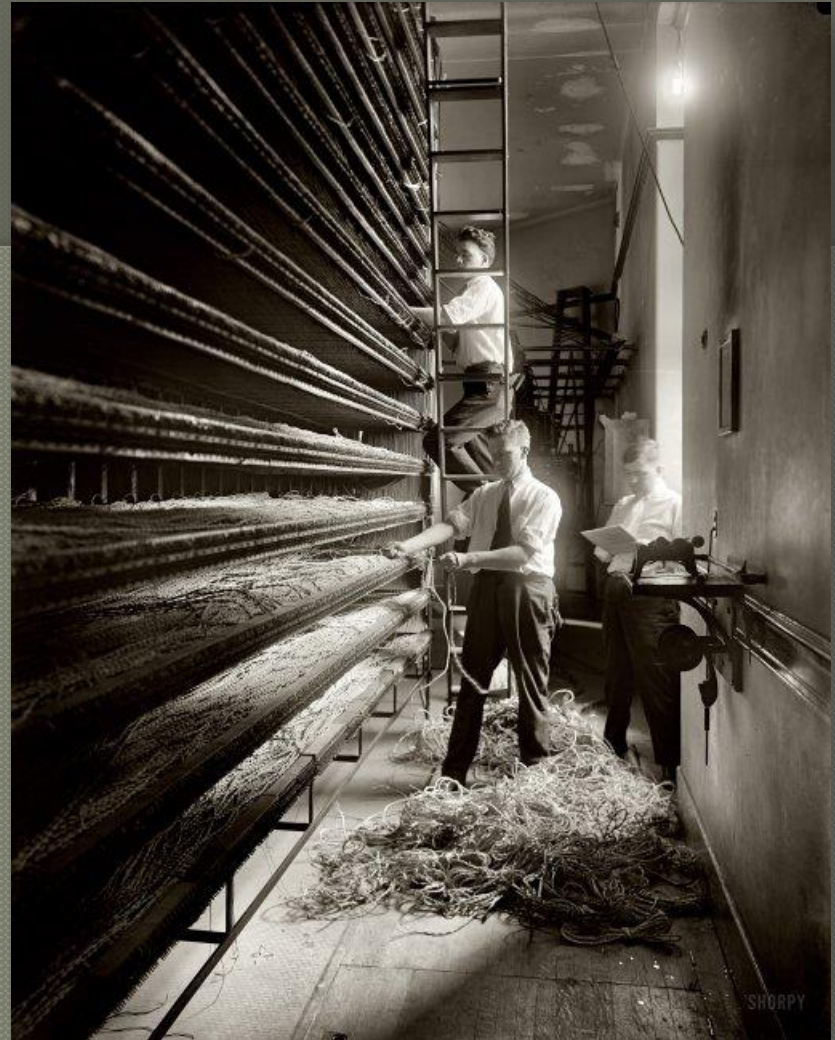


# 2017: What to Expect from DC

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# Agenda

- DC Updates
- Universal Service Fund (USF) Overview
- E-rate Update
- Rural Health Care Update
- Pai's Proposed Digital Empowerment Agenda: "Gigabit Cities"





# Washington Updates



- Broadband infrastructure spending
  - Bi-partisan letters to Trump:
    - “\$5 billion invested in broadband infrastructure, 250,000 jobs are created and with every percentage point increase in new broadband distribution, employment expands by 300,000”
  - Telcos want to distribute through FCC (Connect America Fund)
- NTIA lead not announced yet
- “2 for 1” Trump Executive Order – does not apply to FCC

# Washington Update

## ● Chairman Ajit Pai to lead FCC

- Commissioner since 2012
- Indian American from Parsons, Kansas; physician father
- Fiscally conservative
- Opposed Open Internet order
- FCC Process Reform
- Digital Divide

## ● First actions:

- Broadband Advisory Committee
  - To address regulatory barriers to broadband deployment in urban and rural areas.
  - Nominations due 02/15
- Items pulled/rescinded
  - BDS order
  - E-rate Modernization Progress Report
  - Zero rating Report
  - Lifeline for broadband ETC designations
- Action unlikely on Boulder and Microsoft E-rate waiver requests (homework gap)



