

# PUBLIC NOTICE



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## Proposed First Quarter 2005 Universal Service Contribution Factor

CC Docket No. 96-45

In this Public Notice, the Wireline Competition Bureau (Bureau) announces that the proposed universal service contribution factor for the first quarter of 2005 is .107 or 10.7 percent.<sup>1</sup>

### Rules for Calculating the Contribution Factor

Contributions to the federal universal service support mechanisms are determined using a quarterly contribution factor calculated by the Federal Communications Commission (Commission).<sup>2</sup> The Commission calculates the quarterly contribution factor based on the ratio of total projected quarterly costs of the universal service support mechanisms to contributors' total projected collected end-user interstate and international telecommunications revenues, net of projected contributions.<sup>3</sup>

### USAC Projections of Demand and Administrative Expenses

Pursuant to section 54.709(a)(3) of the Commission's rules,<sup>4</sup> the Universal Service Administrative Company (USAC) submitted projections of demand and administrative expenses for the first quarter of 2005.<sup>5</sup> In its November 2, 2004 filing, USAC proposes to recover \$550 million (\$275 million in first quarter 2005 and \$275 million in second quarter 2005) of the funds used by the Commission in the second through fourth quarters of 2004 in order to restore monies for funding years

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<sup>1</sup> See 47 C.F.R. § 54.709(a).

<sup>2</sup> See *id.*

<sup>3</sup> See 47 C.F.R. § 54.709(a)(2).

<sup>4</sup> 47 C.F.R. § 54.709(a)(3).

<sup>5</sup> See Federal Universal Service Support Mechanisms Fund Size Projections for the First Quarter 2005, available at <<http://www.universalservice.org/overview/filings>> (filed November 2, 2004) (*USAC Filing for First Quarter 2005 Projections*). See also Federal Universal Service Support Mechanisms Fund Size Quarterly Contribution Base for the First Quarter 2005, available at <<http://www.universalservice.org/overview/filings>> (filed December 2, 2004) (*USAC Filing for First Quarter 2005 Contribution Base*).

2003 and 2004 to the \$2.25 billion annual cap set forth in section 54.507(a).<sup>6</sup> Accordingly, USAC increased the projected program support for the Schools and Libraries support mechanism for the first quarter of 2005 by \$275 million to account for the recovery of a portion of the funds that had been used to reduce this mechanism's demand in prior quarters of 2004.<sup>7</sup> On December 8, 2004, Congress passed legislation exempting the universal service fund from the Antideficiency Act until December 31, 2005.<sup>8</sup> Pursuant to section 54.709(a)(2), (3) of the Commission's rules, we set the projected program support for this mechanism as though this legislation will go into effect before the end of the current quarter.<sup>9</sup> Thus, we will not include the recovery of any additional funds proposed by USAC as part of the projected program demand for the first quarter of 2005. Accordingly, the projected demand and expenses are as follows:

(\$ millions)

Program	Projected Program Support	Admin. Expenses	Application Of Interest Income	Application of Periodic True-Ups	Total Program Collection
Schools and Libraries	546.903	15.597	(3.829)	(10.806)	547.865
Rural Health Care	11.248	1.084	(0.026)	(0.473)	11.833
High-Cost	976.907	10.317	(0.341)	15.057	1001.940
Low Income	193.229	2.193	(0.063)	0.532	195.891
<b>TOTAL</b>	<b>1728.287</b>	<b>29.191</b>	<b>(4.259)</b>	<b>4.310</b>	<b>1757.529</b>

### **USAC Projections of Industry Revenues**

USAC submitted projected collected end-user telecommunications revenues for January through March 2005 based on information contained in the First Quarter 2005 Telecommunications Reporting Worksheet (FCC Form 499-Q).<sup>10</sup> The amount is as follows:

Total Projected Collected Interstate and International End-User Telecommunications Revenues for First Quarter 2005: \$ 18.351876 billion.

### **Adjusted Contribution Base**

To determine the quarterly contribution base, we decrease the first quarter 2005 estimate of projected collected interstate and international end-user telecommunications revenues by the projected revenue requirement to account for circularity, and decrease the result by one percent to account for uncollectible contributions. Accordingly, the quarterly contribution base for the first quarter of 2005 is as

<sup>6</sup> See *USAC Filing for First Quarter 2005 Projections* at 31.

<sup>7</sup> *Id.* at 28-31.

