

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.**

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Federal Universal Service Support Mechanisms Fund Size
Projections for Third Quarter 2016

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**BEFORE THE FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C.**

**FEDERAL UNIVERSAL SERVICE SUPPORT MECHANISMS
FUND SIZE PROJECTIONS FOR
THIRD QUARTER 2016**

INTRODUCTION

The Universal Service Administrative Company (USAC) hereby submits the federal Universal Service Support Mechanisms fund size and administrative cost projections for the third quarter of calendar year 2016 (3Q2016), 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 following Universal Service Support Mechanisms (also referred to as “Support Mechanisms” or “Programs” below): High Cost, Low Income, Rural Health Care, and Schools and Libraries.² USAC also performs the billing, collection, and disbursement functions for the Support Mechanisms.³

Upon approval of the quarterly funding requirements for the Support Mechanisms and the projected administrative expenses, and the submission of the contribution base amount, the Commission will establish a quarterly contribution factor. USAC will bill USF contributors on a monthly basis for their individual obligations based on the approved

¹ 47 C.F.R. § 54.709(a)(3).

² 47 C.F.R. § 54.701.

³ 47 C.F.R. § 54.702(b)

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contribution factor, collect amounts owed from contributors, and distribute funds to eligible recipients based on the schedules filed herein.⁴

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

ADMINISTRATIVE EXPENSES

Section 54.709(a)(3) of the Commission's rules requires USAC to submit its projected quarterly budget at least 60 days prior to the start of the quarter.⁵ USAC includes any costs that can be directly attributed to the High Cost, Low Income, Rural Health Care, and Schools and Libraries Support Mechanisms in the projected administrative expenses and capital expenditures of each mechanism. USAC's remaining joint and common costs including costs associated with the billing, collection, and disbursement of funds are included in the projected administrative expenses and capital expenditures of the respective support mechanisms based on USAC's methodology for allocating costs submitted to the Commission.⁶

USAC projects a consolidated budget of \$49.96 million for 3Q2016. Direct operating costs for all support mechanisms total \$23.13 million⁷ and are listed for each mechanism in the chart provided below. Joint and common operating and capital costs

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

⁵ 47 C.F.R. § 54.709(a)(3).

⁶ On January 1, 2006, USAC implemented a revised methodology for allocating joint and common costs that was filed with the Commission on October 3, 2005. See Letter from D. Scott Barash, USAC, to Marlene Dortch, FCC, CC Docket Nos. 97-21 *et al.* (Oct. 3, 2005) (explaining revisions to USAC's method for allocating joint and common administrative costs among the four Universal Service Support Mechanisms).

⁷ This amount includes \$0.1 million for High Cost data collection performed by the National Exchange Carrier Association (NECA). See 47 C.F.R. §§ 54.1305-1310, 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 CC Docket No. 96-45 (filed Feb. 26, 2001); Comments of the Universal Service Administrative Company, WC Docket Nos. 05-195 *et al.*, CC Docket Nos. 96-45 *et al.* (filed Oct. 18, 2005); Reply Comments of the Universal Service Administrative Company, WC Docket Nos. 05-195 *et al.*, CC Docket Nos. 96-45 *et al.* (filed Dec. 19, 2005).

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(including billing, collection, and disbursement activities) are projected at \$21.00 million and direct capital expenditures for all support mechanisms are projected at \$5.84 million; both are listed in the chart below based on the allocation methodology on file with the Commission.

3Q2016 Administrative Expenses (in millions) – Budgeted

USF Mechanism	Direct Operating Costs	USAC Common Operating and Capital Costs	Direct Capital Costs	Total
High Cost	\$3.78	\$6.48	\$1.20	\$11.46
Low Income	\$2.98	\$3.08	\$0.00	\$6.06
Rural Health Care	\$1.95	\$1.29	\$0.00	\$3.24
Schools & Libraries	\$14.42	\$10.15	\$4.64	\$29.20
Total	\$23.13	\$21.00	\$5.84	\$49.96

Appendix M01 provides USAC’s administrative expense and capital expenditure budget for 3Q2016. Appendix M02 provides the fund size projections for 3Q2016.

INTEREST INCOME PROJECTION

For 3Q2016, USAC projects interest income of approximately \$3.30 million for the High Cost Support Mechanism, \$0.10 million for the Low Income Support Mechanism, \$0.59 million for the Rural Health Care Support Mechanism and \$8.06 million for the Schools and Libraries Support Mechanism. USAC projects total interest income of \$12.05 million. As in previous quarters, projected interest income is being included as an offset to administrative expenses for each of the support mechanisms and reduces the amount that USAC will be required to collect from carriers for all support mechanisms.

FINANCIAL STATEMENTS

For 1Q2016, on a cash basis, USAC disbursed to beneficiaries \$2,065.28 million in universal service support as follows: \$1,120.10 million in High Cost support, \$382.53

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million in Low Income support, \$502.30 million in Schools and Libraries support, and \$60.35 million in Rural Health Care support. The total cash balance available as of March 31, 2016 to the universal service support mechanisms was \$8,155.22 million. On an accrual basis, USAC had a fund balance of \$8,379.01 million at March 31, 2016.

Appendices M03 and M04 provide 2016 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 (Pub. L. No. 107-300).⁸ USAC is also evaluating additional measures that may help to identify or reduce improper payments. USAC has initiated efforts consistent with its February 28, 2008 letter to the Commission identifying additional steps that USAC proposed to take to prevent or reduce potential improper payments and the additional resources needed to implement such measures.⁹ Commission staff has directed USAC to report on a quarterly basis its progress in implementing proposed actions to prevent or reduce improper payments and anticipated administrative costs of such actions.¹⁰

The steps initiated by USAC include additional oversight and managerial controls, strengthened audit and investigative techniques, improved information technology tools, and more effective use of outreach resources. In 3Q2016, USAC will continue efforts identified and initiated during the previous years. These efforts include, but are not limited to:

⁸ Improper Payments Information Act of 2002, Pub. L. No. 107-300, 116 Stat 2350 (2002).

⁹ See Letter from D. Scott Barash, Acting Chief Executive Officer, USAC, to Anthony Dale, FCC Managing Director (Feb. 28, 2008) (concerning suggested additional steps to reduce or prevent improper payments).

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

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

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

In the first quarter of 2016, the IC Team completed internal control testing of the following processes: Human Resources, Payroll, USF Collections, USF Billing, USF Disbursements, USAC Accounts Payable, Budget, and Fixed Assets. In the second quarter of 2016, the IC Team will complete testing of the controls surrounding the High Cost program.

In conjunction with business process testing, the IC team completed a review of user access controls in the financial applications and a review of controls around personally identifiable information (PII) held within a finance system. In the second quarter of 2016, the IC team will complete a review of general and application controls in E-file.

In addition to documentation and testing activities, the IC team continues to facilitate review and approval activities for all USAC policy and procedure documents as well as provide assistance with ad hoc process improvement projects.

2. *Strengthening audit and investigative techniques.*

The FCC's Office of Managing Director (OMD) 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 Improvement Act (IPERIA),¹¹ formerly

¹¹ See Improper Payments Elimination and Recovery Improvement Act of 2012, Pub L. No. 112-248, 126 Stat. 2390 (2013). On January 10, 2013, the Improper Payment Elimination and Recovery Improvement Act (IPERIA) was signed into law replacing IPERA.

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known as the Improper Payments Information Act (IPIA),¹² and to assess universal service support mechanism beneficiary compliance with FCC regulations.¹³ USAC successfully implemented an assessment program, known as the Payment Quality Assurance (PQA) Program, in August 2010.

The FCC also directed USAC to establish a comprehensive support mechanism beneficiary and USF contributor audit program, which is known as BCAP (“Beneficiary and Contributor Audit Program”). Audits occurring under BCAP are performed using USAC IAD internal staff and external audit firm resources, upon approval from 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-2013, IAD and OMD staff began discussions on the development of a new audit plan that would address fiscal years 2014 and 2015. In late 2014, the external portion of the BCAP began by issuing contracts to audit firms to perform audits. Contracts have been awarded to eight firms and they are now performing audits in all of the programs and contributor revenue. The chart below reflects audits that are performed both by USAC IAD and the external audit firms. As of the 1Q2016, the status of the BCAP 2014 - 2015 is as follows:

Program	Planned	Board Approved	% Complete	In Progress
Contributor Revenue	51	14	27%	29

¹² See Pub. L. No. 107-300, 116 Stat. 2350 (2002); Pub L. No. 111-204, 124 Stat. 2224 (2010)

¹³ Letter from Steven VanRoekel, FCC Managing Director, to Scott Barash, USAC Acting Chief Executive Officer (Feb. 12, 2010) (discussing the implementation of the Improper Payments Information Act of 2002 (IPIA) assessment program and companion audit program). Although not subject to IPERIA, USF contributor compliance with FCC regulations is assessed as part of the Beneficiary and Contributor Audit Program (BCAP).

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Program	Planned	Board Approved	% Complete	In Progress
High Cost	100	49	49%	44
Low Income	80	43	54%	28
Schools & Libraries	145	71	49%	59
Rural Health Care	31	21	68%	7
Total	407	198	49%	173

IAD resources were redirected to support the FCC with two High Cost investigations and five Contributor Revenue audits required significant additional time. Consequently, 39 of the audits included in the Plan were not announced by September 30, 2015. In mid-2015, IAD staff began working with FCC OMD and WCB staff on the development of a new audit plan with an improved ability to detect and deter non-compliance with program rules. The design of this audit program is intended to reduce the burden on lower risk entities and improving the return on investment in audit. As the plan was finalized in early 2016, announcements will be after March 31, 2016.

As previously reported, the PQA Program has completed four years of testing payments under this directive, and the most recent two years are noted below. Using a statistically drawn sample, each month support mechanism disbursements are selected and reviewed to verify that payments were made at the correct amount in accordance with FCC rules. The table below summarizes the error rates noted and the projected estimated improper payment amounts for each program for Calendar Year 2014 disbursements compared to Calendar Year 2013:

Support Mechanism	2014		2013	
	Improper Payment Rate	Estimated Improper Payment Amount (millions)	Improper Payment Rate	Estimated Improper Payment Amount (millions)
High Cost	0.07%	\$2.8	0.06%	\$2.6

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Low Income	0.44%	\$7.5	0.32%	\$5.9
Schools and Libraries	6.31%	\$144.4	3.88%	\$77.1
Rural Health Care	0%	\$0	0.06%	\$0.05

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 2015 began in late 4Q2015 with an estimated completion during 3Q2016, and testing remains ongoing.

3. Improving information technology tools.

USAC has undertaken a systematic review of the capabilities of its current financial systems in order to determine whether additional functionality can be added to improve financial operations, and has made several improvements to its financial systems and is working on other systems enhancement initiatives.

4. Expanding and enhancing outreach and education.

In 1Q2016, USAC provided individual outreach to six Schools and Libraries applicants (in the form of Helping Applicants To Succeed (HATS) visits). USAC conducted 22 webinars: three for Lifeline Program beneficiaries, one for Rural Health Care Program applicants, and 15 for Schools and Libraries Program applicants and service providers, and three for USF contributors. USAC participated in six professional meetings involving beneficiary audiences for the Schools and Libraries Program, the Lifeline Program and Rural Health Care Program. USAC posted 21 online learning tools, including videos for the Schools and Libraries and Rural Health Care programs, and for our Contributors and service provider audiences.

