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Bridging the Gap: Funding Universal Service in the Broadband Era

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Bridging the Gap: Funding Universal Service in the Broadband Era

Introduction

Ensuring that all Americans have access to modern communications services at reasonable cost has been the policy of the United States for nearly a century. **The Federal Communications Commission** (FCC) has pursued this goal since its founding in **1934**, and in more recent years its primary tool has been the **Universal Service Fund** (USF), an evolving collection of programs established under the **Telecommunications Act of 1996**.

Yet policymakers' attempts to keep up with the shifting nature and increasing importance of communications services have fallen short, and the **digital divide persists** between those who have up-to-date technology access and **those who do not**. Current USF programs have proven insufficient to address **affordability**, and it is **increasingly** evident that an effective universal service policy will also need to **address adoption and digital literacy**.

The primary roadblock constraining existing USF programs and standing in the way of developing new and needed programs is the USF's unique funding mechanism. USF programs are funded not by congressional appropriations, but through a system of mandatory contributions from telecommunications providers based on only a small portion of their overall revenues. Basing the contribution formula on this limited "contribution base" results in the obligation to fund USF programs falling on providers in disproportionate ways, and has driven a steady rise in the contribution factor—which is projected to reach a record high of **39 percent**.

Although the program redistributes funds within the industry, changing business models—and an industry-wide shift from telephone service to broadband—have left the formula for contribution obligations out of sync with providers' major revenue streams. While smaller, out-of-date revenue streams (primarily telephone service) are included in the formula, revenues from major modern communications services like fixed and mobile broadband internet are not. This artificially limits the revenue base that funds USF, leaving money on the table.

A recent **Supreme Court decision** upheld the central funding mechanism for USF, clearing the path for updating it in order to fund these programs to meet modern universal service needs. But the contours of this debate are often shaped by the misconception that the communications industry’s revenue base has shrunk. What policymakers must instead appreciate is that the sources of industry revenue have simply shifted.

In order to address the immediate pains of funding obligations that are inequitably imposed on some services but not their competitors, policymakers must update the formula so that contribution obligations are once again matched to the major relevant revenue streams.

A look at the history of USF, which includes perennial disagreement over whether the formula is “equitable and nondiscriminatory” as required by the law, suggests that an update is long overdue. The range of interim changes adopted by the FCC since the program’s conception has failed to keep pace with the communications industry’s evolving business. And despite several well-explored options—whose respective pros and cons we lay out in this report—Congress and the FCC have enacted no meaningful reforms.

More fundamentally, this report argues that current debates turn the problem on its head. Congress and the FCC are dooming themselves to failure by reprising the same repeated arguments over the pros and cons of various systems while presuming an environment of scarcity. In doing so, they are missing the central question: What investments are needed to achieve universal service? A close read of Congress’s broad universal service mandate suggests that the starting point, and framing contours of the debate, should be a holistic assessment of the size and kinds of universal service funding needs today. With significant advances in infrastructure deployment underway, major avenues for reform should include an expanded affordability program and new programs addressing other barriers to adoption, such as gaps in digital skills.

The USF Contribution System

Origins

Achieving universal service is grounded in the idea that for Americans to participate fully in society and the economy, they need access to modern communications services. Because the private sector on its own will not connect every potential subscriber, stranding rural and other expensive-to-serve or unprofitable areas, Congress has long recognized that the federal government must actively encourage and maintain universal service.

The **Communications Act of 1934** established the FCC “to make available, so far as possible, to all the people of the United States a rapid, efficient, Nation-wide, and world-wide wire and radio communication service...at reasonable charges.” The agency did this for most of the twentieth century. Congress went further and specifically codified universal service in the **Telecommunications Act of 1996**, which notably enshrined the longstanding placement of responsibility for funding those programs on the telecommunications industry itself. It laid out a **sweeping mandate** for modern, reliable communications networks with similar services available everywhere, at comparable and affordable prices, with the cost shared equitably among the very network owners who would reap the value of a nationwide network.

