



PUBLIC NOTICE

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First Quarter 1998 Universal Service Contribution Factors Revised and Approved CC Docket No: 96-45

By the Common Carrier Bureau:

In this Public Notice, the Common Carrier Bureau (Bureau) revises and approves universal service contribution factors for the first quarter of 1998.

In the *Universal Service Order* released on May 8, 1997, the Commission established new federal universal service support mechanisms consistent with the Communications Act of 1934, as amended.¹ The Commission required all telecommunications carriers that provide interstate telecommunications services, providers of interstate telecommunications, and payphone service providers to contribute to the federal universal service support mechanisms.² The Commission found that contributions for the schools, libraries, and rural health care support mechanisms would be based on interstate, intrastate, and international end-user telecommunications revenues.³ The Commission also found that contributions for the high cost, rural, and insular and low-income support mechanisms would be based on interstate and international end-user telecommunications revenues.⁴

On July 18, 1997, the Commission released an Order directing the National Exchange Carrier Association (NECA) to create an independently functioning not-for-profit subsidiary, the Universal Service Administrative Company (USAC), through which it will administer

¹ Federal-State Joint Board on Universal Service, *Report and Order*, 12 FCC Rcd 8776 (1997) (*Universal Service Order*).

² *Universal Service Order*, 12 FCC Rcd at 9173-9178, 9183-9185.

³ *Universal Service Order*, 12 FCC Rcd at 9203, 9205.

⁴ *Universal Service Order*, 12 FCC Rcd at 9200, 9202-9203.

temporarily certain aspects of the federal universal service support mechanisms. The Commission also directed NECA to create two independent, not-for-profit entities, Schools and Libraries Corporation and Rural Health Care Corporation, to administer certain aspects of the schools, libraries, and rural health care support mechanisms.⁶ The Commission instructed USAC, Schools and Libraries Corporation, and Rural Health Care Corporation to submit projections of demand and administrative expenses for their respective support mechanisms for the first quarter of 1998 to the Commission at least sixty days before the start of the first quarter of 1998.⁷ USAC also was required to compile total interstate, intrastate, and international end-user telecommunications revenues and submit that information to the Commission.⁸ The Commission stated that it would publish these figures and the proposed quarterly contribution factors in a Public Notice.⁹

On November 13, 1997, using the information submitted on October 31, 1997 by the Universal Service Administrative Company (USAC), Schools and Libraries Corporation, and Rural Health Care Corporation (collectively, the administrative corporations), the Accounting and Audits Division (Division) announced the proposed universal service contribution factors for the first quarter of 1998.¹⁰ Pursuant to the Commission's rules, those contribution factors would have been deemed approved on November 28, 1997 if the Commission had taken no action regarding the proposed contribution factors.¹¹ On November 26, 1997, however, the Division extended the review period for the proposed first quarter 1998 universal service contribution factors until December 5, 1997.¹² On December 5, 1997, the Division further extended the period of time during which the Commission could modify the proposed universal service contribution factors for the first quarter of 1998 until December 12, 1997.¹³ On December 12, 1997, the Division extended the review period for the proposed contribution

⁵ Changes to the Board of Directors of the National Exchange Carrier Association, Inc., Federal-State Joint Board on Universal Service, *Report and Order and Second Order on Reconsideration*, CC Dockets No. 97-21, 96-45, FCC 97-253 (rel. July 18, 1997) (*NECA Report and Order*).

⁶ *NECA Report and Order* at para. 57.

⁷ *NECA Report and Order* at para. 47.

⁸ *NECA Report and Order* at paras. 43-48. See also 47 C.F.R. §§ 54.709(a)(2), (3), and 54.711(b).

⁹ *NECA Report and Order* at para. 48.

¹⁰ Proposed First Quarter Universal Service Contribution Factors, *Public Notice*, DA 97-2392 (rel. Nov. 13, 1997). On November 19, 1997, AT&T filed comments on the November 13th Public Notice. See Letter from Rick D. Bailey, AT&T, to Magalie Roman Salas, FCC, dated November 19, 1997.

¹¹ 47 C.F.R. § 54.709(a)(3).

¹² Extended Review Period for First Quarter Universal Service Contribution Factors, *Public Notice*, DA 97-2510 (rel. Nov. 26, 1997).

¹³ Further Extension of Review Period for First Quarter Universal Service Contribution Factors, *Public Notice*, DA 97-2560 (rel. Dec. 5, 1997).

factors until December 16, 1997.¹⁴

On December 16, 1997, the Commission released the *Third Order on Reconsideration in CC Docket 96-45*. In that Order, the Commission concluded that it could reduce the maximum amounts collected during the first six months of 1998 for the schools and libraries and rural health care support mechanisms without jeopardizing the sufficiency of the support mechanisms.¹⁵ Consistent with the Commission's action on reconsideration, in this Public Notice, the Bureau revises the projections of demand for the low income and rural health care support mechanisms and approves revised universal service contribution factors for the first quarter of 1998.