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FUNDING REQUIREMENTS

HIGH COST SUPPORT MECHANISM

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

On November 18, 2011, the FCC released the *USF/ICC Transformation Order* (FCC 11-161).¹⁴ In the Order, the FCC set an annual funding target for the High Cost Support Mechanism of no more than \$4.50 billion annually over the next six years. The Order directed USAC to forecast total High Cost Program demand at no less than \$1.125 billion per quarter beginning with 1Q2012.¹⁵ In the Order, the FCC waived section 54.709(b) of its rules and instructed USAC not to make any prior period adjustments related to High Cost Program support. The Order requires that if actual contributions exceed demand, excess contributions are to be credited to a new Connect America Fund (CAF) reserve account to be used to fund future broadband deployment.¹⁶ If actual High Cost Program demand exceeds the quarterly target of \$1.125 billion, no additional funds will accumulate in the reserve account for that quarter.¹⁷ In addition, the *USF/ICC Transformation Order* states that the \$4.50 billion budget includes only disbursement of support and does not include administrative expenses or prior period adjustments for support for prior years.¹⁸

In the *USF/ICC Transformation Order*, the Commission instructed USAC to wind down the Corr Wireless reserve account and use \$300 million in the account to fund anticipated commitments in 2012 to recipients of the Mobility Fund Phase I.¹⁹ HC13

¹⁴ See generally *Connect America Fund et al.*, WC Docket Nos. 10-90 *et al.*, GN Docket No. 09-51, CC Docket Nos. 01-92 *et al.*, WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663 (2011) (*USF/ICC Transformation Order*).

¹⁵ See *USF/Transformation Order*, 26 FCC Rcd at 17847, para. 559.

¹⁶ See *id.* at 17847, para. 560.

¹⁷ See *id.* at 17847, para. 560 n.928.

¹⁸ See *id.* at 17712, para. 126 n.198.

¹⁹ See *id.* at 17848, paras. 564-67.

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provides the data for Mobility Fund Phase I for 3Q2016 by state by study area. The remaining balance was used to fund Phase I of the CAF for price cap carriers in 2012.²⁰ The Commission also instructed USAC not to use the Corr Wireless reserve account to fund inflation adjustments for the Schools and Libraries program for the current 2011 funding year (FY).²¹ On March 30, 2016, the *Rate-of-Return Reform Order* (FCC 16-33) directed USAC to eliminate the CAF reserve account and transfer the funds to the high-cost account. USAC will credit excess contributions to support the high-cost mechanism to the high-cost account. Funds from the high-cost account will be used to reduce the demand to \$1.125 billion in any quarter that would exceed \$1.125 billion.

The chart below reflects the High-Cost Account as of March 31, 2016.

Connect America Fund Activity by Quarter				
as of March 31, 2016				
<i>(in millions)</i>				
	Beginning Balance	Additions	Disbursements	Ending Balance
Calendar Year 2012*	524.32	\$467.70	(\$105.20)	886.82
Calendar Year 2013	886.82	680.56	(365.06)	1,202.32
Calendar Year 2014	1,202.32	780.90	(34.80)	1,948.42
Calendar Year 2015	1,948.42	657.02	(593.67)	2,011.77
1 st Q2016	2,011.77	117.18	(110.13)	2,018.82
Projected 2nd Q2016	2,018.82	109.42	(104.91)	2,023.33
Projected 3rd Q2016	<u>2,023.33</u>	<u>110.56</u>	(110.85)	<u>2,023.04</u>
Net Activity		\$2,923.34	(\$1,424.62)	

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

The following table lists the status of the CAF by support component.

Connect America Fund Activity by Support Component				
<i>(in millions)</i>				
Support Component	Allocated	Accepted	Disbursed	Remaining
Incremental Support Round 1	\$300.00	\$114.34	(\$114.34)	\$0.00
Incremental Support Round 2*	386.00	323.95	(323.95)	0.00

²⁰ See *id.* at 17848, para. 566.

²¹ See *USF/Transformation Order*, 26 FCC Rcd at 17848, para. 567.

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Mobility Phase I	300.00	300.00	(67.07)	232.93
Mobility Phase I – Tribal	50.00	50.00	(16.60)	33.40
Rural Broadband Experiment	100.00	36.71	(7.34)	29.37
CAF Phase II Transition	1,089.60	1,752.65	(135.87)	1,616.78
CAF Phase II Lump Sum	434.18	434.18	(433.56)	0.62
A-CAM²²	1,500.00	0.00	0.00	0.00
Total	\$4,159.78	\$2,348.78	(\$1,208.86)	\$1,139.92

* Total demand of all carriers exceeded the allocated \$300 million. As directed in FCC 13-73, 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.²³

For 3Q2016, projected support to be reserved pursuant to the *USF/ICC Transformation Order* is \$0.38 million. Any excess contributions will be credited to the high-cost account.²⁴

Appendix HC01 provides projected High Cost Support by state by study area for 3Q2016. HC01 also provides the projected amount of individual company support, and projected per-month amounts for the components of High Cost support that each Eligible Telecommunications Carriers (ETC)²⁵ may be eligible to receive. HC02 provides the total projected amount of annualized High Cost Support for 3Q2016 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.²⁶ 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, 2012.²⁷ Carriers had 90 days to accept all, part, or reject the amount available. If a price cap

²² See *Connect America Fund et al.*, WC Docket Nos. 10-90 *et al.*, CC Docket No. 01-92, Report and Order, 2016 WL 1367712, para. 60 (2016) (*Rate-of-Return Reform Order*).

²³ See *Connect America Fund*, WC Docket No. 10-90, 28 FCC Rcd 7766, 7770 para. 11 (2013).

²⁴ See *USF/Transformation Order*, 26 FCC Rcd at 17847, paras. 560-61.

²⁵ See 47 C.F.R. § 54.1310; 47 C.F.R. §§ 54.301-54.303.

²⁶ See *USF/ICC Transformation Order*, 26 FCC Rcd at 17717, para.137.

²⁷ See *Wireline Competition Bureau Announces Support Amounts for Connect America Fund Phase One Incremental Support*, WC Docket Nos. 10-90 *et al.*, Public Notice, 27 FCC Rcd 4203 (2012).

Universal Service Administrative Company 3Q2016 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 \$775.²⁸

On May 22, 2013, the Commission announced that a second round of CAF 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.²⁹

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

CONNECT AMERICA FUND PHASE II

The FCC released a Report and Order on June 10, 2014³⁰ adopting rules, among other things, to institute the foundation for the award of Phase II (model-based) support through a competitive bidding process in price cap areas where the price cap carrier declines the offer of model-based support. The Order also permits price cap carriers that decline model-based support to participate in the competitive bidding process that is expected to be conducted in 2016. On April 29, 2015, the FCC released order DA 15-509 announcing the

²⁸ See *USF/ICC Transformation Order*, 26 FCC Rcd at 17717, para.138.

²⁹ See *Connect America Fund*, WC Docket No. 10-90, Report and Order, 28 FCC Rcd 7766, 7768-71, paras. 7, 11 (2013).

³⁰ See generally *Connect America Fund et al.*, WC Docket Nos. 10-90 *et al.*, Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking, 29 FCC Rcd 7051 (2014).

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offers of model-based Phase II support to price cap carriers to fund voice and broadband-capable networks in their service areas. The total offer is \$1.675 billion annually, for six calendar years, 2015-2020. On June 16, 2015, the Bureau released Public Notice DA 15-707 announcing acceptance by Frontier Communications of model-based support for each of the 28 states it serves. For states where their model-based support is greater than Phase I Frozen support, Frontier elected to receive the lump sum payment associated with prior months that reflects the difference between Phase II model support and Phase I Frozen support. In August 2015, the Bureau released public notices for Consolidated Communications, AT&T, CenturyTel, Inc. dba CenturyLink, Cincinnati Bell, Fairpoint Communications, Inc., Hawaiian Telecom, Inc., Micronesian, and Windstream Corporation for announcement of acceptance of model-based support.³¹

For 3Q2016, total CAF Phase II projected support is estimated to be \$397.41 million and total annual 2016 CAF Phase II support is estimated to be \$1,589.64 million.

Appendix HC14 provides projected CAF Phase II Support by State by Study Area for 3Q2016.

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.³² Eligible incumbent carriers may receive additional support through this recovery mechanism.

³¹ See Wireline Competition Bureau Authorizes Windstream to Receive Over \$ 174 Million in Connect America Phase II Support in 17 States, WC Docket No. 10-90, Public Notice, 30 FCC Rcd 8245 (2015); Wireline Competition Bureau Authorizes Fairpoint to Receive Over \$37 Million in Connect America Phase II Support in 14 States, WC Docket No. 10-90, 30 FCC Rcd 8245 (2015); Wireline Competition Bureau Authorizes the Micronesian Telecommunications Corporation to Receive Over \$2.5 Million and Hawaiian Telecom, Inc. to Receive Over \$ 4 Million in Connect America Phase II Support, WC Docket No. 10-90, 30 FCC Rcd 8471 (2015); Wireline Competition Bureau Authorizes Additional Cap Carriers to Receive Almost \$950 Million in Phase II Connect America Support *et al.*, WC Docket No. 10-90, Public Notice, 30 FCC Rcd 8577 (2015).

³² See 47 C.F.R. § 54.304(b).

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For 3Q2016, total CAF/ICC Support is estimated to be \$107.00 million and total annual 2015 CAF/ICC Support is estimated to be \$428.00 million. Appendix HC12 provides projected CAF/ICC Support by state by study area for 3Q2016.

RURAL BROADBAND EXPERIMENTS

On July 11, 2014, the FCC adopted the *Rural Broadband Experiments (RBE) Order* (FCC 14-98) to advance the deployment of voice and broadband networks in high-cost areas and help design the Phase II competitive bidding process and Remote Areas Fund. The FCC established a budget of \$100 million over ten years for funding experiments in price cap areas that are not served by unsubsidized competitors. For 3Q2016, total RBE support is estimated to be \$0.75 million and total annual 2016 RBE support is estimated to be \$3.00 million. Appendix HC15 provides projected RBE Support by state by study area for 3Q2016.

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 CAF support to offset lost ICC revenues.³³ On March 30, 2016, FCC 16-33 set forth two distinct paths for rate-of-return carriers, (1) voluntary election of model support or (2) support based on existing mechanisms as modified to include broadband.³⁴

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

³³ See *USF/ICC Transformation Order*, 26 FCC Red at 17740, para. 206.

³⁴ See generally *Rate-of-Return Reform Order*, 2016 WL 1367712.

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adjustment data that was submitted to the FCC and USAC on October 1, 2013.³⁵ Growth in total HCL Support for rural carriers is limited under Section 54.1302 of the Commission's rules to the current level of funding increased yearly by the annual growth in supported rural loops.³⁶ The *Rural Task Force (RTF) Order*³⁷ increased HCL support for rural carriers effective July 1, 2001.

Rural HCL Support for calendar year 2016 will be less than the level of payments for 2015 because of a rural growth factor of negative 2.2401 percent. Rural HCL Support for calendar year 2016, therefore, is capped at \$718.70 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 carriers that make significant investment in rural infrastructure in years in which HCL is capped.³⁸ 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 2009.³⁹ In June 2014, the Commission issued an order allowing carriers that would have qualified for SNA based on increased investment – an increase of at least 14

³⁵ Universal Service Fund (USF) 2012 Submission of 2011 Study Results (filed Oct. 1, 2012) (*USF Data Submission*).

³⁶ 47 C.F.R. § 54.1302(a); *see also* 47 C.F.R. § 54.1303.

³⁷ *Federal-State Joint Board on Universal Service et al.*, CC Docket Nos. 96-45 *et al.*, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking, and Report and Order, 16 FCC Rcd 11244 (2001) (*RTF Order*).

³⁸ *Id.* at 11276-81, paras. 77-90; *see also* 47 C.F.R. § 54.1304.

³⁹ *See USF/ICC Transformation Order*, 26 FCC Rcd at 17758, para. 252.

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percent in their total TPIS in 2010 or 2011 – to receive such support.⁴⁰ For 3Q2016, projected SNA support is \$3.01 million.

For 3Q2016, projected HCL Support is \$177.51 million, which includes \$3.01 million for SNA support and \$1.25 million for Safety Valve Support (SVS). Total annual 2016 HCL Support is projected to be \$710.04 million.

Appendix HC05 provides projected uncapped monthly HCL Support payments by state by study area for 3Q2016. Appendix HC06 provides projected monthly SNA Support payments by state by study area for 3Q2016. Appendix HC07 displays projected SVS payments by state by study area for 3Q2016.

