

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Federal Universal Service Support Mechanisms Fund Size
Projections for the First Quarter 2007

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

**FEDERAL UNIVERSAL SERVICE SUPPORT MECHANISMS
FUND SIZE PROJECTIONS FOR THE
FIRST QUARTER 2007**

INTRODUCTION

The Universal Service Administrative Company (USAC) submits the federal Universal Service Support Mechanisms fund size and administrative cost projections for the first quarter of calendar year 2007 (1Q2007), 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 \$33.775 million for 1Q2007. Direct costs for all support mechanisms total \$23.745 million⁶ and are listed for each mechanism in the chart provided below. Joint and common costs (including billing, collection, and disbursement activities) are projected at \$10.030 million and are allocated to each support mechanism as described in the chart below based on the allocation methodology on file with the Commission.

1st Quarter 2007 Administrative Expenses (in millions)

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 includes \$99,200 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* (December 19, 2005).

Universal Service Administrative Company 1Q2007 Fund Size Projections

USF Mechanism	Direct Costs	USAC Common	Total
High Cost	\$4.348	\$3.581	\$7.929
Low Income	1.645	0.762	2.407
Rural Health Care	1.563	0.311	1.874
Schools & Libraries	16.189	5.376	21.565
Total	\$23.745	\$10.030	\$33.775

Appendix M01 provides USAC's administrative expense budget for 1Q2007.

Appendix M02 provides the fund size projections for 1Q2007.

INTEREST INCOME PROJECTION

For 1Q2007, USAC projects interest income of approximately \$8.975 million for the High Cost Support Mechanism, \$3.592 million for the Low Income Support Mechanism, \$0.729 million for the Rural Health Care Support Mechanism, and \$37.527 million for the Schools and Libraries Support Mechanism. USAC projects total interest income of \$50.823 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 three months ended September 30, 2006, on a cash basis, USAC disbursed \$1,605.174 million in universal service support as follows: \$1,021.762 million in High Cost support, \$209.940 million in Low Income support, \$363.397 million in Schools and Libraries support, and \$10.075 million in Rural Health Care support. On a cash basis, the total cash balance available as of September 30, 2006 to the universal service support mechanisms was \$4,628.880 million. On an accrual basis, USAC had a fund balance of \$4,792.565 million at September 30, 2006.

Appendices M03 and M04 provide 2006 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 1,500 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

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 1Q2007 Fund Size Projections

carriers and rate-of-return versus price cap carriers.

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	781	464	1245	105	1350	226	1576
Non-Rural	4	1	5	80	85	198	283
Total	785	465	1250	185	1435	424	1859

Appendix HC01 provides the projected minimum amount of individual company support segregated by rural and non-rural status. Appendix HC01 also contains the projected per-month amount for the components of High Cost support that each ETC⁹ will be eligible to receive. Appendix HC02 provides the total projected amount of High Cost support for 1Q2007 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 MECHANISM

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 2004 incumbent local exchange carrier loop cost and expense adjustment data that was submitted to the Commission and USAC on October 1, 2005.¹⁰ 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

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

¹⁰ Universal Service Fund (USF) 2005 Submission of 2004 Study Results (filed October 1, 2005) (*USF Data Submission*).

Universal Service Administrative Company 1Q2007 Fund Size Projections

loops.¹¹ Effective July 1, 2001, pursuant to the *RTF Order*,¹² HCL Support increased for rural companies.

Rural HCL Support for calendar year 2007 will be more than the level of payments for 2006 because of a rural growth factor of 0.2517 percent. Rural HCL Support for calendar year 2007, therefore, is capped at \$1,050.000 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 1Q2007, projected SNA Support is \$6.276 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% of the difference between the index year HCL Support amount and the HCL Support amount in subsequent

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 (rel. May 23, 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 1Q2007 Fund Size Projections

years.¹⁶ SVS is subject to an overall cap of no more than 5% of the HCL fund in any given year.¹⁷ For 1Q2007, projected SVS is \$0.584 million.

For 1Q2007, USAC projected HCL Support is \$347.290 million. Of this amount, \$262.454 million is associated with rural carriers and \$84.836 million is associated with competitive ETCs. In addition, 1Q2007 SNA Support is projected to be \$6.276 million and SVS is projected to be \$0.584 million. Based on these projections, total 1Q2007 HCL support is projected to be \$354.150 million, and total annual 2007 HCL Support is estimated to be \$1,416.602 million.

Appendix HC05 provides projected monthly HCL Support payments by study area for 1Q2007. HC06 provides projected monthly SNA Support payments by study area for 1Q2007. Appendix HC07 displays SVS for 1Q2007.