The Commission concluded in the *Third Order on Reconsideration in CC Docket 96-45* that it should not impose unnecessary financial burdens on service provider contributors to universal service by collecting funds that exceed demand. Accordingly, the Bureau has reviewed all of the administrative corporations' projections and has determined that the estimated demand for the low income support mechanism appears to be too high. Based on our analysis, we project that annual demand for the low income support mechanism should be approximately \$500 million.¹⁵ This annual figure of \$500 million yields a quarterly demand projection of \$125 million, instead of the \$136.3 million projected by USAC. Therefore, we find that the first quarter projection of demand for the low income support mechanism should be \$125 million.

¹⁴ Additional Extension of Review Period for First Quarter Universal Service Contribution Factors, *Public Notice*, DA 97-2600 (rel. Dec. 12, 1997).

¹⁵ Federal-State Joint Board on Universal Service, *Third Order on Reconsideration*, CC Docket 96-45, FCC 97-411 (rel. Dec. 16, 1997).

¹⁵ This \$500 million projection of annual demand is based on the following: According to the 1997 Monitoring Report, 5.2 million customers participated in Lifeline in 1996. Monitoring Report, CC Docket No. 87-339, May 1997, pgs. 86-87, table 2.3. Assuming participation rates among existing customers remain constant, low income support for existing Lifeline participants will be \$436 million for the year. (5.2 million people times \$7, which is the maximum amount of federal support for Lifeline subscribers in states that provide matching funds, multiplied by 12 months). In the *Universal Service Order*, the Commission estimated that, by extending the low income support mechanism to non-participating states, approximately 1.9 million new low-income consumers would become eligible for the support mechanism. *Universal Service Order*, 12 FCC Rcd at 8966, n. 903. Assuming one-third of eligible consumers participate in the support mechanism and that non-participating states do not provide matching funds, low income support for new Lifeline participants will be \$40 million for the year. (627,000 people (.33 x 1.9 million people) x \$5.25 (the maximum amount of federal support for Lifeline subscribers in states that do not provide matching funds) x 12 months). We have assumed a one-third participation rate because the participation rate for Washington D.C.'s low income program is 32.3 percent. Chesapeake and Potomac Tel. Co., Formal Case No. 850, Order No. 9927, page 166 (rel. Jan. 29, 1992). In the *Universal Service Order*, the Commission estimated that annual funding for LinkUp will increase to \$23.6 million. *Universal Service Order*, 12 FCC Rcd at 8966, n. 903. Thus, the projection of annual low income demand is approximately \$500 million. (\$436 million plus \$40 million plus \$23.6 million).

The Bureau also adjusts the first quarter total program costs for the rural health care support mechanism, consistent with the *Third Order on Reconsideration in CC Docket 96-45*, from \$100 million to \$25 million.¹⁶

On November 26, 1997, the Commission released the *Second Order on Reconsideration in CC Docket No. 96-45*, which authorized the Administrator to bill contributors and collect contributions on a monthly, rather than a quarterly basis.¹⁷ That Order will reduce the interest income for the first quarter of 1998.¹⁸ The amount of interest earned for the high cost and low income support mechanisms decreased because contributions will be collected on a monthly, as opposed to quarterly, basis, while support will continue to be distributed on a monthly basis. As a result of the 75-day window filing period, initial support for the schools and libraries and rural health care support mechanisms will be distributed in the second quarter.¹⁹ The amount of interest earned for the schools and libraries and rural health care support mechanisms decreased slightly. Accordingly, we have adjusted the projected amount of interest income.

¹⁶ The Rural Health Care Corporation may collect up to \$25 million in the first quarter of 1998. *Third Order on Reconsideration* at para. 4.

¹⁷ Changes to the Board of Directors of the National Exchange Carrier Association, Inc., Federal-State Joint Board on Universal Service. *Second Order on Reconsideration in CC Docket 97-21*, CC Docket Nos. 97-21, 96-45, FCC 97-400 (rel. Nov. 26, 1997).

¹⁸ In calculating interest income, USAC, Schools and Libraries Corporation, and Rural Health Care Corporation assumed payments for the entire quarter would arrive on January 1, 1998. USAC assumed the first payments for the high cost and low income support mechanisms would be distributed at the end of February. Schools and Libraries Corporation and Rural Health Care Corporation assumed that the first payments for the schools, libraries, and rural health care support mechanisms would be distributed 40 days after January 1, 1998.