<sup>8</sup> See H.R. 5419, 108<sup>th</sup> Cong., 2d Sess. (2004).

<sup>9</sup> See 47 C.F.R. § 54.709(a)(2), (3). See also 47 C.F.R. § 54.507(a).

<sup>10</sup> *USAC Filing for First Quarter 2005 Contribution Base* at 4-5.

follows:

Adjusted Quarterly Contribution Base for Universal Service Support Mechanism

First Quarter 2005 Revenues - Projected Revenue Requirement - 1%  
(\$18.351876 billion – \$1.757529 billion) \* 0.99

\$16.428404 billion.

**Unadjusted Contribution Factor**

Using the above-described adjusted contribution base and the total program collection requirement from the table above, the proposed unadjusted contribution factor for the first quarter of 2005 is as follows:

Contribution Factor for Universal Service Support Mechanisms

Total Program Collection / Adjusted Quarterly Contribution Base

\$1.757529 billion / \$16.428404 billion

0.106981

**Unadjusted Circularity Factor**

USAC will reduce each provider's contribution obligation by a circularity discount approximating the provider's contributions in the upcoming quarter. Accordingly, the proposed unadjusted circularity factor for the first quarter of 2005 is as follows:

Unadjusted Circularity Factor for Universal Service Support Mechanisms

1 - ((First Quarter 2005 Revenues - Total Program Collection) / First Quarter 2005 Revenues)

1 - ((\$18.351876 - \$1.757529) / \$18.351876 billion)

0.095768

**Proposed Contribution Factor**

The Commission has directed the Bureau to announce the contribution factor as a percentage rounded to the nearest tenth of one percent.<sup>11</sup> Accordingly, the proposed contribution factor for the first

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<sup>11</sup> See *Federal-State Joint Board on Universal Service, 1998 Biennial Regulatory Review – Streamlined Contributor Reporting Requirements Associated with Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor and Fund Size, Number Resource Optimization, Telephone Number Portability, Truth-in-Billing and Billing Format*, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170, Order and Second Order on Reconsideration, 18 FCC Rcd 4818, 4826, para. 22 (2003) (*Second Order on Reconsideration*).

quarter of 2005 is as follows:

0.107

### **Proposed Circularity Factor**

The Commission also has directed the Bureau to account for contribution factor rounding when calculating the circularity discount factor.<sup>12</sup> Accordingly, the proposed circularity factor for the first quarter of 2005 is as follows:

0.095929.<sup>13</sup>

### **Conclusion**

If the Commission takes no action regarding the projections of demand and administrative expenses and the proposed contribution factor within the 14-day period following release of this Public Notice, they shall be deemed approved by the Commission.<sup>14</sup> USAC shall use the contribution factor to calculate universal service contributions for the first quarter of 2005. USAC will reduce each provider's contribution obligation by a circularity discount approximating the provider's contributions in the upcoming quarter.<sup>15</sup> USAC includes contribution obligations less the circularity discount in invoices sent to contributors. Contribution payments are due on the dates shown on the invoice. Contributors will pay interest for each day for which the payments are late. Contributors failing to pay contributions in a timely fashion may be subject to the enforcement provisions of the Communications Act of 1934, as amended, and any other applicable law. In addition, contributors may be billed by USAC for reasonable costs of collecting overdue contributions.<sup>16</sup>

We also emphasize that carriers may not mark up federal universal service line-item amounts above the contribution factor.<sup>17</sup> Thus, carriers may not, during the first quarter of 2005, recover through a federal universal service line item an amount that exceeds 10.7 percent of the interstate telecommunications charges on a customer's bill

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<sup>12</sup> *Id.*

<sup>13</sup> The proposed circularity discount factor =  $1 + [(unadjusted\ circularity\ discount\ factor - 1) * (unadjusted\ contribution\ factor / proposed\ contribution\ factor)]$ . The proposed circularity discount factor is calculated in a spreadsheet program, which means that internal calculations are made with more than 15 decimal places.

<sup>14</sup> See 47 C.F.R. § 54.709(a)(3).

<sup>15</sup> USAC will calculate each individual contributor's contribution in the following manner: (proposed contribution factor \* contributor's projected collected revenues) – (proposed circularity discount factor \* proposed contribution factor \* contributor's proposed collected revenues).

<sup>16</sup> See 47 C.F.R. § 54.713.

<sup>17</sup> See 47 C.F.R. § 54.712.