

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Federal Universal Service Support Mechanisms Fund Size
Projections for the Second Quarter 2008

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

**FEDERAL UNIVERSAL SERVICE SUPPORT MECHANISMS
FUND SIZE PROJECTIONS FOR THE
SECOND QUARTER 2008**

INTRODUCTION

The Universal Service Administrative Company (USAC) hereby submits the federal Universal Service Support Mechanisms fund size and administrative cost projections for the second quarter of calendar year 2008 (2Q2008), in accordance with Section 54.709 of the Federal Communications Commission's (FCC or Commission) rules.¹

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

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

¹ 47 C.F.R. § 54.709(a)(3).

² 47 C.F.R. § 54.701.

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

ADMINISTRATIVE EXPENSES AND INTEREST INCOME PROJECTION

ADMINISTRATIVE EXPENSES

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

USAC projects a consolidated budget of \$49.92 million for 2Q2008. Direct costs for all support mechanisms total \$41.51 million⁶ and are listed for each mechanism in the chart provided below. Joint and common costs (including billing, collection, and disbursement activities) are projected at \$8.41 million and are allocated to each support mechanism as described in the chart below based on the allocation methodology on file with the Commission.

⁴ 47 C.F.R. § 54.709(a)(3).

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

⁶ This amount includes \$99,250 budgeted each quarter for High Cost data collection performed by the National Exchange Carrier Association (NECA)—an independent entity not affiliated with USAC. *See* 47 C.F.R. §§ 36.611-13 and 69.603. Although USAC is required to pay for the data collection, it does not have the ability to directly oversee the effort and cannot verify, monitor, or otherwise evaluate the cost of performing the data collection function. Consistent with the fiduciary obligations of its members to safeguard USAC assets and the USF, USAC's Board of Directors has requested clarification from the Commission concerning this matter. *See* letter from D. Scott Barash, USAC, to Irene Flannery, FCC (Dec. 10, 1999), Comments of the Universal Service Administrative Company to the *Further Notice of Proposed Rulemaking* in CC Docket No. 96-45, FCC 01-8 (Feb. 26, 2001). *See also*, Comments of the Universal Service Administrative Company to the *Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking* in CC Docket No. 05-195, FCC 05-124 (June 14, 2005); and *Reply Comments of the Universal Service Administrative Company* (Dec. 19, 2005).

Universal Service Administrative Company 2Q2008 Fund Size Projections

2nd Quarter 2008 Administrative Expenses (in millions)

USF Mechanism	Direct Costs	USAC Common	Total
High Cost	\$14.09	\$2.74	\$16.83
Low Income	0.43	0.63	1.06
Rural Health Care	1.83	0.23	2.06
Schools & Libraries	25.16	4.81	29.97
Total	41.51	8.41	49.92

Appendix M01 provides USAC's administrative expense budget for 2Q2008.

Appendix M02 provides the fund size projections for 2Q2008.

INTEREST INCOME PROJECTION

For 2Q2008, USAC projects interest income of approximately \$4.91 million for the High Cost Support Mechanism, \$1.71 million for the Low Income Support Mechanism, \$1.72 million for the Rural Health Care Support Mechanism, and \$42.36 million for the Schools and Libraries Support Mechanism. USAC projects total interest income of \$50.70 million. As in previous quarters, the projected interest income is being included as an offset to administrative expenses for each of the support mechanisms and reduces the amount that USAC will be required to collect from carriers for those support mechanisms that are funded at caps established by the Commission.

FINANCIAL STATEMENTS

For the twelve months ended December 31, 2007, on a cash basis, USAC disbursed \$6,959.17 million in universal service support as follows: \$4,272.86 million in High Cost support, \$819.26 million in Low Income support, \$1,829.67 million in Schools and Libraries support, and \$37.38 million in Rural Health Care support. On a cash basis, the total cash balance available as of December 31, 2007 to the universal service support mechanisms was

Universal Service Administrative Company 2Q2008 Fund Size Projections

\$4,963.41 million. On an accrual basis, USAC had a fund balance of \$5,176.55 million at December 31, 2007.

Appendices M03 and M04 provide 2007 year-to-date statements of fund activity on a cash and accrual basis.

FUNDING REQUIREMENTS

HIGH COST SUPPORT MECHANISM

ELIGIBLE TELECOMMUNICATIONS CARRIER (ETC) DESIGNATION

A requirement of eligibility for receipt of High Cost support is that a common carrier must be designated as an eligible telecommunications carrier (ETC) by a state commission or the FCC in accordance with Subpart F of Part 36 and Subpart D of Part 54 of the Commission's rules.⁷ ETCs are eligible to receive funds from the High Cost Support Mechanism,⁸ which includes High Cost Loop Support, Interstate Access Support, Local Switching Support, Interstate Common Line Support, and High Cost Model Support. Together, the projected requirements for these five components of the High Cost Support Mechanism and USAC administrative expenses constitute the overall funding requirement for the High Cost Support Mechanism.

The High Cost Support Mechanism provides support to more than 1,900 study areas, including those served by both incumbent and competitive ETCs.

The table below contains the number of study areas served by rural versus non-rural carriers and rate-of-return versus price cap carriers.

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

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

Universal Service Administrative Company 2Q2008 Fund Size Projections

Count of Study Areas by Category							
	Incumbent Study Areas					Competitive Study Areas	Total Study Areas
	Rate-of-Return			Price Cap	Total Incumbent		
	Cost Companies	Average Schedule	Total				
Rural	794	455	1249	105	1354	261	1615
Non-Rural	4	1	5	81	86	236	322
Total	798	456	1254	186	1440	497	1937

Appendix HC01 provides the projected minimum amount of individual company support segregated by rural and non-rural status. HC01 also contains the projected per-month amount for the components of High Cost support that each ETC⁹ will be eligible to receive. HC02 provides the total projected amount of High Cost support for 2Q2008 for each state and territory. HC03 provides rural study areas with competition. HC04 provides disaggregated per-line High Cost support by zone, consistent with disaggregation plans filed with USAC.

HIGH COST RURAL SUPPORT

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 2006 incumbent local exchange carrier (LEC) loop cost and expense adjustment data that was submitted to the FCC and USAC on October 1, 2007.¹⁰ Growth in total HCL Support for rural carriers is limited under Section 36.603(a) of the Commission's

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

¹⁰ Universal Service Fund (USF) 2007 Submission of 2006 Study Results (filed October 1, 2007) (*USF Data Submission*).

Universal Service Administrative Company 2Q2008 Fund Size Projections

rules to the current level of funding increased yearly by the annual growth in supported rural loops.¹¹ Effective July 1, 2001, pursuant to the *RTF Order*,¹² HCL Support increased for rural companies.

Rural HCL Support for calendar year 2008 will be less than the level of payments for 2007 because of a rural growth factor of negative 1.4937 percent. Rural HCL Support for calendar year 2008, therefore, is capped at \$1,034.30 million.

Pursuant to the *RTF Order*, Safety Net Additive (SNA) Support is support above the HCL cap for carriers that make significant investment in rural infrastructure in years in which HCL is capped.¹³ To receive support, a rural carrier must show that growth in telecommunications plant in service (TPIS) per line is at least 14 percent greater than the study area's TPIS in the prior year. Carriers seeking to qualify for SNA Support must provide written notice to USAC that a study area meets the 14 percent TPIS trigger.¹⁴ For 2Q2008, projected SNA Support is \$10.69 million.

