

Issue Brief

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The Universal Service Fund Is On The Brink, But It's Not Too Late To Save It

The Goal of Universal Service and Closing the Digital Divide

The digital divide is a complex problem for lawmakers to address. While this divide between those who do and do not have access to information and communication technology has existed for decades, the COVID-19 pandemic has exacerbated the issue. Over [50 percent](#) of Americans believe the internet has become essential during the pandemic. This is not surprising as Americans have had to increasingly rely on technology for employment, education, health care, and communication. Even in a narrowly divided and politically charged Congress, closing the digital divide should be an area of bipartisan support.

Among those most affected by the digital divide are low-income and rural Americans and those living on tribal lands. According to the Federal Communications Commission ([FCC](#)), 97 percent of Americans in urban areas have access to high-speed fixed service, compared with 65 percent in rural areas and 30 percent on tribal lands. Among lower-income Americans (with a household income below \$30,000 per year), [4-in-10](#) Americans do not have home broadband access. As the digital divide receives much needed attention, it is important to look at the programs in place that are attempting to close the gap and how they can be improved.

Key Facts:



The Universal Service Fund contribution factor is on track to hit 40 percent by the end of the year and reform needs to happen soon.



The Federal Communications Commission must follow through on creating more granular maps as quickly as possible.



Proposals to implement symmetrical upload and download speeds and create "future proof" networks threaten to divert critical funding from where it is needed most.

“Universal service” was a primary objective when the FCC was established by the Communications Act of 1934. This was defined as “a rapid, efficient, Nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges.” The Telecommunications Act of 1996 expanded this definition to include advanced services like broadband, and established the Universal Service Fund (USF), a system of fees and subsidies. Within the USF there are four parts aimed at tackling different areas of the “digital divide” including: the high-cost support (the Connect America Fund), low income support (Lifeline), schools and libraries (E-Rate), and rural health care.

Despite being a well-intentioned program, the USF will continue to spend taxpayer dollars without achieving the desired outcome of universal access to reliable high-speed broadband unless it is reformed. As discussed in more detail below, changing the way the USF is funded from a tax on consumers to a Congressionally appropriated sum could help alleviate the regressive high tax on a small group of consumers. Additionally, more oversight on how programs like Lifeline distribute funds could cut down on waste, fraud, and misuse. A voucher program would also provide extra flexibility for consumers and could increase competition and choice in the market. However Congress chooses to address this important issue, it must be soon and in a fiscally responsible manner.

How is the USF Funded?

The USF’s budget is \$5 billion to \$8 billion per year and is funded by telecommunications companies via a percentage fee on their end-user revenues, known as a contribution factor. This contribution factor is established quarterly by the FCC based on the recommendations from the Universal Service Administrative Company (USAC), a not-for-profit company that serves as the administrator for the USF. However, telecommunication companies generally pass this fee on to the consumer in their monthly bills.

Initially, this funding mechanism made sense. Telecommunication companies benefit from the USF, and therefore they pay into these programs. However, telecommunications revenue has [shrunk](#) from \$72.3 billion in 2010 to \$47.5 billion in 2019 as customers are increasingly switching to IP-based alternatives that do not pay into USF. As the fee is passed onto consumers, this dwindling tax base is increasingly burdened with exuberant costs. In the first quarter of 2002, the contribution factor was 6.8 percent, but by the first quarter of 2021, that number reached [31.8 percent](#).

This is clearly an unsustainable funding mechanism. Several reform proposals will be addressed later in this brief, but *something* needs to change. The consumers are ultimately on the hook for paying increasingly outrageous rates, and there is no reason to believe this trend will reverse itself on its own. This regressive tax does not serve consumers well, and as Congress and the Biden administration call for more funding for broadband, they must focus on fixing this broken system in the immediate future.

