

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Federal Universal Service Support Mechanisms Fund Size
Projections for the Third Quarter 2005

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

May 2, 2005

TABLE OF CONTENTS

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

TABLE OF CONTENTS

<i>3Q2005 Demand Estimate and Contribution Requirement</i>	<i>29</i>
CONTRIBUTION BASE	31
OPERATIONS	31
CONCLUSION.....	33

APPENDICES

HIGH COST

High Cost Support Projected by State by Study Area – 3Q2005	HC01
High Cost Support Projected by State – 3Q2005	HC02
Rural Study Areas with Competition – 3Q2005.....	HC03
Disaggregated Per Line Support by Zone – 3Q2005	HC04
High Cost Loop Support Projected by State by Study Area – 3Q2005	HC05
Safety Net Additive Support – 3Q2005.....	HC06
Safety Valve Support – 3Q2005.....	HC07
Local Switching Support Projected by State by Study Area – 3Q2005	HC08
Interstate Common Line Support Projected by State by Study Area – 3Q2005.....	HC09
Interstate Common Line Support Projected per Line – 3Q2005	HC10
Interstate Common Line Support Projected by State – 3Q2005.....	HC11
Interstate Access Support Projected by State by Study Area – 3Q2005	HC12
Interstate Access Support Projected per Line – 3Q2005.....	HC13
Interstate Access Support Projected by State – 3Q2005	HC14
High Cost Model Support Projected by Wire Center – 3Q2005	HC15
High Cost Model Support Projected by State – 3Q2005	HC16
High Cost Model Support Projected by Study Area – 3Q2005	HC17
CETC Reported Lines by Incumbent Study Area	
High Cost Loop Support – 3Q2005	HC18
CETC Reported Lines by Incumbent Study Area	
Interstate Common Line Support – 3Q2005	HC19
CETC Reported Lines by Incumbent Study Area	
Interstate Access Support – 3Q2005.....	HC20
CETC Reported Lines by Incumbent Study Area	
High Cost Model Support – 3Q2005	HC21
Local Switching Support by State by Study Area	
2003 True-up – 3Q2005	HC22
Interstate Common Line Support by State by Study Area	
2003 True-up – 3Q2005	HC23
Interstate Common Line Support	
2003 True-up – 3Q2005	HC24

LOW INCOME

Low Income Support Projected by State by Study Area – 3Q2005	LI01
Low Income Support Available by State – 3Q2005.....	LI02
Eligible Telecommunications Carriers – 1Q2005	LI03
Quarterly Low Income Support Disbursement Amounts by Company – 1Q2005.....	LI04

APPENDICES

Annual Low Income Support Amounts by State and Company Through 4Q2004.....	LI05
Historical Data: Support Amounts Claimed by ETCs Each Month January 1998 through March 2005	LI06
Low Income Support Distributed by State in 2001 and through 4Q2004	LI07
Lifeline Subscribers by State or Jurisdiction	LI08
Link Up Beneficiaries by State or Jurisdiction.....	LI09
Tier 1 Amounts Reported by All Companies 4Q2004.....	LI10

RURAL HEALTH CARE FUNDING

Funding Year 2002 Authorizations – 1Q2005.....	RH01
Funding Year 2002 Disbursements to Service Providers through 1Q2005.....	RH02
Funding Year 2003 Commitments – 1Q2005.....	RH03
Funding Year 2003 Authorizations – 1Q2005.....	RH04
Funding Year 2003 Disbursements to Service Providers through – 1Q2005.....	RH05
Funding Year 2004 Commitments – 1Q2005.....	RH06
Funding Year 2004 Authorizations – 1Q2005.....	RH07
Funding Year 2004 Disbursements to Service Providers through 1Q2005.....	RH08

SCHOOLS AND LIBRARIES

Funding Year 1999 Authorizations – 1Q2005	SL01
Funding Year 1999 Disbursements to Service Providers through 1Q2005	SL02
Funding Year 2000 Commitments – 1Q2005.....	SL03
Funding Year 2000 Authorizations – 1Q2005	SL04
Funding Year 2000 Disbursements to Service Providers through 1Q2005	SL05
Funding Year 2001 Authorizations – 1Q2005	SL06
Funding Year 2001 Disbursements to Service Providers through 1Q2005	SL07
Funding Year 2002 Commitments – 1Q2005.....	SL08
Funding Year 2002 Authorizations – 1Q2005	SL09
Funding Year 2002 Disbursements to Service Providers through 1Q2005	SL10
Funding Year 2003 Commitments – 1Q2005.....	SL11
Funding Year 2003 Authorizations – 1Q2005	SL12
Funding Year 2003 Disbursements to Service Providers through 1Q2005	SL13
Funding Year 2004 Commitments – 1Q2005.....	SL14
Funding Year 2004 Authorizations – 1Q2005.....	SL15
Funding Year 2004 Disbursements to Service Providers through 1Q2005.....	SL16

