

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

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

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

January 31, 2006

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)	9
Non-Rural Forward-Looking Mechanism.....	10
Competitive ETC lines	10
High Cost Support Mechanism Summary	11
LOW INCOME SUPPORT MECHANISM.....	12
Lifeline Support	12
Link Up America	13
Toll Limitation Support	14
Hurricane Katrina Relief	14
Low Income Support Mechanism Summary	15
RURAL HEALTH CARE SUPPORT MECHANISM	16
Funding Year 2002	16
Funding Year 2003	17
Funding Year 2004	17
Funding Year 2005	18
Rural Health Care Support Mechanism Summary	20
SCHOOLS AND LIBRARIES SUPPORT MECHANISM.....	21
Funding Year 1998	21
Funding Year 1999	21
Funding Year 2000	22
Funding Year 2001	23
Funding Year 2002	23
Funding Year 2003	24
Funding Year 2004	25
Funding Year 2005	25
Schools and Libraries Support Mechanism Summary	26
<i>Funding Year 1998 True-Up</i>	27
<i>Funding Year 1999 True-Up</i>	28
<i>Funding Year 2000 True-Up</i>	29
Funding Year 2001 True-Up	30

TABLE OF CONTENTS

<i>Funding Year 2002 True-Up</i>	30
<i>Funding Year 2003 True-Up</i>	31
<i>2Q2006 Demand Estimate and Contribution Requirement</i>	32
CONTRIBUTION BASE	34
OPERATIONS	34
CONCLUSION	36

APPENDICES

HIGH COST

High Cost Support Projected by State by Study Area – 2Q2006	HC01
High Cost Support Projected by State – 2Q2006	HC02
Rural Study Areas with Competition – 2Q2006.....	HC03
Disaggregated Per Line Support by Zone – 2Q2006	HC04
High Cost Loop Support Projected by State by Study Area – 2Q2006	HC05
Safety Net Additive Support – 2Q2006.....	HC06
Safety Valve Support – 2Q2006.....	HC07
Local Switching Support Projected by State by Study Area - 2Q2006.....	HC08
Interstate Common Line Support Projected by State by Study Area – 2Q2006.....	HC09
Interstate Common Line Support Projected per Line – 2Q2006	HC10
Interstate Common Line Support Projected by State – 2Q2006.....	HC11
Interstate Access Support Projected by State by Study Area – 2Q2006	HC12
Interstate Access Support Projected per Line – 2Q2006.....	HC13
Interstate Access Support Projected by State – 2Q2006	HC14
High Cost Model Support Projected by Wire Center – 2Q2006	HC15
High Cost Model Support Projected by State – 2Q2006	HC16
High Cost Model Support Projected by Study Area – 2Q2006	HC17
CETC Reported Lines by Incumbent Study Area	
High Cost Loop Support – 2Q2006	HC18
CETC Reported Lines by Incumbent Study Area	
Interstate Common Line Support – 2Q2006	HC19
CETC Reported Lines by Incumbent Study Area	
Interstate Access Support – 2Q2006.....	HC20
CETC Reported Lines by Incumbent Study Area	
High Cost Model Support – 2Q2006	HC21

LOW INCOME

Low Income Support Projected by State by Study Area – 2Q2006	LI01
Low Income Support Available by State – 2Q2006.....	LI02
Eligible Telecommunications Carriers – 4Q2005	LI03
Quarterly Low Income Support Disbursement Amounts by Company – 4Q2005.....	LI04
Annual Low Income Support Amounts by State and Company	
Through 3Q2005.....	LI05
Historical Data: Support Amounts Claimed by ETCs Each Month	
January 1998 through December 2005.....	LI06
Low Income Support Distributed by State in 2001 and through 3Q2005	LI07
Lifeline Subscribers by State or Jurisdiction	LI08

APPENDICES

Link-Up Beneficiaries by State or Jurisdiction.....	LI09
Tier 1 Amounts Reported by All Companies 3Q2005	LI10

RURAL HEALTH CARE

Funding Year 2002 Authorizations – 4Q2005	RH01
Funding Year 2002 Disbursements to Service Providers through 4Q2005	RH02
Funding Year 2003 Commitments – 4Q2005.....	RH03
Funding Year 2003 Authorizations – 4Q2005	RH04
Funding Year 2003 Disbursements to Service Providers through 4Q2005	RH05
Funding Year 2004 Commitments – 4Q2005.....	RH06
Funding Year 2004 Authorizations – 4Q2005	RH07
Funding Year 2004 Disbursements to Service Providers through 4Q2005	RH08
Funding Year 2005 Commitments - 4Q2005.....	RH09
Funding Year 2005 Authorizations – 4Q2005	RH10
Funding Year 2005 Disbursements to Service Providers through 4Q2005	RH11

