2008 High Cost & Low Income Committee
Meetings Minutes

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MINUTES

The quarterly meeting of the High Cost & Low Income Committee (Committee) of the Universal Service Administrative Company (USAC) was held at USAC’s offices in Washington, D.C. on Tuesday, January 22, 2008. Mr. Joel Lubin, Committee Chair, called the meeting to order at 1:07 p.m. Eastern Time. Five of six members of the Committee were present, representing a quorum:

- Barash, Scott – Acting CEO
- Boyle, Anne
- Jortner, Wayne
- Lubin, Joel – Chair
- Williams, Jason – by telephone

Members of the Committee not present:

- Joseph, Kevin

Other Board Members and Officers of the corporation present:

- Anderson, D. Michael – Member of the Board
- Belden, Richard – Chief Operating Officer
- Campbell, Anne – Member of the Board
- Capozzi, David – Acting General Counsel and Assistant Secretary
- England, Bill – Vice President, Rural Health Care Division
- Erwin, W.B. – Vice President, Finance, and Assistant Treasurer
Holcombe, Jamie – Vice President, Information Technology Services
Jackson, James – Member of the Board
Majcher, Karen – Vice President, High Cost & Low Income Division
Scott, Wayne – Vice President, Internal Audit
Talbott, Dr. Brian – Member of the Board

Others present for the meeting:

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ACTION ITEMS:

a1. **Approval of High Cost & Low Income Committee Meeting Minutes of October 22, 2007 and December 4, 2007.** On a motion duly made and seconded, the Committee approved the minutes as written of the Committee meetings of October 22, 2007 and December 4, 2007.

a2. **Approval of 2nd Quarter 2008 and 2008 Annual High Cost and Low Income Support Mechanisms Programmatic Budgets.** Mr. Belden introduced this item to the Committee. In his presentation, Mr. Belden noted that the 2008 estimated budget for the High Cost Program is $46.3 million, which includes costs for Round 2 of the FCC OIG USF audit program; also included in the budget are expenses for personnel required to conduct audit follow-up, data management and reporting, site visits, and administrative and outreach functions; and the Low Income Program budget is estimated at $3.1 million.

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 2008 programmatic budget for the High Cost Support Mechanism of $14.1 million and an annual 2008 programmatic budget for the High Cost Support Mechanism of $46.3 million; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee approves a 2nd Quarter 2008 programmatic budget for the Low Income Support Mechanism of $0.4 million and an annual 2008 programmatic budget for the Low Income Support Mechanism of $3.1 million.

a3. **Approval of 2nd Quarter 2008 High Cost and Low Income Support Mechanisms Demand Projections for the February 1, 2008 FCC Filing.** Ms. Majcher introduced this item to the Committee noting that total 2nd Quarter 2008 funding requirements are $1.12 billion for the High Cost Support Mechanism and $198.42 million for the Low Income Support Mechanism.
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 at its meeting on January 22, 2008, a summary of the 2nd Quarter 2008 High Cost and Low Income Support Mechanisms demand estimates, hereby directs USAC staff to proceed with the required February 1, 2008, filing to the FCC on behalf of the Committee. Staff may make adjustments if the total variance for both support mechanisms combined is equal to or less than $10 million and, with approval of the Committee Chair, may make adjustments if the total variance for both support mechanisms combined is equal to or less than $15 million.

a4. **Recommendation for Annual Election of Committee Chair and Vice Chair.** Mr. Lubin introduced this item to the Committee. Mr. Jortner commended Mr. Lubin for his work during 2007 as Committee Chair. Mr. Jortner nominated Mr. Lubin as Chair and Ms. Boyle as Vice Chair of the Committee for 2008.

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 recommends that the USAC Board of Directors elect Joel Lubin as Chair and Anne Boyle as Vice Chair of the USAC High Cost & Low Income Committee for a term that begins immediately following the conclusion of the January 23, 2008 Board of Directors meeting (whether by adjournment, postponement or recess) and ends when a successor to the Chair and/or Vice Chair has been elected or when the Chair or Vice Chair resigns from the Committee or the Board, is removed by resolution of the Board, or the Chair and/or Vice Chair’s Board term expires.

a5. **Action on Four USAC Internal Audit Division Low Income Support Mechanism Beneficiary Audit Reports.** Mr. Scott introduced this item to the Committee, noting that one beneficiary was generally compliant and three were determined to be not compliant with the Low Income Support Mechanism requirements and rules.

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 USAC Internal Audit Division Low Income Support Mechanism beneficiary audit reports labeled LI2006BE004, LI2006BE005, LI2006BE006 and LI2006BE007, together with management’s responses thereto, hereby accepts the recommendation of USAC management and deems such reports final.
a6. **Miscellaneous. Solicit ideas for April 2008 Committee Agenda.** Mr. Lubin reminded Committee members that they may offer suggestions for agenda items for the April 2008 quarterly meeting by submitting ideas to Mr. Lubin or Ms. Majcher.

