



High Cost and Low Income Committee

Briefing Book

April 23, 2018

2:00 p.m. - 5:00 p.m. Eastern Time

Universal Service Administrative Company Offices

700 12th Street NW, Suite 900

Washington, DC, 20005

**Universal Service Administrative Company
High Cost & Low Income Quarterly Meeting
Agenda**

<p>Monday, April 23, 2018 2:00 p.m. – 5:00 p.m. Eastern Time USAC Offices 700 12th Street, N.W., Suite 900 Washington, D.C. 20005</p>
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OPEN SESSION	Presenter	<i>Estimated Duration in Minutes</i>
1. High Cost & Low Income Committee Approvals		
A. Consent Items		
1. Approval of High Cost & Low Income Committee Minutes of January 29, 2018	Chair	5
2. Approval of Moving all <i>Executive Session</i> Items to <i>Executive Session</i>	Ernesto	5
B. Approval of High Cost Support Mechanism and Demand 3rd Quarter 2018 Programmatic Budget and Projection for the May 2, 2018 FCC Filing	Vic	10
2. High Cost Business Update	Vic	30
3. Lifeline Business Update	Michelle	30
4. Information on Seven USAC Internal Audit Division Low Income Support Mechanism Beneficiary Audit Reports	Teleshia	10
5. High Cost & Low Income Committee Approvals		
A. Low Income Support Mechanism 3rd Quarter 2018 Budget and Demand Projection for the May 2, 2018 FCC Filing	Michelle	10

EXECUTIVE SESSION <i>Confidential – Executive Session Recommended</i>	Presenter	<i>Estimated Duration in Minutes</i>
6. Lifeline Business Update (<i>Continued</i>)		
A. Update on Implementation of the National Verifier	Michelle	20
B. Update on Implementation of the Lifeline Safeguards Plan	Michelle	15
7. High Cost Business Updates (<i>Continued</i>)		
A. Update on High Cost Verification	Vic	15
B. Mobility Fund II Demonstration	Vic	20
8. High Cost & Low Income Committee Approvals		
A. Approval of Procedure for Handling Appeals Concerning the High Cost and Low Income Support Mechanisms	Ernesto	10

Next USAC High Cost & Low Income Committee Meeting

Monday, July 23, 2018

2:00 - 4:30 p.m. Eastern Time

USAC Offices, Washington, DC

Universal Service Administrative Company High Cost & Low Income Committee Meeting

ACTION ITEM

Consent Items

Action Requested

The High Cost & Low Income Committee (Committee) is requested to approve the consent items listed below.

Discussion

The Committee is requested to approve the following items using the consent resolutions below:

- A. Committee meeting minutes of January 29, 2018 (*see Attachment A-1*).
- B. Approval for discussing in *Executive Session* agenda items:
 - (1) **6A** – Lifeline Business Update (*Continued*). Update on Implementation of the National Verifier. USAC management recommends this item be discussed in *Executive Session* because this matter relates to *specific internal controls, and/or confidential company data*.
 - (2) **6B** -- Lifeline Business Update (*Continued*). Update on Lifeline Program Integrity. USAC management recommends this item be discussed in *Executive Session* because this matter relates to *specific internal controls*.
 - (3) **7A** – High Cost Business Update (*Continued*). Update on High Cost Verification. USAC management recommends this item be discussed in *Executive Session* because this matter relates to *specific internal controls, and/or confidential company data*.
 - (4) **7B** – High Cost Business Update (*Continued*). Mobility Fund II Demonstration. USAC management recommends this item be discussed in *Executive Session* because this matter relates to *specific internal controls, and/or confidential company data*.
 - (5) **8A** – Approval of Procedure for Handling Appeals Concerning the High Cost and Low Income Support Mechanisms. USAC management recommends this item be discussed in *Executive Session* because this matter relates to *specific internal controls*.

Upon request of a Committee member any one or more of the above items are available for discussion by the Committee.

Recommended USAC High Cost & Low Income Committee Action

APPROVAL OF THE FOLLOWING RESOLUTION:

RESOLVED, that the USAC High Cost & Low Income Committee hereby approves: (1) the Committee meeting minutes of January 29, 2018; and (2) discussion in *Executive Session* of the items noted above.

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
700 12th Street, N.W., Suite 900
Washington, D.C. 20005

HIGH COST & LOW INCOME COMMITTEE MEETING
Monday, January 29, 2018

(DRAFT) MINUTES¹

The quarterly meeting of the USAC Board of Directors (Board) High Cost & Low Income Committee (Committee) was held at USAC's offices in Washington, D.C. on Monday, January 29, 2018. Mr. Joel Lubin, Committee Chair, called the meeting to order at 2:18 p.m. Eastern Time, with ten of the 11 Committee members present:

Brisé, Ronald – Vice Chair

Feiss, Geoff

Gerst, Matthew

Gillan, Joe

Kinser, Cynthia

Lubin, Joel – Chair

Mason, Ken

Sekar, Radha – Chief Executive Officer

Tinic, Atilla

Wein, Olivia

Members of the Board not present:

Jacobs, Ellis

Other Board members and officers of the corporation present:

Bocher, Bob – Member of the Board

Buzacott, Alan – Member of the Board

Davis, Craig – Vice President Procurement and Strategic Sourcing

Gaither, Victor – Vice President of High Cost

Garber, Michelle – Vice President of Lifeline

Hernandez, Dr. Mike – Member of the Board

Lee, Karen – Vice President of Rural Health Care

Salvator, Charles – Vice President of Finance, Chief Financial Officer and
Assistant Treasurer

Scott, Wayne – Vice President of Internal Audit

Sweeney, Mark – Chief Operating Officer

Wibberly, Dr. Kathy – Member of the Board

¹ Draft resolutions were presented to the Committee prior to the Committee meeting. Where appropriate, non-substantive changes have been made to the resolutions set forth herein to clarify language where necessary or to correct grammatical or spelling errors.

Others present:

<u>NAME</u>	<u>COMPANY</u>
Ahmed, Sharmarke	USAC
Anderson, Jarnice	USAC
Ayer, Catriona	USAC
Batista, Everton	USAC
Beckford, Ernesto	USAC
Bilodeau, Amanda	USAC
Braxton-Johnson, Kianna	USAC
Carpenter, Nikki-Blair	USAC
Delmar, Teleshia	USAC
Eltgroth, Deborah	USAC
Fischer, Dennis	USAC
Gonzales, Veronica	USAC
Griffin, Jodie	FCC
Guinan, Gabriela Gross	USAC
Heering, Eitan	USAC
Hughet, Pam	USAC
Hutchinson, Kyle	USAC
Johnson, William	USAC
Jones, Frank	Solix, Inc.
Khan, Sammy	USAC
Mattey, Carol	Mattey Consulting LLC
Miller, Jack	Solix, Inc.
Nuzzo, Patsy	USAC
O'Brien, Tim	USAC
Ruffley, Brandon	USAC
Santana-Gonzalez, Jeanette	USAC
Sequin, Eric	Solix, Inc.
Simab, Habib	USAC
Subramaniam, Nathan	USAC
Talbott, Dr. Brian	Dimensional Learning Solutions, LLC
Tawes, Pauline	USAC
Tessler, Joelle	USAC
Weith, Tim	USAC
Zahid, Farrah	USAC
Zufolo, Jessica	USAC

OPEN SESSION

a1. Consent Items. Mr. Lubin presented this item to the Committee.

A. Approval of Committee meeting minutes of October 23, 2017.

B. Approval for discussing in *Executive Session* agenda items:

- (1) **a5** – Consideration of Contract Extension & Increase for Solix Printing and Recertification Services. USAC management recommends this item be discussed in *Executive Session* because this matter relates to USAC’s *procurement strategy and contract administration*.
- (2) **a6** – Approval of 2018 Annual Low Income Support Mechanism Budget. USAC management recommends that discussion of this item be conducted in *Executive Session* because this matter relates to USAC’s *procurement strategy and contract administration*.
- (3) **i5** – High Cost Support Mechanism Business Update Continued. USAC management recommends that discussion of this item be conducted in *Executive Session* because it *includes pre-decisional matters pending before the FCC*.
- (4) **a7** – Consideration of a Contract Extension for Mobility Fund Phase I Disbursement Request Verification Services. USAC management recommends that discussion of this item be conducted in *Executive Session* because this matter relates to USAC’s *procurement strategy and contract administration*.
- (5) **a8** – Approval of 2018 Annual High Cost Support Mechanism Budget. USAC management recommends that discussion of this item be conducted in *Executive Session* because this matter relates to USAC’s *procurement strategy and contract administration*.

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

RESOLVED, that the USAC High Cost & Low Income Committee hereby approves: (1) the Committee meeting minutes of October 23, 2017, and (2) discussion in *Executive Session* of the items noted above.

- a2. Recommendation for Election of Committee Chair and Vice Chair.** Mr. Mason, Chair of the Nominating Committee, provide the Nominating Committee’s recommendations for Chair and Vice Chair of the Audit Committee.

