

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

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

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

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

INTRODUCTION

The Universal Service Administrative Company (USAC) hereby submits the federal Universal Service Support Mechanisms fund size and administrative cost projections for the second quarter of calendar year 2012 (2Q2012), in accordance with Section 54.709 of the Federal Communications Commission's (FCC or Commission) rules.¹

USAC is the not-for-profit corporation responsible for administering the federal Universal Service Fund (USF) and the universal service support mechanisms (also referred to as "programs" below): High Cost, Low Income, Rural Health Care, and Schools and Libraries.² USAC also performs the billing, collection, and disbursement functions for the universal service support mechanisms.

Upon approval of the quarterly funding requirements for the universal service support mechanisms and the projected administrative expenses, and the submission of the contribution base amount, the Commission will establish a quarterly contribution factor. USAC will bill contributors on a monthly basis for their individual obligations based on the approved contribution factor, collect amounts owed from contributors, and distribute funds to eligible recipients based on the schedules filed herein.³

¹ 47 C.F.R. § 54.709(a)(3).

² 47 C.F.R. § 54.701.

³ See 47 C.F.R. §§ 54.709(a)(4), 54.201, 54.203, 54.515, 54.517, 54.301-54.307, 54.407, 54.413, 54.515 and 54.611.

***ADMINISTRATIVE EXPENSES AND INTEREST INCOME
PROJECTION***

ADMINISTRATIVE EXPENSES

Section 54.709(a)(3) of the Commission's rules requires USAC to submit its projected quarterly budget at least 60 days prior to the start of the quarter.⁴ USAC includes any costs that can be directly attributed to the High Cost, Low Income, Rural Health Care, and Schools and Libraries Support Mechanisms in the projected administrative expenses of each mechanism. USAC's remaining joint and common costs including costs associated with the billing, collection, and disbursement of funds are included in the projected administrative expenses of the respective support mechanisms based on USAC's methodology for allocating costs submitted to the Commission.⁵

USAC projects a consolidated budget of \$29.30 million for 2Q2012. Direct costs for all support mechanisms total \$18.89 million⁶ and are listed for each mechanism in the chart provided below. Joint and common costs (including billing, collection, and disbursement activities) are projected at \$10.41 million and are allocated to each support mechanism as described in the chart below based on the allocation methodology on file with the Commission.

⁴ 47 C.F.R. § 54.709(a)(3).

⁵ On January 1, 2006, USAC implemented a revised methodology for allocating joint and common costs that was filed with the Commission on October 3, 2005. See Letter from D. Scott Barash to Marlene H. Dortch regarding Revisions to the Method for Allocating Costs Among the Four Universal Service Support Mechanisms, CC Docket Nos. 97-21 and 96-45 (Oct. 3, 2005).

⁶ This amount includes \$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 2Q2012 Fund Size Projections

2Q2012 Administrative Expenses (in millions) – Budgeted

USF Mechanism	Direct Costs	USAC Common	Total
High Cost	\$1.51	\$3.39	\$4.90
Low Income	1.32	1.01	2.33
Rural Health Care	2.78	0.78	3.56
Schools & Libraries	13.28	5.23	18.51
Total	\$18.89	\$10.41	\$29.30

The budget for 1st Quarter 2012 (1Q2012) included funding for universal service contributor compliance audits and for Low Income Program duplicate resolution activities. Due to procurement delays, the contributor compliance audits have been delayed and based on additional information about the planned activities to resolve duplicate payments under the Low Income Program, we estimate those costs will be lower. These reductions are offset by a necessary increase in (1Q2012) funding for High Cost Program contract labor to implement systems changes required by the *Connect America Fund Order*. The remaining dollars collected but unused will be carried forward to fund 2Q2012 administrative expenses, thereby reducing the collection requirement by the following amounts:

Unused Dollars Carried Forward to Fund 2Q2012 Administrative Expenses (in millions)

Support Mechanism	Direct Costs	USAC Common	Total
High Cost	(\$0.30)	\$0.22	(\$0.08)
Low Income	0.12	0.06	0.18
Rural Health Care	0.00	0.05	0.05
Schools & Libraries	0.00	0.32	0.32
Total	(\$0.18)	\$0.65	\$0.47

The resulting amount needed to fund activities included in the 2Q2012 administrative expense budget above is \$28.83 million (\$29.30 million budget less the \$0.47 million carried forward) as set forth below.

Universal Service Administrative Company 2Q2012 Fund Size Projections

2Q2012 Administrative Expenses (in millions) – Collection Requirement

USF Mechanism	Direct Costs	USAC Common	Total
High Cost	\$1.81	\$3.17	\$4.98
Low Income	1.20	0.95	2.15
Rural Health Care	2.78	0.73	3.51
Schools & Libraries	13.28	4.91	18.19
Total	\$19.07	\$9.76	\$28.83

Appendix M01 provides USAC's administrative expense budget for 2Q2012.

Appendix M02 provides the fund size projections for 2Q2012.

INTEREST INCOME PROJECTION

For 2Q2012, USAC projects interest income of approximately \$3.10 million for the High Cost Support Mechanism, \$0.17 million for the Low Income Support Mechanism, \$2.21 million for the Rural Health Care Support Mechanism, and \$1.54 million for the Schools and Libraries Support Mechanism. USAC projects total interest income of \$7.02 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 12 months ended December 31, 2011, on a cash basis, USAC disbursed to beneficiaries \$8,065.68 million in universal service support as follows: \$3,976.02 million in High Cost support, \$1,710.78 million in Low Income support, \$2,243.11 million in Schools and Libraries support, and \$135.77 million in Rural Health Care support. On a cash basis, the total cash balance available as of December 31, 2011 to the universal service support mechanisms was \$5,786.48 million. On an accrual basis, USAC had a fund balance of \$6,060.33 million at December 31, 2011.

Universal Service Administrative Company 2Q2012 Fund Size Projections

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.⁷ 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.⁸

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 2Q2012, 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. In 2011, the team completed testing of key internal controls for the Rural Health Care Primary and Pilot Programs and the High Cost and Low Income Programs. In addition, the

⁷ 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.

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

Universal Service Administrative Company 2Q2012 Fund Size Projections

team performed an in-depth review of the Schools and Libraries Program commitment adjustment process. Results of all program assessments were communicated to management and remediation of findings is underway. No material weaknesses or reportable conditions were identified during program testing. Currently, the team is wrapping up testing of the financial processes and will report upon the results at the February 2012 Senior Management Council meeting.

In addition to testing activities, the internal controls team continues to facilitate review and approval activities for all USAC policy and procedure documents. In 2011, the team also assisted with ad hoc process improvement projects requested by finance management.