The “Gaps”

In the context of the USF, it is important to discuss the various gaps that make up the digital divide. These various gaps represent unique challenges and demonstrate why reaching 100 percent broadband connectivity has proven difficult. The USF programs attempt to bridge these gaps with varying degrees of success. In many cases, multiple programs attempt to address the underlying issues associated with the gaps below and the gaps also overlap. For instance, those who fall into the homework gap may also fall into the affordability or accessibility gap.

Homework Gap

The “homework gap” refers to the difficulty and barriers students face when working on homework assignments or completing classes online without reliable home internet. A [study](#) conducted by the

Alliance for Excellent Education found that 16.9 million children lack high-speed home internet necessary to support online learning. This gap does not affect every student equally. According to this study, a third of Black, Latino, and American Indian/Alaska Native families do not have high-speed home internet. This gap was present before COVID-19, but as more schools moved to online learning, many students were both unable to complete assignments and unable to attend classes. A McKinsey [study](#) found that the move to online school put white students behind by one to three months while students of color were behind about three to five months. This could have long-term implications for education, employment, and economic potential for the students who fall into this gap. To illustrate this point, applications for federal student aid fell [16 percent](#) in the fall of 2020, a sign that points to a drop in college application rates, and this drop was larger with Hispanic and low-income students.

The E-Rate and Lifeline programs attempt to address this gap by providing low-income families, schools, and libraries with funding for devices and broadband connectivity. Again, mapping plays a critical role in this gap. Before infrastructure can be built out, there needs to be data on *where* to build, which makes granular broadband data critical to solving this problem. Similarly, while the E-Rate program provides funding to school and libraries, once students are sent home, the lack of connectivity becomes a major issue. This is illustrated in viral [stories](#) of students going to public areas like fast food restaurants to complete homework and virtual learning. The [public](#) and [private](#) sectors are making closing the homework gap and digital divide a priority, and it will take a robust partnership to reach 100 percent connectivity.

Affordability Gap

The “affordability gap” between those who can and cannot afford broadband access is what much of the USF was designed to address. Market incentives make investments in infrastructure and broadband deployment much more feasible in higher density urban areas. Topographical challenges and lower population density can make broadband and telecommunications services more sparse and therefore more expensive. However, the affordability gap is not just limited to rural and tribal areas, but also in urban areas among low-income families. In some situations, broadband may be available but the cost of the service prevents adoption.

[Ninety-three percent](#) of American adults use the internet as of 2021, a sharp increase from a little over 50 percent in 2000. However, the increase in internet usage has varied across income groups. From 2005 to 2020, home broadband internet access increased from 58 percent to 92 percent for Americans with a household income of over \$75,000. During that same time period, Americans with a household income of less than \$30,000 saw their access to broadband increase from 15 percent to just 57 percent. It’s not just the affordability of broadband that keeps some Americans from being online, but also a lack of devices. Pew Research Center [found](#) that 29 percent of households with an annual income of less than \$30,000 did not have smartphones, and 46 percent did not have a traditional computer. Lifeline and EBB are two programs that take aim at this issue by subsidizing telecommunications and broadband services while also providing a credit for a one-time device purchase. However, some have pointed to the \$9.25 subsidy provided by Lifeline as too little to effectively close this gap, and coupled with cases of fraud and misuse of the Lifeline program, this gap has proven difficult to close.

Accessibility Gap

Closing the “accessibility gap” will require updated granular mapping from the FCC. There is certainly a need for infrastructure investment and deployment to close the gap between those with and without access to broadband and connectivity services, but the “where” is going to be critical. Overcounting areas where just a single household has access can lead to areas being overlooked where investment is needed. The [Broadband DATA Act](#), which was signed into law in 2020, attempted to address this issue, but new maps have still not been released by the FCC. Difficulties with accessibility are more common in rural

or isolated areas with trickier geography. Bridging this gap will require creative solutions and increased innovation. SpaceX's Starlink is one example of technological innovation attempting to tackle this issue, but the results have been [mixed](#).