SCHOOLS AND LIBRARIES

Funding Year 1999 Authorizations – 4Q2005	SL01
Funding Year 1999 Disbursements to Service Providers through 4Q2005	SL02
Funding Year 2000 Authorizations – 4Q2005	SL03
Funding Year 2000 Disbursements to Service Providers through 4Q2005	SL04
Funding Year 2001 Commitments – 4Q2005.....	SL05
Funding Year 2001 Authorizations – 4Q2005	SL06
Funding Year 2001 Disbursements to Service Providers through 4Q2005	SL07
Funding Year 2002 Commitments – 4Q2005.....	SL08
Funding Year 2002 Authorizations – 4Q2005	SL09
Funding Year 2002 Disbursements to Service Providers through 4Q2005	SL10
Funding Year 2003 Commitments – 4Q2005.....	SL11
Funding Year 2003 Authorizations – 4Q2005	SL12
Funding Year 2003 Disbursements to Service Providers through 4Q2005	SL13
Funding Year 2004 Commitments – 4Q2005.....	SL14
Funding Year 2004 Authorizations – 4Q2005	SL15
Funding Year 2004 Disbursements to Service Providers through 4Q2005	SL16
Funding Year 2005 Commitments – 4Q2005.....	SL17
Funding Year 2005 Authorizations – 4Q2005	SL18
Funding Year 2005 Disbursements to Service Providers through 4Q2005	SL19

APPENDICES

OTHER APPENDICES

Universal Service Administrative Company 2Q2006 Budget	M01
Fund Size Projections for 2Q2006.....	M02
Schedule of USF Receipts, Interest Income, and Cash Outlays:	
January 1 through December 31, 2005 – Cash Basis	M03
January 1 through December 31, 2005 – Accrual Basis	M04

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

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

INTRODUCTION

The Universal Service Administrative Company (USAC) submits the Federal Universal Service Support Mechanisms fund size and administrative cost projections for the second quarter of calendar year 2006 (2Q2006), 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 the 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 amounts owed from contributors, 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, and 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 Commission's guidance to USAC that costs associated with Interstate Access Support be allocated to the High Cost and Low Income Support Mechanisms. On January 1, 2006, USAC implemented a revised methodology for allocating joint and common costs that was filed with the Commission on October 3, 2005.⁵

USAC projects a consolidated budget of \$24.026 million for the 2Q2006. Direct costs for all support mechanisms total \$17.308 million⁶ and are detailed for each mechanism in the chart provided below. Joint and common costs (including billing, collection, and disbursement

⁴ 47 C.F.R. § 54.709(a)(3).

⁵ 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).

⁶ This includes \$0.090 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).

activities) are projected at \$6.718 million and are allocated to each support mechanism as reflected in the chart below based on the allocation methodology on file with the Commission.

2nd Quarter 2006 Administrative Expenses (millions)

USF Mechanism	Direct Costs	USAC Common	Total
High Cost	\$2.630	\$2.452	\$5.082
Low Income	.691	.524	1.215
Rural Health Care	1.461	.215	1.676
Schools & Libraries	12.526	3.527	16.053
Total	\$17.308	\$6.718	\$24.026

Commission rules currently direct the National Exchange Carrier Association (NECA) to continue performing certain universal service administrative functions for the High Cost Loop (HCL) Support Mechanism, specifically, the collection and processing of annual HCL data as well as the optional quarterly updates to that data.⁷ Recovery of HCL data collection expenses is properly attributable to the High Cost Support Mechanism because these functions are associated with the administration of the universal service support mechanisms. NECA bills these costs to USAC.⁸ NECA's projected 2Q2006 expenses to perform these universal service-related functions are \$0.090 million.

USAC budgets for 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

⁷ 47 C.F.R. §§ 36.611-36.613.

⁸ 47 C.F.R. § 69.603.

Fund Support Mechanisms, USAC's Board of Directors has requested clarification from the Commission concerning this matter.⁹

Appendix M01 details USAC's administrative expense budget for 2Q2006.

Appendix M02 details the fund size projections for 2Q2006.

INTEREST INCOME PROJECTION

For 2Q2006, USAC projects interest income of approximately \$4.305 million for the High Cost Support Mechanism, \$1.112 million for the Low Income Support Mechanism, \$0.403 million for the Rural Health Care Support Mechanism, and \$40.515 million for the Schools and Libraries Support Mechanism. USAC projects total interest of \$46.335 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 year ended December 31, 2005, on a cash basis, USAC disbursed \$6,506.266 million in universal service support to service providers: \$3,804.676 million in High Cost support, \$809.067 million in Low Income support, \$1,866.679 million in Schools and Libraries support, and \$25.844 million in Rural Health Care support. On a cash basis, the total cash balance available as of December 31, 2005 to the universal service support mechanisms was \$3,961.966 million.

On an accrual basis, USAC had a fund balance of \$4,075.593 million at December 31, 2005.

⁹ See Letter from D. Scott Barash, USAC, to Irene Flannery, FCC (Dec. 10, 1999).

Appendices M03 and M04 provide fund activity on a cash and accrual basis for the year ended December 31, 2005.

FUNDING REQUIREMENTS

HIGH COST SUPPORT MECHANISM

ELIGIBLE TELECOMMUNICATIONS CARRIER (ETC) DESIGNATION

A requirement of eligibility for 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 Part 36 and Subpart D of Part 54 of the Commission's rules.¹⁰ Qualified ETCs are eligible to receive funds from the High Cost Support Mechanism,¹¹ which includes High Cost Loop (HCL) support, Interstate Access Support (IAS), Local Switching Support (LSS), Interstate Common Line Support (ICLS), and non-rural forward-looking High Cost Model (HCM) support. Together, the projected requirements for these five components of the High Cost Support Mechanism and USAC's administrative expenses constitute the overall funding requirement for the High Cost Support Mechanism.

¹⁰ See 47 U.S.C. § 214(e), 47 C.F.R. § 54.201.

