

PUBLIC NOTICE



FEDERAL COMMUNICATIONS COMMISSION
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Proposed Third Quarter 2000 Universal Service Contribution Factor

CC Docket No. 96-45

In this Public Notice, the Common Carrier Bureau announces the proposed universal service contribution factor for the third quarter of 2000.¹

Rules for Calculating the Contribution Factor

Contributions to the federal universal service support mechanisms are determined using a quarterly contribution factor calculated by the Commission. Under section 54.709 of the Commission's rules, the Commission shall calculate the quarterly contribution factor based on the ratio of total projected quarterly costs of the universal service support mechanisms to total end-user interstate and international telecommunications revenues.²

USAC Projections of Demand and Administrative Expenses

Pursuant to section 54.709(a)(3) of the Commission's rules,³ the Universal Service Administrative Company (USAC) submitted the following projections of demand and administrative expenses for the third quarter of 2000:⁴

¹ See 47 C.F.R. § 54.709(a).

² See 47 C.F.R. § 54.709(a)(2).

³ 47 C.F.R. § 54.709(a)(3).

⁴ See Federal Universal Service Support Mechanisms Fund Size Projections & Contribution Base For the Third Quarter 2000 (filed by USAC May 2, 2000) (*USAC Filing for Third Quarter 2000*); Federal Universal Service Support Mechanisms Supplemental Report Regarding Fund Size Projections & Contribution Base For the Third Quarter 2000 (filed by USAC June 2, 2000) (*USAC Supplemental Filing for Third Quarter 2000*). These projections include the additional demand and expenses resulting from the Commission's new interstate access universal service support mechanism, and from modifications to the Lifeline program, both of which were adopted in the recent *CALLS Order*. See *Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Low-Volume Long Distance Users, Federal-State Joint Board on Universal Service, Sixth Report and Order* in CC Docket Nos. 96-262 and 94-1, *Report and Order* in CC Docket No. 99-249, *Eleventh Report and Order* in CC Docket No. 96-45, FCC 00-193 (rel. May 31, 2000) (*CALLS Order*); see also 47 C.F.R. §§ 54.800-54.809 (interstate

(\$ millions)

Program	Projected Program Support	Admin. Expenses	Application of Balance From Prior Period	Application of Interest Income	Application of Periodic True-Ups	Total Program Collection
Schools and Libraries	554.8539	7.6461	(170.155)	(15.926)	(19.836)	356.583
Rural Health Care	4.634	0.5662	(0.000)	(0.008)	(5.203)	(0.0108)
High-Cost	485.858	1.1974	(0.000)	(0.600)	(21.617)	464.8384
Low Income	133.060	0.2744	(0.000)	(0.530)	1.254	134.0584
Interstate Access	162.500	0.2467	(0.000)	(0.000)	(0.000)	162.7467
TOTAL	1340.906	9.931	(170.155)	(17.064)	(45.402)	1118.216

USAC reports that, based on current data, it does not believe that it will need to disburse the full amount of funds that it was authorized to collect for the first year of the schools and libraries program.⁵ Specifically, USAC estimates that the schools and libraries program will have an unused balance of approximately \$340 million.⁶ According to USAC, this remaining balance occurred for a number of reasons: (1) although USAC has made funding commitments to certain schools and libraries, it received no indication that the services requested have been or will be provided; (2) some schools and libraries ultimately used only a portion of the funds committed to them; and (3) a portion of the funds reserved to pay for successful appeals of funding denials is not likely to be needed.⁷

We direct USAC to apply one-half of the estimated unused balance to reduce the collection requirement for the schools and libraries support mechanism in the third quarter of 2000. This action is consistent with Commission rules and precedent directing that unused

access universal service support mechanism rules), 47 C.F.R. §§ 54.403 (Lifeline rules as revised by the *CALLS Order*). In the *CALLS Order*, the Commission appointed USAC as the administrator for the new interstate access support mechanism and directed USAC's High Cost and Low Income Committee to oversee the operation of the mechanism. See *CALLS Order* at ¶ 226.

⁵ See *USAC Filing for Third Quarter 2000* at 29-30.

