

Before the  
**FEDERAL COMMUNICATIONS COMMISSION**  
Washington, DC 20554

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**

---

Federal Universal Service Support Mechanisms Fund Size  
Projections for the First Quarter 2004

UNIVERSAL SERVICE  
ADMINISTRATIVE COMPANY  
2120 L STREET N.W., SUITE 600  
WASHINGTON, DC 20037  
VOICE: 202.776.0200  
FAX: 202.776.0080  
[www.universalservice.org](http://www.universalservice.org)

October 31, 2003

# TABLE OF CONTENTS

---

INTRODUCTION.....	1
ADMINISTRATIVE EXPENSES AND INTEREST PROJECTION .....	2
ADMINISTRATIVE EXPENSES .....	2
INTEREST INCOME PROJECTION.....	7
FINANCIAL STATEMENTS.....	7
FUNDING REQUIREMENTS.....	8
HIGH COST SUPPORT MECHANISM.....	8
Eligible Telecommunications Carrier (ETC) Designation .....	8
High Cost Rural Support Mechanism .....	9
<i>High Cost Loop (HCL) Support</i> .....	9
<i>Local Switching Support (LSS)</i> .....	12
<i>Long Term Support (LTS)</i> .....	12
Interstate Common Line Support Mechanism (ICLS).....	13
Interstate Access Support Mechanism (IAS).....	14
Non-Rural Forward-Looking Mechanism.....	15
High Cost Support Mechanism Summary.....	16
LOW INCOME SUPPORT MECHANISM.....	17
Lifeline Support .....	17
Link Up America .....	18
Toll-Limitation Support.....	18
Low Income Support Mechanism Summary.....	19
RURAL HEALTH CARE SUPPORT MECHANISM .....	20
Funding Year 2000 .....	20
Funding Year 2001 .....	20
Funding Year 2002 .....	21
Funding Year 2003 .....	22
Rural Health Care Support Mechanism Summary.....	22
SCHOOLS AND LIBRARIES SUPPORT MECHANISM.....	23
Funding Year 1998 .....	23
Funding Year 1999 .....	24
Funding Year 2000 .....	24
Funding Year 2001 .....	25
Funding Year 2002 .....	26
Funding Year 2003 .....	26
Funding Year 2004 .....	27
Schools and Libraries Support Mechanism Summary.....	27

# TABLE OF CONTENTS

---

<i>Funding Year 1998 True-Up</i> .....	30
<i>Funding Year 1999 True-Up</i> .....	30
<i>Funding Year 2000 True-Up</i> .....	31
<i>Funding Year 2001 True-Up</i> .....	32
<i>1Q2004 Demand Estimate and Contribution Requirement</i> .....	33
<b>CONTRIBUTION BASE</b> .....	33
<b>OPERATIONS</b> .....	34
<b>CONCLUSION</b> .....	37

# APPENDICES

---

## HIGH COST

High Cost Support Projected by State by Study Area – 1Q2004 .....	HC01
High Cost Support Projected by State – 1Q2004 .....	HC02
Rural Study Areas with Competition – 1Q2004.....	HC03
Disaggregated Per Line Support by Zone – 1Q2004.....	HC04
High Cost Loop Support Projected by State by Study Area – 1Q2004 .....	HC05
Safety Net Additive Support – 1Q2004.....	HC06
Local Switching Support Projected by State by Study Area – 1Q2004 .....	HC07
Long Term Support Projected by State by Study Area – 1Q2004.....	HC08
Interstate Common Line Support Projected by State by Study Area – 1Q2004.....	HC09
Interstate Common Line Support Projected per Line – 1Q2004 .....	HC10
Interstate Common Line Support Projected by State – 1Q2004.....	HC11
Interstate Access Support Projected by State by Study Area – 1Q2004 .....	HC12
Interstate Access Support Projected per Line – 1Q2004.....	HC13
Interstate Access Support Projected by State – 1Q2004 .....	HC14
High Cost Model Support Projected by Wire Center – 1Q2004 .....	HC15
High Cost Model Support Projected by State – 1Q2004 .....	HC16
High Cost Model Support Projected by Study Area – 1Q2004 .....	HC17
CETC Reported Lines by Incumbent Study Area	
High Cost Loop Support – 1Q2004.....	HC18
CETC Reported Lines by Incumbent Study Area	
Interstate Common Line Support – 1Q2004 .....	HC19
CETC Reported Lines by Incumbent Study Area	
Interstate Access Support – 1Q2004.....	HC20
CETC Reported Lines by Incumbent Study Area	
High Cost Model Support – 1Q2004 .....	HC21
Interstate Common Line Support Projected by State by Study Area	
Revised 4Q2003 .....	HC22
Interstate Common Line Support Projected Per Line	
Revised 4Q2003 .....	HC23
Interstate Common Line Support Projected by State	
Revised 4Q2003 .....	HC24
High Cost Model Support Projected by Wire Center	
Revised 4Q2003 .....	HC25
High Cost Model Support Projected by State	
Revised 4Q2003 .....	HC26
High Cost Model Support Projected by Study Area	
Revised 4Q2003 .....	HC27

# APPENDICES

---

## LOW INCOME

Low Income Support Projected by State by Study Area – 1Q2004 .....	LI01
Low Income Support Available by State – 1Q2004.....	LI02
Eligible Telecommunications Carriers – 3Q2003 .....	LI03
Quarterly Low Income Support Disbursement Amounts by Company – 3Q2003.....	LI04
Annual Low Income Support Amounts by State and Company Through 2Q2003.....	LI05
Historical Data: Support Amounts Claimed by ETCs Each Month January 1998 through September 2003 .....	LI06
Low Income Support Distributed by State in 2001 and through 2Q2003 .....	LI07
Lifeline Subscribers by State or Jurisdiction .....	LI08
Link Up Beneficiaries by State or Jurisdiction.....	LI09
Tier 1 Amounts Reported by All Companies 2Q2003 .....	LI10

## RURAL HEALTH CARE

Funding Year 2001 Commitments – 3Q2003.....	RH01
Funding Year 2001 Authorizations – 3Q2003 .....	RH02
Funding Year 2001 Disbursements to Service Providers through 3Q2003 .....	RH03
Funding Year 2002 Commitments – 3Q2003.....	RH04
Funding Year 2002 Authorizations – 3Q2003 .....	RH05
Funding Year 2002 Disbursements to Service Providers through 3Q2003 .....	RH06
Funding Year 2003 Commitments – 3Q2003.....	RH07

## SCHOOLS AND LIBRARIES

Funding Year 1998 Authorizations – 3Q2003 .....	SL01
Funding Year 1998 Disbursements to Service Providers through 3Q2003 .....	SL02
Funding Year 1999 Commitments – 3Q2003.....	SL03
Funding Year 1999 Authorizations – 3Q2003 .....	SL04
Funding Year 1999 Disbursements to Service Providers through 3Q2003 .....	SL05
Funding Year 2000 Commitments – 3Q2003.....	SL06
Funding Year 2000 Authorizations – 3Q2003 .....	SL07
Funding Year 2000 Disbursements to Service Providers through 3Q2003 .....	SL08
Funding Year 2001 Commitments – 3Q2003.....	SL09
Funding Year 2001 Authorizations – 3Q2003 .....	SL10
Funding Year 2001 Disbursements to Service Providers through 3Q2003 .....	SL11
Funding Year 2002 Commitments – 3Q2003.....	SL12
Funding Year 2002 Authorizations – 3Q2003 .....	SL13
Funding Year 2002 Disbursements to Service Providers through 3Q2003 .....	SL14
Funding Year 2003 Commitments – 3Q2003.....	SL15

# APPENDICES

---

Funding Year 2003 Authorizations – 3Q2003 .....	SL16
Funding Year 2003 Disbursements to Service Providers through 3Q2003 .....	SL17

## OTHER APPENDICES

Universal Service Administrative Company 1Q2004 Estimated Budget.....	M01
Fund Size Projections for 1Q2004.....	M02
Schedule of USF Receipts, Interest Income, and Cash Outlays:	
January 1 through September 30, 2003 – Cash Basis.....	M03
January 1 through September 30, 2003 – Accrual Basis.....	M04

**BEFORE THE FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, DC 20554**

**FEDERAL UNIVERSAL SERVICE SUPPORT MECHANISMS  
FUND SIZE PROJECTIONS FOR THE FIRST QUARTER 2004**

---

***INTRODUCTION***

---

The Universal Service Administrative Company (USAC) submits the Federal Universal Service Support Mechanisms fund size and administrative cost projections for the first quarter of calendar year 2004 (1Q2004) and the contribution base amount to be used for 1Q2004, in accordance with Section 54.709 of the Federal Communications Commission's (FCC or Commission) rules.<sup>1</sup>

USAC is the not-for-profit corporation responsible for administering the federal universal service support mechanisms: High Cost, Interstate Access, Low Income, Rural Health Care, and Schools and Libraries Universal Service Support Mechanisms.<sup>2</sup> USAC also performs the billing, collection, and disbursement functions for all of these universal service support mechanisms.

Upon approval of the quarterly funding requirements for the universal service support mechanisms and the projected administrative expenses, the Commission will establish a quarterly contribution factor. USAC will bill contributors on a monthly basis for their individual obligations

---

<sup>1</sup> 47 C.F.R. § 54.709(a)(3).

