

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Federal Universal Service Support Mechanisms Fund Size
Projections for the First Quarter 2006

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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
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	14
Low Income Support Mechanism Summary	15
RURAL HEALTH CARE SUPPORT MECHANISM	17
Funding Year 2001	17
Funding Year 2002	17
Funding Year 2003	17
Funding Year 2004	18
Funding Year 2005	19
Rural Health Care Support Mechanism Summary	20
SCHOOLS AND LIBRARIES SUPPORT MECHANISM.....	20
Funding Year 1998	21
Funding Year 1999	21
Funding Year 2000	22
Funding Year 2001	22
Funding Year 2002	23
Funding Year 2003	24
Funding Year 2004	24
Funding Year 2005	25
Schools and Libraries Support Mechanism Summary	25
<i>Funding Year 1998 True-Up</i>	27
<i>Funding Year 1999 True-Up</i>	27
<i>Funding Year 2000 True-Up</i>	28

TABLE OF CONTENTS

<i>Funding Year 2001 True-Up</i>	29
<i>Funding Year 2002 True-Up</i>	30
<i>Funding Year 2003 True-Up</i>	31
<i>1Q2006 Demand Estimate and Contribution Requirement</i>	32
CONTRIBUTION BASE	34
OPERATIONS	35
CONCLUSION	36

APPENDICES

HIGH COST

High Cost Support Projected by State by Study Area – 1Q2006	HC01
High Cost Support Projected by State – 1Q2006	HC02
Rural Study Areas with Competition – 1Q2006.....	HC03
Disaggregated Per Line Support by Zone – 1Q2006	HC04
High Cost Loop Support Projected by State by Study Area – 1Q2006	HC05
Safety Net Additive Support – 1Q2006.....	HC06
Safety Valve Support – 1Q2006.....	HC07
Local Switching Support Projected by State by Study Area - 1Q2006.....	HC08
Interstate Common Line Support Projected by State by Study Area – 1Q2006.....	HC09
Interstate Common Line Support Projected per Line – 1Q2006	HC10
Interstate Common Line Support Projected by State – 1Q2006.....	HC11
Interstate Access Support Projected by State by Study Area – 1Q2006	HC12
Interstate Access Support Projected per Line – 1Q2006.....	HC13
Interstate Access Support Projected by State – 1Q2006	HC14
High Cost Model Support Projected by Wire Center – 1Q2006	HC15
High Cost Model Support Projected by State – 1Q2006	HC16
High Cost Model Support Projected by Study Area – 1Q2006	HC17
CETC Reported Lines by Incumbent Study Area	
High Cost Loop Support – 1Q2006	HC18
CETC Reported Lines by Incumbent Study Area	
Interstate Common Line Support – 1Q2006	HC19
CETC Reported Lines by Incumbent Study Area	
Interstate Access Support – 1Q2006.....	HC20
CETC Reported Lines by Incumbent Study Area	
High Cost Model Support – 1Q2006	HC21
Interstate Common Line Support by State by Study Area – Revised 4Q2005	HC22
Interstate Common Line Support Projected Per Line – Revised 4Q2005	HC23
Interstate Common Line Support Projected by State – Revised 4Q2005	HC24
High Cost Model Support Projected by Wire Center – Revised 4Q2005	HC25
High Cost Model Support Projected by State – Revised 4Q2005	HC26
High Cost Model Support Projected by Study Area – Revised 4Q2005	HC27

LOW INCOME

Low Income Support Projected by State by Study Area – 1Q2006	LI01
Low Income Support Available by State – 1Q2006.....	LI02
Eligible Telecommunications Carriers – 3Q2005	LI03
Quarterly Low Income Support Disbursement Amounts by Company – 3Q2005.....	LI04

APPENDICES

Annual Low Income Support Amounts by State and Company Through 2Q2005	LI05
Historical Data: Support Amounts Claimed by ETCs Each Month January 1998 through September 2005	LI06
Low Income Support Distributed by State in 2001 and through 2Q2005	LI07
Lifeline Subscribers by State or Jurisdiction	LI08
Link-Up Beneficiaries by State or Jurisdiction.....	LI09
Tier 1 Amounts Reported by All Companies 2Q2005	LI10

RURAL HEALTH CARE

Funding Year 2002 Authorizations – 3Q2005	RH01
Funding Year 2002 Disbursements to Service Providers through 3Q2005	RH02
Funding Year 2003 Commitments – 3Q2005.....	RH03
Funding Year 2003 Authorizations – 3Q2005	RH04
Funding Year 2003 Disbursements to Service Providers through 3Q2005	RH05
Funding Year 2004 Commitments – 3Q2005.....	RH06
Funding Year 2004 Authorizations – 3Q2005	RH07
Funding Year 2004 Disbursements to Service Providers through 3Q2005	RH08
Funding Year 2005 Commitments to Service Providers through 3Q2005.....	RH09

