

Proposed Fourth Quarter 2017 Universal Service Fund Contribution Factor Jumps - Poised to Hit New High

September 18, 2017

On September 12, 2017, the Federal Communications Commission's (Commission) Office of the Managing Director (OMD) released a [Public Notice](#) proposing a universal service fund (USF) contribution factor of 18.8% for fourth quarter 2017. This proposed contribution factor would be the highest rate since the USF program's inception and likely reflects the impact of the declining USF contribution base.

The proposed 18.8% contribution factor appears to mark a decisive upward turn in the contribution factor trajectory. Over the [past two years](#), the contribution factor has fluctuated slightly, starting from a high of 18.2% for first quarter 2016 and ending at 17.1% in the third quarter 2017 but generally averaging in the mid-seventeen percent range. The proposed contribution factor not only sets a new high but also represents an increase of nearly two percentage points over third quarter 2017's 17.1% contribution factor.

To anyone watching USF contribution issues, this increase likely comes as no surprise. The USF contribution base has seen a steady decline over the past several years and increasing the contribution factor is likely the easiest option for offsetting the declining base. The key question is whether this new high in the contribution factor - astoundingly close to 20% - is sufficient to spark Commission action to reform the contribution side of USF. Industry participants probably ask themselves the same question each time the contribution rate increases - frankly, as far back as 2011, [we thought the 17.9% factor](#), a new high at *that* time, would be the catalyst triggering contributions reform. For those who might not have been following the issue, USF contributions reform has been under discussion by the Commission since 2006. In 2014, the [Commission referred](#) the record on USF contributions to the Federal-State Joint Board and requested the Board provide a recommendation for how the Commission should modify the USF contributions methodology. That referral request remains pending with the Board. However, the Chief of the Commission's Wireline Competition Bureau recently noted that USF issues have been attracting a lot of attention lately, and when asked, suggested there is a reasonable possibility that contributions reform could come in the near future. Consequently, while only time will tell what will be the impetus that breaks the logjam of contribution reform, it looks like there may be light at the end of the tunnel.

Although OMD's USF contribution factor is still just a proposal, the factor will take effect unless the Commission takes action within fourteen (14) days after the Public Notice release date. We are not aware, in recent memory, of the Commission ever stepping in to change a proposed contribution factor so the industry should anticipate this contribution factor will be in effect for fourth quarter 2017. Increases in the contribution factor mean reporting errors become more costly. In addition, the increased contribution factor means more carriers that previously qualified for *de minimis* status

could be brought within the USF contribution base. Consequently carriers should be sure to review their Form 499A reporting and customer invoicing to be ready for the new contribution factor.