

RURAL COMMUNICATIONS PROVIDERS' REPORT ON FEDERAL UNIVERSAL SERVICE FUNDS PROGRAMS DISTRIBUTIONS AND CONTRIBUTIONS

January 9, 2025

Following the U.S. Supreme Court's November 22, 2024, decision to review the constitutionality of the federal Universal Service Fund (FUSF) contribution mechanism,¹ thirty State Telecommunications Associations (Associations)² conducted a survey of their service provider members, telecommunications and broadband (*i.e.*, high-speed Internet access) providers (Rural Communications Providers), about these providers' and their customers' reliance on FUSF support. The results of the survey demonstrate that Rural Communications Providers and their customers rely on FUSF funds to ensure essential, affordable, and high-quality telecommunications and broadband services are provided in high-cost areas and to low-income customers, schools, libraries, and rural health care institutions. Interviews conducted with many Rural Communications Providers to follow-up on the survey elaborate on the importance of the FUSF programs for the provision of telecommunications and broadband services in high-cost areas and to these groups of customers. These interviews also show that the contribution mechanism established by the Federal Communications Commission (FCC), some 40 years ago, has resulted in stable, predictable, and reasonable fees to fund the FUSF programs.

Survey Participation

The Associations sent the survey to their members in December 2024. 194 Rural Communications Providers—about 28% of the Associations' total membership (194 of 702 unique members)—responded to the survey, describing their experiences and their customers' experiences as direct and indirect beneficiaries of the support mechanisms stemming from FUSF

¹ *FCC, et al. v. Consumers' Research, et al.* (U.S. 24-354) (Nov. 22, 2024) and *SHLB Coalition, et al. v. Consumers' Research, et al.* (U.S. 24-422) (Nov. 22, 2024), https://www.supremecourt.gov/orders/courtorders/112224zr1_7148.pdf

² Alaska Telecom Association, California Communications Association, Colorado Telecommunications Association, Georgia Rural Telephone and Broadband Association, Idaho Telecom Alliance, Illinois Rural Broadband Association, Illinois Broadband and Telecommunications Association, Indiana Broadband and Technology Association, Indiana Rural Broadband Association, Iowa Communications Alliance, Communications Coalition of Kansas, Kentucky Rural Broadband Association, Telecommunications Association of Maine, Broadband Association of Michigan, Minnesota Telecom Alliance, Broadband MT, Nebraska Telecommunications Association, New York Telecommunications Association, Broadband Association of North Dakota, Ohio Telecom Association, Oklahoma Rural Broadband Association, Oregon Telecommunications Association, Pennsylvania Telephone Association, South Dakota Telecommunications Association, Tennessee Broadband Association, Texas Telephone Association, Utah Rural Telecom Association, Washington Independent Telecommunications Association, Wisconsin State Telecommunications Association, Wyoming Telecommunications Association.

programs (Survey Respondents or Respondents).³ Thirty-one interviews of the Survey Respondents were conducted, supplementing the survey responses.⁴

Characteristics of Survey Respondents’ Service Territories and Customers

The Survey Respondents, most of whom have operated for decades, if not longer, serve communities across 26 states.⁵ Nearly 75% have fewer than 10,000 customers (143 of the 194 Respondents), and about 30% have fewer than 2,000 customers (58 of the 194 Respondents). Just under 50% of the Survey Respondents are cooperatives (85 of the 194 Respondents). These Survey Respondents largely serve rural and remote (low population density) areas,⁶ where the cost to pass and connect a customer premises to their networks and provide telecommunications and broadband services is typically many times more expensive than in urban and suburban areas.⁷ Because the areas they serve are economically challenging due to low population

³ The statute permits contributing providers of telecommunications to recover these contributions from their end user telecommunications customers.

⁴ The survey builds upon and buttresses the conclusions in other assessments of the FUSF programs. *E.g.*, NTCA—The Rural Broadband Association, *NTCA Survey Highlights Significant Risks of Skyrocketing Consumer Bills, Plummeting Broadband Investment & Loans in Peril if USF Support were Eliminated* (Sept. 4, 2024), <https://www.ntca.org/ruraliscool/newsroom/press-releases/2024/4/ntca-survey-highlights-significant-risks-skyrocketing>. NTCA, many of whose members also are members of the Associations, conducted a survey in August 2024 about the effects of ending FUSF. The survey found:

“If USF support were eliminated, rural Americans’ broadband rates could skyrocket. . . . Without high-cost USF support, rural broadband rates might reach nearly \$165 per month on average.

“If USF support were eliminated, broadband network investments could drop significantly in the coming years. Sixty-eight percent of respondents said they would need to cancel deployment projects next year equaling over \$1 billion, representing nearly 79% of these companies’ planned broadband investments for 2025 . . .

“If USF support were eliminated, there is substantial potential for default on outstanding network construction loans, including many held by the federal government.”

⁵ Alaska, Arizona, California, Colorado, Georgia, Idaho, Illinois, Indiana, Iowa, Kansas, Kentucky, Maine, Michigan, Mississippi, Montana, Nebraska, New York, North Dakota, Oregon, Pennsylvania, South Dakota, Tennessee, Utah, Washington, Wisconsin, and Wyoming.

⁶ Many interviewed representatives of the Survey Respondents provide service in areas where there are fewer than 10 homes per mile and often fewer than 5 homes per mile. For example, a representative of Farmers Telephone Company Inc. (Farmers Tel.) reports that its service area has roughly one family per square mile, and a representative of Citizens Telephone Corp. reports “Some miles have none. It’s in the three to five [homes per mile] range. Probably the average might be as low as 3.”

