

2002 High Cost & Low Income Committee Meetings Minutes

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UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
HIGH COST & LOW INCOME COMMITTEE MEETING

January 23, 2002

MINUTES

The quarterly meeting of the High Cost & Low Income (HCLI) Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the Jefferson Hotel, 1200 16th Street, NW, Washington, DC, on Wednesday, January 23, 2002. Mr. Ed Eichler, Vice Chair of the Committee, called the meeting to order at 1:06 p.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the USAC CEO, called the roll on behalf of Mr. Ed Eichler, Secretary.

All nine members were present, representing a quorum:	
Buller, Karen	Gumper, Frank
Cornell, Diane	Lubin, Joel
Eichler, Ed	Parrino, Cheryl
Gonzalez, Dan	Swanson-Hull, Camie
Gregg, Billy Jack	
Other Board members and Officers of the Corporation present:	
Hess, Kevin - Board Member	Barash, D. Scott - Assistant Secretary
Jackson, Jimmy - Board Member	Haga, Robert - Assistant Treasurer
Others present for the meeting:	
Name	Company
Blackwell, Mel	USAC
Burmeister, Ted	FCC
Byrd, Vickie S.	FCC
Faunce, Donna	USAC
Flannery, Irene	USAC
Gallant, Pam	USAC
Howard, Cathy	USAC
Johnson, Eric	FCC
Khan, Sameer	USAC
Miller, Linda	USAC
Respress, Deborah	USAC
Scott, Wayne	USAC

Due to the number of new Board members and USAC staff at the meeting, Mr. Eichler conducted a round of introductions of all meeting participants

Action Items

- a1. **Approval of the Minutes.** On a motion duly made and seconded, the Committee approved the minutes as distributed of the High Cost & Low Income Committee meetings of Monday, October 22, 2001; Thursday, November 8, 2001; and Thursday, December 27, 2001.
- a2. **Annual Election of Committee Chairs and Vice Chairs.** Ms. Parrino recalled for the Committee that the USAC Board of Directors elects the Committee Chair and Vice Chair, but that the Committee can recommend nominations. She reviewed the nominations as presented in the issue paper.

On a motion duly made and seconded, the Committee adopted the following resolution:

RESOLVED, That the USAC High Cost & Low Income Committee recommends that the USAC Board of Directors elect **Mr. Ed Eichler** as Chair and **Mr. Joel Lubin** as Vice Chair of the USAC High Cost & Low Income Committee for the term of one year that shall begin at the conclusion of the January 2002 Board meeting and that shall conclude at the close of the January 2003 Board meeting.

- a3. **Approval of Revised Contracting and Bidding Timetable for the High Cost & Low Income Support Mechanisms Support Services - Confidential & Proprietary - Executive Session.** In accordance with the guidelines regarding *Executive Session* approved by the USAC Board of Directors, Mr. Barash recommended that discussion of modifications to USAC's contracting and bidding timetable should be conducted in *Executive Session* because public disclosure at this time of the matters discussed in this paper, which relate to USAC's *procurement strategy and contract negotiations*, would compromise USAC's negotiation strategy to the detriment of the Corporation and the Universal Service Support Mechanisms.

On a motion duly made and seconded, the Committee adopted the following resolution:

RESOLVED, That the USAC High Cost & Low Income Committee determines that discussion and action on modifications to USAC's contracting and bidding timetable shall be conducted in *Executive Session*.

See *Executive Session* for a report of this discussion and action taken.

- a4. **Approval of the Annual 2002 and 2nd Quarter 2002 High Cost and Low Income Programmatic Budgets.** Ms. Faunce reviewed the annual and 2nd quarter 2002 programmatic proposed budgets and reviewed some of the reasons for the increases in the budgets over last year's budgets. Ms. Parrino referenced the charts in Attachment E of the issue paper, which graphically compare the administrative costs of the High Cost and Low Income Support Mechanisms to total program dollars.

On a motion duly made and seconded, the Committee adopted the following resolutions:

RESOLVED, That the USAC High Cost & Low Income Committee approves an annual 2002 programmatic budget for the High Cost Support Mechanism of \$4,177,700; and

RESOLVED FURTHER, That the USAC High Cost & Low Income Committee approves a 2nd Quarter 2002 programmatic budget for the High Cost Support Mechanism of \$1,110,200; and

RESOLVED FURTHER, That the USAC High Cost & Low Income Committee approves an annual 2002 programmatic budget for the Low Income Support Mechanism of \$1,090,900; and

RESOLVED FURTHER, That the USAC High Cost & Low Income Committee approves a 2nd Quarter 2002 programmatic budget for the Low Income Support Mechanism of \$308,300.

