

PUBLIC NOTICE



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Proposed Second Quarter 2004 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 Second Quarter of 2004 is .087 or 8.7 percent.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.² 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.³

USAC Projections of Demand and Administrative Expenses

Pursuant to section 54.709(a)(3) of the Commission's rules,⁴ the Universal Service Administrative Company (USAC) submitted projections of demand and administrative expenses for the second quarter of 2004.⁵

¹ See 47 C.F.R. § 54.709(a).

² See *id.*

³ See 47 C.F.R. § 54.709(a)(2).

⁴ 47 C.F.R. § 54.709(a)(3).

⁵ See Federal Universal Service Support Mechanisms Fund Size Projections for the Second Quarter 2004, available at <<http://www.universalservice.org/overview/filings>> (filed January 31, 2004) (*USAC Filing for Second Quarter 2004 Projections*). See also Federal Universal Service Support Mechanisms Fund Size Quarterly Contribution Base for the Second Quarter 2004, Appendix M02 Revised, available at <<http://www.universalservice.org/overview/filings>> (filed March 1, 2004) (*USAC Filing for Second Quarter 2004 Contribution Base*).

Pursuant to section 54.709(b) of the Commission's rules,⁶ in light of excess collections carried over from previous quarters, USAC submitted an alternative projection of demand for the schools and libraries support mechanism for the second quarter of 2004, which was \$200 million lower than its original projection.⁷ Consistent with section 54.709(b), we utilize USAC's alternative projection of demand. 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	349.989	12.511	(6.981)	38.820	394.339
Rural Health Care	(0.488)	0.814	(0.038)	0.867	1.155
High-Cost	910.182	3.430	(0.352)	8.549	921.809
Low Income	175.147	1.044	(0.171)	10.680	186.700
TOTAL	1634.83	17.799	(7.542)	58.916	1504.003

USAC Projections of Industry Revenues

USAC submitted projected collected end-user telecommunications revenues for April through June 2004 based on information contained in the Second Quarter 2004 Telecommunications Reporting Worksheet (FCC Form 499-Q).⁸ The amount is as follows:

Total Projected Collected Interstate and International End-User Telecommunications Revenues for Second Quarter 2004: \$ 19.100887 billion.

Adjusted Contribution Base

To determine the quarterly contribution base, we decrease the second quarter 2004 estimate of projected collected interstate and international end-user telecommunications revenues

⁶ See 47 C.F.R. § 54.709(b).

⁷ Because USAC historically has projected demand for the schools and libraries mechanism every quarter at \$562.5 million (\$2.25 billion divided by four quarters), even though actual disbursements may not reach that level in the upcoming quarter, this has resulted in a significant cash reserve. USAC has advised the Commission that \$200 million of funds that have been collected but not yet disbursed could be applied to reduce program demand for the schools and libraries program for second quarter 2004 without affecting disbursement or commitment amounts for any of the universal service programs. See Supplemental Submission Regarding Federal Universal Service Support Mechanisms Fund Size Projections for the Second Quarter 2004, available at <<http://www.universalservice.org/overview/filings/2004/Q2/2Q2004%20USAC%20Supplemental%20Filing%20FINAL%203-3-04.doc>> (filed March 3, 2004).

⁸ See USAC Filing for First Quarter 2004 Contribution Base at 4.

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 second quarter of 2004 is as follows:

Adjusted Quarterly Contribution Base for Universal Service Support Mechanism

Second Quarter 2004 Revenues - Projected Revenue Requirement - 1%

$(\$19.100887 \text{ billion} - \$1.504003 \text{ billion}) * 0.99$

\$17.42091516 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 second quarter of 2004 is as follows:

Contribution Factor for Universal Service Support Mechanisms

Total Program Collection / Adjusted Quarterly Contribution Base

$\$1.504003 \text{ billion} / \$17.42091516 \text{ billion}$

0.086333

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 second quarter of 2004 is as follows:

Unadjusted Circularity Factor for Universal Service Support Mechanisms

$1 - ((\text{Second Quarter 2004 Revenues} - \text{Total Program Collection}) / \text{Second Quarter 2004 Revenues})$

$1 - (\$19.100887 - \$1.504003) / \$19.100887 \text{ billion}$

.078740

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.⁹ Accordingly, the proposed contribution factor for the second quarter of 2004 is as follows:

.087

Proposed Circularity Factor

The Commission also has directed the Bureau to account for contribution factor rounding when calculating the circularity discount factor.¹⁰ Accordingly, the proposed circularity factor for the second quarter of 2004 is as follows:

.085803.¹¹

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.¹² USAC shall use the contribution factor to calculate universal service contributions for the second quarter of 2004. USAC will reduce each provider's contribution obligation by a circularity discount approximating the provider's contributions in the upcoming quarter.¹³ 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.¹⁴

⁹ 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*).

¹⁰ *Id.*

¹¹ The proposed circularity discount factor = $1 + [(\text{unadjusted circularity discount factor} - 1) * (\text{unadjusted contribution factor} / \text{proposed contribution factor})]$. The proposed circularity discount factor is calculated in a spreadsheet program, which means that internal calculations are made with more than 15 decimal places.

¹² See 47 C.F.R. § 54.709(a)(3).

¹³ 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).

¹⁴ See 47 C.F.R. § 54.713.

We also emphasize that carriers may not mark up federal universal service line-item amounts above the contribution factor.¹⁵ Thus, carriers may not, during the second quarter of 2004, recover through a federal universal service line item an amount that exceeds the interstate telecommunications charges on a customer's bill times 8.7%.

For further information, contact Karen Franklin in the Telecommunications Access Policy Division, Wireline Competition Bureau, at (202) 418-7400, TTY (202) 418-0484.

¹⁵ See 47 C.F.R. § 54.712.