

The Attitudes of Americans About Capping “High Cost” USF Phone Subsidies

A Survey Conducted for:
Cap the Fund

Prepared by
OPINION RESEARCH CORPORATION

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Methodology

Results are based on telephone interviews conducted among a sample of 1,009 adults (502 men and 507 women) age 18 and over, living in private households, in the continental United States. Interviewing was completed during the period of November 2-5, 2007.

Completed interviews of the 1,009 adults were weighted by four variables: age, gender, region and race, to ensure reliable and accurate representation of the total adult population of the country.

The margin of error at a 95% confidence level is plus or minus three percentage points for the sample of 1,009 adults. Smaller sub-groups will have larger error margins.

Executive Summary

- More than seven in 10 Americans (71 percent) – including 75 percent of Republicans, 69 percent of Democrats and 67 percent of Independents -- support a cap on the “high cost” portion of the Universal Service Fund (USF) in view of recent increases in USF subsidies to wireless telephone companies. Women are more likely than men – by a margin of 75 percent to 66 percent – to support a cap on the “high cost” portion of USF spending. Fewer than one in four Americans (22 percent) would keep USF spending the way it operates today.
- Nearly seven in 10 Americans (69 percent) – including 73 percent of Republicans, 69 percent of Democrats and 65 percent of Independents – support an end to “providing USF subsidies to wireless companies where unsubsidized service already is being provided” by wireless competitors. Fewer than one in five Americans (23 percent) would keep USF spending in place the way it stands today.
- When told about a report from the Inspector General's office of the U.S. Federal Communications Commission finding that more than one in five dollars under the "high-cost" portion of the USF could not be properly accounted for by the government or industry recipients, about eight in 10 Americans (78 percent) – including 79 percent of Republicans, 79 percent of Democrats and 78 percent of Independents – support a cap on the “high cost” portion of the USF and say the federal government should “not spend more money on it until all tax dollars can be accounted for properly.”

Executive Summary

- Two out of three Americans -- including 70 percent of Republicans, 63 percent of Democrats and 63 percent of Independents -- say they are very concerned about reports of certain “high cost” Universal Service payments, such as “more than \$13,000 per telephone line that were being made to subsidize phone lines going into the Hawaii resort community of Maui.”
- Only about one in three Americans (35 percent) – including 29 percent of Republicans, 41 percent of Democrats and 28 percent of Independents – want to use the USF or any other long-distance phone call tax “to expand broadband Internet access in rural America.” More than three in five Americans (62 percent) oppose – including 67 percent of Republicans, 57 percent of Democrats and 66 percent of Independents –such a move. Only about a quarter (26 percent) of those over the age of 65 supports using these phone taxes for federal rural broadband build out.
- 62 percent of Americans – including 67 percent of Republicans, 58 percent of Democrats and 61 percent of Independents – agree with the following statement: “Congress has moved to keep the Internet “tax free” when it comes to the things that consumers like you purchase online. Some people say that, if Washington wants to be consistent on the Internet and taxes, it should NOT use part of the federal taxes on your long-distance phone calls to subsidize rural broadband access.” Only about a third (34 percent) of Americans disagrees with the statement.
- Nearly two out of three Americans (64 percent) – including 68 percent of Republicans, 60 percent of Democrats and 69 percent of Independents – think that federal taxes (including the Universal Service Fund fee) now being assessed on phone bills is “too high.” Fewer than three in 10 Americans (29 percent) think the tax level is “about right” and 1 percent says it is “too low.”

