

Before the  
**FEDERAL COMMUNICATIONS COMMISSION**  
Washington, DC

**UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**

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Federal Universal Service Support Mechanisms Fund Size  
Projections for First Quarter 2012

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

**FEDERAL UNIVERSAL SERVICE SUPPORT MECHANISMS  
FUND SIZE PROJECTIONS FOR  
FIRST QUARTER 2012**

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***INTRODUCTION***

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The Universal Service Administrative Company (USAC) hereby submits the federal Universal Service Support Mechanisms fund size and administrative cost projections for the first quarter of calendar year 2012 (1Q2012), in accordance with Section 54.709 of the Federal Communications Commission's (FCC or Commission) rules.<sup>1</sup>

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.<sup>2</sup> 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.<sup>3</sup>

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<sup>1</sup> 47 C.F.R. § 54.709(a)(3).

<sup>2</sup> 47 C.F.R. § 54.701.

<sup>3</sup> 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***

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**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.<sup>4</sup> 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.<sup>5</sup>

USAC projects a consolidated budget of \$30.30 million for 1Q2012. Direct costs for all support mechanisms total \$19.42 million<sup>6</sup> and are listed for each mechanism in the chart provided below. Joint and common costs (including billing, collection, and disbursement activities) are projected at \$10.88 million and are allocated to each support mechanism as described in the chart below based on the allocation methodology on file with the Commission.

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<sup>4</sup> 47 C.F.R. § 54.709(a)(3).

<sup>5</sup> 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).

<sup>6</sup> This amount includes \$70,000 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 1Q2012 Fund Size Projections

### *1Q2012 Administrative Expenses (in millions) – Collection Requirement*

<b>USF Mechanism</b>	<b>Direct Costs</b>	<b>USAC Common</b>	<b>Total</b>
<b>High Cost</b>	\$1.06	\$3.53	\$4.59
<b>Low Income</b>	1.16	1.06	2.22
<b>Rural Health Care</b>	2.64	0.82	3.46
<b>Schools &amp; Libraries</b>	14.56	5.47	20.03
<b>Total</b>	<b>\$19.42</b>	<b>\$10.88</b>	<b>\$30.30</b>

Appendix M01 provides USAC's administrative expense budget for 1Q2012.

Appendix M02 provides the fund size projections for 1Q2012.

### **INTEREST INCOME PROJECTION**

For 1Q2012, USAC projects interest income of approximately \$2.04 million for the High Cost Support Mechanism, \$0.03 million for the Low Income Support Mechanism, \$1.44 million for the Rural Health Care Support Mechanism, and \$3.05 million for the Schools and Libraries Support Mechanism. USAC projects total interest income of \$6.56 million. As in previous quarters, 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 nine months ended September 30, 2011, on a cash basis, USAC disbursed to beneficiaries \$5,899.35 million in universal service support as follows: \$2,949.55 million in High Cost support, \$1,221.06 million in Low Income support, \$1,626.00 million in Schools and Libraries support, and \$102.74 million in Rural Health Care support. On a cash basis, the total cash balance available as of September 30, 2011 to the universal service support

## **Universal Service Administrative Company 1Q2012 Fund Size Projections**

mechanisms was \$5,898.32 million. On an accrual basis, USAC had a fund balance of \$6,034.82 million at September 30, 2011.

Appendices M03 and M04 provide 2011 year-to-date statements of fund activity on a cash and accrual basis.

### **EFFORTS TO PREVENT AND REDUCE IMPROPER PAYMENTS**

USAC has established a foundation of processes, systems, procedures, and outreach activities to prevent or reduce “improper” payments as defined by the Improper Payments Information Act of 2002 (P.L. 107-300). USAC is also evaluating additional measures that may help to identify or reduce improper payments. USAC has initiated efforts consistent with its February 28, 2008 letter to the Commission identifying additional steps that USAC proposed to take to prevent or reduce potential improper payments and the additional resources needed to implement such measures.<sup>7</sup> Commission staff has directed USAC to report on a quarterly basis its progress in implementing proposed actions to prevent or reduce improper payments and anticipated administrative costs of such actions.<sup>8</sup>

The steps initiated by USAC include additional oversight and managerial controls, strengthened audit and investigative techniques, improved information technology tools, and more effective use of outreach resources. In 1Q2012, USAC will continue efforts identified and initiated during the previous years. These efforts include, but are not limited to:

1. *Assessing and strengthening USAC's internal controls.*

The USAC internal controls team continues to develop and update required internal controls documentation and perform testing of key controls to ensure the USAC's internal controls program is in compliance with best practices consistent with OMB Circular A-123.

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<sup>7</sup> See Letter from D. Scott Barash, Acting Chief Executive Officer, USAC, to Anthony Dale, FCC Managing Director (Feb. 28, 2008), concerning suggested additional steps to reduce or prevent improper payments.

<sup>8</sup> See Letter from Anthony Dale, FCC Managing Director, to D. Scott Barash, Acting Chief Executive Officer, USAC (Aug. 18, 2008).

## Universal Service Administrative Company 1Q2012 Fund Size Projections

The team completed testing of key internal controls for the Rural Health Care Primary and Pilot Programs during 1st Quarter 2011 (1Q2011). No material weaknesses or reportable conditions were identified during this testing. During 3rd Quarter 2011 (3Q2011), the team completed retesting of the 2010 control deficiencies in High Cost and Low Income Program operations processes and will report on those results in November 2011. Currently, the team is performing testing of all financial business processes and is scheduled to complete this testing by year end. Further, the team is performing a review of the commitment adjustment process in the Schools and Libraries Division. In addition to testing activities, the internal controls team continues to facilitate review and approval activities for all USAC policy and procedure documents.

### 2. Strengthening audit and investigative techniques.

a) In February 2010, the FCC directed USAC to implement an assessment program to determine the rate of improper payments made to universal service support mechanism beneficiaries to support the FCC's reporting requirements under the Improper Payments Elimination and Recovery Act (IPERA),<sup>9</sup> formerly known as the Improper Payments Information Act (IPIA),<sup>10</sup> and to assess universal service support mechanism beneficiary and USF contributor compliance with FCC regulations.<sup>11</sup> USAC successfully implemented this assessment program, known as the Payment Quality Assurance (PQA) Program, in August 2010 (see b below).

The FCC also directed USAC to establish a comprehensive support mechanism beneficiary and USF contributor audit program, which is known as BCAP. USAC intends to conduct the initial round of 343 BCAP audits using a combination of USAC Internal Audit

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<sup>9</sup> See The Improper Payments Elimination and Recovery Act of 2010, Pub L. No. 111-204, July 22, 2010.

<sup>10</sup> See 31 U.S.C. § 3122; Public Law 107-300, Stat. 2350, Nov. 26, 2002.

<sup>11</sup> Letter from Steven Van Roekel, FCC Managing Director, to Scott Barash, USAC Acting Chief Executive Officer, re: "Implementation of the Improper Payments Information Act of 2002 (IPIA) Assessment Program and Companion Audit Program," Feb. 12, 2010.

## Universal Service Administrative Company 1Q2012 Fund Size Projections

Division (IAD) staff and external audit firms. USAC continues to work with FCC Office of Managing Director and Office of General Counsel staff on the procurement process and documents for soliciting bids from professional service firms to perform audits under BCAP. USAC IAD initiated a number of audits in late 2010 and early 2011 under the BCAP program to fulfill the need to perform randomly selected audits of support mechanism beneficiaries and USF contributors. As of the October 2011 quarterly USAC Board of Directors meeting, 38 audits are complete and 48 are in progress. The table below provides an overview BCAP progress:

<b>Program</b>	<b>Scheduled</b>	<b>In Progress</b>	<b>Completed</b>
High Cost	25	3	1
Low Income	20	7	23
Schools and Libraries	35	9	2
Rural Health Care	20	10	11
Contributor Revenue	25	19	1
<b>Total</b>	<b>125</b>	<b>48</b>	<b>38</b>

b) USAC IAD will announce another 16 audits during 4Q2011. Using a statistically drawn sample, each month support mechanism disbursements are selected and reviewed to verify that payments were made at the correct amount in accordance with FCC rules.

The PQA Program has completed the first year of testing payments under this directive. The data was sent to the statistician for all of the programs for analysis by July 31, 2011. The table below summarizes the error rates noted and the projected estimated improper payment amounts for each program:

**Universal Service Administrative Company 1Q2012 Fund Size Projections**

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	<b>Improper Payment Rate</b>	<b>Estimated Improper Payment Amount (millions)</b>
High Cost	0.11%	\$5.1
Schools and Libraries	0.94%	\$21.9
Low Income	0.23%	\$3.0
Rural Health Care	1.7%	\$1.4

Based on the assessments summarized above, the improper payment rates are significantly lower than the levels reported under the FCC Office of Inspector General (OIG) USF Audit Program. While the PQA assessment procedures test individual payments, the FCC OIG USF audit program reviewed a larger scope of beneficiary activities. In addition, the FCC OIG USF audit program assessed beneficiary activities that occurred several years before the audits were performed, resulting in numerous instances where beneficiaries could not locate documentation and, in some cases, beneficiaries were audited against document retention rules that were not in effect when the disbursements were made, thereby resulting in substantially higher reported error rates. PQA tests current payments, which has enabled beneficiaries to more readily provide documentation. In addition, the FCC has clarified document retention rules in recent years.

3. Improving information technology tools.

USAC prepared a request for proposals (RFP) for the software procurement and systems integration of the USAC and USF financial systems modernization (FSM) project. The goals of FSM are to provide a more robust, flexible infrastructure to support all aspects of USAC operations. USAC has submitted relevant procurement documents to the FCC for approval prior to initiating procurement activities. Concurrently, USAC has undertaken a systematic review of the capabilities of its current financial system in order to determine whether additional functionality can be added to improve financial operations rather than incur the substantial expense associated with the FSM project.

4. Expanding and enhancing outreach and education.

In 3Q2011, USAC provided individual outreach to 224 contributors, three Rural Health Care Pilot Program beneficiaries, and 318 Schools and Libraries applicants. USAC conducted one live training event for Schools and Libraries Support Mechanism beneficiaries; conducted one webinar for Rural Health Care Pilot Program beneficiaries; and participated in 10 professional meetings, involving beneficiary audiences for the High Cost, Rural Health Care, and Schools and Libraries Support Mechanisms.

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***FUNDING REQUIREMENTS***

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**HIGH COST SUPPORT MECHANISM**

**ELIGIBLE TELECOMMUNICATIONS CARRIER (ETC) DESIGNATION**

A requirement of eligibility for the High Cost Support Mechanism 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.<sup>12</sup> ETCs are eligible to receive funds from the High Cost Support Mechanism,<sup>13</sup> 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 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 1,800 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.

