

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Federal Universal Service Support Mechanisms Fund Size
Projections for First Quarter 2014

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November 1, 2013

TABLE OF CONTENTS

INTRODUCTION.....	1
ADMINISTRATIVE EXPENSES AND INTEREST INCOME PROJECTION	2
ADMINISTRATIVE EXPENSES.....	2
INTEREST INCOME PROJECTION.....	3
FINANCIAL STATEMENTS.....	3
EFFORTS TO PREVENT AND REDUCE IMPROPER PAYMENTS	4
FUNDING REQUIREMENTS.....	9
HIGH COST SUPPORT MECHANISM	9
Funds Reserved Pursuant to the USF/ICC Transformation Order (FCC 11-161).....	9
Connect America Fund Phase I – Incremental Support	11
Connect America Fund/Intercarrier Compensation Support.....	12
Rate-of-Return Carriers	13
<i>High Cost Loop Support (including Safety Net Additive and Safety Valve Support)</i>	13
<i>Interstate Common Line Support</i>	14
Price Cap Carriers	15
Competitive Eligible Telecommunications Carriers	15
High Cost Support Mechanism Summary.....	16
LOW INCOME SUPPORT MECHANISM.....	17
Lifeline Support	17
Link Up Support.....	18
Toll Limitation Support	18
Broadband Pilot	19
Low Income Support Mechanism Summary	19
RURAL HEALTH CARE SUPPORT MECHANISM.....	21
Funding Year 2008	21
Funding Year 2009	22
Funding Year 2010	23
Funding Year 2011	23
Funding Year 2012	24
Rural Health Care Support Mechanism Summary	25
SCHOOLS AND LIBRARIES SUPPORT MECHANISM.....	27
Funding Year 1998	27
Funding Year 1999	28
Funding Year 2000	28
Funding Year 2001	29
Funding Year 2002	30
Funding Year 2003	30
Funding Year 2004	31
Funding Year 2005	32
Funding Year 2006	33
Funding Year 2007	34

TABLE OF CONTENTS

Funding Year 2008	35
Funding Year 2009	36
Funding Year 2010	37
Funding Year 2011	38
Funding Year 2012	39
Funding Year 2013	40
Schools and Libraries Support Mechanism Summary	40
<i>Funding Year 1998 True-Up</i>	<i>44</i>
<i>Funding Year 1999 True-Up</i>	<i>44</i>
<i>Funding Year 2000 True-Up</i>	<i>45</i>
<i>Funding Year 2001 True-Up</i>	<i>46</i>
<i>Funding Year 2002 True-Up</i>	<i>47</i>
<i>Funding Year 2003 True-Up</i>	<i>48</i>
<i>Funding Year 2004 True-Up</i>	<i>49</i>
<i>Funding Year 2005 True-Up</i>	<i>50</i>
<i>Funding Year 2006 True-Up</i>	<i>51</i>
<i>Funding Year 2007 True-Up</i>	<i>52</i>
<i>Funding Year 2008 True-Up</i>	<i>53</i>
<i>Funding Year 2009 True-Up</i>	<i>54</i>
<i>Funding Year 2010 True-Up</i>	<i>55</i>
<i>Funding Year 2011 True-Up</i>	<i>56</i>
<i>Funding Year 2012 True-Up</i>	<i>57</i>
<i>Funding Year 2013 True-Up</i>	<i>58</i>
<i>1Q2014 Demand Estimate and Contribution Requirement</i>	<i>58</i>
CONTRIBUTION BASE	60
AUTHORIZATION TO FILE WITH THE COMMISSION	62

APPENDICES

HIGH COST

High Cost Support Projected by State by Study Area – 1Q2014.....	HC01
High Cost Support Projected by State – 1Q2014.....	HC02
Rural Alaska and Standing Rock Support Projected by State by Study Area – 1Q2014	HC03
Rural Alaska and Standing Rock Support Projected per Line – 1Q2014	HC04
High Cost Loop Support Projected by State by Study Area – 1Q2014.....	HC05
Safety Net Additive Support Projected by State by Study Area – 1Q2014.....	HC06
Safety Valve Support Projected by State by Study Area – 1Q2014	HC07
Frozen High Cost Support Projected by State by Study Area – 1Q2014.....	HC08
Interstate Common Line Support Projected by State by Study Area – 1Q2014.....	HC09
Interstate Common Line Support Projected per Line – 1Q2014	HC10
Interstate Common Line Support Projected by State – 1Q2014.....	HC11
Connect America Fund Intercarrier Compensation Support by State by Study Area – 1Q2014	HC12
Mobility Fund Phase I by Study Area – 1Q2014.....	HC13
Interstate Common Line Support by State by Study Area - Revised Projected 2012 to 2013 Program Year – 1Q2014	HC14
Interstate Common Line Support by State by Study Area – Revised Projected 2012 to 2013 Program Year per Line 1Q2014.....	HC15
Interstate Common Line Support by State by Study Area – Revised Projected 2013 to 2014 Program Year – 1Q2014	HC16
Interstate Common Line Support by State by Study Area – Revised Projected 2013 to 2014 Program Year per Line – 1Q2014.....	HC17

LOW INCOME

Low Income Support Projected by State by Study Area – 1Q2014.....	LI01
[RESERVED]	LI02
Eligible Telecommunications Carriers – 3Q2013.....	LI03
Quarterly Low Income Support Disbursement Amounts by Company – 3Q2013	LI04
Annual Low Income Support Amounts by State and Company – 2010 through 3Q2013	LI05
Historical Data: Support Amounts Claimed by ETCs Each Month – January 1998 through September 30, 2013	LI06
Low Income Support Distributed by State in 2010 and through 3Q2013	LI07
Lifeline Subscribers by State or Jurisdiction – January 2013 through March 2013	LI08
Link-Up Beneficiaries by State or Jurisdiction – January 2013 through March 2013	LI09

APPENDICES

[RESERVED]LI10

RURAL HEALTH CARE

Funding Year 2008 Authorizations – 3Q2013.....RH01
Funding Year 2008 Disbursements to Service Providers through 3Q2013RH02
Funding Year 2009 Commitments – 3Q2013RH03
Funding Year 2009 Authorizations – 3Q2013.....RH04
Funding Year 2009 Disbursements to Service Providers through 3Q2013RH05
Funding Year 2010 Authorizations – 3Q2013.....RH06
Funding Year 2010 Disbursements to Service Providers through 3Q2013RH07
Funding Year 2011 Commitments – 3Q2013RH08
Funding Year 2011 Authorizations – 3Q2013.....RH09
Funding Year 2011 Disbursements to Service Providers through 3Q2013RH10
Funding Year 2012 Commitments – 3Q2013RH11
Funding Year 2012 Authorizations – 3Q2013.....RH12
Funding Year 2012 Disbursements to Service Providers through 3Q2013RH13

SCHOOLS AND LIBRARIES

Funding Year 1998 Authorizations – 3Q2013 SL01
Funding Year 1998 Disbursements to Service Providers through 3Q2013 SL02
Funding Year 1999 Authorizations – 3Q2013 SL03
Funding Year 1999 Disbursements to Service Providers through 3Q2013 SL04
Funding Year 2000 Authorizations – 3Q2013..... SL05
Funding Year 2000 Disbursements to Service Providers through 3Q2013 SL06
Funding Year 2001 Authorizations – 3Q2013 SL07
Funding Year 2001 Disbursements to Service Providers through 3Q2013 SL08
Funding Year 2002 Authorizations – 3Q2013..... SL09
Funding Year 2002 Disbursements to Service Providers through 3Q2013 SL10
Funding Year 2003 Authorizations – 3Q2013..... SL11
Funding Year 2003 Disbursements to Service Providers through 3Q2013 SL12
Funding Year 2004 Authorizations – 3Q2013..... SL13
Funding Year 2004 Disbursements to Service Providers through 3Q2013.....SL14
Funding Year 2005 Authorizations – 3Q2013..... SL15
Funding Year 2005 Disbursements to Service Providers through 3Q2013.....SL16
Funding Year 2006 Authorizations – 3Q2013..... SL17
Funding Year 2006 Disbursements to Service Providers through 3Q2013.....SL18
Funding Year 2007 Authorizations – 3Q2013..... SL19
Funding Year 2007 Disbursements to Service Providers through 3Q2013 SL20
Funding Year 2008 Authorizations – 3Q2013..... SL21
Funding Year 2008 Disbursements to Service Providers through 3Q2013 SL22

APPENDICES

Funding Year 2009 Commitments – 3Q2013	SL23
Funding Year 2009 Authorizations – 3Q2013.....	SL24
Funding Year 2009 Disbursements to Service Providers through 3Q2013	SL25
Funding Year 2010 Commitments – 3Q2013.....	SL26
Funding Year 2010 Authorizations – 3Q2013.....	SL27
Funding Year 2010 Disbursements to Service Providers through 3Q2013	SL28
Funding Year 2011 Commitments – 3Q2013.....	SL29
Funding Year 2011 Authorizations – 3Q2013.....	SL30
Funding Year 2011 Disbursements to Service Providers through 3Q2013	SL31
Funding Year 2012 Commitments – 3Q2013.....	SL32
Funding Year 2012 Authorizations – 3Q2013.....	SL33
Funding Year 2012 Disbursements to Service Providers through 3Q2013	SL34
Funding Year 2013 Commitments – 3Q2013.....	SL35
Funding Year 2013 Authorizations – 3Q2013.....	SL36
Funding Year 2013 Disbursements to Service Providers through 3Q2013	SL37

OTHER APPENDICES

Universal Service Administrative Company 1Q2014 Budget.....	M01
Fund Size Projection for 1Q2014	M02
Schedule of USF Receipts, Interest Income, and Cash Outlays:	
January 1 through September 30, 2013 – Cash Basis.....	M03
January 1 through September 30, 2013 – Accrual Basis	M04

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

**FEDERAL UNIVERSAL SERVICE SUPPORT MECHANISMS
FUND SIZE PROJECTIONS FOR
FIRST QUARTER 2014**

INTRODUCTION

The Universal Service Administrative Company (USAC) hereby submits the federal Universal Service Support Mechanisms fund size and administrative cost projections for the first quarter of calendar year 2014 (1Q2014), in accordance with Section 54.709 of the Federal Communications Commission's (FCC or Commission) rules.¹

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

Upon approval of the quarterly funding requirements for the universal service support mechanisms and the projected administrative expenses, and the submission of the contribution base amount, the Commission will establish a quarterly contribution factor. USAC will bill USF contributors on a monthly basis for their individual obligations based on the approved contribution factor, collect amounts owed from contributors, and distribute funds to eligible recipients based on the schedules filed herein.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 and capital expenditures of each mechanism. USAC's remaining joint and common costs including costs associated with the billing, collection, and disbursement of funds are included in the projected administrative expenses and capital expenditures of the respective support mechanisms based on USAC's methodology for allocating costs submitted to the Commission.⁵

USAC projects a consolidated budget of \$45.89 million for 1Q2014. Direct costs for all support mechanisms total \$21.68 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 \$13.10 million and capital expenditures are projected at \$11.11

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 \$0.1 million for High Cost data collection performed by the National Exchange Carrier Association (NECA)—an independent entity not affiliated with USAC. *See* 47 C.F.R. §§ 36.611-13 and 69.603. Although USAC is required to pay for the data collection, it does not have the ability to directly oversee the effort and cannot verify, monitor, or otherwise evaluate the cost of performing the data collection function. Consistent with the fiduciary obligations of its members to safeguard USAC assets and the USF, USAC's Board of Directors has requested clarification from the Commission concerning this matter. *See* letter from D. Scott Barash, USAC, to Irene Flannery, FCC (Dec. 10, 1999), Comments of the Universal Service Administrative Company to the *Further Notice of Proposed Rulemaking* in CC Docket No. 96-45, FCC 01-8 (Feb. 26, 2001). *See also*, Comments of the Universal Service Administrative Company to the *Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking* in CC Docket No. 05-195, FCC 05-124 (June 14, 2005); and *Reply Comments of the Universal Service Administrative Company* (Dec. 19, 2005).

