

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Federal Universal Service Support Mechanisms Fund Size
Projections for First Quarter 2015

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TABLE OF CONTENTS

INTRODUCTION.....	1
ADMINISTRATIVE EXPENSES AND INTEREST INCOME PROJECTION	2
ADMINISTRATIVE EXPENSES.....	2
INTEREST INCOME PROJECTION.....	3
FINANCIAL STATEMENTS.....	3
EFFORTS TO PREVENT AND REDUCE IMPROPER PAYMENTS	4
FUNDING REQUIREMENTS.....	9
HIGH COST SUPPORT MECHANISM	9
Funds Reserved Pursuant to the USF/ICC Transformation Order (FCC 11-161).....	9
Connect America Fund Phase I – Incremental Support	12
Connect America Fund/Intercarrier Compensation Support.....	13
Rate-of-Return Carriers	14
<i>High Cost Loop Support (including Safety Net Additive and Safety Valve Support)</i>	14
<i>Interstate Common Line Support</i>	16
Price Cap Carriers	16
Competitive Eligible Telecommunications Carriers	17
High Cost Support Mechanism Summary.....	18
LOW INCOME SUPPORT MECHANISM.....	19
Lifeline Support	19
Link-up Support.....	19
Toll Limitation Support.....	20
Broadband Pilot	20
Low Income Support Mechanism Summary	21
RURAL HEALTH CARE SUPPORT MECHANISM.....	22
Funding Year 2008	22
Funding Year 2009	23
Funding Year 2010	24
Funding Year 2011	25
Funding Year 2012	25
Funding Year 2013	24
Rural Health Care Support Mechanism Summary.....	27
SCHOOLS AND LIBRARIES SUPPORT MECHANISM.....	28
Funding Year 1998	29
Funding Year 1999	29
Funding Year 2000	30
Funding Year 2001	30
Funding Year 2002	31
Funding Year 2003	31
Funding Year 2004	32
Funding Year 2005	32
Funding Year 2006	33

TABLE OF CONTENTS

Funding Year 2007	33
Funding Year 2008	34
Funding Year 2009	35
Funding Year 2010	36
Funding Year 2011	37
Funding Year 2012	38
Funding Year 2013	39
Schools and Libraries Support Mechanism Summary	40
<i>Funding Year 1998 True-Up</i>	<i>44</i>
<i>Funding Year 1999 True-Up</i>	<i>45</i>
<i>Funding Year 2000 True-Up</i>	<i>46</i>
<i>Funding Year 2001 True-Up</i>	<i>47</i>
<i>Funding Year 2002 True-Up</i>	<i>47</i>
<i>Funding Year 2003 True-Up</i>	<i>48</i>
<i>Funding Year 2004 True-Up</i>	<i>49</i>
<i>Funding Year 2005 True-Up</i>	<i>50</i>
<i>Funding Year 2006 True-Up</i>	<i>51</i>
<i>Funding Year 2007 True-Up</i>	<i>52</i>
<i>Funding Year 2008 True-Up</i>	<i>53</i>
<i>Funding Year 2009 True-Up</i>	<i>54</i>
<i>Funding Year 2010 True-Up</i>	<i>55</i>
<i>Funding Year 2011 True-Up</i>	<i>56</i>
<i>Funding Year 2012 True-Up</i>	<i>57</i>
<i>Funding Year 2013 True-Up</i>	<i>58</i>
<i>1Q2015 Demand Estimate and Contribution Requirement</i>	<i>59</i>
CONTRIBUTION BASE	61
AUTHORIZATION TO FILE WITH THE COMMISSION	63

APPENDICES

HIGH COST

High Cost Support Projected by State by Study Area – 1Q2015.....	HC01
High Cost Support Projected by State – 1Q2015.....	HC02
Rural Alaska and Standing Rock Support Projected by State by Study Area – 1Q2015.....	HC03
Rural Alaska and Standing Rock Support Projected per Line – 1Q2015	HC04
High Cost Loop Support Projected by State by Study Area – 1Q2015.....	HC05
Safety Net Additive Support Projected by State by Study Area – 1Q2015.....	HC06
Safety Valve Support Projected by State by Study Area – 1Q2015.....	HC07
Frozen High Cost Support Projected by State by Study Area – 1Q2015.....	HC08
Interstate Common Line Support Projected by State by Study Area – 1Q2015.....	HC09
Interstate Common Line Support Projected per Line – 1Q2015	HC10
Interstate Common Line Support Projected by State – 1Q2015.....	HC11
Connect America Fund Intercarrier Compensation by State by Study Area – 1Q2015.....	HC12
Mobility Fund Phase I by State by Study Area – 1Q2015.....	HC13
Interstate Common Line Support by State by Study Area – Revised Projected 2013 to 2014 Program Year.....	HC14
Interstate Common Line Support by State by Study Area – Revised Projected 2013 to 2014 Program Year per Line.....	HC15
Interstate Common Line Support by State by Study Area – Revised Projected 2014 to 2015 Program Year.....	HC16
Interstate Common Line Support by State by Study Area – Revised Projected 2014 to 2015 Program Year per Line.....	HC17

LOW INCOME

Low Income Support Projected by State by Study Area – 1Q2015.....	LI01
[RESERVED]	LI02
Eligible Telecommunications Carriers – 3Q2014.....	LI03
Quarterly Low Income Disbursement Amounts by Company – 3Q2014.....	LI04
Annual Low Income Support Amounts Claimed by State and Company – January 2011 through September 2014.....	LI05
Historical Data: Support Claimed by ETCs Each Month – January 1998 through September 2014.....	LI06
Low Income Support Claimed by State – January 2011 and through September 2014.....	LI07
Lifeline Subscribers by State or Jurisdiction – January 2014 through September 2014.....	LI08
Link-Up Beneficiaries by State or Jurisdiction –	

APPENDICES

January 2014 through September 2014.....	LI09
[RESERVED]	LI10

RURAL HEALTH CARE

[RESERVED]	RH01
Funding Year 2008 Authorizations – 3Q2014.....	RH02
Funding Year 2008 Disbursements to Service Providers through – 3Q2014	RH03
[RESERVED]	RH04
Funding Year 2009 Authorizations – 3Q2014.....	RH05
Funding Year 2009 Disbursements to Service Providers through – 3Q2014	RH06
[RESERVED]	RH07
[RESERVED]	RH08
Funding Year 2010 Disbursements to Service Providers through – 3Q2014	RH09
[RESERVED]	RH10
[RESERVED]	RH11
Funding Year 2011 Disbursements to Service Providers through – 3Q2014	RH12
Funding Year 2012 Commitments – 3Q2014.....	RH13
Funding Year 2012 Authorizations – 3Q2014.....	RH14
Funding Year 2012 Disbursements to Service Providers through – 3Q2014	RH15
Funding Year 2013 Commitments – 3Q2014.....	RH16
Funding Year 2013 Authorizations – 3Q2014.....	RH17
Funding Year 2013 Disbursements to Service Providers through – 3Q2014	RH18
Funding Year 2014 Commitments – 3Q2014.....	RH19
Funding Year 2014 Authorizations – 3Q2014.....	RH20
Funding Year 2014 Disbursements to Service Providers through – 3Q2014	RH21

SCHOOLS AND LIBRARIES

Funding Year 2006 Authorizations – 3Q2014.....	SL01
Funding Year 2006 Disbursements to Service Providers through – 3Q2014	SL02
Funding Year 2007 Commitments – 3Q2014.....	SL03
Funding Year 2007 Authorizations – 3Q2014.....	SL04
Funding Year 2007 Disbursements to Service Providers through – 3Q2014	SL05
Funding Year 2008 Commitments – 3Q2014.....	SL06
Funding Year 2008 Authorizations – 3Q2014.....	SL07
Funding Year 2008 Disbursements to Service Providers through – 3Q2014	SL08
Funding Year 2009 Commitments – 3Q2014.....	SL09
Funding Year 2009 Authorizations – 3Q2014.....	SL10
Funding Year 2009 Disbursements to Service Providers through – 3Q2014	SL11
Funding Year 2010 Commitments – 3Q2014.....	SL12

APPENDICES

Funding Year 2010 Authorizations – 3Q2014.....	SL13
Funding Year 2010 Disbursements to Service Providers through – 3Q2014	SL14
Funding Year 2011 Commitments – 3Q2014.....	SL15
Funding Year 2011 Authorizations – 3Q2014.....	SL16
Funding Year 2011 Disbursements to Service Providers through – 3Q2014	SL17
Funding Year 2012 Commitments – 3Q2014.....	SL18
Funding Year 2012 Authorizations – 3Q2014.....	SL19
Funding Year 2012 Disbursements to Service Providers through – 3Q2014	SL20
Funding Year 2013 Commitments – 3Q2014.....	SL21
Funding Year 2013 Authorizations – 3Q2014.....	SL22
Funding Year 2013 Disbursements to Service Providers through – 3Q2014	SL23
Funding Year 2014 Commitments – 3Q2014.....	SL24
Funding Year 2014 Authorizations – 3Q2014.....	SL25
Funding Year 2014 Disbursements to Service Providers through – 3Q2014	SL26

OTHER APPENDICES

Universal Service Administrative Company 1Q2015 Budget.....	M01
Fund Size Projection for 1Q2015	M02
Schedule of USF Receipts, Interest Income, and Cash Outlays:	
January 1 through September 30, 2014 – Cash Basis.....	M03
January 1 through September 30, 2014 – Accrual Basis	M04

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

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

**FEDERAL UNIVERSAL SERVICE SUPPORT MECHANISMS
FUND SIZE PROJECTIONS FOR
FIRST QUARTER 2015**

INTRODUCTION

The Universal Service Administrative Company (USAC) hereby submits the federal Universal Service Support Mechanisms fund size and administrative cost projections for the first quarter of calendar year 2015 (1Q2015), 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 "Support Mechanisms" or "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 Support Mechanisms.³

Upon approval of the quarterly funding requirements for the 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 USF 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.⁴

¹ 47 C.F.R. § 54.709(a)(3).

² 47 C.F.R. § 54.701.

³ 47 C.F.R. § 54.702(b)

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

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

***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.⁵ 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 and capital expenditures 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 and capital expenditures of the respective support mechanisms based on USAC's methodology for allocating costs submitted to the Commission.⁶

USAC projects a consolidated budget of \$37.73 million for 1Q2015. Direct costs for all support mechanisms total \$20.55 million⁷ and are listed for each mechanism in the chart provided below. Joint and common costs (including billing, collection, and disbursement activities) are projected at \$13.77 million and capital expenditures are projected at \$3.41

⁵ 47 C.F.R. § 54.709(a)(3).

⁶ 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).

⁷ This amount includes \$0.1 million 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 1Q2015 Fund Size
Projections**

million; both are listed in the chart below based on the allocation methodology on file with the Commission.

1Q2015 Administrative Expenses (in millions) – Budgeted

USF Mechanism	Direct Costs	USAC Common	Capital Costs	Total
High Cost	\$3.38	\$4.04	\$0.27	\$7.69
Low Income	1.86	2.55	0.17	4.58
Rural Health Care	1.74	1.17	0.08	2.99
Schools & Libraries	13.57	6.01	2.89	22.47
Total	\$20.55	\$13.77	\$3.41	\$37.73

Appendix M01 provides USAC’s administrative expense and capital expenditure budget for 1Q2015. Appendix M02 provides the fund size projections for 1Q2015.