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<sup>12</sup> See 47 U.S.C. § 214(e); 47 C.F.R. § 54.201.

<sup>13</sup> 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 1Q2012 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				
<b>Rural</b>	736	405	1,141	207	1,348	289	1,637
<b>Non-Rural</b>	0	0	0	86	86	281	367
<b>Total</b>	<b>736</b>	<b>405</b>	<b>1,141</b>	<b>293</b>	<b>1,434</b>	<b>570</b>	<b>2,004</b>

**INTERIM HIGH COST SUPPORT CAP AND PHASE DOWNS FOR COMPETITIVE CARRIERS**

In an order released on May 1, 2008, the FCC capped the amount of CETC High Cost support.<sup>14</sup> On the August 1, 2008 effective date of the order, total annual CETC support for each state was capped at the level of support that CETCs in that state were eligible to receive during March 2008 on an annualized basis.<sup>15</sup> Projections for each component of High Cost support will reflect both the capped CETC support amounts and the uncapped CETC support amounts. Additionally, support to Verizon Wireless and Sprint Nextel CETCs are subject to further High Cost support reductions as required by Commission orders.<sup>16</sup> While the total capped CETC support is included in the total fund requirement, these further reductions in support to Verizon Wireless and Sprint Nextel will continue to be collected from USF contributors and reserved pursuant to FCC 10-155.<sup>17</sup> Total capped CETC High Cost support demand for 1Q2012 is \$342.16 million and total uncapped CETC High Cost support demand is \$509.05 million for 1Q2012.

<sup>14</sup> See *In the Matter of High-Cost Universal Service Support Federal-State Joint Board on Universal Service, Alltel Communications, Inc., et al., Petitions for Designation as Eligible Telecommunications Carriers, RCC Minnesota, Inc. and RCC Atlantic, Inc., New Hampshire ETC Designation Amendment*, FCC 08-122 (rel. May 1, 2008). Following publication in the Federal Register, on July 2, 2008, the order became effective on August 1, 2008.

<sup>15</sup> *Id.*, ¶ 5.

<sup>16</sup> See *In the Matter of Applications of Celco Partnership d/ b/a Verizon Wireless and Atlantis Holdings LLC, For Consent to Transfer Control of Licenses, Authorizations, and Spectrum Manager and De Facto Transfer Leasing Arrangements and Petition for Declaratory Ruling that the Transaction is Consistent with Section 310(b)(4) of the Communications Act*, DA 08-258 (rel. Nov. 10, 2008); *In the Matter of SPRINT NEXTEL Corporation and Clearwire Corporation, Application For Consent to Transfer Control of Licenses, Leases, and Authorizations*, DA 08-259 (rel. Nov. 7, 2008).

<sup>17</sup> *In the Matter of High-Cost Universal Service, Federal-State Joint Board on Universal Service, Request for Review of Decision of Universal Service Administrator by Corr Wireless Communications, LLC, WC Docket No. 05-337, CC Docket No. 96-45, FCC 10-155*, ¶¶ 21-22 (rel. Sept. 3, 2010) (FCC 10-155).

## Universal Service Administrative Company 1Q2012 Fund Size Projections

Appendix HC01 provides projected High Cost support with capped CETC support by state, by study area, for 1Q2012. HC01 also provides the projected capped amount of individual company support segregated by rural and non-rural status, and projected per-month capped amounts for the components of High Cost support that each ETC<sup>18</sup> may be eligible to receive. Appendix HC01A provides the projected uncapped amount of individual company support segregated by rural and non-rural status. HC01A also contains the projected per-month uncapped amounts for the components of High Cost support that each ETC<sup>19</sup> may be eligible to receive. HC02 provides the total projected capped amount of annualized High Cost support for 1Q2012 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.

### **FUNDS RESERVED PURSUANT TO FCC 10-155**

In FCC 10-155, the FCC directed that reclaimed funds be reserved for proposed broadband universal service reforms.<sup>20</sup> Specifically, the FCC instructed USAC to continue projecting CETC support at the interim cap amount, independent of the merger commitments of Verizon Wireless and Sprint Nextel and the projected disbursements for individual CETCs that would otherwise not reach the existing interim cap amount for any given jurisdiction. For 1Q2012, projected support to be reserved pursuant to FCC 10-155 is \$77.00 million.

The chart below reflects the cumulative amount of funds reserved through 3Q2011.

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<sup>18</sup> See 47 C.F.R. § 36.631 and 47 C.F.R. §§ 54.301-54.303.

<sup>19</sup> See 47 C.F.R. § 36.631 and 47 C.F.R. §§ 54.301-54.303.

<sup>20</sup> FCC 10-155, ¶ 20.



**Universal Service Administrative Company 1Q2012 Fund Size Projections**

<b>Funds Reserved For National Broadband Initiative</b>	
<i>as of September 30, 2011</i>	
<b>Broadband Reserve</b>	<b>Funds Reserved (in millions)</b>
3rd Quarter 2010	\$23.00
4th Quarter 2010	84.98
1st Quarter 2011	101.53
2nd Quarter 2011	125.81
3 <sup>rd</sup> Quarter 2011	93.82
<b>Subtotal</b>	<b>\$429.14</b>
Transfer to Schools and Libraries Program to index the E-rate cap to inflation	(20.25)
<b>Total Funds Reserved</b>	<b>\$408.89</b>

**HIGH COST RURAL SUPPORT**

***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 2010 incumbent local exchange carrier (LEC) loop cost and expense adjustment data that was submitted to the FCC and USAC on October 1, 2011.<sup>21</sup> Growth in total HCL Support for rural LECs 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.<sup>22</sup> The *RTF Order*<sup>23</sup> increased HCL Support for rural LECs effective July 1, 2001.

Rural incumbent LEC HCL Support for calendar year 2012 will be less than the level of payments for 2011 because of a rural growth factor of negative 5.2698 percent. Rural incumbent LEC HCL Support for calendar year 2012, therefore, is capped at \$858.20 million.

<sup>21</sup> Universal Service Fund (USF) 2011 Submission of 2010 Study Results (filed Oct. 1, 2011) (*USF Data Submission*).

<sup>22</sup> 47 C.F.R. § 36.603(a).

<sup>23</sup> 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 F.C.R. 11244 (2001) (*RTF Order*).

## Universal Service Administrative Company 1Q2012 Fund Size Projections

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.<sup>24</sup> 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.<sup>25</sup> For 1Q2012, projected SNA Support is \$25.29 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.<sup>26</sup> SVS is 50 percent of the difference between the index year HCL Support amount and the HCL Support amount in subsequent years.<sup>27</sup> SVS is subject to an overall cap of no more than five percent of the HCL fund in any given year.<sup>28</sup> For 1Q2012, projected SVS is \$2.13 million.

For 1Q2012, USAC projected HCL Support is \$286.91 million. Of this amount, \$214.40 million is associated with rural incumbent carriers and \$72.51 million is the capped amount associated with CETCs (uncapped CETC support is \$135.53). In addition, 1Q2012 SNA Support is projected to be \$25.29 million and SVS is projected to be \$2.13 million. Based on these projections, total 1Q2012 HCL Support is projected to be \$314.33 million, and total annual 2012 HCL Support is estimated to be \$1,257.31 million.

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<sup>24</sup> See *RTF Order* at ¶¶ 77-90.

<sup>25</sup> See 47 C.F.R. § 36.605(c).

<sup>26</sup> See *RTF Order* at ¶¶ 91-119.

<sup>27</sup> 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 Red 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.

<sup>28</sup> See 47 C.F.R. § 54.305(e).

## **Universal Service Administrative Company 1Q2012 Fund Size Projections**

Appendix HC05 provides projected uncapped monthly HCL Support payments by state by study area for 1Q2012. HC06 provides projected uncapped monthly SNA Support payments by state by study area for 1Q2012. HC07 displays uncapped SVS for 1Q2012.

### ***Local Switching Support***

ETC study areas having 50,000 or fewer access lines are eligible to receive support for local switching costs.<sup>29</sup> Local Switching Support (LSS) is the product of a carrier's annual unseparated local switching revenue requirement multiplied by its local switching support factor.<sup>30</sup>

For 1Q2012, LSS is projected to be \$11.78 million for incumbent average schedule carriers and \$55.29 million for incumbent cost study carriers. In addition, 1Q2012 LSS for CETCs is projected to be \$20.66 million (capped amount). The uncapped amount is \$36.59 million. USAC projects, therefore, that \$87.73 million will be required for 1Q2012. Based on these projections, total annual 2012 LSS is estimated to be \$350.91 million.

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

### **INTERSTATE COMMON LINE SUPPORT**

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.<sup>31</sup>

For 1Q2012, ICLS for incumbent rate-of-return carriers is projected to be \$290.98 million. In addition, 1Q2012 ICLS for CETCs is projected to be \$126.58 million (capped

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<sup>29</sup> See 47 C.F.R. § 54.301.

<sup>30</sup> The LSS factor is defined as the difference between the 1996 weighted interstate Dial Equipment Minute (DEM) factor and the 1996 unweighted DEM factor.

<sup>31</sup> 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*).

## Universal Service Administrative Company 1Q2012 Fund Size Projections

amount). The uncapped amount is \$216.40 million. USAC projects, therefore, that \$417.56 million in ICLS will be required for 1Q2012. Based on these projections, total annual 2012 ICLS is estimated to be \$1,667.40 million.

Appendices HC09, HC10 and HC11 provide USAC's 1Q2012 uncapped projections of ICLS by study area, per line and by state, respectively.

Appendices HC22, HC23 and HC24 contain the revised 4th Quarter 2011 (4Q2011) projections of ICLS by study area, per line and state, respectively. HC28 and HC29 provide the revised projected 2010 to 2011 program year ICLS by study area and per line. HC30 and HC31 provide the revised projected 2011 to 2012 Program Year ICLS by study area and per line.

### **INTERSTATE ACCESS SUPPORT**

Interstate Access Support (IAS) helps offset interstate access charges for price cap companies.<sup>32</sup> The *Interstate Access Order* targets the support mechanism at \$650 million annually for five years.<sup>33</sup>

The IAS projected industry-wide totals for 1Q2012 are \$32.53 million for rural incumbent carriers and \$80.93 million for non-rural incumbent carriers. The High Cost support Interim Cap<sup>34</sup> limits IAS CETC support to \$17.66 million (\$63.08 million is uncapped CETC support). USAC projects \$131.12 million will be required for 1Q2012 with total annual IAS estimated to be \$524.47 million.

Appendices HC12, HC13 and HC14 provide USAC's 1Q2012 uncapped IAS projected by study area, line and state, respectively. Appendices HC25, HC26 and HC27

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<sup>32</sup> 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*).

<sup>33</sup> See *Interstate Access Order* at ¶ 201.