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 1Q2007, LSS for companies participating in the Traffic Sensitive Pool is projected to be \$56.344 million for cost study areas and \$19.655 million for average schedule study areas. LSS for non-Pool study areas is projected to be \$15.826 million for cost study

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 (rel. Jan. 10, 2005), at ¶ 9. 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 1Q2007 Fund Size Projections

areas and \$1.992 million for average schedule study areas. In addition, 1Q2007 LSS for competitive ETCs is projected to be \$28.710 million. USAC projects, therefore, that \$122.527 million will be required for 1Q2007. Based on these projections, total 2007 LSS is estimated to be \$490.109 million.

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

INTERSTATE COMMON LINE SUPPORT MECHANISM

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 1Q2007, ICLS for incumbent rate-of-return carriers is projected to be \$231.804 million. In addition, 1Q2007 ICLS for competitive ETCs is projected to be \$90.909 million. USAC projects, therefore, that \$322.713 million in ICLS will be required for 1Q2007. Based on these projections, total 2007 ICLS is estimated to be \$1,322.153 million.

Appendices HC09, HC10, and HC11 provide USAC's 1Q2007 projections of ICLS by study area, per line and by state, respectively. Appendices HC22, HC23, and HC24 contain the revised 4Q2006 projections of ICLS by study area, per line and by state, respectively. Appendices HC28 and HC29 provide the revised projected 2005 to 2006 Program Year ICLS by study area and per line. Appendices HC30 and HC31 provide the revised projected 2006 to 2007 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 (rel. Nov. 8, 2001) (*MAG Order*).

INTERSTATE ACCESS SUPPORT MECHANISM

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 1Q2007 are \$37.635 million for rural carriers, \$94.595 million for non-rural carriers, and \$47.857 million for competitive ETCs. USAC projects \$180.087 million will be required for 1Q2007 with total annual IAS estimated to be \$720.349 million.

Appendices HC12, HC13, and HC14 provide USAC's 1Q2007 projections of IAS by study area, line, and state, respectively.

NON-RURAL FORWARD-LOOKING MECHANISM

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 2007.²³

For 1Q2007, USAC projects \$86.616 million will be required for HCM support (\$50.406 million for incumbent non-rural carriers and \$36.210 million for competitive ETCs). Based on these projections, total 2007 HCM support is estimated to be \$346.463 million.

Appendices HC15, HC16, and HC17 provide USAC's 1Q2007 projections of non-rural forward-looking support by wire center, state, and study area, respectively.

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 (rel. May 31, 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).

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

USAC estimates the 1Q2007 High Cost Support Mechanism funding requirement as follows: \$354.150 million for HCL Support (including SNA and SVS); \$122.527 million for LSS; \$322.713 million for ICLS; \$180.087 million for IAS; and \$86.616 million for HCM Support for a total of \$1,066.093 million. 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 Third Quarter 2006 (3Q2006) contributed to an over-funded condition for which this filing proposes to adjust the 1Q2007 funding requirements. The total adjustment to the 1Q2007 fund requirement based on actual results will decrease the funding needed by \$104.433 million. The explanation for the adjustment is described in the following table:

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

Universal Service Administrative Company 1Q2007 Fund Size Projections

Reason for the Prior Period Adjustment	Adjustment in Millions
The 3Q2006 actual billings were higher than expected due to higher revenues reported by contributors in quarterly revenue projection and annual true-up filings	\$(79.157)
High Cost Support Mechanism distributions were higher than projected in 3Q2006	25.004
Interest income was higher than estimated for 3Q2006	(6.517)
Bad debt expense was lower than anticipated	(40.726)
2005 Administrative Expenses True-up	(3.037)
Total Prior Period Adjustment	\$(104.433)

The total fund requirement of \$1,066.093 million, decreased by the prior-period adjustment of \$104.433 million, increased by administrative costs of \$7.928 million, and reduced by projected interest income of \$8.975 million, results in a total projected funding requirement for the High Cost Support Mechanism for 1Q2007 of \$960.613 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 federal 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

²⁵ See 47 C.F.R. §§ 54.201.

²⁶ 47 C.F.R. §§ 54.401 - 54.417.

