

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.**

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

**Federal Universal Service Support Mechanisms Quarterly
Contribution Base & Revised Low Income Support Mechanism
Demand Projection for the Fourth Quarter 2011**

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**LOW INCOME SUPPORT PROJECTED BY STATE BY STUDY
AREA 4Q2011 LI01**

**BEFORE THE FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C.**

**FEDERAL UNIVERSAL SERVICE SUPPORT MECHANISMS
FUND SIZE QUARTERLY CONTRIBUTION BASE AND
REVISED LOW INCOME PROGRAM DEMAND
FOR THE FOURTH QUARTER 2011**

INTRODUCTION

The Universal Service Administrative Company (USAC) is the not-for-profit corporation appointed by the Federal Communications Commission (FCC or Commission) to administer the federal universal service funds (USF) and the four federal universal service support mechanisms: High Cost, Low Income, Rural Health Care, and Schools and Libraries.¹ USAC hereby submits the contribution base amount to be used for the fourth quarter of calendar year 2011 (4Q2011) in accordance with Section 54.709 of the Commission's rules.² USAC is filing this contribution base report pursuant to the Commission's order of December 13, 2002, updating the *Contribution Methodology*

¹ See 47 C.F.R. § 54.701(a). See also, *Changes to the Board of Directors of the National Exchange Carrier Association, Inc.*, CC Docket No. 97-21, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, *Fourth Report and Order in CC Docket No. 97-21, Fourth Order on Reconsideration in CC Docket No. 97-21 and Eighth Order on Reconsideration in CC Docket No. 96-45*, FCC 98-306, 63 Fed. Reg. 70564 (rel. Dec. 21, 1998); *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long Distance Users, Federal-State Joint Board on Universal Service*, CC Docket No. 96-262, 94-1, 99-249, 96-45, *Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, Eleventh Report and Order in CC Docket No. 96-45*, FCC 00-103 (rel. May 31, 2000) (*CALLS Order*); *Federal-State Joint Board on Universal Service, Promoting Deployment and Subscriberhip in Unserved and Underserved Areas, Including Tribal and Insular Areas*, CC Docket No. 96-45, *Twelfth Report and Order and Further Notice of Proposed Rulemaking*, FCC 00-208 (rel. June 8, 2000) (*Tribal Lands Order*); *Federal-State Joint Board on Universal Service, Petition for Reconsideration filed by AT&T*, CC Docket No. 96-45, *Report and Order and Order on Reconsideration*, FCC 01-85 (March 14, 2001) (*Contribution Methodology Order*).

² See 47 C.F.R. § 54.709(a)(3).

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Order issued on March 14, 2001.³ In the December 13, 2002 order, the Commission changed the universal service contribution base methodology to projected collected revenues rather than actual contributor revenues billed.⁴ On March 14, 2003, the Commission released an *Order and Second Order on Reconsideration*, which, *inter alia*, directed the Wireline Competition Bureau to announce the universal service contribution factor as a percentage rounded up to the nearest tenth of one percent.⁵ The Commission also directed the Wireline Competition Bureau to account for contribution factor rounding when calculating the “circularity” discount factor.⁶

On June 27, 2006, the Commission released the *Second Interim Contribution Methodology Order* making further interim modifications to the method for calculating

³ See *Contribution Methodology Order* ¶¶ 10-13; *Federal-State Joint Board on Universal Service, 1998 Biennial Regulatory Review—Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability, Truth-in-Billing and Billing Format*, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, NSD File No. L-00-72, *Report and Order and Second Further Notice of Proposed Rulemaking*, FCC 02-329, 17 FCC Rcd 24952 (2002) (*Projected Collected Contribution Methodology Order*).

⁴ *Projected Contribution Methodology Order* at ¶¶ 1, 29-30.

⁵ See *Federal-State Joint Board on Universal Service, 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability, Truth-in-Billing and Billing Format*, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, *Order and Second Order on Reconsideration*, FCC 03-58, ¶ 22 (rel. Mar. 14, 2003) (*Second Order on Reconsideration*) (“Although the Second Order on Reconsideration has not yet been published in the Federal Register and accordingly has not yet become effective, we expect it will be published before the start of the second quarter of 2003. Absent release of this Public Notice, the six-digit contribution factor announced on March 7, 2003 would be deemed approved by the Commission on March 21, 2003. However, the six-digit contribution factor would be inconsistent with the Second Order on Reconsideration. Therefore, the Bureau takes this limited action today to ensure the implementation of the Second Order on Reconsideration for the second quarter of 2003.”).

