



Understanding Universal Service Reform

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Speaker Bios

Jonathan Marashlian, Esq.

Jonathan Marashlian, partner at Helein & Marashlian, LLC, The *CommLaw* Group, assists clients with regulatory compliance and strategies, transactional, litigation and regulatory defense matters before the FCC and state regulatory agencies across the nation. He counsels clients in all aspects of state and federal regulatory matters, focusing on compliance with the Universal Service Fund and similar regulatory programs through his firm's unique Compliance & Reporting service, The *Compliance* Group. Jonathan earned his J.D. from the George Mason University School of Law.

Robert Dumas, CPA

Accountant, consultant and entrepreneur Robert Dumas began his public accounting career on the tax staff at Arthur Young & Co., followed by a brief stint at Grant Thornton. In the late 1980s, Robert joined BellSouth Corporation's tax department. In 1996, he left BellSouth to pursue a career as an independent consultant. Three years later, Robert founded Tax Partners, which became the largest sales tax compliance service bureau in the country. Robert served as president of Tax Partners and helped grow the business to \$16 million in seven years. The company was sold to Thomson Corporation in March 2005, and Robert served as vice president of operations in Thomson's transaction tax business unit until founding TaxConnex in 2006. Robert is a nationally recognized expert on telecommunications taxation and a frequent speaker on the subjects of transaction tax, business process outsourcing and sales tax compliance. He is a graduate of the University of Georgia, and holds a masters degree in accountancy, with a tax emphasis.

What is Universal Service?

- Section 254 of the 1996 Telecommunications Act requires the FCC to establish regulations to ensure:
 - Support for the universal availability of telecommunications to all Americans at just and reasonable rates, including:
 - Support for high cost areas
 - Support for public schools & libraries
 - Support for rural healthcare/telemedicine
 - All providers of interstate telecommunications and interconnected VoIP providers must contribute to the support of Federal universal service in an equitable and nondiscriminatory manner by making quarterly contributions to the Universal Service Fund (“USF”)

How USF works today: Revenue-Based Contributions

- Since 1996, USF funding is based on a percentage of telecom provider revenue
 - Interstate & international billed and collected end user telecommunications revenue
 - The FCC has extended this contribution obligation to Interconnected VoIP providers
 - USAC sets the “contribution factor” each quarter based on projected fund requirements
 - Contribution factor steadily increasing

Why does current USF need reform?

- No support for broadband
 - The current USF does not include broadband internet access as a supported service
- Declining revenue base
 - Primary contributors under current system experiencing historic declines in revenue
 - Fierce competition among IXCs forcing prices to all-time lows
 - Inter-model competition from wireless and broadband/IP
 - Bundling of local, long distance, wireless & video in non-usage sensitive packages resulting in minimized interstate revenue
 - Interstate long distance revenues are being cannibalized by new technologies
 - These developments have led to ever increasing contribution factor
 - < 4% in 1996
 - Currently 12.9% (peaked at 15.3% in 2Q FY 2010)
 - High USF contribution factor beckons regulatory arbitrage and non-compliance

USF Reform: Overview

- Reform efforts have been ongoing since the USF was created in 1997
 - Both in Congress and by the FCC
- Most recent reform proposals have centered on:
 - Including broadband as a supported service
 - Reducing inefficiencies
 - Limiting the size of the USF
 - Reforming contribution methodology
- Reform is controversial and the stakes are high

USF Reform: Proposals at the FCC

- **National Broadband Plan:** proposed USF reform, to be implemented in two stages:
 - Stage One: (2010-2011)
 - Identify current funding to shift to support broadband
 - Connect America Fund: Support broadband in unserved areas
 - Mobility Fund: Provide one-time support for deployment of 3G networks
 - Establish a long-term plan for Intercarrier Compensation reform, and examine middle-mile costs and pricing
 - Stage Two: (2012-2016)
 - Begin disbursements from CAF and Mobility Fund
 - Implement ICC/middle mile pricing reform
 - Begin USF Contribution Reform

USF Reform: FCC Implementation of the NBP's USF Reform Proposals

- The FCC has begun efforts to implement the NBP's proposal for USF Reform
 - Connect American Fund NOI/NPRM (rel. Apr. 21, 2010)
 - NOI sought comment on cost model to determine USF support for broadband and ways to target funding for broadband deployment in unserved areas
 - NPRM sought comment on ways to cap USF growth and cut inefficient funding in legacy high-cost support mechanisms and shift savings toward broadband
 - Mobility Fund NPRM (rel. Oct. 14, 2010)
 - Seeks comment on the creation of the Mobility Fund as one mechanism to support broadband
 - Proposes to use USF funds freed up by the Verizon and Sprint voluntary merger commitments to surrender high-cost USF support

USF Reform: FCC USF Reform Moving Forward

- Absent Congressional action, contribution reform will be addressed in Stage Two of the NBP USF Reform Proposal
- Current Proposals Include:
 - Numbers Plan
 - Connections Plan
 - Numbers/Hybrid Plan
 - Modified Revenue-Based Contribution Scheme
 - Expanding the Contribution Base

USF Reform: Contribution Reform Proposals

- Numbers Plan: all communications service providers with working, “in use” telephone numbers (or equivalents) would be assessed a flat, per number fee
- Connections Plan: all connections to an interstate public or private network would be assessed a flat, per number fee
- Numbers/Connections Hybrid Plan: would assess residential users a fee based on working numbers and business users a fee based on working connections

USF Reform: Contribution Reform Proposals (cont.)

- Modified Revenue-based System: maintain aspects of the current revenue-based system. Could be inspired by European Value Added Tax (VAT)
- Expanding Contribution Base: maintain current system, require broadband providers and other communications service providers to contribute

USF Reform: Congressional Action

- Universal Service Reform Act of 2010:
 - Introduced in the House on July 21st by Reps. Rich Boucher (D-VA) and Lee Terry (R-NE)
 - Declares broadband to be a supported service
 - Limits USF so it does not unreasonably burden consumers
 - Expands contribution base to include:
 - Broadband providers
 - Non-interconnected VoIP providers
 - Current contributors
 - Defers to FCC to decide whether to base contribution methodology on revenues, numbers, or combination.
 - Potential for increased contributions:
 - If FCC opts for a revenue-based approach – it can assess contributions on Interstate, Intrastate, and International communications services!

USF Reform: Congressional Action (cont.)

- Twenty-First Century Communications and Video Accessibility Act of 2010:
 - Requires all VoIP providers (both interconnected and non-interconnected) to contribute to the Telecommunications Relay Service Fund
 - Demonstrates Congress' willingness to expand federal contribution obligations beyond telecommunications carriers and Interconnected VoIP providers

What does this all mean?

- Reform to the USF is imminent and the contribution base will be expanded
 - USF contribution obligations will likely be extended to:
 - Broadband providers
 - Non-interconnected VoIP providers
- A revenue-based system will likely be maintained
- USF Contribution obligations have tax implications

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The *Compliance* Group and TaxConnex: We Are Here to Help! (cont.)

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