<sup>2</sup> See Changes to the Board of Directors of the National Exchange Carrier Association, Inc., CC Docket No. 97-21, Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Third Report and Order in CC Docket No. 97-21, Fourth Order on Reconsideration in CC Docket No. 97-21 and Eighth Order on Reconsideration in CC Docket No. 96-45*, FCC 98-306, 63 Fed. Reg. 70564 (rel. Dec. 21, 1998). See Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long Distance Users, Federal-State Joint Board on Universal Service, CC Docket No. 96-262, 94-1, 99-249, 96-45, *Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, Eleventh Report And Order in CC Docket No. 96-45*, FCC 00-103 (rel. May 31, 2000) ("*CALLS Order*"). Appendix B of the *CALLS Order* contains the amendments to Part 54 the Code of Federal Regulations necessary to implement the Commission's directives set forth in the order. See Federal-State Joint Board on Universal Service, Promoting Deployment and Subscribership in Unserved and Underserved Areas, Including Tribal and Insular Areas, CC Docket No. 96-45, *Twelfth Report and Order and Further Notice of Proposed Rulemaking*, FCC 00-208 (rel. June 8, 2000) ("*Tribal Lands Order*").

based on the approved contribution factor, collect the funds, and distribute funds to eligible recipients based on the schedules filed herein.<sup>3</sup>

As a requirement for eligibility for receipt of universal service support funds from the High Cost or Low Income Support Mechanisms, a telecommunications service provider must be designated as an eligible telecommunications carrier (ETC)<sup>4</sup> and must provide to USAC a copy of the state public utilities commission document making that designation.

---

## ***ADMINISTRATIVE EXPENSES AND INTEREST PROJECTION***

---

### **ADMINISTRATIVE EXPENSES**

Section 54.709(a)(3) of the Commission's rules requires USAC to submit its projected quarterly budget at least 60 days prior to the start of the quarter.<sup>5</sup> USAC includes any costs that can be directly attributed to the High Cost, Interstate Access, Low Income, Rural Health Care, or Schools and Libraries Support Mechanisms in the projected administrative expenses of each mechanism. USAC's remaining joint and common costs including costs associated with the billing, collection, and disbursement of funds are included in the projected administrative expenses of the respective support mechanisms based on the methodology for allocating costs.<sup>6</sup> The allocation of common and billing and collection costs also reflect the fact that the Commission authorized an additional universal service mechanisms and directed that the costs associated with the Interstate Access Support Mechanism and Interstate Common Line Support be allocated to the High Cost and

---

<sup>3</sup> See 47 C.F.R. §§ 54.709(a)(4), 54.201, 54.203, 54.515, 54.517, 54.301-54.307, 54.407, 54.413, 54.515, and 54.611.

<sup>4</sup> 47 C.F.R. §§ 54.201 and 54.203.

<sup>5</sup> 47 C.F.R. § 54.709(a)(3).

<sup>6</sup> See Letter from Robert Haga to Magalie Salas regarding Revisions to the Method for Allocating Costs Among the Four Universal Service Support Mechanisms, CC Docket Nos. 96-45 and 97-21 (Jan. 28, 2000); Letter from Robert Haga to Magalie Salas regarding Revisions to the Method for Allocating Costs Among the Four Universal Service Support Mechanisms, CC Docket Nos. 96-45 and 97-21 (Apr. 1, 1999).



Low Income Support Mechanisms as appropriate.<sup>7</sup> USAC continues to look for and identify additional areas of savings in both administrative and operational functions.

USAC projects a 1Q2004 consolidated budget of \$17.294 million. Direct costs for all support mechanisms total \$13.046 million. The detail for each mechanism is provided below. Joint and common costs projected at \$3.435 million are allocated to each support mechanism as detailed below based on the current allocation methodology on file with the Commission. USAC projects that billing, collection, and disbursement functions will cost \$0.813 million and are allocated based on the current allocation methodology on file with the Commission to each support mechanism as detailed below.

*1<sup>st</sup> Quarter 2004 Administrative Expenses (millions)*

USF Mechanism	Direct Costs	USAC Common	Billing & Collection	Total
<b>High Cost</b>	\$1.0896	\$1.7072	\$.3902	\$3.1870
<b>Low Income</b>	.5057	.3881	.0959	0.9897
<b>Rural Health Care</b>	.7583	.0137	.0041	0.7761
<b>Schools &amp; Libraries</b>	10.6923	1.3258	.3227	12.3408
<b>Total</b>	<b>\$13.0459</b>	<b>\$3.4348</b>	<b>\$0.8129</b>	<b>\$17.2936</b>

Commission rules currently direct NECA to continue performing certain universal service administrative functions for the High Cost Loop (HCL) support mechanism, specifically, the collection and processing of annual HCL data as well as the optional quarterly updates to that data.<sup>8</sup>

<sup>7</sup> See Letter from Robert Haga to Magalie Salas regarding Revisions to the Method for Allocating Costs Among the Four Universal Service Support Mechanisms, CC Docket Nos. 96-45 and 97-21 (Jan. 28, 2000); Letter from Robert Haga to Magalie Salas regarding Revisions to the Method for Allocating Costs Among the Four Universal Service Support Mechanisms, CC Docket Nos. 96-45 and 97-21 (Apr. 1, 1999).

<sup>8</sup> 47 C.F.R. §§ 36.611-36.613. Although USAC is required to pay for the data collection, USAC does not have the ability to directly oversee the data collection and cannot independently verify, monitor, or otherwise evaluate the cost of performing the data collection function. Consistent with the fiduciary obligations of its members to safeguard USAC assets and the Universal Service Fund, USAC's Board of Directors has requested clarification from the Commission concerning this matter. See letter from D. Scott Barash, USAC, to Irene Flannery, FCC (Dec. 10, 1999), Comments of the Universal Service Administrative Company to the *Further Notice of Proposed Rulemaking* in CC Docket No. 96-45, FCC 01-8 (Feb. 26, 2001).

Recovery of HCL data collection expenses is properly attributable to the High Cost Support Mechanism because these functions are associated with the administration of the universal service support mechanisms. NECA bills these costs to USAC.<sup>9</sup> NECA's projected 1Q2004 expenses to perform these universal service-related functions are \$0.0810 million.

USAC budgets for all of the costs associated with the High Cost Support Mechanism, including the HCL data collection performed by NECA. As discussed above, consistent with the fiduciary obligations of its members to safeguard USAC assets and the Universal Service Fund Support Mechanisms, USAC's Board of Directors has requested clarification from the Commission concerning this matter.<sup>10</sup> The estimated 2004 annual budget of \$64,828,400 is 3% or \$1,742,200 lower than the 2003 consolidated budget. The 1Q2004 consolidated budget of \$17,293,600 is approximately 21% or \$2,973,400 higher than 1Q2003 actual expenditures. Both the 1Q2004 and 2004 estimated annual consolidated budgets reflect the following assumptions:

- Program costs will be higher for the Schools and Libraries Support Mechanism due to labor costs associated with the contract change that was approved in 2003 to convert Program Integrity Assurance (PIA) temporary employees to full-time employees.
- Program costs will also be higher for the High Cost and Low Income Support Mechanisms under the new Telcordia contract.
- Compensation and benefit costs will be higher in 2004 primarily due to a full year of costs associated with the additional staff hired to perform billing, collection, disbursement, and financial management functions previously outsourced to IBM.

---

<sup>9</sup> 47 C.F.R. § 69.603.

<sup>10</sup> See letter from D. Scott Barash, USAC, to Irene Flannery, FCC (Dec. 10, 1999).

- Professional fees will be higher for consulting and services associated with a number of major initiatives to be undertaken by the IT department. These initiatives include an upgrade of USAC's financial systems to put USAC in a position to be able to implement the FCC directive to transition to government accounting. We are proposing to implement this project over a two year period. The budget impact in 2004 is estimated to be \$699,000 and the budget impact for 2005 is estimated to be \$975,000. In addition, we are proposing the development of a service provider/contributor portal. The portal, currently under discussion, will enable service providers to (1) electronically certify and modify their Forms 498, 499, and appropriate support mechanism forms, like BEARs and SPACs; (2) securely retrieve information about contributions to and disbursements from the USF, and the role assignment and role delegation configuration for a given SPIN; and (3) administer role assignments and role delegations via a Service Provider Credential Management Console to allow e-certification of forms and data retrieval by the service provider community. The budget impact for the service provider/contributor portal in 2004 is estimated to be \$639,000 and the budget impact for 2005 is estimated to be \$452,000.
- Personnel expenses will be higher for training costs associated with the larger number of employees and for training to implement the FCC requirement that USAC utilize government accounting and auditing procedures for Universal Service Fund (USF) transactions beginning in Federal Fiscal Year 2005. Staff is finalizing a plan to ensure that the accounting and audit staffs, as well as managers, develop the expertise needed to implement government accounting and auditing standards by October 1, 2004.
- We are proposing an increase in USAC's outside counsel budget from \$1.020 million in 2003 to \$1.2 million in 2004. Experience during 2003 has shown that a budget of \$100,000 per month for outside counsel is likely to be required as our bankruptcy litigation practice

continues to increase and as we take on new responsibilities regarding payment plans for delinquent contributors.

At this time, we are not including contingencies for changes that could be required by FCC action on pending proceedings, which could result in significant changes to the administration of the support mechanisms and in USAC's costs to administer the support mechanisms. Matters pending before the Commission include the following:

- Proposed extensive changes to the contribution base methodology
- The Commission's response to judicial remand of its decision concerning implementation of High Cost Model support for non-rural companies<sup>11</sup>
- Petitions for reconsideration of the *Rural Task Force Order* and *MAG Order*
- Possible changes to the Low Income Support Mechanism based on recommendations from the Federal-State Joint Board on Universal Service
- Significant changes to the Rural Health Care Support Mechanism administration resulting from the pending Notice of Proposed Rulemaking (NPRM) concerning that mechanism
- Significant changes to the Schools and Libraries Support Mechanism administration resulting from the pending NPRM concerning that mechanism
- Potential changes resulting from the referral to the Joint Board regarding further changes to the High Cost Support Mechanism, including portability
- Possible changes related to a determination that the Universal Service Fund is a federal fund

Although we cannot predict when modifications will occur or the precise tasks that USAC will be called upon to perform, it is highly likely that the Board will be asked to consider additional

---

<sup>11</sup> The Commission recently issued the order on remand. *See* In re Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Order on Remand, Further Notice of Proposed Rulemaking, and Memorandum Opinion and Order* (rel. Oct. 27, 2003). Because the order on remand had not been issued at the time the Board approved the budget, USAC's administrative budget does not include implementation costs related to this decision. USAC will include any budget impacts in its 2Q2004 filing.

budget increases to address FCC-driven changes to program administration during the upcoming year.