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

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	770	474	1244	105	1349	198	1547
Non-Rural	4	1	5	80	85	172	257
Total	774	475	1249	185	1434	370	1804

Appendix HC01 displays the projected minimum amount of individual company support segregated by rural and non-rural status. Appendix HC01 also contains the projected per-month amount for each component of High Cost support that each ETC¹² will be eligible to receive (i.e., HCL, HCM, IAS, LSS, and ICLS). Appendix HC02 displays the total projected amount of High Cost support for 2Q2006 for each state or territory. HC03 displays rural study areas with competition. HC04 displays disaggregated per-line High Cost support by zone, consistent with the disaggregation plans filed with USAC.

HIGH COST RURAL SUPPORT MECHANISM

High Cost Loop (HCL) Support

High Cost Loop (HCL) support is calculated based on the results of the annual collection of 2004 incumbent local exchange carrier (LEC) loop cost and expense adjustment data that was submitted to the Commission and USAC on October 1, 2005.¹³ Growth in total

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

¹³ Universal Service Fund (USF) 2005 Submission of 2004 Study Results (filed October 1, 2005) (*USF Data Submission*).

HCL support for rural carriers is limited under Section 36.603(a) of the Commission'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 as a result of the *RTF Order*.¹⁴

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

Pursuant to the *RTF Order*, SNA support is support above the HCL cap for carriers that make significant investment in rural infrastructure in years in which HCL is capped.¹⁵ To receive support, a rural carrier must show that growth in telecommunications plant in service (TPIS) per line is at least 14 percent greater than the study area's TPIS in the prior year. Carriers seeking to qualify for SNA support must provide written notice to USAC that a study area meets the 14 percent TPIS trigger.¹⁶ For 2Q2006, projected SNA support is \$5.339 million.

Also pursuant to the *RTF Order*, Safety Valve Support (SVS) is support above the HCL cap for rural carriers that acquire high cost exchanges and make substantial post-transaction investments to enhance network infrastructure.¹⁷ SVS is 50 percent of the difference between the index year HCL support amount and the HCL support amount in subsequent years.¹⁸ Safety

¹⁴ See *Federal-State Joint Board on Universal Service, Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket Nos. 96-45, 00-256, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, and Report and Order in CC Docket No. 00-256, FCC 01-157 (rel. May 23, 2001) (*RTF Order*).

¹⁵ See *RTF Order* at ¶¶ 77 to 90.

¹⁶ See 47 C.F.R. § 36.605(c).

¹⁷ See *RTF Order* at ¶¶ 91 to 119.

¹⁸ See 47 C.F.R. § 54.305(c). In an order released on January 10, 2005, the Commission 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.

Valve support is subject to an overall cap of no more than five percent of the HCL fund in any given year.¹⁹ For 2Q2006, projected Safety Valve support is \$0.059 million.

For 2Q2006, USAC projected HCL support is \$339.273 million. Of this amount, \$261.827 million is associated with rural carriers and \$72.048 million is associated with competitive ETCs. In addition, 2Q2006 SNA support is projected to be \$5.339 million and SVS is projected to be \$0.059 million. Based on these projections, total 2006 HCL support is estimated to be \$1,353.891 million.

Appendix HC05 displays projected monthly HCL support payments by study area for 2Q2006. Appendix HC06 displays projected monthly SNA support payments by study area for 2Q2006. Appendix HC07 displays SVS for 2Q2006.

Local Switching Support (LSS)

ETC study areas having 50,000 or fewer access lines are eligible to receive support for local switching costs.²⁰ Local Switching Support (LSS) is the product of a carrier's annual unseparated local switching revenue requirement multiplied by its local switching support factor.²¹

For 2Q2006, LSS for companies participating in the Traffic Sensitive Pool is projected to be \$57.237 million for cost study areas and \$19.544 million for average schedule study areas. LSS for the non-Pool study areas is projected to be \$17.165 million for cost study areas and \$1.902 million for average schedule study areas for 2Q2006. In addition, 2Q2006 LSS for competitive ETCs is projected to be \$25.367 million. USAC projects, therefore, that \$121.215

¹⁹ See 47 C.F.R. § 54.305(e).

²⁰ See 47 C.F.R. § 54.301.

²¹ 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.

million will be required for 2Q2006. Based on these projections, total 2006 LSS is estimated to be \$484.401 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 Commission reformed the interstate access charge and universal service support systems for rate-of-return carriers.²²

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 2Q2006, ICLS for incumbent rate-of-return carriers is projected to be \$237.242 million. In addition, 2Q2006 ICLS for competitive ETCs is projected to be \$85.716 million. USAC projects, therefore, that \$322.958 million will be required for 2Q2006. Based on these projections, total 2006 ICLS is estimated to be \$1,291.700 million

Appendices HC09, HC10, and HC11 detail USAC's 2Q2006 projection of ICLS by state, study area and per line, respectively.

INTERSTATE ACCESS SUPPORT MECHANISM (IAS)

Interstate Access Support (IAS) helps offset interstate access charges for price cap companies.²³ The *Interstate Access Order* targets the support mechanism at \$650 million annually

²² See *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Federal-State Joint Board on Universal Service, Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation, Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers*, CC Docket Nos. 00-256, 96-45, 98-77, 98-166, Second Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report and Order in CC Docket No. 96-45, and Report and Order in CC Docket Nos. 98-77 and 98-166, FCC 01-304 (rel. Nov. 8, 2001) (*MAG Order*).