RESOLVED, that the USAC High Cost & Low Income Committee recommends that the USAC Board of Directors elect **Joe Gillan** as Chair and **Olivia Wein** as Vice Chair of the Committee. The term for each position begins immediately upon the election to such position by the Board and ends at such time as the Chair or Vice Chair (as the case may be): (i) is replaced by a successor selected by the Board, (ii) resigns from the Committee or the Board, (iii) is removed by resolution of the Board, or (iv) is no longer a member of the Board (whichever comes first).

- a3. Approval of High Cost Support Mechanism 2nd Quarter 2018 Programmatic Budget and Demand Projection for the January 31, 2018 FCC Filing.** Mr. Gaither presented this item for consideration.

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

RESOLVED, that the USAC High Cost & Low Income Committee approves a 2nd Quarter 2018 High Cost Support Mechanism operating budget of \$3.10 million; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee approves a 2nd Quarter 2018 High Cost Support Mechanism capital budget of \$0.13 million; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee directs USAC staff to submit a collection requirement of \$3.23 million for High Cost Support Mechanism administrative costs in the required January 31, 2018 filing to the FCC on behalf of the Committee; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee, having reviewed at its meeting on January 29, 2018, a summary of the 2nd Quarter 2018 High Cost Support Mechanism demand estimate, hereby directs USAC staff to proceed with the required January 31, 2018 filing to the FCC on behalf of the Committee. USAC staff may make adjustments if the total variance for the High Cost Support Mechanism is equal to or less than \$10 million, or may seek approval from the High Cost & Low Income Committee Chair to make adjustments if the total variance is greater than \$10 million, but not more than \$15 million.

- i1. Information on Eight USAC Internal Audit Division High Cost Support Mechanism Beneficiary Audit Reports.** Ms. Delmar, Senior Director of Internal Audit, presented this item for discussion.
- i2. High Cost Support Mechanism Business Update.** Mr. Gaither and Mr. Sammy Khan, Director of Program Management, presented this item for discussion. Content included updates on operational metrics, program integrity efforts, 2017 accomplishments, and plans for the first half of 2018. Mr. Khan and Ms. Amanda Bilodeau also provided an update on key initiatives such as the Mobility Fund II Challenge Process, High Cost Universal Broadband (HUBB) 1.0 - Data Collection and the HUBB 2.0 Verification of the Data.
- a4. Approval of Low Income Support Mechanism 2nd Quarter 2018 Programmatic Budget and Demand Projections for the January 31, 2018 FCC Filing.** Ms. Garber presented this item for consideration.

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

RESOLVED, that the USAC High Cost & Low Income Committee approves a 2nd Quarter 2018 Low Income Support Mechanism operating budget of \$6.26 million; and

RESOLVED FURTHER, that the USAC High Cost and Low Income Committee approves a 2nd Quarter 2018 Low Income Support Mechanism capital budget of \$1.08 million; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee directs USAC staff to submit a collection requirement of \$7.34 million for Low Income Support Mechanism administrative costs in the required January 31, 2018 filing to the FCC on behalf of the Committee; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee, having reviewed at its meeting on January 29, 2018, a summary of the 2nd Quarter 2018 Low Income Support Mechanism demand estimate, hereby directs USAC staff to proceed with the required January 31, 2018 filing to the FCC on behalf of the Committee. USAC staff may make adjustments if the total variance for the Low Income Support Mechanism is equal to or less than \$10 million, or may seek approval from the High Cost & Low Income Committee Chair to make adjustments if the total variance is greater than \$10 million, but not more than \$15 million.

- i3. Information on Five USAC Internal Audit Division Low Income Support Mechanism Beneficiary Audit Reports.** Ms. Teleshia Delmar, Senior Director of Internal Audit, presented this item for discussion.
- i4. Low Income Support Mechanism (Lifeline) Business Update.** Ms. Garber and Mr. Tim O'Brien, Director of Program Management, presented this item for discussion. The update included key operational metrics and efforts to strengthen program integrity through sampling of carrier conducted transactions and the implementation of additional controls in the National Lifeline Accountability Database (NLAD). An overview of the FCC's *2017 Lifeline Order* and an update on the National Lifeline Eligibility Verifier (National Verifier) were also provided to the Committee. The update concluded with an overview of 2017 accomplishments and a look ahead at the first half of 2018.

At 3:36 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Executive Session* for the purpose of discussing the confidential items listed above.

EXECUTIVE SESSION

- a5. Consideration of Contract Extension & Increase for Solix Printing and Recertification Services.** Mr. Davis presented this item for consideration.

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

RESOLVED, that the High Cost & Low Income Committee, having reviewed the recommendation of USAC management, hereby authorizes USAC management to increase the existing value and period of performance of the printing contract awarded to Solix in the additional amount of \$125,000, with a total amended contract value not to exceed \$352,725, plus applicable sales taxes, through September 30, 2018, subject to required FCC approvals; and

RESOLVED FURTHER, that the High Cost & Low Income Committee, having reviewed the recommendation of USAC management, hereby authorizes USAC management to increase the existing value and period of performance of the recertification services contract awarded to Solix in the additional amount of \$165,000, with a total amended contract value not to exceed \$2,656,265.55, plus applicable sales taxes, through September 30, 2018, subject to required FCC approvals.

- a6. Approval of 2018 Annual Low Income Support Mechanism Budget.** Ms. Garber presented this item for consideration.

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

RESOLVED, that the USAC High Cost & Low Income Committee approves a 2018 annual Low Income Support Mechanism operating budget of \$25.98 million; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee approves a 2018 annual Low Income Support Mechanism capital budget of \$5.38 million.

- i5. High Cost Support Mechanism Business Update Continued.** Mr. Sammy Kahn presented this item to the Committee for discussion and included status updates on the High Cost Universal Service Broadband (HUBB) Portal, the Mobility Fund Phase II challenge process, Verification of Data (2.0), and the CAF Mapping Initiatives.

- a7. Consideration of a Contract Extension for Mobility Fund Phase I Disbursement Request Verification Services.** Mr. Davis presented this item for consideration. Mr. Davis explained that Connected Nation Ventures Inc. (CNV) currently has a contract with USAC to provide verification services for Mobility Fund Phase I. Management recommended that the additional verification services be provided by CNV, and not be re-competed. Mr. Feiss requested that, in the future, all resolutions for contract extensions include any previously approved amounts.

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

RESOLVED, that the USAC High Cost & Low Income Committee, having reviewed the recommendation of USAC management, hereby authorizes management, subject to any necessary FCC approvals, to award a contract in the not-to-exceed amount of \$650,000.00 (plus applicable taxes) to Connected Nation Ventures, Inc. for verification services under the Mobility Fund Phase I program for a three-year term.

- a8. Approval of 2018 Annual High Cost Support Mechanism Programmatic Budget.** Mr. Gaither presented this item to the Committee for consideration.

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

RESOLVED, that the USAC High Cost & Low Income Committee approves a 2018 annual High Cost Support Mechanism operating budget of \$11.70 million; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee approves a 2018 annual High Cost Support Mechanism capital budget of \$0.39 million.

At 4:17 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved out of *Executive Session* and immediately reconvened in *Open Session*, at which time Mr. Lubin reported that in *Executive Session*, the Committee took action on items a5, a6, a7 and a8 and discussed item i5. On a motion duly made and seconded, the Committee adjourned at 4:18 p.m. Eastern Time.

/s/ Ellis Jacobs
Secretary

**Universal Service Administrative Company
High Cost & Low Income Committee Meeting**

ACTION ITEM

**Approval of High Cost Support Mechanism
3rd Quarter 2018 Programmatic Budget and
Demand Projection for the May 2, 2018 FCC Filing**

Action Requested:

The USAC Board of Directors High Cost & Low Income Committee (Committee) is requested to approve the 3rd Quarter 2018 (3Q2018) programmatic budget and demand projection for the High Cost Support Mechanism for submission to the Federal Communications Commission (FCC) in USAC's May 2, 2018 quarterly filing.

Discussion:

On a quarterly basis, USAC is required to submit to the FCC each program's budget¹ and projected demand for the upcoming quarter.²

Funding Requirement:

USAC estimates the 3Q2018 funding requirement for the High Cost Support Mechanism as follows:

<i>(in millions)</i>	Funding Requirement
High Cost Loop Support ³	\$120.69
Connect America Broadband Loop Support ⁴	195.26
Interstate Common Line Support True-Up	5.69
Frozen Price Cap Carrier Support ⁵	36.74
Connect America Fund Phase II ⁶	379.41
Frozen Competitive ETC Support ⁷	122.19
Connect America Fund Inter-carrier Compensation ⁸	101.17

¹ 47 C.F.R. § 54.715(c).

² 47 C.F.R. § 54.709(a)(3).