Universal Service Administrative Company 1Q2007 Fund Size Projections

\$6.50 (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 federal 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 1Q2007, USAC projects \$192.318 million will be required for Lifeline support. Based on this projection, total 2007 Lifeline support is estimated to be \$769.274 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 1Q2007, USAC projects that \$9.006 million will be required for Link Up support. Based on this projection, total annual 2007 Link Up support is estimated to be \$36.023 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); *MAG Order* at ¶ 42 (permitting rate-of-return carriers to increase their baseline subscriber line charge to \$5.00 effective January 1, 2002); *Cost Review Proceeding for Residential and Single-Line Business Subscriber Line Charge (SLC) Caps, Access Charge Reform, and Price Cap Performance Review for Local Exchange Carriers*, CC Docket Nos. 96-262, 94-1, Order, FCC 02-161 (rel. June 5, 2002) (*2002 SLC Order*) (authorizing an increase in the baseline subscriber line charge for price cap and rate-of-return carriers to \$6.00, effective July 1, 2002, and to \$6.50, effective July 1, 2003).

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*).

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 1Q2007, USAC projects that \$2.333 million will be required for TLS. Based on this projection, total 2007 TLS is estimated to be \$9.334 million.

LOW INCOME SUPPORT MECHANISM SUMMARY

USAC estimates a 1Q2007 funding requirement for the Low Income Support Mechanism of \$203.657 million. This estimate includes \$192.318 million for Lifeline, \$9.006 million for Link Up, and \$2.333 million for Toll Limitation Service. Results of 3Q2006 contribute to an over-funded condition, for which this filing proposes to adjust the 1Q2007 funding requirements. The total adjustment to the 1Q2007 funding requirement based on actual results will decrease the funding needed by \$33.901 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), (c).

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

Reason for the Prior Period Adjustment	Adjustment in Millions
The 3Q2006 actual billings were higher than expected due to higher revenues reported by contributors in quarterly revenue projection and annual true-up filings	\$(15.379)
Low Income Support Mechanism distributions were lower than projected in 3Q2006	(6.076)
Interest income was higher than estimated for 3Q2006	(2.761)
Bad debt expense was lower than anticipated	(9.092)
2005 Administrative Expenses True-up	(0.593)
Total Prior Period Adjustment	\$ (33.901)

The total fund requirement of \$203.657 million, decreased by the prior period adjustment of \$33.901 million, increased for administrative expenses of \$2.407 million, and decreased by the deduction of the projected interest income of \$3.592 million, results in a total projected funding requirement for the Low Income Support Mechanism for 1Q2007 of \$168.571 million.

Appendix LI01 provides projected Low Income support amounts by state and study area for 1Q2007. LI02 provides detail on Low Income funding amounts available in each of the states and territories for 1Q2007. LI03 provides a list of ETCs for 3Q2006. LI04 provides detail on quarterly company-specific Low Income support disbursement amounts for 3Q2006. LI05 provides detail on annual company-specific Low Income support amounts through 2nd Quarter 2006 (2Q2006). LI06 provides historical data of monthly support amounts claimed by ETCs from January 1998 through September 2006. LI07 provides detail on Low Income support distributed by state for 2001 through 2Q2006. 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 2Q2006.

RURAL HEALTH CARE SUPPORT MECHANISM

The following provides a status report on the Rural Health Care Support Mechanism commitments and disbursements for Funding Years 2002-06, as of September 30, 2006.

Prior funding years are closed.

FUNDING YEAR 2002

Funding Year 2002 began on July 1, 2002 and ended on June 30, 2003. As of September 30, 2006, funding commitments have been issued totaling \$23.369 million. Based on information provided by applicants, USAC now estimates Funding Year 2002 demand will be \$21.824 million. The Commission previously authorized the collection of \$22.062 million for Funding Year 2002. Considering the revised demand estimate for Funding Year 2002, USAC recommends that the Commission decrease collections for Funding Year 2002 by \$0.238 million in 1Q2007.

Authorized disbursements made to service providers through 3Q2006 are listed in Appendix RH02.

FUNDING YEAR 2003

Funding Year 2003 began on July 1, 2003 and ended on June 30, 2004. As of September 30, 2006, funding commitments have been issued totaling \$27.932 million. Based on information provided by applicants, USAC now estimates Funding Year 2003 demand will be \$26.250 million. The Commission previously authorized the collection of \$26.250 million.

Authorized funding by applicant during 3Q2006 and disbursements made to service providers through 3Q2006 are listed in Appendices RH03 and RH04, respectively.

FUNDING YEAR 2004

Funding Year 2004 began on July 1, 2004 and ended on June 30, 2005. As of September 30, 2006, 2,999 FCC Form 465s have been posted. In addition, as of September

Universal Service Administrative Company 1Q2007 Fund Size Projections

30, 2006, 4,667 FCC Form 466 and 466-A “packets” have been received, including 810 packets from applicants seeking support for Internet access only.³⁴

As of September 30, 2006, funding commitments have been issued totaling \$35.580 million. Based on information provided by applicants as of September 30, 2006, USAC estimates Funding Year 2004 demand will be \$31.676 million. The Commission previously authorized the collection of \$31.676 million for Funding Year 2004.

