Nos. 24-354 and 24-422

In the Supreme Court of the United States

FEDERAL COMMUNICATIONS COMMISSION, ET AL.,
PETITIONERS

v.

CONSUMERS' RESEARCH, ET AL.

SCHOOLS, HEALTH & LIBRARIES BROADBAND COALITION,
ET AL., PETITIONERS

v.

CONSUMERS' RESEARCH, ET AL.

ON WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

JOINT APPENDIX

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CERTIORARI PETITIONS FILED: SEPT. 30, 2024, AND OCT. 11, 2024
CERTIORARI GRANTED: NOV. 22, 2024

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UNIVERSAL SERVICE ADMINISTRATIVE COMPANY

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November 2, 2021

HIGH COST

LOW INCOME

RURAL HEALTH CARE

BEFORE THE FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C.

FEDERAL UNIVERSAL SERVICE SUPPORT MECHANISMS FUND SIZE PROJECTIONS FOR FIRST QUARTER 2022

INTRODUCTION

The Universal Service Administrative Company (USAC) hereby submits the federal Universal Service Support Mechanisms fund size and administrative cost projections for the first quarter of calendar year 2022 (1Q2022), in accordance with Section 54.709 of the Federal Communications Commission's (FCC or Commission) rules.[1]

USAC is the not-for-profit corporation responsible for administering the federal Universal Service Fund (USF) and the following Universal Service Support Mechanisms (also referred to as "Support Mechanisms" or "Programs"): High Cost, Low Income, Rural Health Care, Schools and Libraries, and Connected Care Pilot.[2] USAC also performs the billing, collection, and disbursement functions for the Support Mechanisms.[3]

Upon approval of the quarterly funding requirements for the Support Mechanisms, the projected administrative expenses, and the submission of the contribution base amount, the Commission will establish a quarterly contribution factor. USAC will bill USF contributors on a monthly basis for their individual obliga-

[1] 47 C.F.R. § 54.709(a)(3).

[2] 47 C.F.R. § 54.701.

[3] 47 C.F.R. § 54.702(b)

tions based on the approved contribution factor, collect amounts owed from contributors, and distribute funds to eligible recipients based on the schedules filed herein.[4]

ADMINISTRATIVE EXPENSES AND INTEREST INCOME PROJECTION

ADMINISTRATIVE EXPENSES

Section 54.709(a) (3) of the Commission's rules requires USAC to submit its projected quarterly budget at least 60 days prior to the start of the quarter.[5] USAC includes any costs that can be directly attributed to the High Cost, Low Income, Rural Health Care, and Schools and Libraries Support Mechanisms, as well as the Connected Care Pilot Program, in the projected administrative expenditures of each mechanism. USAC's remaining joint and common costs, including costs associated with the billing, collection, and disbursement of funds, are included in the projected administrative expenditures of the respective support mechanisms based on USAC's methodology for allocating costs submitted to the Commission.[6]

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[4] *See* 47 C.F.R. §§ 54.709(a)(3), 54.201, 54.203, 54.301-54.307, 54.407, 54.413, 54.515.

[5] 47 C.F.R. § 54.709(a)(3).

[6] On January 1, 2006, USAC implemented a revised methodology for allocating joint and common costs that was filed with the Commission on October 3, 2005. *See* Letter from D. Scott Barash, USAC, to Marlene Dortch, FCC, CC Docket Nos. 97-21 *et al.* (Oct. 3, 2005) (explaining revisions to USAC's method for allocating joint and common administrative costs among the four Universal Service Support Mechanisms). On January 1, 2021, USAC applied this methodology to the Connected Care Pilot Program. *See* Let-

USAC projects a consolidated budget of $55.57 million for 1Q2022. Direct costs for all support mechanisms total $30.37 million and are listed for each mechanism in the chart provided below. Joint and common costs (including billing, collection, and disbursement activities) total $25.20 million and are listed in the chart below based on the allocation methodology on file with the Commission.

1Q2022 Administrative Expenses (in millions)—Budgeted

USF Mechanism	Direct Costs	USAC Common Costs	Total
High Cost	$5.98	$9.32	$15.30
Low Income	9.87	5.31	15.18
Rural Health Care	3.63	2.31	5.94
Schools & Libraries	10.79	8.19	18.98
Connected Care Pilot	0.10	0.07	0.17
Total	$30.37	$25.20	$55.57

Appendix M01 provides USAC's administrative expenditures budget for 1Q2022.