Also pursuant to the *RTF Order*, Safety Valve Support (SVS) is support above the HCL cap for rural carriers that acquire high cost exchanges and make substantial post-transaction investments to enhance network infrastructure.¹⁵ SVS is 50 percent of the difference between the index year HCL Support amount and the HCL Support amount in

¹¹ 47 C.F.R. § 36.603(a).

¹² See *Federal-State Joint Board on Universal Service, Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket Nos. 96-45, 00-256, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, and Report and Order in CC Docket No. 00-256, FCC 01-157, 16 FCC Rcd 11244 (2001) (*RTF Order*).

¹³ See *RTF Order* at ¶¶ 77-90.

¹⁴ See 47 C.F.R. § 36.605(c).

¹⁵ See *RTF Order* at ¶¶ 91-119.

Universal Service Administrative Company 2Q2008 Fund Size Projections

subsequent years.¹⁶ SVS is subject to an overall cap of no more than 5 percent of the HCL fund in any given year.¹⁷ For 2Q2008, projected SVS is \$0.26 million.

For 2Q2008, USAC projected HCL Support is \$369.39 million. Of this amount, \$258.42 million is associated with rural carriers and \$110.97 million is associated with competitive ETCs. In addition, 2Q2008 SNA Support is projected to be \$10.69 million and SVS is projected to be \$0.26 million. Based on these projections, total 2Q2008 HCL support is projected to be \$380.34 million, and total annual 2008 HCL Support is estimated to be \$1.51 billion.

Appendix HC05 provides projected monthly HCL Support payments by study area for 2Q2008. HC06 provides projected monthly SNA Support payments by study area for 2Q2008. HC07 displays SVS for 2Q2008.

Local Switching Support

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

For 2Q2008, LSS is projected to be \$17.41 million for incumbent average schedule carriers and \$67.61 million for incumbent cost study carriers. In addition, 2Q2008 LSS for

¹⁶ See 47 C.F.R. §54.305(c). In an order released on January 10, 2005, the FCC amended Section 54.305 so that it does not apply to transfers of exchanges between non-rural carriers after the phase-down of interim hold harmless support. See *Federal-State Joint Board on Universal Service, National Telephone Cooperative Association Petition for Reconsideration*, CC Docket No. 96-45, Order and Order on Reconsideration, FCC 05-1, 20 FCC Rcd 768, 772, ¶ 9 (2005). In addition, the FCC amended Section 54.305 to provide that rural carriers that acquire high cost exchanges may receive SVS for the investment made in the first year of operating the acquired exchanges. *Id.* at ¶ 10.

¹⁷ See 47 C.F.R. § 54.305(e).

¹⁸ See 47 C.F.R. § 54.301.

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

Universal Service Administrative Company 2Q2008 Fund Size Projections

competitive ETCs is projected to be \$33.75 million. USAC projects, therefore, that \$118.77 million will be required for 2Q2008. Based on these projections, total annual 2008 LSS is estimated to be \$473.37 million.

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

INTERSTATE COMMON LINE SUPPORT

Interstate Common Line Support (ICLS) is designed to permit each rate-of-return carrier to recover its common line revenue requirement, while ensuring that its subscriber line charges (SLCs) remain affordable to its customers.²⁰

For 2Q2008, ICLS for incumbent rate-of-return carriers is projected to be \$252.68 million. In addition, 2Q2008 ICLS for competitive ETCs is projected to be \$137.59 million. USAC projects, therefore, that \$390.27 million in ICLS will be required for 2Q2008. Based on these projections, total annual 2008 ICLS is estimated to be \$1.58 billion.

Appendices HC09, HC10 and HC11 provide USAC's 2Q2008 projections of ICLS by study area, per line and by state, respectively. Appendices HC22 and HC23 provide the revised projected 2006 to 2007 Program Year ICLS by study area and per line. Appendices HC24 and HC25 provide the revised projected 2007 to 2008 Program Year ICLS by study area and per line.

²⁰ See *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Federal-State Joint Board on Universal Service, Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation, Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers*, CC Docket Nos. 00-256, 96-45, 98-77, 98-166, Second Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report and Order in CC Docket No. 96-45, and Report and Order in CC Docket Nos. 98-77 and 98-166, FCC 01-304, 16 FCC Rcd 19613 (2001) (*MAG Order*).

Universal Service Administrative Company 2Q2008 Fund Size Projections

INTERSTATE ACCESS SUPPORT

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

The IAS projected industry-wide totals for 2Q2008 are \$36.01 million for rural carriers, \$88.02 million for non-rural carriers, and \$47.61 million for competitive ETCs. USAC projects \$171.64 million will be required for 2Q2008 with total annual IAS estimated to be \$683.69 million.

Appendices HC12, HC13, and HC14 provide USAC's 2Q2008 projections of IAS by study area, line, and state, respectively.

NON-RURAL FORWARD-LOOKING SUPPORT

Under the most recent calculation of forward-looking HCM support, non-rural carriers in 10 states (Alabama, Kentucky, Maine, Mississippi, Montana, Nebraska, South Dakota, Vermont, West Virginia, and Wyoming) are eligible to receive forward-looking support in 2008.²³

For 2Q2008, USAC projects \$87.14 million will be required for HCM support (\$46.17 million for incumbent non-rural carriers and \$40.97 million for competitive ETCs). Based on these projections, total annual 2008 HCM support is estimated to be \$349.29 million.

²¹ See *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers*, CC Docket Nos. 96-262, 94-1, Sixth Report and Order, *Low-Volume Long Distance Users*, CC Docket No. 99-249, Report and Order, *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Eleventh Report and Order, FCC 00-193, 15 FCC Rcd 12962 (2000) (*Interstate Access Order*).

²² See *Interstate Access Order* at ¶ 201.

²³ See *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Order and Order on Reconsideration, DA 03-4070 (rel. Dec. 24, 2003); see also *Wireline Competition Bureau Releases Estimated State-By-State High-Cost Universal Service Support Amounts for Non-Rural Carriers for 2004*, CC Docket No. 96-45, Public Notice, DA 03-4071 (rel. Dec. 24, 2003).

Universal Service Administrative Company 2Q2008 Fund Size Projections

Appendices HC15, HC16, and HC17 provide USAC's 2Q2008 projections of non-rural forward-looking support by wire center, state, and study area, respectively.

COMPETITIVE ETC LINES

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

HIGH COST SUPPORT MECHANISM SUMMARY

The estimated 2Q2008 High Cost Support Mechanism funding requirement is \$1,148.16 million, which includes \$380.34 million for HCL Support (including SNA and SVS), \$118.77 million for LSS, \$390.27 million for ICLS, \$171.64 million for IAS, and \$87.14 million for HCM Support. Sections 54.709(b) and 54.709(c) of the Commission's rules require USAC to adjust the size of the projected support requirements to reflect adjustments based on actual dollar amounts compared to the projections included in the prior period.²⁴ Increases in the size of the funding requirement for the prior period are added to the projected requirements; decreases from the prior period are subtracted from the projected revenue requirements.