Appendix M01 details USAC's estimated administrative expenses budget for 1Q2004.

Appendix M02 details fund size projections for 1Q2004.

## **INTEREST INCOME PROJECTION**

USF interest income earned in 3Q2003 was greater than USAC's projection by \$0.311 million, primarily due to greater than anticipated cash balances, stabilization in the bond market, and changes in the Fund's investment strategy.

For 1Q2004, USAC projects interest income of approximately \$0.356 million for the High Cost Support Mechanism, \$0.156 million for the Low Income Support Mechanism, \$0.038 million for the Rural Health Care Support Mechanism, and \$6.378 million for the Schools and Libraries Support Mechanism. As in previous quarters, the projected interest income is being included as an offset to administrative expenses for each of the support mechanisms not projected to reach their funding cap, and reduces the amount that USAC will be required to collect from carriers for those support mechanisms that are funded at caps established by the Commission.

## **FINANCIAL STATEMENTS**

As of September 30, 2003, on a cash basis, USAC disbursed \$3,940 million in universal service support to service providers in 2003: \$2,422 million in High Cost support, \$519 million in Low Income support, \$16 million in Rural Health Care support, and \$983 million in Schools and Libraries support for calendar year 2003. On a cash basis, the total cash balance available to the universal service support mechanisms was \$2,704 million.

For the period ending September 30, 2003, on an accrual basis, USAC had total assets, corresponding liabilities, and fund balance of \$3,074 million.

Appendices M03 and M04 provide 2003 year-to-date statements of fund activity on a cash and accrual basis.

---

## ***FUNDING REQUIREMENTS***

---

### **HIGH COST SUPPORT MECHANISM**

#### **ELIGIBLE TELECOMMUNICATIONS CARRIER (ETC) DESIGNATION**

A requirement for eligibility for receipt of High Cost support is that a common carrier must be designated as an eligible telecommunications carrier (ETC) by a state commission or the FCC in accordance with Subpart F of the FCC's Part 36 rules and Subpart D of its Part 54 rules.<sup>12</sup> Qualified ETCs are eligible to receive funds from the High Cost Support Mechanism,<sup>13</sup> which includes High Cost Loop (HCL) support, Interstate Access Support (IAS), Local Switching Support (LSS), Long Term Support (LTS), Interstate Common Line Support (ICLS), and non-rural forward-looking High Cost Model (HCM) support. Together, the projected requirements for these six components of the High Cost Support Mechanism and the USAC administrative expenses constitute the overall funding requirement for the High Cost Support Mechanism.

The High Cost Support Mechanism provides support to more than 1500 study areas, including those served by both incumbent and competitive ETCs. The table below contains the number of study areas served by rural versus non-rural carriers and rate-of-return versus price cap carriers.

---

<sup>12</sup> See 47 U.S.C. § 214(e), 47 C.F.R. § 54.201.

<sup>13</sup> 47 C.F.R. § 36.631 and 47 C.F.R. §§ 54.301-54.303, 54.309, 54.311, 54.807, and 54.901.

<b>COUNT OF STUDY AREAS BY CATEGORY</b>							
	<b>INCUMBENT STUDY AREAS</b>					<b>Competitive Study Areas</b>	<b>Total Study Areas</b>
	<b>RATE-OF-RETURN</b>			<b>PRI CE CAP</b>	<b>Total Incumbent</b>		
	<b>Cost Companies</b>	<b>Average Schedule</b>	<b>Total</b>				
<b>Rural</b>	740	505	1245	104	1349	96	1445
<b>Non-Rural</b>	5	1	6	81	87	21	108
<b>Total</b>	<b>745</b>	<b>506</b>	<b>1251</b>	<b>185</b>	<b>1436</b>	<b>117</b>	<b>1553</b>

Appendix HC01 displays the projected minimum amount of individual company support for 1Q2004 segregated by rural and non-rural status. Appendix HC01 also contains the projected minimum amount of per-month high cost support for each support mechanism that each ETC<sup>14</sup> will be eligible to receive (i.e., HCL, HCM, IAS, LTS, LSS, and ICLS). The High Cost Loop (HCL) and Long Term Support (LTS) amounts include interim hold-harmless support for eligible non-rural carriers prior to implementing the \$4 per line phase down. Appendix HC02 displays the total projected amount of High Cost support for 1Q2004 for each state or territory. HC03 displays rural study areas with competition. HC04 displays disaggregated per-line High Cost support by zone, consistent with the disaggregation plans filed with USAC.

**HIGH COST RURAL SUPPORT MECHANISM**

***High Cost Loop (HCL) Support***

High Cost Loop (HCL) support is calculated based on the results of the annual collection of 2002 incumbent local exchange carrier (LEC) loop cost and expense adjustment data that was submitted to the FCC and to USAC on October 1, 2003.<sup>15</sup> Growth in total HCL support for *rural* carriers is limited under Section 36.603(a) of the FCC’s rules to the current level of funding increased yearly by the annual growth in supported rural loops. Effective July 1, 2001, HCL support

<sup>14</sup> 47 C.F.R. § 36.631 and 47 C.F.R. §§ 54.301-54.303.

<sup>15</sup> Universal Service Fund (USF) 2003 Submission of 2002 Study Results (filed October 1, 2003) (*USF Data Submission*).

increased for rural companies due to the *RTF Order*.<sup>16</sup> In addition, on June 13, 2002, the FCC released the *Rebasing Order*, in which it amended its rules to provide that the amount of HCL available to rural carriers in 2002 should be adjusted to account for mid-2001 implementation of the rules adopted in the *RTF Order*.<sup>17</sup> This rebasing of the HCL cap will result in additional HCL support for rural companies in subsequent years, and will result in an increase in 2004 HCL support of approximately \$78.3 million. The impact of the *Rebasing Order* on 1Q2004 HCL support is approximately \$19.575 million.

Rural HCL support for calendar year 2004, in aggregate, exceeds the level of payments for 2003 by more than the rural growth factor of 2.66 percent. Rural HCL support for calendar year 2004, therefore, is capped at a 2.66 percent increase over 2003 payments, resulting in a total annual 2004 projected support amount of \$1,062.445 million.

Pursuant to the *RTF Order*, safety net additive support is support above the HCL cap for carriers that make significant investment in rural infrastructure in years in which HCL is capped.<sup>18</sup> To receive support, a rural carrier must show that growth in telecommunications plant in service (TPIS) per line is at least 14 percent greater than the study area's TPIS in the prior year. Carriers seeking to qualify for safety net additive support must provide written notice to USAC that a study area meets the 14 percent TPIS trigger.<sup>19</sup> For 1Q2004, projected safety net additive support is \$2.355 million.

---

<sup>16</sup> See *Federal-State Joint Board on Universal Service, Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket Nos. 96-45, 00-256, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, and Report and Order in CC Docket No. 00-256, FCC 01-157 (rel. May 23, 2001) (*RTF Order*).

<sup>17</sup> See *Federal-State Joint Board on Universal Service, Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket Nos. 96-45, 00-256, Order on Reconsideration, FCC 02-171 (rel. June 13, 2002) (*Rebasing Order*).

<sup>18</sup> See *RTF Order* at paras. 77 to 90.

<sup>19</sup> See 47 C.F.R. § 36.605(c).



HCL support for *non-rural* carriers, otherwise known as interim hold harmless support,<sup>20</sup> is limited under Section 36.601(c) of the FCC's rules to the current level of funding increased yearly by the annual growth in supported loops. Because the rate of growth in universal service funded looped was 0.98 percent from 2000 to 2001, non-rural HCL support for calendar year 2004 is capped at a 0.98 percent increase/decrease over 2002 payments. Neither the *Rebasing Order* nor safety net additive support increases HCL support available to non-rural carriers. This methodology will remain in effect for purposes of calculating the HCL portion of interim hold harmless support for non-rural carriers.

For 1Q2004, projected HCL support (including non-rural support for the hold-harmless mechanism) is \$295.259 million. Of this amount, \$263.152 million is associated with rural carriers and \$1.002 million is associated with non-rural carriers.<sup>21</sup> In addition, 1Q2004 HCL support for competitive ETCs is projected to be \$31.105 million. Furthermore, 1Q2004 Safety Net Additive support is projected to be \$2.726 million. USAC projects, therefore, that \$297.985 million will be required for 1Q2004. Based on these projections, total 2004 HCL support is estimated to be \$1,191.939 million.

Appendix HC05 displays projected monthly HCL support payments by study area for 1Q2004 in accordance with the hold-harmless provisions of the FCC's *Methodology Order*. Appendix HC06 displays projected monthly Safety Net Additive support payments by study area for 1Q2004. HCL projected support for non-rural carriers receiving high cost support is superceded by

---

<sup>20</sup> Interim hold harmless support is comprised of both HCL and Long Term Support (LTS). See *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Ninth Report & Order, and Eighteenth Order on Reconsideration, FCC 99-306 (1999) (*Methodology Order*) at para. 78.