FUND ACTIVITY

Appendix M02 provides the fund size projections for 1Q2022. Appendices M03 and M04 provide 2021

ter from Charles Salvator, USAC, to Marlene Dortch, FCC, CC Docket Nos. 97-21 *et al.* (Dec. 21, 2020) (confirming the method for allocating USAC common costs among the four universal service support mechanisms and the Connected Care Pilot Program).

year-to-date statements of fund activity on a cash and accrual basis, respectively.

EFFORTS TO PREVENT AND REDUCE IMPROPER PAYMENTS

USAC has established a foundation of processes, systems, procedures, and outreach activities to prevent or reduce "improper" payments as defined by the Improper Payments Information Act of 2002 (Pub. L. No. 107-300).[7] USAC initiated efforts, consistent with its February 28, 2008 letter to the Commission, to identify additional measures to prevent or reduce potential improper payments and to allocate the additional resources needed to implement such measures.[8] Commission staff directed USAC to report its progress in implementing proposed actions to prevent or reduce improper payments and to project the anticipated administrative costs of such actions on a quarterly basis.[9]

The steps initiated by USAC include additional oversight and managerial controls, strengthened audit and investigative techniques, improved information technology tools, and more effective use of outreach resources. In 1Q2022, USAC will continue efforts identified and initiated during the previous years. These efforts include, but are not limited to:

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[7] *See* Improper Payments Information Act of 2002, Pub. L. No. 107-300, 116 Stat 2350 (2002).

[8] *See* Letter from D. Scott Barash, Acting Chief Executive Officer, USAC, to Anthony Dale, FCC Managing Director (Feb. 28, 2008) (concerning suggested additional steps to reduce or prevent improper payments).

[9] *See* Letter from Anthony Dale, FCC Managing Director, to D. Scott Barash, Acting Chief Executive Officer, USAC (Aug. 18, 2008).

1. *Assessing and strengthening USAC's internal controls*

USAC's Finance Internal Controls Team is responsible for testing key controls of USAC's processes. USAC's Audit and Assurance Division (AAD) has a Strategic Audit function that is responsible for assessing business operations. USAC's Office of the Chief Administrative Officer (OCAO) tracks the completion of the remediation activities and corrective action plans for all control deficiencies developed in response to internal and external testing results. OCAO established a framework for an Enterprise Risk Management (ERM) program at USAC. The Finance, OCAO, and AAD groups meet with USAC Leadership quarterly through the Risk Management Council to report on risk-related functions in the enterprise.

2. *Strengthening audit and investigative techniques*

The FCC's Office of Managing Director (OMD) directed USAC to implement an assessment program to determine the rate of improper payments made to universal service support mechanism beneficiaries to support the FCC's improper payment reporting requirements and to assess universal service support mechanism beneficiary compliance with FCC regulations.[10]

[10] Letter from Steven Van Roekel, FCC Managing Director, to Scott Barash, USAC Acting Chief Executive Officer (Feb. 12, 2010) (discussing the implementation of the Improper Payments Information Act of 2002 (IPIA) assessment program and companion audit program). Although not subject to improper payment reporting, USF contributor compliance with FCC regulations is assessed as part of the Beneficiary and Contributor Audit Program (BCAP).

USAC successfully implemented an assessment program, known as the Payment Quality Assurance (PQA) Program, in August 2010.

The FCC also directed USAC to establish a comprehensive support mechanism Beneficiary and USF contributor audit program, which is known as BCAP ("Beneficiary and Contributor Audit Program"). The BCAP plans are designed to:

- Assess beneficiaries' and contributors' compliance with FCC Rules;
- Identify correct contribution obligations (for contributor audits);
- Identify overpayments that must be recaptured (for beneficiary audits);
- Deter waste, fraud and abuse; and
- Identify FCC Rules that may require the attention of USAC or FCC management.

In 2021, AAD, OMD and WCB developed an audit plan for fiscal year 2022 that incorporates a hybrid approach for selecting beneficiaries and contributors for audit. The selection methodology is based on a combination of high risk factors, high dollar, random selection and targeted entities selected as a result of whistleblower allegations or FCC request.

The status of all audits in process as of September 30, 2021 is summarized in the table below.