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),⁹ formerly known as the Improper Payments Information Act (IPIA),¹⁰ and to assess universal service support mechanism beneficiary and USF contributor compliance with FCC regulations.¹¹ USAC successfully implemented this assessment program, known as the Payment Quality Assurance (PQA) Program, in August 2010 (see paragraph 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

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

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

¹¹ 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 2Q2012 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, and these audits remain ongoing. As of the January 2012 quarterly USAC Board of Directors meeting, 66 audits are complete and 65 are in progress. The table below provides an overview of the BCAP progress:

Program	Scheduled	In Progress	Completed
High Cost	25	16	4
Low Income	20	7	27
Schools and Libraries	35	18	9
Rural Health Care	20	0	21
Contributor Revenue	25	24	5
Total	125	65	66

(b) As previously reported, the PQA Program has completed the first year of testing payments under this directive. 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 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:

	Improper Payment Rate	Estimated Improper Payment Amount (millions)
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

Universal Service Administrative Company 2Q2012 Fund Size Projections

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 4th Quarter 2011 (4Q2011), USAC provided individual outreach to two Rural Health Care Pilot Program beneficiaries, and 343 Schools and Libraries applicants. USAC conducted one live training event for High Cost and Low Income Program beneficiaries and seven for Schools and Libraries Support Mechanism beneficiaries and participated in nine

professional meetings, involving beneficiary audiences for the High Cost and Rural Health Care Support Mechanisms.

FUNDING REQUIREMENTS

HIGH COST SUPPORT MECHANISM

FUNDS RESERVED PURSUANT TO THE CONNECT AMERICA FUND ORDER

On November 18, 2011, the FCC released the Connect America Fund Order (*CAF Order*).¹² In the order, the FCC set an annual funding target for the High Cost Program of no more than \$4.5 billion annually over the next six years. The order directed USAC to forecast total program demand at no less than \$1.125 billion per quarter beginning with 1Q2012.¹³ The FCC waived section 54.709(b) of its rules and instructed USAC not to make any prior period adjustments related to High Cost Program support. If actual contributions exceed demand, excess contributions should be credited to a new Connect America Fund reserve account, to be used to fund future broadband deployment.¹⁴ If actual High Cost Program demand exceeds the quarterly target of \$1.125 billion, no additional funds will accumulate in the reserve account for that quarter.¹⁵ The *CAF Order* states that the \$4.5 billion budget includes only disbursement of support and does not include administrative expenses or prior period adjustments for support for prior years.¹⁶

¹² *In the Matter of Connect America Fund A National Broadband Plan for Our Future Establishing Just and Reasonable rates for Local Exchange Carriers High-Cost Universal Service Support Developing an Unified Intercarrier Compensation Regime Federal-State Joint Board on Universal Service Lifeline and Link-Up Universal Service Reform – Mobility Fund, WC Docket Nos. 10-92, 07-135,05-337,03-109, GN Docket No. 09-51, CC Docket Nos. 01-92,86-45, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rule Making*, FCC 11-161, ¶¶ 564-567 (rel. November 18, 2011) (*CAF Order*).

¹³ *CAF Order*, ¶¶ 559-560.

¹⁴ *CAF Order*, ¶ 560.

¹⁵ *Id.*, ¶ 928.

¹⁶ *Id.*, ¶ 198.

Universal Service Administrative Company 2Q2012 Fund Size Projections

For 2Q2012, projected support to be reserved pursuant to the *CAF Order* is \$119.13 million. Beginning with 3rd Quarter 2012 projected support, any excess contributions for 1Q2012 will be reserved pursuant to the *CAF Order*.¹⁷

Appendix HC01 provides projected High Cost Support by state, by study area, for 2Q2012. HC01 also provides the projected amount of individual company support, and projected per-month amounts for the components of High Cost support that each ETC¹⁸ may be eligible to receive. HC02 provides the total projected amount of annualized High Cost Support for 2Q2012 for each state and territory.

FUNDS RESERVED PURSUANT TO THE CORR WIRELESS ORDER

In FCC 10-155, the FCC directed that reclaimed funds resulting from reductions in High Cost Program disbursements to competitive eligible telecommunications carriers be reserved for proposed universal service reforms pursuant to the National Broadband Plan.¹⁹ In the *CAFO*,²⁰ the FCC ordered the wind-down of the *Corr Wireless* reserve account and directed that \$300 million in the account be used to fund anticipated commitments in 2012 to recipients of Mobility Fund Phase I support.²¹ The remaining balance will be used to fund Phase I of the Connect America Fund for price cap carriers in 2012.²² The Commission also instructed USAC not to use the *Corr Wireless* reserve account to fund inflation adjustments to the Schools and Libraries Program for Funding Year 2011.²³

The chart below reflects the cumulative amount of funds reserved through 4Q2011, and anticipated amounts still to be collected.

¹⁷ *Id.*, ¶ 562.

¹⁸ See 47 C.F.R. § 36.631 and 47 C.F.R. §§ 54.301-54.303.

¹⁹ *In the Matter of High-Cost Universal Service Support, Federal-State Joint Board on Universal Service, Request for Review of Decision of Universal Service Administrator by Corr Wireless Communications, LLC*, CC Docket No. 96-45, FCC 10-155, ¶ 20 (2010) (FCC 10-155).

²⁰ *CAF Order*, ¶¶ 564-567.

²¹ *CAF Order*, ¶ 565.

²² *Id.*, ¶ 566.

²³ *Id.*, ¶¶ 564-567.

Universal Service Administrative Company 2Q2012 Fund Size Projections

Funds Reserved For National Broadband Initiative	
<i>as of December 31, 2011</i>	
Broadband Reserve	Funds Reserved (in millions)
3 rd Quarter 2010	\$23.00
4 th Quarter 2010	84.98
1 st Quarter 2011	101.53
2 nd Quarter 2011	125.81
3 rd Quarter 2011	93.82
4 th Quarter 2011	76.67
Subtotal	505.81
Funds Reserved and Not Yet Collected	38.76
Total Gross Reserve	544.57
Transfer to Schools and Libraries Program to index Funding Year 2010 E-rate cap to inflation	(20.25)
Total Remaining Funds Reserved for Broadband	\$524.32

RATE-OF-RETURN CARRIERS

Rate-of-return carriers not affiliated with price cap carriers may continue to receive legacy High Cost Program support and may receive Connect America Fund support to offset lost inter-carrier compensation (ICC) revenues²⁴.

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, 2011.²⁵ 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.²⁶ The *RTF Order*²⁷ increased HCL Support for rural LECs effective July 1, 2001.

²⁴ *Id.*, ¶ 206.

²⁵ Universal Service Fund (USF) 2011 Submission of 2010 Study Results (filed Oct. 1, 2011) (*USF Data Submission*).

²⁶ 47 C.F.R. § 36.603(a).

²⁷ *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 FC.C Red 11244 (2001) (*RTF Order*).