Universal Service Administrative Company 1Q2014 Fund Size Projections

million, both are allocated to each support mechanism as described in the chart below based on the allocation methodology on file with the Commission.

1Q2014 Administrative Expenses (in millions) – Budgeted

USF Mechanism	Direct Costs	USAC Common	Capital Costs	Total
High Cost	\$2.12	\$4.12	\$3.14	\$9.38
Low Income	3.84	1.82	1.39	7.05
Rural Health Care	2.80	1.08	0.83	4.71
Schools & Libraries	12.92	6.08	5.75	24.75
Total	\$21.68	\$13.10	\$11.11	\$45.89

Appendix M01 provides USAC’s administrative expense and capital expenditure budget for 1Q2014. Appendix M02 provides the fund size projections for 1Q2014.

INTEREST INCOME PROJECTION

For 1Q2014, USAC projects interest income of approximately \$1.05 million for the High Cost Support Mechanism, \$0.12 million for the Low Income Support Mechanism, \$0.23 million for the Rural Health Care Support Mechanism and \$3.54 million for the Schools and Libraries Support Mechanism. USAC projects total interest income of \$4.94 million. As in previous quarters, projected interest income is being included as an offset to administrative expenses for each of the support mechanisms and reduces the amount that USAC will be required to collect from carriers for those support mechanisms that are funded at caps established by the Commission.

FINANCIAL STATEMENTS

For the nine months ending September 30, 2013, on a cash basis, USAC disbursed to beneficiaries \$5,976.67 million in universal service support as follows: \$2,970.44 million in High Cost support, \$1,367.38 million in Low Income support, \$1,518.82 million in Schools and Libraries support, and \$120.03 million in Rural Health Care support. The total cash

Universal Service Administrative Company 1Q2014 Fund Size Projections

balance available as of September 30, 2013 to the universal service support mechanisms was \$7,206.28 million. On an accrual basis, USAC had a fund balance of \$6,935.84 million at September 30, 2013.

Appendices M03 and M04 provide 2013 year-to-date statements of fund activity on a cash and accrual basis.

EFFORTS TO PREVENT AND REDUCE IMPROPER PAYMENTS

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

The steps initiated by USAC include additional oversight and managerial controls, strengthened audit and investigative techniques, improved information technology tools, and more effective use of outreach resources. In 1Q2014, USAC will continue efforts identified and initiated during the previous years. These efforts include, but are not limited to:

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

The USAC Internal Controls team continues to develop and update required internal

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

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

Universal Service Administrative Company 1Q2014 Fund Size Projections

controls documentation and perform testing of key controls to conform the USAC internal controls program to best practices consistent with OMB Circular A-123. So far this year, the USAC Internal Controls Team has updated process narratives and completed risk assessments for all key business processes. Additionally, the Team has completed internal control testing for the High Cost and Low Income Programs and is currently testing other processes including USAC Financial Reporting, Fixed Assets, Investments, Procurement, and the Rural Health Care Program. The Team is also retesting prior year control deficiencies in the USF Financial Reporting, Human Resources/Payroll, Schools and Libraries, USF Disbursements, and USF Contributors processes. The Internal Controls team will complete testing by December 31, 2013 and will report the results in the first quarter of 2014. In addition to documentation and testing activities, the USAC Internal Controls team continues to facilitate review and approval activities for all USAC policy and procedure documents and provide assistance with ad hoc process improvement projects.

2. Strengthening audit and investigative techniques.

(a) In February 2010, the FCC directed USAC to implement an assessment program to determine the rate of improper payments made to universal service support mechanism beneficiaries to support the FCC's reporting requirements under the Improper Payments Elimination and Recovery Act (IPERA),⁹ formerly known as the Improper Payments Information Act (IPIA),¹⁰ and to assess universal service support mechanism beneficiary and USF contributor compliance with FCC regulations.¹¹ USAC successfully

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

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

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

Universal Service Administrative Company 1Q2014 Fund Size Projections

implemented this assessment program, known as the Payment Quality Assurance (PQA) Program, in August 2010 (see paragraph b below).

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

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

Following the October 2013 quarterly USAC Board of Directors meeting, 148 audits are complete and 47 audits remain in progress. In addition to completing the audits from the random sample, the audit team is also conducting unplanned audits as requested by

Universal Service Administrative Company 1Q2014 Fund Size Projections

USAC management, which are included in the numbers below. The status of the BCAP audits as of 3rd Quarter 2013 is as follows:

Program	Planned	Board Approved	% Complete	In Progress	Pending Board Approval
Contributor Revenue	47	28	60%	14	5
High Cost	25	21	84%	0	4
Low Income	53	29	55%	16	8
Schools & Libraries	43	33	77%	9	1
Rural Health Care	27	11	41%	8	8
Total	195	122	63%	47	26

(b) As previously reported, the PQA Program has completed two years of testing payments under this directive. Using a statistically drawn sample, each month support mechanism disbursements are selected and reviewed to verify that payments were made at the correct amount in accordance with FCC rules. The table below summarizes the error rates noted and the projected estimated improper payment amounts for each program for Calendar Year 2012 disbursements compared to Calendar Year 2011:

Support Mechanism	2012		2011	
	Improper Payment Rate	Estimated Improper Payment Amount (millions)	Improper Payment Rate	Estimated Improper Payment Amount (millions)
High Cost	0.26%	\$10.6	0.30%	\$12.6
Low Income	0.18%	\$3.9	0.09%	\$1.6
Schools and Libraries	2.21%	\$49.4	1.91%	\$43.4
Rural Health Care	0.24%	\$0.2	0.92%	\$0.7

The PQA Program collects information from program beneficiaries for the purpose of verifying the accuracy of program disbursements requested and received by the beneficiaries. The PQA team performs payment verification on randomly selected beneficiaries over a calendar year. Testing of payments for Calendar Year 2013 will begin

Universal Service Administrative Company 1Q2014 Fund Size Projections

upon completion of a procurement to hire a vendor to perform the assessments. The contract for the existing vendor expired.

3. Improving information technology tools.

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

4. Expanding and enhancing outreach and education.

In 3rd Quarter 2013 (3Q2013), USAC provided individual outreach to 97 Schools and Libraries applicants and 393 contributors. USAC held five live trainings: two for potential users of the National Lifeline Accountability Database, two for Rural Health Care Program beneficiaries, and one for Schools and Libraries Program applicants. USAC conducted four webinars: two for High Cost and Lifeline participants and two for potential users of the National Lifeline Accountability Database. USAC participated in three professional meetings, involving beneficiary audiences for the Rural Health Care Program. USAC posted seven online learning tools, including videos for the High Cost and Lifeline, Rural Health Care, and Schools and Libraries Programs as well as for service providers.

FUNDING REQUIREMENTS

HIGH COST SUPPORT MECHANISM

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

On November 18, 2011, the FCC released the *USF/ICC Transformation Order* (FCC 11-161).¹² In the Order, the FCC set an annual funding target for the High Cost Support Mechanism of no more than \$4.5 billion annually over the next six years. The Order directed USAC to forecast total High Cost Program demand at no less than \$1.125 billion per quarter beginning with 1Q2012.¹³ In the Order, the FCC waived section 54.709(b) of its rules and instructed USAC not to make any prior period adjustments related to High Cost Program support. The Order requires that if actual contributions exceed demand, excess contributions are to be credited to a new Connect America Fund (CAF) reserve account, to be used to fund future broadband deployment.¹⁴ If actual High Cost Program demand exceeds the quarterly target of \$1.125 billion, no additional funds will accumulate in the reserve account for that quarter.¹⁵ In addition, the *USF/ICC Transformation Order* states that the \$4.5 billion budget includes only disbursement of support and does not include administrative expenses or prior period adjustments for support for prior years.¹⁶

In the *USF/ICC Transformation Order*, the Commission instructed USAC to wind down the Corr Wireless reserve account and use \$300 million in the account to fund

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

¹³ See *USF/Transformation Order*, ¶¶ 559-560.

¹⁴ See *Id.*, ¶ 560.

¹⁵ See *Id.*, ¶ 928.

¹⁶ See *Id.*, ¶ 198.

Universal Service Administrative Company 1Q2014 Fund Size Projections

anticipated commitments in 2012 to recipients of the Mobility Fund Phase I.¹⁷ The remaining balance was used to fund Phase I of the Connect America Fund for price cap carriers in 2012.¹⁸ The Commission also instructed USAC not to use the Corr Wireless reserve account to fund inflation adjustments for the Schools and Libraries program for the current 2011 funding year. The chart below reflects the Connect America Fund reserve as of September 30, 2013.

Connect America Fund Reserve				
as of September 30, 2013				
<i>(in millions)</i>				
	Beginning Balance	Additions	Disbursements	Ending Balance
Transfer from Corr Wireless	\$524.32			\$524.32
1st Q2012 ¹⁹	524.32	\$93.95		618.27
2nd Q2012	618.27	147.94		766.21
3rd Q2012	766.21	115.52	(\$76.51)	805.22
4th Q2012	805.22	110.29	(28.69)	886.82
1st Q2013	886.82	139.95	(9.14)	1,017.63
2nd Q2013	1,017.63	181.61	(4.47)	1,194.77
3rd Q2013	1,194.77	174.59	(67.13)	1,302.23
Projected 4th Q2013	1,302.23	186.95		1,489.18
Projected 1st Q2014	\$1,489.18	194.80		\$1,683.98
Net Activity		\$1,345.60	(\$185.94)	

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

¹⁷ See USF/ICC Transformation Order, ¶ 564-567.

¹⁸ *Id.*, ¶ 566.

¹⁹ Additions include \$27.96 million collected in 3Q2012 via a prior period adjustment for 1Q2012 demand.

Universal Service Administrative Company 1Q2014 Fund Size Projections

Connect America Fund Reserve by Support Component				
<i>(in millions)</i>				
Support Component	Allocated	Accepted	Disbursed	Remaining
Incremental Support Round 1	\$300.00	\$114.34	(\$114.34)	\$0.00
Incremental Support Round 2*	300.00	386.00	0.00	386.00
Mobility Phase I – Non Tribal	300.00	300.00	(71.60)	228.40
Mobility Phase I – Tribal	50.00	0.00	0.00	50.00
Mobility Phase II	500.00	0.00	0.00	500.00
Total	\$1,450.00	\$800.34	(\$185.94)	\$1,164.40

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

For 1Q2014, projected support to be reserved pursuant to the *USF/ICC Transformation Order* is \$194.80 million. Any excess contributions will be credited to the Connect America Fund reserve account.²⁰

Appendix HC01 provides projected High Cost Support by state, by study area, for 1Q2014. HC01 also provides the projected amount of individual company support, and projected per-month amounts for the components of High Cost support that each ETC²¹ may be eligible to receive. HC02 provides the total projected amount of annualized High Cost Support for 1Q2014 for each state and territory.