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.⁴¹

For 3Q2016, ICLS is projected to be \$250.15 million and total annual 2016 ICLS is estimated to be \$985.97 million.

Appendices HC09, HC10, and HC11 provide USAC's 3Q2016 projections of ICLS by state by study area, per line and by state, respectively. Appendix HC16 provides ICLS by state by study area 2014 true – up. Additionally, Appendix HC17 provides ICLS by state by study area 2014 true – up per line.

⁴⁰ See *Connect America Fund et al.*, WC Docket Nos. 10-90 *et al.*, Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking, 29 FCC Rcd 7051, 7087-90, paras. 105-115 (2014).

⁴¹ See *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers et al.*, CC Docket Nos. 00-256 *et al.*, Second Report and Order and Further Notice of Proposed Rulemaking, Fifteenth Report and Order, and Report and Order, 16 FCC Rcd 19613 (2001) (*MAG Order*).

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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 2011.⁴²

For 3Q2016, total frozen high cost support for price cap carriers is estimated to be \$43.14 million and total annual 2016 frozen high cost support is estimated to be \$172.56 million. Appendix HC08 provides frozen high cost support for price cap carriers by state by study area for 3Q2016.

COMPETITIVE ELIGIBLE TELECOMMUNICATIONS CARRIERS

The *USF/ICC Transformation Order* transitioned existing Competitive Eligible Telecommunications Carriers (CETCs) support to the CAF over a five-year period beginning January 1, 2012.⁴³ 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.⁴⁴ That monthly baseline amount was provided from January 1, 2012 to June 30, 2012.⁴⁵ Beginning July 1, 2012, each CETC's support was reduced by 20 percent for each July to June time period.⁴⁶ However, consistent with FCC rules, CETC support will not be subject to an additional 20 percent reduction in support beginning July 2014 because Mobility Fund Phase II was not implemented by June 30, 2014.⁴⁷ The implementation date of Mobility Fund Phase II is yet to be determined.

For 3Q2016, total frozen High Cost Program support demand for CETCs is \$129.06 million. In addition, for rural Alaska CETCs and Standing Rock, 3Q2016 High Cost

⁴² See *USF/ICC Transformation Order*, 26 FCC Rcd at 17715, para. 133.

⁴³ See *id.* at 17830, para. 513.

⁴⁴ See *id.* at 17831, para. 515.

⁴⁵ See *id.*

⁴⁶ See *id.*

⁴⁷ *USF/ICC Transformation Order*, 26 FCC Rcd at 17831, para. 515; see also 47 C.F.R. § 54.307.

Universal Service Administrative Company 3Q2016 Fund Size Projections

Program support is estimated to be \$19.60 million. The combined High Cost Program support demand totals for CETCs, rural Alaska CETCs, and Standing Rock for 2016 is estimated to be \$148.66 million.

Appendix HC08 provides frozen high cost support for CETCs projected by state by study area for 3Q2016. Additionally, Appendix HC03 provides 3Q2016 projections for Rural Alaska and Standing Rock Support by state by study area. Appendix HC04 provides 3Q2016 per line projections for Rural Alaska and Standing Rock Support.

HIGH COST SUPPORT MECHANISM SUMMARY

The 3Q2016 High Cost Support Mechanism funding requirements are projected as follows: \$177.51 million for HCL Support, \$250.15 million for ICLS, \$43.14 million for frozen Price Cap Carrier Support, \$397.41 for CAF Phase II, \$0.75 for Rural Broadband Experiments, \$148.66 million for frozen CETC Support,⁴⁸ \$107.00 million for CAF/ICC Support, and \$0.38 million for the High Cost account resulting in total High Cost Support Mechanism projected demand of \$1,125.00 million.

Financial results for 1Q2016 contributed to an over-funded condition for which this filing proposes to adjust the 3Q2016 funding requirements. The total adjustment to the 3Q2016 funding requirement based on actual results will decrease the funding requirement by \$9.12 million. The explanation for the adjustment is described in the following table:

⁴⁸ "CETC Support" includes frozen support, rural Alaska CETC support, and support to the Standing Rock Reservation CETC.

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

Reason for the Prior Period Adjustment	Adjustment in Millions
1Q2016 billings were higher than projected.	\$(8.87)
Interest income was higher than projected for 1Q2016.	(0.40)
Bad debt expense was higher than projected.	0.15
Total Prior Period Adjustment	\$(9.12)

The total fund requirement of \$1,125.00 million is adjusted as follows: decreased by the prior period adjustments of \$9.12 million, increased by administrative costs of \$11.46 million, and reduced by the projected interest income of \$3.30 million; resulting in a total projected 3Q2016 funding requirement for the High Cost Support Mechanism of \$1,124.04 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.⁴⁹ ETCs providing Lifeline support are entitled to receive funding for the waiver of charges and reduced rates provided to qualified low-income subscribers.⁵⁰ In the *Lifeline Reform and 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.⁵¹ The Order, however, does not make any changes to Tier 4 support available to low-income consumers residing on tribal lands.⁵² As established in the *Tribal Order*, Tier

⁴⁹ See 47 C.F.R. §§ 54.201, 54.405(a).

⁵⁰ 47 C.F.R. §§ 54.401-54.417.

⁵¹ See *Lifeline and Link Up Reform and Modernization et al.*, WC Docket Nos. 11-42 *et al.*, CC Docket No. 96-45, Report and Order and Further Notice of Proposed Rule Making, 27 FCC Rcd 6656, 6683, para. 58 (2012) (*Lifeline Reform and Modernization Order*).

⁵² See *id.* at 6683, para. 59.

Universal Service Administrative Company 3Q2016 Fund Size Projections

Four support makes available each month up to an additional \$25 per low-income subscriber to eligible residents of tribal lands.⁵³

For 3Q2016, USAC projects \$383.01 million will be required for Lifeline Support. Based on this projection, total annual 2016 Lifeline Support is estimated to be \$1,549.50 million.

LINK-UP SUPPORT

Effective with the April 2012 support claims, Link-Up support was eliminated for all ETCs on non-tribal lands. Link-Up support is available for ETCs that provide support on tribal lands, but is limited to those ETCs receiving High Cost Program support.⁵⁴ 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.⁵⁵

For 3Q2016, USAC projects that \$0.17 million will be required for Link-Up support. Based on this projection, total annual 2016 Link-Up support is estimated to be \$0.62 million.

LOW INCOME SUPPORT MECHANISM SUMMARY

The estimated 3Q2016 Low Income Support Mechanism funding requirements are projected as follows: \$383.01 million for Lifeline and \$0.17 million for Link-Up, resulting in total of \$383.18 million.

Financial results of 1Q2016 contribute to an over-funded condition, for which this filing proposes to adjust the 3Q2016 funding requirement. The total adjustment to the

⁵³ See 47 C.F.R. § 54.400(e); *Federal Joint Board on Universal Service et al.*, CC Docket 96-45, Twenty-Fifth Order on Reconsideration, Report and Order, Order, and Further Notice of Proposed Rulemaking, 18 FCC Rcd 10958 (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.

⁵⁴ See *Lifeline Reform and Modernization Order*, 27 FCC Rcd at 6767, para. 253.

⁵⁵ 47 C.F.R. § 54.413(a)(1).

Universal Service Administrative Company 3Q2016 Fund Size Projections

3Q2016 funding requirement based on actual results will decrease the funding needed by \$22.24 million. The explanation for the adjustment is described in the following table:

Reason for the Prior Period Adjustment	Adjustment in Millions
1Q2016 billings were higher than projected.	\$(2.68)
Low Income Support Mechanism distributions were lower than projected in 1Q2016.	(19.17)
Bad debt expense was lower than anticipated.	(0.36)
Interest income was higher than anticipated.	(0.03)
Total Prior Period Adjustment	\$(22.24)

The total fund requirement of \$383.18 million decreased by the prior period adjustment of \$22.24 million, increased for administrative costs of \$6.06 million (including \$3.08 million for USAC’s common costs allocated to the Low Income Support Mechanism), and decreased by allocated projected interest income of \$0.10 million, resulting in a total projected funding requirement for the Low Income Support Mechanism for 3Q2016 of \$366.90 million.

Appendix LI01 provides projected Low Income support amounts by state and study area for 3Q2016.⁵⁶ LI03 provides a list of ETCs for 1Q2016.⁵⁷ LI04 provides detail on quarterly company specific Low Income disbursement amounts for 1Q2016. LI05 provides detail on annual company-specific Low Income support amounts for January 2013 through March 2016.⁵⁸ LI06 provides historical data of monthly support amounts claimed by ETCs from January 1998 through March 2016. LI07 provides detail on Low Income support claimed by state for January 2013 through March 2016.⁵⁹ LI08 and LI09 provide subscriber and beneficiary information by state or jurisdiction for Lifeline and Link-Up support, respectively, for January 2016 through March 2016.

⁵⁶ Companies that are no longer ETCs have been removed from LI01.

⁵⁷ Companies that are no longer ETCs have been removed from LI03.

⁵⁸ For data for years prior to 2009, see LI05 of USAC’s 2Q2010 FCC Quarterly Demand Filing.

⁵⁹ For data for years prior to 2009, see LI07 of USAC’s 2Q2010 FCC Quarterly Demand Filing.

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

RURAL HEALTH CARE SUPPORT MECHANISM

Following is a summary of Rural Health Care Support Mechanism commitments and disbursements for FYs 2008 through 2015 as of March 31, 2016. Prior FYs are closed.

FUNDING YEAR 2008

FY 2008 began on July 1, 2008 and ended on June 30, 2009. The window for FY 2008 opened on April 8, 2008. As of March 31, 2016, a total of 3,563 Form 465s were posted and 7,046 funding requests were received.

On September 29, 2006, the FCC released an order establishing a new two-year Rural Health Care Support Mechanism Pilot Program for FYs 2006 and 2007 to cover “up to 85 percent of an applicant’s costs of deploying a dedicated broadband network.”⁶⁰ The application window for the Pilot Program opened on March 8, 2007 and closed on May 7, 2007.⁶¹ On November 19, 2007, the FCC released an order increasing the number of FYs to three for the Pilot Program and awarding \$417.78 million in support to 69 applications over FYs 2007, 2008 and 2009.⁶² Support under the Pilot Program is capped at \$139.26 million in each of the three FYs. The Commission stated that monies collected in FY 2006 for the Pilot Program should be applied to FY 2007,⁶³ resulting in \$54.44 million of funds collected for FY 2006 being reallocated to FY 2007.

As of March 31, 2016, Pilot Program funding commitments have been issued totaling \$14.72 million for FY 2008. Based on information provided by applicants, USAC now estimates FY 2008 Pilot Program demand will be \$16.30 million. In accordance with

⁶⁰ *Rural Health Care Support Mechanism*, WC Docket No. 02-60, Order, 21 FCC Rcd 11111, 11112, para. 3 (2006); *see also Wireline Competition Bureau Seeks Comment on the Petition for Reconsideration or, in the Alternative, Clarification Filed by National LambdaRail, Inc.*, WC Docket No. 02-60, Public Notice, 21 FCC Rcd 13125 (2006); *Rural Health Care Support Mechanism*, WC Docket No. 02-60, Order on Reconsideration, 22 FCC Rcd 2555 (2007) (expanding eligibility to include National LambdaRail’s backbone in Rural Health Care Pilot).

⁶¹ *Wireline Competition Bureau Announces OMB Approval of the Rural Health Care Pilot Program Information Collection Requirements and the Deadline for Filing Applications*, Public Notice, 22 FCC Rcd 4770 (2007).

⁶² *See Rural Health Care Support Mechanism*, WC Docket No. 02-60, Order, 22 FCC Rcd 20360, 20373, para. 34 (2007).

⁶³ *Id.*

Universal Service Administrative Company 3Q2016 Fund Size Projections

the instructions in a January 17, 2008 letter from the Chief of the FCC Wireline Competition Bureau allowing Pilot Program participants to roll forward support not used in one year to a subsequent FY, USAC carried forward funds not used in FY 2008 to FY 2009. USAC has collected \$139.26 million for each of the Pilot Program FYs, thus no further collection is necessary.

