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Highlights

Highlights of GAO-12-738, a report to congressional requesters

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TELECOMMUNICATIONS

FCC Has Reformed the High-Cost Program, but Oversight and Management Could be Improved

Why GAO Did This Study

The high-cost program within the Universal Service Fund (USF) provides subsidies to telecommunications carriers that serve rural and other remote areas with high costs of providing telephone service. The annual program cost has grown from $2.6 billion in 2001 to over $4 billion in 2011, primarily funded through fees added to consumers' phone bills. The program is managed by the Federal Communications Commission (FCC), which noted that providing universal access to broadband is "the universal service challenge of our time." Accordingly, FCC made changes to the program to make funds available to support both telephone and broadband. GAO previously reported that using USF monies for broadband could cause the size of the fund to greatly expand unless FCC improved its management and oversight to ensure the program's cost-effectiveness. This requested report examines FCC's (1) plans for repurposing the high-cost program for broadband, and (2) plans to address previously identified management challenges as it broadens the program's scope. GAO reviewed and analyzed pertinent FCC orders, associated stakeholder comments, and reports related to USF and interviewed federal and industry stakeholders, as well as economists and experts.

What GAO Recommends

FCC should (1) establish a specific data-analysis plan for carrier data to determine program effectiveness, and (2) consult with the Joint Board as it examines the factors for calculating carrier support payments. FCC concurred with the recommendations and provided technical comments.

View GAO-12-738. For more information, contact Mark Goldstein at (202) 512-2834 or goldsteinm@gao.gov.

What GAO Found

Under the USF Transformation Order, FCC adopted new rules to fundamentally change the high-cost program by extending the program to support broadband capable networks. For example, FCC established a $4.5-billion annual program budget for the next 6 years, created new funds—called the Connect America Fund and the Mobility Fund—that will support broadband deployment, and established public interest obligations for the carriers as a condition of receiving funds. Specifically, FCC will require carriers to offer broadband services in their supported service areas, meet certain broadband performance requirements, and report regularly on associated broadband performance measures. FCC also changed its method for distributing funds to carriers to address some of the recognized inefficiencies with the program. According to FCC, these changes will allow it to reduce high-cost support for carriers providing only voice services and make funds available to carriers to offer both voice and broadband services.

FCC has taken several steps to address previously identified oversight and management challenges that GAO and the Office of Management and Budget (OMB) have raised in the last 7 years, but issues remain. Management challenges identified by GAO included a lack of performance goals and measures for the program and weak internal controls, while OMB criticized FCC's inability to base funding decisions on measurable benefits. In response, FCC established performance goals and measures for the high-cost program and improved internal control mechanisms over the fund. While these are noteworthy actions, GAO identified gaps in FCC's plans to better oversee the program and make it more effective and efficient. In particular, FCC has not addressed its inability to determine the effect of the fund and lacks a specific data-analysis plan for carrier data it will collect. Such analysis would enable FCC to adjust the size of the Connect America Fund based on data-driven evaluation and would allow Congress and FCC to make better informed decisions about the program's future and how program efficiency could be improved.

GAO also found that FCC lacks a mechanism to link carrier rates and revenues with support payments. A requirement in statute is for rates for telecommunications services to be reasonably comparable in rural and urban areas, but FCC has noted that some rural carriers are offering basic local rates for telephone services that are lower than the average basic rate paid by urban consumers. FCC has stated that it is not equitable for all consumers to subsidize the cost of service for some consumers who pay local service rates that are significantly lower than the national average and has therefore instituted an incentive mechanism for carriers to increase artificially low consumer rates. Although FCC would like to prevent consumers from subsidizing carriers that offer service at artificially low rates, its incentive mechanism to raise rural rates will not reduce the financial burden placed on all consumers as there is currently no connection between the support payments a carrier receives and the carrier's rates and revenues. The Federal-State Joint Board on Universal Service recommended that FCC consider a carrier's revenues when calculating its need for support payments, but in the past, FCC declined to implement this recommendation. FCC is developing a new model to calculate carrier support, but has not stated what factors will be included.