SCHOOLS AND LIBRARIES

Funding Year 1999 Authorizations – 3Q2005	SL01
Funding Year 1999 Disbursements to Service Providers through 3Q2005	SL02
Funding Year 2000 Authorizations – 3Q2005	SL03
Funding Year 2000 Disbursements to Service Providers through 3Q2005	SL04
Funding Year 2001 Commitments – 3Q2005.....	SL05
Funding Year 2001 Authorizations – 3Q2005	SL06
Funding Year 2001 Disbursements to Service Providers through 3Q2005	SL07
Funding Year 2002 Commitments – 3Q2005.....	SL08
Funding Year 2002 Authorizations – 3Q2005	SL09
Funding Year 2002 Disbursements to Service Providers through 3Q2005	SL10
Funding Year 2003 Commitments – 3Q2005.....	SL11
Funding Year 2003 Authorizations – 3Q2005	SL12
Funding Year 2003 Disbursements to Service Providers through 3Q2005	SL13
Funding Year 2004 Commitments – 3Q2005.....	SL14
Funding Year 2004 Authorizations – 3Q2005	SL15
Funding Year 2004 Disbursements to Service Providers through 3Q2005	SL16
Funding Year 2005 Commitments – 3Q2005.....	SL17

APPENDICES

Funding Year 2005 Authorizations – 3Q2005	SL18
Funding Year 2005 Disbursements to Service Providers through 3Q2005	SL19

OTHER APPENDICES

Universal Service Administrative Company 1Q2006 Budget	M01
Fund Size Projections for 1Q2006.....	M02
Schedule of USF Receipts, Interest Income, and Cash Outlays:	
January 1 through September 30, 2005 – Cash Basis.....	M03
January 1 through September 30, 2005 – Accrual Basis.....	M04

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

**FEDERAL UNIVERSAL SERVICE SUPPORT MECHANISMS
FUND SIZE PROJECTIONS FOR THE FIRST QUARTER 2006**

INTRODUCTION

The Universal Service Administrative Company (USAC) submits the Federal Universal Service Support Mechanisms fund size and administrative cost projections for the first quarter of calendar year 2006 (1Q2006), 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. 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 On October 3, 2005, USAC filed a revised methodology for allocating joint and common costs that will be used beginning on January 1, 2006.⁶

USAC projects a consolidated budget of \$24.193 million for first quarter 2006. The direct costs for all support mechanisms projected in this total are \$16.4527 million⁷ and are

⁴ 47 C.F.R. § 54.709(a)(3).

⁵ *Id.*

⁶ See Letter from D. Scott Barash to Marlene H. Dortch regarding Revisions to the Method for Allocating Costs Among the Four Universal Service Support Mechanisms, CC Docket Nos. 97-21 and 96-45 (Oct. 3, 2005). Pursuant to the October 3, 2005 filing by USAC to the FCC of the Revision to the *Methodology for Allocating Joint and Common Administrative Costs Among the Universal Service Support Mechanisms*, CC Docket Nos. 97-21 and 96-45, this new methodology will be used beginning January 1, 2006.

⁷ This includes \$0.0800 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).

detailed for each mechanism in the chart provided below. Joint and common costs (including billing, collection and disbursement activities) are projected at \$7.7403 million and are allocated to each support mechanism (also as reflected in the chart below) based on the allocation methodology on file with the Commission.

1st Quarter 2006 Administrative Expenses (millions)

USF Mechanism	Direct Costs	USAC Common (including billing and collection)	Total
High Cost	2.429	2.825	5.254
Low Income	0.686	0.604	1.289
Rural Health Care	0.917	0.248	1.164
Schools & Libraries	12.422	4.064	16.486
Total	16.453	7.740	24.193

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

Commission rules currently direct NECA to continue performing certain universal service administrative functions for the High Cost Loop (HCL) Support Mechanism, specifically, the collection and processing of annual HCL data as well as the optional quarterly updates to that data.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 1Q2006 expenses to perform these universal service-related functions are \$0.0800 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

⁸ 47 C.F.R. §§ 36.611-36.613.

⁹ 47 C.F.R. § 69.603.

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 administrative expense budget for 1Q2006.

Appendix M02 details the fund size projections for 1Q2006.

INTEREST INCOME PROJECTION

For 1Q2006, USAC projects interest income of approximately \$3.343 million for the High Cost Support Mechanism, \$0.752 million for the Low Income Support Mechanism, \$0.502 million for the Rural Health Care Support Mechanism and \$41.262 million for the Schools and Libraries Support Mechanism. In sum, USAC projects total interest of \$45.859 million. 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

For the nine months ended September 30, 2005, on a cash basis, USAC has disbursed \$4,673.2 million in universal service support to service providers: \$2,794.9 million in High Cost support, \$604.5 million in Low Income support, \$1,253.2 million in Schools and Libraries support, and \$20.6 million in Rural Health Care support. On a cash basis, the total cash balance available as of September 30, 2005 to the universal service support mechanisms was \$4,075.8 million.

