

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC**

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

Federal Universal Service Support Mechanisms Fund Size
Projections for Third Quarter 2012

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

**FEDERAL UNIVERSAL SERVICE SUPPORT MECHANISMS
FUND SIZE PROJECTIONS FOR
THIRD QUARTER 2012**

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 2012 (3Q2012), in accordance with Section 54.709 of the Federal Communications Commission's (FCC or Commission) rules.¹

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

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

¹ 47 C.F.R. § 54.709(a)(3).

² 47 C.F.R. § 54.701.

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

ADMINISTRATIVE EXPENSES AND INTEREST INCOME PROJECTION

ADMINISTRATIVE EXPENSES

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

USAC projects a consolidated budget of \$29.79 million for 3Q2012. Direct costs for all support mechanisms total \$18.75 million⁶ and are listed for each mechanism in the chart provided below. Joint and common costs (including billing, collection, and disbursement activities) are projected at \$11.04 million and are allocated to each support mechanism as described in the chart below based on the allocation methodology on file with the Commission.

⁴ 47 C.F.R. § 54.709(a)(3).

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

⁶ This amount includes \$102,000 budgeted each quarter for High Cost data collection performed by the National Exchange Carrier Association (NECA)—an independent entity not affiliated with USAC. See 47 C.F.R. §§ 36.611-13 and 69.603. Although USAC is required to pay for the data collection, it does not have the ability to directly oversee the effort and cannot verify, monitor, or otherwise evaluate the cost of performing the data collection function. Consistent with the fiduciary obligations of its members to safeguard USAC assets and the USF, USAC's Board of Directors has requested clarification from the Commission concerning this matter. See letter from D. Scott Barash, USAC, to Irene Flannery, FCC (Dec. 10, 1999), Comments of the Universal Service Administrative Company to the *Further Notice of Proposed Rulemaking* in CC Docket No. 96-45, FCC 01-8 (Feb. 26, 2001). See also, Comments of the Universal Service Administrative Company to the *Notice of Proposed Rulemaking and Further Notice of Proposed Rulemaking* in CC Docket No. 05-195, FCC 05-124 (June 14, 2005); and *Reply Comments of the Universal Service Administrative Company* (Dec. 19, 2005).

Universal Service Administrative Company 3Q2012 Fund Size Projections

3Q2012 Administrative Expenses (in millions) – Collection Requirement

| USF Mechanism | Direct Costs | USAC Common | Total |
|--------------------------------|---------------------|--------------------|----------------|
| High Cost | \$1.53 | \$3.59 | \$5.12 |
| Low Income | 1.08 | 1.07 | 2.15 |
| Rural Health Care | 2.72 | 0.83 | 3.55 |
| Schools & Libraries | 13.42 | 5.55 | 18.97 |
| Total | \$18.75 | \$11.04 | \$29.79 |

Appendix M01 provides USAC's administrative expense budget for 3Q2012.

Appendix M02 provides the fund size projections for 3Q2012.

INTEREST INCOME PROJECTION

For 3Q2012, USAC projects interest income of approximately \$1.24 million for the High Cost Support Mechanism, \$0.11 million for the Low Income Support Mechanism, \$0.69 million for the Rural Health Care Support Mechanism, and \$4.41 million for the Schools and Libraries Support Mechanism. USAC projects total interest income of \$6.45 million. As in previous quarters, projected interest income is being included as an offset to administrative expenses for each of the support mechanisms and reduces the amount that USAC will be required to collect from carriers for those support mechanisms that are funded at caps established by the Commission.

FINANCIAL STATEMENTS

For the three months ended March 31, 2012, on a cash basis, USAC disbursed to beneficiaries \$2,041.30 million in universal service support as follows: \$1,016.47 million in High Cost support, \$535.80 million in Low Income support, \$459.23 million in Schools and Libraries support, and \$29.80 million in Rural Health Care support. On a cash basis, the total cash balance available as of March 31, 2012 to the universal service support mechanisms was \$6,134.95 million. On an accrual basis, USAC had a fund balance of \$6,500.03 million at March 31, 2012.

Universal Service Administrative Company 3Q2012 Fund Size Projections

Appendices M03 and M04 provide 2012 year-to-date statements of fund activity on a cash and accrual basis.

EFFORTS TO PREVENT AND REDUCE IMPROPER PAYMENTS

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

The steps initiated by USAC include additional oversight and managerial controls, strengthened audit and investigative techniques, improved information technology tools, and more effective use of outreach resources. In 3Q2012, USAC will continue efforts identified and initiated during the previous years. These efforts include, but are not limited to:

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

The USAC internal controls team continues to develop and update required internal controls documentation and perform testing of key controls to ensure the USAC internal controls program is in compliance with best practices consistent with OMB Circular A-123. In 2011, the team completed testing of key internal controls for the Rural Health Care Primary and Pilot Programs, the High Cost and Low Income Programs, and the key financial

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

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

Universal Service Administrative Company 3Q2012 Fund Size Projections

business processes. In addition, the team performed an in-depth review of the Schools and Libraries Program commitment adjustment process. Results of all program and financial assessments were communicated to management and remediation of findings is underway. No material weaknesses or reportable conditions were identified during testing.

In April 2012, the internal controls team will kick off documentation and testing of the financial business processes for the 2012 cycle. In addition to testing activities, the internal controls team continues to facilitate review and approval activities for all USAC policy and procedure documents and assist finance management with ad hoc process improvement projects.

2. Strengthening audit and investigative techniques.

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

The FCC also directed USAC to establish a comprehensive support mechanism beneficiary and USF contributor audit program, which is known as BCAP. USAC intends to conduct the initial round of 343 BCAP audits using a combination of USAC Internal Audit Division (IAD) staff and external audit firms. USAC continues to work with FCC Office of

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

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

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

Universal Service Administrative Company 3Q2012 Fund Size Projections

Managing Director and Office of General Counsel staff on the procurement process and documents for soliciting bids from professional service firms to perform audits under BCAP. USAC IAD initiated a number of audits in late 2010 and early 2011 under the BCAP program to fulfill the need to perform randomly selected audits of support mechanism beneficiaries and USF contributors, and these audits remain ongoing. As of the April 2012 quarterly USAC Board of Directors meeting, 109 audits are complete and 67 are in progress. The table below provides an overview of the BCAP progress:

| Program | Scheduled | In Progress | Completed |
|-----------------------|------------------|--------------------|------------------|
| High Cost | 25 | 15 | 15 |
| Low Income | 20 | 9 | 37 |
| Schools and Libraries | 35 | 16 | 22 |
| Rural Health Care | 20 | 0 | 21 |
| Contributor Revenue | 25 | 25 | 14 |
| Total | 125 | 65 | 109 |

(b) As previously reported, the PQA Program has completed the first year of testing payments under this directive. Using a statistically drawn sample, each month support mechanism disbursements are selected and reviewed to verify that payments were made at the correct amount in accordance with FCC rules. The data was sent to the statistician for all of the programs for analysis by July 31, 2011. The table below summarizes the error rates noted and the projected estimated improper payment amounts for each program:

| | Improper Payment Rate | Estimated Improper Payment Amount (millions) |
|-----------------------|------------------------------|---|
| High Cost | 0.11% | \$5.1 |
| Schools and Libraries | 0.94% | \$21.9 |
| Low Income | 0.23% | \$3.0 |
| Rural Health Care | 1.7% | \$1.4 |

Based on the assessments summarized above, the improper payment rates are significantly lower than the levels reported under the FCC Office of Inspector General

Universal Service Administrative Company 3Q2012 Fund Size Projections

(OIG) USF Audit Program. While the PQA assessment procedures test individual payments, the FCC OIG USF audit program reviewed a larger scope of beneficiary activities. In addition, the FCC OIG USF audit program assessed beneficiary activities that occurred several years before the audits were performed, resulting in numerous instances where beneficiaries could not locate documentation and, in some cases, beneficiaries were audited against document retention rules that were not in effect when the disbursements were made, thereby resulting in substantially higher reported error rates. PQA tests current payments, which has enabled beneficiaries to more readily provide documentation. In addition, the FCC has clarified document retention rules in recent years.

3. Improving information technology tools.

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

4. Expanding and enhancing outreach and education.

In 1st Quarter 2012 (1Q2012), USAC provided individual outreach to 188 Schools and Libraries applicants. USAC conducted two online trainings, one for USF contributors on the FCC Form 499-A and one for Rural Health Care beneficiaries on the new USAC developed Rural Health Care applicant portal. USAC participated in four professional meetings, involving beneficiary audiences for the Rural Health Care and Schools and Libraries Programs.

FUNDING REQUIREMENTS

HIGH COST SUPPORT MECHANISM

FUNDS RESERVED PURSUANT TO THE CONNECT AMERICA FUND ORDER

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

For 3Q2012, projected support to be reserved pursuant to the *CAF Order* is \$220.21 million. Any excess contributions are to be credited to a new *CAF* reserve account.¹⁷

Appendix HC01 provides projected High Cost Support by state, by study area, for 3Q2012. HC01 also provides the projected amount of individual company support, and

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

¹³ *CAF Order*, ¶¶ 559-560.

¹⁴ *CAF Order*, ¶ 560.

¹⁵ *Id.*, ¶ 928.

¹⁶ *Id.*, ¶ 198.

¹⁷ *Id.*, ¶ 560-561.

Universal Service Administrative Company 3Q2012 Fund Size Projections

projected per-month amounts for the components of High Cost support that each ETC¹⁸ may be eligible to receive. HC02 provides the total projected amount of annualized High Cost Support for 3Q2012 for each state and territory.

FUNDS RESERVED PURSUANT TO THE CORR WIRELESS ORDER

In FCC 10-155, the FCC directed that reclaimed funds resulting from reductions in High Cost Program disbursements to competitive eligible telecommunications carriers be reserved for proposed universal service reforms pursuant to the National Broadband Plan.¹⁹

The chart below reflects the cumulative amount of funds reserved through 4Q2011.

| Funds Reserved For National Broadband Initiative | |
|--|-------------------------------------|
| <i>as of December 31, 2011</i> | |
| Broadband Reserve | Funds Reserved (in millions) |
| 3 rd Quarter 2010 | \$23.00 |
| 4 th Quarter 2010 | 84.98 |
| 1 st Quarter 2011 | 101.53 |
| 2 nd Quarter 2011 | 125.81 |
| 3 rd Quarter 2011 | 93.82 |
| 4 th Quarter 2011 | 76.67 |
| Subtotal | \$505.81 |
| Funds Reserved and Not Yet Collected | \$38.76 |
| Total Gross Reserve | \$544.57 |
| Transfer to Schools and Libraries Program to index Funding Year 2010 E-rate cap to inflation | (20.25) |
| Total Reserve for Broadband | \$524.32 |
| Transfer to Connect America Fund Reserve | (\$524.32) |

In the *CAF Order*,²⁰ the FCC also ordered the wind-down of the *Corr Wireless* reserve account, and instructed USAC to reserve \$300 million from the *Corr Wireless* reserve to fund anticipated commitments in 2012 to recipients of Mobility Fund Phase I support.²¹ The remaining balance will be used to fund Phase I of the Connect America Fund for price cap carriers in 2012.²² The Commission also instructed USAC not to use the *Corr Wireless*

¹⁸ See 47 C.F.R. § 36.631 and 47 C.F.R. §§ 54.301-54.303.