Funding commitments made during 3Q2006 are included in Appendix RH05. Authorized funding by applicant during 3Q2006 and disbursements made to service providers during 3Q2006 are listed in Appendices RH06 and RH07, respectively.

FUNDING YEAR 2005

Funding Year 2005 began on July 1, 2005 and ended on June 30, 2006. As of September 30, 2006, 3,482 Form 465s have been posted. The total demand for Funding Year 2005 is not yet known and will not be known until all Form 466 packets are submitted and processed. USAC estimates Funding Year 2005 demand will be approximately 24% higher than Funding Year 2004, resulting in Funding Year 2005 demand of \$39.339 million. This estimate assumes that applicants who receive support in Funding Year 2004 will receive a similar level of support in Funding Year 2005.

The estimate also projects an increase based on the large number of new applicants in Funding Year 2005. The Funding Year 2005 estimate includes a provision for Funding Year 2004 changes to the Rural Health Care Support Mechanism implemented by the Commission in December 2004. These changes include support for rural health care providers in states that have been designated as rural and who will, therefore, receive a 50% discount on their telecommunications services, as well as any new applicants who become eligible as a result of the new definition of “rural.” The Funding Year 2005 estimate also

³⁴ A “packet” typically consists of the FCC Form 466 or 466-A and contracts and invoices from service providers.

Universal Service Administrative Company 1Q2007 Fund Size Projections

provides for the *Hurricane Katrina Relief Order*³⁵ and its impact on the Rural Health Care Program.

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

FUNDING YEAR 2005 PACKET PROCESSING	
Completely Processed	4,155
Awaiting Supervisory Approval Only	168
Complete – Ready to Process	0
Withdrawn by Applicant	483
Denied	58
Incomplete – Require Forms and/or Clarification	592
Total Packets Received for Funding Year 2005	5,456

Based on information provided by applicants, USAC now estimates Funding Year 2005 demand will be \$39.339 million. The Commission previously authorized the collection of \$39.339 million from USF contributors for the Rural Health Care Support Mechanism.

Funding commitments made during 3Q2006 are included in Appendix RH08. Authorized funding by applicant during 3Q2006 and disbursements made to service providers during 3Q2006 are listed in Appendices RH09 and RH10, respectively.

FUNDING YEAR 2006

Funding Year 2006 began on July 1, 2006 and will end 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

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) (*Hurricane Katrina Relief 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 1Q2007 Fund Size Projections

mechanism, which will cover “up to 85 percent of an applicant’s costs of deploying a dedicated broadband network.”³⁶ Because support under the pilot program and the existing program was capped at \$100 million per year and the pilot program is expected to be fully subscribed, total demand for Fund Year 2006 is now expected to be \$100 million plus administrative costs. Applications for the new program will begin after Office of Management and Budget approval of the information collection requirements in the FCC’s order, which USAC anticipates will occur soon. Thus, USAC’s prior estimates of demand for Fund Year 2006 are subsumed in this new demand which is capped at \$100 million.

The status of Funding Year 2006 packets is provided below.

FUNDING YEAR 2006 PACKET PROCESSING	
Completely Processed	0
Awaiting Supervisory Approval Only	2
Complete – Ready to Process	520
Withdrawn by Applicant	4
Denied	0
Incomplete – Require Forms and/or Clarification	934
Total Packets Received as of 09/30/2006 for Funding Year 2006	1,460

The Commission previously authorized the collection of \$20.645 million. USAC will recommend the Commission authorize the collection of one-half of the remaining demand for Funding Year 2006 or \$39.678 million in 1Q2007 to meet total projected demand.

RURAL HEALTH CARE SUPPORT MECHANISM SUMMARY

The estimated 1Q2007 demand requirement for the Rural Health Care Support Mechanism is \$39.440 million (\$39.678 million for Funding Year 2006 less the \$0.238 million reduction to Funding Year 2002). The results of 3Q2006 contributed to an over-funded condition of \$2.919 million, which will be adjusted in the December 4, 2006 Universal

³⁶ *In the Matter of the Rural Health Care Support Mechanism*, FCC 06-144, 2006 WL 2819579 (F.C.C.) (rel. September 29, 2006).

