

THE OMAHA PLAN

**A White Paper To The
State Members
Of The
Federal-State Joint Board
On
Universal Service**

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DISCLAIMER

THIS WHITE PAPER HAS BEEN PREPARED BY MEMBERS OF THE STATE STAFF OF THE FEDERAL-STATE JOINT BOARD ON UNIVERSAL SERVICE AND ITS CONSULTANTS IN ORDER TO ASSIST THE RELEVANT DELIBERATIONS OF THE STATE MEMBERS OF THE JOINT BOARD. THE ANALYSIS AND VIEWS EXPRESSED IN THIS WHITE PAPER ARE THOSE OF THE AUTHORS AND DO NOT REFLECT THE FORMAL POSITIONS OR OPINIONS OF THE REMAINING STATE STAFF, STATE MEMBERS, OR GOVERNMENTAL/NON-GOVERNMENTAL ENTITIES THAT CURRENTLY EMPLOY THESE AUTHORS.

THE OMAHA PLAN

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OVERVIEW

The Omaha Plan proposes reform of the Universal Service Fund (USF) consistent with the proposals of the Federal-State Joint Board for Universal Service (Joint Board) that were submitted as a Recommended Decision (RD) to the Federal Communications Commission (FCC) on November 7, 2007.

The State Members of the Joint Board consider the 2007 RD to still contain a number of significant and relevant recommendations to the FCC that should be fully examined as the Commission moves forward. The Omaha Plan that is included herein reiterates many of the concepts that were originally included in the 2007 RD. In addition, the proposed plan includes recommendations consistent with the 2007 RD that could be considered in implementing future USF reform, including separation of future funding into Broadband, Mobility and Legacy Funds, expanding the contribution base and reducing the contribution factor. The proposals include capping existing high cost funding at \$4.5 billion on a going forward basis, and implementing new high cost mechanisms that would, over a 10 year period, conceptually fund up to \$24 billion for Broadband purposes and \$16.8 billion for Mobility purposes when state and carrier matching funds are included, as follows:

Total Existing High Cost Funding	\$4.5 billion		
Proposed Legacy Fund	\$1.1 billion		
Proposed Broadband Fund	\$2.0 billion		
Proposed Mobility Fund	\$1.4 billion		
Five Year Transition Period	Legacy	Broadband	Mobility
Year 1	\$3.8 B	\$400 M	\$280 M
Year 2	\$3.2 B	\$800 M	\$560 M
Year 3	\$2.4 B	\$1.2 B	\$840 M
Year 4	\$1.8 B	\$1.6 B	\$1.1 B
Year 5	\$1.1 B	\$2.0 B	\$1.4 B
Total 5 Year Funding	\$9.9 B	\$6.0 B	\$4.18 B
Year 6-10 Total Funding	\$5.5 B	\$10.0 B	\$7.0 B
Total USF 10 Year Funding \$	15.4 B	\$16.0 B	\$11.2 B

The Omaha Plan includes a requirement that recipients of funding grants must contribute 25% of the funding and that states could add an additional 25% that would be matched by Federal funding. The result of additional matching funding up to 50% would, theoretically, produce increased Broadband funding over the next 10 years to \$24 billion and increased Mobility funding over the next 10 years to \$16.8 billion for the entire 10 year period.

The Omaha Plan also proposes that the inclusion of Mobility and Broadband services within the USF umbrella requires that the USF contribution mechanism should be expanded to include total revenues for all telecommunications and information service providers as reported on FCC Form 499 that currently equal \$448 billion annually, thus requiring a USF contribution factor of 1.8%, as opposed to the current contribution factor of 15.5%.

I. BACKGROUND

At the request of the state members of the Joint Board, members of the State Staff were requested to work on a number of projects that could be considered by the Joint Board to provide input to the FCC regarding key issues that are expected to be put forward by the FCC in 2011 for public input. The State Staff team consisting of Jing Liu, Kathy Hagans, Robert Haga and Earl Poucher agreed to work together to put forth a cohesive proposal that would address key issues that would include, in the order they should be addressed:

- Reform of the Universal Service High Cost Fund and transition to three new funds:
 - Broadband Fund
 - Mobility Fund
 - Legacy Fund
- Reform of the Contribution Mechanism

II. GOALS

The Omaha Plan works from the 2007 RD of the Joint Board, as adopted unanimously by five State Members and three FCC Commissioners, which recommended that “high-cost universal service support in the future be delivered through three distinct funds, each with separate distribution mechanisms and separate funding allocations.” The Joint Board recommended the establishment of a Broadband Fund, a Mobility Fund and a Provider of Last Resort Fund (POLR) or Legacy Fund that would operate within an overall funding cap that (was) consistent with the (then) current amount of high-cost funding. The plan recommended by the Joint Board was intended to be phased-in over a period of years to the new three-part funding structure. In addition, the Omaha Plan attempts to deal with the evolution of existing funding over a period of time to reduce existing funding while simultaneously redirecting future funding to the three separate funds. The plan also proposes to modify the existing contribution mechanism. The Joint Board released a Public Notice dated September 6, 2007 containing specific principles upon which comprehensive reform should be based: cost control, accountability, state participation, and infrastructure build-out in unserved areas.

The following State Staff proposals are consistent with those goals adopted by the Joint Board that resulted in the November 2007 Recommended Decision. The National Broadband Plan (NBP) and the resulting FCC Notices of Proposed Rulemakings (NPRMs) have affirmed the need for Mobility and Broadband deployment and retargeting of existing USF support to achieve those goals.

The Universal Service principles spelled out in Section 254 of the Telecommunications Act of 1996 (Act) continue to be the primary elements that guide the recommendations that are contained in the Omaha Plan, including:

- (1) The availability of quality services at just, reasonable and affordable rates;
- (2) Access to advanced services in all regions of the nation; and
- (3) Access for all consumers, including low-income and those in insular and high cost areas, to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to rates charged for similar services in urban areas.