**INFORMATION ITEMS:**

i1. **High Cost and Low Income Support Mechanism Update.** Ms. Majcher presented this item to the Committee, noting the following items:

- Development of the online FCC Form 525 and the improved carrier information database is well underway. Training will be rolled out to large carriers in January 2008.
- USAC staff conducted training for firms awarded audits of High Cost Support Mechanism beneficiaries pursuant to the Round 2 of the FCC OIG USF audit program.
- All FCC OIG USF audit program Round 1 High Cost & Low Income reports have been approved by the Committee.
- Fifty Low Income and 102 High Cost site visits were complete during the first year of site visit program. High Cost site visits covered 41 states with emphasis on carrier and geographic diversity.
- Low Income brochures were distributed at the National Congress of the American Indians annual meeting, and USAC staff discussed issues such as record-keeping, certification, verification and outreach to eligible consumers.

On a motion duly made and seconded, the Committee adjourned at 1:52 p.m. Eastern Time.

/s/ David A. Capozzi

Assistant Secretary
MINUTES

The quarterly meeting of the High Cost & Low Income Committee (Committee) of the Universal Service Administrative Company (USAC) was held at USAC’s offices in Washington, D.C. on Monday April 28, 2008. Ms. Anne Boyle, Vice Chair, called the meeting to order at 1:30 p.m. Eastern Time. Five of seven members of the Committee were present, representing a quorum:

Barash, Scott – Acting CEO
Boyle, Anne – by telephone
Jortner, Wayne

Tate, Joycelyn
Williams, Jason – by telephone

Members of the Committee not present:

Joseph, Kevin
Lubin, Joel

Other Board of Directors (Board) members and officers of the corporation present:

Anderson, D. Michael – Member of the Board
Belden, Richard – Chief Operating Officer
Campbell, Anne – Member of the Board
Capozzi, David – Acting General Counsel and Assistant Secretary
Erwin, W. B. – Vice President of Finance, and Assistant Treasurer
Holcombe, Jamie – Vice President of Information Technology Services
Majcher, Karen – Vice President, High Cost & Low Income Division
Scott, Wayne – Vice President of Internal Audit
Talbott, Dr. Brian – Member of the Board
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**ACTION ITEMS:**

a3. **Approval of High Cost & Low Income Committee Meeting Minutes of January 22, 2008.** On a motion duly made and seconded, the Committee approved the minutes as written of the Committee meeting of January 22, 2008.

a4. **Approval of 3rd Quarter 2008 and Revised 2008 Annual High Cost and Low Income Support Mechanisms Programmatic Budgets.** Mr. Belden introduced this item to the Committee. In his presentation, Mr. Belden noted that the 2008 estimated budget for the High Cost Program is $44.9 million, approximately $1.4 million lower than the annual budget approved by the Committee at its January 22, 2008 meeting. The budget reduction is a result of a reclassification from the operating budget to the capital budget for systems development work; a reallocation from the High Cost programmatic budget for audits to be conducted under the 2007-2008 FCC OIG USF audit program to the USAC common budget for project management costs associated with the program; and a reduction in the contingency budget.

A revised budget of $2.7 million is required for the Low Income Support Mechanism programmatic activities in 2008. This is approximately $0.3 million lower than the 2008 annual budget approved by the Committee at its January 22, 2008 meeting.
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 3rd Quarter 2008 programmatic budget for the High Cost Support Mechanism of $13.2 million and a revised annual 2008 programmatic budget for the High Cost Support Mechanism of $44.9 million; and

**RESOLVED FURTHER**, that the USAC High Cost & Low Income Committee approves a 3rd Quarter 2008 programmatic budget for the Low Income Support Mechanism of $0.1 million and a revised annual 2008 programmatic budget for the Low Income Support Mechanism of $2.7 million.

### a3. Approval of 3rd Quarter 2008 High Cost and Low Income Support Mechanisms Demand Projections for the May 2, 2008 FCC Filing

Ms. Majcher introduced this item to the Committee.

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 at its meeting on April 28, 2008, a summary of the 3rd Quarter 2008 High Cost and Low Income Support Mechanisms demand estimates, hereby directs USAC staff to proceed with the required May 2, 2008, filing to the FCC on behalf of the Committee. Staff may make adjustments if the total variance for both support mechanisms combined is equal to or less than $10 million and, with approval of the Committee Chair, may make adjustments if the total variance for both support mechanisms combined is equal to or less than $15 million.

### a4. Consideration of High Cost and Low Income Program Support Services Contract

In accordance with the approved criteria and procedures for conducting USAC Board and committee business in Executive Session, Mr. Capozzi recommended 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, the Committee adopted the following resolution:

**RESOLVED**, that the USAC High Cost & Low Income Committee determines that consideration of the High Cost and Low Income Program Support Services Agreement extension shall be conducted in Executive Session.
a5. **Miscellaneous. Solicit ideas for July 2008 Committee Agenda.** Ms. Boyle reminded Committee members that they may offer suggestions for agenda items for the July 2008 quarterly meeting by submitting ideas to Mr. Lubin, Ms. Boyle or Ms. Majcher.