Universal Service Administrative Company 1Q2007 Fund Size Projections

Service Fund Contribution Base filing for 1Q2007. The explanation for the adjustment is provided in the following table:

Reason for the Prior Period Adjustment	Adjustment in Millions
The 3Q2006 billings were higher than expected due to higher revenues reported by contributors in quarterly revenue projections	\$(1.248)
Interest income was more than estimated for 3Q2006	(0.409)
Bad debt expense was lower than anticipated in 3Q2006	(0.965)
2005 administrative expenses were lower than anticipated	(0.297)
Total Prior Period Adjustment	\$(2.919)

The total fund requirement of \$39.440 million, decreased by the prior-period adjustment of \$2.919 million, increased by administrative expenses of \$1.874 million, and decreased by projected interest income of \$0.729 million, results in a total projected funding requirement for the Rural Health Care Support Mechanism for 1Q2007 of \$37.666 million.

SCHOOLS AND LIBRARIES SUPPORT MECHANISM

The following provides a status report on the Schools and Libraries Support Mechanism net commitments³⁷ and net authorized for payment³⁸ by funding year, as of September 30, 2006.

³⁷ Net commitments are total funding commitments, including funding commitments issues on appeals, less recaptures of funds through commitment adjustments (COMADS) and other recoveries.

³⁸ Net authorized for payment is the amount of total approved invoices less any returned funds.

Universal Service Administrative Company 1Q2007 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	\$ 675.9	39.9%	\$ 507.6	36.3%	75.1%
Internet Access	\$ 134.2	7.9%	\$ 94.8	6.8%	70.7%
Internal Connections	\$ 886.1	52.2%	\$ 796.6	56.9%	89.9%
TOTAL	\$1,696.2	100.0%	\$1,399.0	100.0%	82.5%

As of September 30, 2006, no Funding Year 1998 applications remained under review. Funding Year 1998 began on January 1, 1998 and ended on June 30, 1999.

No payments were made to service providers during 3Q2006 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	\$ 634.5	29.5%	\$ 453.8	27.4%	71.5%
Internet Access	\$ 149.5	7.0%	\$ 95.8	5.8%	64.1%
Internal Connections	\$1,365.5	63.5%	\$1,106.6	66.8%	81.0%
TOTAL	\$2,149.5	100.0%	\$1,656.2	100.0%	77.1%

As of September 30, 2006, two Funding Year 1999 applications remained under review. Funding Year 1999 began on July 1, 1999 and ended on June 30, 2000.

Funding commitments made to applicants during 3Q2006 are included in Appendix SL01. Authorized funding by applicant during 3Q2006 and cumulative payments made to service providers through 3Q2006 are listed in Appendices SL02 and SL03, respectively.

Universal Service Administrative Company 1Q2007 Fund Size Projections

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	\$ 718.4	34.6%	\$ 480.2	29.1%	66.8%
Internet Access	\$ 219.1	10.6%	\$ 135.1	8.2%	61.7%
Internal Connections	\$1,135.6	54.8%	\$1,033.7	62.7%	91.0%
TOTAL	\$2,073.1	100.0%	\$1,649.0	100.0%	79.5%

As of September 30, 2006, two Funding Year 2000 applications remained under review. Funding Year 2000 began on July 1, 2000 and ended on June 30, 2001.

Authorized funding by applicant during 3Q2006 and cumulative payments made to service providers through 3Q2006 are listed in Appendices SL04 and SL05, respectively.

FUNDING YEAR 2001

FUNDING YEAR 2001					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 767.3	34.9%	\$ 531.3	31.5%	69.2%
Internet Access	\$ 226.5	10.3%	\$ 151.3	9.0%	66.8%
Internal Connections	\$1,205.9	54.8%	\$1,003.5	59.5%	83.2%
TOTAL	\$2,199.7	100.0%	\$1,686.1	100.0%	76.7%

As of September 30, 2006, eight potentially fundable Funding Year 2001 applications remained under review. Funding Year 2001 began on July 1, 2001 and ended on June 30, 2002.

Universal Service Administrative Company 1Q2007 Fund Size Projections

Funding commitments made to applicants during 3Q2006 are included in Appendix SL06. Authorized funding by applicant during 3Q2006 and cumulative payments made to service providers through 3Q2006 are listed in Appendices SL07 and SL08, respectively.

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	\$ 848.7	38.3%	\$ 604.5	38.8%	71.2%
Internet Access	\$ 248.9	11.2%	\$ 172.1	11.1%	69.1%
Internal Connections	\$1,118.6	50.5%	\$ 781.0	50.1%	69.8%
TOTAL	\$2,216.2	100.0%	\$1,557.6	100.0%	70.3%

As of September 30, 2006, twelve potentially fundable Funding Year 2002 applications remained under review. Funding Year 2002 began on July 1, 2002 and ended on June 30, 2003.

Funding commitments made to applicants during 3Q2006 are included in Appendix SL09. Authorized funding by applicant during 3Q2006 and cumulative payments to service providers through 3Q2006 are listed in Appendices SL10 and SL11, respectively.