While all of the principles contained in the Act and subsequently adopted by the Commission are important, it is the daunting task of the Omaha Plan to attempt to better achieve the goals articulated in (1), (2), and (3) above as the network evolves and new targets for funding come into focus. As many in the industry recognize, universal service has already largely been achieved for the basic services that fall within the definition of supported services prescribed by the FCC and those basic services are available at just, reasonable and affordable rates. Further, many believe that not all current support is necessary to achieve those goals. By recommending the modification of the definition of supported services, we have the opportunity to go back to the starting line and develop new policies to achieve the requirements of the Act as they relate to Mobility and Broadband services, while continuing to provide the universal availability of basic voice grade services as is also required by the Act.

III. USF REFORM

A. Cap the High Cost Fund

The 2007 Joint Board Recommended Decision included a recommendation to cap the existing high cost funding based on 2007 dollars at approximately \$4.5 billion. The Universal Service Administrative Company (USAC) reports that 2009 disbursements for the HighCost fund totaled \$4.3 billion, out of a total \$7.3 billion for the entire USF. The current quarter USF assessment factor of 15.5% is the largest ever required by the existing contribution mechanism. One of the key issues prompted by the current assessment factor is the need to expand the contribution base, as discussed later in this document. On numerous occasions since the implementation of the Act, the Joint Board and the FCC have acknowledged that increasing the contribution factors to support Universal Service goals must be balanced by the affordability requirements of the Act. Put simply, collection of USF dollars from all contributors must be limited to amounts that do not price telecommunications services out of a range of affordability for consumers.

While the requirements of the Act include the goal of achieving affordable rates at comparable prices for all areas of the country, the measurement of whether this goal has been actually achieved has proved difficult. However, there appears to be almost universal acknowledgment that the total funding for USF purposes should go no higher than the current amounts and that the primary goal of reform should be to direct and target funding only to those

areas that require support. Further, the Omaha Plan proposals would place great emphasis on a demonstration of need on the part of funding recipients based on their total network expenses and revenues. The transition from existing high cost funding based on both model and embedded cost data to a mechanism that requires competitive bidding and a demonstration of need based on total network costs and revenues would be constrained at the upper level by the cap of the USF at current levels. However, there is nothing preventing the achievement of the goals of the Act with less than the existing \$4.5 billion in annual funding. As long as the cap remains in place, and existing funding may be retargeted based on a competitive bidding process, then the burden of proof of need for future support will fall on the prospective recipients.

It is difficult to develop USF solutions in the absence of cost and revenue data that is considered confidential by existing USF funding recipients. Continuing to cap existing funding while new goals are established to achieve universal Mobility and Broadband services provides time needed to retarget a specific and known amount of dollars towards the new priorities of Universal Service. By requiring potential fund recipients to compete, or bid, and demonstrate with actual data the need for support, we sidestep the substantial time needed to develop conceptual or theoretical cost analysis. Existing recipients of USF dollars may or may not actually need their existing level of funding, or any support at all, to meet the universal service goals of the '96 Act. The goal of the Omaha Plan is to implement a process to weed out unneeded support as quickly as possible and retarget existing funding to the more urgent needs of the nation for basic and advanced telecommunications and information services.

B. Establish Broadband Fund & Phase-Down Existing Legacy Funding Used For Broadband Service Provision

1. Priority for Unserved Areas

The Broadband Fund would be tasked primarily with facilitating construction of facilities for new broadband wireline services in unserved and underserved areas, with support in the form of grants for new construction in those unserved areas. Another secondary purpose would be to provide continuing operating subsidies to wireline broadband Internet providers serving areas where low-customer density would suggest that a plausible economic case cannot be made to operate broadband facilities, even after receiving a substantial construction subsidy. We agree with the Joint Board's 2007 recommendation in this regard. Later, we define broadband supported service as a minimum 4 Mbps download product and unserved area as any populated area that does not have such service available to consumers. An underserved area would be defined as an area with broadband capability, but at speeds that fail to achieve the 4 Mbps download minimum.

2. State Responsibility

The Joint Board, in 2007, believed that the states are generally more capable of performing the necessary tasks involving broadband mapping activities and administration of broadband construction grants. We agree. The state responsibilities for broadband deployment would need to be consistent with the state responsibilities spelled out in the Act for ETC designation. In promulgating rules needed to implement Broadband infrastructure deployment,

the FCC rules should spell out the options available to states. In general, the FCC should allocate funding available to the states, the time period for funding availability, and acceptable methodologies for use by the states in awarding funding. The FCC has already developed proposed rules that may be adopted to initiate a Federal auction for mobility purposes. The Omaha Plan is based on the assumption that the FCC may have the knowledge required to conduct an auction, but has neither the local knowledge nor the resources to deal with unserved and underserved broadband and mobility needs throughout the entire country. The FCC should also consider allowing states the flexibility to initiate proceedings that would incorporate a Request for Bids, filing of bid responses and testimony by bidders and an ultimate decision by state commissions following formal hearings, as opposed to a formal auction process.

3. Federal Standards

In consideration of the need for adequate standards and safeguards, the Joint Board in 2007 concluded that the states are better suited than the Commission to effectively administer a new Broadband Fund grant program. Accordingly, the Joint Board recommended that the available pool of Broadband Fund monies first be allocated to the states, and thereafter be awarded to finance specific construction projects or the ongoing operations of broadband providers, subject to federal rules describing standards and containing accountability safeguards, and ultimate federal approval. The Joint Board recommended that: (1) The states should be allocated new funding for specific periods of time; (2) The states should be required to conduct state proceedings to award and allocate the available funding to be disbursed by USAC; and (3) Options for states should include an auction, consistent with FCC standards, or an acceptable state proceeding based on bids submitted by potential broadband or mobility providers. Existing state Commissions are well-equipped to establish and conduct proceedings where they take evidence, conduct discovery, cross examine witnesses, establish findings of fact and reach final decisions that are deemed to be in the public interest. We agree with the Joint Board's recommendation.

Among the key issues that are of concern in implementing new state proceedings to award funding for broadband infrastructure is the goal of maximizing the limited funding that might be available for new infrastructure construction. Initially, fund administrators must decide whether to provide one-time construction grants or to award support based on the traditional revenue requirements data used within the telephone industry. An advantage of one-time construction grants is that they are relatively easy to administer by the issuance of a request for proposal (RFP) and the award of funding based on total capital expenditures (CAPX). The disadvantage of this process is that ongoing services such as broadband, in order to be most productive, may require ongoing maintenance support. The traditional revenue requirement funding would make awards based on the ongoing expenses that were included in the project, including depreciation and the cost of money. The advantage of the revenue requirement approach is that the initial outlay is less and cost recovery is spread out over a longer period of time. With a limited amount of funding available, the revenue requirement approach obviously has appeal.