Results for the Fourth Quarter 2007 (4Q2007) contributed to an over-funded condition for which this filing proposes to adjust the 2Q2008 funding requirements. The total adjustment to the 2Q2008 fund requirement based on actual results will decrease the funding needed by \$32.70 million. The explanation for the adjustment is described in the following table:

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

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Reason for the Prior Period Adjustment	Adjustment in Millions
The 4Q2007 billings were higher than projected revenues reported by contributors in their quarterly revenue projections.	\$(0.66)
High Cost Support Mechanism distributions were lower than projected in 4Q2007.	(24.50)
Interest income was higher than estimated for 4Q2007.	(1.92)
Bad debt expense was lower than anticipated.	(5.62)
Total Prior Period Adjustment	\$(32.70)

The total fund requirement of \$1,148.16 million, decreased by the prior-period adjustment of \$32.70 million, increased by administrative costs of \$16.83 million, and reduced by projected interest income of \$4.91 million, results in a total projected funding requirement for the High Cost Support Mechanism for 2Q2008 of \$1,127.38 million.

Appendix M02 provides information on the individual components of the funding requirement for the quarter.

LOW INCOME SUPPORT MECHANISM

LIFELINE SUPPORT

All ETCs must offer Lifeline support to qualified low-income consumers.²⁵ ETCs providing Lifeline support in accordance with Subpart E of Section 54 of the Commission's rules are entitled to receive funding from the Low Income Support Mechanism for the waiver of charges and reduced rates provided to qualified low-income subscribers.²⁶ Lifeline support provides funding from the interstate jurisdiction of up to \$10.00 per low-income subscriber per month, which can consist of a baseline amount of between \$3.50 and \$6.50

²⁵ See 47 C.F.R. § 54.201.

²⁶ 47 C.F.R. §§ 54.401 - 54.417.

Universal Service Administrative Company 2Q2008 Fund Size Projections

(Tier One),²⁷ an additional \$1.75 per subscriber if the state commission authorizes a reduction in local rates equal to that amount (Tier Two), and up to an additional \$1.75 from the mechanism if the state provides support for the low-income subscriber as well (Tier Three).²⁸ Further, up to an additional \$25 per low-income subscriber per month is available to eligible residents of tribal lands (Tier Four).²⁹

For 2Q2008, USAC projects \$197.69 million will be required for Lifeline support. Based on this projection, total annual 2008 Lifeline support is estimated to be \$793.48 million.

LINK UP AMERICA

Link Up support compensates ETCs up to \$30 per eligible subscriber for revenue foregone in offering discounted service initiation fees to qualified low-income individuals.³⁰ The *Tribal Order* authorized additional Link Up support of up to \$70 per qualified low-income subscriber residing on eligible tribal lands.³¹ For 2Q2008, USAC projects that \$8.31 million will be required for Link Up support. Based on this projection, total annual 2008 Link Up support is estimated to be \$32.45 million.

²⁷ Tier One support, which compensates the carrier for not charging the subscriber line charge (SLC) to eligible low-income customers, ranges from \$3.50 to \$6.50. See *Interstate Access Order* at ¶ 70 (permitting the baseline subscriber line charge to increase for price cap carriers from \$3.50 to \$4.35 effective July 1, 2000, and to increase again from \$4.35 to \$5.00 effective July 1, 2001); *LAG Order* at ¶ 42 (permitting rate-of-return carriers to increase their baseline subscriber line charge to \$5.00 effective January 1, 2002); *Cost Review Proceeding for Residential and Single-Line Business Subscriber Line Charge (SLC) Caps, Access Charge Reform, and Price Cap Performance Review for Local Exchange Carriers*, CC Docket Nos. 96-262, 94-1, Order, FCC 02-161 (rel. June 5, 2002) (*2002 SLC Order*) (authorizing an increase in the baseline subscriber line charge for price cap and rate-of-return carriers to \$6.00, effective July 1, 2002, and to \$6.50, effective July 1, 2003).

²⁸ Tier Three support is equal to one-half of a state-funded amount up to \$3.50. For example, if a carrier operating in a state that has a matching program that provides \$3.50 in support through the matching program reduces its intrastate rates by \$10.00 for low-income customers, the customer would experience a total monthly rate reduction of \$13.50 (\$3.50 in interstate charges and \$10.00 in intrastate charges) of which \$10.00 would be funded from the federal jurisdiction and \$3.50 from the state matching program.

²⁹ 47 C.F.R. § 54.400(e).

³⁰ 47 C.F.R. §§ 54.411, .413.

³¹ See *Promoting Deployment and Subscribership in Unserved and Underserved Areas, Including Tribal and Insular Areas*, CC Docket No. 96-45, Twelfth Report and Order, Memorandum Opinion and Order, and Further Notice of Proposed Rule-making, (rel. June 30, 2000) (*Tribal Order*).

Universal Service Administrative Company 2Q2008 Fund Size Projections

TOLL LIMITATION SUPPORT

Toll Limitation Support (TLS) compensates ETCs for providing voluntary toll-limitation service based on the carrier's incremental cost of providing toll-limitation services. The Commission has defined these costs as the costs that carriers otherwise would not incur if they did not provide toll-limitation service to a given customer.³² Toll limitation consists of toll blocking, which permits consumers to elect not to allow the completion of outgoing toll calls, and toll control, which allows consumers to specify a certain amount of toll usage that may be incurred per month or per billing cycle.³³ For 2Q2008, USAC projects that \$2.08 million will be required for TLS. Based on this projection, total annual 2008 TLS is estimated to be \$8.31 million.

LOW INCOME SUPPORT MECHANISM SUMMARY

The estimated 2Q2008 Low Income Support Mechanism funding requirement is \$208.08 million, which includes \$197.69 million for Lifeline, \$8.31 million for Link Up, and \$2.08 million for Toll Limitation Service. Results of 4Q2007 contribute to an over-funded condition, for which this filing proposes to adjust the 2Q2008 funding requirements. The total adjustment to the 2Q2008 funding requirement based on actual results will decrease the funding needed by \$9.01 million.

³² See *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776 (1997) at ¶ 386 (*First Report and Order*) (subsequent history omitted).

³³ 47 C.F.R. §§ 54.400(b) and (c).

Universal Service Administrative Company 2Q2008 Fund Size Projections

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

Reason for the Prior Period Adjustment	Adjustment in Millions
The 4Q2007 billings were higher than expected due to higher revenues reported by contributors in their quarterly revenue projections and annual true-up fillings.	\$(0.46)
Low Income Support Mechanism distributions were lower than projected in 4Q2007.	(9.76)
Interest income was lower than estimated for 4Q2007.	0.50
Bad debt expense was higher than anticipated.	0.71
Total Prior Period Adjustment	\$(9.01)

The total fund requirement of \$208.08 million, decreased by the prior period adjustment of \$9.01 million, increased for administrative expenses of \$1.06 million, and decreased by the deduction of the projected interest income of \$1.71 million, results in a total projected funding requirement for the Low Income Support Mechanism for 2Q2008 of \$198.42 million.

