Congressional Research Service
Informing the legislative debate since 1914

IN FOCUS

July 30, 2026

The Universal Service Fund Contribution Base: Considerations for Congress

Introduction

The Universal Service Fund (USF), comprising four federal broadband-related programs, is funded by mandatory fees on telecommunications carriers. This funding method differs from those for other broadband programs, which are funded through appropriations. The "contribution factor"—the percentage of interstate and international telecommunications revenues that carriers pay as USF fees—has increased over the past decade, rising from 17.9% in the second quarter of 2016 to 37.0% in the second quarter of 2026.

Data from 2016 through 2025 show that USF program annual disbursements (i.e., payments made to eligible entities) have remained relatively stable, suggesting that the primary driver of the increase is not rising program costs but a shrinking contribution base: Providers have reported declining telecommunications revenues from voice services subject to USF contribution obligations (e.g., landline, mobile phone, and Voice over Internet Protocol [VoIP] services). At the same time, providers have reported increasing non-telecommunications revenues from services that are not subject to USF contribution obligations.

The USF faced legal uncertainty after a federal appellate court held that its funding mechanism was unconstitutional. In 2025, the U.S. Supreme Court largely resolved these doubts, upholding the core structure of the USF's funding mechanism. Following the Court's decision, congressional attention has returned to the long-term sustainability of the contribution framework.

The Universal Service Fund

The goal of universal service is to provide all Americans with access to communications services. The concept is the cornerstone of the Communications Act of 1934 (Communications Act; P.L. 73-416), the law that established the Federal Communications Commission (FCC). The FCC is charged with regulating interstate and international communications by "wire and radio."

The FCC has long pursued universal service. In the days when phone carriers were regulated monopolies, the FCC used a set of "implicit subsidies" to ensure that more lucrative phone routes subsidized costlier ones. With the Telecommunications Act of 1996 (P.L. 104-104), Congress ended this monopoly system and amended the FCC's universal service authority by adding Section 254 to the Communications Act. Section 254 empowers the FCC to create an explicit subsidy program based on certain "principles" of universal service. Under this authority, the FCC has established four USF programs:

- the High-Cost Program helps expand telephone and internet service coverage in underserved areas;
- the Lifeline Program supports affordable telephone and internet services for low-income subscribers;
- the Schools and Libraries Program ("E-Rate") provides discounted internet service to schools and libraries; and
- the Rural Health Care Program provides discounted telephone and internet services to rural health care providers.

The USF programs are administered by the Universal Service Administrative Company (USAC), under the direction of the FCC. The USF disburses around $8 billion in subsidies each year. In 2025, disbursements were $8.45 billion.

The Contribution Base: Current Legal Framework

Section 254(d) requires "telecommunications carrier[s]" providing interstate or international services to contribute to the USF. Telecommunications carriers are entities who act "merely [as] a conduit for data transmission" and are subject to the common carrier provisions in Title II of the Communications Act. Currently, landline and mobile phone providers are the primary entities classified as telecommunications carriers. The FCC has, on several occasions, attempted to include broadband internet access service (BIAS) providers in this category, but its most recent attempt to do so was struck down in court.

While only telecommunications carriers are statutorily mandated to contribute, Section 254(d) allows the FCC to require contributions from "[a]ny other provider of interstate telecommunications ... if the public interest so requires." In 2006, the FCC used this "permissive contribution authority" to require that interconnected VoIP providers make USF contributions. The FCC has sought comment on whether to use this permissive contribution authority to require contributions from BIAS providers and "edge providers" (e.g., companies that provide content, applications, or services over the internet). As discussed below, the extent of its authority to do so is unclear.

For those entities required to contribute, FCC regulations mandate that they pay the contribution factor, which is calculated quarterly and is the ratio of total projected USF program costs to contributors' projected covered revenues. The contribution factor, as mentioned, has increased in the past decade, in large part because of declining voice revenues. Some stakeholders argue that a component of the increase arises from the exclusion of BIAS providers and edge providers from the contribution base.

Considerations for Congress

Several approaches have been proposed to revise funding for the USF, ranging from incremental regulatory adjustments to fundamental legislative restructuring.