- a5. Approval of 2nd Quarter 2002 High Cost and Low Income Projections and Resolution on the January 31, 2002, FCC Filing.** Ms. Flannery distributed copies of revised Attachments A, B, and C. She reviewed the projections for the 2nd Quarter 2002. She noted that the prior period true-up number increased significantly, but only because quarterly numbers from a prior period true up were missed. The missed quarter has now been included resulting in the high number.

On a motion duly made and seconded, the Committee adopted the following resolution as *amended (in italics)*:

RESOLVED, That the USAC High Cost & Low Income Committee, having reviewed at its meeting on January 23, 2002, a summary of the 2nd Quarter 2002 support mechanism estimates, including administrative costs for High Cost Loop Support, Long Term Support, Local Switching Support, Interstate Access Support, and Lifeline Assistance provided in *revised* Attachment A, hereby directs USAC staff to proceed with the required January 31, 2002, filing to the FCC on behalf of the Committee. Staff may make adjustments if the total variance for both programs is equal to or less than \$10 million.

a6. Miscellaneous

Proposals to Provide Administrative Services to Implement the Interstate Common Line Support Mechanism - Confidential & Proprietary - Executive Session. In accordance with the guidelines regarding *Executive Session* approved by the USAC Board of Directors, Mr. Barash recommended that discussion of the proposals to perform administrative support services to implement the Interstate Common Line Support (ICLS) mechanism should be conducted in *Executive Session* because public disclosure at this time of the matters discussed in this paper, which relate to USAC's *procurement strategy and contract negotiations*, would compromise USAC's negotiation strategy to the detriment of the Corporation and the Universal Service Support Mechanisms.

On a motion duly made and seconded, the Committee adopted the following resolution:

RESOLVED, That the USAC High Cost & Low Income Committee determines that discussion of the proposals to perform administrative support services to implement the ICLS mechanism for USAC shall be conducted in **Executive Session**.

See **Executive Session** for a report of this discussion and action taken.

Information Items

- i1. High Cost and Low Income Support Mechanisms Update.** Ms. Flannery briefly reviewed the issue paper. She noted that an additional competitive eligible telecommunications carrier (CETC) has been designated as an ETC and has requested support from the Low Income Support Mechanism, bringing the total number of CETCs eligible for low income support to 49. The Committee directed that in the future, USAC

staff provide a chart like the one in Attachment A listing both High Cost *and* Low Income CETCs and indicate which are receiving both high cost and low income support.

The Committee recessed at 2:08 p.m. at the call of the Vice Chair. The Committee reconvened at 2:59 p.m. at the call of the Vice Chair. Mr. Eichler requested a call of the roll. Ms. Howard called the roll.

Eight members were present, representing a quorum:	
Buller, Karen	Gumper, Frank
Cornell, Diane	Lubin, Joel
Eichler, Ed	Parrino, Cheryl
Gregg, Billy Jack	Swanson-Hull, Camie
One member was absent:	
Gonzalez, Dan	

- i1. High Cost and Low Income Support Mechanisms Update.** Committee members continued a discussion of this matter. The Committee discussed a new CETC that is eligible for high cost model support for the first time in 2Q2002. The Committee requested staff to investigate why a number of states with reservations are not receiving Tier 4 low income support.
- i2. Report on the Implementation of the Interstate Common Line Support Mechanism.** Ms. Flannery reported on the implementation of the new High Cost Support Mechanism, the Interstate Common Line Support (ICLS) mechanism. She said that estimates for the program size at the time of implementation, July 1, 2002, are between \$200-300 million annually, but that it would likely eventually grow into a \$500 million mechanism.
- i3. High Cost and Low Income Support Mechanism Timeline and Key Dates.** For information only. No discussion held.
- i4. Miscellaneous.** None.

At 3:13 p.m., on a motion duly made and seconded, the Committee voted to go into **Executive Session** for purposes of discussing the confidential and proprietary items as listed above.

Executive Session

- a3. Approval of Revised Contracting and Bidding Timetable for the High Cost & Low Income Support Mechanisms Support Services - Confidential & Proprietary - Executive Session.** On a motion duly made and seconded, the Committee adopted the following resolution:

RESOLVED, That the USAC High Cost & Low Income Committee approves the revised contracting and bidding timetable set forth herein for the High Cost and Low Income Support Mechanisms support services.

a6. Miscellaneous.

Proposals to Provide Administrative Services to Implement the Interstate Common Line Support Mechanism - Confidential & Proprietary - *Executive Session*. On a motion duly made and seconded, the Committee adopted the following resolution:

RESOLVED, That the USAC High Cost & Low Income Committee approves the course of action proposed by USAC management regarding the proposals received in response to the request for proposals for the administrative support functions related to implementation of the new Interstate Common Line Support mechanism.