As of March 31, 2016, Primary Program funding commitments have been issued totaling \$66.75 million. Based on information provided by applicants USAC estimates FY 2008 Primary Program demand will be \$66.75 million. The Commission previously authorized collection of \$66.75 for FY 2008.

Cumulative payments to service providers through 1Q2016 are listed in Appendix RH03.

FUNDING YEAR 2009

FY 2009 began on July 1, 2009 and ended on June 30, 2010. The window for FY 2009 opened on April 9, 2009. As of March 31, 2016, a total of 3,942 Form 465s were posted and 7,720 funding requests were received.

As of March 31, 2016, Pilot Program funding commitments have been issued totaling \$351.02 million for FY 2009. Based on information provided by applicants, USAC now estimates FY 2009 Pilot Program demand will be \$401.48 million. In accordance with the instructions in a January 17, 2008 letter from the Chief of the FCC Wireline Competition Bureau allowing Pilot Program participants to roll forward support not used in one year to a subsequent FY, USAC has previously carried forward funds not used in FY 2007 and FY 2008 to FY 2009. USAC has collected \$139.26 million for each of the Pilot Program FYs, thus no further collection is necessary.

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As of March 31, 2016, Primary Program funding commitments have been issued totaling \$71.31 million. Based on information provided by applicants, USAC now estimates FY 2009 Primary Program demand will be \$71.31 million. The Commission previously authorized collection of \$71.31 million for FY 2009.

Funding commitments made during 1Q2016 are included in Appendix RH04. Authorized funding by applicant during 1Q2016 and cumulative payments to service providers through 1Q2016 are listed in Appendices RH05 and RH06, respectively.

FUNDING YEAR 2010

FY 2010 began on July 1, 2010 and ended on June 30, 2011. The window for FY 2010 opened on March 15, 2010. As of March 31, 2016, a total of 4,283 Form 465s were posted and 9,402 funding requests were received.

As of March 31, 2016, Primary Program funding commitments have been issued totaling \$87.58 million. Based on information provided by applicants, USAC now estimates FY 2010 Primary Program demand will be \$87.58 million. The Commission previously authorized collection of \$87.58 million for FY 2010.

Authorized funding by applicant during 1Q2016 is included in Appendix RH08. Cumulative payments to service providers through 1Q2016 are listed in Appendix RH09.

FUNDING YEAR 2011

FY 2011 began on July 1, 2011 and ended on June 30, 2012. The window for FY 2011 opened on April 4, 2011. As of March 31, 2016, a total of 4,793 Form 465s were posted and 11,675 funding requests were received.

As of March 31, 2016, Primary Program funding commitments have been issued totaling \$102.91 million. The Commission previously authorized collection of \$101.43 million for FY 2011. Considering the revised Primary Program demand estimate for FY

Universal Service Administrative Company 3Q2016 Fund Size Projections

2011, USAC recommends the Commission increase collections for FY 2011 for the Primary Program by \$1.48 million in 3Q2016.

Funding commitments made during 1Q2016 are included in Appendix RH10. Authorized funding by applicant during 1Q2016 is included in Appendix RH11. Cumulative payments to service providers through 1Q2016 are listed in Appendix RH12.

FUNDING YEAR 2012

FY 2012 began on July 1, 2012 and ended on June 30, 2013. The window for FY 2012 opened on April 16, 2012. As of March 31, 2016, a total of 5,334 Form 465s were posted and 11,814 funding requests were received.

As of March 31, 2016, Primary Program funding commitments have been issued totaling \$118.45 million. Based on information provided by applicants, USAC now estimates FY 2012 Primary Program demand will be \$118.52 million. The Commission previously authorized collection of \$118.45 million for FY 2012. Considering the revised Primary Program demand estimate for FY 2012, USAC recommends the Commission increase collections for FY 2012 for the Primary Program by \$0.07 million in 3Q2016. Funding commitments made during 1Q2016 are included in Appendix RH13. Authorized funding by applicant during 1Q2016 and cumulative payments to service providers through 1Q2016 are listed in Appendices RH14 and RH15, respectively.

FUNDING YEAR 2013

FY 2013 began on July 1, 2013 and ended on June 30, 2014. The window for FY 2013 opened on April 16, 2013. As of March 31, 2016, a total of 5,438 Form 465s were posted and 11,538 funding requests were received.

As of March 31, 2016, Primary Program funding commitments have been issued totaling \$130.47 million. Based on information provided by applicants, USAC now

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

estimates FY 2013 Primary Program demand will be \$130.48 million. The Commission previously authorized collection of \$130.47 million for FY 2013. Considering the revised Primary Program demand estimate for FY 2013, USAC recommends the Commission increase collections for FY 2013 for the Primary Program by \$0.01 million in 3Q2016.

Funding commitments made during 1Q2016 are included in Appendix RH16. Authorized funding by applicant during 1Q2016 and cumulative payments to service providers through 1Q2016 are listed in Appendices RH17 and RH18, respectively.

FUNDING YEAR 2014

FY 2014 began on July 1, 2014 and ended on June 30, 2015. As of March 31, 2016, a total of 4,097 Form 465s were posted and 6,465 funding requests were received.

As of March 31, 2016, Primary Program funding commitments have been issued totaling \$135.70 million. Based on information provided by applicants, USAC now estimates FY 2014 Primary Program demand will be \$136.31 million. The Commission previously authorized collection of \$135.70 million for FY 2014. Considering the revised Primary Program demand estimate for FY 2014, USAC recommends the Commission decrease collections for FY 2014 for the Primary Program by \$0.62 million in 3Q2016.

Funding commitments made during 1Q2016 are included in Appendix RH19. Authorized funding by applicant during 1Q2016 and cumulative payments to service providers through 1Q2016 are listed in Appendices RH20 and RH21, respectively.

FUNDING YEAR 2015

FY 2015 began on July 1, 2015 and will end on June 30, 2016. As of March 31, 2016, a total of 4,373 Form 465s were posted and 4,504 funding requests were received.

As of March 31, 2016, Primary Program funding commitments have been issued totaling \$130.77 million. Based on information provided by applicants, USAC estimates FY

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2015 Primary Program demand will be \$172.21 million. The Commission previously authorized collection of \$171.72 million for FY 2015. Considering the Primary Program demand estimate for FY 2015, USAC recommends the Commission increase collections for FY 2015 for the Primary Program by \$0.49 million in 3Q2016.

Funding commitments made during 1Q2016 are included in Appendix RH22. Authorized funding by applicant during 1Q2016 and cumulative payments to service providers through 1Q2016 are listed in Appendices RH23 and RH24, respectively.

FUNDING YEAR 2016

FY 2016 will begin on July 1, 2016 and will end on June 30, 2017. As of March 31, 2016, a total of 1,148 Form 465s were posted and 330 funding requests were received.

As of March 31, 2016, Primary Program funding commitment requests were received totaling \$13.5 million. Based on information provided by applicants, USAC estimates FY 2016 Primary Program demand will be \$172.21 million. Considering the Primary Program demand estimate for FY 2016, USAC recommends the Commission increase collections for FY 2016 for the Primary Program by \$43.54 million in 3Q2016.

RURAL HEALTH CARE SUPPORT MECHANISM SUMMARY

The estimated 3Q2016 Rural Health Care Support Mechanism demand requirement is \$72.19 million which includes amounts for the Telecommunications program as well as the Healthcare Connect Fund (HCF). Projected 3Q2016 Telecommunications programs requirements are \$46.19 million. Pursuant to the *HCF Order*, the FCC was directed to work with USAC to project the amounts to be collected for the early period of the new program until historical data provides an adequate basis for projecting demand.⁶⁴ Pursuant to FCC instruction, USAC projects \$26 million for 3Q2016 demand associated with the HCF.

⁶⁴ *Rural Health Care Support Mechanism*, WC Docket 02-60, Report and Order, 27 FCCRcd 16678, 16823, para. 368 (2012).

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

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

Healthcare Connect Fund Reserve				
as of March 31, 2016				
<i>(in millions)</i>				
	Beginning Balance	Additions	Disbursements	Ending Balance
Calendar 2013	\$53.26 ⁶⁵	\$43.33		\$96.59
Calendar 2014	96.59	104.00	\$(10.00)	190.59
1st Q2015	190.59	26.00	(10.98)	205.61
2nd Q2015	205.61	26.00	(7.01)	224.60
3rd Q2015	224.60	26.00	(24.70)	225.90
4th Q2015	225.90	26.00	(26.30)	225.60
1st Q2016	225.60	26.00	(18.20)	233.40
Projected 2nd Q2016	233.40	26.00	(23.00)	236.40
Projected 3rd Q2016	236.40	26.00	(23.00)	239.40
Net Activity		\$329.33	\$(143.19)	

The FCC has further directed USAC to use uncommitted Pilot Program dollars for the demand associated with the HCF. As of March 31, 2016, USAC estimates that there will be \$53.30 million in uncommitted Pilot Program dollars available for commitment through the HCF in 3Q2016. Total estimated HCF funds available for commitment in 3Q2016 will be \$162.70 million.

The results of 1Q2016 contributed to an over-funded condition for which this filing proposes to adjust the 3Q2016 funding requirements. The total adjustment to the 3Q2016 funding requirement based on actual results will decrease the funding requirement by \$0.52 million. The explanation for the adjustment is provided in the following table:

Reason for the Prior Period Adjustment	Adjustment in Millions
1Q2016 billings were higher than projected	\$(0.48)
Interest income was higher than projected 4Q 2015	(0.06)
Bad debt expense was lower than anticipated	0.02
Total Prior Period Adjustment	\$(0.52)

⁶⁵ The beginning balance represents the adjusted amount transferred from the Pilot Program.

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

The total fund requirement of \$72.19 million is adjusted as follows: decreased by the prior-period adjustment of \$0.52 million, increased by administrative costs of \$3.24 million (including \$1.29 million for USAC's common costs allocated to Rural Health Care Support Mechanism), and reduced by projected interest income of \$0.59 million, resulting in a total projected 3Q2016 funding requirement for the Rural Health Care Support Mechanism of \$74.32 million.

SCHOOLS AND LIBRARIES SUPPORT MECHANISM

Following is a summary of Schools and Libraries Support Mechanism net commitments⁶⁶ and net authorized for payment⁶⁷ by FY as of March 31, 2016.

FUNDING YEAR 1998

FY 1998					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 679.24	39.98%	\$ 507.76	36.29%	74.75%
Internet Access	\$ 134.10	7.89%	\$ 94.82	6.78%	70.71%
Internal Connections	\$ 885.78	52.13%	\$ 796.48	56.93%	89.92%
TOTAL	\$ 1,699.12	100.00%	\$1,399.06	100.00%	82.34%
De-obligations due to Expired FRNs	\$ (300.06)				
Net Commitments	\$ 1,399.06				

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

⁶⁶ 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.

⁶⁷ 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 3Q2016 Fund Size
Projections**

FUNDING YEAR 1999

FY 1999					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 634.54	29.54%	\$ 452.16	27.40%	71.26%
Internet Access	\$ 148.68	6.92%	\$ 95.40	5.78%	64.16%
Internal Connections	\$ 1,364.67	63.54%	\$1,102.47	66.82%	80.79%
TOTAL	\$ 2,147.89	100.00%	\$1,650.03	100.00%	76.82%
Deobligations due to Expired FRNs	\$ (497.87)				
Net Commitments	\$ 1,650.02				

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

FUNDING YEAR 2000

FY 2000					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 719.03	34.59%	\$ 481.21	29.22%	66.92%
Internet Access	\$ 218.73	10.52%	\$ 131.92	8.01%	60.31%
Internal Connections	\$ 1,141.02	54.89%	\$1,033.89	62.77%	90.61%
TOTAL	\$ 2,078.78	100.00%	\$1,647.02	100.00%	79.23%
Deobligations due to Expired FRNs	\$ (431.76)				
Net Commitments	\$ 1,647.02				

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

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FUNDING YEAR 2001

FY 2001					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 766.61	35.22%	\$ 540.78	31.89%	70.54%
Internet Access	\$ 224.78	10.33%	\$ 147.05	8.67%	65.42%
Internal Connections	\$ 1,185.14	54.45%	\$1,007.93	59.44%	85.05%
TOTAL	\$ 2,176.51	100.00%	\$1,695.76	100.00%	77.91%
Deobligations due to Expired FRNs	\$ (480.75)				
Net Commitments	\$ 1,696.76				

As of March 31, 2016, two potentially fundable FY 2001 applications remain in the PIA review process. The FY 2001 began on July 1, 2001 and ended on June 30, 2002.