On an accrual basis USAC had a fund balance of \$4,200.0 million at September 30, 2005.

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

Appendices M03 and M04 provide the 2005 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.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), 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.

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.

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	756	488	1244	105	1349	189	1538
Non-Rural	4	1	5	80	85	160	245
Total	760	489	1249	185	1434	349	1783

Appendix HC01 displays the projected minimum amount of individual company support segregated by rural and non-rural status. Appendix HC01 also contains the projected 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 1Q2006 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 desegregation 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 2004 incumbent local exchange carrier (LEC) loop cost and expense adjustment data that was submitted to the FCC and to USAC on October 1, 2005.¹⁴ Growth in total HCL support for rural carriers is limited under Section 36.603(a) of the FCC’s rules to the current

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

¹⁴ Universal Service Fund (USF) 2005 Submission of 2004 Study Results (filed October 1, 2005) (*USF Data Submission*).

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 2006 will be less than the level of payments for 2005 because of a negative rural growth factor of -0.7466 percent. Rural HCL support for calendar year 2005, therefore, is capped at \$1,047.300 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 1Q2006, projected Safety Net Additive support is \$5.059 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 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

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).

¹⁸ See *RTF Order* at ¶¶ 91 to 119.

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 1Q2006, projected Safety Valve support is \$0.080 million.²¹

For 1Q2006, projected HCL support is \$330.933 million. Of this amount, \$261.826 million is associated with rural carriers and \$69.107 million is associated with competitive ETCs. Furthermore, 1Q2006 Safety Net Additive support is projected to be \$5.059 million and Safety Valve support is projected to be \$0.080 million. USAC projects, therefore, that \$336.072 million will be required for 1Q2006. Based on these projections, total 2006 HCL support is estimated to be \$1,344,289 million.

Appendix HC05 displays projected monthly HCL support payments by study area for 1Q2006. Appendix HC06 displays projected monthly Safety Net Additive support payments by study area for 1Q2006. Appendix HC07 displays Safety Valve Support for 1Q2006. 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.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

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(e).

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

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 un-weighted DEM factor.

For 1Q2006, LSS for companies participating in the Traffic Sensitive Pool is projected to be \$56.668 million for cost study areas and \$20.113 million for average schedule study areas. LSS for the non-Pool study areas is projected to be \$16.913 million for cost study areas and \$2.154 million for average schedule study areas for 1Q2006. In addition, 1Q2006 LSS for competitive ETCs is projected to be \$24.907 million. USAC projects, therefore, that \$120.755 million will be required for 1Q2006. Based on these projections, total 2006 LSS is estimated to be \$483.021 million.

Individual study area LSS projections per month are displayed in Appendix HC08.

INTERSTATE COMMON LINE SUPPORT MECHANISM (ICLS)

In the *MAG Order* released on November 8, 2001, the FCC reformed the interstate access charge and universal service support systems for rate-of-return carriers.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.

For 1Q2006, ICLS for incumbent rate-of-return carriers is projected to be \$237.242 million. In addition, 1Q2006 ICLS for competitive ETCs is projected to be \$75.446 million. USAC projects, therefore, that \$312.688 million will be required for 1Q2006. Based on these projections, total 2006 ICLS is estimated to be \$1,260.864 million

Appendices HC09, HC10, and HC11 detail USAC's 1Q2006 projection of ICLS by state by study area, per line, and by state, respectively. Appendix HC19 displays competitive ETC

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*).

lines reported for ICLS by incumbent study area. Appendices HC22, HC23, and HC24 reflect the 4Q2005 revised projections of ICLS by state by study area, per line, and by state, respectively.

INTERSTATE ACCESS SUPPORT MECHANISM (IAS)

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 1Q2006 are \$38.535 million for rural carriers, \$103.423 million for non-rural carriers and \$39.360 million for competitive ETCs. USAC projects, therefore, that \$181.318 million will be required for 1Q2006. Based on these projections, total annual IAS is estimated to be \$725.272 million.

Appendices HC12, HC13, and HC14 detail USAC's 1Q2006 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 eligible to receive forward-looking support in 2006.²⁷

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 ¶ 201.

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).

For 1Q2006, USAC projects that \$77.375 million will be required for HCM support (\$55.712 million for incumbent non-rural carriers and \$21.663 million for competitive ETCs). USAC projects, therefore, that \$77.375 million of HCM support will be required for 1Q2006. Based on these projections, total 2006 forward-looking support is estimated to be \$309.502 million.

Appendices HC15, HC16, and HC17 detail USAC's 1Q2006 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. Appendices HC25, HC26, and HC27 reflect the 4Q2005 revised projections of HCM Support by wire center, by state, and by study area, respectively.