APPENDICES

OTHER APPENDICES

Universal Service Administrative Company 3Q2005 Estimated Budget.....	M01
Fund Size Projections for 3Q2005.....	M02
Schedule of USF Receipts, Interest Income, and Cash Outlays:	
January 1 through March 31, 2005 – Cash Basis	M03
January 1 through March 31, 2005 – Accrual Basis.....	M04

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

**FEDERAL UNIVERSAL SERVICE SUPPORT MECHANISMS
FUND SIZE PROJECTIONS FOR THE THIRD QUARTER 2005**

INTRODUCTION

The Universal Service Administrative Company (USAC) submits the Federal Universal Service Support Mechanisms fund size and administrative cost projections for the third quarter of calendar year 2005 (3Q2005), 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 USAC's methodology for allocating costs submitted to the Commission.⁵ 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.⁶

USAC projects a 3Q2005 consolidated budget of \$34.901 million. Direct costs for all support mechanisms total \$26.675 million.⁷ The detail for each mechanism is provided below. Joint and common costs (including billing, collection, and disbursement activities) are allocated to each support mechanism as detailed below based on the current allocation methodology on file with the Commission.

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 *Id.*

⁷ This includes \$0.0850 million for High Cost Support Mechanism data collection performed by the National Exchange Carrier Association (NECA) pursuant to 47 CFR Part 36. Although USAC is required to pay for the data collection, USAC does not have the ability to 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).

3rd Quarter 2005 Administrative Expenses (millions)

USF Mechanism	Direct Costs	USAC Common	Total
High Cost	6.785	4.656	11.441
Low Income	1.451	0.847	2.298
Rural Health Care	1.007	0.041	1.048
Schools & Libraries	17.432	2.682	20.114
Total	26.675	8.226	34.901

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 pursuant to 47 CFR Part 36.⁸ 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.⁹ NECA’s projected 3Q2005 expenses to perform these universal service-related functions are \$0.085 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.¹⁰

Appendix M01 details USAC’s estimated administrative expenses budget for 3Q2005. Appendix M02 details the fund size projections for 3Q2005.

⁸ 47 C.F.R. §§ 36.611-36.613.

⁹ 47 C.F.R. § 69.603.

¹⁰ See Letter from D. Scott Barash, USAC, to Irene Flannery, FCC (Dec. 10, 1999).

INTEREST INCOME PROJECTION

For 3Q2005, USAC projects interest income of approximately \$0.842 million for the High Cost Support Mechanism, \$0.389 million for the Low Income Support Mechanism, \$0.128 million for the Rural Health Care Support Mechanism and \$18.320 million for the Schools and Libraries Support Mechanism. USAC projects total interest of \$19.679 million for 3Q2005. As in previous quarters, the projected interest income is being included as an offset to the 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 March 31, 2005, on a cash basis, USAC has disbursed \$1,450.0 million in universal service support to service providers in 2005: \$927.7 million in High Cost support, \$198.5 million in Low Income support, \$2.4 million in Rural Health Care support, and \$321.4 million in Schools and Libraries support. On a cash basis, the total cash balance available as of March 31, 2005 to the universal service support mechanisms was \$3,589.2 million.

On an accrual basis for the same period, USAC had a fund balance of \$3,797.1 million.

Appendices M03 and M04 provide the 2005 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.¹¹ Qualified ETCs are eligible to receive funds from the High Cost Support Mechanism,¹² 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 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.

Count of 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	761	482	1243	105	1348	181	1529
Non-Rural	5	1	6	80	86	148	234
Total	766	483	1249	185	1434	329	1763

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 ETC¹³ 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 3Q2005 for each state or territory. HC03 displays rural

¹¹ See 47 U.S.C. § 214(e), 47 C.F.R. § 54.201.

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

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

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, 2003.¹⁴ 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 increased for rural companies due to the *RTF Order*.¹⁵

Rural HCL support for calendar year 2005 will be less than the level of payments for 2004 because of a negative rural growth factor of -0.0598 percent. Rural HCL support for calendar year 2005, therefore, is capped at \$1,055.197 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% 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% TPIS trigger.¹⁷ For 3Q2005, projected Safety Net Additive support is \$4.075 million.

Also pursuant to the *RTF Order*, Safety Valve support is support above the HCL cap for rural carriers that acquire high cost exchanges and make substantial post-transaction investments to

¹⁴ Universal Service Fund (USF) 2003 Submission of 2002 Study Results (filed October 1, 2003) (*USF Data Submission*).

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, 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*).

¹⁶ See *RTF Order* at ¶¶ 77 to 90.

¹⁷ See 47 C.F.R. § 36.605(c).

enhance network infrastructure.¹⁸ Safety Valve support is 50 percent of the difference between the index year HCL support amount and the HCL support amount in subsequent years.¹⁹ Safety Valve support is subject to an overall cap of no more than five percent of the HCL fund in any given year.²⁰ For 3Q2005, projected Safety Valve support is \$0.835 million.²¹

For 3Q2005, projected HCL support is \$320.012 million. Of this amount, \$264.072 million is associated with rural carriers and \$55.940 million is associated with competitive ETCs. Furthermore, 3Q2005 Safety Net Additive support is projected to be \$4.075 million and Safety Valve support is projected to be \$0.835 million. USAC projects, therefore, that \$324.922 million will be required for 3Q2005. Based on these projections, total 2005 HCL support is estimated to be \$1,292.800 million.