On a motion duly made and seconded, the Committee voted at 5:21 p.m. to return to open session for the purpose of reporting matters discussed in ***Executive Session***. There being no further business, Mr. Eichler adjourned the meeting at 5:25 p.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

HIGH COST & LOW INCOME COMMITTEE MEETING

February 1, 2002

MINUTES

A meeting of the High Cost & Low Income (HCLI) Committee of the Universal Service Administrative Company (USAC) Board of Directors was held on Friday, February 1, 2002, at USAC, 2120 L Street, N.W., Suite 600, Washington, DC. Mr. Ed Eichler, Chair of the Committee, called the meeting to order at 4:05 p.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the CEO, called the roll on behalf of Mr. Jimmy Jackson, USAC Secretary.

Five of the nine members were present, representing a quorum:	
Cornell, Diane - <i>By telephone</i>	Lubin, Joel - <i>By telephone</i>
Eichler, Ed - <i>By telephone</i>	Parrino, Cheryl - <i>By telephone</i>
Gregg, Billy Jack - <i>By telephone</i>	
One member joined the meeting in progress:	
Buller, Karen - <i>By telephone</i>	
Three members were absent:	
Gonzalez, Dan	Swanson-Hull, Camie
Frank Gumper	
Other Board members and Officers of the Corporation present:	
Hess, Kevin - Board Member - <i>By telephone</i>	Barash, D. Scott - Assistant Secretary
Haga, Robert - Assistant Treasurer	
Others present for the meeting:	
Name	Company
Flannery, Irene	USAC
Howard, Cathy - <i>By telephone</i>	USAC
Miller, Linda	USAC

Action Items

- a1. Contract Award for Administrative Services to Implement the Interstate Common Line Support Mechanism - Confidential & Proprietary - Executive Session.** Mr. Eichler explained that this item should be discussed in **Executive Session** because discussion in open session would compromise USAC's negotiating strategy in a procurement matter. On a motion duly made and seconded, the Committee adopted the following resolution:

RESOLVED, That the USAC High Cost & Low Income Committee determines that discussion of the contract award to perform administrative support services associated with the Interstate Common Line Support Mechanism for USAC shall be conducted in **Executive Session**.

The Committee moved into **Executive Session**.

Board member Karen Buller joined the meeting at this point.

Ms. Miller reviewed the decision-making process and details of USAC staff's proposed contract with Rhoads & Sinon to perform support services associated with implementation of the new Interstate Common Line Support Mechanism.

On a motion duly made and seconded, the Committee adopted the following resolutions:

RESOLVED, That the USAC High Cost & Low Income Committee approves entering into the agreement as negotiated with Rhoads & Sinon to perform administrative support services associated with the Interstate Common Line Support Mechanism, effective February 1, 2002; and

RESOLVED FURTHER, That the USAC High Cost & Low Income Committee directs USAC staff to reject the proposal of NECA to perform such services.

The Committee directed staff to notify them when this information becomes public knowledge.

The Committee adjourned from **Executive Session** and reconvened in open session at 4:22 p.m. to report out the discussion and the action of the Board during **Executive Session**.

There being no further business, Mr. Eichler adjourned the meeting at 4:24 p.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**HIGH COST & LOW INCOME COMMITTEE MEETING**

March 20, 2002

MINUTES

A meeting of the High Cost & Low Income (HCLI) Committee of the Universal Service Administrative Company (USAC) Board of Directors was held on Wednesday, March 20, 2002, at USAC, 2120 L Street, N.W., Suite 600, Washington, DC. Mr. Ed Eichler, Chair of the Committee, called the meeting to order at 12:02 p.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the CEO, called the roll on behalf of Mr. Jimmy Jackson, USAC Secretary.

Five of the nine members were present (there is one vacancy), representing a quorum:	
Buller, Karen - <i>by telephone</i>	Gumper, Frank - <i>by telephone</i>
Eichler, Ed - <i>by telephone</i>	Parrino, Cheryl - <i>by telephone</i>
Gregg, Billy Jack - <i>by telephone</i>	
One member joined the meeting in progress:	
Swanson-Hull, Camie - <i>by telephone</i>	
Two members were absent:	
Cornell, Diane	Lubin, Joel
Officers of the Corporation present:	
Barash, D. Scott - Assistant Secretary	
Others present for the meeting:	
Name	Company
Flannery, Irene	USAC
Howard, Cathy - <i>by telephone</i>	USAC
Majcher, Karen	USAC
Miller, Linda	USAC

Information Items

- i1. Briefing on the Status of Implementation of the Interstate Common Line Support Mechanism (ICLS) - Confidential & Proprietary - Executive Session.** In accordance with the guidelines regarding **Executive Session** approved by the USAC Board of Directors, Mr. Barash stated that this information item involved discussion of certain pre-decisional matters pending at the FCC; therefore, the discussion should be held in **Executive Session**.