INTEREST INCOME PROJECTION

For 1Q2015, USAC projects interest income of approximately \$1.94 million for the High Cost Support Mechanism, \$0.16 million for the Low Income Support Mechanism, \$0.37 million for the Rural Health Care Support Mechanism and \$5.08 million for the Schools and Libraries Support Mechanism. USAC projects total interest income of \$7.55 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 all support mechanisms.

FINANCIAL STATEMENTS

For 3Q2014, on a cash basis, USAC disbursed to beneficiaries \$1,994.05 million in universal service support as follows: \$947.40 million in High Cost support, \$397.44 million in Low Income support, \$605.36 million in Schools and Libraries support, and \$43.85 million in Rural Health Care support. The total cash balance available as of September 30, 2014 to the universal service support mechanisms was \$7,689.83 million. On an accrual

Universal Service Administrative Company 1Q2015 Fund Size Projections

basis, USAC had a fund balance of \$7,792.63 million at September 30, 2014.

Appendices M03 and M04 provide 2014 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).⁸ 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.⁹ 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.¹⁰

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 1Q2015, 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 (IC Team) continues to develop and update required internal controls documentation and perform testing of key controls to conform the USAC internal controls program to best practices consistent with OMB Circular A-123.

⁸ Improper Payments Information Act of 2002, PL 107-300, November 26, 2002, 116 Stat 2350.

⁹ 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.

¹⁰ See Letter from Anthony Dale, FCC Managing Director, to D. Scott Barash, Acting Chief Executive Officer, USAC (Aug. 18, 2008).

Universal Service Administrative Company 1Q2015 Fund Size Projections

In the second quarter of calendar year 2014, the IC Team updated the process narratives and performed risk assessments on the key business processes, including an assessment of fraud risk. These risk assessments are the foundation for the testing of key internal controls. In compliance with the three-year testing cycle, the IC Team is testing key controls during the second half of 2014 in the following processes: USAC Financial Reporting, USF Financial Reporting, Fixed Assets, Accounts Payable, USF Disbursements, and Budgetary Accounting. The IC Team will also retest all controls that failed in the prior year.

During the first and second quarters of 2014, the IC Team began a privacy assessment on USAC's systems to determine whether personally identifiable information (PII) is inventoried and properly protected. During this first phase, the IC Team identified all systems that contain sensitive PII and also performed an analysis of the risks and controls around PII in the Lifeline program's NLAD system. Over the next several quarters, the IC Team will perform similar analysis on the other USAC systems that contain sensitive PII. In addition to documentation testing and privacy activities, the IC team continues to facilitate review and approval activities for all USAC policy and procedure documents and provide assistance with ad hoc process improvement projects.

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),¹¹ formerly known as the Improper Payments Information Act (IPIA),¹² and to assess universal service support mechanism

¹¹ See The Improper Payments Elimination and Recovery Act of 2010, Pub L. No. 111-204, July 22, 2010.

¹² See 31 U.S.C. § 3122; Public Law 107-300, Stat. 2350, Nov. 26, 2002.

Universal Service Administrative Company 1Q2015 Fund Size Projections

beneficiary and USF contributor compliance with FCC regulations.¹³ 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. Audits occurring under BCAP are performed using USAC IAD internal staff and external audit firm resources, upon approval from the FCC Office of Managing Director (OMD). The specific audits that are being conducted as part of BCAP were designated based on a set of randomly selected beneficiaries and contributors. In addition, non-random audits of beneficiaries and contributors are performed when requested by USAC management to review whether a beneficiary or USF filer is complying with FCC rules.

As previously reported, in mid-2012, IAD selected an audit sample of 119 audits (127 audits in total including eight audits in process at the start of the sample) based on existing staff levels, that concentrate on larger and more complex audits when compared to the audits completed in prior calendar years. In mid-2013, IAD and FCC OMD staff began discussions on the development of a new audit plan that would address fiscal years 2014 and 2015. IAD and FCC OMD staff agreed that all audits in progress at the start of fiscal year 2014 would be performed within the existing 2012 – 2013 audit plan, and audits announced after October 1, 2013 would be included in the fiscal year 2014 – 2015 audit plan. To effectively utilize IAD staff resources after the audit goal in the existing plan was met, 68 additional audits were performed. In total, 195 audits will be completed under the 2012 – 2013 audit plans.

¹³ 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 1Q2015 Fund Size
Projections**

Following the October 2014 quarterly USAC Board of Directors meeting, 194 audits are complete and one audit remains in progress. In addition to completing the audits from the random sample, the audit team is also conducting unplanned audits as requested by USAC management, which are included in the numbers below. The status of the BCAP audits as of the third quarter 2014 is as follows:

Program	Planned	Board Approved	% Complete	In Progress	Pending Board Approval
Contributor Revenue	47	44	94%	1	2
High Cost	25	25	100%	0	0
Low Income	53	53	100%	0	0
Schools & Libraries	43	41	95%	0	2
Rural Health Care	27	27	100%	0	0
Total	195	190	97%	1	4

The status of the BCAP audits for the 2014 - 2015 audit plans as of the third quarter 2014 is as follows:

Program	Planned	Board Approved	% Complete	In Progress	Pending Board Approval
Contributor Revenue	33	1	3%	14	1
High Cost	41	0	0%	13	0
Low Income	52	11	21%	9	12
Schools & Libraries	38	1	3%	10	1
Rural Health Care	14	0	0%	1	1
Total	178	13	7%	47	15

(b) As previously reported, the PQA Program has completed four years of testing payments under this directive, and the most recent two years are noted below. 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 table below summarizes the error rates noted and the projected estimated

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

improper payment amounts for each program for Calendar Year 2013 disbursements compared to Calendar Year 2012:

Support Mechanism	2013		2012	
	Improper Payment Rate	Estimated Improper Payment Amount (<i>millions</i>)	Improper Payment Rate	Estimated Improper Payment Amount (<i>millions</i>)
High Cost	0.06%	\$2.6	0.26%	\$10.6
Low Income	0.32%	\$5.9	0.18%	\$3.9
Schools and Libraries	3.88%	\$77.1	2.21%	\$49.4
Rural Health Care	0.06%	\$0.05	0.24%	\$0.2

The PQA Program collects information from program beneficiaries for the purpose of verifying the accuracy of program disbursements requested and received by the beneficiaries. The PQA team performs payment verification on randomly selected beneficiaries over a calendar year. Testing of payments for Calendar Year 2014 will begin soon with an estimated completion during 3rd Quarter 2015.

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. In addition, USAC has undertaken a systematic review of the capabilities of its current financial systems in order to determine whether additional functionality can be added to improve financial operations.

4. Expanding and enhancing outreach and education.

In 3Q2014, USAC provided individual outreach to 365 Schools and Libraries applicants and 421 contributors. USAC held one live training for Schools and Libraries

Universal Service Administrative Company 1Q2015 Fund Size Projections

applicants. USAC conducted 18 webinars: Ten for Lifeline Program beneficiaries, four for Rural Health Care Program applicants, three for Schools and Libraries Program service providers and one for High Cost participants. USAC participated in two professional meetings involving beneficiary audiences for the Rural Health Care Programs. USAC posted three online learning tools, including videos for contributors, High Cost and Low Income programs.

FUNDING REQUIREMENTS

HIGH COST SUPPORT MECHANISM

FUNDS RESERVED PURSUANT TO THE *USF/ICC TRANSFORMATION ORDER (FCC 11-161)*

On November 18, 2011, the FCC released the *USF/ICC Transformation Order* (FCC 11-161).¹⁴ In the Order, the FCC set an annual funding target for the High Cost Support Mechanism of no more than \$4.50 billion annually over the next six years. The Order directed USAC to forecast total High Cost Program demand at no less than \$1.125 billion per quarter beginning with 1Q2012.¹⁵ In the Order, 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. The Order requires that if actual contributions exceed demand, excess contributions are to be credited to a new Connect America Fund (CAF) reserve account, to be used to fund future broadband deployment.¹⁶ If actual High Cost Program demand exceeds the quarterly target of \$1.125 billion, no additional funds will accumulate in the

¹⁴ *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. 10-90, 07-135, 05-337, 03-109, GN Docket No. 09-51, CC Docket Nos. 01-92, 96-45; WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, FCC 11-161, 26 FCC Red. 17663 (rel. November 18, 2011) (*USF/ICC Transformation Order*).

¹⁵ See *USF/Transformation Order* at ¶ 559.

¹⁶ See *id.* at ¶ 560.

Universal Service Administrative Company 1Q2015 Fund Size Projections

reserve account for that quarter.¹⁷ In addition, the *USF/ICC Transformation Order* states that the \$4.50 billion budget includes only disbursement of support and does not include administrative expenses or prior period adjustments for support for prior years.¹⁸

In the *USF/ICC Transformation Order*, the Commission instructed USAC to wind down the Corr Wireless reserve account and use \$300 million in the account to fund anticipated commitments in 2012 to recipients of the Mobility Fund Phase I.¹⁹ The remaining balance was used to fund Phase I of the Connect America Fund for price cap carriers in 2012.²⁰ The Commission also instructed USAC not to use the Corr Wireless reserve account to fund inflation adjustments for the Schools and Libraries program for the current 2011 funding year (FY).²¹ The chart below reflects the Connect America Fund reserve as of September 30, 2014.

¹⁷ See *id.* at ¶ 560 n.928.

¹⁸ See *id.* at ¶ 126 n.198.

¹⁹ See *id.* at ¶ 564-567.

²⁰ See *id.* at ¶ 566.

²¹ See *id.* at ¶ 567.

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

Connect America Fund Reserve				
as of September 30, 2014				
<i>(in millions)</i>				
	Beginning Balance	Additions	Disbursements	Ending Balance
Transfer from Corr Wireless	\$524.32			\$524.32
1 st Q2012 ²²	524.32	\$93.95		618.27
2 nd Q2012	618.27	147.94		766.21
3 rd Q2012	766.21	115.52	(\$76.51)	805.22
4 th Q2012	805.22	110.29	(28.69)	886.82
1 st Q2013	886.82	139.95	(9.14)	1,017.63
2 nd Q2013	1,017.63	181.61	(4.47)	1,194.77
3 rd Q2013	1,194.77	174.59	(67.13)	1,302.23
4 th Q2013	1,302.23	184.41	(284.32)	1,202.32
1 st Q2014	1,202.32	195.17	(37.24)	1,360.25
2 nd Q2014	1,360.25	206.59	0.26	1,567.10
3 rd Q2014	1,567.10	177.56	0.32	1,744.98
Projected 4 th Q2014	1,744.98	210.13		1,955.11
Projected 1 st Q2015	\$1,955.11	205.29		\$2,160.40
Net Activity		\$2,143.00	(\$506.92)	

The following table lists the status of the Connect America Fund Reserve by support component.

Connect America Fund Reserve by Support Component				
<i>(in millions)</i>				
Support Component	Allocated	Accepted	Disbursed	Remaining
Incremental Support Round 1	\$300.00	\$114.34	(\$114.34)	\$0.00
Incremental Support Round 2*	386.00	323.95	(323.95)	0.00
Mobility Phase I – Non Tribal	300.00	300.00	(68.41)	231.59
Mobility Phase I – Tribal	50.00	50.00	(0.22)	49.78
Mobility Phase II	500.00	0.00	0.00	500.00
Rural Broadband	100.00	0.00	0.00	100.00
Total	\$1,636.00	\$788.29	(\$506.92)	\$881.37

* Total demand of all carriers exceeded the allocated \$300 million. As directed in FCC 13-73, ¶11, the additional \$86 million is taken out of the remainder of Round 1 support and added to the Incremental Support Round 2 allocation of \$300 million.

²² Additions include \$27.96 million collected in 3Q2012 via a prior period adjustment for 1Q2012 demand.