¹⁹ *In the Matter of High-Cost Universal Service Support, Federal-State Joint Board on Universal Service, Request for Review of Decision of Universal Service Administrator by Corr Wireless Communications, LLC*, CC Docket No. 96-45, FCC 10-155, ¶ 20 (2010) (FCC 10-155).

²⁰ *CAF Order*, ¶¶ 564-567.

²¹ *CAF Order*, ¶ 565.

²² *Id.*, ¶ 566.

Universal Service Administrative Company 3Q2012 Fund Size Projections

reserve account to fund inflation adjustments for the Schools and Libraries Program for Funding Year 2011.²³

The chart below reflects the Connect America Fund reserve as of March 31, 2012.

| Connect America Fund Reserve | |
|---|---------------------------------|
| <i>As of March 31, 2012</i> | |
| | Funds Reserved (in millions) |
| Transfer from Broadband Reserve | \$524.32 |
| 1st Quarter 2012 CAF Additions | 65.99 |
| 1Q2012 Demand to be Collected in 3Q2012 via Prior Period Adjustment | 27.96 |
| Total Reserve | 618.27 |
| Less: Reserve for Mobility Fund Phase I | (300.00) |
| Remainder Available for Connect America Fund | \$318.27 |

RATE-OF-RETURN CARRIERS

Rate-of-return carriers not affiliated with price cap carriers may continue to receive legacy High Cost Program support and may receive Connect America Fund support to offset lost inter-carrier compensation (ICC) revenues²⁴.

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 2010 incumbent local exchange carrier (LEC) loop cost and expense adjustment data that was submitted to the FCC and USAC on October 1, 2011.²⁵ Growth in total HCL Support for rural LECs is limited under Section 36.603(a) of the Commission's rules to the current level of funding increased yearly by the annual growth in supported rural loops.²⁶ The *RTF Order*²⁷ increased HCL Support for rural LECs effective July 1, 2001.

²³ *Id.*, ¶¶ 564-567.

²⁴ *Id.*, ¶ 206.

²⁵ Universal Service Fund (USF) 2011 Submission of 2010 Study Results (filed Oct. 1, 2011) (*USF Data Submission*).

²⁶ 47 C.F.R. § 36.603(a).

²⁷ *Federal-State Joint Board on Universal Service, Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, CC Docket Nos. 96-45, 00-256, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking in CC Docket No. 96-45, and Report and Order in CC Docket No. 00-256, FCC 01-157, 16 FC.C Red 11244 (2001) (*RTF Order*).

Universal Service Administrative Company 3Q2012 Fund Size Projections

Rural HCL Support for calendar year 2012 will be less than the level of payments for 2011 because of a rural growth factor of negative 5.2698 percent. Rural HCL Support for calendar year 2012, therefore, is capped at \$795.14 million. This capped amount reflects reductions pursuant to the *CAF Order* that 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.²⁸

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.²⁹ 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 *CAF 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 2009.³⁰ For 3Q2012, projected SNA support is \$10.25 million.

For 3Q2012, projected HCL Support is \$208.45 million, which includes \$10.25 million for SNA support and \$1.10 million for Safety Valve Support. Total annual 2012 HCL Support is projected to be \$833.80 million.

Appendix HC05 provides projected uncapped monthly HCL Support payments by state by study area for 3Q2012. Appendix HC06 provides projected monthly SNA Support payments by state by study area for 3Q2012. Appendix HC07 displays projected SVS Support payments by state by study area for 3Q2012.

²⁸ *CAF Order*, ¶ 259.

²⁹ *RTF Order* at ¶¶ 77-90.

³⁰ *CAF Order*, ¶ 252.

Local Switching Support

ETC study areas having 50,000 or fewer access lines are eligible to receive support for local switching costs.³¹ LSS is the product of a carrier's annual unseparated local switching revenue requirement multiplied by its local switching support factor.³² Pursuant to the *CAF Order*, LSS will be eliminated as a separate support mechanism effective July 1, 2012.³³ Final 2010 LSS distributions by study area are displayed in Appendix HC12.

Interstate Common Line Support

Interstate Common Line Support (ICLS) is designed to permit each rate-of-return carrier to recover its common line revenue requirement, while ensuring that its subscriber line charges (SLCs) remain affordable to its customers.³⁴

For 3Q2012, ICLS is projected as follows to be \$216.74 million and total annual 2012 ICLS is estimated to be \$875.97 million.

Appendices HC09, HC10, and HC11 provide USAC's 3Q2012 projections of ICLS by study area, per line and by state, respectively. Appendix HC13 reflects the 2010 true-up for ICLS by state by study area, and HC14 reflects the 2010 true-up per line for ICLS.

PRICE CAP CARRIERS

In the *CAF Order*, the FCC directs USAC to freeze all support under existing high-cost support mechanisms 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 2011.³⁵ For 3Q2012, total frozen high cost support for price cap carriers for

³¹ See 47 C.F.R. § 54.301.

³² The LSS factor is defined as the difference between the 1996 weighted interstate Dial Equipment Minute (DEM) factor and the 1996 unweighted DEM factor.

³³ *CAF Order*, ¶ 257.

³⁴ See *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Federal-State Joint Board on Universal Service, Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate-of-Return Regulation, Prescribing the Authorized Rate of Return for Interstate Services of Local Exchange Carriers*, CC Docket Nos. 00-256, 96-45, 98-77, 98-166, Second Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 00-256, Fifteenth Report and Order in CC Docket No. 96-45, and Report and Order in CC Docket Nos. 98-77 and 98-166, FCC 01-304, 16 FCC Rcd 19613 (2001) (*MAG Order*).

³⁵ *CAF Order*, ¶ 133.

Universal Service Administrative Company 3Q2012 Fund Size Projections

3Q2012 is estimated to be \$258.64 million and total annual 2012 frozen high cost support is estimated to be \$1,034.56 million. Appendix HC08 provides frozen high cost support for price cap carriers by state by study area for 3Q2012.

COMPETITIVE ELIGIBLE TELECOMMUNICATIONS CARRIERS

The *CAF Order* transitioned existing CETC support to the Connect America Fund over a five-year period beginning in January 1, 2012.³⁶ For the purposes of this transition, the FCC sets 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.³⁷ That monthly baseline amount will be provided from January 1, 2012 to June, 2012.³⁸ Beginning July 1, 2012, each CETC's support will be reduced by 20 percent for each July to June time period.³⁹

Total frozen High Cost Program Support demand for CETCs is \$201.41 million for 3Q2012. In addition, rural Alaska CETCs and the Standing Rock High Cost support are estimated to be \$19.55 million for 3Q2012. The combined High Cost Program support demand totals for CETCs, rural Alaska CETCs, and Standing Rock are estimated to be \$220.96 million for 3Q2012.

Appendix HC08 provides frozen high cost support for CETCs by state by study area for 3Q2012. Additionally, appendix HC03 provides 3Q2012 projections for Rural Alaska and Standing Rock Support by study area. Appendix HC04 provides 3Q2012 per line projections for Rural Alaska and Standing Rock Support.

HIGH COST SUPPORT MECHANISM SUMMARY

The 3Q2012 High Cost Support Mechanism funding requirements are projected as follows: \$208.45 million for HCL Support (including SNA and SVS), \$216.74 million for

³⁶ *Id.*, ¶ 513.

³⁷ *Id.*, ¶ 515.

³⁸ *CAF Order*, ¶ 515.

³⁹ *Id.*

Universal Service Administrative Company 3Q2012 Fund Size Projections

ICLS, \$258.64 million for frozen Price Cap Carrier Support, \$220.96 million for frozen CETC Support,⁴⁰ and \$220.21 million for the CAF reserve account resulting in total High Cost Support Mechanism projected demand of \$1,125.00 million.

Financial results for 1Q2012 contributed to an under-funded condition for which this filing proposes to adjust the 3Q2012 funding requirements. The total adjustment to the 3Q2012 funding requirement based on actual results will increase the funding needed by \$13.12 million. The explanation for the adjustment is described in the following table:

| Reason for the Prior Period Adjustment | Adjustment in Millions |
|--|-------------------------------|
| 1Q2012 billings were higher than the projected revenues reported by USF contributors in their quarterly revenue projections. | (\$3.78) |
| Interest income was higher than estimated for 1Q2012. | (0.05) |
| Bad debt expense was lower than anticipated. | (11.01) |
| Adjustment to billings for CAF (not included in the 1Q2012 demand filing). | 27.96 |
| Total Prior Period Adjustment | \$13.12 |

The total fund requirement of \$1,125.00 million is adjusted as follows: increased by the prior period adjustments of \$13.12 million, increased by administrative costs of \$5.12 million, and reduced by the projected interest income of \$1.24 million; resulting in a total projected 3Q2012 funding requirement for the High Cost Support Mechanism of \$1,142.00 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.⁴¹ ETCs providing Lifeline support are entitled to receive funding for the waiver of charges and

⁴⁰ "CETC Support" includes frozen support, rural Alaska CETC support, and support to the Standing Rock Reservation CETC.

Universal Service Administrative Company 3Q2012 Fund Size Projections

reduced rates provided to qualified low-income subscribers.⁴² In the *Lifeline Modernization Order*, all non-tribal Lifeline support is set to a flat rate of \$9.25 for all subscribers equally, regardless of whether they subscribe to wireline or wireless Lifeline service.⁴³ The *Order*, however, does not make any changes to Tier 4 support available to low-income consumers residing on tribal lands.⁴⁴ As established in the *Tribal Order*, Tier Four support makes available each month up to an additional \$25 per low-income subscriber to eligible residents of tribal lands.⁴⁵

For 3Q2012, USAC projects \$542.79 million will be required for Lifeline Support. Based on this projection, total annual 2012 Lifeline Support is estimated to be \$2.19 billion.

