

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Federal Universal Service Support Mechanisms Fund Size
Projections for the Second Quarter 2007

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

**FEDERAL UNIVERSAL SERVICE SUPPORT MECHANISMS
FUND SIZE PROJECTIONS FOR THE
SECOND QUARTER 2007**

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 2007 (2Q2007), 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 Fund (USF) and the 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 INCOME 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.⁵

USAC projects a consolidated budget of \$37.299 million for 2Q2007. Direct costs for all support mechanisms total \$25.958 million⁶ and are listed for each mechanism in the chart provided below. Joint and common costs (including billing, collection, and disbursement activities) are projected at \$11.341 million and are allocated to each support mechanism as described in the chart below based on the allocation methodology on file with the Commission.

⁴ 47 C.F.R. § 54.709(a)(3).

⁵ 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. 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 amount includes \$99,250 budgeted each quarter for High Cost data collection performed by the National Exchange Carrier Association (NECA)—an independent entity not affiliated with USAC. See 47 C.F.R. §§ 36.611-13 and 69.603. Although USAC is required to pay for the data collection, it does not have the ability to directly oversee the effort and cannot 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 USF, 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). See also Comments of the Universal Service Administrative Company to the *Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking* in CC Docket No. 05-195, FCC 05-124 (June 14, 2005); and *Reply Comments of the Universal Service Administrative Company* (Dec. 19, 2005).

Universal Service Administrative Company 2Q2007 Fund Size Projections

2nd Quarter 2007 Administrative Expenses (in millions)

USF Mechanism	Direct Costs	USAC Common	Total
High Cost	\$5.203	\$4.049	\$9.252
Low Income	1.627	0.862	2.489
Rural Health Care	1.858	0.352	2.210
Schools & Libraries	17.270	6.078	23.348
Total	\$25.958	\$11.341	\$37.299

Appendix M01 provides USAC's administrative expense budget for 2Q2007.

Appendix M02 provides the fund size projections for 2Q2007.

INTEREST INCOME PROJECTION

For 2Q2007, USAC projects interest income of approximately \$6.048 million for the High Cost Support Mechanism, \$2.798 million for the Low Income Support Mechanism, \$0.643 million for the Rural Health Care Support Mechanism, and \$47.395 million for the Schools and Libraries Support Mechanism. USAC projects total interest income of \$56.884 million. As in previous quarters, the projected interest income is being included as an offset to administrative expenses for each of the support mechanisms 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 three months ended December 31, 2006, on a cash basis, USAC disbursed \$1,789.651 million in universal service support as follows: \$1,073.634 million in High Cost support, \$203.381 million in Low Income support, \$498.460 million in Schools and Libraries support, and \$14.176 million in Rural Health Care support. On a cash basis, the total cash balance available as of December 31, 2006 to the universal service support mechanisms was

Universal Service Administrative Company 2Q2007 Fund Size Projections

\$4,551.850 million. On an accrual basis, USAC had a fund balance of \$4,677.308 million at December 31, 2006.

Appendices M03 and M04 provide 2006 year-to-date statements of fund activity on a cash and accrual basis.

FUNDING REQUIREMENTS

HIGH COST SUPPORT MECHANISM

ELIGIBLE TELECOMMUNICATIONS CARRIER (ETC) DESIGNATION

A requirement of 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 Part 36 and Subpart D of Part 54 of the Commission's rules.⁷ ETCs are eligible to receive funds from the High Cost Support Mechanism,⁸ which includes High Cost Loop Support, Interstate Access Support, Local Switching Support, Interstate Common Line Support, and High Cost Model Support. Together, the projected requirements for these five components of the High Cost Support Mechanism and 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.

⁷ See 47 U.S.C. § 214(e), 47 C.F.R. § 54.201.

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

Universal Service Administrative Company 2Q2007 Fund Size Projections

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	781	465	1246	105	1351	227	1578
Non-Rural	4	1	5	80	85	207	290
Total	785	466	1251	185	1436	434	1868

Appendix HC01 provides the projected minimum amount of individual company support segregated by rural and non-rural status. HC01 also contains the projected per-month amount for the components of High Cost support that each ETC⁹ will be eligible to receive. HC02 provides the total projected amount of High Cost support for 2Q2007 for each state and territory. HC03 provides rural study areas with competition. HC04 provides disaggregated per-line High Cost support by zone, consistent with disaggregation plans filed with USAC.

HIGH COST RURAL SUPPORT MECHANISM

High Cost Loop Support (including Safety Net Additive and Safety Valve Support)

High Cost Loop (HCL) Support is calculated based on the results of the annual collection of 2004 incumbent local exchange carrier loop cost and expense adjustment data that was submitted to the Commission and USAC on October 1, 2005.¹⁰ Growth in total 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

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

¹⁰ Universal Service Fund (USF) 2005 Submission of 2004 Study Results (filed Oct. 1, 2005) (*USF Data Submission*).

Universal Service Administrative Company 2Q2007 Fund Size Projections

loops.¹¹ Effective July 1, 2001, pursuant to the *RTF Order*,¹² HCL Support increased for rural companies.

Rural HCL Support for calendar year 2007 will be more than the level of payments for 2006 because of a rural growth factor of 0.2517 percent. Rural HCL Support for calendar year 2007, therefore, is capped at \$1,050.000 million.