**INFORMATION ITEMS:**

i1. **High Cost and Low Income Support Mechanism Update.** Ms. Majcher presented this item to the Committee, noting that USAC will be conducting training sessions for program beneficiaries in 2008. The first training is scheduled for May 8 in Washington, D.C., with 44 participants registered. Future trainings are scheduled for Chicago, Denver, and Dallas.

i2. **2007 Low Income Participation Rate Study.** Ms. Majcher presented the analysis of the 2007 Low Income Participation Rate Study noting that the study is used to target outreach and training. Ms. Majcher stated that Low Income participation was relatively flat, noting that the decrease in some states, was offset by an increase in other states. Ms. Majcher commented that there are more service providers that are not ETCs, therefore they are not required to offer Lifeline services. In addition, many providers are not publicizing the service. Training will be targeted to states with low participation rates.

i3. **Semiannual Status Report on Ongoing USAC Audits.** Mr. Scott presented this item to the Committee, noting for FCC OIG USF audit program, 95% of the audits have been announced; 60% of the entrance conferences have been conducted; and field work has been completed on 21% of the audits. While the numbers are lower than anticipated, all audit firms have committed to meeting the July 31 target date. Expenses for the High Cost beneficiary audits as of the end of March are $15 million. Final program costs may exceed this estimate by at least $5 million due to the later start date of the audit program this year requiring additional training to augment the initial number of auditors and the complexity of the High Cost audits. As the audits continue other factors may affect total program cost positively or negatively.

i4. **Semiannual Status Report on Actions Taken on Final USAC Audits.** Mr. Scott presented this item to the Committee.

i5. **Miscellaneous. Update on the Government Accountability Office (GAO) Review of the High Cost Support Mechanism.** In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*,
Mr. Capozzi recommended that discussion of this item be conducted in Executive Session because this matter relates to pre-decisional matters before a government agency.

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

**RESOLVED**, that the USAC High Cost & Low Income Committee determines that the discussing regarding the GAO’s review of the High Cost Support Mechanism shall be conducted in Executive Session.

At 1:51 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved into Executive Session for the purpose of discussing the confidential and proprietary items noted above.

**EXECUTIVE SESSION:**

a4. Consideration of High Cost and Low Income Program Support Services Contract. Ms. Majcher introduced this item to the Committee.

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 exercising the priced one-year option in the High Cost and Low Income Program Support Services Agreement between USAC and Telcordia Technologies, Inc.


At 2:20 p.m. Eastern Time, on a motion duly made and seconded, the Committee adjourned from Executive Session and immediately reconvened in Open Session at which time, Ms. Boyle reported that the Committee took action on item a4 and discussed item i5 above in Executive Session.

On a motion duly made and seconded, the Committee adjourned at 2:21 p.m. Eastern Time.

/s/ David A. Capozzi

Assistant Secretary
MINUTES

The quarterly meeting of the High Cost & Low Income Committee (Committee) of the Universal Service Administrative Company (USAC) was held at USAC’s offices in Washington, D.C. on Monday July 28, 2008. Mr. Joel Lubin, Committee Chair, called the meeting to order at 1:35 p.m. Eastern Time with a quorum of eight of the nine Committee members present:

Barash, Scott – Acting CEO
Boyle, Anne – Vice Chair
Gillan, Joe
Jortner, Wayne

Knowles, Rex
Lubin, Joel – Chair
Tate, Joycelyn
Williams, Jason

Members of the Committee not present:

Joseph, Kevin

Other Board of Directors (Board) members and officers of the corporation present:

Belden, Richard – Chief Operating Officer
Campbell, Anne – Member of the Board
Capozzi, David – Acting General Counsel and Assistant Secretary
Erwin, W. B. – Vice President of Finance and Assistant Treasurer
Holcombe, Jamie – Vice President of Information Technology Services
Jackson, Jimmy – Member of the Board

Majcher, Karen – Vice President, High Cost & Low Income Division

Scott, Wayne – Vice President of Internal Audit

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**ACTION ITEMS:**

**a5. Approval of High Cost & Low Income Committee Meeting Minutes of April 28, 2008.** On a motion duly made and seconded, the Committee approved the minutes as written of the Committee meeting of April 28, 2008.

**a6. Approval of 4th Quarter 2008 and Revised Annual 2008 High Cost and Low Income Support Mechanisms Programmatic Budgets.** Mr. Belden introduced this item to the Committee, noting that a revised estimated 2008 annual budget of $54.6 million is recommended to fund High Cost Support Mechanism programmatic activities in 2008.
This represents an increase of $9.7 million, which is 22% above the annual budget approved by the Committee at the April 28, 2008 meeting. The increase includes $750,000 for additional work required by the FCC for 15 2006-2007 Round 1 FCC OIG USF audit program beneficiary audits; $8 million to complete 2007-2008 Round 2 FCC OIG USF audit program beneficiary audits; $900,000 for startup costs for Round 3 of the FCC OIG USF audit program; and $23.4 million for High Cost Support Mechanism programmatic administrative activities in 4th Quarter 2008.