²³ See *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers*, CC Docket Nos. 96-262, 94-1, Sixth Report and Order, *Low-Volume Long Distance Users*, CC Docket No. 99-249, Report and Order, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Eleventh Report and Order, FCC 00-193 (rel. May 31, 2000) (*Interstate Access Order*).

for five years.²⁴

The IAS projected industry-wide totals for 2Q2006 are \$38.357 million for rural carriers, \$102.280 million for non-rural carriers and \$40.255 million for competitive ETCs. USAC projects, therefore, that \$180.892 million will be required for 2Q2006 with total annual IAS estimated to be \$723.995 million.

Appendices HC12, HC13, and HC14 detail USAC's 2Q2006 projection of IAS by state, study area and per line, respectively.

NON-RURAL FORWARD-LOOKING MECHANISM

Under the most recent calculation of forward-looking High Cost Model (HCM) support, 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 2006.²⁵

For 2Q2006, USAC projects that \$88.127 million will be required for HCM support (\$54.209 million for incumbent non-rural carriers and \$33.918 million for competitive ETCs). Based on these projections, total 2006 forward-looking support is estimated to be \$341.756 million.

Appendices HC15, HC16, and HC17 detail USAC's 2Q2006 projection of non-rural forward-looking support by wire center, state, and study area, respectively.

COMPETITIVE ETC LINES

Appendix HC18 displays competitive ETC lines reported for HCL support by incumbent study area. Appendix HC19 displays competitive ETC lines reported for ICLS by

²⁴ See *Interstate Access Order* at ¶ 201.

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

incumbent study area. Appendix HC20 displays competitive ETC lines reported for IAS by incumbent study area. Appendix HC21 displays competitive ETC lines reported for HCM support by incumbent study area.

HIGH COST SUPPORT MECHANISM SUMMARY

USAC estimates the 2Q2006 High Cost funding requirement as follows: \$339.273 million for HCL support; \$121.215 million for LSS; \$322.958 million for ICLS; \$180.892 million for IAS; and \$88.127 million for HCM for a total of \$1,052.465 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.²⁶ 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 4Q2005 contributed to an over-funded condition, for which this filing proposes to adjust the 2Q2006 requirements. The total adjustment to the 2Q2006 fund

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

requirement based on actual results will decrease the funding needed by \$15.423 million. The detailed explanations for the adjustment are described below.

Reason for the Prior Period Adjustment	Adjustment in Millions
4Q2005 actual billings were higher than expected due to higher revenues reported by contributors in their quarterly revenue projection and annual true-up filings.	\$ (9.753)
Distributions were higher than expected in 4Q2005.	1.499
Interest earned was higher than estimated in 4Q2005.	(1.468)
Bad debt expense was lower than anticipated in 4Q2005.	(5.701)
Total Prior Period Adjustment	\$ (15.423)

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

The total fund requirement of \$1,052.465 million, decreased by the prior-period adjustment of \$15.423 million, increased by administrative costs of \$5.082 million, and reduced by the projected interest of \$4.305 million, results in a total projected funding requirement for the High Cost Support Mechanism for 2Q2006 of \$1,037.819 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.²⁷ 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.²⁸ 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

²⁷ See 47 C.F.R. §§ 54.201.

²⁸ 47 C.F.R. §§ 54.401 - 54.417.

One),²⁹ 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).³⁰ Further, up to an additional \$25 per low-income subscriber per month is available to eligible residents of tribal lands (Tier Four).³¹

For 2Q2006, USAC projects that \$193.488 million will be required for Lifeline support. Based on this projection, total 2006 Lifeline support is estimated to be \$777.391 million.

LINK UP AMERICA

Link Up support compensates ETCs up to \$30 per eligible subscriber 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.³² For 2Q2006, USAC projects that \$8.860 million will be required for Link Up support. Based on this projection, total 2006 Link Up support is estimated to be \$36.447 million.

²⁹ 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).

³⁰ 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.

³¹ 47 C.F.R. § 54.400(e).

³² 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*).

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 Commission 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.³³ 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.³⁴ For 2Q2006, USAC projects that \$1.717 million will be required for TLS. Based on this projection, total 2006 TLS is estimated to be \$6.896 million.

HURRICANE KATRINA RELIEF

In the *Katrina Relief Order*,³⁵ the Commission 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 per eligible subscriber 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 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

³³ 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).

³⁴ 47 C.F.R. § 54.400(b), (c).

³⁵ 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*).

March 1, 2007. The Commission has estimated the total impact of the Link Up rules modifications to be approximately \$12 million. For 2Q2006, USAC projects that an additional \$11.700 million will be required for Lifeline support pursuant to the *Katrina Relief Order*.³⁶ For 2Q2006, USAC projects that an additional \$2.400 million will be required for Link Up support to fund Hurricane Katrina relief.³⁷ Based on this projection, total 2Q2006 support for Hurricane Katrina Relief is estimated to be \$14.100 million.

LOW INCOME SUPPORT MECHANISM SUMMARY

As discussed above, USAC estimates a 2Q2006 funding requirement for the Low Income Support Mechanism of \$218.165 million. This estimate includes \$193.488 million for Lifeline, \$8.860 million for Link Up, \$1.717 million for Toll Limitation Service, and \$14.100 million for Hurricane Katrina Relief. Results of 4Q2005 contribute to an over-funded condition, for which this filing proposes to adjust the 2Q2006 requirements. The total adjustment to the 2Q2006 funding requirement based on actual results will decrease the funding needed by \$4.152 million.

