



# PUBLIC NOTICE

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## Proposed Second Quarter 2007 Universal Service Contribution Factor

CC Docket No. 96-45

In this Public Notice, the Office of Managing Director (OMD) announces that the proposed universal service contribution factor for the second quarter of 2007 will increase to 0.117 or 11.7 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 second quarter of 2007.<sup>5</sup> Accordingly, the projected demand and expenses are as follows:

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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 Second Quarter 2007, available at <<http://www.universalservice.org/overview/filings>> (filed January 31, 2007) (*USAC Filing for Second Quarter 2007 Projections*). See also Federal Universal Service Support Mechanisms Quarterly Contribution Base for the Second Quarter 2007, available at <<http://www.universalservice.org/overview/filings>> (filed March 2, 2007) (*USAC Filing for Second Quarter 2007 Contribution Base*).

(\$ millions)

Program Demand	Projected Program Support	Admin. Expenses	Application Of Interest Income	Application of Periodic True-Ups	Total Program Collection
Schools and Libraries	539.152	23.348	-47.395	-3.883	511.222
Rural Health Care	40.796	2.209	-0.643	-0.029	42.333
High-Cost	1,086.507	9.252	-6.048	13.680	1,103.391
Low Income	196.960	2.488	-2.798	2.734	199.384
<b>TOTAL</b>	<b>1,863.415</b>	<b>37.297</b>	<b>-56.884</b>	<b>12.502</b>	<b>1,856.330</b>

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

USAC submitted projected collected end-user telecommunications revenues for April through June 2007 based on information contained in the Second Quarter 2007 Telecommunications Reporting Worksheet (FCC Form 499-Q).<sup>6</sup> The amount is as follows:

Total Projected Collected Interstate and International End-User Telecommunications Revenues for Second Quarter 2007: \$18.013566 billion.

### **Adjusted Contribution Base**

To determine the quarterly contribution base, we decrease the second quarter 2007 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 second quarter of 2007 is as follows:

Adjusted Quarterly Contribution Base for Universal Service Support Mechanism

Second Quarter 2007 Revenues - Projected Revenue Requirement - 1%  
(\$18.013566 billion – \$1.856330 billion) \* 0.99

\$15.995664 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 2007 is as follows:

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<sup>6</sup> USAC Filing for Second Quarter 2007 Contribution Base at 7.

Contribution Factor for Universal Service Support Mechanisms

Total Program Collection / Adjusted Quarterly Contribution Base

\$1.826330 billion / \$15.995664 billion

0.116052

**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 2007 is as follows:

Unadjusted Circularity Factor for Universal Service Support Mechanisms

1 - ((Second Quarter 2007 Revenues - Total Program Collection) / Second Quarter 2007 Revenues)

1 - ((\$18.013566 - \$1.856330) / \$18.013566 billion)

0.103052.

**Proposed Contribution Factor**

The Commission has directed OMD to announce the contribution factor as a percentage rounded up to the nearest tenth of one percent.<sup>7</sup> Accordingly, the proposed contribution factor for the second quarter of 2007 is as follows:

11.7

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<sup>7</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*).

## **Proposed Circularity Factor**

The Commission also has directed OMD to account for contribution factor rounding when calculating the circularity discount factor.<sup>8</sup> Accordingly, the proposed circularity factor for the second quarter of 2007 is as follows:

0.110319<sup>9</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>10</sup> USAC shall use the contribution factor to calculate universal service contributions for the second quarter of 2007. USAC will reduce each provider's contribution obligation by a circularity discount approximating the provider's contributions in the upcoming quarter.<sup>11</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>12</sup>

We also emphasize that carriers may not mark up federal universal service line-item amounts above the contribution factor.<sup>13</sup> Thus, carriers may not, during the second quarter of 2007, recover through a federal universal service line item an amount that exceeds 11.7 percent of the interstate telecommunications charges on a customer's bill.

For further information, contact Kim Yee in Financial Operations, Office of Managing Director, at (202) 418-0805, TTY (202) 418-0484.

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<sup>8</sup> *Id.*

<sup>9</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>10</sup> *See* 47 C.F.R. § 54.709(a)(3).

<sup>11</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 projected collected revenues).

<sup>12</sup> *See* 47 C.F.R. § 54.713.

<sup>13</sup> *See* 47 C.F.R. § 54.712.