The following resolutions were moved and seconded:

RESOLVED, that the USAC High Cost & Low Income Committee approves a 4th Quarter 2008 programmatic budget for the High Cost Support Mechanism of $23.4 million and a revised 2008 annual budget for the High Cost Support Mechanism of $54.6 million; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee approves a 4th Quarter 2008 programmatic budget for the Low Income Support Mechanism of $0.5 million and a revised 2008 annual budget for the Low Income Support Mechanism of $2.9 million.

As discussion continued, Mr. Capozzi recommended that discussion of this item be conducted in Executive Session because certain topics to be discussed for this matter relates to USAC’s procurement strategy and contract administration.

The Committee then approved tabling the resolutions for further discussion in Executive Session. On a motion duly made and seconded, the Committee adopted the following resolution:

RESOLVED, that the USAC High Cost & Low Income Committee determines that consideration of 4th Quarter 2008 and revised annual 2008 High Cost and Low Income Support Mechanisms programmatic budgets shall be conducted in Executive Session.

a3. Approval of 4th Quarter 2008 High Cost and Low Income Support Mechanisms Demand Projections for the August 1, 2008 FCC Filing. Ms. Majcher introduced this item to the Committee, noting that the 4th Quarter 2008 (4Q2008) funding requirements for the High Cost Support Mechanism were projected to include: $376.78 million for High Cost Loop (HCL) Support, $118.44 million for Local Switching Service (LSS) Support, $430.01 million for Interstate Common Line Support (ICLS), $165.95 million for Interstate Access Support (IAS), and $89.19 million for High Cost Model (HCM) Support; for total High Cost Support Mechanism projected demand of $1.18 billion. Ms. Majcher also reported that Low Income Support Mechanism funding requirements for 4Q2008 are: $197 million for Lifeline, $9.10 million for Link Up and $1.94 million for
Toll Limitation Service, for total Low Income Support Mechanism projected demand of: $208.04 million.

Mr. Jortner asked if there are fewer carriers seeking eligible telecommunications carrier (ETC) status. Ms. Majcher indicated that is the trend and noted that there are currently 40 pending applications, all of which are seeking ETC status solely to provide Low Income support. Mr. Lubin asked if the transfer of funds from the USF to the FCC would continue. Mr. Barash stated that the Consolidated Appropriations Act of 2008 required $21.8 million be transferred to the FCC to support USF oversight and noted that additional legislation would be required for future fund transfers.

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 at its meeting on July 28, 2008, a summary of the 4th Quarter 2008 High Cost and Low Income Support Mechanisms demand estimates, hereby directs USAC staff to proceed with the required August 1, 2008 filing to the FCC on behalf of the Committee. Staff may make adjustments if the total variance for both support mechanisms combined is equal to or less than $10 million and, with approval of the Committee Chair, may make adjustments if the total variance for both support mechanisms combined is equal to or less than $15 million.

a4. Action on One USAC Internal Audit Division High Cost Support Mechanism Operational Audit Report. In accordance with the approved criteria and procedures for conducting USAC Board and committee business in Executive Session, Mr. Capozzi recommended that this matter be discussed in Executive Session because the report relates to specific internal controls and/or confidential company data that would constitute a discussion of internal rules and procedures.

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

RESOLVED, that the USAC High Cost & Low Income Committee determines that discussion of the USAC Internal Audit Division High Cost Support Mechanism Operational Audit Report labeled HC2007OP001 shall be conducted in Executive Session.

a5. Consideration of Program-Specific USF Stakeholder Engagement Strategies. Mr. Eric Iversen, Director of External Relations, presented this item to the Committee, noting that at the April meeting the Board of Directors discussed the BearingPoint contract set to expire in November. Two strategies were presented: one to make a clean break from BearingPoint; and the second to ramp-down the contract and eventually transition site visits and other components of the Engagement Strategy in-house to USAC. The Board
requested details of the strategy allowing USAC to assume internal control be provided to the Board and the programmatic committees at the next quarterly meeting.

Mr. Iversen stated that a goal of the USF Stakeholder Engagement Strategy is to engage program stakeholder audiences in education and communications about opportunities for USF support designed to promote knowledge of and compliance with program rules and positive program outcomes. Mr. Iversen indicated that this strategy would reduce costs and define clear roles for the External Relations Division (ERD), which will continue to include outreach activities such as site visits. The external relations team will serve as the hub for planning, development, and execution, with the four program divisions and the USAC Finance team serving as spokes. The team can support a variety of engagement activities, ranging from how to use presentation tools to developing program reference materials to planning and executing group trainings and workshops.

Mr. Lubin asked how USAC would measure the success of the program. Mr. Iversen stated that while improved program outcomes such as fewer appeals and improved audits, would take time to realize, measures could include website hits, evaluation forms and feedback from program participants.