CONNECT AMERICA FUND PHASE I – INCREMENTAL SUPPORT

Incremental Support is designed to provide an immediate boost to broadband deployment in areas that are unserved by any broadband provider.²² Incremental Support is available to price cap carriers at the holding company level. The Commission determined the amount available for each carrier, which it published in DA 12-639, released on April 25, 2012.²³ Carriers had 90 days to accept all, part, or reject the amount available. If a price cap

²⁰ *Id.*, ¶ 560-561.

²¹ See 47 C.F.R. § 36.631 and 47 C.F.R. §§ 54.301-54.303.

²² See *USF/ICC Transformation Order*, ¶137.

²³ See *Public Notice – Wireline Competition Bureau Announces Support Amounts for Connect America Fund Phase One Incremental Support*, WC Docket Nos. 10-90, 05-337, DA 12-639, rel. Apr. 25, 2012.

Universal Service Administrative Company 1Q2014 Fund Size Projections

carrier accepts Incremental Support, it is required to deploy broadband to a number of service locations equal to the amount it accepts divided by \$775.²⁴

On May 22, 2013, the Commission announced that a second round of Connect America Fund Phase I – Incremental Support funding will be available to promote expansion of broadband to consumers that lack access. The Commission allocated \$300 million for the second round of Phase I support. If total demand exceeds \$300 million, the Commission will authorize up to an additional \$185 million in funding.²⁵

On August 21, 2013, the FCC issued a news release announcing the results of the second round of CAF Phase I selections. Providers in 44 states and Puerto Rico requested over \$386 million in funding. The requests are subject to FCC review and possible challenges from other providers, which could lead to lower levels of funding in some areas.

Information concerning whether Connect America Fund Phase II support will be available in 2014 has not yet been determined.

CONNECT AMERICA FUND/INTERCARRIER COMPENSATION SUPPORT

In the *USF/ICC Transformation Order*, the FCC adopted a transitional recovery mechanism with an effective date of July 1, 2012 to facilitate incumbent carriers' gradual transition away from intercarrier compensation (ICC) revenues.²⁶ Eligible incumbent carriers may receive additional support through this recovery mechanism.

For 1Q2014, total Connect America Fund/Intercarrier Compensation Support is estimated to be \$108.42 million and total annual 2013 Connect America Fund/Intercarrier Compensation Support is estimated to be \$433.68 million.

Appendix HC12 provides projected Connect America Fund/Intercarrier

²⁴ See *USF/ICC Transformation Order*, ¶138.

²⁵ See *In the Matter of Connect America Fund Report and Order*, WC Docket No. 10-90, FCC 13-73, rel. May 22, 2013, ¶¶ 7, 11.

²⁶ See 47 C.F.R. § 54.304(b).

Universal Service Administrative Company 1Q2014 Fund Size Projections

Compensation Support payments by state by study area for 1Q2014.

RATE-OF-RETURN CARRIERS

Rate-of-return carriers not affiliated with price cap carriers may continue to receive legacy High Cost Program support and may receive Connect America Fund support to offset lost inter-carrier compensation (ICC) revenues.²⁷

High Cost Loop Support (including Safety Net Additive and Safety Valve Support)

High Cost Loop (HCL) Support is calculated based on the results of the annual collection of 2012 incumbent local exchange carrier (LEC) loop cost and expense adjustment data that was submitted to the FCC and USAC on October 1, 2013.²⁸ Growth in total HCL Support for rural carriers is limited under Section 36.603(a) of the Commission's rules to the current level of funding increased yearly by the annual growth in supported rural loops.²⁹ The *Rural Task Force (RTF) Order*³⁰ increased HCL support for rural carriers effective July 1, 2001.

Rural HCL Support for calendar year 2014 will be less than the level of payments for 2013 because of a rural growth factor of negative 2.4831 percent. Rural HCL Support for calendar year 2013, therefore, is capped at \$756.51 million. This capped amount reflects reductions pursuant to the *USF/ICC Transformation Order*, which was adjusted by NECA in the first quarter of 2012 to exclude price cap local exchange carriers and their rate-of-return affiliated study areas.

The *RTF Order* provided Safety Net Additive (SNA) Support above the HCL cap for

²⁷ See *USF/ICC Transformation Order*, ¶ 206.

²⁸ Universal Service Fund (USF) 2012 Submission of 2011 Study Results (filed Oct. 1, 2012) (*USF Data Submission*).

²⁹ 47 C.F.R. § 36.603(a).

³⁰ *Federal-State Joint Board on Universal Service, Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket Nos. 96-45, 00-256, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, and Report and Order in CC Docket No. 00-256, FCC 01-157, 16 F.C.R. 11244 (2001) (*RTF Order*).

Universal Service Administrative Company 1Q2014 Fund Size Projections

carriers that make significant investment in rural infrastructure in years in which HCL is capped.³¹ To receive support, a rural carrier must show that growth in telecommunications plant in service (TPIS) per loop is at least 14 percent greater than the study area's TPIS per loop in the prior year. Pursuant to the *USF/ICC Transformation Order*, SNA will be phased down over a two year period, and no SNA support will be provided for carriers whose costs are incurred after 2009.³² For 1Q2014, projected SNA support is \$4.06 million.

For 1Q2014, projected HCL Support is \$191.87 million, which includes \$4.06 million for SNA support and \$1.52 million for Safety Valve Support (SVS). Total annual 2014 HCL Support is projected to be \$767.48 million.

Appendix HC05 provides projected uncapped monthly HCL Support payments by state by study area for 1Q2014. Appendix HC06 provides projected monthly SNA Support payments by state by study area for 1Q2014. Appendix HC07 displays projected SVS Support payments by state by study area for 1Q2014.

Interstate Common Line Support

Interstate Common Line Support (ICLS) is designed to permit each rate-of-return carrier to recover its common line revenue requirement while ensuring that its subscriber line charges (SLCs) remain affordable for its customers.³³

For 1Q2014, ICLS is projected to be \$216.08 million and total annual 2014 ICLS is estimated to be \$872.42 million.

Appendices HC09, HC10, and HC11 provide USAC's 1Q2014 projections of ICLS

³¹ RTF Order at ¶¶ 77-90.

³² See *USF/ICC Transformation Order*, ¶ 252.

³³ 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 (rel. Nov. 8, 2001)) (*MAG Order*).

Universal Service Administrative Company 1Q2014 Fund Size Projections

by state by study area, per line and by state, respectively. In addition, HC14, HC15, HC16 and HC17 provide ICLS by state by study area and per line for 2012 to 2013, and 2013 to 2014, respectively.

PRICE CAP CARRIERS

In the *USF/ICC Transformation Order*, the FCC directed USAC to freeze all support for price cap carriers and their rate-of-return affiliates for HCL, HCM, SVS, LSS, IAS, and ICLS, on a study area basis to the amount of support each carrier received in 2011.³⁴

For 1Q2014, total frozen high cost support for price cap carriers is estimated to be \$259.37 million and total annual 2014 frozen high cost support is estimated to be \$1,037.48 million. Appendix HC08 provides frozen high cost support for price cap carriers by state by study area for 1Q2014.

COMPETITIVE ELIGIBLE TELECOMMUNICATIONS CARRIERS

The *USF/ICC Transformation Order* transitioned existing CETC support to the Connect America Fund over a five-year period beginning January 1, 2012.³⁵ For the transition, the FCC set each CETC's baseline support at its total 2011 support in a given study area, or an amount equal to \$3,000 times the number of reported lines as of year-end 2011, whichever is lower.³⁶ That monthly baseline amount was provided from January 1, 2012 to June 30, 2012.³⁷ Beginning July 1, 2012, each CETC's support was reduced by 20 percent for each July to June time period.³⁸

For 1Q2014, total frozen High Cost Program support demand for CETCs is \$134.89 million. In addition, for rural Alaska CETCs and Standing Rock, 1Q2014 High Cost

³⁴ See *USF/ICC Transformation Order*, ¶ 133.

³⁵ See *Id.*, ¶ 513.

³⁶ See *Id.*, ¶ 515.

³⁷ See *Id.*, ¶ 515.

³⁸ See *Id.*

Universal Service Administrative Company 1Q2014 Fund Size Projections

Program support is estimated to be \$19.57 million. The combined High Cost Program support demand totals for CETCs, rural Alaska CETCs, and Standing Rock for 2014 is estimated to be \$154.46 million.

Appendix HC08 provides frozen high cost support for CETCs by state by study area for 1Q2014. Additionally, Appendix HC03 provides 1Q2014 projections for Rural Alaska and Standing Rock Support by study area. Appendix HC04 provides 1Q2014 per line projections for Rural Alaska and Standing Rock Support.

HIGH COST SUPPORT MECHANISM SUMMARY

The 1Q2014 High Cost Support Mechanism funding requirements are projected as follows: \$191.87 million for HCL Support, \$216.08 million for ICLS, \$259.37 million for frozen Price Cap Carrier Support, \$154.46 million for frozen CETC Support,³⁹ \$108.42 million for Connect America Fund/Intercarrier Compensation Support, and \$194.80 million for the Connect America Fund reserve account resulting in total High Cost Support Mechanism projected demand of \$1,125.00 million.

Financial results for 3Q2013 contributed to an over-funded condition for which this filing proposes to adjust the 1Q2014 funding requirements. The total adjustment to the 1Q2014 funding requirement based on actual results will decrease the funding requirement by \$7.97 million. The explanation for the adjustment is described in the following table:

³⁹ "CETC Support" includes frozen support, rural Alaska CETC support, and support to the Standing Rock Reservation CETC.

Universal Service Administrative Company 1Q2014 Fund Size Projections

Reason for the Prior Period Adjustment	Adjustment in Millions
3Q2013 billings were higher than the projected revenues reported by USF contributors in their quarterly revenue projections.	(\$33.55)
High Cost Support Mechanism distributions were equal to projected in 3Q2013.	0.00
Interest income was higher than projected for 3Q2013.	(0.14)
Bad debt expense was higher than anticipated.	26.31
Annual administrative true-up for 3Q2013.	(0.59)
Total Prior Period Adjustment	(\$7.97)

The total fund requirement of \$1,125.00 million is adjusted as follows: decreased by the prior period adjustments of \$7.97 million, increased by administrative costs of \$9.38 million, and reduced by the projected interest income of \$1.05 million; resulting in a total projected 1Q2014 funding requirement for the High Cost Support Mechanism of \$1,125.36 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.⁴⁰ ETCs providing Lifeline support are entitled to receive funding for the waiver of charges and reduced rates provided to qualified low-income subscribers.⁴¹ In the *Lifeline Modernization Order*, all non-tribal Lifeline support is set to a flat rate of \$9.25 for all subscribers equally, regardless of whether they subscribe to wireline or wireless Lifeline service.⁴² The Order, however, does not make any changes to Tier 4 support available to low-income consumers

⁴⁰ See 47 C.F.R. § 54.201.

⁴¹ 47 C.F.R. §§ 54.401 - 54.417.

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

Universal Service Administrative Company 1Q2014 Fund Size Projections

residing on tribal lands.⁴³ As established in the *Tribal Order*, Tier Four support makes available each month up to an additional \$25 per low-income subscriber to eligible residents of tribal lands.⁴⁴

For 1Q2014, USAC projects \$466.67 million will be required for Lifeline Support. Based on this projection, total annual 2014 Lifeline Support is estimated to be \$1.86 billion.