HIGH COST SUPPORT MECHANISM SUMMARY

As discussed above, USAC estimates 1Q2006 funding requirement as follows: \$336.072 million for HCL support; \$120.755 million for LSS; \$312.688 million for ICLS; \$181.318 million for IAS; and \$77.375 million for HCM for a total of \$1,028.208 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. On October 14, 2005, the FCC released an order to provide assistance to victims of Hurricane Katrina.²⁹ USAC projects that no additional monies will be required for the High Cost Support Mechanism pursuant to the *Katrina Relief Order*.

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

²⁹ See *Federal State Joint Board on Universal Service, Schools and Libraries Support Mechanism, Rural Health Care Support Mechanism, Lifeline and Link-Up*, CC Docket Nos. 76-45, 02-06, WC Docket Nos. 02-60, 03-109, Order, FCC 05-178 (rel. Oct. 14, 2005) (*Katrina Relief Order*).

Results for 3Q2005 contributed to an over-funded condition, for which the instant filing proposes to adjust the 1Q2006 requirements. The total adjustment to the 1Q2006 fund requirement based on actual results will decrease the funding needed by \$81.418 million. The detailed explanations for the adjustment are described below.

Reason for the Prior Period Adjustment	Adjustment in Millions
The 3Q2005 billings were higher than expected due to higher revenues reported by contributors in their quarterly revenue projection filings.	(\$14.668) M
Distributions were lower than expected in 3Q2005.	(55.606) M
Interest earned was higher than estimated for 3Q2005.	(2.690) M
Bad debt expense was lower than anticipated	(9.446) M
2004 Administrative True-up	0.993 M
Total Prior Period Adjustment	(\$81.418) M

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

The total fund requirement of \$1,028.208 million, decreased by the prior-period adjustment of \$81.418 million, increased by administrative costs of \$5.254 million, and reduced by the projected interest of \$3.343 million, results in a total projected funding requirement for the High Cost Support Mechanism for 1Q2006 of \$948.701 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.³⁰ 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

³⁰ See 47 C.F.R. §§ 54.201.

waiver of charges and reduced rates provided to qualified low-income subscribers.³¹ Lifeline support provides funding from the interstate jurisdiction of up to \$10.00 per low-income subscriber per month. This can consist of a baseline amount of between \$3.50 and \$6.50 (Tier One),³² 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).³³ Further, up to an additional \$25 per low-income subscriber per month is available to eligible residents of tribal lands (Tier Four).³⁴

For 1Q2006, USAC projects that \$196.927 million will be required for Lifeline support. Based on this projection, total 2005 Lifeline support is estimated to be \$787.708 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

³¹ 47 C.F.R. §§ 54.401 - 54.417.

³² 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).

³³ 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.

³⁴ 47 C.F.R. § 54.400(e).

on eligible tribal lands.³⁵ For 1Q2006, USAC projects that \$9.868 million will be required for Link Up support. Based on this projection, total 2005 Link Up support is estimated to be \$39.470 million.

TOLL-LIMITATION SUPPORT

Toll Limitation Support (TLS) compensates ETCs for providing voluntary toll-limitation based on the carrier's incremental cost of providing toll-limitation services. The FCC has defined these costs as the costs that carriers otherwise would not incur if they did not provide toll-limitation service to a given customer.³⁶ 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.³⁷ For 1Q2006, USAC projects that \$1.746 million will be required for TLS. Based on this projection, total 2006 TLS is estimated to be \$6.984 million.

On October 14, 2005, the FCC released an order³⁸ to provide assistance to victims of Hurricane Katrina. In the Order, the FCC established temporary Lifeline and Link Up Assistance benefits for eligible consumers affected by Hurricane Katrina. Specifically, ETCs can receive \$130.00 in federal Lifeline support for providing a wireless handset and a package of at least 300 minutes of service to eligible consumers. In addition, \$30.00 in Link Up support is available to defray the cost of commencing telecommunications service at a temporary residence. Eligible consumers can also receive the benefit of a \$30.00 discount for reconnecting

³⁵ See *Promoting Deployment and Subscribership in Unserved and Underserved Areas, Including Tribal and Insular Areas*, CC Docket No. 96-45, Twelfth Report and Order, Memorandum Opinion and Order, and Further Notice of Proposed Rule-making, (rel. June 30, 2000)(*Tribal Order*).

³⁶ 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).

³⁷ 47 C.F.R. § 54.400(b), (c).

³⁸ See *Katrina Relief Order*.

telecommunications service when they return to their permanent residence in the Hurricane Katrina disaster area. The Lifeline rules are in effect from October 14, 2005 until March 1, 2006. The Commission has estimated the total impact of Lifeline rules modifications to be approximately \$39 million. The Link Up rules are in effect from October 14, 2005 until March 1, 2007. The Commission has estimated the total impact of the Link Up rules modifications to be approximately \$12 million. For 1Q2006, USAC projects that an additional \$27.3 million will be required for Lifeline support pursuant to the *Katrina Relief Order*.³⁹ For 1Q2006, USAC projects that an additional \$2.4 million will be required for Link Up support to fund Hurricane Katrina relief.⁴⁰ Based on this projection, total 1Q2006 support for Hurricane Katrina Relief is estimated to be \$29.7 million.