⁶ *Id.*

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the contribution base for the USF to be effective in the Fourth Quarter 2006 (4Q2006).⁷

The *Second Interim Contribution Methodology Order* increased the wireless safe harbor percentage from 28.5% to 37.1% and broadened the scope of service providers obligated to contribute to the USF to include providers of interconnected voice over Internet Protocol (VoIP) services⁸ with an optional safe harbor percentage of interstate revenue for interconnected VoIP providers of 64.9% of total VoIP service revenue.⁹ The Commission simultaneously released a Notice of Proposed Rulemaking seeking additional comments on fundamental reform of the contribution methodology.¹⁰ To ensure the stability and sufficiency of the USF, the Commission directed the order be effective upon publication in the Federal Register, which required contributors to comply with the new contribution requirements on their August 1, 2006 Form 499-Q filing, thereby affecting the USF contribution base beginning in 4th Quarter 2006.¹¹

⁷ See *Universal Service Contribution Methodology, Federal-State Joint Board on Universal Service, 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability, Truth-in-Billing and Billing Format, IP-Enabled Services*, WC Docket No. 06-122, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, WC Docket No. 04-36, Report and Order and Notice of Proposed Rulemaking, FCC 06-94 (adopted June 21, 2006; released June 27, 2006) (*Second Interim Contribution Methodology Order*). The *Projected Contribution Methodology Order*, among other things, increased the wireless safe harbor to the current 28.5% and shifted monthly contribution obligations from being based on historical billed to projected collected revenue.

⁸ See 47 C.F.R. § 9.3 (“An interconnected Voice over Internet Protocol (VoIP) service is a service that: (1) Enables real-time, two-way voice communications; (2) Requires a broadband connection from the user's location; (3) Requires Internet protocol-compatible customer premises equipment (CPE); and (4) Permits users generally to receive calls that originate on the public switched telephone network and to terminate calls to the public switched telephone network.”).

⁹ In addition, Interconnected VoIP providers will have the option of basing contributions on actual interstate revenues or using traffic studies to estimate those revenues. VoIP providers who wish to rely on traffic studies must submit and obtain advance FCC approval of proposed studies. *Second Interim Contribution Methodology Order* at ¶ 57.

¹⁰ *Second Interim Contribution Methodology Order* at ¶¶ 65-70.

¹¹ *Second Interim Contribution Methodology Order* at ¶ 82.

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Consistent with Commission regulations and orders, USAC filed the Federal Universal Service Support Mechanisms Fund Size and Administrative Cost Projections for 4Q2011 on August 2, 2011.

On June 23, 2006, the Commission issued an order realigning oversight responsibilities within the FCC for the USF, the universal service support mechanisms and USAC.¹² Pursuant to that order, the FCC Office of the Managing Director is now responsible for calculating the quarterly contribution factor and issuing related public notices.¹³

Upon approval of the universal service support mechanisms quarterly funding requirements, projected administrative expenses, and the contribution base, the Commission will establish a quarterly contribution factor and a circularity factor.¹⁴ USAC will then bill contributors on a monthly basis for their individual obligations based on the approved contribution factor and circularity factor.¹⁵

CONTRIBUTION BASE

USAC collects interstate and international projected revenue information from carriers on the FCC Form 499-Q four times each year and submits aggregate information on a quarterly basis to the FCC.¹⁶

Carriers also file the FCC Form 499-A (Form 499-A) in April of each year to report actual annual revenues from the prior year. USAC uses revenue data provided by

¹² See *In the Matter of Amendment of Part 54 of the Commission's Rules*, FCC 06-89, ¶ 4, released June 23, 2006.

¹³ *Id.*

¹⁴ See 47 C.F.R. § 54.709(a)(3).

¹⁵ *Id.*

¹⁶ 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. Data is due to USAC approximately one month before filing is due to the FCC.

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carriers on the FCC Form 499-A to perform annual true-ups of actual revenue to the quarterly projected revenue data submitted by carriers on FCC Form 499-Q (Form 499-Q) during the prior calendar year.¹⁷ As necessary, USAC will refund or collect from carriers any over-payments or under-payments. As mandated by the Commission, if the combined quarterly revenues reported by a carrier on its Form 499-Qs are greater than those reported on its annual revenue report on Form 499-A, then a refund will be provided to the carrier based on an average of the two lowest contribution factors for the year.¹⁸ If the combined quarterly revenues reported by a carrier are less than those reported on its annual revenue report on Form 499-A, then USAC will collect the difference from the carrier using an average of the two highest contribution factors from that year.¹⁹

Carriers were required to file the Form 499-Q with 4Q2011 projected collected revenue information on or before August 1, 2011.²⁰ By September 1, 2011, USAC is required to file revenue data with the FCC based on the August 1, 2011 carrier filings.²¹ The Commission will use the program demand data and the projected collected revenue to calculate the universal service contribution factor for 4Q2011.²² Following is the current Form 499-Q filing schedule:

¹⁷ In addition, carriers may file a revised Form 499-Q within 45 days of the original filing due date for that current quarter. *See Projected Collected Contribution Methodology Order* at ¶ 36.