⁷ Vantage Point Solutions, *Cost of Bringing Broadband to All*, 7 (Aug. 1, 2022) (“Customer density is often the primary cost driver of providing broadband, but also terrain differences and many other secondary factors can cause construction costs to be

densities and high-cost terrain, the Survey Respondents operate in areas other wireline providers choose not to serve, causing little to no competition, but they are unable to operate without government support because there is not a business case to serve these areas without support.⁸

In addition to serving areas where network deployment and operating costs are high relative to urban and suburban areas, the Survey Respondents' customers tend to have lower incomes than the national average,⁹ and many participate in various government support programs. Further, the schools and libraries served by the Survey Respondents and their health care institution customers tend to have limited financial support and rely on various government support programs to serve pupils, patrons, and patients.¹⁰

dramatically different from one region to another. . . . These factors make construction costs in some regions 10 to 20 times more expensive per location than other regions.”), <https://www.scribd.com/document/800390901/VPS-Cost-of-Bringing-Broadband-to-All-08-01-22>; *In the Matter of Connect Am. Fund; A Nat'l Broadband Plan for Our Future, et al.*, Report and Order and Further Notice of Proposed Rulemaking, WC Docket No. 10-90, *et al.*, 26 FCC Rcd 17663, 17717, para. 137 n.220 (Nov. 18, 2011) (“the same characteristics that make it expensive to provide voice service to a wire center (e.g., lack of density) make it expensive to provide broadband service to that wire center as well.”), https://docs.fcc.gov/public/attachments/FCC-11-161A1_Rcd.pdf.

⁸ See Doug Brake & Robert D. Atkinson, Information Technology & Innovation Foundation, *A Policymaker's Guide to Broadband Competition* (Sept. 3, 2019) (“Dense urban areas are more likely to see sufficient returns on investment to support multiple competing broadband providers. But many rural or otherwise high-cost areas justify a different policy that recognizes the economics will likely only ever justify a single terrestrial provider, with satellite- or 5G- based solutions the only alternative.”), <https://itif.org/publications/2019/09/03/policymakers-guide-broadband-competition/>; see also Colby Leigh Rachfal, *The Persistent Digital Divide: Selected Broadband Deployment Issues and Policy Considerations*, Cong. Rsch. Serv., R47506, Summary (Apr. 18, 2023) (“Private sector providers typically make their deployment decisions based on economic criteria, such as whether an area will provide a sufficient return on investment. They may therefore choose not to serve communities that have a lower population density (*i.e.*, rural or remote areas) if they conclude that the cost to provide service would outweigh the returns. The terrain in some rural or remote areas may also make some technologies—such as fiber optic cable—more expensive to deploy. In such cases, it may not make economic sense for providers to deploy broadband in the absence of some type of subsidy to offset their costs.”), <https://crsreports.congress.gov/product/pdf/R/R47506>.

⁹ *E.g.*, U.S. Department of Agriculture, Economic Research Service, *Rural Poverty and Well-Being* (Nov. 13, 2024) (“According to the most recent estimates from the 2019 American Community Survey (ACS), the nonmetro poverty rate was 15.4 percent in 2019, compared with 11.9 percent for metro areas.”), <https://www.ers.usda.gov/topics/rural-economy-population/rural-poverty-well-being/>.

¹⁰ *E.g.*, Lucy Mokua, Rural Debate Initiative, *Understanding Funding Challenges for Rural Schools—Impacts on Educational Quality* (Aug. 13, 2024) (“While rural schools often provide smaller class sizes and tight-knit community environments that many educators and students find rewarding, they also contend with financial constraints, limited professional development opportunities, and social isolation.”), <https://www.ruraldebateinitiative.org/post/understanding-funding-challenges-for-rural-schools-impacts-on-educational-quality>; The Rural Reconciliation Project, *Hughes &*

Overview of the FUSF

In 1984, as a result of the divestiture of AT&T's local telephone operations, the FCC adopted various measures, including an initial High-Cost program, to support the provision of telecommunications services in high-cost areas.¹¹ Prior to divestiture, the cost of long-distance telecommunications service was inflated to subsidize the operations of all local telephone carriers.¹² The initial High-Cost program established an explicit support mechanism that was funded by the assessment of a fee, determined by the FCC, on interstate and international telecommunications end-user revenues. Communications providers collected and paid this fee to the FCC, and they were permitted to pass the amount along to their customers. In turn, the implicit subsidy from long distance to local service was reduced. The FCC also established the Lifeline program wherein qualifying low-income consumers could access voice service at discounted rates.¹³ Local communications providers, which provided the lower-cost voice

Boss: Rural Libraries and Economic Development (Oct. 5, 2021) (“Overall, the survey results identified that many rural libraries have limited staffing, funding, resources, and space—which makes knowing and supporting the needs of their business patrons a struggle.”), <https://www.ruralreconcile.org/ruralreview/rurallibraries>; Georgetown University, McCourt School of Public Policy, Health Policy Institute, *Rural and Urban Health* (“The rural population is consistently less well-off than the urban population with respect to health.”), [https://hpi.georgetown.edu/rural/#:~:text=Median%20total%20health%20care%20expenditures,percent%20\(see%20Figure%206\)](https://hpi.georgetown.edu/rural/#:~:text=Median%20total%20health%20care%20expenditures,percent%20(see%20Figure%206)) (last viewed on January 7, 2025).