The detailed explanations for the adjustment are described below.

Reason for the Prior Period Adjustment	Adjustment in Millions
4Q2005 actual billings were higher than expected due to higher revenues reported by contributors in their quarterly revenue projection and annual true-up filings.	\$(2.402)
Distributions were lower than expected in 4Q2005	(1.472)
Interest earned was higher than estimated for 4Q2005	(0.332)
Bad debt expense was higher than anticipated	0.054
Total Prior Period Adjustment	\$ (4.152)

³⁶ USAC estimates that 30 percent of the approximately \$39 million in additional Lifeline support will be paid in 2Q2006.

³⁷ USAC estimates that 20 percent of the approximately \$12 million in additional Link Up support will be paid in 2Q2006.

The total fund requirement of \$218.165 million, decreased by the prior-period adjustment of \$4.152 million, increased for administrative expenses of \$1.215 million, and the deduction of the projected interest income of \$1.112 million results in a total projected funding requirement for the Low Income Support Mechanism for 2Q2006 of \$214.116 million.

Appendix LI01 provides projected Low Income support amounts by state by study area for 2Q2006. Appendix LI02 provides detail on Low Income funding amounts available in each of the states and territories for 2Q2006. Appendix LI03 provides a list of eligible telecommunications carriers (ETCs) for 4Q2005. Appendix LI04 provides detail on quarterly company-specific Low Income support disbursement amounts for 4Q2005. Appendix LI05 provides detail on annual company-specific Low Income support amounts through 3Q2005. Appendix LI06 provides historical data of monthly support amounts claimed by ETCs from January 1998 through December 2005. Appendix LI07 provides detail on Low Income support distributed by state for 2001 through 3Q2005. 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 3Q2005.

RURAL HEALTH CARE SUPPORT MECHANISM

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 December 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 \$22.259 million. The Commission previously authorized the collection of \$22.259 million for Funding Year 2002.

Authorized funding by applicant during 4Q2005 and disbursements made to service providers through 4Q2005 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 December 31, 2005, funding commitments have been issued totaling \$27.932 million. However, based on information provided by the applicants, USAC now estimates Funding Year 2003 demand will be \$26.250 million. The Commission previously authorized the collection of \$26.250 million.

Funding commitments made during 4Q2005 are included in Appendix RH03.

Authorized funding by applicant during 4Q2005 and disbursements made to service providers through 4Q2005 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 June 30, 2005. As of December 31, 2005, 2,946 Forms 465 have been posted. In addition, as of December 31, 2005, 4,652 application packets have been received including 807 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	4,064
Packets Awaiting Supervisory Approval Only	62
Complete – Ready to Process	2
Withdrawn by Applicant	322
Denied	94
Incomplete – Require Forms and/or Clarification	108
Total Packets Received for Funding Year 2004	4,652

As of December 31, 2005, funding commitments have been issued totaling \$32.435 million. However, based on information provided by the applicants as of December 31, 2005, USAC estimates Funding Year 2004 demand will be \$30.174 million. The Commission previously authorized the collection of \$28.051 million for Funding Year 2004. Based on the revised estimate of demand, USAC recommends the Commission increase collections for Funding Year 2004 by \$2.123 million in 2Q2006.

Funding commitments made during 4Q2005 are included in Appendix RH06. Authorized funding by applicant during 4Q2005 and disbursements made to service providers during 4Q2005 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 December 31, 2005, 3,285 Form 465s have 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 36 percent higher than demand in Funding Year 2004, resulting in a Funding Year 2005 demand of \$41.097 million. This estimate assumes that applicants who receive support for Funding Year 2004 will receive a similar level of support for Funding Year 2005. The estimate also projects an increase based on the large number of new applicants in Funding Year 2005. The Funding Year 2005 estimate includes a provision for Funding Year 2004 changes to the Rural Health Care Support Mechanism implemented by the Commission 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 percent discount on their telecommunications services, as well

as any new applicants who become eligible as a result of the new definition of rural. The Funding Year 2005 estimate also includes provision for the *Katrina Relief Order*,³⁸ and its impact on the Rural Health Care Program. The status of Funding Year 2005 packets is provided below.

FUNDING YEAR 2005	
Packets Completely Processed	389
Packets Awaiting Supervisory Approval Only	77
Complete – Ready to Process	386
Withdrawn by Applicant	60
Denied	4
Incomplete – Require Forms and/or Clarification	538
Total Packets Received for Funding Year 2005	1,454

The Commission authorized collection of one-half of the estimated demand, or \$20.508 million, in 4Q2005 and 1Q2006. Considering the revised demand estimate for FY2005, USAC recommends that the Commission authorize the collection of \$10.29 million for Funding Year 2005 in 2Q2006.

Funding commitments made during 4Q2005 are included in Appendix RH09. Authorized funding by applicant during 4Q2005 and disbursements made to service providers during 4Q2005 are listed in Appendices RH10 and RH11, respectively.

³⁸ See *Katrina Relief Order*.