In 1997, the **FCC established** the USF’s current structure by building off and adapting measures to preserve universal service that the agency **originally adopted** in the aftermath of the **AT&T’s breakup** in 1983. Though with some difference in the details, both the pre- and post-1996 measures directed the redistribution of service revenue among providers, with varying obligations to contribute (on the basis of subscriber numbers before 1996, and on the basis of revenue after). Over 80 percent of contributing providers opt to recover their USF obligations through line item fees on customer bills.

Since then, the universal service contribution methodology has been under near-constant reconsideration as broadband internet access and mobile phone service have displaced wireline voice telephony service as the primary communications technologies.

As early as **2001**, the FCC recognized the “need to revisit the concepts underlying the existing contribution system, in light of current market trends.” That inquiry yielded **two further notices** in 2002, including an update to an interim formula for mobile wireless carriers, without final resolution. A new inquiry followed in 2006, which **established interim rules** for Voice over IP (VoIP) phone service and updated the interim formula for wireless carriers for the second time. Although that change was made in anticipation of a final ruling, it was followed instead by another interim notice in **2012** and a **2014 referral** to a federal-state joint body for a recommendation. No final action has been taken to date.

Nearly a quarter century after the Commission first declared a need for reform, the question of how to best fund universal service remains unresolved, and the problem is only growing more acute.

The Current Formula

Congress directed that the USF contribution system be driven by demand, that the programs established under Section 254 of the Communications Act be “sufficient” to achieve universal service, and that contributions be made to fund those programs accordingly. To that end, the Universal Service Administrative Company (USAC), a nonprofit established to administer the USF, forecasts the cost of each USF program each quarter and then determines how each company obligated to contribute should calculate its responsibility.

The formula used by USAC today is fundamentally the same formula adopted in 1997, with some modifications. Each provider must contribute an amount proportional to its share of a selected basket of the industry’s reported telephone service revenue—an index referred to as the “contribution base.” To illustrate, suppose the overall reported revenue for services designated as the contribution base for the quarter is \$10 billion, and a given provider had \$1 billion in revenue for those services. That provider would be responsible for a proportional share, in this case 10 percent, of that quarter’s USF program costs.

The contribution base consists of a subset of interstate and international telecommunications revenue (which includes a percentage of services such as traditional landline phone service, VoIP phone service, mobile phone service, and paging services). Notably, broadband service revenue (including business and residential wired internet service subscriptions and mobile phone data plans) is not included.

USAC assists providers in this process by calculating a “contribution factor,” the ratio of that quarter’s forecasted USF program costs to the revenues in that quarter’s contribution base. For example, if the quarter’s USF program costs are \$2 billion, then the contribution factor for a contribution base of \$10 billion is 20 percent. To determine their obligation, providers multiply their revenues that are counted towards the contribution base by the contribution factor. The provider that generated \$1 billion ends up with a \$200 million contribution: 20 percent of its included revenue, or 10 percent of \$2 billion in USF program costs.

The fundamental challenge facing USF is that the current contribution formula does not reflect the industry’s economic reality. Under the statute, contributors are intended to be responsible for an equitable and nondiscriminatory share of USF costs. But because the contribution formula relies on a subset of industry revenues as a proxy for the relevant communications services, its accuracy is vulnerable to shifts in business models, billing strategies, and changes in service technology.

Indeed, telecommunications revenue reported to the FCC has fallen continuously in recent years, leading to talk of a “collapse” of the contribution base—even as those same firms report steady growth, particularly in “non-

telecommunications” revenue that includes broadband services. From this perspective, the river has hardly dried up.

The current methodology’s out-of-date model of the industry results in exactly the kind of inequitable distribution of responsibility for USF contributions that the law prohibits. Revenues from services that comprise the contribution base may represent a substantial portion of a small provider’s total revenue, but a fraction of the overall revenues of a major nationwide wireless carrier, imposing a disproportionately large contribution obligation on the former.