On a motion duly made and seconded, the Committee adopted the following resolution:

RESOLVED, That the USAC High Cost & Low Income Committee determines that discussion of the implementation status of the Interstate Common Line Support Mechanism (ICLS) shall be conducted in **Executive Session**.

The Committee moved into **Executive Session** at 12:04 p.m. Ms. Flannery briefed the Committee on the status of implementation of the new Interstate Common Line Support Mechanism (ICLS). She reiterated that implementation of the mechanism is slated for July 1, 2002. The Committee did not take any action.

Board member Camie Swanson-Hull joined the meeting by telephone at this point. Mr. Eichler advised her that the Committee was finished with the discussion. He suggested that she set up a meeting with Ms. Flannery for a personal briefing on the issue. She agreed and left the meeting.

The Committee moved back into open session at 12:21 p.m. to report the discussion that occurred during **Executive Session**.

There being no further business, Mr. Eichler adjourned the meeting at 12:22 p.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**HIGH COST & LOW INCOME COMMITTEE MEETING**

April 22, 2002

MINUTES

The quarterly meeting of the High Cost & Low Income (HCLI) Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the Westin Grand, 2350 M Street, NW, Washington, DC, on Monday, April 22, 2002. Mr. Ed Eichler, Chair of the Committee, called the meeting to order at 2:05 p.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the USAC CEO, called the roll on behalf of Mr. Jimmy Jackson, USAC Secretary.

Seven of the nine members were present (there are two vacancies) representing a quorum:	
Buller, Karen	Lubin, Joel
Cornell, Diane	Parrino, Cheryl
Eichler, Ed	Swanson-Hull, Camie
Gumper, Frank	
Other Board members and Officers of the Corporation present:	
Jackson, Jimmy - Board Member	Haga, Robert - Assistant Treasurer
Barash, D. Scott - Assistant Secretary - <i>by telephone</i>	
Others present for the meeting:	
Name	Company
Delmar, Teleshia	USAC
Faunce, Donna	USAC
Flannery, Irene	USAC
Howard, Cathy	USAC
Miller, Linda	USAC
Okudaira, Nobuko	USAC
Rodda, Jim	USAC
Schneider, Jennifer	FCC
Scott, Wayne	USAC

Action Items

- a1. Approval of the Minutes.** On a motion duly made and seconded, the Committee approved the minutes as distributed of the High Cost & Low Income Committee meetings of Wednesday, January 23, 2002; Friday, February 1, 2002; and Wednesday, March 20, 2002.

a2. Acceptance of the 2001 Low Income Beneficiary Audit Report and Status Report on the 2002 Low Income Beneficiary Audit. Ms. Flannery reviewed the 2001 Low Income Beneficiary Audit Report of carriers audited on behalf of USAC. In general, she said only minor exceptions were found as a result of the audit and that these exceptions were due mainly to clerical errors or misunderstandings of the rules and were of minimal dollar amounts.

Ms. Flannery reported that USAC has again engaged the National Exchange Carrier Association, Inc. (NECA) to perform the 2002 Low Income Support Mechanism beneficiary audit and anticipates a completion date of July 31, 2002, for the whole process.

Mr. Gumper informed the Committee that the USAC Executive Committee accepted, by resolution at its April 18, 2002, quarterly meeting, NECA's audit report. On a motion duly made and seconded, the Committee adopted the following resolution:

RESOLVED, That the USAC High Cost & Low Income Committee supports the USAC Executive Committee's determination to accept the 2001 Low Income Support Mechanism Beneficiary Audit Report.

a3. Approval of 3rd Quarter 2002 High Cost and Low Income Programmatic Budgets and Revised Annual 2002 High Cost Programmatic Budget. Ms. Faunce reported that staff is recommending reducing the annual 2002 High Cost Programmatic Budget to account for money originally intended for the implementation of the Rural Task Force recommendations by NECA but which will now be done under the current Interstate Common Line Support (ICLS) contract with Rhoads & Sinon. In response to an inquiry, Ms. Flannery expressed her opinion that it is too early to determine whether the High Cost programmatic budget will decrease or even out over time due to the new Interstate Common Line Support Mechanism (ICLS) until after the mechanism has been fully implemented and in place for a period of time.