RURAL HEALTH CARE SUPPORT MECHANISM SUMMARY

The estimated 2Q2006 demand requirement for the Rural Health Care Support Mechanism is \$14.402 million. The results of 4Q2005 contributed to an under-funded condition of \$0.716 million which will be adjusted in the March 1, 2006 filing for the 2Q2006 requirements. The detailed explanation for the adjustment is as follows:

Reason for the Prior Period Adjustment	Adjustment in Millions
The 4Q2005 billings were lower than expected due to billing adjustments	\$0.765
Interest earned was less than estimated for the 4Q2005.	0.057
Bad Debt Expense was lower than anticipated in 4Q2005	(0.106)
Total Prior Period Adjustment	\$0.716

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

The total fund requirement of \$12.413 million, increased by the prior-period adjustment of \$0.716 million and administrative expenses of \$1.676 million and decreased by projected interest income of \$0.403 million, results in a total projected funding requirement for the Rural Health Care Support Mechanism for 2Q2006 of \$14.402 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 December 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	\$ 675.9	39.9%	\$ 507.7	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		\$1,399.7		82.5%

Note: Columns in table may not add perfectly due to rounding

As of December 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 4Q2005 for Funding Year 1998.

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	\$ 635.1	29.5%	\$ 454.0	27.3%	71.5%
Internet Access	\$ 149.5	7.0%	\$ 95.8	5.8%	64.1%
Internal Connections	\$1,366.0	63.5%	\$1,113.1	66.9%	81.5%
TOTAL	\$2,150.7		\$1,662.9		77.3%

Note: Columns in table may not add perfectly due to rounding

As of December 31, 2005, no Funding Year 1999 applications remained under review.

Funding Year 1999 began on July 1, 1999, and ended on June 30, 2000.

Universal Service Administrative Company 2Q2006 Fund Size Projections

Authorized funding by applicant during 4Q2005 and cumulative payments made to service providers through 4Q2005 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	\$ 720.0	34.7%	\$ 480.3	29.1%	66.7%
Internet Access	\$ 219.2	10.6%	\$ 135.0	8.2%	61.6%
Internal Connections	\$1,136.9	54.8%	\$1,035.3	62.7%	91.1%
TOTAL	\$2,076.1		\$1,650.6		79.5%

Note: Columns in table may not add perfectly due to rounding

As of December 31, 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 4Q2005 and cumulative payments made to service providers through 4Q2005 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	\$ 768.9	34.9%	\$ 520.6	31.1%	67.7%
Internet Access	\$ 226.7	10.3%	\$ 150.0	9.0%	66.2%
Internal Connections	\$1,205.1	54.8%	\$1,002.3	59.9%	83.2%
TOTAL	\$2,200.7		\$1,672.9		76.0%

Note: Columns in table may not add perfectly due to rounding

As of December 31, 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 4Q2005 are included in Appendix SL05. Authorized funding by applicant during 4Q2005 and cumulative payments made to service providers through 4Q2005 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	\$ 855.8	38.5%	\$ 592.3	39.1%	69.2%
Internet Access	\$ 249.1	11.2%	\$ 169.3	11.2%	68.0%
Internal Connections	\$ 1,118.2	50.3%	\$ 753.2	49.7%	67.4%
TOTAL	\$ 2,223.2		\$ 1,514.9		68.1%

Note: Columns in table may not add perfectly due to rounding

As of December 31, 2005, USAC continued to review and process the remaining 16 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 4Q2005 are included in Appendix SL08.

Authorized funding by applicant during 4Q2005 and cumulative payments to service providers through 4Q2005 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	\$ 888.3	33.1%	\$ 632.3	36.0%	71.2%
Internet Access	\$ 268.8	10.0%	\$ 194.2	11.1%	72.3%
Internal Connections	\$1,530.6	57.0%	\$ 930.0	52.9%	60.8%
TOTAL	\$2,687.7		\$ 1,756.5		65.4%

Note: Columns in table may not add perfectly due to rounding

As of December 31, 2005, 39 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 4Q2005 are included in Appendix SL11. Authorized funding by applicant during 4Q2005 and cumulative payments to service providers through 4Q2005 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	\$ 948.1	41.2%	\$ 568.9	51.3%	60.0%
Internet Access	\$ 236.7	10.3%	\$ 176.0	15.9%	74.4%
Internal Connections	\$1,116.0	48.5%	\$ 363.4	32.8%	32.6%
TOTAL	\$2,300.8		\$1,108.4		48.2%

Note: Columns in table may not add perfectly due to rounding

As of December 31, 2005, approximately 177 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 4Q2005 are included in Appendix SL14. Authorized funding by applicant during 4Q2005 and cumulative payments to service providers through 4Q2005 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	\$ 713.2	62.2%	\$ 29.0	53.1%	4.1%
Internet Access	\$ 188.1	16.4%	\$ 23.5	42.9%	12.5%
Internal Connections	\$ 245.4	21.4%	\$ 2.2	4.0%	1.0%
TOTAL	\$1,146.8		\$ 54.6		4.8%

Note: Columns in table may not add perfectly due to rounding

In the first 27 waves for Funding Year 2005, as of December 31, 2005, USAC issued over 25,600 funding commitment decisions letters to applicants. Funding Year 2005 began on July 1, 2005, and will end on June 30, 2006.