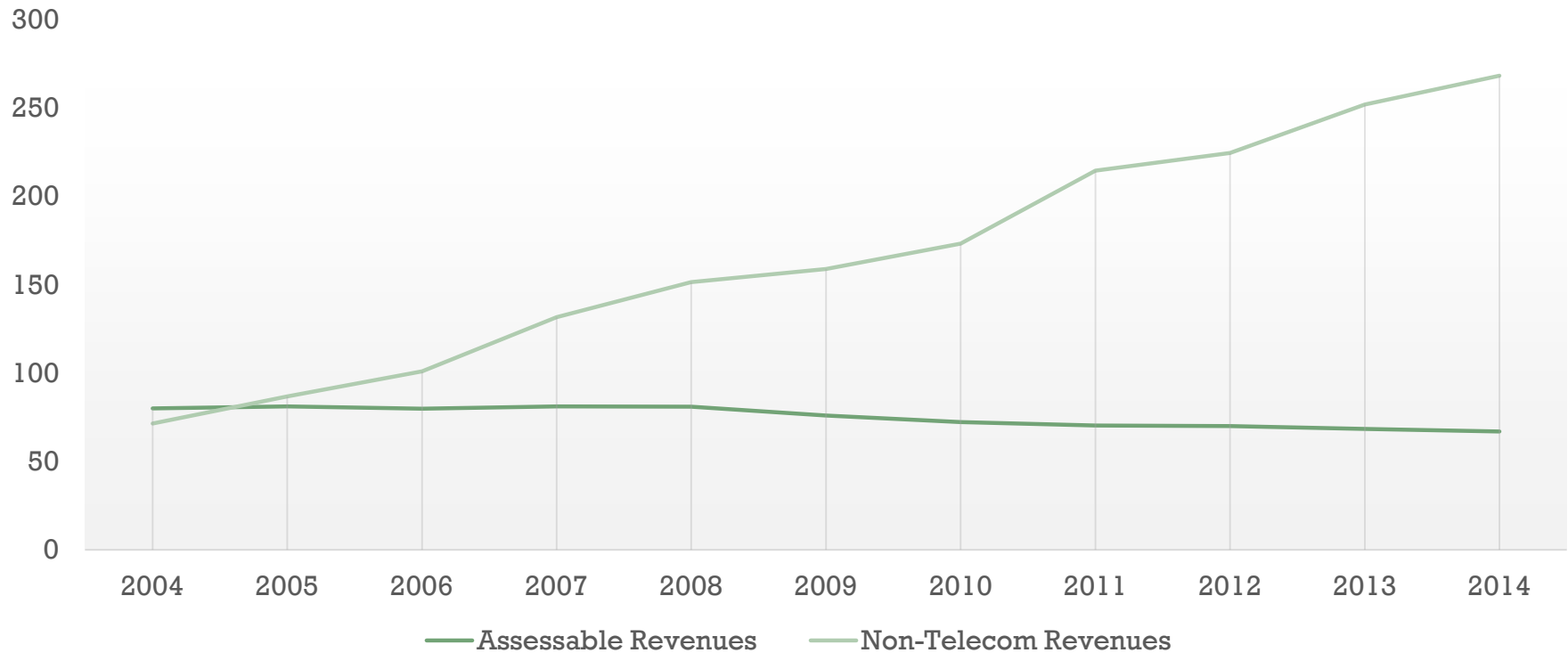
# Federal Universal Service Fund

*“Universal service” is a principle that has been recognized for over 100 years: all Americans should have access to communications services.*

- Congress in 1996 extended beyond basic telecommunications.
- Authorized the FCC to establish four programs:
  - **High Cost (aka Connect America)** – ensures telephone companies serving rural areas provide affordable services
  - **Lifeline** – ensures eligible low income Americans have access to telecommunications
  - **Schools & Libraries (E-rate)** – ensures schools and libraries have access to broadband
  - **Rural Health Care** – ensures rural health care providers have access to broadband



## Assessable Revenues vs. Non-Telecommunications Revenues (2004-2014)



### 2015 Authorized Support

High Cost (Connect America) = \$4.50 billion  
Low Income = \$1.49 billion  
Schools & Libraries (E-rate) = \$2.08 billion  
Rural Health Care = \$0.28 billion  
TOTAL = \$8.3 billion



# E-rate: USAC Special Construction Update

Fiber Request Type	Funding Committed	Number of Applications
Dark Fiber	\$6.3 million	108
Lit Fiber	\$8.8 million	64
Self-Provisioned	\$18.3 million	131
Total (as of early January)	\$33.4 million	303