<sup>34</sup> See *supra* n.11.

## **Universal Service Administrative Company 1Q2012 Fund Size Projections**

provide the revised 4Q2011 projections of HCM by wire center, by state and study area, respectively.

### **NON-RURAL FORWARD-LOOKING SUPPORT**

Under the most recent calculation of forward-looking High Cost Model (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 2012.<sup>35</sup>

For 1Q2012, USAC projects \$69.30 million will be required for HCM Support, which consists of \$34.10 million for incumbent, non-rural carriers and \$35.20 million of capped support for CETCs (\$45.27 million is uncapped CETC support). Based on these projections, total annual 2012 HCM Support is estimated to be \$277.21 million.

Appendices HC15, HC16 and HC17 provide USAC's 1Q2012 uncapped projections of non-rural forward-looking support by wire center, state and study area, respectively.

### **COMPETITIVE ETC LINES**

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

### **HIGH COST SUPPORT MECHANISM SUMMARY**

The estimated 1Q2012 High Cost Support Mechanism funding requirement is \$1,020.04 million, which includes \$314.33 million for HCL Support (including SNA and SVS), \$87.73 million for LSS, \$417.56 million for ICLS, \$131.12 million for IAS, and \$69.30 million for HCM Support. The above funding requirements reflect capped and phased

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<sup>35</sup> 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).

## Universal Service Administrative Company 1Q2012 Fund Size Projections

down CETC support consistent with the Commission orders.<sup>36</sup> 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.<sup>37</sup> 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.

The FCC recently waived on an interim basis 47 C.F.R. § 54.709(b) for CETC support, which requires that USAC account for any difference between its projected revenue requirements and its actual revenue requirements as a prior period adjustment in the next quarterly demand filing.<sup>38</sup> The FCC explained in the order that this temporary waiver is to reserve funds as a down payment for the National Broadband Plan.<sup>39</sup>

Results for 3Q2011 contributed to an under-funded condition for which this filing proposes to adjust the 1Q2012 funding requirements. The total adjustment to the 1Q2012 fund requirement based on actual results will increase the funding needed by \$98.67 million. The explanation for the adjustment is described in the following table:

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<sup>36</sup> See *In the Matter of High-Cost Universal Service Support*, FCC 08-122 (2008) and FCC 10-155 (rel. Sept. 3, 2010).

<sup>37</sup> 47 C.F.R. §§ 54.709(b) and 54.709(c).

<sup>38</sup> See FCC 10-155, ¶ 22.

<sup>39</sup> *Id.*

## Universal Service Administrative Company 1Q2012 Fund Size Projections

Reason for the Prior Period Adjustment	Adjustment in Millions
3Q2011 billings were lower than the projected revenues reported by USF contributors in their quarterly revenue projections due to the annual actuals/quarterly revenue estimate true-up that is performed during the 3rd quarter. In this most recent review, actual revenue was lower than what USF contributors had projected over 2010, and a credit was issued that reduced billings significantly.	\$107.40
High Cost Support Mechanism distributions were higher than projected in 3Q2011.	4.08
Interest income was higher than estimated for 3Q2011.	(1.59)
Bad debt expense was lower than anticipated.	(7.00)
2010 administrative expenses true-up. <sup>40</sup>	(4.22)
<b>Total Prior Period Adjustment</b>	<b>\$98.67<sup>41</sup></b>

The total fund requirement of \$1,020.04 million is adjusted as follows: increased by \$77.00 million for funds reserved pursuant to FCC 10-155,<sup>42</sup> increased by the prior period adjustments of \$98.67 million, increased by administrative costs of \$4.59 million, and reduced by the projected interest income of \$2.04 million; resulting in a total projected 1Q2012 funding requirement for the High Cost Support Mechanism of \$1,198.26 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.<sup>43</sup> ETCs providing Lifeline support in accordance with Subpart E of Section 54 of the Commission's rules are entitled to receive funding from the Low Income Support Mechanism for the

<sup>40</sup> USAC performs an annual true-up of actual administrative expenses in its July or November Fund Size Projections Filing submitted to the Commission, depending on when the USAC Board of Directors approves the USAC annual financial audit. This true-up excludes the Schools and Libraries Support Mechanism because that program's administrative expenses are included in its annual funding cap.

<sup>41</sup> Interim waiver of 47 C.F.R. § 54.709(b) is for High Cost CETC projections versus disbursements adjustment. Other prior period adjustments, such as ILEC distributions, billings, interest income and bad debt, must continue to be accounted for.

<sup>42</sup> See FCC 10-155, ¶ 22.

<sup>43</sup> See 47 C.F.R. § 54.201.

## Universal Service Administrative Company 1Q2012 Fund Size Projections

waiver of charges and reduced rates provided to qualified low-income subscribers.<sup>44</sup> 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),<sup>45</sup> 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).<sup>46</sup> Further, up to an additional \$25 per low-income subscriber per month is available to eligible residents of tribal lands (Tier Four).<sup>47</sup>

For 1Q2012, USAC projects \$535.17 million will be required for Lifeline support. Based on this projection, total annual 2012 Lifeline support is estimated to be \$2,140.68 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.<sup>48</sup>

The *Tribal Order* authorized additional Link Up support of up to \$70 per qualified low income subscriber residing on eligible tribal lands.<sup>49</sup> For 1Q2012, USAC projects that

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<sup>44</sup> 47 C.F.R. §§ 54.401-54.417.

<sup>45</sup> 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); *LAG 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).

<sup>46</sup> 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.

<sup>47</sup> 47 C.F.R. § 54.400(e).

<sup>48</sup> 47 C.F.R. §§ 54.411 and 54.413.

<sup>49</sup> 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*).



## **Universal Service Administrative Company 1Q2012 Fund Size Projections**

\$45.87 million will be required for Link Up support. Based on this projection, total annual 2012 Link Up support is estimated to be \$183.48 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.<sup>50</sup> 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.<sup>51</sup> For 1Q2012, USAC projects that \$3.07 million will be required for TLS. Based on this projection, total annual 2012 TLS is estimated to be \$12.28 million.

### **LOW INCOME SUPPORT MECHANISM SUMMARY**

The estimated 1Q2012 Low Income Support Mechanism funding requirement is \$584.11 million, which includes \$535.17 million for Lifeline, \$45.87 million for Link Up, and \$3.07 million for Toll Limitation Service. Results of 3Q2011 contribute to an under-funded condition, for which this filing proposes to adjust the 1Q2012 funding requirement. The total adjustment to the 1Q2012 funding requirement based on actual results will increase the funding needed by \$71.16 million. The explanation for the adjustment is described in the following table:

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<sup>50</sup> 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).

<sup>51</sup> 47 C.F.R. §§ 54.400(b) and (c).

**Universal Service Administrative Company 1Q2012 Fund Size Projections**

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<b>Reason for the Prior Period Adjustment</b>	<b>Adjustment in Millions</b>
3Q2011 billings were lower than the projected revenues reported by contributors in their quarterly revenue projections due to the annual actuals/quarterly revenue estimate true-up that is performed during the 3rd quarter. In this most recent review, actual revenue was lower than what USF contributors had projected over 2010, and a credit was issued that reduced billings significantly.	\$40.10
Low Income Support Mechanism distributions were higher than projected in 3Q2011.	23.25
Interest income was lower than estimated for 3Q2011	0.07
Bad debt expense was higher than anticipated.	8.49
2010 administrative expenses true-up. <sup>52</sup>	(0.75)
<b>Total Prior Period Adjustment</b>	<b>71.16</b>

The total fund requirement of \$584.11 million increased by the prior period adjustment of \$71.16 million, increased for administrative expenses of \$2.22 million, and decreased by projected interest income of \$0.03 million, results in a total projected funding requirement for the Low Income Support Mechanism for 1Q2012 of \$657.46 million.

Appendix LI01 provides projected Low Income support amounts by state and study area for 1Q2012.<sup>53</sup> LI02 provides detail on Low Income funding amounts available in each of the states and territories for 1Q2012. LI03 provides a list of ETCs for 3Q2011.<sup>54</sup> LI04 provides detail on quarterly company specific Low Income support disbursement amounts for 3Q2011. LI05 provides detail on annual company-specific Low Income support amounts for 2008 through 2Q2011.<sup>55</sup> LI06 provides historical data of monthly support amounts claimed by ETCs from January 1998 through September 30, 2011. LI07 provides detail on Low Income support distributed by state for 2008 through 2Q2011.<sup>56</sup> LI08 and LI09 provide subscriber information by state and jurisdiction for Lifeline and Link Up

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<sup>52</sup> See *supra* note 40.

<sup>53</sup> Companies that are no longer ETCs have been removed from LI01.

<sup>54</sup> Companies that are no longer ETCs have been removed from LI03.

<sup>55</sup> For data for years prior to 2008 see LI05 of USAC's 2Q2010 FCC Quarterly Demand Filing.

<sup>56</sup> For data for years prior to 2008 see LI07 of USAC's 2Q2010 FCC Quarterly Demand Filing.

## Universal Service Administrative Company 1Q2012 Fund Size Projections

support, respectively. LI10 shows the Tier 1 amounts reported by all companies during 2Q2011.

### **RURAL HEALTH CARE SUPPORT MECHANISM**

Following is a summary of Rural Health Care Support Mechanism commitments and disbursements for Funding Years 2007-11 as of September 30, 2011. Prior funding years are closed.

#### **FUNDING YEAR 2007**

Funding Year 2007 began on July 1, 2007 and ended on June 30, 2008. The filing window for Funding Year 2007 opened on March 12, 2007. As of September 30, 2011, a total of 3,564 Form 465s were posted and 6,778 packets were received.

The status of Funding Year 2007 packets is provided in the following table:

<b>FUNDING YEAR 2007 PACKET PROCESSING</b>	
Packets Completely Processed	6,039
In Review	0
Withdrawn by Applicant	472
Denied	237
Duplicate	30
Incomplete – Require Forms and/or Clarification	0
<b>Total Packets Received as of 9/30/2011 for Funding Year 2007</b>	<b>6,778</b>

On September 29, 2006, the FCC released an order establishing a new two-year Rural Health Care Support Mechanism Pilot Program for Funding Years 2006 and 2007 to cover “up to 85 percent of an applicant’s costs of deploying a dedicated broadband network.”<sup>57</sup> The application window for the Pilot Program opened on March 8, 2007 and

<sup>57</sup> *In the Matter of the Rural Health Care Support Mechanism*, FCC 06-144, 2006 WL 2819579 (F.C.C.) (rel. Sept. 29, 2006). See also, *Wireline Competition Bureau Seeks Comment on the Petition for Reconsideration or, in the Alternative, Clarification Filed by National LambdaRail, Inc.*, WC 02-60, DA 06-2279 (rel. Nov. 6, 2006); *FCC Expands Eligibility to Include National LambdaRail’s Backbone in Rural Health Care Pilot*, FCC 07-6 (rel. Feb. 7, 2007).