LOW INCOME SUPPORT MECHANISM SUMMARY

As discussed above, the estimated 1Q2006 funding requirement for the Low Income Support Mechanism is as follows: \$196.927 million for Lifeline, \$9.868 million for Link Up, and \$1.746 million for Toll Limitation Service and \$29.700 million for Hurricane Katrina Relief, for a total of \$238.241 million. Results of 3Q2005 contribute to an over-funded condition, for which the instant filing proposes to adjust the 1Q2006 requirements. The total adjustment to the 1Q2006 funding requirement based on actual results will decrease the funding needed by \$4.117 million. The detailed explanations for the adjustment are described below.

³⁹ USAC estimates that 70% of the approximately \$39 million in additional Lifeline support will be paid in 1Q2006.

⁴⁰ USAC estimates that 20% of the approximately \$39 million in additional Link Up support will be paid in 1Q2006.

Reason for the Prior Period Adjustment	Adjustment in Millions
The 3Q2005 billings were higher than expected due to higher revenues reported by contributors in their quarterly revenue projection filings.	(\$2.958) M
Distributions were higher than expected in 3Q2005.	1.453 M
Interest earned was more than estimated for 3Q2005.	(0.284) M
Bad debt expense was lower than anticipated	(1.503) M
2004 Administrative Expense True-up	(0.825) M
Total Prior Period Adjustment	(\$4.117) M

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

The total fund requirement of \$238.241 million, decreased by the prior-period adjustment of \$4.117 million, increased for administrative expenses of \$1.289 million, and the deduction of the projected interest income of \$0.752 million results in a total projected funding requirement for the Low Income Support Mechanism for 1Q2006 of \$234.661 million.

Appendix LI01 provides projected Low Income support amounts by state by study area for 1Q2006. Appendix LI02 provides detail on Low Income funding amounts available in each of the states and territories for 1Q2006. Appendix LI03 provides a list of eligible telecommunications carriers (ETCs) for 3Q2005. Appendix LI04 provides detail on quarterly company-specific Low Income support disbursement amounts for 3Q2005. Appendix LI05 provides detail on annual company-specific Low Income support amounts through 2Q2005. Appendix LI06 provides historical data of monthly support amounts claimed by ETCs from January 1998 through September 2005. Appendix LI07 provides detail on Low Income support distributed by state for 2001 through 2Q2005. 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 2Q2005.

RURAL HEALTH CARE SUPPORT MECHANISM**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 once the applications submitted based on approved appeals are processed.

FUNDING YEAR 2002

The Funding Year 2002 application filing window opened on January 28, 2002. Funding Year 2002 began on July 1, 2002, and ended on June 30, 2003. As of September 30, 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 \$22.259 million. The FCC previously authorized the collection of \$22.293 million for Funding Year 2002. Based on this revised estimate of demand, USAC recommends the FCC decrease collections for Funding Year 2002 by \$0.034 million.

Authorized funding by applicant during 3Q2005 and disbursements made to service providers through 3Q2005 are listed 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 September 30, 2005, funding commitments have been issued totaling \$27.900 million. The FCC authorized in

3Q2005 the collection of \$25.313 million. Based on information provided by the applicants, USAC now estimates Funding Year 2003 demand will be \$26.250 million.

This is an increase of \$0.937 million due to new Alaska commitments. Based on the revised estimate of demand, USAC recommends the FCC increase collections for Funding Year 2003 by \$0.937 million in 1Q2006.

Funding commitments made during 3Q2005 are included in Appendix RH03. Authorized funding by applicant during 3Q2005 and disbursements made to service providers through 3Q2005 are listed in Appendices RH04 and RH05, 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 ended on September 30, 2005. As of September 30, 2005, 2,946 Forms 465 have been posted. In addition, as of September 30, 2005, 3,838 application “packets” have been received including 804 packets from applicants seeking support for Internet access only. The status of Funding Year 2004 packets is provided below.

FUNDING YEAR 2004	
Packets Completely Processed	2,886
Packets Awaiting Supervisory Approval Only	100
Complete – Ready to Process	1
Withdrawn by Applicant	209
Denied	51
Incomplete – Require Forms and/or Clarification	591
Total Packets Received for Funding Year 2004	3,838

As of September 30, 2005, funding commitments have been issued totaling \$27.930 million. Based on information provided by the applicants as of September 30, 2005, USAC estimates Funding Year 2004 demand will be \$28.051 million. The FCC previously authorized

the collection of \$29.991 million for Funding Year 2004. Based on the revised estimate of demand, USAC recommends the FCC reduce collections for Funding Year 2004 by \$1.939 million in 1Q2006.

Funding commitments made during 3Q2005 are included in Appendix RH06.

Authorized funding by applicant during 3Q2005 and disbursements made to service providers during 3Q2005 are listed in Appendices RH07 and RH08, respectively.