<sup>21</sup> Payments to non-rural carriers have been adjusted to reflect the phase-down of interim hold harmless support mandated in the *Thirteenth Report and Order*. See *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Thirteenth Report and Order and Further Notice of Proposed Rulemaking, FCC 00-428 (rel. Dec. 8, 2000) (*Thirteenth Report and Order*).

the projections listed in HC15, HC16, and HC17. Appendix HC18 displays competitive ETC lines reported for HCL support, by incumbent study area.

### ***Local Switching Support (LSS)***

ETC study areas having 50,000 or fewer access lines are eligible to receive support for local switching costs.<sup>22</sup> Local Switching Support (LSS) is the product of a carrier's annual unseparated local switching revenue requirement multiplied by its local switching support factor.<sup>23</sup>

For 1Q2004, LSS for companies participating in the Traffic Sensitive Pool is projected to be \$60.335 million for cost study areas and \$18.836 million for average schedule study areas. LSS for the non-Pool study areas is projected to be \$18.674 million for cost study areas and \$2.027 million for average schedule study areas for 1Q2004. In addition, 1Q2004 LSS for competitive ETCs is projected to be \$12.570 million. USAC projects, therefore, that \$112.442 million will be required for 1Q2004. Based on these projections, total 2004 LSS is estimated to be \$449.769 million.

Individual study area LSS projections per month are displayed in Appendix HC07.

### ***Long Term Support (LTS)***

Telephone company study areas that participate in NECA's Common Line Pool are eligible to receive Long Term Support (LTS) from the federal High Cost Support Mechanism.<sup>24</sup> For 2004, each Common Line Pool participant's 2003 level of LTS is multiplied by the rate of growth in the Department of Commerce's Gross Domestic Product-Consumer Price Index (GDP-CPI), a 1.133 percent increase from 2003.

---

<sup>22</sup> See 47 C.F.R. § 54.301.

<sup>23</sup> The LSS factor is defined as the difference between the 1996 weighted interstate Dial Equipment Minute (DEM) factor and the 1996 unweighted DEM factor.

<sup>24</sup> 47 C.F.R. § 54.303.

For 1Q2004, LTS for carriers in the NECA common line pool is projected to be \$128.185 million.<sup>25</sup> In addition, 1Q2004 LTS for competitive ETCs is projected to be \$16.717 million. Pursuant to the *Negative ICLS Order*, however, \$6.891 million will be deducted from 1Q2004 LTS. USAC projects, therefore, that \$138.011 million will be required for 1Q2004.<sup>26</sup> Based on these projections, total 2004 LTS is estimated to be \$552.046 million.

Monthly and 1Q2004 study area specific LTS levels are displayed in Appendix HC08.

### **INTERSTATE COMMON LINE SUPPORT MECHANISM (ICLS)**

In the *MAG Order* released on November 8, 2001, the FCC reformed the interstate access charge and universal service support systems for rate-of-return carriers.<sup>27</sup> The FCC created the Interstate Common Line Support (ICLS) Mechanism as a new explicit universal service support mechanism to gradually supplant the carrier common line (CCL) access charge. ICLS is designed to permit each rate-of-return carrier to recover its common line revenue requirement, while ensuring that its subscriber line charges (SLCs) remain affordable to its customers.

For 1Q2004, ICLS for incumbent rate-of-return carriers is projected to be \$101.538 million. In addition, 1Q2004 ICLS for competitive ETCs is projected to be \$13.399 million. USAC projects,

---

<sup>25</sup> This support amount includes adjustments made to LTS for approximately 116 rate-of-return study areas, pursuant to the *Negative ICLS Order*. See *Multi-Association Group (MAG) Plan for Regulation of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Federal-State Joint Board on Universal Service*, CC Docket Nos. 00-256, 96-45, Order and Second Order on Reconsideration, FCC 02-181 (rel. June 13, 2002) (*Negative ICLS Order*). These adjustments prevented over earning by those carriers whose Interstate Common Line Support (ICLS) would otherwise have fallen below zero.

<sup>26</sup> The LTS estimate for 2003 is not affected by the phase-down of interim hold harmless because the Commission adopted the Joint Board's recommendation that LTS for non-rural carriers should be preserved until the Commission considers further reform of the LTS mechanism. The Commission found that because LTS is geared primarily toward the needs of small, rural carriers, any consideration of the reform of LTS should take place in the context of the Commission's related proceedings to reform the high cost support mechanism for rural carriers and the interstate access charge system for rate-of-return carriers. See *Thirteenth Report and Order* at para. 9.

<sup>27</sup> See *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Federal-State Joint Board on Universal Service, Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation, Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers*, CC Docket Nos. 00-256, 96-45, 98-77, 98-166, Second Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report and Order in CC Docket No. 96-45, and Report and Order in CC Docket Nos. 98-77 and 98-166, FCC 01-304 (rel. Nov. 8, 2001) (*MAG Order*).

therefore, that \$114.937 million will be required for 1Q2004. Based on these projections, total 2004 ICLS is estimated to be \$459.746 million.

Appendices HC09, HC10, and HC11 detail USAC's 1Q2004 projections of ICLS by state by study area, per line, and by state, respectively. Appendices HC22, HC23, and HC24 detail USAC's *revised 4Q2003* projections of ICLS by state by study area, per line, and by state, respectively. Appendix HC19 displays competitive ETC lines reported for ICLS, by incumbent study area.

### **INTERSTATE ACCESS SUPPORT MECHANISM (IAS)**

Interstate Access Support (IAS) helps offset interstate access charges for price cap companies.<sup>28</sup> The *Interstate Access Order* sized the support mechanism at \$650 million annually for five years.<sup>29</sup>

The IAS projected industry-wide totals for 1Q2004 are \$44.906 million for rural carriers, \$108.709 million for non-rural carriers, \$8.481 million for competitive ETCs, with \$0.404 million established as reserved support as required to provide for future loop count growth and future CETC participation, as well as to ensure that carriers are provided IAS without creating a shortfall in future quarters. Based on these calculations and the FCC sizing of IAS at \$650 million annually, USAC projects that \$162.500 million will be required for 1Q2004.

Appendices HC12, HC13, and HC14 detail USAC's 1Q2004 projection of interstate access support by state by study area, per line, and by state, respectively. Appendix HC20 displays competitive ETC lines reported for IAS, by incumbent study area.

---

<sup>28</sup> See *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers*, CC Docket Nos. 96-262, 94-1, Sixth Report and Order, *Low-Volume Long Distance Users*, CC Docket No. 99-249, Report and Order, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Eleventh Report and Order, FCC 00-193 (rel. May 31, 2000) (*Interstate Access Order*).

<sup>29</sup> See *Interstate Access Order* at para. 201.

**NON-RURAL FORWARD-LOOKING MECHANISM**

Under the most recent running of the model used to calculate forward-looking High Cost Model (HCM) support for non-rural carriers, non-rural carriers in eight states (Alabama, Kentucky, Maine, Mississippi, Montana, Vermont, West Virginia, and Wyoming) are eligible to receive forward-looking support in 2004. Non-rural carriers that do not receive forward-looking support under the HCM support mechanism, but that are projected to receive HCL and LTS support, will receive that support under the interim hold harmless provision, consistent with the *Thirteenth Report and Order*.<sup>30</sup> Non-rural carriers in five states and in one territory (California, Missouri, North Carolina, Ohio, Texas, and Puerto Rico) are projected to receive interim hold harmless support in 2004. On July 24, 2003, the FCC released for comment a Public Notice in which it sought comment on whether to update the line counts used in the model.<sup>31</sup> The HCM projections do not take into consideration any changes that may result from a subsequent running of the model.

For 1Q2004, USAC projects that \$63.577 million will be required for HCM support (\$51.390 million for incumbent non-rural carriers and \$12.187 million for competitive ETCs). USAC also projects that \$29.586 million will be required for hold harmless support (\$0.0 million in HCL support, \$23.534 million in LTS, and \$6.052 million for competitive ETCs). USAC projects, therefore, that \$63.577 million of HCM support will be required for 1Q2004. Based on these projections, total 2004 forward-looking support is estimated to be \$254.307 million.

Appendices HC15, HC16, and HC17 detail USAC's 1Q2004 projections of non-rural forward-looking support by wire center, by state, by study area, respectively. Appendices HC25, HC26, and HC27 detail USAC's *revised* 4Q2003 projections of non-rural forward-looking support by

---

<sup>30</sup> See *Thirteenth Report and Order* at para. 12.

<sup>31</sup> See *Federal-State Joint Board on Universal Service*, CC Docket No.96-45, Public Notice, DA 03-2469 (July 24, 2003).

wire center, by state, and by study area, respectively. Appendix HC21 displays competitive ETC lines reported for HCM support, by incumbent study area.

**HIGH COST SUPPORT MECHANISM SUMMARY**

As discussed above, USAC estimates 1Q2004 funding requirement as follows:

\$297.985 million for HCL support; \$112.442 million for LSS; \$138.011 million for LTS; \$114.937 million for ICLS; \$162.500 million for IAS; and \$63.577 million for HCM for a total of \$889.452 million. Sections 54.709(b) and 54.709(c) of the Commission’s rules require USAC to adjust the size of the projected support requirements to reflect adjustments based on actual dollar amounts compared to the projection included in the prior period.<sup>32</sup> Increases in the size of the funding requirement for the previous period are added to the projected requirements; decreases from the prior period are subtracted from the projected revenue requirements.

Results for 3Q2003 contribute to an over-funded condition, for which the instant filing proposes to adjust the 1Q2004 requirements. The total adjustment to the 1Q2004 fund requirement based on actual results will decrease the funding needed by \$86.468 million. The detailed explanations for the adjustment are described below.