On a motion duly made and seconded, the Committee adopted the following resolutions:

RESOLVED, That the USAC High Cost & Low Income Committee approves a 3rd Quarter 2002 programmatic budget for the High Cost Support Mechanism of \$1,057,900; and

RESOLVED FURTHER, That the USAC High Cost & Low Income Committee approves a 3rd Quarter 2002 programmatic budget for the Low Income Support Mechanism of \$320,900; and

RESOLVED FURTHER, That the USAC High Cost & Low Income Committee approves a revised annual 2002 High Cost Support Mechanism programmatic budget of \$4,047,700.

a4. Approval of 3rd Quarter 2002 High Cost and Low Income Support Mechanisms Projections and Resolution on the May 2, 2002, FCC Filing. Ms. Flannery distributed a revised copy of Attachment A and original copies of Attachments B and C. She said that the bottom line numbers for both mechanisms did not change significantly.

The Committee **DIRECTED** USAC staff to provide at future meetings charts showing total disbursements for both the High Cost and Low Income support mechanisms over time.

On a motion duly made and seconded, the Committee adopted the following resolution:

RESOLVED, That the USAC High Cost & Low Income Committee, having reviewed at its meeting on April 22, 2002, a summary of the 3rd Quarter 2002 support mechanism estimates, including administrative costs for High Cost Loop Support, Long Term Support, Local Switching Support, Interstate Common Line Support, Interstate Access Support, the Non-Rural Forward-Looking Support Mechanism, Lifeline, Link Up, and Toll Limitation Service provided in revised Attachment A, hereby directs USAC staff to proceed with the required May 2, 2002, filing to the FCC on behalf of the Committee. Staff may make adjustments if the total variance for both programs is equal to or less than \$10 million.

a5. Miscellaneous. None

Information Items

i1. High Cost and Low Income Support Mechanisms Update. Ms. Flannery gave a report to the Committee on the operations of the High Cost and Low Income support mechanisms, specifically on the implementation of Rural Task Force recommendations, payments to new competitive eligible telecommunications carriers (CETCs), the GTE hold harmless issue, changes to the Low Income website, and a change in how the number of CETCs is counted. In response to an inquiry, she explained that although a carrier may have ETC status, it may not be receiving support because it has not yet submitted information necessary to qualify for support.

i2. Report on the Implementation of the Interstate Common Line Support Mechanism. Ms. Flannery reported on the implementation of ICLS. She reported on the April 18, 2002 data filing and Rhoads & Sinon's progress in implementing the new mechanism. She also noted that one of the most useful features on the new ICLS section of the USAC web site is the carrier checklist, which contains a state-by-state listing of all rate-of-return carriers and indicates whether they have filed their ICLS use certifications. Between February 28 and April 1, 2002, there were over 5,500 hits on the website.

i3. High Cost and Low Income Support Mechanism Timeline and Key Dates. For information only. No discussion held.

i4. Miscellaneous. None.

There being no further business, Mr. Eichler adjourned the meeting at 3:03 p.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY**HIGH COST & LOW INCOME COMMITTEE MEETING**

July 22, 2002

MINUTES

The quarterly meeting of the High Cost & Low Income (HCLI) Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the Westin Grand, 2350 M Street, NW, Washington, DC, on Monday, July 22, 2002. Mr. Ed Eichler, Chair of the Committee, called the meeting to order at 2:05 p.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the USAC CEO, called the roll.

Seven of the nine members were present (there are two vacancies) representing a quorum:	
Buller, Karen	Lubin, Joel - Vice Chair
Cornell, Diane	Parrino, Cheryl
Eichler, Ed - Chair	Swanson-Hull, Camie - <i>by telephone</i>
Gumper, Frank	
Other Board members and Officers of the Corporation present:	
Barash, D. Scott - Assistant Secretary; Vice President & General Counsel	
Carmichael, Mark - Assistant Treasurer; VP, Finance and Financial Operations	
Flannery, Irene - VP, High Cost & Low Income Division	
Haga, Robert - VP, Strategic Planning & USAC Operations	
Others present for the meeting:	
Name	Company
Conn, David	McLeodUSA, Inc.
Davis, Ta'Nea	USAC
Delmar, Teleshia	USAC
Faunce, Donna	USAC
Flannery, Irene	USAC
Gallant, Pam	USAC
Howard, Cathy	USAC
Jortner, Wayne R.	Maine Public Advocate Office
Khan, Sameer	USAC
Lenhardt, Chris	USAC
Majcher, Karen	USAC
Miller, Linda	USAC
Neibauer, Amanda	USAC

Okudaira, Nobuko	USAC
Rodda, Jim	USAC
Rolka, David	Rhoads & Sinon
Scott, Wayne	USAC
Voth, Cara	FCC

Action Items

- a1. Approval of the Minutes.** On a motion duly made and seconded, the Committee approved the minutes as distributed of the High Cost & Low Income Committee meeting of Monday, April 22, 2002.
- a2. Approval of 4th Quarter 2002 High Cost and Low Income Programmatic Budgets and Revised Annual 2002 High Cost Programmatic Budget.** Ms. Faunce reported that USAC staff is recommending eliminating the \$900,000 contingency that has been in the budget for re-coding of the High Cost Model. FCC staff has indicated that USAC will not be required to perform this work in the foreseeable future. She clarified that the 2002 annual High Cost programmatic budget included \$375,000 in the first quarter and \$175,000 in the second, third, and fourth quarter budgets for this activity. Therefore, USAC staff reduced the 4Q2002 High Cost programmatic budget by \$175,000 and proposes a further reduction of the 4Q2002 budget by the amount collected for this activity in previous quarters (\$725,000). Ms. Faunce reported that there are no changes to the 2002 annual Low Income programmatic budget.