Mr. Gillan asked whether USAC should charge participants to attend training sessions, noting potential and current beneficiaries of the programs and consultants attend the training at no charge, yet most companies normally pay registration fees for courses offered by other vendors. Mr. Gillan suggested that the registration fees could be a measure of the success for the program, since payment to attend the training would indicate a greater value to the participants. Mr. Barash indicated that USAC has not charged for training but would explore the idea and report back to the Committee.

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 USAC management’s recommendation, approves the proposed program-specific USF stakeholder engagement strategy and hereby authorizes USAC management to proceed with plans and commitments for implementation of the proposed activities.

a6. Miscellaneous. Solicit ideas for October 2008 Committee Agenda. Mr. Lubin reminded Committee members that they may offer suggestions for agenda items for the October 2008 quarterly meeting by submitting ideas to Mr. Lubin, Ms. Boyle or Ms. Majcher.
At 2:25 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved into Executive Session for the purpose of discussing the confidential and proprietary items noted above.

**EXECUTIVE SESSION:**

a2. **Approval of 4th Quarter 2008 and Revised Annual 2008 High Cost and Low Income Support Mechanisms Programmatic Budgets.** The Committee continued discussion of this item, and after extensive discussion determined to reconsider this item in Open Session.

a4. **Action on One USAC Internal Audit Division High Cost Support Mechanism Operational Audit Report.** Ms. Teleshia Delmar, Senior Manager of Internal Audit, presented this item to the Committee.

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 USAC Internal Audit Division High Cost Support Mechanism Operational Audit Report labeled HC2007OP001, together with management’s responses thereto, hereby accepts the recommendation of USAC management and recommends to the USAC Audit Committee that such report be deemed final.

At 3:35 p.m. Eastern Time, on a motion duly made and seconded, the Committee adjourned from Executive Session and immediately reconvened in Open Session at which time, Mr. Lubin reported that the Committee discussed item a2 and discussed and took action on item a4 in Executive Session.

**OPEN SESSION:**

a2. **Approval of 4th Quarter 2008 and Revised Annual 2008 High Cost and Low Income Support Mechanisms Programmatic Budgets.** The Committee continued discussion of this item in Open Session.
Following extensive discussion in Executive Session, the Committee determined to leave the original motions on the table and on a motion duly made and seconded, the Committee adopted the following revised resolutions:

**RESOLVED**, that the USAC High Cost & Low Income Committee approves a 4th Quarter 2008 programmatic budget for the High Cost Support Mechanism of $21.4 million and a revised 2008 annual budget for the High Cost Support Mechanism of $52.6 million; and

**RESOLVED FURTHER**, that the USAC High Cost & Low Income Committee approves a 4th Quarter 2008 programmatic budget for the Low Income Support Mechanism of $0.5 million and a revised 2008 annual budget for the Low Income Support Mechanism of $2.9 million.

**INFORMATION ITEMS:**

i1. **High Cost and Low Income Support Mechanism Update.** Ms. Majcher presented this item to the Committee, noting the following highlights:

- Systems development is complete for Phase I of the systems improvement plan. USAC staff continues to work closely with our contractor Telcordia to complete Phases II, III and IV of the enhancements that are scheduled to be delivered in November 2008. The systems development work for Phase V, which is the last of the High Cost systems enhancements, is scheduled to be completed by the end of February 2009.

- In the AT&T (FCC 07-185) and Alltel (FCC 07-196) Interim High Cost Support Cap orders the Commission granted transfer and control of wireless licenses related to separate AT&T and Alltel transactions. The most notable condition to which the transfers were subject was the Commission’s imposition of an interim cap on High Cost support on the companies based on annualized June 2007 support. USAC worked with AT&T, Alltel and the Commission to determine the methodology for establishing the capped dollars. USAC put the necessary systems in place to cap payments consistent with the orders and is waiting for Commission staff approval to implement the orders.

- The Commission released three orders concerning ETCs since the last quarterly update. The first order granted waivers enabling several ETCs to receive High Cost support that was previously denied consistent with FCC rules. The second order placed an interim cap on support paid to CETCs (FCC 08-122), and the third order granted waiver petitions for several carriers to convert from rate-of-return regulated study areas to price cap regulation on July 1, 2008. USAC is in the process of developing the methodology for implementation of FCC 08-122 with projected implementation in August or September.

- Ms. Majcher noted that the second of the four High Cost Program beneficiary training sessions was conducted in Chicago. The program was well received by participants.

- On June 10, 2008, the Florida Public Service Commission (PSC) rescinded VCI Company d/b/a Vilaire Communications, Inc.’s ETC status. This action was the result of an audit in...
which the Florida PSC found, among other things, that VCI had claimed Low Income support from USAC even though it had already received discounted resold lines from the incumbent telecommunications carrier for its Lifeline customers. The incumbent carrier had also claimed support on the lines. Other audits conducted by USAC found similar occasions of such “double-dipping” by VCI. The Florida PSC’s investigation also found other violations of state and federal rules. VCI has sought a stay of the PSC’s order in Florida state court. Unless VCI’s motion is granted or the company regains its ETC status, USAC will no longer disburse support to VCI in Florida because the company is not an ETC in that state, and may recover all or a portion of the support previously paid to VCI in Florida. USAC will continue to monitor the status of VCI’s appeal.