⁶ USAC projects that the schools and libraries program will have a total balance of approximately \$448 million in unused funds after all disbursements related to the first program year have been made. Some of this amount has already been credited back to contributors in offsets against collections for the first and second quarters of 2000. See *Proposed First Quarter 2000 Universal Service Contribution Factor*, CC Docket No. 96-45, Public Notice, DA 99-2780 (rel. Dec. 10, 1999) (applying one-quarter of estimated unused schools and libraries balance to offset projected expenses in the first quarter of 2000); *Proposed Second Quarter 2000 Universal Service Contribution Factor*, CC Docket No. 96-45, Public Notice, DA 00-517 (rel. Mar. 7, 2000) (applying one-quarter of estimated unused schools and libraries balance to offset projected expenses in the second quarter of 2000). Adjusting for these offsets, USAC estimates that there will be \$340.31 million in unused Year 1 funds. See *USAC Filing for Third Quarter 2000* at 29-30.

⁷ See *Federal Universal Service Programs Fund Size Projections & Contribution Base For the Second Quarter 2000* at 27 (filed by USAC Feb. 1, 2000) (*USAC Filing for Second Quarter 2000*).

contributions be credited back to contributors.⁸ Because disbursements for Year 1 of the schools and libraries support mechanism are now nearly complete,⁹ we direct USAC to apply one half of the unused balance to offset collections for the schools and libraries support mechanism in the third quarter of 2000.¹⁰ When USAC files its projections of program demand and administrative expenses for the fourth quarter of 2000, it shall supply an updated estimate of the remaining balance that may be applied to reduce the collection requirement for the schools and libraries support mechanism in the fourth quarter of 2000.

USAC Projections of Industry Revenues

USAC submitted estimated end-user telecommunications revenues for July through December 1999 based on information contained in the April 2000 Telecommunications Reporting Worksheet (FCC Form 499-A).¹¹ The amount is as follows:

Total Interstate and International End-User Telecommunications Revenues
from July 1, 1999 – December 31, 1999: \$40.80616 billion

Contribution Base

To determine the quarterly contribution base, we first divide the six-month estimate of interstate and international end-user telecommunications revenues by two. Then, we decrease the revenue estimate by one percent to account for uncollectible contributions.¹² Accordingly, the quarterly contribution base for the third quarter of 2000 is as follows:

Quarterly Contribution Base for Universal Service Support Mechanisms

(Six Month Interstate and International Revenues / 2) - Uncollectibles

(\$40.80616 billion / 2) - 1%

⁸ See 47 C.F.R. § 54.507. Specifically, at the end of the fourth quarter of 1998, the rural health care program had a balance of approximately \$86 million because collections accrued faster than actual demand for program support. To ensure that unused collections were credited back to contributors, the Commission directed that the unused balance be applied over two quarters to reduce the contribution factors. See *Proposed First Quarter 1999 Universal Service Contribution Factors and Proposed Actions*, CC Docket No. 96-45, Public Notice, FCC 98-318 at 3-4 (rel. Dec. 4, 1998).

⁹ See *USAC Filing for Third Quarter 2000* at 26-27, 29-30.

¹⁰ Cf. *Proposed First Quarter 2000 Universal Service Contribution Factor*, CC Docket No. 96-45, Public Notice, DA 99-2780 (rel. Dec. 10, 1999) (applying one-quarter of estimated unused schools and libraries balance to offset projected expenses in the first quarter of 2000); *Proposed Second Quarter 2000 Universal Service Contribution Factor*, CC Docket No. 96-45, Public Notice, DA 00-517 (rel. Mar. 7, 2000) (applying one-quarter of estimated unused schools and libraries balance to offset projected expenses in the second quarter of 2000).

¹¹ See *USAC Filing for Third Quarter 2000* at 31-32. Funding bases for the third and fourth quarters of 2000 are determined by subtracting the revenues reported for January through June 1999 (on the September 1999 Worksheet) from the revenues reported for January through December 1999 (on the April 2000 Worksheet).

¹² See *USAC Filing for Third Quarter 2000* at 32.

\$20.199049 billion

Proposed Contribution Factor

Using this quarterly contribution base, and the total program collection requirement from the table above, the proposed contribution factor for the third quarter of 2000 is as follows:

Contribution Factor for Universal Service Support Mechanisms

Total Program Collection / Quarterly Contribution Base

\$1.118216 billion / \$20.199049 billion

0.055360

If the Commission takes no action regarding the proposed contribution factor within the 14-day period following release of this Public Notice, the contribution factor shall be deemed approved by the Commission.¹³ USAC shall then use the contribution factor to calculate universal service contributions for the third quarter of 2000.

For further information, contact Praveen Goyal, Accounting Policy Division, Common Carrier Bureau, at (202) 418-7400, TTY (202) 418-0484.

¹³ See 47 C.F.R. § 54.709(a)(3).