The closest recent analogy to the CAPX versus revenue requirements approach is the Schools and Libraries Program. The goal of schools and libraries USF funding included in the Act was to wire every school and library in America to provide access to the Internet. Fifteen years after passage of the Act, we are still spending over \$2 billion per year "to wire every school

and library in the nation to the Internet.” One would think that at some point in time, we will have completed the job. The problem associated with the Schools and Libraries program is that the states and their school systems leased facilities from the incumbent carriers that were needed to extend the existing networks into the school systems rather than constructing their own facilities. Instead of a one-time national problem that we could resolve at some point in time, the Schools and Libraries Program has become an entitlement program that will last forever.

The Omaha Plan goal for broadband concentrates available funding on the unserved and underserved areas of the existing broadband markets, where market forces have failed to provide the availability of services required by the Act. The infusion of capital to solve the immediate problem justifies the expenditure of public funds, but the goal should be to limit the need for outside funding to the shortest time possible. The fast pace of technological development today justifies a narrow window for temporary support. However, policy makers should consider the option of providing CAPX support to specific projects coupled with guaranteed ongoing support for a limited period of time, perhaps three or four years, based on a demonstration of need. The goal here should be to deploy needed infrastructure with the minimal amount of capital support so as to allow a carrier to provide ongoing service at reasonable rates and also take into consideration the future subscriber revenues to be gained. Three years of ongoing support should allow service providers to build an ongoing revenue stream. A transition plan that gradually increases annual broadband funding over a period of five years lends itself to a plan that awards construction dollars over a reasonable period of time and also allows ongoing expense support for a limited period of time, as needed. At the end of the funding period, regulators would step out of the way, to the extent possible, and allow the market to continue to respond to the future needs of customers. That is the goal.

4. State Matching Funds

The Joint Board, in 2007, recognized the importance of encouraging states to provide matching funds for Broadband support and recommended a base level of funding. The Omaha Plan recommends that state broadband funding should include alternatives that would either require or allow optional matching of federal funding by state resources. The Staff Recommendation includes a requirement for a carrier contribution of 25% of the total estimated project costs, and an additional 25% federal match if the state chooses to also contribute an additional 25%, over and above the required carrier match. States that, in the past, have decided to accelerate broadband within their state have normally imposed funding mechanisms on all customers to support new broadband construction in unserved areas. State matching means simply that the states may be required to contribute some of the total funding or have options that would result in additional federal funding if matched by state funding, or a combination of the two.

Several states, on their own initiative, have already established broadband infrastructure funds to accelerate broadband deployment. Even though the services made available through the Broadband Fund are Title I information services, matching requirements may be spelled out specifically by the FCC as a condition for the receipt of USF support as was discussed more fully in the Docket 08-262 Order dated November 5, 2008. The Omaha Plan process would start first with the establishment of a \$400 Million pot in the first year of the transition. That nationwide pot would be allocated to the states based on the number of unserved broadband households in each state or any other data source that may become available as a result of the national mapping

plan initiative that should be complete in 2011. The most simple approach would be to determine the total number of unserved households in the nation and then allocate each state's share based on actual state data. In addition, the FCC might choose to apply a cost allocator that would recognize state-average costs as compared to the nationwide average. States would then be required to conduct state proceedings to award funding to prospective providers. Multi-year awards for extended build-outs would probably be more effective in targeting funding, since the funding level for each state would double in year two and increase accordingly to its peak. Annual state proceedings would be required to award new funding and true up prior year funding. In year five the entire \$2 billion funding amount would be directed toward broadband construction and service provision. Thus cumulatively, over a 10 year period, the redistribution of USF support of wireline broadband service could amount to \$16 billion. However, if Option III is adopted, as recommended by State Staff, the transition to broadband funding would ultimately use \$20 billion in USF dollars over a 10 year period that could potentially be matched by required carrier matching and optional state matching equal to \$30 billion of new broadband construction. By that time, the nationwide unserved broadband population will have declined significantly or disappeared almost entirely. Here is how the transition would progress:

	Annual	Cumulative
Year 1	\$400 Million	\$400 Million
Year 2	\$800 Million	\$1.2 Billion
Year 3	\$1.2 Billion	\$2.4 Billion
Year 4	\$1.6 Billion	\$4.0 Billion
Year 5	\$2.0 Billion	\$6.0 Billion
Year 6-10	\$2.0 Billion	\$16.0 Billion
Assume 25% State Matching		\$20.0 Billion

There are multiple approaches that could be adopted to encourage state matching:

Option I would be to quantify the total cost of a construction project, to provide USF funding of up to 75% of the total project, and require a carrier or state contribution of 25%.

Option II would quantify first the total cost of a construction project and award USF funding amounting to 50% of the total cost with an additional 25% of the total cost also funded by the USF subject to matching by the carrier or the state, as follows:

Total Project Cost	\$100 million
Total Initial USF Support	\$50 million
Carrier/State Optional Match	\$25 million
Optional USF Support	\$25 million

The additional support option based on optional carrier/state matching would have multiple advantages in that support would go further and the matching concept would encourage states and carriers to more actively pursue least cost alternatives. State Staff believes that Option II could ultimately be cost effective in achieving the overall goals of the Act, in addition to spreading the available funding to the broadest uses possible.

Option III is a combination of Option I and Option II that might be preferable because it

requires a carrier to provide some funding in addition to an optional state match. There are two worthy goals that the Commission should consider as it develops a comprehensive plan for support. The first goal of state matching should be to require (or at least encourage) matching by the actual carrier that is the recipient of funding. This process involves the concept that every participant that receives federal funding should have some provider money invested in the project to provide an incentive to minimize cost and maximize output. We call that “skin in the game.” A second goal involves goals that may be adopted by individual states to accelerate broadband deployment for economic purposes. State matching of broadband USF infrastructure funds could come from tax sources or be obtained from all state consumers, consistent with the federal USF process that requires all states to support existing universal service goals in high cost areas.