Pursuant to the *RTF Order*, Safety Net Additive (SNA) Support is support above the HCL cap for carriers that make significant investment in rural infrastructure in years in which HCL is capped.¹³ 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.¹⁴ For 2Q2007, projected SNA Support is \$8.419 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.¹⁵ SVS is 50 percent of the difference between the index year HCL Support amount and the HCL Support amount in

¹¹ 47 C.F.R. § 36.603(a).

¹² 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, 16 FCC Rcd 11244 (2001) (*RTF Order*).

¹³ See *RTF Order* at ¶¶ 77-90.

¹⁴ See 47 C.F.R. § 36.605(c).

¹⁵ See *RTF Order* at ¶¶ 91-119.

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subsequent years.¹⁶ SVS is subject to an overall cap of no more than 5 percent of the HCL fund in any given year.¹⁷ For 2Q2007, projected SVS is \$0.537 million.

For 2Q2007, USAC projected HCL Support is \$355.156 million. Of this amount, \$262.664 million is associated with rural carriers and \$92.492 million is associated with competitive ETCs. In addition, 2Q2007 SNA Support is projected to be \$8.419 million and SVS is projected to be \$0.537 million. Based on these projections, total 2Q2007 HCL support is projected to be \$364.112 million, and total annual 2007 HCL Support is estimated to be \$1,446.486 million.

Appendix HC05 provides projected monthly HCL Support payments by study area for 2Q2007. HC06 provides projected monthly SNA Support payments by study area for 2Q2007. HC07 displays SVS for 2Q2007.

Local Switching Support

ETC study areas having 50,000 or fewer access lines are eligible to receive support for local switching costs.¹⁸ Local Switching Support (LSS) is the product of a carrier's annual unseparated local switching revenue requirement multiplied by its local switching support factor.¹⁹

For 2Q2007, LSS is projected to be \$21.653 million for average schedule carriers and \$72.164 million for cost study carriers. In addition, 2Q2007 LSS for competitive ETCs is projected to be \$29.734 million. USAC projects, therefore, that \$123.551 million will be

¹⁶ 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, 20 FCC Rcd 768, 772, ¶ 9 (2005). In addition, the FCC amended Section 54.305 to provide that rural carriers that acquire high cost exchanges may receive SVS for the investment made in the first year of operating the acquired exchanges. *Id.* at ¶ 10.

¹⁷ See 47 C.F.R. § 54.305(e).

¹⁸ See 47 C.F.R. § 54.301.

¹⁹ The LSS factor is defined as the difference between the 1996 weighted interstate Dial Equipment Minute (DEM) factor and the 1996 unweighted DEM factor.

Universal Service Administrative Company 2Q2007 Fund Size Projections

required for 2Q2007. Based on these projections, total 2007 LSS is estimated to be \$493.182 million.

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

INTERSTATE COMMON LINE SUPPORT MECHANISM

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.²⁰

For 2Q2007, ICLS for incumbent rate-of-return carriers is projected to be \$230.853 million. In addition, 2Q2007 ICLS for competitive ETCs is projected to be \$99.418 million. USAC projects, therefore, that \$330.271 million in ICLS will be required for 2Q2007. Based on these projections, total 2007 ICLS is estimated to be \$1,345.777 million.

Appendices HC09, HC10 and HC11 provide USAC's 2Q2007 projections of ICLS by study area, per line and by state, respectively. Appendices HC22 and HC23 provide the revised projected 2005 to 2006 program year ICLS by study area and per line. Appendices HC24 and HC25 provide the revised projected 2006 to 2007 program year ICLS by study area and per line.

INTERSTATE ACCESS SUPPORT MECHANISM

Interstate Access Support (IAS) helps offset interstate access charges for price cap companies.²¹ The *Interstate Access Order* targets the support mechanism at \$650 million annually for five years.²²

²⁰ 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, 16 FCC Rcd 19613 (2001) (*MAG Order*).

²¹ 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, 15 FCC Rcd 12962 (2000) (*Interstate Access Order*).

²² See *Interstate Access Order* at ¶ 201.

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The IAS projected industry-wide totals for 2Q2007 are \$36.998 million for rural carriers, \$93.555 million for non-rural carriers, and \$51.118 million for competitive ETCs. USAC projects \$181.671 million will be required for 2Q2007 with total annual IAS estimated to be \$725.101 million.

Appendices HC12, HC13, and HC14 provide USAC's 2Q2007 projections of IAS by study area, line, and state, respectively.

NON-RURAL FORWARD-LOOKING MECHANISM

Under the most recent calculation of forward-looking HCM support, non-rural carriers in 10 states (Alabama, Kentucky, Maine, Mississippi, Montana, Nebraska, South Dakota, Vermont, West Virginia, and Wyoming) are eligible to receive forward-looking support in 2007.²³

For 2Q2007, USAC projects \$86.902 million will be required for HCM support (\$49.645 million for incumbent non-rural carriers and \$37.257 million for competitive ETCs). Based on these projections, total 2007 HCM support is estimated to be \$347.323 million.

Appendices HC15, HC16, and HC17 provide USAC's 2Q2007 projections of non-rural forward-looking support by wire center, state, and study area, respectively.

COMPETITIVE ETC LINES

Appendix HC18 provides competitive ETC lines reported for HCL Support by incumbent study area. HC19 provides competitive ETC lines reported for ICLS by incumbent study area. HC20 provides competitive ETC lines reported for IAS by incumbent study area. HC21 provides competitive ETC lines reported for HCM Support by incumbent study area.

²³ 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).