Appendix HC05 displays projected monthly HCL support payments by study area for 3Q2005 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 3Q2005. HCL projected support for non-rural carriers receiving High Cost support is superceded by the projections listed in HC15, HC16, and HC17. Appendix HC18 displays competitive ETC lines reported for HCL support by incumbent study area. Appendix HC07 displays Safety Valve Support for 3Q2005.

¹⁸ See *RTF Order* at ¶¶ 91 to 119.

¹⁹ See 47 C.F.R. §54.305(c). In an order released on January 10, 2005, the FCC amended Section 54.305 so that it does not apply to transfers of exchanges between non-rural carriers after the phase-down of interim hold harmless support. See *Federal-State Joint Board on Universal Service, National Telephone Cooperative Association Petition for Reconsideration*, CC Docket No. 96-45, Order and Order on Reconsideration, FCC 05-1 (rel. Jan. 10, 2005), at ¶ 9. In addition, the FCC amended Section 54.305 to provide that rural carriers that acquire high cost exchanges may receive Safety Valve support for the investment made in the first year of operating the acquired exchanges. *Id.* at ¶ 10.

²⁰ See 47 C.F.R. § 54.305(c).

²¹ This number includes retroactive support for 2003 and 2004, as well as projected support for 2Q2005.

Local Switching Support (LSS)

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

For 3Q2005, LSS for companies participating in the Traffic Sensitive Pool is projected to be \$56.699 million for cost study areas and \$17.196 million for average schedule study areas. LSS for the non-Pool study areas is projected to be \$19.915 million for cost study areas and \$3.717 million for average schedule study areas for 3Q2005. In addition, 3Q2005 LSS for competitive ETCs is projected to be \$21.314 million. USAC projects, therefore, that \$118.841 million will be required for 3Q2005. Based on these projections, total 2005 LSS is estimated to be \$471.354 million.

Individual study area LSS projections per month are displayed in Appendix HC08. Final 2003 LSS distributions by study area are displayed in Appendix HC22.

INTERSTATE COMMON LINE SUPPORT (ICLS) MECHANISM

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.²⁴ Interstate Common Line Support (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.

²² See 47 C.F.R. § 54.301.

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

²⁴ 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*).

For 3Q2005, ICLS for incumbent rate-of-return carriers is projected to be \$241.768 million. In addition, 3Q2005 ICLS for competitive ETCs is projected to be \$70.169 million. USAC projects, therefore, that \$311.937 million will be required for 3Q2005. Based on these projections, total 2005 ICLS is estimated to be \$1,193.449 million.

Appendices HC09, HC10, and HC11 detail USAC's 3Q2005 projection 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. Appendix HC23 reflects the 2003 True-up for the Interstate Common Line Support by State by Study Area and HC24 reflects the 2003 True-up per Line for the Interstate Common Line Support.

INTERSTATE ACCESS SUPPORT (IAS) MECHANISM

Interstate Access Support (IAS) helps offset interstate access charges for price cap companies.²⁵ The *Interstate Access Order* targets the support mechanism at \$650 million annually for five years.²⁶

The IAS projected industry-wide totals for 3Q2005 are \$44.480 million for rural carriers, \$106.136 million for non-rural carriers, \$40.006 million for competitive ETCs. USAC projects, therefore, that \$190.622 million will be required for 3Q2005. Based on these projections, total annual IAS is estimated to be \$758.476 million.

Appendices HC12, HC13, and HC14 detail USAC's 3Q2005 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,

²⁵ 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*).

²⁶ See *Interstate Access Order* at para. 201.

Maine, Mississippi, Montana, Nebraska, South Dakota, Vermont, West Virginia, and Wyoming) are eligible to receive forward-looking support in 2005.²⁷

For 3Q2005, USAC projects that \$72.572 million will be required for HCM support (\$55.246 million for incumbent non-rural carriers and \$17.326 million for competitive ETCs). USAC projects, therefore, that \$72.572 million of HCM support will be required for 3Q2005. Based on these projections, total 2005 forward-looking support is estimated to be \$291.151 million.

Appendices HC15, HC16, and HC17 detail USAC's 3Q2005 projection of non-rural forward-looking support by wire center, state, and study area, respectively. Appendix HC21 displays competitive ETC lines reported for HCM support by incumbent study area.

HIGH COST (HC) SUPPORT MECHANISM SUMMARY

As discussed above, USAC estimates 3Q2005 funding requirement as follows: \$324.922 million for HCL support; \$118.841 million for LSS; \$311.937 million for ICLS; \$190.622 million for IAS; and \$72.572 million for HCM for a total of \$1,018.894 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.²⁸ 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 1Q2005 contributed to an over-funded condition, for which the instant filing proposes to adjust the 3Q2005 requirements. The total adjustment to the 3Q2005 fund requirement

²⁷ 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).