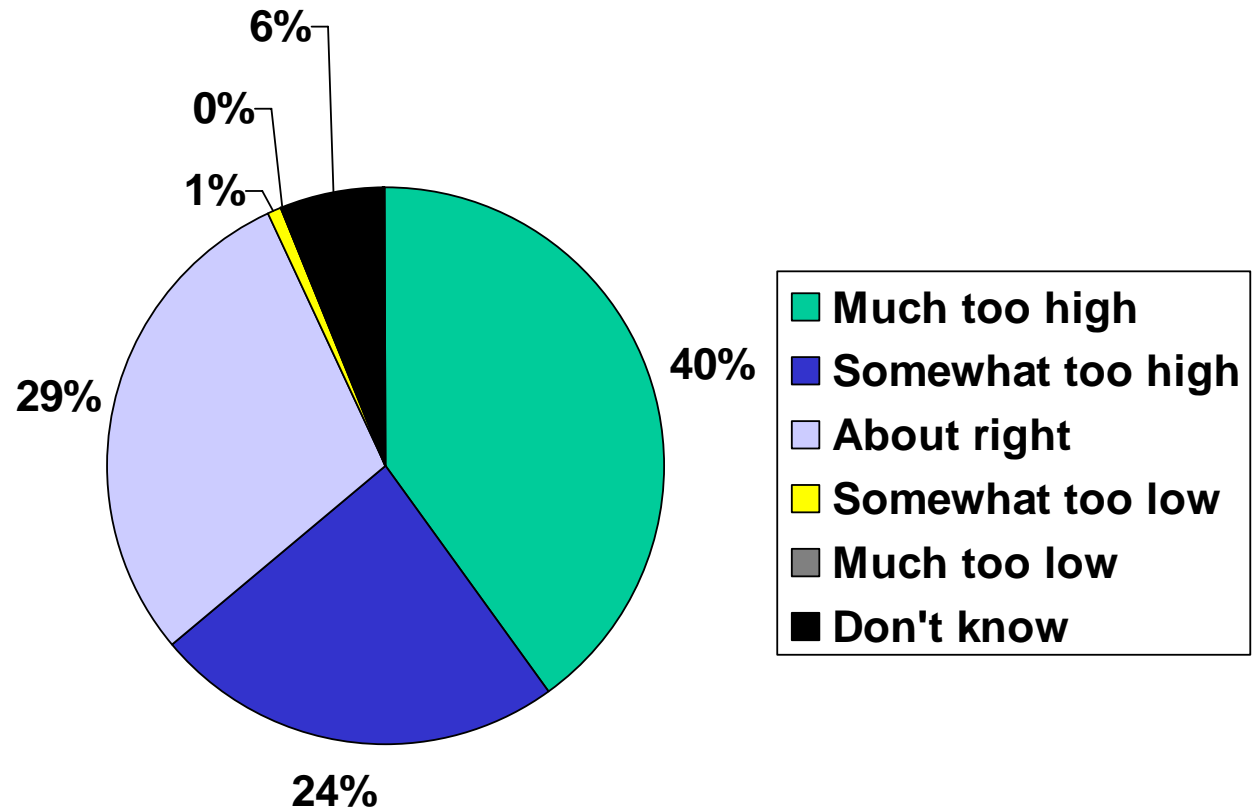
Detailed Charts

The “High Cost” Program of the Universal Service Fund

- Six in 10 respondents (64%) think that the federal taxes on their phone bill used to fund service through the Universal Service Fund, are much too high (40%) or somewhat too high (24%). About three in 10 (29%) think they are about right.
 - Democrats, Republicans and Independents all agree to roughly the same extent that these taxes are too high.
 - Those who responded in a later question that they are concerned about the way USF taxes are being used are much more likely to say these taxes are too high than are those who are not concerned about the way they are being used (71% vs. 51%.)
 - Respondents who support using USF taxes to expand broadband access to certain regions are much less likely to say they think these taxes are too high, when compared to those who don't support the tax use to expand broadband access (53% vs. 71%).

The “High Cost” Program of the Universal Service Fund

R1: As you may or may not know, you pay a nearly 11 percent federal “Universal Service Fund” tax on long-distance phone calls made on your home phone and a comparable percentage of your overall wireless telephone bill. Under what is known as the “high-cost” program, the “Universal Service Fund,” -- or USF -- tax is supposed to pay for telephone service for people living in remote areas that could not otherwise get phone service. Do you think these federal taxes now being assessed on your phone bill are...



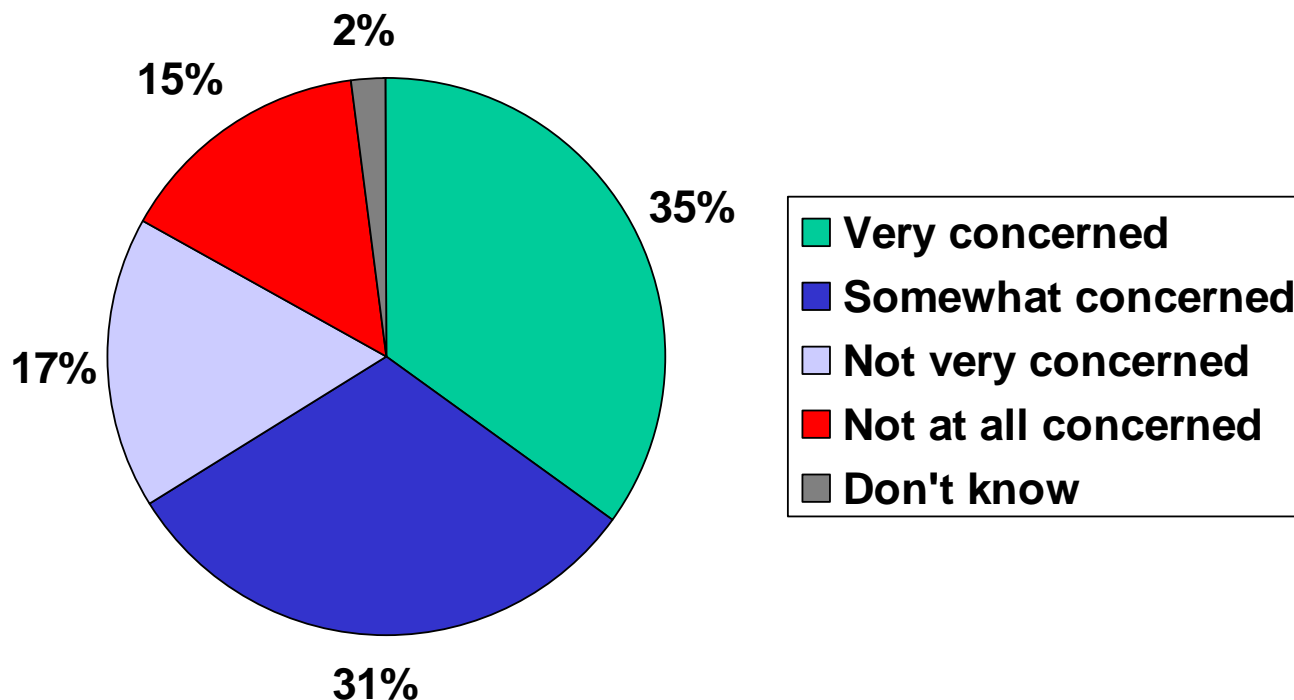
Base = Total respondents, n=1,009.