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HIGH COST SUPPORT MECHANISM SUMMARY

The estimated 2Q2007 High Cost Support Mechanism funding requirement is \$1,086.507 million, which includes \$364.112 million for HCL Support (including SNA and SVS), \$123.551 million for LSS, \$330.271 million for ICLS, \$181.671 million for IAS, and \$86.902 million for HCM Support. 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 projections included in the prior period.²⁴ Increases in the size of the funding requirement for the prior period are added to the projected requirements; decreases from the prior period are subtracted from the projected revenue requirements.

Results for the Fourth Quarter 2006 (4Q2006) contributed to an under-funded condition for which this filing proposes to adjust the 2Q2007 funding requirements. The total adjustment to the 2Q2007 fund requirement based on actual results will increase the funding needed by 13.680 million. The explanation for the adjustment is described in the following table:

Reason for the Prior Period Adjustment	Adjustment in Millions
The 4Q2006 actual billings were lower than expected due to lower revenues reported by contributors in quarterly revenue projection and annual true-up filings	\$6.427
High Cost Support Mechanism distributions were higher than projected in 4Q2006	22.189
Interest income was higher than estimated for 4Q2006	(3.333)
Bad debt expense was lower than anticipated	(11.603)
Total Prior Period Adjustment	\$13.680

The total fund requirement of \$1,086.507 million, increased by the prior-period adjustment of \$13.680 million, increased by administrative costs of \$9.252 million, and

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

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reduced by projected interest income of \$6.048 million, results in a total projected funding requirement for the High Cost Support Mechanism for 2Q2007 of \$1,103.391 million.

Appendix M02 provides information on 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.²⁵ 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.²⁶

Lifeline support provides funding from the interstate jurisdiction of up to \$10.00 per low-income subscriber per month, which can consist of a baseline amount of between \$3.50 and \$6.50 (Tier One),²⁷ 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 if the state provides support for the low-income subscriber as well (Tier Three).²⁸ Further, up to an additional \$25 per low-income subscriber per month is

²⁵ See 47 C.F.R. §§ 54.201.

²⁶ 47 C.F.R. §§ 54.401 - 54.417.

²⁷ 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); *MLG 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).

²⁸ 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.

Universal Service Administrative Company 2Q2007 Fund Size Projections

available to eligible residents of tribal lands (Tier Four).²⁹

For 2Q2007, USAC projects \$185.937 million will be required for Lifeline support. Based on this projection, total 2007 Lifeline support is estimated to be \$750.129 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.³⁰ The *Tribal Order* authorized additional Link Up support of up to \$70 per qualified low-income subscriber residing on eligible tribal lands.³¹ For 2Q2007, USAC projects that \$8.750 million will be required for Link Up support. Based on this projection, total annual 2007 Link Up support is estimated to be \$35.256 million.

TOLL LIMITATION SUPPORT

Toll Limitation Support (TLS) compensates ETCs for providing voluntary toll-limitation service 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.³² Toll limitation consists of toll blocking, which permits consumers to elect not to allow the completion of outgoing toll calls, and toll control, which allows consumers to specify a certain amount of toll usage that may be incurred per month or per billing cycle.³³ For 2Q2007, USAC projects that \$2.273 million will be required for TLS. Based on this projection, total 2007 TLS is estimated to be \$9.152 million.

²⁹ 47 C.F.R. § 54.400(e).

³⁰ 47 C.F.R. §§ 54.411, .413.

³¹ See *Promoting Deployment and Subscriberhip 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*).

³² 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).

³³ 47 C.F.R. §§ 54.400(b) and (c).

Universal Service Administrative Company 2Q2007 Fund Size Projections

LOW INCOME SUPPORT MECHANISM SUMMARY

The estimated 2Q2007 Low Income Support Mechanism funding requirement is \$196.960 million, which includes \$185.937 million for Lifeline, \$8.750 million for Link Up, and \$2.273 million for Toll Limitation Service. Results of 4Q2006 contribute to an under-funded condition, for which this filing proposes to adjust the 2Q2007 funding requirements. The total adjustment to the 2Q2007 funding requirement based on actual results will increase the funding needed by \$2.734 million.

The explanation for the adjustment is described in the following table:

Reason for the Prior Period Adjustment	Adjustment in Millions
The 4Q2006 actual billings were lower than expected due to lower revenues reported by contributors in quarterly revenue projection and annual true-up filings	\$0.807
Low Income Support Mechanism distributions were higher than projected in 4Q2006	3.018
Interest income was higher than estimated for 4Q2006	(0.772)
Bad debt expense was lower than anticipated	(0.319)
Total Prior Period Adjustment	\$ 2.734

The total fund requirement of \$196.960 million, increased by the prior period adjustment of \$2.734 million, increased for administrative expenses of \$2.488 million, and decreased by the deduction of the projected interest income of \$2.798 million, results in a total projected funding requirement for the Low Income Support Mechanism for 2Q2007 of \$199.384 million.

Appendix LI01 provides projected Low Income support amounts by state and study area for 2Q2007. LI02 provides detail on Low Income funding amounts available in each of the states and territories for 2Q2007. LI03 provides a list of ETCs for 4Q2006. LI04 provides detail on quarterly company-specific Low Income support disbursement amounts for 4Q2006. LI05 provides detail on annual company-specific Low Income support amounts through 3rd Quarter 2006 (3Q2006). LI06 provides historical data of monthly

Universal Service Administrative Company 2Q2007 Fund Size Projections

support amounts claimed by ETCs from January 1998 through December 2006. LI07 provides detail on Low Income support distributed by state for 2001 through 3Q2006. LI08 and LI09 provide subscriber information by state and jurisdiction for Lifeline and Link Up support, respectively. LI10 shows the Tier 1 amounts reported by all companies during 3Q2006.