LINK UP SUPPORT

Effective with the April 2012 support claims, Link-Up support is 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.⁴⁶ As authorized in the *Tribal Order*, up to an additional \$70 in Link-Up support is available for each qualified low-income subscriber residing on eligible tribal lands.⁴⁷

For 3Q2012, USAC projects that \$0.71 million will be required for Link-Up support. Based on this projection, total annual 2012 Link-Up support is estimated to be \$93.40 million.

⁴¹ See 47 C.F.R. § 54.201.

⁴² 47 C.F.R. §§ 54.401 - 54.417.

⁴³ See *In the Matter of Lifeline and Link Up Reform and Modernization Lifeline and Link Up Federal-State Joint Board on Universal Service Advancing Broadband Availability Through Digital Literacy Training*, WC Docket Nos. 11-42, 03-109, 12-23, CC Docket No. 96-45, Report and Order and Further Notice of Proposed Rule Making, FCC 12-11, ¶58 (rel. Feb. 6, 2012) (*Lifeline Modernization Order*).

⁴⁴ See *Lifeline Modernization Order*, ¶59.

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

⁴⁶ See *Lifeline Modernization Order*, ¶ 253.

⁴⁷ See *Tribal Order*, ¶ 59.

TOLL LIMITATION SUPPORT

Toll Limitation Support (TLS) compensates ETCs for providing voluntary toll-limitation service based on the carrier's incremental cost of providing toll-limitation services. The Commission has defined these costs as the costs that carriers otherwise would not incur if they did not provide toll-limitation service to a given customer.⁴⁸ Toll limitation consists of toll blocking, which permits consumers to elect not to allow the completion of outgoing toll calls, and toll control, which allows consumers to specify a certain amount of toll usage that may be incurred per month or per billing cycle.⁴⁹

The *Lifeline Modernization Order* phases out TLS over a period of time by capping the maximum amount that an ETC may claim. As of April 2012 through the remainder of 2012, TLS is capped at \$3.00 per month per TLS subscriber. TLS will be reduced to \$2.00 in 2013, and eliminated and unavailable at the beginning of 2014.⁵⁰

For 3Q2012, USAC projects that \$2.16 million will be required for TLS. Based on this projection, total annual 2012 TLS is estimated to be \$498.42 million.

LOW INCOME SUPPORT MECHANISM SUMMARY

The estimated 3Q2012 Low Income Support Mechanism funding requirement is \$545.66 million, which includes \$542.79 million for Lifeline, \$0.71 million for Link-Up, and \$2.16 million for Toll Limitation Service.

Financial results of 1Q2012 contribute to an over-condition, for which this filing proposes to adjust the 3Q2012 funding requirement. The total adjustment to the 3Q2012 funding requirement based on actual results will decrease the funding needed by \$48.15 million. The explanation for the adjustment is described in the following table:

⁴⁸ See *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776 (1997) at ¶ 386 (*First Report and Order*) (subsequent history omitted).

⁴⁹ 47 C.F.R. §§ 54.400(b) and (c).

⁵⁰ See *Lifeline Modernization Order*, ¶ 234.

Universal Service Administrative Company 3Q2012 Fund Size Projections

| Reason for the Prior Period Adjustment | Adjustment in Millions |
|--|------------------------|
| 1Q2012 billings were higher than the projected revenues reported by contributors in their quarterly revenue projections. | (\$1.55) |
| Low Income Support Mechanism distributions were lower than projected in 1Q2012. | (40.59) |
| Interest income was as estimated for 1Q2012. | 0.00 |
| Bad debt expense was lower than anticipated. | (6.01) |
| Total Prior Period Adjustment | (\$48.15) |

The total fund requirement of \$545.66 million decreased by the prior period adjustment of \$48.15 million, increased for administrative expenses of \$2.15 million, and reduced by projected interest income of \$0.11 million, results in a total projected funding requirement for the Low Income Support Mechanism for 3Q2012 of \$499.55 million.

Appendix LI01 provides projected Low Income support amounts by state and study area for 3Q2012.⁵¹ LI02 provides detail on Low Income funding amounts available in each of the states and territories for 3Q2012. LI03 provides a list of ETCs for 1Q2012.⁵² LI04 provides detail on quarterly company specific Low Income support disbursement amounts for 1Q2012. LI05 provides detail on annual company-specific Low Income support amounts for 2009 through 4Q2011.⁵³ LI06 provides historical data of monthly support amounts claimed by ETCs from January 1998 through March 31, 2012. LI07 provides detail on Low Income support distributed by state for 2009 through 4Q2011.⁵⁴ LI08 and LI09 provide subscriber information by state and jurisdiction for Lifeline and Link Up support, respectively. LI10 shows the Tier 1 amounts reported by all companies during 4Q2011.

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

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

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

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

RURAL HEALTH CARE SUPPORT MECHANISM

Following is a summary of Rural Health Care Support Mechanism commitments and disbursements for Funding Years 2008-12 as of March 31, 2012. Prior funding years are closed.

FUNDING YEAR 2008

Funding Year 2008 began on July 1, 2008 and ended on June 30, 2009. The window for Funding Year 2008 opened on April 8, 2008. As of March 31, 2012, a total of 3,563 Form 465s were posted and 7,396 packets were received.

The status of Funding Year 2008 packets is provided in the following table:

| FUNDING YEAR 2008 PACKET PROCESSING | |
|---|--------------|
| Packets Completely Processed | 6,804 |
| In Review | 0 |
| Withdrawn by Applicant | 464 |
| Denied | 108 |
| Duplicate | 20 |
| Incomplete – Require Forms and/or Clarification | 0 |
| Total Packets Received as of 3/31/2012 for Funding Year 2008 | 7,396 |

On September 29, 2006, the FCC released an order establishing a new two-year Rural Health Care Support Mechanism Pilot Program for Funding Years 2006 and 2007 to cover “up to 85 percent of an applicant’s costs of deploying a dedicated broadband network.”⁵⁵ The application window for the Pilot Program opened on March 8, 2007 and closed on May 7, 2007.⁵⁶ On November 19, 2007, the FCC released an order increasing the number of funding years to three for the Pilot Program and awarding \$417.78 million in

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

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

Universal Service Administrative Company 3Q2012 Fund Size Projections

support to 69 applications over funding years 2007, 2008 and 2009.⁵⁷ Support under the Pilot Program is capped at \$139.26 million in each of the three funding years. The Commission stated that monies collected in funding year 2006 for the Pilot Program should be applied to Funding Year 2007,⁵⁸ resulting in \$54.44 million of funds collected for Funding Year 2006 being reallocated to Funding Year 2007.

As of March 31, 2012, Pilot Program funding commitments have been issued totaling \$16.75 million for Funding Year 2008. Based on information provided by applicants, USAC now estimates Funding Year 2008 Pilot Program demand will be \$16.30 million. In accordance with the instructions in a January 17, 2008 letter from the Chief of the FCC Wireline Competition Bureau allowing Pilot Program participants to roll forward support not used in one year to a subsequent funding year, USAC carried forward funds not used in Funding Year 2008 to Funding Year 2009. USAC has collected \$139.26 million for each of the Pilot Program Funding Years, thus no further collection is necessary.

As of March 31, 2012, Primary Program funding commitments have been issued totaling \$66.93 million. Based on information provided by applicants USAC estimates Funding Year 2008 Primary Program demand will be \$65.16 million. The Commission previously authorized collection of \$65.27 for Funding Year 2008. Considering the revised Primary Program demand estimate for Funding Year 2008, USAC recommends the Commission decrease collections for Funding Year 2008 of the Primary Program by \$0.11 million in 3Q2012.

Authorized funding by applicant during 1Q2012 and disbursements made to service providers during 1Q2012 are listed in Appendices RH01 and RH02, respectively.

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

⁵⁸ *Id.*

Universal Service Administrative Company 3Q2012 Fund Size Projections

FUNDING YEAR 2009

Funding Year 2009 began on July 1, 2009 and ended on June 30, 2010. The window for Funding Year 2009 opened on April 9, 2009. As of March 31, 2012, a total of 3,942 Form 465s were posted and 8,029 packets were received.

The status of Funding Year 2009 packets is provided in the following table:

| FUNDING YEAR 2009 PACKET PROCESSING | |
|---|--------------|
| Packets Completely Processed | 7,377 |
| In Final Review | 1 |
| In Review | 0 |
| Withdrawn by Applicant | 417 |
| Denied | 220 |
| Duplicate | 14 |
| Incomplete – Require Forms and/or Clarification | 0 |
| Total Packets Received as of 3/31/2012 for Funding Year 2009 | 8,029 |

As of March 31, 2012, Pilot Program funding commitments have been issued totaling \$205.33 million for Funding Year 2009. In accordance with the instructions in a January 17, 2008 letter from the Chief of the FCC Wireline Competition Bureau allowing Pilot Program participants to roll forward support not used in one year to a subsequent funding year, USAC has previously carried forward funds not used in Funding Year 2007 and Funding Year 2008 to Funding Year 2009. Based on information provided by applicants, USAC now estimates Funding Year 2009 Pilot Program demand will be \$401.01 million. USAC has collected \$139.26 million for each of the Pilot Program Funding Years, thus no further collection is necessary.

As of March 31, 2012, Primary Program funding commitments have been issued totaling \$73.47 million. Based on information provided by applicants, USAC now estimates Funding Year 2009 Primary Program demand will be \$71.50 million. The Commission previously authorized collection of \$71.57 million for Funding Year 2009. Considering the

Universal Service Administrative Company 3Q2012 Fund Size Projections

revised Primary Program demand estimate for Funding Year 2009, USAC recommends the Commission decrease collections for Funding Year 2009 of the Primary Program by \$0.07 million in 3Q2012.

Funding commitments made during 1Q2012 are included in Appendix RH03. Authorized funding by applicant during 1Q2012 and disbursements made to service providers during 1Q2012 are listed in Appendices RH04 and RH05, respectively.

FUNDING YEAR 2010

Funding Year 2010 began on July 1, 2010 and ended on June 30, 2011. The window for Funding Year 2010 opened on March 15, 2010. As of March 31, 2012, a total of 4,283 Form 465s were posted and 9,676 packets were received.

The status of Funding Year 2010 packets is provided in the following table:

| FUNDING YEAR 2010 PACKET PROCESSING | |
|---|--------------|
| Packets Completely Processed | 8,975 |
| In Final Review | 0 |
| In Review | 0 |
| Withdrawn by Applicant | 572 |
| Denied | 111 |
| Duplicate | 18 |
| Incomplete – Require Forms and/or Clarification | 0 |
| Total Packets Received as of 3/31/2012 for Funding Year 2010 | 9,676 |

As of March 31, 2012, Primary Program funding commitments have been issued totaling \$92.30 million. Based on information provided by applicants, USAC now estimates Funding Year 2010 Primary Program demand will be \$87.44 million. The Commission previously authorized collection of \$87.11 million for Funding Year 2010. Considering the revised Primary Program demand estimate for Funding Year 2010, USAC recommends the Commission increase collections for Funding Year 2010 of the Primary Program by \$0.33 million in 3Q2012.