<b>Reason for the Prior Period Adjustment</b>	<b>Adjustment in Millions</b>
The 3Q2003 billings were higher than expected due to higher revenues reported by contributors in their quarterly revenue projection and annual true-up filings	(61.359) M
The 3Q2003 collections will be lower because of uncollectible amounts billed to companies who filed for bankruptcy.	1.035 M
Distributions were lower than expected in 3Q2003.	(24.732) M
Interest earned was less than estimated for the 3Q2003.	0.298 M
Administrative expenses were lower than expected in 2002.	(1.710) M
<b>Total Prior Period Adjustment</b>	<b>(\$86.468) M</b>

<sup>32</sup> 47 C.F.R. §§ 54.709(b) and 54.709(c).

The total fund requirement of \$889.452 million, decreased by the prior-period adjustment of \$86.468 million, increased by administrative costs of \$3.187 million, and reduced by the projected interest of \$0.356 million, results in a total projected funding requirement for the High Cost Support Mechanism for 1Q2004 of \$805.815 million.

Appendix M02 details fund size projections for 1Q2004.

## LOW INCOME SUPPORT MECHANISM

### LIFELINE SUPPORT

All ETCs must offer Lifeline support to qualified low-income consumers.<sup>33</sup> ETCs providing Lifeline support in accordance with Subpart E of Section 54 of the Commission's rules are entitled to receive funding from the federal Low Income Support Mechanism for the waiver of charges and reduced rates provided to qualified low-income subscribers.<sup>34</sup> Lifeline support provides funding from the interstate jurisdiction of up to \$10.00 per low-income subscriber per month. This can consist of a baseline amount of between \$3.50 and \$6.50 (Tier One),<sup>35</sup> an additional \$1.75 per subscriber if the state commission authorizes a reduction in local rates equal to that amount (Tier Two), and up to an additional \$1.75 from the federal mechanism available if the state provides support for the low-income subscriber as well (Tier Three).<sup>36</sup> Further, the *Tribal Order* makes

---

<sup>33</sup> See 47 C.F.R. §§ 54.201.

<sup>34</sup> 47 C.F.R. §§ 54.401 - 54.417.

<sup>35</sup> Tier One support, which compensates the carrier for not charging the subscriber line charge (SLC) to eligible low-income customers, ranges from \$3.50 to \$6.50. See *Interstate Access Order* at para. 70 (permitting the baseline subscriber line charge to increase for price cap carriers from \$3.50 to \$4.35 effective July 1, 2000, and to increase again from \$4.35 to \$5.00 effective July 1, 2001); *MAG Order* at para. 42 (permitting rate-of-return carriers to increase their baseline subscriber line charge to \$5.00 effective January 1, 2002); *Cost Review Proceeding for Residential and Single-Line Business Subscriber Line Charge (SLC) Caps, Access Charge Reform, and Price Cap Performance Review for Local Exchange Carriers*, CC Docket Nos. 96-262, 94-1, Order, FCC 02-161 (rel. June 5, 2002) (*2002 SLC Order*) (authorizing an increase in the baseline subscriber line charge for price cap and rate-of-return carriers to \$6.00, effective July 1, 2002, and to \$6.50, effective July 1, 2003).

<sup>36</sup> Tier Three support is equal to one-half of a state-funded amount up to \$3.50. For example, if a carrier operating in a state that has a matching program that provides \$3.50 in support through the matching program reduces its intrastate rates by \$10.00 for low-income customers, the customer would experience a total monthly rate reduction of \$13.50 (\$3.50 in interstate charges and \$10.00 in intrastate charges) of which \$10.00 would be funded from the federal jurisdiction and \$3.50 from the state matching program.

available up to an additional \$25 per low-income subscriber per month to eligible residents of tribal lands (Tier Four).<sup>37</sup>

For 1Q2004, USAC projects that \$171.362 million will be required for Lifeline support. Based on this projection, total 2004 Lifeline support is estimated to be \$685.448 million.

#### **LINK UP AMERICA**

Link Up support compensates ETCs up to \$30 for revenue foregone in offering discounted service initiation fees to qualified low-income individuals. The *Tribal Order* authorized additional Link Up support of up to \$70 per qualified low-income subscriber residing on eligible tribal lands.<sup>38</sup> For 1Q2004, USAC projects that \$8.462 million will be required for Link Up support. Based on this projection, total 2004 Link Up support is estimated to be \$33.848 million.

#### **TOLL-LIMITATION SUPPORT**

Toll Limitation Support (TLS) compensates ETCs for providing voluntary toll-limitation based on the carrier's incremental cost of providing toll-limitation services. The FCC has defined these costs as the costs that carriers otherwise would not incur if they did not provide toll-limitation service to a given customer.<sup>39</sup> Toll limitation consists of toll blocking, which permits consumers to elect not to allow the completion of outgoing toll calls, and toll limitation, which allows consumers to specify a certain amount of toll usage that may be incurred per month or per billing cycle.<sup>40</sup> For 1Q2004, USAC projects that \$1.145 million will be required for TLS. Based on this projection, total 2004 TLS is estimated to be \$4.580 million.

---

<sup>37</sup> 47 C.F.R. § 54.400(e); *see also Tribal Order*. On August 31, 2000, the FCC stayed the implementation of the federal Lifeline and Link Up rule amendments only to the extent that they apply to qualifying low-income consumers living near reservations.

<sup>38</sup> *Tribal Order* at para. 59.

<sup>39</sup> *See Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776 (1997) at para. 386 (*First Report and Order*) (subsequent history omitted).

<sup>40</sup> 47 C.F.R. § 54.400(b), (c).



**LOW INCOME SUPPORT MECHANISM SUMMARY**

As discussed above, the estimated 1Q2004 funding requirement for the Low Income Support Mechanism is as follows: \$171.362 million for Lifeline, \$8.462 million for Link Up, and \$1.145 million for Toll Limitation Service, for a total of \$180.969 million. Results of 3Q2003 contribute to an over-funded condition, for which the instant filing proposes to adjust the 1Q2004 requirements. The total adjustment to the 1Q2004 funding requirement based on actual results will decrease the funding needed by \$18.456 million. The detailed explanations for the adjustment are described below.

<b>Reason for the Prior Period Adjustment</b>	<b>Adjustment in Millions</b>
The 3Q2003 billings were higher than expected due to higher revenues reported by contributors in their quarterly revenue projection and annual true-up filings.	(\$13.580) M
The 3Q2003 collections were lower because of uncollectible amounts billed to companies who filed for bankruptcy.	0.208 M
Distributions were lower than expected in 2Q2003.	(4.699) M
Interest earned was less than estimated for 2Q2003.	0.128 M
Administrative expenses were lower than expected in 2002.	(0.513) M
<b>Total Prior Period Adjustment</b>	<b>(\$18.456) M</b>

The total fund requirement of \$180.969 million, decreased by the prior-period adjustment of \$18.456 million, increased for administrative expenses of \$0.990 million, and the deduction of the projected interest income of \$0.155 million results in a total projected funding requirement for the Low Income Support Mechanism for 1Q2004 of \$163.348 million.

Appendix LI01 provides projected Low Income support amounts for 1Q2004. Appendix LI02 provides detail on Low Income funding amounts available in each of the states and territories. Appendix LI03 provides a list of eligible telecommunications carriers (ETCs) for 3Q2003. Appendix LI04 provides detail on company-specific claims for reimbursement from the Low Income Support Mechanism for 3Q2003. Appendix LI05 provides company-specific low-income reimbursement claims through 2Q2003. Appendix LI06 provides details of claims from the

Low Income Support Mechanism by month from January 2003 through September 2003. Appendix LI07 provides detail on support distributed from the Low Income Support Mechanism by state for the Year 2001 through 2Q2003). Appendices LI08 and LI09 provide subscribership information by state for Lifeline and Link Up support, respectively. Appendix LI10, a new appendix, shows the Tier 1 amounts reported by all companies during 2Q2003.

## **RURAL HEALTH CARE SUPPORT MECHANISM**

### **FUNDING YEAR 2000**

Funding Year 2000 began on July 1, 2000, and ended on June 30, 2001. All Funding Year 2000 applications have been reviewed and processed. USAC issued funding commitments to rural health care providers for Funding Year 2000 totaling \$10.756 million. Based on information provided by the applicants as of June 30, 2003, USAC projects that Funding Year 2000 demand for support will total approximately \$10.314 million. The FCC previously authorized the collection of \$10.316 million for the Funding Year 2000. Of the \$10.316 million collected, \$10.314 million has been disbursed. One Funding Year 2000 appeal is pending before the FCC. We propose that we would hold the \$0.002 million that has not been disbursed until the FCC has completed its review of the one pending Funding Year 2000 appeal.

### **FUNDING YEAR 2001**

Funding Year 2001 began on July 1, 2001, and ended on June 30, 2002. All Funding Year 2001 applications have been reviewed and processed. USAC issued funding commitments to rural health care providers for Funding Year 2001 totaling \$19.689 million. Based on information provided by the applicants as of September 30, 2003, USAC projects that Funding Year 2001 demand for support will total approximately \$18.659 million. The FCC previously authorized the collection of \$18.614 million for Funding Year 2001. Of the \$18.614 million collected, \$18.275 million has been disbursed. One Funding Year 2001 appeal is pending before the FCC.

Based on the revised estimate of demand, USAC recommends the FCC authorize the collection of \$.045 million for Funding Year 2001 in 1Q2004.

Funding commitments made during 3Q2003 are included in Appendix RH01. Authorized funding by applicant during 3Q2003 and cumulative payments made to service providers through 3Q2003 are listed in Appendices RH02 and RH03, respectively.

**FUNDING YEAR 2002**

The Funding Year 2002 application filing window opened on January 28, 2002. Funding Year 2002 began on July 1, 2002, and ended on June 30, 2003. As of September 30, 2003, 2,226 Forms 465 had been submitted. In addition, as of September 30, 2003, 2,280 Form 466/468 packets had been received. The status of those packets is provided below.