Universal Service Administrative Company 1Q2015 Fund Size Projections

For 1Q2015, projected support to be reserved pursuant to the *USF/ICC Transformation Order* is \$205.29 million. Any excess contributions will be credited to the Connect America Fund reserve account.²³

Appendix HC01 provides projected High Cost Support by state, by study area, for 1Q2015. HC01 also provides the projected amount of individual company support, and projected per-month amounts for the components of High Cost support that each ETC²⁴ may be eligible to receive. HC02 provides the total projected amount of annualized High Cost Support for 1Q2015 for each state and territory.

CONNECT AMERICA FUND PHASE I – INCREMENTAL SUPPORT

Incremental Support is designed to provide an immediate boost to broadband deployment in areas that are unserved by any broadband provider.²⁵ Incremental Support is available to price cap carriers at the holding company level. The Commission determined the amount available for each carrier, which it published in DA 12-639, released on April 25, 2012.²⁶ Carriers had 90 days to accept all, part, or reject the amount available. If a price cap carrier accepts Incremental Support, it is required to deploy broadband to a number of service locations equal to the amount it accepts divided by \$775.²⁷

On May 22, 2013, the Commission announced that a second round of Connect America Fund Phase I – Incremental Support funding will be available to promote expansion of broadband to consumers that lack access. The Commission allocated \$300

²³ See *USF/Transformation Order* at ¶ 560-561.

²⁴ See 47 C.F.R. § 36.631 and 47 C.F.R. §§ 54.301-54.303.

²⁵ See *USF/ICC Transformation Order* at ¶137.

²⁶ See *In the Matter of Connect America Fund, High-Cost Universal Service Support*, WC Docket Nos. 10-90, 05-337, Public Notice, *Wireline Competition Bureau Announces Support Amounts for Connect America Fund Phase One Incremental Support*, DA 12-639 (rel. Apr. 25, 2012).

²⁷ See *USF/ICC Transformation Order* at ¶138.

Universal Service Administrative Company 1Q2015 Fund Size Projections

million for the second round of Phase I support. If total demand exceeds \$300 million, the Commission will authorize up to an additional \$185 million in funding.²⁸

On March 14, 2014, the Wireline Competition Bureau issued Public Notice DA 14-353 authorizing \$16.7 million in additional Phase I second round incremental support in response to the modified elections of two carriers, AT&T and Windstream Communications. AT&T was authorized to receive \$5.3 million in incremental support in exchange for a commitment to deploy broadband-capable infrastructure to 6,772 locations. Additionally, Windstream was authorized to receive \$11.5 million in incremental support in exchange for a commitment to deploy to 13,273 locations.

CONNECT AMERICA FUND PHASE II

The FCC released a Report and Order on June 10, 2014²⁹ adopting rules, among other things, to institute the foundation for the award of Phase II (model-based) support through a competitive bidding process in price cap areas where the price cap carrier declines the offer of model-based support. The Order also permits price cap carriers that decline model-based support to participate in the competitive bidding process that is expected to be conducted by the end of 2015.

CONNECT AMERICA FUND/INTERCARRIER COMPENSATION SUPPORT

In the *USF/ICC Transformation Order*, the FCC adopted a transitional recovery mechanism with an effective date of July 1, 2012 to facilitate incumbent carriers' gradual transition away from intercarrier compensation (ICC) revenues.³⁰ Eligible incumbent carriers may receive additional support through this recovery mechanism.

²⁸ See *In the Matter of Connect America Fund*, WC Docket No. 10-90, Report and Order, FCC 13-73, 28 FCC Rcd. 7766, ¶¶ 7, 11 (rel. May 22, 2013).

²⁹ *In the Matter of Connect America Fund, et al.*, WC Docket Nos. 10-90, 14-58, 07-135; WT Docket No. 10-208; CC Docket No. 01-92, Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking, FCC 14-54, 29 FCC Rcd. 7051, (rel. June 10, 2014).

³⁰ See 47 C.F.R. § 54.304(b).

Universal Service Administrative Company 1Q2015 Fund Size Projections

For 1Q2015, total Connect America Fund/Intercarrier Compensation Support is estimated to be \$103.07 million and total annual 2015 Connect America Fund/Intercarrier Compensation Support is estimated to be \$412.28 million.

Appendix HC12 provides projected Connect America Fund/Intercarrier Compensation Support by state by study area for 1Q2015.

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) revenues.³¹

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 2012 incumbent local exchange carrier (LEC) loop cost and expense adjustment data that was submitted to the FCC and USAC on October 1, 2013.³² Growth in total HCL Support for rural carriers is limited under Section 36.603(a) of the Commission's rules to the current level of funding increased yearly by the annual growth in supported rural loops.³³ The *Rural Task Force (RTF) Order*³⁴ increased HCL support for rural carriers effective July 1, 2001.

Rural HCL Support for calendar year 2015 will be less than the level of payments for 2014 because of a rural growth factor of negative 2.8149 percent. Rural HCL Support for calendar year 2015, therefore, is capped at \$735.21 million. This capped amount reflects

³¹ See *USF/ICC Transformation Order* at ¶ 206.

³² Universal Service Fund (USF) 2012 Submission of 2011 Study Results (filed Oct. 1, 2012) (*USF Data Submission*).

³³ 47 C.F.R. § 36.603(a).

³⁴ *In the Matter of Federal-State Joint Board on Universal Service, Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket Nos. 96-45, 00-256, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, and Report and Order in CC Docket No. 00-256, FCC 01-157, 16 FCC Rcd. 11244 (rel. May 23, 2001) (*RTF Order*).

Universal Service Administrative Company 1Q2015 Fund Size Projections

reductions pursuant to the *USF/ICC Transformation Order*, which was adjusted by NECA in the first quarter of 2012 to exclude price cap local exchange carriers and their rate-of-return affiliated study areas.

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.³⁵ 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 *USF/ICC Transformation 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 2009.³⁶ In June 2014, the Commission issued an order allowing carriers that would have qualified for SNA based on increased investment – an increase of at least 14 percent in their total TPIS in 2010 or 2011 – to receive such support.³⁷ For 1Q2015, projected SNA support is \$4.99 million.

For 1Q2015, projected HCL Support is \$183.63 million, which includes \$4.99 million for SNA support and \$1.19 million for Safety Valve Support (SVS). Total annual 2015 HCL Support is projected to be \$734.52 million.

Appendix HC05 provides projected uncapped monthly HCL Support payments by state by study area for 1Q2015. Appendix HC06 provides projected monthly SNA Support payments by state by study area for 1Q2015. Appendix HC07 displays projected SVS payments by state by study area for 1Q2015.

³⁵ *RTF Order* at ¶¶ 77-90.

³⁶ See *USF/ICC Transformation Order* at ¶ 252.

³⁷ See *In the Matter of Connect America Fund, Universal Service Reform – Mobility Fund, ETC Annual Reports and Certifications, Establishing Just and Reasonable Rates for Local Exchange Carriers, Developing an Unified Inter-carrier Compensation Regime*, WC Docket Nos. 10-90, 14-58, 07-135, WT Docket No. 10-208, and CC Docket No. 01-92, Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking, FCC 14-54, 29 FCC Rcd. 7051, ¶¶ 105-15 (rel. June 10, 2014).

Universal Service Administrative Company 1Q2015 Fund Size Projections

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 for its customers.³⁸

For 1Q2015, ICLS is projected to be \$224.32 million and total annual 2015 ICLS is estimated to be \$894.22 million.

Appendices HC09, HC10, and HC11 provide USAC's 1Q2015 projections of ICLS by state by study area, per line and by state, respectively. Appendices, HC14 and HC15, provide ICLS by state by study area and per line revised projected for 2013 to 2014, respectively. In addition, appendices HC16 and HC17, provides ICLS by state by study area and per line for revised projected 2014 to 2015, respectively.

PRICE CAP CARRIERS

In the *USF/ICC Transformation Order*, the FCC directed USAC to freeze all support 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 2011.³⁹

For 1Q2015, total frozen high cost support for price cap carriers is estimated to be \$258.10 million and total annual 2015 frozen high cost support is estimated to be \$1,032.40 million. Appendix HC08 provides frozen high cost support for price cap carriers by state by study area for 1Q2015.

³⁸ See *In the Matter of 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 (rel. Nov. 8, 2001) (*MAG Order*).

³⁹ See *USF/ICC Transformation Order* at ¶ 133.

Universal Service Administrative Company 1Q2015 Fund Size Projections

COMPETITIVE ELIGIBLE TELECOMMUNICATIONS CARRIERS

The *USF/ICC Transformation Order* transitioned existing CETC support to the Connect America Fund over a five-year period beginning January 1, 2012.⁴⁰ For the transition, the FCC set 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.⁴¹ That monthly baseline amount was provided from January 1, 2012 to June 30, 2012.⁴² Beginning July 1, 2012, each CETC's support was reduced by 20 percent for each July to June time period.⁴³ However, consistent with FCC rules, CETC support will not be subject to an additional 20 percent reduction in support beginning July 2014 because Mobility Fund Phase II was not implemented by June 30, 2014.⁴⁴ The implementation date of Mobility Fund Phase II is yet to be determined.

For 1Q2015, total frozen High Cost Program support demand for CETCs is \$131.04 million. In addition, for rural Alaska CETCs and Standing Rock, 1Q2015 High Cost Program support is estimated to be \$19.55 million. The combined High Cost Program support demand totals for CETCs, rural Alaska CETCs, and Standing Rock for 2015 is estimated to be \$150.59 million.

Appendix HC08 provides frozen high cost support for CETCs by state by study area for 1Q2015. Additionally, Appendix HC03 provides 1Q2015 projections for Rural Alaska and Standing Rock Support by study area. Appendix HC04 provides 1Q2015 per line projections for Rural Alaska and Standing Rock Support.

⁴⁰ See *id.* at ¶ 513.

⁴¹ See *id.* at ¶ 515.

⁴² See *id.* at ¶ 515.

⁴³ See *id.*

⁴⁴ *Id.*

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

HIGH COST SUPPORT MECHANISM SUMMARY

The 1Q2015 High Cost Support Mechanism funding requirements are projected as follows: \$183.63 million for HCL Support, \$224.32 million for ICLS, \$258.10 million for frozen Price Cap Carrier Support, \$150.59 million for frozen CETC Support,⁴⁵ \$103.07 million for Connect America Fund/Intercarrier Compensation Support, and \$205.29 million for the Connect America Fund reserve account resulting in total High Cost Support Mechanism projected demand of \$1,125.00 million.

Financial results for 3Q2014 contributed to an over-funded condition for which this filing proposes to adjust the 1Q2015 funding requirements. The total adjustment to the 1Q2015 funding requirement based on actual results will decrease the funding requirement by \$7.14 million. The explanation for the adjustment is described in the following table:

Reason for the Prior Period Adjustment	Adjustment in Millions
3Q2014 billings were lower than projected.	\$5.65
High Cost Support Mechanism distributions were equal to projected in 3Q2014.	0.00
Interest income was higher than projected for 3Q2014.	(0.23)
Bad debt expense was lower than anticipated.	(9.27)
Annual administrative expense true-up	(3.29)
Total Prior Period Adjustment	(\$7.14)

The total fund requirement of \$1,125.00 million is adjusted as follows: decreased by the prior period adjustments of \$7.14 million, increased by administrative costs of \$7.69 million, and reduced by the projected interest income of \$1.94 million; resulting in a total projected 1Q2015 funding requirement for the High Cost Support Mechanism of \$1,123.61 million.

⁴⁵ "CETC Support" includes frozen support, rural Alaska CETC support, and support to the Standing Rock Reservation CETC.