FUNDING YEAR 2002

FY 2002					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 849.11	40.00%	\$ 613.39	38.38%	72.24%
Internet Access	\$ 251.02	11.82%	\$ 169.41	10.60%	67.49%
Internal Connections	\$ 1,022.67	48.18%	\$ 815.40	51.02%	79.73%
TOTAL	\$ 2,122.80	100.00%	\$1,598.20	100.00%	75.29%
Deobligations due to Expired FRNs	\$ (516.35)				
Net Commitments	\$ 1,606.45				

As of March 31, 2016, one potentially fundable FY 2002 application remains in the PIA review process. The FY 2002 began on July 1, 2002 and ended on June 30, 2003.

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FUNDING YEAR 2003

FY 2003					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 899.04	35.52%	\$ 659.94	34.01%	73.40%
Internet Access	\$ 275.82	10.90%	\$ 203.31	10.48%	73.71%
Internal Connections	\$ 1,356.17	53.58%	\$1,076.92	55.51%	79.41%
TOTAL	\$ 2,531.03	100.00%	\$1,940.17	100.00%	76.66%
Deobligations due to Expired FRNs	\$ (584.07)				
Net Commitments	\$ 1,946.96				

As of March 31, 2016, two potentially fundable FY 2003 applications remain in the PIA review process. The FY 2003 began on July 1, 2003 and ended on June 30, 2004.

FUNDING YEAR 2004

FY 2004					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 934.45	45.89%	\$ 691.31	45.00%	73.98%
Internet Access	\$ 245.62	12.06%	\$ 193.32	12.58%	78.71%
Internal Connections	\$ 856.20	42.05%	\$ 651.79	42.42%	76.13%
TOTAL	\$ 2,036.27	100.00%	\$1,536.42	100.00%	75.45%
Deobligations due to Expired FRNs	\$ (499.66)				
Net Commitments	\$ 1,536.61				

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

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FUNDING YEAR 2005

FY 2005					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 983.04	48.62%	\$ 779.96	47.98%	79.34%
Internet Access	\$ 259.36	12.83%	\$ 214.42	13.19%	82.67%
Internal Connections	\$ 659.29	32.60%	\$ 539.31	33.18%	81.80%
Internal Connections-Maint	\$ 120.37	5.95%	\$ 91.87	5.65%	76.32%
TOTAL	\$ 2,022.06	100.00%	\$1,625.56	100.00%	80.39%
Deobligations due to Expired FRNs	\$ (396.32)				
Net Commitments	\$ 1,625.74				

As of March 31, 2016, two potentially fundable FY 2005 applications remain in the PIA review process. The FY 2005 began on July 1, 2005 and ended on June 30, 2006.

FUNDING YEAR 2006

FY 2006					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 1,063.66	54.49%	\$ 852.10	54.31%	80.11%
Internet Access	\$ 290.54	14.89%	\$ 236.48	15.07%	81.39%
Internal Connections	\$ 478.92	24.54%	\$ 394.80	25.16%	82.44%
Internal Connections-Maint	\$ 118.69	6.08%	\$ 85.66	5.46%	72.17%
TOTAL	\$ 1,951.81	100.00%	\$1,569.04	100.00%	80.39%
Deobligations due to Expired FRNs	\$ (382.38)				
Net Commitments	\$ 1,569.43				

As of March 31, 2016, one potentially fundable FY 2006 application remains in the PIA review process. The FY 2006 began on July 1, 2006 and ended on June 30, 2007.

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

Authorized funding by applicant during 1Q2016 and cumulative payments to service providers through 1Q2016 are listed in Appendices, SL01 and SL02, respectively.

FUNDING YEAR 2007

FY 2007					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 1,164.14	49.35%	\$ 949.94	48.57%	81.60%
Internet Access	\$ 310.13	13.15%	\$ 258.88	13.24%	83.47%
Internal Connections	\$ 727.08	30.81%	\$ 627.50	32.08%	86.30%
Internal Connections-Maint	\$ 157.83	6.69%	\$ 119.43	6.11%	75.67%
TOTAL	\$ 2,359.18	100.00%	\$1,955.75	100.00%	82.90%
Deobligations due to Expired FRNs	\$ (401.82)				
Net Commitments	\$ 1,957.36				

As of March 31, 2016, one potentially fundable FY 2007 applications remains in the PIA review process. FY 2007 began on July 1, 2007 and ended on June 30, 2008.

Authorized funding by applicant during 1Q2016 and cumulative payments to service providers through 1Q2016 are listed in Appendices, SL03 and SL04, respectively.

FUNDING YEAR 2008

FY 2008					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 1,292.60	54.23%	\$1,049.66	54.85%	81.21%
Internet Access	\$ 333.90	14.01%	\$ 278.63	14.56%	83.45%
Internal Connections	\$ 631.13	26.48%	\$ 492.85	25.75%	78.09%
Internal Connections-Maint	\$ 125.77	5.28%	\$ 92.49	4.84%	73.54%
TOTAL	\$ 2,383.40	100.00%	\$1,913.63	100.00%	80.29%

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

Deobligations due to Expired FRNs	\$ (443.00)				
Net Commitments	\$ 1,940.40				

As of March 31, 2016, six potentially fundable FY 2008 applications remain in the PIA review process. The FY 2008 began on July 1, 2008 and ended on June 30, 2009. Authorized funding by applicant during 1Q2016 and cumulative payments to service providers through 1Q2016 are listed in Appendices SL05 and SL06, respectively.

FUNDING YEAR 2009

FY 2009					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 1,355.23	48.04%	\$ 1,110.44	48.29%	81.94%
Internet Access	\$ 355.11	12.59%	\$ 292.50	12.72%	82.37%
Internal Connections	\$ 914.75	32.43%	\$ 756.04	32.88%	82.65%
Internal Connections-Maint	\$ 195.75	6.94%	\$ 140.43	6.11%	71.74%
TOTAL	\$ 2,820.84	100.00%	\$ 2,299.41	100.00%	81.52%
Deobligations due to Expired FRNs	\$ (462.12)				
Net Commitments	\$ 2,358.72				

As of March 31, 2016, three potentially fundable FY 2009 applications remained in the PIA review process. The FY 2009 began on July 1, 2009 and ended on June 30, 2010. Authorized funding by applicant during 1Q2016 and cumulative payments to service providers through 1Q2016 are listed in Appendices SL07 and SL08, respectively.

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FUNDING YEAR 2010

FY 2010					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 1,428.96	47.48%	\$ 1,175.72	48.68%	82.28%
Internet Access	\$ 397.73	13.21%	\$ 329.98	13.66%	82.97%
Internal Connections	\$ 977.94	32.49%	\$ 761.58	31.53%	77.88%
Internal Connections-Maint	\$ 205.20	6.82%	\$ 147.96	6.13%	72.11%
TOTAL	\$ 3,009.83	100.00%	\$ 2,415.24	100.00%	80.25%
Deobligations due to Expired FRNs	\$ (507.25)				
Net Commitments	\$ 2,502.58				

As of March 31, 2016, two potentially fundable FY 2010 applications remained in the PIA review process. The FY 2010 began on July 1, 2010 and ended on June 30, 2011. Funding commitments made to applicants during 1Q2016 are included in Appendix SL09. Authorized funding by applicant during 1Q2016 and cumulative payments to service providers through 1Q2016 are listed in Appendices SL10 and SL11, respectively.

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FUNDING YEAR 2011

FY 2011					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 1,464.37	54.77%	\$1,188.64	56.19%	81.17%
Internet Access	\$ 473.34	17.70%	\$ 387.56	18.32%	81.88%
Internal Connections	\$ 609.21	22.79%	\$ 463.19	21.89%	76.03%
Internal Connections-Maint	\$ 126.67	4.74%	\$ 76.23	3.60%	60.18%
TOTAL	\$ 2,673.59	100.00%	\$2,115.62	100.00%	79.13%
Deobligations due to Expired FRNs	\$ (494.79)				
Net Commitments	\$ 2,178.80				

As of March 31, 2016, 12 potentially fundable FY 2011 applications remain in the PIA review process. The FY 2011 began on July 1, 2011 and ended on June 30, 2012. Authorized funding by applicant during 1Q2016 and cumulative payments to service providers through 1Q2016 are listed in Appendices SL12 and SL13, respectively.

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FUNDING YEAR 2012

FY 2012					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 1,514.36	51.13%	\$ 1,211.18	54.39%	79.98%
Internet Access	\$ 563.39	19.02%	\$ 447.53	20.10%	79.44%
Internal Connections	\$ 749.94	25.32%	\$ 489.65	21.99%	64.29%
Internal Connections-Maint	\$ 134.22	4.53%	\$ 78.64	3.52%	58.59%
TOTAL	\$ 2,961.91	100.00%	\$ 2,227.00	100.00%	75.19%
Deobligations due to Expired FRNs	\$ (555.00)				
Net Commitments	\$ 2,406.91				

As of March 31, 2016, 44 potentially fundable FY 2012 applications remain in the PIA review process. The FY 2012 began on July 1, 2012 and ended on June 30, 2013. Funding commitments made to applicants during 1Q2016 are included in Appendix SL14. Authorized funding by applicant during 1Q2016 and cumulative payments to service providers through 1Q2016 are listed in Appendices SL15 and SL16, respectively.

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FUNDING YEAR 2013

FY 2013					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 1,553.94	71.67%	\$ 1,216.55	71.33%	78.29%
Internet Access	\$ 614.18	28.33%	\$ 488.91	28.67%	79.60%
Internal Connections	\$ -	0.00%	\$ -	0.00%	0.00%
Internal Connections-Maint	\$ -	0.00%	\$ -	0.00%	0.00%
TOTAL	\$ 2,168.12	100.00%	\$ 1,705.46	100.00%	78.66%
Deobligations due to Expired FRNs	\$ (429.78)				
Net Commitments	\$ 1,738.34				

As of March 31, 2016, 214 potentially fundable FY 2013 applications remain in the PIA review process. The FY 2013 began on July 1, 2013 and ended on June 30, 2014.

Funding commitments made to applicants during 1Q2016 are included in Appendix SL17.

Authorized funding by applicant during 1Q2016 and cumulative payments to service providers through 1Q2016 are listed in Appendices SL18 and SL19, respectively.

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FUNDING YEAR 2014

FY 2014					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	\$ 1,592.23	69.73%	\$ 1,206.63	68.79%	75.78%
Internet Access	\$ 691.33	30.27%	\$ 547.46	31.21%	79.19%
Internal Connections	\$ -	0.00%	\$ -	0.00%	0.00%
Internal Connections-Maint	\$ -	0.00%	\$ -	0.00%	0.00%
TOTAL	\$ 2,283.56	100.00%	\$ 1,754.09	100.00%	76.81%
Deobligations due to Expired FRNs	\$ (415.57)				
Net Commitments	\$ 1,867.99				

As of March 31, 2016, 303 potentially fundable FY 2014 applications remain in the PIA review process. The FY 2014 began on July 1, 2014 and will end on September 30, 2015. Funding commitments made to applicants during 1Q2016 are included in Appendix SL20. Authorized funding by applicant during 1Q2016 and cumulative payments to service providers through 1Q2016 are listed in Appendices SL21 and SL22, respectively.