On a motion duly made and seconded, the Committee adopted the following resolutions:

RESOLVED, That the USAC High Cost & Low Income Committee approves a 4th Quarter 2002 programmatic budget for the High Cost Support Mechanism of \$122,500; and

RESOLVED FURTHER, That the USAC High Cost & Low Income Committee approves a 4th Quarter 2002 programmatic budget for the Low Income Support Mechanism of \$285,700; and

RESOLVED FURTHER, That the USAC High Cost & Low Income Committee approves a decrease of \$900,000 in the annual 2002 High Cost Support Mechanism programmatic budget due to the elimination of the contingency for re coding the High Cost Model, resulting in a revised total annual programmatic budget of \$3,147,700.

- a3. Approval of 4th Quarter 2002 High Cost and Low Income Support Mechanisms Projections and Resolution on the August 2, 2002, FCC Filing.** Ms. Flannery distributed a revised copy of Attachment A and original copies of Attachments B and C of the materials previously provided to the Committee. She noted that the quarterly projection for the High Cost Support Mechanism has been revised in Attachment A, but that the Low Income Support Mechanism numbers did not change. She explained the reasons for a significant increase in the High Cost Loop Support and a decrease in Long Term Support. In accordance with the Committee's direction at its April 2002 meeting, Ms. Flannery said that Attachment C now provides graphs of disbursements broken down by each component of the High Cost and Low Income support mechanisms, respectively, as well as total disbursements.

On a motion duly made and seconded, the Committee adopted the following resolution:

RESOLVED, That the USAC High Cost & Low Income Committee, having reviewed at its meeting on July 22, 2002, a summary of the 4th Quarter 2002 support mechanism estimates, including administrative costs for High Cost Loop Support, Long Term Support, Local Switching Support, Interstate Common Line Support, Interstate Access Support, the non-rural forward-looking High Cost Model support, Lifeline, Link Up, and Toll Limitation Service provided in revised Attachment A, hereby directs USAC staff to proceed with the required August 2, 2002, filing to the FCC on behalf of the Committee. Staff may make adjustments if the total variance for both support mechanisms is equal to or less than \$10 million and, with approval of the Committee Chair, may make adjustments if the total variance for both support mechanisms is equal to or less than \$15 million.

a4. Miscellaneous. None

Information Items

i1. High Cost and Low Income Support Mechanisms Update. Ms. Flannery reported on the operations of the High Cost Support Mechanism, specifically, disaggregation plans submitted by rate-of-return carriers, the implementation of the *Rural Task Force Order* and the amendment of that order with the issuance of the *Rebasing Order*, a Local Switching Support overpayment issue, the issue of implementing direct payments to carriers, the application of 47 C.F.R. § 54.305(a) of the Commission's rules to the sales of entire study areas, the GTE "hold harmless" issue, and the status of designation of eligible telecommunications carriers. In reference to the disaggregation plans, she clarified that if a carrier failed to file or filed late, it defaulted to the Path One option.

For the Low Income Support Mechanism, Ms. Flannery reported on the new "Consumer Information" section of the USAC web site for the Lifeline and Link Up mechanisms, and on Low Income support on tribal lands, noting that Link Up support on tribal lands dropped in 1Q2002 while Lifeline support increased. The Committee **DIRECTED** USAC staff to research why Link Up support is decreasing on tribal lands and, if possible, to determine whether the decrease is concentrated in any particular area of the country.

i2. USAC Internal Audit Status Report on USAC Audits. Mr. Scott reminded the Committee that the USAC Internal Audit team now has audit procedures in place and is planning its first audits of High Cost Support Mechanism disbursements. The team will audit Local Switching Support data submissions, the accuracy of line count information submitted by eligible telecommunications carriers, and beneficiaries of Local Switching Support and Interstate Access Support.

Mr. Barash advised the Committee that there is an audit matter under consideration by the FCC that, in accordance with the guidelines regarding **Executive Session** approved by the USAC Board of Directors, should be discussed in **Executive Session** because it relates to pre-decisional matters before the FCC to which USAC is privy.