High Cost Program

The High Cost fund is the largest of the four programs in USF, with an annual budget of [\\$4.5 billion](#) and nine active funds. Its goal is to give funding to telecommunications carriers to provide service where market incentives make private sector investments less feasible, mostly rural and insular areas. The Telecommunications Act of 1996 states that rural and high-cost areas should have access to telecommunication rates and services that are “reasonably comparable” to consumers in urban areas. With more difficult terrain and less dense populations, carriers' costs are increased and the profits for providing service more limited. While initially focused on providing voice services, this program has expanded to include support for broadband access too.

According to a 2020 [report](#) from the Government Accountability Office (GAO), the FCC faces three challenges in accomplishing the High Cost Program's performance goals: (1) accuracy of FCC's broadband deployment data, (2) broadband availability on tribal lands, and (3) maintaining existing fixed-voice infrastructure and attaining universal mobile service. It's hard to overstate how important accurate, granular broadband mapping will be for the goal of administering universal service. These maps help to avoid overbuilding in areas that are already being served and allows these subsidies to be targeted to those most in need. Internet service providers (ISPs) provide data on broadband coverage to the FCC through Form 477. This information is used to outline speed and coverage areas. One key issue with the current maps is how “coverage” is defined. If one house in a census block has service, the whole block is considered to have broadband access, which is not always the case. This overstating of coverage can make targeting deployment and identifying unserved areas more difficult. Congress recently provided the FCC with \$98 million to fund more precise and granular maps. While Acting FCC Chairwoman Jessica Rosenworcel said these maps could be produced in “a few months,” that estimate has now been changed to 2022. Senators Roger Wicker (R-MS) and John Thune (R-SD) and Representatives Cathy McMorris Rodgers (R-WA) and Bob Latta (R-OH) are demanding [answers](#) and should continue to push for the FCC to quickly produce more accurate maps.

The FCC has made and should continue to make spectrum available to help serve tribal populations. Freeing up spectrum will not only be important for closing the digital divide, but also for achieving 5G technology nationwide. Similarly, programs like the Rural Digital Opportunity Fund are helping prioritize tribal lands that lack 10/1 Mbps broadband (a slower speed than the 25/3 Mbps standard definition of broadband) and constructing broadband networks in underserved parts of the country.

Lifeline

Established in 1985, the Lifeline program subsidizes monthly costs of phone and internet for low-income consumers. Eligible consumers receive \$9.25 monthly towards their bill while those living on tribal lands are eligible to receive up to \$34.25. The subsidies are distributed to providers who pass the benefits onto the consumer. A Lifeline subscriber is eligible for either a wireline or wireless service, and FCC rules prohibit more than one Lifeline service per household. A consumer is eligible for this program if their income is 135 percent or less than the [Federal Poverty Guidelines](#), or if they participate in other federal assistance programs like Supplemental Nutrition Assistance Program (SNAP) or Medicaid. The Lifeline program budget is not capped and has an inflation-adjusted budget of \$2.385 billion.

This well-intentioned program has several problems. First are the well-documented issues of fraud and misuse. Below are just a few egregious examples of fraud and misuse:

- [In 2017](#), Sprint said an “error” occurred in which they failed to remove customers who did not use their service for 30 days, as is mandated by FCC. This resulted in Sprint accepting millions in funds from Lifeline for 885,000 subscribers, which they have promised to return to state and federal governments.
- A 2017 GAO [report](#) found that 6,000 Lifeline subscribers enrolled or reenrolled in the program were deceased and could not confirm the eligibility of over a third of the subscribers (1.2 million) it reviewed.
- [In 2018](#), the CEO of a provider for low-income broadband service embezzled aid money to pay for a private jet, a condominium in Florida, a Ferrari, and a country club membership.
- [In FY 2018](#), the FCC reported an improper payment amount of \$227.02 million with an improper payment rate of 18.47 percent.

