, we intend to incorporate into the annual monitoring report some of the new tables that we developed for our March 2014 Universal Service Implementation Progress Report.<sup>11</sup> Throughout this process, we are committed to exploring ways to present data in user-friendly ways, as GAO recommends.

<sup>6</sup> 47 C.F.R. § 54.313. USAC is the administrator of the federal universal service programs. 47 C.F.R. § 54.701. These reports are filed using FCC Form 481.

<sup>7</sup> 47 C.F.R. § 54.313(a)(1). Price cap carriers will be required to file these reports the July after they begin receiving Phase II Connect America model-determined support, which we anticipate will occur in 2015.

<sup>8</sup> 47 C.F.R. § 54.1009. Although the rule requires Mobility Fund Phase I annual reports to be submitted by July 1, for this year the filing deadline was moved to July 31, 2014, to allow carriers additional time to prepare and submit their coverage data in the specified format. See *Guidance on Annual Reports and Other Reporting Requirements for Recipients of Support Under Phase I of the Mobility Fund (Including Tribal Mobility Fund)*, WT Docket No. 10-208, Public Notice, DA 14-843 (Wireless Tel. Bur. rel. June 19, 2014).

<sup>9</sup> See Connect America Phase II-Initial Eligible Areas Map, <http://www.fcc.gov/maps/fcc-connect-america-fund-phase-ii-initial-eligible-areas-map> (last visited July 8, 2014) (identifying the areas that have been initially determined to be eligible for ongoing Phase II Connect America support). Once we finalize the areas that are eligible for ongoing Phase II support, we will release a map of those eligible areas.

<sup>10</sup> See Federal Communications Commission, Federal-State Joint Board Monitoring Reports, <http://www.fcc.gov/encyclopedia/federal-state-joint-board-monitoring-reports> (last visited July 2, 2014).

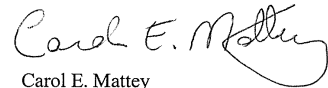
<sup>11</sup> Wireline Competition Bureau, *Universal Service Implementation Progress Report*, WC Docket No. 10-90 (rel. Mar. 18, 2014), <http://www.fcc.gov/document/universal-service-implementation-progress-report>. The Implementation Report was a one-time report that the Commission directed the Bureau to prepare; going forward, we expect to report on the progress of implementation through the annual monitoring report.

Our evaluation and modification of the universal service monitoring report will likely be a multi-year process, as we evaluate and incorporate the data we receive through the annual reports described above, receive user feedback on what information is useful, and begin to report on trends over multiple years.

We also anticipate that other elements of the annual monitoring report will evolve and/or be augmented over time as Connect America implementation continues. For example, price cap carriers that have received Connect America Phase I funding have three years to build out broadband networks with this support; entities that receive Phase II support will have three years to build out to 85 percent of the required locations once they begin receiving support, and five years to complete deployments.<sup>12</sup> Thus, it will be a number of years before Connect America recipients certify that they have met these deployment milestones. Once they meet these milestones, we intend to analyze, aggregate, and report this data on a granular level to permit the Commission and the public to determine whether carriers are providing broadband in a manner that comports with the goals and obligations of Connect America.

Once again, we appreciate GAO's recommendations. We agree that the Commission should continue to examine and work to improve our reporting so that the public can easily monitor whether ETCs are using high-cost support to accomplish the goals of Connect America. We look forward to working with you on this in the future.

Sincerely,



Carol E. Matthey  
Acting Chief, Wireline Competition Bureau  
Federal Communications Commission

<sup>12</sup> 47 C.F.R. §§ 54.313(b)(1)(ii), (e)(1).

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# Appendix V: GAO Contact and Staff Acknowledgments

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## GAO Contact

Mark Goldstein, (202) 512-2834 or [goldsteinm@gao.gov](mailto:goldsteinm@gao.gov)

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## Staff Acknowledgments

In addition to the individuals named above, Sally Moino, Assistant Director; Pedro Almoguera; David Hooper; Josh Ormond; Nalylee Padilla; Amy Rosewarne; Kelly Rubin; and Nancy Zearfoss made key contributions to this report.

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