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

based on actual results will decrease the funding needed by \$71.382 million. The detailed explanations for the adjustment are described below.

Reason for the Prior Period Adjustment	Adjustment in Millions
The 1Q2005 billings were higher than expected due to higher revenues reported by contributors in their quarterly revenue projection and annual true-up filings	(11.329) M
Distributions were lower than expected in 1Q2005.	(48.766) M
Interest earned was higher than estimated for 1Q2005.	(0.613) M
Bad debt expense was lower than anticipated	(10.674) M
Total Prior Period Adjustment	\$ (71.382) M

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

The total fund requirement of \$1,018.894 million, decreased by the prior-period adjustment of \$71.382 million, increased by administrative costs of \$11.441 million, and reduced by the projected interest of \$0.842 million, results in a total projected funding requirement for the High Cost Support Mechanism for 3Q2005 of \$958.111 million.

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

LOW INCOME (LI) SUPPORT MECHANISM

LIFELINE SUPPORT

All ETCs must offer Lifeline support to qualified low-income consumers.²⁹ 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.³⁰ Lifeline support provides funding from the interstate jurisdiction of up to \$10.00 per low-income subscriber per month. This can

²⁹ See 47 C.F.R. § 54.201.

³⁰ 47 C.F.R. §§ 54.401 - 54.417.

consist of a baseline amount of between \$3.50 and \$6.50 (Tier One),³¹ 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).³² 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).³³

For 3Q2005, USAC projects that \$193.421 million will be required for Lifeline support. Based on this projection, total 2005 Lifeline support is estimated to be \$753.398 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.³⁴

For 3Q2005, USAC projects that \$9.048 million will be required for Link Up support. Based on this projection, total 2005 Link Up support is estimated to be \$35.701 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

³¹ 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).

³² 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.

³³ 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.

³⁴ *Tribal Order* at para. 59.

service to a given customer.³⁵ 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.³⁶ For 3Q2005, USAC projects that \$1.515 million will be required for TLS. Based on this projection, total 2005 TLS is estimated to be \$5.711 million.

LOW INCOME SUPPORT MECHANISM SUMMARY

As discussed above, the estimated 3Q2005 funding requirement for the Low Income Support Mechanism is as follows: \$193.421 million for Lifeline, \$9.048 million for Link Up, and \$1.515 million for Toll Limitation Service, for a total of \$203.984 million. Results of 1Q2005 contributed to an under-funded condition, for which the instant filing proposes to adjust the 3Q2005 requirements. The total adjustment to the 3Q2005 funding requirement based on actual results will increase the funding needed by \$1.251 million. The detailed explanations for the adjustment are described below.

Reason for the Prior Period Adjustment	Adjustment in Millions
The 1Q2005 billings were higher than expected due to higher revenues reported by contributors in their quarterly revenue projections and annual true-up filings.	(2.425) M
Distributions were higher than expected in 1Q2005.	5.706 M
Interest earned was more than estimated for 1Q2005.	(0.198) M
Bad debt expense was lower than anticipated	(1.832) M
Total Prior Period Adjustment	\$1.251 M

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

The total fund requirement of \$203.984 million, increased by the prior-period adjustment of \$1.251 million, increased for administrative expenses of \$2.299 million, and the deduction of the projected interest income of \$0.389 million results in a total projected funding requirement for the Low Income Support Mechanism for 3Q2005 of \$207.145 million.

³⁵ 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).

³⁶ 47 C.F.R. §§ 54.400(b), (c).

Appendix LI01 provides projected Low Income support amounts by state by study area for 3Q2005. Appendix LI02 provides detail on Low Income funding amounts available in each of the states and territories for 3Q2005. Appendix LI03 provides a list of eligible telecommunications carriers (ETCs) for 1Q2005. Appendix LI04 provides detail on quarterly company-specific Low Income support disbursement amounts for 1Q2005. Appendix LI05 provides detail on annual company-specific Low Income support amounts through 4Q2004. Appendix LI06 provides historical data of monthly support amounts claimed by ETCs from January 1998 through March 2005. Appendix LI07 provides detail on Low Income support distributed by state for 2001 through 4Q2004. 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 4Q2004.

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. USAC projects that Funding Year 2000 demand for support will total approximately \$10.314 million based on information provided by the applicants as of March 31, 2005. 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 collections or to decrease collections by the \$0.002 million that has not been disbursed when USAC has completed processing appeals.

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 collections or to 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 have been approved.

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 March 31, 2005, 2,785 Form 466/468 packets had been received. The status of those packets is provided below.