Universal Service Administrative Company 3Q2012 Fund Size Projections

Funding commitments made during 1Q2012 are included in Appendix RH06. Authorized funding by applicant during 1Q2012 and disbursements made to service providers during 1Q2012 are listed in Appendices RH07 and RH08, respectively.

FUNDING YEAR 2011

Funding Year 2011 began on July 1, 2011 and will end on June 30, 2012. The window for Funding Year 2011 opened on April 4, 2011. As of March 31, 2012, a total of 4,683 Form 465s were posted and 5,880 packets were received.

The status of Funding Year 2011 packets is provided in the following table:

| FUNDING YEAR 2011 PACKET PROCESSING | |
|---|--------------|
| Packets Completely Processed | 2,308 |
| In Final Review | 172 |
| In Review | 2,306 |
| Withdrawn by Applicant | 124 |
| Denied | 16 |
| Duplicate | 8 |
| Incomplete – Require Forms and/or Clarification | 946 |
| Total Packets Received as of 3/31/2012 for Funding Year 2011 | 5,880 |

As of March 31, 2012, Primary Program funding commitments have been issued totaling \$14.98 million. Based on information provided by applicants, USAC now estimates Funding Year 2011 Primary Program demand will be \$98.88 million. The Commission previously authorized collection of \$98.16 million for Funding Year 2011. Considering the revised Primary Program demand estimate for Funding Year 2011, USAC recommends the Commission increase collections for Funding Year 2011 of the Primary Program by \$0.72 million in 3Q2012.

Funding commitments made during 1Q2012 are included in Appendix RH09. Authorized funding by applicant during 1Q2012 and disbursements made to service providers during 1Q2012 are listed in Appendices RH10 and RH11, respectively.

Universal Service Administrative Company 3Q2012 Fund Size Projections

FUNDING YEAR 2012

Funding Year 2012 will begin on July 1, 2012 and will end on June 30, 2013. The window for Funding Year 2012 opened on April 16, 2012.

USAC recommends the Commission authorize collections for Funding Year 2012 of one-quarter of the estimated Primary Program demand, or \$27.52 million, in 3Q2012.

RURAL HEALTH CARE SUPPORT MECHANISM SUMMARY

The estimated 3Q2012 Rural Health Care Support Mechanism demand requirement is \$28.39 million (\$27.52 million for Funding Year 2012, plus \$0.72 million for Funding Year 2011, plus \$0.33 million for Funding Year 2010, minus \$0.07 million for Funding Year 2009, minus \$0.11 million for Funding Year 2008).

The results of 1Q2012 contributed to an over-funded condition for which this filing proposes to adjust the 3Q2012 funding requirements. The total adjustment to the 3Q2012 funding requirement based on actual results will decrease the funding needed by \$0.39 million. The explanation for the adjustment is provided in the following table:

| Reason for the Prior Period Adjustment | Adjustment in Millions |
|--|-------------------------------|
| 1Q2012 billings were higher than the projected revenues reported by USF contributors in their quarterly revenue projections. | (\$0.11) |
| Interest income was higher than estimated for 1Q2012. | (0.05) |
| Bad debt expense was lower than anticipated. | (0.23) |
| Total Prior Period Adjustment | (\$0.39) |

The total fund requirement of \$28.39 million, decreased by the prior-period adjustment of \$0.39 million, increased for administrative expenses of \$3.55 million, and decreased by the projected interest income of \$0.69 million, results in a total projected funding requirement for the Rural Health Care Support Mechanism for 3Q2012 of \$30.86 million.

Universal Service Administrative Company 3Q2012 Fund Size Projections

SCHOOLS AND LIBRARIES SUPPORT MECHANISM

Following is a summary of Schools and Libraries Support Mechanism net commitments⁵⁹ and net authorized for payment⁶⁰ by funding year as of March 31, 2012.

FUNDING YEAR 1998

| FUNDING YEAR 1998 | | | | | |
|-----------------------------------|----------------------------|-------------------------------|-----------------------------------|--|--|
| | Net Commitments | | Net Authorized for Payment | | Auth/Com |
| | Millions of Dollars | % of Total Commitments | Millions of Dollars | % of Total Authorized for Payment | % of Committed Authorized for Payment |
| Telecommunications | \$ 675.01 | 39.82% | \$ 507.57 | 36.28% | 75.19% |
| Internet Access | \$ 134.14 | 7.91% | \$ 94.82 | 6.78% | 70.69% |
| Internal Connections | \$ 885.87 | 52.27% | \$ 796.54 | 56.94% | 89.92% |
| TOTAL | \$ 1,695.02 | 100.00% | \$1,398.93 | 100.00% | 82.53% |
| Deobligations due to Expired FRNs | \$ (296.08) | | | | |
| Net Commitments | \$ 1,398.94 | | | | |

No Funding Year 1998 applications remained in the Program Integrity Assurance (PIA) review process. Funding Year 1998 began on January 1, 1998 and ended on June 30, 1999. No payments were made to service providers during 1Q2012 for Funding Year 1998.

⁵⁹ 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.

⁶⁰ Net authorized for payment is the amount of total approved invoices less any returned funds.

Universal Service Administrative Company 3Q2012 Fund Size Projections

FUNDING YEAR 1999

| FUNDING YEAR 1999 | | | | | |
|-----------------------------------|----------------------------|-------------------------------|-----------------------------------|--|--|
| | Net Commitments | | Net Authorized for Payment | | Auth/Com |
| | Millions of Dollars | % of Total Commitments | Millions of Dollars | % of Total Authorized for Payment | % of Committed Authorized for Payment |
| Telecommunications | \$ 633.50 | 29.50% | \$ 452.99 | 27.39% | 71.51% |
| Internet Access | \$ 148.77 | 6.93% | \$ 95.50 | 5.77% | 64.19% |
| Internal Connections | \$ 1,364.93 | 63.57% | \$1,105.50 | 66.84% | 80.99% |
| TOTAL | \$ 2,147.20 | 100.00% | \$1,653.99 | 100.00% | 77.03% |
| Deobligations due to Expired FRNs | \$ (493.20) | | | | |
| Net Commitments | \$ 1,654.00 | | | | |

No Funding Year 1999 applications remain in the PIA review process. Funding Year 1999 began on July 1, 1999 and ended on June 30, 2000. Authorized funding by applicant during 1Q2012 and cumulative payments to service providers through 1Q2012 are listed in Appendices SL01 and SL02, respectively.

FUNDING YEAR 2000

| FUNDING YEAR 2000 | | | | | |
|-----------------------------------|----------------------------|-------------------------------|-----------------------------------|--|--|
| | Net Commitments | | Net Authorized for Payment | | Auth/Com |
| | Millions of Dollars | % of Total Commitments | Millions of Dollars | % of Total Authorized for Payment | % of Committed Authorized for Payment |
| Telecommunications | \$ 719.09 | 34.71% | \$ 481.17 | 29.16% | 66.91% |
| Internet Access | \$ 218.76 | 10.56% | \$ 133.46 | 8.09% | 61.01% |
| Internal Connections | \$ 1,134.10 | 54.73% | \$1,035.18 | 62.75% | 91.28% |
| TOTAL | \$ 2,071.95 | 100.00% | \$1,649.81 | 100.00% | 79.63% |
| Deobligations due to Expired FRNs | \$ (421.99) | | | | |
| Net Commitments | \$ 1,649.96 | | | | |

Universal Service Administrative Company 3Q2012 Fund Size Projections

No Funding Year 2000 applications remained in the PIA review process. Funding Year 2000 began on July 1, 2000 and ended on June 30, 2001. No payments were made to service providers during 1Q2012 for Funding Year 2000.

FUNDING YEAR 2001

| FUNDING YEAR 2001 | | | | | |
|-----------------------------------|---------------------|------------------------|----------------------------|-----------------------------------|---------------------------------------|
| | Net Commitments | | Net Authorized for Payment | | Auth/Com |
| | Millions of Dollars | % of Total Commitments | Millions of Dollars | % of Total Authorized for Payment | % of Committed Authorized for Payment |
| Telecommunications | \$ 776.95 | 35.55% | \$ 540.79 | 31.85% | 69.60% |
| Internet Access | \$ 224.80 | 10.29% | \$ 149.54 | 8.81% | 66.52% |
| Internal Connections | \$ 1,183.67 | 54.16% | \$1,007.69 | 59.34% | 85.13% |
| TOTAL | \$ 2,185.42 | 100.00% | \$1,698.02 | 100.00% | 77.70% |
| Deobligations due to Expired FRNs | \$ (487.47) | | | | |
| Net Commitments | \$ 1,697.95 | | | | |

As of March 31, 2012, two potentially fundable Funding Year 2001 applications remained in the PIA review process. Funding Year 2001 began on July 1, 2001 and ended on June 30, 2002. Authorized funding by applicant during 1Q2012 and cumulative payments to service providers through 1Q2012 are listed in Appendices SL03 and SL04, respectively.

Universal Service Administrative Company 3Q2012 Fund Size Projections

FUNDING YEAR 2002

| FUNDING YEAR 2002 | | | | | |
|-----------------------------------|---------------------|------------------------|----------------------------|-----------------------------------|---------------------------------------|
| | Net Commitments | | Net Authorized for Payment | | Auth/Com |
| | Millions of Dollars | % of Total Commitments | Millions of Dollars | % of Total Authorized for Payment | % of Committed Authorized for Payment |
| Telecommunications | \$ 860.60 | 39.33% | \$ 613.26 | 38.47% | 71.26% |
| Internet Access | \$ 249.98 | 11.42% | \$ 171.02 | 10.73% | 68.41% |
| Internal Connections | \$ 1,077.70 | 49.25% | \$ 809.96 | 50.80% | 75.16% |
| TOTAL | \$ 2,188.28 | 100.00% | \$1,594.24 | 100.00% | 72.85% |
| Deobligations due to Expired FRNs | \$ (575.14) | | | | |
| Net Commitments | \$ 1,613.14 | | | | |

As of March 31, 2012, one potentially fundable Funding Year 2002 application remained in the PIA review process. Funding Year 2002 began on July 1, 2002 and ended on June 30, 2003. Authorized funding by applicant during 1Q2012 and cumulative payments to service providers through 1Q2012 are listed in Appendices SL05 and SL06, respectively.