On a motion duly made and seconded, the Committee adjourned at 3:45 p.m. Eastern Time.

/s/ David A. Capozzi

Assistant Secretary
MINUTES

The quarterly meeting of the High Cost & Low Income Committee (Committee) of the Universal Service Administrative Company (USAC) was held at USAC’s offices in Washington, D.C. on Monday October 27, 2008. Mr. Joel Lubin, Chair of the Committee, called the meeting to order at 1:33 p.m. Eastern Time. Five of nine Committee members were present representing a quorum:

Barash, Scott – Acting CEO
Gillan, Joe
Jortner, Wayne

Knowles, Rex
Lubin, Joel – Chair

Members of the Committee not present:

Boyle, Anne
Joseph, Kevin
Tate, Joycelyn
Williams, Jason

Other Board of Directors (Board) members and officers of the corporation presents:

Campbell, Anne – Member of the Board
Belden, Richard – Chief Operating Officer
Capozzi, David – Acting General Counsel and Assistant Secretary
Erwin, W. B. – Vice President of Finance and Assistant Treasurer
Holcombe, Jamie – Vice President of Information Systems
Jackson, Jimmy – Member of the Board
Majcher, Karen – Vice President, High Cost & Low Income Division
Scott, Wayne – Vice President of Internal Audit
Simon, Phyllis – Member of the Board
Talbott, Dr. Brian – Member of the Board
Others present for the meeting:

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**ACTION ITEMS:**

**a1. Approval of High Cost & Low Income Committee Meeting Minutes of July 28, 2008.**

On a motion duly made and seconded, the Committee approved the minutes as written of the July 28, 2008 Committee meeting.

**a2. Approval of 1st Quarter 2009 High Cost and Low Income Programmatic Budgets and Information on the Estimated 2009 Annual Budgets.** Mr. Belden presented this item to the Committee, noting that based on current operational responsibilities and requirements as set forth in the September 9, 2008 FCC-USAC Memorandum of Understanding (MOU), staff estimates a budget of $50.6 million will be required to fund High Cost Support Mechanism operations in 2009, which is approximately $2.0 million (4%) lower than the 2008 budget. The decrease is attributable to a reduction in FCC Office of Inspector General (OIG) Universal Service Fund (USF) audit program requirements. The budget includes $1.2 million to fund 10.5 full-time employees (FTEs), which is a proposed increase of two FTEs from 2008, $5.2 million for program operations, $0.4 million for High Cost data collection activities, $43.6 million for the FCC OIG USF audit program, $0.1 million for professional fees, and $0.1 million for travel, meals, training, printing and graphics, and miscellaneous administrative and outreach functions.
Mr. Belden also explained that for Low Income Support Mechanism, based on current operational responsibilities and requirements as set forth in the MOU, USAC staff estimates a budget of $8.2 million will be required to fund Low Income Support Mechanism operations in 2009, which is approximately $5.3 million (188%) higher than the 2008 budget. The increase is the result of expanded FCC OIG USF audit program requirements. The budget includes $0.8 million to fund 6.5 FTEs, which is a proposed increase of two FTEs from 2008, $2.2 million for program operations, $5.0 million for the FCC OIG USF audit program, and $0.2 million for travel, meals, training, printing and graphics, and miscellaneous administrative and outreach functions.

Mr. Belden also noted a correction to the position descriptions listed in Attachment A. The third listing for a Program Manager is to support Low Income operations, not High Cost operations as reflected in the attachment.

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 1st Quarter 2009 programmatic budget for the High Cost Support Mechanism of $11.7 million; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee approves a 1st Quarter 2009 programmatic budget for the Low Income Support Mechanism of $1.3 million.

a3. Approval of 1st Quarter 2009 High Cost and Low Income Support Mechanisms Demand Projections for the October 31, 2008 FCC Filing. Ms. Majcher introduced this item to the Committee, noting that 1st Quarter 2009 funding requirements for the High Cost Support Mechanism are projected as follows: $362.0 million for HCL Support, $109.37 million for LSS, $349.10 million for ICLS, $153.87 million for IAS, and $85.32 million for HCM; resulting in total High Cost Support Mechanism projected demand of $1.06 billion.