Broaden the Contribution Base to Include Broadband Revenues

Congress could clarify or expand the FCC's authority to assess USF contributions based on broadband revenues. This approach would extend contribution obligations to entities already participating in the existing contribution framework rather than identify new classes of contributors. The FCC has a long-pending contribution reform proceeding in which broadband revenue expansion has been identified as an option. In 2024, the then-FCC chair sent a letter to Senator Ben Ray Luján stating that adding BIAS provider revenues in the contribution base would result in higher pass-through costs for broadband subscribers. Others assert that adding these revenues would, over time, reduce the overall contribution factor, potentially offsetting any increase in per-subscriber charges. Legislation has been introduced in the 119th Congress that would require broadband provider contributions to the USF (S. 1651/H.R. 4032).

Extend Contributions to Edge Providers

Congress could expand the FCC's authority to assess contributions on a broader range of revenues, such as digital advertising and services provided by edge providers.

Telecommunications carriers and their trade associations have advocated for contribution reform that encompasses edge providers, arguing that the current framework creates a structural competitive inequity; contributions are assessed from carriers that build and maintain the networks but not from companies that generate substantial revenues from those same networks. This debate has broadened to encompass cloud service providers and perhaps may broaden even further to include data center operators, whose services rely heavily on broadband infrastructure but currently do not contribute to its availability. Edge providers and their advocates counter that they already invest significantly in network infrastructure, the FCC lacks authority to regulate them, their revenues may not be stable or predictable, and assessing contributions on them could raise economic concerns. Legislation has been introduced in the 119th Congress that would require edge provider contributions to the USF (S. 1651/H.R. 4032).

Fund the USF Through Direct Congressional Appropriations

Some stakeholders support funding USF programs through direct appropriations rather than carrier fees. This approach would spread the funding responsibilities across all U.S. taxpayers and eliminate pass-through charges on consumers' phone bills. Some advocates argue that direct appropriations could enhance congressional oversight of USF program priorities and expenditure levels. Critics of this approach have stated that funding the USF through appropriations would introduce vulnerability: USF programs have historically benefited from a dedicated, stable funding stream insulated from annual budget negotiations and that stability supports carrier long-term investment decisions on which program beneficiaries depend.

If the USF is funded through appropriations, Congress may determine whether to wind down the existing fee-based mechanism entirely, amend the Communications Act, or maintain parallel funding streams during a transition period.

Direct Spectrum Auction Proceeds to the USF

The FCC uses competitive bidding (i.e., auctions) to grant licenses for rights to use specific radio spectrum frequencies for commercial wireless communications. Auction proceeds are deposited in the Treasury unless otherwise directed by Congress. Congress may consider directing proceeds from one or more future spectrum auctions to support USF programs. Congress has previously designated spectrum auction proceeds to fund other federal programs (e.g., Next Generation 911).

There are some considerations if Congress were to choose this route. A typical spectrum auction may take up to several years to complete, and revenues would not be available until the auction was completed. Auction revenues can also vary substantially and may not provide reliable, recurring funding.

Existing FCC Authority

Even without additional legislation, the FCC may be able to use its permissive contribution authority to expand the contribution base. In the 2007 case *Vonage Holdings Corp. v. FCC*, a federal appellate court upheld the FCC's order requiring contributions from VoIP providers. Although VoIP providers are not classified as telecommunications carriers, the court deferred to the FCC's interpretation that its permissive authority allows it to require contributions from VoIP providers because telecommunications is a "component" of their finished product.

Because of *Vonage*, the FCC and other commentators have said that the FCC could require contributions from BIAS providers, on the rationale that data transmission is a component of broadband service. *Vonage*, however, was decided under the now-defunct *Chevron* framework of agency deference, and the FCC's interpretation has not been upheld by a court as the "best" reading of Section 254(d). Even under the interpretation upheld in *Vonage*, the FCC's authority to require contributions from edge providers would be uncertain. Given the diversity of edge providers, the FCC's application of its permissive authority may require a case-by-case analysis of whether telecommunications is a component of a particular edge provider's service. Congress could reduce this uncertainty, however, by enacting targeted amendments to Section 254 that either confirm or constrain the agency's authority to include BIAS providers and edge providers in the contribution base.

Patricia Moloney Figliola, Specialist in Internet and Telecommunications Policy
Colby Leigh Pechtol, Specialist in Telecommunications Policy
Chris D. Linebaugh, Legislative Attorney

Disclaimer