³ High Cost Loop (HCL) support is provided pursuant to 47 C.F.R. §§ 54.1301-.1304 and includes Safety Net Additive Support (SNA) and Safety Valve Support (SVS).

⁴ See *Connect America Fund et al.*, WC Docket Nos. 10-90 et al., CC Docket No. 01-92, Report and Order, Order and Order on Reconsideration and Further Notice of Proposed Rulemaking, 31 FCC Rcd 3087, 3117-55, paras. 80-185 (2016) (*Rate-of-Return Reform Order*).

⁵ See *Connect America Fund et al.*, WC Docket Nos. 10-92 et al., GN Docket No. 09-51, CC Docket Nos. 01-92 et al., WT Docket No. 10-208, Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663, 17715, 17725-26, paras. 133, 159 (2011) (*USF/ICC Transformation Order*).

⁶ See *Connect America Fund et al.*, WC-Docket Nos. 10-90 et al., Report and Order, 29 FCC Rcd 15644 (2014).

⁷ See *USF/ICC Transformation Order*, 26 FCC Rcd at 17715, para. 133.

⁸ *Id.* at 17956, para. 847.

<i>(in millions)</i>	Funding Requirement
Alaska Plan Support ⁹	32.08
Alternative Connect America Cost Model ¹⁰	82.21
3Q2018 Funding Requirement	\$1,075.44

3Q2018 demand for the following support components will be paid from cash reserved in the High Cost Account¹¹:

<i>(in millions)</i>	Reserve Funding
Connect America Fund Phase II Transition ¹²	\$3.79
Rural Broadband Experiments (RBE) ¹³	0.83
Alternative Connect America Cost Model ¹⁴	54.90
Mobility Fund Phase I ¹⁵	9.08
Total Reserve Funding	\$68.60

Projected Administrative Expenses

Demand for the High Cost Program in 3Q2018 will include \$11.56 for projected administrative expenses, which includes \$2.77 million in direct program costs and \$8.79 million in common allocated costs. Details are provided in the table below.

⁹ See *Wireless Telecommunications Bureau Approves Performance Plans of the Eight Wireless Providers that Elected to Participate in the Alaska Plan*, WC Docket No. 16-271, Public Notice, 31 FCC Rcd. 13317 (2016); *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking, 31 FCC Rcd 10139, 10155, paras. 47-49 (2016) (*Alaska Plan Order*).

¹⁰ See *Wireline Competition Bureau Authorizes 182 Rate-of-Return Companies To Receive \$454 Million Annually in Alternative Connect America Cost Model Support To Expand Rural Broadband*, WC-Docket No. 10-90, Public Notice, 32 FCC Rcd 842 (WCB 2017) (*A-CAM Authorization PN*); *Rate-of-Return Reform Order*, 31 FCC Rcd at 3094-117, paras. 17-79.

¹¹ See *Wireline Competition Bureau Provides Guidance to the Universal Service Administrative Company Regarding the High-Cost Universal Services Mechanism Budget*, WC Docket No. 10-90, Public Notice, 32 FCC Rcd 9243 (WCB 2017).

¹² See 47 CFR § 54.310(f); see also *Wireline Competition Bureau Addresses Transition to Model-Based Support for Carriers That Accepted the Offer of Phase II Connect America Fund Support*, WC Docket No. 10-90, Public Notice, 30 FCC Rcd 9780 (WCB 2015).

¹³ See *Wireline Competition Bureau Announces Entities Provisionally Selected for Rural Broadband Experiments; Sets Deadlines for Submission of Additional Information*, WC Docket No. 10-90, Public Notice, 29 FCC Rcd 14684 (WCB 2014); *Wireline Competition Bureau Announces Additional Provisionally Selected Bidders for Rural Broadband Experiments and Sets Deadlines for Submission of Additional Information*, WC Docket Nos. 10-90 et al., Public Notice, 30 FCC Rcd 2045 (WCB 2015).

¹⁴ See *A-CAM Authorization PN*; see also *Connect America Fund*, WC Docket No. 10-90, Report and Order and Further Notice of Proposed Rulemaking, 31 FCC Rcd 13775 (2016) (*A-CAM Revised Offer Order*).

¹⁵ See *Mobility Fund Phase I Support Authorized for 11 Winning Bids Default on 35 Winning Bids Determined*, Public Notice, 31 FCC Rcd 1721 (WTB 2016); *Tribal Mobility Fund Phase I Support Authorized for Final Fifty-One Winning Bids*, Public Notice, 30 FCC Rcd 2226 (WTB 2015).

<i>(in millions)</i>	3Q2018
Direct Program Costs	
Employee Expenses	\$1.57
Professional Services	0.99
Overhead (Direct) ¹⁶	0.14
Capital Costs (Direct)	0.07
Total Direct Program Costs	\$2.77
Common Allocated Costs	
Operating Costs (Common)	\$8.30
Capital Costs (Common)	0.49
Total Common Allocated Costs	\$8.79
Total Program Budget	\$11.56

Attachment A provides a comparison of actual expenditures to the budget for 1Q2018.

Summary of Demand

Program funding requirement of \$1,075.44 million is adjusted as follows, resulting in a total projected 3Q2018 demand for the High Cost Support Mechanism of \$1,097.80 million:

<i>(in millions)</i>	4Q2017	1Q2018	2Q2018	3Q2018
Program Funding Requirement	\$1,125.00	\$1,061.72	\$1,059.34	\$1,075.44
Prior Period Adjustment ¹⁷	15.67	50.07	(12.49)	10.99
USAC Administrative Expenses	10.14	12.55	11.80	11.56
Interest Income	(4.74)	(4.48)	(2.19)	(0.19)
Total Demand	\$1,146.07	\$1,119.86	\$1,056.46	\$1,097.80

Recommendation:

USAC management recommends the Committee approve the budget and projection of demand as proposed.

Recommended High Cost & Low Income Committee Action:

APPROVAL OF THE FOLLOWING RESOLUTIONS:

RESOLVED, that the USAC High Cost & Low Income Committee approves a 3rd Quarter 2018 High Cost Support Mechanism direct program budget of \$2.77 million; and

¹⁶ Overhead costs include computer support maintenance agreements, printing, postage, meetings, and conferences.

¹⁷ Prior period adjustments reconcile projections to actual results and include adjustments for billings, disbursements, interest income, bad debt and administrative expenses.

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee directs USAC staff to submit a collection requirement of \$2.77 million for High Cost Support Mechanism administrative costs in the required May 2, 2018 filing to the FCC on behalf of the Committee; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee, having reviewed at its meeting on April 23, 2018, a summary of the 3rd Quarter 2018 High Cost Support Mechanism demand estimate, hereby directs USAC staff to proceed with the required May 2, 2018 filing to the FCC on behalf of the Committee. USAC staff may make adjustments if the total variance for the High Cost Support Mechanism is equal to or less than \$10 million, or may seek approval from the Committee Chair to make adjustments if the total variance is greater than \$10 million, but not more than \$15 million.

High Cost Administrative Costs
Comparison of actual expenditures to the budget for 1Q2018

<i>(in millions)</i>	1Q2018 Actual	1Q2018 Budget	Variance	1Q2018 Actual to Budget Variance Explanations	2Q2018 Budget	2018 Annual Budget
Direct Program Costs						
Employee Expenses	\$1.29	\$1.55	\$0.26	Lower spending due to vacant positions (35 FTEs vs. 40 budgeted).	\$1.56	\$6.25
Professional Services	0.87	1.50	\$0.63	Lower spending due to timing variance related to Mobility Fund Verification, contract labor, and IT Security.	1.42	4.88
Overhead (Direct) (see Note 1)	0.09	0.10	\$0.01	No spending for printing & postage or meetings & conferences.	0.12	0.57
Capital Costs (Direct) (see Note 2)	0.37	0.13	(\$0.24)	All internal labor budgeted as operating expense; capitalized work related to Mobility Fund II Challenge and Alaska Middle Mile.	0.13	0.39
Total Direct Program Costs	\$2.62	\$3.28	\$0.66		\$3.23	\$12.09
Common Allocated Costs						
Operating Costs (Common)	\$7.22	\$8.67	\$1.45	Allocation of common operating costs based on the Cost Allocation Methodology (CAM).	\$8.43	\$33.61
Capital Costs (Common) (see Note 3)	0.08	0.67	\$0.59	Allocation of common capital costs based on the Cost Allocation Methodology (CAM).	0.14	1.56
Total Common Allocated Costs	\$7.30	\$9.34	\$2.04		\$8.57	\$35.17
Total Program Budget	\$9.92	\$12.62	\$2.70		\$11.80	\$47.26

Note 1: Overhead costs include computer support maintenance agreements, printing, postage, meetings, and conferences.

Note 2: Direct capital costs include High Cost software development.

Note 3: Common capital costs include capital costs not directly attributable to a program. This includes hardware and equipment refresh, corporate software development, and shared IT testing and project management resources.