In addition to imposing a disproportionate burden on some providers, the contribution methodology’s misaligned formula has likely constrained policymakers from making needed updates to USF programs. This becomes apparent when reviewing spending on USF programs over the last 25 years, which has remained relatively stable in nominal dollars, but fallen after adjusting for inflation. Based on data in the FCC’s **annual USF monitoring reports** and the inflation adjustment method utilized by the FCC in its **2022 Future of USF report**, spending on USF programs peaked in 2012 at \$11.6 billion (in 2023 dollars) and then fell to \$8.33 billion in 2023, an amount lower than every preceding year but one since 2004. Yet at the same time, the glaring persistence of the digital divide led Congress to **authorize \$65 billion** to address gaps in broadband deployment, affordability, and adoption that USF should have been addressing.

These vulnerabilities can be remedied through periodic adjustments at regular intervals. But despite being aware of the problem since at least 2001, policymakers have struggled to reach agreement on comprehensive change, opting for ad hoc and interim measures in anticipation of a full revision that has yet to come.

A recurring argument made in discussions of USF reform is that the contribution factor—which is projected to rise from 36 to **39 percent** for the fourth quarter of 2025—is too high and continues to increase. The problem with this line of argument is that the contribution factor alone tells us very little. The contribution factor is not a tax rate: It doesn’t tell us about the burden on consumers, as the universal service recovery charge passed through on consumer bills is typically far less than 36 percent of the bill, nor does it tell us about the burden on any given provider. Focusing on the contribution factor, an expression of USF program costs relative to the industry-wide contribution base, disguises how the current formula imposes disproportionate costs on specific providers, including those in direct competition, and particularly those who generate mostly telecommunications revenue.

Instead of focusing on the contribution factor itself, policymakers should recognize that the contribution factor’s growth itself is caused by the fundamental flaw in the contribution formula: excluding the current source of

the bulk of communications industry revenue, namely fixed and mobile broadband. That the contribution formula fails to account for the obvious revenue streams that should be included according to its current conception (and in doing so, leaves money on the table) is the source of the program's major problems today.

Conversations that focus on the contribution factor in isolation, therefore, miss the broader root of the problem. For the contribution rate to be brought down and the inequitable imposition of funding costs to be resolved, the contribution formula needs to be brought back in line with the modern communication industry's revenue streams.

The Impact on Consumers

One tension policymakers routinely face with expanding universal service programs is that service provider contributions are often passed through to their customers—businesses and consumers alike—in the form of passed-through USF recovery charges permitted by the FCC's **Truth-in-Billing rules**, rather than pricing it into the cost of service. As a result, and unlike taxpayer-funded government programs, the universal service contribution mechanism creates a visible link between policy costs and consumer pocketbooks to which policymakers are especially sensitive.

In fact, in **2011**, the FCC identified that tension while refocusing USF from voice phone service to broadband. In doing so, the FCC slightly modified Congress's original mandate by taking the position that it should “minimize the overall burden of universal service contributions on American consumers and businesses” while seeking “to balance the various objectives of section 254(b) of the Act, including the objective of providing support that is sufficient but not excessive.” Congress only directed that universal service support be “sufficient”; the FCC appended “but not excessive” of its own accord.

While it is almost **axiomatic** that companies will pass on **increased costs to customers if they can**, not all providers attempt to recover their USF contributions, with only 82 percent of contributors passing through recovery charges on customer bills. And the FCC has made clear to providers that they are ultimately responsible for making contribution payments, regardless of whether consumers pay their bills.

In fact, despite the rising contribution factor, consumers are not bearing the brunt of the increased costs. Thanks in part to population growth, the FCC's inflation adjusted “Monthly Universal Service Contributions per Household” metric (the number of households in the United States divided by the overall cost of USF programs for a given year) has consistently fallen since 2012, and in 2023 was the second lowest it has been since 2000.