Universal Service Administrative Company 2Q2012 Fund Size Projections

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. This capped amount will be subject to additional reductions pursuant to the *CAF Order* that will be adjusted by NECA in the first quarter of 2012 to exclude rate-of-return carriers affiliated with price cap local exchange carriers.²⁸

The *RTF Order* provided Safety Net Additive (SNA) Support above the HCL cap for carriers that make significant investment in rural infrastructure in years in which HCL is capped.²⁹ To receive support, a rural carrier must show that growth in telecommunications plant in service (TPIS) per loop is at least 14 percent greater than the study area's TPIS per loop in the prior year. Pursuant to the *CAF Order*, SNA will be phased down over a two year period, and no SNA support will be provided for carriers whose costs are incurred after 2009.³⁰ For 2Q2012, projected SNA support is \$10.38 million.

For 2Q2012, projected HCL Support is \$211.44 million, which includes \$10.38 million for SNA support and \$1.62 for Safety Valve Support. Total annual 2012 HCL Support is projected to be \$845.76 million.

Appendix HC05 provides projected uncapped monthly HCL Support payments by state by study area for 2Q2012. Appendix HC06 provides projected monthly SNA Support payments by state by study area for 2Q2012. Appendix HC07 displays projected SVS Support payments by state by study area for 2Q2012.

²⁸ *CAF Order*, ¶ 259.

²⁹ *RTF Order* at ¶¶ 77-90.

³⁰ *CAF Order*, ¶ 252.

Local Switching Support

ETC study areas having 50,000 or fewer access lines are eligible to receive support for local switching costs.³¹ LSS is the product of a carrier's annual unseparated local switching revenue requirement multiplied by its local switching support factor.³² Pursuant to the *CAF Order*, LSS will be eliminated as a separate support mechanism effective July 1, 2012.³³ Beginning January 1, 2012 and until June 30, 2012, LSS payments to each eligible incumbent LEC will be frozen at 2011 support levels subject to true-up on 2011 operating results.³⁴

For 2Q2012, frozen LSS for incumbent carriers is estimated to be \$57.02 million and total annual 2012 frozen LSS is estimated to be \$114.04 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.³⁵

For 2Q2012, ICLS is projected as follows to be \$226.21 million and total annual 2012 ICLS is estimated to be \$901.78 million.

Appendices HC09, HC10, and HC11 provide USAC's 2Q2012 projections of ICLS by study area, per line and by state, respectively. Appendices HC13 and HC14 provide the revised projected 2010 to 2011 program year ICLS by study area and per line. Appendices

³¹ See 47 C.F.R. § 54.301.

³² The LSS factor is defined as the difference between the 1996 weighted interstate Dial Equipment Minute (DEM) factor and the 1996 unweighted DEM factor.

³³ *CAF Order*, ¶ 257.

³⁴ *Id.*, ¶ 257.

³⁵ 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 2Q2012 Fund Size Projections

HC15 and HC16 provide the revised projected 2011 to 2012 program year ICLS by study area and per line.

PRICE CAP CARRIERS

In the *CAF Order*, the FCC directs USAC to freeze all support under existing high-cost support mechanisms for price cap carriers and their rate-of-return affiliates for HCL, HCM, SVS, LSS, IAS, and ICLS, on a study area basis to the amount of support each carrier received in 2011.³⁶ For 2Q2012, total frozen high cost support for price cap carriers for 2Q2012 is estimated to be \$256.55 million and total annual 2012 frozen high cost support is estimated to be \$1.03 billion. Appendix HC12 provides frozen High Cost Program Support by state by study area for 2Q2012.

COMPETITIVE ELIGIBLE TELECOMMUNICATIONS CARRIERS

The *CAF Order* transitions existing CETC support to the Connect America Fund over a five-year period beginning July 1, 2012.³⁷ For the purposes of this transition, the FCC sets each CETC's baseline support at its total 2011 support in a given study area, or an amount equal to \$3,000 times the number of reported lines as of year-end 2011, whichever is lower.³⁸ That monthly baseline amount will be provided from January 1, 2012 to June, 2012.³⁹ Beginning July 1, 2012, each CETC's support will be reduced by 20 percent for each July to June time period.⁴⁰

Total frozen High Cost Program Support demand for CETCs is \$235.08 million for 2Q2012. In addition, rural Alaska CETCs and the Standing Rock Reservation High Cost support is estimated to be \$19.57 million for 2Q2012. The combined High Cost Program

³⁶ *CAF Order*, ¶ 133.

³⁷ *Id.*, ¶ 513.

³⁸ *Id.*, ¶ 515.

³⁹ *CAF Order*, ¶ 515.

⁴⁰ *Id.*

Universal Service Administrative Company 2Q2012 Fund Size Projections

support demand totals for CETCs, rural Alaska CETCs, and Standing Rock are estimated to be \$254.65 million for 2Q2012.

Appendix HC03 provides 2Q2012 projections for Rural Alaska and Standing Rock Support by study area. Appendix HC04 provides 2Q2012 per line projections for Rural Alaska and Standing Rock Support.

HIGH COST SUPPORT MECHANISM SUMMARY

The 2Q2012 High Cost Support Mechanism funding requirements are projected as follows: \$211.44 million for HCL Support (including SNA and SVS), \$57.02 million for frozen LSS, \$226.21 million for ICLS, \$256.55 million for frozen Price Cap Carrier Support, \$254.65 million for frozen CETC Support,⁴¹ and \$119.13 million for the CAF reserve account resulting in total High Cost Support Mechanism projected demand of \$1,125.00 million.

Results for 4Q2011 contributed to an under-funded condition for which this filing proposes to adjust the 2Q2012 funding requirements. The total adjustment to the 2Q2012 funding requirement based on actual results will increase the funding needed by \$5.97 million. The explanation for the adjustment is described in the following table:

Reason for the Prior Period Adjustment	Adjustment in Millions
4Q2011 billings were lower than the projected revenues reported by USF contributors in their quarterly revenue projections.	\$15.91
High Cost Support Mechanism distributions were lower than projected in 4Q2011.	(10.56)
Interest income was higher than estimated for 4Q2011.	(1.15)
Bad debt expense was higher than anticipated.	1.77
Total Prior Period Adjustment	\$5.97⁴²

⁴¹ "CETC Support" includes frozen support, rural Alaska CETC support, and support to the Standing Rock Reservation CETC.

⁴² 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.

The total fund requirement of \$1,125.00 million is adjusted as follows: increased by the prior period adjustments of \$5.97 million, increased by administrative costs of \$4.98 million, and reduced by the projected interest income of \$3.10 million; resulting in a total projected 2Q2012 funding requirement for the High Cost Support Mechanism of \$1,132.85 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.⁴³ 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 waiver of charges and reduced rates provided to qualified low-income subscribers.⁴⁴ 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),⁴⁵ 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).⁴⁶ Further, up to an additional \$25 per low-income subscriber per month is available

⁴³ See 47 C.F.R. § 54.201.