## Universal Service Administrative Company 1Q2012 Fund Size Projections

closed on May 7, 2007.<sup>58</sup> On November 19, 2007, the FCC released an order increasing the number of funding years to three for the Pilot Program and awarding \$417.78 million in support to 69 applications over funding years 2007, 2008 and 2009.<sup>59</sup> Support under the Pilot Program is capped at \$139.26 million in each of the three funding years. The Commission stated that monies collected in funding year 2006 for the Pilot Program should be applied to Funding Year 2007,<sup>60</sup> resulting in \$54.44 million of funds collected for Funding Year 2006 being reallocated to Funding Year 2007.

As of September 30, 2011, Pilot Program funding commitments have been issued totaling \$0.48 million. Based on information provided by applicants, USAC now estimates Funding Year 2007 Pilot Program demand will be \$0.47 million. In accordance with the instructions in a January 17, 2008 letter from the Chief of the FCC Wireline Competition Bureau allowing Pilot Program participants to roll forward support not used in one year to a subsequent funding year, USAC carried forward funds not used in Funding Year 2007 to Funding Year 2008 and Funding Year 2009. USAC has collected \$139.26 million for each of the Pilot Program Funding Years, thus no further collection is necessary.

As of September 30, 2011, Primary Program funding commitments have been issued totaling \$56.90 million. The Commission previously authorized collection of \$55.08 million for Funding Year 2007.

Authorized funding by applicant during 3Q2011 and disbursements made to service providers during 3Q2011 are listed in Appendices RH01 and RH02, respectively.

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<sup>58</sup> *Wireline Competition Bureau Announces OMB Approval of the Rural Health Care Pilot Program Information Collection Requirements and the Deadline for Filing Applications*, DA 07-1188 (rel. Mar. 9, 2007).

<sup>59</sup> *See In the Matter of the Rural Health Care Support Mechanism*, FCC 07-198 (rel. Nov. 19, 2007).

<sup>60</sup> *Id.*

## Universal Service Administrative Company 1Q2012 Fund Size Projections

### **FUNDING YEAR 2008**

Funding Year 2008 began on July 1, 2008 and ended on June 30, 2009. The window for Funding Year 2008 opened on April 8, 2008. As of September 30, 2011, a total of 3,563 Form 465s were posted and 7,396 packets were received.

The status of Funding Year 2008 packets is provided in the following table:

<b>FUNDING YEAR 2008 PACKET PROCESSING</b>	
Packets Completely Processed	6,804
In Review	0
Withdrawn by Applicant	464
Denied	108
Duplicate	20
Incomplete – Require Forms and/or Clarification	0
<b>Total Packets Received as of 9/30/2011 for Funding Year 2008</b>	<b>7,396</b>

As of September 30, 2011, Pilot Program funding commitments have been issued totaling \$16.75 million for Funding Year 2008. Based on information provided by applicants, USAC now estimates Funding Year 2008 Pilot Program demand will be \$16.30 million. In accordance with the instructions in a January 17, 2008 letter from the Chief of the FCC Wireline Competition Bureau allowing Pilot Program participants to roll forward support not used in one year to a subsequent funding year, USAC carried forward funds not used in Funding Year 2008 to Funding Year 2009. USAC has collected \$139.26 million for each of the Pilot Program Funding Years, thus no further collection is necessary.

As of September 30, 2011, Primary Program funding commitments have been issued totaling \$66.93 million. The Commission previously authorized collection of \$65.35 million for Funding Year 2008.

Authorized funding by applicant during 3Q2011 and disbursements made to service providers during 3Q2011 are listed in Appendices RH03 and RH04, respectively.

## Universal Service Administrative Company 1Q2012 Fund Size Projections

### **FUNDING YEAR 2009**

Funding Year 2009 began on July 1, 2009 and ended on June 30, 2010. The window for Funding Year 2009 opened on April 9, 2009. As of September 30, 2011, a total of 3,942 Form 465s were posted and 8,028 packets were received.

The status of Funding Year 2009 packets is provided in the following table:

<b>FUNDING YEAR 2009 PACKET PROCESSING</b>	
Packets Completely Processed	7,376
In Final Review	0
In Review	1
Withdrawn by Applicant	417
Denied	220
Duplicate	14
Incomplete – Require Forms and/or Clarification	0
<b>Total Packets Received as of 9/30/2011 for Funding Year 2009</b>	<b>8,028</b>

As of September 30, 2011, Pilot Program funding commitments have been issued totaling \$191.80 million for Funding Year 2009. In accordance with the instructions in a January 17, 2008 letter from the Chief of the FCC Wireline Competition Bureau allowing Pilot Program participants to roll forward support not used in one year to a subsequent funding year, USAC has previously carried forward funds not used in Funding Year 2007 and Funding Year 2008 to Funding Year 2009. Based on information provided by applicants, USAC now estimates Funding Year 2009 Pilot Program demand will be \$401.01 million. USAC has collected \$139.26 million for each of the Pilot Program Funding Years, thus no further collection is necessary.

As of September 30, 2011, Primary Program funding commitments have been issued totaling \$73.47 million. The Commission previously authorized collection of \$71.66 million for Funding Year 2009.

## Universal Service Administrative Company 1Q2012 Fund Size Projections

Funding commitments made during 3Q2011 are included in Appendix RH05. Authorized funding by applicant during 3Q2011 and disbursements made to service providers during 3Q2011 are listed in Appendices RH06 and RH07, respectively.

### **FUNDING YEAR 2010**

Funding Year 2010 began on July 1, 2010 and ended on June 30, 2011. The window for Funding Year 2010 opened on March 15, 2010. As of September 30, 2011, a total of 4,283 Form 465s were posted and 9,524 packets were received.

The status of Funding Year 2010 packets is provided in the following table:

<b>FUNDING YEAR 2010 PACKET PROCESSING</b>	
Packets Completely Processed	7,300
In Final Review	145
In Review	772
Withdrawn by Applicant	433
Denied	25
Duplicate	5
Incomplete – Require Forms and/or Clarification	844
<b>Total Packets Received as of 9/30/2011 for Funding Year 2010</b>	<b>9,524</b>

As of September 30, 2011, Primary Program funding commitments have been issued totaling \$78.69 million. Funding commitments made during 3Q2011 are included in Appendix RH08. Authorized funding by applicant during 3Q2011 and disbursements made to service providers during 3Q2011 are listed in Appendices RH09 and RH10, respectively.

### **FUNDING YEAR 2011**

Funding Year 2011 began on July 1, 2011 and will end on June 30, 2012. The window for Funding Year 2011 opened on April 4, 2011.

USAC recommends the Commission authorize collections for Funding Year 2011 of one-quarter of the estimated Primary Program demand, or \$22.53 million, in 1Q2012.

**Universal Service Administrative Company 1Q2012 Fund Size Projections**

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Funding commitments made during 3Q2011 are included in Appendix RH11. No payments were made to service providers during 3Q2011 for Funding Year 2011.

**RURAL HEALTH CARE SUPPORT MECHANISM SUMMARY**

The estimated 1Q2012 Rural Health Care Support Mechanism demand requirement is \$22.53 million.

The results of 3Q2011 contributed to an under-funded condition for which this filing proposes to adjust the 1Q2012 funding requirements. The total adjustment to the 1Q2012 funding requirement based on actual results will increase the funding needed by \$0.86 million. The explanation for the adjustment is provided in the following table:

<b>Reason for the Prior Period Adjustment</b>	<b>Adjustment in Millions</b>
3Q2011 billings were lower than the projected revenues reported by USF contributors in their quarterly revenue projections due to the annual actuals/quarterly revenue estimate true-up that is performed during the 3rd quarter. In this most recent review, actual revenue was lower than what USF contributors had projected over 2010, and a credit was issued that reduced billings significantly.	\$2.61
Interest income was higher than estimated for 3Q2011.	(0.79)
Bad debt expense was lower than anticipated.	(0.17)
2010 administrative expenses true-up. <sup>61</sup>	(0.79)
<b>Total Prior Period Adjustment</b>	<b>\$0.86</b>

The total fund requirement of \$22.53 million, increased by the prior-period adjustment of \$0.86 million, increased for administrative expenses of \$3.46 million, and decreased by projected interest income of \$1.44 million, results in a total projected funding requirement for the Rural Health Care Support Mechanism for 1Q2012 of \$25.41 million.

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<sup>61</sup> See *supra* note 40.



**Universal Service Administrative Company 1Q2012 Fund Size Projections**

**SCHOOLS AND LIBRARIES SUPPORT MECHANISM**

Following is a summary of Schools and Libraries Support Mechanism net commitments<sup>62</sup> and net authorized for payment<sup>63</sup> by funding year as of September 30, 2011.

**FUNDING YEAR 1998**

<b>FUNDING YEAR 1998</b>					
	<b>Net Commitments</b>		<b>Net Authorized for Payment</b>		<b>Auth/Com</b>
	<b>Millions of Dollars</b>	<b>% of Total Commitments</b>	<b>Millions of Dollars</b>	<b>% of Total Authorized for Payment</b>	<b>% of Committed Authorized for Payment</b>
Telecommunications	\$ 675.01	39.82%	\$ 507.57	36.28%	75.19%
Internet Access	\$ 134.14	7.91%	\$ 94.82	6.78%	70.69%
Internal Connections	\$ 885.87	52.27%	\$ 796.54	56.94%	89.92%
<b>TOTAL</b>	<b>\$ 1,695.02</b>	<b>100.00%</b>	<b>\$1,398.93</b>	<b>100.00%</b>	<b>82.53%</b>
Deobligations due to Expired FRNs	\$ (296.09)				
<b>Net Commitments</b>	<b>\$ 1,398.93</b>				

No Funding Year 1998 applications remained in the Program Integrity Assurance (PIA) review process. Funding Year 1998 began on January 1, 1998 and ended on June 30, 1999. No payments were made to service providers during 3Q2011 for Funding Year 1998.

<sup>62</sup> Net Commitments are the amount of total funding commitments (including appeals, less funding commitment adjustments (COMADs) and other recaptures) reduced by the remaining dollar amount of commitments that had not been fully disbursed by their invoicing deadline.

<sup>63</sup> Net authorized for payment is the amount of total approved invoices less any returned funds.