Policymakers should be cognizant of the extent to which consumers would bear the brunt of any change to USF funding, but all of these data points suggest that the relationship is not one-to-one. Indeed, even the FCC notes that its calculations of average contributions per household “do not represent the average amount individual households see on their bills.” While companies will generally choose to pass costs through to consumers and business customers, a dollar increase in USF obligations does not necessarily translate to a dollar more paid by consumers. Due to the complex relationship between inclusion of a revenue stream in the USF contribution base and impact on customer bills, further research is needed to model how significant changes, like adding broadband service revenue to the contribution base, would alter the distribution of responsibility among providers—and ultimately the costs passed to customers.

Alternative Approaches to Funding Universal Service

Debates over how best to achieve universal service that meets the needs of modern society have continued apace in recent years, with the added impetus of billions of dollars from the 2021 Infrastructure Investment and Jobs Act dedicated to remaining broadband infrastructure deployment gaps.

Under this law, Congress requested a report on the future of USF, which the **FCC issued in 2022**. A year later, Senators Ben Ray Lujan (D-N.M.) and John Thune (R-S.D.) announced a bicameral **working group** to study the USF and recommend reforms. Senator Lujan later **solicited** the view of then-FCC Chairwoman Jessica Rosenworcel on **contribution method reform**. **Several bills** have since been proposed to mandate various aspects of USF reform, and in June 2025, the congressional USF Working Group officially reconvened.

In this context, several options for consideration have emerged. One approach is to expand the current system to include broadband services. Two major alternatives could go further and either incorporate various industries outside of communications or abandon the industry-funded model altogether. Each has its pros and cons. In choosing among them, policymakers must be guided by what will generate the funding that the program needs to support a whole new generation of connectivity.

Extending the Existing Approach: Broadband Internet Access Service

Over the last 15 years, supporting broadband services has become the major focus of USF programs, while broadband service revenue is excluded from the contribution formula. This decoupling, and the resulting asymmetry, has veered the program’s design and funding mechanism sharply off course—

particularly because it is happening alongside the convergence of communications technologies.

Today, as internet-based services have displaced equivalent telecommunications services (SMS by WhatsApp, long-distance calls by Facetime, and conference calls by Zoom), providers are increasingly earning “data” revenue at the expense of “telephone” revenue. Today, the FCC estimates that industry broadband revenue is roughly seven times the size of the current telephone-focused contribution base. This shift has taken place all over the industry. Given the statutory objective of “equitable and nondiscriminatory” contribution obligations, the obvious solution is to bring broadband service revenue—the core of the modern communications industry—into the pool.

The question of whether to include broadband services in the contribution pool is not new. When the FCC took up the matter of how to classify cable and DSL (digital subscriber line) broadband services in **2002** and **2005**, it also floated updating its contribution methodology, recognizing that universal service was implicated. The FCC again took up the issue in **2012**, requested input on potential avenues for reform, and tentatively suggested expanding the base to include additional communications services to avert “competitive distortions.” But it didn’t take action, instead referring the question to the **Federal-State Joint Board on Universal Service**. After five years **without resolution**, the board’s state members independently recommended that the FCC expand the base to explicitly include **broadband internet services**, citing their strong legal footing for inclusion.

The thrust of this argument still applies today as long as universal broadband coverage remains a lodestar of the connectivity landscape. Assessing broadband providers continues the process that has always redistributed funds within the communications industry to support the universal service goals. And for universal service to function, it follows that every participating user should pay a small fee to defray the highest costs of access for some.

Given this policy context, proponents of this approach advocate for broadband as a natural fit. **Reports** and **studies** in support note that including broadband would reduce incentives for providers to reassign revenue (thus bringing more consistency to the system) and would fall within the FCC’s jurisdiction. Broadband revenues are stable, predictable, and widespread, and including them would undo the distortionary effects of a formula that imposes unequal fees on direct competitors based on how they classify various revenue streams. Beyond directly assessing business and residential broadband connections, the contribution scheme **could include** data services that rely on broadband infrastructure, such as **business data services** and private transmission.