<b>FUNDING YEAR 2002</b>	
Packets Completely Processed	1,928
Packets Awaiting Supervisory Approval Only	49
Complete – Ready to Process	100
Denied	50
Withdrawn by Applicant	46
Incomplete – Require Forms and/or Clarification	107
<b>Total Packets Received for Funding Year 2002</b>	<b>2,280</b>

As of September 30, 2003, funding commitments have been issued totaling \$19.685 million. Based on information provided by the applicants, USAC now estimates Funding Year 2002 demand will be \$21.117 million. The FCC previously authorized the collection of \$22.229 million for Funding Year 2002. Based on the revised estimate of demand for Funding Year 2002, USAC recommends the FCC authorize the collection of (\$1.112) million in 1Q2004.

Funding commitments made during 3Q2003 are included in Appendix RH04. Authorized funding by applicant during 3Q2003 and cumulative payments made to service providers through 3Q2003 are listed in Appendices RH05 and RH06, respectively.

**FUNDING YEAR 2003**

The Funding Year 2003 application filing window opened on March 26, 2003. Funding Year 2003 began on July 1, 2003, and will end on June 30, 2004. As of September 30, 2003, 2,086 Forms 465 had been submitted. In addition, as of September 30, 2003, 600 Form 466/468 packets had been received. The status of those packets is provided below.

<b>FUNDING YEAR 2003</b>	
Packets Completely Processed	11
Packets Awaiting Supervisory Approval Only	9
Complete – Ready to Process	529
Denied	0
Withdrawn by Applicant	0
Incomplete – Require Forms and/or Clarification	51
<b>Total Packets Received for Funding Year 2003</b>	<b>600</b>

As of September 30, 2003, funding commitments have been issued totaling \$.091 million. Based on information provided by the applicants, USAC now estimates Funding Year 2003 demand will be \$27.721 million. This estimate projects the current monthly demand by linear regression into future funding years. The FCC previously authorized the collection of \$12.053 million for Funding Year 2003. Based on the revised estimate of demand for Funding Year 2003, USAC recommends the FCC authorize the collection of \$15.668 million in 1Q2004.

Funding commitments made during 3Q2003 are included in Appendix RH07.

**RURAL HEALTH CARE SUPPORT MECHANISM SUMMARY**

The estimated 1Q2004 funding requirement for the Rural Health Care Support Mechanism is \$14.601 million. Results for 2002 and 3Q2003 contribute to an over-funded condition for which the October filing proposes to adjust the 1Q2004 requirements. The total adjustment to the 1Q2004 requirements is (\$0.677) million. The detailed explanation for the adjustment is as follows:

Reason for the Prior Period Adjustment	Adjustment in Millions
The 3Q2003 billings were higher than expected due to higher revenues reported by contributors in their quarterly revenue projection and annual true-up filings	(\$0.604) M
2002 actual administrative expenses were lower than anticipated.	(\$0.071) M
The 3Q2003 collections were lower because of uncollectible amounts billed to companies who filed for bankruptcy.	\$0.010 M
Interest earned was higher than estimated for the 3Q2003.	(\$0.012) M
<b>Total Prior Period Adjustment</b>	<b>(\$ 0.677) M</b>

The total fund requirement of \$14.601 million, decreased by the prior-period adjustment of \$0.677 million, increased by administrative expenses of \$0.776 million, and reduced by the deduction of projected interest of \$0.038 million, results in a total projected funding requirement for the Rural Health Care Support Mechanism for 1Q2004 of \$14.662 million.

**SCHOOLS AND LIBRARIES SUPPORT MECHANISM**

**FUNDING YEAR 1998**

As of September 30, 2003, Funding Year 1998 commitments and amounts authorized for payment were as follows:

FUNDING YEAR 1998					
Service	Commitments		Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 676.0	39.4%	\$ 507.9	36.2%	75.1%
Internet Access	\$ 134.2	7.8%	\$ 95.4	6.8%	71.1%
Internal Connections	\$ 904.4	52.7%	\$ 798.2	57.0%	88.3%
<b>TOTAL</b>	<b>\$1,714.6</b>		<b>\$1,401.5</b>		<b>81.7%</b>

*Note: Numbers on table may not add perfectly due to rounding.*

No new funding commitments were made to applicants during 3Q2003. Authorized funding by applicant during 3Q2003 and cumulative payments made to service providers through 3Q2003 are listed in Appendices SL01 and SL02, respectively.

**FUNDING YEAR 1999**

As of September 30, 2003, Funding Year 1999 commitments and amounts authorized for payment were as follows:

<b>FUNDING YEAR 1999</b>					
<b>Service</b>	<b>Commitments</b>		<b>Authorized for Payment</b>		<b>Auth/Com</b>
	<b>Millions of Dollars</b>	<b>% of Total Commitments</b>	<b>Millions of Dollars</b>	<b>% of Total Authorized for Payment</b>	<b>% of Committed Authorized for Payment</b>
Telecommunications	\$ 635.0	29.4%	\$ 453.9	27.2%	71.5%
Internet Access	\$ 149.4	6.9%	\$ 95.9	5.7%	64.2%
Internal Connections	\$1,377.8	63.7%	\$1,119.1	67.1%	81.2%
<b>TOTAL</b>	<b>\$2,162.2</b>		<b>\$1,668.9</b>		<b>77.2%</b>

*Note: Numbers on table may not add perfectly due to rounding.*

As of September 30, 2003, one Funding Year 1999 application remained in the review process as the result of a recently granted pre-commitment appeal. Funding commitments made to applicants during 3Q2003 are included in Appendix SL03. Authorized funding by applicant during 3Q2003 and cumulative payments made to service providers through 3Q2003 are listed in Appendices SL04 and SL05, respectively.

**FUNDING YEAR 2000**

As of September 30, 2003, Funding Year 2000 commitments and amounts authorized for payment were as follows:

<b>FUNDING YEAR 2000</b>					
<b>Service</b>	<b>Commitments</b>		<b>Authorized for Payment</b>		<b>Auth/Com</b>
	<b>Millions of Dollars</b>	<b>% of Total Commitments</b>	<b>Millions of Dollars</b>	<b>% of Total Authorized for Payment</b>	<b>% of Committed Authorized for Payment</b>
Telecommunications	\$ 708.8	34.0%	\$ 470.3	28.6%	66.4%
Internet Access	\$ 219.5	10.5%	\$ 134.9	8.2%	61.5%
Internal Connections	\$1,155.1	55.4%	\$1,036.8	63.1%	89.8%
<b>TOTAL</b>	<b>\$2,083.4</b>		<b>\$1,642.0</b>		<b>78.8%</b>

*Note: Numbers on table may not add perfectly due to rounding.*

As of September 30, 2003, 26 potentially fundable Funding Year 2000 applications remained in the review process, including one pending a decision by the FCC. Funding commitments made to applicants during 3Q2003 are included in Appendix SL06. Authorized funding by applicant during 3Q2003 and cumulative payments made to service providers through 3Q2003 are listed in Appendices SL07 and SL08, respectively.

**FUNDING YEAR 2001**

As of September 30, 2003, Funding Year 2001 commitments and amounts authorized for payment were as follows:

<b>FUNDING YEAR 2001</b>					
<b>Service</b>	<b>Commitments</b>		<b>Authorized for Payment</b>		<b>Auth/Com</b>
	<b>Millions of Dollars</b>	<b>% of Total Commitments</b>	<b>Millions of Dollars</b>	<b>% of Total Authorized for Payment</b>	<b>% of Committed Authorized for Payment</b>
Telecommunications	\$ 761.5	34.4%	\$ 513.4	32.4%	67.4%
Internet Access	\$ 225.8	10.2%	\$ 145.4	9.2%	64.4%
Internal Connections	\$1,224.0	55.4%	\$ 923.7	58.4%	75.5%
<b>TOTAL</b>	<b>\$2,211.3</b>		<b>\$1,582.5</b>		<b>71.6%</b>

*Note: Numbers on table may not add perfectly due to rounding.*

As of September 30, 2003, 112 potentially fundable Funding Year 2001 applications remained in the review process. Funding commitments made to applicants during 3Q2003 are included in Appendix SL09. Authorized funding by applicant during 3Q2003 and cumulative payments made to service providers through 3Q2003 are listed in Appendices SL10 and SL11, respectively.

**FUNDING YEAR 2002**

As of September 30, 2003, Funding Year 2002 commitments and amounts authorized for payment were as follows:

<b>FUNDING YEAR 2002</b>					
<b>Service</b>	<b>Commitments</b>		<b>Authorized for Payment</b>		<b>Auth/Com</b>
	<b>Millions of Dollars</b>	<b>% of Total Commitments</b>	<b>Millions of Dollars</b>	<b>% of Total Authorized for Payment</b>	<b>% of Committed Authorized for Payment</b>
Telecommunications	\$ 862.6	39.6%	\$ 375.0	42.1%	43.5%
Internet Access	\$ 222.3	10.2%	\$ 114.8	12.9%	51.6%
Internal Connections	\$ 1,094.7	50.2%	\$ 401.7	45.1%	36.7%
<b>TOTAL</b>	<b>\$2,179.6</b>		<b>\$ 891.5</b>		<b>40.9%</b>

*Note: Numbers on table may not add perfectly due to rounding.*

The Schools and Libraries Division (SLD) staff continue to review and process the remaining 1,378 potentially fundable applications that were not included in a regular commitment wave and will issue Funding Commitment Decision Letters (FCDLs) on an individual basis as reviews are completed. Funding commitments made to applicants during 3Q2003 are included in Appendix SL12. Authorized funding by applicant during 3Q2003 and cumulative payments to service providers through 3Q2003 are listed in Appendices SL13 and SL14, respectively.

