

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

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

UNIVERSAL SERVICE
ADMINISTRATIVE COMPANY
2000 L STREET N.W., SUITE 200
WASHINGTON, DC 20036-4924
VOICE: 202.776.0200
FAX: 202.776.0080
www.universalservice.org

August 2, 2004

TABLE OF CONTENTS

INTRODUCTION.....	1
ADMINISTRATIVE EXPENSES AND INTEREST PROJECTION	2
ADMINISTRATIVE EXPENSES	2
INTEREST INCOME PROJECTION.....	4
FINANCIAL STATEMENTS.....	4
FUNDING REQUIREMENTS.....	5
HIGH COST SUPPORT MECHANISM	5
Eligible Telecommunications Carrier (ETC) Designation	5
High Cost Rural Support Mechanism	6
<i>High Cost Loop (HCL) Support</i>	6
<i>Local Switching Support (LSS)</i>	8
<i>Long Term Support (LTS)</i>	9
Interstate Common Line Support Mechanism (ICLS)	9
Interstate Access Support Mechanism (IAS).....	10
Non-Rural Forward-Looking Mechanism.....	10
High Cost Support Mechanism Summary.....	11
LOW INCOME SUPPORT MECHANISM.....	12
Lifeline Support	12
Link Up America	13
Toll-Limitation Support.....	13
Low Income Support Mechanism Summary.....	14
RURAL HEALTH CARE SUPPORT MECHANISM	15
Funding Year 2000	15
Funding Year 2001	16
Funding Year 2002	16
Funding Year 2003	17
Funding Year 2004	18
Rural Health Care Support Mechanism Summary	18
SCHOOLS AND LIBRARIES SUPPORT MECHANISM.....	19
Funding Year 1998	20
Funding Year 1999	21
Funding Year 2000	21
Funding Year 2001	22
Funding Year 2002	23
Funding Year 2003	24
Funding Year 2004	25
Schools and Libraries Support Mechanism Summary	25
<i>Funding Year 1998 True-Up</i>	26
<i>Funding Year 1999 True-Up</i>	27
<i>Funding Year 2000 True-Up</i>	28
<i>Funding Year 2001 True-Up</i>	28
<i>Funding Year 2002 True-Up</i>	29

TABLE OF CONTENTS

<i>4Q2004 Demand Estimate and Contribution Requirement</i>	30
CONTRIBUTION BASE	30
OPERATIONS	31
CONCLUSION	32

APPENDICES

HIGH COST

High Cost Support Projected by State by Study Area – 4Q2004	HC01
High Cost Support Projected by State – 4Q2004	HC02
Rural Study Areas with Competition – 4Q2004.....	HC03
Disaggregated Per Line Support by Zone – 4Q2004.....	HC04
High Cost Loop Support Projected by State by Study Area – 4Q2004	HC05
Safety Net Additive Support – 4Q2004.....	HC06
Local Switching Support Projected by State by Study Area – 4Q2004.....	HC07
Long Term Support Projected by State by Study Area – 4Q2004.....	HC08
Interstate Common Line Support Projected by State by Study Area – 4Q2004.....	HC09
Interstate Common Line Support Projected per Line – 4Q2004	HC10
Interstate Common Line Support Projected by State – 4Q2004.....	HC11
Interstate Access Support Projected by State by Study Area – 4Q2004	HC12
Interstate Access Support Projected per Line – 4Q2004.....	HC13
Interstate Access Support Projected by State – 4Q2004	HC14
High Cost Model Support Projected by Wire Center – 4Q2004	HC15
High Cost Model Support Projected by State – 4Q2004	HC16
High Cost Model Support Projected by Study Area – 4Q2004	HC17
CETC Reported Lines by Incumbent Study Area	
High Cost Loop Support – 4Q2004.....	HC18
CETC Reported Lines by Incumbent Study Area	
Interstate Common Line Support – 4Q2004	HC19
CETC Reported Lines by Incumbent Study Area	
Interstate Access Support – 4Q2004.....	HC20
CETC Reported Lines by Incumbent Study Area	
High Cost Model Support – 4Q2004	HC21
Interstate Common Line Support by Study Area	
2002 True-Up – 4Q2004.....	HC22
Interstate Common Line Support	
2002 Per Line True-Up – 4Q2004.....	HC23

LOW INCOME

Low Income Support Projected by State by Study Area – 4Q2004	LI01
Low Income Support Available by State – 4Q2004.....	LI02
Eligible Telecommunications Carriers – 2Q2004	LI03
Quarterly Low Income Support Disbursement Amounts by Company – 2Q2004.....	LI04
Annual Low Income Support Amounts by State and Company	
Through 1Q2004.....	LI05

APPENDICES

Historical Data: Support Amounts Claimed by ETCs Each Month

January 1998 through June 2004	LI06
Low Income Support Distributed by State in 2001 through 1Q2004	LI07
Lifeline Subscribers by State or Jurisdiction	LI08
Link Up Beneficiaries by State or Jurisdiction	LI09
Tier 1 Amounts Reported by All Companies 1Q2004	LI10

RURAL HEALTH CARE

Funding Year 2001 Authorizations 2Q2004.....	RH01
Funding Year 2001 Disbursements to Service Providers through 2Q2004	RH02
Funding Year 2002 Commitments – 2Q2004.....	RH03
Funding Year 2002 Authorizations – 2Q2004	RH04
Funding Year 2002 Disbursements to Service Providers through 2Q2004	RH05
Funding Year 2003 Commitments – 2Q2004.....	RH06
Funding Year 2003 Authorizations – 2Q2004	RH07
Funding Year 2003 Disbursements to Service Providers through 2Q2004	RH08