FUNDING YEAR 2002	
Packets Completely Processed	2,589
Denied	93
Withdrawn by Applicant	103
Total Packets Received for Funding Year 2002	2,785

As of March 31, 2005, funding commitments have been issued totaling \$23.369 million. Based on information provided by the applicants, USAC now estimates Funding Year 2002 demand will be \$22.293 million. The FCC previously authorized the collection of \$22.293 million for Funding Year 2002 so no further action is required at this time.

Authorizations and cumulative disbursements made through 1Q2005 are included in Appendices RH01 and RH02 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. As of March 31, 2005, 3,172 Form 466 packets had been received. The status of those packets is provided below.

FUNDING YEAR 2003	
Packets Completely Processed	2,871
Packets Awaiting Supervisory Approval Only	0
Withdrawn by Applicant	231
Denied	56
Incomplete – Require Forms and/or Clarification	14
Total Packets Received for Funding Year 2003	3,172

As of March 31, 2005, funding commitments have been issued totaling \$25.983 million. Based on information provided by the applicants, USAC now estimates Funding Year 2003 demand will be \$25.313 million. The FCC previously authorized the collection of \$26.658 million for Funding Year 2003. Based on the revised estimate of demand, USAC recommends the FCC decrease collections for Funding Year 2003 by \$1.345 million in 3Q2005.

Funding commitments made during 1Q2005 are included in Appendix RH03 and authorizations by applicant are listed in Appendix RH04. Disbursements made to service providers through 1Q2005 are listed in Appendix RH05.

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. As of March 31, 2005, 2,793 Forms 465 have been posted. In addition, as of March 31, 2005, 1,981 Form 466 packets have been received. The status of Funding Year 2004 packets is provided below.

FUNDING YEAR 2004	
Packets Completely Processed	1,029
Packets Awaiting Supervisory Approval Only	89
Complete – Ready to Process	120
Withdrawn by Applicant	88
Denied	15
Incomplete – Require Forms and/or Clarification	640
Total Packets Received for Funding Year 2004	1,981

As of March 31, 2005, funding commitments have been issued totaling \$5.843 million. Based on information provided by the applicants as of March 31, 2005, USAC estimates Funding Year 2004 demand will be \$29.991 million. The FCC previously authorized the collection of \$35.867 million for Funding Year 2004. Based on the revised estimate of demand, USAC recommends the FCC decrease collections by \$5.876 million in 3Q2005 to meet total projected demand.

Funding Year 2004 commitments made during 1Q2005 are listed in Appendix RH06 while funding authorizations for the same period are listed in Appendix RH07. Funding Year 2004 disbursements to service providers through 1Q2005 are listed in Appendix RH08.

RURAL HEALTH CARE SUPPORT MECHANISM SUMMARY

The estimated 3Q2005 demand requirement for the Rural Health Care Support Mechanism is \$4.419 million. The 3Q2005 demand requirement will be adjusted by -\$1.047 million for the 1Q2005 financial results. The detailed explanation for the adjustment is as follows:

Reason for the Prior Period Adjustment	Adjustment in Millions
The 1Q2005 billings were higher than expected due to higher revenues reported by contributors in their quarterly revenue projections and annual true-up filings.	(0.475) M
Interest earned was higher than estimated for the 1Q2005.	(0.161) M
Bad Debt Expense was lower than anticipated in 1Q2005	(0.411) M
Total Prior Period Adjustment	(\$1.047) M

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

The total fund requirement of \$4.419 million, decreased by the prior-period adjustment of \$1.047 million, increased by administrative expenses of \$1.048 million, and decreased by projected interest income of \$0.127 million results in a total projected funding requirement for the Rural Health Care Support Mechanism for 3Q2005 of \$4.293 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, as of March 31, 2005.

FUNDING YEAR 1998

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%	\$ 507.8	36.3%	75.1%
Internet Access	\$ 134.2	7.8%	\$ 94.9	6.8%	70.7%
Internal Connections	\$ 904.2	52.7%	\$ 798.0	57.0%	88.3%
TOTAL	\$1,714.4		\$1,400.7		81.7%

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

As of March 31, 2005 no Funding Year 1998 applications remained under review. Funding Year 1998 began on January 1, 1998 and ended on June 30, 1999.

No payments were made to service providers during 1Q2005.

FUNDING YEAR 1999

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	\$ 634.9	29.5%	\$ 453.9	27.3%	71.5%
Internet Access	\$ 149.3	6.9%	\$ 95.8	5.8%	64.2%
Internal Connections	\$1,366.0	63.5%	\$1,112.2	66.9%	81.4%
TOTAL	\$2,150.1		\$1,662.0		77.3%

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

As of March 31, 2005 no Funding Year 1999 applications remained under review. Funding Year 1999 began on July 1, 1999, and ended on June 30, 2000.

Authorized funding by applicant during 1Q2005 and cumulative payments made to service providers through 1Q2005 are listed in Appendices SL01 and SL02, respectively.