FUNDING YEAR 2003

| FUNDING YEAR 2003 | | | | | |
|-----------------------------------|---------------------|------------------------|----------------------------|-----------------------------------|---------------------------------------|
| | Net Commitments | | Net Authorized for Payment | | Auth/Com |
| | Millions of Dollars | % of Total Commitments | Millions of Dollars | % of Total Authorized for Payment | % of Committed Authorized for Payment |
| Telecommunications | \$ 907.83 | 34.39% | \$ 660.22 | 34.07% | 72.73% |
| Internet Access | \$ 276.08 | 10.46% | \$ 203.69 | 10.51% | 73.78% |
| Internal Connections | \$ 1,456.15 | 55.15% | \$1,073.80 | 55.42% | 73.74% |
| TOTAL | \$ 2,640.06 | 100.00% | \$1,937.71 | 100.00% | 73.40% |
| Deobligations due to Expired FRNs | \$ (690.59) | | | | |
| Net Commitments | \$ 1,949.47 | | | | |

Universal Service Administrative Company 3Q2012 Fund Size Projections

As of March 31, 2012, two potentially fundable Funding Year 2003 applications remained in the PIA review process. Funding Year 2003 began on July 1, 2003 and ended on June 30, 2004. Authorized funding by applicant during 1Q2012 and cumulative payments to service providers through 1Q2012 are listed in Appendices SL07 and SL08, respectively.

FUNDING YEAR 2004

| FUNDING YEAR 2004 | | | | | |
|-----------------------------------|---------------------|------------------------|----------------------------|-----------------------------------|---------------------------------------|
| | Net Commitments | | Net Authorized for Payment | | Auth/Com |
| | Millions of Dollars | % of Total Commitments | Millions of Dollars | % of Total Authorized for Payment | % of Committed Authorized for Payment |
| Telecommunications | \$ 949.91 | 43.69% | \$ 689.15 | 44.97% | 72.55% |
| Internet Access | \$ 246.30 | 11.33% | \$ 192.93 | 12.59% | 78.33% |
| Internal Connections | \$ 977.85 | 44.98% | \$ 650.44 | 42.44% | 66.52% |
| TOTAL | \$ 2,174.06 | 100.00% | \$1,532.52 | 100.00% | 70.49% |
| Deobligations due to Expired FRNs | \$ (625.23) | | | | |
| Net Commitments | \$ 1,548.83 | | | | |

No Funding Year 2004 applications remained in the PIA review process. Funding Year 2004 began on July 1, 2004 and ended on June 30, 2005. Funding commitments made to applicants during 1Q2012 are included in Appendix SL09. Authorized funding by applicant during 1Q2012 and cumulative payments to service providers through 1Q2012 are listed in Appendices SL10 and SL11, respectively.

Universal Service Administrative Company 3Q2012 Fund Size Projections

FUNDING YEAR 2005

| FUNDING YEAR 2005 | | | | | |
|-----------------------------------|----------------------------|-------------------------------|-----------------------------------|--|--|
| | Net Commitments | | Net Authorized for Payment | | Auth/Com |
| | Millions of Dollars | % of Total Commitments | Millions of Dollars | % of Total Authorized for Payment | % of Committed Authorized for Payment |
| Telecommunications | \$ 987.86 | 46.46% | \$ 773.49 | 47.85% | 78.30% |
| Internet Access | \$ 259.60 | 12.21% | \$ 214.44 | 13.27% | 82.60% |
| Internal Connections | \$ 743.64 | 34.98% | \$ 536.78 | 33.21% | 72.18% |
| Internal Connections-Maint | \$ 134.98 | 6.35% | \$ 91.67 | 5.67% | 67.91% |
| TOTAL | \$ 2,126.08 | 100.00% | \$1,616.38 | 100.00% | 76.03% |
| Deobligations due to Expired FRNs | \$ (490.44) | | | | |
| Net Commitments | \$ 1,635.64 | | | | |

As of March 31, 2012, four potentially fundable Funding Year 2005 applications remained in the PIA review process. Funding Year 2005 began on July 1, 2005 and ended on June 30, 2006. Funding commitments made to applicants during 1Q2012 are included in Appendix SL12. Authorized funding by applicant during 1Q2012 and cumulative payments to service providers through 1Q2012 are listed in Appendices SL13 and SL14, respectively.

Universal Service Administrative Company 3Q2012 Fund Size Projections

FUNDING YEAR 2006

| FUNDING YEAR 2006 | | | | | |
|-----------------------------------|----------------------------|-------------------------------|-----------------------------------|--|--|
| | Net Commitments | | Net Authorized for Payment | | Auth/Com |
| | Millions of Dollars | % of Total Commitments | Millions of Dollars | % of Total Authorized for Payment | % of Committed Authorized for Payment |
| Telecommunications | \$ 1,071.52 | 53.98% | \$ 847.97 | 54.76% | 79.14% |
| Internet Access | \$ 290.39 | 14.63% | \$ 235.52 | 15.21% | 81.10% |
| Internal Connections | \$ 497.34 | 25.06% | \$ 379.34 | 24.50% | 76.27% |
| Internal Connections-Maint | \$ 125.73 | 6.33% | \$ 85.56 | 5.53% | 68.05% |
| TOTAL | \$ 1,984.98 | 100.00% | \$1,548.39 | 100.00% | 78.01% |
| Deobligations due to Expired FRNs | \$ (379.73) | | | | |
| Net Commitments | \$ 1,605.25 | | | | |

As of March 31, 2012, nine potentially fundable Funding Year 2006 applications remained in the PIA review process. Funding Year 2006 began on July 1, 2006 and ended on June 30, 2007. Funding commitments made to applicants during 1Q2012 are included in Appendix SL15. Authorized funding by applicant during 1Q2012 and cumulative payments to service providers through 1Q2012 are listed in Appendices SL16 and SL17, respectively.

Universal Service Administrative Company 3Q2012 Fund Size Projections

FUNDING YEAR 2007

| FUNDING YEAR 2007 | | | | | |
|-----------------------------------|----------------------------|-------------------------------|-----------------------------------|--|--|
| | Net Commitments | | Net Authorized for Payment | | Auth/Com |
| | Millions of Dollars | % of Total Commitments | Millions of Dollars | % of Total Authorized for Payment | % of Committed Authorized for Payment |
| Telecommunications | \$ 1,183.11 | 48.24% | \$ 941.79 | 48.80% | 79.60% |
| Internet Access | \$ 308.53 | 12.58% | \$ 258.73 | 13.41% | 83.86% |
| Internal Connections | \$ 797.99 | 32.54% | \$ 610.49 | 31.63% | 76.50% |
| Internal Connections-Maint | \$ 162.89 | 6.64% | \$ 119.01 | 6.16% | 73.06% |
| TOTAL | \$ 2,452.52 | 100.00% | \$1,930.02 | 100.00% | 78.70% |
| Deobligations due to Expired FRNs | \$ (465.39) | | | | |
| Net Commitments | \$ 1,987.13 | | | | |

As of March 31, 2012, 41 potentially fundable Funding Year 2007 applications remained in the PIA review process. Funding Year 2007 began on July 1, 2007 and ended on June 30, 2008. Funding commitments made to applicants during 1Q2012 are included in Appendix SL18. Authorized funding by applicant during 1Q2012 and cumulative payments to service providers through 1Q2012 are listed in Appendices SL19 and SL20, respectively.

Universal Service Administrative Company 3Q2012 Fund Size Projections

FUNDING YEAR 2008

| FUNDING YEAR 2008 | | | | | |
|-----------------------------------|----------------------------|-------------------------------|-----------------------------------|--|--|
| | Net Commitments | | Net Authorized for Payment | | Auth/Com |
| | Millions of Dollars | % of Total Commitments | Millions of Dollars | % of Total Authorized for Payment | % of Committed Authorized for Payment |
| Telecommunications | \$ 1,296.77 | 51.07% | \$1,036.53 | 55.45% | 79.93% |
| Internet Access | \$ 337.57 | 13.30% | \$ 275.90 | 14.76% | 81.73% |
| Internal Connections | \$ 770.26 | 30.34% | \$ 468.31 | 25.05% | 60.80% |
| Internal Connections-Maint | \$ 134.21 | 5.29% | \$ 88.61 | 4.74% | 66.02% |
| TOTAL | \$ 2,538.81 | 100.00% | \$1,869.35 | 100.00% | 73.63% |
| Deobligations due to Expired FRNs | \$ (608.22) | | | | |
| Net Commitments | \$ 1,930.59 | | | | |

As of March 31, 2012, 56 potentially fundable Funding Year 2008 applications remained in the PIA review process. Funding Year 2008 began on July 1, 2008 and ended on June 30, 2009. Funding commitments made to applicants during 1Q2012 are included in Appendix SL21. Authorized funding by applicant during 1Q2012 and cumulative payments to service providers through 1Q2012 are listed in Appendices SL22 and SL23, respectively.

Universal Service Administrative Company 3Q2012 Fund Size Projections

FUNDING YEAR 2009

| FUNDING YEAR 2009 | | | | | |
|-----------------------------------|----------------------------|-------------------------------|-----------------------------------|--|--|
| | Net Commitments | | Net Authorized for Payment | | Auth/Com |
| | Millions of Dollars | % of Total Commitments | Millions of Dollars | % of Total Authorized for Payment | % of Committed Authorized for Payment |
| Telecommunications | \$ 1,355.00 | 47.49% | \$ 1,075.44 | 49.74% | 79.37% |
| Internet Access | \$ 351.38 | 12.31% | \$ 285.02 | 13.18% | 81.11% |
| Internal Connections | \$ 940.83 | 32.97% | \$ 664.60 | 30.74% | 70.64% |
| Internal Connections-Maint | \$ 206.20 | 7.23% | \$ 137.18 | 6.34% | 66.53% |
| TOTAL | \$ 2,853.41 | 100.00% | \$ 2,162.24 | 100.00% | 75.78% |
| Deobligations due to Expired FRNs | \$ (503.39) | | | | |
| Net Commitments | \$ 2,350.02 | | | | |

As of March 31, 2012, 94 potentially fundable Funding Year 2009 applications remained in the PIA review process. Funding Year 2009 began on July 1, 2009 and ended on June 30, 2010. Funding commitments made to applicants during 1Q2012 are included in Appendix SL24. Authorized funding by applicant during 1Q2012 and cumulative payments to service providers through 1Q2012 are listed in Appendices SL25 and SL26, respectively.

