

**Western Governors' Association  
Policy Resolution 06-12**

June 13, 2006  
Sedona, Arizona

*Universal Service*

**A. BACKGROUND**

1. This nation has benefited greatly from policies that are fundamentally rooted in national support for infrastructure investment in critical areas, such as water resources, airports, highways, and telecommunications. Since the passage of the Communications Act of 1934, it has been a major public policy objective of the United States that all Americans regardless of where they live have access to quality local phone service at reasonable, affordable and comparable rates. This policy, known as Universal Service, for many decades was successfully implemented through a system of hidden subsidies, where certain long distance, business and urban low-cost services were priced higher, allowing the underpricing of high-cost local phone services.
2. Congress opened local phone markets to competition in the Telecommunications Act of 1996, and at the same time, continued and strengthened the commitment to Universal Service. To accomplish both goals, Congress recognized that the existing system of implicit support must be replaced by an explicit funding mechanism to which every telecommunications provider would contribute.
3. Today, the Universal Service Fund (USF) still exists to offset the cost of telecom service through four support programs: High-Cost; Low-Income; Rural Health Care; and Schools and Libraries. The continued soundness and fairness of the Universal Service Fund is a priority for the Western Governors.
4. When the Federal Communications Commission (FCC) implemented the 1996 Telecommunications Act, it adopted two universal service orders in 1999 that had two unintended consequences. Namely, that a company that serves a significant number of rural areas may not be eligible for support simply because it also serves a large urban area, and a company may not be eligible for support because its costs are averaged with other non-rural companies within the state.
5. The result has been a system where a total of 40 states are declared ineligible to receive USF Non-Rural High Cost Model support, including those with significant rural areas. For calendar year 2006, just ten states received funds; Alabama, Kentucky, Maine, Mississippi, Montana, Nebraska, South Dakota, Vermont, West Virginia, and Wyoming. The projected total for the Non-Rural High Cost Model support payments is \$309,501,685. Remarkably, the state of Mississippi alone is projected to receive \$147,901,239 in support from that total.

**B. GOVERNORS' POLICY STATEMENT**

1. The Governors are working hard to ensure that the Western States are prosperous and have firm footing in the 21<sup>st</sup> Century economy. To that end, the Governors call on Congress and the Federal Communications Commission (FCC) to ensure a more equitable distribution of these Universal Service funds. For calendar year 2006, only four states west of the Mississippi River received funds from the USF Non-Rural High Cost Model support program (Montana, Nebraska, South Dakota, and Wyoming). Congress and the FCC need to address the program's inequitable distribution and not allow Western rural America to fall into a technology divide.
2. The Governors call on the Federal Communications Commission to review its policies regarding USF support for non-rural telephone companies. Customers in rural areas should not be penalized because they are served by one of the mixed, urban-and-rural phone companies.

**C. GOVERNORS' MANAGEMENT DIRECTIVE**

1. The Western Governors' Association (WGA) shall post this resolution to its web site to be referred to and transmitted as necessary.
2. The Western Governors' Association (WGA) shall continue to monitor and report to the Governors on any legislative or budget proposals that addresses Universal Service.
3. The Western Governors' Association (WGA) may weigh in on legislation that is consistent with this policy resolution.