Funding commitments made to applicants during 4Q2005 are included in Appendix SL17. Authorized funding by applicant 4Q2005 and cumulative payments to service providers through 4Q2005 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 1Q2003.³⁹

In the *Schools and Libraries Third Report and Order and Second Further Notice of Proposed Rulemaking*, the Commission amended its rules allowing unused funds from prior years to be carried forward on an annual basis in the second quarter of each calendar year for use in the next full funding year.⁴⁰ The Commission required USAC to file quarterly estimates of unused funds from prior funding years submitting 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 2003.⁴¹ In accordance with the *Schools and Libraries Third Report and Order*, the Commission announced that \$150 million in unused funds from

³⁹ 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*).

⁴⁰ 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*).

⁴¹ *Id.*

Funding Year 2001 would be carried forward to increase disbursements to schools and libraries in Funding Year 2004.⁴²

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. On October 14, 2005, the Commission released an order to provide assistance to victims of Hurricane Katrina.⁴³ Because the Schools and Libraries 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 December 31, 2005, \$1,399.699 million of Funding Year 1998 support had been disbursed. USAC estimates that a contingency amount of \$6.350 million should be reserved to pay appeals pending at USAC and the Commission and to pay invoices on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, no Funding Year 1998 funds are available to carry forward.

⁴² 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).

⁴³ See *Katrina Relief Order*.

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
Amount Disbursed	(1,399.699)
Administrative Expenses (21 months)	(41.791)
Amount Applied to Adjust 2000, 2001, and 2002 Collections	(477.160)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(6.350)
Estimated Remaining Balance	\$0.000

Note: Column in table may not add perfectly due to rounding

Funding Year 1999 True-Up

As of December 31, 2005, \$1,662.941 million of Funding Year 1999 support had been disbursed. USAC’s projection of the remaining Funding Year 1999 funds includes an estimate of funds needed to pay additional disbursements on committed funding requests and a contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements, USAC estimates that \$15 million of Funding Year 1999 funds are available to carry forward.

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
Amount Disbursed	(1,662.941)
Administrative Expenses	(32.316)
Amount Applied to Adjust 3Q2002 Collections	(256.160)
Amount Applied to Adjust 4Q2002 Collections	(212.927)
Amount Carried Forward to Funding Year 2003	(50.000)
Potential Additional Disbursements on Committed FRNs	(0.792)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(19.864)
Estimated Remaining Balance	\$15.000

Funding Year 2000 True-Up

As of December 31, 2005, \$1,650.593 million of Funding Year 2000 support had been disbursed. 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 Commission orders. Given these requirements and to preserve the contingency amounts, no Funding Year 2000 funds are available to carry forward.

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
Amount Disbursed	(1,650.593)
Administrative Expenses	(32.235)
Amount Applied to Adjust 4Q2002 Collections	(136.849)
Amount Applied to Adjust 1Q2003 Collections	(246.180)
Amount Carried Forward to Funding Year 2003	(160.000)
Potential Additional Disbursements on Committed FRNs	(1.646)
Contingency Reserve for Potential Disbursements in Funding Year 2004 ⁴⁴	(10.000)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(12.497)
Estimated Remaining Balance	\$0.000

⁴⁴ In a March 17, 2005, letter from the Commission’s Wireline Competition Bureau Chief Jeffrey Carlisle to USAC CEO Lisa Zaina, the Commission 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.” (The March 17, 2005, WCB Letter).

FUNDING YEAR 2001 TRUE-UP

As of December 31, 2005, \$1,672.879 million of Funding Year 2001 support had been disbursed. 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 Commission orders. Given these requirements and to preserve the contingency amounts, no Funding Year 2001 funds are available to carry forward.

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
Amount Disbursed	(1,672.879)
Administrative Expenses	(30.559)
Amount Carried Forward to Funding Year 2003	(210.000)
Amount Carried Forward to Funding Year 2004	(150.000)
Potential Additional Disbursements on Committed FRNs	(24.622)
Remaining Uncommitted Requests	(20.329)
Contingency Reserve for Potential Disbursements in Funding Year 2004 ⁴⁵	(50.000)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(91.611)
Estimated Remaining Balance	\$0.000

Funding Year 2002 True-Up

As of December 31, 2005, \$1,514.866 million of Funding Year 2002 support had been disbursed. USAC’s projection of the remaining Funding Year 2002 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and

⁴⁵ See The March 17, 2005, WCB Letter.

disbursements on requests that have not yet received funding commitments, as well as contingency reserves to cover potential disbursements in Funding Year 2004, pay pending appeals and make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements, USAC estimates that \$200 million of Funding Year 2002 funds are available to carry forward.

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
Amount Disbursed	(1,514.866)
Administrative Expenses	(38.531)
Potential Additional Disbursements on Committed FRNs	(129.309)
Remaining Uncommitted Requests	(1.678)
Contingency Reserve for Potential Disbursements in Funding Year 2004 ⁴⁶	(100.000)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(265.616)
Estimated Remaining Balance	\$200.000

Funding Year 2003 True-Up

As of December 31, 2005, \$1,756.498 million of Funding Year 2003 support had been disbursed. 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 make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements, USAC estimates that \$150 million of Funding Year 2003 funds are available to carry forward.

⁴⁶ See The March 17, 2005, WCB Letter.

