



SMALL COMPANY COALITION

WE BUILT IT, WE MAINTAIN IT, WE VALUE IT!

October 26, 2018

VIA ECFS

The Honorable Ajit Pai
Chairman
Federal Communications Commission
445 12th St., SW
Washington, DC 20554

RE: Connect America Fund, WC Docket No. 10-90; ETC Annual Reports and Certifications, WC Docket No. 14-58; Establishing Just and Reasonable Rates for Local Exchange Carriers, WC Docket No. 07-135; Developing a Unified Intercarrier Compensation Regime, CC Docket No. 01-92

Dear Chairman Pai:

The Small Company Coalition (SCC) writes the Federal Communications Commission (FCC) in regard to the above-captioned proceeding to both: 1) amplify recent statements from Members of the U.S. Congress and telecommunications industry groups regarding the sufficiency and stability of Universal Service Fund (USF) High Cost Program (HCP) support; and 2) note that recent FCC policy/funding initiatives, as well as the FCC's own financial reporting, suggest that the resources necessary to meet these objectives are already being contributed and retained/managed by the FCC in the form of a USF "reserve". Consequently, the SCC believes that the simplest pathway to adequate HCP funding is to lift the arbitrary \$2 billion HCP cap, and to dedicate existing USF contributions to the HCP in amounts sufficient to meet expressed demand.

While the communications technologies available today would have been practically unimaginable when the USF was first created, the underlying policy challenge remains strikingly unchanged. Then, as in now, the economics of serving the vast American "interior" – the distances to be covered, difficult and variable terrain, and low population density of much of the territorial United States -- discourage private-sector investment in communications infrastructure outside of significant population centers. To provide but one illustration, SCC member company Peñasco Valley Telephone Cooperative, Inc. (PVT) in Artesia, NM covers a service territory of 4,929 miles, an area larger than the *state* of Connecticut, and half again as large as Rhode Island and Delaware *combined*. Yet the population density of PVT's service territory is only 0.5 persons per square mile. By comparison, the density of America's least densely-populated state, Alaska (spanning some 663,268 sq. mi.), is more than twice this rate. Under these conditions, which are not unique to PVT, laying fiber can cost \$100K to \$150K *per mile*.ⁱ

“The [] failure to ensure sufficient and predictable [USF] funding jeopardizes the vitality of America’s rural communities.”

Senate Commerce Committee Chairman, Senator John Thuneⁱⁱ

For SCC member companies, these conditions underpin America’s “digital divide” – or the imbalance in access to modern telecommunications services, as benchmarked primarily by fast and reliable Internet connectivity. We are greatly encouraged to see growing recognition of the harms this inequality visits upon the communities, cultures and economies of rural and remote America, and are heartened by the public commitments of a wide, bi-partisan range of policymakers – including yourself and other FCC commissioners – to substantively address this problem.

We are similarly encouraged to see that various industry groups are coalescing around a series of policy recommendations to update USF HCP support mechanisms to reflect current realities, and to ensure the USF program accomplishes its policy objectives. In particular, we note the October 1, 2018 combined recommendations submitted by the NTCA, ITTA, USTelecom and the WTA, urging the FCC to increase the \$2 billion HCP cap (thereby obviating the need for the pernicious and flawed budget control mechanism, or “BCM”), update the baseline funding computation, adjust USF support for inflation, and complete reforms of existing program criteria prior to embarking on new support models.ⁱⁱⁱ The SCC has long advocated for such changes, and is pleased to voice our support for these most recent recommendations.^{iv}

In this same vein, throughout our meetings and exchanges in Congress and with the FCC over the last 12 to 16 months, the SCC has observed a palpable shift in attitude regarding the sufficiency of USF HCP support, establishing what we believe to be a new and positive baseline for reform. Despite this progress, however, two objections consistently arise which need to be addressed, resolved, and laid to rest. These objections can generally be characterized as, “sounds like contribution reform, which is a hornet’s nest”, and “agreed that USF support is inadequate, but where do we find the additional money?”

The SCC believes that the resolution of both objections lies within the USF reserve, which has accumulated over a period of years as contributions have routinely exceeded fund expenditures. While a definitive picture of the size of this reserve has been difficult to ascertain, nobody with whom we’ve spoken at the FCC or the Universal Service Administrative Company (USAC) denies its existence – objections are raised only with respect to its size, and the extent to which such funds are subject to existing obligation. And even these disputations are limited to verbal assurances that: a) the reserve is not as large as we think; and b) much of it is actually already legally committed. Further detail on these conditions, however, is seemingly a question for the ages.