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 at its meeting on October 27, 2008, a summary of the 1st Quarter 2009 High Cost and Low Income Support Mechanisms demand estimates, hereby directs USAC staff to proceed with the required October 31, 2008 filing to the FCC on behalf of the Committee. Staff may make adjustments if the total variance for both support mechanisms combined is equal to or less than $10 million and, with approval of the Committee Chair, may make adjustments if the total variance for both support mechanisms combined is equal to or less than $15 million.
a4. **Action on 12 High Cost Support Mechanism Beneficiary Compliance Attestation Audit Reports.** Mr. Scott presented this item to the Committee. Mr. Jackson requested removal of duplicative sections of the reports to reduce redundancy and reduce the size of the reports, or at minimum, provide the reports in an electronic format. Mr. Scott noted that he would review the remaining audit reports to identify how reductions could be made for ongoing reports presented to the Board and the committees, noting, however, that the reports sent to the beneficiaries would remain intact as required by industry standards. Mr. Lubin asked USAC staff to suggest revisions for the audit reports.

Ms. Campbell expressed concern over the lower cost of the High Cost audits compared to the Schools and Libraries audits, yet noting the higher monetary effect for High Cost audits. Mr. Scott explained that, for example, in certain components of the High Cost Support Mechanism, eligibility is based on line counts and since this data is provided electronically, these audits may require fewer person hours than audits of Schools and Libraries Program beneficiaries.

Mr. Jortner questioned the finding regarding beneficiary advertising availability of supported services, noting that there was no monetary effect. He commented that he has rarely seen advertising from local telephone companies for Low Income Program offerings. Ms. Majcher stated that USAC contacts the states regarding advertising since it is a criteria for the state public utility commissions. Ms. Teleshia Delmar, Manager Internal Audit, added that some telephone companies do advertise and further noted that while it is up to the judgment of the auditor, for the High Cost Program, information provided on a company website will normally suffice; however, for the Low Income Program, a web site may not reach the intended audience and therefore might not be considered sufficient. Mr. Jackson added that Alaska has defined advertising criteria to be met.

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

**RESOLVED,** that the USAC High Cost and Low Income Committee having reviewed the 12 High Cost Support Mechanism Beneficiary Compliance Attestation Audit reports as listed in Exhibit 1 to this issue paper and attached hereto, together with management’s responses, accepts the recommendation of USAC management and hereby deems such reports final.

a5. **Consideration of High Cost and Low Income Program Operations Support Options.** In accordance with the approved criteria and procedures for conducting USAC Board and committee business in *Executive Session*, Mr. Capozzi recommended 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, the Committee adopted the following resolution:
RESOLVED, that the USAC High Cost & Low Income Committee determines that discussion of the proposed course of action regarding the administrative support services required to administer the High Cost and Low Income Programs shall be conducted in Executive Session.

a6. Miscellaneous. Solicit Ideas for January 2009 Committee Meeting Agenda. Mr. Lubin reminded Committee members that they may offer suggestions for agenda items for the January 2009 quarterly meeting by submitting ideas to Mr. Lubin, Ms. Boyle or Ms. Majcher.

INFORMATION ITEMS:

High Cost and Low Income Support Mechanisms Update. Ms. Majcher presented this item to the Committee, noting that USAC staff continues to work closely with Telcordia to complete High Cost Program systems development work and ensure that the project remains on schedule. The development work for Phases II, III and IV is on schedule to be deployed on November 14, 2008.

Ms. Majcher also stated that USAC submitted the Local Switching Support (LSS) average schedule formula to the Commission on September 29, 2008. The formula will be effective for the 2009 calendar year.

Ms. Majcher noted that the interim cap on the amount of high-cost support that Competitive Eligible Telecommunications Carriers may receive has been implemented and will be applied retroactively to the August 2008 disbursements.

Ms. Majcher reported that the High Cost and Low Income Program training sessions continued with classes held in Chicago and Denver. USAC has received favorable feedback from participants. One additional session is scheduled to be held in Dallas on November 19. This event is filled to capacity and approximately 30 people are on the wait list. Mr. Knowles requested an update on the possibility of charging a registration fee for the training. Ms. Majcher noted that the concept was under review, however, preliminary research indicated that the changes required from an accounting perspective may reduce any perceived benefit.

Semiannual Status Report on Ongoing USAC Audits. Mr. Scott presented this item to the Committee.

Semiannual Status Report on Actions Taken on Final USAC Audits. Mr. Scott presented this item to the Committee, noting that for an audit listed in the report, once the audit is closed with no further action outstanding (e.g., funds have been recovered), the audit is not included in the next report. Mr. Scott requested that Committee members provide USAC management with feedback concerning the usefulness and content of the report.

At 2:07 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved into Executive Session for the purpose of discussing the confidential and proprietary item noted above.
EXECUTIVE SESSION:

a5. **Consideration of High Cost and Low Income Program Operations Support Options.**

Mr. Barash, Mr. Belden and Ms. Majcher presented this item to the Committee.

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

**RESOLVED**, that the USAC High Cost and Low Income Committee, having reviewed USAC management’s recommendation, approves the course of action proposed by USAC management regarding High Cost and Low Income Program administration support options.