Appendix LI01 provides projected Low Income support amounts by state and study area for 2Q2008. LI02 provides detail on Low Income funding amounts available in each of the states and territories for 2Q2008. LI03 provides a list of ETCs for 4Q2007. LI04 provides detail on quarterly company-specific Low Income support disbursement amounts for 4Q2007. LI05 provides detail on annual company-specific Low Income support amounts through 3rd Quarter 2007 (3Q2007). LI06 provides historical data of monthly support amounts claimed by ETCs from January 1998 through December 31, 2007. LI07 provides detail on Low Income support distributed by state for 2001 through 3Q2007. LI08 and LI09 provide subscriber information by state and jurisdiction for Lifeline and Link Up support, respectively. LI10 shows the Tier 1 amounts reported by all companies during 3Q2007.

RURAL HEALTH CARE SUPPORT MECHANISM

Following is a summary of Rural Health Care Support Mechanism commitments and disbursements for Funding Years 2002-07 as of December 31, 2007. Prior funding years are closed.

FUNDING YEAR 2002

Funding Year 2002 began on July 1, 2002 and ended on June 30, 2003. As of December 31, 2007, funding commitments have been issued totaling \$23.34 million. Based on information provided by the applicants, USAC now estimates Funding Year 2002 demand will be \$21.62 million. The Commission previously authorized collection of \$21.77 million for Funding Year 2002. Considering the revised demand estimate for Funding Year 2002, USAC recommends the Commission decrease collections for Funding Year 2002 by \$0.15 million in 2Q2008.

Disbursements made to service providers through 4Q2007 are listed in Appendices RH01.

FUNDING YEAR 2003

Funding Year 2003 began on July 1, 2003 and ended on June 30, 2004. As of December 31, 2007, funding commitments have been issued totaling \$27.91 million. Based on information provided by applicants, USAC now estimates Funding Year 2003 demand will be \$26.20 million. The Commission previously authorized collection of \$26.24 million for Funding Year 2003. Considering the revised demand estimate for Funding Year 2003, USAC recommends the Commission decrease collections for Funding Year 2003 by \$0.04 million in 2Q2008.

Authorized funding by applicant during 4Q2007 and disbursements made to service providers through 4Q2007 are listed in Appendices RH02 and RH03, respectively.

Universal Service Administrative Company 2Q2008 Fund Size Projections

FUNDING YEAR 2004

Funding Year 2004 began on July 1, 2004 and ended on June 30, 2005. As of December 31, 2007, a total of 2,999 FCC Form 465s have been posted. In addition, 3,857 FCC Form 466 packets³⁴ and 810 466-A packets were received for a total 4,667 packets.

As of December 31, 2007, funding commitments have been issued totaling \$35.58 million. Based on information provided by applicants, as of December 31, 2007, USAC estimates Funding Year 2004 demand will be \$31.24 million. The Commission previously authorized collection of \$31.27 million for Funding Year 2004. Considering the revised demand estimate for Funding Year 2004, USAC recommends the Commission decrease collections for Funding Year 2004 by \$0.03 million in 2Q2008.

Authorized funding by applicant during 4Q2007 and disbursements made to service providers during 4Q2007 are listed in Appendices RH04 and RH05, respectively.

FUNDING YEAR 2005

Funding Year 2005 began on July 1, 2005 and ended on June 30, 2006. As of December 31, 2007, a total of 3,482 Form 465s have been posted and 5,493 packets have been received, which set a record high for the program. In part, this was due to the one time provision of Rural Health Care support under the *Hurricane Katrina Relief Order*.³⁵ USAC estimates Funding Year 2005 demand will be approximately \$41.11 million.

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

³⁴ The term “packet” is used describe the basic Rural Health Care Program application processing unit. An applicant may request support up to four segments of a multi-billed circuit on FCC Form 466. Each segment of the circuit is processed as one packet. A Form 466-A constitutes one packet for USAC tracking purposes.

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

Universal Service Administrative Company 2Q2008 Fund Size Projections

FUNDING YEAR 2005 PACKET PROCESSING	
Packets Completely Processed	4,819
Packets Awaiting Supervisory Approval Only	0
Complete – Ready to Process	0
Withdrawn by Applicant	539
Denied	135
Incomplete – Require Forms and/or Clarification	0
Total Packets Received as of 12/31/2007 for Funding Year 2005	5,493

As of December 31, 2007, funding commitments have been issued totaling \$41.70 million. The Commission previously authorized collection of \$41.23 million for Funding Year 2005. Considering the revised demand estimate for Funding Year 2005, USAC recommends the Commission decrease collections for Funding Year 2005 by \$0.12 million in 2Q2008.

Funding commitments made during 4Q2007 are included in Appendix RH06. Authorized funding by applicant during 4Q2007 and disbursements made to service providers during 4Q2007 are listed in Appendices RH07 and RH08, respectively.

FUNDING YEAR 2006

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

On September 29, 2006, the FCC released an order implementing a new two-year (Funding Years 2006 and 2007) pilot program for the Rural Health Care Support Mechanism, which will cover “up to 85 percent of an applicant’s costs of deploying a dedicated broadband network.”³⁶ The application window for the Rural Health Care Pilot

³⁶ *In the Matter of the Rural Health Care Support Mechanism*, FCC 06-144, 2006 WL 2819579 (F.C.C.) (rel. Sept. 29, 2006). See also, *Wireline Competition Bureau Seeks Comment on the Petition for Reconsideration or, in the Alternative, Clarification Filed by National LambdaRail, Inc.*, WC 02-60, DA 06-2279 (rel. November 6, 2006); *FCC Expands Eligibility to Include National LambdaRail’s Backbone in Rural Health Care Pilot*, FCC 07-6 (rel. February 7, 2007).

Universal Service Administrative Company 2Q2008 Fund Size Projections

Program opened on March 8, 2007 and closed on May 7, 2007.³⁷ On November 19, 2007 the FCC released an order establishing the Rural Health Care Pilot Program (RHCPP).³⁸ This order awarded \$417.78 million in support to 69 applications over funding years 2007, 2008 and 2009. Support under the RHCPP is capped at \$139.26 million in each of these three funding years. The Commission stated that monies collected in funding year 2006 for the RHCPP should be applied to Funding Year 2007.

As of December 31, 2007, funding commitments have been issued totaling \$44.96 million. The Commission previously authorized the collection of \$100 million from Universal Service Fund (USF) contributors for the Rural Health Care Support Mechanism for Funding Year 2006. Total demand for Funding Year 2006 is now expected to be \$45.56 million and \$54.44 million of the funds collected will be reallocated to Funding Year 2007 for the RHCPP.

The status of Funding Year 2006 packets is provided below.

FUNDING YEAR 2006 PACKET PROCESSING	
Packets Completely Processed	4,926
Packets Awaiting Supervisory Approval Only	3
Complete – Ready to Process	0
Withdrawn by Applicant	513
Denied	150
Incomplete – Require Forms and/or Clarification	282
Total Packets Received as of 12/31/2007 for Funding Year 2006	5,874

Funding commitments made during 4Q2007 are included in Appendix RH09.

Authorized funding by applicant during 4Q2007 and disbursements made to service providers during 4Q2007 are listed in Appendices RH10 and RH11, respectively.

