Part 54: Universal Service

Part 54 contains rules governing universal service support programs, including the high-cost and low-income funds and programs for schools, libraries, and rural health care providers. The FCC's universal service programs have been evolving since 1984 when the Commission first adopted rules permitting ILECs with loop costs exceeding 115% of the national average to recover a higher proportion of their costs from the interstate jurisdiction, thus reducing intrastate costs and theoretically leading to lower local service rates. These "expense adjustment" provisions, incorporated in Part 36 of the Commission's rules, formed the basis of universal service funding for high-cost companies.

The 1996 Telecommunications Act now requires the FCC to:

- ensure the availability of telephone and information services for all Americans, including consumers living in rural, insular and high-cost areas, low-income consumers, and schools, libraries and rural health care providers;
- ensure affordable service through explicit universal service mechanisms;
- maintain universal service support mechanisms that are "specific, predictable and sufficient;"
- require all providers of interstate telecommunications to contribute to the universal service mechanisms; and
- allow competitive LECs and other telecommunications providers to qualify for universal service support.

USF Administration

In 1997, the Commission directed NECA to create an independently functioning not-for-profit subsidiary through which it was to administer temporarily certain portions of the USF program. This subsidiary is now USAC. NECA was also directed to create an unaffiliated, not-for-profit corporation to manage the schools and libraries program, as well as another unaffiliated, not-for-profit corporation to manage specified portions of the rural health care program. The unaffiliated corporations, NECA's independent subsidiary, and a special committee were made accountable to the Commission for their performance of all functions relating to the administration of the USF support mechanisms. In 1998, the FCC merged them all into USAC, effective January 1, 1999. The Commission declined to require divestiture of USAC from NECA, but indicated it would review USAC's performance after one year and whether USAC should remain affiliated with NECA. The Commission has conducted several reviews, but has retained the current structure.

2011 Transformation Order

Prior to 2011, the High Cost support mechanisms included Local Switch Support (LSS), High Cost Loop Support (HCLS), Interstate Common Line Support (ICLS), and Safety Net Additive (SNA), a component of HCLS. The 2011 Transformation Order, however, phased out LSS, SNA, and the "identical support rule," which allowed competitive carriers to receive the same support an ILEC received for serving customers in ILEC territories. The Order also placed limitations and caps on the remaining mechanisms. The Transformation Order granted support for broadband internet access service (BIAS) for the first time, and created: a new Connect America Fund (CAF) with separate plans for price cap carriers and rate-of-return carriers and an annual funding target of $4.5 billion over the next six years; a new Mobility Fund, which is to provide $500 million per year in ongoing support; and a Remote Areas Fund, which is to provide at least $100 million. The Order set a "budget" for RoR carriers of $2 billion per year in total high-cost support through 2017. RoR carriers receiving legacy USF support or CAF support to offset lost ICC revenues resulting from the ICC reforms must offer broadband service with actual speeds of at least 4 Mbps/1 Mbps upon their customers' reasonable request, and are subject to the annual reporting requirements.

2016 RoR Reform Order

On March 30, 2016, the FCC released an Order reforming USF support for rate-of-return carriers. The Order created two paths for RoR carrier USF support: a model-based option for companies wishing to receive support based on the Commission's A-CAM cost model; and a Broadband Loop Support mechanism (BLS) that replaced ICLS for non-model companies ("legacy support"). Neither type of support will be provided in census blocks where an unsubsidized competitor offers qualifying service. The Order contained broadband deployment milestones, service performance requirements, OpEx and CapEx limitations, as well as budget controls to maintain a $2 billion per year budget. The Order also reduced the allowable rate of return from the current 11.25 percent to 9.75 percent, with a phased transition.

Part 54 rules have been revised numerous times to accommodate all these changes to the Commission's USF high cost support mechanisms.

Contributions to the USF

Part 54 also contains rules specifying how the USF is to be funded, i.e., the contribution methodology. Entities that provide interstate telecommunications services to the public for a fee must contribute to the USF, as well as certain other providers of interstate telecommunications, such as payphone providers that are aggregators, providers of interstate telecommunications for a fee on a non-common carrier basis, and interconnected VoIP providers. USAC determines the quarterly contribution factor based on providers' projected collected interstate and international revenues derived from domestic end users for telecommunications or telecommunications services, net of projected contributions. While there is a great deal of pressure to revise the USF contribution methodology, largely because the interstate revenue base is declining rapidly, and there have been numerous proposals to base contributions on broadband service, the Commission has not yet taken any action.

Part 54 Structure

- Subpart B specifies that voice telephony services and broadband service shall be supported by federal universal service support mechanisms.
- Subpart C defines how "Eligible Telecommunications Carriers" (ETCs) are designated and requires them to offer the services that are supported by federal universal service support mechanisms.
- Subpart D contains the rules for the Connect America Fund (CAF) and CAF-ICC Recovery mechanisms, including the capital investment and operating expenses that are eligible for recovery through these mechanisms, the annual reporting obligations, and the rules for eliminating support where an unsubsidized competitor offers qualifying service.
- Subpart E covers support for low-income consumers, i.e., Lifeline and Link-up.
- Subpart F covers support for Schools and Libraries, i.e., the E-rate program.
- Subpart G covers support for healthcare providers, i.e., the Rural Healthcare program.
- Subpart H contains the rules for the Universal Service Administrative Company (USAC) and for how the USF is funded, i.e., USF contributions.
- Subpart I contains the rules for how USAC decisions are to be reviewed.
- Subpart J contains the rules for the Remote Areas Fund.
- Subpart K covers the Interstate Common Line Support (ICLS) and CAF-Broadband Loop Support (BLS) mechanisms for rate-of-return carriers.
- Subpart L contains the rules for the Mobility Fund.
- Subpart M covers High-Cost Loop Support for RoR carriers.