Audit Status As of September 30, 2021				
Program	**Announced**	**Field-work**	**Report-ing**	**Total**
Contributor Revenue	1	8	2	11
High Cost	16	18	4	38
Low Income	1	16	20	37
Schools & Libraries	2	21	36	59
Rural Health Care	5	18	15	38
Total	**25**	**81**	**77**	**183**

As noted above, USAC implemented the PQA Program in 2010 to test improper payments and compliance with FCC regulations. The testing results for the two most recent years are noted below. Using a statistically drawn sample, support mechanism disbursements are selected each month and reviewed to verify that payments were made at the correct amount in accordance with FCC rules. The table below summarizes the error rates noted and the improper payment amounts reported for fiscal years (FYs) 2020 and 2019:

	FY 2020		FY 2019	
Support Mecha-nism	**Estimated Improper Payment Rate**	**Estimated Improper Payment Amount *(millions)***	**Estimated Improper Payment Rate**	**Estimated Improper Payment Amount *(millions)***
High Cost	0.01%	$0.75	0.01%	$0.65
Low Income	13.81%	$135.84	9.32%	$108.92
Schools & Libraries	4.46%	$88.43	6.33%	$139.67
Rural Health Care	6.24%	$15.67	11.46%	$34.19

The sample size and status of FY 2021 PQA assessments in process as of September 30, 2021 are summarized in the table below.

PQA Testing Status As of September 30, 2021				
Program	**Same Size**	**Announced**	**In Process**	**Completed**
High Cost	NA	NA	NA	NA
Low Income	240	240	0	240
Schools & Libraries	350	350	0	350
Rural Health Care	375	375	0	375
Total	**965**	**965**	**0**	**965**

3. *Improving information technology tools*

USAC has undertaken a systematic review of the capabilities of its current financial systems to determine whether additional functionality can be added to improve financial operations, and has made several improvements to its financial systems and is working on other systems enhancement initiatives.

Expanding and enhancing outreach and education

In the last quarter, USAC conducted extensive outreach, including:

- The High Cost program conducted outreach to ensure state and Tribal access to FCC Form 481 data filed by carriers as of July 1, helped state PUCs navigate the annual Oct. 1 certification of Eligible Telecommunications Carriers under their jurisdiction and helped carriers that self-certify perform their annual ETC certifications. In addition, High Cost conducted extensive outreach and provided ongoing customer service support to help carriers conduct quarterly speed and latency testing/pre-testing and report the results to USAC in order to comply with the FCC Performance Measures order;
- The Rural Health Care program conducted outreach to HCF and Telecom program participants to provide updates for FY2021 applicants and to prepare program participants for Funding Year 2022 as they anticipate the opening of the FY2022 filing window on December 1, 2021. This included three webinars, website updates, and creating resources for HCF and Telecom participants. Separate outreach went to Connected Care Pilot Program se-

lected projects. This included three webinars; a kick-off webinar, providing general information about next steps, and two additional webinars specific to sections of the application process. The RHC program continued to communicate important funding process information to the selected projects through emails and the Connected Care Pilot Learn page on the website;

- Schools and Libraries (E-rate) program outreach included the weekly SL News Brief (through July), monthly and mid-month stakeholder calls to participants and Tribal audiences, and one webinar event for E-rate participants of all experience levels. The E-rate program updated two invoicing (BEAR and SPI) walkthrough videos;
- The Lifeline program released a redesign of LifelineSupport.org—the consumer website for Lifeline eligible consumers and current subscribers, communicated extensions for the temporary changes based on the FCC's Lifeline waiver released in response to COVID-19, communicated Hurricane Ida relief for Lifeline participants, and sent targeted outreach to carriers for updates on program processes, systems, and changes; and
- The Contributors team hosted seven webinars to train service providers how to fill out the FCC Form 499-Q and basic 499 Filer ID training. During the course of the quarter, 645 participants joined the webinars.

USAC conducted 23 webinars: six monthly webinars for Lifeline carriers, one webinar for Tribal Lifeline partners, one webinar for Schools and Libraries' audiences, eight webinars for Rural Health Care participants, and seven webinars for Contributors.

FUNDING REQUIREMENTS

HIGH COST SUPPORT MECHANISM

Appendix HC01 provides projected High Cost Support by State by Study Area for 1Q2022. HC01 also provides the projected amount of individual company support, and projected per-month amounts for the components of High Cost support that each Eligible Telecommunications Carrier (ETC)[11] may be eligible to receive. HC02 provides the total projected amount of annualized High Cost Support for 1Q2022 for each state.

CONNECT AMERICA FUND PHASE II

The FCC released an Order on June 10, 2014 adopting rules, among other things, to institute the foundation for the award of Phase II (model-based) support through a competitive bidding process in price cap areas where the price cap carrier declines the offer of model-based support.[12] The Order also permits price cap carriers that decline model-based support to participate in the 2016 competitive bidding process.[13] On April 29, 2015, the FCC released a Public Notice announcing the offers of model-based Phase II support to price cap carriers to fund voice and broadband-capable

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[11] *See* 47 C.F.R. § 54.1310; 47 C.F.R. §§ 54.301-54.303.