**FUNDING YEAR 2003**

As of September 30, 2003, 12 waves of FCDLs had been issued. Funding Year 2003 commitments were as follows:



<b>FUNDING YEAR 2003</b>					
<b>Service</b>	<b>Commitments</b>		<b>Authorized for Payment</b>		<b>Auth/Com</b>
	<b>Millions of Dollars</b>	<b>% of Total Commitments</b>	<b>Millions of Dollars</b>	<b>% of Total Authorized for Payment</b>	<b>% of Committed Authorized for Payment</b>
Telecommunications	\$ 512.1	47.7%	\$ 2.9	52.7%	0.6%
Internet Access	\$ 147.8	13.8%	\$ 1.9	34.5%	1.3%
Internal Connections	\$ 414.0	38.6%	\$ 0.7	12.7%	0.2%
<b>TOTAL</b>	<b>\$1,073.9</b>		<b>\$ 5.5</b>		<b>0.5%</b>

*Note: Numbers on table may not add perfectly due to rounding.*

As of September 30, 2003, 39,762 FCC Forms 471 had been certified for processing. Over 81 percent of these, 32,402 applications, had received at least one FCDL. Beginning with Wave 10, SLD began issuing funding commitments for approved internal connections requests at the 85 percent discount level and above. SLD continues to deny internal connections funding requests with discount percentages below 70 percent. Funding commitments made to applicants during 3Q2003 are included in Appendix SL15. Authorized funding by applicant during 3Q2003 and cumulative payments to service providers through 3Q2003 are listed in Appendices SL16 and SL17, respectively.

**FUNDING YEAR 2004**

On September 17, 2003, USAC announced the opening and closing dates for the Funding Year 2004 Form 471 application filing window. The window will open at noon on Wednesday, November 5, 2003, and close at 11:59 PM EST on Wednesday, February 4, 2004. USAC began issuing FCC Form 470 Receipt Acknowledgement Letters on September 25, 2003.

**SCHOOLS AND LIBRARIES SUPPORT MECHANISM SUMMARY**

In a series of actions from December 1999 through December 2002, the Federal Communications Commission used a net of \$477.160 million of undisbursed Funding Year 1998 funds to reduce collection requirements for the Universal Service Fund. The Commission

recognized that funds collected exceeded Schools and Libraries Support Mechanism disbursements and applied the rules that the carryover of unused funds did not apply to funds collected for Funding Year 1998. The following table summarizes the amounts used by the Commission to offset collection requirements through 1Q2001 and subsequent actions to restore funds for additional disbursements of Funding Year 1998 funds to schools and libraries.

FCC Public Notice	Amount of Schools and Libraries Support Mechanism Funding Year 1998 Funds Used to Offset Collections
<i>First Quarter 2000 Contribution Factors Public Notice</i>	\$ 57.250 M
<i>Second Quarter 2000 Contribution Factors Public Notice</i>	50.440 M
<i>Third Quarter 2000 Contribution Factors Public Notice</i>	170.155 M
<i>Fourth Quarter 2000 Contribution Factors Public Notice</i>	169.534 M
<i>First Quarter 2001 Contribution Factors Public Notice</i>	0.620 M
<i>Fourth Quarter 2001 Contribution Factors Public Notice</i>	37.678 M
<i>First Quarter 2002 Contribution Factors Public Notice</i>	(2.998) M
<i>Second Quarter 2002 Contribution Factors Public Notice</i>	(1.709) M
<i>First Quarter 2003 Contribution Factors Public Notice</i>	(3.810) M
<b>Net Use of Funding Year 1998 funds</b>	<b>\$ 477.160 M</b>

In the Commission’s *Notice of Proposed Rulemaking and Order*, the Commission sought comment on a wide range of issues relating to the Schools and Libraries Support Mechanism, including the contribution methodology and the treatment of unused funds.<sup>41</sup> In the *Schools and Libraries First Report and Order* resulting from the proceeding, the Commission directed that unused funds from the Schools and Libraries Support Mechanism shall be applied to stabilize contributions to the Universal Service Fund for the next three quarters (3Q2002, 4Q2002, and 1Q2003) and “[t]hereafter, unused funds from the Schools and Libraries Mechanism shall be carried forward for

<sup>41</sup> See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Notice of Proposed Rulemaking and Order, (*Notice of Proposed Rulemaking and Order*).

use in subsequent funding years of the schools and libraries program.”<sup>42</sup> Consistent with the *Schools and Libraries First Report and Order*, in the *Third Quarter 2002 Contribution Factors Public Notice*, the FCC made no adjustment to the contribution factor for 3Q2002, using \$256.16 million of non-disbursed Funding Year 1999 collections to offset collections.<sup>43</sup> In the *Fourth Quarter 2002 Contribution Factors Public Notice*, the FCC did not adjust the contribution factor for 4Q2002, using \$349.776 million of non-disbursed Funding Years 1999 and 2000 collections to offset collections.<sup>44</sup> In the *First Quarter 2003 Contribution Factors Public Notice*, the FCC made no adjustment to the contribution factor, using \$246.18 million of non-disbursed Funding Year 2000 collections to offset 1Q2003 collections.<sup>45</sup>

Consistent with Section 54.507 of the Commission’s rules and the *Schools and Libraries First Report and Order*, the Commission directed that “unused funds from the Schools and Libraries Support Mechanism will be carried forward to increase disbursements to schools and libraries in subsequent quarters.”<sup>46</sup> As a companion to the *Schools and Libraries Second Report and Order*, the Commission released a *Further Notice of Proposed Rulemaking* that seeks comments on proposed rules to implement the Commission’s decision to carry forward unused funds for use in subsequent funding years of the schools and libraries program.<sup>47</sup> The following sections provide information about use of funds for each funding year and USAC’s projections of prior funding year funds available for carrying forward to increase disbursements to schools and libraries.

---

<sup>42</sup> See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, First Report and Order, FCC 02-175 (June 13, 2002) (*Schools and Libraries First Report and Order*).

<sup>43</sup> Wireline Competition Bureau Announces No Change in Third Quarter 2002 Universal Service Contribution Factor, CC Docket No. 96-45, Public Notice, DA 02-1409 (June 13, 2002) (*Third Quarter 2002 Contribution Factors Public Notice*).

<sup>44</sup> Proposed 4<sup>th</sup> Quarter 2002 Universal Service Contribution Factor, CC Docket No. 96-45, *Public Notice*, DA 02-2221 (Sept. 10, 2002) (*Fourth Quarter 2002 Contribution Factors Public Notice*).

<sup>45</sup> Proposed 1<sup>st</sup> Quarter 2003 Universal Service Contribution Factor, CC Docket No. 96-45, *Public Notice*, DA 02-3387 (Dec. 9, 2002) (*First Quarter 2003 Contribution Factors Public Notice*).

<sup>46</sup> *Id.*

<sup>47</sup> See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Second Report and Order, FCC 03-101 (April 30, 2003) (*Schools and Libraries Second Report and Order and Further Notice of Proposed Rulemaking*).

***Funding Year 1998 True-Up***

As of September 30, 2003, \$1,401.472 million of Funding Year 1998 support had been disbursed. The estimated Funding Year 1998 balance is based on the following:

<b>FUNDING YEAR 1998</b>	<b>Adjustments in Millions</b>
Amount Authorized and Actually Collected	\$ 1,925.000 M
Amount Disbursed	(1,401.472) M
Amount Applied to Adjust 2000, 2001, and 2002 Collections	(477.160) M
Administrative Expenses (21 months)	(41.791) M
Potential Additional Disbursements on Committed FRNs	(4.140) M
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(0.437) M
<b>Estimated Remaining Balance</b>	<b>\$0.000 M</b>

USAC’s estimate of the needed contingency reserve for remaining Funding Year 1998 funding requests is \$0.437 million. This reserve includes an estimate of funds needed to pay invoices on funding requests that have been granted extended invoice deadlines pursuant to FCC order and to pay pending appeals. Based on these figures, and in order to preserve the contingency amount, no Funding Year 1998 funds are available to carry forward to increase disbursements to schools and libraries in subsequent funding years.

***Funding Year 1999 True-Up***

As of September 30, 2003, \$1,668.889 million of Funding Year 1999 support had been disbursed. The estimated remaining Funding Year 1999 balance that is available to carry forward is based on the following information:

<b>FUNDING YEAR 1999</b>	<b>Adjustments in Millions</b>
Amount Authorized and Actually Collected	\$ 2,250.000 M
Amount Disbursed	(1,668.889) M
Amount Applied to Adjust 3Q2002 Collections	(256.160) M
Amount Applied to Adjust 4Q2002 Collections	(212.927) M
Administrative Expenses	(32.316) M
Potential Additional Disbursements on Committed FRNs	(11.860) M
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(7.848) M
<b>Estimated Remaining Balance</b>	<b>\$60.000 M</b>

USAC’s projection of the remaining Funding Year 1999 funds includes estimates of funds needed to pay additional disbursements on committed funding requests including funding requests that have been granted extended invoice deadlines pursuant to FCC order. The estimated remaining balance also includes an estimate of the needed contingency reserve to pay pending appeals. Based on these figures, USAC estimates that \$60 million in Funding Year 1999 funds are available to carry forward to increase disbursements to schools and libraries in subsequent funding years.