Universal Service Administrative Company 1Q2015 Fund Size Projections

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.⁴⁶ ETCs providing Lifeline support are entitled to receive funding for the waiver of charges and reduced rates provided to qualified low-income subscribers.⁴⁷ In the *Lifeline Modernization Order*, all non-tribal Lifeline support is set to a flat rate of \$9.25 for all subscribers equally, regardless of whether they subscribe to wireline or wireless Lifeline service.⁴⁸ The Order, however, does not make any changes to Tier 4 support available to low-income consumers residing on tribal lands.⁴⁹ As established in the *Tribal Order*, Tier Four support makes available each month up to an additional \$25 per low-income subscriber to eligible residents of tribal lands.⁵⁰

For 1Q2015, USAC projects \$408.89 million will be required for Lifeline Support. Based on this projection, total annual 2015 Lifeline Support is estimated to be \$1,635.56 million.

LINK-UP SUPPORT

Effective with the April 2012 support claims, Link-Up support was eliminated for all ETCs on non-tribal lands. Link-Up support is available for ETCs that provide support on

⁴⁶ See 47 C.F.R. § 54.201.

⁴⁷ 47 C.F.R. §§ 54.401 - 54.417.

⁴⁸ See *In the Matter of Lifeline and Link-up Reform and Modernization Lifeline and Link-up Federal-State Joint Board on Universal Service Advancing Broadband Availability Through Digital Literacy Training*, WC Docket Nos. 11-42, 03-109, 12-23, CC Docket No.96-45, Report and Order and Further Notice of Proposed Rule Making, FCC 12-11, 27 FCC Rcd. 6656, ¶ 58 (rel. Feb. 6, 2012) (*Lifeline Modernization Order*).

⁴⁹ See *Lifeline Modernization Order* at ¶ 59.

⁵⁰ 47 C.F.R. § 54.400(e); see also, *In the Matter of Federal-Joint Board on Universal Service, Promoting Deployment and Subscribership in Unserved and Underserved Areas, et al.*, Twenty-Fifth Order on Reconsideration, Report and Order, Order, and Further Notice of Proposed Rulemaking, CC Docket 96-45, FCC 03-115, 18 FCC Rcd. 10958 (rel. May 21, 2003) (*Tribal Order*). On August 31, 2000, the FCC stayed the implementation of the federal Lifeline and Link-up rule amendments only to the extent that they apply to qualifying low-income consumers living near reservations.

Universal Service Administrative Company 1Q2015 Fund Size Projections

tribal lands, but is limited to those ETCs receiving High Cost Program support.⁵¹ Eligible ETCs may claim a 100 percent reduction, up to \$100, of the customary charge for commencing telephone service for a single telecommunication connection at a subscriber's principal place of residence.⁵²

For 1Q2015, USAC projects that \$0.21 million will be required for Link-Up support. Based on this projection, total annual 2015 Link-Up support is estimated to be \$0.83 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.⁵³ 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.⁵⁴

The *Lifeline Modernization Order* phases out TLS over a period of time by capping the maximum amount that an ETC may claim. As of April 2012 through the remainder of 2012, TLS was capped at \$3.00 per month per TLS subscriber. TLS was reduced to \$2.00 in 2013, and eliminated and unavailable at the beginning of 2014.⁵⁵

BROADBAND PILOT

The *Lifeline Modernization Order* established a Broadband Pilot Program for low-income consumers to test the impact of broadband adoption with variations in the monthly

⁵¹ See *Lifeline Modernization Order* at ¶ 253.

⁵² 47 C.F.R. § 54.413(a)(1).

⁵³ See *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, FCC 97-157, 12 FCC Rcd. 8776, ¶ 386 (rel. May 8, 1997) (*First Report and Order*) (subsequent history omitted).

⁵⁴ 47 C.F.R. §§ 54.400(b) and (c).

⁵⁵ See *Lifeline Modernization Order* at ¶ 234.

Universal Service Administrative Company 1Q2015 Fund Size Projections

discount for broadband services. The broadband discounts will be provided over an 18-month period with no more than \$25 million to be disbursed.⁵⁶ USAC projects that \$0.02 million will be required for the Broadband Pilot Program in 1Q2015.

LOW INCOME SUPPORT MECHANISM SUMMARY

The estimated 1Q2015 Low Income Support Mechanism funding requirements are projected as follows: \$408.89 million for Lifeline, \$0.21 million for Link-Up, \$0.02 million for Broadband Pilot, resulting in total of \$409.12 million.

Financial results of 3Q2014 contribute to an over-funded condition, for which this filing proposes to adjust the 1Q2015 funding requirement. The total adjustment to the 1Q2015 funding requirement based on actual results will decrease the funding needed by \$15.04 million. The explanation for the adjustment is described in the following table:

Reason for the Prior Period Adjustment	Adjustment in Millions
3Q2014 billings were lower than projected.	\$3.35
Low Income Support Mechanism distributions were lower than projected in 3Q2014.	(6.47)
Interest income was higher than projected for 3Q2014.	(0.02)
Bad debt expense for 3Q2014 was lower than anticipated.	(2.86)
Annual Administrative Expense True-Up	(9.04)
Total Prior Period Adjustment	(\$15.04)

The total fund requirement of \$409.12 million decreased by the prior period adjustment of \$15.04 million, increased for administrative costs of \$4.58 million, and reduced by projected interest income of \$0.16 million, resulting in a total projected funding requirement for the Low Income Support Mechanism for 1Q2015 of \$398.50 million.

Appendix LI01 provides projected Low Income support amounts by state and study area for 1Q2015.⁵⁷ LI03 provides a list of ETCs for 3Q2014.⁵⁸ LI04 provides detail on

⁵⁶ *Lifeline Reform and Modernization Order* at ¶¶ 323-7.

⁵⁷ Companies that are no longer ETCs have been removed from LI01.

Universal Service Administrative Company 1Q2015 Fund Size Projections

quarterly company specific Low Income disbursement amounts for 3Q2014. LI05 provides detail on annual company-specific Low Income support amounts for January 2011 through September 2014.⁵⁹ LI06 provides historical data of monthly support amounts claimed by ETCs from January 1998 through September 2014. LI07 provides detail on Low Income support claimed by state for January 2011 through September 2014.⁶⁰ LI08 and LI09 provide subscriber and beneficiary information by state or jurisdiction for Lifeline and Link-up support, respectively, for January 2014 through September 2014.

RURAL HEALTH CARE SUPPORT MECHANISM

Following is a summary of Rural Health Care Support Mechanism commitments and disbursements for FYs 2008-14 as of September 30, 2014. Prior FYs are closed.

FUNDING YEAR 2008

The FY 2008 began on July 1, 2008 and ended on June 30, 2009. The window for FY 2008 opened on April 8, 2008. As of September 30, 2014, a total of 3,563 Form 465s were posted and 7,431 packets were received.

On September 29, 2006, the FCC released an order establishing a new two-year Rural Health Care Support Mechanism Pilot Program for FYs 2006 and 2007 to cover “up to 85 percent of an applicant’s costs of deploying a dedicated broadband network.”⁶¹ The application window for the Pilot Program opened on March 8, 2007 and closed on May 7, 2007.⁶² On November 19, 2007, the FCC released an order increasing the number of FYs to

⁵⁸ Companies that are no longer ETCs have been removed from LI03.

⁵⁹ For data for years prior to 2009 see LI05 of USAC’s 2Q2010 FCC Quarterly Demand Filing.

⁶⁰ For data for years prior to 2009 see LI07 of USAC’s 2Q2010 FCC Quarterly Demand Filing.

⁶¹ *In the Matter of the Rural Health Care Support Mechanism*, WC Docket No. 02-60, Order, FCC 06-144, 21 FCC Rcd. 11111 (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 Docket No. 02-60, Public Notice, DA 06-2279 (rel. Nov. 6, 2006); *FCC Expands Eligibility to Include National LambdaRail’s Backbone in Rural Health Care Pilot*, News Release, FCC 07-6 (rel. Feb. 7, 2007).

⁶² *Wireline Competition Bureau Announces OMB Approval of the Rural Health Care Pilot Program Information Collection Requirements and the Deadline for Filing Applications*, Public Notice, DA 07-1188 (rel. Mar. 9, 2007).

Universal Service Administrative Company 1Q2015 Fund Size Projections

three for the Pilot Program and awarding \$417.78 million in support to 69 applications over FYs 2007, 2008 and 2009.⁶³ Support under the Pilot Program is capped at \$139.26 million in each of the three FYs. The Commission stated that monies collected in FY 2006 for the Pilot Program should be applied to FY 2007,⁶⁴ resulting in \$54.44 million of funds collected for FY 2006 being reallocated to FY 2007.

As of September 30, 2014, Pilot Program funding commitments have been issued totaling \$16.75 million for FY 2008. Based on information provided by applicants, USAC now estimates FY 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 FY, USAC carried forward funds not used in FY 2008 to FY 2009. USAC has collected \$139.26 million for each of the Pilot Program FYs, thus no further collection is necessary.

As of September 30, 2014, Primary Program funding commitments have been issued totaling \$68.52 million. Based on information provided by applicants USAC estimates FY 2008 Primary Program demand will be \$66.68 million. The Commission previously authorized collection of \$66.68 for FY 2008.

Authorized funding by applicant during 3Q2014 and cumulative payments to service providers through 3Q2014 are listed in Appendices RH02 and RH03, respectively.

FUNDING YEAR 2009

⁶³ See *In the Matter of the Rural Health Care Support Mechanism*, WC Docket No. 02-60, Order, FCC 07-198 (rel. Nov. 19, 2007).

⁶⁴ *Id.*

Universal Service Administrative Company 1Q2015 Fund Size Projections

The FY 2009 began on July 1, 2009 and ended on June 30, 2010. The window for FY 2009 opened on April 9, 2009. As of September 30, 2014, a total of 3,942 Form 465s were posted and 8,031 packets were received.

As of September 30, 2014, Pilot Program funding commitments have been issued totaling \$288.54 million for FY 2009. Based on information provided by applicants, USAC now estimates FY 2009 Pilot Program demand will be \$401.48 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 FY, USAC has previously carried forward funds not used in FY 2007 and FY 2008 to FY 2009. USAC has collected \$139.26 million for each of the Pilot Program FYs, thus no further collection is necessary.

As of September 30, 2014, Primary Program funding commitments have been issued totaling \$73.48 million. Based on information provided by applicants, USAC now estimates FY 2009 Primary Program demand will be \$71.47 million. The Commission previously authorized collection of \$71.47 million for FY 2009.

Authorized funding by applicant during 3Q2014 and cumulative payments to service providers through 3Q2014 are listed in Appendices RH05 and RH06, respectively.

FUNDING YEAR 2010

The FY 2010 began on July 1, 2010 and ended on June 30, 2011. The window for FY 2010 opened on March 15, 2010. As of September 30, 2014, a total of 4,283 Form 465s were posted and 9,689 packets were received.

As of September 30, 2014, Primary Program funding commitments have been issued totaling \$92.45 million. Based on information provided by applicants, USAC now estimates

Universal Service Administrative Company 1Q2015 Fund Size Projections

FY 2010 Primary Program demand will be \$87.23 million. The Commission previously authorized collection of \$87.23 million for FY 2010.

Cumulative payments to service providers through 3Q2014 are listed in Appendix RH09.

FUNDING YEAR 2011

The FY 2011 began on July 1, 2011 and ended on June 30, 2012. The window for FY 2011 opened on April 4, 2011. As of September 30, 2014, a total of 4,793 Form 465s were posted and 11,553 packets were received.