A photograph of a man and a young child standing in a field of tall grass. The man is wearing a dark hoodie and a baseball cap, and the child is wearing a plaid shirt. They are standing in front of a large, weathered wooden barn. The background shows rolling hills under a clear sky. The entire image has a blue color cast.

High Cost Business Update

High Cost & Low Income Committee

April 23, 2018



Universal Service
Administrative Co.

Agenda: High Cost Program

Topic	Description	Purpose	Presenter	Length
Program Goals & Objectives	Review of major goals & objectives of the program, as administered by USAC	Review	Vic	5 min
Business View				
Program View	Major deliverables and areas of focus, for 2018	Review	Vic	10 min
Accomplishments and Upcoming Milestones	Overview of significant program accomplishments and milestones.	Review	Vic	5 min
Operational Metrics	Update on the program's operational status and efficiency	Review	Vic	5 min
Appendix				
Financials Update	Program Financial Obligations and February Monthly Disbursements Update	Review	Charlie	-- min

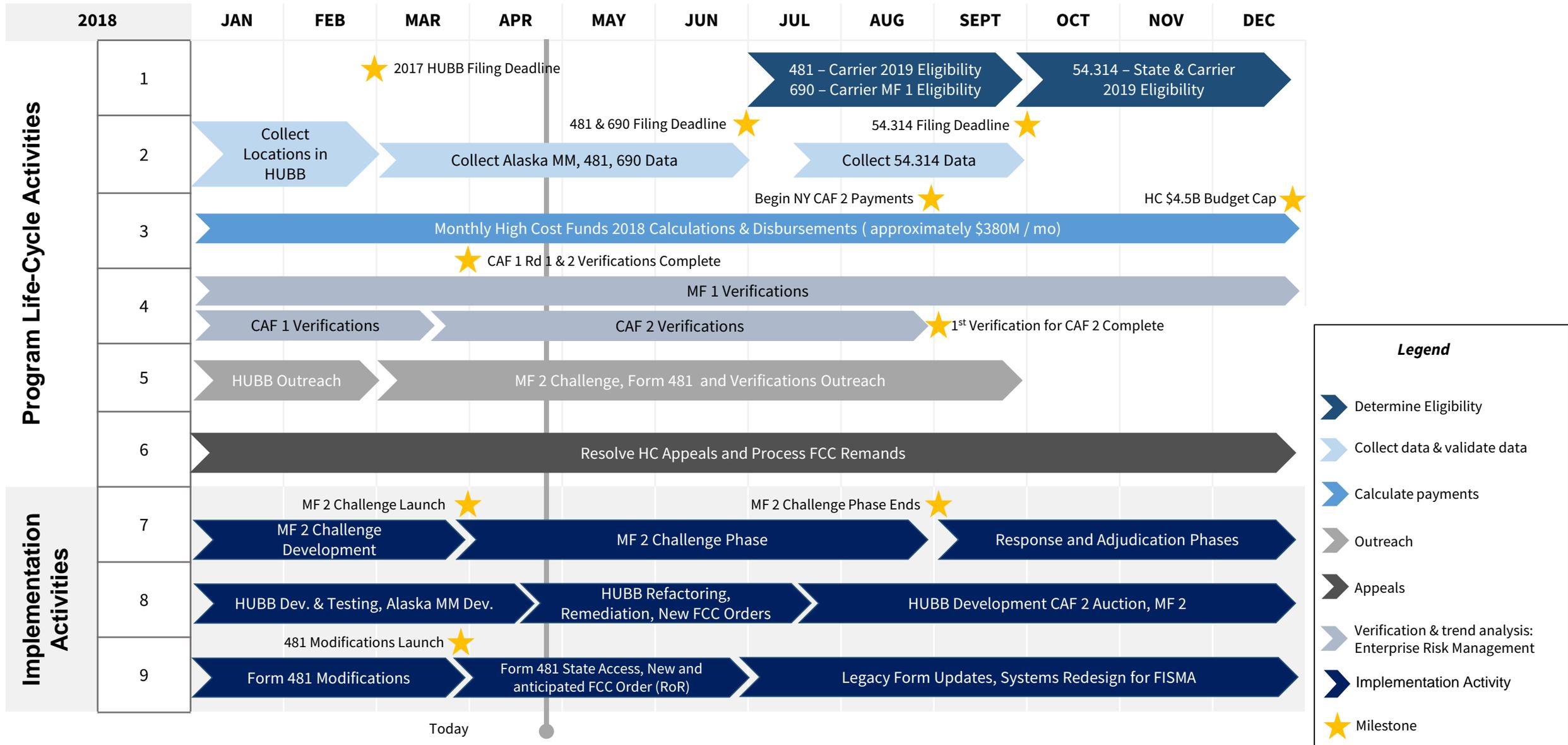
Program Goals & Objectives

Closing the U.S. Digital Divide through broadband deployment one location at a time.....

Goals	Objectives / Program Outcomes	How High Cost will meet the goal
Execute Mission Critical Performance Goals	Expand broadband and maintain voice and broadband coverage in support of closing the digital divide.	Monitor Network Build Out Obligations by Fund and Execution of Fund Level Validations and Verifications.
Implement New FCC Orders and Mandates	Implement FCC Orders, Policy Clarifications/ Changes and Mandates in a timely manner.	Timely and accurate implementation of FCC Orders and mandates such as HUBB Enhancements, MF II Challenge Process, CAF Verifications, CAF II Auctions, Form 481 State Access, etc.
Improved Operational Efficiency and Effectiveness measures	Increase High Cost (HC) Business Productivity through increased efficiency and effectiveness of both HC and USAC Operational Processes.	Execute USAC Governance Initiatives, improve HC Business Processes, Collaborate with key stakeholders to ensure alignment with FCC Priorities and USAC Business Needs, etc.
Improve Program Participant / FCC Experience	Streamline and simplify the stakeholder experience to enable successful participation.	Certifications, Systems Performance, Outreach Effectiveness, Effective Call Center Support, etc.
Enhance Program Integrity	Monitor, Report, and Implement enhanced controls to assess program effectiveness and program business value.	At or below OMB targets for Improper Payments Rate (i.e. < 1.5%), Disbursements – Timely and Accurate, Effective Audit Support
Employee Engagement	Enhance individual, career development and foster a positive work environment.	Conduct regular individual conversations, implement agreed upon action plans, and celebrate team successes.

High Cost Program at a Glance

Briefing book excludes all materials discussed in Executive Session



Legend

- Determine Eligibility
- Collect data & validate data
- Calculate payments
- Outreach
- Appeals
- Verification & trend analysis: Enterprise Risk Management
- Implementation Activity
- Milestone

Accomplishments

During the past quarter, the High Cost program has made significant progress with the HUBB Filing Deadline, MF II Challenge Launch, CAF Verifications

Recent Accomplishments

- 2018 Related Activities:
 - CAF Phase 1 Rounds 1 and 2 Verification complete
 - Disbursed \$438.29 million
 - Manually validated 524,789 locations and verified 1,547 locations
 - Successful HUBB data collection for 5 funds
 - CAF II 40% milestone with target of 1.4 million locations deployed as of 12/31/2017
 - 100% validation of 2 million locations
 - 98% of carriers certified
 - Successful launch of MF II Challenge Process system
 - Deployment of annual Form 481 modifications

Operational Performance Metrics Overview as of March 2018

High Cost is on track for meeting targets associated with metrics.

Metric		Target	Jan	Feb	Mar	Variance		Description/mitigation
1	Wireless Road miles build out	63,698	49,140	49,140	49,140	14,558	✓	Target Completion is July 2019
2	Wireless Tribal population build out	56,932	38,351	38,351	38,351	18,581	✓	Target Completion is July 2018
3	Wireline Locations Validated (CAFII)	100%	100.0%	100.0%	100.0%	0.0%	✓	CAFII target 40% filed by 3/1/2018
4	Wireline Locations Verified (CAFI)	1547	953	1547	1,547	0.0%	✓	CAF1r.1 and CAF1r.2 review completed.
5	Disbursements completed (\$M)	375.5	379	375	375	0.3	✓	Disbursements included PPAs not included in forecast. Actuals based on March (Feb. Disb.) cash flow month 2018.
6	Disbursement cycle time	19 Days	20 Days	18 Days	19 Days	-1	✓	Monthly cycle time disbursement
7	IT Systems availability (%)	99%	100%	100%	100%	1.0%	✓	Availability of HUBB, CAP and HCLI systems
8	Appeals	NA	0	4	3	NA	✓	One audit Appeal resolved 3/29
9	Call Ctre Abandon Rate	3.0%	0.0%	0.0%	0.0%	-3.0%	✓	No abandoned calls