FUNDING YEAR 2000

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	\$ 717.9	34.6%	\$ 479.1	29.0%	66.8%
Internet Access	\$ 219.0	10.6%	\$ 134.8	8.2%	61.5%
Internal Connections	\$ 1,136.9	54.8%	\$1,035.4	62.8%	91.1%
TOTAL	\$ 2,073.8		\$1,649.4		79.5%

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

As of March 31, 2005, one potentially fundable Funding Year 2000 application remained under review pending a decision by the FCC. Funding Year 2000 began on July 1, 2000, and ended on June 30, 2001.

Funding commitments made to applicants during 1Q2005 are included in Appendix SL03. Authorized funding by applicant during 1Q2005 and cumulative payments made to service providers through 1Q2005 are listed in Appendices SL04 and SL05, respectively.

FUNDING YEAR 2001

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	\$ 761.2	34.6%	\$ 518.7	31.3%	68.2%
Internet Access	\$ 225.4	10.2%	\$ 149.1	9.0%	66.2%
Internal Connections	\$1,215.0	55.2%	\$ 991.2	59.8%	81.6%
TOTAL	\$2,201.6		\$1,659.0		75.4%

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

As of March 31, 2005, four potentially fundable Funding Year 2001 applications remained under review. Funding Year 2001 began on July 1, 2001, and ended on June 30, 2002.

Authorized funding by applicant during 1Q2005 and cumulative payments made to service providers through 1Q2005 are listed in Appendices SL06 and SL07, respectively.

FUNDING YEAR 2002

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	\$ 854.7	39.2%	\$ 588.5	40.3%	68.9%
Internet Access	\$ 245.2	11.3%	\$ 158.2	10.8%	64.5%
Internal Connections	\$ 1,080.0	49.6%	\$ 713.9	48.9%	66.1%
TOTAL	\$ 2,179.9		\$1,460.7		67.0%

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

As of March 31, 2005, USAC continues to review and process the remaining 63 potentially fundable Funding Year 2002 applications that were not included in a regular commitment wave (including 25 applications which were re-filed pursuant to the FCC’s *Ysleta Order*) and will issue Funding Commitment Decision Letters (FCDLs) on an individual basis.³⁷ Funding Year 2002 began on July 1, 2002, and ended on June 30, 2003.

Funding commitments made to applicants during 1Q2005 are included in Appendix SL08. Authorized funding by applicants during 1Q2005 and cumulative payments to service providers through 1Q2005 are listed in Appendices SL09 and SL10, respectively.

³⁷ Request for Review of the Decision of the Universal Service Administrator by Ysleta Independent School District, CC Docket Nos. 96-45 and 97-21, Order, 18 FCC Rcd 26407 (2003) (*Ysleta Order*).

FUNDING YEAR 2003

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	\$ 871.9	33.1%	\$ 551.0	42.4%	63.2%
Internet Access	\$ 268.2	10.2%	\$ 173.5	13.4%	64.7%
Internal Connections	\$1,494.6	56.7%	\$ 575.1	44.3%	38.5%
TOTAL	\$2,634.8		\$1,299.6		49.3%

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

As of March 31, 2005, 257 Funding Year 2003 applications remained under review. Funding Year 2003 began on July 1, 2003 and ended on June 30, 2004.

Funding commitments made to applicants during 1Q2005 are included in Appendix SL11. Authorized funding by applicant during 1Q2005 and cumulative payments to service providers through 1Q2005 are listed in Appendices SL12 and SL13, respectively.

FUNDING YEAR 2004

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	\$ 780.9	41.9%	\$ 81.7	49.0%	10.5%
Internet Access	\$ 200.5	10.8%	\$ 45.9	27.6%	22.9%
Internal Connections	\$ 882.7	47.4%	\$ 39.0	23.4%	4.4%
TOTAL	\$1,864.0		\$ 166.6		8.9%

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

As of March 31, 2005, about 2,300 Funding Year 2004 applications remained under review. Funding Year 2004 began on July 1, 2004, and will end on June 30, 2005.

Funding commitments made to applicants during 1Q2005 are included in Appendix SL14. Authorized funding by applicant during 1Q2005 and cumulative payments to service providers through 1Q2005 are listed in Appendices SL15 and SL16, respectively.

SCHOOLS AND LIBRARIES SUPPORT MECHANISM SUMMARY

In a series of actions from December 1999 through December 2002, the FCC used a net total of \$477.16 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 undisbursed Funding Years 1999 and 2000 collections to stabilize contributions to the Universal Service Fund and offset collections for 3Q2002, 4Q2002, and 1Q2003.³⁸

In the *Schools and Libraries Third Report and Order and Second Further Notice of Proposed Rulemaking*, 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.³⁹ The Commission required USAC to file quarterly estimates of unused funds from prior funding years when it submits its projection of Schools and Libraries Support Mechanism demand for the upcoming quarter. 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 *Schools and Libraries 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

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 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 02-6, Carryover of Unused Funds for Funding Year 2004, DA 04-1848 (June 28, 2004).

The following sections provide information about the 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.

Funding Year 1998 True-Up

As of March 31, 2005, \$1,400.711 million of Funding Year 1998 support had been disbursed.