Because broadband services are provided by **over 2,000 providers** in the United States alone, expanding the contribution pool to include them could substantially reduce the contribution rate. In 2011, **the Joint Board found** that including both telecommunications and information services—indeed, assessing most of the revenues reported in the FCC’s Form 499—would lower the contribution factor to roughly 2 percent at a time when it sat solidly in the mid-teens.

On the other hand, opponents worry that including broadband service revenue in the contribution base would increase bills for consumers when their broadband providers add USF recovery charges—in other words, that there is no free lunch. Indeed, former FCC Chairwoman Rosenworcel **argued** that including broadband service revenue in USF could increase monthly household broadband bills. Free Press similarly **opposes** including broadband service revenue because of the potential burden on residential households. The fear has always been that assessing broadband services to pay for other communications services would raise prices and as a result lower broadband adoption, exacerbating the very issue the fund is meant to address.

And this is a real concern. High subscription prices are a driving factor behind much of the digital divide, and broadband affordability remains largely unaddressed, especially since Congress abandoned the most effective broadband affordability program—the Affordable Connectivity Program (ACP)—by failing to renew its funding in 2024. However, **other studies** have shown that USF fees would be minimal, current fees paid would decline, and broadband adoption would not be materially affected. Moreover, the status quo distorts the marketplace by exempting entire classes of technology from the burden of contribution. It may be preferable to include broadband revenue and, if that increases customer costs, support some households (such as Lifeline participants) with targeted financial assistance, and exempt them from pass-through fees.

Incorporating broadband service revenue into the contribution formula is the reform most consistent with the FCC’s traditional approach to supporting universal service of communications networks, and it aligns with the legal requirement to make contribution obligations equitable and nondiscriminatory. But a more expansive version of this argument could include many other services that rely on communications networks heavily, or have integrated themselves completely into the digital world. That is the basis of the argument that, in addition to broadband providers, a wider net should be cast to assess a variety of digitally based providers.

Expanding Outside the Communications Industry: Information Services

The most recent discussions of contribution reform have moved beyond the traditional approach, which redistributes revenues within the communications industry, to consider **industries** that deliver services or content over communications networks. This approach could include the entire superset of services that rely on the internet, or focus on particular industries and business lines, such as content providers, software application providers, or cloud services, based on their size or other characteristics. Some proposals center around including online platforms that provide content like movies and social media posts, while others suggest including digital services such as data processing and web hosting.

Which industries were included, and which were excluded, would have implications for both the burden borne by consumers and the size of revenue streams added to USF. Since providers often offer more than one kind of service, how those industries would be identified—such as by revenue, internet traffic, or some other means—would affect the end result as well.

Online content platforms: One option is to assess online content providers—mainly the big technology companies that create the content we read, watch, and listen to online. Content providers, the **argument goes**, coast on networks painstakingly crafted by others to support them. Since companies like Netflix, Facebook, and Apple generate trillions of dollars in revenues from data sent across broadband networks, they should pay to support the very system their business models rely on. More than seeking an option for funding USF, proponents of this approach advocate for a fundamental rebalancing of perceived inequities in the current system.

In the United States, the argument has garnered some **Republican support**. Indeed, this is the stance of the current FCC Chairman in the Trump administration, Brendan Carr, who **wrote in an op-ed** that the largest beneficiaries of the internet's current model should pay the largest share of its costs. Debates over **similar payment models** rage around the world.

The obvious benefit of assessing content providers is the ability to tap new (and significant) revenue streams to support USF's needs. The more industries brought into the fold, the lower the contribution factor will be for any individual contributor, lightening the burden on consumers who foot the bill.

But the fairness element of this debate **mischaracterizes** the role that content providers actually play in the connectivity space. Content providers already invest in network infrastructure, including content delivery networks and points of presence to ensure their data travels smoothly to consumers. Internet providers' business models work—and providers can charge accordingly—because consumers value the trove of online content available on their networks.