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FUNDING YEAR 2015

FY 2015					
	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	\$ 761.49	23.82%	\$ 164.21	23.44%	21.56%
Internet Access	\$ 692.73	21.67%	\$ 180.63	25.78%	26.08%
Internal Connections	\$ 1,230.91	38.51%	\$ 275.38	39.31%	22.37%
Internal Connections-Maint	\$ 30.95	0.97%	\$ 4.70	0.67	15.19%
MIBS	\$ 25.02	0.78%	\$ 3.77	0.54	15.07%
Voice	\$ 455.51	14.25%	\$ 71.87	10.26%	15.78%
TOTAL	\$ 3,196.61	100.00%	\$ 700.56	100.00%	21.92%
Deobligations due to Expired FRNs	\$ -				
Net Commitments	\$ 3,196.61				

As of March 31, 2016, 975 potentially fundable FY 2015 applications remained in the PIA review process. The FY 2015 began on July 1, 2015 and will end on June 30, 2016. Funding commitments made to applicants during 1Q2016 are included in Appendix SL23. Authorized funding by applicant during 1Q2016 and cumulative payments to service providers through 1Q2016 are listed in Appendices SL24 and SL25, respectively.

SCHOOLS AND LIBRARIES SUPPORT MECHANISM SUMMARY

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

Universal Service Administrative Company 3Q2016 Fund Size Projections

(4Q2002), and 1st Quarter 2003 (1Q2003).⁶⁸

In the *Schools and Libraries Third Report and Order*, the Commission amended its rules to allow unused funds from prior FYs to be carried forward on an annual basis in the second quarter of each calendar year for use in the next full FY.⁶⁹ The Commission required USAC to file quarterly estimates of unused funds from prior FYs in submitting its projection of Schools and Libraries Support Mechanism demand for the upcoming quarter. The Commission modified the schedule to implement the process for FY 2003 and directed USAC to carry-forward \$420 million of unused prior year funds for use in FY 2003.⁷⁰ In accordance with the *Schools and Libraries Third Report and Order*, the Commission announced that \$150 million in unused funds from FY 2001 would be carried forward to increase disbursements to schools and libraries in FY 2004.⁷¹

On June 11, 2007, the Commission instructed USAC to carry-forward \$650 million in unused funds to FY 2007.⁷² The funds were carried forward from FYs 2001, 2002, 2003, and 2004 in the amount of \$50 million, \$300 million, \$150 million, and \$150 million, respectively. On June 23, 2008, the Commission instructed USAC to carry-forward \$600 million in unused funds to FY 2008.⁷³ The funds were carried forward from FYs 2002, 2003, and 2004 in the amount of \$150 million, \$200 million, and \$250 million, respectively. On July 31, 2009, the Commission instructed USAC to carry-forward \$900 million in unused

⁶⁸ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, First Report and Order, 17 FCC Rcd 11521,11532, para. 22 (2002) (*Schools and Libraries First Report and Order*).

⁶⁹ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket 02-6, Third Report and Order and Second Further Notice of Proposed Rulemaking, 18 FCC Rcd 26912, paras. 52-57 (2003) (*Schools and Libraries Third Report and Order and Second Further Notice of Proposed Rulemaking*).

⁷⁰ *Id.*; see also 47 C.F.R. § 54.507(a)(3).

⁷¹ See *Carryover of Unused Funds for Funding Year 2004*, CC Docket No. 02-6, Public Notice, 19 FCC Rcd 20420 (2004).

⁷² See *Wireline Competition Bureau Announces Carryover of Unused Funds for Funding Year 2007*, CC Docket No. 02-6, Public Notice, 22 FCC Rcd 10795 (2007).

⁷³ *Carryover of Unused Federal Universal Service Funds for Funding Year 2008*, CC Docket No. 02-6, Public Notice, 23 FCC Rcd 9960 (2008).

Universal Service Administrative Company 3Q2016 Fund Size Projections

funds to FY 2009.⁷⁴ The funds were carried-forward from FYs 1999, 2001, 2002, 2003, 2004, 2005, and 2006 in the amount of \$25 million, \$60 million, \$60 million, \$210 million, \$275 million, \$200 million, and \$70 million, respectively. On July 1, 2010, the Commission instructed USAC to carry-forward \$900 million in unused funds to FY 2010.⁷⁵ The funds were carried-forward from FYs 2002, 2005, 2006, 2007, and 2008 in the amount of \$25 million, \$100 million, \$300 million, \$375 million, and \$100 million, respectively. On August 22, 2011, the Commission instructed USAC to carry-forward an additional \$250 million in unused funds to FY 2010.⁷⁶ The funds were carried forward from FY 2008. The total funds carried forward to FY 2010 amount to \$1,150 million. The Commission further instructed USAC to carry-forward \$850 million in unused funds from FYs 2003, 2004, 2005, 2006, 2007, 2008, and 2009 to FY 2011.⁷⁷ The funds were carried-forward from FYs 2003, 2004, 2005, 2006, 2007, 2008, and 2009 in the amount of \$20 million, \$50 million, \$120 million, \$115 million, \$275 million, \$140 million, and \$130 million, respectively. On July 18, 2012, the FCC authorized USAC to carry-forward \$1,050 million in unused funds from prior years to increase FY 2012 disbursements in excess of the \$2.34 billion annual cap.⁷⁸ The funds were carried-forward from FYs 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, and 2010 in the amount of \$5 million, \$15 million, \$20 million, \$25 million, \$15 million, \$55 million, \$60 million, \$120 million, \$80 million, \$140 million, \$115 million, \$300 million, and \$100 million, respectively. On May 16, 2013, the FCC authorized USAC to carry-forward \$450 million in unused funds from prior years to increase FY 2013

⁷⁴ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Order, 24 FCC Red 10164 (2009).

⁷⁵ See *Wireline Competition Bureau Announces Carryover of Unused Schools and Libraries Universal Service Funds for Funding Year 2010*, CC Docket No. 02-6, Public Notice, 25 FCC Red 8483 (2010).

⁷⁶ 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*, CC Docket No. 02-6, Order, 26 FCC Red 11145 (2011).

⁷⁷ *Id.* at 11150, para. 13.

⁷⁸ *Wireline Competition Bureau Announces Carry-Forward of Unused Schools and Libraries Universal Service Funds for Funding Year 2012*, CC Docket No. 02-6, Public Notice, 27 FCC Red 8109 (2012).

Universal Service Administrative Company 3Q2016 Fund Size Projections

disbursements in excess of the \$2.38 billion annual cap.⁷⁹ The funds were carried forward from FYs 2007, 2008, 2009 and 2010 in the amount of \$20 million, \$150 million, \$150 million and \$130 million, respectively. On May 2, 2014, the FCC authorized USAC to carry-forward \$200 million in unused funds from prior years to increase FY 2014 disbursements in excess of the \$2.41 billion annual cap.⁸⁰ The funds were carried forward from FYs 2002, 2007, 2009 and 2010 in the amount of \$40 million, \$30 million, \$70 million and \$60 million, respectively.

In the *Schools and Libraries Sixth Report and Order*, the Commission amended its rules to increase the cap on program funding by indexing the cap to inflation.⁸¹ The Commission calculates this annual increase by using the percentage increase in the gross domestic product chain type price index (GDP-CPI) from the previous year and rounds this to the nearest 0.1 percent. The Commission found that the GDP-CPI increased 0.9 percent between 2008 and 2009. Using this analysis, the Commission set the cap for FY 2010 to \$2,270,250,000. On August 5, 2011, the Commission set the cap for FY 2011 at \$2,290,682,250.⁸² 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.⁸³ On May 18, 2012, the Commission set the cap for FY 2012 to \$2,338,786,577.⁸⁴ On March 11, 2013, the

⁷⁹ See *Wireline Competition Bureau Announces Carry-Forward of Unused Schools and Libraries Universal Service Funds for Funding Year 2013*, CC Docket No. 02-6, Public Notice 28 FCC Rcd 7239 (2013).

⁸⁰ See *Wireline Competition Bureau Announces Carry-Forward of Unused Schools and Libraries Universal Service Funds for Funding Year 2014*, CC Docket No. 02-6, Public Notice, 29 FCC Rcd 4967 (2014).

⁸¹ See *Schools and Libraries Universal Service Support Mechanism, A National Broadband Plan For Our Future*, CC Docket No. 02-6 et al., Sixth Report and Order, 25 FCC Rcd 18762, 18780-83, paras. 35-40 (2010) (*Schools and Libraries Sixth Report and Order*).

⁸² *Wireline Competition Bureau Announces E-Rate Inflation-Based Cap for Funding Year 2011*, CC Docket No. 02-6, Public Notice, 26 FCC Rcd 11097 (2011).

⁸³ See *USF/ICC Transformation Order*, 26 FCC Rcd at 17848, para. 567.

⁸⁴ See *Wireline Competition Bureau Announces E-Rate Inflation-Based Cap for Funding Year 2012*, CC Docket No. 02-6, Public Notice, 27 FCC Rcd 5305 (2012).

Universal Service Administrative Company 3Q2016 Fund Size Projections

FCC set the cap for FY 2013 at \$2,380,314,485.⁸⁵ On March 28, 2014, the FCC set the cap for FY 2014 at \$2,413,817,693.⁸⁶

On December 15, 2014, the FCC Managing Director provided guidance to USAC concerning maintenance of cash reserves for meeting funding commitments for the Schools and Libraries Support Mechanism.⁸⁷ On December 19, 2014, the FCC released the *Second Report and Order on Reconsideration*, FCC 14-189, also known as the *Second E-rate Modernization Order*, adjusting the \$2.41 billion annual cap (after giving effect to inflation adjustments) to \$3.9 billion, effective for FY 2015.⁸⁸ On December 23, 2014, USAC submitted information to the FCC consistent with that guidance.⁸⁹

On May 6, 2015, USAC submitted an estimate of demand for the E-rate program for FY 2015 of \$3.92 billion, which includes estimated demand for Category One services (telecommunications, telecommunications services and Internet access) of \$2.255 billion and of \$1.665 billion for category two services (internal connections, basic maintenance of internal connections and managed internal broadband services).

On May 8, 2015, the FCC authorized USAC to carry-forward \$1,575 million in unused funds from prior years to fund FY 2015 disbursements up to the \$3.92 billion demand. The funds were carried-forward from FYs 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012 and 2013 in the amount of \$4.99 million; \$8.44 million; \$7.70 million; \$27.70 million; \$15.20 million; \$43.83 million; \$20.95

⁸⁵ See *Wireline Competition Bureau Announces E-Rate Inflation-Based Cap for Funding Year 2012*, CC Docket No. 02-6, Public Notice, 28 FCC Rcd 2318 (2013).

⁸⁶ See *Wireline Competition Bureau Announces E-Rate Inflation-Based Cap for Funding Year 2014*, CC Docket No. 02-6, Public Notice, 29 FCC Rcd 3222 (2014).

⁸⁷ See Letter from John Wilkins, Managing Director, FCC, to Chris Henderson, Chief Executive Officer, USAC, 29 FCC Rcd 14858 (Dec. 15, 2014).

⁸⁸ See *Modernizing the E-Rate Program for Schools and Libraries Connect America Fund*, WC Docket Nos. 13-184 *et al.*, Second Report and Order and Order on Reconsideration, 29 FCC Rcd 15538 (2014).

⁸⁹ See Letter from Chris Henderson, Chief Executive Officer, USAC, to Marlene H. Dortch, Secretary, FCC (Dec. 23, 2014) (regarding Submission for the Record – WC Docket 13-184 *et al.*, Information on Schools and Support Mechanism Funds Available for Carry-Forward).

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million; \$18.62 million; \$31.80 million; \$19.49 million; \$18.46 million; \$70.37 million; \$378.57 million; \$595.81 million; \$295.12 million; and \$18 million, respectively.

The FCC directed USAC to fully fund eligible category one services under the new cap. The FCC also directed USAC to fully fund eligible Category Two services, first using as much as \$1.575 billion in E-rate funds unused from previous years, and then using any additional funds needed under the new cap to fully meet demand.