⁴⁴ See 47 C.F.R. §§ 54.401-54.417.

⁴⁵ 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).

⁴⁶ 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

Universal Service Administrative Company 2Q2012 Fund Size Projections

to eligible residents of tribal lands (Tier Four).⁴⁷

For 2Q2012, USAC projects \$573.21 million will be required for Lifeline support. Based on this projection, total annual 2012 Lifeline support is estimated to be \$2.26 billion.

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.⁴⁸

The *Tribal Order* authorized additional Link Up support of up to \$70 per qualified low income subscriber residing on eligible tribal lands.⁴⁹

For 2Q2012, USAC projects that \$46.11 million will be required for Link Up support. Based on this projection, total annual 2012 Link Up support is estimated to be \$184.20 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.⁵⁰ 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.⁵¹

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.

⁴⁷ 47 C.F.R. § 54.400(e).

⁴⁸ 47 C.F.R. §§ 54.411 and 54.413.

⁴⁹ See *Promoting Deployment and Subscribership in Unserved and Underserved Areas, Including Tribal and Insular Areas*, CC Docket No. 96-45, Twelfth Report and Order, Memorandum Opinion and Order, and Further Notice of Proposed Rule-making, (rel. June 30, 2000) (*Tribal Order*).

⁵⁰ 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).

⁵¹ 47 C.F.R. §§ 54.400(b) and (c).

Universal Service Administrative Company 2Q2012 Fund Size Projections

For 2Q2012, USAC projects that \$2.69 million will be required for TLS. Based on this projection, total annual 2012 TLS is estimated to be \$11.13 million.

LOW INCOME SUPPORT MECHANISM SUMMARY

The estimated 2Q2012 Low Income Support Mechanism funding requirement is \$622.01 million, which includes \$573.21 million for Lifeline, \$46.11 million for Link Up, and \$2.69 million for Toll Limitation Service.

Results of 4Q2011 contribute to an over-funded condition, for which this filing proposes to adjust the 2Q2012 funding requirement. The total adjustment to the 2Q2012 funding requirement based on actual results will decrease the funding needed by \$6.12 million. The explanation for the adjustment is described in the following table:

Reason for the Prior Period Adjustment	Adjustment in Millions
4Q2011 billings were lower than the projected revenues reported by contributors in their quarterly revenue projections.	\$6.39
Low Income Support Mechanism distributions were lower than projected in 4Q2011.	(13.21)
Interest income was lower than estimated for 4Q2011.	0.02
Bad debt expense was higher than anticipated.	0.68
Total Prior Period Adjustment	(\$6.12)

The total fund requirement of \$622.01 million decreased by the prior period adjustment of \$6.12 million, increased for administrative expenses of \$2.15 million, and decreased by projected interest income of \$0.17 million, results in a total projected funding requirement for the Low Income Support Mechanism for 2Q2012 of \$617.87 million.

Appendix LI01 provides projected Low Income support amounts by state and study area for 2Q2012.⁵² LI02 provides detail on Low Income funding amounts available in each of the states and territories for 2Q2012. LI03 provides a list of ETCs for 4Q2011.⁵³ LI04 provides detail on quarterly company specific Low Income support disbursement amounts

⁵² Companies that are no longer ETCs have been removed from LI01.

⁵³ Companies that are no longer ETCs have been removed from LI03.

Universal Service Administrative Company 2Q2012 Fund Size Projections

for 4Q2011. LI05 provides detail on annual company-specific Low Income support amounts for 2008 through 3Q2011.⁵⁴ 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 3Q2011.⁵⁵ LI08 and LI09 provide subscriber information by state and jurisdiction for Lifeline and Link Up support, respectively. LI10 shows the Tier 1 amounts reported by all companies during 3Q2011.

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 December 31, 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 December 31, 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:

FUNDING YEAR 2007 PACKET PROCESSING	
Packets Completely Processed	6,039
In Review	0
Withdrawn by Applicant	472
Denied	237
Duplicate	30
Incomplete – Require Forms and/or Clarification	0
Total Packets Received as of 12/31/2011 for Funding Year 2007	6,778

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

⁵⁴ For data for years prior to 2008 see LI05 of USAC's 2Q2010 FCC Quarterly Demand Filing.

⁵⁵ For data for years prior to 2008 see LI07 of USAC's 2Q2010 FCC Quarterly Demand Filing.

Universal Service Administrative Company 2Q2012 Fund Size Projections

cover “up to 85 percent of an applicant’s costs of deploying a dedicated broadband network.”⁵⁶ The application window for the Pilot Program opened on March 8, 2007 and closed on May 7, 2007.⁵⁷ 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 2009.⁵⁸ 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 2007,⁵⁹ resulting in \$54.44 million of funds collected for Funding Year 2006 being reallocated to Funding Year 2007.

As of December 31, 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 December 31, 2011, Primary Program funding commitments have been issued totaling \$56.90 million. Based on information provided by applicants USAC estimates Funding Year 2007 Primary Program demand will be \$54.87 million. The Commission previously authorized collection of \$55.08 million for Funding Year 2007. Considering the

⁵⁶ *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).

⁵⁷ *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).

⁵⁸ See *In the Matter of the Rural Health Care Support Mechanism*, FCC 07-198 (rel. Nov. 19, 2007).

⁵⁹ *Id.*

Universal Service Administrative Company 2Q2012 Fund Size Projections

revised Primary Program demand estimate for Funding Year 2007, USAC recommends the Commission decrease collections for Funding Year 2007 of the Primary Program by \$0.21 million in 2Q2012.

Authorized funding by applicant during 4Q2011 and disbursements made to service providers during 4Q2011 are listed in Appendices RH01 and RH02, respectively.

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 December 31, 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:

FUNDING YEAR 2008 PACKET PROCESSING	
Packets Completely Processed	6,804
In Review	0
Withdrawn by Applicant	464
Denied	108
Duplicate	20
Incomplete – Require Forms and/or Clarification	0
Total Packets Received as of 12/31/2011 for Funding Year 2008	7,396

As of December 31, 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.

Universal Service Administrative Company 2Q2012 Fund Size Projections

As of December 31, 2011, Primary Program funding commitments have been issued totaling \$66.93 million. Based on information provided by applicants USAC estimates Funding Year 2008 Primary Program demand will be \$65.27 million. The Commission previously authorized collection of \$65.35 for Funding Year 2008. Considering the revised Primary Program demand estimate for Funding Year 2008, USAC recommends the Commission decrease collections for Funding Year 2008 of the Primary Program by \$0.08 million in 2Q2012.

Authorized funding by applicant during 4Q2011 and disbursements made to service providers during 4Q2011 are listed in Appendices RH03 and RH04, respectively.