LINK UP SUPPORT

Effective with the April 2012 support claims, Link-Up support was eliminated for all ETCs on non-tribal lands. Link-Up support is available for ETCs that provide support on tribal lands, but is limited to those ETCs receiving High Cost Program support.⁴⁵ Eligible ETCs may claim a 100 percent reduction, up to \$100, of the customary charge for commencing telephone service for a single telecommunication connection at a subscriber's principal place of residence.⁴⁶

For 1Q2014, USAC projects that \$0.04 million will be required for Link-Up support. Based on this projection, total annual 2014 Link-Up support is estimated to be \$0.12 million.

TOLL LIMITATION SUPPORT

Toll Limitation Support (TLS) compensates ETCs for providing voluntary toll-limitation service based on the carrier's incremental cost of providing toll-limitation services. The Commission has defined these costs as the costs that carriers otherwise would not incur if they did not provide toll-limitation service to a given customer.⁴⁷ Toll limitation consists of toll blocking, which permits consumers to elect not to allow the completion of outgoing

⁴³ See *Lifeline Modernization Order*, ¶59.

⁴⁴ 47 C.F.R. § 54.400(e); see also, *Twenty-Fifth Order on Reconsideration, Report and Order, Order, and Further Notice of Proposed Rulemaking*, CC Docket 96-45, 18 FCC Rcd. 10,958 (2003) (*Tribal Order*). On August 31, 2000, the FCC stayed the implementation of the federal Lifeline and Link Up rule amendments only to the extent that they apply to qualifying low-income consumers living near reservations.

⁴⁵ See *Lifeline Modernization Order*, ¶ 253.

⁴⁶ 47 C.F.R. § 54.413(a)(i).

⁴⁷ 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).

Universal Service Administrative Company 1Q2014 Fund Size Projections

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.⁴⁸

The *Lifeline Modernization Order* phases out TLS over a period of time by capping the maximum amount that an ETC may claim. As of April 2012 through the remainder of 2012, TLS was capped at \$3.00 per month per TLS subscriber. TLS is reduced to \$2.00 in 2013, and will be eliminated and unavailable at the beginning of 2014.⁴⁹

BROADBAND PILOT

The *Lifeline Modernization Order* established a Broadband Pilot Program for low-income consumers to test the impact of broadband adoption with variations in the monthly discount for broadband services. The broadband discounts will be provided over an 18-month period with no more than \$13.8 million to be disbursed.⁵⁰ USAC projects that \$0.93 million will be required for the Broadband Pilot Program in 1Q2014.

LOW INCOME SUPPORT MECHANISM SUMMARY

The estimated 1Q2014 Low Income Support Mechanism funding requirements are projected as follows: \$466.67 million for Lifeline, \$0.04 million for Link-Up, \$0.93 million for Broadband Pilot, resulting in total of \$467.64 million.

Financial results of 3Q2013 contribute to an under-funded condition, for which this filing proposes to adjust the 1Q2014 funding requirement. The total adjustment to the 1Q2014 funding requirement based on actual results will increase the funding needed by \$6.13 million. The explanation for the adjustment is described in the following table:

⁴⁸ 47 C.F.R. §§ 54.400(b) and (c).

⁴⁹ See *Lifeline Modernization Order*, ¶ 234.

⁵⁰ *In the Matter of Lifeline and Link Up Reform and Modernization*, WC Docket No. 11-42, DA 12-2-45, Order (rel. December 19, 2012).

Universal Service Administrative Company 1Q2014 Fund Size Projections

Reason for the Prior Period Adjustment	Adjustment in Millions
3Q2013 billings were higher than the projected revenues reported by USF contributors in their quarterly revenue projections.	(\$10.00)
Low Income Support Mechanism distributions were higher than projected in 3Q2013.	11.04
Interest income was higher than projected in 3Q2013.	(0.03)
Bad debt expense for 3Q2013 was higher than anticipated.	5.32
Annual Administrative True Up	(0.20)
Total Prior Period Adjustment	\$6.13

The total fund requirement of \$467.64 million increased by the prior period adjustment of \$6.13 million, increased for administrative costs of \$7.05 million, and reduced by projected interest income of \$0.12 million, results in a total projected funding requirement for the Low Income Support Mechanism for 1Q2014 of \$480.70 million.

Appendix LI01 provides projected Low Income support amounts by state and study area for 1Q2014.⁵¹ LI03 provides a list of ETCs for 3Q2013.⁵² LI04 provides detail on quarterly company specific Low Income support disbursement amounts for 3Q2013. LI05 provides detail on annual company-specific Low Income support amounts for 2010 through 3Q2013.⁵³ LI06 provides historical data of monthly support amounts claimed by ETCs from January 1998 through September 30, 2013. LI07 provides detail on Low Income support distributed by state for 2010 through 3Q2013.⁵⁴ LI08 and LI09 provide subscriber information by state and beneficiary by state or jurisdiction for Link Up support, respectively.

⁵¹ Companies that are no longer ETCs have been removed from LI01.

⁵² Companies that are no longer ETCs have been removed from LI03.

⁵³ For data for years prior to 2009 see LI05 of USAC's 2Q2010 FCC Quarterly Demand Filing.

⁵⁴ For data for years prior to 2009 see LI07 of USAC's 2Q2010 FCC Quarterly Demand Filing.

RURAL HEALTH CARE SUPPORT MECHANISM

Following is a summary of Rural Health Care Support Mechanism commitments and disbursements for Funding Years 2008-12 as of September 30, 2013. Prior funding years are closed.

FUNDING YEAR 2008

Funding Year 2008 began on July 1, 2008 and ended on June 30, 2009. The window for Funding Year 2008 opened on April 8, 2008. As of September 30, 2013, a total of 3,563 Form 465s were posted and 7,431 packets were received.

On September 29, 2006, the FCC released an order establishing a new two-year Rural Health Care Support Mechanism Pilot Program for Funding Years 2006 and 2007 to cover “up to 85 percent of an applicant’s costs of deploying a dedicated broadband network.”⁵⁵ The application window for the Pilot Program opened on March 8, 2007 and closed on May 7, 2007.⁵⁶ On November 19, 2007, the FCC released an order increasing the number of funding years to three for the Pilot Program and awarding \$417.78 million in support to 69 applications over funding years 2007, 2008 and 2009.⁵⁷ Support under the Pilot Program is capped at \$139.26 million in each of the three funding years. The Commission stated that monies collected in funding year 2006 for the Pilot Program should be applied to Funding Year 2007,⁵⁸ resulting in \$54.44 million of funds collected for Funding Year 2006 being reallocated to Funding Year 2007.

⁵⁵ *In the Matter of the Rural Health Care Support Mechanism*, FCC 06-144, 2006 WL 2819579 (F.C.C.) (rel. Sept. 29, 2006). See also, *Wireline Competition Bureau Seeks Comment on the Petition for Reconsideration or, in the Alternative, Clarification Filed by National LambdaRail, Inc.*, WC 02-60, DA 06-2279 (rel. Nov. 6, 2006); *FCC Expands Eligibility to Include National LambdaRail’s Backbone in Rural Health Care Pilot*, FCC 07-6 (rel. Feb. 7, 2007).

⁵⁶ *Wireline Competition Bureau Announces OMB Approval of the Rural Health Care Pilot Program Information Collection Requirements and the Deadline for Filing Applications*, DA 07-1188 (rel. Mar. 9, 2007).

⁵⁷ See *In the Matter of the Rural Health Care Support Mechanism*, FCC 07-198 (rel. Nov. 19, 2007).

⁵⁸ *Id.*

Universal Service Administrative Company 1Q2014 Fund Size Projections

As of September 30, 2013, Pilot Program funding commitments have been issued totaling \$16.75 million for Funding Year 2008. Based on information provided by applicants, USAC now estimates Funding Year 2008 Pilot Program demand will be \$16.30 million. In accordance with the instructions in a January 17, 2008 letter from the Chief of the FCC Wireline Competition Bureau allowing Pilot Program participants to roll forward support not used in one year to a subsequent funding year, USAC carried forward funds not used in Funding Year 2008 to Funding Year 2009. USAC has collected \$139.26 million for each of the Pilot Program Funding Years, thus no further collection is necessary.

As of September 30, 2013, Primary Program funding commitments have been issued totaling \$68.52 million. Based on information provided by applicants USAC estimates Funding Year 2008 Primary Program demand will be \$66.69 million. The Commission previously authorized collection of \$66.69 for Funding Year 2008.

Authorized funding by applicant during 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices RH01 and RH02, respectively.

FUNDING YEAR 2009

Funding Year 2009 began on July 1, 2009 and ended on June 30, 2010. The window for Funding Year 2009 opened on April 9, 2009. As of September 30, 2013, a total of 3,942 Form 465s were posted and 8,031 packets were received.

As of September 30, 2013, Pilot Program funding commitments have been issued totaling \$431.24 million for Funding Year 2009. In accordance with the instructions in a January 17, 2008 letter from the Chief of the FCC Wireline Competition Bureau allowing Pilot Program participants to roll forward support not used in one year to a subsequent funding year, USAC has previously carried forward funds not used in Funding Year 2007 and Funding Year 2008 to Funding Year 2009. Based on information provided by

Universal Service Administrative Company 1Q2014 Fund Size Projections

applicants, USAC now estimates Funding Year 2009 Pilot Program demand will be \$401.48 million. USAC has collected \$139.26 million for each of the Pilot Program Funding Years, thus no further collection is necessary.

As of September 30, 2013, Primary Program funding commitments have been issued totaling \$73.48 million. Based on information provided by applicants, USAC now estimates Funding Year 2009 Primary Program demand will be \$71.35 million. The Commission previously authorized collection of \$71.36 million for Funding Year 2009.

Funding commitments made during 3Q2013 are included in Appendix RH03. Authorized funding by applicant during 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices RH04 and RH05, respectively.

FUNDING YEAR 2010

Funding Year 2010 began on July 1, 2010 and ended on June 30, 2011. The window for Funding Year 2010 opened on March 15, 2010. As of September 30, 2013, a total of 4,283 Form 465s were posted and 9,689 packets were received.

As of September 30, 2013, Primary Program funding commitments have been issued totaling \$92.45 million. Based on information provided by applicants, USAC now estimates Funding Year 2010 Primary Program demand will be \$87.07 million. The Commission previously authorized collection of \$87.07 million for Funding Year 2010.

Authorized funding by applicant during 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices RH06 and RH07, respectively.

FUNDING YEAR 2011

Funding Year 2011 began on July 1, 2011 and ended on June 30, 2012. The window for Funding Year 2011 opened on April 4, 2011. As of September 30, 2013, a total of 4,793 Form 465s were posted and 11,860 packets were received.

Universal Service Administrative Company 1Q2014 Fund Size Projections

As of September 30, 2013, Primary Program funding commitments have been issued totaling \$105.17 million. Based on information provided by applicants, USAC now estimates Funding Year 2011 Primary Program demand will be \$97.05 million. The Commission previously authorized collection of \$97.24 million for Funding Year 2011.

Funding commitments made during 3Q2013 are included in Appendix RH08. Authorized funding by applicant during 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices RH09 and RH10, respectively.

