



Reforming USF Contributions by Including Broadband Services in the Contribution Base

EXECUTIVE SUMMARY

USF contribution reform has been on the table for many years. During that time, the foundation of USF funding has continued to deteriorate. Including broadband in the USF contribution base would stabilize the contribution base and return contribution rates to a sustainable level. Taking this step is justified from a public policy perspective. Policy makers should move forward with including broadband services in the contribution base expeditiously.

Introduction

The current contribution model to support the federal Universal Service Fund (USF) is broken and endangers the program's goals of deploying broadband networks in rural America and supporting broadband services for the nation's schools, libraries, rural healthcare providers, and low-income families. Between 2001 and 2024, the USF contribution base, which primarily consists of voice communications services, has declined by over 69%. Over this same period, the contribution factor on these services has increased by over 400% and is now the mid 30% range. Including broadband services in the USF contribution would stabilize the funding base and lower contribution factors to a sustainable level (below 4%). Taking this step is reasonable and equitable given that USF is primarily used to promote universal broadband. Including edge providers, as proposed in recent legislation, in the USF contribution base may have some merit but it is also likely to be more complicated than including broadband services revenue due to varying revenue models employed by edge providers. Including broadband services in the USF contribution base can be accomplished quickly and should not be delayed while the logistics of assessing edge providers are negotiated.

USF Contribution Base is Declining, and the Contribution Rate is Soaring

The Federal Universal Service Fund (USF) primarily supports deployment and purchase of broadband services.¹ There are four programs that make up USF:

- *Connect America Fund* – provides funding for deployment of broadband in rural areas;
- *Lifeline* – subsidizes purchase of broadband and voice services for low-income consumers;
- *Schools and Libraries (E-rate)* - subsidizes the purchase of broadband for schools and libraries; and
- *Rural Health Care* – supports the provision of broadband to rural healthcare providers and subsidizes the difference between urban and rural rates for telecommunications services.

¹ While USF continues to fund limited voice services (e.g. low-income consumer program provides a subsidy for voice only service and the rural healthcare program does have a program to subsidize the difference between rural and urban communications rates) the overwhelming focus of the federal USF is on broadband services not voice.



Federal USF is funded by assessments primarily on interstate and international voice telecommunications revenues. This includes traditional wired and wireless telecommunications voice services as well as interconnected VoIP services. Unlike the distribution side of USF, which the FCC reformed comprehensively starting in 2011 to shift the focus of funding from voice services to broadband service, the FCC has made little change on the contribution side over the last twenty-five years; other than adding interconnected VoIP to the contribution base in 2006.