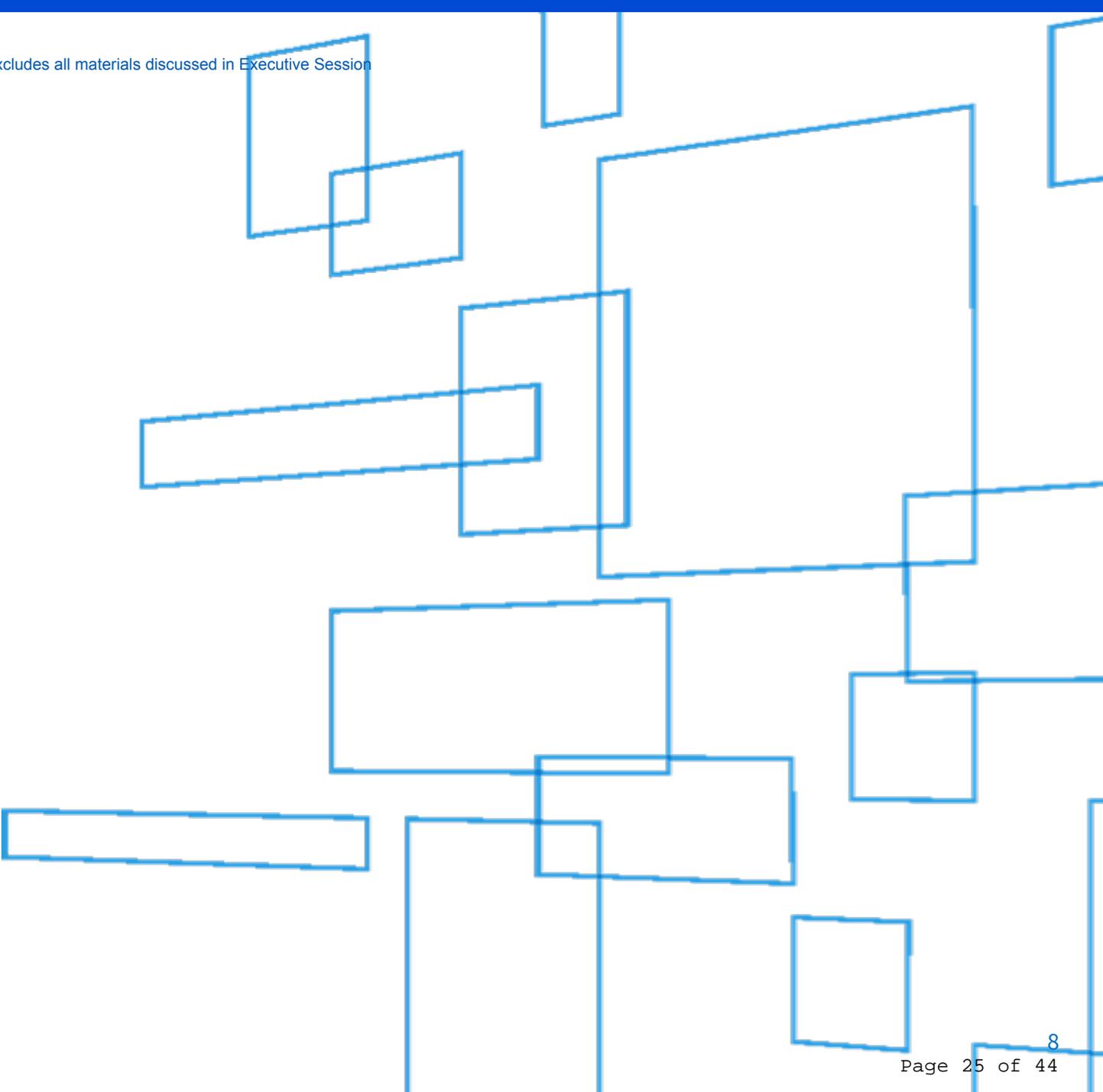
Upcoming Milestones

In the next quarter, the High Cost program will focus on Outreach, MF II Challenge Process, CAF II verifications

Upcoming Milestones

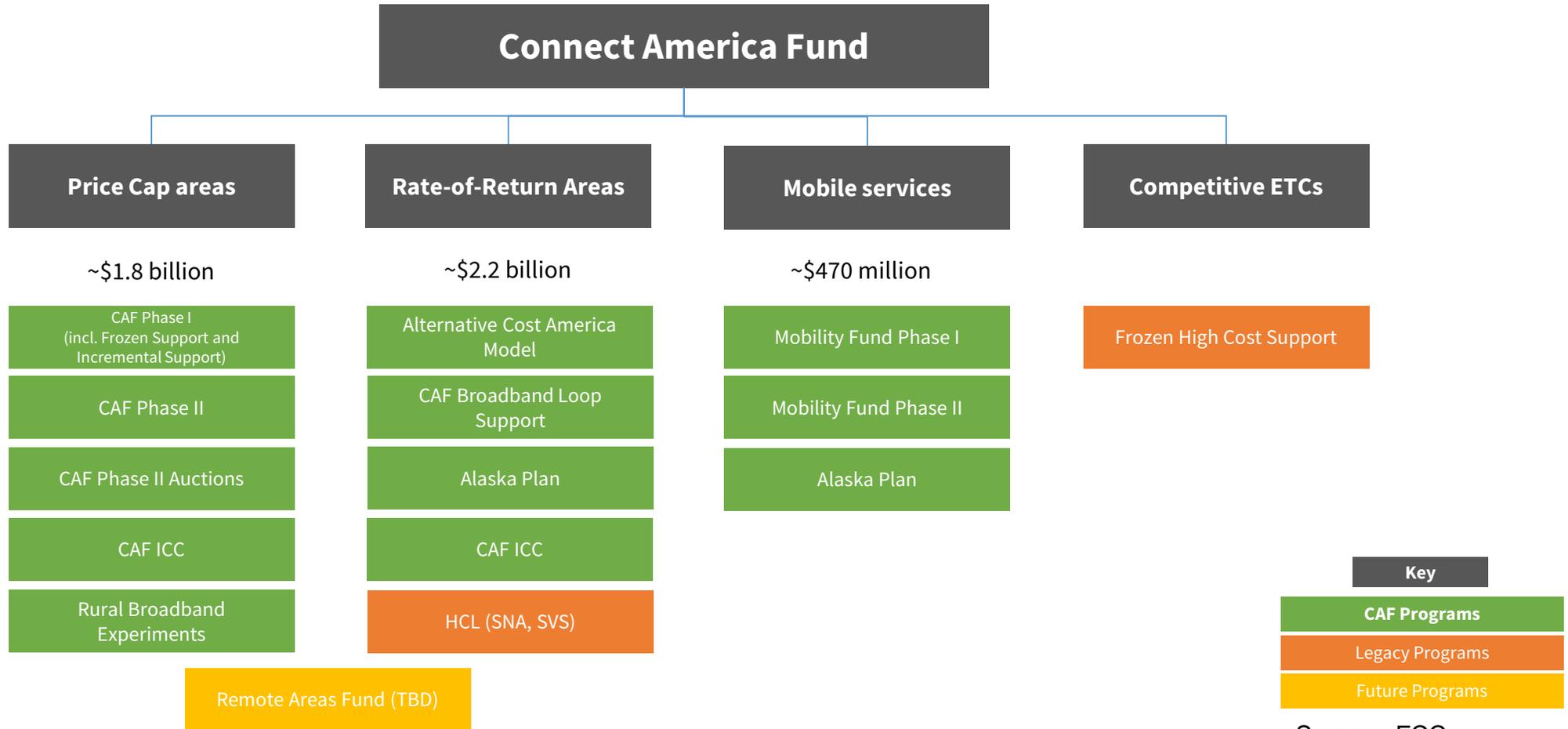
- 2018 Related Activities:
 - Conduct entrance conferences for CAF 2 verifications – April 2018
 - Deploy additional MF II Challenge Process functionality – May 2018
 - Implement State access to Form 481 data – July 2018
 - Implement support for new FCC Rate of Return order utilizing the High Cost Intake Process – TBD
 - Implement Outreach Communications Plan that will support MF II Challenge Process, CAF Verifications Process and annual certifications - Ongoing

Appendix



Connect America Fund (CAF) Portfolio Overview

Mission: Deliver on the promise of providing universal service through “Closing the Digital Divide”.