Moreover, these kinds of digital services are popular and widespread enough that their inclusion would likely raise costs for consumers of everyday services. There are often few substitutes for any particular digital service, leaving consumers stuck with higher prices if the providers pass through fees. It may also result in consumers bearing the cost of multiple fees for various services, potentially creating confusion and inefficiencies, and could introduce competitive distortions in content marketplaces if only some providers were forced to shoulder the fee.

Although including Big Tech is one potential option, its impact would be determined by the number and kind of companies that were ultimately included in the contribution base. And if policymakers were to extend the contribution pool to include contributors such as content providers, it would only make sense to examine other digital industries as well.

Digital services: Proposals to include additional digital services generally fall into two categories: including broad-based business services or selecting from a more targeted subset to minimize consumer impact.

Including broad revenue streams like cloud computing could significantly expand the contribution base, since cloud services have become essential infrastructure for business across every sector of the economy. Proponents argue that these services should play a financial role in maintaining networks since they benefit from a more connected population that creates more demand for the services they provide. Opponents protest that cloud services are so deeply embedded in the modern economy that an increase in their cost structure would **create a price increase** akin to a general tax across the country. The very pervasiveness that makes these kinds of services so appealing for contribution means their inclusion could create economy-wide disruptions.

More targeted approaches would assess digital services while shielding consumers from the impact. Digital advertising presents **one such option**, since it generates enormous revenue and operates primarily in business-to-business markets while imposing significant social and privacy-related costs on consumers. However, advertising costs ultimately get passed through to the businesses that purchase ads, who then factor those costs into their own pricing decisions. While this process may not affect end users directly, it doesn't eliminate the connection entirely.

“Sin tax” approaches would directly target digital industries viewed as socially harmful, such as **online gambling**, cryptocurrency trading, or certain AI applications. This strategy would serve the dual purpose of raising revenue while discouraging undesirable activities. However, sin taxes are built on the premise that the negative behavior in question will persist long enough to provide stable funding, which can lead to a situation in which public policy relies on a (generally unfavorable) activity being sustained. Sin taxes have also been **criticized** for being regressive, disproportionately impacting low-income households. As a matter of policy, this may not be ideal.

The appeal of assessing multiple digital industries simultaneously is that the contribution burden could be spread so widely as to be minimal for any individual consumer. A small assessment across a variety of digital sectors, in addition to communications providers, could generate substantial revenue while minimizing individual sector impacts.

However, broadening the base is an imperfect solution prone to many of the problems plaguing the telecom-based contribution system today. Each digital industry faces its own competitive pressures and the potential for technological disruptions that could undermine revenue stability. And opening the pool up to multiple industries risks making USF fees less transparent to consumers (particularly if consumers incur fees on multiple services) and potentially skewing various competitive markets if some competitors are included but not others.

Limiting contributions within telecom itself enjoys the clarity of a circular system with natural delineations: Telecommunications carriers both pay into and participate in USF programs, therefore benefiting from them. Once the contribution pool expands, those natural boundaries disappear. In addition, because the future of any of these industries is uncertain and companies may seek to reclassify revenue streams to avoid assessments, this new, broader system may be no more structurally sound in the long run. A system that assesses particular lines of revenue, regardless of which industries are chosen, may always remain vulnerable to these fundamental problems.

Appropriations: The Broadest Base of All?

A third approach would abandon industry-based funding entirely in favor of relying on the direct congressional appropriations process. This idea has gained some traction as the problems with the current system have become clear. A number of **industry groups**, **think tanks**, and **companies** have argued that the most reasonable way to achieve the common objective of universal service is for everybody to foot the bill through general tax revenue.

The case for appropriated funding is both practical and theoretical. Proponents argue that there is no broader—or more stable—funding base than the entire taxpaying U.S. population, and that universal connectivity has become a national priority akin to highway infrastructure or rural electrification. Unlike the current system, which creates competitive distortions by implicating some companies but not their direct competitors, appropriations would treat universal service as a shared societal responsibility. This would have the additional benefit of rendering USF immune from any legal challenges levied against its current funding structure.