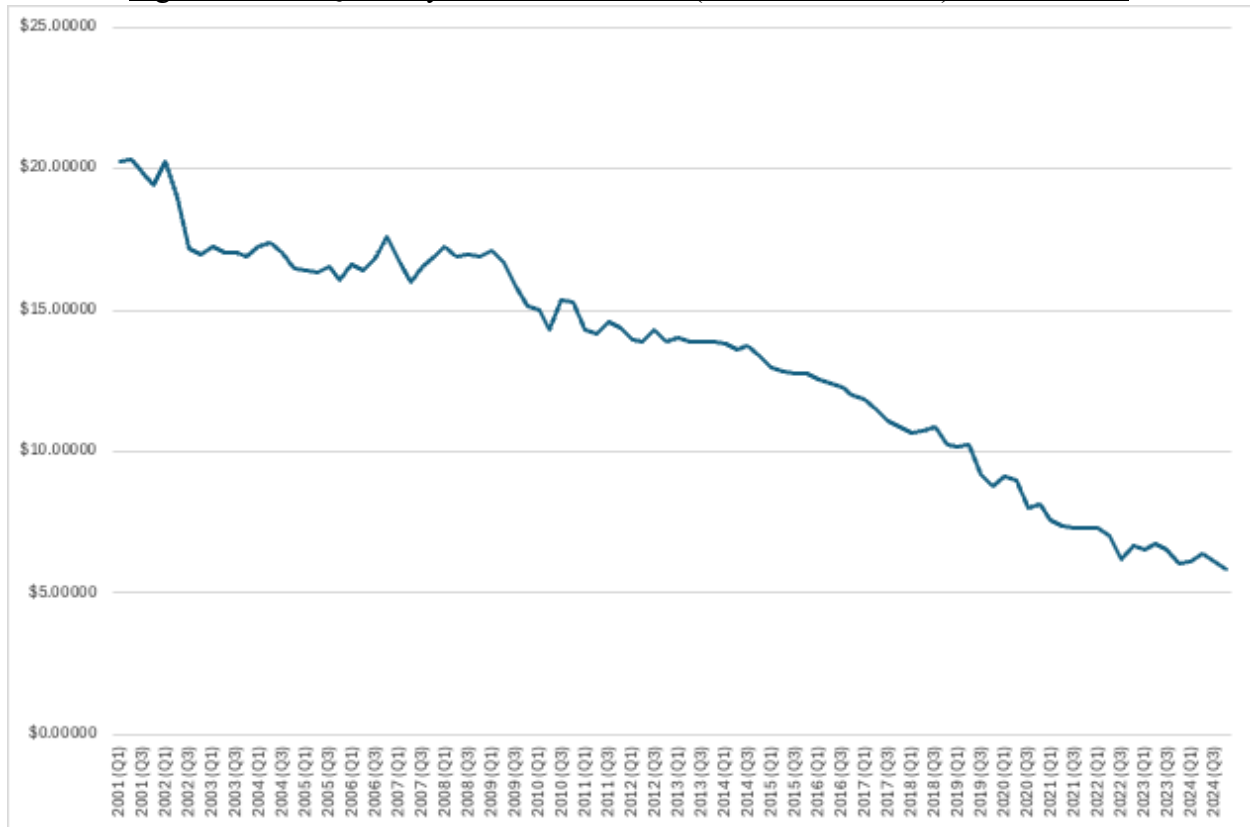
While there has been little substantive change to the contribution side of USF over the last twenty-five years, the market for communications has changed remarkably. At the turn of the century, major telecommunications providers still operated wired and wireless networks that were dedicated to the provision of voice services. Voice services were offered on a standalone basis and were still the primary value driver for communications service providers. The widespread availability of broadband internet access services greatly changed the market for communications services. Voice went from being a high value product that drove the deployment of networks to an application running over broadband networks that can deliver multiple services other than voice (video, text, websites, AI chatbots, etc.). In short, voice services have become far less valuable.

In addition, the pricing for communications services has changed over the last twenty-five years. At the turn of the century voice services were still offered on a standalone basis, but voice services now are almost always sold as part of a bundle with other services that are not USF assessable like broadband and information services (e.g. messaging and video meetings). Thus, providers can allocate the revenues for these bundled services between assessable voice services and other non-assessable services. The exceptionally high current USF contribution factors create strong incentives for providers to minimize the revenue allocated to assessable voice services. This further lowers the contribution base and increases the contribution factor, which leads to even greater incentive for providers to minimize the amount of revenues subject to USF.

As a result, the quarterly USF contribution base has declined over 69% between 2001 and 2024. Notably, the quarterly contribution base in 2001 was approximately \$20B versus approximately \$6.1B in 2024.