As of September 30, 2014, Primary Program funding commitments have been issued totaling \$105.17 million. Based on information provided by applicants, USAC now estimates FY 2011 Primary Program demand will be \$101.98 million. The Commission previously authorized collection of \$101.98 million for FY 2011.

Cumulative payments to service providers through 3Q2014 are listed in Appendix RH12.

FUNDING YEAR 2012

The FY 2012 began on July 1, 2012 and ended on June 30, 2013. The window for FY 2012 opened on April 16, 2012. As of September 30, 2014, a total of 5,334 Form 465s were posted and 11,804 packets were received.

As of September 30, 2014, Primary Program funding commitments have been issued totaling \$114.36 million. Based on information provided by applicants, USAC now estimates FY 2012 Primary Program demand will be \$114.12 million. The Commission previously authorized collection of \$114.12 million for FY 2012.

Universal Service Administrative Company 1Q2015 Fund Size Projections

Funding commitments made during 3Q2014 are included in Appendix RH13.

Authorized funding by applicant during 3Q2014 and cumulative payments to service providers through 3Q2014 are listed in Appendices RH14 and RH15, respectively.

FUNDING YEAR 2013

The FY 2013 began on July 1, 2013 and ends on June 30, 2014. The window for FY 2013 opened on April 16, 2013. As of September 30, 2014, a total of 5,438 Form 465s were posted and 11,511 packets were received.

As of September 30, 2014, Primary Program funding commitments have been issued totaling \$100.53 million. Based on information provided by applicants, USAC now estimates FY 2013 Primary Program demand will be \$137.60 million. The Commission previously authorized collection of \$132.60 million for FY 2013. Considering the revised Primary Program demand estimate for FY 2013, USAC recommends the Commission increase collections for FY 2013 of the Primary Program by \$5.00 million in 1Q2015.

Funding commitments made during 3Q2014 are included in Appendix RH16. Authorized funding by applicant during 3Q2014 and cumulative payments to service providers through 3Q2014 are listed in Appendices RH17 and RH18, respectively.

FUNDING YEAR 2014

The FY 2014 began on July 1, 2014 and ends on June 30, 2015. As of September 30, 2014, a total of 3,150 Form 465s were posted and 1,302 packets were received.

As of September 30, 2014, Primary Program funding commitments have been issued totaling \$3.27 million. Based on information provided by applicants, USAC now estimates FY 2014 Primary Program demand will be \$61.50 million. The Commission previously authorized collection of \$32.69 million for FY 2014. Considering the revised Primary

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

Program demand estimate for FY 2014, USAC recommends the Commission increase collections for FY 2014 of the Primary Program by \$28.81 million in 1Q2015.

Funding commitments made during 3Q2014 are included in Appendix RH19. Authorized funding by applicant during 3Q2014 and cumulative payments to service providers through 3Q2014 are listed in Appendices RH20 and RH21, respectively.

RURAL HEALTH CARE SUPPORT MECHANISM SUMMARY

The estimated 1Q2015 Rural Health Care Support Mechanism demand requirement is \$59.81 million which includes amounts for the Telecommunications program as well as the Healthcare Connect Fund (HCF). Projected 1Q2015 Telecommunications programs requirements are \$33.81 million. Pursuant to the HCF Order, the FCC was directed to work with USAC to project the amounts to be collected for the early period of the new program until historical data provides an adequate basis for projecting demand.⁶⁵ Pursuant to FCC instruction, USAC projects \$26 million for 1Q2015 demand associated with the HCF.

The following table lists amounts collected for the Healthcare Connect Fund:

Healthcare Connect Fund Reserve				
as of September 30, 2014				
<i>(in millions)</i>				
	Beginning Balance	Additions	Disbursements	Ending Balance
3rd Q2013	\$51.43 ⁶⁶	\$26.00		\$77.43
4th Q2013	77.43	26.00		103.43
1st Q2014	103.43	26.00		129.43
2nd Q2014	129.43	26.00	(1.42)	154.01
3rd Q2014	154.01	26.00	(1.07)	178.94
Projected 4th Q2014	178.94	26.00		204.94
Projected 1st Q2015	\$204.94	26.00		\$230.94
Net Activity		\$182.00	(\$2.49)	

⁶⁵ *In the Matter of Rural Health Care Support Mechanism*, WC Docket 02-60, Report and Order, FCC 12-150, 27 FCC Red 16678, ¶368 (rel. Dec. 21, 2012).

⁶⁶ The beginning balance represents the adjusted amount transferred from the Pilot Program.

Universal Service Administrative Company 1Q2015 Fund Size Projections

The FCC has further directed USAC to use uncommitted Pilot Program dollars for the demand associated with the HCF. As of September 30, 2014, USAC estimates that there will be \$51.52 million in uncommitted Pilot Program dollars available for commitment through the HCF in 1Q2015. Total estimated HCF funds available for commitment in 1Q2015 will be \$185.23 million.

The results of 3Q2014 contributed to an over-funded condition for which this filing proposes to adjust the 1Q2015 funding requirements. The total adjustment to the 1Q2015 funding requirement based on actual results will decrease the funding requirement by \$1.72 million. The explanation for the adjustment is provided in the following table:

Reason for the Prior Period Adjustment	Adjustment in Millions
3Q2014 billings were lower than projected.	\$0.62
3Q2014 interest income was higher than estimated.	(0.05)
Bad debt expense was lower than anticipated.	(0.49)
Annual administrative expense true-up	(1.80)
Total Prior Period Adjustment	(\$1.72)

The total fund requirement of \$59.81 million is adjusted as follows: decreased by the prior-period adjustment of \$1.72 million, increased for administrative costs of \$2.99 million, and decreased by the projected interest income of \$0.37 million, resulting in a total projected funding requirement for the Rural Health Care Support Mechanism for 1Q2015 of \$60.71 million.

SCHOOLS AND LIBRARIES SUPPORT MECHANISM

Following is a summary of Schools and Libraries Support Mechanism net commitments⁶⁷ and net authorized for payment⁶⁸ by FY as of September 30, 2014.

⁶⁷ 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.

⁶⁸ Net authorized for payment is the amount of total approved invoices less any returned funds. Authorized payments may

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FUNDING YEAR 1998

FY 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	\$ 679.24	39.98%	\$ 507.76	36.29%	74.75%
Internet Access	\$ 134.10	7.89%	\$ 94.82	6.78%	70.71%
Internal Connections	\$ 885.78	52.13%	\$ 796.48	56.93%	89.92%
TOTAL	\$ 1,699.12	100.00%	\$1,399.06	100.00%	82.34%
De-obligations due to Expired FRNs	\$ (300.06)				
Net Commitments	\$ 1,399.06				

No FY 1998 applications remained in the Program Integrity Assurance (PIA) review process. The FY 1998 began on January 1, 1998 and ended on June 30, 1999.

FUNDING YEAR 1999

FY 1999					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 634.54	29.54%	\$ 452.16	27.40%	71.26%
Internet Access	\$ 148.68	6.92%	\$ 95.40	5.78%	64.16%
Internal Connections	\$ 1,364.67	63.54%	\$1,102.59	66.82%	80.80%
TOTAL	\$ 2,147.89	100.00%	\$1,650.15	100.00%	76.83%
Deobligations due to Expired FRNs	\$ (497.75)				
Net Commitments	\$ 1,650.14				

No FY 1999 applications remained in the PIA review process. The FY 1999 began on July 1, 1999 and ended on June 30, 2000.

be greater than net commitments due to recoveries in the process of collection.

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FUNDING YEAR 2000

FY 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	\$ 719.03	34.59%	\$ 481.21	29.22%	66.92%
Internet Access	\$ 218.73	10.52%	\$ 131.92	8.01%	60.31%
Internal Connections	\$ 1,140.95	54.89%	\$1,033.90	62.77%	90.62%
TOTAL	\$ 2,078.71	100.00%	\$1,647.03	100.00%	79.23%
Deobligations due to Expired FRNs	\$ (431.67)				
Net Commitments	\$ 1,647.04				

No FY 2000 applications remained in the PIA review process. The FY 2000 began on July 1, 2000 and ended on June 30, 2001.

FUNDING YEAR 2001

FY 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	\$ 766.62	35.22%	\$ 540.79	31.89%	70.54%
Internet Access	\$ 224.78	10.33%	\$ 147.05	8.67%	65.42%
Internal Connections	\$ 1,185.14	54.45%	\$1,007.81	59.44%	85.04%
TOTAL	\$ 2,176.54	100.00%	\$1,695.65	100.00%	77.91%
Deobligations due to Expired FRNs	\$ (479.79)				
Net Commitments	\$ 1,696.75				

As of September 30, 2014, two potentially fundable FY 2001 applications remained in the PIA review process. The FY 2001 began on July 1, 2001 and ended on June 30, 2002.

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FUNDING YEAR 2002

FY 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	\$ 860.69	39.16%	\$ 613.26	38.39%	71.25%
Internet Access	\$ 251.47	11.44%	\$ 168.96	10.58%	67.19%
Internal Connections	\$ 1,085.90	49.40%	\$ 815.38	51.03%	75.09%
TOTAL	\$ 2,198.06	100.00%	\$1,597.60	100.00%	72.68%
Deobligations due to Expired FRNs	\$ (591.31)				
Net Commitments	\$ 1,606.75				

As of September 30, 2014, one potentially fundable FY 2002 application remained in the PIA review process. The FY 2002 began on July 1, 2002 and ended on June 30, 2003.

FUNDING YEAR 2003

FY 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	\$ 906.65	34.36%	\$ 659.94	34.01%	72.79%
Internet Access	\$ 276.00	10.46%	\$ 203.26	10.48%	73.64%
Internal Connections	\$ 1,456.01	55.18%	\$1,076.98	55.51%	73.97%
TOTAL	\$ 2,638.66	100.00%	\$1,940.18	100.00%	73.53%
Deobligations due to Expired FRNs	\$ (691.67)				
Net Commitments	\$ 1,946.99				

As of September 30, 2014, two potentially fundable FY 2003 applications remained in the PIA review process. The FY 2003 began on July 1, 2003 and ended on June 30, 2004.

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FUNDING YEAR 2004

FY 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	\$ 950.45	43.37%	\$ 691.31	45.00%	72.74%
Internet Access	\$ 246.08	11.23%	\$ 193.28	12.58%	78.54%
Internal Connections	\$ 994.95	45.40%	\$ 651.75	42.42%	65.51%
TOTAL	\$ 2,191.48	100.00%	\$1,536.34	100.00%	70.11%
Deobligations due to Expired FRNs	\$ (653.19)				
Net Commitments	\$ 1,538.29				

No FY 2004 applications remain in the PIA review process. The FY 2004 began on July 1, 2004 and ended on June 30, 2005.

FUNDING YEAR 2005

FY 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	\$ 991.84	46.47%	\$ 776.67	47.89%	78.31%
Internet Access	\$ 259.80	12.17%	\$ 214.42	13.23%	82.53%
Internal Connections	\$ 749.07	35.09%	\$ 538.74	33.22%	71.92%
Internal Connections-Maint	\$ 133.73	6.27%	\$ 91.81	5.66%	68.65%
TOTAL	\$ 2,134.44	100.00%	\$1,621.64	100.00%	75.97%
Deobligations due to Expired FRNs	\$ (507.84)				
Net Commitments	\$ 1,626.60				

As of September 30, 2014, two potentially fundable FY 2005 applications remained in the PIA review process. The FY 2005 began on July 1, 2005 and ended on June 30, 2006.