Despite its theoretical benefits, the reality of the congressional appropriations process gives cause for concern. The contribution factor adjusts quarterly based on actual programmatic needs and revenue collections. This allows USF to respond predictably (if incompletely) to evolving connectivity demands and changing markets without requiring a new legislative fix each time. Congressional appropriations, by contrast, would subject universal service funding to the uncertainty of the annual budget process and its politics and competing spending priorities. While some proponents of this approach have asserted that a multiyear commitment **could provide** more of the needed certainty, the shift would still fundamentally leave USF more vulnerable to changes in political winds.

Indeed, the recent lapse of the ACP due to Congress's inability to agree on a path forward—in the face of the program's **almost unanimous support**—is one recent example of the dangers of relying on Congress for broadband's long-term needs. Even FCC Chairman Carr, despite his criticisms of the current system, **has argued** that appropriations are unable to deliver the kind of reliability USF needs. Given Congress's failure to renew a popular program with widely acknowledged benefits, the more politically encumbered, contentious USF would likely be condemned to a quick death under that same process.

While the current system lacks the flexibility and legal certainty of the appropriations process, it provides operational predictability that has allowed USF to function for decades. Moving to appropriations would fundamentally shift the U.S. approach to telecommunications policy from a targeted, industry-focused system to a traditional government program subject to partisan political pressures—one that has failed to prioritize broadband before.

Recommendations

Some of the roadblocks we face today have arisen because current debates are turning the problem on its head. USF is designed to be a self-sustaining program able to collect the funding it needs to meet its goals. Debates around which industries are the best fit for the contribution pool, therefore, miss the broader point. The pros and cons of assessing various industries, or the degree to which a sector relies on the communications industry, should not determine the volume of revenue streams that feed into USF. Instead, the size of the contribution pool should be dictated by the financial needs the program is trying to address without overly burdening consumers.

As the contribution formula grows less representative of the communications industry, a mismatch that is signaled by the contribution factor's tenacious upward climb, USF reform can no longer be delayed. A sustainable path forward requires a careful analysis of the current system and reforms that best support universal service while imposing the lowest costs on consumers. This can be achieved through a multistage, iterative process that determines current needs, chooses the contribution mechanism that meets them, and builds in room for future flexibility. We offer three recommendations for policymakers and other stakeholders.

1. Determine a Broad Vision for Universal Service That Includes Broadband Adoption

USF's statutory framework ties funding levels to the actual cost of achieving universal service rather than setting predetermined spending targets. This means that policymakers must embark on a two-stage review of the current landscape before approaching contribution reform itself, which will enable effective and sustainable reforms.

This assessment should begin with a determination of which needs and services should be funded and whether recent connectivity policy changes justify a rebalancing of priorities. The landscape suggests they do.

Today, USF mainly subsidizes infrastructure deployment costs and affordability through various programs. With the \$42.5 billion Broadband Equity

Access and Deployment Program (BEAD) set to build out broadband infrastructure across the country, at some point in the near future, it may be feasible to reduce, or even eliminate, subsidies for the High Cost Fund, USF's rural deployment program. On the other hand, the size of the Lifeline program, the only current federal broadband affordability program, pales in comparison to the scale of the affordability problem in the United States. Recent experience with the Affordable Connectivity Program indicates that a successful affordability program **likely needs to offer a larger benefit** than the monthly \$9.25 currently available through the Lifeline program. A more robust and inclusive affordability program, such as a successor to the ACP, would better tackle the financial barriers that keep millions offline.

The shifting landscape also creates an opportunity to expand universal service principles beyond connectivity alone. Lagging broadband adoption and low digital literacy rates represent the largest barriers to online use today. The FCC should exercise its power to establish these two areas as universal service principles and create a new support mechanism to address them. Explicitly including them as universal service goals will ensure USF continues to meet the full spectrum of digital inclusion challenges. It will also position communities to make use of the networks that are built. These efforts could take the form of a **nonprofit foundation** that channels investments into digital inclusion and literacy gaps as they emerge, an idea that was **recently reintroduced** in Congress as legislation.