RURAL HEALTH CARE SUPPORT MECHANISM

Following is a summary of Rural Health Care Support Mechanism commitments and disbursements for Funding Years 2002-06 as of December 31, 2006. Prior funding years are closed.

FUNDING YEAR 2002

Funding Year 2002 began on July 1, 2002 and ended on June 30, 2003. As of December 31, 2006, funding commitments have been issued totaling \$23.369 million. Based on information provided by applicants, USAC now estimates Funding Year 2002 demand will be \$21.767 million. The Commission previously authorized the collection of \$21.824 million for Funding Year 2002. Considering the revised demand estimate for Funding Year 2002, USAC recommends that the Commission decrease collections for Funding Year 2002 by \$0.057 million in 2Q2007.

Authorized funding by applicant during 4Q2006 and disbursements made to service providers through 4Q2006 are listed in Appendices RH01 and RH02, respectively.

FUNDING YEAR 2003

Funding Year 2003 began on July 1, 2003 and ended on June 30, 2004. As of December 31, 2006, funding commitments have been issued totaling \$27.935 million. Based on information provided by applicants, USAC now estimates Funding Year 2003 demand will be \$26.245 million. The Commission previously authorized the collection of \$26.250 million. Considering the revised demand estimate for Funding Year 2003, USAC

Universal Service Administrative Company 2Q2007 Fund Size Projections

recommends that the Commission decrease collections for Funding Year 2003 by \$0.005 million in 2Q2007.

Funding commitments made during 4Q2006 are included in Appendix RH03. Authorized funding by applicant during 4Q2006 and disbursements made to service providers through 4Q2006 are listed in Appendices RH04 and RH05, respectively.

FUNDING YEAR 2004

Funding Year 2004 began on July 1, 2004 and ended on June 30, 2005. As of December 31, 2006, 2,999 FCC Form 465s have been posted. In addition, as of December 31, 2006, 4,667 FCC Form 466 and 466-A “packets” have been received, including 810 packets from applicants seeking support for Internet access only.³⁴

As of December 31, 2006, funding commitments have been issued totaling \$35.580 million. Based on information provided by applicants as of December 31, 2006, USAC estimates Funding Year 2004 demand will be \$31.645 million. The Commission previously authorized the collection of \$31.676 million for Funding Year 2004. Considering the revised demand estimate for Funding Year 2004, USAC recommends that the Commission decrease collections for Funding Year 2004 by \$0.031 million in 2Q2007.

Authorized funding by applicant during 4Q2006 and disbursements made to service providers during 4Q2006 are listed in Appendices RH06 and RH07, respectively.

FUNDING YEAR 2005

Funding Year 2005 began on July 1, 2005 and ended on June 30, 2006. As of December 31, 2006, 3,482 Form 465s were posted and 5,456 packets have been received. The total demand for Funding Year 2005 is not yet known and will not be known until all Form 466 packets are submitted and processed. USAC estimates Funding Year 2005 demand will be approximately 28 percent higher than Funding Year 2004, resulting in

³⁴ A “packet” typically consists of the FCC Form 466 or 466-A and contracts and invoices from service providers.

Universal Service Administrative Company 2Q2007 Fund Size Projections

Funding Year 2005 demand of approximately \$40.551 million. This estimate assumes that applicants who receive support in Funding Year 2004 will receive a similar level of support in 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 December 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 provides for the *Hurricane Katrina Relief Order*³⁵ and its impact on the Rural Health Care Program.

The status of Funding Year 2005 packets is provided in the following table:

FUNDING YEAR 2005 PACKET PROCESSING	
Completely Processed	4,718
Awaiting Supervisory Approval Only	8
Complete – Ready to Process	0
Withdrawn by Applicant	534
Denied	85
Incomplete – Require Forms and/or Clarification	129
Total Packets Received as of 12/31/2006 for Funding Year 2005	5,474

³⁵ See *Federal-State Joint Board on Universal Service, Schools and Libraries Universal Service Support Mechanism, Rural Health Care Support Mechanism, Lifeline and Link-Up*, CC Docket Nos. 96-45, 02-6, WC Docket Nos. 02-60, 03-109, Order, FCC 05-178 (rel. Oct. 14, 2005) (*Hurricane Katrina Relief Order*). In addition, the Commission had previously taken steps to provide relief to parties affected by Hurricane Katrina by extending deadlines and modifying recordkeeping and other USF procedural requirements. See *Schools and Libraries Universal Service Support Mechanism, Rural Health Care Support Mechanism, Lifeline and Link-Up, Federal-State Joint Board on Universal Service*, CC Docket No. 02-6, WC Docket Nos. 02-60, 03-109, CC Docket No. 96-45, Order, DA 05-2484 (rel. Sept. 21, 2005).

Universal Service Administrative Company 2Q2007 Fund Size Projections

Based on information provided by applicants, USAC now estimates Funding Year 2005 demand will be \$40.551 million. The Commission previously authorized the collection of \$39.339 million from USF contributors for the Rural Health Care Support Mechanism. Considering the revised demand estimate for Funding Year 2005, USAC recommends that the Commission increase collections for Funding Year 2005 by \$1.212 million in 2Q2007.

Funding commitments made during 4Q2006 are included in Appendix RH08. Authorized funding by applicant during 4Q2006 and disbursements made to service providers during 4Q2006 are listed in Appendices RH09 and RH10, respectively.