On a motion duly made and seconded, the Committee adopted the following resolution:

RESOLVED, That the USAC Cost & Low Income Committee determines that discussion of an audit matter under consideration by the FCC be conducted in **Executive Session**.

See *Executive Session* for a report of this discussion.

i3. Report on the Implementation of the Interstate Common Line Support

Mechanism (ICLS). Ms. Flannery reported on the implementation of ICLS, specifically, the filing of ICLS appendices for 3Q2002, the details of the *Negative ICLS Order*, the ICLS line counts FCC Form 507 now available on the USAC web site, dates of upcoming filing requirements, the progress on the contractor's ICLS implementation milestones, and outreach efforts.

i4. High Cost and Low Income Support Mechanism Timeline and Key Dates. For information only. No discussion held.

i5. Miscellaneous. None.

At 3:06 p.m., on a motion duly made and seconded, the Committee voted to move into **Executive Session** for purposes of discussing the confidential and proprietary item as noted above. The Committee adjourned from **Executive Session** and reconvened in open session at 3:16 p.m. to report the discussion of the Committee during **Executive Session**.

Executive Session

i2. USAC Internal Audit Status Report on USAC Audits. Ms. Parrino informed the Committee of an audit matter under consideration by the FCC regarding the support mechanisms.

There being no further business, Mr. Eichler adjourned the meeting at 3:17 p.m.

D. Scott Barash
Assistant Secretary

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
HIGH COST & LOW INCOME COMMITTEE MEETING

October 21, 2002

MINUTES

The quarterly meeting of the High Cost & Low Income (HCLI) Committee of the Universal Service Administrative Company (USAC) Board of Directors was held at the Westin Grand, 2350 M Street, NW, Washington, DC, on Monday, October 22, 2002. Mr. Ed Eichler, Chair of the Committee, called the Committee members to order at 2:02 p.m. Eastern Time. Ms. Cathy Howard, Executive Assistant to the USAC CEO, called the roll.

Eight of the nine members were present (there is one vacancy) representing a quorum:	
Buller, Karen	Gumper, Frank
Conn, David	Jortner, Wayne
Cornell, Diane	Lubin, Joel - Vice Chair
Eichler, Ed - Chair	Parrino, Cheryl
Other Board members and Officers of the Corporation present:	
Campbell, Anne - Board member	
Hess, Kevin - Board member	
Jackson, Jimmy - Board member	
Barash, D. Scott - Assistant Secretary; Vice President & General Counsel	
Carmichael, Mark - Assistant Treasurer; VP, Finance and Financial Operations	
Flannery, Irene - VP, High Cost and Low Income Division	
Haga, Robert - VP, Strategic Planning & USAC Operations	
Others present for the meeting:	
Name	Company
Buckly, Tom	FCC
Davis, Craig	USAC
Davis, Ta'Nea	USAC
Faunce, Donna	USAC
Gallant, Pam	USAC
Howard, Cathy	USAC
Khan, Sameer	USAC
Lenhardt, Chris	USAC
Majcher, Karen	USAC
Miller, Linda	USAC

Action Items

- a1. Approval of the Minutes.** On a motion duly made and seconded, the Committee approved the minutes as distributed of the High Cost & Low Income Committee meeting of Monday, July 22, 2002.
- a2. Acceptance of a High Cost Audit Report.** Mr. Scott, USAC's Director of Internal Audit, explained that the Internal Audit Division performed an audit of a competitive eligible telecommunications carrier in response to the request of the High Cost and Low Income Division. Mr. Scott reported noteworthy findings regarding the incumbent's and the competitor's wire center maps, the competitor's billing system, and the competitor's method of generating line count information. USAC staff requires further clarification on the wire center map issue from the FCC before final resolution of that finding but, in the meantime, the carrier will correct the billing system errors. At USAC's direction, the carrier will not submit revised line counts until the map issue is resolved.

On a motion duly made and seconded, the Committee adopted the following resolution:

RESOLVED, That the High Cost & Low Income Committee supports the USAC Executive Committee determination to accept an audit of a participant in the High Cost Support Mechanism as presented by the USAC Internal Audit Division.

- a3. Approval of 1st Quarter 2003 High Cost and Low Income Programmatic Budgets and Information on Estimated 2003 Annual Budget.** Ms. Faunce, USAC's Budget & Finance Analyst, reported that the High Cost Support Mechanism estimated 2003 annual budget is 15 percent higher than the 2002 actual budget. The increase is attributable to two new positions and increased vendor costs to restructure its operations personnel to handle the increased workload created in recent years as a result of FCC-directed changes to the administration of the High Cost Support Mechanism. The increased vendor costs also affect the 1st Quarter 2003 High Cost Support Mechanism budget, creating a 75 percent increase over actual 1st Quarter 2002 expenditures. The Low Income Support Mechanism estimated 2003 annual budget is 12 percent lower than 2002 actual budget due to lower program and beneficiary audit costs. The 1st Quarter 2003 Low Income Support Mechanism budget will increase, however, by approximately 26 percent over 1st Quarter 2002 actual costs because all vacant positions in the division have been filled.