- 42% of applications have been completed
- 22% of requested dollars have been reviewed
- \$39.3 million total dollars reviewed; \$9.7 million denied
- \$143 million remain in review
- Review target pace = 50 applications per week (slowed over the holidays)
- Needed FCC guidance received
- Waivers will be needed for those expected to miss “lit in funding year” requirement

# FCC E-rate Progress Report

- Issued January 18, 2017; rescinded February 3, 2017
  - “will have no legal or other effect or meaning going forward”
- Wi-Fi
- Connections to schools & libraries
- Financial stability





# E-rate Progress: Wi-Fi



- Rapid, widespread impact
  - Zero support in 2013 and 2014
  - \$1.3 billion in 2015
  - > \$1 billion in 2016
- Stable and more equitable distribution
  - Every state and all but two territories
- FY 2019 reversion to priority system

# E-rate Progress: Connectivity

- 61% decline in schools without fiber between 2015 and 2016
- Expected impact of new rules in 2017:
  - 113 special construction applications for leased lit fiber
    - 58 used new amortization and installment rules
  - 342 leased dark fiber applications
    - 99 sought special construction or electronics for dark fiber network
  - 236 self-provisioned network applications
  - 87 applicants requested extra state match funding





# E-rate Progress: Finances

- Improved cost effectiveness and stabilized finances

- Requests historically exceeded \$4 billion, peaking at \$5.3 billion in 2012
- Requests and commitments below cap for last two years

- Decline in price per Mbps

- 42% of districts increased bandwidth without “significant increases” to MRC

- Competition

- Districts that switched providers (“switchers”) received 2x bandwidth increases compared to non-switchers
- Switchers reduce average monthly costs 8 percent compared to 12 % for non-switchers





# Pai's 2013 E-rate Diagnosis



- Delay
  - Commitment and appeals backlogs
- Paperwork [EPC?]
- Complexity
  - Consultants essential
  - Annual gap between disbursements and commitments as measure of complexity
- Inequitable and haphazard spending
  - Voice over Priority 2
  - South Dakota got 30% less than New Jersey
  - Lakewood NJ got \$282 per student; Newark \$82
- Program structure invites abuses
  - “The more you spend, the more you get.”
  - Lack of local transparency on what E-rate is funding (FOIA request required)

# Pai's 2013 E-rate Reforms

- \$2.1 billion = \$42 per student
  - Rural and poor get double vs. non
    - *E.g., rural WV student = \$128 vs. \$32 for upscale NYC*
  - Schools know in advance how much \$\$
  - Preserve Library share at 10%
  - *Don't increase E-rate cap without offsetting reductions in other USF programs*
- Let schools decide: Eliminate Category 1 and Category 2 distinctions
- Two one-page forms; USAC to calculate discounts based on census data
  - Eliminate consultants – more money for students
- Accountability and Transparency
  - Front end: 25% match
    - Greater incentive to spend carefully
  - Back end:
    - Certification that funds used to benefit *students*
    - Publication of what funds expended on
      - “sunlight . . is the best of disinfectants”



# Pai's E-rate Dissent



- Failure to make hard choices
- Favors urban
  - Doubles funding to libraries in urban areas and suburbs
- Higher discounts encourage wasteful spending
- Insufficient safeguards against unnecessary self construction
- Lack of notice
  - 10% match proposal (zero percent match)
  - New obligations for High Cost recipients



# Rural Health Care Basics

Program	Telecommunications Program	Healthcare Connect Fund
How is support calculated?	<ul style="list-style-type: none"> <li>Urban-rural cost differential</li> </ul>	<ul style="list-style-type: none"> <li>65% flat rate subsidy</li> </ul>
Who is eligible for discounts?	<ul style="list-style-type: none"> <li>Individual eligible <u>rural</u> health care providers (HCP's) only</li> </ul>	<ul style="list-style-type: none"> <li>Individual rural HCPs</li> <li><u>Non-rural</u> HCPs as part of a consortium that has a majority of rural members</li> </ul>
What services are eligible for discounts?	<ul style="list-style-type: none"> <li>Telecommunications services</li> <li>Customary installation charges</li> </ul>	<ul style="list-style-type: none"> <li>Broadband services and equipment</li> <li>Customary installation charges (\$5K)</li> <li>Additional options for consortia                             <ul style="list-style-type: none"> <li>Multi-year funding commitments</li> <li>Network services &amp; equipment (NOCs)</li> <li>Upfront costs: IRUs, Long Term Leases, Network construction (in some situations)</li> </ul> </li> </ul>
Who is eligible for subsidy?	<ul style="list-style-type: none"> <li>Telecommunications carriers only</li> </ul>	<ul style="list-style-type: none"> <li>Any vendor that provides eligible services</li> </ul>