FUNDING YEAR 2006

Funding Year 2006 began on July 1, 2006 and will end on June 30, 2007. The filing window for Funding Year 2006 opened on March 13, 2006.

On September 29, 2006, the FCC released an order implementing a new two-year (Funding Years 2006 and 2007) pilot program for the Rural Health Care Support Mechanism, which will cover “up to 85 percent of an applicant’s costs of deploying a dedicated broadband network.”³⁶ Because support under the pilot program and the existing program was capped at \$100 million per year and the pilot program is expected to be fully subscribed, total demand for Fund Year 2006 is now expected to be \$100 million plus administrative costs. Applications for the new program will begin after Office of Management and Budget approval of the information collection requirements in the FCC’s order, which USAC anticipates will occur soon. USAC’s prior estimates of demand for Funding Year 2006 are now subsumed in this new demand amount, which is capped at \$100 million.

The status of Funding Year 2006 packets is provided below.

³⁶ *In the Matter of the Rural Health Care Support Mechanism*, FCC 06-144, 2006 WL 2819579 (F.C.C.) (rel. Sept. 29, 2006).

Universal Service Administrative Company 2Q2007 Fund Size Projections

FUNDING YEAR 2006 PACKET PROCESSING	
Completely Processed	545
Awaiting Supervisory Approval Only	65
Complete – Ready to Process	326
Withdrawn by Applicant	33
Denied	1
Incomplete – Require Forms and/or Clarification	1009
Total Packets Received as of 12/31/2006 for Funding Year 2006	1,979

The Commission previously authorized the collection of \$60.323 million. USAC will recommend the Commission authorize the collection of one-half of the remaining demand for Funding Year 2006 or \$39.677 million in 2Q2007 to meet total projected demand.

Funding commitments made during 4Q2006 are included in Appendix RH011. Authorized funding by applicant during 4Q2006 and disbursements made to service providers during 4Q2006 are listed in Appendices RH12 and RH13, respectively.

RURAL HEALTH CARE SUPPORT MECHANISM SUMMARY

The estimated 2Q2007 Rural Health Care Support Mechanism demand requirement is \$40.796 million, which includes \$39.677 million for Funding Year 2006, plus \$1.212 million for Funding Year 2005, less \$.031 million for Funding Year 2004, less \$.005 million for Funding Year 2003, and less \$.057 million for Funding Year 2002. The results of 4Q2006 contributed to an over-funded condition of \$0.029 million, which will be adjusted in the March 2, 2007 Universal Service Fund Contribution Base filing for 2Q2007. The explanation for the adjustment is provided in the following table:

Reason for the Prior Period Adjustment	Adjustment in Millions
The 4Q2006 billings were lower than expected due to lower revenues reported by contributors in quarterly revenue projections	\$0.171
Interest income was more than estimated for 4Q2006	(0.175)
Bad debt expense was lower than anticipated in 4Q2006	(0.025)
Total Prior Period Adjustment	\$(0.029)

Universal Service Administrative Company 2Q2007 Fund Size Projections

The total fund requirement of \$40.796 million, decreased by the prior-period adjustment of \$0.029 million, increased by administrative expenses of \$2.209 million, and decreased by projected interest income of \$0.643 million, results in a total projected funding requirement for the Rural Health Care Support Mechanism for 2Q2007 of \$42.333 million.

SCHOOLS AND LIBRARIES SUPPORT MECHANISM

Following is a summary of Schools and Libraries Support Mechanism net commitments³⁷ and net authorized for payment³⁸ by funding year as of December 29, 2006.

FUNDING YEAR 1998

FUNDING YEAR 1998					
	Net Commitments		Net 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%	\$ 507.6	36.3%	75.1%
Internet Access	\$ 134.2	7.9%	\$ 94.8	6.8%	70.7%
Internal Connections	\$ 886.1	52.2%	\$ 796.6	56.9%	89.9%
TOTAL	\$1,696.2	100.0%	\$1,399.0	100.0%	82.5%

As of December 29, 2006, 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 4Q2006 for Funding Year 1998.

³⁷ Net commitments are total funding commitments, including funding commitments issues on appeals, less recaptures of funds through commitment adjustments (COMADS) and other recoveries.

³⁸ Net authorized for payment is the amount of total approved invoices less any returned funds.

Universal Service Administrative Company 2Q2007 Fund Size Projections

FUNDING YEAR 1999

FUNDING YEAR 1999					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 634.5	29.5%	\$ 453.8	27.4%	71.5%
Internet Access	\$ 149.5	7.0%	\$ 95.8	5.8%	64.1%
Internal Connections	\$1,366.1	63.5%	\$1,105.3	66.8%	80.9%
TOTAL	\$2,150.1	100.0%	\$1,654.9	100.0%	77.0%

As of December 29, 2006, no Funding Year 1999 applications remained under review. Funding Year 1999 began on July 1, 1999 and ended on June 30, 2000.

Funding commitments made to applicants during 4Q2006 are included in Appendix SL01. Authorized funding by applicant during 4Q2006 and cumulative payments made to service providers through 4Q2006 are listed in Appendices SL02 and SL03, respectively.