**Universal Service Administrative Company 1Q2012 Fund Size Projections**

**FUNDING YEAR 1999**

<b>FUNDING YEAR 1999</b>					
	<b>Net Commitments</b>		<b>Net Authorized for Payment</b>		<b>Auth/Com</b>
	<b>Millions of Dollars</b>	<b>% of Total Commitments</b>	<b>Millions of Dollars</b>	<b>% of Total Authorized for Payment</b>	<b>% of Committed Authorized for Payment</b>
Telecommunications	\$ 633.52	29.50%	\$ 452.98	27.39%	71.50%
Internet Access	\$ 148.77	6.93%	\$ 95.50	5.77%	64.19%
Internal Connections	\$ 1,364.92	63.57%	\$1,105.51	66.84%	80.99%
<b>TOTAL</b>	<b>\$ 2,147.21</b>	<b>100.00%</b>	<b>\$1,653.99</b>	<b>100.00%</b>	<b>77.03%</b>
Deobligations due to Expired FRNs	\$ (493.20)				
<b>Net Commitments</b>	<b>\$ 1,654.01</b>				

No Funding Year 1999 applications remain in the PIA review process. Funding Year 1999 began on July 1, 1999 and ended on June 30, 2000. No payments were made to service providers during 3Q2011 for Funding Year 1999.

**FUNDING YEAR 2000**

<b>FUNDING YEAR 2000</b>					
	<b>Net Commitments</b>		<b>Net Authorized for Payment</b>		<b>Auth/Com</b>
	<b>Millions of Dollars</b>	<b>% of Total Commitments</b>	<b>Millions of Dollars</b>	<b>% of Total Authorized for Payment</b>	<b>% of Committed Authorized for Payment</b>
Telecommunications	\$ 719.12	34.72%	\$ 481.16	29.16%	66.91%
Internet Access	\$ 218.76	10.56%	\$ 133.46	8.09%	61.01%
Internal Connections	\$ 1,133.55	54.72%	\$1,035.18	62.75%	91.32%
<b>TOTAL</b>	<b>\$ 2,071.43</b>	<b>100.00%</b>	<b>\$1,649.80</b>	<b>100.00%</b>	<b>79.65%</b>
Deobligations due to Expired FRNs	\$ (421.48)				
<b>Net Commitments</b>	<b>\$ 1,649.95</b>				

No Funding Year 2000 applications remained in the PIA review process. Funding Year 2000 began on July 1, 2000 and ended on June 30, 2001. Authorized funding by

**Universal Service Administrative Company 1Q2012 Fund Size Projections**

applicant during 3Q2011 and cumulative payments to service providers through 3Q2011 are listed in Appendices SL01 and SL02, respectively.

**FUNDING YEAR 2001**

<b>FUNDING YEAR 2001</b>					
	<b>Net Commitments</b>		<b>Net Authorized for Payment</b>		<b>Auth/Com</b>
	<b>Millions of Dollars</b>	<b>% of Total Commitments</b>	<b>Millions of Dollars</b>	<b>% of Total Authorized for Payment</b>	<b>% of Committed Authorized for Payment</b>
Telecommunications	\$ 776.97	35.55%	\$ 540.60	31.85%	69.58%
Internet Access	\$ 224.80	10.29%	\$ 149.54	8.81%	66.52%
Internal Connections	\$ 1,183.55	54.16%	\$1,007.32	59.34%	85.11%
<b>TOTAL</b>	<b>\$ 2,185.32</b>	<b>100.00%</b>	<b>\$1,697.46</b>	<b>100.00%</b>	<b>77.68%</b>
Deobligations due to Expired FRNs	\$ (486.65)				
<b>Net Commitments</b>	<b>\$ 1,698.67</b>				

As of September 30, 2011, two potentially fundable Funding Year 2001 applications remained in the PIA review process. Funding Year 2001 began on July 1, 2001 and ended on June 30, 2002. Authorized funding by applicant during 3Q2011 and cumulative payments to service providers through 3Q2011 are listed in Appendices SL03 and SL04, respectively.

**Universal Service Administrative Company 1Q2012 Fund Size Projections**

**FUNDING YEAR 2002**

<b>FUNDING YEAR 2002</b>					
	<b>Net Commitments</b>		<b>Net Authorized for Payment</b>		<b>Auth/Com</b>
	<b>Millions of Dollars</b>	<b>% of Total Commitments</b>	<b>Millions of Dollars</b>	<b>% of Total Authorized for Payment</b>	<b>% of Committed Authorized for Payment</b>
Telecommunications	\$ 860.58	38.59%	\$ 613.15	38.40%	71.25%
Internet Access	\$ 249.99	11.21%	\$ 170.99	10.71%	68.40%
Internal Connections	\$ 1,119.71	50.20%	\$ 812.49	50.89%	72.56%
<b>TOTAL</b>	<b>\$ 2,230.28</b>	<b>100.00%</b>	<b>\$1,596.63</b>	<b>100.00%</b>	<b>71.59%</b>
Deobligations due to Expired FRNs	\$ (614.51)				
<b>Net Commitments</b>	<b>\$ 1,615.77</b>				

As of September 30, 2011, one potentially fundable Funding Year 2002 application remained in the PIA review process. Funding Year 2002 began on July 1, 2002 and ended on June 30, 2003. Authorized funding by applicant during 3Q2011 and cumulative payments to service providers through 3Q2011 are listed in Appendices SL05 and SL06, respectively.

**FUNDING YEAR 2003**

<b>FUNDING YEAR 2003</b>					
	<b>Net Commitments</b>		<b>Net Authorized for Payment</b>		<b>Auth/Com</b>
	<b>Millions of Dollars</b>	<b>% of Total Commitments</b>	<b>Millions of Dollars</b>	<b>% of Total Authorized for Payment</b>	<b>% of Committed Authorized for Payment</b>
Telecommunications	\$ 907.84	33.66%	\$ 660.18	33.90%	72.72%
Internet Access	\$ 276.04	10.24%	\$ 203.69	10.46%	73.79%
Internal Connections	\$ 1,512.73	56.10%	\$1,083.50	55.64%	71.63%
<b>TOTAL</b>	<b>\$ 2,696.61</b>	<b>100.00%</b>	<b>\$1,947.37</b>	<b>100.00%</b>	<b>72.22%</b>
Deobligations due to Expired FRNs	\$ (736.61)				
<b>Net Commitments</b>	<b>\$ 1,960.00</b>				

**Universal Service Administrative Company 1Q2012 Fund Size Projections**

As of September 30, 2011, two potentially fundable Funding Year 2003 applications remained in the PIA review process. Funding Year 2003 began on July 1, 2003 and ended on June 30, 2004. Authorized funding by applicant during 3Q2011 and cumulative payments to service providers through 3Q2011 are listed in Appendices SL07 and SL08, respectively.

**FUNDING YEAR 2004**

<b>FUNDING YEAR 2004</b>					
	<b>Net Commitments</b>		<b>Net Authorized for Payment</b>		<b>Auth/Com</b>
	<b>Millions of Dollars</b>	<b>% of Total Commitments</b>	<b>Millions of Dollars</b>	<b>% of Total Authorized for Payment</b>	<b>% of Committed Authorized for Payment</b>
Telecommunications	\$ 946.91	43.78%	\$ 689.04	44.94%	72.77%
Internet Access	\$ 246.15	11.38%	\$ 192.91	12.58%	78.37%
Internal Connections	\$ 969.69	44.84%	\$ 651.46	42.48%	67.18%
<b>TOTAL</b>	<b>\$ 2,162.75</b>	<b>100.00%</b>	<b>\$1,533.41</b>	<b>100.00%</b>	<b>70.90%</b>
Deobligations due to Expired FRNs	\$ (620.14)				
<b>Net Commitments</b>	<b>\$ 1,542.61</b>				

As of September 30, 2011, nine potentially fundable Funding Year 2004 applications remained in the PIA review process. Funding Year 2004 began on July 1, 2004 and ended on June 30, 2005. Funding commitments made to applicants during 3Q2011 are included in Appendix SL09. Authorized funding by applicant during 3Q2011 and cumulative payments to service providers through 3Q2011 are listed in Appendices SL10 and SL11, respectively.

**Universal Service Administrative Company 1Q2012 Fund Size Projections**

**FUNDING YEAR 2005**

<b>FUNDING YEAR 2005</b>					
	<b>Net Commitments</b>		<b>Net Authorized for Payment</b>		<b>Auth/Com</b>
	<b>Millions of Dollars</b>	<b>% of Total Commitments</b>	<b>Millions of Dollars</b>	<b>% of Total Authorized for Payment</b>	<b>% of Committed Authorized for Payment</b>
Telecommunications	\$ 976.99	46.38%	\$ 770.10	47.81%	78.82%
Internet Access	\$ 259.06	12.30%	\$ 214.55	13.32%	82.82%
Internal Connections	\$ 736.72	34.98%	\$ 534.36	33.18%	72.53%
Internal Connections-Maint	\$ 133.63	6.34%	\$ 91.57	5.69%	68.53%
<b>TOTAL</b>	<b>\$ 2,106.40</b>	<b>100.00%</b>	<b>\$1,610.58</b>	<b>100.00%</b>	<b>76.46%</b>
Deobligations due to Expired FRNs	\$ (482.81)				
<b>Net Commitments</b>	<b>\$ 1,623.59</b>				

As of September 30, 2011, 14 potentially fundable Funding Year 2005 applications remained in the PIA review process. Funding Year 2005 began on July 1, 2005 and ended on June 30, 2006. Authorized funding by applicant during 3Q2011 and cumulative payments to service providers through 3Q2011 are listed in Appendices SL12 and SL13, respectively.

**Universal Service Administrative Company 1Q2012 Fund Size Projections**

**FUNDING YEAR 2006**

<b>FUNDING YEAR 2006</b>					
	<b>Net Commitments</b>		<b>Net Authorized for Payment</b>		<b>Auth/Com</b>
	<b>Millions of Dollars</b>	<b>% of Total Commitments</b>	<b>Millions of Dollars</b>	<b>% of Total Authorized for Payment</b>	<b>% of Committed Authorized for Payment</b>
Telecommunications	\$ 1,059.59	53.82%	\$ 845.57	54.84%	79.80%
Internet Access	\$ 288.52	14.65%	\$ 235.37	15.26%	81.58%
Internal Connections	\$ 496.94	25.24%	\$ 375.73	24.36%	75.61%
Internal Connections-Maint	\$ 123.82	6.29%	\$ 85.44	5.54%	69.00%
<b>TOTAL</b>	<b>\$ 1,968.87</b>	<b>100.00%</b>	<b>\$1,542.11</b>	<b>100.00%</b>	<b>78.32%</b>
Deobligations due to Expired FRNs	\$ (376.97)				
<b>Net Commitments</b>	<b>\$ 1,591.90</b>				

As of September 30, 2011, 17 potentially fundable Funding Year 2006 applications remained in the PIA review process. Funding Year 2006 began on July 1, 2006 and ended on June 30, 2007. Funding commitments made to applicants during 3Q2011 are included in Appendix SL14. Authorized funding by applicant during 3Q2011 and cumulative payments to service providers through 3Q2011 are listed in Appendices SL15 and SL16, respectively.