Option III would allow individual states to contribute up to 25% of project costs that would be matched by federal USF funds. In addition, individual contracts would require 75% USF funding and a 25% carrier match. Thus producing the following results:

Total Minimum Broadband Funding	\$100 million
Required Carrier Funding	\$25 million
Required USF Support	\$75 million
Optional State Matching	\$25 million
Optional USF Support	\$25 million
Total Maximum Broadband Funding	\$150 million

Option III has the potential to provide a good incentive for state involvement and has the potential for spreading available funding as far as it can go. Option III goes further in the direction of achieving the type of federal and state joint responsibilities for fulfilling the universal service goals as envisioned by the Act. The State Staff recommends Option III for the Omaha Plan that has the potential to provide a cumulative total of \$24 billion new broadband construction over a 10 year period, as follows:

Ten Year Total USF Funding	\$16 Billion
+Required Carrier Match	\$4 Billion
+Optional State Match	\$4 Billion
Total 10 Year Funding	\$24 Billion

Leftover broadband funding not matched, could be reallocated in the current year or the subsequent year to states that are willing to provide matching funds or require their providers to do so. While state or local government dollars received from consumers on a statewide basis may be available to support individual broadband projects, there is equal rationale to support the fact that a broadband Internet provider that has an opportunity to expand its service availability should have some “skin in the game.” It is not unreasonable to require the recipients of broadband funding to provide matching funding for fiduciary reasons, in addition to the basic fact that the funding will go further if a match is required.

5. Defining Broadband

Broadband funding should be available for construction of broadband facilities that are included within the definition of Universal Service supported services. The National Broadband

Plan identifies 750 KBPS and above as the lower standard for defining broadband service. While such a standard may have meaning within the industry, the Omaha Plan proposes that wireline broadband described as a minimum 4Mbps (download) service would constitute the lowest standard that would qualify for broadband support. The Broadband Fund would seek to support a future full-service network capable of delivering high definition video, data, Internet and voice services, while continuing to serve as the backbone for Mobility services. Unlike the National Broadband Plan, the Omaha Plan would place a condition on broadband funding to require a basic network design standard with the capability to ultimately deliver a ubiquitous 100 MBPS service, consistent with the objectives established in the National Broadband Plan. This proposal basically separates broadband wireline from broadband wireless for universal service purposes, consistent with the recommendation that there should be two separate funds—Mobility and Broadband.

Likewise, the Mobility Fund would support mobility goals consistent with the deployment of 3G and 4G networks. The pace of development of future wireline and wireless network capabilities is certain to vary among technologies and it is, therefore, equally important to recognize and support broadband mobility in its own right separate and apart from wireline broadband. It is also important from a consumer standpoint that the goals of universal service recognize that many consumers want the availability of the full complement of wireline and wireless services, but many consumers want to choose one or the other, and they should have the choice.

Consistent with previous network standards for the voice network that included constructing voice facilities that would not constitute a barrier for the provision of broadband service, the Broadband Fund would require that network providers demonstrate that any funding received for new broadband construction would be consistent with a long term network design standard to provide a ubiquitous 100 Mbps service at affordable rates. The 100 Mbps design standard is consistent with the goals of the National Broadband Plan. The latter requirement is important, because there are numerous entities that would want to tap the USF, particularly if the funding is free. Regulators and fund managers, however, must have the tools to weed out prospective bidders who do not have the technical capability or the resources to provide a network product that can meet the demands of the future. From a technology standpoint, it makes little sense to construct and support network components that are not compatible with the long term vision for the network.

6. Transition and Fund Size

Any transition plan that attempts to allocate existing universal service funding from existing to new recipients is bound to come under heavy fire. Notwithstanding this difficulty, policy makers whose duty it is to oversee the existing fund have a statutory mandate to make decisions that are in the public interest. The Joint Board recommended in 2007 that the existing funding should be capped, and that, rather than reform the existing high cost funding mechanisms, we should reallocate existing funding to provide new infrastructure for broadband and mobility services while continuing to support the legacy network, where required and justified. Cutting to the chase, rather than to attempt to deal with the numerous weaknesses of the existing USF system that was universally described as “broken,” the Joint Board in 2007 urged the FCC to move forward, hoping that the lessons of the past would provide a better result in the future. The Joint Board recommended a five year transition. However, as previously

noted, the path to universal voice service took decades, and the path to universal Broadband with a network speed and capacity to satisfy the needs of the future may take more than several years. With knowledge that ubiquity is our goal, measuring the pace of progress may be just as important as achieving the ultimate goal. While the Omaha Plan recommendation includes a five year funding transition period, it is not unreasonable to assume that 10 years could be needed to achieve future goals. We recommend adoption of a five year transition plan with a subsequent review in years four and five to readjust the program as needed for an additional five years. Such a review would include the overarching requirements of the Act that include comparable and affordable rates as they would relate to Broadband services based on the inclusion of Broadband within the definition of supported services.

7. Omaha Transition Plan for Broadband Funding

We believe that five years is a very short period of time to fully transition existing mobility and broadband funding to achieve their separate future goals. However, five years is a good time period to move the ball down the field and then reconsider the future goals based on actual results and hard data. The existing wireless high cost funding amounts to \$1.4B of the \$4.5B high cost fund. The remaining \$3.1B of existing annual funding goes either to support networks capable of and currently delivering broadband services throughout their service territories, or to legacy networks that may have minimal broadband deployment. It is not unreasonable to assume that all communications network providers today have plans and aspirations to provide broadband services in the future, along with existing voice services. Any plans that would abandon the existing voice only network customers would violate the mandates of the Act and be contrary to the provider of last resort requirements contained in the Act and the basic tenets of Universal Service that were in place long before the Act.