FUNDING YEAR 2005

Funding Year 2005 began on July 1, 2005, and will end on June 30, 2006. As of September 30, 2005, 2,804 Forms 465 had been posted. The total demand for Funding Year 2005 is not yet known and will not be known until the Form 466 packets are submitted and processed. USAC estimates that Funding Year 2005 demand will be approximately 46.2% higher than demand in Funding Year 2004, resulting in a Funding Year 2005 demand of \$41.025 million. This estimate assumes that applicants who receive support in Funding Year 2004 will receive a similar level of support in Funding Year 2005, and projects an increase based on the large number of new applicants in Funding Year 2005. The Funding Year 2005 estimate also includes provision for Funding Year 2004 changes to the Rural Health Care Support Mechanism implemented by the FCC in November 2004. These changes include support for rural health care providers in states that have been designated as rural and who will, therefore, receive a 50% discount on their telecommunications services, as well as any new applicants who become eligible as a result of the new definition of rural. The FCC authorized collection of one-fourth of the estimated demand, or \$11.638 million, in 4Q2005. Considering the revised demand estimate for FY2005, USAC recommends that the FCC authorize the collection of \$8.870 million for Funding Year 2005 in 1Q2006.

Funding commitments made during 3Q2005 are included in Appendix RH09.

RURAL HEALTH CARE SUPPORT MECHANISM SUMMARY

The estimated 1Q2006 demand requirement for the Rural Health Care Support Mechanism is \$7.834 million. The results of 3Q2005 contributed to an over-funded condition of \$(0.642) million which will be used to adjust the 1Q2006 requirements. The detailed explanation for the adjustment is as follows:

Reason for the Prior Period Adjustment	ADJUSTMENT IN MILLIONS
The 3Q2005 billings were higher than expected due to higher revenues reported by contributors in their quarterly revenue projections.	(\$0.441 M)
Interest earned was higher than estimated for the 3Q2005.	(\$0.047 M)
Bad Debt Expense was higher than anticipated in 3Q2005	\$0.025 M
2004 Administrative Expense True-up	(\$0.179 M)
Total Prior Period Adjustment	(\$0.642 M)

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

The total fund requirement of \$7.834 million, decreased by the prior-period adjustment of (\$0.642) million, increased by administrative expenses of \$1.164 million, and decreased by projected interest income of \$0.502 million results in a total projected funding requirement for the Rural Health Care Support Mechanism for 1Q2006 of \$7.854 million.

On October 14, 2005, the FCC released an order to provide assistance to victims of Hurricane Katrina.⁴¹ USAC projects that no additional monies will be required for the Rural Health Care Support Mechanism pursuant to the *Katrina Relief Order*.

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 September 30, 2005.

⁴¹ See *Katrina Relief Order*.

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	\$ 675.9	39.9%	\$ 507.8	36.3%	75.1%
Internet Access	\$ 134.2	7.9%	\$ 94.8	6.8%	70.7%
Internal Connections	\$ 886.1	52.2%	\$ 797.2	57.0%	90.0%
TOTAL	\$1,696.2		\$1,399.8		82.5%

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

As of September 30, 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 3Q2005.

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	\$ 635.0	29.5%	\$ 454.0	27.3%	71.5%
Internet Access	\$ 149.3	6.9%	\$ 95.8	5.8%	64.2%
Internal Connections	\$1,366.0	63.5%	\$1,112.8	66.9%	81.5%
TOTAL	\$2,150.3		\$1,662.6		77.3%

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

As of September 30, 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 3Q2005 and cumulative payments made to service providers through 3Q2005 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	\$ 718.2	34.6%	\$ 479.7	29.1%	66.8%
Internet Access	\$ 219.1	10.6%	\$ 135.0	8.2%	61.6%
Internal Connections	\$ 1,137.0	54.8%	\$1,035.3	62.7%	91.1%
TOTAL	\$ 2,074.2		\$1,650.0		79.6%

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

As of September 30, 2005, no Funding Year 2000 applications remained under review. Funding Year 2000 began on July 1, 2000, and ended on June 30, 2001.

Authorized funding by applicant during 3Q2005 and cumulative payments made to service providers through 3Q2005 are listed in Appendices SL03 and SL04, 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	\$ 768.8	34.9%	\$ 520.0	31.4%	67.6%
Internet Access	\$ 226.8	10.3%	\$ 150.0	9.0%	66.2%
Internal Connections	\$1,204.9	54.8%	\$ 988.7	59.6%	82.1%
TOTAL	\$2,200.4		\$1,658.7		75.4%

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

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

Funding commitments made to applicants during 3Q2005 are included in Appendix SL05. Authorized funding by applicant during 3Q2005 and cumulative payments made to service providers through 3Q2005 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	\$ 870.9	39.0%	\$ 591.5	39.4%	67.9%
Internet Access	\$ 249.2	11.2%	\$ 169.0	11.3%	67.8%
Internal Connections	\$ 1,115.0	49.9%	\$ 741.8	49.4%	66.5%
TOTAL	\$ 2,235.2		\$1,502.4		67.2%

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

As of September 30, 2005, USAC continued to review and process the remaining 24 potentially fundable Funding Year 2002 applications that were not included in a regular commitment wave. Funding Year 2002 began on July 1, 2002, and ended on June 30, 2003.