¹⁸ *Projected Collected Contribution Methodology Order* at ¶ 36.

¹⁹ *Id.*

²⁰ *See* FCC Form 499-Q at <http://www.USAC.org/fund-administration/forms/>. *See also*, 47 C.F.R. § 54.711.

²¹ *See* 47 C.F.R. § 54.709(a).

²² *Id.* USAC files projected program demand data at least 60 days prior to the start of a quarter and total contribution base revenue data at least 30 days prior to the start of a quarter.

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| Due Dates | Projected Collected Revenue for | Utilized to meet USF contributions |
|------------------|--|---|
| November 1, 2011 | 1Q: January – March 2012 | 1Q: January – March 2012 |
| February 1, 2012 | 2Q: April – June 2012 | 2Q: April – June 2012 |
| May 1, 2012 | 3Q: July – September 2012 | 3Q: July – September 2012 |
| August 1, 2012 | 4Q: October – December 2012 | 4Q: October – December 2012 |

Telecommunications providers qualifying for the *de minimis* exemption from contribution requirements are not required to complete the Form 499-Q.²³ However, for providers required to contribute to the universal service support mechanisms, the Form 499-Q must be submitted by the due date for each quarter listed above.²⁴

FOURTH QUARTER 2011 PROJECTED COLLECTED REVENUE BASE TO BE USED FOR FOURTH QUARTER 2011 CONTRIBUTIONS

The total projected collected interstate and international end-user revenue base to be used in determining the contribution factor for the Universal Service Support Mechanisms for 4Q2011 is: \$16,681,648,806.53. This amount was derived from FCC Form 499-Q notifications that were distributed to 6,751 carriers in early July 2011. Interstate telecommunications service providers were required to complete this form reporting October – December 2011 projected collected revenue information, and return it by August 1, 2011.²⁵ USAC has included complete revenue data from 3,731 carriers (2,777 contributors and 954 *de minimis* carriers).

The funding base for 4Q2011 is developed from the projected collected revenues for 4Q2011 that were reported by carriers in August 2011. As of August 19, 2011,

²³ See 47 C.F.R. § 54.708.

²⁴ 47 C.F.R. §§ 54.711, 54.713. The USAC Board of Directors adopted a late filing penalty, consistent with 47 C.F.R. § 54.713, at its October 1998 meeting and ratified at its October 26, 1999 meeting applicability of the penalty to the FCC Form 499-Q and 499-A data collections. Companies not submitting their FCC Form 499-Q or 499-A by the due date are subject to a late filing penalty calculated at a rate of .005 percent applied to their total contribution base revenue with a minimum penalty of \$100 and a maximum penalty of \$5,000. This penalty was effective beginning with the March 1, 1999, FCC Form 457 data collection.

²⁵ 47 C.F.R. § 54.711(a).

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USAC has yet to receive information from 198 non-*de minimis* telecommunications service providers that had previously submitted information to USAC. For the FCC's review of the 4Q2011 funding base for the support mechanisms, USAC includes estimated revenues based on prior submissions for those carriers that failed to submit a Form 499-Q.²⁶

Appendix M05 provides a list of non-*de minimis* companies that have or should have filed the August 1, 2011 Form 499-Q data as of August 19, 2011.

On July 26, 2011, the USAC Board of Directors adopted a resolution authorizing the filing of the 4Q2011 contribution base requirement described herein.

REVISED FOURTH QUARTER 2011 PROJECTED LOW INCOME SUPPORT MECHANISM FUND SIZE PROJECTION AND REVISED TOTAL FUND SIZE PROJECTION SUMMARY FOR ALL SUPPORT MECHANISMS

On July 26, 2011 the USAC Board of Directors High Cost & Low Income Committee approved a projected 4Q2011 Low Income Support Mechanism funding requirement of \$481.90 million. On August 2, 2011, USAC filed with the Commission the 4Q2011 fund size projections for the federal universal service support mechanisms, including \$481.90 million for the Low Income Support Mechanism.

Based on more recent information available after August 2, 2011, USAC is revising and submitting an updated 4Q2011 Low Income Support Mechanism demand projection. When USAC made its filing on August 2, 2011, only 1st Quarter 2011 (1Q2011) and 2nd Quarter 2011 (2Q2011) actual disbursement information was available. Analysis of 2nd and 3rd Quarter 2011 (April 1 through August 31, 2011) Low Income Support Mechanism actual support claims shows a substantial increase in

²⁶ See 47 C.F.R. § 54.709(d).