Figure 1: USF Quarterly Contribution Base (Billions of Dollars) 2001 to 2024

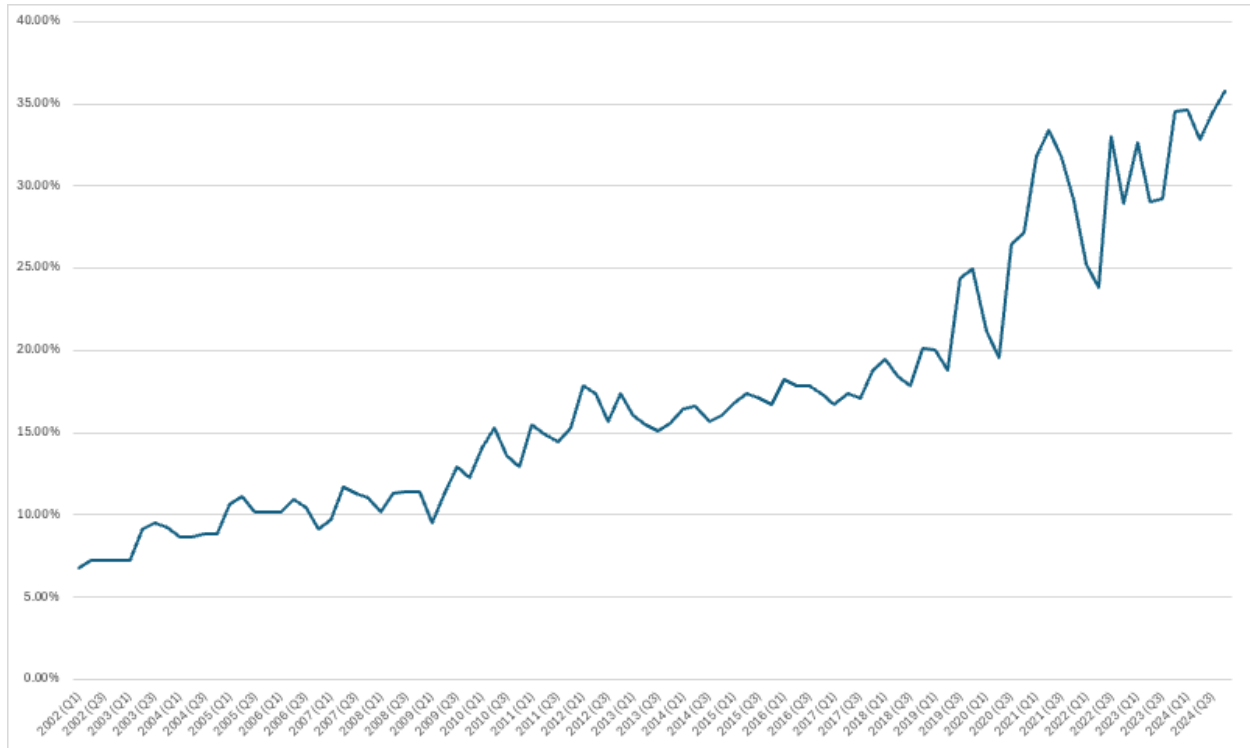


Source: Contribution Factor & Quarterly Filings – Universal Service (USF) Management Support (available at <https://www.fcc.gov/general/contribution-factor-quarterly-filings-universal-service-fund-usf-management-support>).

Since the USF contribution factor is based on the projected funding needs for the various program components and the projected funding base, the contribution factor has also increased by over 400% between 2001 and 2024.² Today contribution rates routinely exceed 35%. These high contribution rates suppress demand for voice services like those provided by 8x8 by adding significant costs that are passed on to customers.

² The projected funding needs have also increased by over 53% over this timeframe.

Figure 2: USF Quarterly Contribution Rate 2001 to 2024



Source: Contribution Factor & Quarterly Filings – Universal Service (USF) Management Support (available at <https://www.fcc.gov/general/contribution-factor-quarterly-filings-universal-service-fund-usf-management-support>).

Absent changing how USF is funded, the contribution rate is likely to continue an unsustainable upward climb. The last three contribution rates for Q1 through Q3 2025 were above 35% at 36.3%, 36.6%, and 36.0% respectively. Based on the growth rate of the contribution factor over the last five full years (2020-2024), the contribution factor would be over 50% by 2029.

Including broadband service in the contribution base will return the contribution rate to a sustainable level

Including broadband internet access service in the USF contribution base under the existing revenue-based contribution model for USF would stabilize the funding base and lower contribution factors to a sustainable level. Former Deputy Bureau Chief of the FCC Wireline Competition Bureau and USF expert Carol Matthey in the USForward Report estimated that including broadband in the contribution base would reduce the contribution factor to below 4%.³

These estimates of the contribution factor when broadband is included in the contribution base use the estimated outlays from the Federal Budget for USF, telecommunications revenues from

³ USForward Report, September 2021. Available at <chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://www.ntca.org/sites/default/files/documents/2021-09/FINAL%20USForward%20Report%202021%20for%20Release.pdf>.



the Contribution Factor & Quarterly Filings – Universal Service (USF) Management Support (used in Figure 1 above), and analyst estimates for broadband revenues. Since this report is from 2021, it is necessary to update the estimated contribution factors using USF outlays from the FY25 Federal Budget, full year 2024 data from the quarterly 2024 USF filings trended for future years, and the broadband revenues from the USForward Report trended for future years. The updated data continues to show that including broadband in the USF contribution base would result in contribution rates below 4%.