Concern Over How the USF Revenue is Used

- Once respondents were informed that a recent report highlighted the fact that funds from the USF were being used to make payments of \$13,000 per telephone line to subsidize phone lines into the resort community if Maui, respondents were asked how they feel about the use of the USF funds. Two-thirds say they are very (35%) or somewhat (31%) concerned while only 32% are not concerned.
 - Concern is highest among those age 35 and over (72%) compared to those who are 25-34 (57%) or 18-24 (43%).
 - Those with a college degree are dramatically more likely to be concerned (73%) than those with less than a high school degree (47%).
 - Across party lines, concern is universal: Republicans (70%), Democrats (63%), Independents (63%).
 - Those who think USF taxes are too high are a lot more likely to be concerned about how they are spent (73%) than those who think they are about right (55%).
 - And finally, those who support using USF taxes to expand broadband access are a bit less likely than those who oppose such use to be concerned about how the taxes are being used (60% vs. 70%).

Concern Over How the USF Revenue is Used

R2: One recent report highlighted federal "Universal Service Fund" tax payments of more than \$13,000 per telephone line that were being made to subsidize phone lines going into the Hawaii resort community of Maui. How does such a report make you feel about the use of "Universal Service Fund" tax dollars? Would you say you are...



Base = Total respondents, n=1,009.

In the Wake of Increased USF Spending, Should the Fund's Spending be Capped?

- Respondents were also informed that USF spending under the “high cost” program has increased from \$2.2 billion in 1999 to \$4 billion in 2006. To pay for this increase in spending, the tax on long-distance call revenues has increased five-fold from 2.1 percent to just under 11 percent now. Respondents were asked if a cap should be imposed on USF spending or if it should be left as is. Seventy-one percent favor a cap on spending while 22% want to keep things as they are.
 - Women are much more likely to support a cap than men (75% 66%).
 - Younger respondents age 18-24 are the least likely to be in favor of a cap (58%) compared to those age 25 and over (73%).
 - Only 56% of those with less than a high school education support a cap on USF spending compared to 73% of those with a college degree.
 - Across party lines agreement is that there should be a cap: Republicans (75%), Democrats (69%) and Independents (67%).
 - Those who think USF taxes are too high are more likely to support a cap (79%) than those who think the taxes are about right (56%).
 - And among those who are concerned about the use of USF taxes, 80% think there should be a cap compared to only 56% of those who are not concerned.

In the Wake of Increased USF Spending, Should the Fund's Spending be Capped?

R4: Spending under the "high-cost" portion of the federal "Universal Service Fund" phone tax jumped from \$2.2 billion in 1999 to about \$4 billion in 2006. To pay for the "Universal Service Fund," the tax rate applied to long-distance phone call revenues has gone up five-fold from 2.1 percent to its current level of just under 11 percent today. Which of the following statements comes CLOSEST to your view?

Impose a cap on the "high cost" portion of the "Universal Service Fund" and figure out how to control spending

71%

Keep things as they are with the "Universal Service Fund"