SCHOOLS AND LIBRARIES

Funding Year 1998 Authorizations – 2Q2004	SL01
Funding Year 1998 Disbursements to Service Providers through 2Q2004	SL02
Funding Year 1999 Authorizations – 2Q2004	SL03
Funding Year 1999 Disbursements to Service Providers through 2Q2004	SL04
Funding Year 2000 Commitments – 2Q2004.....	SL05
Funding Year 2000 Authorizations – 2Q2004	SL06
Funding Year 2000 Disbursements to Service Providers through 2Q2004	SL07
Funding Year 2001 Commitments – 2Q2004.....	SL08
Funding Year 2001 Authorizations – 2Q2004	SL09
Funding Year 2001 Disbursements to Service Providers through 2Q2004	SL10
Funding Year 2002 Commitments – 2Q2004.....	SL11
Funding Year 2002 Authorizations – 2Q2004	SL12
Funding Year 2002 Disbursements to Service Providers through 2Q2004	SL13
Funding Year 2003 Commitments – 2Q2004.....	SL14
Funding Year 2003 Authorizations – 2Q2004	SL15
Funding Year 2003 Disbursements to Service Providers through 2Q2004	SL16
Funding Year 2004 Commitments – 2Q2004.....	SL17

OTHER APPENDICES

Universal Service Administrative Company 4Q2004 Budget	M01
Fund Size Projections for 4Q2004.....	M02
Schedule of USF Receipts, Interest Income, and Cash Outlays:	

APPENDICES

January 1 through June 30, 2004 – Cash Basis.....	M03
January 1 through June 30, 2004 – Accrual Basis	M04

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

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

INTRODUCTION

The Universal Service Administrative Company (USAC) submits the Federal Universal Service Support Mechanisms fund size and administrative cost projections for the fourth quarter of calendar year 2004 (4Q2004), in accordance with Section 54.709 of the Federal Communications Commission's (FCC or Commission) rules.¹

USAC is the not-for-profit corporation responsible for administering the federal universal service support mechanisms: High Cost, Low Income, Rural Health Care, and Schools and Libraries.² 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, and the submission of the contribution base amount, the Commission will establish a quarterly contribution factor. USAC will bill contributors on a monthly basis for their individual obligations based on the approved contribution factor, collect the funds, and distribute funds to eligible recipients based on the schedules filed herein.³

¹ 47 C.F.R. § 54.709(a)(3).

² 47 C.F.R. § 54.701.

³ 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.

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.⁴ USAC includes any costs that can be directly attributed to the High Cost, 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. The allocation of billing, collection, and common costs also reflects the fact that the Commission directed that the costs associated with the Interstate Access Support Mechanism be allocated to the High Cost and Low Income Support Mechanisms.⁵

USAC projects a 4Q2004 consolidated budget of \$19.408 million. Direct costs for all support mechanisms total \$14.801 million.⁶ The detail for each mechanism is provided below. Joint and common costs projected at \$3.944 million are allocated to each support mechanism as detailed below based on the allocation methodology on file with the Commission. USAC projects that billing, collection, and disbursement functions will cost \$0.663 million and are allocated based on the allocation methodology on file with the Commission as detailed below.

⁴ 47 C.F.R. § 54.709(a)(3).

⁵ 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).

⁶ This includes \$0.081 million for High Cost data collection performed by NECA. 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).

4th Quarter 2004 Administrative Expenses (millions)

USF MECHANISM	Direct Costs	USAC Common	Billing, Collections & Disbursements	TOTAL
High Cost	1.3635	1.8932	0.3182	3.5749
Low Income	1.0510	0.4654	0.0782	1.5946
Rural Health Care	0.7836	0.0197	0.0033	0.8066
Schools & Libraries	11.6028	1.5659	0.2632	13.4319
Total	14.8009	3.9442	0.6629	19.4080

Commission rules currently direct the National Exchange Carrier Association, Inc. (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.⁷ 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.⁸ NECA's projected 4Q2004 expenses to perform these universal service-related functions are \$0.081 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.⁹

⁷ 47 C.F.R. §§ 36.611-36.613.

⁸ 47 C.F.R. § 69.603.

⁹ See footnote 6 above.

Appendix M01 details USAC's estimated administrative expenses budget for 4Q2004.

Appendix M02 details fund size projections for 4Q2004.

INTEREST INCOME PROJECTION

USF interest income earned in 2Q2004 was less than USAC's projection by \$1.8 million.

For 4Q2004, USAC projects interest income of approximately \$0.909 million for the High Cost Support Mechanism, \$0.202 million for the Low Income Support Mechanism, \$0.056 million for the Rural Health Care Support Mechanism and \$10.305 million for the Schools and Libraries Support Mechanism. In sum, USAC projects total 4Q2004 interest of \$11.472 million for an annualized return of 1.39 percent. 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 its 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 June 30, 2004, on a cash basis, USAC disbursed \$2,632 million in universal service support to service providers in 2004: \$1,657 million in High Cost support, \$371 million in Low Income support, \$8 million in Rural Health Care support, and \$596 million in Schools and Libraries support. On a cash basis, the total cash balance available to the universal service support mechanisms was \$3,275 million.

For the period ending June 30, 2004, on an accrual basis, USAC had a fund balance of \$3,568 million.

Appendices M03 and M04 provide the 2004 year-to-date statement 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.¹⁰ Qualified ETCs are eligible to receive funds from the High Cost Support Mechanism,¹¹ which includes High Cost Loop (HCL) support, Interstate Access Support (IAS), Local Switching Support (LSS), Interstate Common Line Support (ICLS), and non-rural forward-looking High Cost Model (HCM) support. Together, the projected requirements for these five 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 1,500 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.