¹¹ For background on the FCC's establishment of the initial high-cost fund, see Congress of the United States, Congressional Budget Office, *The Changing Telephone Industry: Access Charges, Universal Service, and Local Rates* (Jun. 1984) (“Companies with subscriber loop costs above 115 percent of the national average will allocate a proportion of all costs above that level to a new account called the ‘high-cost category’. The higher a company's costs, the larger the proportion that is assigned to the high-cost category. All loop costs above 250 percent of the national average will be allocated to the new high-cost category. The new cost-allocation procedures are explicitly designed to mesh with the new cost-recovery procedures: high costs allocated to the high-cost factor will be recovered from the Universal Service Fund established during the access charge proceeding.”), <https://www.cbo.gov/sites/default/files/98th-congress-1983-1984/reports/84doc20c.pdf>.

¹² See *Federal-State Joint Board on Universal Service*, Report to Congress, CC Docket No. 96-45, 13 FCC Rcd 11501, 11504, para. 7 (Apr. 10, 1998) (*1998 FCC Report to Congress*) (“Charges to long distance carriers and rates for certain intrastate services provided to carriers and to end users were priced above cost, which enabled local telephone companies to keep rates for basic local telephone service at affordable levels throughout the country. The effect of these subsidies was to increase subscribership levels nationwide by ensuring that residents in rural and high cost areas were not prevented from receiving phone service because of prohibitively high telephone rates.”), https://transition.fcc.gov/Bureaus/Common_Carrier/Reports/Reports/fcc98067.pdf.

¹³ *Lifeline and Link Up Reform and Modernization, et al.*, WC Docket Nos. 11-42, 09-197, and 10-90, Third Report and Order, Further Report and Order, and Order on Reconsideration, 31 FCC Rcd 3962, 3970, para. 23 (Apr. 27, 2016) (*2016 Lifeline Order*) (“Consistent with its universal service goals, the Commission originally implemented a low-income support program in 1985, after the divestiture of AT&T, that required carriers to offer discounted service to qualifying low-income consumers.”).

service, collected support to offset their provision of service at discounted rates.¹⁴ The contribution structure also paid for support of the Lifeline program.¹⁵

In enacting the Telecommunications Act of 1996, as amended, Congress, in Section 254, “directed the Commission and the states to restructure their universal service support mechanisms to ensure the delivery of affordable telecommunications services to all Americans in an increasingly competitive marketplace.”¹⁶ Congress also “specified that universal service support under the new federal system ‘should be explicit,’ and that ‘every telecommunications carrier that provides interstate telecommunications service shall contribute, on an equitable and non-discriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service’.”¹⁷ Further, “Congress recognized that: (1) the appropriate amount of the universal subsidy must be identifiable; (2) all carriers (rather than only interexchange carriers) that provide telecommunications service should contribute to universal service, on an equitable basis; and (3) any carrier (rather than only the incumbent LEC) should receive the appropriate level of support for serving a customer in a high cost area.”¹⁸

Section 254 thus built on the precursor to the FUSF, modifying the existing High-Cost program and Lifeline program.¹⁹ Section 254 also built on and modified the contribution structure,²⁰ and it established two new distribution programs: the E-Rate program to provide

¹⁴ See *In the Matter of Amendment of Part 69 of the Commission’s Rules Relating to the Assessment of Charges for the Universal Service Fund and Lifeline Assistance*, CC Docket Nos. 78-72, 80-286, Memorandum Opinion and Order, 4 FCC Rcd 6134, paras. 1, 3 (Aug. 7, 1989) (adopting rules for the assessment of interexchange carrier charges “for costs attributable to programs designed to enable high-cost local exchange carriers (LECs) to keep local service rates affordable, known as the Universal Service Fund (high cost fund), and programs designed to assist low-income households to obtain and afford telephone service, known as Link Up America and the federal subscriber line charge waiver programs (lifeline assistance programs).”); see also *id.* at para. 5 (“charges for these elements must be included in the access tariffs of all LECs.”).

¹⁵ *Id.*

¹⁶ *1998 FCC Report to Congress*, para. 8.

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ See Telecommunications Act of 1996, Pub. L. No. 104–104, 110 Stat. 56, 128–43, <https://www.congress.gov/bill/104th-congress/senate-bill/652/text> (last viewed January 7, 2025); House of Representatives, 104th Congress, 2nd Session, Report 104–458, 128–134, *Telecommunications Act of 1996, Conference Report* (Jan. 31, 1996), <https://www.congress.gov/104/crpt/hrpt458/CRPT-104hrpt458.pdf>; Senate, 104th Congress, 2nd Session, Report 104–230, 128–134, *Telecommunications Act of 1996, Conference Report* (Jan. 31, 1996) (*1996 Act Conference Report*), <https://www.congress.gov/104/crpt/hrpt458/CRPT-104hrpt458.pdf>.

²⁰ *Id.* at 131 (“New section 254(d) requires that all telecommunications carriers providing interstate telecommunications services shall contribute to the preservation and advancement of universal service. . . . This section preserves the Commission’s authority

support for telecommunications and broadband services to qualifying schools and libraries and the Rural Health Care program.²¹ As with the Lifeline program, the direct beneficiaries of these new programs are qualifying customers; communications providers are indirect beneficiaries, providing services to and collecting revenues from these customers and from FUSF, which helps support their investments in telecommunications and broadband infrastructure.²²

Survey Respondents – FUSF High-Cost Programs

The High-Cost program has evolved since the FCC first established it,²³ but its purpose continues to be the distribution of funding to communications providers to provide telecommunications and broadband services to consumers in high-cost and rural or insular areas, where market forces do not support the substantial cost of network deployment and operations.²⁴ The FCC oversees a variety of targeted High-Cost programs, each designed to operate continuously or for multiple years, including the Broadband Loop Support (BLS) and High-Cost

to require all providers of interstate telecommunications to contribute, if the public interest requires it, to preserve and advance universal service.”).