¹⁹ Schools and Libraries Corporation and Health Care Corporation Adopt Length of Filing Windows. *Public Notice*, DA 97-2349 (rel. Nov. 6, 1997). See also 47 C.F.R. §§ 69.616, 69.618(a)(7), 69.619(a)(7) (instructing the Schools and Libraries and Rural Health Care Corporations to authorize USAC to submit payments within 20 days of the receipt of requisite forms and instructing USAC to distribute payments within 20 days of receiving authorization). We anticipate that the window period for Schools and Libraries Corporation and Rural Health Care Corporation will not begin before the second week in January 1998, funds will not be distributed until after the 75-day window period has closed, and approximately 40 days have passed (20 days for submission of payments, 20 days to distribute payments, pursuant to 47 C.F.R. §§ 69.616, 69.618(a)(7), 69.619(a)(7)). Thus, payments for the schools and libraries and rural health care support mechanisms will not be distributed until May 1998.

Therefore, first quarter projections of demand and administrative expenses are as follows (revised figures are in bold):

(\$ millions)

Program	Program Demand	Administrative Expenses	Interest Income	Total Program Costs
Schools and Libraries	299.3	2.7	(2.0)	300.0
Rural Health Care	23.0	2.2 ²⁰	(0.2)	25.0
Subtotal	322.3	4.9	(2.2)	325.0
High Cost	434.0	1.1	(1.0)	434.1
Low Income	125.0	0.6	(0.3)	125.3
Subtotal	559.0	1.7	(1.3)	559.4
TOTAL	881.3	6.6	(3.5)	884.4

Based on information contained in the Universal Service Worksheets, FCC Form 457, USAC submitted the following information regarding end-user telecommunications revenues on November 13, 1997:

Total Interstate, Intrastate, and International End-User Telecommunications Revenues from January 1, 1997 - June 30, 1997: \$89.827 billion

Total Interstate and International End-User Telecommunications Revenues from January 1, 1997 - June 30, 1997: \$35.001 billion.²¹

USAC recommended that, in calculating the contribution bases, the Commission adjust end-user telecommunications revenues downward to account for possible uncollectible contributions and possible errors in the projections of demand and administrative expense. The proposed contribution factors set forth in the November 13, 1997 Public Notice thus were based on USAC's recommended contribution bases.²² The revised contribution factors set forth below, however, are based on contribution bases that include no adjustments for

²⁰ Administrative expenses appear to be high relative to projected quarterly demand, because start-up costs have been allocated to the first quarter. We anticipate that administrative expenses will total less than two percent of annual program costs.

²¹ Letter from William Stern, NECA to Secretary, FCC, dated November 13, 1997.

²² Letter from John A. Ricker, NECA to Universal Service Branch, dated November 10, 1997.

uncollectibles or errors in projection. Based on the low level of carrier-to-carrier uncollectibles for access charges,²³ we have concluded that projected levels of uncollectible contributions should be minimal. Furthermore, given the quarterly evaluation of demand, we find that we do not need to take into account possible errors in projections when setting the contribution factors. Any projection-related errors can be corrected in subsequent quarters.²⁴

Finally, we note that the contribution factors proposed by USAC and set forth in the Public Notice were derived by dividing quarterly total program costs by revenues for a six-month period. Although these factors, if approved, would have been used to collect funds for the first quarter, they would have been applied to the six-month revenues reported on individual contributor's Universal Service Worksheets. To obtain contribution factors that will be applied to revenues that approximate first quarter revenues, the revised contribution factors set forth below are based on contribution bases that are divided by two. This results in a more accurate portrayal of the contribution factors but does not change the amounts collected.

Based on the figures submitted by USAC, Schools and Libraries Corporation, and Rural Health Care Corporation, and revised as set forth above, the approved contribution factors for the first quarter of 1998 are as follows:

Contribution factor for the schools and libraries and rural health care support mechanisms:

$$\text{Total Program Costs / Contribution Base (Interstate, International, and Intrastate)} = \\ \$0.325 \text{ billion} / (\$89.827 \text{ billion} / 2) = \mathbf{0.0072}$$

Contribution factor for the high cost and low income support mechanisms:

$$\text{Total Program Costs / Contribution Base (Interstate and International)} = \\ \$0.559 \text{ billion} / (\$35.001 \text{ billion} / 2) = \mathbf{0.0319}.$$

These factors are the approved first quarter 1998 universal service contribution factors. To calculate contributions, USAC shall multiply these factors by one half of contributors' end-user telecommunications revenues for January 1, 1997 through June 30, 1997, as reported on Universal Service Worksheets. USAC will bill and collect those contributions on a monthly basis.

²³ The Commission estimates that carrier-to-carrier uncollectible rates are 0.2 percent. This estimate was calculated using 1996 ARMIS data. (1996 ARMIS 4301, Traffic Sensitive Total Uncollectibles (Column R, Row 1060) divided by Traffic Sensitive Total Revenues (Column R, Row 1090)).

²⁴ See also Letter from Rick D. Bailey, AT&T, to Magalie Roman Salas, FCC, dated November 19, 1997 at page 4.

Action by the Common Carrier Bureau

For further information, contact Diane Law, Universal Service Branch, Accounting and Audits Division, Common Carrier Bureau, at (202) 418-7382.