FUNDING YEAR 2000

FUNDING YEAR 2000					
	Net Commitments		Net 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	\$ 719.5	34.7%	\$ 480.2	29.1%	66.8%
Internet Access	\$ 219.1	10.6%	\$ 135.1	8.2%	61.7%
Internal Connections	\$1,135.7	54.7%	\$1,033.7	62.7%	91.0%
TOTAL	\$2,074.3	100.0%	\$1,649.0	100.0%	79.5%

As of December 29, 2006, no Funding Year 2000 applications remained under review. Funding Year 2000 began on July 1, 2000 and ended on June 30, 2001.

Universal Service Administrative Company 2Q2007 Fund Size Projections

Funding commitments made to applicants during 4Q2006 are included in Appendix SL04. Authorized funding by applicant during 4Q2006 and cumulative payments made to service providers through 4Q2006 are listed in Appendices SL05 and SL06, respectively.

FUNDING YEAR 2001

FUNDING YEAR 2001					
	Net Commitments		Net 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	\$ 775.1	35.1%	\$ 532.2	31.5%	68.7%
Internet Access	\$ 226.9	10.3%	\$ 151.5	9.0%	66.8%
Internal Connections	\$1,206.2	54.6%	\$1,006.0	59.5%	83.4%
TOTAL	\$2,208.2	100.0%	\$1,689.7	100.0%	76.5%

As of December 29, 2006, 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 4Q2006 are included in Appendix SL07. Authorized funding by applicant during 4Q2006 and cumulative payments made to service providers through 4Q2006 are listed in Appendices SL08 and SL09, respectively.

FUNDING YEAR 2002

FUNDING YEAR 2002					
	Net Commitments		Net 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	\$ 850.9	37.9%	\$ 601.7	38.6%	70.7%
Internet Access	\$ 249.4	11.1%	\$ 172.3	11.1%	69.1%
Internal Connections	\$1,143.3	51.0%	\$ 784.2	50.3%	68.6%
TOTAL	\$2,243.6	100.0%	\$1,558.2	100.0%	69.5%

Universal Service Administrative Company 2Q2007 Fund Size Projections

As of December 29, 2006, eleven potentially fundable Funding Year 2002 applications remained under review. Funding Year 2002 began on July 1, 2002 and ended on June 30, 2003.

Funding commitments made to applicants during 4Q2006 are included in Appendix SL10. Authorized funding by applicant during 4Q2006 and cumulative payments to service providers through 4Q2006 are listed in Appendices SL11 and SL12, respectively.

FUNDING YEAR 2003

FUNDING YEAR 2003					
	Net Commitments		Net 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	\$ 889.9	33.2%	\$ 642.7	34.0%	72.2%
Internet Access	\$ 275.9	10.3%	\$ 195.2	10.3%	70.8%
Internal Connections	\$1,518.2	56.5%	\$ 1,052.9	55.7%	69.4%
TOTAL	\$2,684.0	100.0%	\$1,890.8	100.0%	70.5%

As of December 29, 2006, 12 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 4Q2006 are included in Appendix SL13. Authorized funding by applicant during 4Q2006 and cumulative payments to service providers through 2Q2006 are listed in Appendices SL14 and SL15, respectively.

Universal Service Administrative Company 2Q2007 Fund Size Projections

FUNDING YEAR 2004

FUNDING YEAR 2004					
	Net Commitments		Net 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	\$ 953.4	42.3%	\$ 666.3	46.0%	69.9%
Internet Access	\$ 242.3	10.7%	\$ 188.3	13.0%	77.7%
Internal Connections	\$1,061.1	47.0%	\$ 593.8	41.0%	56.0%
TOTAL	\$2,256.8	100.0%	\$1,448.4	100.0%	64.2%

As of December 29, 2006, 113 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 4Q2006 are included in Appendix SL16. Authorized funding by applicant during 4Q2006 and cumulative payments to service providers through 3Q2006 are listed in Appendices SL17 and SL18, respectively.

FUNDING YEAR 2005

FUNDING YEAR 2005					
	Net Commitments		Net 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	\$ 944.1	50.5%	\$ 640.8	58.2%	67.9%
Internet Access	\$ 255.3	13.7%	\$ 186.8	17.0%	73.2%
Internal Connections	\$ 556.2	29.8%	\$ 202.7	18.4%	36.4%
Internal Connections-Maint	\$ 112.9	6.0%	\$ 71.1	6.4%	63.0%
TOTAL	\$1,868.5	100.0%	\$1,101.4	100.0%	59.0%

As of December 29, 2006, approximately 307 Funding Year 2005 applications remained under review. Funding Year 2005 began on July 1, 2005 and ended on June 30, 2006.

Universal Service Administrative Company 2Q2007 Fund Size Projections

Funding commitments made to applicants during 4Q2006 are included in Appendix SL19. Authorized funding by applicant and cumulative payments to service providers through 4Q2006 are listed in Appendices SL20 and SL21, respectively.

FUNDING YEAR 2006

FUNDING YEAR 2006					
	Net Commitments		Net 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	\$ 929.9	56.6%	\$ 45.3	46.2%	4.9%
Internet Access	\$ 263.1	16.0%	\$ 44.4	45.3%	16.9%
Internal Connections	\$ 369.4	22.5%	\$ 3.4	3.4%	0.9%
Internal Connections-Maint	\$ 79.7	4.9%	\$ 5.0	5.1%	6.3%
TOTAL	\$1,642.1	100.0%	\$ 98.1	100.0%	6.0%

As of December 29, 2006, 2,282 potentially fundable Funding Year 2006 applications remained under review. Funding Year 2006 began on July 1, 2006 and will end on June 30, 2007.