22%

Don't know

7%

0% 10% 20% 30% 40% 50% 60% 70% 80%

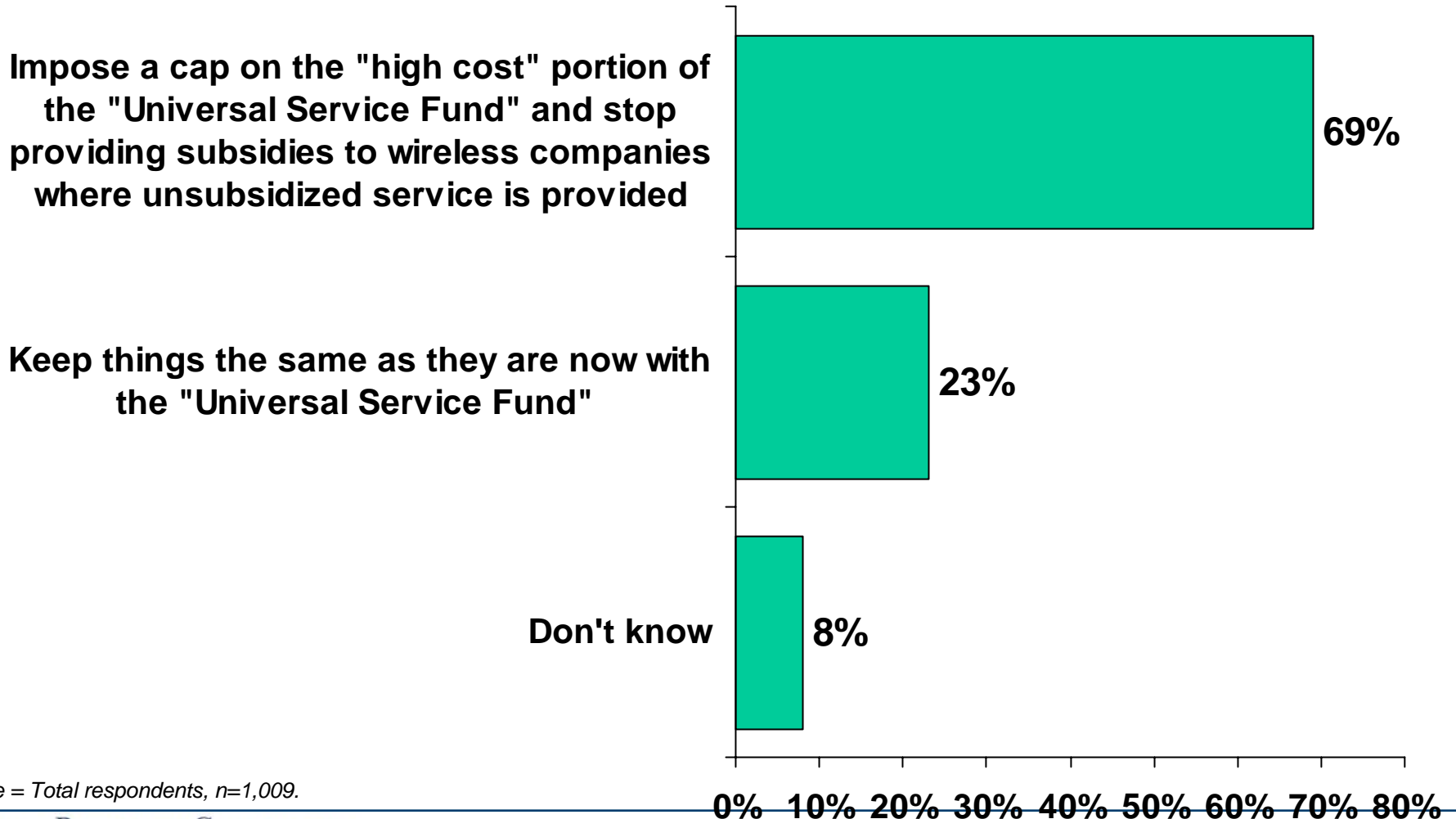
Base = Total respondents, n=1,009.

Placing a Cap on Wireless Subsidies from the USF

- Another question informed respondents that one wireless company has negotiated a limit or cap on the amount of USF subsidies it can receive. Respondents were asked if they think a cap should be imposed for all wireless companies or if things should stay the same. Sixty-nine percent favor imposing some type of cap compared to only 23% who think it should be left as it is.
 - Younger respondents between the ages of 18 and 24 are the least likely to be in favor of a cap (49%) compared to 73% of those age 25 and over.
 - Support for a cap is the strongest among those with a college degree (77%) compared to those with less than a high school education (32%).
 - Across party lines support for a cap is strong: Republicans (73%), Democrats (69%) and Independents (65%).
 - Those who think USF taxes are too high are more likely to support a cap (77%) than those who think USF taxes are about right (59%).
 - Seventy-three percent of those who oppose using USF taxes to expand broadband access are in favor of a cap, compared to only 64% of those who support using the funds to expand this type of access.
- In a similar question, Americans are split on whether the FCC should impose a cap on the amount paid to all wireless telephone companies (38%) or negotiate with each individual wireless company to set an upper limit on payment (39%). Only 16% think things should be kept as they are now.

Placing a Cap on Wireless Subsidies from the USF

R5: Wireless telephone companies are expected to receive more than \$1 billion in subsidies from the "high cost" portion of the "Universal Service Fund" in 2007. The subsidies to some large wireless companies have grown by more than 185 percent annually in recent years, raising concerns about the financial sustainability of the fund. A 2007 study found that, of the 178 million people living in the areas where wireless carriers received subsidies from USF tax dollars, unsubsidized companies are already providing coverage to 98 percent of those consumers. Which of the following statements comes closest to your view?



Base = Total respondents, n=1,009.

Properly Accounting for the Way USF Tax Dollars are Spent

- Americans are in favor of placing a cap on the “high cost” portion of the USF and not spending more revenue until all tax dollars can be properly accounted for. After being told that a report from the Inspector General’s office found that one in five dollars is distributed in error and not properly accounted for, only 15% of Americans said they wanted things to be kept as they are at the USF.
 - Those with a college degree are a lot more likely than those with less than a high school education to favor a cap on spending in this circumstance (81% vs. 53%).
 - Support for a cap in this instance is stunningly bi-partisan with 78% of Independents and 79% of Republicans and Democrats favoring a cap until all money can be properly accounted for.
 - Those who think USF taxes are too high now are more likely than those who think they are about right to support a cap (85% vs. 70%).
 - Those who are concerned about the use of USF taxes are also more likely to support a cap than those who are not concerned (86% vs. 66%).