8. Title I Issues

If broadband services continue to be classified as information services and regulated under Title I provisions of the Act, then use of USF dollars must satisfy requirements of the Act. Information service providers that provide broadband must be required to contribute to the fund and must be allowed to bid on equal terms for funding. It is absolutely imperative that any plan to subsidize mobility or wireline broadband in the future must take into account the evolutionary process that is rapidly converting legacy voice and data networks into broadband networks, both fixed and mobile. Therefore, it is imperative that the wireless and wireline USF funding be supported in the future by wireless and wireline broadband revenues and that existing legacy networks that can demonstrate needs for future support continue to be supported by all. Any suggestion that the existing legacy voice customers should shoulder the burden of network expansion to achieve mobility and wireline broadband capabilities must be rejected outright.

The current FCC proposals envision support for broadband under Title I regulations as an information service. The 2007 Joint Board Recommended Decision was silent on the issue. Recently, the Joint Board Lifeline Recommended Decision included a recommendation that the FCC consider supporting broadband as an information service under Title I. Clearly, the vision of the Act provided a path to modify the USF definition to include advanced services such as broadband within the definition of supported service. The mandates of the Act that reference affordable, comparable, quality service might first suggest that in order to meet those goals of the Act, service quality and rates must be regulated. Section 254(e) spells out clearly that recipients

of universal service funding must be ETCs. Section 254(i) states that the Commission and the States should ensure that universal service is available at rates that are just, reasonable and affordable. If Broadband, as an information service, is included within the USF definition of supported service, then the Commission and the states will have a continuing obligation to ensure that future Broadband rates are affordable and comparable. The Omaha Plan, consistent with the recent recommendations of the Commission, would leave broadband as a Title I service, with minimal service quality and rate regulation.

As a competitive service, or somewhat competitive service given the dearth of providers in some areas, broadband should, at the present, rely on market forces to assure that consumers receive fair value and good service. The issue is not yet settled. From an historical standpoint, the Act failed to deliver its promise of a fully competitive telecommunications market. Incumbent telecommunications and broadband carriers today continue to provide service within their designated state service territories that were established decades before the Act was written. The entry into local service as promised by the major carriers such as AT&T failed to materialize and was replaced by a series of major mergers that resulted in less competition, not more. However, the advance of technology has taken us to places that were never envisioned by the Act. None would have envisioned in 1996 that the largest network today would be cellular, or that 27% of young Americans would abandon wireline service in favor of mobility services, or that prepaid wireless service would be the preferred choice for low income customers, or that young gamers could place such significant demands on the broadband network, or that teenagers would prefer to text to each other as opposed to actually talking.

While the U.S. market may be imperfect today, none would dispute that it is rapidly evolving, and that alternatives exist for many, but not all of today's services. When major service providers report over 95% availability of broadband services within their networks, then even the most ardent doubters must admit that broadband deployment in the nation is moving forward. When a majority of U.S. households already subscribe to broadband, then even the most ardent doubters must admit that we have come a long way since 1996 when broadband barely existed and none of the incumbent ILECs offered video or Internet access. When video, wireless and broadband revenues today are providing significant revenue gains for carriers that had only basic service, vertical services and long distance to offer their customers in 1996, even the most ardent doubters must admit that we have come a long way. While the major ILECs may threaten to stop investing in the network if they don't get their way, it is difficult to envision any group of business people who are receiving almost half a trillion dollars in revenue (total telecommunications, broadband, internet, data revenues as reported in the 2010 Monitoring Report) as being anything other than highly motivated to continue to invest. When AT&T and Verizon report total combined revenues of over \$200 billion annually, it is difficult to think that they would stop doing in the future what got them there today.

For all of the reasons suggested, the Omaha Plan is recommended based on the assumption that the core broadband network has the best potential to provide quality services at fair, reasonable and affordable rates because of market forces, not regulatory controls. Regulators should concentrate on those geographical areas where market forces have little chance to prevail—the network fringe that will be identified as unserved or underserved areas. The support for broadband infrastructure deployment should be as minimal as possible, so as not to get in the way of competitive forces that have the best chance for delivering quality services for Americans in the future. By supporting the fringes of the existing markets, regulators should

be attempting to spur future network expansion while simultaneously working to eliminate unneeded support and let the market do its work. Should future markets for broadband service fail to deliver the promises of the Act, then future state and federal regulators have ample tools available to take action. The following are suggestions needed to bring broadband, as an information service, into the universal service process:

- Broadband providers that receive USF support should be required to be designated as ETC's.
- Broadband providers that receive USF support under an expanded definition of universal service, should be required to continue to provide basic voice services within their entire study areas and be subject to carrier of last resort (COLR) requirements. In those areas where broadband services require USF support to provide ubiquity, then the same COLR requirements for basic services would extend to broadband providers.
- Broadband providers that receive USF support should contribute to the USF based on total revenues.
- The broadband fund goal should be to provide sufficient seed money for broadband deployment in unserved and underserved markets to assure that customers in those areas will have access to broadband services with comparable service quality and comparable prices.
- The Omaha Plan does not propose to impose traditional Title II regulation on broadband rates and service quality. However, an ETC providing broadband service in previously unserved or underserved areas that is supported by USF dollars would be required to annually certify that their rates and service quality are comparable to those commonly available in non-regulated, competitive markets, along with any other requirements adopted by the states or the Commission.
- COLR requirements under Section 254 and 214 of the Act should apply to broadband providers that are supported by USF funding, including the requirement that ETCs providing Broadband have the obligation to serve their existing service areas. The states, however, may choose to adopt service area definitions in the future that differ in order to more effectively allocate funding and encourage future Broadband infrastructure deployment. Rigid regulatory rate and service quality obligations for unserved or underserved portions of the fringe areas of the unregulated broadband markets is not recommended, especially since such funding is intended to be temporary in nature. Both providers of telecommunications services and information services should have the opportunity to benefit from the future USF. Therefore, both should contribute to the future USF.

C. Establish Mobility Fund & Phase-Down Existing CETC Mobility Funding

The 2007 Joint Board recommendation included the elimination of existing high cost funding over five years while transitioning to the Mobility Fund, the Broadband Fund and the Legacy/POLR fund. The FCC appears to endorse many of the facets of the Joint Board

recommendation, albeit three years after the fact. The recent FCC's order dated December 29, 2010 and the Mobility NPRM were designed to re-direct up to \$300 million of the Sprint /Verizon USF support that was eliminated through an agreement that included approval of the Sprint and Verizon mergers. Unfortunately, the FCC NPRM failed to lay out the steps for dealing with the long range Mobility goals and plans to make available existing wireless CETC funding for mobility expansion. Many commenters in Docket No. 10-208 made note of their concerns that the Commission's NPRM failed to deal with the overarching issues surrounding the use of future USF dollars needed to achieve ubiquitous 3G and 4G mobility services. Others viewed the NPRM as a good first step that would provide the FCC with needed experience as to how to effectively transition mobility funding consistent with the 2007 recommendations of the Joint Board.