Funding commitments made to applicants during 4Q2006 are included in Appendix SL22. Authorized funding by applicant and cumulative payments to service providers through 4Q2006 are listed in Appendices SL23 and SL24, respectively.

SCHOOLS AND LIBRARIES SUPPORT MECHANISM SUMMARY

In the *Schools and Libraries Third Report and Order and Second Further Notice of Proposed Rulemaking*, the Commission amended its rules to allow unused funds from prior funding 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.³⁹ The Commission required USAC to file quarterly estimates of unused funds from prior funding years in submitting its projection of Schools

³⁹ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket 02-6, Third Report and Order and Second Further Notice of Proposed Rulemaking, FCC 03-323 (December 23, 2003) (*Schools and Libraries Third Report and Order*).

Universal Service Administrative Company 2Q2007 Fund Size Projections

and Libraries Support Mechanism demand for the upcoming quarter. The Commission modified the schedule to implement the process for Funding Year 2003 and directed USAC to carry forward \$420 million of unused prior year funds for use in Funding Year 2003.⁴⁰ In accordance with the *Schools and Libraries Third Report and Order*, the Commission announced that \$150 million in unused funds from Funding Year 2001 would be carried forward to increase disbursements to schools and libraries in Funding Year 2004.⁴¹

The following sections provide information regarding the use of funds for each funding year, including adjustments made by the Commission and projections of unused funds as required by Commission rules.

Funding Year 1998 True-Up

As of December 29, 2006, \$1,399.017 million of Funding Year 1998 support had been disbursed. USAC estimates that a contingency amount of \$7.032 million should be reserved to pay appeals pending at 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. The estimated remaining Funding Year 1998 balance is determined as follows:

FUNDING YEAR 1998	Adjustment in Millions
Amount Authorized and Actually Collected	\$1,925.000
Amount Disbursed	(1,399.017)
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	(7.032)
Estimated Remaining Balance	\$0.000

⁴⁰ *Id.*

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

Universal Service Administrative Company 2Q2007 Fund Size Projections

Funding Year 1999 True-Up

As of December 29, 2006, \$1,654.934 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 make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that no Funding Year 1999 funds are available to carry forward. The estimated remaining Funding Year 1999 balance is determined as follows:

FUNDING YEAR 1999	Adjustment in Millions
Amount Authorized and Actually Collected	\$2,250.000
Amount Disbursed	(1,654.934)
Administrative Expenses	(32.316)
Amount Applied to Adjust Third Quarter 2002 Collections	(256.160)
Amount Applied to Adjust Fourth Quarter 2002 Collections	(212.927)
Amount Carried Forward to Funding Year 2003	(50.000)
Potential Additional Disbursements on Committed FRNs	(1.578)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(42.085)
Estimated Remaining Balance	\$0.000

Funding Year 2000 True-Up

As of December 29, 2006, \$1,649.041 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 pay pending appeals and make disbursements on Funding Year 2000 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount,

Universal Service Administrative Company 2Q2007 Fund Size Projections

USAC estimates that no Funding Year 2000 funds are available to carry forward. The estimated remaining Funding Year 2000 balance is determined as follows:

FUNDING YEAR 2000	Adjustment in Millions
Amount Authorized and Actually Collected	\$2,250.000
Amount Disbursed	(1,649.041)
Administrative Expenses	(32.235)
Amount Applied to Adjust Fourth Quarter 2002 Collections	(136.849)
Amount Applied to Adjust First Quarter 2003 Collections	(246.180)
Amount Carried Forward to Funding Year 2003	(160.000)
Potential Additional Disbursements on Committed FRNs	(1.605)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(24.090)
Estimated Remaining Balance	\$0.000

Funding Year 2001 True-Up

As of December 29, 2006, \$1,689.685 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 a contingency reserve to pay pending appeals and make disbursements on Funding Year 2001 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements, USAC estimates that \$50 million of Funding Year 2001 funds are available to carry forward. The estimated remaining Funding Year 2001 balance is determined as follows:

Universal Service Administrative Company 2Q2007 Fund Size Projections

FUNDING YEAR 2001	Adjustment in Millions
Amount Authorized and Actually Collected	\$2,250.000
Amount Disbursed	(1,689.685)
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	(20.286)
Remaining Uncommitted Requests	(20.329)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(79.141)
Estimated Remaining Balance	\$50.000

Funding Year 2002 True-Up

As of December 29, 2006, \$1,558.165 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 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 Year 2002 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements, USAC estimates that \$300 million of Funding Year 2002 funds are available to carry forward. The estimated remaining Funding Year 2002 balance is determined as follows:

Universal Service Administrative Company 2Q2007 Fund Size Projections

FUNDING YEAR 2002	Adjustment in Millions
Amount Authorized and Actually Collected	\$2,250.000
Amount Disbursed	(1,558.165)
Administrative Expenses	(38.531)
Potential Additional Disbursements on Committed FRNs	(88.819)
Remaining Uncommitted Requests	(1.647)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(262.838)
Estimated Remaining Balance	\$300.000

Funding Year 2003 True-Up

As of December 29, 2006, \$1,890.772 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 to 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. The estimated remaining Funding Year 2003 balance is determined as follows:

Universal Service Administrative Company 2Q2007 Fund Size Projections

FUNDING YEAR 2003	Adjustment in Millions
Amount Authorized and Actually Collected	\$2,250.000
Amount Carried Forward from Funding Years 1999, 2000 and 2001	420.000
Amount Disbursed	(1,890.772)
Administrative Expenses	(44.194)
Potential Additional Disbursements on Committed FRNs	(155.685)
Remaining Uncommitted Requests	(47.091)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(382.258)
Estimated Remaining Balance	\$150.000