Source: FCC

Connect America Fund (CAF) Portfolio Program Life Cycle

Program	Lifecycle Stage	Carrier Type	Start Date	Duration (years)	Disbursement Cadence	Build-out Obligations (years)	LOCs?	Audit Type?	Disbursement (Annual)
CAF I (round 1 and 2)	Closure	Price Cap	2012	4	Ended	3	N	Verification	\$438.29 m*
CAF II	Benefits Delivery	Price Cap	2015	6	Monthly	6	N	Verification	\$1.65 b
CAF ICC	Benefits Delivery	Price Cap and Rate of Return	2012	PC 7 years, ROR N/A	Monthly	N/A	N	Audit	\$424 m
Frozen HC	Benefits Delivery	Price Cap and Wireless	2012	7	Monthly	N/A	N	Audit	\$513m
CAF II Auctions	Implementation	Price Cap or Competitive Providers	TBD**	10	Monthly	10	Y	Verification	\$215 m
A-CAM	Benefits Delivery	Rate of Return	2017	10	Monthly	10	N	Verification	\$555 m
CAF BLS	Benefits Delivery	Rate of Return	2017	5	Monthly	5	N	Audit & Verification	\$713 m
HCL (SNA and SVS)	Benefits Delivery	Rate of Return	1998	N/A	Monthly	N/A	N	Audit	\$525 m
Alaska Plan	Implementation	Rate of Return and Wireless	2017	10	Monthly	10	N	Verification	\$128 m
Mobility Fund I	3G (Closure), 4G (Benefits Delivery)	Wireless	2013	6	3 installments	3G 2 years, 4G 3 years	Y	Verification	\$300 m*
Mobility Fund II	Implementation	Wireless	TBD**	10	Monthly	4	Y	Verification	\$470 m
Rural Broadband Experiments (RBE)	Benefits Delivery	Wireline and Wireless	2015	10	Monthly	5	Y	Verification	\$10 m
Stages	1. Definition - FCC Order has been released, HC has documented a high level summary and performed preliminary business impact analysis 2. Implementation - Stakeholders are consulted, proceed through demand intake process, development work will begin when FCC determines the start date of the new programs 3. Benefits Delivery - Carriers have already begun broadband deployments and customers (end users) have started to realize the benefits of USF 4. Closure - Carriers have completed the milestone obligations and verifications are completed								
*Interim programs that provided funding one time.									
**FCC has not determined the start date of the new programs									

*Interim programs that provided funding one time.

**FCC has not determined the start date of the new programs

High Cost: Finance Update

<i>(in millions)</i>	Calendar Year 2016 <i>(as of December 31, 2016)</i>	Calendar Year 2017 <i>(as of December 31, 2017)</i>	Calendar Year 2018 <i>(as of March 31, 2018)</i>
Program Budget	\$4,500	\$4,500	\$4,500
Authorized Disbursements (see Note 1)	\$4,488	\$4,670	\$1,129
Reserved Funds (see Note 2)			
Beginning Balance	\$2,011	N/A	\$1,849
Additions to Reserved Funds	490	N/A	N/A
Authorized Disbursements, Reserved Funds	(478)	N/A	(62)
Reserved Funds, Ending Balance	\$2,023	\$1,849	\$1,787
Outstanding Obligations (see Notes 3 and 4)	\$6,385	\$10,631	\$10,066

Note 1: Authorized Disbursements may exceed the Program Budget, with excess demand funded by cash held for the Connect America Fund.

Note 2: For calendar years 2012 thru 2017, the FCC ordered USAC to collect \$1.125 billion per quarter and to set-aside (*i.e.*, reserve) excess funds when disbursements were below the cap to offset demand in periods when demand exceeded the cap. At the end of calendar year 2017, the FCC order to collect \$1.125 billion per quarter and to hold excess contributions expired, but the FCC issued a public notice directing USAC to continue to retain sufficient cash to cover future payments related to ACAM, CAF Phase II, Rural Broadband experiments, and Mobility Phase I. The FCC re-established the requirement to collect \$1.125 billion per quarter in and order released in March 2018.

Note 3: Outstanding Obligations include the following support types: CAF Phase II, RBE, Mobility Fund Phase I, ACAM, Alaska Plan, and Alaska Frozen Support. Payments are spread across several years, with the last payment scheduled for 2026.

Note 4: Obligations for the High Cost Program are made upon notification from the FCC via a Public Notice or Order.

A photograph of a man and a child standing in a field of tall grass in front of a large, weathered wooden barn. The man is wearing a dark hoodie and a baseball cap, and the child is wearing a plaid shirt. The scene is set in a rural landscape with rolling hills in the background under a clear sky.

Lifeline Business Update

High Cost & Low Income Committee

April 23, 2018



Universal Service
Administrative Co.

Agenda

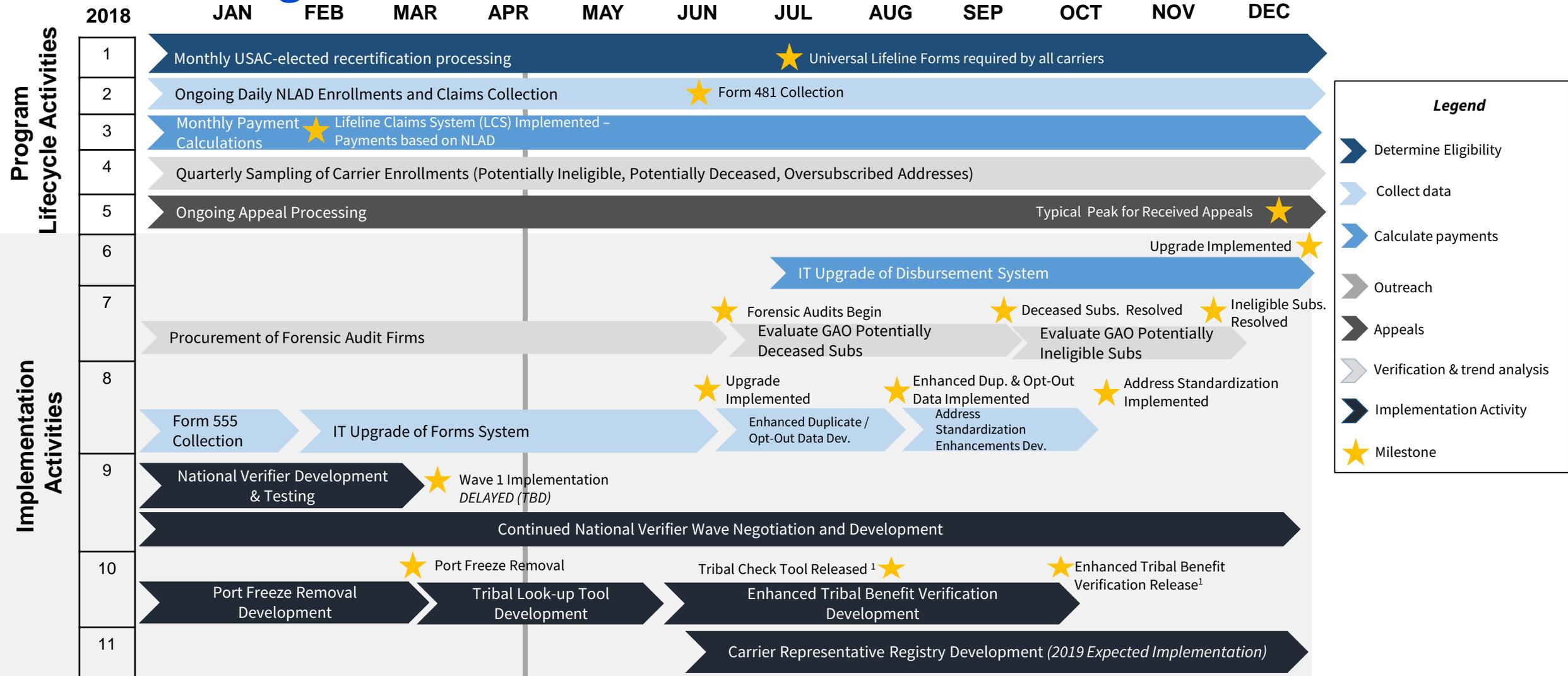
Topic	Description	Purpose	Presenter	Length
Program Goals & Objectives	Review of major goals & objectives of the program, as administered by USAC	Informational	Michelle	5 min
Business View				
Program View	Major deliverables and areas of focus, for CY2018, by quarter	Informational	Michelle	10 min
Accomplishments	Overview of significant program accomplishments and milestones	Informational	Michelle	5 min
Operational Metrics	Update on the program's operational status and efficiency	Informational	Michelle	5 min
Upcoming Milestones	Program focus for the next quarter	Review	Michelle	5 min
Appendix - Enterprise View				
Financials Update	Program Financial Obligations and Disbursements Update	Informational	Charlie	- min

Goals & Objectives

Helping households obtain the voice and broadband connectivity services they need to participate and function in today's digital world.

Goals	Objectives / Program Outcomes	How Lifeline will meet the goal
Execute Lifeline Program Goals	Execute program operations to ensure the timely and accurate delivery of Lifeline (LL) funds to those who are eligible.	Disburse funds based on validated NLAD subscribership, completion of USAC-elected rolling recertification, and accurate and timely enrollment decisions in National Verifier states.
Implement New FCC Orders and Mandates	Implement FCC Orders, policy clarifications/ changes and mandates in a timely manner.	Timely implementation of the National Verifier and 2017 Lifeline Order milestones.
Improve Operational Efficiency and Effectiveness	Increase LL business productively through increased efficiency and effectiveness of both LL and USAC operational processes.	Adopt USAC governance processes and consistently review LL business processes and decisions to align with FCC priorities and USAC business needs.
Improve Program Participant/FCC Experience	Streamline and simplify the program participants' experience to enable successful participation and to enhance the FCC relationship.	Meet or exceed customer service, cycle times, and system performance metrics. Cultivate positive relationships with state and federal partners for the National Verifier. Collaborate with the FCC to identify goals and strategies, align on expectations, and track against desired outcomes.
Enhance Program Integrity	Monitor, report, and implement enhanced controls to assess program effectiveness and program business value.	Continuously review LL data to identify trends that require attention to achieve an Improper Payment Rate of <2%. Respond quickly to findings in audits.
Employee Engagement	Enhance individuals through career development and fostering a positive work environment.	Implement action plans, including confirming goals and expectations, delivering regular feedback, and conducting routine individual and team level meetings to exchange information and celebrate successes.