²¹ *Id.* at 132–134.

²² Telecommunications and broadband networks are characterized by very high fixed network infrastructure costs and low marginal service costs. Thus, communications providers seek to provide service to as many customers as possible at rates that cover marginal costs and help contribute to covering fixed costs. Consequently, having additional Lifeline, E-Rate, and Telehealth customers improves the economics of the communications business.

²³ See Patricia Moloney Figliola, *The Future of the Universal Service Fund and Related Broadband Programs*, Cong. Rsch. Serv., R47621, 2 (Mar. 1, 2024) (*2024 Future of USF*).

²⁴ See 47 U.S. Code § 254(b) (“The Joint Board and the Commission shall base policies for the preservation and advancement of universal service on the following principles: (1) Quality and rates. Quality services should be available at just, reasonable, and affordable rates; (2) Access to advanced services. Access to advanced telecommunications and information services should be provided in all regions of the Nation; (3) Access in rural and high cost areas. Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas; (4) Equitable and nondiscriminatory contributions. All providers of telecommunications services should make an equitable and nondiscriminatory contribution to the preservation and advancement of universal service.”).

As examples, in an interview, a LTC Connect representative states that “the rate that we would have to charge to have full cost recovery from just the customers in our area would be so high that they would not be able to afford the service.” A representative of Griggs County Telephone Company *dba* MLGC explains that FUSF funds help to offset connection costs “so that we don’t charge a customer for construction building. So, if you have a new house that is built in rural North Dakota . . . a mile off the our existing path, I would have to construct a mile of fiber, . . . costing about \$36,000 a mile.”

Loop Support programs for the smallest providers, the Alternative Connect America Cost Model (ACAM) and Enhanced ACAM programs for somewhat larger providers, and the Connect America Fund II (CAF) program and the Rural Digital Opportunity Fund (RDOF) Program to deploy voice and broadband service in rural areas once served by the largest providers.²⁵ The FCC also oversees high-cost programs for unique regions, including the Alaska Plan / Alaska Connect Fund and Puerto Rico / U.S. Virgin Islands Funds, which support the expansion and operations of voice and broadband infrastructure in those areas.²⁶ Pursuant to these High-Cost programs, the FCC distributes annually approximately \$4.0 billion—about one-half of all FUSF distributions.²⁷

The Survey Respondents report that High-Cost program funds are crucial to their ability to serve high-cost and rural or insular areas—those areas that are economically challenging to serve because of low-densities.²⁸ Nearly all, 99%, of the Survey Respondents (192 of 194)

²⁵ *Connect America Fund, et al.*, WC Docket No. 10-90, *et al.*, Report, 26 FCC Rcd 17663 (Nov. 18, 2011) (creating CAF); *Rural Digital Opportunity Fund, et al.*, WC Docket No. 19-126, *et al.*, Report and Order, 35 FCC Rcd 686, 709, para. 45 (Feb. 7, 2020) (creating RDOF); *Connect America Fund, et al.*, WC Docket No. 10-90, *et al.*, Report and Order, Order and Order on Reconsideration, and Further Notice of Proposed Rulemaking, 31 FCC Rcd 3087, 3100, para. 29 (Mar. 30, 2016) (creating BLS); see also Univ. Serv. Admin. Co. (USAC), *Funds*, <https://www.usac.org/high-cost/funds/> (last viewed January 7, 2025).

²⁶ *E.g.*, *Connect America Fund, et al.*, WC Docket. Nos. 19-90 and 16-271, WT Docket. No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, 31 FCC Rcd 10139, 10140, para. 1 (Aug. 31, 2016) (establishing the Alaska Plan); *Connect America Fund, et al.*, WC Docket No. 10-90, *et al.*, Report and Order and Further Notice of Proposed Rulemaking (Nov. 4, 2024) (creating Alaska Connect Fund); *The Uniendo a Puerto Rico Fund and the Connect USVI Fund*, WC Docket No. 18-143, Order and Notice of Proposed Rulemaking, 33 FCC Rcd 5404, 5408, para. 13 (May 29, 2018) (establishing the two stages of the Bringing Puerto Rico Together Fund and the Connect USVI Fund).

²⁷ *E.g.*, USAC, *High Cost Fund Distributions This Year*, <https://www.usac.org/high-cost/>.

²⁸ In an interview, a representative of Nelson Communications Coop *dba* Ntec (Ntec) explains: “if you live in a metropolitan area and if you drop a mile fiber there, you can probably hit 10,000 customers. If I drop a mile of fiber [in our rural service areas], I might hit two or three in some locations. So, if we didn’t have [FUSF support], we just simply wouldn’t be able to touch those customers.” A representative of Mountain Rural Telephone Cooperative Corporation Inc. (Mountain Telephone) explains that “the U.S. has highly populated urban areas where for-profit telecommunication companies have prioritized their investments for the greatest return. In contrast, smaller rural areas require a greater investment, and the return on this investment may take decades, if it happens at all. The USF helps ensure that rural areas receive the same level of investment as urban areas. Additionally, the USF enables rural areas to access the latest technological updates, which would be nearly impossible without this support.” A Farmers Tel. representative notes that FUSF high cost support allows rural customers “to essentially operate in the modern world, permitting work from home, and education and entertainment opportunities.” A representative of Silver Star Tel. – WY *dba* Silver Star Communications (Silver Star) states that “we’ve already made investment decisions on the good faith of the continuation of that program [HCF],” and a representative of TDS Telecom explains in its interview that “the high-cost program enables the deployment and

accessed High-Cost program funding in the last five years, and continue to use High-Cost program funding,²⁹ to deploy and operate telecommunications or broadband facilities and provide services at rates comparable to those offered for similar services in urban areas. All of these Survey Respondents highlight that the long-term predictability of High-Cost program funding is an essential feature because it takes years to finance and deploy new, and to upgrade existing, facilities and roll out new services using those facilities.

