Third Quarter 1998 Universal Service Contribution Factors Revised and Approved
CC Docket No. 96-45

In this Public Notice, the Common Carrier Bureau (Bureau) revises and approves the final universal service contribution factors for the third quarter of 1998.\(^1\)

On May 13, 1998, using information submitted on May 1, 1998 by the Universal Service Administrative Company (USAC), Schools and Libraries Corporation (SLC), and Rural Health Care Corporation (RHCC), the Accounting Policy Division (Division) of the Bureau announced the proposed universal service contribution factors for the third quarter of 1998.\(^2\) The proposed factors were published in the Federal Register on May 26, 1998.\(^3\) Pursuant to the Commission's rules, if the Commission had taken no action by June 9, 1998, the proposed third quarter contribution factors would have been deemed approved.\(^4\) On June 8, 1998, the Division extended until 11:59 p.m. on June 12, 1998 the time period during which the Commission could modify the proposed third quarter 1998 universal service contribution factors.\(^5\)

Also on May 13, 1998, the Bureau released a Public Notice seeking comment on whether to reduce the

\(^1\) 47 C.F.R. § 54.709(a).


\(^4\) 47 C.F.R. § 54.709(a)(3).

1998 collection amounts for the schools and libraries and rural health care universal service support mechanisms.\(^6\) In an Order adopted today, the Commission, among other things, adjusts the 1998 collection amounts for the schools and libraries and rural health care universal service support mechanisms.\(^7\) Specifically, the Commission directs USAC to collect only as much as required by demand, but in no event more than $325 million per quarter for the third and fourth quarters of 1998 and the first and second quarters of 1999 to support the schools and libraries universal service support mechanism.\(^8\) With respect to the rural health care universal service support mechanism, the Commission directs USAC to collect only as much as required by demand, but in no event more than $25 million per quarter for the third and fourth quarters of 1998.\(^9\) The adjustments to the collection amounts for the third quarter of 1998 are reflected in the table below under the "total program costs" column. We note that, because the demand for funds exceeds the maximum amount that will be collected for the schools and libraries support mechanism in the third quarter of 1998, the "total program costs" for the third quarter (i.e., $325 million) is less than the demand that SLC projected.

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\(^8\) Id. The Commission further directs SLC to commit to applicants no more than $1.925 billion for disbursement during 1998 and the first half of 1999. Id.

\(^9\) Id.
Based on information contained in the Universal Service Worksheets, FCC Form 457, USAC submitted on user telecommunications revenues for the 1997 calendar year. On May 14, 1998, USAC submitted revised end-user telecommunications revenues for the 1997 calendar year.\textsuperscript{13} Funding bases for the third and fourth quarters are determined by subtracting the revenues reported for January through June 1997 (on the September Worksheet) from the 1997 calendar revenues reported on the March Worksheet. The amounts are as follows:

Total Interstate, Intrastate, and International End-User Telecommunications Revenues from July 1, 1997 - December 31, 1997: $94.066 billion

Total Interstate and International End-User Telecommunications Revenues from July 1, 1997 - December 31, 1997: $538.9 billion.

To account for uncollectible contributions, we decrease by one percent the revenue estimates listed above. It has been calculated that:

\begin{itemize}
\item Total Interstate, Intrastate, and International End-User Telecommunications Revenues from July 1, 1997 - December 31, 1997: $94.066 billion
\item Total Interstate and International End-User Telecommunications Revenues from July 1, 1997 - December 31, 1997: $538.9 billion.
\end{itemize}

\begin{footnotesize}
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\item \textsuperscript{10} Because this table lists expenses, positive income flows are denoted with parentheses.
\item \textsuperscript{11} In a letter dated May 11, 1998, SLC projected that the funding demand for the schools and libraries program for the third quarter of 1998 would be $690 million. See Letter from Ira Fishman, SLC, to Magalie Roman Salas, FCC, dated May 11, 1998.
\item \textsuperscript{12} SLC made the conservative assumption that interest income would be zero for the third quarter, to reflect the possibility that all funds would be disbursed during the third quarter. See Schools and Libraries Corporation Fund Size Requirements for Third Quarter 1998, CC Docket Nos. 96-45, 97-21, May 1, 1998, at 3, n.5.
\item \textsuperscript{13} Letter from Ed English, USAC, to Magalie Roman Salas, FCC, dated May 14, 1998 (USAC May 14 letter). USAC revised the figures based on information contained in Universal Service Worksheets that were submitted after USAC submitted its May 1st filing. USAC reported in its May 1st filing that, because several carriers had not yet submitted their Universal Service Worksheet, approximately 18 percent of the end-user telecommunications revenues were based on estimates by USAC. According to USAC, the percent of industry revenues that continues to be based on estimates by USAC is 4.2 percent. \textit{Id.}
\end{itemize}
\end{footnotesize}
that several carriers subject to the universal service contribution obligation have failed to meet this obligation.\textsuperscript{14} To integrity of the universal service support mechanisms, pending enforcement of this obligation, we determine that we uncollectible contributions at a rate of one percent. This is consistent with USAC’s estimated rate of uncollectible contributions. Additionally, because each quarter is three months long, we estimate quarterly revenues by dividing by two the six-month estimates.

Based on the revised end-user telecommunications revenues submitted by USAC, SLC, and RHCC,\textsuperscript{16} a percent reduction in the revenue estimates to account for uncollectible contributions, and consistent with the collection amounts for the schools and libraries and rural health care support mechanisms adopted today, the contribution factors for the third quarter of 1998 are as follows:

\begin{align*}
\text{Contribution factor for the schools and libraries and rural health care support mechanisms:} \\
\text{Total Program Costs / Contribution Base (Interstate, International, and Intrastate) $0.350 billion / ( $93.125 billion / 2) = 0.0075} \\
\text{Contribution factor for the high cost and low income support mechanisms:} \\
\text{Total Program Costs / Contribution Base (Interstate and International) = $0.539 billion / ($34.372 billion / 2) = 0.0314} \\
\text{These factors are the approved third quarter 1998 universal service contribution factors that USAC shall use to calculate third quarter universal service contributions. USAC will bill and collect these contributions on a basis.}\textsuperscript{17}
\end{align*}

For further information, contact Lori Wright, Accounting Policy Division, Common Carrier Bureau, 418-7400.

\textmd{-- Action by the Acting Chief, Common Carrier Bureau --}


\textsuperscript{15} \textit{See} USAC June 12 letter.

\textsuperscript{16} \textit{See} USAC May 14 letter.

\textsuperscript{17} 47 C.F.R. § 54.709(a)(4).