



Universal Service Fund Fees: Why You're Overpaying

Rising USF Fees Are Making VoIP and Wireless Customers Question Why Their Bill Keeps Going Up. There Are Steps That Your Company Can Take To Lower Your USF Contribution Every Month.

Two things in life are inevitable - death and taxes. By far the most common customer relations issue carriers face is customers calling in asking "Why did my bill go up again?" How do you answer that when in fact their bill has

continued to rise every quarter, and it's not your fault! There's no question that the Universal Service Fund has shown its significance in recent years, especially by funding high cost programs that help to bridge the digital divide. However, as the demand for the funds increases, so does the monetary amount that providers must contribute to it.

The amount that providers contribute to the USF is based on the *Contribution Factor*, a percentage that changes quarterly, and is increased or decreased depending on the needs of the Universal Service programs. With the pandemic facilitating a dependence on broadband with an increase of work from

home programs, the Contribution Factor has spiked to record highs. While this is good for the high cost programs previously mentioned, the average VoIP Customer is going to see the regulatory fees on their bill skyrocket. Rising USF Fees are nothing new.

The Contribution Factor has seen a steady increase in the past decade, going from 14.4% in Q3 of 2011, to 31.8% in Q3 of 2021. That means that this quarter, your customer's USF Fee is being taxed at a rate of 31.8% against the total number of their provider's interstate and international calls. This USF Fee often tacks on another 15% of the customer's bill alone - that's not including other federal and state taxes.

How Can I Lower My USF Contribution?

While there's not much you can do about the Contribution Factor, an often overlooked (and not exactly advertised by the FCC) option is calculating your own Percent of Interstate Usage (PIU). When carriers file their 499s, they have the opportunity to declare whether or not they want to calculate their actual PIU, or use the FCC's *Safe Harbor* rate - where they assume that a percent (64.9% for voip, 37.1% for wireless) of your total call traffic was interstate or international in nature.

The Safe Harbor Rate

So let's say you're a VoIP provider and decide to use the Safe Harbor rate, this is the percent that will be used in the formula, along with the contribution factor, to calculate the total amount of money that your company must contribute to the USF. The problem with using the Safe Harbor rate is that many - if not most companies do not have a PIU anywhere near 64.9% (or 37.1% for wireless). Unless a provider is advertising themselves as an international calling company, the chances of 64.9% of their traffic being interstate or international is flat out unlikely.

Staying De Minimis

Some carriers fall under a certain threshold for interstate and international traffic that makes them *de minimis*. As of 2021, filers that have an overall USF Contribution less than \$10,000 are considered *de minimis* and are excused from having to contribute to the Universal Service Fund. If these smaller providers use the Safe Harbor rate, there's a much higher chance that their percent of interstate or international revenue will be over the *de minimis* threshold, while their actual percentage is likely much lower in reality. Traffic Studies are essential to these smaller providers to validate that they are in fact *de minimis*.

Let's Do The Math

So how much money are you actually losing by using the Safe Harbor Rate?

For this example, let's just say you're a smaller VoIP provider with a yearly revenue of \$100 thousand. It's time to file your 499s, and you opt to use the Safe Harbor rate. Your contribution to the Universal Service Fund for the third quarter will be calculated multiplying;

Yearly Revenue	\$100,000
PIU (Safe Harbor)	64.9%
Contribution Factor	31.8%
<u>Total Contribution:</u>	<u>\$20,638</u>

Let's do that example again with a hypothetical actual PIU of 28%.

Yearly Revenue	\$100,000
PIU (Actual)	28%
Contribution Factor	31.8%
<u>Total Contribution:</u>	<u>\$8,904</u>

In this case, using the Safe Harbor rate would mean that you would need to contribute \$20,638.2 to the Universal Service Fund. Otherwise, if you opted to do a traffic analysis and figure out your actual contribution, your total contribution to the USF would be \$8,904 -

or actually zero - because it'd be under \$10,000 - thus meeting the de minimis threshold. The Safe Harbor rate is causing many smaller providers to lose tens of thousands of dollars like this every year. By using the Safe Harbor rate, there's a much higher chance that their PIU will put them over the de minimis threshold, while their actual interstate usage is likely much lower in reality. This provider would've saved almost \$21,000 in that year alone, and would probably save more collectively in the years after!

It's Clear That Doing A Traffic Study is The Better Choice, So Why do People Still Use Safe Harbor?

Truthfully, that question keeps us up at night - because there isn't a good reason why they would! But seriously, the reason many don't calculate their own PIU is because providers either don't have the data scientist in-house to take a look at their data and extract the relevant information, or they just don't know that they are allowed to perform a Traffic Study. Another option is having a third party vendor do the traffic analysis for them, that

allows the provider to attach the analysis results to their 499 filings.

Hopefully, there is some kind of USF reform on the way. Until then it's in every service provider's best interest to stay away from the Safe Harbor rate when doing their 499 filings. Whether you're a small de minimis carrier looking to stay de minimis, or a medium-large sized company looking to just lower your overall USF Fees, there cannot be any harm done in doing a traffic study to discover your actual Percent of Interstate Usage.

Our professionals have years of experience performing traffic studies, and take pride in working with you to save your customers money. Feel free to contact us for any questions or inquiries about performing a traffic analysis for your company

If you're looking to lower your USF Contribution, contact our team at ATS for a free estimate of how much you could save by calculating your actual Percent of Interstate Usage.