After it identifies current needs, the FCC should determine the funding necessary for each newly identified or revised workstream. The agency can approach this process in the same way that it has calculated funding needs for USF programs in the past. Any new funding streams created to support broadband adoption or digital literacy should be informed by the direct needs of the relevant stakeholders, such as local digital inclusion organizations or states, as determined by surveys of broadband adoption barriers. Once the scale of the problem has been accurately assessed, policymakers can begin revising the contribution methodology to ensure it meets the USF's true needs.

2. Update or Overhaul USF's Contribution Formula to Ensure Sufficient Funding

As explained in this report, the contribution formula creates obligations that are increasingly mismatched with the communications industry's economic reality. While USF increasingly supports broadband-related programs and services, its funding remains anchored to an out-of-date base of traditional telecommunications revenue. Distortions created by this mismatch threaten the program's sustainability and limit its ability to address new needs.

The contribution base is not collapsing. The communications industry's revenue streams remain robust. But the current system allocates contribution obligations disproportionately among companies that all directly compete. While the sources of revenue have shifted, USF funding streams have failed to adjust accordingly, imposing a high contribution rate on a narrow swath of companies while ignoring the broader base of potential contributors.

If policymakers seek to maintain the system that redistributes funding within the communications industry, they should update the contribution methodology to accurately reflect the economics of the industry today. This would involve including broadband services, enterprise data revenue, and other revenue streams that live directly within the communications industry.

In the alternative, policymakers may pursue a more expansive approach that selectively targets additional lines of business to contribute. These could range from assessing cloud services to more narrowly targeted revenue streams such as digital advertising or online gambling.

Each option presents distinct tradeoffs in revenue potential, economic efficiency, and consumer impact, which should be considered when deciding which revenue streams to include.

Although the impact of potential consumer or industry harms should be considered, the scope of any reformed funding stream should first be dictated by the scale of funding requirements. And because no option for contribution reform is perfect, policymakers should embark on a flexible, ongoing process that allows for regular updates and adjustments if problems arise or better solutions emerge.

3. Regularly Review USF Policy to Ensure Needs Are Identified, Understood, and Addressed in a Timely Way

Universal service needs continue to evolve, but universal service policy is largely at a standstill. The current process, in which the system remains largely static between infrequent overhauls, is widely acknowledged to be in dire need of reform. Despite built-in checks to the system—such as recommendations from the Federal-State Joint Board—and interest at the congressional level, no major changes have been made to the contribution system. Since this stasis has been accompanied by rapid industry transformation and societal shifts in communications needs, the challenges facing the USF are only growing.

A more sustainable approach would embed regular review and adjustment into USF operations rather than occasional significant reform. Since USF must successfully adapt to changes in the communications ecosystem, this would help the program better achieve its goals in addition to averting future

challenges. Smaller, more frequent corrections would prove more administratively manageable—and politically feasible—than the attempts at comprehensive overhaul that have repeatedly stalled.

Policymakers should commit to establishing a process to regularly incorporate systematic stakeholder input and data collection on program effectiveness and funding needs. This system should include regular review with incentives to take action rather than indefinitely defer decision-making. Ensuring regular assessment and adjustment of USF's funding mechanisms will help to prevent the program from ever again drifting so far off its intended course.

Conclusion

Redefining the problem of contribution methodology as a means to an end will help policymakers simplify the process and make difficult choices where necessary. Although no version of contribution reform is perfect, the status quo has failed, and building periodic reforms into the process will allow policymakers to make choices with the knowledge that mistakes can be reversed. The barriers to universal service today are shaped differently than they were decades ago. To effectively meet those needs, the Universal Service Fund has to evolve alongside them.



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