At 2:37 p.m., Mr. Gillan departed the meeting. His departure resulted in the Committee no longer having a quorum, and, the Committee not being able to transact further business, except for procedural actions. The Committee had no further business scheduled on its agenda. The Committee then took the following procedural actions. At 2:38 p.m. Eastern Time, the Committee adjourned from Executive Session and immediately reconvened in Open Session at which time Dr. Talbott reported, in his capacity as Board Chair, that in Executive Session the Committee took action on item a5 above and, as part of taking such action, staff was directed by the Committee to prepare and present to the Committee during the January quarterly meetings an implementation plan for this matter. On a motion duly made and seconded, the Committee adjourned at 2:40 p.m. Eastern Time.

/s/ David A. Capozzi

Assistant Secretary
MINUTES

A meeting of the High Cost & Low Income Committee (Committee) of the Board of Directors (Board) of the Universal Service Administrative Company (USAC) was held at USAC's offices in Washington, D.C. on Wednesday, December 10, 2008. Mr. Joel Lubin, Committee Chair, called the meeting to order at 12:02 p.m. Eastern Time. Eight of nine Committee members were present representing a quorum.

Barash, Scott – Acting CEO
Boyle, Anne – Vice Chair – by telephone
Gillan, Joseph – by telephone
Jortner, Wayne – by telephone
Knowles, Rex – by telephone
Lubin, Joel – Chair – by telephone
Tate, Jocelyn – by telephone
Williams, Jason – by telephone

Committee member not present:

Joseph, Kevin

Board member and officers of the corporation present:

Belden, Richard – Chief Operating Officer
Capozzi, David – Acting General Counsel and Assistant Secretary
Majcher, Karen – Vice President, High Cost & Low Income Division
Scott, Wayne – Vice President of Internal Audit
Talbott, Dr. Brian – Board Chair

Others present for the meeting:

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ACTION ITEMS:

a1. Action on 37 High Cost Support Mechanism Beneficiary Compliance Attestation Audit Reports.
Mr. Scott introduced this item to the Committee, noting that based on feedback from the Board during the October meetings, the audit report packages sent to the Committee only include the report findings and program beneficiary and USAC management responses. Beneficiary assertions and other documents ancillary to the audit are not included in the package, although the beneficiary receives these documents.

The Committee engaged in an extensive discussion concerning the differences between the error rate reported by the FCC Inspector General (IG) in his November 26, 2008 report on High Cost Support Mechanism improper payment rates, the actual monetary effect of the audits and the actual amount recoverable, because the amounts that can actually be recovered are a small fraction of the amount in error reported by the FCC IG. Mr. Scott explained that the High Cost Support Mechanism error rate identified in the IG’s report represents an extrapolation of data that was available on July 31, 2008. It does not represent a calculation using information from all of the completed Round 2 FCC OIG USF audit program audits, nor is it calculated based on the monetary effect or the amount to be recovered, which is identified in each individual audit report. Rather, the error rate is a function of improper payment calculations plus all support mechanism payments to beneficiaries that had their audits disclaimed by the firm auditing the beneficiary. Mr. Scott also explained that the amount reported as an improper payment for an audit that was disclaimed by the auditing firm may not have been an improper payment, and, typically, additional review is needed to determine what, if any, of this amount is an improper payment and subject to recovery. Mr. Scott further explained that the IG’s approach to determining improper payment rates leads to reporting a much higher improper payment amount than is actually realized once all audit work is complete and the reports are finalized.

Mr. Lubin and Mr. Williams requested that staff prepare a fact sheet for Committee and Board members to use in discussing the FCC OIG USF audit program audits with stakeholders. The fact sheet should discuss USAC’s role in the audit program. Mr. Lubin also requested that the Committee have a subsequent discussion to better understand how auditors conduct the audits, the standards they apply and the how improper payment rates and amounts to be recovered are determined.

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 37 High Cost Support Mechanism Beneficiary Compliance Attestation Audit reports as listed in Exhibit 1 to this issue paper and attached hereto, together with management’s responses, accepts the recommendation of USAC management and hereby deems such reports final.

i1. **Status Report on KPMG LLP Fees for Round 2 of the FCC OIG USF Audit Program.** Mr. Lubin introduced this item to the Committee.

a7. **In accordance with the approved criteria and procedures for conducting USAC Board and committee business in Executive Session, Mr. Capozzi recommended 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, the Board adopted the following resolution:

RESOLVED, that the USAC High Cost & Low Income Committee determines that discussion of the status of USAC’s contract for audit services with KPMG LLP shall be conducted in Executive Session.

At 12:56 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved into Executive Session for the purpose of discussing the confidential and proprietary item noted above.

i1. **Status Report on KPMG LLP Fees for Round 2 of the FCC OIG USF Audit Program.** Mr. Belden presented this item to the Committee. As part of the discussion of this matter, the Committee directed staff to prepare additional information for a subsequent discussion and consideration for action by the Committee.

At 1:25 p.m. Eastern Time, the Committee adjourned from Executive Session and immediately reconvened in Open Session at which time Mr. Lubin reported that in Executive Session the Committee discussed items i1 above. On a motion duly made and seconded, the Committee adjourned at 1:26 p.m. Eastern Time.

/s/ David A. Capozzi

Assistant Secretary