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

FUNDING YEAR 1998	Adjustments in Millions
Amount Authorized and Actually Collected	\$ 1,925.000 M
Amount Disbursed	(1,400.711) M
Administrative Expenses (21 months)	(41.791) M
Amount Applied to Adjust 2000, 2001, and 2002 Collections	(477.160) M
Potential Additional Disbursements on Committed FRNs	(0.144) M
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(5.194) M
Estimated Remaining Balance	\$0.000 M

USAC estimates that a contingency amount of \$5.194 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 pursuant to FCC order. Based on these figures, and in order to preserve the contingency amount, no Funding Year 1998 funds are available to carry forward.

Funding Year 1999 True-Up

As of March 31, 2005, \$1,662.019 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	(1,662.019) 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	(9.509) M
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(12.069) M
Estimated Remaining Balance	\$15.000 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 FCC order. Based on these figures, USAC estimates that \$15 million of Funding Year 1999 funds is available to carry forward.

Funding Year 2000 True-Up

As of March 31, 2005, \$1,649.380 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	(1,649.380) 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	(1.050) M
Remaining Uncommitted Requests	(1.658) M
Contingency Reserve for Potential Disbursements in Funding Year 2004 ⁴²	(10.000) M
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(12.648) M
Estimated Remaining Balance	\$0.000 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 cover potential excess disbursements in Funding Year 2004, to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to FCC order. Based on these figures and in order to preserve the contingency amounts, no Funding Year 2000 funds are available to carry forward.

⁴² In a March 17, 2005, letter from FCC’s Wireline Competition Bureau Chief Jeffrey Carlisle to USAC CEO Lisa Zaina, the FCC authorized USAC to make commitments above the funding cap in Funding Year 2004, noting that “historical disbursement patterns demonstrate that we are unlikely to exceed the \$2.4 billion cap” for Funding Year 2004, but also noting that “USAC represented that it has already collected these funds [that might be committed in excess of the funding cap] and has these funds available.”

Funding Year 2001 True-Up

As of March 31, 2005, \$1,659.013 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	(1,659.013) M
Administrative Expenses	(30.559) M
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	(17.232) M
Remaining Uncommitted Requests	(40.750) M
Contingency Reserve for Potential Disbursements in Funding Year 2004 ⁴³	(50.000) M
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(92.446) M
Estimated Remaining Balance	\$0.000 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 contingency reserves to cover potential excess disbursements in Funding Year 2004, to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to FCC order. Based on these figures and in order to preserve the contingency amounts, no Funding Year 2001 funds are available to carry forward.

⁴³ *Id.*

Funding Year 2002 True-Up

As of March 31, 2005, \$1,460.684 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	(1,460.684) M
Administrative Expenses	(38.531) M
Potential Additional Disbursements on Committed FRNs	(113.201) M
Remaining Uncommitted Requests	(96.573) M
Contingency Reserve for Potential Disbursements in Funding Year 2004 ⁴⁴	(100.000) M
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(241.011) M
Estimated Remaining Balance	\$200.000 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 contingency reserves to cover potential excess disbursements in Funding Year 2004, to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to FCC order. Based on these figures, USAC estimates that \$200 million of Funding Year 2002 funds is available to carry forward.

⁴⁴ *Id.*

Funding Year 2003 True-Up

As of March 31, 2005, \$1,299.558 million of Funding Year 2003 support had been disbursed.

The estimated remaining Funding Year 2003 balance is based on the following:

FUNDING YEAR 2003	Adjustments in Millions
Amount Authorized and Actually Collected	\$ 2,250.000 M
Amount Carried Forward from Funding Years 1999, 2000 and 2001	420.000 M
Amount Disbursed	(1,299.558) M
Administrative Expenses	(43.009) M
Potential Additional Disbursements on Committed FRNs	(877.895) M
Remaining Uncommitted Requests	(119.957) M
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(179.581) M
Estimated Remaining Balance	\$150.000 M

USAC’s projection of the remaining Funding Year 2003 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 FCC order. Based on these figures, USAC estimates that \$150 million of Funding Year 2003 funds is available to carry forward.

3Q2005 Demand Estimate and Contribution Requirement

Pursuant to FCC order, USAC changed the accounting methodology for the Universal Service Fund (USF) to generally accepted accounting principles for government entities on October 1, 2004.⁴⁵ FCC staff subsequently determined that Funding Commitment Decision Letters (FCDLs) for the Schools and Libraries Support Mechanism are to be treated as “obligations” for federal budgetary accounting purposes. Although the Federal Antideficiency Act (ADA)⁴⁶ generally requires that unobligated resources be available before any obligation can be incurred, the United

⁴⁵ See *In re Application of Generally Accepted Accounting Principles for Federal Agencies and Generally Accepted Government Auditing Standards to the Universal Service Fund*, CC Docket No. 96-45, Order, FCC 03-232 (rel. Oct. 3, 2003).

⁴⁶ 31 U.S.C. § 1341.