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FUNDING YEAR 2006

FY 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	\$ 1,071.67	54.07%	\$ 851.86	54.34%	79.49%
Internet Access	\$ 291.10	14.69%	\$ 236.48	15.09%	81.24%
Internal Connections	\$ 495.14	24.98%	\$ 393.35	25.10%	79.44%
Internal Connections-Maint	\$ 124.17	6.26%	\$ 85.74	5.47%	69.05%
TOTAL	\$ 1,982.08	100.00%	\$1,567.43	100.00%	79.08%
Deobligations due to Expired FRNs	\$ (405.23)				
Net Commitments	\$ 1,576.85				

As of September 30, 2014, three potentially fundable FY 2006 applications remained in the PIA review process. The FY 2006 began on July 1, 2006 and ended on June 30, 2007. Authorized funding by applicant during 3Q2014 and cumulative payments to service providers through 3Q2014 are listed in Appendices SL01 and SL02, respectively.

FUNDING YEAR 2007

FY 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	\$ 1,189.44	48.77%	\$ 945.59	48.48%	79.50%
Internet Access	\$ 309.84	12.70%	\$ 258.87	13.27%	83.55%
Internal Connections	\$ 777.43	31.88%	\$ 626.74	32.13%	80.62%
Internal Connections-Maint	\$ 162.31	6.65%	\$ 119.43	6.12%	73.58%
TOTAL	\$ 2,439.02	100.00%	\$1,950.63	100.00%	79.98%
Deobligations due to Expired FRNs	\$ (479.88)				
Net Commitments	\$ 1,959.14				

Universal Service Administrative Company 1Q2015 Fund Size Projections

As of September 30, 2014, seven potentially fundable FY 2007 applications remained in the PIA review process. FY 2007 began on July 1, 2007 and ended on June 30, 2008. Funding commitments made to applicants during 3Q2014 are included in Appendix SL03. Authorized funding by applicant during 3Q2014 and cumulative payments to service providers through 3Q2014 are listed in Appendices, SL04 and SL05, respectively.

FUNDING YEAR 2008

FY 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	\$ 1,300.42	50.58%	\$1,049.31	54.91%	80.69%
Internet Access	\$ 338.69	13.17%	\$ 278.41	14.57%	82.20%
Internal Connections	\$ 798.17	31.05%	\$ 490.77	25.68%	61.49%
Internal Connections-Maint	\$ 133.63	5.20%	\$ 92.49	4.84%	69.21%
TOTAL	\$ 2,570.91	100.00%	\$1,910.98	100.00%	74.33%
Deobligations due to Expired FRNs	\$ (622.69)				
Net Commitments	\$ 1,948.22				

As of September 30, 2014, 13 potentially fundable FY 2008 applications remained in the PIA review process. The FY 2008 began on July 1, 2008 and ended on June 30, 2009. Funding commitments made to applicants during 3Q2014 are included in Appendix SL06. Authorized funding by applicant during 3Q2014 and cumulative payments to service providers through 3Q2014 are listed in Appendices SL07 and SL08, respectively.

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FUNDING YEAR 2009

FY 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	\$ 1,364.92	47.38%	\$ 1,105.52	48.59%	81.00%
Internet Access	\$ 354.73	12.31%	\$ 291.03	12.80%	82.04%
Internal Connections	\$ 958.52	33.28%	\$ 738.14	32.44%	77.01%
Internal Connections-Maint	\$ 202.35	7.03%	\$ 140.44	6.17%	69.40%
TOTAL	\$ 2,880.52	100.00%	\$ 2,275.13	100.00%	78.98%
Deobligations due to Expired FRNs	\$ (529.92)				
Net Commitments	\$ 2,350.60				

As of September 30, 2014, nine potentially fundable FY 2009 applications remained in the PIA review process. The FY 2009 began on July 1, 2009 and ended on June 30, 2010. Funding commitments made to applicants during 3Q2014 are included in Appendix SL09. Authorized funding by applicant during 3Q2014 and cumulative payments to service providers through 3Q2014 are listed in Appendices SL10 and SL11, respectively.

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FUNDING YEAR 2010

FY 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	\$ 1,453.16	46.78%	\$1,174.79	49.16%	80.84%
Internet Access	\$ 397.64	12.80%	\$ 330.23	13.82%	83.05%
Internal Connections	\$ 1,036.30	33.36%	\$ 737.04	30.84%	71.12%
Internal Connections-Maint	\$ 219.37	7.06%	\$ 147.79	6.18%	67.37%
TOTAL	\$ 3,106.47	100.00%	\$ 2,389.85	100.00%	76.93%
Deobligations due to Expired FRNs	\$ (566.62)				
Net Commitments	\$ 2,539.85				

As of September 30, 2014, 20 potentially fundable FY 2010 applications remained in the PIA review process. The FY 2010 began on July 1, 2010 and ended on June 30, 2011. Funding commitments made to applicants during 3Q2014 are included in Appendix SL12. Authorized funding by applicant during 3Q2014 and cumulative payments to service providers through 3Q2014 are listed in Appendices SL13 and SL14, respectively.

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FUNDING YEAR 2011

FY 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	\$ 1,468.81	55.14%	\$1,180.58	57.41%	80.38%
Internet Access	\$ 472.87	17.76%	\$ 386.09	18.77%	81.65%
Internal Connections	\$ 598.06	22.46%	\$ 416.28	20.24%	69.61%
Internal Connections-Maint	\$ 123.56	4.64%	\$ 73.55	3.58%	59.53%
TOTAL	\$ 2,663.30	100.00%	\$2,056.50	100.00%	77.22%
Deobligations due to Expired FRNs	\$ (449.19)				
Net Commitments	\$ 2,214.11				

As of September 30, 2014, 67 potentially fundable FY 2011 applications remained in the PIA review process. The FY 2011 began on July 1, 2011 and ended on June 30, 2012. Funding commitments made to applicants during 3Q2014 are included in Appendix SL15. Authorized funding by applicant during 3Q2014 and cumulative payments to service providers through 3Q2014 are listed in Appendices SL16 and SL17, respectively.

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FUNDING YEAR 2012

FY 2012					
	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	\$ 1,511.96	52.66%	\$ 1,160.67	56.91%	76.77%
Internet Access	\$ 558.99	19.47%	\$ 429.01	21.03%	76.75%
Internal Connections	\$ 677.08	23.58%	\$ 380.09	18.64%	56.14%
Internal Connections-Maint	\$ 123.32	4.29%	\$ 69.71	3.42%	56.53%
TOTAL	\$ 2,871.35	100.00%	\$ 2,039.48	100.00%	71.03%
Deobligations due to Expired FRNs	\$ -				
Net Commitments	\$ 2,871.35				

As of September 30, 2014, 237 potentially fundable FY 2012 applications remained in the PIA review process. The FY 2012 began on July 1, 2012 and ended on June 30, 2013. Funding commitments made to applicants during 3Q2014 are included in Appendix SL18. Authorized funding by applicant during 3Q2014 and cumulative payments to service providers through 3Q2014 are listed in Appendices SL19 and SL20, respectively.

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FUNDING YEAR 2013

FY 2013					
	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	\$ 1,499.08	70.80%	\$ 830.70	69.21%	55.41%
Internet Access	\$ 618.14	29.20%	\$ 369.50	30.79%	59.78%
Internal Connections	\$ -	0.00%	\$ -	0.00%	0.00%
Internal Connections-Maint	\$ -	0.00%	\$ -	0.00%	0.00%
TOTAL	\$ 2,117.22	100.00%	\$ 1,200.20	100.00%	56.69%
Deobligations due to Expired FRNs	\$ -				
Net Commitments	\$ 2,117.22				

As of September 30, 2014, 874 potentially fundable FY 2013 applications remained in the PIA review process. The FY 2013 began on July 1, 2013 and ended on June 30, 2014. Funding commitments made to applicants during 3Q2014 are included in Appendix SL21. Authorized funding by applicant during 3Q2014 and cumulative payments to service providers through 3Q2014 are listed in Appendices SL22 and SL23, respectively.

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FUNDING YEAR 2014

FY 2014					
	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	\$ 1,304.41	67.91%	\$ 33.71	59.99%	2.58%
Internet Access	\$ 616.31	32.09%	\$ 22.48	40.01%	3.65%
Internal Connections	\$ -	0.00%	\$ -	0.00%	0.00%
Internal Connections-Maint	\$ -	0.00%	\$ -	0.00%	0.00%
TOTAL	\$ 1,920.72	100.00%	\$ 56.19	0.00%	2.93%
Deobligations due to Expired FRNs	\$ -				
Net Commitments	\$ 1,920.72				

As of September 30, 2014, 2,522 potentially fundable FY 2014 applications remained in the PIA review process. The FY 2014 began on July 1, 2014 and will end on June 30, 2015. Funding commitments made to applicants during 3Q2014 are included in Appendix SL24. Authorized funding by applicant during 3Q2014 and cumulative payments to service providers through 3Q2014 are listed in Appendices SL25 and SL26, 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 FY 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 \$852.12 million of undisbursed FYs 1999 and 2000 collections were used to stabilize USF contributions and offset collections for 3rd Quarter 2002 (3Q2002), 4th Quarter 2002

Universal Service Administrative Company 1Q2015 Fund Size Projections

(4Q2002), and 1st Quarter 2003 (1Q2003).⁶⁹

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 FYs to be carried forward on an annual basis in the second quarter of each calendar year for use in the next full FY.⁷⁰ The Commission required USAC to file quarterly estimates of unused funds from prior FYs 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 FY 2003 and directed USAC to carry forward \$420 million of unused prior year funds for use in FY 2003.⁷¹ In accordance with the *Schools and Libraries Third Report and Order*, the Commission announced that \$150 million in unused funds from FY 2001 would be carried forward to increase disbursements to schools and libraries in FY 2004.⁷²

On June 11, 2007, the Commission instructed USAC to carry forward \$650 million in unused funds to FY 2007.⁷³ The funds were carried forward from FYs 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 FY 2008.⁷⁴ The funds were carried forward from FYs 2002, 2003, and 2004 in the amount of \$150 million, \$200 million, and \$250 million, respectively. On July 31, 2009, the Commission instructed USAC to carry-forward \$900 million in unused

⁶⁹ See *In the Matter of Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, First Report and Order, FCC 02-175 (rel. June 13, 2002) (*Schools and Libraries First Report and Order*).

⁷⁰ See *In the Matter of 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 (rel. Dec. 23, 2003) (*Schools and Libraries Third Report and Order*).

⁷¹ *Id.*

⁷² See *In the Matter of Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Public Notice, Carryover of Unused Funds for FY 2004, DA 04-1848 (rel. June 28, 2004).

⁷³ See *In the Matter of Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Public Notice, *Wireline Competition Bureau Announces Carryover of Unused Funds for FY 2007*, DA 07-2470 (rel. June 1, 2007).

⁷⁴ See *In the Matter of Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Public Notice, *Carryover of Unused Federal Universal Service Funds for FY 2008*, DA 08-1470 (rel. June 23, 2008).