Figure 3: Contribution Factor with Broadband Included in Contribution Base

	2023	2024	2025	2026
USF Demand (Billions)	\$8.2	\$8.9	\$9.7	\$10.1
Total Revenue (Billions)	\$275.8	\$285.1	\$293.3	\$300.4
Telecom Revenue (Billions)	\$25.9	\$24.5	\$23.3	\$22.1
Broadband Revenue (Billions)	\$250.0	\$260.6	\$270.0	\$278.3
Contribution Factor	3.0%	3.1%	3.3%	3.4%

The Economics of Universal Service Fund Reform, a 2023 report by the Brattle Group used different analyst reports than the USForward report for broadband revenues but arrived at similar conclusions regarding the impact of including broadband in the USF contribution base.⁴ This report estimated that including broadband in the USF contribution base would result in contributions factors between 3.0% to 3.7% during 2021 to 2028 timeframe. Similarly, a July 2025 paper for the Digital Progress Institute found that including broadband in the contribution base would reduce the contribution rate to 3.3% based on 2023 data.⁵

Including “Edge Providers” in the Contribution Base

Recent legislation has proposed the inclusion of edge providers in the USF contribution base (e.g. Lower Broadband Costs for Consumers Act of 2023 and Promoting Affordable Connectivity Act of 2024). These bills generally include revenues from a variety of services including social media, digital addressing, search engines, messaging, video conferencing, app stores, and cloud computing services provided by large providers in the USF contribution base.

As these definitions of edge providers capture a range of services and are relatively recent proposals, there is not significant data on the impact of including these providers in the USF contribution base. In a January 12, 2024 letter to Senator Lujan, former FCC Chairwomen Rosenworcel estimated that including edge providers in the contribution base would expand the

⁴ The Economics of Universal Service Fund Reform, The Brattle Group, August 24, 2023 available at chrome-extension://efaidnbmnnnibpcajpcgclclefindmkaj/https://www.incompas.org/Files/filings/2023/The%20Economics%20of%20USF%20Reform%20Brattle_FINAL.pdf

⁵ An analysis of options for reforming the Universal Service Fund funding mechanism, James E. Prieger for the Digital Progress Institute, July 31, 2025 (DPI Paper), p. 39, available at <chrome-extension://efaidnbmnnnibpcajpcgclclefindmkaj/https://digitalprogress.tech/wp-content/uploads/2025/07/USF-funding-reform-Prieger.pdf>



base by approximately \$2.3 trillion.⁶ The Chairwomen further estimated that this would reduce the contribution factor to approximately 0.4%. Adding the estimated edge provider revenues to the contribution base data in Figure 3 would reduce the contribution factor to 0.3 to 0.4% consistent with the former FCC Chairwomen’s estimate.

Figure 4: Contribution Factor with Broadband and Edge Provider Revenue

	2023	2024	2025	2026
USF Demand (Billions)	\$8.2	\$8.9	\$9.7	\$10.1
Total Revenue (Billions)	\$2,575.8	\$2,585.2	\$2,593.3	\$2,600.5
Telecom Revenue (Billions)	\$25.9	\$24.6	\$23.4	\$22.2
Broadband Revenue (Billions)	\$250.0	\$260.6	\$270.0	\$278.3
Edge Provider Revenue (Billions)	\$2,300.0	\$2,300.0	\$2,300.0	\$2,300.0
Contribution Factor	0.3%	0.3%	0.4%	0.4%

Recently, a July 2025 paper for the Digital Progress Institute looked at the impact on the USF contribution rate of including different bundles of edge provider revenues in the contribution base. The broadest bundle of revenues it used – dubbed the Digital Ecosystem Tax – yielded an estimated contribution factor of 0.8%.⁷ The Digital Ecosystem includes the existing contribution base plus revenues from the provision of internet access service, digital advertising, cloud computing, streaming, and platform agency fees.⁸

While further expanding the contribution base to include edge provider revenue likely has some merit as these providers benefit from the availability of broadband services and a more expansive base is less likely to see the precipitous drop in revenue like the narrow current USF contribution base, assessing edge providers presents several substantive and political challenges. First, it would be necessary to determine what edge services would be included in the contribution base from the vast universe of services that benefit from the widespread availability of broadband. Further, these services have more diverse revenue models than voice communications and broadband services, where users are generally billed a monthly fee for services. The mechanics of establishing a contribution method that is equitable, non-discriminatory, sustainable, and predictable for edge providers will likely take longer than it would for broadband services, which typically use similar pricing models as voice telecommunications and is often sold by providers that also provide voice telecommunications subject to USF. Whether or not edge provider revenue is ultimately included in the contribution base, including broadband services in the USF contribution base should not be delayed.