Adding to this mystery, the material where one might expect to find such explication – USAC’s own financial reporting – not only fails to provide clarity, but actually sows further confusion. The SCC didn’t summon the \$8+ billion USF reserve estimate from the abyss, we draw it directly from USAC’s 2016 audit report, which shows “Assets Held for the Federal USF” totaling \$8.7 billion.^v This very same report also summarily, and somewhat incongruously, states that USF reserves match corresponding liabilities (whatever such commitments might be) in exactly equal amount. In other words, every single dollar of the USF reserve was/is spoken for.^{vi}

Yet over the course of the last year, the FCC has announced a series of initiatives providing nearly \$2 billion in additional funding to a variety of USF programs, including:

- An October 4, 2017 Order advancing \$77 million in USF support to carriers in Puerto Rico (PR) and the U.S. Virgin Islands (USVI);
- A March 6, 2018 designation of \$954 million for hurricane recovery in PR and USVI;
- A March, 2018 authorization of a one-time payment of \$500 million to small rate-of-return carriers to make up for the 2017 funding cuts resulting from the FCC's BCM.
- A May 29, 2018, Order providing an additional \$256 million to PR and USVI to restore communications networks and provide long-term funding for network expansion;
- A June 6, 2018 Order providing an additional \$171 million per year for the USF Rural Health Care Program, raising the annual cap to \$571 million; and
- An August 2, 2018 Notice of Inquiry (NOI) proposing to set aside \$100 million for a pilot program for rural tele-medicine.

If the USF was wholly committed in 2016 (the financial statements were excluded from the 2017 audit report), where did funding for the above initiatives come from? A sudden, post-2016 windfall in USF contributions? The more likely answer, we suspect, is the USF reserve.

To be clear, the SCC does not oppose any of the above funding decisions. Nor do we believe or allege that our uncertainties regarding the reserve, as described in this letter, are the product of misdirection or bad faith. Rather, we suggest that these conditions: 1) elevate the importance of a unified and complete view of the USF balance sheet (absent from the most recent USAC audit report as indicated previously), providing necessary transparency in contributions, disbursements, and overall management practices; and 2) indicate that the reserve, far from being tapped, actually provides the FCC considerable latitude in supporting programs, policies and objectives of its choosing. The real question, therefore, becomes whether and to what extent the FCC provides this emphasis.

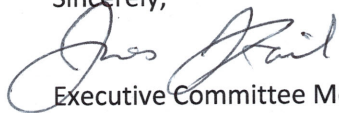
As Chairman, you have spoken eloquently, and we believe sincerely, about the importance of connecting rural American communities and eliminating the digital divide. The current USF contribution rate, now exceeding 20% for the first time in program history, should provide sufficient funding for this purpose. This extant reserve resolves concerns about both the origin of additional funds for fulsome HCP support, as well as thorny issues associated with contribution reform. At a minimum, concerns about the latter could be set aside for further deliberation while the USF HCP is stabilized and updated.

The USF lies at the very heart of the FCC's origin, and for nearly a Century, has served as the primary vehicle for extending modern telecommunications services to rural homes and hamlets across this great Nation. While the technologies deployed have advanced dramatically, and USF goals and objectives have multiplied, the HCP has endured as the FCC's core constituency. This longevity serves as both tribute to the USF's success, and testament to its necessity.

As the on-the-ground entities building and maintaining this connectivity, SCC member companies provide the actual conduit to translate lofty national goals into neighborhood realities. We are small companies undertaking an enormous task, performing the work shunned by the big providers not because we hope to become wealthy, but because these are the communities in which we live. It's an honor and pleasure to serve them, but we cannot continue to do so without sufficient and stable assistance from the program designed for this very purpose. It appears that such resources already exist in USF coffers, and could be devoted to this purpose with minimal disruption or difficulty. The SCC urges the FCC to make the requisite changes as quickly as possible.

Thank you for your time and consideration. We know you share our commitment to the deployment of broadband in all of America, and welcome an opportunity to discuss this situation with you in greater detail. We look forward to hearing from you in the near future.

Sincerely,



Executive Committee Member

ⁱ See PVT *ex parte* notifications, October 5 & 9, 2018.

ⁱⁱ See Senate Commerce Committee hearing: “Broadband: Opportunities and Challenges in Rural America”, Oct. 4, 2018. <https://www.commerce.senate.gov/public/index.cfm/2018/10/broadband-opportunities-and-challenges-in-rural-america>

ⁱⁱⁱ <https://www.ntca.org/sites/default/files/federal-filing/2018-10/Jt%20association%20letter%20FINAL.pdf>

^{iv} See SCC *Ex Parte* Notifications, etc. 5/26/17, 5/30/17, 6/8/17, 8/3/17, 10/4/17, 2/6/18, 5/25/18, *inter alia*.

^v The 2016 USAC audit report shows “Assets Held for the Federal USF” totaling \$8.7 billion, including “Investments” of \$6.2 billion. See Universal Service Administrative Co. 2016 Annual Report, page 28.

<https://www.usac.org/res/documents/about/pdf/annual-reports/usac-annual-report-interactive-2016.pdf>

^{vi} *Id.*