[Steps](#) have been taken by the FCC to address the issues of fraud and misuse. One example is the creation and implementation of the Lifeline National Eligibility Verifier (National Verifier) in 2019 that is managed by the Universal Service Administrative Company (USAC) and determines if consumers are eligible by checking information provided by applicants against available [databases](#). However, issues of fraud and misuse persist that threaten to drain important resources from those who urgently need it.

Another major problem with the Lifeline Program is low participation and a lack of consumer awareness. While over 33 million Americans are eligible, only about [1 in 4](#) are enrolled in the program. According to a Morning Consult [poll](#), 69 percent of low-income Americans have either heard “not much” or “nothing at all” about the existence of the Lifeline program. While the FCC rules do require that eligible telecommunication carriers (ETCs) advertise the availability of the Lifeline program, the advertising [guidelines](#) laid out provide plenty of flexibility on how to go about this. Some have said the low participation rate is due to the size of the subsidy. The average monthly cost of broadband internet is [about \\$60](#), and some argue that the stagnant subsidy rate is too low to encourage participation in the program.

The temporary Emergency Broadband Benefit Program (EBB), enacted as part of previous COVID-19 relief legislation, attempted to address the issue of affordability for low-income families. This program provides up to \$50 per month (\$75 for those residing on tribal lands) for broadband service for eligible families. Additionally, this program provided a one-time discount of up to \$100 to purchase a laptop, desktop computer, or tablet from participating providers. The consumer is required to pay between \$10-\$50 for the device. If someone qualifies for the Lifeline program, they would also qualify for the EBB program. The program expires six months after the Department of Health and Human Services declares an end to COVID-19 pandemic emergency or once funds are exhausted. However, while this \$3.2 billion program might attempt to address this issue, if just half of the eligible households take this benefit it would run out of funding in less than six months.

The current dismal state of the Lifeline program makes it ripe for reform. The numerous shortcomings should not detract from the fact that this program has the *potential* to help bridge the digital divide. Helping low-income Americans access the internet is an investment that can help produce more job options for disadvantaged populations and grow the American economy.

E-Rate

This program’s goal is to help schools and libraries obtain affordable broadband. The funding is based on demand up to an annual cap of \$4.15 billion and is administered by USAC. Eligible schools and libraries receive discounts on telecommunications, telecommunications services, internal connections, and internet access. These discounts can range from 20 to 90 percent based on the poverty level of the schools

and recipients are required to pay a portion of the service costs. Funding is prioritized for the highest poverty schools and libraries. Schools, school districts, and libraries can apply individually or as part of a consortium.

As schools nationwide moved to online learning, this program has been important to addressing the “homework gap” (discussed more below). Even before the pandemic, students without internet access struggled to complete online assignments. With the move to online education, this problem was exacerbated and students risked being excluded not just from online work assignments, but from the classroom itself. The American Rescue Plan of 2021 included \$7.1 billion in additional funding for this program.

Rural Health Care Program

The goal of this program is to improve health care available for patients in rural areas by providing funding for eligible health care providers (HCPs) for telecommunications and broadband services necessary for providing health care. The Rural Health Care Program is made up of two programs: the Healthcare Connect Fund (HCF) Program and the Telecommunications Program. Created in 2012, the HCF supports broadband connectivity and broadband networks for eligible HCPs through a 65 percent discount on the cost of advanced telecommunications and information services and equipment. The Telecommunications Program was created in 1997 and ensures rural HCPs do not pay more than their urban counterparts for telecommunications services used for health care purposes. In 2016, funding demands for this program outpaced the funding cap. In 2018, the FCC increased the budgetary cap to \$571 million, adjusted annually for inflation, and can carry-forward unused funds from past funding years.

Not part of the Rural Health Care Program, but serving a similar purpose is the Connected Care Pilot Program. In 2020, the Connected Care Pilot Program was established with \$100 million in funding from USF. Over a three year period, this program covers 85 percent of the eligible costs of broadband connectivity, network equipment, and information services necessary to provide connected care services to patients. However, it does not fund end-user devices or medical equipment. Primarily, this program was designed to serve low-income and veteran patients.