³⁷ *Wireline Competition Bureau Announces OMB Approval of the Rural Health Care Pilot Program Information Collection Requirements and the Deadline for Filing Applications*, DA 07-1188 (rel. March 9, 2007).

³⁸ *See In the Matter of the Rural Health Care Support Mechanism*, FCC 07-198 (rel. November 19, 2007).

Universal Service Administrative Company 2Q2008 Fund Size Projections

FUNDING YEAR 2007

Funding Year 2007 began on July 1, 2007 and will end on June 30, 2008. The filing window for Funding Year 2007 opened on March 12, 2007. Due to the implementation of the new two-year (Funding Years 2006 and 2007) Rural Health Care Pilot Program, the Commission previously authorized the collection of \$75.00 million for Funding Year 2007. However, since the release of the November 19, 2007 FCC Order establishing the program, \$54.44 million collected for the RHCPP in Funding Year 2006 will be reallocated to Funding Year 2007. Total demand for Funding Year 2007 is estimated to be \$190.96 million (i.e., regular program demand of \$51.70 million combined with RHCPP demand of \$139.26 million). USAC recommends the Commission authorize collection from USF contributors for the Rural Health Care Support Mechanism of \$61.52 million in the 2nd Quarter 2008 (2Q2008), which will bring the total amount collected for Funding Year 2007 to \$190.96 million.

Funding commitments made during 4Q2007 are included in Appendix RH12. Authorized funding by applicant during 4Q2007 and disbursements made to service providers during 4Q2007 are listed in Appendices RH13 and RH14, respectively.

RURAL HEALTH CARE SUPPORT MECHANISM SUMMARY

The estimated 2Q2008 Rural Health Care Support Mechanism demand requirement is \$61.18 (\$61.52 million for Funding Year 2007, minus \$0.12 for Funding Year 2005, minus \$0.03 for Funding Year 2004, minus \$0.04 for Funding Year 2003, minus \$0.15 for Funding Year 2002). The results of 4Q2007 contributed to an over-funded condition of \$2.58 million, for which this filing proposes to adjust the 2Q2008 funding requirements. The total adjustment to the 2Q2008 funding requirement based on actual results will decrease the funding needed by \$2.58 million. The explanation for the adjustment is provided in the

Universal Service Administrative Company 2Q2008 Fund Size Projections

following table:

Reason for the Prior Period Adjustment	Adjustment in Millions
The 4Q2007 billings were lower than projected revenues reported by contributors in their quarterly revenue projections.	\$0.10
Interest income was higher than estimated for 4Q2007.	(0.72)
Bad debt expense was lower than anticipated.	(1.96)
Total Prior Period Adjustment	\$(2.58)

The total fund requirement of \$61.18 million, decreased by the prior-period adjustment of \$2.58 million, increased by administrative expenses of 2.06 million, and decreased by projected interest income of \$1.72 million, results in a total projected funding requirement for the Rural Health Care Support Mechanism for 2Q2008 of \$58.94 million.

SCHOOLS AND LIBRARIES SUPPORT MECHANISM

Following is a summary of Schools and Libraries Support Mechanism net commitments³⁹ and net authorized for payment⁴⁰ by funding year as of December 31, 2007.

³⁹ 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.

⁴⁰ Net authorized for payment is the amount of total approved invoices less any returned funds.

Universal Service Administrative Company 2Q2008 Fund Size Projections

FUNDING YEAR 1998

FUNDING YEAR 1998					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 675.90	39.85%	\$ 507.57	36.28%	75.10%
Internet Access	\$ 134.14	7.91%	\$ 94.83	6.78%	70.69%
Internal Connections	\$ 886.12	52.24%	\$ 796.60	56.94%	89.90%
TOTAL	\$1,696.16	100.00%	\$1,399.00	100.00%	82.48%
Deobligations due to Expired FRNs	(\$ 297.18)				
Net Commitments	\$1,398.98				

No Funding Year 1998 applications remained in the program integrity assurance (PIA) review process. Funding Year 1998 began on January 1, 1998 and ended on June 30, 1999. No payments were made to service providers during 4Q2007 for Funding Year 1998.

FUNDING YEAR 1999

FUNDING YEAR 1999					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 634.23	29.49%	\$ 452.91	27.37%	71.41%
Internet Access	\$ 149.57	6.95%	\$ 95.72	5.78%	64.00%
Internal Connections	\$1,367.00	63.56%	\$1,106.19	66.85%	80.92%
TOTAL	\$2,150.80	100.00%	\$1,654.82	100.00%	76.94%
Deobligations due to Expired FRNs	(\$ 494.84)				
Net Commitments	\$1,655.96				

Universal Service Administrative Company 2Q2008 Fund Size Projections

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

Authorized funding by applicant during 4Q2007 and cumulative payments made to service providers through 4Q2007 are listed in Appendices SL01 and SL02, respectively.

FUNDING YEAR 2000

FUNDING YEAR 2000					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 720.65	34.71%	\$ 481.14	29.20%	66.76%
Internet Access	\$ 219.26	10.56%	\$ 133.61	8.11%	60.94%
Internal Connections	\$1,136.29	54.73%	\$1,033.06	62.69%	90.92%
TOTAL	\$2,076.20	100.00%	\$1,647.81	100.00%	79.37%
Deobligations due to Expired FRNs	(\$ 422.48)				
Net Commitments	\$1,653.72				

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

Funding commitments made to applicants during 4Q2007 are included in Appendix SL03. Authorized funding by applicant during 4Q2007 and cumulative payments made to service providers through 4Q2007 are listed in Appendices SL04 and SL05, respectively.

Universal Service Administrative Company 2Q2008 Fund Size Projections

FUNDING YEAR 2001

FUNDING YEAR 2001					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 775.28	35.43%	\$ 539.48	31.80%	69.59%
Internet Access	\$ 224.87	10.28%	\$ 149.32	8.81%	66.40%
Internal Connections	\$1,187.90	54.29%	\$1,007.46	59.39%	84.81%
TOTAL	\$2,188.05	100.00%	\$1,696.26	100.00%	77.52%
Deobligations due to Expired FRNs	(\$ 479.91)				
Net Commitments	\$1,708.14				

As of December 31, 2007, two potentially fundable Funding Year 2001 applications remained in the PIA review process. Funding Year 2001 began on July 1, 2001 and ended on June 30, 2002.

Authorized funding by applicant during 4Q2007 and cumulative payments made to service providers through 4Q2007 are listed in Appendices SL06 and SL07, respectively.

Universal Service Administrative Company 2Q2008 Fund Size Projections

FUNDING YEAR 2002

FUNDING YEAR 2002					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 857.57	37.57%	\$ 607.71	38.56%	70.86%
Internet Access	\$ 250.26	10.96%	\$ 170.12	10.79%	67.98%
Internal Connections	\$1,175.09	51.47%	\$ 798.30	50.65%	67.94%
TOTAL	\$2,282.92	100.00%	\$1,576.13	100.00%	69.04%
Deobligations due to Expired FRNs	(\$ 610.83)				
Net Commitments	\$1,672.09				

As of December 31, 2007 two potentially fundable Funding Year 2002 applications remained in the PIA review process. Funding Year 2002 began on July 1, 2002 and ended on June 30, 2003.