Funding Year 2004 True-Up

As of December 29, 2006, \$1,448.394 million of Funding Year 2004 support had been disbursed. USAC's projection of the remaining Funding Year 2004 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements, USAC estimates that \$150 million of Funding Year 2004 funds are available to carry forward. The estimated remaining Funding Year 2004 balance is determined as follows:

FUNDING YEAR 2004	Adjustment in Millions
Amount Authorized and Actually Collected	\$2,250.000
Amount Carried Forward from Funding Year 2001	150.000
Amount Disbursed	(1,448.394)
Administrative Expenses	(55.753)
Potential Additional Disbursements on Committed FRNs	(370.629)
Remaining Uncommitted Requests	(41.930)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(333.294)
Estimated Remaining Balance	\$150.000

2Q2007 Demand Estimate and Contribution Requirement

USAC changed the accounting methodology for the USF to generally accepted accounting principles for government entities on October 1, 2004 to comply with the Commission's order of October 3, 2003.⁴² Commission staff subsequently determined that Funding Commitment Decision Letters (FCDLs) for the Schools and Libraries Support Mechanism are to be treated as "obligations" for federal budgetary accounting purposes and subject to the requirements of the Antideficiency Act (ADA).⁴³ The ADA generally requires that sufficient unobligated resources be available before an obligation can be incurred. Congress exempted the USF from requirements of the ADA through December 31, 2006.⁴⁴

To reduce the USF cash reserve that has accumulated primarily because the structure of the program necessarily results in significant time lags between the commitments and actual disbursements while at the same time retaining the ability for the USF to satisfy all outstanding commitments based on historic disbursement patterns, the 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 Second Quarter and Third Quarter 2004, and \$150 million in Fourth Quarter 2004.⁴⁵

Based on the level of applicant demand in Funding Year 2006, which exceeds the annual funding cap of \$2.250 billion, USAC requests authority to collect an amount to

⁴² 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, 18 FCC Red 19911 (2003).

⁴³ 31 U.S.C. § 1341.

⁴⁴ 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).

⁴⁵ As stated in its January 31, 2004, Federal Universal Service Support Mechanisms Fund Size Projections for the Second Quarter 2005, and in its subsequent quarterly filings, USAC will continue to consult with the Commission as appropriate concerning the necessity and timing of any recovery of this \$550 million.

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provide \$562.500 million in funding for 2Q2007, which is one-quarter of the \$2.250 billion annual cap on federal universal service support for schools and libraries. Results for 4Q2006 contribute to an over-funded condition for which this filing proposes to adjust the 2Q2007 requirements. The total adjustment to the 2Q2007 fund requirement based on actual results will decrease the funding needed by \$3.883 million. The explanation for the adjustment is provided below.

Reason for the Prior Period Adjustment	Adjustment in Millions
The 4Q2006 billings were lower than expected due to lower revenues reported by contributors in quarterly revenue projection and annual true-up filings	\$2.344
Interest income was higher than estimated for 4Q2006	(9.115)
Bad debt expense was higher than anticipated	2.888
Total Prior Period Adjustment	\$(3.883)

The fund requirement of \$562.5 million, which includes administrative expenses of \$23.348 million, decreased by the prior-period adjustment of \$3.883 million, and reduced by the projected interest income of \$47.395 million results in a projected collection requirement of \$511.222 million for the Schools and Libraries Support Mechanism for 2Q2007.

CONTRIBUTION BASE

USAC collects quarterly interstate and international revenue information from carriers on FCC Form 499-Q four times each year. USAC uses this information to determine aggregate projected revenue collections, which are filed with the Commission on March 2, June 1, September 1, and December 2 each year.⁴⁶ Based on these filings, the Commission establishes the contribution factor for the upcoming quarter.

Approximately 5,500 FCC Forms 499-Qs were distributed to carriers in early January 2007. Interstate telecommunications service providers are required to complete this form,

⁴⁶ See 47 C.F.R. § 54.709(a)(3). 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. See also 47 C.F.R. §§ 54.706, .708, .711, .713 for contributor reporting requirements.

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reporting April - June 2007 projected revenue information, and return it to USAC by March 2, 2007.

USAC invoices and receives contributions from more than 2,500 telecommunications companies each month.

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 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. USAC transfers to the Commission amounts owed to the USF that are 90 days delinquent after USAC has provided delinquent carriers with the notice required under Commission rules and the Debt Collection Improvement Action (DCIA).⁴⁷ Upon receipt of the outstanding debts, the Commission provides delinquent carriers with 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 for collection.

USAC implemented the Red Light Rule on November 1, 2004 for contributor debts to the USF.⁴⁸ 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

⁴⁷ 31 U.S.C. §§ 3701 *et seq.*

⁴⁸ 47 C.F.R. § 1.910.

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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.

AUTHORIZATION TO FILE WITH THE COMMISSION

At their January 22, 2007 meetings, USAC's High Cost & Low Income, Rural Health Care and Schools & Libraries Committees adopted resolutions authorizing USAC staff to file with the Commission the 2Q2007 projected support mechanism funding requirements described herein. At its January 23, 2007 meeting, the USAC Board of Directors adopted a resolution authorizing the inclusion of the projected 2Q2007 administrative expenses in this report to the Commission.

Respectfully submitted,

UNIVERSAL SERVICE
ADMINISTRATIVE COMPANY

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