¹⁰ See 47 U.S.C. § 36.214(e), 47 C.F.R. § 54.201.

¹¹ 47 C.F.R. § 36.631 and 47 C.F.R. §§ 54.301-54.303, 54.309, 54.311, 54.807, and 54.901.

Study Areas by Category							
	Incumbent Study Areas					Competitive Study Areas	Total Study Areas
	Rate-of-Return			Price Cap	Total Incumbent		
	Cost Companies	Average Schedule	Total				
Rural	729	513	1242	105	1347	140	1487
Non-Rural	5	1	6	80	86	90	176
Total	734	514	1248	185	1433	230	1663

Appendix HC01 displays the projected minimum amount of individual company support 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 ETC¹² will be eligible to receive (i.e., HCL, HCM, IAS, LSS, and ICLS). Appendix HC02 displays the total projected amount of High Cost support for 4Q2004 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 by NECA to the FCC and to USAC on October 1, 2003.¹³ 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

¹² 47 C.F.R. § 36.631 and 47 C.F.R. §§ 54.301-54.303.

¹³ See 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*.¹⁴ 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*.¹⁵ 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 \$78.300 million. The impact of the *Rebasing Order* on 4Q2004 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.¹⁶ 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.¹⁷ For 4Q2004, projected safety net additive support is \$3.110 million.

¹⁴ 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*).

¹⁵ 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*).

¹⁶ See *RTF Order* at ¶¶ 77 to 90.

¹⁷ See 47 C.F.R. § 36.605(c).

For 4Q2004, projected HCL support is \$312.782 million. Of this amount, \$267.473 million is associated with rural carriers and \$45.309 million is associated with competitive ETCs.

Furthermore, 4Q2004 Safety Net Additive support is projected to be \$3.110 million. USAC projects, therefore, that \$315.892 million will be required for 4Q2004. Based on these projections, total 2004 HCL support is estimated to be \$1,237.726 million.

Appendix HC05 displays projected monthly HCL support payments by study area for 4Q2004 in accordance with the hold-harmless provisions of the FCC's *Methodology Order*.¹⁸ Appendix HC06 displays projected monthly Safety Net Additive support payments by study area for 4Q2004. 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.¹⁹ Local Switching Support (LSS) is the product of a carrier's annual unseparated local switching revenue requirement multiplied by its local switching support factor.²⁰

For 4Q2004, LSS for companies participating in the Traffic Sensitive Pool is projected to be \$61.425 million for cost study areas and \$19.271 million for average schedule study areas. LSS for the non-Pool study areas is projected to be \$18.738 million for cost study areas and \$2.819 million for average schedule study areas for 4Q2004. In addition, 4Q2004 LSS for competitive ETCs is projected to be \$18.113 million. USAC projects, therefore, that \$120.366 million will be required for 4Q2004. Based on these projections, total 2004 LSS is estimated to be \$469.783 million.

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

¹⁸ See *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Ninth Report & Order and Eighteenth Order of Reconsideration, FCC 99-306 (1999) (*Methodology Order*).

¹⁹ See 47 C.F.R. § 54.301.

²⁰ The LSS factor is defined as the difference between the 1996 weighted interstate Dial Equipment Minute (DEM) factor and the 1996 unweighted DEM factor.

Long Term Support (LTS)

On February 26, 2004, the FCC released an Order and Second Further Notice of Proposed Rulemaking that merged Long Term Support (LTS) with Interstate Common Line Support (ICLS).²¹ As a result, LTS was eliminated effective July 1, 2004; therefore, no LTS is projected for 4Q2004, or thereafter. In turn, ICLS is being increased to offset the reduction in LTS.

Appendix HC08 details LTS levels for 2004.

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.²² 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 4Q2004, ICLS for incumbent rate-of-return carriers is projected to be \$234.880 million. In addition, 4Q2004 ICLS for competitive ETCs is projected to be \$41.820 million. Fourth Quarter 2004 ICLS includes the 2002 ICLS true-up that is projected to be (\$6.225) for incumbent rate-of-return carriers and (\$0.083) for competitive ETCs. USAC projects, therefore, that \$270.392 million will be required for 4Q2004. Based on these projections, total 2004 ICLS is estimated to be \$768.860 million.

²¹ 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*, CC Docket Nos. 00-256, 96-45, Report and Order and Second Further Notice of Proposed Rulemaking, FCC 04-31 (rel. Feb. 26, 2004) (*2004 Rate-of-Return Order*).

²² 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*).

Appendices HC09, HC10, and HC11 detail USAC's 4Q2004 projection of ICLS by state by study area, per line, and by state, respectively. Appendices HC22 and HC23 reflect the ICLS true-up for 2002 that is applicable to 4Q2004. 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.²³ The *Interstate Access Order* sized this support mechanism at a target of \$650 million annually for five years.²⁴

The IAS projected industry-wide totals for 4Q2004 are \$45.421 million for rural carriers, \$109.314 million for non-rural carriers, \$11.217 million for competitive ETCs. Based on these calculations, USAC projects that \$165.952 million will be required for 4Q2004.

Appendices HC12, HC13, and HC14 detail USAC's 4Q2004 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.

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 ten states (Alabama, Kentucky, Maine, Mississippi, Montana, Nebraska, South Dakota, Vermont, West Virginia, and Wyoming) are

²³ 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*).