1. Wireless Universal Service vs. Wireline Universal Service

The 2007 recommendation of the Joint Board included the concept that achieving universal mobility was in the public interest and ignored defining mobility as either a voice or a broadband service. The first principal discussed was that mobility services, on their own merits, deserved to be included within the definition of supported services under the conditions laid out in the Act. The Joint Board recommendation basically discarded the concept that for universal service purposes wireless services were a substitute for wireline services, but that both services were complementary and worthy of separate support. The distinction was important, because the Joint Board was recommending that universal availability of wireline service is in the public interest and, at the same time, universal availability of mobility services was also in the public interest. Thus, the Joint Board was saying that Americans wanted and needed both networks available on a universal basis so that they could choose whether they wanted to actually purchase both services or simply have a choice. The Omaha Plan recommendation is consistent with the 2007 Joint Board recommendation. Mobility, on its own merit, should be supported by USF funding in order to achieve universal availability at affordable rates.

2. Wireless Broadband vs. Wireline Broadband

As pointed out by some commenters in the Mobility NPRM, the Joint Board failed to clearly articulate how future broadband deployment fit into the plan to separate wireless and wireline support. Like all existing and potential USF recipients, wireless companies would want to receive Mobility Funding that can be provided only through wireless technology. At the same time wireless companies would also not want to be excluded from potential broadband support available from the broadband fund since all network providers want as much free government money as they can get. The issue is not what makes the carriers happy, but what is best for American consumers. The goals of the Act include universal service for consumers, not carriers.

3. Mobility and Wireline Separate Funding

The Omaha Plan would adopt the Mobility Fund recommendation of the 2007 Joint Board with full knowledge that when the recommendation was made, the mobility networks were actively working on multiple plans to increase their speed and availability to offer services that they describe as broadband, or access to the Internet. Simultaneously, wireline network providers were continuing their evolution toward an ever-increasing array of voice, data, broadband, video and entertainment services that ultimately would appear to be best satisfied by

only a 100 Mbps broadband service. Because of their significant differences in terms of technology, speed, capacity, pace of development and price, mobility broadband and wireline broadband should be treated separately as recommended by the Joint Board. In plain terms, consumers want to have both mobility broadband and wireline broadband service available in the future and neither should be considered as a substitute for the other for universal service purposes. Some consumers may choose one or the other, while other consumers may choose both.

From a practical standpoint, the administration of USF funding to achieve mobility goals, should not be co-mingled with the achievement of wireline broadband goals. Funding for the separate funds should not be co-mingled. Existing Mobility and Broadband funding should support future Mobility and Broadband deployment through separately managed funds. This separation of funding is a key issue. Wireless companies have always maintained that they pay an unreasonable share of their revenues to support the USF. Others point out that the phenomenal growth of wireless service would have been impossible without the existence of the core, backbone legacy network that consists of poles, conduits, central offices and backbone fiber transmission systems. The best view of these -- Mobility, Broadband and Legacy -- is that they are dependent upon each other, operating seamlessly and with transparency, for the provision of essential communications services that are vital to this nation.

The Omaha Plan recommends that the Mobility, Broadband and Legacy Funds be administered independently.

The Mobility NPRM, as noted by a number of commenters, is limited to disposing of the \$100-\$300 Million existing USF support that was freed up by the Sprint/Verizon merger agreement. The Omaha Plan stresses the need for the FCC to adopt a long range, total plan for mobility services, consistent with the 2007 Recommended Decision of the Joint Board, as opposed to the temporary measure contained in the NPRM. There is evidence in the NPRM comments suggesting that 3G wireless is available to 98.5% of the existing mobility market today. Whatever the existing coverage is today, as recommended by the Joint Board, the primary purpose of funding should be directed to infrastructure build-out in unserved and underserved mobility areas. Mobility support should include broadband as defined for mobility applications—3G and 4G. Support should be provided to facilities-based mobile telephone service providers based on a design standard that provides the ultimate capability of 4G service, including the needed spectrum required to deliver such services.

4. Single Provider

The Joint Board and others have recommended elimination of duplicate or redundant network support, in view of the significant number of competitive wireless ETCs that sought and received high cost funding under the equal support rule at levels justified by wireline network cost data. The Omaha Plan endorses a competitive process to achieve support for construction of mobility broadband infrastructure to unserved and underserved areas. We believe that expansion of the existing mobility network to a wireless broadband network over a period of years is a logical process consistent with sound planning can significantly improve the availability of mobility services at comparable prices to existing prices in existing markets. Universal service funds should not be used to support redundant networks for the same geographical areas in the future.

5. Comparable Prices

The goal of mobility support should be to reduce the costs of mobility providers in unserved and underserved areas to levels that enable providers to deliver mobility services at rates offered in other markets that do not require support. When existing providers bid for universal service funding for unserved areas, the expectation should be that such services will be provided under the uniform carrier prices posted on their websites. That is how wireless companies market their services. In addition, the expectation should be that carrier bids will reflect what is needed to bring their expenses in high cost areas down to the level that the carrier uses to trigger expansion projects in more densely populated areas where support is not required. In other words, if a carrier bids on a contract to provide service in an existing unserved or underserved geographical area, the bid need only be sufficient to bring the unit costs of a projected market down to the unit costs in markets that do not require support. In such a scenario, the most efficient carrier is likely to prevail and provide service at uniform rates consistent with those of markets not requiring a subsidy. In order to deliver comparable rates to these high cost areas, it would be logical to require winning bidders to provide service at rates reasonably comparable to what is available nationwide, or within a comparable service area. This is consistent with the wireless carrier plans for uniform national prices.