FUNDING YEAR 2012

Funding Year 2012 began on July 1, 2012 and ended on June 30, 2013. The window for Funding Year 2012 opened on April 16, 2012. As of September 30, 2013, a total of 5,162 Form 465s were posted and 11,793 packets were received.

As of September 30, 2013, Primary Program funding commitments have been issued totaling \$76.15 million. Based on information provided by applicants, USAC now estimates Funding Year 2012 Primary Program demand will be \$115.05 million. The Commission previously authorized collection of \$115.03 million for Funding Year 2012. Considering the revised Primary Program demand estimate for Funding Year 2012, USAC recommends the Commission increase collections for Funding Year 2012 of the Primary Program by \$0.02 million in 1Q2014.

Funding commitments made during 3Q2013 are included in Appendix RH11. Authorized funding by applicant during 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices RH12 and RH13, respectively.

FUNDING YEAR 2013

Funding Year 2013 began on July 1, 2013 and ends on June 30, 2014. The window for Funding Year 2013 opened on April 16, 2013. As of September 30, 2013, a total of

Universal Service Administrative Company 1Q2014 Fund Size Projections

4,878 Form 465s were posted and 929 packets were received.

The Commission previously authorized collection of \$56.72 million for Funding Year 2013. Based on information provided by applicants, USAC now estimates Funding Year 2013 Primary Program demand will be \$86.28 million. Considering the revised Primary Program demand estimate for Funding Year 2013, USAC recommends the Commission increase collections for Funding Year 2013 by \$29.56 million in 1Q2014.

RURAL HEALTH CARE SUPPORT MECHANISM SUMMARY

The estimated 1Q2014 Rural Health Care Support Mechanism demand requirement is \$55.38 million - \$29.38 million for Funding Years 2009-2013 and \$26 million for demand associated with the new Healthcare Connect Fund (HCF). The FCC is working with USAC to project the amounts to be collected for the new program until historical data provides an adequate basis for projecting demand.⁵⁹ Pursuant to FCC instruction, USAC projects \$26 million for 1Q2014 demand associated with the HCF.

The FCC has also directed USAC to use uncommitted Pilot Program dollars for the demand associated with the HCF. As of September 30, 2013, USAC estimates that there will be \$51.33 million in uncommitted Pilot Program dollars available for commitment under the HCF in 1Q2014. Total estimated HCF funds available for commitment in 1Q2014 will be \$129.33 million.

The results of 3Q2013 contributed to an overfunded condition for which this filing proposes to adjust the 1Q2014 funding requirements. The total adjustment to the 1Q2014 funding requirement based on actual results will increase the funding requirement by \$0.23 million.

⁵⁹ *Id.* at ¶ 368.

Universal Service Administrative Company 1Q2014 Fund Size Projections

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

Reason for the Prior Period Adjustment	Adjustment in Millions
The 3Q2013 billings were higher than the projected revenues reported by USF contributors in their quarterly revenue projections.	(\$1.67)
Interest income was higher than estimated for 3Q2013.	(0.04)
Bad debt expense was higher than anticipated.	0.88
Annual Administrative True-Up	1.06
Total Prior Period Adjustment	\$0.23

The total fund requirement of \$55.38 million is adjusted as follows: increased by the prior-period adjustment of \$0.23 million, increased for administrative costs of \$4.71 million, and decreased by the projected interest income of \$0.23 million, resulting in a total projected funding requirement for the Rural Health Care Support Mechanism for 1Q2014 of \$60.09 million.

Universal Service Administrative Company 1Q2014 Fund Size Projections

SCHOOLS AND LIBRARIES SUPPORT MECHANISM

Following is a summary of Schools and Libraries Support Mechanism net commitments⁶⁰ and net authorized for payment⁶¹ by funding year as of September 30, 2013.

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	\$ 679.26	39.98%	\$ 507.76	36.29%	74.75%
Internet Access	\$ 134.12	7.89%	\$ 94.82	6.78%	70.70%
Internal Connections	\$ 885.82	52.13%	\$ 796.48	56.93%	89.91%
TOTAL	\$ 1,699.20	100.00%	\$1,399.06	100.00%	82.34%
De-obligations due to Expired FRNs	\$ (298.94)				
Net Commitments	\$ 1,400.26				

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.

Authorized funding by applicant during 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices SL01 and SL02, respectively.

⁶⁰ Net Commitments are the amount of total funding commitments (including appeals, less funding commitment adjustments (COMADs) and other recaptures) reduced by the remaining dollar amount of commitments that had not been fully disbursed by their invoicing deadline.

⁶¹ Net authorized for payment is the amount of total approved invoices less any returned funds. Authorized payments may be greater than net commitments due to recoveries in the process of collection.

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 1999

FUNDING YEAR 1999					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 634.54	29.54%	\$ 452.16	27.38%	71.26%
Internet Access	\$ 148.68	6.92%	\$ 95.40	5.77%	64.16%
Internal Connections	\$ 1,364.70	63.54%	\$1,104.12	66.85%	80.91%
TOTAL	\$ 2,147.92	100.00%	\$1,651.68	100.00%	76.90%
Deobligations due to Expired FRNs	\$ (496.00)				
Net Commitments	\$ 1,651.92				

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 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices SL03 and SL04, respectively.

FUNDING YEAR 2000

FUNDING YEAR 2000					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 719.03	34.59%	\$ 481.21	29.22%	66.92%
Internet Access	\$ 218.66	10.52%	\$ 131.92	8.01%	60.33%
Internal Connections	\$ 1,140.87	54.89%	\$1,033.90	62.77%	90.62%
TOTAL	\$ 2,078.56	100.00%	\$1,647.03	100.00%	79.24%
Deobligations due to Expired FRNs	\$ (431.45)				
Net Commitments	\$ 1,647.11				

Universal Service Administrative Company 1Q2014 Fund Size Projections

No Funding Year 2000 applications remained in the PIA review process. Funding Year 2000 began on July 1, 2000 and ended on June 30, 2001. Authorized funding by applicant during 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices SL05 and SL06, 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	\$ 766.62	35.22%	\$ 540.80	31.90%	70.54%
Internet Access	\$ 224.78	10.33%	\$ 147.05	8.67%	65.42%
Internal Connections	\$ 1,185.14	54.45%	\$1,007.69	59.43%	85.03%
TOTAL	\$ 2,176.54	100.00%	\$1,695.54	100.00%	77.90%
Deobligations due to Expired FRNs	\$ (479.50)				
Net Commitments	\$ 1,697.04				

As of September 30, 2013, 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 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices SL07 and SL08, respectively.

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 2002

FUNDING YEAR 2002					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 860.77	39.15%	\$ 613.26	38.45%	71.25%
Internet Access	\$ 251.70	11.45%	\$ 168.96	10.59%	67.13%
Internal Connections	\$ 1,086.06	49.40%	\$ 812.75	50.96%	74.83%
TOTAL	\$ 2,198.53	100.00%	\$1,594.97	100.00%	72.55%
Deobligations due to Expired FRNs	\$ (584.04)				
Net Commitments	\$ 1,614.49				

As of September 30, 2013, one potentially fundable Funding Year 2002 application remained in the PIA review process. Funding Year 2002 began on July 1, 2002 and ended on June 30, 2003. Authorized funding by applicant during 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices SL09 and SL10, 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	\$ 906.74	34.36%	\$ 659.94	34.01%	72.78%
Internet Access	\$ 276.00	10.46%	\$ 203.27	10.48%	73.65%
Internal Connections	\$ 1,455.99	55.18%	\$1,077.09	55.51%	73.98%
TOTAL	\$ 2,638.73	100.00%	\$1,940.30	100.00%	73.53%
Deobligations due to Expired FRNs	\$ (690.13)				
Net Commitments	\$ 1,948.60				

Universal Service Administrative Company 1Q2014 Fund Size Projections

As of September 30, 2013, two potentially fundable Funding Year 2003 applications remained in the PIA review process. Funding Year 2003 began on July 1, 2003 and ended on June 30, 2004. Authorized funding by applicant during 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices SL11 and SL12, 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	\$ 950.45	43.37%	\$ 691.31	45.01%	72.74%
Internet Access	\$ 246.08	11.23%	\$ 193.28	12.58%	78.54%
Internal Connections	\$ 994.82	45.40%	\$ 651.34	42.41%	65.47%
TOTAL	\$ 2,191.35	100.00%	\$1,535.93	100.00%	70.09%
Deobligations due to Expired FRNs	\$ (646.99)				
Net Commitments	\$ 1,544.36				

As of September 30, 2013, one potentially fundable Funding Year 2004 application remained in the PIA review process. Funding Year 2004 began on July 1, 2004 and ended on June 30, 2005. Authorized funding by applicant during 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices SL13 and SL14, respectively.

Universal Service Administrative Company 1Q2014 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	\$ 988.16	46.36%	\$ 776.72	47.90%	78.60%
Internet Access	\$ 259.88	12.19%	\$ 214.51	13.23%	82.54%
Internal Connections	\$ 749.83	35.18%	\$ 538.38	33.20%	71.80%
Internal Connections-Maint	\$ 133.72	6.27%	\$ 91.87	5.67%	68.70%
TOTAL	\$ 2,131.59	100.00%	\$1,621.48	100.00%	76.07%
Deobligations due to Expired FRNs	\$ (506.90)				
Net Commitments	\$ 1,624.69				

As of September 30, 2013, three potentially fundable Funding Year 2005 applications remained in the PIA review process. Funding Year 2005 began on July 1, 2005 and ended on June 30, 2006. Authorized funding by applicant during 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices SL15 and SL16, respectively.

Universal Service Administrative Company 1Q2014 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	\$ 1,071.59	54.04%	\$ 851.71	54.69%	79.48%
Internet Access	\$ 291.14	14.68%	\$ 236.56	15.19%	81.25%
Internal Connections	\$ 495.98	25.01%	\$ 383.19	24.61%	77.26%
Internal Connections-Maint	\$ 124.26	6.27%	\$ 85.75	5.51%	69.01%
TOTAL	\$ 1,982.97	100.00%	\$1,557.21	100.00%	78.53%
Deobligations due to Expired FRNs	\$ (398.51)				
Net Commitments	\$ 1,584.46				

As of September 30, 2013, three 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. Authorized funding by applicant during 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices SL17 and SL18, respectively.

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 2007

FUNDING YEAR 2007					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 1,185.26	48.68%	\$ 945.54	48.54%	79.77%
Internet Access	\$ 309.43	12.71%	\$ 258.82	13.29%	83.64%
Internal Connections	\$ 777.87	31.94%	\$ 624.26	32.04%	80.25%
Internal Connections-Maint	\$ 162.38	6.67%	\$ 119.47	6.13%	73.57%
TOTAL	\$ 2,434.94	100.00%	\$1,948.09	100.00%	80.01%
Deobligations due to Expired FRNs	\$ (480.42)				
Net Commitments	\$ 1,954.52				

As of September 30, 2013, 17 potentially fundable Funding Year 2007 applications remained in the PIA review process. Funding Year 2007 began on July 1, 2007 and ended on June 30, 2008. Authorized funding by applicant during 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices SL19 and SL20, respectively.