²⁴ See *Interstate Access Order* at ¶ 201.

eligible to receive forward-looking support in 2004.²⁵ With the elimination of LTS in the 2004 *Rate-of-Return Order*,²⁶ no carriers will receive interim hold harmless support in 4Q2004, or thereafter.

For 4Q2004, USAC projects that \$70.800 million will be required for HCM support (\$55.723 million for incumbent non-rural carriers and \$15.077 million for competitive ETCs). Based on these projections, total 2004 forward-looking support is estimated to be \$276.700 million.

Appendices HC15, HC16, and HC17 detail USAC's 4Q2004 projection of non-rural forward-looking support by 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 4Q2004 funding requirement as follows: \$315.892 million for HCL support; \$120.366 million for LSS; \$270.392 million for ICLS; \$165.952 million for IAS; and \$70.800 million for HCM for a total of \$943.402 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.²⁷ 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 2Q2004 contributed to an over-funded condition, for which the instant filing proposes to adjust the 4Q2004 requirements. The total adjustment to the 4Q2004 fund requirement based on actual results will decrease the funding needed by \$101.529 million. The detailed explanations for the adjustment are described below.

²⁵ See *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Order and Order on Reconsideration, DA 03-4070 (rel. Dec. 24, 2003); see also *Wireline Competition Bureau Releases Estimated State-By-State High-Cost Universal Service Support Amounts for Non-Rural Carriers for 2004*, CC Docket No. 96-45, Public Notice, DA 03-4071 (rel. Dec. 24, 2003).

²⁶ See generally *2004 Rate-of-Return Order*.

²⁷ 47 C.F.R. §§ 54.709(b) and 54.709(c).

Reason for the Prior Period Adjustment	Adjustment in Millions
The 2Q2004 billings were higher than expected due to higher revenues reported by contributors in their quarterly revenue projections and revisions to prior reporting periods.	(\$21.133 M)
The 2Q2004 collections were lower because of uncollectible amounts billed to companies that filed for bankruptcy.	\$1.398 M
Distributions were lower than expected in 2Q2004.	(\$75.637 M)
Interest earned was more than estimated for 2Q2004	(\$1.009 M)
Bad debt expense was lower than anticipated	(\$5.148 M)
Total Prior Period Adjustment	(\$101.529 M)

The total fund requirement of \$943.402 million, decreased by the prior-period adjustment of \$101.529 million, increased by administrative costs of \$3.575 million, and reduced by the projected interest of \$0.909 million, results in a total projected funding requirement for the High Cost Support Mechanism for 4Q2004 of \$844.539 million.

Appendix M02 details the individual components of the funding requirement for the quarter.

LOW INCOME SUPPORT MECHANISM

LIFELINE SUPPORT

All ETCs must offer Lifeline support to qualified low-income consumers.²⁸ 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.²⁹ Lifeline support provides funding from the interstate jurisdiction of up to \$10.00 per low-income subscriber per month. This can

²⁸ See 47 C.F.R. §§ 54.201.

²⁹ 47 C.F.R. §§ 54.401 - 54.417.

consist of a baseline amount of between \$3.50 and \$6.50 (Tier One),³⁰ 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).³¹ Further, the *Tribal Order* makes available up to an additional \$25 per low-income subscriber per month to eligible residents of tribal lands (Tier Four).³²

For 4Q2004, USAC projects that \$184.587 million will be required for Lifeline support. Based on this projection, total 2004 Lifeline support is estimated to be \$707.782 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.³³

For 4Q2004, USAC projects that \$8.033 million will be required for Link Up support. Based on this projection, total 2004 Link Up support is estimated to be \$32.222 million.

TOLL-LIMITATION SUPPORT

Toll Limitation Support (TLS) compensates ETCs for providing toll-limitation based on the carrier's incremental cost of providing toll-limitation services. The FCC has defined these costs as

³⁰ 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 ¶ 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 ¶ 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).

³¹ 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.

³² 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.

³³ *Tribal Order* at ¶ 59.

the costs that carriers otherwise would not incur if they did not provide toll-limitation service to a given customer.³⁴ 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.³⁵ For 4Q2004, USAC projects that \$1.135 million will be required for TLS. Based on this projection, total 2004 TLS is estimated to be \$4.643 million.

LOW INCOME SUPPORT MECHANISM SUMMARY

As discussed above, the estimated 4Q2004 funding requirement for the Low Income Support Mechanism is as follows: \$184.587 million for Lifeline, \$8.033 million for Link Up, and \$1.135 million for Toll Limitation Service, for a total of \$193.755 million. Results of 2Q2004 contributed to an under-funded condition for which the instant filing proposes to adjust the 4Q2004 requirements. The total adjustment to the 4Q2004 funding requirement based on actual results will increase the funding needed by \$17.092 million. The detailed explanations for the adjustment are described below.

Reason for the Prior Period Adjustment	Adjustment in Millions
The 2Q2004 billings were higher than expected due to higher revenues reported by contributors in their quarterly revenue projections and revisions to prior reporting periods.	\$(5.265) M
The 2Q2004 collections were lower because of uncollectible amounts billed to companies that filed for bankruptcy.	\$0.283 M
Distributions were higher than expected in 2Q2004.	\$23.245 M
Interest earned was higher than estimated for 2Q2004.	\$(0.128) M
Bad debt expense was lower than anticipated	\$(1.043) M
Total Prior Period Adjustment	\$17.092 M

³⁴ See *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776 (1997) at ¶ 386 (*First Report and Order*) (subsequent history omitted).

³⁵ 47 C.F.R. § 54.400(b), (c).