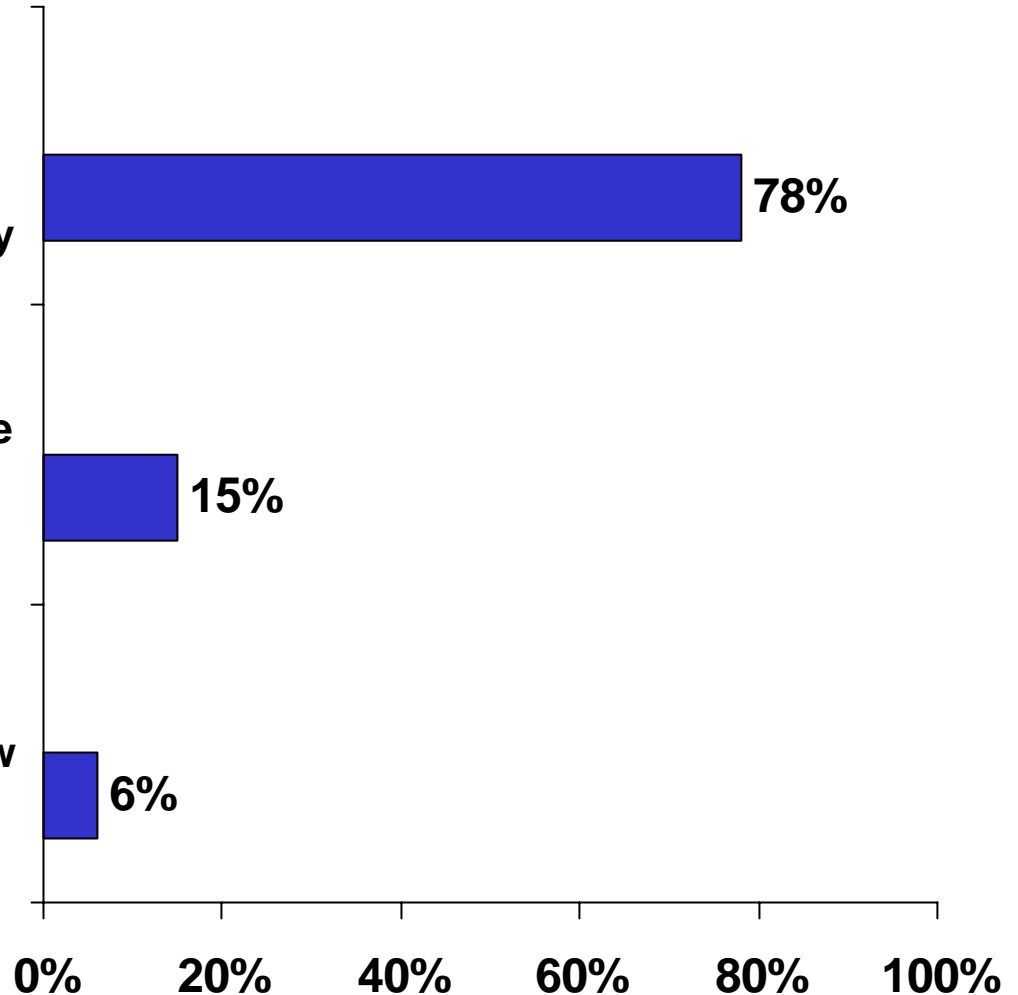
Properly Accounting for the Way USF Tax Dollars are Spent

R8: A recent report from the Inspector General's office of the U.S. Federal Communications Commission found that more than one in five dollars under the multi-billion dollar "high cost" portion of the "Universal Service Fund" is distributed in error and is not properly accounted for by the government or industry recipients. Given that this tax money is coming from a roughly 11 percent tax on the long-distance phone calls of U.S. consumers like you, which of the following steps makes the most sense to you?

Cap the "high cost" portion of the "Universal Service Fund" and do not spend more money on it until all tax dollars can be accounted for properly

Keep things as they are now with the "Universal Service Fund"