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 December 31, 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:

FUNDING YEAR 2009 PACKET PROCESSING	
Packets Completely Processed	7,377
In Final Review	0
In Review	0
Withdrawn by Applicant	417
Denied	220
Duplicate	14
Incomplete – Require Forms and/or Clarification	0
Total Packets Received as of 12/31/2011 for Funding Year 2009	8,028

As of December 31, 2011, Pilot Program funding commitments have been issued totaling \$205.33 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

Universal Service Administrative Company 2Q2012 Fund Size Projections

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 December 31, 2011, Primary Program funding commitments have been issued totaling \$72.55 million. Based on information provided by applicants, USAC now estimates Funding Year 2009 Primary Program demand will be \$71.57 million. The Commission previously authorized collection of \$71.66 million for Funding Year 2009. Considering the revised Primary Program demand estimate for Funding Year 2009, USAC recommends the Commission decrease collections for Funding Year 2009 of the Primary Program by \$0.09 million in 2Q2012.

Funding commitments made during 4Q2011 are included in Appendix RH05. Authorized funding by applicant during 4Q2011 and disbursements made to service providers during 4Q2011 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 December 31, 2011, a total of 4,283 Form 465s were posted and 9,660 packets were received.

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

Universal Service Administrative Company 2Q2012 Fund Size Projections

FUNDING YEAR 2010 PACKET PROCESSING	
Packets Completely Processed	8,830
In Final Review	0
In Review	193
Withdrawn by Applicant	563
Denied	57
Duplicate	17
Incomplete – Require Forms and/or Clarification	0
Total Packets Received as of 12/31/2011 for Funding Year 2010	9,660

As of December 31, 2011, Primary Program funding commitments have been issued totaling \$90.24 million. Based on information provided by applicants, USAC now estimates Funding Year 2010 Primary Program demand will be \$87.11 million. The Commission previously authorized collection of \$81.20 million for Funding Year 2010. Considering the revised Primary Program demand estimate for Funding Year 2010, USAC recommends the Commission increase collections for Funding Year 2010 of the Primary Program by \$5.91 million in 2Q2012.

Funding commitments made during 4Q2011 are included in Appendix RH08. Authorized funding by applicant during 4Q2011 and disbursements made to service providers during 4Q2011 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. As of December 31, 2011, a total of 4,337 Form 465s were posted and 4,142 packets were received.

The status of Funding Year 2011 packets is provided in the following table:

Universal Service Administrative Company 2Q2012 Fund Size Projections

FUNDING YEAR 2011 PACKET PROCESSING	
Packets Completely Processed	238
In Final Review	173
In Review	791
Withdrawn by Applicant	31
Denied	0
Duplicate	2
Incomplete – Require Forms and/or Clarification	2,907
Total Packets Received as of 12/31/2011 for Funding Year 2011	4,142

USAC recommends the Commission authorize collections for Funding Year 2011 of one-quarter of the estimated Primary Program demand, or \$30.21 million, in 2Q2012.

Funding commitments made during 4Q2011 are included in Appendix RH11. No payments were made to service providers during 4Q2011 for Funding Year 2011.

RURAL HEALTH CARE SUPPORT MECHANISM SUMMARY

The estimated 2Q2012 Rural Health Care Support Mechanism demand requirement is \$35.74 million (\$30.21 million for Funding Year 2011, plus \$5.91 million for Funding Year 2010, minus \$0.09 million for Funding Year 2009, minus \$0.08 million for Funding Year 2008, minus \$0.21 million for Funding Year 2007).

The results of 4Q2011 contributed to an over-funded condition for which this filing proposes to adjust the 2Q2012 funding requirements. The total adjustment to the 2Q2012 funding requirement based on actual results will decrease the funding needed by \$0.22 million. The explanation for the adjustment is provided in the following table:

Reason for the Prior Period Adjustment	Adjustment in Millions
4Q2011 billings were lower than the projected revenues reported by USF contributors in their quarterly revenue projections.	\$ 0.36
Interest income was higher than estimated for 4Q2011.	(0.61)
Bad debt expense was higher than anticipated.	0.03
Total Prior Period Adjustment	(\$0.22)

Universal Service Administrative Company 2Q2012 Fund Size Projections

The total fund requirement of \$35.74 million, decreased by the prior-period adjustment of \$0.22 million, increased for administrative expenses of \$3.51 million, and decreased by the projected interest income of \$2.21 million, results in a total projected funding requirement for the Rural Health Care Support Mechanism for 2Q2012 of \$36.82 million.

SCHOOLS AND LIBRARIES SUPPORT MECHANISM

Following is a summary of Schools and Libraries Support Mechanism net commitments⁶⁰ and net authorized for payment⁶¹ by funding year as of December 31, 2011.

FUNDING YEAR 1998

FUNDING YEAR 1998					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 675.01	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%
TOTAL	\$ 1,695.02	100.00%	\$1,398.93	100.00%	82.53%
Deobligations due to Expired FRNs	\$ (296.08)				
Net Commitments	\$ 1,398.94				

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 4Q2011 for Funding Year 1998.

⁶⁰ 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.

⁶¹ Net authorized for payment is the amount of total approved invoices less any returned funds.

Universal Service Administrative Company 2Q2012 Fund Size Projections

FUNDING YEAR 1999

FUNDING YEAR 1999					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 633.50	29.50%	\$ 452.98	27.39%	71.50%
Internet Access	\$ 148.77	6.93%	\$ 95.50	5.77%	64.19%
Internal Connections	\$ 1,364.93	63.57%	\$1,105.50	66.84%	80.99%
TOTAL	\$ 2,147.20	100.00%	\$1,653.98	100.00%	77.03%
Deobligations due to Expired FRNs	\$ (493.20)				
Net Commitments	\$ 1,654.00				

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. Authorized funding by applicant during 4Q2011 and cumulative payments to service providers through 4Q2011 are listed in Appendices SL01 and SL02, respectively.

FUNDING YEAR 2000

FUNDING YEAR 2000					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 719.09	34.71%	\$ 481.17	29.16%	66.91%
Internet Access	\$ 218.76	10.56%	\$ 133.46	8.09%	61.01%
Internal Connections	\$ 1,134.10	54.73%	\$1,035.18	62.75%	91.28%
TOTAL	\$ 2,071.95	100.00%	\$1,649.81	100.00%	79.63%
Deobligations due to Expired FRNs	\$ (421.85)				
Net Commitments	\$ 1,650.10				

Universal Service Administrative Company 2Q2012 Fund Size Projections

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 applicant during 4Q2011 and cumulative payments to service providers through 4Q2011 are listed in Appendices SL03 and SL04, respectively.

FUNDING YEAR 2001

FUNDING YEAR 2001					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 776.95	35.55%	\$ 540.79	31.85%	69.60%
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%
TOTAL	\$ 2,185.30	100.00%	\$1,697.65	100.00%	77.68%
Deobligations due to Expired FRNs	\$ (486.43)				
Net Commitments	\$ 1,698.87				

As of December 31, 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 4Q2011 and cumulative payments to service providers through 4Q2011 are listed in Appendices SL05 and SL06, respectively.