The 192 Survey Respondents report that the High-Cost program funds have a multiplier effect. They leverage High-Cost program funds to obtain financing on reasonable rates, terms, and conditions from private and other public sources to fund capital projects that they would not otherwise undertake. About 60% of these Respondents (114 of the 192) obtained network construction loans from private and other public sources based, in whole or in part, on continued receipt of High-Cost program funding. Over 75% (88 of the 114 Respondents that have network construction loans) expect that if they lose High-Cost program funding, they would likely default on these network construction loans.³⁰

offering of services at rates that are reasonable. The business case, if you just look at building network in these rural areas and had to make the business case work entirely on the revenue from the consumer, it wouldn't work." Blanca Telephone Company states in its survey response that "[t]he USF is crucial for offsetting the high costs of building and maintaining infrastructure in our sparsely populated region, where the expense per customer is significantly higher than in urban areas," and Eagle Telephone System, Inc.'s survey response states that "Eagle became a recipient of Universal Service Funding in 1993, and we received our first RUS loan based on USF support and began upgrading our plant." (RUS refers to the federal Rural Utility Service in the U.S. Dept. of Agriculture. Many rural providers obtain loans and grants through the RUS ReConnect program and other federal rural development programs based on the expectation of continued receipt of High-Cost program funds.)

²⁹ The 192 Respondents that are current High-Cost program participants received a total of about \$1,098,649,662.00 in support from High-Cost programs in 2023, including \$400,531,559.00 for BLS, \$112,441,274.80 in ACAM support, \$118,242.48 in CAF support, \$2,866,212.93 in RDOF support, and \$39,290,398.72 in Alaska Plan funds. Federal-State Joint Board on Universal Service, *Universal Service Monitoring Report, Updated 2023 High-Cost Claims* (2023), <https://docs.fcc.gov/public/attachments/DOC-401534A1.xlsx>.

³⁰ For example, Wheat State Tel., Inc. *dba* Wheat State Technologies states in its survey response that it owes "on our network build from 2016 when we buried fiber to our regulated franchise area. We pay . . . principal and interest payments to RUS. The term of the loan runs until December 2030. . . . We were given the assurance at the time we accepted this RUS loan, that we would be afforded the opportunity to earn a return on these assets over the life of the loan, in order to have the ability to repay the debt we owe to RUS. If the FUSF program is terminated, we will have very few viable options to continue operating the business." Molalla Telephone explains in its survey response that, "Our ability to make the loan payments on our Rural Utility Services Loan from USDA/RUS was based in part from a *pro forma* forward looking assumption that USF payments would continue. These assumptions were supported by USAC, RUS/USDA and considered as a significant portion of revenue to fund payback obligation."

Over 90% (178 of the 192 Survey Respondents) state that if High-Cost program funding is terminated, they would cancel or limit future network deployment projects. The survey responses show that the loss of High-Cost program funds would result in an aggregate amount of forgone investments of approximately \$750,000,000, affecting about 1.7 million customers.

These 192 High-Cost program Survey Respondents rely on program funds not only to build infrastructure but to support the operation of their businesses. They report that High-Cost program funding constitutes a significant source of their operating revenues and state that the loss of High-Cost program funds would force them to recover the lost revenue by raising rates and/or scaling back on the scope of service offerings. Over 80% (156 of the 192) expect that, if High-Cost program funding is terminated, they would need to increase rates in excess of 25% and nearly all Survey Respondents anticipate an increase in rates for telecommunications and broadband services of at least 10% if High-Cost programs funding is terminated.³¹ As a result of these rate increases, Survey Respondents expect that, on average, about 49% of their customers—many of whom are low-income consumers—would cease subscribing to the telecommunications and broadband services they take today.³² In addition to increasing rates, about 53% (101 of the 192) state that, if High-Cost program funding is ended, they would likely terminate or restrict telecommunications and broadband service options for customers.³³

³¹ In survey responses and interviews, most Survey Respondents describe a dramatic customer rate increase if High-Cost program funding terminates. *E.g.*, Farmers Tel.’s representative interview (stating customer rates would go from \$70–\$100 to \$500–\$600 a month for the same service); Farmers Mutual Tel. aka FMTC of Stanton IA (FMTC) survey response (“subscriber rates would increase by over 200%”); Alpine Communications, LLC (Alpine) survey response (“Based on 2023 costs, Alpine’s cost per customer was \$93 per month. That means that if FUSF was eliminated, Alpine would have to charge each end-user \$93 just to recover its cost to build and maintain its network, not including any ISP costs. Alpine currently charges \$22.50 for voice service; without USF, that rate would need to increase by \$70.50 to fully recover the cost of a voice customer.”); Phillips County Telephone *dba* PC Telcom survey response (“[i]f FUSF were eliminated, PC Telcom would need to raise it[s] voice rate by \$121.20 per month just to break even. The rate increase would likely be more than what a typical customer would pay and certainly beyond comparable rates for urban areas.”); Plains Cooperative Telephone Association (Plains Coop) survey response (“a subscriber currently paying \$52 per month would see their monthly service increase to over \$500 per month.”); Daviess Marin Rural Telephone *dba* RTC Communications survey response (“[w]ithout Universal Support, the cost to deploy, and more importantly, operate and maintain rural broadband networks would become infeasible. The amount we would have to charge customers would exceed what most customers would be willing to pay . . . Rural providers are clearly at a distinct disadvantage due to the lack of density in premises passed compared to more urban areas.”).