On a motion duly made and seconded, the Committee adopted the following resolutions:

RESOLVED, That the USAC High Cost & Low Income Committee approves a 1st Quarter 2003 budget for the High Cost Support Mechanism of \$883,800; and

RESOLVED FURTHER, That the USAC High Cost & Low Income Committee approves a 1st Quarter 2003 budget for the Low Income Support Mechanism of \$207,100.

- a4. Approval of 1st Quarter 2003 High Cost and Low Income Support Mechanisms Projections and Resolution on the November 1, 2002, FCC Filing.** Ms. Flannery discussed the projected demand for High Cost and Low Income support in 1st Quarter 2003. She distributed a revised copy of Attachment A and original copies of Attachments B and C of the materials previously provided to the Committee. She explained how the quarterly projection number for the High Cost Support Mechanism has been revised in Attachment A, and that the Low Income Support Mechanism numbers did not change. She summarized for the Committee the projections for the various High Cost and Low

Income support mechanisms.

On a motion duly made and seconded, the Committee adopted the following resolution:

RESOLVED, That the USAC High Cost & Low Income Committee, having reviewed at its meeting on October 21, 2002, a summary of the 1st Quarter 2003 support mechanism estimates, including administrative costs for High Cost Loop Support, Long Term Support, Local Switching Support, Interstate Common Line Support, Interstate Access Support, the non-rural forward-looking High Cost Model support, Lifeline, Link Up, and Toll Limitation Service provided in revised Attachment A, hereby directs USAC staff to proceed with the required November 1, 2002, filing to the FCC on behalf of the Committee. Staff may make adjustments if the total variance for both support mechanisms is equal to or less than \$10 million and, with approval of the Committee Chair, may make adjustments if the total variance for both support mechanisms is equal to or less than \$15 million.

a5. Miscellaneous. None

Mr. Eichler invited the new Committee members, Mr. David Conn and Mr. Wayne Jortner, to introduce themselves to the Committee.

Information Items

i1. High Cost and Low Income Support Mechanisms Update. Ms. Flannery reported on the operations of the High Cost Support Mechanism. She noted that staff added information to the disaggregation section of the issue paper; the number of rural incumbent lines represented by each path is now included. In response to a Committee inquiry, she and Ms. Parrino clarified the FCC's policy behind Section 54.305 of the FCC's rules. Ms. Flannery also said that the FCC's Office of Inspector General has begun reviewing the High Cost Support Mechanism. USAC staff recently participated in a preliminary meeting with OIG in which staff explained how the mechanism works and provided a set of requested documents. USAC staff will keep the Committee apprised as developments occur.

For the Low Income Support Mechanism, Ms. Flannery recalled for the Committee that at the last quarterly meeting Committee members noted that Link Up support on tribal lands had decreased and requested staff to determine whether the decrease is concentrated in any particular area of the country. Ms. Flannery reported that nationwide Link Up on tribal lands is decreasing but Lifeline support is increasing. USAC staff has not been able to determine definitively what is causing the slowdown in Link Up growth, but staff cited several possible causes including a significant decrease in tribal Link Up subscribers reported by certain competitive eligible telecommunications carriers (CETCs) and a decline in the number of Link Up subscribers in states with the largest number of tribal subscribers. USAC staff will continue to study this subject and report to the Committee as appropriate.

i2. USAC Internal Audit Status Report on USAC Audits. Mr. Scott reported that Internal Audit Division staff continues to audit different aspects of the High Cost support mechanism. Results of the High Cost Support Mechanism eligibility audit show that carriers are submitting their data on time. Audits of the beneficiaries of the High Cost Support Mechanism have begun and results will be brought to the Committee at the January 2003 quarterly meeting.

- i3. Report on the Implementation of the Interstate Common Line Support Mechanism (ICLS).** Ms. Flannery reported that the most important development in the implementation of ICLS is the creation of new data collection forms to collect projected and actual revenue requirement data. The process for approval of the forms by the Office of Management and Budget will take approximately 120 days, and the FCC has already initiated that process. USAC staff reported that outreach would begin soon.
- i4. High Cost and Low Income Support Mechanism Timeline and Key Dates.** For information only. No discussion held.
- i5. Miscellaneous.** None.

There being no further business, Mr. Eichler adjourned the meeting at 3:34 p.m.

D. Scott Barash
Assistant Secretary