Lifeline Program at a Glance



Legend

- Determine Eligibility
- Collect data
- Calculate payments
- Outreach
- Appeals
- Verification & trend analysis
- Implementation Activity
- Milestone

1- Date calculated subject to PRA approval

Today

Accomplishments

In Q1, Lifeline timely implemented a number of FCC mandates, and took significant steps to increase controls for the prevention of fraud, waste, and abuse in the program.

Recent Accomplishments

Implementation of FCC Mandates

- Deployed Lifeline Claims System February 1st, now making payments based on NLAD subscribership rather than Form 497.
- Eliminated the Benefit Port Freeze on March 19th, allowing consumers to transfer between carriers at will, per the 2017 Lifeline Order.
- Responded to 3 waivers offering additional time to complete recertification due to hurricanes, wildfires, or other geographically specific challenges.
- Began implementation of Universal Lifeline Forms for certification, recertification, and independent economic household verification, which are required for use by all carriers by July 1, except where there are state-approved forms.
- Conducted a number of FISMA accreditation activities, meeting routinely with the FCC for alignment as we pursue initial National Verifier launch.

Overall Program Activities

- Completed duplicate analysis and clean up of subscribers in VT, a previous opt-out state, resolving 200 duplicate subscribers out of 15k.
- Lifeline Business Process Outsource vendor (BPO) began handling all Lifeline customer service calls as of January 29th.

Operational Performance Metrics Overview

Metric		Target	Jan	Feb	Mar	Variance		Comment
1	Recertification Rate	70%	67%	66%	63%	-4%		Decrease driven subscribers in VT, who are undergoing additional NLAD clean-up after being integrated into NLAD (state formerly opt-out)
2	Disbursements Completed (\$M)	104	103.3	98.1	n/a	n/a		Will be available at time of meeting
3	IT Systems Availability (%)	99%	100%	100%	n/a	n/a		Will be available at time of meeting
4	Call Center Abandon Rate	3.00%	4.80%	4.80%	0.70%	4.10%		Abandon rate dropped due to increased staffing.
5	Appeals over 90 days aged	0	7	7	20	20		Lifeline continues to streamline processes to better manage appeals.
6	Appeals Average Age (days)	90	131	155	182	51		Lifeline continues to streamline processes to better manage appeals.
7	Reverifications Completed							Will begin with NV launch
8	Cycle time for manual verification							Will begin with NV launch
9	Percentage of Manual verification activities							Will begin with NV launch
10	Variable unit volumes versus forecast							Will begin with NV launch

Upcoming Milestones

In Q2, Lifeline will focus on activities that strengthen program integrity, such as the forensic audits, continued sampling of carrier enrollments, and implementation activities for enhanced tribal eligibility verification.

Upcoming Milestones

Implementation Activities

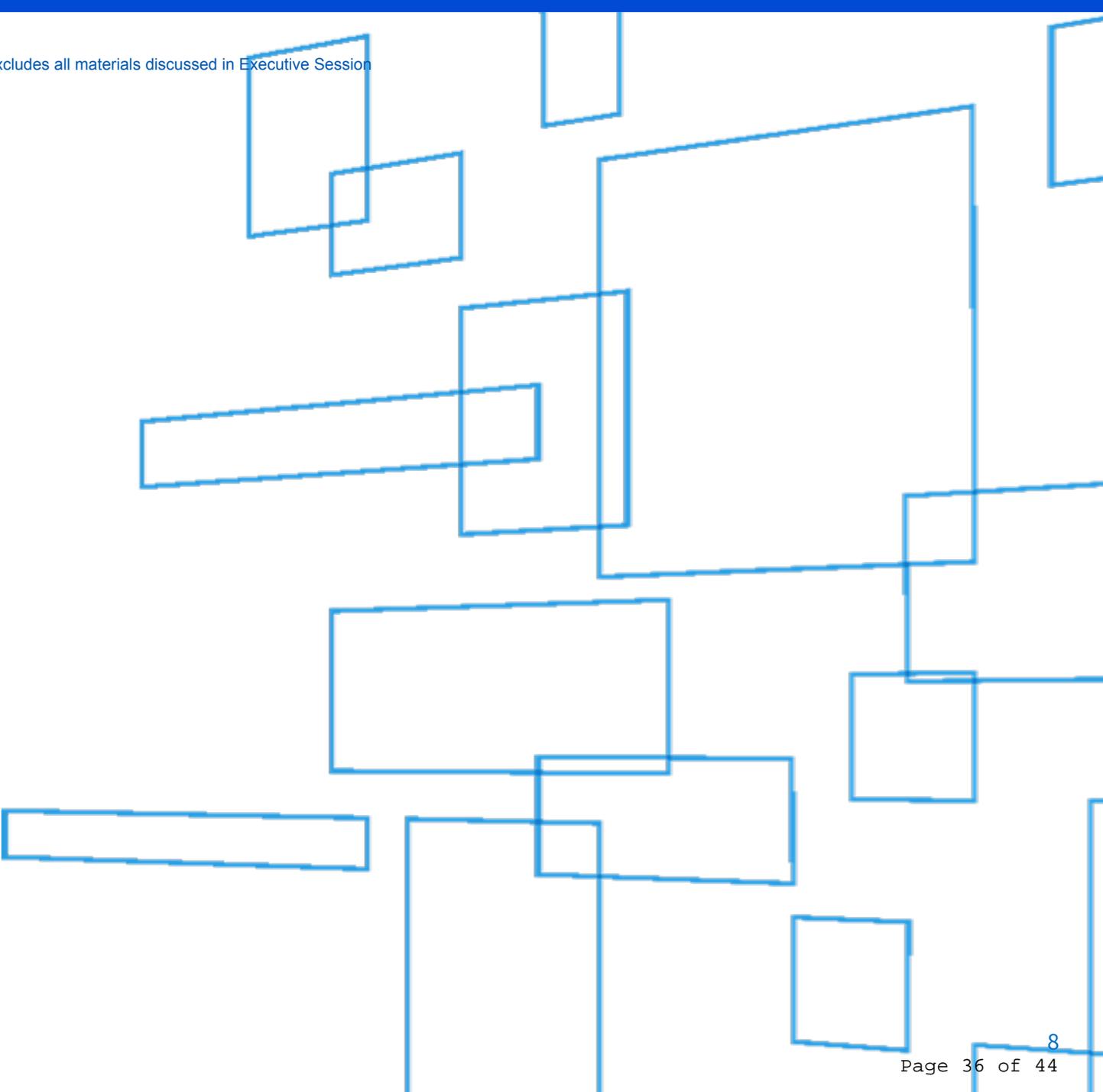
- Work with FCC to finalize and communicate National Verifier initial launch dates.
- Begin Forensic Audits.
- Develop tribal benefit look-up tool – expected deployment in Q3.
- Provide state-by-state guidance to service providers for Universal Forms.
- Complete the forms component of the Lifeline IT Modernization, retiring legacy systems that are no longer supported in favor of more current, streamlined processes and technology.

Overall Program Activities

- Complete Q4 review for potentially deceased subscribers and eligibility verification samples.
- Receive carrier responses to January and February eligibility verification sampling.
- Implement a process for carriers to contest the results of USAC's deceased subscribers validation in NLAD.

Briefing book excludes all materials discussed in Executive Session

Appendix



Lifeline: Finance Update

<i>(in millions)</i>	Calendar Year 2016 <i>(as of December 31, 2016)</i>	Calendar Year 2017 <i>(as of December 31, 2017)</i>	Calendar Year 2018 <i>(as of March 31, 2018)</i>
Program Budget (see Note 1)	N/A	\$2,250	\$2,279
Authorized Disbursements	\$1,537	\$1,281	\$303

Note 1: The first budget for the Lifeline Program was established for calendar year 2017.

**Universal Service Administrative Company
High Cost & Low Income Committee Meeting**

INFORMATION ITEM – *Executive Session Option*

**Information on Seven USAC Internal Audit Division
Low Income Support Mechanism Beneficiary Audit Reports**

Information Presented

This information item provides a summary of the results for seven Low Income Support Mechanism Beneficiary Audit Reports listed in **Exhibit I** to this briefing paper. The audit reports where the entity disagreed with one or more audit findings can be found in **Attachments A – F** to item 4HCLI 042318 in the HCLI Briefing Book – Audit Reports.