Don't know



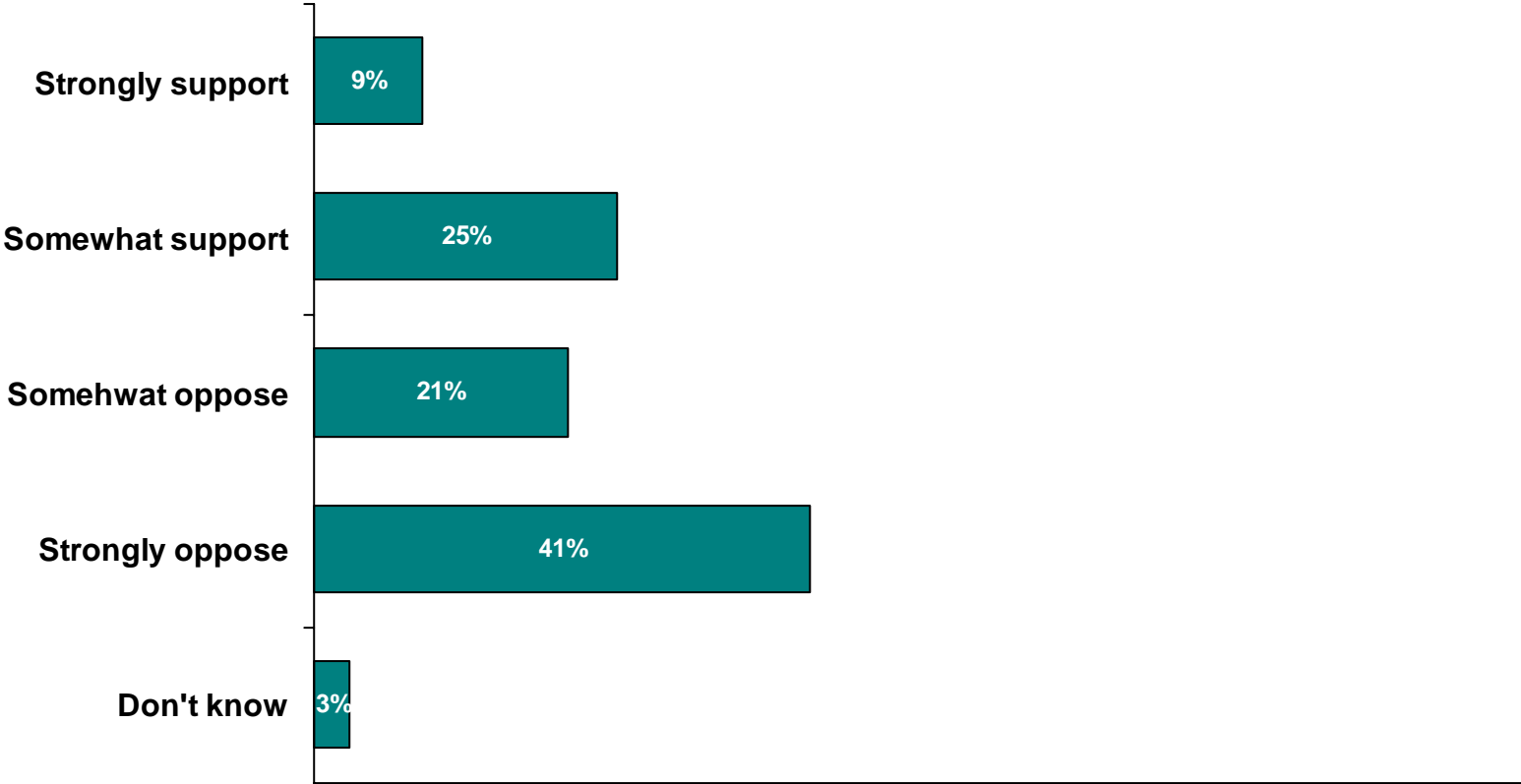
Base = Total respondents, n=1,009.

Using the USF Revenue to Expand Rural Broadband Access

- More than six in 10 oppose using USF revenue to expand broadband access in rural America (62%). Thirty-five percent would support using the funds in this way.
 - Opposition to using the funds for broadband access in rural American is stronger among those age 25 and over (64%) and lowest among those age 18-24 (44%).
 - Opposition is similar among Republicans (67%) and Independents (66%) and somewhat lower among Democrats (57%).
 - Those who think USF taxes are too high are more likely to oppose the action (69%) than are those who think they are about right (47%).
 - Those who are concerned about how USF taxes are used are more likely to oppose this action than those who are not concerned (66% vs. 55%).

Using the USF Revenue to Expand Rural Broadband Access

R8: Some people in Washington want to use a tax on your long-distance phone calls to expand broadband Internet access in rural America. Do you support or oppose such a move? Would you say you...



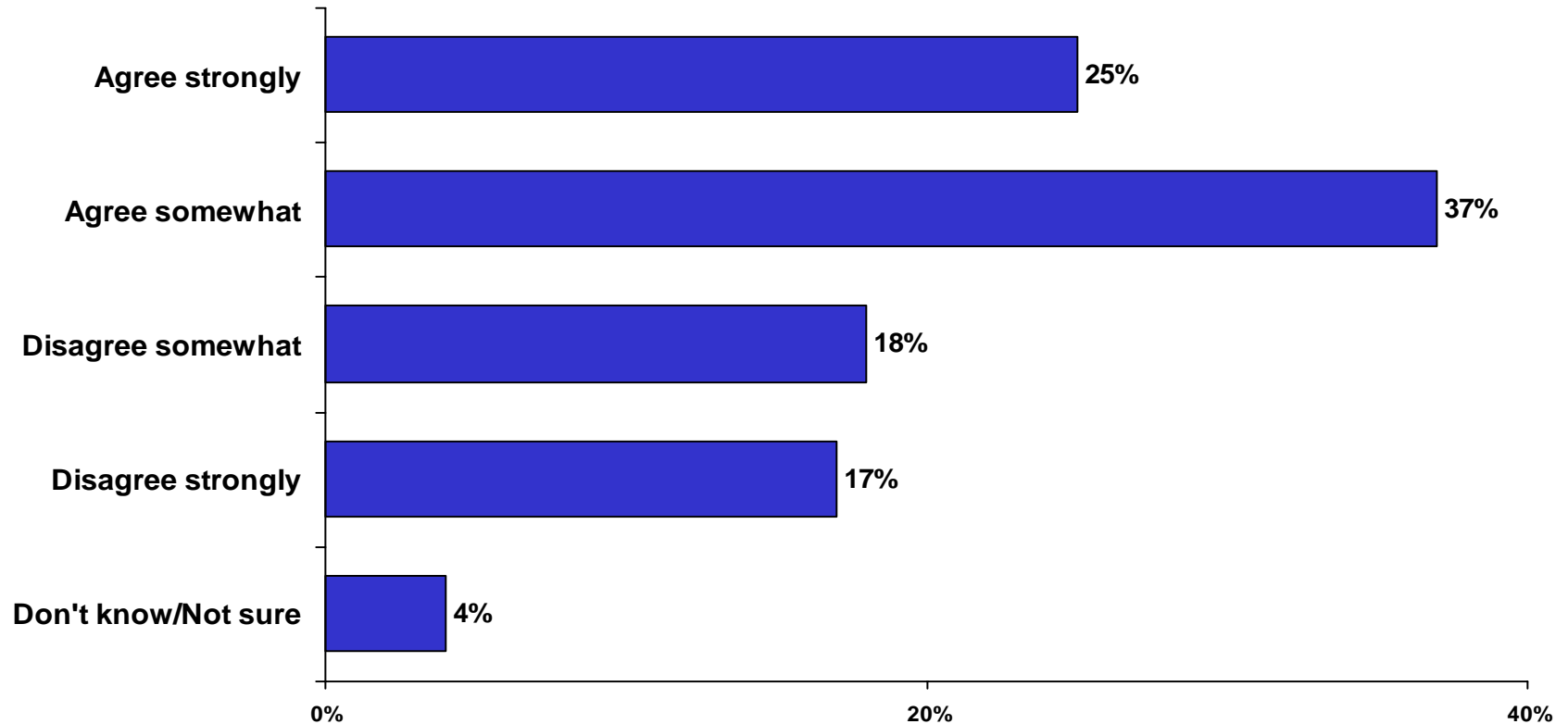
Base = Total respondents, n=1,009.