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 2008

FUNDING YEAR 2008					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 1,296.64	51.09%	\$1,044.93	55.14%	80.59%
Internet Access	\$ 338.63	13.34%	\$ 277.70	14.65%	82.01%
Internal Connections	\$ 768.34	30.28%	\$ 479.87	25.33%	62.46%
Internal Connections-Maint	\$ 134.10	5.29%	\$ 92.47	4.88%	68.96%
TOTAL	\$ 2,537.71	100.00%	\$1,894.97	100.00%	74.67%
Deobligations due to Expired FRNs	\$ (613.02)				
Net Commitments	\$ 1,924.69				

As of September 30, 2013, 22 potentially fundable Funding Year 2008 applications remained in the PIA review process. Funding Year 2008 began on July 1, 2008 and ended on June 30, 2009. Authorized funding by applicant during 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices SL21 and SL22, respectively.

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 2009

FUNDING YEAR 2009					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 1,362.02	47.68%	\$ 1,104.79	48.87%	81.11%
Internet Access	\$ 354.62	12.41%	\$ 290.74	12.86%	81.99%
Internal Connections	\$ 936.95	32.80%	\$ 725.04	32.07%	77.38%
Internal Connections-Maint	\$ 203.04	7.11%	\$ 140.23	6.20%	69.07%
TOTAL	\$ 2,856.63	100.00%	\$ 2,260.80	100.00%	79.14%
Deobligations due to Expired FRNs	\$ (522.57)				
Net Commitments	\$ 2,334.06				

As of September 30, 2013, 34 potentially fundable Funding Year 2009 applications remained in the PIA review process. Funding Year 2009 began on July 1, 2009 and ended on June 30, 2010. Funding commitments made to applicants during 3Q2013 are included in Appendix SL23. Authorized funding by applicant during 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices SL24 and SL25, respectively.

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 2010

FUNDING YEAR 2010					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 1,449.50	46.91%	\$1,168.43	50.79%	80.61%
Internet Access	\$ 400.71	12.97%	\$ 329.20	14.31%	82.15%
Internal Connections	\$ 1,017.10	32.92%	\$ 655.45	28.49%	64.44%
Internal Connections-Maint	\$ 222.56	7.20%	\$ 147.51	6.41%	66.28%
TOTAL	\$ 3,089.87	100.00%	\$ 2,300.59	100.00%	74.46%
Deobligations due to Expired FRNs	\$ (540.09)				
Net Commitments	\$ 2,549.78				

As of September 30, 2013, 45 potentially fundable Funding Year 2010 applications remained in the PIA review process. Funding Year 2010 began on July 1, 2010 and ended on June 30, 2011. Funding commitments made to applicants during 3Q2013 are included in Appendix SL26. Authorized funding by applicant during 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices SL27 and SL28, respectively.

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 2011

FUNDING YEAR 2011					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 1,473.95	55.71%	\$1,165.13	60.68%	79.05%
Internet Access	\$ 475.22	17.96%	\$ 382.53	19.92%	80.50%
Internal Connections	\$ 569.32	21.52%	\$ 302.17	15.74%	53.08%
Internal Connections-Maint	\$ 127.19	4.81%	\$ 70.29	3.66%	55.26%
TOTAL	\$ 2,645.68	100.00%	\$1,920.12	100.00%	72.58%
Deobligations due to Expired FRNs	\$ (338.28)				
Net Commitments	\$ 2,307.40				

As of September 30, 2013, 134 potentially fundable Funding Year 2011 applications remained in the PIA review process. Funding Year 2011 began on July 1, 2011 and ended on June 30, 2012. Funding commitments made to applicants during 3Q2013 are included in Appendix SL29. Authorized funding by applicant during 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices SL30 and SL31, respectively.

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 2012

FUNDING YEAR 2012					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 1,468.12	52.94%	\$ 762.89	59.98%	51.96%
Internet Access	\$ 565.37	20.39%	\$ 332.41	26.13%	58.80%
Internal Connections	\$ 623.16	22.47%	\$ 124.59	9.79%	19.99%
Internal Connections-Maint	\$ 116.43	4.20%	\$ 52.22	4.10%	44.85%
TOTAL	\$ 2,773.08	100.00%	\$ 1,272.11	100.00%	45.87%
Deobligations due to Expired FRNs	\$ -				
Net Commitments	\$ 2,773.08				

As of September 30, 2013, 464 potentially fundable Funding Year 2012 applications remained in the PIA review process. Funding Year 2012 began on July 1, 2012 and will end on June 30, 2013. Funding commitments made to applicants during 3Q2013 are included in Appendix SL32. Authorized funding by applicant during 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices SL33 and SL34, respectively.

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 2013

FUNDING YEAR 2013					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 539.36	68.67%	\$ 5.67	45.73%	1.05%
Internet Access	\$ 246.04	31.33%	\$ 6.73	54.27%	2.74%
Internal Connections	\$ -	0.00%	\$ -	0.00%	0.00%
Internal Connections-Maint	\$ -	0.00%	\$ -	0.00%	0.00%
TOTAL	\$ 785.40	100.00%	\$ 12.40	100%	1.58%
Deobligations due to Expired FRNs	\$ -				
Net Commitments	\$ 785.40				

As of September 30, 2013, 20,837 potentially fundable Funding Year 2013 applications remained in the PIA review process. Funding Year 2013 began on July 1, 2013 and will end on June 30, 2014. Funding commitments made to applicants during 3Q2013 are included in Appendix SL35.

Authorized funding by applicant during 3Q2013 and cumulative payments to service providers through 3Q2013 are listed in Appendices SL36 and SL37, 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

Universal Service Administrative Company 1Q2014 Fund Size Projections

Quarter 2002 (4Q2002), and 1st Quarter 2003 (1Q2003).⁶²

In the *Schools and Libraries Third Report and Order and Second Further Notice of Proposed Rulemaking*, the Commission amended its rules to allow unused funds from prior funding years to be carried forward on an annual basis in the second quarter of each calendar year for use in the next full funding year.⁶³ The Commission required USAC to file quarterly estimates of unused funds from prior funding years in submitting its projection of Schools and Libraries Support Mechanism demand for the upcoming quarter. The Commission modified the schedule to implement the process for Funding Year 2003 and directed USAC to carry forward \$420 million of unused prior year funds for use in Funding Year 2003.⁶⁴ In accordance with the *Schools and Libraries Third Report and Order*, the Commission announced that \$150 million in unused funds from Funding Year 2001 would be carried forward to increase disbursements to schools and libraries in Funding Year 2004.⁶⁵

On June 11, 2007, the Commission instructed USAC to carry forward \$650 million in unused funds to Funding Year 2007.⁶⁶ The funds were carried forward from Funding Years 2001, 2002, 2003, and 2004 in the amount of \$50 million, \$300 million, \$150 million, and \$150 million, respectively. On June 23, 2008, the Commission instructed USAC to carry forward \$600 million in unused funds to Funding Year 2008.⁶⁷ The funds were carried forward from Funding Years 2002, 2003, and 2004 in the amount of \$150 million, \$200 million, and \$250 million, respectively. On July 31, 2009, the Commission instructed USAC

⁶² See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, First Report and Order, FCC 02-175 (June 13, 2002) (*Schools and Libraries First Report and Order*).

⁶³ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket 02-6, *Third Report and Order and Second Further Notice of Proposed Rulemaking*, FCC 03-323 (Dec. 23, 2003) (*Schools and Libraries Third Report and Order*).

⁶⁴ *Id.*

⁶⁵ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, *Carryover of Unused Funds for Funding Year 2004*, DA 04-1848 (rel. June 28, 2004).

⁶⁶ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, *Wireline Competition Bureau Announces Carryover of Unused Funds for Funding Year 2007*, DA 07-2470 (rel. June 1, 2007).

⁶⁷ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, *Carryover of Unused Federal Universal Service Funds for Funding Year 2008*, DA 08-1470 (rel. June 23, 2008).

Universal Service Administrative Company 1Q2014 Fund Size Projections

to carry-forward \$900 million in unused funds to Funding Year 2009.⁶⁸ The funds were carried-forward from Funding Years 1999, 2001, 2002, 2003, 2004, 2005, and 2006 in the amount of \$25 million, \$60 million, \$60 million, \$210 million, \$275 million, \$200 million, and \$70 million, respectively. On July 1, 2010, the Commission instructed USAC to carry forward \$900 million in unused funds to Funding Year 2010.⁶⁹ The funds were carried-forward from Funding Years 2002, 2005, 2006, 2007, and 2008 in the amount of \$25 million, \$100 million, \$300 million, \$375 million, and \$100 million, respectively. On August 22, 2011, the Commission instructed USAC to carry forward an additional \$250 million in unused funds to Funding Year 2010.⁷⁰ The total funds carried forward to Funding Year 2010 amount to \$1,150 million. The Commission further instructed USAC to carry forward \$850 million in unused funds from Funding Years 2003, 2004, 2005, 2006, 2007, 2008, and 2009 to Funding Year 2011.⁷¹ The funds were carried-forward from Funding Years 2003, 2004, 2005, 2006, 2007, 2008, and 2009 in the amount of \$20 million, \$50 million, \$120 million, \$115 million, \$275 million, \$140 million, and \$130 million, respectively. On July 18, 2012, the FCC authorized USAC to carry forward \$1,050 million in unused funds from prior years to increase Funding Year 2012 disbursements in excess of the \$2.34 billion annual cap.⁷² The funds were carried-forward from Funding Years 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, and 2010 in the amount of \$5 million, \$15 million, \$20 million, \$25 million, \$15 million, \$55 million, \$60 million, \$120 million, \$80 million, \$140 million, \$115 million, \$300 million, and \$100 million, respectively. On May 16, 2013,

⁶⁸ See *Schools and Libraries Universal Support Mechanism*, CC Docket No. 02-06, *Carryover of Unused Federal Universal Service Funds for Funding Year 2009*, DA 09-1734 (rel. July 31, 2009).

⁶⁹ See *Wireline Competition Bureau Announces Carryover of Unused Schools and Libraries Universal Service Funds for Funding Year 2010*, DA 10-1243 (rel. July 1, 2010).

⁷⁰ See *School and Libraries Universal Service Support Mechanism/Funds for Learning, LLC Petition to Reject the Administrator's Discount Threshold Recommendation for Funding Year 2010*, DA 11-1354 (rel. Aug. 22, 2011).

⁷¹ *Id.*

⁷² See *Wireline Competition Bureau Announces Carry-Forward of Unused Schools and Libraries Universal Service Funds for Funding Year 2012*, DA 12-1148 (rel. July 18, 2012).

Universal Service Administrative Company 1Q2014 Fund Size Projections

the FCC authorized USAC to carry forward \$450 million in unused funds from prior years to increase Funding Year 2013 disbursements in excess of the \$2.38 billion annual cap. The funds were carried forward from Funding Years 2007, 2008, 2009 and 2010 in the amount of \$20 million, \$150 million, 150⁷³ million and \$130 million, respectively.