Funding commitments made to applicants during 4Q2007 are included in Appendix SL08. Authorized funding by applicant during 4Q2007 and cumulative payments to service providers through 4Q2007 are listed in Appendices SL09 and SL10, respectively.

Universal Service Administrative Company 2Q2008 Fund Size Projections

FUNDING YEAR 2003

FUNDING YEAR 2003					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 908.24	33.38%	\$ 650.64	33.81%	71.64%
Internet Access	\$ 279.08	10.26%	\$ 203.14	10.56%	72.79%
Internal Connections	\$1,533.31	56.36%	\$1,070.30	55.63%	69.80%
TOTAL	\$2,720.63	100.00%	\$1,924.08	100.00%	70.72%
Deobligations due to Expired FRNs	(\$ 684.32)				
Net Commitments	\$2,036.31				

As of December 31, 2007, four potentially fundable Funding Year 2003 applications remained in the PIA review process. Funding Year 2003 began on July 1, 2003 and ended on June 30, 2004.

Authorized funding by applicant during 4Q2007 and cumulative payments to service providers through 4Q2007 are listed in Appendices SL11 and SL12, respectively.

Universal Service Administrative Company 2Q2008 Fund Size Projections

FUNDING YEAR 2004

FUNDING YEAR 2004					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 953.87	42.49%	\$ 679.83	45.39%	71.27%
Internet Access	\$ 243.38	10.84%	\$ 190.18	12.70%	78.14%
Internal Connections	\$1,047.90	46.67%	\$ 627.63	41.91%	59.89%
TOTAL	\$2,245.15	100.00%	\$1,497.64	100.00%	66.71%
Deobligations due to Expired FRNs	(\$ 653.39)				
Net Commitments	\$1,591.76				

As of December 31, 2007, 66 potentially fundable Funding Year 2004 applications remained in the PIA review process. Funding Year 2004 began on July 1, 2004 and ended on June 30, 2005.

Funding commitments made to applicants during 4Q2007 are included in Appendix SL13. Authorized funding by applicant during 4Q2007 and cumulative payments to service providers through 4Q2007 are listed in Appendices SL14 and SL15, respectively.

Universal Service Administrative Company 2Q2008 Fund Size Projections

FUNDING YEAR 2005

FUNDING YEAR 2005					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 964.02	45.30%	\$ 742.77	50.74%	77.05%
Internet Access	\$ 263.48	12.38%	\$ 210.47	14.37%	79.88%
Internal Connections	\$ 766.36	36.01%	\$ 421.84	28.81%	55.04%
Internal Connections-Maint	\$ 134.20	6.31%	\$ 89.04	6.08%	66.35%
TOTAL	\$2,128.06	100.00%	\$1,464.12	100.00%	68.80%
Deobligations due to Expired FRNs	(\$ 290.14)				
Net Commitments	\$1,837.92				

As of December 31, 2007, 206 potentially fundable Funding Year 2005 applications remained in the PIA review process. Funding Year 2005 began on July 1, 2005 and ended on June 30, 2006.

Funding commitments made to applicants during 4Q2007 are included in Appendix SL16. Authorized funding by applicant and cumulative payments to service providers through 4Q2007 are listed in Appendices SL17 and SL18, respectively.

Universal Service Administrative Company 2Q2008 Fund Size Projections

FUNDING YEAR 2006

FUNDING YEAR 2006					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$1,065.37	53.85%	\$ 751.58	57.99%	70.55%
Internet Access	\$ 292.72	14.80%	\$ 221.65	17.10%	75.72%
Internal Connections	\$ 496.46	25.10%	\$ 243.77	18.81%	49.10%
Internal Connections-Maint	\$ 123.61	6.25%	\$ 79.00	6.10%	63.91%
TOTAL	\$1,978.16	100.00%	\$1,296.00	100.00%	65.52%
Deobligations due to Expired FRNs	(\$ 266.46)				
Net Commitments	\$1,711.70				

As of December 31, 2007, 360 potentially fundable Funding Year 2006 applications remained in the PIA review process. Funding Year 2006 began on July 1, 2006 and ended on June 30, 2007.

Funding commitments made to applicants during 4Q2007 are included in Appendix SL19. Authorized funding by applicant and cumulative payments to service providers through 4Q2007 are listed in Appendices SL20 and SL21, respectively.

Universal Service Administrative Company 2Q2008 Fund Size Projections

FUNDING YEAR 2007

FUNDING YEAR 2007					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 991.83	55.44%	\$ 55.90	39.47%	5.64%
Internet Access	\$ 244.74	13.68%	\$ 38.68	27.31%	15.80%
Internal Connections	\$ 457.78	25.59%	\$ 24.83	17.53%	5.42%
Internal Connections-Maint	\$ 94.66	5.29%	\$ 22.22	15.69%	23.47%
TOTAL	\$1,789.01	100.00%	\$ 141.63	100.00%	7.92%

As of December 31, 2007, 3,563 potentially fundable Funding Year 2007 applications remained in the PIA review process. Funding Year 2007 began on July 1, 2007 and will end on June 30, 2008.

Funding commitments made to applicants during 4Q2007 are included in Appendix SL22. Authorized funding by applicant and cumulative payments to service providers through 4Q2007 are listed in Appendices SL23 and SL24, respectively.

SCHOOLS AND LIBRARIES SUPPORT MECHANISM SUMMARY

In a series of actions from December 1999 through December 2002, the Commission used a net total of \$477.16 million of undisbursed Funding Year 1998 Schools and Libraries Support Mechanism funds to reduce USF collection requirements. Consistent with the Commission's direction in the Schools and Libraries First Report and Order, a total of \$852.12 million of undisbursed Funding Years 1999 and 2000 collections were used to stabilize USF contributions and offset collections for 3rd Quarter 2002 (3Q2002), 4th Quarter 2002 (4Q2002), and 1st Quarter 2003 (1Q2003).⁴¹

⁴¹ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, First Report and Order, FCC 02-175 (June 13, 2002) (*Schools and Libraries First Report and Order*).

Universal Service Administrative Company 2Q2008 Fund Size Projections

In the *Schools and Libraries Third Report and Order and Second Further Notice of Proposed Rulemaking*, the Commission amended its rules to allow unused funds from prior funding years to be carried forward on an annual basis in the second quarter of each calendar year for use in the next full funding year.⁴² The Commission required USAC to file quarterly estimates of unused funds from prior funding years in submitting its projection of Schools and Libraries Support Mechanism demand for the upcoming quarter. The Commission modified the schedule to implement the process for Funding Year 2003 and directed USAC to carry forward \$420 million of unused prior year funds for use in Funding Year 2003.⁴³ In accordance with the *Schools and Libraries Third Report and Order*, the Commission announced that \$150 million in unused funds from Funding Year 2001 would be carried forward to increase disbursements to schools and libraries in Funding Year 2004.⁴⁴

On June 11, 2007, the Commission instructed USAC to carry forward \$650 million in unused funds to Funding Year 2007.⁴⁵ The funds were carried forward from Funding Years 2001, 2002, 2003 and 2004 in the amount of \$50 million, \$300 million, \$150 million and \$150 million, respectively.