The total fund requirement of \$193.755 million, increased by the prior-period adjustment of \$17.092 million, increased for administrative expenses of \$1.595 million, and reduced by the projected interest income of \$0.202 million results in a total projected funding requirement for the Low Income Support Mechanism for 4Q2004 of \$212.240 million.

Appendix LI01 provides projected Low Income support amounts by state by study area for 4Q2004. Appendix LI02 provides detail on Low Income funding amounts available in each of the states and territories for 4Q2004. Appendix LI03 provides a list of eligible telecommunications carriers (ETCs) for 2Q2004. Appendix LI04 provides detail on quarterly company-specific Low Income support disbursement amounts for 2Q2004. Appendix LI05 provides detail on annual company-specific Low Income support amounts through 1Q2004. Appendix LI06 provides historical data of monthly support amounts claimed by ETCs from January 1998 through June 2004. Appendix LI07 provides detail on Low Income support distributed by state for 2001 through 1Q2004. Appendices LI08 and LI09 provide subscriber information by state or jurisdiction for Lifeline and Link Up support, respectively. Appendix LI10 shows the Tier 1 amounts reported by all companies during 1Q2004.

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, 2004, 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. An adjustment will be made to increase or decrease collections by the \$0.002

million that has not been disbursed when USAC has completed processing any applications that are submitted based on appeals that may be approved.

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. The FCC previously authorized the collection of \$18.575 million for Funding Year 2001. Of the \$18.575 million collected, \$18.553 million has been disbursed. An adjustment will be made to increase or decrease collections by the \$0.022 million that has not been disbursed when USAC has completed processing any applications that are submitted based on appeals that may be approved.

Authorized funding by applicants during 2Q2004 and cumulative disbursements made to service providers through 2Q2004 are listed in Appendices RH01 and RH02, 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 June 30, 2004, 2,779 Form 466/468 packets had been received. The status of those packets is provided below.

FUNDING YEAR 2002	
Packets Completely Processed	2,583
Denied	88
Withdrawn by Applicant	103
Incomplete – Require Forms and/or Clarification	5
Total Packets Received for Funding Year 2002	2,779

As of June 30, 2004, funding commitments have been issued totaling \$23.299 million. Based on information provided by the applicants, USAC now estimates Funding Year 2002 demand will be \$22.259 million. The FCC previously authorized the collection of \$22.273 million for Funding Year

2002. Based on the revised estimate of demand, USAC recommends the FCC reduce collections for Funding Year 2002 by \$0.014 million in 4Q2004.

Funding commitments made during 2Q2004 are included in Appendix RH03. Authorized funding by applicants during 2Q2004 and disbursements made to service providers through 2Q2004 are listed in Appendices RH04 and RH05, 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 ended on June 30, 2004. A total of 2,624 Forms 465 were posted for Funding Year 2003. In addition, as of June 30, 2004, 2,270 Form 466 packets had been received. The status of those packets is provided below.

FUNDING YEAR 2003	
Packets Completely Processed	1,700
Packets Awaiting Supervisory Approval Only	124
Complete – Ready to Process	85
Withdrawn by Applicant	109
Denied	9
Incomplete – Require Forms and/or Clarification	243
Total Packets Received for Funding Year 2003	2,270

As of June 30, 2004, funding commitments have been issued totaling \$19.022 million. Based on information provided by the applicants, USAC now estimates Funding Year 2003 demand will be \$26.123 million. This estimate projects the current monthly demand by linear regression into future funding years. The FCC previously authorized the collection of \$28.293 million for Funding Year 2003. Based on the revised estimate of demand, USAC recommends the FCC reduce collections for Funding Year 2003 by \$2.170 million in 4Q2004.

Funding commitments made during 2Q2004 are included in Appendix RH06. Authorized funding by applicants during 2Q2004 and disbursements made to service providers through 2Q2004 are listed in Appendices RH07 and RH08, respectively.

FUNDING YEAR 2004

The Funding Year 2004 application filing window opened on March 29, 2004. Funding Year 2004 began on July 1, 2004, and will end on June 30, 2005. The total demand for Funding Year 2004 is not yet known and will not be known until the Form 466 packets are submitted and processed. USAC estimates that Funding Year 2004 demand will be approximately 58 percent higher than demand in Funding Year 2003, resulting in a Funding Year 2004 demand of \$41.510 million. This estimate projects that applicants that receive support in Funding Year 2003 will receive a similar level of support in Funding Year 2004, and projects an increase based on the large number of new applicants in Funding Year 2003 that were only eligible for support for part of the year. It also includes provision for Funding Year 2004 changes to the Rural Health Care Support Mechanism implemented by the FCC in November 2003³⁶. These include support for Internet access and changes in urban rate calculations that will increase support. The FCC previously authorized the collection of \$10.511 million for Funding Year 2004. Based on the revised estimate of demand, USAC recommends the FCC authorize the collection of \$10.333 million in 4Q2004, to meet total projected demand.