**Universal Service Administrative Company 1Q2012 Fund Size Projections**

**FUNDING YEAR 2007**

<b>FUNDING YEAR 2007</b>					
	<b>Net Commitments</b>		<b>Net Authorized for Payment</b>		<b>Auth/Com</b>
	<b>Millions of Dollars</b>	<b>% of Total Commitments</b>	<b>Millions of Dollars</b>	<b>% of Total Authorized for Payment</b>	<b>% of Committed Authorized for Payment</b>
Telecommunications	\$ 1,176.88	48.10%	\$ 935.64	48.94%	79.50%
Internet Access	\$ 309.46	12.65%	\$ 258.17	13.50%	83.43%
Internal Connections	\$ 798.07	32.62%	\$ 599.97	31.38%	75.18%
Internal Connections-Maint	\$ 162.12	6.63%	\$ 118.13	6.18%	72.87%
<b>TOTAL</b>	<b>\$ 2,446.53</b>	<b>100.00%</b>	<b>\$1,911.91</b>	<b>100.00%</b>	<b>78.15%</b>
Deobligations due to Expired FRNs	\$ (457.25)				
<b>Net Commitments</b>	<b>\$ 1,989.28</b>				

As of September 30, 2011, 57 potentially fundable Funding Year 2007 applications remained in the PIA review process. Funding Year 2007 began on July 1, 2007 and ended on June 30, 2008. Funding commitments made to applicants during 3Q2011 are included in Appendix SL17. Authorized funding by applicant during 3Q2011 and cumulative payments to service providers through 3Q2011 are listed in Appendices SL18 and SL19, respectively.



**Universal Service Administrative Company 1Q2012 Fund Size Projections**

**FUNDING YEAR 2008**

<b>FUNDING YEAR 2008</b>					
	<b>Net Commitments</b>		<b>Net Authorized for Payment</b>		<b>Auth/Com</b>
	<b>Millions of Dollars</b>	<b>% of Total Commitments</b>	<b>Millions of Dollars</b>	<b>% of Total Authorized for Payment</b>	<b>% of Committed Authorized for Payment</b>
Telecommunications	\$ 1,292.72	51.01%	\$1,024.56	55.71%	79.26%
Internet Access	\$ 339.09	13.38%	\$ 274.59	14.93%	80.98%
Internal Connections	\$ 772.86	30.49%	\$ 452.17	24.59%	58.51%
Internal Connections-Maint	\$ 129.79	5.12%	\$ 87.65	4.77%	67.53%
<b>TOTAL</b>	<b>\$ 2,534.46</b>	<b>100.00%</b>	<b>\$1,838.97</b>	<b>100.00%</b>	<b>72.56%</b>
Deobligations due to Expired FRNs	\$ (557.40)				
<b>Net Commitments</b>	<b>\$ 1,977.06</b>				

As of September 30, 2011, 68 potentially fundable Funding Year 2008 applications remained in the PIA review process. Funding Year 2008 began on July 1, 2008 and ended on June 30, 2009. Funding commitments made to applicants during 3Q2011 are included in Appendix SL20. Authorized funding by applicant during 3Q2011 and cumulative payments to service providers through 3Q2011 are listed in Appendices SL21 and SL22, respectively.

**Universal Service Administrative Company 1Q2012 Fund Size Projections**

**FUNDING YEAR 2009**

<b>FUNDING YEAR 2009</b>					
	<b>Net Commitments</b>		<b>Net Authorized for Payment</b>		<b>Auth/Com</b>
	<b>Millions of Dollars</b>	<b>% of Total Commitments</b>	<b>Millions of Dollars</b>	<b>% of Total Authorized for Payment</b>	<b>% of Committed Authorized for Payment</b>
Telecommunications	\$ 1,341.91	46.29%	\$ 1,050.50	50.78%	78.28%
Internet Access	\$ 350.95	12.10%	\$ 282.41	13.65%	80.47%
Internal Connections	\$ 1,002.35	34.58%	\$ 601.90	29.10%	60.05%
Internal Connections-Maint	\$ 203.66	7.03%	\$ 133.76	6.47%	65.68%
<b>TOTAL</b>	<b>\$ 2,898.87</b>	<b>100.00%</b>	<b>\$ 2,068.57</b>	<b>100.00%</b>	<b>71.36%</b>
Deobligations due to Expired FRNs	\$ (402.38)				
<b>Net Commitments</b>	<b>\$ 2,496.49</b>				

As of September 30, 2011, 209 potentially fundable Funding Year 2009 applications remained in the PIA review process. Funding Year 2009 began on July 1, 2009 and ended on June 30, 2010. Funding commitments made to applicants during 3Q2011 are included in Appendix SL23. Authorized funding by applicant during 3Q2011 and cumulative payments to service providers through 3Q2011 are listed in Appendices SL24 and SL25, respectively.

**Universal Service Administrative Company 1Q2012 Fund Size Projections**

**FUNDING YEAR 2010**

<b>FUNDING YEAR 2010</b>					
	<b>Net Commitments</b>		<b>Net Authorized for Payment</b>		<b>Auth/Com</b>
	<b>Millions of Dollars</b>	<b>% of Total Commitments</b>	<b>Millions of Dollars</b>	<b>% of Total Authorized for Payment</b>	<b>% of Committed Authorized for Payment</b>
Telecommunications	\$ 1,412.96	51.12%	\$ 774.91	55.34%	54.84%
Internet Access	\$ 402.06	14.54%	\$ 260.97	18.63%	64.91%
Internal Connections	\$ 753.68	27.26%	\$ 261.80	18.69%	34.74%
Internal Connections-Maint	\$ 195.78	7.08%	\$ 102.81	7.34%	52.51%
<b>TOTAL</b>	<b>\$ 2,764.48</b>	<b>100.00%</b>	<b>\$ 1,400.49</b>	<b>100.00%</b>	<b>50.66%</b>
Deobligations due to Expired FRNs	\$ -				
<b>Net Commitments</b>	<b>\$ 2,764.48</b>				

As of September 30, 2011, 1,650 potentially fundable Funding Year 2010 applications remained in the PIA review process. Funding Year 2010 began on July 1, 2010 and ended on June 30, 2011. Funding commitments made to applicants during 3Q2011 are included in Appendix SL26. Authorized funding by applicant during 3Q2011 and cumulative payments to service providers through 3Q2011 are listed in Appendices SL27 and SL28, respectively.

**Universal Service Administrative Company 1Q2012 Fund Size Projections**

**FUNDING YEAR 2011**

<b>FUNDING YEAR 2011</b>					
	<b>Net Commitments</b>		<b>Net Authorized for Payment</b>		<b>Auth/Com</b>
	<b>Millions of Dollars</b>	<b>% of Total Commitments</b>	<b>Millions of Dollars</b>	<b>% of Total Authorized for Payment</b>	<b>% of Committed Authorized for Payment</b>
Telecommunications	\$ 719.80	75.08%	\$ 13.73	48.48%	1.91%
Internet Access	\$ 238.94	24.92%	\$ 14.59	51.52%	6.11%
Internal Connections	\$ 0.00	0.00%	\$ 0.00	0.00%	0.00%
Internal Connections-Maint	\$ 0.00	0.00%	\$ 0.00	0.00%	0.00%
<b>TOTAL</b>	<b>\$ 958.74</b>	<b>100.00%</b>	<b>\$ 28.32</b>	<b>100.00%</b>	<b>2.95%</b>
Deobligations due to Expired FRNs	\$ -				
<b>Net Commitments</b>	<b>\$ 958.74</b>				

As of September 30, 2011, 16,912 potentially fundable Funding Year 2011 applications remained in the PIA review process. Funding Year 2011 began on July 1, 2011 and will end on June 30, 2012. Funding commitments made to applicants during 3Q2011 are included in Appendix SL29. Authorized funding by applicant during 3Q2011 and cumulative payments to service providers through 3Q2011 are listed in Appendices SL30 and SL31, 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 Commission's direction in the Schools and Libraries First Report and Order, a total of \$858.12 million of undisbursed Funding Years 1999 and 2000 collections were used to

## Universal Service Administrative Company 1Q2012 Fund Size Projections

stabilize USF contributions and offset collections for 3rd Quarter 2002 (3Q2002), 4th Quarter 2002 (4Q2002), and 1st Quarter 2003 (1Q2003).<sup>64</sup>

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.<sup>65</sup> The Commission required USAC to file quarterly estimates of unused funds from prior funding years in 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.<sup>66</sup> 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.<sup>67</sup>

On June 11, 2007, the Commission instructed USAC to carry forward \$650 million in unused funds to Funding Year 2007.<sup>68</sup> The funds were carried forward from Funding Years 2001, 2002, 2003, and 2004 in the amount of \$50 million, \$300 million, \$150 million, and \$150 million, respectively. On June 23, 2008, the Commission instructed USAC to carry forward \$600 million in unused funds to Funding Year 2008.<sup>69</sup> The funds were carried forward from Funding Years 2002, 2003, and 2004 in the amount of \$150 million, \$200

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<sup>64</sup> 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*).

<sup>65</sup> 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 (Dec. 23, 2003) (*Schools and Libraries Third Report and Order*).

<sup>66</sup> *Id.*

<sup>67</sup> See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, *Carryover of Unused Funds for Funding Year 2004*, DA 04-1848 (rel. June 28, 2004).

<sup>68</sup> See *Schools and Libraries Universal Support Mechanism*, CC Docket No. 02-06, *Wireline Competition Bureau Announces Carryover of Unused Funds for Funding Year 2007*, DA 07-2470 (rel. June 1, 2007).

<sup>69</sup> See *Schools and Libraries Universal Support Mechanism*, CC Docket No. 02-06, *Carryover of Unused Federal Universal Service Funds for Funding Year 2008*, DA 08-1470 (rel. June 23, 2008).

## Universal Service Administrative Company 1Q2012 Fund Size Projections

million, and \$250 million, respectively. On July 31, 2009, the Commission instructed USAC to carry-forward \$900 million in unused funds to Funding Year 2009.<sup>70</sup> The funds were carried-forward from Funding Years 1999, 2001, 2002, 2003, 2004, 2005, and 2006 in the amount of \$25 million, \$60 million, \$60 million, \$210 million, \$275 million, \$200 million, and \$70 million, respectively. On July 1, 2010, the Commission instructed USAC to carry forward \$900 million in unused funds to Funding Year 2010.<sup>71</sup> The funds were carried-forward from Funding Years 2002, 2005, 2006, 2007, and 2008 in the amount of \$25 million, \$100 million, \$300 million, \$375 million, and \$100 million, respectively. On August 22, 2011, the Commission instructed USAC to carry forward an additional \$250 million in unused funds to Funding Year 2010.<sup>72</sup> The total funds carried forward to Funding Year 2010 amount to \$1.15 billion. The Commission further instructed USAC to carry forward \$850 million in unused funds from Funding Years 2003, 2004, 2005, 2006, 2007, 2008 and 2009 to Funding Year 2011.<sup>73</sup> The funds were carried-forward from Funding Years 2003, 2004, 2005, 2006, 2007, 2008 and 2009 in the amount of \$20 million, \$50 million, \$120 million, \$115 million, \$275 million, \$390 million and \$130 million, respectively.