**Funding availability: \$400 million annually (of which \$150 million max available for HCF long-term support)**

# Rural Health Care Updates

- No movement on SHLB Petition for Further Modernization (Nov. 2015)
- \$400 million cap hit for the first time
  - Telecom Program driving demand
  - HCF growth steady
  - SHLB Emergency Request for Interim Cap Relief Filed (Dec. 2016)
- Skilled nursing facilities eligible for first time in FY 2016
- Increased Enforcement Activity



# RHC Funding Demand



- **Has the Money Run Out? *No.***
  - \$400 million available every year
- **Operating “at the cap”**
  - Filing windows
  - Reduced (pro-rated) support
  - What about consortia with multi-year funding commitments?
- **Will FCC raise the funding cap?**



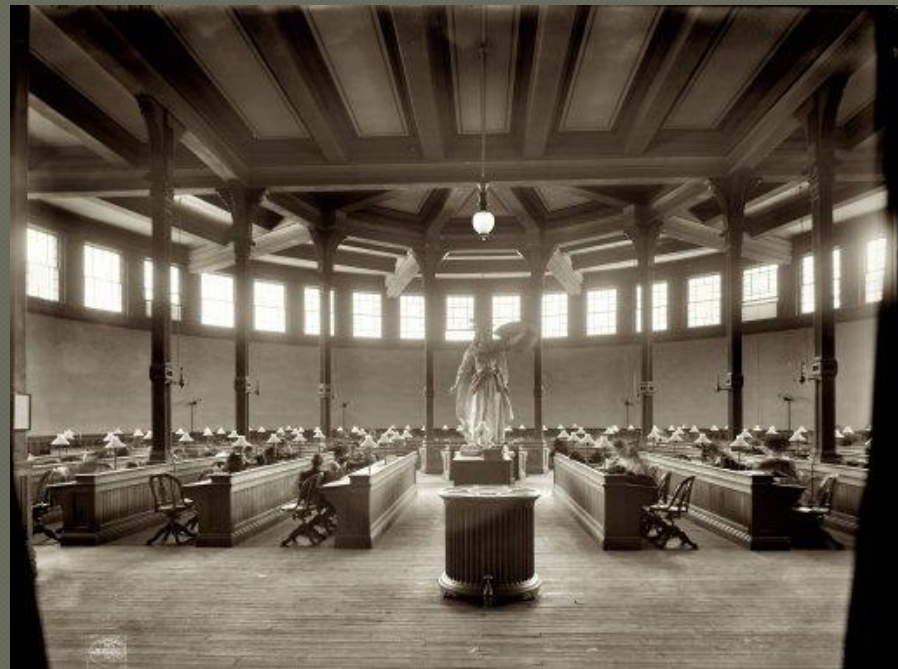
# Pai's Digital Empowerment Agenda

## ● Gigabit Opportunity Zones

- GOZs allowed where average household income < 75% of national median
- To qualify, states and local govs must adopt certain deployment-friendly policies
- Department of Commerce to approve and maintain list of approved GOZs

## ● Adopt federal policies applicable only in approved GOZs

- Tax incentives for ISP buildout: immediate expensing; 7-year loss carryovers
- Tax credits for qualified startups: e.g., reduced employer payroll taxes



# Pai's Digital Empowerment Agenda

- More mobile broadband in rural areas

- Greater buildout obligations for 700 mhz licensees; increase from 10 to 15 years
- Reformed mobility fund
  - Technology neutral standards
  - Subsidize only areas without competition
  - Rural dividend: Set aside 10% of spectrum auction proceeds to support new infrastructure



# Pai's Digital Empowerment Agenda

- Address local, state, and federal regulatory barriers to broadband deployment
  - Franchise fees
  - Rights of way (excessive delays worst on federal and tribal lands)
- FCC actions:
  - Preempt local rules that are not “fair and reasonable”
  - Establish enforceable “shot clocks”: failure to act = deemed approved
  - Further reform pole attachment rates
  - Expand FCC jurisdiction to poles owned by local/state/fed government and railroads
  - Establish model codes
- National “dig once” policy for road construction to always include conduit





# Questions?