³² About 7% of Survey Respondents report that they would lose all of their current customers due to these rate increases.

³³ For example, in its survey response, Mud Lake Telephone Cooperative states that “[i]f USF funding were to go away, we would stop all future construction projects to finish out our fiber build, which would leave approximately 30% of our customers without access to high-speed fiber broadband.” Interviewed Survey Respondents also make clear that a substantial majority of their customers in high-cost areas are residential, *e.g.*, Silver Star’s interviewed representative (stating that “I’d say probably 85% of the customers in both of

Survey Respondents – FUSF Lifeline Program

The Lifeline Program provides a discount on voice service and broadband service to low-income consumers to enable them to afford service.³⁴ A qualifying household³⁵ may receive a discount off the full price of telecommunications and broadband services of up to \$9.25 per month and up to \$34.25 for households on tribal lands.³⁶ About 19% of eligible households in the U.S. (7.4 million customers) receive the Lifeline discount.³⁷ Nearly all the Survey Respondents (186 of the 194) participate in the Lifeline Program,³⁸ providing the discounted service and collecting support from the program.

Survey Respondents expect the termination of support from the Lifeline Program would make it difficult, if not impossible, for their qualifying low-income customers to retain telecommunications and broadband services. Survey Respondents expect about 98% of their

our [high-cost] areas are residential.”); Alpine’s interviewed representative (stating “approximately 85% [of customers in high-cost areas] would be residential”); Ntec’s interviewed representative (stating “we’re the only fixed line” provider in our rural high cost areas”); Ellijay Telephone Company (Ellijay)’s interviewed representative (stating that, “currently there are no other fixed line service providers in the vast majority of our incumbent footprint.”).

Many Survey Respondents also note that because of the lack of alternative providers, many customers—mainly residential—may lose emergency services if they cut back or even exit. For example, Skyline Telecom Inc *dba* Rally Networks explains in its survey response that it “serves very remote areas in Washington State. Some parts of our serving territory lack the availability of cell phones, satellite or wireless internet. This is also the only access to emergency services in the areas. Customers would not be able to afford the cost of phone or internet making access to 911 nonexistent.” In its interview, a representative of Farmers Tel. reports that many areas in its service area do not have mobile service and that it is the sole provider of 911 connectivity. And Mutual Telephone Company states in its survey response that “[i]f rural providers do not exist, it will have a drastic effect on rural America as these companies provide the infrastructure for Cellular service, Schools, Hospitals, and Emergency services.”

³⁴ See *2024 Future of USF CSR*, 5; see also *2016 Lifeline Order*, 31 FCC Rcd at 3963, para. 3 (“the Lifeline program has worked in lockstep with telephone providers and consumers to increase the uptake in phone service throughout the country.”).

³⁵ A household may qualify for the discount if its income is less than 135% of the federal poverty level or if it participates in certain low-income programs, such as for federal food or housing assistance. 47 C.F.R. § 54.1605(a).

³⁶ Many Survey Respondents that are Lifeline participants apply these discounts to receive no out-of-pocket service payments for otherwise unaffordable services. *2024 Future of USF CSR*, 5.

³⁷ *Id.*

³⁸ The qualifying low-income subscribers of these 186 Lifeline participants received about \$10,105,646.00 in support in 2023, inclusive of about \$6,281,758 for subscribers on Tribal lands. Federal-State Joint Board on Universal Service, *Universal Service Monitoring Report, Supplemental Material - Section 2 Lifeline - S.2.2. LI Support by Study Area* (2023), <https://www.fcc.gov/sites/default/files/2023-MR-Supplemental-Material.zip>.

qualifying low-income customers will terminate service due to the end of their Lifeline program discount.³⁹ Given the lack of competition faced by virtually all Survey Respondents, these customers will not have an alternative source for these services. In turn, these Survey Respondents will no longer receive revenues from Lifeline customers, which help cover the cost of their networks.

Survey Respondents – FUSF E-Rate (Schools and Libraries) Program

The E-Rate program provides funds for high-performance connectivity and offers discounts for telecommunications and broadband services to qualifying schools and libraries.⁴⁰ Service discounts under the E-Rate program range between 20% and 90% off the full rate of a communications providers' services, with higher discounts provided in areas where students participate in federal food assistance and in rural areas.⁴¹ Almost 90% of the Survey Respondents (169 of the 194 Respondents) have qualifying schools and library customers that participate the E-Rate program.⁴²

If E-Rate program funding is no longer available, qualifying school and library customers would no longer receive discounted services from Survey Respondents, and they would pay substantially higher rates to offset the loss of the discounts. Survey Respondents expect, on

³⁹ See supra, n.21; 47 U.S. Code § 254(j). In its survey response, Consolidated Telecom states that the “Our rates for services without any [Lifeline] discounts would increase well over 25%. The loss of the discount just amplifies that cost increase to the end user.”