FUNDING YEAR 2003

FUNDING YEAR 2003					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 886.7	33.2%	\$ 641.3	34.1%	72.3%
Internet Access	\$ 267.5	10.0%	\$ 195.0	10.3%	72.9%
Internal Connections	\$1,517.1	56.8%	\$ 1,046.5	55.6%	69.0%
TOTAL	\$2,671.3	100.0%	\$1,882.8	100.0%	70.5%

Universal Service Administrative Company 1Q2007 Fund Size Projections

As of September 30, 2006, 18 Funding Year 2003 applications remained under review. Funding Year 2003 began on July 1, 2003 and ended on June 30, 2004.

Funding commitments made to applicants during 3Q2006 are included in Appendix SL12. Authorized funding by applicant during 3Q2006 and cumulative payments to service providers through 2Q2006 are listed in Appendices SL13 and SL14, respectively.

FUNDING YEAR 2004

FUNDING YEAR 2004					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 949.1	41.7%	\$ 660.7	46.7%	69.6%
Internet Access	\$ 241.3	10.6%	\$ 187.2	13.2%	77.6%
Internal Connections	\$1,084.4	47.7%	\$ 567.8	40.1%	52.4%
TOTAL	\$2,274.8	100.0%	\$1,415.7	100.0%	62.2%

As of September 30, 2006, 123 Funding Year 2004 applications remained under review. Funding Year 2004 began on July 1, 2004 and ended on June 30, 2005.

Funding commitments made to applicants during 3Q2006 are included in Appendix SL15. Authorized funding by applicant during 3Q2006 and cumulative payments to service providers through 3Q2006 are listed in Appendices SL16 and SL17, respectively.

Universal Service Administrative Company 1Q2007 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	\$ 931.0	50.6%	\$ 420.4	54.5%	45.2%
Internet Access	\$ 251.8	13.7%	\$ 159.2	20.7%	63.2%
Internal Connections	\$ 545.4	29.7%	\$ 134.8	17.5%	24.7%
Internal Connections-Maint	\$ 111.2	6.0%	\$ 56.2	7.3%	50.6%
TOTAL	\$1,839.4	100.0%	\$ 770.6	100.0%	41.9%

As of September 30, 2006, approximately 494 Funding Year 2005 applications remained under review. Funding Year 2005 began on July 1, 2005 and ended on June 30, 2006.

Funding commitments made to applicants during 3Q2006 are included in Appendix SL18. Authorized funding by applicant and cumulative payments to service providers through 3Q2006 are listed in Appendices SL19 and SL20, respectively.

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	\$ 687.3	76.8%	\$ 4.3	31.5%	4.5%
Internet Access	\$ 208.1	23.2%	\$ 9.3	68.5%	0.6%
Internal Connections					
Internal Connections-Maint					
TOTAL	\$ 895.4	100.0%	\$ 13.6	100.0%	1.5%

As of September 30, 2006, 26,120 funding commitment decision letters (FCDLs) had been mailed to applicants. Funding Year 2006 began on July 1, 2006 and will end on June

30, 2007. Funding commitments made to applicants during 3Q2006 are included in Appendix SL21. Authorized funding by applicant and cumulative payments to service providers through 3Q2006 are listed in Appendices SL22 and SL23, respectively.

SCHOOLS AND LIBRARIES SUPPORT MECHANISM SUMMARY

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.³⁹ 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 2003.⁴⁰ 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 2004.⁴¹

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

Funding Year 1998 True-Up

As of September 30, 2006, \$1,399.026 million of Funding Year 1998 support had been disbursed. USAC estimates that a contingency amount of \$6.991 million should be reserved to pay appeals pending at the Commission and to pay invoices on funding requests

³⁹ 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*).

⁴⁰ *Id.*

⁴¹ 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).

Universal Service Administrative Company 1Q2007 Fund Size Projections

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 Funding Year 1998 balance is based on the following:

FUNDING YEAR 1998	Adjustment in Millions
Amount Authorized and Actually Collected	\$1,925.000
Amount Disbursed	(1,399.026)
Administrative Expenses (21 months)	(41.791)
Amount Applied to Adjust 2000, 2001 and 2002 Collections	(477.160)
Potential Additional Disbursements on Committed FRNs	(0.032)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(6.991)
Estimated Remaining Balance	\$0.000

Funding Year 1999 True-Up

As of September 30, 2006, \$1,656.156 million of Funding Year 1999 support had been disbursed. 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 requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that no Funding Year 1999 funds are available to carry forward.