In the *Schools and Libraries Sixth Report and Order*, the Commission amended its rules to increase the cap on program funding by indexing the cap to inflation.<sup>74</sup> The Commission calculates this annual increase by using the percentage increase in the gross domestic product chain – type price index (GDP-CPI) from the previous year and rounds this to the nearest 0.1 percent. The Commission found that the GDP-CPI increased 0.9 percent between 2008

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<sup>70</sup> See *Schools and Libraries Universal Support Mechanism*, CC Docket No. 02-06, *Carryover of Unused Federal Universal Service Funds for Funding Year 2009*, DA 09-1734 (rel. July 31, 2009).

<sup>71</sup> See *Wireline Competition Bureau Announces Carryover of Unused Schools and Libraries Universal Service Funds for Funding Year 2010*, DA 10-1243 (rel. July 1, 2010).

<sup>72</sup> See *School and Libraries Universal Service Support Mechanism/Funds for Learning, LLC Petition to Reject the Administrator's Discount Threshold Recommendation for Funding Year 2010*, DA 11-1354 (rel. Aug. 22, 2011).

<sup>73</sup> *Id.*

<sup>74</sup> See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, *Sixth Report and Order*, FCC 10-175 (rel. Sep. 28, 2010) (*Schools and Libraries Sixth Report and Order*).

## Universal Service Administrative Company 1Q2012 Fund Size Projections

and 2009. Using this analysis, the Commission set the cap for Funding Year 2010 to \$2,270,250,000. On August 5, 2011, the Commission set the cap for Funding Year 2011 at \$2,290,682,250.<sup>75</sup>

In consultation with FCC staff, USAC estimates that \$50 million is available to carry forward from Funding Year 2009. 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 September 30, 2011, \$1,398.93 million of Funding Year 1998 support had been authorized for disbursement. USAC estimates that a contingency amount of \$7.12 million should be reserved to pay appeals pending at the Commission and to pay invoices on Funding Year 1998 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 1998 funds are available to carry forward. The estimated remaining Funding Year 1998 balance is based on the following:

<b>FUNDING YEAR 1998</b>	<b>Amounts in Millions</b>
Amount Authorized and Actually Collected	\$1,925.00
Amount Authorized for Disbursement	(1,398.93)
Administrative Expenses (21 months)	(41.79)
Amount Applied to Adjust 2000, 2001, and 2002 Collections	(477.16)
Potential Additional Disbursements on Committed FRNs	(0.00)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(7.12)
<b>Estimated Remaining Balance</b>	<b>\$0.00</b>

### ***Funding Year 1999 True-Up***

As of September 30, 2011, \$1,653.99 million of Funding Year 1999 support had been authorized for disbursement. USAC's projection of the remaining Funding Year 1999 funds

<sup>75</sup> See *Wireline Competition Bureau Announces E-Rate Inflation-Based Cap for Funding Year 2011*, DA 11-1345 (rel. Aug. 5, 2011).

## Universal Service Administrative Company 1Q2012 Fund Size Projections

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 Year 1999 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 based on the following:

<b>FUNDING YEAR 1999</b>	<b>Amounts in Millions</b>
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,653.99)
Administrative Expenses	(32.32)
Amount Applied to Adjust Third Quarter 2002 Collections	(256.16)
Amount Applied to Adjust Fourth Quarter 2002 Collections	(212.93)
Amount Carried Forward to Funding Year 2003	(50.00)
Amount Carried Forward to Funding Year 2009	(25.00)
Potential Additional Disbursements on Committed FRNs	(0.02)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(19.58)
<b>Estimated Remaining Balance</b>	<b>\$0.00</b>

### *Funding Year 2000 True-Up*

As of September 30, 2011, \$1,649.80 million of Funding Year 2000 support had been authorized for disbursement. 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, USAC estimates that no Funding Year 2000 funds are available to carry forward. The estimated remaining Funding Year 2000 balance is based on the following:



**Universal Service Administrative Company 1Q2012 Fund Size Projections**

<b>FUNDING YEAR 2000</b>	<b>Amounts in Millions</b>
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,649.80)
Administrative Expenses	(32.24)
Amount Applied to Adjust Fourth Quarter 2002 Collections	(136.85)
Amount Applied to Adjust First Quarter 2003 Collections	(246.18)
Amount Carried Forward to Funding Year 2003	(160.00)
Potential Additional Disbursements on Committed FRNs	(0.14)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(24.79)
<b>Estimated Remaining Balance</b>	<b>\$0.00</b>

***Funding Year 2001 True-Up***

As of September 30, 2011, \$1,697.46 million of Funding Year 2001 support had been authorized for disbursement. 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 no Funding Year 2001 funds are available to carry forward. The estimated remaining Funding Year 2001 balance is based on the following:

<b>FUNDING YEAR 2001</b>	<b>Amounts in Millions</b>
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,697.46)
Administrative Expenses	(30.56)
Amount Carried Forward to Funding Year 2003	(210.00)
Amount Carried Forward to Funding Year 2004	(150.00)
Amount Carried Forward to Funding Year 2007	(50.00)
Amount Carried Forward to Funding Year 2009	(60.00)
Potential Additional Disbursements on Committed FRNs	(1.22)
Remaining Uncommitted Requests	(20.33)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(30.43)
<b>Estimated Remaining Balance</b>	<b>\$0.00</b>

## Universal Service Administrative Company 1Q2012 Fund Size Projections

### *Funding Year 2002 True-Up*

As of September 30, 2011, \$1,596.63 million of Funding Year 2002 support had been authorized for disbursement. 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 no Funding Year 2002 funds are available to carry forward. The estimated remaining Funding Year 2002 balance is based on the following:

<b>FUNDING YEAR 2002</b>	<b>Amounts in Millions</b>
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,596.63)
Administrative Expenses	(38.53)
Amount Carried Forward to Funding Year 2007	(300.00)
Amount Carried Forward to Funding Year 2008	(150.00)
Amount Carried Forward to Funding Year 2009	(60.00)
Amount Carried Forward to Funding Year 2010	(25.00)
Potential Additional Disbursements on Committed FRNs	(19.13)
Remaining Uncommitted Requests	(0.93)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(59.78)
<b>Estimated Remaining Balance</b>	<b>\$0.00</b>

### *Funding Year 2003 True-Up*

As of September 30, 2011, \$1,947.37 million of Funding Year 2003 support had been authorized for disbursement. 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 Year 2003 funding requests that may be granted extended invoice deadlines pursuant to

## Universal Service Administrative Company 1Q2012 Fund Size Projections

Commission orders. Given these requirements, USAC estimates that no Funding Year 2003 funds are available to carry forward. The estimated remaining Funding Year 2003 balance is based on the following:

<b>FUNDING YEAR 2003</b>	<b>Amounts in Millions</b>
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,947.37)
Amount Carried Forward from Funding Years 1999, 2000 and 2001	420.00
Amount Carried Forward to Funding Year 2007	(150.00)
Amount Carried Forward to Funding Year 2008	(200.00)
Amount Carried Forward to Funding Year 2009	(210.00)
Amount Carried Forward to Funding Year 2011	(20.00)
Administrative Expenses	(44.19)
Potential Additional Disbursements on Committed FRNs	(12.63)
Remaining Uncommitted Requests	(32.83)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(52.98)
<b>Estimated Remaining Balance</b>	<b>\$0.00</b>

### *Funding Year 2004 True-Up*

As of September 30, 2011, \$1,533.41 million of Funding Year 2004 support had been authorized for disbursement. 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 Year 2004 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements, USAC estimates that no Funding Year 2004 funds are available to carry forward. The estimated remaining Funding Year 2004 balance is based on the following:

**Universal Service Administrative Company 1Q2012 Fund Size Projections**

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<b>FUNDING YEAR 2004</b>	<b>Amounts in Millions</b>
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,533.41)
Amount Carried Forward from Funding Year 2001	150.00
Amount Carried Forward to Funding Year 2007	(150.00)
Amount Carried Forward to Funding Year 2008	(250.00)
Amount Carried Forward to Funding Year 2009	(275.00)
Amount Carried Forward to Funding Year 2011	(50.00)
Administrative Expenses	(55.75)
Potential Additional Disbursements on Committed FRNs	(9.20)
Remaining Uncommitted Requests	(20.74)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(55.90)
<b>Estimated Remaining Balance</b>	<b>\$0.00</b>

***Funding Year 2005 True-Up***

As of September 30, 2011, \$1,610.58 million of Funding Year 2005 support had been authorized for disbursement. USAC's projection of the remaining Funding Year 2005 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 Year 2005 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amounts, USAC estimates that no Funding Year 2005 funds are available to carry forward. The estimated remaining Funding Year 2005 balance is based on the following:

**Universal Service Administrative Company 1Q2012 Fund Size Projections**

<b>FUNDING YEAR 2005</b>	<b>Amounts in Millions</b>
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,610.58)
Amount Carried Forward to Funding Year 2009	(200.00)
Amount Carried Forward to Funding Year 2010	(100.00)
Amount Carried Forward to Funding Year 2011	(120.00)
Administrative Expenses	(64.99)
Potential Additional Disbursements on Committed FRNs	(13.00)
Remaining Uncommitted Requests	(11.77)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(129.66)
<b>Estimated Remaining Balance</b>	<b>\$0.00</b>

***Funding Year 2006 True-Up***

As of September 30, 2011, \$1,542.11 million of Funding Year 2006 support had been authorized for disbursement. USAC's projection of the remaining Funding Year 2006 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 Year 2006 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amounts, USAC estimates that no Funding Year 2006 funds are available to carry forward. The estimated remaining Funding Year 2006 balance is based on the following:

<b>FUNDING YEAR 2006</b>	<b>Amounts in Millions</b>
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,542.11)
Amount Carried Forward to Funding Year 2009	(70.00)
Amount Carried Forward to Funding Year 2010	(300.00)
Amount Carried Forward to Funding Year 2011	(115.00)
Administrative Expenses	(80.74)
Potential Additional Disbursements on Committed FRNs	(49.78)
Remaining Uncommitted Requests	(10.53)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(81.84)
<b>Estimated Remaining Balance</b>	<b>\$0.00</b>

## Universal Service Administrative Company 1Q2012 Fund Size Projections

### *Funding Year 2007 True Up*

As of September 30, 2011, \$1,911.91 million of Funding Year 2007 support had been authorized for disbursement. USAC's projection of remaining Funding Year 2007 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 and to preserve the contingency amount, USAC estimates that no Funding Year 2007 funds are available to carry forward. The estimated remaining Funding Year 2007 balance is based on the following:

<b>FUNDING YEAR 2007</b>	<b>Amounts in Millions</b>
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,911.91)
Amount Carried Forward from Funding Years 2001, 2002, 2003 and 2004	650.00
Amount Carried Forward to Funding Year 2010	(375.00)
Amount Carried Forward to Funding Year 2011	(275.00)
Administrative Expenses	(81.24)
Potential Additional Disbursements on Committed FRNs	(77.37)
Remaining Uncommitted Requests	(55.19)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(124.29)
<b>Estimated Remaining Balance</b>	<b>\$0.00</b>

### *Funding Year 2008 True Up*

As of September 30, 2011, \$1,838.97 million of Funding Year 2008 support had been authorized for disbursement. USAC's projection of remaining Funding Year 2008 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.