Keeping the Internet Tax-Free – Using USF Revenue to Expand Rural Broadband Access

- More than six in 10 respondents agree that since the Internet has been kept tax-free, the Federal government should not use part of the taxes on long-distance calls to subsidize rural broadband access (62%). One-third (34%) disagree.
 - Those with less than a high school education are less likely to agree with this than those who have a college degree (40% vs. 62%).
 - Democrats (58%) Independents (61%) and Republicans (67%) all tend to agree that these taxes should not be used in this way.
 - Those who think USF taxes are too high are more likely to think that they should not be used for rural broadband access, compared to those who think they are about right (67% vs. 53%).
 - Those who are concerned about the use of USF taxes are less likely to support the use of them for broadband access than those who are not concerned about their use (65% vs. 57%).

Keeping the Internet Tax-Free – Using USF Revenue to Expand Rural Broadband Access

R9: Congress has moved to keep the Internet “tax free” when it comes to the things that consumers like you purchase online. Some people say that if Washington wants to be consistent on the Internet and taxes, it should not use part of the federal taxes on your long-distance phone calls to subsidize rural broadband access. Do you agree or disagree with that view? Would you say you...



Base = Total respondents, n=1,009.

APPENDIX

RELIABILITY OF SURVEY PERCENTAGES

Results of any sample are subject to sampling variation. The magnitude of the variation is measurable and is affected by the number of interviews and the level of the percentages expressing the results.

The table below shows the possible sample variation that applies to percentage results reported herein. The chances are 95 in 100 that a survey result does not vary, plus or minus, by more than the indicated number of percentage points from the result that would be obtained if interviews had been conducted with all persons in the universe represented by the sample.

Size of Sample on Which Survey Results Are Based	Approximate Sampling Tolerances Applicable to Percentages At or Near These Levels				
	<u>10% or 90%</u>	<u>20% or 80%</u>	<u>30% or 70%</u>	<u>40% or 60%</u>	<u>50%</u>
1,000 interviews	2%	2%	3%	3%	3%
500 interviews	3%	4%	4%	4%	4%
250 interviews	4%	5%	6%	6%	6%
100 interviews	6%	8%	9%	10%	10%

Additional Sampling Tolerances for Samples of 1,000 Interviews

<u>9% or 91%</u> 2%	<u>8% or 92%</u> 2%	<u>7% or 93%</u> 2%	<u>6% or 94%</u> 1%	<u>5% or 95%</u> 1%
<u>4% or 96%</u> 1%	<u>3% or 97%</u> 1%	<u>2% or 98%</u> 1%	<u>1% or 99%</u> 2%	

SAMPLING TOLERANCES WHEN COMPARING TWO SAMPLES

Tolerances are also involved in the comparison of results from independent parts of the sample. A difference, in other words, must be of at least a certain number of percentage points to be considered statistically significant – that is not due to random chance. The table below is a guide to the sampling tolerances in percentage points applicable to such comparisons, based on a 95% confidence level.

Size of Samples Compared	Differences Required for Significance At or Near These Percentage Levels				
	10% or 90%	20% or 80%	30% or 70%	40% or 60%	50%
1,000 and 1,000	3%	4%	4%	4%	4%
1,000 and 500	3%	4%	5%	5%	5%
1,000 and 250	4%	6%	6%	7%	7%
1,000 and 100	6%	8%	9%	10%	10%
500 and 500	4%	5%	6%	6%	6%
500 and 250	5%	6%	7%	7%	8%
500 and 100	6%	9%	10%	11%	11%
250 and 250	5%	7%	8%	9%	9%
250 and 100	7%	9%	11%	11%	12%
100 and 100	8%	11%	13%	14%	14%

Topline results of telephone interviews with 1,009 adult Americans conducted November 2-5, 2007.

- R1 As you may or may not know, you pay a nearly 11 percent federal "Universal Service Fund" tax on long-distance phone calls made on your home phone and a comparable percentage of your overall wireless telephone bill. Under what is known as the "high-cost" program, the "Universal Service Fund," -- or USF -- tax is supposed to pay for telephone service for people living in remote areas that could not otherwise get phone services.