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
Amount Carried Forward from Funding Years 1999, 2000 and 2001	420.000
Amount Disbursed	(1,756.498)
Administrative Expenses	(43.009)
Potential Additional Disbursements on Committed FRNs	(539.885)
Remaining Uncommitted Requests	(45.956)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(134.652)
Estimated Remaining Balance	\$150.000

2Q2006 Demand Estimate and Contribution Requirement

Pursuant to Commission order, USAC changed the accounting methodology for the Universal Service Fund (USF) to generally accepted accounting principles for government entities on October 1, 2004.⁴⁷ Commission 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 Antideficiency Act (ADA)⁴⁸ generally requires that unobligated resources be available before any obligation can be incurred, Congress exempted the USF from the requirements of the ADA through December 31, 2006.⁴⁹

To reduce the large USF cash reserve that has accumulated primarily because the structure of the program often results in significant time lags between the commitments and

⁴⁷ 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).

⁴⁸ 31 U.S.C. § 1341.

⁴⁹ See H.R. 5419, 108th Cong 2d Sess., §302, Universal Service Antideficiency Temporary Suspension Act (effective Dec. 23, 2004) and H.R. 2862, 109th Cong 1st Sess., 8,633, Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006 (effective Nov. 22, 2005).

actual disbursements while at the same time retaining the ability for the USF to satisfy all outstanding commitments based on historic disbursement patterns, the Commission applied a total of \$550 million of the undisbursed USF balance from prior years against Schools and Libraries Support Mechanism demand in 2004. The Commission applied \$200 million of the cash balance in both 2Q2004 and 3Q2004, and \$150 million in 4Q2004.⁵⁰

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 in funding for 2Q2006, which is one-quarter of the \$2.250 billion annual cap on federal universal service support for schools and libraries. Results for 4Q2005 contribute to an over-funded condition for which this filing proposes to adjust the 2Q2006 requirements. The total adjustment to the 2Q2006 fund requirement based on actual results will decrease the funding needed by \$14.513 million. The explanations for the adjustment are described below:

Reason for the Prior Period Adjustment	Adjustments in Millions
4Q2005 Billings were higher than projected	\$ (6.758)
Interest earned was higher than projected	(2.360)
Bad debt expense was less than anticipated	(5.395)
Total Prior Period Adjustment	\$ (14.513)

The fund requirement of \$562.500 million, which includes administrative expenses of \$16.053 million, decreased by the prior-period adjustment of \$14.513 million and projected interest income of \$40.515 million, results in a projected collection requirement of \$507.472 million for the Schools and Libraries Support Mechanism for 2Q2006.

⁵⁰ 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 Commission 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.

CONTRIBUTION BASE

USAC collects quarterly interstate and international revenue information from carriers on FCC Form 499-Q four times each year on March 2, June 1, September 1, and December 2, and submits aggregate information on a quarterly basis to the Commission.⁵¹ Based on these filings, the Commission 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.⁵² The Commission uses USAC projections of collected revenues to determine the contribution factor.

Approximately 5,500 FCC Forms 499-Qs were distributed to carriers in early January 2006. Interstate telecommunications service providers are required to complete this form, reporting April - June 2006 projected revenue information, and return it to USAC by February 1, 2006.

OPERATIONS

USAC invoices and receives contributions from more than 2,500 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 maintained the uncollectible billings rate below one percent of the total funds billed to contributing telecommunications carriers.

USAC continues to assist the Commission in its USF collection enforcement efforts, including providing documentation on a monthly basis to assist the Commission in issuing

⁵¹ 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.

⁵² 47 C.F.R. § 54.708

Notices of Apparent Liability (NALs) against non-payers. USAC also assists the Commission by working with carriers to achieve compliance with filing and contribution requirements; and by providing the Commission information on carriers that have not filed a Form 499, monthly reports listing non-payers by amount owed and type of carrier, call log information and copies of written correspondence with carriers.

USAC has implemented the requirements of the Debt Collection Improvement Act (DCIA).⁵³ DCIA requires USAC to transfer monies that are 90 days delinquent to the Commission after USAC has provided the delinquent carriers with the notice required under Commission and DCIA requirements. Upon receipt of the outstanding debts, the Commission will provide the delinquent carriers with one notice advising them of their USF debt and the possibility of further enforcement activities pursuant to the DCIA and/or by the Commission's Enforcement Bureau. If a delinquent carrier fails to respond to the Commission's request for payment, the delinquent account is typically forwarded to the United States Treasury Department and collected under the Treasury's debt-offset program.

USAC implemented the Red Light Rule on November 1, 2004 and has instituted these guidelines for contributor debts to the USF.⁵⁴ 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 Commission, USAC places administrative holds on any disbursements for SPINs that share the same TIN until the Commission provides information

⁵³ 31 U.S.C. §§ 3701 et seq.

⁵⁴ 47 C.F.R. § 1.910.

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 January 23, 2006 meetings, USAC's High Cost & Low Income Committee, Rural Health Care Committee, and Schools & Libraries Committee adopted resolutions authorizing the 2Q2006 support mechanism funding requirements described herein. At its January 24, 2006 meeting, the USAC Board of Directors adopted a resolution authorizing the inclusion of the 2Q2006 administrative expenses and 2Q2006 funding base in this report to the Commission.

Respectfully submitted,

UNIVERSAL SERVICE
ADMINISTRATIVE COMPANY

/s/ D. Scott Barash

D. Scott Barash, Acting Chief Executive Officer
David Capozzi, Acting General Counsel
W.B. Erwin, Vice President of Finance
2000 L Street N.W., Suite 200
Washington, DC 20036-4924
Voice: 202.776.0200
Fax: 202.776.0080

January 31, 2006