In the *Schools and Libraries Sixth Report and Order*, the Commission amended its rules to increase the cap on program funding by indexing the cap to inflation.⁷⁴ The Commission calculates this annual increase by using the percentage increase in the gross domestic product chain – type price index (GDP-CPI) from the previous year and rounds this to the nearest 0.1 percent. The Commission found that the GDP-CPI increased 0.9 percent between 2008 and 2009. Using this analysis, the Commission set the cap for Funding Year 2010 to \$2,270,250,000. On August 5, 2011, the Commission set the cap for Funding Year 2011 at \$2,290,682,250.⁷⁵ On November 18, 2011, the FCC ordered USAC to include the inflation adjustments to the E-rate cap in the Schools and Libraries Support Mechanism demand projection.⁷⁶ On May 18, 2012, the Commission set the cap for Funding Year 2012 to \$2,338,786,577.⁷⁷ On March 11, 2013, the FCC set the cap for Funding Year 2013 at \$2,380,314,485.⁷⁸

In consultation with FCC staff, USAC estimates that a total of \$400 million is available to carry forward from funding years as follows: 2002: \$40 million; 2007: \$20 million; 2008: \$20 million; 2009: \$50 million; and 2010: \$270 million. The following sections

⁷³ See *Wireline Competition Bureau Announces Carry-Forward of Unused Schools and Libraries Universal Service Funds for Funding Year 2013*, DA 13-1119 (rel. May 16, 2013).

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

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

⁷⁶ *Connect America Fund Order*, ¶ 567.

⁷⁷ See *Wireline Competition Bureau Announces E-Rate Inflation-Based Cap for Funding Year 2012*, DA 12-791 (rel. May 18, 2012).

⁷⁸ See *Wireline Competition Bureau Announces E-Rate Inflation-Based Cap for Funding Year 2012*, DA 13-382 (rel. Mar. 11, 2013).

Universal Service Administrative Company 1Q2014 Fund Size Projections

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, 2013, \$1,399.06 million of Funding Year 1998 support had been authorized for disbursement. USAC estimates that a contingency amount of \$3.79 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. Pursuant to the *Second Report and Order* issued on April 30, 2003 and in consultation with the Commission, \$3 million of needed funds for successful appeals were transferred from available funds in Funding Year 2008. Given these requirements and to preserve the contingency amount, USAC estimates that no Funding Year 1998 funds are available to carry-forward. The estimated Funding Year 1998 balance is based on the following:

FUNDING YEAR 1998	Amounts in Millions
Amount Authorized and Actually Collected	\$1,925.00
Amount Authorized for Disbursement	(1,399.06)
Administrative Expenses (21 months)	(41.79)
Amount Applied to Adjust 2000, 2001, and 2002 Collections	(477.16)
Amount Carried-forward to Funding Year 2012	(5.00)
Amount Carried Back to Fund Retroactive Appeals	3.00
Potential Additional Disbursements on Committed FRNs	(1.20)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(3.79)
Estimated Remaining Balance	\$0.00

Funding Year 1999 True-Up

As of September 30, 2013, \$1,651.68 million of Funding Year 1999 support had been authorized for disbursement. USAC's projection of remaining Funding Year 1999 funds includes an estimate of funds needed to pay additional disbursements on committed funding

Universal Service Administrative Company 1Q2014 Fund Size Projections

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	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,651.68)
Administrative Expenses	(32.32)
Amount Applied to Adjust Third Quarter 2002 Collections	(256.16)
Amount Applied to Adjust Fourth Quarter 2002 Collections	(212.93)
Amount Carried-forward to Funding Year 2003	(50.00)
Amount Carried-forward to Funding Year 2009	(25.00)
Amount Carried-forward to Funding Year 2012	(15.00)
Potential Additional Disbursements on Committed FRNs	(0.24)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(6.67)
Estimated Remaining Balance	\$0.00

Funding Year 2000 True-Up

As of September 30, 2013, \$1,647.03 million of Funding Year 2000 support had been authorized for disbursement. USAC's projection of 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 no Funding Year 2000 funds are available to carry-forward. The estimated remaining Funding Year 2000 balance is based on the following:

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 2000	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,647.03)
Administrative Expenses	(32.24)
Amount Applied to Adjust Fourth Quarter 2002 Collections	(136.85)
Amount Applied to Adjust First Quarter 2003 Collections	(246.18)
Amount Carried-forward to Funding Year 2003	(160.00)
Amount Carried-forward to Funding Year 2012	(20.00)
Potential Additional Disbursements on Committed FRNs	(0.07)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(7.63)
Estimated Remaining Balance	\$0.00

Funding Year 2001 True-Up

As of September 30, 2013, \$1,695.54 million of Funding Year 2001 support had been authorized for disbursement. USAC's projection of 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 and to preserve the contingency amount, USAC estimates that no Funding Year 2001 funds are available to carry-forward. The estimated remaining Funding Year 2001 balance is based on the following:

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 2001	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,695.54)
Administrative Expenses	(30.56)
Amount Carried-forward to Funding Year 2003	(210.00)
Amount Carried-forward to Funding Year 2004	(150.00)
Amount Carried-forward to Funding Year 2007	(50.00)
Amount Carried-forward to Funding Year 2009	(60.00)
Amount Carried-forward to Funding Year 2012	(25.00)
Potential Additional Disbursements on Committed FRNs	(1.49)
Remaining Uncommitted Requests	(20.33)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(7.08)
Estimated Remaining Balance	\$0.00

Funding Year 2002 True-Up

As of September 30, 2013, \$1,594.97 million of Funding Year 2002 support had been authorized for disbursement. USAC's projection of remaining Funding Year 2002 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and make disbursements on Funding Year 2002 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that \$40 million Funding Year 2002 funds are available to carry-forward. The estimated remaining Funding Year 2002 balance is based on the following:

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 2002	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,594.97)
Administrative Expenses	(38.53)
Amount Carried-forward to Funding Year 2007	(300.00)
Amount Carried-forward to Funding Year 2008	(150.00)
Amount Carried-forward to Funding Year 2009	(60.00)
Amount Carried-forward to Funding Year 2010	(25.00)
Amount Carried-forward to Funding Year 2012	(15.00)
Potential Additional Disbursements on Committed FRNs	(19.53)
Remaining Uncommitted Requests	(0.93)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(6.04)
Estimated Remaining Balance	\$40.00

Funding Year 2003 True-Up

As of September 30, 2013, \$1,940.30 million of Funding Year 2003 support had been authorized for disbursement. USAC's projection of 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 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 2003 funds are available to carry-forward. The estimated remaining Funding Year 2003 balance is based on the following:

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 2003	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,940.30)
Amount Carried-forward from Funding Years 1999, 2000 and 2001	420.00
Amount Carried-forward to Funding Year 2007	(150.00)
Amount Carried-forward to Funding Year 2008	(200.00)
Amount Carried-forward to Funding Year 2009	(210.00)
Amount Carried-forward to Funding Year 2011	(20.00)
Amount Carried-forward to Funding Year 2012	(55.00)
Administrative Expenses	(44.19)
Potential Additional Disbursements on Committed FRNs	(8.30)
Remaining Uncommitted Requests	(32.83)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(9.38)
Estimated Remaining Balance	\$0.00

Funding Year 2004 True-Up

As of September 30, 2013, \$1,535.93 million of Funding Year 2004 support had been authorized for disbursement. USAC's projection of 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 and to preserve the contingency amount, USAC estimates that no Funding Year 2004 funds are available to carry-forward. The estimated remaining Funding Year 2004 balance is based on the following:

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 2004	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,535.93)
Amount Carried-forward from Funding Year 2001	150.00
Amount Carried-forward to Funding Year 2007	(150.00)
Amount Carried-forward to Funding Year 2008	(250.00)
Amount Carried-forward to Funding Year 2009	(275.00)
Amount Carried-forward to Funding Year 2011	(50.00)
Amount Carried-forward to Funding Year 2012	(60.00)
Administrative Expenses	(55.75)
Potential Additional Disbursements on Committed FRNs	(8.43)
Remaining Uncommitted Requests	(0.04)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(14.85)
Estimated Remaining Balance	\$0.00

Funding Year 2005 True-Up

As of September 30, 2013, \$1,621.48 million of Funding Year 2005 support had been authorized for disbursement. USAC's projection of 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 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 2005 funds are available to carry-forward. The estimated remaining Funding Year 2005 balance is based on the following:

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 2005	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,621.48)
Amount Carried-forward to Funding Year 2009	(200.00)
Amount Carried forward to Funding Year 2010	(100.00)
Amount Carried forward to Funding Year 2011	(120.00)
Amount Carried-forward to Funding Year 2012	(120.00)
Administrative Expenses	(64.99)
Potential Additional Disbursements on Committed FRNs	(3.20)
Remaining Uncommitted Requests	(4.62)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(15.71)
Estimated Remaining Balance	\$0.00

Funding Year 2006 True-Up

As of September 30, 2013, \$1,557.21 million of Funding Year 2006 support had been authorized for disbursement. USAC's projection of 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 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 2006 funds are available to carry-forward. The estimated remaining Funding Year 2006 balance is based on the following:

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 2006	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,557.21)
Amount Carried-forward to Funding Year 2009	(70.00)
Amount Carried-forward to Funding Year 2010	(300.00)
Amount Carried-forward to Funding Year 2011	(115.00)
Amount Carried-forward to Funding Year 2012	(80.00)
Administrative Expenses	(80.74)
Potential Additional Disbursements on Committed FRNs	(27.23)
Remaining Uncommitted Requests	(1.58)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(18.24)
Estimated Remaining Balance	\$0.00

Funding Year 2007 True-Up

As of September 30, 2013, \$1,948.09 million of Funding Year 2007 support had been authorized for disbursement. USAC's projection of remaining Funding Year 2007 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that \$20 million of Funding Year 2007 funds are available to carry-forward. The estimated remaining Funding Year 2007 balance is based on the following:

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 2007	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,948.09)
Amount Carried-forward from Funding Years 2001, 2002, 2003 and 2004	650.00
Amount Carried-forward to Funding Year 2010	(375.00)
Amount Carried-forward to Funding Year 2011	(275.00)
Amount Carried-forward to Funding Year 2012	(140.00)
Amount Carried-forward to Funding Year 2013	(20.00)
Administrative Expenses	(81.24)
Potential Additional Disbursements on Committed FRNs	(6.44)
Remaining Uncommitted Requests	(13.06)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(21.17)
Estimated Remaining Balance	\$20.00

Funding Year 2008 True-Up

As of September 30, 2013, \$1,894.97 million of Funding Year 2008 support had been authorized for disbursement. USAC's projection of remaining Funding Year 2008 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that \$20 million of Funding Year 2008 funds are available to carry-forward. The estimated remaining Funding Year 2008 balance is based on the following:

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 2008	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,894.97)
Amount Carried-forward from Funding Years 2002, 2003, and 2004	600.00
Amount Carried-forward to Funding Year 2010	(350.00)
Amount Carried-forward to Funding Year 2011	(140.00)
Amount Carried-forward to Funding Year 2012	(115.00)
Amount Carried-forward to Funding Year 2013	(150.00)
Amount Carried Back to Funding Year 1998 to Fund Appeals	(3.00)
Administrative Expenses	(81.44)
Potential Additional Disbursements on Committed FRNs	(29.72)
Remaining Uncommitted Requests	(43.95)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(21.92)
Estimated Remaining Balance	\$20.00

Funding Year 2009 True-Up

As of September 30, 2013, \$2,260.80 million of Funding Year 2009 support had been authorized for disbursement. USAC's projection of remaining Funding Year 2009 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that \$50 million of Funding Year 2009 funds are available to carry-forward. The estimated remaining Funding Year 2009 balance is based on the following:

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 2009	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(2,260.80)
Amount Carried-forward from Funding Years 1999, 2001, 2002, 2003, 2004, 2005, and 2006	900.00
Amount Carried-forward to Funding Year 2011	(130.00)
Amount Carried-forward to Funding Year 2012	(300.00)
Amount Carried-forward to Funding Year 2013	(150.00)
Administrative Expenses	(81.27)
Potential Additional Disbursements on Committed FRNs	(73.27)
Remaining Uncommitted Requests	(71.90)
Contingency Amount for Pending Appeals and Invoice Deadline Extensions	(32.76)
Estimated Remaining Balance	\$50.00