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disbursements well beyond previously projected demand growth rates. At this higher month-over-month growth rate, 4Q2011 actual support claims will exceed the amount projected in USAC's August 2, 2011 demand filing. USAC's 4Q2011 Low Income Support Mechanism demand projection was 12 percent higher than 3Q2011, reflecting USAC's then-best estimate of demand. USAC's more recent disbursement information, which was processed after USAC made its demand filing on August 2, 2011, strongly suggests that an additional 12 percent increase is required for a total 24 percent increase in Low Income Support Mechanism demand for 4Q2011 over 3Q2011. As such, the 4Q2011 Low Income Support Mechanism demand projection filed on August 2, 2011 requires an upward revision to reflect current projected demand for 4Q2011.

This accelerating growth trend is attributable to a significant quarter-over-quarter increase in Low Income Support Mechanism demand by Eligible Telecommunications Carriers (ETCs). In 2011, 72 new ETCs began seeking support and account for over 10 percent of July actual support claims. Of these 72 new ETCs, 21 began seeking support for the first time in June and July 2011, thereby significantly increasing Low Income Support Mechanism disbursements.

Following is a discussion of the revised demand for each of the Low Income Support Mechanism components.

LIFELINE SUPPORT

All ETCs must offer Lifeline support to qualified low-income consumers.²⁷ ETCs providing Lifeline support in accordance with Subpart E of Part 54 of the Commission's rules are entitled to receive funding from the Low Income Support Mechanism for the waiver of charges and reduced rates provided to qualified low-income

²⁷ See 47 C.F.R. § 54.201.

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subscribers.²⁸ 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),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 mechanism 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).

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For 4Q2011, USAC now projects \$488.11 million will be required for Lifeline support, which is an increase of \$46.38 million from the August 2, 2011 projection of \$441.73 million. Based on this revised projection, total annual 2011 Lifeline support is estimated to be \$1,582.91 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.³² The *Tribal Order* authorized additional Link Up support of up to \$70 per

²⁸ 47 C.F.R. §§ 54.401-54.417.

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 47 C.F.R. §§ 54.411 and 54.413.

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qualified low-income subscriber residing on eligible tribal lands.³³ For 4Q2011, USAC projects that \$34.05 million will be required for Link Up support, which is an increase of \$3.24 million from the August 2, 2011 projection of \$30.81 million. Based on this revised projection, total annual 2011 Link Up support is estimated to be \$100.95 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.³⁴ 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.³⁵ For 4Q2011, USAC projects that \$2.92 million will be required for TLS, which is an increase of \$0.28 million from the August 2, 2011 projection of \$2.64 million. Based on this revised projection, total annual 2011 TLS is estimated to be \$18.72 million.

LOW INCOME SUPPORT MECHANISM SUMMARY

The projected 4Q2011 Low Income Support Mechanism funding requirement is \$525.08 million, which includes \$488.11 million for Lifeline, \$34.05 million for Link Up, and \$2.92 million for Toll Limitation Service. This revised projection is an increase of \$49.90 million over the August 2, 2011 projection.

³³ 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*).

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

³⁵ 47 C.F.R. §§ 54.400(b) and (c).

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Results of 2Q2011 contribute to an under-funded condition, for which this filing proposes to adjust the 4Q2011 funding requirement. The total adjustment to the 4Q2011 funding requirement based on actual results will increase the funding needed by \$4.48 million. The explanation for the adjustment is described in the following table:

| Reason for the Prior Period Adjustment | Adjustment in Millions |
|--|-------------------------------|
| 2Q2011 billings were lower than the projected revenues. | \$4.07 |
| Low Income Support Mechanism distributions were higher than projected in 2Q2011. | 3.14 |
| Interest income was lower than estimated for 2Q2011 | 0.04 |
| Bad debt expense was lower than anticipated. | (2.77) |
| Total Prior Period Adjustment | \$4.48 |

The total fund requirement of \$525.08 million, increased by the prior period adjustment of \$4.48 million, increased for administrative expenses of \$2.34 million, and decreased by projected interest income of \$0.10 million, results in a total projected funding requirement for the Low Income Support Mechanism for 4Q2011 of \$531.80 million. This revised projection is an increase of \$49.89 million over the August 2, 2011 projection.

The attached Appendix LI01 provides revised projected Low Income Support Mechanism demand by state and study area for 4Q2011.³⁶

REVISED TOTAL FUND SIZE PROJECTIONS SUMMARY

The revised total fund size projections (including prior period adjustments, USAC administrative expenses and interest income) for the support mechanisms for 4Q2011 are:

- High Cost: \$1,078.71 million.
- Low Income: \$ 531.80 million.
- Rural Health Care: \$ 21.68 million.
- Schools and Libraries: \$ 560.15 million.

³⁶ Companies that are no longer ETCs have been removed from LI01.

**Universal Service Administrative Company 4Q2011 Contribution Base and
Revised Low Income Support Mechanism Demand**

Respectfully submitted,

UNIVERSAL SERVICE
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