Universal Service Administrative Company 2Q2012 Fund Size Projections

FUNDING YEAR 2002

FUNDING YEAR 2002					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 860.60	39.33%	\$ 613.15	38.47%	71.25%
Internet Access	\$ 249.99	11.42%	\$ 170.99	10.73%	68.40%
Internal Connections	\$ 1,077.70	49.25%	\$ 809.81	50.80%	75.14%
TOTAL	\$ 2,188.29	100.00%	\$1,593.95	100.00%	72.84%
Deobligations due to Expired FRNs	\$ (574.93)				
Net Commitments	\$ 1,613.36				

As of December 31, 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 4Q2011 and cumulative payments to service providers through 4Q2011 are listed in Appendices SL07 and SL08, respectively.

FUNDING YEAR 2003

FUNDING YEAR 2003					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 907.83	34.39%	\$ 660.20	34.07%	72.72%
Internet Access	\$ 276.04	10.46%	\$ 203.69	10.51%	73.79%
Internal Connections	\$ 1,455.60	55.15%	\$1,073.79	55.42%	73.77%
TOTAL	\$ 2,639.47	100.00%	\$1,937.68	100.00%	73.41%
Deobligations due to Expired FRNs	\$ (689.66)				
Net Commitments	\$ 1,949.81				

Universal Service Administrative Company 2Q2012 Fund Size Projections

As of December 31, 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 4Q2011 and cumulative payments to service providers through 4Q2011 are listed in Appendices SL09 and SL10, respectively.

FUNDING YEAR 2004

FUNDING YEAR 2004					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 947.01	43.66%	\$ 689.10	44.97%	72.77%
Internet Access	\$ 246.16	11.35%	\$ 192.91	12.59%	78.37%
Internal Connections	\$ 975.90	44.99%	\$ 650.28	42.44%	66.63%
TOTAL	\$ 2,169.07	100.00%	\$1,532.29	100.00%	70.64%
Deobligations due to Expired FRNs	\$ (621.24)				
Net Commitments	\$ 1,547.83				

As of December 31, 2011, two 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 4Q2011 are included in Appendix SL11. Authorized funding by applicant during 4Q2011 and cumulative payments to service providers through 4Q2011 are listed in Appendices SL12 and SL13, respectively.

Universal Service Administrative Company 2Q2012 Fund Size Projections

FUNDING YEAR 2005

FUNDING YEAR 2005					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 977.44	46.34%	\$ 770.50	47.78%	78.83%
Internet Access	\$ 259.11	12.28%	\$ 214.54	13.30%	82.80%
Internal Connections	\$ 739.42	35.05%	\$ 535.95	33.24%	72.48%
Internal Connections-Maint	\$ 133.56	6.33%	\$ 91.55	5.68%	68.55%
TOTAL	\$ 2,109.53	100.00%	\$1,612.54	100.00%	76.44%
Deobligations due to Expired FRNs	\$ (480.50)				
Net Commitments	\$ 1,629.03				

As of December 31, 2011, 11 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. Funding commitments made to applicants during 4Q2011 are included in Appendix SL14. Authorized funding by applicant during 4Q2011 and cumulative payments to service providers through 4Q2011 are listed in Appendices SL15 and SL16, respectively.

Universal Service Administrative Company 2Q2012 Fund Size Projections

FUNDING YEAR 2006

FUNDING YEAR 2006					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 1,066.01	53.97%	\$ 847.62	54.77%	79.51%
Internet Access	\$ 288.53	14.61%	\$ 235.52	15.22%	81.63%
Internal Connections	\$ 496.87	25.15%	\$ 378.53	24.47%	76.18%
Internal Connections-Maint	\$ 123.86	6.27%	\$ 85.79	5.54%	69.26%
TOTAL	\$ 1,975.27	100.00%	\$1,547.46	100.00%	78.34%
Deobligations due to Expired FRNs	\$ (381.65)				
Net Commitments	\$ 1,593.62				

As of December 31, 2011, 14 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 4Q2011 are included in Appendix SL17. Authorized funding by applicant during 4Q2011 and cumulative payments to service providers through 4Q2011 are listed in Appendices SL18 and SL19, respectively.

Universal Service Administrative Company 2Q2012 Fund Size Projections

FUNDING YEAR 2007

FUNDING YEAR 2007					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 1,179.72	48.19%	\$ 936.66	48.85%	79.40%
Internet Access	\$ 309.03	12.62%	\$ 258.61	13.49%	83.68%
Internal Connections	\$ 796.45	32.54%	\$ 603.55	31.48%	75.78%
Internal Connections-Maint	\$ 162.62	6.65%	\$ 118.61	6.18%	72.94%
TOTAL	\$ 2,447.82	100.00%	\$1,917.43	100.00%	78.33%
Deobligations due to Expired FRNs	\$ (458.86)				
Net Commitments	\$ 1,988.96				

As of December 31, 2011, 53 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 4Q2011 are included in Appendix SL20. Authorized funding by applicant during 4Q2011 and cumulative payments to service providers through 4Q2011 are listed in Appendices SL21 and SL22, respectively.

Universal Service Administrative Company 2Q2012 Fund Size Projections

FUNDING YEAR 2008

FUNDING YEAR 2008					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 1,293.89	51.06%	\$1,031.91	55.56%	79.75%
Internet Access	\$ 339.15	13.38%	\$ 275.46	14.83%	81.22%
Internal Connections	\$ 771.48	30.44%	\$ 461.74	24.86%	59.85%
Internal Connections-Maint	\$ 129.74	5.12%	\$ 88.14	4.75%	67.94%
TOTAL	\$ 2,534.26	100.00%	\$1,857.25	100.00%	73.29%
Deobligations due to Expired FRNs	\$ (559.13)				
Net Commitments	\$ 1,975.13				

As of December 31, 2011, 67 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 4Q2011 are included in Appendix SL23. Authorized funding by applicant during 4Q2011 and cumulative payments to service providers through 4Q2011 are listed in Appendices SL24 and SL25, respectively.

Universal Service Administrative Company 2Q2012 Fund Size Projections

FUNDING YEAR 2009

FUNDING YEAR 2009					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 1,343.98	47.39%	\$ 1,059.88	50.14%	78.86%
Internet Access	\$ 351.78	12.41%	\$ 284.42	13.46%	80.85%
Internal Connections	\$ 935.24	32.98%	\$ 633.73	29.98%	67.76%
Internal Connections-Maint	\$ 204.88	7.22%	\$ 135.61	6.42%	66.19%
TOTAL	\$ 2,835.88	100.00%	\$ 2,113.64	100.00%	74.53%
Deobligations due to Expired FRNs	\$ (380.78)				
Net Commitments	\$ 2,455.10				

As of December 31, 2011, 156 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 4Q2011 are included in Appendix SL26. Authorized funding by applicant during 4Q2011 and cumulative payments to service providers through 4Q2011 are listed in Appendices SL27 and SL28, respectively.