⁴⁰ “The program provides needs-based discounts to eligible schools and libraries for telecommunications services (e.g., local and long-distance calling, high-speed lines) and internet access, as well as internal connections (i.e., the equipment to deliver these services), among other services.” *2024 Future of USF CSR*, 7; see also 47 U.S. Code § 254(h)(1)(B) (“All telecommunications carriers serving a geographic area shall, upon a bona fide request for any of its services that are within the definition of universal service under subsection (c)(3), provide such services to elementary schools, secondary schools, and libraries for educational purposes at rates less than the amounts charged for similar services to other parties. The discount shall be an amount that the Commission, with respect to interstate services, and the States, with respect to intrastate services, determine is appropriate and necessary to ensure affordable access to and use of such services by such entities. . . . A telecommunications carrier providing service under this paragraph shall . . . receive reimbursement utilizing the support mechanisms to preserve and advance universal service.”).

⁴¹ See USAC, *Service Discount Matrix* (Jan. 2024), <https://www.usac.org/wp-content/uploads/e-rate/documents/samples/Discount-Matrix.pdf>; see also *In the Matter of Modernizing the E-rate; Program for Schools and Libraries; Connect America Fund*, WC Docket Nos. 13-184, 10-90, Second Report and Order and Order on Reconsideration, 29 FCC Rcd 15538, 15572, para. 85 (Dec. 19, 2014) (“These budgets maintain the program’s historic focus on the highest poverty schools and libraries by continuing to use concentrations of poverty to determine the discount level available and the priority of applicants.”).

⁴² The qualifying school and library subscribers of these 169 Respondents that are E-Rate participants received about \$122,886,465.91 in support in 2022. USAC, *Open Data, E-Rate Commitments Tool* (Funding Year 2022), <https://opendata.usac.org/stories/s/E-Rate-Search-Commitments-Tool/jj4v-cm5x/>.

average, about 48% of their school and library subscribers would limit or cease subscribing to their current suite of services because of the increased rates if E-rate program funding ends. This, in turn, would harm the Survey Respondents. About 49% of these Survey Respondents (82 of the 169 E-Rate Program participants) state that the revenue they receive from their school and library customers constitutes a significant source of their revenues for telecommunications and broadband services.⁴³

Survey Respondents – FUSF Rural Health Care Program

The Rural Health Care program discounts the cost of telecommunications and broadband services for eligible rural health care institutions.⁴⁴ The Rural Health Care program consists of: (1) the Telecommunications (Telecom) Program; and (2) the Healthcare Connect Fund (HCF) Program.⁴⁵ The Telecom Program ensures that eligible rural health care providers pay no more than their urban counterparts for their telecommunications needs in the provision of health care services, and the HCF Program supports high-capacity broadband connectivity to eligible healthcare providers and encourages the formation of state and regional broadband health care

⁴³ In its interview, a representative of Ellijay explains that the termination of FUSF funds “would definitely have a major impact on our schools and library budgets if they were forced to move to 100% of the, of the cost [of service]”, with the Ellijay representative expecting qualifying schools and library to downgrade service and postpone network upgrades and maintenance. In addition, in its survey responses, Brantley Telephone Co., Inc. notes that if “Schools and Libraries did not receive USF, they would have to increase their mileage rates to taxpayers. This would mean higher taxes for everyone.” Ligonier Telephone Company and LigTel Communications, Inc.’s survey response points out that, “should FUSF be terminated, those school systems would need to scale back their telecommunications and broadband services as their budgets cannot accommodate the costs for what they currently have without E-Rate support.”

⁴⁴ *2024 Future of USF CSR*, 6; see also 47 U.S. Code § 254(h)(1)(A) (“A telecommunications carrier shall, upon receiving a *bona fide* request, provide telecommunications services which are necessary for the provision of health care services in a State, including instruction relating to such services, to any public or nonprofit health care provider that serves persons who reside in rural areas in that State at rates that are reasonably comparable to rates charged for similar services in urban areas in that State. A telecommunications carrier providing service under this paragraph shall be entitled to have an amount equal to the difference, if any, between the rates for services provided to health care providers for rural areas in a State and the rates for similar services provided to other customers in comparable rural areas in that State treated as a service obligation as a part of its obligation to participate in the mechanisms to preserve and advance universal service.”).

⁴⁵ *In re FCC Adopts Further Improvements to Rural Health Care Program*, WC Docket No. 17-310, Third Report and Order, 38 FCC Rcd 12476, 12477, para. 4 (Dec. 14, 2023).

networks.⁴⁶ About 77% of Survey Respondents (149 of the 194) have Rural Health Care qualifying health care provider institution customers that receive discounted rates.⁴⁷

If Rural Health Care funding is terminated, Survey Respondents expect, on average, about 40% of their qualifying rural health care institution subscribers would limit or cease subscribing to their current suite of services. The loss of these qualifying rural health care institutions as customers would in turn harm Respondents. About 39% (58 of the 149 Rural Health Care Program participants) of Respondents state that the revenue they receive from their rural health care institution customers constitutes a significant source of their revenues for telecommunications and broadband services.⁴⁸

Survey Respondents Interviews – FUSF Contributions

The Telecommunications Act of 1996 codified the FUSF contribution mechanism and requires telecommunications providers to contribute to the distribution “mechanisms established by the Commission to preserve and advance universal service” based on end-user interstate telecommunications revenues.⁴⁹

Several Survey Respondent interviewees provided their views on their experiences with the FUSF contribution mechanism through interviews that supplemented survey responses. The interviewed Survey Respondents report they agree that the contribution mechanism has worked well, producing reasonable, stable contributions, thus resulting in support that makes access to

⁴⁶ *Id.* (“The Telecom Program, established in 1997, subsidizes the difference between the rates for eligible telecommunications services in the health care provider’s rural area and rates for comparable services available in urban areas within that state. The HCF Program, created in 2012, promotes the use of broadband services and facilitates the formation of health care provider consortia that include both rural and urban health care providers by providing a flat 65% discount on an array of advanced telecommunications and information services.”)