In consultation with the FCC, USAC projects a total of \$1,900 million is currently available to carry-forward from prior FYs as follows: 2004: \$1.69 million; 2006: \$2.00 million; 2008: \$7.00 million; 2010: \$4.31 million; 2011: \$17.00 million; and 2012: \$540.00 million; 2013: \$850.00 million; 2014: \$290.00 million; and 2015: \$188.00 million.

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

Funding Year 1998 True-Up

As of March 31, 2016, \$1,399.06 million of FY 1998 support had been authorized for disbursement. The Commission in a series of actions has directed USAC to move outstanding contingency funds to subsequent years in an effort to utilize unused funds. In response to this direction, USAC estimates that no contingency amount should be reserved to pay appeals pending at the Commission and to pay invoices on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Pursuant to the *Second Report and Order* issued on April 30, 2003 and in consultation with the Commission, \$3 million of needed funds for successful appeals were transferred from available funds in FY 2008. Given these requirements and to preserve the contingency, USAC estimates no FY

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

1998 funds are available to carry-forward. The estimated FY 1998 balance is based on the following:

FY 1998	Amounts in Millions
Amount Authorized and Actually Collected	\$1,925.00
Amount Authorized for Disbursement	(1,399.06)
Administrative Expenses (21 months)	(41.79)
Amount Applied to Adjust 2000, 2001, and 2002 Collections	(477.16)
Amount Carried-forward to FY 2012	(5.00)
Amount Carried-forward to FY 2015	(4.99)
Amount Carried Back to Fund Retroactive Appeals	3.00
Potential Additional Disbursements on Committed FRNs	(0.00)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	0.00
Estimated Remaining Balance	\$0.00

Funding Year 1999 True-Up

As of March 31, 2016, \$1,650.03 million of FY 1999 support had been authorized for disbursement. The Commission in a series of actions has directed USAC to move outstanding contingency funds to subsequent years in an effort to utilize unused funds. In response to this direction, USAC estimates that no contingency amount should be reserved to pay appeals pending at the Commission and to pay invoices on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements, USAC estimates no FY 1999 funds are available to carry-forward. The estimated remaining FY 1999 balance is based on the following:

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FY 1999	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,650.03)
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 FY 2003	(50.00)
Amount Carried-forward to FY 2009	(25.00)
Amount Carried-forward to FY 2012	(15.00)
Amount Carried-forward to FY 2015	(8.44)
Potential Additional Disbursements on Committed FRNs	(0.00)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(0.12)
Estimated Remaining Balance	\$0.00

Funding Year 2000 True-Up

As of March 31, 2016, \$1,647.02 million of FY 2000 support had been authorized for disbursement. The Commission in a series of actions has directed USAC to move outstanding contingency funds to subsequent years in an effort to utilize unused funds. In response to this direction, USAC's projection of remaining FY 2000 funds includes estimates of funds needed to pay additional disbursements on committed funding requests, and no disbursements on remaining requests that have not received funding commitments, as well as no contingency reserve to pay pending appeals and make disbursements on FY 2000 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates no FY 2000 funds are available to carry-forward. The estimated remaining FY 2000 balance is based on the following:

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FY YEAR 2000	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,647.02)
Administrative Expenses	(32.24)
Amount Applied to Adjust Fourth Quarter 2002 Collections	(136.85)
Amount Applied to Adjust First Quarter 2003 Collections	(246.18)
Amount Carried-forward to FY 2003	(160.00)
Amount Carried-forward to FY 2012	(20.00)
Amount Carried-forward to FY 2015	(7.70)
Potential Additional Disbursements on Committed FRNs	(0.00)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(0.01)
Estimated Remaining Balance	\$0.00

Funding Year 2001 True-Up

As of March 31, 2016, \$1,695.76 million of FY 2001 support had been authorized for disbursement. The Commission in a series of actions has directed USAC to move outstanding contingency funds to subsequent years in an effort to utilize unused funds. USAC's projection of remaining FY 2001 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and no disbursements on requests that have not yet received funding commitments, as well as no contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements, USAC estimates that no FY 2001 funds are available to carry-forward. The estimated remaining FY 2001 balance is based on the following:

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FY 2001	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,695.76)
Administrative Expenses	(30.56)
Amount Carried-forward to FY 2003	(210.00)
Amount Carried-forward to FY 2004	(150.00)
Amount Carried-forward to FY 2007	(50.00)
Amount Carried-forward to FY 2009	(60.00)
Amount Carried-forward to FY 2012	(25.00)
Amount Carried-forward to FY 2015	(27.70)
Potential Additional Disbursements on Committed FRNs	(0.00)
Remaining Uncommitted Requests	0.00
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(0.98)
Estimated Remaining Balance	\$0.00

Funding Year 2002 True-Up

As of March 31, 2016, \$1,598.20 million of FY 2002 support had been authorized for disbursement. The Commission in a series of actions has directed USAC to move outstanding contingency funds to subsequent years in an effort to utilize unused funds. In response to this direction, USAC's projection of remaining FY 2002 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and no disbursements on requests that have not yet received funding commitments, as well as no contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that no FY 2002 funds are available to carry-forward. The estimated remaining FY 2002 balance is based on the following:

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FY 2002	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,598.20)
Administrative Expenses	(38.53)
Amount Carried-forward to FY 2007	(300.00)
Amount Carried-forward to FY 2008	(150.00)
Amount Carried-forward to FY 2009	(60.00)
Amount Carried-forward to FY 2010	(25.00)
Amount Carried-forward to FY 2012	(15.00)
Amount Carried-forward to FY 2014	(40.00)
Amount Carried-forward to FY 2015	(15.20)
Potential Additional Disbursements on Committed FRNs	(8.25)
Remaining Uncommitted Requests	0.00
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	0.18
Estimated Remaining Balance	\$0.00

Funding Year 2003 True-Up

As of March 31, 2016, \$1,940.17 million of FY 2003 support had been authorized for disbursement. The Commission in a series of actions has directed USAC to move outstanding contingency funds to subsequent years in an effort to utilize unused funds. In response to this direction, USAC's projection of remaining FY 2003 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and no disbursements on requests that have not yet received funding commitments, as well as no contingency reserve to pay pending appeals and make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that no FY 2003 funds are available to carry-forward. The estimated remaining FY 2003 balance is based on the following:

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FY 2003	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,940.17)
Amount Carried-forward from FYs 1999, 2000 and 2001	420.00
Amount Carried-forward to FY 2007	(150.00)
Amount Carried-forward to FY 2008	(200.00)
Amount Carried-forward to FY 2009	(210.00)
Amount Carried-forward to FY 2011	(20.00)
Amount Carried-forward to FY 2012	(55.00)
Amount Carried-forward to FY 2015	(43.83)
Administrative Expenses	(44.19)
Potential Additional Disbursements on Committed FRNs	(6.80)
Remaining Uncommitted Requests	0.00
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(0.01)
Estimated Remaining Balance	\$0.00

Funding Year 2004 True-Up

As of March 31, 2016, \$1,536.42 million of FY 2004 support had been authorized for disbursement. The Commission in a series of actions has directed USAC to move outstanding contingency funds to subsequent years in an effort to utilize unused funds. In response to this direction, USAC's projection of remaining FY 2004 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and no disbursements on requests that have not yet received funding commitments, as well as no 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 \$1.69 million of FY 2004 funds are available to carry-forward. The estimated remaining FY 2004 balance is based on the following:

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FY 2004	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,536.42)
Amount Carried-forward from FY 2001	150.00
Amount Carried-forward to FY 2007	(150.00)
Amount Carried-forward to FY 2008	(250.00)
Amount Carried-forward to FY 2009	(275.00)
Amount Carried-forward to FY 2011	(50.00)
Amount Carried-forward to FY 2012	(60.00)
Amount Carried-forward to FY 2015	(20.95)
Amount Applied to Adjust Collections	(550.00)
Adjustment for Reduction in Collections	550.00
Administrative Expenses	(55.75)
Potential Additional Disbursements on Committed FRNs	(0.19)
Remaining Uncommitted Requests	(0.00)
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(0.00)
Estimated Remaining Balance	\$1.69

Funding Year 2005 True-Up

As of March 31, 2016, \$1,625.56 million of FY 2005 support had been authorized for disbursement. The Commission in a series of actions has directed USAC to move outstanding contingency funds to subsequent years in an effort to utilize unused funds. In response to this direction, USAC's projection of remaining FY 2005 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and no disbursements on requests that have not yet received funding commitments, as well as no contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that no FY 2005 funds are available to carry-forward. The estimated remaining FY 2005 balance is based on the following:

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FY 2005	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,625.56)
Amount Carried-forward to FY 2009	(200.00)
Amount Carried forward to FY 2010	(100.00)
Amount Carried forward to FY 2011	(120.00)
Amount Carried-forward to FY 2012	(120.00)
Amount Carried-forward to FY 2015	(18.62)
Administrative Expenses	(64.99)
Potential Additional Disbursements on Committed FRNs	(0.19)
Remaining Uncommitted Requests	0.00
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(0.64)
Estimated Remaining Balance	\$0.00

Funding Year 2006 True-Up

As of March 31, 2016, \$1,569.04 million of FY 2006 support had been authorized for disbursement. The Commission in a series of actions has directed USAC to move outstanding contingency funds to subsequent years in an effort to utilize unused funds. In response to this direction, USAC's projection of remaining FY 2006 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and no disbursements on requests that have not yet received funding commitments, as well as no 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 \$2.00 million of FY 2006 funds are available to carry-forward. The estimated remaining FY 2006 balance is based on the following:

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FY 2006	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,569.04)
Amount Carried-forward to FY 2009	(70.00)
Amount Carried-forward to FY 2010	(300.00)
Amount Carried-forward to FY 2011	(115.00)
Amount Carried-forward to FY 2012	(80.00)
Amount Carried-forward to FY 2015	(31.80)
Administrative Expenses	(80.74)
Potential Additional Disbursements on Committed FRNs	(0.40)
Remaining Uncommitted Requests	0.00
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(1.02)
Estimated Remaining Balance	\$2.00

Funding Year 2007 True-Up

As of March 31, 2016, \$1,955.75 million of FY 2007 support had been authorized for disbursement. The Commission in a series of actions has directed USAC to move outstanding contingency funds to subsequent years in an effort to utilize unused funds. In response to this direction, USAC's projection of remaining FY 2007 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and no disbursements on requests that have not yet received funding commitments, as well as no 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 no FY 2007 funds are available to carry-forward. The estimated remaining FY 2007 balance is based on the following:

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FY 2007	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,955.75)
Amount Carried-forward from FYs 2001, 2002, 2003 and 2004	650.00
Amount Carried-forward to FY 2010	(375.00)
Amount Carried-forward to FY 2011	(275.00)
Amount Carried-forward to FY 2012	(140.00)
Amount Carried-forward to FY 2013	(20.00)
Amount Carried-forward to FY 2014	(30.00)
Amount Carried-forward to FY 2015	(19.49)
Administrative Expenses	(81.24)
Potential Additional Disbursements on Committed FRNs	(1.62)
Remaining Uncommitted Requests	0.00
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(1.90)
Estimated Remaining Balance	\$0.00

Funding Year 2008 True-Up

As of March 31, 2016, \$1,913.63 million of FY 2008 support had been authorized for disbursement. The Commission in a series of actions has directed USAC to move outstanding contingency funds to subsequent years in an effort to utilize unused funds. In response to this direction, USAC's projection of remaining FY 2008 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and no disbursements on requests that have not yet received funding commitments, as well as no 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 \$7.00 million of FY 2008 funds are available to carry-forward. The estimated remaining FY 2008 balance is based on the following:

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FY 2008	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,913.63)
Amount Carried-forward from FYs 2002, 2003, and 2004	600.00
Amount Carried-forward to FY 2010	(350.00)
Amount Carried-forward to FY 2011	(140.00)
Amount Carried-forward to FY 2012	(115.00)
Amount Carried-forward to FY 2013	(150.00)
Amount Carried-forward to FY 2015	(18.46)
Amount Carried Back to FY 1998 to Fund Appeals	(3.00)
Administrative Expenses	(125.59)
Potential Additional Disbursements on Committed FRNs	(26.78)
Remaining Uncommitted Requests	0.00
Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests	(0.54)
Estimated Remaining Balance	\$7.00