Do you think these federal taxes now being assessed on your phone bill are . . . [READ LIST. RECORD ONE ANSWER]

40%	Much too high
24	Somewhat too high
1	Somewhat too low
0	Much too low
29	Or, about right
6	DON'T KNOW/NOT SURE/REFUSED

I am now going to ask you a FEW questions about what is called the "high cost" portion of the federal "Universal Service Fund" tax on your long-distance calls. As I just mentioned, under the "high cost" program a portion of the USF is supposed to pay for long-distance telephone access for people living in remote areas that could not otherwise get phone services. Please listen carefully to the following questions . . .

- R2 One recent report highlighted federal "Universal Service Fund" tax payments of more than \$13,000 per telephone line that were being made to subsidize phone lines going into the Hawaii resort community of Maui. How does such a report make you feel about the use of "Universal Service Fund" tax dollars? Would you say you are... [READ LIST. RECORD ONE ANSWER]

35%	Very concerned
31	Somewhat concerned
17	Not very concerned
15	Or, not at all concerned
2	DON'T KNOW/NOT SURE/REFUSED

- R3 OMITTED

Several different approaches have been discussed to address spending under the “high-cost” portion of the “Universal Service Fund” that is financed with a federal tax on your long-distance calls. I want to ask you a series of questions about some of the different approaches now under discussion . . .

- R4 Spending under the "high-cost" portion of the federal “Universal Service Fund” phone tax jumped from \$2.2 billion in 1999 to about \$4 billion in 2006. To pay for the “Universal Service Fund,” the tax rate applied to long distance phone call revenues has gone up five-fold from 2.1 percent to its current level of just under 11 percent today.

Which of the following statements comes CLOSEST to your view? [READ ENTIRE LIST BEFORE RECORDING ONE ANSWER]

- 71% Impose a cap on the “high cost” portion of the “Universal Service Fund” and figure out how to control the spending
22 Keep things the same as they are now with the “Universal Service Fund”
7 DON’T KNOW/NOT SURE/REFUSED

- R5 Wireless telephone companies are expected to receive more than \$1 billion in subsidies from the “high cost” portion of the “Universal Service Fund” in 2007. The subsidies to some large wireless companies have grown by more than 185 percent annually in recent years, raising concerns about the financial sustainability of the fund. A 2007 study found that, of the 148 million people living in areas where wireless carriers receive subsidies from USF tax dollars, unsubsidized companies are already providing coverage to 98 percent of those consumers.

Which of the following statements comes CLOSEST to your view? [READ ENTIRE LIST BEFORE RECORDING ONE ANSWER]

- 69% Impose a cap on the “high cost” portion of the “Universal Service Fund” and stop providing subsidies to wireless companies where unsubsidized service already is being provided
23 Keep things the same as they are now with the “Universal Service Fund”
8 DON’T KNOW/NOT SURE/REFUSED

- R6 The U.S. Federal Communications Commission recently signed an agreement under which a major wireless telephone company agreed to limit the amount of “high cost” “Universal Service Fund” tax revenue it will receive from the FCC. Now that the FCC has taken this step with one company, what should it do next? [READ ENTIRE LIST BEFORE RECORDING ONE ANSWER]

- 38% Impose an across-the-board cap on “high cost” USF payments to all other wireless telephone companies
39 Continue to seek agreements with individual wireless telephone companies to limit “high cost” USF payments on a case-by-case basis
16 Keep things the same as they are now with the “Universal Service Fund”
8 DON’T KNOW/NOT SURE/REFUSED

- R7 A recent report from the Inspector General's office of the U.S. Federal Communications Commission found that more than one in five dollars under the multi-billion-dollar 'high-cost' portion of the "Universal Service Fund," is distributed in error and is not properly accounted for by the government or industry recipients.

Given that this tax money is coming from a roughly 11 percent tax on the long-distance phone calls of U.S. consumers like you, which of the following steps makes the MOST sense to you?
[READ ENTIRE LIST BEFORE RECORDING ONE ANSWER]

- 78% Cap the "high cost" portion of the "Universal Service Fund" and do not spend more money on it until all tax dollars can be accounted for properly
15 Keep things the same as they are now with the "Universal Service Fund"
6 DON'T KNOW/NOT SURE/REFUSED

I now am going to ask you two more questions about rural broadband access to the Internet . . .

- R8 Some people in Washington want to use a tax on your long-distance phone calls to expand broadband Internet access in rural America. Do you support or oppose such a move? Would you say you . . . [READ LIST. RECORD ONE ANSWER]

- 9% Strongly support
25 Somewhat support
21 Somewhat oppose
41 Strongly oppose
3 DON'T KNOW/NOT SURE/REFUSED

- R9 Congress has moved to keep the Internet "tax free" when it comes to the things that consumers like you purchase online. Some people say that, if Washington wants to be consistent on the Internet and taxes, it should NOT use part of the federal taxes on your long-distance phone calls to subsidize rural broadband access.

Do you agree or disagree with that view? Would you say you . . . [READ LIST. RECORD ONE ANSWER]

- 25% Strongly agree
37 Somewhat agree
18 Somewhat disagree
17 Strongly disagree
4 DON'T KNOW/NOT SURE/REFUSED