RURAL HEALTH CARE SUPPORT MECHANISM SUMMARY

The estimated 4Q2004 demand requirement for the Rural Health Care Support Mechanism is \$8.149 million. Results for 2Q2004 contributed to an underfunded condition, for which the instant filing proposes to adjust the 4Q2004 requirement. The total adjustment to the 4Q2004

³⁶ See in the *Matter of Rural Health Care Support Mechanism*, WC Docket No. 02-60, Report and Order, Order on Reconsideration, and Further Notice of Proposed Rulemaking, CC Docket Nos. 96-45, FCC 03-288 (rel. Nov. 17, 2003).

funding requirement will increase the funding needed by \$0.379 million. The detailed explanation for the adjustment is as follows:

Reason for the Prior Period Adjustment	ADJUSTMENT IN MILLIONS
The 2Q2004 billings were lower than expected.	\$0.391M
The 2Q2004 collections were also lower because of amounts billed to companies that filed for bankruptcy.	\$0.002 M
Interest earned was higher than estimated for the 2Q2004.	(\$0.008) M
Bad Debt Expense was lower than anticipated in 2Q2004	(\$0.006) M
Total Prior Period Adjustment	\$0.379 M

The total fund requirement of \$8.149 million, increased by the prior-period adjustment of \$0.379 million, increased by administrative expenses of \$0.807 million, and reduced by the deduction of projected interest of \$0.056 million, results in a total projected funding requirement for the Rural Health Care Support Mechanism for 4Q2004 of \$9.279 million.

SCHOOLS AND LIBRARIES SUPPORT MECHANISM

The following provides a status report on the Schools and Libraries Support Mechanism commitments and disbursements by funding year.

FUNDING YEAR 1998

As of June 30, 2004, Funding Year 1998 commitments and amounts authorized for payment were as follows:

FUNDING YEAR 1998					
	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%	\$ 94.8	6.8%	70.6%
Internal Connections	\$ 904.4	52.8%	\$ 798.0	57.0%	88.2%
TOTAL	\$1,714.6		\$1,400.7		81.7%

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

No new funding commitments were made to applicants during 2Q2004. At the end of the quarter, no Funding Year 1998 applications remained in the program integrity assurance (PIA) review process.

Authorized funding by applicant during 2Q2004 and cumulative payments to service providers through 2Q2004 are shown in Appendices SL01 and SL02 respectively.

FUNDING YEAR 1999

As of June 30, 2004, Funding Year 1999 commitments and amounts authorized for payment were as follows:

FUNDING YEAR 1999					
	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	\$ 635.0	29.5%	\$ 454.0	27.3%	71.5%
Internet Access	\$ 149.3	6.9%	\$ 95.8	5.8%	64.2%
Internal Connections	\$1,367.3	63.6%	\$1,112.3	66.9%	81.4%
TOTAL	\$2,151.6		\$1,662.1		77.3%

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

As of June 30, 2004, no Funding Year 1999 applications remained in the PIA review process, and no new funding commitments were issued.

Authorized funding by applicants during 2Q2004 and cumulative payments made to service providers through 2Q2004 are listed in Appendices SL03 and SL04, respectively.

FUNDING YEAR 2000

As of June 30, 2004, Funding Year 2000 commitments and amounts authorized for payment were as follows:

FUNDING YEAR 2000					
	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	\$ 718.5	34.5%	\$ 472.5	28.8%	65.8%
Internet Access	\$ 219.3	10.5%	\$ 134.8	8.2%	61.5%
Internal Connections	\$ 1,144.9	55.0%	\$1,035.4	63.0%	90.4%
TOTAL	\$ 2,082.7		\$ 1,642.7		78.9%

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

As of June 30, 2004, one potentially fundable Funding Year 2000 application remained under review, pending a decision by the FCC.

Funding commitments made to applicants during 2Q2004 are included in Appendix SL05. Authorized funding by applicants during 2Q2004 and cumulative payments made to service providers through 2Q2004 are listed in Appendices SL06 and SL07, respectively.

FUNDING YEAR 2001

As of June 30, 2004, Funding Year 2001 commitments and amounts authorized for payment were as follows:

FUNDING YEAR 2001					
	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	\$ 762.3	34.6%	\$ 517.3	31.8%	67.9%
Internet Access	\$ 225.7	10.2%	\$ 148.6	9.1%	65.8%
Internal Connections	\$1,215.8	55.2%	\$ 963.6	59.1%	79.3%
TOTAL	\$2,203.8		\$1,629.5		73.9%

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

As of June 30, 2004, six potentially fundable Funding Year 2001 applications remained in the PIA review process.

Funding commitments made to applicants during 2Q2004 are included in Appendix SL08. Authorized funding by applicants during 2Q2004 and cumulative payments made to service providers through 2Q2004 are listed in Appendices SL09 and SL10, respectively.

FUNDING YEAR 2002

As of June 30, 2004, Funding Year 2002 commitments and amounts authorized for payment were as follows:

FUNDING YEAR 2002					
	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	\$ 860.1	39.2%	\$ 576.7	42.0%	67.1%
Internet Access	\$ 230.5	10.5%	\$ 152.3	11.0%	66.1%
Internal Connections	\$ 1,104.3	50.3%	\$ 645.3	47.0%	58.4%
TOTAL	\$ 2,194.9		\$1,374.3		62.6%

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

The SLD continues to review and process 80 potentially fundable applications and will issue Funding Commitment Decision Letters (FCDLs) as reviews are completed.

Funding commitments made to applicants during 2Q2004 are included in Appendix SL11. Authorized funding by applicants during 2Q2004 and cumulative payments to service providers through 2Q2004 are listed in Appendices SL12 and SL13, respectively.

FUNDING YEAR 2003

As of June 30, 2004, Funding Year 2003 commitments and amounts authorized for payment were as follows:

FUNDING YEAR 2003					
	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	\$ 878.9	33.6%	\$ 199.3	41.3%	22.7%
Internet Access	\$ 241.4	9.2%	\$ 95.3	19.8%	39.5%
Internal Connections	\$1,495.7	57.2%	\$ 187.9	38.9%	12.6%
TOTAL	\$2,616.0		\$ 482.5		18.4%

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

As of June 30, 2004, 38,762 applications, over 97 percent of all applications certified for processing, had received at least one FCDL, and 1,116 remained in the PIA review process.