The estimated remaining Funding Year 1999 balance is based on the following:

FUNDING YEAR 1999	Adjustment in Millions
Amount Authorized and Actually Collected	\$2,250.000

Universal Service Administrative Company 1Q2007 Fund Size Projections

Amount Disbursed	(1,656.156)
Administrative Expenses	(32.316)
Amount Applied to Adjust Third Quarter 2002 Collections	(256.160)
Amount Applied to Adjust Fourth Quarter 2002 Collections	(212.927)
Amount Carried Forward to Funding Year 2003	(50.000)
Potential Additional Disbursements on Committed FRNs	(1.188)
Remaining Uncommitted Requests	(2.113)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(39.140)
Estimated Remaining Balance	\$0.000

Funding Year 2000 True-Up

As of September 30, 2006, \$1,649.051 million of Funding Year 2000 support had been disbursed. USAC's projection of the remaining Funding Year 2000 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on remaining requests that have not received funding commitments, as well as a contingency reserve to pay pending appeals and make disbursements on Funding Year 2000 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that no Funding Year 2000 funds are available to carry forward.

The estimated remaining Funding Year 2000 balance is based on the following:

FUNDING YEAR 2000	Adjustment in Millions
Amount Authorized and Actually Collected	\$2,250.000
Amount Disbursed	(1,649.051)
Administrative Expenses	(32.235)
Amount Applied to Adjust Fourth Quarter 2002 Collections	(136.849)
Amount Applied to Adjust First Quarter 2003 Collections	(246.180)
Amount Carried Forward to Funding Year 2003	(160.000)
Potential Additional Disbursements on Committed FRNs	(0.539)
Remaining Uncommitted Requests	(0.224)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(24.922)
Estimated Remaining Balance	\$0.000

Universal Service Administrative Company 1Q2007 Fund Size Projections

Funding Year 2001 True-Up

As of September 30, 2006, \$1,686.110 million of Funding Year 2001 support had been disbursed. 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 \$50 million of Funding Year 2001 funds are available to carry forward.

The estimated remaining Funding Year 2001 balance is based on the following:

FUNDING YEAR 2001	Adjustment in Millions
Amount Authorized and Actually Collected	\$2,250.000
Amount Disbursed	(1,686.110)
Administrative Expenses	(30.559)
Amount Carried Forward to Funding Year 2003	(210.000)
Amount Carried Forward to Funding Year 2004	(150.000)
Potential Additional Disbursements on Committed FRNs	(14.463)
Remaining Uncommitted Requests	(22.759)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(86.109)
Estimated Remaining Balance	\$50.000

Funding Year 2002 True-Up

As of September 30, 2006, \$1,557.589 million of Funding Year 2002 support had been disbursed. USAC's projection of the remaining Funding Year 2002 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and make disbursements on Funding Year 2002 funding requests that may be granted extended invoice deadlines pursuant to Commission

Universal Service Administrative Company 1Q2007 Fund Size Projections

orders. Given these requirements, USAC estimates that \$300 million of Funding Year 2002 funds are available to carry forward.

The estimated remaining Funding Year 2002 balance is based on the following:

FUNDING YEAR 2002	Adjustment in Millions
Amount Authorized and Actually Collected	\$2,250.000
Amount Disbursed	(1,557.589)
Administrative Expenses	(38.531)
Potential Additional Disbursements on Committed FRNs	(60.077)
Remaining Uncommitted Requests	(2.041)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(291.762)
Estimated Remaining Balance	\$300.000

Funding Year 2003 True-Up

As of September 30, 2006, \$1,882.751 million of Funding Year 2003 support had been disbursed. 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 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.

Universal Service Administrative Company 1Q2007 Fund Size Projections

The estimated remaining Funding Year 2003 balance is based on the following:

FUNDING YEAR 2003	Adjustment in Millions
Amount Authorized and Actually Collected	\$2,250.000
Amount Carried Forward from Funding Years 1999, 2000 and 2001	420.000
Amount Disbursed	(1,882.751)
Administrative Expenses	(44.194)
Potential Additional Disbursements on Committed FRNs	(195.431)
Remaining Uncommitted Requests	(47.318)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(350.306)
Estimated Remaining Balance	\$150.000

Funding Year 2004 True-Up

As of September 30, 2006, \$1,415.669 million of Funding Year 2004 support had been disbursed. 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 requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements, USAC estimates that \$150 million of Funding Year 2004 funds are available to carry forward.