## Universal Service Administrative Company 1Q2012 Fund Size Projections

Given these requirements and to preserve the contingency amount, USAC estimates that no Funding Year 2008 funds are available to carry forward. The estimated remaining Funding Year 2008 balance is based on the following:

<b>FUNDING YEAR 2008</b>	<b>Amounts in Millions</b>
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,838.97)
Amount Carried Forward from Funding Years 2002, 2003, and 2004	600.00
Amount Carried Forward to Funding Year 2010	(350.00)
Amount Carried Forward to Funding Year 2011	(140.00)
Administrative Expenses	(81.44)
Potential Additional Disbursements on Committed FRNs	(138.11)
Remaining Uncommitted Requests	(82.85)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(218.63)
<b>Estimated Remaining Balance</b>	<b>\$0.00</b>

### *Funding Year 2009 True Up*

As of September 30, 2011, \$2,068.57 million of Funding Year 2009 support had been authorized for disbursement. USAC's projection of remaining Funding Year 2009 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 and to preserve the contingency amount, USAC estimates that \$50 million of Funding Year 2009 funds are available to carry forward. The estimated remaining Funding Year 2009 balance is based on the following:

**Universal Service Administrative Company 1Q2012 Fund Size Projections**

<b>FUNDING YEAR 2009</b>	<b>Amounts in Millions</b>
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(2,068.57)
Amount Carried Forward from Funding Years 1999, 2001, 2002, 2003, 2004, 2005, and 2006	900.00
Amount Carried Forward to Funding Year 2011	(130.00)
Administrative Expenses	(81.27)
Potential Additional Disbursements on Committed FRNs	(427.92)
Remaining Uncommitted Requests	(172.97)
Contingency Amount for Pending Appeals and Invoice Deadline Extensions	(219.27)
<b>Estimated Remaining Balance</b>	<b>\$50.00</b>

***Funding Year 2010 True Up***

As of September 30, 2011, \$1,400.49 million of Funding Year 2010 support had been authorized for disbursement. USAC's projection of remaining Funding Year 2010 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 and to preserve the contingency amount, USAC estimates that no Funding Year 2010 funds are available to carry forward. The estimated remaining Funding Year 2010 balance is based on the following:

<b>FUNDING YEAR 2010</b>	<b>Amounts in Millions</b>
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,400.49)
Amount Carried Forward from Funding Years 2002, 2005, 2006, 2007, and 2008	1,150.00
Amount Authorized by FCC Inflation Increment	20.25
Administrative Expenses	(75.33)
Potential Additional Disbursements on Committed FRNs	(1,363.99)
Remaining Uncommitted Requests and Contingency Amount for Pending Appeals	(580.44)
<b>Estimated Remaining Balance</b>	<b>\$0.00</b>



***1Q2012 Demand Estimate and Contribution Requirement***

USAC changed the accounting methodology for the USF to generally accepted accounting principles for federal agencies on October 1, 2004 to comply with the Commission's Order of October 3, 2003.<sup>76</sup> 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).<sup>77</sup> The ADA generally requires that sufficient unobligated resources be available before an obligation can be incurred. Congress exempted the USF from the requirements of the ADA through December 31, 2011.<sup>78</sup>

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.<sup>79</sup>

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<sup>76</sup> 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 Rcd 19911 (2003).

<sup>77</sup> 31 U.S.C. § 1341.

<sup>78</sup> See Consolidated Appropriations Act of 2011, H.R. 3082. See also H.R. 3288, Omnibus Appropriations Act, 2009 (Public Law 111-117), §501 ("Section 302 of the Universal Service Antideficiency Temporary Suspension Act is amended by striking 'December 31, 2009', each place it appears and inserting 'December 31, 2010'."); H.R. 5419, 108<sup>th</sup> Cong 2d Sess., § 302, Universal Service Antideficiency Temporary Suspension Act (effective Dec. 23, 2004) and H.R. 2862, 109<sup>th</sup> Cong 1<sup>st</sup> Sess., 8,633, Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006 (effective Nov. 22, 2005); H.J. 20 (effective Jan. 1, 2007); Consolidated Appropriations Act of 2008, H.R. 2764, Division D—Financial Services and General Government Appropriations Act, 2008, Title V—Independent Agencies, at 61.

<sup>79</sup> 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.

## Universal Service Administrative Company 1Q2012 Fund Size Projections

Based on the level of applicant demand in Funding Year 2010, which exceeds the annual funding cap of \$2.25 billion, USAC requests authority to collect an amount to provide \$562.50 million in funding for 1Q2012, which is one-quarter of the \$2.25 billion annual cap on federal universal service support for Schools and Libraries.<sup>80</sup> Results for 3Q2011 contribute to an under-funded condition for which this filing proposes to adjust the 1Q2012 requirements. The total adjustment to the 1Q2012 fund requirement based on actual results will increase the funding needed by \$49.50 million. The explanation for the adjustment is provided below.

<b>Reason for the Prior Period Adjustment</b>	<b>Adjustment in Millions</b>
3Q2011 billings were lower than the projected revenues reported by USF contributors in their quarterly revenue projections due to the annual actuals/quarterly revenue estimate true-up that is performed during the 3rd quarter. In this most recent review, actual revenue was lower than what USF contributors had projected over 2010, and a credit was issued that reduced billings significantly.	\$ 54.19
Interest income lower than estimated for 3Q2011.	\$ 0.80
Bad debt expense was lower than anticipated.	\$ (5.49)
<b>Total Prior Period Adjustment</b>	<b>\$ 49.50</b>

The total fund requirement of \$562.50 million, which includes administrative expenses of \$20.03 million, increased by the inflation increment of \$40.68 million, reduced by \$40.68 million transferred into Schools and Libraries from funds reserved for Broadband initiatives as directed by the FCC, increased by the prior-period adjustment of \$49.50 million, and reduced by projected interest income of \$3.05 million, results in a total projected collection requirement of \$608.95 million for the Schools and Libraries Support Mechanism for 1Q2012.

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<sup>80</sup> 47 C.F.R. § 54.507(a).

***CONTRIBUTION BASE***

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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.<sup>81</sup> Based on these filings, the Commission establishes the contribution factor for the upcoming quarter.

The quarterly USF contribution factor established by the Commission is derived from projections of support mechanism demand calculated by USAC and projected collected revenue submitted by USF contributors on FCC Form 499-Q and aggregated by USAC. The total USF funding requirement is based on many inputs and is the result of the manner in which the support mechanisms operate pursuant to Commission rules. Inputs include actual support mechanism demand, which changes quarterly, adjustments resulting from events that occur in prior periods but are reported to USAC in the current period, and reconciliation of projections from prior periods to actual results reported by USF contributors and support mechanism beneficiaries (i.e., prior period adjustments). Other inputs include USAC administrative expenses and the impact of interest income earned on USF funds USAC invests in United States Treasury securities. The USF contribution base is different each quarter due to changes in carrier revenue projections, which among other things are subject to changing business cycles, and changes to requirements concerning the revenue to which the USF assessment applies (e.g., adding or subtracting certain types of services to the contribution base due to rule changes or other Commission activity). Because of the combined influence of these many factors, nearly all of which change each quarter

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<sup>81</sup> 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 and .713 for contributor reporting requirements.

## Universal Service Administrative Company 1Q2012 Fund Size Projections

based on the manner in which the Commission rules operate and the programs are administered, the quarterly contribution factor established by the Commission derived from these USAC-submitted inputs can fluctuate substantially from quarter to quarter. Thus, comparisons to preceding or prior year quarters should be made with caution and predicting trends based on such comparisons may not provide a basis for meaningful analysis.

A total of 6,437 FCC Form 499-Q notifications were distributed to carriers in early October 2011. Interstate telecommunications service providers are required to complete this form, reporting January – March 2012 projected revenue information, and return it to USAC by November 1, 2011. USAC invoices and receives contributions from nearly 3,000 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) and forfeiture orders against delinquent contributors and companies failing to file required forms. USAC transfers to the Commission amounts owed to the USF that are over 90 days delinquent after USAC has provided delinquent contributors with the notice required under Commission rules and the Debt Collection Improvement Action (DCIA).<sup>82</sup> Upon receipt of the outstanding debts, the Commission provides delinquent contributors 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 contributor fails to respond to the Commission's request for payment, the delinquent account is typically forwarded to the United States Treasury Department for collection.

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<sup>82</sup> 31 U.S.C. §§ 3701 *et seq.*

## **Universal Service Administrative Company 1Q2012 Fund Size Projections**

USAC implemented the Red Light Rule on November 1, 2004 for contributor debts to the USF.<sup>83</sup> If a contributor is delinquent to the USF, USAC performs administrative offsets to resolve the delinquency by 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 stating that the debt has been satisfied. USAC continues to work closely with the Commission and stakeholders affected by the Red Light Rule implementation.

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### ***AUTHORIZATION TO FILE WITH THE COMMISSION***

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At their October 24, 2011 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 1Q2012 projected support mechanism funding requirements described herein. At its October 25 meeting, the USAC Board of Directors adopted a resolution authorizing the inclusion of the projected 1Q2012 administrative expenses in this report to the Commission.

Respectfully submitted,

UNIVERSAL SERVICE  
ADMINISTRATIVE COMPANY

/s/ D. Scott Barash

D. Scott Barash, Acting Chief Executive Officer  
David M. Case, Chief Financial Officer and Vice  
President of Finance

November 2, 2011

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<sup>83</sup> 47 C.F.R. § 1.910.