Universal Service Administrative Company 3Q2012 Fund Size Projections

FUNDING YEAR 2010

| FUNDING YEAR 2010 | | | | | |
|-----------------------------------|----------------------------|-------------------------------|-----------------------------------|--|--|
| | Net Commitments | | Net Authorized for Payment | | Auth/Com |
| | Millions of Dollars | % of Total Commitments | Millions of Dollars | % of Total Authorized for Payment | % of Committed Authorized for Payment |
| Telecommunications | \$ 1,453.56 | 47.53% | \$1,084.69 | 56.46% | 74.62% |
| Internet Access | \$ 403.56 | 13.19% | \$ 316.50 | 16.47% | 78.43% |
| Internal Connections | \$ 984.07 | 32.18% | \$ 386.75 | 20.13% | 39.30% |
| Internal Connections-Maint | \$ 217.29 | 7.10% | \$ 133.24 | 6.94% | 61.32% |
| TOTAL | \$ 3,058.48 | 100.00% | \$ 1,921.18 | 100.00% | 62.81% |
| Deobligations due to Expired FRNs | \$ (328.51) | | | | |
| Net Commitments | \$ 2,729.97 | | | | |

As of March 31, 2012, 392 potentially fundable Funding Year 2010 applications remained in the PIA review process. Funding Year 2010 began on July 1, 2010 and ended on June 30, 2011. Funding commitments made to applicants during 1Q2012 are included in Appendix SL27. Authorized funding by applicant during 1Q2012 and cumulative payments to service providers through 1Q2012 are listed in Appendices SL28 and SL29, respectively.

Universal Service Administrative Company 3Q2012 Fund Size Projections

FUNDING YEAR 2011

| FUNDING YEAR 2011 | | | | | |
|-----------------------------------|----------------------------|-------------------------------|-----------------------------------|--|--|
| | Net Commitments | | Net Authorized for Payment | | Auth/Com |
| | Millions of Dollars | % of Total Commitments | Millions of Dollars | % of Total Authorized for Payment | % of Committed Authorized for Payment |
| Telecommunications | \$ 1,303.25 | 64.02% | \$ 232.39 | 58.65% | 17.83% |
| Internet Access | \$ 418.88 | 20.58% | \$ 126.18 | 31.85% | 30.12% |
| Internal Connections | \$ 240.90 | 11.83% | \$ 26.53 | 6.70% | 11.01% |
| Internal Connections-Maint | \$ 72.68 | 3.57% | \$ 11.12 | 2.80% | 15.30% |
| TOTAL | \$ 2,035.71 | 100.00% | \$ 396.22 | 100.00% | 19.46% |
| Deobligations due to Expired FRNs | \$ - | | | | |
| Net Commitments | \$ 2,035.71 | | | | |

As of March 31, 2012, 5,153 potentially fundable Funding Year 2011 applications remained in the PIA review process. Funding Year 2011 began on July 1, 2011 and will end on June 30, 2012. Funding commitments made to applicants during 1Q2012 are included in Appendix SL30. Authorized funding by applicant during 1Q2012 and cumulative payments to service providers through 1Q2012 are listed in Appendices SL31 and SL32, respectively.

SCHOOLS AND LIBRARIES SUPPORT MECHANISM SUMMARY

In a series of actions from December 1999 through December 2002, the Commission used a net total of \$477.16 million of undisbursed Funding Year 1998 Schools and Libraries Support Mechanism funds to reduce USF collection requirements. Consistent with the Commission's direction in the Schools and Libraries First Report and Order, a total of \$858.12 million of undisbursed Funding Years 1999 and 2000 collections were used to

Universal Service Administrative Company 3Q2012 Fund Size Projections

stabilize USF contributions and offset collections for 3rd Quarter 2002 (3Q2002), 4th Quarter 2002 (4Q2002), and 1st Quarter 2003 (1Q2003).⁶¹

In the *Schools and Libraries Third Report and Order and Second Further Notice of Proposed Rulemaking*, the Commission amended its rules to allow unused funds from prior funding years to be carried forward on an annual basis in the second quarter of each calendar year for use in the next full funding year.⁶² The Commission required USAC to file quarterly estimates of unused funds from prior funding years in submitting its projection of Schools and Libraries Support Mechanism demand for the upcoming quarter. The Commission modified the schedule to implement the process for Funding Year 2003 and directed USAC to carry forward \$420 million of unused prior year funds for use in Funding Year 2003.⁶³ In accordance with the *Schools and Libraries Third Report and Order*, the Commission announced that \$150 million in unused funds from Funding Year 2001 would be carried forward to increase disbursements to schools and libraries in Funding Year 2004.⁶⁴

On June 11, 2007, the Commission instructed USAC to carry forward \$650 million in unused funds to Funding Year 2007.⁶⁵ The funds were carried forward from Funding Years 2001, 2002, 2003, and 2004 in the amount of \$50 million, \$300 million, \$150 million, and \$150 million, respectively. On June 23, 2008, the Commission instructed USAC to carry forward \$600 million in unused funds to Funding Year 2008.⁶⁶ The funds were carried forward from Funding Years 2002, 2003, and 2004 in the amount of \$150 million, \$200 million, and \$250 million, respectively. On July 31, 2009, the Commission instructed USAC

⁶¹ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, First Report and Order, FCC 02-175 (June 13, 2002) (*Schools and Libraries First Report and Order*).

⁶² See *Schools and Libraries Universal Service Support Mechanism*, CC Docket 02-6, Third Report and Order and Second Further Notice of Proposed Rulemaking, FCC 03-323 (Dec. 23, 2003) (*Schools and Libraries Third Report and Order*).

⁶³ *Id.*

⁶⁴ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, *Carryover of Unused Funds for Funding Year 2004*, DA 04-1848 (rel. June 28, 2004).

⁶⁵ See *Schools and Libraries Universal Support Mechanism*, CC Docket No. 02-06, *Wireline Competition Bureau Announces Carryover of Unused Funds for Funding Year 2007*, DA 07-2470 (rel. June 1, 2007).

⁶⁶ See *Schools and Libraries Universal Support Mechanism*, CC Docket No. 02-06, *Carryover of Unused Federal Universal Service Funds for Funding Year 2008*, DA 08-1470 (rel. June 23, 2008).

Universal Service Administrative Company 3Q2012 Fund Size Projections

to carry-forward \$900 million in unused funds to Funding Year 2009.⁶⁷ The funds were carried-forward from Funding Years 1999, 2001, 2002, 2003, 2004, 2005, and 2006 in the amount of \$25 million, \$60 million, \$60 million, \$210 million, \$275 million, \$200 million, and \$70 million, respectively. On July 1, 2010, the Commission instructed USAC to carry forward \$900 million in unused funds to Funding Year 2010.⁶⁸ The funds were carried-forward from Funding Years 2002, 2005, 2006, 2007, and 2008 in the amount of \$25 million, \$100 million, \$300 million, \$375 million, and \$100 million, respectively. On August 22, 2011, the Commission instructed USAC to carry forward an additional \$250 million in unused funds to Funding Year 2010.⁶⁹ The total funds carried forward to Funding Year 2010 amount to \$1.15 billion. The Commission further instructed USAC to carry forward \$850 million in unused funds from Funding Years 2003, 2004, 2005, 2006, 2007, 2008, and 2009 to Funding Year 2011.⁷⁰ The funds were carried-forward from Funding Years 2003, 2004, 2005, 2006, 2007, 2008, and 2009 in the amount of \$20 million, \$50 million, \$120 million, \$115 million, \$275 million, \$390 million, and \$130 million, respectively.

In the *Schools and Libraries Sixth Report and Order*, the Commission amended its rules to increase the cap on program funding by indexing the cap to inflation.⁷¹ The Commission calculates this annual increase by using the percentage increase in the gross domestic product chain – type price index (GDP-CPI) from the previous year and rounds this to the nearest 0.1 percent. The Commission found that the GDP-CPI increased 0.9 percent between 2008 and 2009. Using this analysis, the Commission set the cap for Funding Year 2010 to \$2,270,250,000. On August 5, 2011, the Commission set the cap for Funding Year 2011 at

⁶⁷ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-06, *Carryover of Unused Federal Universal Service Funds for Funding Year 2009*, DA 09-1734 (rel. July 31, 2009).

⁶⁸ See *Wireline Competition Bureau Announces Carryover of Unused Schools and Libraries Universal Service Funds for Funding Year 2010*, DA 10-1243 (rel. July 1, 2010).

⁶⁹ See *School and Libraries Universal Service Support Mechanism/Funds for Learning, LLC Petition to Reject the Administrator's Discount Threshold Recommendation for Funding Year 2010*, DA 11-1354 (rel. Aug. 22, 2011).

⁷⁰ *Id.*

⁷¹ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, *Sixth Report and Order*, FCC 10-175 (rel. Sep. 28, 2010) (*Schools and Libraries Sixth Report and Order*).

Universal Service Administrative Company 3Q2012 Fund Size Projections

\$2,290,682,250.⁷² 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.⁷³

In consultation with FCC staff, USAC estimates that \$400 million is available to carry forward from funding years as follows: 2003: \$10 million; 2004: \$10 million; 2005: \$50 million; 2006: \$30 million; 2007: \$40 million; 2008: \$60 million; 2009: \$150 million; and 2010: \$50 million. The following sections provide information regarding the use of funds for each funding year, including adjustments made by the Commission and projections of unused funds as required by Commission rules.

Funding Year 1998 True-Up

As of March 31, 2012, \$1,398.93 million of Funding Year 1998 support had been authorized for disbursement. USAC estimates that a contingency amount of \$7.12 million should be reserved to pay appeals pending at the Commission and to pay invoices on Funding Year 1998 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that no Funding Year 1998 funds are available to carry forward. The estimated remaining Funding Year 1998 balance is based on the following:

| FUNDING YEAR 1998 | Amounts in Millions |
|--|----------------------------|
| Amount Authorized and Actually Collected | \$1,925.00 |
| Amount Authorized for Disbursement | (1,398.93) |
| Administrative Expenses (21 months) | (41.79) |
| Amount Applied to Adjust 2000, 2001, and 2002 Collections | (477.16) |
| Potential Additional Disbursements on Committed FRNs | (0.00) |
| Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests | (7.12) |
| Estimated Remaining Balance | \$0.00 |

⁷² Wireline Competition Bureau Announces E-Rate Inflation-Based Cap for Funding Year 2011, DA 11-1345 (rel. Aug. 5, 2011).

⁷³ CAF Order, ¶ 567.