Universal Service Administrative Company 1Q2015 Fund Size Projections

funds to FY 2009.⁷⁵ The funds were carried-forward from FYs 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 FY 2010.⁷⁶ The funds were carried-forward from FYs 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 FY 2010.⁷⁷ The funds were carried forward from FY 2008. The total funds carried forward to FY 2010 amount to \$1,150 million. The Commission further instructed USAC to carry forward \$850 million in unused funds from FYs 2003, 2004, 2005, 2006, 2007, 2008, and 2009 to FY 2011.⁷⁸ The funds were carried-forward from FYs 2003, 2004, 2005, 2006, 2007, 2008, and 2009 in the amount of \$20 million, \$50 million, \$120 million, \$115 million, \$275 million, \$140 million, and \$130 million, respectively. On July 18, 2012, the FCC authorized USAC to carry forward \$1,050 million in unused funds from prior years to increase FY 2012 disbursements in excess of the \$2.34 billion annual cap.⁷⁹ The funds were carried-forward from FYs 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, and 2010 in the amount of \$5 million, \$15 million, \$20 million, \$25 million, \$15 million, \$55 million, \$60 million, \$120 million, \$80 million, \$140 million, \$115 million, \$300 million, and \$100 million, respectively. On May 16, 2013, the FCC authorized USAC to

⁷⁵ See *In the Matter of Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Order, DA 09-1734 (rel. July 31, 2009).

⁷⁶ See *In the Matter of Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Public Notice, *Wireline Competition Bureau Announces Carryover of Unused Schools and Libraries Universal Service Funds for FY 2010*, DA 10-1243 (rel. July 1, 2010).

⁷⁷ See *In the Matter of School and Libraries Universal Service Support Mechanism, Funds for Learning, LLC Petition to Reject the Administrator's Discount Threshold Recommendation for FY 2010*, CC Docket No. 02-6, Order, DA 11-1354 (rel. Aug. 22, 2011).

⁷⁸ *Id.*

⁷⁹ See *In the Matter of Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Public Notice, CC Docket No. 02-6, Public Notice, *Wireline Competition Bureau Announces Carry-Forward of Unused Schools and Libraries Universal Service Funds for FY 2012*, DA 12-1148 (rel. July 18, 2012).

Universal Service Administrative Company 1Q2015 Fund Size Projections

carry forward \$450 million in unused funds from prior years to increase FY 2013 disbursements in excess of the \$2.38 billion annual cap.⁸⁰ The funds were carried forward from FYs 2007, 2008, 2009 and 2010 in the amount of \$20 million, \$150 million, \$150 million and \$130 million, respectively. On May 2, 2014, the FCC authorized USAC to carry forward \$200 million in unused funds from prior years to increase FY 2014 disbursements in excess of the \$2.41 billion annual cap.⁸¹ The funds were carried forward from FYs 2002, 2007, 2009 and 2010 in the amount of \$40 million, \$30 million, \$70 million and \$60 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.⁸² 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 FY 2010 to \$2,270,250,000. On August 5, 2011, the Commission set the cap for FY 2011 at \$2,290,682,250.⁸³ 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.⁸⁴ On May 18,

⁸⁰ See *In the Matter of Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Public Notice, *Wireline Competition Bureau Announces Carry-Forward of Unused Schools and Libraries Universal Service Funds for FY 2013*, DA 13-1119 (rel. May 16, 2013).

⁸¹ See *In the Matter of Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Public Notice, *Wireline Competition Bureau Announces Carry-Forward of Unused Schools and Libraries Universal Service Funds for FY 2014*, DA 14-609 (rel. May 2, 2014).

⁸² See *In the Matter of Schools and Libraries Universal Service Support Mechanism, A National Broadband Plan For Our Future*, CC Docket No. 02-6, GN Docket No. 09-51, Sixth Report and Order, FCC 10-175 (rel. Sep. 28, 2010) (*Schools and Libraries Sixth Report and Order*).

⁸³ See *In the Matter of Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Public Notice, *Wireline Competition Bureau Announces E-Rate Inflation-Based Cap for FY 2011*, DA 11-1345 (rel. Aug. 5, 2011).

⁸⁴ See *USF/ICC Transformation Order* at ¶ 567.

Universal Service Administrative Company 1Q2015 Fund Size Projections

2012, the Commission set the cap for FY 2012 to \$2,338,786,577.⁸⁵ On March 11, 2013, the FCC set the cap for FY 2013 at \$2,380,314,485.⁸⁶ On March 28, 2014, the FCC set the cap for FY 2014 at \$2,413,817,693.⁸⁷

In consultation with FCC staff, USAC estimates that a total of \$600 million is available to carry forward from FYs as follows: 2010: \$320 million and 2011: \$280 million. The following sections provide information regarding the use of funds for each FY, including adjustments made by the Commission and projections of unused funds as required by Commission rules.

Funding Year 1998 True-Up

As of September 30, 2014, \$1,399.06 million of FY 1998 support had been authorized for disbursement. USAC estimates that a contingency amount of \$4.99 million should be reserved to pay appeals pending at the Commission and to pay invoices on FY 1998 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Pursuant to the *Second Report and Order* issued on April 30, 2003 and in consultation with the Commission, \$3 million of needed funds for successful appeals were transferred from available funds in FY 2008. Given these requirements and to preserve the contingency amount, USAC estimates that no FY 1998 funds are available to carry-forward. The estimated FY 1998 balance is based on the following:

⁸⁵ See *In the Matter of Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Public Notice, *Wireline Competition Bureau Announces E-Rate Inflation-Based Cap for FY 2012*, DA 12-791 (rel. May 18, 2012).

⁸⁶ See *In the Matter of Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Public Notice, *Wireline Competition Bureau Announces E-Rate Inflation-Based Cap for FY 2012*, DA 13-382 (rel. Mar. 11, 2013).

⁸⁷ See *In the Matter of Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Public Notice, *Wireline Competition Bureau Announces E-Rate Inflation -Based Cap for FY 2014*, DA 14-426 (rel. Mar. 28, 2014).

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FY 1998	Amounts in Millions
Amount Authorized and Actually Collected	\$1,925.00
Amount Authorized for Disbursement	(1,399.06)
Administrative Expenses (21 months)	(41.79)
Amount Applied to Adjust 2000, 2001, and 2002 Collections	(477.16)
Amount Carried-forward to FY 2012	(5.00)
Amount Carried Back to Fund Retroactive Appeals	3.00
Potential Additional Disbursements on Committed FRNs	(0.00)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(4.99)
Estimated Remaining Balance	\$0.00

Funding Year 1999 True-Up

As of September 30, 2014, \$1,650.15 million of FY 1999 support had been authorized for disbursement. USAC's projection of remaining FY 1999 funds includes an estimate of funds needed to pay additional disbursements on committed funding requests and no 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 FY 1999 funds are available to carry-forward. The estimated remaining FY 1999 balance is based on the following:

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FY 1999	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,650.15)
Administrative Expenses	(32.32)
Amount Applied to Adjust Fourth Quarter 2002 Collections	(256.16)
Amount Applied to Adjust Fourth Quarter 2002 Collections	(212.93)
Amount Carried-forward to FY 2003	(50.00)
Amount Carried-forward to FY 2009	(25.00)
Amount Carried-forward to FY 2012	(15.00)
Potential Additional Disbursements on Committed FRNs	(0.00)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(8.44)
Estimated Remaining Balance	\$0.00

Funding Year 2000 True-Up

As of September 30, 2014, \$1,647.03 million of FY 2000 support had been authorized for disbursement. USAC's projection of remaining FY 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 FY 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 no FY 2000 funds are available to carry-forward. The estimated remaining FY 2000 balance is based on the following:

FY YEAR 2000	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,647.03)
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 FY 2003	(160.00)
Amount Carried-forward to FY 2012	(20.00)
Potential Additional Disbursements on Committed FRNs	(0.00)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(7.70)

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

Estimated Remaining Balance	\$0.00
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Funding Year 2001 True-Up

As of September 30, 2014, \$1,695.65 million of FY 2001 support had been authorized for disbursement. USAC’s projection of remaining FY 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 FY 2001 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 FY 2001 funds are available to carry-forward. The estimated remaining FY 2001 balance is based on the following:

FY 2001	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,695.65)
Administrative Expenses	(30.56)
Amount Carried-forward to FY 2003	(210.00)
Amount Carried-forward to FY 2004	(150.00)
Amount Carried-forward to FY 2007	(50.00)
Amount Carried-forward to FY 2009	(60.00)
Amount Carried-forward to FY 2012	(25.00)
Potential Additional Disbursements on Committed FRNs	(1.11)
Remaining Uncommitted Requests	(20.33)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(7.35)
Estimated Remaining Balance	\$0.00

Funding Year 2002 True-Up

As of September 30, 2014, \$1,597.60 million of FY 2002 support had been authorized for disbursement. USAC’s projection of remaining FY 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

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

contingency reserve to pay pending appeals and make disbursements on FY 2002 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 FY 2002 funds are available to carry-forward. The estimated remaining FY 2002 balance is based on the following:

FY 2002	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,597.60)
Administrative Expenses	(38.53)
Amount Carried-forward to FY 2007	(300.00)
Amount Carried-forward to FY 2008	(150.00)
Amount Carried-forward to FY 2009	(60.00)
Amount Carried-forward to FY 2010	(25.00)
Amount Carried-forward to FY 2012	(15.00)
Amount Carried-forward to FY 2014	(40.00)
Potential Additional Disbursements on Committed FRNs	(9.14)
Remaining Uncommitted Requests	(0.93)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(13.80)
Estimated Remaining Balance	\$0.00

Funding Year 2003 True-Up

As of September 30, 2014, \$1,940.18 million of FY 2003 support had been authorized for disbursement. USAC's projection of remaining FY 2003 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that no FY 2003 funds are available to carry-forward. The estimated remaining FY 2003 balance is based on the following:

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FY 2003	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,940.18)
Amount Carried-forward from FYs 1999, 2000 and 2001	420.00
Amount Carried-forward to FY 2007	(150.00)
Amount Carried-forward to FY 2008	(200.00)
Amount Carried-forward to FY 2009	(210.00)
Amount Carried-forward to FY 2011	(20.00)
Amount Carried-forward to FY 2012	(55.00)
Administrative Expenses	(44.19)
Potential Additional Disbursements on Committed FRNs	(6.80)
Remaining Uncommitted Requests	(32.83)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(11.00)
Estimated Remaining Balance	\$0.00

Funding Year 2004 True-Up

As of September 30, 2014, \$1,536.34 million of FY 2004 support had been authorized for disbursement. USAC's projection of remaining FY 2004 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that no FY 2004 funds are available to carry-forward. The estimated remaining FY 2004 balance is based on the following:

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FY 2004	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,536.34)
Amount Carried-forward from FY 2001	150.00
Amount Carried-forward to FY 2007	(150.00)
Amount Carried-forward to FY 2008	(250.00)
Amount Carried-forward to FY 2009	(275.00)
Amount Carried-forward to FY 2011	(50.00)
Amount Carried-forward to FY 2012	(60.00)
Administrative Expenses	(55.75)
Potential Additional Disbursements on Committed FRNs	(1.96)
Remaining Uncommitted Requests	(0.00)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(20.95)
Estimated Remaining Balance	\$0.00

Funding Year 2005 True-Up

As of September 30, 2014, \$1,621.64 million of FY 2005 support had been authorized for disbursement. USAC's projection of remaining FY 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 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 FY 2005 funds are available to carry-forward. The estimated remaining FY 2005 balance is based on the following:

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FY 2005	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,621.64)
Amount Carried-forward to FY 2009	(200.00)
Amount Carried forward to FY 2010	(100.00)
Amount Carried forward to FY 2011	(120.00)
Amount Carried-forward to FY 2012	(120.00)
Administrative Expenses	(64.99)
Potential Additional Disbursements on Committed FRNs	(4.96)
Remaining Uncommitted Requests	(0.34)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(18.07)
Estimated Remaining Balance	\$0.00

Funding Year 2006 True-Up

As of September 30, 2014, \$1,567.43 million of FY 2006 support had been authorized for disbursement. USAC's projection of remaining FY 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 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 FY 2006 funds are available to carry-forward. The estimated remaining FY 2006 balance is based on the following:

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FY 2006	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,567.43)
Amount Carried-forward to FY 2009	(70.00)
Amount Carried-forward to FY 2010	(300.00)
Amount Carried-forward to FY 2011	(115.00)
Amount Carried-forward to FY 2012	(80.00)
Administrative Expenses	(80.74)
Potential Additional Disbursements on Committed FRNs	(9.41)
Remaining Uncommitted Requests	(0.99)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(26.43)
Estimated Remaining Balance	\$0.00

Funding Year 2007 True-Up

As of September 30, 2014, \$1,950.63 million of FY 2007 support had been authorized for disbursement. USAC's projection of remaining FY 2007 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that no FY 2007 funds are available to carry-forward. The estimated remaining FY 2007 balance is based on the following:

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FY 2007	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,950.63)
Amount Carried-forward from FYs 2001, 2002, 2003 and 2004	650.00
Amount Carried-forward to FY 2010	(375.00)
Amount Carried-forward to FY 2011	(275.00)
Amount Carried-forward to FY 2012	(140.00)
Amount Carried-forward to FY 2013	(20.00)
Amount Carried-forward to FY 2014	(30.00)
Administrative Expenses	(81.24)
Potential Additional Disbursements on Committed FRNs	(8.51)
Remaining Uncommitted Requests	(2.91)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(16.71)
Estimated Remaining Balance	\$0.00

Funding Year 2008 True-Up

As of September 30, 2014, \$1,910.98 million of FY 2008 support had been authorized for disbursement. USAC's projection of remaining FY 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. Given these requirements and to preserve the contingency amount, USAC estimates that no FY 2008 funds are available to carry-forward. The estimated remaining FY 2008 balance is based on the following:

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FY 2008	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,910.98)
Amount Carried-forward from FYs 2002, 2003, and 2004	600.00
Amount Carried-forward to FY 2010	(350.00)
Amount Carried-forward to FY 2011	(140.00)
Amount Carried-forward to FY 2012	(115.00)
Amount Carried-forward to FY 2013	(150.00)
Amount Carried Back to FY 1998 to Fund Appeals	(3.00)
Administrative Expenses	(125.59)
Potential Additional Disbursements on Committed FRNs	(37.24)
Remaining Uncommitted Requests	(4.78)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(13.41)
Estimated Remaining Balance	\$0.00

Funding Year 2009 True-Up

As of September 30, 2014, \$2,275.13 million of FY 2009 support had been authorized for disbursement. USAC's projection of remaining FY 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 no FY 2009 funds are available to carry-forward. The estimated remaining FY 2009 balance is based on the following:

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FY 2009	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(2,275.13)
Amount Carried-forward from FYs 1999, 2001, 2002, 2003, 2004, 2005, and 2006	900.00
Amount Carried-forward to FY 2011	(130.00)
Amount Carried-forward to FY 2012	(300.00)
Amount Carried-forward to FY 2013	(150.00)
Amount Carried-forward to FY 2014	(70.00)
Administrative Expenses	(81.27)
Potential Additional Disbursements on Committed FRNs	(75.47)
Remaining Uncommitted Requests	(35.11)
Contingency Amount for Pending Appeals and Invoice Deadline Extensions	(33.02)
Estimated Remaining Balance	\$0.00

Funding Year 2010 True-Up

As of September 30, 2014, \$2,389.85 million of FY 2010 support had been authorized for disbursement. USAC's projection of remaining FY 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 \$320 million of FY 2010 funds are available to carry-forward. The estimated remaining FY 2010 balance is based on the following:

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FY 2010	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(2,389.85)
Amount Carried-forward from FYs 2002, 2005, 2006, 2007, 2008, and 2009	1,150.00
Amount Carried-forward to FY 2012	(100.00)
Amount Carried-forward to FY 2013	(130.00)
Amount Carried-forward to FY 2014	(60.00)
Amount Authorized by FCC Inflation Increment	20.25
Administrative Expenses	(75.33)
Potential Additional Disbursements on Committed FRNs	(150.01)
Remaining Uncommitted Requests	(70.82)
Contingency Amount for Pending Appeals and Invoice Deadline Extensions	(124.24)
Estimated Remaining Balance	\$320.00

Funding Year 2011 True-Up

As of September 30, 2014, \$2,056.50 million of FY 2011 support had been authorized for disbursement. USAC's projection of remaining FY 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 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 \$280 million of FY 2011 funds are available to carry-forward. The estimated remaining FY 2011 balance is based on the following:

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

FY 2011	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(2,056.50)
Amount Carried-forward from FYs 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	(157.61)
Remaining Uncommitted Requests	(282.52)
Contingency Amount for Pending Appeals and Invoice Deadline Extensions	(279.05)
Estimated Remaining Balance	\$280.00

Funding Year 2012 True-Up

As of September 30, 2014, \$2,039.48 million of FY 2012 support had been authorized for disbursement. USAC's projection of remaining FY 2012 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 FY 2012 funds are available to carry-forward. The estimated remaining FY 2012 balance is based on the following:

FY 2012	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(2,039.48)
Amount Carried-forward from FYs 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009 and 2010	1,050.00
Amount Authorized by FCC Inflation Increment	88.79
Administrative Expenses	(70.00)
Potential Additional Disbursements on Committed FRNs	(831.86)
Remaining Uncommitted Requests	(337.31)
Contingency Amount for Pending Appeals and Invoice Deadline Extensions	(110.14)
Estimated Remaining Balance	\$0.00

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

Funding Year 2013 True-Up

As of September 30, 2014, \$1,200.20 million of FY 2013 support had been authorized for disbursement. USAC's projection of remaining FY 2013 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 FY 2013 funds are available to carry-forward. The estimated remaining FY 2013 balance is based on the following:

FY 2013	Amounts in Millions
Amount Authorized for Collections	\$2,250.00
Amount Authorized for Disbursement	(1,200.20)
Amount Carried-forward from FYs 2007, 2008, 2009 and 2010	450.00
Amount Authorized by FCC Inflation Increment	130.31
Administrative Expenses	(70.00)
Potential Additional Disbursements on Committed FRNs	(917.01)
Remaining Uncommitted Requests	(400.86)
Contingency Amount for Pending Appeals and Invoice Deadline Extensions	(242.24)
Estimated Remaining Balance	\$0.00

Funding Year 2014 True-Up

As of September 30, 2014, \$56.19 million of FY 2013 support had been authorized for disbursement. USAC's projection of remaining FY 2014 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

Universal Service Administrative Company 1Q2015 Fund Size Projections

that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that no FY 2014 funds are available to carry-forward. The estimated remaining FY 2014 balance is based on the following:

FY 2014	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(56.19)
Amount Carried-forward from FYs 2002, 2007, 2009 and 2010	200.00
Amount Authorized by FCC Inflation Increment	163.82
Administrative Expenses	(70.00)
Potential Additional Disbursements on Committed FRNs	(1,864.52)
Remaining Uncommitted Requests and Contingency Amount for Pending Appeals	(623.11)
Estimated Remaining Balance	\$0.00

1Q2015 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, 2003.⁸⁸ Commission staff subsequently determined that Funding Commitment Decision Letters (FCDLs) for the Schools and Libraries Support Mechanism are to be treated as “obligations” for federal budgetary accounting purposes and subject to the requirements of the Antideficiency Act (ADA).⁸⁹ 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, 2015.⁹⁰

⁸⁸ 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, CG Docket No. 03-123, Order, FCC 03-232, 18 FCC Red. 19911 (rel. October 3, 2003).

⁸⁹ 31 U.S.C. § 1341.

⁹⁰ See HR 3547 Sec. 510 (“Section 302 of the Universal Service Antideficiency Temporary Suspension Act is amended by striking ‘January 15, 2014’ each place it appears and inserting ‘December 31, 2015.’”); See also, HR 2055 (signed by the

Universal Service Administrative Company 1Q2015 Fund Size Projections

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 2004.⁹¹

Based on the level of applicant demand in FY 2014, which exceeds the annual funding cap, USAC requests authority to collect an amount to provide \$562.50 million in funding for 1Q2015, which is one-quarter of the \$2.25 billion annual funding cap, increased by the Commission authorized inflation factor of \$40.95 million (which represents one-quarter of the projected annual inflation adjustment of \$163.82 million).⁹² Results for 3Q2014 contribute to an over-funded condition for which this filing proposes to adjust the 1Q2015 requirements. The total adjustment to the 1Q2015 fund requirements based on actual results will decrease the funding needed by \$0.29 million. The explanation for the adjustment is provided below:

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).

⁹¹ 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.

⁹² 47 C.F.R. § 54.507(a).

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

Reason for the Prior Period Adjustment	Adjustment in Millions
3Q2014 billings were lower than projected.	\$5.39
Interest earned was higher than projected.	(0.77)
Bad debt expense was lower than anticipated.	(4.91)
Total Prior Period Adjustment	(\$0.29)

The total fund requirement of \$562.50 million, which includes administrative expenses of \$22.47 million, increased by the inflation increment of \$40.95 million, decreased by the prior-period adjustment of \$0.29 million, and reduced by the projected interest income of \$5.08 million, results in a total projected collection requirement of \$598.08 million for the Schools and Libraries Support Mechanism for 1Q2015.

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.⁹³ Based on these filings, the Commission establishes the contribution factor for the upcoming quarter.

The quarterly USF contribution factor established by the Commission is derived from projections of support mechanism demand calculated by USAC and projected collected revenue submitted by USF contributors on FCC Form 499-Q and aggregated by USAC. The total USF funding requirement is based on many inputs and is the result of the manner in which the support mechanisms operate pursuant to Commission rules. Inputs include actual support mechanism demand, which changes quarterly, adjustments resulting from events that occur in prior periods but are reported to USAC in the current period, and

⁹³ See 47 C.F.R. § 54.709(a)(3). The Form 499-Q includes a box for each of the quarterly filing submissions. Carriers check the appropriate box to indicate the quarter for which revenue information is being reported. See also, 47 C.F.R. §§54.706, .708, .711 and .713 for contributor reporting requirements.

Universal Service Administrative Company 1Q2015 Fund Size Projections

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 capital expenditures, 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.

USAC invoices and receives contributions from more than 3,000 telecommunications companies each month. Interstate telecommunications service providers are required to complete the 499-Q form, reporting January – March 2015 projected revenue information, and return it to USAC by November 3, 2014.

USAC continues to assist the Commission in its USF collection enforcement efforts, including providing documentation on a quarterly 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. Pursuant to a directive issued by the FCC on March 27, 2012, USAC transfers monies that are 120 days delinquent to the U.S. Treasury

Universal Service Administrative Company 1Q2015 Fund Size Projections

after USAC has provided the delinquent carrier with the notice required under FCC and Debt Collection Improvement Act (DCIA) requirements.

USAC implemented the Red Light Rule on November 1, 2004 for contributor debts to the USF.⁹⁴ 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 or the Telecommunications Relay Service, North American Numbering Plan or Local Portability funds, 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 October 27, 2014 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 1Q2015 projected support mechanism funding requirements described herein. At its October 28, 2014 meeting, the USAC Board of Directors adopted a resolution authorizing the inclusion of the projected 1Q2015 administrative expenses in this report to the Commission.

⁹⁴ 47 C.F.R. § 1.1910.

**Universal Service Administrative Company 1Q2015 Fund Size
Projections**

Respectfully submitted,

UNIVERSAL SERVICE
ADMINISTRATIVE COMPANY

//s// Chris Henderson, Chief Executive Officer
David M. Case, Chief Financial Officer and
Vice President of Finance
October 31, 2014