In the FCC’s *Schools and Libraries Third Report and Order* released on December 23, 2003³⁷, the Commission directed USAC to carry forward \$420 million of unused prior year funds to increase the amount of funds available for pending Funding Year 2003 requests. Following FCC approval, USAC has issued funding commitments for approved internal connections requests down to the 70 percent discount level.

Funding commitments made to applicants during 2Q2004 are included in Appendix SL14. Authorized funding by applicants during 2Q2004 and cumulative payments to service providers through 2Q2004 are listed in Appendices SL15 and SL16, respectively.

³⁷ See *Schools and Libraries Third Report and Order*.

FUNDING YEAR 2004

As of June 30, 2004, Funding Year 2004 commitments were as follows:

FUNDING YEAR 2004					
	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	\$213.4	78.7%			
Internet Access	\$ 57.9	21.3%			
Internal Connections	\$ 0.0	0.0%			
TOTAL	\$271.3				

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

As of June 30, 2004, 22,981 applications, about 58 percent of all applications certified for processing, had received at least one FCDL. Funding commitments issued to applicants during 2Q2004 are listed in Appendix SL17.

On June 28, 2004, the FCC released a public notice announcing that \$150 million in unused Funding Year 2001 funds would be carried forward to increase disbursements to schools and libraries in Funding Year 2004.

SCHOOLS AND LIBRARIES SUPPORT MECHANISM SUMMARY

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

Consistent with the Commission's direction in the *Schools and Libraries First Report and Order*, the FCC used a total of \$852.116 million of non-disbursed Funding Years 1999 and 2000 collections to offset Universal Service Fund collections for 3Q2002, 4Q2002, and 1Q2003.³⁸

In the *Schools and Libraries Third Report and Order*, the Commission amended its rules so that available unused funds from prior years would be carried forward on an annual basis in the second quarter of each calendar year for use in the next full funding year, and to codify the requirement that USAC file quarterly estimates of unused funds from prior funding years when it submits its projection of Schools and Libraries program demand for the upcoming quarter.³⁹ The Commission modified the schedule to implement the process for Funding Year 2003 and directed USAC to carry forward \$420 million of unused prior year funds for use in Funding Year 2003.⁴⁰ In accordance with the *Third Report and Order*, the FCC announced that \$150 million in unused funds from Funding Year 2001 would be carried forward to increase disbursements to schools and libraries in Funding Year 2004.⁴¹

The following sections provide information about use of funds for each funding year, including adjustments made by the Commission, and USAC's projections of unused funds from prior funding years available for carrying forward to increase disbursements to schools and libraries in Funding Year 2005.

Funding Year 1998 True-Up

As of June 30, 2004, \$1,400.653 million of Funding Year 1998 support had been disbursed.

The estimated Funding Year 1998 balance is based on the following:

³⁸ 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*).

³⁹ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Third Report and Order and Second Further Notice of Proposed Rulemaking, FCC 03-323 (December 23, 2003) (*Schools and Libraries Third Report and Order*).

⁴⁰ *Id.*

⁴¹ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Carryover of Unused Funds for Funding Year 2004, DA 04-1848 (June 28, 2004).

FUNDING YEAR 1998	Adjustments in Millions
Amount Authorized and Actually Collected	\$ 1,925.000 M
Amount Disbursed	(1,400.653) M
Administrative Expenses (21 months)	(41.791) M
Amount Applied to Adjust 2000, 2001, and 2002 Collections	(477.160) M
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(5.396) M
Estimated Remaining Balance	\$0.000 M

USAC estimates that a contingency amount of \$5.396 million should be reserved to pay appeals pending at the FCC and to pay invoices on funding requests that may be granted extended invoice deadlines by the Commission. 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 Funding Year 2005.

Funding Year 1999 True-Up

As of June 30, 2004, \$1,662.057 million of Funding Year 1999 support had been disbursed.

The estimated remaining Funding Year 1999 balance is based on the following:

FUNDING YEAR 1999	Adjustments in Millions
Amount Authorized and Actually Collected	\$ 2,250.000 M
Amount Disbursed	(1,662.057) M
Administrative Expenses	(32.316) M
Amount Applied to Adjust 3Q2002 Collections	(256.160) M
Amount Applied to Adjust 4Q2002 Collections	(212.927) M
Amount Carried Forward to Funding Year 2003	(50.000) M
Potential Additional Disbursements on Committed FRNs	(5.075) M
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(11.465) M
Estimated Remaining Balance	\$20.000 M

USAC’s projection of the remaining Funding Year 1999 funds includes an estimate of funds needed to pay additional disbursements on committed funding requests and a contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission action. Based on these figures, USAC estimates that \$20

million of Funding Year 1999 funds is available to carry forward to increase disbursements to schools and libraries in Funding Year 2005.

Funding Year 2000 True-Up

As of June 30, 2004, \$1,642.705 million of Funding Year 2000 support had been disbursed.

The estimated remaining Funding Year 2000 balance is based on the following:

FUNDING YEAR 2000	Adjustments in Millions
Amount Authorized and Actually Collected	\$ 2,250.000 M
Amount Disbursed	(1,642.705) M
Administrative Expenses	(32.235) M
Amount Applied to Adjust 4Q2002 Collections	(136.849) M
Amount Applied to Adjust 1Q2003 Collections	(246.180) M
Amount Carried Forward to Funding Year 2003	(160.000) M
Potential Additional Disbursements on Committed FRNs	(10.787) M
Remaining Uncommitted Requests	(1.658) M
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(9.586) M
Estimated Remaining Balance	\$10.000 M

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, as well as a contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission action. Based on these figures, USAC estimates that \$10 million of Funding Year 2000 funds is available to carry forward to increase disbursements to schools and libraries in Funding Year 2005.