The estimated remaining Funding Year 2004 balance is based on the following:

FUNDING YEAR 2004	Adjustment in Millions
Amount Authorized and Actually Collected	\$2,250.000
Amount Carried Forward from Funding Year 2001	150.000
Amount Disbursed	(1,415.669)
Administrative Expenses	(55.753)
Potential Additional Disbursements on Committed FRNs	(428.728)
Remaining Uncommitted Requests	(42.477)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(307.373)
Estimated Remaining Balance	\$150.000

1Q2007 Demand Estimate and Contribution Requirement

Pursuant to FCC order, USAC changed the accounting methodology for the USF to generally accepted accounting principles for government entities on October 1, 2004.⁴²

Commission staff subsequently determined that Funding Commitment Decision Letters (FCDLs) for the Schools and Libraries Support Mechanism funding are to be treated as “obligations” for federal budgetary accounting purposes and subject to the requirements of the Antideficiency Act (ADA).⁴³ 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, 2006.⁴⁴

To reduce the USF cash reserve that has accumulated primarily because the structure of the program necessarily results in significant time lags between the commitments and actual disbursements while at the same time retaining the ability for the USF to satisfy all outstanding commitments based on historic disbursement patterns, the Commission applied a total of \$550 million of the undisbursed USF balance from prior years against Schools and Libraries Support Mechanism demand in 2004. The Commission applied \$200 million of the cash balance in both Second Quarter and Third Quarter 2004, and \$150 million in Fourth Quarter 2004.⁴⁵

Based on the level of applicant demand in Funding Year 2006, which exceeds the annual funding cap of \$2.250 billion, USAC requests authority to collect an amount to provide \$562.500 million in funding for 1Q2007, which is one-quarter of the \$2.250 billion

⁴² 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, 69 FR 5718-01 (rel. Oct. 3, 2003).

⁴³ 31 U.S.C. § 1341.

⁴⁴ 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).

⁴⁵ As stated in its January 31, 2004, Federal Universal Service Support Mechanisms Fund Size Projections for the Second Quarter 2005, and in its subsequent quarterly filings, USAC will continue to consult with the Commission as appropriate concerning the necessity and timing of any recovery of this \$550 million.

Universal Service Administrative Company 1Q2007 Fund Size Projections

annual cap on federal universal service support for schools and libraries. Results for 3Q2006 contribute to an over-funded condition for which this filing proposes to adjust the 1Q2007 requirements. The total adjustment to the 1Q2007 fund requirement based on actual results will decrease the funding needed by \$70.037 million. The explanation for the adjustment is provided below.

Reason for the Prior Period Adjustment	Adjustment in Millions
The 3Q2006 billings were higher than expected due to higher revenues reported by contributors in quarterly revenue projection and annual true-up filings	\$(40.895)
Interest income was higher than estimated for 3Q2006	(8.421)
Bad debt expense was lower than anticipated	(20.721)
Total Prior Period Adjustment	\$(70.037)

The fund requirement of \$562.5 million, which includes administrative expenses of \$21.565 million, decreased by the prior-period adjustment of \$70.037 million, and reduced by the projected interest income of \$37.527 million results in a projected collection requirement of \$454.936 million for the Schools and Libraries Support Mechanism for 1Q2007.

CONTRIBUTION BASE

USAC collects quarterly interstate and international revenue information from carriers on FCC Form 499-Q four times each year, and submits aggregate information on a quarterly basis to the Commission on March 2, June 1, September 1, and December 2.⁴⁶ Based on these filings, the Commission establishes the contribution factor for the upcoming quarter. The Commission uses USAC projections of collected revenues to determine the contribution factor.

⁴⁶ 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.

Universal Service Administrative Company 1Q2007 Fund Size Projections

Approximately 5,500 FCC Forms 499-Qs were distributed to carriers in early October 2006. Interstate telecommunications service providers are required to complete this form, reporting January - March 2007 projected revenue information, and return it to USAC by November 1, 2006.

USAC invoices and receives contributions from more than 2,500 telecommunications companies each month. USAC has maintained the uncollectible billings rate below 1% of the total funds billed to contributing telecommunications carriers.

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 days delinquent after USAC has provided delinquent carriers with the notice required under Commission rules and the Debt Collection Improvement Action (DCIA).⁴⁷ 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.⁴⁸ 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

⁴⁷ 31 U.S.C. §§ 3701 *et seq.*

⁴⁸ 47 C.F.R. § 1.910.

Universal Service Administrative Company 1Q2007 Fund Size Projections

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 October 23, 2006 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 1Q2007 projected support mechanism funding requirements described herein. At its October 24, 2006 meeting, the USAC Board of Directors adopted a resolution authorizing the inclusion of the projected 1Q2007 administrative expenses in this report to the Commission.

Respectfully submitted,

UNIVERSAL SERVICE
ADMINISTRATIVE COMPANY

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