Funding Year 2009 True-Up

As of March 31, 2016, \$2,299.41 million of FY 2009 support had been authorized for disbursement. The Commission in a series of actions has directed USAC to move outstanding contingency funds to subsequent years in an effort to utilize unused funds. In response to this direction, USAC's projection of remaining FY 2009 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and no disbursements on requests that have not yet received funding commitments, as well as no contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that no FY 2009 funds are available to carry-forward. The estimated remaining FY 2009 balance is based on the following:

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FY 2009	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(2,299.41)
Amount Carried-forward from FYs 1999, 2001, 2002, 2003, 2004, 2005, and 2006	900.00
Amount Carried-forward to FY 2011	(130.00)
Amount Carried-forward to FY 2012	(300.00)
Amount Carried-forward to FY 2013	(150.00)
Amount Carried-forward to FY 2014	(70.00)
Amount Carried-forward to FY 2015	(70.37)
Administrative Expenses	(81.27)
Potential Additional Disbursements on Committed FRNs	(59.30)
Remaining Uncommitted Requests	0.00
Contingency Amount for Pending Appeals and Invoice Deadline Extensions	10.35
Estimated Remaining Balance	\$0.00

Funding Year 2010 True-Up

As of March 31, 2016, \$2,415.24 million of FY 2010 support had been authorized for disbursement. The Commission in a series of actions has directed USAC to move outstanding contingency funds to subsequent years in an effort to utilize unused funds. In response to this direction, USAC's projection of remaining FY 2010 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and no disbursements on requests that have not yet received funding commitments, as well as no 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 \$4.31 million of FY 2010 funds are available to carry-forward. The estimated remaining FY 2010 balance is based on the following:

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FY 2010	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(2,415.24)
Amount Carried-forward from FYs 2002, 2005, 2006, 2007, 2008, and 2009	1,150.00
Amount Carried-forward to FY 2012	(100.00)
Amount Carried-forward to FY 2013	(130.00)
Amount Carried-forward to FY 2014	(60.00)
Amount Carried-forward to FY 2015	(378.57)
Amount Applied to Adjust Collections FY 2004	(140.00)
Amount Authorized by FCC Inflation Increment	20.25
Administrative Expenses	(75.33)
Potential Additional Disbursements on Committed FRNs	(87.34)
Remaining Uncommitted Requests	0.00
Contingency Amount for Pending Appeals and Invoice Deadline Extensions	(29.46)
Estimated Remaining Balance	\$4.31

Funding Year 2011 True-Up

As of March 31, 2016, \$2,115.62 million of FY 2011 support had been authorized for disbursement. The Commission in a series of actions has directed USAC to move outstanding contingency funds to subsequent years in an effort to utilize unused funds. In response to this direction, USAC's projection of remaining FY 2011 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and no disbursements on requests that have not yet received funding commitments, as well as no 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 \$17.00 million of FY 2011 funds are available to carry-forward. The estimated remaining FY 2011 balance is based on the following:

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FY 2011	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(2,115.62)
Amount Carried-forward from FYs 2003, 2004, 2005, 2006, 2007, 2008 and 2009	850.00
Amount Carried-forward to FY 2015	(595.81)
Amount Applied to Adjust Collections FY 2004	(250.00)
Amount Authorized by FCC Inflation Increment	40.68
Administrative Expenses	(85.00)
Potential Additional Disbursements on Committed FRNs	(63.17)
Remaining Uncommitted Requests	0.00
Contingency Amount for Pending Appeals and Invoice Deadline Extensions	(14.08)
Estimated Remaining Balance	\$17.00

Funding Year 2012 True-Up

As of March 31, 2016, \$2,227.00 million of FY 2012 support had been authorized for disbursement. The Commission in a series of actions has directed USAC to move outstanding contingency funds to subsequent years in an effort to utilize unused funds. In response to this direction, USAC's projection of remaining FY 2012 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as no 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 \$540.00 million of FY 2012 funds are available to carry-forward. The estimated remaining FY 2012 balance is based on the following:

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FY 2012	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(2,227.00)
Amount Carried-forward from FYs 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009 and 2010	1,050.00
Amount Carried-forward to FY 2015	(295.12)
Amount Applied to Adjust Collections FY 2004	(40.00)
Amount Authorized by FCC Inflation Increment	88.79
Administrative Expenses	(70.00)
Potential Additional Disbursements on Committed FRNs	(179.91)
Remaining Uncommitted Requests	(0.00)
Contingency Amount for Pending Appeals and Invoice Deadline Extensions	(36.76)
Estimated Remaining Balance	\$540.00

Funding Year 2013 True-Up

As of March 31, 2016, \$1,705.46 million of FY 2013 support had been authorized for disbursement. The Commission in a series of actions has directed USAC to move outstanding contingency funds to subsequent years in an effort to utilize unused funds. In response to this direction, USAC's projection of remaining FY 2013 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as no 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 \$850.00 million of FY 2013 funds are available to carry-forward. The estimated remaining FY 2013 balance is based on the following:

**Universal Service Administrative Company 3Q2016 Fund Size
Projections**

FY 2013	Amounts in Millions
Amount Authorized for Collections	\$2,250.00
Amount Authorized for Disbursement	(1,705.46)
Amount Carried-forward from FYs 2007, 2008, 2009 and 2010	450.00
Amount Carried-forward to FY 2015	(18.00)
Amount Applied to Adjust Collections FY 2004	(120.00)
Amount Authorized by FCC Inflation Increment	130.31
Administrative Expenses	(70.00)
Potential Additional Disbursements on Committed FRNs	(32.87)
Remaining Uncommitted Requests	(37.45)
Contingency Amount for Pending Appeals and Invoice Deadline Extensions	3.47
Estimated Remaining Balance	\$850.00

Funding Year 2014 True-Up

As of March 31, 2016, \$1,754.09 million of FY 2014 support had been authorized for disbursement. USAC's projection of remaining FY 2014 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that \$290.00 million of FY 2014 funds are available to carry-forward. The estimated remaining FY 2014 balance is based on the following:

FY 2014	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(1,754.09)
Amount Carried-forward from FY 2002, 2007, 2009 and 2010	200.00
Amount Authorized by FCC Inflation Increment	163.82
Administrative Expenses	(70.00)
Potential Additional Disbursements on Committed FRNs	(113.91)
Remaining Uncommitted Requests	(105.42)
Contingency Amount for Pending Appeals and Invoice	(280.40)

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FY 2014	Amounts in Millions
Deadline Extensions	
Estimated Remaining Balance	\$290.00

Funding Year 2015 True-Up

As of March 31, 2016, \$700.56 million of FY 2015 support had been authorized for disbursement. USAC's projection of remaining FY 2015 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 \$188.00 million of FY 2015 funds are available to carry-forward. The estimated remaining FY 2015 balance is based on the following:

FY 2015	Amounts in Millions
Amount Authorized and Actually Collected	\$2,250.00
Amount Authorized for Disbursement	(700.56)
Amount Carried-forward from FY 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012 and 2013	1,575.05
Amount Authorized by FCC Inflation Increment	0.00
Administrative Expenses	(70.00)
Potential Additional Disbursements on Committed FRNs	(2,496.05)
Remaining Uncommitted Requests and Contingency Amount for Pending Appeals	(370.44)
Estimated Remaining Balance	\$188.00

3Q2016 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

Universal Service Administrative Company 3Q2016 Fund Size Projections

Commission's Order of October 3, 2003.⁹⁰ Commission staff subsequently determined that Funding Commitment Decision Letters (FCDLs) for the Schools and Libraries Support Mechanism are to be treated as "obligations" for federal budgetary accounting purposes and subject to the requirements of the Antideficiency Act (ADA).⁹¹ 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, 2017.⁹²

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 2004.⁹³

⁹⁰ See *Application of Generally Accepted Accounting Principles for Federal Agencies and Generally Accepted Government Auditing Standards to the Universal Service Fund, et al.*, CC Docket No. 96-45 *et al.*, Order, 18 FCC Rcd 19911 (2003).

⁹¹ 31 U.S.C. § 1341.

⁹² See Consolidated Appropriations Act of 2016, H.R. 2029, 114th Cong. § 501 (2015), became Pub. L. No. 114-113 ("Section 302 of the Universal Service Antideficiency Temporary Suspension Act is amended by striking 'December 31, 2016', each place it appears and inserting 'December 31, 2017'."); see also H.R. 5419, 108th Cong. § 302 (2004) (Universal Service Antideficiency Temporary Suspension Act) ("During the period beginning on the date of enactment of this Act and ending on December 31, 2005, section 1341 and subchapter II of chapter 15 of title 31, United States Code, do not apply (1) to any amount collected or received as Federal universal service contributions required by section 254 of the Communications Act of 1934 (47 U.S.C. 254), including any interest earned on such contributions; nor (2) to the expenditure or obligation of amounts attributable to such contributions for universal service support programs established pursuant to that section."); H.R. 2862, 109th Cong. § 633 (2005); H.R.J. Res. 20, 110th Cong. § 20946 (2007); H.R. 2764, 110th Cong. (2007); H.R. 1105, 111th Cong. (2009); H.R. 3288, 111th Cong. (2009); H.R. 3082, 111th Cong. § 155 (2010); H.R. 2055, 112th Cong. (2011); H.R. 2775, 113th Cong. § 128 (2013), H.R. 3547, 113th Cong. (2014); H.R. 83, 113th Cong. (2014).

⁹³ 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.

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The Commission subsequently authorized the recovery by adjusting subsequent funding years for these changes as follows: 2010: \$140M; 2011: \$250M; 2012: \$40M; and 2013: \$120M.⁹⁴

Reason for the Prior Period Adjustment	Adjustment in Millions
1Q2016 billings were higher than projected.	\$(4.91)
Interest earned was higher than projected.	(0.84)
Bad debt expense was higher than anticipated.	0.06
Total Prior Period Adjustment	\$(5.69)

The total fund requirement of \$603.45 million is adjusted as follows: decreased by the prior period adjustments of \$5.69 million, increased by \$29.20 million for administrative expenses (including allocated administrative expenses of \$10.15 million), and reduced by the projected interest income of \$8.06 million, results in a total projected collection requirement of \$618.90 million for the Schools and Libraries Support Mechanism for 3Q2016.

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.⁹⁵ 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

⁹⁴ 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. In October of 2014, the Commission authorized the recovery of these funds from subsequent fund years.

⁹⁵ See 47 C.F.R. § 54.709(a)(3). The FCC 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, 54.708, 54.711, 54.713 (discussing contributor reporting requirements).

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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.

USAC invoices and receives contributions from more than 3,000 telecommunications companies each month. Interstate telecommunications service providers are required to complete the 499-Q form, reporting July to September 2016 projected revenue information, and return it to USAC by May 1, 2016.

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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 90 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.⁹⁶ If a contributor is delinquent to the USF, USAC performs administrative offsets to resolve the delinquency by netting any pending service provider disbursements where the Service Provider Identification Number (SPIN) shares the same Taxpayer Identification Number (TIN) as the delinquent contributor. If an entity is delinquent on a debt owed to the Commission or the Telecommunications Relay Service, North American Numbering Plan or Local Portability funds, USAC places administrative holds on any disbursements for SPINs that share the same TIN until the Commission provides information stating that the debt has been satisfied. USAC continues to work closely with the Commission and stakeholders affected by the Red Light Rule implementation.

AUTHORIZATION TO FILE WITH THE COMMISSION

At their April 25, 2016 and April 26, 2016 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 3Q2016 projected support mechanism funding requirements described herein. At its April 26, 2016 meeting, the USAC

⁹⁶ 47 C.F.R. § 1.1910.

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Board of Directors adopted a resolution authorizing the inclusion of the projected 3Q2016 administrative expenses in this report to the Commission.

Respectfully submitted,

UNIVERSAL SERVICE
ADMINISTRATIVE COMPANY

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

May 2, 2016