Discussion

A general discussion of the findings contained in the draft audit reports is appropriately held in open session. To the extent that High Cost & Low Income Committee (Committee) members wish to discuss specific details of the audit findings, USAC staff recommends that, in accordance with the approved criteria and procedures for conducting USAC Board of Directors (Board) and committee business in *Executive Session*, this matter should be considered in *Executive Session* because discussion of specific audit plans, targets and/or techniques would constitute a *discussion of internal rules and procedures*.

Audits were performed on seven Low Income Support Mechanism beneficiaries. The purpose of the audits was to determine whether the beneficiaries complied with Federal Communications Commission (FCC) rules and program requirements. **Exhibit I** to this briefing paper highlights the results of the audits. The audit reports where the entity disagreed with one or more audit findings can be found in **Attachments A – F** to item 4HCLI 042318 in the HCLI Briefing Book – Audit Reports.

Summary of Low Income Support Mechanism Beneficiary Audit Reports

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
American Broadband & Telecommunications Company, Ohio	9	<ul style="list-style-type: none"> • Improper Recertification Process: De-enrollment Deadline. The Beneficiary did not de-enroll subscribers scheduled for de-enrollment within the required timeframes. • Lifeline Snapshot Date. The Beneficiary claimed subscribers on the Form 497 who were disconnected prior to the Lifeline Snapshot date. • Form 497 and NLAD Variance. The Beneficiary claimed subscribers on the audit period subscriber listing who were not active in the National Lifeline Accountability Database (NLAD). • Subscribers Outside of Service Area. The Beneficiary claimed subscribers on its Form 497 who reside outside of the service area designated by the state commission. • Duplicative Support. The Beneficiary claimed support on the Form 497 more than once for the same individual. 	\$559,903	\$186,972	\$117,872	N

Entity Name, State	Number of Findings	Material Findings	Amount of Support	Monetary Effect	USAC Management Recovery Action	Entity Disagreement
Q Link Wireless, LLC, Texas Attachment A	2	<ul style="list-style-type: none"> • Form 497 and State Database Variance. The Beneficiary claimed subscribers on the audit period Form 497 who were not active in the state database for Texas. 	\$864,986	\$7,511	\$7,511	Y
TracFone Wireless, Inc., Massachusetts Attachment B	2	<ul style="list-style-type: none"> • No Material Findings. 	\$907,629	\$241	\$241	Y
TracFone Wireless, Inc., Florida Attachment C	2	<ul style="list-style-type: none"> • No Material Findings. 	\$3,684,978	\$194	\$194	Y
Virgin Mobile USA, LP, New York Attachment D	3	<ul style="list-style-type: none"> • Form 497 and NLAD Variance. The Beneficiary claimed subscribers on the audit period subscriber listing who were not active in NLAD. 	\$2,682,084	\$6,522	\$6,522	Y
Shawnee Telephone Company, Illinois Attachment E	1	<ul style="list-style-type: none"> • No Material Findings. 	\$1,258	\$102	\$102	Y
Paul Bunyan Rural Telephone Cooperative, Minnesota Attachment F	1	<ul style="list-style-type: none"> • No Material Findings. 	\$1,690	\$0	\$0	Y
Total	20		\$8,702,528	\$201,542	\$132,442	

**Universal Service Administrative Company
High Cost & Low Income Committee Meeting**

ACTION ITEM

**Approval of Low Income Support Mechanism
3rd Quarter 2018 Programmatic Budget and
Demand Projection for the May 2, 2018 FCC Filing**

Action Requested:

The USAC Board of Directors High Cost & Low Income Committee (Committee) is requested to approve the 3rd Quarter 2018 (3Q2018) programmatic budget and demand projection for the Low Income Support Mechanism for submission to the Federal Communications Commission (FCC) in USAC's May 2, 2018 quarterly filing.

Discussion:

On a quarterly basis, USAC is required to submit to the FCC each program's budget¹ and projected demand for the upcoming quarter.²

Funding Requirement

USAC estimates the 3Q2018 funding requirement for the Low Income Support Mechanism as follows:

<i>(in millions)</i>	Funding Requirement
Lifeline	\$303.15
Link Up	0.05
3Q2018 Funding Requirement	\$303.20

Projected Administrative Expenses

Demand for the Low Income Program in 3Q2018 will include \$11.25 for projected administrative expenses, which includes \$6.48 million in direct program costs and \$4.77 million in common allocated costs. Details are provided in the table below.

¹ 47 C.F.R. § 54.715(c).

² 47 C.F.R. § 54.709(a)(3).

<i>(in millions)</i>	3Q2018
Direct Program Costs	
Employee Expenses	\$1.76
Professional Services	2.90
Overhead (Direct) ³	0.74
Capital Costs (Direct)	1.08
Total Direct Program Costs	\$6.48
Common Allocated Costs	
Operating Costs (Common)	\$4.51
Capital Costs (Common)	0.26
Total Common Allocated Costs	\$4.77
Total Program Budget	\$11.25

Attachment A provides a comparison of actual expenditures to the budget for 1Q2018.

Summary of Demand

Program funding requirement of \$303.20 million is adjusted as follows, resulting in a total projected 3Q2018 demand for the Low Income Support Mechanism of \$297.51 million:

<i>(in millions)</i>	4Q2017	1Q2018	2Q2018	3Q2018
Program Funding Requirement	\$319.89	\$313.10	\$308.26	\$303.20
Prior Period Adjustment ⁴	(44.46)	(4.15)	(13.38)	(16.84)
USAC Administrative Expenses	14.69	14.92	12.00	11.25
Interest Income	(0.28)	(0.27)	(0.10)	(0.10)
Total Demand	\$289.84	\$323.60	\$306.78	\$297.51

Recommendation:

USAC management recommends the Committee approve the budget and projection of demand as proposed.

³ Overhead costs include computer support maintenance agreements, printing, postage, meetings, and conferences.

⁴ Prior period adjustments reconcile projections to actual results and include adjustments for billings, disbursements, interest income, bad debt and administrative expenses.

Recommended High Cost & Low Income Committee Action:

APPROVAL OF THE FOLLOWING RESOLUTIONS:

RESOLVED, that the USAC High Cost & Low Income Committee approves a 3rd Quarter 2018 Low Income Support Mechanism direct program budget of \$6.48 million; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee directs USAC staff to submit a collection requirement of \$6.48 million for Low Income Support Mechanism administrative costs in the required May 2, 2018 filing to the FCC on behalf of the Committee; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee, having reviewed at its meeting on April 23, 2018, a summary of the 3rd Quarter 2018 Low Income Support Mechanism demand estimate, hereby directs USAC staff to proceed with the required May 2, 2018 filing to the FCC on behalf of the Committee. USAC staff may make adjustments if the total variance for the Low Income Support Mechanism is equal to or less than \$10 million, or may seek approval from the High Cost & Low Income Committee Chair to make adjustments if the total variance is greater than \$10 million, but not more than \$15 million.

Low Income Administrative Costs
Comparison of actual expenditures to the budget for 1Q2018

<i>(in millions)</i>	1Q2018 Actual	1Q2018 Budget	Variance	1Q2018 Actual to Budget Variance Explanations	2Q2018 Budget	2018 Annual Budget
Direct Program Costs						
Employee Expenses	\$1.58	\$1.76	\$0.18	Capitalization of internal labor related to software development.	\$1.77	\$7.06
Professional Services	1.96	4.79	2.83	Lower spending for National Verifier (NV) processing and development due to delay in soft and hard launches; lower spending for IT Security and Lifeline risk assessment.	3.58	15.42
Overhead (Direct) (see Note 1)	0.28	1.10	0.82	Lower printing and postage costs due to delay in NV soft launch.	0.91	3.50
Capital Costs (Direct) (see Note 2)	1.94	2.16	0.22	Lower spending due to delays in a portion of NV software development.	1.08	5.38
Total Direct Program Costs	\$5.76	\$9.81	\$4.05		\$7.34	\$31.36
Common Allocated Costs						
Operating Costs (Common)	3.80	4.72	0.92	Allocation of common operating costs based on the Cost Allocation Methodology (CAM).	4.58	18.27
Capital Costs (Common) (see Note 3)	0.04	0.37	0.33	Allocation of common capital costs based on the Cost Allocation Methodology (CAM).	0.08	0.84
Total Common Allocated Costs	\$3.84	\$5.09	\$1.25		\$4.66	\$19.11
Total Program Budget	\$9.60	\$14.90	\$5.30		\$12.00	\$50.47

Note 1: Overhead costs include computer support maintenance agreements, printing, postage, meetings, and conferences.

Note 2: Direct capital costs include National Verifier software development.

Note 3: Common capital costs include capital costs not directly attributable to a program. This includes hardware and equipment refresh, corporate software development, and shared IT testing and project management resources.