6. Ongoing Cost Support

There is a raging debate in the Mobility NPRM comments regarding the need to subsidize future mobility broadband ongoing costs, and that simple construction grants will not be sufficient to achieve ubiquitous mobility broadband. The best way to determine the need for ongoing cost support for mobility infrastructure deployment is to test the competitive process by putting actual projects out for bid. The first proposition is that “if we pay for the land and tower, will you come in and add your antennas and electronics and offer mobility services at uniform and comparable rates?” In a truly competitive bid process, this question is almost certain to be answered. Every geographical area is likely to be different, and, just as in the case of broadband, the mobility solution may require temporary, ongoing support.

7. Transitioning Mobility Funding

The existing CETC high cost funding received by wireless carriers amounts to \$1.4 billion annually. The Omaha Plan recommends a five year transition to eliminate CETC funding and replace it with Mobility funding on a competitive bid basis. Many commenters to the Mobility NPRM dispute the assumption that the \$100 to \$300 million proposed for initial mobility funding is not enough to make a difference. However, if the FCC were to reallocate existing mobility funding for new tower construction projects and the conversion to 3G/4G over a transition period of five years and continue mobility support for an additional five years at the same level, it would produce the following levels of support for Mobility Fund recipients:

Year 1:	\$280 Million
Year 2:	\$560 Million
Year 3:	\$840 Million
Year 4:	\$1.1 Billion
Year 5:	\$1.4 Billion
Ten Year Total	\$11.2 Billion

The Omaha Plan recommendation includes the same options for carrier/state matching that were proposed for the Broadband Fund. The results of state/carrier matching would result in the following amounts available for mobility projects:

Ten Year USF Funding	\$11.2 Billion
+Required 25% Carrier Match	\$2.8 Billion
+Optional State Match	\$2.8 Billion
Total 10 Year Funding	\$16.8 Billion

D. Eliminate Remaining High Cost Funding and Simultaneously Establish New Legacy Funding

1. Demonstration of Need Based on Total Revenues/Expenses

The Omaha Plan proposes that existing recipients of high cost funding who choose not to seek funding under the broadband plan should be allowed to apply for continuation of existing high cost funding under a Legacy Fund subject to approval by the Commission and based on a showing of need that would include actual revenues and costs for all corporate information services and telecommunications activities, consistent with 10K filings submitted to the Securities Exchange Commission, including parents and affiliates. In addition, existing recipients would be required to show that, absent USF support, rates for basic services would no longer be comparable to a national benchmark rate. Failure to provide needed data would disqualify a company from receipt of USF funding. A demonstration by an existing USF recipient would show that the elimination of existing support would provide less than 11.5% return, less 25% as a corporate contribution. All sources of revenue and expense would be included. Such showing would justify continued USF support to the extent needed to produce an 8.625% return, assuming that basic rates are no lower than the national average basic rate. Companies unwilling to provide the data would be transitioned away from USF funding over a five year period and would be eligible for support under the Broadband Fund. Because no one knows how many existing recipients actually require ongoing legacy network support, this step should precede the redistribution of existing funding for broadband and mobility purposes. Simply phasing out existing USF support of legacy networks for existing providers without assurances that the existing providers have the capability of financial survival would involve obvious legal and consumer issues.

The recommended approach for a Legacy Fund is to cap the existing high cost funding levels on a company by company basis. Continued funding would require an annual petition for continued support, including proof that the amount of requested funding is required to produce a return no greater than 8.625%. Necessary support needed to maintain affordable rates would be limited to the gap between existing returns and 8.625%. While many might call this procedure rate of return regulation, this ignores the fact that limitation on levels of public support should be established to ensure adequate financial stability for service providers that deliver essential services. Unlike rate of return regulation, the prices charged by these companies for the services they provide would be subject to little if any control in many of the states. Thus, the current issue revolving around whether support is justified for USF recipients in states that have deregulated their prices and service quality could go away if future USF support is conditioned upon a demonstration of need.

One of the alternatives available to the Commission regarding the Legacy Fund is to simply require all existing providers the option of keeping existing USF funding if the ETCs provide broadband to their entire service territory within five years. ETCs failing to provide broadband to their service areas within five years would lose their USF support at the end of five years and the service area would be subject to auction. Even though this is a viable alternative that may be available to regulators under the Act, the Omaha Plan does not recommend it initially. The FCC should continue existing funding to existing recipients who cannot deploy broadband, even with a reasonable level of support, until it has identified such areas, quantified the cost and evaluated the alternatives. To condition continued support upon the culmination of an official determination by the FCC that would be effective within five years may not provide the certainty needed to protect the consumers. In addition, at the end of the five year period, without additional data sources, the FCC or the states would still not know whether existing levels of support were necessary to provide continuing universal service, or whether some lesser amount might be possible.

2. Remaining USF Support

Following the initial Legacy/POLR process, the Commission will then be aware of the balance of funding available for broadband infrastructure deployment. The Commission should be well aware that existing funding goes to companies that aspire to a broadband future. Existing universal service support already finds its way into corporate budgets that include broadband services. Dollars are dollars and are untraceable when they reach budgetary status. Therefore, assuming that the existing recipients perceive their brightest future to be attached to expansion of broadband internet/video/data/voice/etc services of the future, any funding provided by the USF to such companies should be prioritized by those companies to achieve the goals of broadband deployment while increasing their revenue streams. The Omaha Plan would require that the remaining USF funding not identified for possible distribution to Legacy/POLR providers be reallocated over a five year period to broadband-specific funding. We would estimate that the initial amount of the existing high cost funding available for transition to broadband is at least \$2 billion per year. Therefore, new broadband infrastructure funding could be at least \$400 million in the first year and increase by \$400 million each year thereafter. Simultaneously, existing USF funding would decline by the same amount, excluding Legacy funding that was discussed previously.