Funding commitments made to applicants during 3Q2005 are included in Appendix SL08. Authorized funding by applicant during 3Q2005 and cumulative payments to service providers through 3Q2005 are listed in Appendices SL09 and SL10, respectively.

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	\$ 883.4	32.9%	\$ 623.8	38.5%	70.6%
Internet Access	\$ 268.8	10.0%	\$ 191.8	11.8%	71.4%
Internal Connections	\$1,531.4	57.1%	\$ 806.5	49.7%	52.7%
TOTAL	\$2,683.6		\$1,622.1		60.4%

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

As of September 30, 2005, 49 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 3Q2005 are included in Appendix SL11. Authorized funding by applicant during 3Q2005 and cumulative payments to service providers through 3Q2005 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	\$ 955.5	41.6%	\$ 359.4	49.0%	37.6%
Internet Access	\$ 237.4	10.3%	\$ 140.8	19.2%	59.3%
Internal Connections	\$1,107.2	48.1%	\$ 233.9	31.9%	21.1%
TOTAL	\$2,300.1		\$ 734.0		31.9%

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

As of September 30, 2005, approximately 213 Funding Year 2004 applications remained under review. Funding Year 2004 began on July 1, 2004, and ended on June 30, 2005.

Funding commitments made to applicants during 3Q2005 are included in Appendix SL14. Authorized funding by applicant during 3Q2005 and cumulative payments to service providers through 3Q2005 are listed in Appendices SL15 and SL16, respectively.

FUNDING YEAR 2005

FUNDING YEAR 2005					
	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	\$ 513.9	79.3%	\$ 1.7	36.8%	0.3%
Internet Access	\$ 133.8	20.7%	\$ 2.9	63.2%	2.2%
Internal Connections	-	-	-	-	-
TOTAL	\$ 647.7		\$ 4.6		0.7%

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

The first funding commitment decisions letters for Funding Year 2005 were issued on June 27, 2005. Funding Year 2005 began on July 1, 2005, and will end on June 30, 2006.

Funding commitments made to applicants during 3Q2005 are included in Appendix SL17. Authorized funding by applicant during 3Q2005 and cumulative payments to service providers through 3Q2005 are listed in Appendices SL18 and SL19, respectively.

SCHOOLS AND LIBRARIES SUPPORT MECHANISM SUMMARY

In a series of actions from December 1999 through December 2002, the Commission used a net total of \$477.16 million of undisbursed Funding Year 1998 Schools and Libraries Support Mechanism funds to reduce USF collection requirements. Consistent with the *Schools and Libraries First Report and Order*, the Commission used a total of \$852.116 million of

undisbursed Funding Years 1999 and 2000 collections to stabilize USF contributions and offset collections for 3Q2002, 4Q2002, and 1Q2003.⁴²

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.⁴³ 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 2003.⁴⁴ 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 2004.⁴⁵

The following sections provide information about the use of funds for each funding year, including adjustments made by the FCC, and USAC's projections of unused funds from prior funding years available for carrying forward. On October 14, 2005, the FCC released an order to provide assistance to victims of Hurricane Katrina.⁴⁶ Because the Schools and Libraries

⁴² 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*).

⁴³ 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*).

⁴⁴ *Id.*

⁴⁵ 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).

⁴⁶ See *Katrina Relief Order*.

Support Mechanism is subject to an annual cap, USAC projects no additional collections pursuant to the *Katrina Relief Order*.

Funding Year 1998 True-Up

As of September 30, 2005, \$1,399.750 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	(1,399.750) 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	(6.299) M
Estimated Remaining Balance	\$0.000 M

USAC estimates that a contingency amount of \$6.299 million should be reserved to pay appeals pending at USAC and 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 September 30, 2005, \$1,662.603 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	(1,662.603) 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	(0.773) M
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(20.221) 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 September 30, 2005, \$1,650.009 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	(1,650.009) 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	(0.374) M
Contingency Reserve for Potential Disbursements in Funding Year 2004 ⁴⁷	(10.000) M
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(14.353) 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 disbursements in Funding Year 2004, and 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.

Funding Year 2001 True-Up

As of September 30, 2005, \$1,658.680 million of Funding Year 2001 support had been disbursed. The estimated remaining Funding Year 2001 balance is based on the following:

⁴⁷ 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	Adjustments in Millions
Amount Authorized and Actually Collected	\$ 2,250.000 M
Amount Disbursed	(1,658.680) 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	(36.814) M
Remaining Uncommitted Requests	(20.329) M
Contingency Reserve for Potential Disbursements in Funding Year 2004 ⁴⁸	(50.000) M
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(93.618) 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 disbursements in Funding Year 2004, and 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.