Telehealth has been instrumental for many during the COVID-19 pandemic. For rural Americans who live in areas without a hospital or doctor nearby, expanding access to broadband and telecommunications connectivity can play a crucial role in closing the digital divide and ensuring more Americans have access to health care. In 2020, the *New York Times* [reported](#) that 8.6 million people were living in an area where a hospital was more than a 30-minute drive away.

Proposed Reforms

On-budget: Perhaps the most straightforward reform that would help to shore up the USF is to bring the appropriations on-budget rather than depending on the skyrocketing contribution factor. If Congress appropriated the funds, there would be a more stable base to fund the various programs and subsidies. Another benefit would be more oversight of how the funds are spent. With the cases of fraud and misuse, especially with the Lifeline program, this could be critical to ensure dollars are being funnelled to those most in need. As always, the devil will be in the details with how this is implemented. There is a financial risk of creating a program with runaway spending, and an implementation of an on-budget appropriation for USF should be offset with spending elsewhere. NTU has laid out [several proposals](#) to cut back on wasteful federal spending.

Voucher Program: Similar to how SNAP and other welfare programs are distributed, another proposed reform is a voucher program for broadband and telecommunications services. Currently, the USF is distributed to the providers who pass on the benefit to the consumer. Reforming the program to give the

consumer increased choice and the ability to shop around not only should provide less administrative burden for the provider, but it could also give the consumer the ability to shop for the best service for them. Some consumers may have preference for a specific service or provider, and this reform has the potential to make for a more competitive market. As the Mercatus Center [notes](#), the United Kingdom uses vouchers for rural broadband already. The Mercatus proposal lays out tiered layers for discounts, but again, it would be important to structure a program like this in a responsible manner that wouldn't pile on more deficit spending on another program.

Reforms to Avoid

There are several reforms to avoid when it comes to closing the digital divide. The calls for “future proof” (read: fiber-only) broadband with symmetrical upload and download speeds could not only fail to close the digital divide, but also divert critical funding from those most in need. While Americans would of course *prefer* faster speeds, changing the FCC's definition of broadband to an exorbitant number like 100/100 Mbps would reclassify many with adequate broadband speeds as lacking access. Fiber-only networks are also a departure from the technology-neutral approach that has typically been taken with government subsidies. Choosing one technology disincentives investment in other innovative technologies and could be impractical in certain areas. A similarly bad idea is attempting to expand access solely through government-affiliated and municipal broadband. A competitive market place is going to be critical to lowering broadband prices and expanding access. Choosing winners and losers could lead to less private sector investment and fail to provide lower costs for consumers. More information is available about some of these proposals [here](#).

Some have also called to expand the base of USF funding to technology, streaming, and internet platforms. However, such a tax would threaten to make broadband less affordable for Americans already struggling to afford it and could set back progress on closing the digital divide. This idea is sure to come up as “Big Tech” comes under fire from both parties in Congress, but a tax on broadband services is misguided. This would ultimately be paid by consumers and should be avoided as a proposal to fix the broken USF funding system. A light-touch approach to taxation and regulation is critical to keeping broadband and telecommunications affordable for more Americans.

Conclusion

The USF provides important funding to help close the digital divide, but the unstable funding base puts this program in peril. Will the USF collapse tomorrow? No. However, the longer this program limps on without reform, the more consumers will be on the hook to pay increasingly outrageous taxes. The contribution factor is on track to hit [40 percent](#) by the end of the year. That means for every dollar spent by the consumer, they are billed an additional 40 cents, which would be an astronomical tax in almost any context. As vaccines are distributed and the prospect of returning to a more normal day-to-day life seems on the horizon, Congress should act now to reform this broken system. Access to the internet can create jobs and provide health care, economic, and educational benefits. Acting now will allow for more thoughtful and practical reforms. Closing the digital divide will require both the private and public sectors, and right now the public sector needs to address these serious flaws with its current approach.

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