Universal Service Administrative Company 3Q2012 Fund Size Projections

Funding Year 1999 True-Up

As of March 31, 2012, \$1,653.99 million of Funding Year 1999 support had been authorized for disbursement. USAC's projection of the remaining Funding Year 1999 funds includes an estimate of funds needed to pay additional disbursements on committed funding requests and a contingency reserve to pay pending appeals and make disbursements on Funding Year 1999 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that no Funding Year 1999 funds are available to carry forward. The estimated remaining Funding Year 1999 balance is based on the following:

| FUNDING YEAR 1999 | Amounts in Millions |
|--|----------------------------|
| Amount Authorized and Actually Collected | \$2,250.00 |
| Amount Authorized for Disbursement | (1,653.99) |
| Administrative Expenses | (32.32) |
| Amount Applied to Adjust Third Quarter 2002 Collections | (256.16) |
| Amount Applied to Adjust Fourth Quarter 2002 Collections | (212.93) |
| Amount Carried Forward to Funding Year 2003 | (50.00) |
| Amount Carried Forward to Funding Year 2009 | (25.00) |
| Potential Additional Disbursements on Committed FRNs | (0.01) |
| Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests | (19.59) |
| Estimated Remaining Balance | \$0.00 |

Funding Year 2000 True-Up

As of March 31, 2012, \$1,649.81 million of Funding Year 2000 support had been authorized for disbursement. USAC's projection of the remaining Funding Year 2000 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on remaining requests that have not received funding commitments, as well as a contingency reserve to pay pending appeals and make disbursements on Funding Year 2000 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the

Universal Service Administrative Company 3Q2012 Fund Size Projections

contingency amount, USAC estimates that no Funding Year 2000 funds are available to carry forward. The estimated remaining Funding Year 2000 balance is based on the following:

| FUNDING YEAR 2000 | Amounts in Millions |
|--|----------------------------|
| Amount Authorized and Actually Collected | \$2,250.00 |
| Amount Authorized for Disbursement | (1,649.81) |
| Administrative Expenses | (32.24) |
| Amount Applied to Adjust Fourth Quarter 2002 Collections | (136.85) |
| Amount Applied to Adjust First Quarter 2003 Collections | (246.18) |
| Amount Carried Forward to Funding Year 2003 | (160.00) |
| Potential Additional Disbursements on Committed FRNs | (0.15) |
| Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests | (24.77) |
| Estimated Remaining Balance | \$0.00 |

Funding Year 2001 True-Up

As of March 31, 2012, \$1,698.02 million of Funding Year 2001 support had been authorized for disbursement. USAC's projection of the remaining Funding Year 2001 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on remaining requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and make disbursements on Funding Year 2001 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements, USAC estimates that no Funding Year 2001 funds are available to carry forward. The estimated remaining Funding Year 2001 balance is based on the following:

Universal Service Administrative Company 3Q2012 Fund Size Projections

| FUNDING YEAR 2001 | Amounts in Millions |
|--|----------------------------|
| Amount Authorized and Actually Collected | \$2,250.00 |
| Amount Authorized for Disbursement | (1,698.02) |
| Administrative Expenses | (30.56) |
| Amount Carried Forward to Funding Year 2003 | (210.00) |
| Amount Carried Forward to Funding Year 2004 | (150.00) |
| Amount Carried Forward to Funding Year 2007 | (50.00) |
| Amount Carried Forward to Funding Year 2009 | (60.00) |
| Potential Additional Disbursements on Committed FRNs | 0.06 |
| Remaining Uncommitted Requests | (20.33) |
| Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests | (31.15) |
| Estimated Remaining Balance | \$0.00 |

Funding Year 2002 True-Up

As of March 31, 2012, \$1,594.24 million of Funding Year 2002 support had been authorized for disbursement. USAC's projection of the remaining Funding Year 2002 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and make disbursements on Funding Year 2002 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements, USAC estimates that no Funding Year 2002 funds are available to carry forward. The estimated remaining Funding Year 2002 balance is based on the following:

Universal Service Administrative Company 3Q2012 Fund Size Projections

| FUNDING YEAR 2002 | Amounts in Millions |
|--|----------------------------|
| Amount Authorized and Actually Collected | \$2,250.00 |
| Amount Authorized for Disbursement | (1,594.24) |
| Administrative Expenses | (38.53) |
| Amount Carried Forward to Funding Year 2007 | (300.00) |
| Amount Carried Forward to Funding Year 2008 | (150.00) |
| Amount Carried Forward to Funding Year 2009 | (60.00) |
| Amount Carried Forward to Funding Year 2010 | (25.00) |
| Potential Additional Disbursements on Committed FRNs | (18.92) |
| Remaining Uncommitted Requests | (0.93) |
| Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests | (62.38) |
| Estimated Remaining Balance | \$0.00 |

Funding Year 2003 True-Up

As of March 31, 2012, \$1,937.71 million of Funding Year 2003 support had been authorized for disbursement. USAC's projection of the remaining Funding Year 2003 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on Funding Year 2003 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements, USAC estimates that \$10 million of Funding Year 2003 funds are available to carry forward. The estimated remaining Funding Year 2003 balance is based on the following:

Universal Service Administrative Company 3Q2012 Fund Size Projections

| FUNDING YEAR 2003 | Amounts in Millions |
|--|----------------------------|
| Amount Authorized and Actually Collected | \$2,250.00 |
| Amount Authorized for Disbursement | (1,937.71) |
| Amount Carried Forward from Funding Years 1999, 2000, and 2001 | 420.00 |
| Amount Carried Forward to Funding Year 2007 | (150.00) |
| Amount Carried Forward to Funding Year 2008 | (200.00) |
| Amount Carried Forward to Funding Year 2009 | (210.00) |
| Amount Carried Forward to Funding Year 2011 | (20.00) |
| Administrative Expenses | (44.19) |
| Potential Additional Disbursements on Committed FRNs | (11.76) |
| Remaining Uncommitted Requests | (32.83) |
| Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests | (53.51) |
| Estimated Remaining Balance | \$10.00 |

Funding Year 2004 True-Up

As of March 31, 2012, \$1,532.52 million of Funding Year 2004 support had been authorized for disbursement. USAC's projection of the remaining Funding Year 2004 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on Funding Year 2004 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements, USAC estimates that \$10 million of Funding Year 2004 funds are available to carry forward. The estimated remaining Funding Year 2004 balance is based on the following:

Universal Service Administrative Company 3Q2012 Fund Size Projections

| FUNDING YEAR 2004 | Amounts in Millions |
|--|----------------------------|
| Amount Authorized and Actually Collected | \$2,250.00 |
| Amount Authorized for Disbursement | (1,532.52) |
| Amount Carried Forward from Funding Year 2001 | 150.00 |
| Amount Carried Forward to Funding Year 2007 | (150.00) |
| Amount Carried Forward to Funding Year 2008 | (250.00) |
| Amount Carried Forward to Funding Year 2009 | (275.00) |
| Amount Carried Forward to Funding Year 2011 | (50.00) |
| Administrative Expenses | (55.75) |
| Potential Additional Disbursements on Committed FRNs | (16.31) |
| Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests | (60.42) |
| Estimated Remaining Balance | \$10.00 |

Funding Year 2005 True-Up

As of March 31, 2012, \$1,616.38 million of Funding Year 2005 support had been authorized for disbursement. USAC's projection of the remaining Funding Year 2005 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on Funding Year 2005 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amounts, USAC estimates that \$50 million of Funding Year 2005 funds are available to carry forward. The estimated remaining Funding Year 2005 balance is based on the following:

| FUNDING YEAR 2005 | Amounts in Millions |
|--|----------------------------|
| Amount Authorized and Actually Collected | \$2,250.00 |
| Amount Authorized for Disbursement | (1,616.38) |
| Amount Carried Forward to Funding Year 2009 | (200.00) |
| Amount Carried Forward to Funding Year 2010 | (100.00) |
| Amount Carried Forward to Funding Year 2011 | (120.00) |
| Administrative Expenses | (64.99) |
| Potential Additional Disbursements on Committed FRNs | (19.27) |
| Remaining Uncommitted Requests | (4.75) |
| Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests | (74.61) |
| Estimated Remaining Balance | \$50.00 |

Universal Service Administrative Company 3Q2012 Fund Size Projections

Funding Year 2006 True-Up

As of March 31, 2012, \$1,548.39 million of Funding Year 2006 support had been authorized for disbursement. USAC's projection of the remaining Funding Year 2006 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on Funding Year 2006 funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amounts, USAC estimates that \$30 million of Funding Year 2006 funds are available to carry forward. The estimated remaining Funding Year 2006 balance is based on the following:

| FUNDING YEAR 2006 | Amounts in Millions |
|--|----------------------------|
| Amount Authorized and Actually Collected | \$2,250.00 |
| Amount Authorized for Disbursement | (1,548.39) |
| Amount Carried Forward to Funding Year 2009 | (70.00) |
| Amount Carried Forward to Funding Year 2010 | (300.00) |
| Amount Carried Forward to Funding Year 2011 | (115.00) |
| Administrative Expenses | (80.74) |
| Potential Additional Disbursements on Committed FRNs | (56.85) |
| Remaining Uncommitted Requests | (2.56) |
| Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests | (46.46) |
| Estimated Remaining Balance | \$30.00 |

Funding Year 2007 True-Up

As of March 31, 2012, \$1,930.02 million of Funding Year 2007 support had been authorized for disbursement. USAC's projection of remaining Funding Year 2007 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that \$40

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million of Funding Year 2007 funds are available to carry forward. The estimated remaining Funding Year 2007 balance is based on the following:

| FUNDING YEAR 2007 | Amounts in Millions |
|--|----------------------------|
| Amount Authorized and Actually Collected | \$2,250.00 |
| Amount Authorized for Disbursement | (1,930.02) |
| Amount Carried Forward from Funding Years 2001, 2002, 2003, and 2004 | 650.00 |
| Amount Carried Forward to Funding Year 2010 | (375.00) |
| Amount Carried Forward to Funding Year 2011 | (275.00) |
| Administrative Expenses | (81.24) |
| Potential Additional Disbursements on Committed FRNs | (57.12) |
| Remaining Uncommitted Requests | (35.41) |
| Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests | (106.21) |
| Estimated Remaining Balance | \$40.00 |

Funding Year 2008 True-Up

As of March 31, 2012, \$1,869.35 million of Funding Year 2008 support had been authorized for disbursement. USAC's projection of remaining Funding Year 2008 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that \$60 million of Funding Year 2008 funds are available to carry forward. The estimated remaining Funding Year 2008 balance is based on the following:

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| FUNDING YEAR 2008 | Amounts in Millions |
|--|----------------------------|
| Amount Authorized and Actually Collected | \$2,250.00 |
| Amount Authorized for Disbursement | (1,869.35) |
| Amount Carried Forward from Funding Years 2002, 2003, and 2004 | 600.00 |
| Amount Carried Forward to Funding Year 2010 | (350.00) |
| Amount Carried Forward to Funding Year 2011 | (140.00) |
| Administrative Expenses | (81.44) |
| Potential Additional Disbursements on Committed FRNs | (61.24) |
| Remaining Uncommitted Requests | (77.68) |
| Contingency Amount for Pending Appeals and Invoice Deadline Extension Requests | (210.29) |
| Estimated Remaining Balance | \$60.00 |

Funding Year 2009 True-Up

As of March 31, 2012, \$2,162.24 million of Funding Year 2009 support had been authorized for disbursement. USAC's projection of remaining Funding Year 2009 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that \$150 million of Funding Year 2009 funds are available to carry forward. The estimated remaining Funding Year 2009 balance is based on the following:

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| FUNDING YEAR 2009 | Amounts in Millions |
|--|----------------------------|
| Amount Authorized and Actually Collected | \$2,250.00 |
| Amount Authorized for Disbursement | (2,162.24) |
| Amount Carried Forward from Funding Years 1999, 2001, 2002, 2003, 2004, 2005, and 2006 | 900.00 |
| Amount Carried Forward to Funding Year 2011 | (130.00) |
| Administrative Expenses | (81.27) |
| Potential Additional Disbursements on Committed FRNs | (187.77) |
| Remaining Uncommitted Requests | (127.87) |
| Contingency Amount for Pending Appeals and Invoice Deadline Extensions | (310.85) |
| Estimated Remaining Balance | \$150.00 |

Funding Year 2010 True-Up

As of March 31, 2012, \$1,921.18 million of Funding Year 2010 support had been authorized for disbursement. USAC's projection of remaining Funding Year 2010 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and to make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that \$50 Funding Year 2010 funds are available to carry forward. The estimated remaining Funding Year 2010 balance is based on the following:

| FUNDING YEAR 2010 | Amounts in Millions |
|--|----------------------------|
| Amount Authorized and Actually Collected | \$2,250.00 |
| Amount Authorized for Disbursement | (1,921.18) |
| Amount Carried Forward from Funding Years 2002, 2005, 2006, 2007, 2008, and 2009 | 1,150.00 |
| Amount Authorized by FCC Inflation Increment | 20.25 |
| Administrative Expenses | (75.33) |
| Potential Additional Disbursements on Committed FRNs | (808.80) |
| Remaining Uncommitted Requests | (285.50) |
| Contingency Amount for Pending Appeals and Invoice Deadline Extensions | (279.44) |
| Estimated Remaining Balance | \$50.00 |

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Funding Year 2011 True-Up

As of March 31, 2012, \$396.22 million of Funding Year 2011 support had been authorized for disbursement. USAC's projection of remaining Funding Year 2011 funds includes estimates of funds needed to pay additional disbursements on committed funding requests and disbursements on requests that have not yet received funding commitments, as well as a contingency reserve to pay pending appeals and make disbursements on funding requests that may be granted extended invoice deadlines pursuant to Commission orders. Given these requirements and to preserve the contingency amount, USAC estimates that no Funding Year 2011 funds are available to carry forward. The estimated remaining Funding Year 2011 balance is based on the following:

| FUNDING YEAR 2011 | Amounts in Millions |
|--|----------------------------|
| Amount Authorized and Actually Collected | \$2,250.00 |
| Amount Authorized for Disbursement | (396.22) |
| Amount Carried Forward from Funding Years 2003, 2004, 2005, 2006, 2007, and 2008 | 850.00 |
| Amount Authorized by FCC Inflation Increment | 40.68 |
| Administrative Expenses | (85.00) |
| Potential Additional Disbursements on Committed FRNs | (1,639.49) |
| Remaining Uncommitted Requests and Contingency Amount for Pending Appeals | (1,019.97) |
| Estimated Remaining Balance | \$0.00 |

3Q2012 Demand Estimate and Contribution Requirement

USAC changed the accounting methodology for the USF to generally accepted accounting principles for federal agencies on October 1, 2004 to comply with the Commission's Order of October 3, 2003.⁷⁴ 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

⁷⁴ See *In re Application of Generally Accepted Accounting Principles for Federal Agencies and Generally Accepted Government Auditing Standards to the Universal Service Fund*, CC Docket No. 96-45, Order, FCC 03-232, 18 FCC Red 19911 (2003).

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subject to the requirements of the Antideficiency Act (ADA).⁷⁵ The ADA generally requires that sufficient unobligated resources be available before an obligation can be incurred.

Congress exempted the USF from the requirements of the ADA through December 31, 2013.⁷⁶

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 2004.⁷⁷

Based on the level of applicant demand in Funding Year 2011, which exceeds the annual funding cap of \$2.25 billion, USAC requests authority to collect an amount to provide \$562.50 million in funding for 3Q2012, which is one-quarter of the \$2.25 billion annual funding cap, increased by an inflation amount of \$15.32.⁷⁸ Results for 1Q2012 contribute to an over-funded condition for which this filing proposes to adjust the 3Q2012 funding requirement. The total adjustment to the 3Q2012 fund requirement based on actual

⁷⁵ 31 U.S.C. § 1341.

⁷⁶ See HR 2055 (signed by the President Dec. 23, 2011), Sec. 510 (“Section 302 of the Universal Service Antideficiency Temporary Suspension Act is amended by striking ‘December 31, 2010’ each place it appears and inserting ‘December 31, 2011.’”); HR 3082, Sec. 155 (“Section 302 of the Universal Service Antideficiency Temporary Suspension Act is amended by striking ‘December 31, 2010’ each place it appears and inserting ‘December 31, 2011.’”); HR 3288, Omnibus Appropriations Act, 2009 (Public Law 111-117), § 501 (“Section 302 of the Universal Service Antideficiency Temporary Suspension Act is amended by striking ‘December 31, 2009’, each place it appears and inserting ‘December 31, 2010.’”). See also, H.R. 5419, 108th Cong 2d Sess., § 302, Universal Service Antideficiency Temporary Suspension Act (effective Dec. 23, 2004) and H.R. 2862, 109th Cong 1st Sess., § 633, Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006 (effective Nov. 22, 2005); H.J. 20 (effective Jan. 1, 2007); Consolidated Appropriations Act of 2008, H.R. 2764, Division D—Financial Services and General Government Appropriations Act, 2008, Title V—Independent Agencies at 61; Consolidated Appropriations Act, 2010 (Public Law 111-117) (signed December 16, 2009; effective Oct. 1, 2009).

⁷⁷ 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.

⁷⁸ 47 C.F.R. § 54.507(a).

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results will decrease the funding needed by \$7.56 million. The explanation for the adjustment is provided below.

| Reason for the Prior Period Adjustment | Adjustment in Millions |
|--|-------------------------------|
| 1Q2012 billings were higher than the projected revenues reported by USF contributors in their quarterly revenue projections. | (\$1.87) |
| Interest income higher than estimated for 1Q2012. | (0.08) |
| Bad debt expense was lower than anticipated. | (5.61) |
| Total Prior Period Adjustment | (\$7.56) |

The total fund requirement of \$562.50 million, which includes administrative expenses of \$18.97 million, increased by the inflation increment of \$15.32 million, decreased by the prior-period adjustment of \$7.56 million, and reduced by the projected interest income of \$4.41 million, results in a total projected collection requirement of \$565.85 million for the Schools and Libraries Support Mechanism for 3Q2012.

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.⁷⁹ 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 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

⁷⁹ See 47 C.F.R. § 54.709(a)(3). The Form 499-Q includes a box for each of the quarterly filing submissions. Carriers check the appropriate box to indicate the quarter for which revenue information is being reported. See also, 47 C.F.R. §§54.706, .708, .711 and .713 for contributor reporting requirements.

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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 the impact of interest income earned on USF funds USAC invests in United States Treasury securities. The USF contribution base is different each quarter due to changes in carrier revenue projections, which among other things are subject to changing business cycles, and changes to requirements concerning the revenue to which the USF assessment applies (e.g., adding or subtracting certain types of services to the contribution base due to rule changes or other Commission activity). Because of the combined influence of these many factors, nearly all of which change each quarter based on the manner in which the Commission rules operate and the programs are administered, the quarterly contribution factor established by the Commission derived from these USAC-submitted inputs can fluctuate substantially from quarter to quarter. Thus, comparisons to preceding or prior year quarters should be made with caution and predicting trends based on such comparisons may not provide a basis for meaningful analysis.

A total of 6,434 FCC Form 499-Q notifications were distributed to carriers in early April 2012. Interstate telecommunications service providers are required to complete this form, reporting July – September 2012 projected revenue information, and return it to USAC by May 1, 2012. USAC invoices and receives contributions from nearly 3,000 telecommunications companies each month.

USAC continues to assist the Commission in its USF collection enforcement efforts, including providing documentation on a monthly basis to assist the Commission in issuing Notices of Apparent Liability (NALs) and forfeiture orders against delinquent contributors and companies failing to file required forms. USAC transfers to the Commission amounts

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owed to the USF that are over 90 days delinquent after USAC has provided delinquent contributors with the notice required under Commission rules and the Debt Collection Improvement Action (DCIA).⁸⁰ Upon receipt of the outstanding debts, the Commission provides delinquent contributors with notice advising them of their USF debt and the possibility of further enforcement activities pursuant to the DCIA and/or by the Commission's Enforcement Bureau. If a delinquent contributor fails to respond to the Commission's request for payment, the delinquent account is typically forwarded to the United States Treasury Department for collection.

USAC implemented the Red Light Rule on November 1, 2004 for contributor debts to the USF.⁸¹ If a contributor is delinquent to the USF, USAC performs administrative offsets to resolve the delinquency by netting any pending service provider disbursements where the Service Provider Identification Number (SPIN) shares the same Taxpayer Identification Number (TIN) as the delinquent contributor. If an entity is delinquent on a debt owed to the Commission, USAC places administrative holds on any disbursements for SPINs that share the same TIN until the Commission provides information stating that the debt has been satisfied. USAC continues to work closely with the Commission and stakeholders affected by the Red Light Rule implementation.

AUTHORIZATION TO FILE WITH THE COMMISSION

At their April 23, 2012 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 3Q2012 projected support mechanism funding requirements described herein. At its April 24, 2012 meeting, the USAC Board of Directors adopted a

⁸⁰ 31 U.S.C. §§ 3701 *et seq.*

⁸¹ 47 C.F.R. § 1.910.

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resolution authorizing the inclusion of the projected 3Q2012 administrative expenses in this report to the Commission.

Respectfully submitted,

UNIVERSAL SERVICE
ADMINISTRATIVE COMPANY

/s/ D. Scott Barash

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

April 26, 2012