***Funding Year 2000 True-Up***

As of September 30, 2003, \$1,642.024 million of Funding Year 2000 support had been disbursed. The estimated remaining Funding Year 2000 balance is based on the following information:

<b>FUNDING YEAR 2000</b>	<b>Adjustments in Millions</b>
Amount Authorized and Actually Collected	\$ 2,250.000 M
Amount Disbursed	(1,642.024) M
Amount Applied to Adjust 4Q2002 Collections	(136.849) M
Amount Applied to Adjust 1Q2003 Collections	(246.180) M
Administrative Expenses	(32.235) M
Potential Additional Disbursements on Committed FRNs	(4.542) M
Remaining Uncommitted Requests	(16.903) M
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(11.267) M
<b>Estimated Remaining Balance</b>	<b>\$160.000 M</b>

USAC’s projection of the remaining Funding Year 2000 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on remaining requests that have not received funding commitments. The estimated remaining balance also includes an estimate of the needed contingency reserve to pay pending appeals. Based on these figures, USAC estimates that \$160 million of Funding Year 2000 funds are available to carry forward to increase disbursements to schools and libraries in subsequent funding years.

*Funding Year 2001 True-Up*

As of September 30, 2003, \$1,582.459 million of Funding Year 2001 support had been disbursed. The estimated remaining Funding Year 2001 balance is based on the following information:

<b>FUNDING YEAR 2001</b>	<b>Adjustments in Millions</b>
Amount Authorized and Actually Collected	\$ 2,250.000 M
Amount Disbursed	(1,582.459) M
Administrative Expenses	(30.559) M
Potential Additional Disbursements on Committed FRNs	(209.371) M
Remaining Uncommitted Requests	(67.852) M
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(159.759) M
Expected Commitments Not Invoiced	00.000 M
<b>Estimated Remaining Balance</b>	<b>\$200.000 M</b>

USAC’s projection of the remaining Funding Year 2001 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on remaining requests that have not yet received funding commitments. The estimated remaining balance also includes an estimate of the needed contingency reserve to pay pending appeals. For Funding Year 2001, commitments have exceeded the \$2.25 billion disbursement cap. Based on the history of disbursements to commitments for the first three funding years, actual disbursements are expected to be less than 86 percent of funds committed. To represent that expected shortfall, the table includes space for “Expected Commitments Not Invoiced.” The first deadlines for invoicing have now passed, and disbursements were, in fact, less than commitments. While we could project an amount for commitments that will not be disbursed, to assure that sufficient funds remain available a more cautious approach is to assume that all remaining commitments available for disbursement will be fully disbursed. Based on these figures, USAC estimates that \$200 million of Funding Year 2001 funds are available to carry forward to increase disbursements to schools and libraries in subsequent funding years.

***1Q2004 Demand Estimate and Contribution Requirement***

Based on the level of applicant demand in Funding Year 2003, USAC requests authority to collect an amount to provide \$562.500 million for 1Q2004, which is one-quarter of the \$2.25 billion annual cap on federal universal service support for schools and libraries. Results for 3Q2003 contribute to an over-funded condition for which the instant filing proposes to adjust the 1Q2004 requirements. The total adjustment to the 1Q2004 fund requirement based on actual results will decrease the funding needed by \$47.124 million. The explanations for the adjustment are described below:

<b>Reason for the Prior Period Adjustment</b>	<b>Adjustment in Millions</b>
3Q2003 billings were higher due to higher revenues reported by contributors in the quarterly projection and annual true up filings.	\$ (44.391) M
Some 3Q2003 collections were lower due to uncollectible amounts billed to carriers in bankruptcy.	0.666 M
Interest earned was higher than projected due to stabilization in the bond market and higher cash balances.	(0.726) M
<i>Total Prior Period Adjustment</i>	\$ (44.451) M

The total fund requirement of \$562.500 million, which includes administrative expenses of \$12.341 million, decreased by the prior-period adjustment of \$44.451 million, and reduced by the projected interest of \$6.378 million, results in a total projected collection requirement of \$511.671 million for the Schools and Libraries Support Mechanism for 1Q2004.

---

***CONTRIBUTION BASE***

---

USAC collects quarterly interstate and international revenue information from carriers on the FCC Form 499-Q four times each year and submits aggregate information on a quarterly basis to the FCC (March 2, June 1, September 1, and December 2).<sup>48</sup> Based on these filings, the FCC

---

<sup>48</sup> The Form 499-Q includes a box for each of the quarterly filing submissions. Carriers check the appropriate box to indicate the quarter for which revenue information is being reported.

establishes the contribution factor for the upcoming quarter. Telecommunications providers qualifying for the *de minimis* exemption from contribution requirements do not need to complete the Form 499-Q.<sup>7</sup> USAC reports and the FCC uses projected collected revenues in order to determine the contribution factor.

In the Public Notice in Docket No. CC 96-45 released September 5, 2003, the Commission set the 4Q2003 contribution factor at 9.2 percent.

Approximately 5,002 FCC Forms 499-Q were distributed to carriers in early October 2003. Interstate telecommunications service providers are required to complete this form, reporting January - March 2004 projected revenue information, and return it by November 3, 2003.

---

## ***OPERATIONS***

---

USAC invoices and receives contributions from more than 2,200 telecommunications companies each month. Over the course of the year USAC disburses funds to service providers as appropriate under each of the support mechanisms. USAC recently has been able to reduce and maintain the uncollectible rate below 1 percent of the total funds billed to contributing telecommunications carriers.

USAC continues to assist the FCC in its USF collection enforcement efforts. Specifically, USAC continues to work with the FCC to obtain compliance from carriers not remitting their required contributions, and provide required documentation to assist the FCC in issuing Notices of Apparent Liability (NALs) against non-payers on a monthly basis. USAC also assists the FCC in the following ways: by working with carriers to achieve compliance with filing and contribution requirements; by providing information to the FCC regarding carriers that have not filed a Form 499; by providing monthly reports listing non-payers by amount owed and by type of carrier; by contacting the FCC to determine which non-paying carriers, if any, have petitioned the FCC



regarding their funding obligation; and by providing the FCC with call log information and written correspondence of carriers that have not filed a petition with the FCC.

On September 30, 2003, the FCC released a Notice of Apparent Liability for Forfeiture and Order (Notice) for \$806,861 to an inter-exchange carrier who willfully and repeatedly failed to file complete and accurate interstate and international revenue information and contribute to the Universal Service Fund and the Telecommunications Relay Service (TRS) Fund. This is the largest forfeiture the Commission has ever proposed for universal service violations. The Chairman of the FCC issued a strong statement accompanying the Notice and the action was featured in a news release as well as prominently featured on the FCC web site. According to USAC's records, the carrier's account reflected a past due balance of \$681,838 in universal service-related charges, fees, and adjustments. This amount represents the carrier's unpaid balances for 2001 and 2002, as well as current monthly billings for 2003 and various fees and adjustments.

On July 1, 2003, USAC implemented the requirements of Debt Collection Improvement Act (DCIA). Implementation of the DCIA will result in USAC transferring uncollectible accounts that are ninety days delinquent to the FCC after USAC has provided the delinquent carriers with adequate notice of the impact of the DCIA procedures. Before transferring a debt to the FCC, USAC forwards each delinquent contributor three notices outlining their delinquency, the impact of non-payment, and the debt enforcement activities allowed under the DCIA. Upon receipt of the outstanding debts, the FCC will forward the delinquent carriers one notice advising them of their USF debt and the possibility of further enforcement activities allowed under the DCIA and/or by the FCC Enforcement Bureau. In addition to a 30-day letter, all FCC current and future actions with regard to the delinquent contributor will cease until the USF debt is paid-in-full. If the delinquent carrier fails to respond to the FCC request for payment, the delinquent account will be forwarded to the U.S. Treasury Department and collected under their debt-offset program.

On July 1, 2003, USAC transferred approximately \$26 million of the Fund's total active delinquencies in excess of 90 days to the FCC per the DCIA policy and procedures established between the two entities. On September 4, 2003, USAC transferred \$4.6 million of the outstanding delinquencies and on October 1, 2003, USAC transferred an additional \$4.5 million. The remaining delinquent carriers have an appeal in process, are on payment plan status, are inactive, or under bankruptcy review. The FCC forwarded each of the delinquent carriers a "Final Demand & Notice" on September 12 giving each of them 30 days to pay off their outstanding liabilities or to make suitable payment arrangements. To date, USAC has not received any payments from the FCC attributable to the DCIA transfers. USAC's partnership with the Commission to implement DCIA has yielded significant benefits to the Fund.

USAC and the Commission have also begun to address the terms and conditions pursuant to which contributors will be allowed to enter into installment payment plans to satisfy outstanding universal service obligations. As of September 24, 2003, 16 carriers with outstanding balances of \$21,691,649 have expressed an interest in obtaining a payment plan to resolve their USF delinquencies. The FCC considers offering payment plans to contributors whose deteriorating financial condition prevents them from paying their delinquent balances in a single lump sum. As part of the payment plan process, among other things a contributor's account must maintain a "current" status while paying off their outstanding delinquency. If the contributor fails to make the required payments, the payment plan will be voided and the contributor's account will be forwarded to the FCC for further enforcement action.

These efforts have collectively yielded positive results, which have significantly assisted in maintaining the integrity and stability of USF.

---

**CONCLUSION**

---

At their October 20, 2003, meeting, USAC's High Cost & Low Income Committee, Rural Health Care Committee, and Schools & Libraries Committee passed resolutions authorizing the 1Q2004 support mechanism funding requirements described herein. At its October 21, 2003, meeting, the USAC Board of Directors adopted a resolution authorizing the inclusion of the 1Q2004 administrative expenses and 1Q2004 funding base in this report to the Commission.

Respectfully submitted,

UNIVERSAL SERVICE  
ADMINISTRATIVE COMPANY

---

Cheryl L. Parrino  
Chief Executive Officer  
D. Scott Barash  
Vice President and General Counsel  
2120 L Street N.W., Suite 600  
Washington, DC 20037-1547  
Voice: 202.776.0200  
Fax: 202.776.0080

October 31, 2003