Universal Service Administrative Company 2Q2012 Fund Size Projections

FUNDING YEAR 2010

FUNDING YEAR 2010					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 1,431.44	48.64%	\$1,035.13	57.81%	72.31%
Internet Access	\$ 400.42	13.60%	\$ 308.16	17.21%	76.96%
Internal Connections	\$ 905.87	30.77%	\$ 322.61	18.02%	35.61%
Internal Connections-Maint	\$ 205.81	6.99%	\$ 124.72	6.96%	60.60%
TOTAL	\$ 2,943.54	100.00%	\$ 1,790.62	100.00%	60.83%
Deobligations due to Expired FRNs	\$ (271.81)				
Net Commitments	\$ 2,671.73				

As of December 31, 2011, 964 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 4Q2011 are included in Appendix SL29. Authorized funding by applicant during 4Q2011 and cumulative payments to service providers through 4Q2011 are listed in Appendices SL30 and SL31, respectively.

Universal Service Administrative Company 2Q2012 Fund Size Projections

FUNDING YEAR 2011

FUNDING YEAR 2011					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 982.86	67.82%	\$ 84.61	57.38%	8.61%
Internet Access	\$ 314.40	21.70%	\$ 55.46	37.62%	17.64%
Internal Connections	\$ 127.31	8.79%	\$ 3.48	2.36%	2.73%
Internal Connections-Maint	\$ 24.49	1.69%	\$ 3.90	2.64%	15.92%
TOTAL	\$ 1,449.06	100.00%	\$ 147.45	100.00%	10.18%
Deobligations due to Expired FRNs	\$ -				
Net Commitments	\$ 1,449.06				

As of December 31, 2011, 11,075 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 4Q2011 are included in Appendix SL32. Authorized funding by applicant during 4Q2011 and cumulative payments to service providers through 4Q2011 are listed in Appendices SL33 and SL34, 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 2Q2012 Fund Size Projections

stabilize USF contributions and offset collections for 3rd Quarter 2002 (3Q2002), 4th Quarter 2002 (4Q2002), and 1st Quarter 2003 (1Q2003).⁶²

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.⁶³ 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 2003.⁶⁴ 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 2004.⁶⁵

On June 11, 2007, the Commission instructed USAC to carry forward \$650 million in unused funds to Funding Year 2007.⁶⁶ 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 2008.⁶⁷ The funds were carried forward from Funding Years 2002, 2003, and 2004 in the amount of \$150 million, \$200 million, and \$250 million, respectively. On July 31, 2009, the Commission instructed USAC

⁶² 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*).

⁶³ 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*).

⁶⁴ *Id.*

⁶⁵ 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).

⁶⁶ 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).

⁶⁷ 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 2Q2012 Fund Size Projections

to carry-forward \$900 million in unused funds to Funding Year 2009.⁶⁸ 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 2010.⁶⁹ 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 2010.⁷⁰ 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 2011.⁷¹ 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.⁷² 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 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

⁶⁸ See *Schools and Libraries Universal Service 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).

⁶⁹ 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).

⁷⁰ 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).

⁷¹ *Id.*

⁷² 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 2Q2012 Fund Size Projections

\$2,290,682,250.⁷³ On November 18, 2011, the FCC ordered USAC to include the inflation adjustments to the E-rate cap in the Schools and Libraries Support Mechanism demand projection.⁷⁴

In consultation with FCC staff, USAC estimates that \$250 million is available to carry forward from funding years as follows: 2003: \$10 million; 2004: \$10 million; 2005: \$50 million; 2006: \$30 million; 2007: \$40 million; 2008: \$60 million; and 2009: \$50 million. The following sections provide information regarding the use of funds for each funding year, including adjustments made by the Commission and projections of unused funds as required by Commission rules.

Funding Year 1998 True-Up

As of December 31, 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:

FUNDING YEAR 1998	Amounts in Millions
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)
Estimated Remaining Balance	\$0.00

Funding Year 1999 True-Up

⁷³ Wireline Competition Bureau Announces E-Rate Inflation-Based Cap for Funding Year 2011, DA 11-1345 (rel. Aug. 5, 2011).

⁷⁴ CAF Order, ¶ 567.

Universal Service Administrative Company 2Q2012 Fund Size Projections

As of December 31, 2011, \$1,653.98 million of Funding Year 1999 support had been authorized for disbursement. USAC's projection of the remaining Funding Year 1999 funds includes an estimate of funds needed to pay additional disbursements on committed funding requests and a contingency reserve to pay pending appeals and make disbursements on Funding 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:

FUNDING YEAR 1999	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,653.98)
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	(19.59)
Estimated Remaining Balance	\$0.00

Funding Year 2000 True-Up

As of December 31, 2011, \$1,649.81 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 2Q2012 Fund Size Projections

FUNDING YEAR 2000	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,649.81)
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	(0.29)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(24.63)
Estimated Remaining Balance	\$0.00

Funding Year 2001 True-Up

As of December 31, 2011, \$1,697.65 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:

FUNDING YEAR 2001	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,697.65)
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	(1.23)
Remaining Uncommitted Requests	(20.33)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(30.23)
Estimated Remaining Balance	\$0.00

Universal Service Administrative Company 2Q2012 Fund Size Projections

Funding Year 2002 True-Up

As of December 31, 2011, \$1,593.95 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:

FUNDING YEAR 2002	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,593.95)
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	(19.40)
Remaining Uncommitted Requests	(0.93)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(62.19)
Estimated Remaining Balance	\$0.00

Funding Year 2003 True-Up

As of December 31, 2011, \$1,937.68 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 2Q2012 Fund Size Projections

Commission orders. Given these requirements, USAC estimates that \$10 million of Funding Year 2003 funds are available to carry forward. The estimated remaining Funding Year 2003 balance is based on the following:

FUNDING YEAR 2003	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,937.68)
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	(12.13)
Remaining Uncommitted Requests	(32.83)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(53.17)
Estimated Remaining Balance	\$10.00

Funding Year 2004 True-Up

As of December 31, 2011, \$1,532.29 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 \$10 million of 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 2Q2012 Fund Size Projections

FUNDING YEAR 2004	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,532.29)
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	(15.54)
Remaining Uncommitted Requests	(20.68)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(40.74)
Estimated Remaining Balance	\$10.00

Funding Year 2005 True-Up

As of December 31, 2011, \$1,612.54 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 \$50 million of 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 2Q2012 Fund Size Projections