Funding Year 2002 True-Up

As of September 30, 2005, \$1,502.354 million of Funding Year 2002 support had been disbursed. The estimated remaining Funding Year 2002 balance is based on the following:

⁴⁸ *Id.*

FUNDING YEAR 2002	Adjustments in Millions
Amount Authorized and Actually Collected	\$ 2,250.000 M
Amount Disbursed	(1,502.354) M
Administrative Expenses	(38.531) M
Potential Additional Disbursements on Committed FRNs	(135.555) M
Remaining Uncommitted Requests	(3.641) M
Contingency Reserve for Potential Disbursements in Funding Year 2004 ⁴⁹	(100.000) M
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(269.919) 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 disbursements in Funding Year 2004 and 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.

Funding Year 2003 True-Up

As of September 30, 2005, \$1,622.071 million of Funding Year 2003 support had been disbursed. The estimated remaining Funding Year 2003 balance is based on the following:

⁴⁹ *Id.*

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	(1,622.071) M
Administrative Expenses	(43.009) M
Potential Additional Disbursements on Committed FRNs	(665.397) M
Remaining Uncommitted Requests	(57.243) M
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(132.280) 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.

1Q2006 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, 2004.⁵⁰ FCC staff subsequently determined that Funding Commitment Decision Letters (FCDLs) for the Schools and Libraries Support Mechanism funding are to be treated as "obligations" for federal budgetary accounting purposes. Although the Federal Antideficiency

⁵⁰ 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).

Act (ADA)⁵¹ generally requires that unobligated resources be available before any obligation can be incurred, the USF is exempt from the ADA until December 31, 2005.⁵²

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 the commitments and the 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 4Q2004.⁵³

Based on the level of applicant demand in Funding Year 2005 (which exceeds the annual funding cap of \$2.250 billion), USAC requests authority to collect an amount to provide \$562.500 million for 1Q2006, which is one-quarter of the \$2.250 billion annual cap on federal universal service support for schools and libraries. Results for 3Q2005 contribute to an over-funded condition for which the instant filing proposes to adjust the 1Q2006 requirements. The total adjustment to the 1Q2006 fund requirement based on actual results will decrease the funding needed by \$23.242 million. The explanations for the adjustment are described below:

⁵¹ 31 U.S.C. § 1341.

⁵² See H.R. 5419, 108th Cong 2d Sess., §302, Universal Service Antideficiency Temporary Suspension Act (effective Dec. 23, 2004).

⁵³ 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.

Reason for the Prior Period Adjustment	Adjustment in Millions
3Q2005 billings were higher than projected.	(\$4.815) M
Interest earned was higher than projected.	(10.683) M
Bad debt expense was lower than anticipated.	(7.744) M
Total Prior Period Adjustment	(\$23.242) M

The fund requirement of \$562.500 million, which includes administrative expenses of \$16.486 million, decreased by the prior-period adjustment of \$23.242 million, and reduced by the projected interest of \$41.262 million, results in a projected collection requirement of \$497.996 million for the Schools and Libraries Support Mechanism for 1Q2006.

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).⁵⁴ 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 October 2005. Interstate telecommunications service providers are required to complete this form, reporting January - March 2006 projected revenue information, and return it by November 1, 2005.

⁵⁴ 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.

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 issuing Notices of Apparent Liability (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; and by providing the FCC with call log information and written correspondence of carriers.

USAC has implemented the requirements of the Debt Collection Improvement Act (DCIA).⁵⁵ DCIA requires USAC to transfer monies that are 90 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's Enforcement Bureau. If the delinquent carrier fails to respond to the FCC request for payment, the delinquent account will be

⁵⁵ 31 U.S.C. §§ 3701 et seq.

forwarded to the United States Treasury Department and collected under Treasury's debt-offset program.

USAC implemented the Red Light Rule on November 1, 2004 and has instituted these guidelines for debt treatment.⁵⁶ If a contributor is delinquent to the USF, 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 delinquent on a debt owed to the FCC, USAC places administrative holds on any disbursements for SPINs that share the same TIN until the FCC provides information stating that the debt has been satisfied. USAC continues to work closely with the Commission and stakeholders affected by the Red Light Rule implementation.

CONCLUSION

At their October 24, 2005 meetings, USAC's High Cost & Low Income Committee, Rural Health Care Committee, and Schools & Libraries Committee passed resolutions authorizing the 1Q2006 support mechanism funding requirements described herein. At its October 25, 2005 meeting, the USAC Board of Directors adopted a resolution authorizing the inclusion of the 1Q2006 administrative expenses and 1Q2006 funding base in this report to the Commission.

⁵⁶ 47 C.F.R. § 1.910.

Respectfully submitted,

UNIVERSAL SERVICE
ADMINISTRATIVE COMPANY

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