IV. CONTRIBUTION MECHANISM REFORM -THE OMAHA PLAN

The major problem confronting the FCC regarding the contribution methodology is the large disconnect between total industry telecommunications revenues and universal service contribution base revenues. The 2010 Monitoring Report shows USF contribution base revenues to be \$79 billion (Table 1.8). Total **telecommunications revenues** for the same providers are \$449 billion. A cursory review of the data, absent carrier by carrier submissions, clearly indicates that the major carriers that provide local service, wireless service, long distance services and special access services are the recipients of the overwhelming majority of the total \$448 billion annual revenue stream that includes video, broadband and internet access revenues that are provided as information services and are not reported to the FCC as telecommunications services (regulated under Title II). All of the these services, both telecommunications and

information services use the same basic copper, fiber, microwave, cellular, satellite infrastructure that is used to connect homes and businesses throughout the nation to others throughout the world. This is the network infrastructure that makes the \$448 billion revenue stream possible. This is the same network that makes the broadband world a reality.

Here is how that revenue stream is divided:

Intrastate Services	\$179 Billion
Interstate Services	\$102 Billion
International Services	\$ 15 Billion
Broadband/Internet	\$152 Billion
Total Telecom Revenues =	\$448 Billion

A. Contributions Based on Total Revenues

The Omaha Plan recommends that future contributions to universal service funding be calculated on total revenues of both companies that provide information services and companies that provide telecommunications services subject to the requirements of the Act.

Here is how the existing capped USF compares to the total revenues that are available for use in recalculating the contribution factor:

<u>Total Telecommunications Revenues</u>	\$448 Billion
Total Universal Service Fund (USF)	\$8.8 Billion
Total USF Factor % --All Revenues	1.8%
Total USF Factor % -- High Cost Only	1.0%

Excluding Intrastate

Total USF Factor %	3.0%
USF High Cost Factor %	1.7%
Current USF Contribution Factor	15.5%

1. Assessing All Carriers' Broadband and Wireless Revenue

The Act requires that customers of high cost geographical (rural) areas should receive supported services at affordable rates reasonably comparable in price and service quality to those of urban areas. When mobility and broadband information services are included in the mix of supported services along with basic voice/data service, then the contribution mechanisms should be modified to ensure that all network participants contribute equally. The fact that broadband services are unregulated and may ultimately continue to be classified as information services while at the same time qualifying for USF support requires the expansion of the contribution base to include broadband. This includes cable companies, which have traditionally not had a role in the USF. Revenues, as opposed to numbers or internet protocol addresses or connections, are far more reflective of the total network resources that are used by consumers to satisfy their electronic needs of the future, no matter what they might be.

Ultimately the network providers of the future will develop pricing plans that parallel the

demands placed upon the network by users. Whether those plans include tiered pricing, or priority pricing or megabyte pricing or gigabit pricing or minutes of use, the concept that the more you use the more you will pay in the future is essential given in this diverse electronic age that is populated by businesses requiring huge database transfers, gamers, streaming video, voice mail users, work at homers who are on line all day long, the elderly who want to call their grandchildren by telephone, etc. Revenues are the only true measure of network demand that should be used to assess future USF contributions to support the network requirements of the nation. to the contribution mechanism should taken into consideration the variations of demand placed on the network between an elderly grandmother in a condominium in Fort Lauderdale with a single voice telephone as opposed to a tech-savvy family of four in Seattle with two teenagers, four smart phones, one a gamer, all on text unlimited text plans, three iPods, and four computers with a wireless router.

2. Contribution Factor 1.8%--High Cost Factor 1%

If all revenues, both interstate and intrastate telecommunications and information services revenues, were included in the contribution formula, the total contribution factor would be 1.8% and the high cost factor would be 1%. The Omaha Plan recommends that all sources of revenue be included in the formula for USF funding, including intrastate and international revenues. Any modification of the above recommendation, i.e. elimination of intrastate revenues, should be applicable only to the high cost portion of USF. Schools and Libraries and Low Income support should be calculated based on total revenues of all network participants.

3. Contribution Options

The Omaha Plan proposes two options to separate the contribution revenue sources into Mobility, Broadband and Legacy components. The first option is shown in the chart below that reflects contributions from each revenue source that are restricted to the fund disbursements for each contribution source separately. Thus, a specific contribution factor would apply to Mobility revenues that would be targeted to the Mobility High Cost Fund, the Legacy High Cost Fund, Schools and Libraries Fund and the Low Income Fund, as shown in the following chart. Mobility, Broadband and Legacy revenue sources would require separate and different contribution factors to be calculated by USAC.

	Mobility High Cost	Broadband High Cost	Legacy High Cost	S&L	Low Income
Mobility Revenue	X		X	X	X
Broadband Revenue		X	X	X	X
Legacy Revenue			X	X	X

The second option would be to simply calculate a single contribution factor for all sources of revenue that would be calculated based on the ratio of total USF requirements to total revenues, including Legacy, Broadband and Mobility Revenues. The contribution factor would be based on the total USF demands within the five targeted funds. While the contribution factor

would be a single percentage number, if passed through to customers by contributing service providers, the contribution factor would increase for each customer based on the size of their total bill, consistent with their use of the network. **State Staff believes that the second option may have advantages in terms of simplicity as well as equity.**

B. Contributions Based on Numbers and Connections

The move by mobility and wireline broadband providers toward tiered pricing and data by the gigabit has rendered the proposed modifications to collect USF costs through numbers and connections outdated. Numbers and connections fail to measure demand placed on the network by the variety of uses available to the modern day electronic multi-media communications that are at work today in the home and office. The variation of demand that can be placed upon the network behind a single telephone number today is large. If the goal of universal service is to equitably spread the cost of supporting low income support, schools and libraries support and high cost support to those who benefit from the network(s) today in an equitable manner, then the use of numbers and connections to make that calculation fails to hit the mark.

It should be noted that the USF High Cost Fund is an \$8.8 Billion fund that constitutes 1.8% of total revenues as reported in the latest Monitoring Report. The proposals for numbers based contribution factors include the Chairman's draft USF proposal dated October 13, 2008 that would have applied a \$1.00 per month charge for each residential telephone number. In December, the FCC reported that there were approximately 90 million residential access lines in service and 60 million business access lines in service. If each residential access line represents a residential telephone number, then a \$1.00 per month contribution factor for each number would produce only \$1.1 billion per year, leaving \$7.7 left for recovery required to support current USF funding. Unless funding were seriously reduced, the contribution factor needed for a numbers-based mechanism for each of the existing 150 million residential and business users to produce \$8.8 billion would be closer to \$5.00 per month.