⁴⁷ The qualifying rural health care institution subscribers of the 149 Survey Respondents that are Rural Health Care participants received about \$188,438,137.82 in support in 2022. USAC, *Open Data, Rural Health Care Commitments and Disbursements Tool* (Funding Year 2022), <https://opendata.usac.org/Rural-Health-Care/RHC-Commitments-and-Disbursements-Tool/sm8n-gg82>.

⁴⁸ In interviews, a representative of Ntec reports that “we do have a local hospital. It’s a small hospital, it only has 25 beds but it’s a non-profit organization so without E-Rate funds, they’d have to increase their patient fees obviously,” and a representative of Plains Coop explains that “Because of the connectivity and the USF funding through their programs, [rural healthcare institutions] are able to attract other doctors and interns out here that we normally wouldn’t get.”

⁴⁹ *2024 Future of USF CSR*, 9; 47 U.S.C. §254(d); see also *Universal Service Contribution Methodology*, WC Docket Nos. 06-122 and 04-36, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, and 98-170, Report and Order and Notice of Proposed Rulemaking, 21 FCC Rcd 7518, 7538, para. 35 (Jul. 18, 2006) (*2006 Interim Contribution Methodology Order*) (expanding contribution to revenue derived from end user voice over Internet protocol (VoIP) services).

telecommunications and broadband services more equitable over time.⁵⁰ They also report that their obligation to make contributions to the FUSF does not undermine their ability to provide telecommunications and broadband services.⁵¹ Nearly all of these interviewees “pass-through” the FUSF contributions to customers, as do 180 of the 194 Survey Respondents,⁵² and nearly two-thirds of the interviewees providing estimates report that their overall contribution remittance into the program has remained about the same or decreased over the last 10 or 15 years.⁵³ In addition, the Survey Respondent interviewees report that the administration of the

⁵⁰ See supra, n.147; 47 U.S.C. §254(d). In an interview, a representative of Range Telephone Cooperative, Inc. states that “The goal of universal service is to have everyone served. So, if 100% coverage is the goal of universal service, that would include people that previously haven’t been served for whatever category or reason and would, therefore, be a higher total than what would occur in a free market in which companies can decide where to serve or not serve.” Alpine’s interviewed representative states that “contribution or federal universal in, in and of itself, has allowed us to build a fiber network that will allow rural customers close to the same level of services that you would receive in more urban populated centers. So I think the contribution mechanism is all part of that. So yes, without that it would be more difficult because USF wouldn’t exist, right. So universal service has allowed for that, right. . . . Similar level of services at similar prices in all areas of the country and without that, without that mechanism, without USF, that wouldn’t be possible.” Similarly, a representative of Silver Star, in an interview, reports that “I think that this kind of program that distributes to ensure connectivity near and far is beneficial for everyone.”

⁵¹ In interviews, a representative of Tri County Telephone Association, Inc. (Tri County) finds that the FUSF contribution “is a good investment for all parties, stating that these pass-through fees, with all customers equally paying into it fulfills the goal of universal service. Those in the rural areas of the country having access to an equitable service as an urban area even though living in an area which costs much more to deliver that service. In the end both the rural and urban areas are able to communicate with each other because of the ‘universal service’ goal,” and a representative of FMTC states that “contributions, for everyone, have made it affordable in rural areas and it’s allowed companies like FMTC to invest in these networks, so they have access to it and then also make it [at] affordable rates for the rural customers.” In its interview, a representative of Toledo Telephone Co. *dba* ToledoTel explains the FUSF system “provides a mechanism for people who live in rural areas to have access to high speed telecommunications and good quality voice communications at a reasonable comparable price to someone who lives in Chicago or Seattle. Without USF, we couldn’t have done this.”

⁵² Twelve (12) survey respondents (of the 194 Survey Respondents) indicate that they do not pass-through FUSF contributions as line items on customer bills and two (2) Survey Respondents did not respond to the survey question. Two (2) interviewed Respondents (of the 31 interviewees) indicate that they do not pass-through FUSF contributions as line items on customer bills.

⁵³ In interviews, Alpine’s representative states that, looking at both residential and commercial customers, “I think that the contribution that our customers were making ten years ago, 15 years ago, but we are collecting on behalf of our customers and handing over is lesser than it was 10 years,” and a representative of Mountain Telephone explains that, for contributions, “One issue with USF support is that the funding pool is based on legacy dial-tone lines, which is rapidly shrinking as people move away from traditional phones. The contributions pool needs to encompass all companies that benefit from the extensive network being built.”

FUSF program and their obligation to contribute to the program is not inequitable or discriminatory.⁵⁴

###

⁵⁴ In its interview, a representative of Tri County states that “No program is perfect but the existing program has been effective in helping to build and maintaining a communication system that provides universal service for our entire area improving the quality of life by keeping our customers connected no matter where they are trying to reach.” In addition, a representative of Wittenberg Telephone Company *dba* Cirrinity states in its interview that “I don’t think [eliminating contributions] would outweigh the loss of the FUSF funds that we plan for operational support and [for] providing that rural network.”