FUNDING YEAR 2005	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,612.54)
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	(16.49)
Remaining Uncommitted Requests	(7.69)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(78.29)
Estimated Remaining Balance	\$50.00

Funding Year 2006 True-Up

As December 31, 2011, \$1,547.46 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 \$30 million of Funding Year 2006 funds are available to carry forward. The estimated remaining Funding Year 2006 balance is based on the following:

FUNDING YEAR 2006	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,547.46)
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	(46.16)
Remaining Uncommitted Requests	(10.20)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(50.44)
Estimated Remaining Balance	\$30.00

Universal Service Administrative Company 2Q2012 Fund Size Projections

Funding Year 2007 True-Up

As of December 31, 2011, \$1,917.43 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 \$40 million of Funding Year 2007 funds are available to carry forward. The estimated remaining Funding Year 2007 balance is based on the following:

FUNDING YEAR 2007	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,917.43)
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	(71.53)
Remaining Uncommitted Requests	(54.53)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(85.27)
Estimated Remaining Balance	\$40.00

Funding Year 2008 True-Up

As of December 31, 2011, \$1,857.25 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.

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Given these requirements and to preserve the contingency amount, USAC estimates that \$60 million of Funding Year 2008 funds are available to carry forward. The estimated remaining Funding Year 2008 balance is based on the following:

FUNDING YEAR 2008	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,857.25)
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	(117.87)
Remaining Uncommitted Requests	(81.22)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(162.22)
Estimated Remaining Balance	\$60.00

Funding Year 2009 True-Up

As of December 31, 2011, \$2,113.64 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:

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FUNDING YEAR 2009	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(2,113.64)
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	(341.45)
Remaining Uncommitted Requests	(161.50)
Contingency Amount for Pending Appeals and Invoice Deadline Extensions	(272.14)
Estimated Remaining Balance	\$50.00

Funding Year 2010 True-Up

As of December 31, 2011, \$1,790.62 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:

FUNDING YEAR 2010	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,790.62)
Amount Carried Forward from Funding Years 2002, 2005, 2006, 2007, 2008, and 2009	1,150.00
Amount Authorized by FCC Inflation Increment	20.25
Administrative Expenses	(75.33)
Potential Additional Disbursements on Committed FRNs	(881.11)
Remaining Uncommitted Requests	(500.37)
Contingency Amount for Pending Appeals and Invoice Deadline Extensions	(172.82)
Estimated Remaining Balance	\$0.00

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Funding Year 2011 True-Up

As of December 31, 2011, \$147.45 million of Funding Year 2011 support had been authorized for disbursement. USAC's projection of remaining Funding Year 2011 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that no Funding Year 2011 funds are available to carry forward. The estimated remaining Funding Year 2011 balance is based on the following:

FUNDING YEAR 2011	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(147.45)
Amount Carried Forward from Funding Years 2003, 2004, 2005, 2006, 2007, and 2008	850.00
Amount Authorized by FCC Inflation Increment	40.68
Administrative Expenses	(85.00)
Potential Additional Disbursements on Committed FRNs	(144.42)
Remaining Uncommitted Requests and Contingency Amount for Pending Appeals	(2,763.81)
Estimated Remaining Balance	\$0.00

2Q2012 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, 2003.⁷⁵ 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

⁷⁵ See *In re Application of Generally Accepted Accounting Principles for Federal Agencies and Generally Accepted Government Auditing Standards to the Universal Service Fund*, CC Docket No. 96-45, Order, FCC 03-232, 18 FCC Red 19911 (2003).

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subject to the requirements of the Antideficiency Act (ADA).⁷⁶ 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, 2013.⁷⁷

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 of 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 2004.⁷⁸

Based on the level of applicant demand in Funding Year 2011, 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 2Q2012, which is one-quarter of the \$2.25 billion annual cap on federal universal service support for Schools and Libraries.⁷⁹ Results for 4Q2011 contribute to an under-funded condition for which this filing proposes to adjust the 2Q2012 funding requirement. The total adjustment to the 2Q2012 fund requirement based

⁷⁶ 31 U.S.C. § 1341.

⁷⁷ See HR 2055 (signed by the President Dec. 23, 2011), Sec. 510 (“Section 302 of the Universal Service Antideficiency Temporary Suspension Act is amended by striking ‘December 31, 2010’ each place it appears and inserting ‘December 31, 2011.’”); HR 3082, Sec. 155 (“Section 302 of the Universal Service Antideficiency Temporary Suspension Act is amended by striking ‘December 31, 2010’ each place it appears and inserting ‘December 31, 2011.’”); HR 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.’”). See also, H.R. 5419, 108th Cong 2d Sess., § 302, Universal Service Antideficiency Temporary Suspension Act (effective Dec. 23, 2004) and H.R. 2862, 109th Cong 1st Sess., § 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; Consolidated Appropriations Act, 2010 (Public Law 111-117) (signed December 16, 2009; effective Oct. 1, 2009).

⁷⁸ 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.

⁷⁹ 47 C.F.R. § 54.507(a).

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on actual results will increase the funding needed by \$10.64 million. The explanation for the adjustment is provided below.

Reason for the Prior Period Adjustment	Adjustment in Millions
4Q2011 billings were lower than the projected revenues reported by USF contributors in their quarterly revenue projections.	\$ 8.22
Interest income lower than estimated for 4Q2011.	1.52
Bad debt expense was higher than anticipated.	0.90
Total Prior Period Adjustment	\$ 10.64

The total fund requirement of \$562.50 million, which includes administrative expenses of \$18.19 million, increased by the inflation increment of \$40.68 million, increased by the prior-period adjustment of \$10.64 million, and reduced by the projected interest income of \$1.54 million, results in a total projected collection requirement of \$612.28 million for the Schools and Libraries Support Mechanism for 2Q2012.

CONTRIBUTION BASE

USAC collects quarterly interstate and international revenue information from carriers on FCC Form 499-Q four times each year. USAC uses this information to determine aggregate projected revenue collections, which are filed with the Commission on March 2, June 1, September 1, and December 2 each year.⁸⁰ 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

⁸⁰ 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.

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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 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 6,067 FCC Form 499-Q notifications were distributed to carriers in early January 2012. Interstate telecommunications service providers are required to complete this form, reporting April – June 2012 projected revenue information, and return it to USAC by February 1, 2012. 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

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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).⁸¹ 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.

USAC implemented the Red Light Rule on November 1, 2004 for contributor debts to the USF.⁸² 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.

AUTHORIZATION TO FILE WITH THE COMMISSION

At their January 30, 2012 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 2Q2012 projected support mechanism funding requirements described herein. At its January 31, 2012 meeting, the USAC Board of Directors adopted a

⁸¹ 31 U.S.C. §§ 3701 *et seq.*

⁸² 47 C.F.R. § 1.910.

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resolution authorizing the inclusion of the projected 2Q2012 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

February 1, 2012