States Congress passed, and the President signed, legislation in December 2004 to exempt the USF from the ADA until December 31, 2005.⁴⁷

In order to reduce the large USF cash reserve that has accumulated primarily because the structure of the program results in often-significant lags in time between commitments and actual disbursements—while at the same time retaining the ability for the USF to satisfy all outstanding commitments based on historic disbursement patterns—the FCC applied a total of \$550 million of the undisbursed USF balance from prior years against Schools and Libraries Support Mechanism demand in 2004. The FCC applied \$200 million of the cash balance in both 2Q2004 and 3Q2004, and \$150 million in 4Q2004.⁴⁸

Based on the level of applicant demand in Funding Year 2005 (which exceeds the annual funding cap of \$2.25 billion), USAC requests authority to collect an amount to provide \$562.500 million for 3Q2005, which is one-quarter of the \$2.250 billion annual cap on federal universal service support for schools and libraries. Results for 1Q2005 contribute to an over-funded condition for which the instant filing proposes to adjust the 3Q2005 requirements. The total adjustment to the 3Q2005 fund requirement based on actual results will decrease the funding needed by \$35.072 million. The explanations for the adjustment are described below:

Reason for the Prior Period Adjustment	Adjustment in Millions
The 1Q2005 billings were higher than projected.	(5.934) M
Interest earned was more than estimated for 1Q2005.	(10.356) M
Bad debt expense was lower than anticipated	(18.782) M
Total Prior Period Adjustment	(\$35.072) M

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

The fund requirements of \$562.500 million, which includes administrative expenses of \$20.114 million, decreased by the prior-period adjustment of \$35.072 million, and reduced by the

⁴⁷ See H.R. 5419, 108th Cong 2d Sess., §302, Universal Service Antideficiency Temporary Suspension Act (effective Dec. 23, 2004).

⁴⁸ In its January 31, 2004, Federal Universal Service Support Mechanisms Fund Size Projections for the Second Quarter 2005, USAC noted that it was consulting with FCC staff regarding the effect of the Universal Service Antideficiency Temporary Suspension Act on USF collections, particularly with respect to collection of the \$550 million of the undisbursed USF balance from prior years applied against Schools and Libraries Support Mechanism demand in 2004. The timing of any recovery of this \$550 million is dependent upon the assessment of the actual effects of the statute.

projected interest of \$18.320 million, results in a projected collection requirement of \$509.108 million for the Schools and Libraries Support Mechanism for 3Q2005.

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).⁴⁹ Based on these filings, 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.

Approximately 5,500 FCC Forms 499-Q were distributed to carriers in early April 2005. Interstate telecommunications service providers are required to complete this form, reporting July - September 2005 projected revenue information, and return it to USAC by May 2, 2005.

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 one 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 issuing Notices of Apparent Liability

⁴⁹ 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.

(NALs) against 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 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 July 1, 2003, USAC implemented the requirements of the Debt Collection Improvement Act (DCIA).⁵⁰ DCIA requires USAC to transfer uncollectible accounts that are ninety days delinquent to the FCC after USAC has provided the delinquent carriers with the notice required under FCC and DCIA procedures. Upon receipt of the outstanding debts, the FCC will provide the delinquent carriers with 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 the 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 United States Treasury Department and collected under Treasury's debt-offset program.

USAC implemented the FCC's Red Light Rule on November 1, 2004 and has successfully instituted new guidelines for debt treatment.⁵¹ If a contributor is over one day delinquent to the fund, USAC performs USF to USF administrative offsets to resolve the delinquency, netting any pending service provider disbursements where the Service Provider Identification Number (SPIN) shares the same Taxpayer Identification Number (TIN) as the delinquent contributor. If an entity is over one day delinquent on a debt owed to the FCC, USAC places an administrative hold on any

⁵⁰ 31 U.S.C. §§ 3701 *et seq.*

⁵¹ 47 C.F.R. §1.1910

disbursement(s) for SPIN(s) that share the same TIN until the FCC provides information stating that the debt has been satisfied. In October 2004, USAC delivered a proposed implementation plan to the FCC's Office of the Managing Director (OMD) and Wireline Competition Bureau (WCB). USAC implemented the Red Light Rule in accordance with this plan for commencement on November 1, 2004. USAC continues to work with Commission staff concerning administration of the Red Light Rule.

CONCLUSION

At their April 18, 2005 meetings, USAC's High Cost & Low Income Committee, Rural Health Care Committee, and Schools & Libraries Committee passed resolutions authorizing the 3Q2005 support mechanism funding requirements described herein. At its April 19, 2005 meeting, the USAC Board of Directors adopted a resolution authorizing the inclusion of the 3Q2005 administrative expenses and 3Q2005 funding base in this report to the Commission. The High Cost & Low Income Committee subsequently met on April 25, 2005 and passed a resolution approving a revised High Cost and Low Income demand projection.

Respectfully submitted,

UNIVERSAL SERVICE
ADMINISTRATIVE COMPANY

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

May 2, 2005