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

⁴² See *Schools and Libraries Universal Service Support Mechanism*, CC Docket 02-6, Third Report and Order and Second Further Notice of Proposed Rulemaking, FCC 03-323 (December 23, 2003) (*Schools and Libraries Third Report and Order*).

⁴³ *Id.*

⁴⁴ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, *Carryover of Unused Funds for Funding Year 2004*, DA 04-1848 (June 28, 2004).

⁴⁵ See *Schools and Libraries Universal Support Mechanism*, CC Docket No. 02-06, *Wireline Competition Bureau Announces Carryover of Unused Funds for Funding Year 2007*, DA 07-2470 (June 1, 2007)..

Universal Service Administrative Company 2Q2008 Fund Size Projections

Funding Year 1998 True-Up

As of December 31, 2007, \$1,399.00 million of Funding Year 1998 support had been authorized for disbursement. USAC estimates that a contingency amount of \$7.05 million should be reserved to pay appeals pending at the Commission and to pay invoices on Funding Year 1998 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, no Funding Year 1998 funds are available to carry forward. The estimated remaining Funding Year 1998 balance is determined as follows:

FUNDING YEAR 1998	Amounts in Millions
Amount Authorized and Actually Collected	\$ 1,925.00
Amount Authorized for Disbursement	(1,399.00)
Administrative Expenses (21 months)	(41.79)
Amount Applied to Adjust 2000, 2001, and 2002 Collections	(477.16)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(7.05)
Estimated Remaining Balance	\$0.00

Funding Year 1999 True-Up

As of December 31, 2007, \$1,654.82 million of Funding Year 1999 support had been authorized for disbursement. USAC's projection of the remaining Funding Year 1999 funds includes an estimate of funds needed to pay additional disbursements on committed funding requests and a contingency reserve to pay pending appeals and make disbursements on Funding Year 1999 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that no Funding Year 1999 funds are available to carry forward. The estimated remaining Funding Year 1999 balance is determined as follows:

Universal Service Administrative Company 2Q2008 Fund Size Projections

FUNDING YEAR 1999	Amounts in Millions
Amount Authorized and Actually Collected	\$ 2,250.00
Amount Authorized for Disbursement	(1,654.82)
Administrative Expenses	(32.32)
Amount Applied to Adjust Third Quarter 2002 Collections	(256.16)
Amount Applied to Adjust Fourth Quarter 2002 Collections	(212.93)
Amount Carried Forward to Funding Year 2003	(50.00)
Potential Additional Disbursements on Committed FRNs	(1.14)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(42.63)
Estimated Remaining Balance	\$0.00

Funding Year 2000 True-Up

As of December 31, 2007, \$1,647.81 million of Funding Year 2000 support had been authorized for disbursement. USAC's projection of the remaining Funding Year 2000 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on remaining requests that have not received funding commitments, as well as a contingency reserve to pay pending appeals and make disbursements on Funding Year 2000 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that no Funding Year 2000 funds are available to carry forward. The estimated remaining Funding Year 2000 balance is determined as follows:

FUNDING YEAR 2000	Amounts in Millions
Amount Authorized and Actually Collected	2,250.00
Amount Authorized for Disbursement	(1,647.81)
Administrative Expenses	(32.24)
Amount Applied to Adjust Fourth Quarter 2002 Collections	(136.85)
Amount Applied to Adjust First Quarter 2003 Collections	(246.18)
Amount Carried Forward to Funding Year 2003	(160.00)
Potential Additional Disbursements on Committed FRNs	(5.91)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(21.01)
Estimated Remaining Balance	\$0.00

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Funding Year 2001 True-Up

As of December 31, 2007, \$1,696.26 million of Funding Year 2001 support had been authorized for disbursement. USAC's projection of the remaining Funding Year 2001 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on remaining requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and make disbursements on Funding Year 2001 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements, USAC estimates that no Funding Year 2001 funds are available to carry forward. The estimated remaining Funding Year 2001 balance is determined as follows:

FUNDING YEAR 2001	Amounts in Millions
Amount Authorized and Actually Collected	\$ 2,250.00
Amount Authorized for Disbursement	(1,696.26)
Administrative Expenses	(30.56)
Amount Carried Forward to Funding Year 2003	(210.00)
Amount Carried Forward to Funding Year 2004	(150.00)
Amount Carried Forward to Funding Year 2007	(50.00)
Potential Additional Disbursements on Committed FRNs	(11.88)
Remaining Uncommitted Requests	(20.33)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(80.97)
Estimated Remaining Balance	\$0.00

Funding Year 2002 True-Up

As of December 31, 2007, \$1,576.13 million of Funding Year 2002 support had been authorized for disbursement. USAC's projection of the remaining Funding Year 2002 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and make disbursements on Funding Year 2002 funding requests that may be granted extended invoice deadlines pursuant to

Universal Service Administrative Company 2Q2008 Fund Size Projections

Commission orders. Given these requirements, USAC estimates that \$100 million of Funding Year 2002 funds are available to carry forward. The estimated remaining Funding Year 2002 balance is determined as follows:

FUNDING YEAR 2002	Amounts in Millions
Amount Authorized and Actually Collected	\$ 2,250.00
Amount Authorized for Disbursement	(1,576.13)
Administrative Expenses	(38.53)
Amount Carried Forward to Funding Year 2007	(300.00)
Potential Additional Disbursements on Committed FRNs	(95.96)
Remaining Uncommitted Requests	(0.93)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(138.45)
Estimated Remaining Balance	\$100.00

Funding Year 2003 True-Up

As of December 31, 2007, \$1,924.08 million of Funding Year 2003 support had been authorized for disbursement. USAC's projection of the remaining Funding Year 2003 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on Funding Year 2003 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements, USAC estimates that \$150 million of Funding Year 2003 funds are available to carry forward. The estimated remaining Funding Year 2003 balance is determined as follows:

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FUNDING YEAR 2003	Amounts in Millions
Amount Authorized and Actually Collected	\$ 2,250.00
Amount Carried Forward from Funding Years 1999, 2000 and 2001	420.00
Amount Carried Forward to Funding Year 2007	(150.00)
Amount Authorized for Disbursement	(1,924.08)
Administrative Expenses	(44.19)
Potential Additional Disbursements on Committed FRNs	(112.23)
Remaining Uncommitted Requests	(33.05)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(256.45)
Estimated Remaining Balance	\$150.00

Funding Year 2004 True-Up

As of December 31, 2007, \$1,497.64 million of Funding Year 2004 support had been authorized for disbursement. USAC's projection of the remaining Funding Year 2004 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on Funding Year 2004 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements, USAC estimates that \$200 million of Funding Year 2004 funds are available to carry forward. The estimated remaining Funding Year 2004 balance is determined as follows:

FUNDING YEAR 2004	Amounts in Millions
Amount Authorized and Actually Collected	\$ 2,250.00
Amount Carried Forward from Funding Year 2001	150.00
Amount Carried Forward to Funding Year 2007	(150.00)
Amount Authorized for Disbursement	(1,497.64)
Administrative Expenses	(55.75)
Potential Additional Disbursements on Committed FRNs	(94.12)
Remaining Uncommitted Requests	(40.58)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(361.91)
Estimated Remaining Balance	\$200.00