⁶ Letter from FCC Chairwomen Jessica Rosenworcel to Senator Ben Ray Lujan, January 12, 2024, available at chrome-extension://efaidnbmnnnibpcajpcglclefindmkaj/https://docs.fcc.gov/public/attachments/DOC-400113A1.pdf.

⁷ See DPI Paper, p. 36.

⁸ Platform Agency Fees are the fees charged by the platform provider like Amazon and Etsy for selling third party products; Uber and Lyft payments, and the fees charged by Airbnb, Expedia, etc. The DPI Paper also estimated the revenues from E-Commerce, which would encompass the goods and services sold on the platform. However, E-Commerce revenues were not included in any of the modeled bundles of services assessed for USF.



It's Time to Include Broadband in the USF Contribution Base

All USF programs promote universal broadband so it is reasonable and fair that broadband services should contribute to USF.

Historically, USF supported the deployment of voice services and subsidized the purchase of voice services and was funded by assessments on voice services. Broadband services have replaced voice services as the primary means of connectivity for individuals. On the distribution side of the USF program, the FCC has recognized and accommodated the changing nature of communications services. As discussed above, the FCC has reformed the distribution side of the USF program to focus on the deployment and purchase of broadband services. If broadband services are widely available, voice services do not need to be subsidized as providers like 8x8 provide affordable services that run over the top of broadband networks. Reforming the contribution side of USF to reflect this reality by including broadband services in the contribution base is long overdue and is necessary to ensure that funding for universal broadband continues to be available for decades to come.

Including Broadband Revenues would bring Much Needed Stability to the USF Contribution Base.

The available data on broadband revenues suggest that broadband revenues are approximately 10x the level of voice telecommunications revenue. Further, broadband revenues show continued growth in contrast to voice telecommunications revenue, which have been in a precipitous decline. Including broadband revenues in the USF contribution would stop the rapid rate of growth of the contribution factor.

Broadband services have inelastic demand

Recent data suggests that broadband services have inelastic demand. This means that increases in price have relatively little impact on demand for services. Thus, small increases in price from adding USF contributions to the price of broadband services should have little impact on the demand for broadband services. In particular, the most recent data suggest that broadband services have price elasticity of -0.08.⁹ This means that a 10% increase in price would only decrease demand for broadband services by 0.8%. From an economic perspective, it is better to tax services that are inelastic because the tax yields less distortion of the market.

Including broadband revenues can be achieved quickly.

Broadband services can be included in the USF contribution without changing the mechanics of the current revenue-based model. Broadband services are typically priced much like assessable voice telecommunications services i.e. monthly (or sometimes annual) charges for the provision of the service. Further, most broadband providers also provide currently assessable voice services, so they are already familiar with USF reporting mechanisms. As such, no significant

⁹ The Economics of Universal Service Fund Reform, p. 20 (Footnote 4).



changes would be needed to the current revenue-based contribution model to include broadband services in the USF contribution base.

Including Broadband Revenues Reduces the ability to avoid USF contributions through allocation of bundled service revenue.

Communications services are typically offered as bundle that includes assessable voices services and non-assessable services like broadband and information services (e.g. messaging and video meeting services). Under the FCC rules, USF contributors can use one of two safe harbors for bundled offerings or, use any reasonable allocation method. With the extremely high contribution rate applicable to voice telecommunications services, there is an obvious and strong incentive for providers to allocate as little as possible of the bundled offering to voice services. Including broadband service revenues in the contribution base would significantly reduce the ability to use allocation methodologies to avoid USF as broadband makes up a large portion of the value of most communication services bundles.

Including Broadband Revenues Reduces the suppression of demand for voice services that results from very high USF assessments on these services.

The intent of USF is to expand the availability and usage of communications services. The extremely high USF contribution rates for voice telecommunications reduces the demand for these services as USF contributions are typically passed on to customers as line-item charges on the invoices for services. Further, other services that are not assessable like messaging, video meetings, and non-interconnected VoIP are reasonable substitutes for voice telecommunications services, so users could, and frequently do, choose alternatives to voice telecommunications if the costs are too high. Including broadband services in the USF contribution base would bring down USF contribution rates to a reasonable level and greatly reduce the distortion of the voice telecommunications services market due to extremely high contribution rates.

About 8x8

8x8 is a publicly traded (NASDAQ:EGHT) provider of cloud communications and contact center solutions trusted by more than 3 million business users globally. 8x8's headquarters are in Campbell, CA. 8x8 also has significant U.S. employee presence in the Minneapolis, MN and Boston, MA areas.