Funding Year 2010 True-Up

As of September 30, 2013, \$2,300.59 million of Funding Year 2010 support had been authorized for disbursement. USAC's projection of remaining Funding Year 2010 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that \$220 million of Funding Year 2010 funds are available to carry-forward. The estimated remaining Funding Year 2010 balance is based on the following:

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 2010	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(2,300.59)
Amount Carried-forward from Funding Years 2002, 2005, 2006, 2007, 2008, and 2009	1,150.00
Amount Carried-forward to Funding Year 2012	(100.00)
Amount Carried-forward to Funding Year 2013	(130.00)
Amount Authorized by FCC Inflation Increment	20.25
Administrative Expenses	(75.33)
Potential Additional Disbursements on Committed FRNs	(249.17)
Remaining Uncommitted Requests	(131.09)
Contingency Amount for Pending Appeals and Invoice Deadline Extensions	(164.07)
Estimated Remaining Balance	\$270.00

Funding Year 2011 True-Up

As of September 30, 2013, \$1,920.12 million of Funding Year 2011 support had been authorized for disbursement. USAC's projection of remaining Funding Year 2011 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that no Funding Year 2011 funds are available to carry-forward. The estimated remaining Funding Year 2011 balance is based on the following:

Universal Service Administrative Company 1Q2014 Fund Size Projections

FUNDING YEAR 2011	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,920.12)
Amount Carried-forward from Funding Years 2003, 2004, 2005, 2006, 2007, and 2008	850.00
Amount Authorized by FCC Inflation Increment	40.68
Administrative Expenses	(85.00)
Potential Additional Disbursements on Committed FRNs	(387.28)
Remaining Uncommitted Requests	(502.78)
Contingency Amount for Pending Appeals and Invoice Deadline Extensions	(245.50)
Estimated Remaining Balance	\$0.00

Funding Year 2012 True-Up

As of September 30, 2013, \$1,272.11 million of Funding Year 2012 support had been authorized for disbursement. USAC's projection of remaining Funding Year 2012 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that no Funding Year 2012 funds are available to carry-forward. The estimated remaining Funding Year 2012 balance is based on the following:

FUNDING YEAR 2012	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,272.11)
Amount Carried-forward from Funding Years 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009 and 2010	1,050.00
Amount Authorized by FCC Inflation Increment	88.79
Administrative Expenses	(70.00)
Potential Additional Disbursements on Committed FRNs	(1,500.97)
Remaining Uncommitted Requests and Contingency Amount for Pending Appeals	(545.71)
Estimated Remaining Balance	\$0.00

Universal Service Administrative Company 1Q2014 Fund Size Projections

Funding Year 2013 True-Up

As of September 30, 2013, \$12.40 million of Funding Year 2013 support had been authorized for disbursement. USAC's projection of remaining Funding Year 2013 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that no Funding Year 2013 funds are available to carry-forward. The estimated remaining Funding Year 2013 balance is based on the following:

FUNDING YEAR 2013	Amounts in Millions
Amount Authorized for Collections	\$2,250.00
Amount Authorized for Disbursement	(12.40)
Amount Carried-forward from Funding Years 2007, 2008, 2009 and 2010	450.00
Amount Authorized by FCC Inflation Increment	130.31
Administrative Expenses	(70.00)
Potential Additional Disbursements on Committed FRNs	(773.00)
Remaining Uncommitted Requests and Contingency Amount for Pending Appeals	(1,974.91)
Estimated Remaining Balance	\$0.00

1Q2014 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, 2003.⁷⁹ 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

⁷⁹ See *In re Application of Generally Accepted Accounting Principles for Federal Agencies and Generally Accepted Government Auditing Standards to the Universal Service Fund*, CC Docket No. 96-45, Order, FCC 03-232, 18 FCC Rcd 19911 (2003).

Universal Service Administrative Company 1Q2014 Fund Size Projections

subject to the requirements of the Antideficiency Act (ADA).⁸⁰ The ADA generally requires that sufficient unobligated resources be available before an obligation can be incurred.

Congress exempted the USF from the requirements of the ADA through December 31, 2013.⁸¹

To reduce the USF cash reserve that has accumulated primarily because the structure of the program necessarily results in significant time lags between the commitments and actual disbursements while at the same time retaining the ability of the USF to satisfy all outstanding commitments based on historic disbursement patterns, the Commission applied a total of \$550 million of the undisbursed USF balance from prior years against Schools and Libraries Support Mechanism demand in 2004. The Commission applied \$200 million of the cash balance in both Second Quarter and Third Quarter 2004, and \$150 million in Fourth Quarter 2004.⁸²

Based on the level of applicant demand in Funding Year 2013, which exceeds the annual funding cap, USAC requests authority to collect an amount to provide \$562.50 million in funding for 1Q2014, which is one-quarter of the \$2.25 billion annual funding cap, increased by an inflation factor of \$32.58 million, an amount equal to one-quarter of the

⁸⁰ 31 U.S.C. § 1341.

⁸¹ See HR 2055 (signed by the President Dec. 23, 2011), Sec. 510 (“Section 302 of the Universal Service Antideficiency Temporary Suspension Act is amended by striking ‘December 31, 2010’ each place it appears and inserting ‘December 31, 2011.’”); HR 3082, Sec. 155 (“Section 302 of the Universal Service Antideficiency Temporary Suspension Act is amended by striking ‘December 31, 2010’ each place it appears and inserting ‘December 31, 2011.’”); HR 3288, Omnibus Appropriations Act, 2009 (Public Law 111-117), § 501 (“Section 302 of the Universal Service Antideficiency Temporary Suspension Act is amended by striking ‘December 31, 2009’ each place it appears and inserting ‘December 31, 2010.’”). See also, H.R. 5419, 108th Cong 2d Sess., § 302, Universal Service Antideficiency Temporary Suspension Act (effective Dec. 23, 2004) and H.R. 2862, 109th Cong 1st Sess., § 633, Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006 (effective Nov. 22, 2005); H.J. 20 (effective Jan. 1, 2007); Consolidated Appropriations Act of 2008, H.R. 2764, Division D—Financial Services and General Government Appropriations Act, 2008, Title V—Independent Agencies at 61; Consolidated Appropriations Act, 2010 (Public Law 111-117) (signed December 16, 2009; effective Oct. 1, 2009).

⁸² 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 1Q2014 Fund Size Projections

projected annual inflation adjustment of \$130.31 million.⁸³ Results for 3Q2013 contribute to an over-funded condition for which this filing proposes to adjust the 1Q2014 requirements. The total adjustment to the 1Q2014 fund requirements based on actual results will decrease the funding needed by \$9.04 million. The explanation for the adjustment is provided below:

Reason for the Prior Period Adjustment	Adjustment in Millions
3Q2013 billings were higher than projected	(\$17.33)
Interest earned was higher than projected	(\$0.58)
Bad debt expense was higher than anticipated	\$8.87
Total Prior Period Adjustment	(\$9.04)

The total fund requirement of \$562.50 million, which includes administrative expenses of \$24.75 million, increased by the inflation increment of \$32.58 million, decreased by the prior-period adjustment of \$9.04 million, and reduced by the projected interest income of \$3.54 million, results in a total projected collection requirement of \$582.50 million for the Schools and Libraries Support Mechanism for 1Q2014.

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.⁸⁴ Based on these filings, the Commission establishes the contribution factor for the upcoming quarter.

The quarterly USF contribution factor established by the Commission is derived from projections of support mechanism demand calculated by USAC and projected

⁸³ 47 C.F.R. § 54.507(a).

⁸⁴ See 47 C.F.R. § 54.709(a)(3). The Form 499-Q includes a box for each of the quarterly filing submissions. Carriers check the appropriate box to indicate the quarter for which revenue information is being reported. See also, 47 C.F.R. §§54.706, .708, .711 and .713 for contributor reporting requirements.

Universal Service Administrative Company 1Q2014 Fund Size Projections

collected revenue submitted by USF contributors on FCC Form 499-Q and aggregated by USAC. The total USF funding requirement is based on many inputs and is the result of the manner in which the support mechanisms operate pursuant to Commission rules. Inputs include actual support mechanism demand, which changes quarterly, adjustments resulting from events that occur in prior periods but are reported to USAC in the current period, and reconciliation of projections from prior periods to actual results reported by USF contributors and support mechanism beneficiaries (i.e., prior period adjustments). Other inputs include USAC administrative expenses and capital expenditures, and the impact of interest income earned on USF funds USAC invests in United States Treasury securities. The USF contribution base is different each quarter due to changes in carrier revenue projections, which among other things are subject to changing business cycles, and changes to requirements concerning the revenue to which the USF assessment applies (e.g., adding or subtracting certain types of services to the contribution base due to rule changes or other Commission activity). Because of the combined influence of these many factors, nearly all of which change each quarter based on the manner in which the Commission rules operate and the programs are administered, the quarterly contribution factor established by the Commission derived from these USAC-submitted inputs can fluctuate substantially from quarter to quarter. Thus, comparisons to preceding or prior year quarters should be made with caution and predicting trends based on such comparisons may not provide a basis for meaningful analysis.

A total of 6,648 FCC Form 499-Q notifications were distributed to carriers in early October 2013. Interstate telecommunications service providers are required to complete this form, reporting January – March 2014 projected revenue information, and return it to USAC

Universal Service Administrative Company 1Q2014 Fund Size Projections

by November 1, 2013. USAC invoices and receives contributions from more than 3,000 telecommunications companies each month.

USAC continues to assist the Commission in its USF collection enforcement efforts, including providing documentation on a quarterly basis to assist the Commission in issuing Notices of Apparent Liability (NALs) and forfeiture orders against delinquent contributors and companies failing to file required forms. Pursuant to a directive issued by the FCC on March 27, 2012, USAC transfers monies that are 120 days delinquent to the U.S. Treasury after USAC has provided the delinquent carrier with the notice required under FCC and Debt Collection Improvement Act (DCIA) requirements.

USAC implemented the Red Light Rule on November 1, 2004 for contributor debts to the USF.⁸⁵ If a contributor is delinquent to the USF, USAC performs administrative offsets to resolve the delinquency by netting any pending service provider disbursements where the Service Provider Identification Number (SPIN) shares the same Taxpayer Identification Number (TIN) as the delinquent contributor. If an entity is delinquent on a debt owed to the Commission, USAC places administrative holds on any disbursements for SPINs that share the same TIN until the Commission provides information stating that the debt has been satisfied. USAC continues to work closely with the Commission and stakeholders affected by the Red Light Rule implementation.

AUTHORIZATION TO FILE WITH THE COMMISSION

At their October 28, 2013 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 1Q2014 projected support mechanism funding

⁸⁵ 47 C.F.R. § 1.910.

Universal Service Administrative Company 1Q2014 Fund Size Projections

requirements described herein. At its October 29, 2013 meeting, the USAC Board of Directors adopted a resolution authorizing the inclusion of the projected 1Q2014 administrative expenses in this report to the Commission.

Respectfully submitted,

UNIVERSAL SERVICE
ADMINISTRATIVE COMPANY

/s/ D. Scott Barash

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

November 1, 2013