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Funding Year 2005 True-Up

As of December 31, 2007, \$1,464.12 million of Funding Year 2005 support had been authorized for disbursement. USAC's projection of the remaining Funding Year 2005 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on Funding Year 2005 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amounts, USAC estimates that no Funding Year 2005 funds are available to carry forward. The estimated remaining Funding Year 2005 balance is based on the following:

FUNDING YEAR 2005	Amounts in Millions
Amount Authorized and Actually Collected	\$ 2,250.00
Amount Authorized for Disbursement	(1,464.12)
Administrative Expenses	(64.99)
Potential Additional Disbursements on Committed FRNs	(373.80)
Remaining Uncommitted Requests	(172.05)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(175.04)
Estimated Remaining Balance	\$0.00

Funding Year 2006 True-Up

As of December 31, 2007, \$1,296.00 million of Funding Year 2006 support had been authorized for disbursement. USAC's projection of the remaining Funding Year 2006 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on Funding Year 2006 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the

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contingency amounts, USAC estimates that no Funding Year 2006 funds are available to carry forward. The estimated remaining Funding Year 2006 balance is based on the following:

FUNDING YEAR 2006	Amounts in Millions
Amount Authorized and Actually Collected	\$ 2,250.00
Amount Authorized for Disbursement	(1,296.00)
Administrative Expenses	(80.74)
Potential Additional Disbursements on Committed FRNs	(415.70)
Remaining Uncommitted Requests	(264.45)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(193.11)
Estimated Remaining Balance	\$0.00

2Q2008 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, 2003.⁴⁶ 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).⁴⁷ The ADA generally requires that sufficient unobligated resources be available before an obligation can be incurred. Congress exempted the USF from requirements of the ADA through December 31, 2008.⁴⁸

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

⁴⁶ See *In re Application of Generally Accepted Accounting Principles for Federal Agencies and Generally Accepted Government Auditing Standards to the Universal Service Fund*, CC Docket No. 96-45, Order, FCC 03-232, 18 FCC Red 19911 (2003).

⁴⁷ 31 U.S.C. § 1341.

⁴⁸ See H.R. 5419, 108th Cong 2d Sess., §302, Universal Service Antideficiency Temporary Suspension Act (effective Dec. 23, 2004) and H.R. 2862, 109th Cong 1st Sess., 8,633, Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006 (effective Nov. 22, 2005); H.J. 20 (effective January 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.

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actual disbursements while at the same time retaining the ability for the USF to satisfy all outstanding commitments based on historic disbursement patterns, the Commission applied a total of \$550 million of the undisbursed USF balance from prior years against Schools and Libraries Support Mechanism demand in 2004. The Commission applied \$200 million of the cash balance in both Second Quarter and Third Quarter 2004, and \$150 million in Fourth Quarter 2004.⁴⁹ In addition, on June 11, 2007, the Commission instructed USAC to carry forward \$650 million in unused funds to Funding Year 2007.⁵⁰ The funds were carried forward from Funding Years 2001, 2002, 2003 and 2004 in the amount of \$50 million, \$300 million, \$150 million and \$150 million, respectively.

Based on the level of applicant demand in Funding Year 2007, which exceeds the annual funding cap of \$2.25 billion, USAC requests authority to collect an amount to provide \$562.50 million in funding for 2Q2008, which is one-quarter of the \$2.25 billion annual cap on federal universal service support for schools and libraries. Results for 4Q2007 contribute to an under-funded condition for which this filing proposes to adjust the 2Q2008 requirements. The total adjustment to the 2Q2008 fund requirement based on actual results will increase the funding needed by \$2.57 million. The explanation for the adjustment is provided below.

Reason for the Prior Period Adjustment	Adjustment in Millions
The 4Q2007 billings were higher than projected revenues reported by contributors in their quarterly revenue projections.	\$(0.73)
Interest income was lower than estimated for 4Q2007.	6.04
Bad debt expense was lower than anticipated.	(2.74)
Total Prior Period Adjustment	\$2.57

⁴⁹ 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.

⁵⁰ See *Schools and Libraries Universal Support Mechanism*, CC Docket No. 02-06, *Wireline Competition Bureau Announces Carryover of Unused Funds for Funding Year 2007*, DA 07-2470 (June 1, 2007)..

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The fund requirement of \$562.5 million, which includes administrative expenses of \$29.97 million, increased by a prior-period adjustment of \$2.57 million, and reduced by the projected interest income of \$42.36 million, results in a projected collection requirement of \$522.71 million for the Schools and Libraries Support Mechanism for 2Q2008.

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.⁵¹ Based on these filings, the Commission establishes the contribution factor for the upcoming quarter.

Approximately 6,300 FCC Forms 499-Qs were distributed to carriers in early January 2008. Interstate telecommunications service providers are required to complete this form, reporting April - June 2008 projected revenue information, and return it to USAC by February 1, 2008.

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

USAC continues to assist the Commission in its USF collection enforcement efforts, including providing documentation on a monthly basis to assist the Commission in issuing Notices of Apparent Liability (NALs) against non-payers. USAC also assists the Commission by working with carriers to achieve compliance with filing and contribution requirements. USAC transfers to the Commission amounts owed to the USF that are 90

⁵¹ See 47 C.F.R. § 54.709(a)(3). The Form 499-Q includes a box for each of the quarterly filing submissions. Carriers check the appropriate box to indicate the quarter for which revenue information is being reported. See also, 47 C.F.R. §§ 54.706, .708, .711, .713 for contributor reporting requirements.

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days delinquent after USAC has provided delinquent carriers with the notice required under Commission rules and the Debt Collection Improvement Action (DCIA).⁵² Upon receipt of the outstanding debts, the Commission provides delinquent carriers with notice advising them of their USF debt and the possibility of further enforcement activities pursuant to the DCIA and/or by the Commission's Enforcement Bureau. If a delinquent carrier fails to respond to the Commission's request for payment, the delinquent account is typically forwarded to the United States Treasury Department for collection.

USAC implemented the Red Light Rule on November 1, 2004 for contributor debts to the USF.⁵³ If a contributor is delinquent to the USF, USAC performs USF-to-USF administrative offsets to resolve the delinquency, netting any pending service provider disbursements where the Service Provider Identification Number (SPIN) shares the same Taxpayer Identification Number (TIN) as the delinquent contributor. If an entity is delinquent on a debt owed to the Commission, USAC places administrative holds on any disbursements for SPINs that share the same TIN until the Commission provides information stating that the debt has been satisfied. USAC continues to work closely with the Commission and stakeholders affected by the Red Light Rule implementation.

AUTHORIZATION TO FILE WITH THE COMMISSION

At their January 22, 2008 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 2Q2008 projected support mechanism funding requirements described herein. At its January 23, 2008 meeting, the USAC Board of Directors adopted a

⁵² 31 U.S.C. §§ 3701 *et seq.*

⁵³ 47 C.F.R. § 1.910.

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resolution authorizing the inclusion of the projected 2Q2008 administrative expenses in this report to the Commission.

Respectfully submitted,

UNIVERSAL SERVICE
ADMINISTRATIVE COMPANY

 /s/ D. Scott Barash

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February 1, 2008