Funding Year 2001 True-Up

As of June 30, 2004, \$1,629.574 million of Funding Year 2001 support had been disbursed.

The estimated remaining Funding Year 2001 balance is based on the following:

FUNDING YEAR 2001	Adjustments in Millions
Amount Authorized and Actually Collected	\$ 2,250.000 M
Amount Disbursed	(1,629.574) M
Administrative Expenses	(30.559) M

FUNDING YEAR 2001	Adjustments in Millions
Amount Carried Forward to Funding Year 2003	(210.000) M
Amount Carried Forward to Funding Year 2004	(150.000) M
Potential Additional Disbursements on Committed FRNs	(90.857) M
Remaining Uncommitted Requests	(40.786) M
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(48.224) M
Estimated Remaining Balance	\$50.000 M

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, as well as a contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission action. Based on these figures, USAC estimates that \$50 million of Funding Year 2001 funds is available to carry forward to increase disbursements to schools and libraries in Funding Year 2005.

Funding Year 2002 True-Up

As of June 30, 2004, \$1,374.296 million of Funding Year 2002 support had been disbursed.

The estimated remaining Funding Year 2002 balance is based on the following:

FUNDING YEAR 2002	Adjustments in Millions
Amount Authorized and Actually Collected	\$ 2,250.000 M
Amount Disbursed	(1,374.296) M
Administrative Expenses (unaudited)	(38.531) M
Potential Additional Disbursements on Committed FRNs	(367.917) M
Remaining Uncommitted Requests	(69.728) M
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(299.528) M
Estimated Remaining Balance	\$100.000 M

USAC’s projection of the remaining Funding Year 2002 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended

invoice deadlines pursuant to Commission action. Based on these figures, USAC estimates that \$100 million of Funding Year 2002 funds is available to carry forward to increase disbursements to schools and libraries in Funding Year 2005.

4Q2004 Demand Estimate and Contribution Requirement

Based on the level of applicant demand in Funding Year 2004, USAC requests authority to collect an amount to provide \$562.500 million for 4Q2004, which is one-quarter of the \$2.250 billion annual cap on federal universal service support for schools and libraries. Results for 2Q2004 contributed to an over-funded condition for which the instant filing proposes to adjust the 4Q2004 requirements. The total adjustment to the 4Q2004 fund requirement based on actual results will decrease the funding needed by \$10.994 million. The explanations for the adjustment are described below:

Reason For The Prior Period Adjustment	Adjustment In Millions
The 2Q2004 billings were higher than expected due to higher revenues reported by contributors in their quarterly revenue projections and revisions to prior reporting periods.	\$ (8.711) M
Some 2Q2004 collections were lower due to uncollectible amounts billed to carriers in bankruptcy	0.598 M
Interest earned was higher than projected	(0.679) M
Bad debt expense was lower than anticipated	(2.202) M
Total Prior Period Adjustment	\$ (10.994) M

The fund requirement of \$562.500 million, which includes administrative expenses of \$13.432 million, decreased by the prior-period adjustment of \$10.994 million, and reduced by the projected interest of \$10.305 million, results in a projected collection requirement of \$541.201 million for the Schools and Libraries Support Mechanism for 4Q2004.

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).⁴² Based on these filings, and projected demand the FCC establishes the contribution factor for the upcoming quarter. Telecommunications providers qualifying for the *de minimis* exemption from contribution requirements need not complete the Form 499-Q. 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 June 7, 2004, the Commission set the 3Q2004 contribution factor at 8.9%.

Approximately 5,381 FCC Forms 499-Q were distributed to carriers in early July 2004. Interstate telecommunications service providers are required to complete this form, reporting October - December 2004 projected revenue information, and return it by August 2, 2004.

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 has been able to 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. USAC works closely with the FCC to obtain compliance from carriers not remitting required contributions, and provides required documentation monthly to assist the FCC in pursuing non-payers. USAC also assists the FCC 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

⁴² 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.

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.

USAC has held preliminary meetings with the FCC regarding the implementation of the FCC's "Red Light Rule," an extension of the Debt Collection Improvement Act. The Red Light Rule requires federal agencies to withhold benefits to any debtor that has an unresolved delinquency with any federal agency. At this time, the scope of the October 1, 2004 launch is focused on the FCC and the USF; Telecommunications Relay Services (TRS); North American Numbering Plan Administration (NANPA); and Local Number Portability (LNP). USAC is carefully evaluating its current operations to ensure seamless integration of any new processes that may be required in order to meet the Commission's requirements.

CONCLUSION

At their July 19, 2004, meeting, USAC's High Cost & Low Income Committee, Rural Health Care Committee, and Schools & Libraries Committee passed resolutions authorizing the 4Q2004

support mechanism funding requirements described herein. At its July 20, 2004, meeting, the USAC Board of Directors adopted a resolution authorizing the inclusion of the 4Q2004 administrative expenses and 4Q2004 funding base in this report to the Commission.

Respectfully submitted,

UNIVERSAL SERVICE
ADMINISTRATIVE COMPANY

Lisa M. Zaina, Chief Executive Officer
D. Scott Barash, Vice President and General Counsel
Mark Carmichael, Vice President of Finance
2000 L Street N.W., Suite 200
Washington, DC 20036-4924
Voice: 202.776.0200
Fax: 202.776.0080

August 2, 2004