[12] *See generally Connect America Fund Omnibus Order and FNPRM*, WC Docket Nos. 10-90 *et al.*, Report and Order, Declaratory Ruling, Order, Memorandum Opinion and Order, Seventh Order on Reconsideration, and Further Notice of Proposed Rulemaking, 29 FCC Rcd 7051 (2014) (*CAF Omnibus Order*).

[13] *Id.* at 7062-7063, para. 37.

networks in their service areas.[14] The total offer is $1.675 billion annually, for six calendar years, 2015-2020.[15] Next, on June 16, 2015, the Bureau released a Public Notice announcing acceptance by Frontier Communications of model-based support for each of the 28 states it serves.[16] For states where their model-based support is greater than Phase I Frozen support, Frontier elected to receive the lump sum payment associated with prior months that reflects the difference between Phase II model support and Phase I Frozen support. Finally in August 2015, the Bureau released public notices for Consolidated Communications, AT&T, CenturyTel, Inc. dba CenturyLink, Cincinnati Bell, Fairpoint Communications, Inc., Hawaiian Telecom, Inc., Micronesian, and Windstream Corporation for announcement of acceptance of model-based support.[17]

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[14] *See Wireline Competition Bureau Announces Connect America Phase II Support Amounts Offered to Price Cap Carriers to Expand Rural Broadband*, WC Docket No. 10-90, Public Notice, 30 FCC Rcd 3905 (2015).

[15] *Id.*

[16] *See Wireline Competition Bureau Authorizes Frontier Communications Corporation to Receive $283 Million in Connect America Phase II Support to Serve 1.3 Million Rural Americans in 28 States*, WC Docket No. 10-90, Public Notice, 30 FCC Rcd 6310 (2015).

[17] *See* Wireline Competition Bureau Authorizes Windstream to Receive Over $ 174 Million in Connect America Phase II Support in 17 States, WC Docket No. 10-90, Public Notice, 30 FCC Rcd 8245 (2015); Wireline Competition Bureau Authorizes Fairpoint to Receive Over $37 Million in Connect America Phase II Support in 14 States, WC Docket No. 10-90, 30 FCC Rcd 8245 (2015); Wireline Competition Bureau Authorizes the Micronesian Telecommunications Corporation to Receive Over $2.5 Million and Hawaiian Telecom, Inc. to Receive Over $ 4 Million in Connect America Phase

For 1Q2022, CAF Phase II projected support is estimated to be \$4.92 million. Appendix HC11 provides projected CAF Phase II Frozen Support (ACS) by State by Study Area for 1Q2022.

CONNECT AMERICA FUND PHASE II AUCTION

The Wireline Competition Bureau released a Public Notice on August 28, 2018 announcing the winners of the Connect America Find Phase II auction.[18]

For 1Q2022, total CAF Phase II auction projected support is estimated to be \$38.70 million. Appendix HC16 provides projected CAF Phase II Auction Support by State by Study Area for 1Q2022.

CONNECT AMERICA FUND/INTERCARRIER COMPENSATION SUPPORT

In the *USF/ICC Transformation Order*, the FCC adopted a transitional recovery mechanism with an effective date of July 1, 2012 to facilitate incumbent carriers' gradual transition away from intercarrier compensation (ICC) revenues.[19] Eligible incumbent carriers may receive additional support through this recovery mechanism.

II Support, WC Docket No. 10-90, 30 FCC Rcd 8471 (2015); Wireline Competition Bureau Authorizes Additional Cap Carriers to Receive Almost \$950 Million in Phase II Connect America Support *et al.*, WC Docket No. 10-90, Public Notice, 30 FCC Rcd 8577 (2015).

[18] *See Connect America Fund Phase II Auction (Auction 903) Closes Winning Bidders Announced FCC Form 683 Due October 15, 2018*, WC Docket Nos. 10-90 *et al.*, Public Notice, 29 FCC Rcd 7051 (2018).

[19] *See* 47 C.F.R. § 54.304(b).

For 1Q2022, total CAF/ICC Support is estimated to be $92.07 million. Appendix HC09 provides projected CAF/ICC Support by State by Study Area for 1Q2022.

RURAL BROADBAND EXPERIMENTS

On July 11, 2014, the FCC adopted the *Rural Broadband Experiments* (*RBE*) *Order* to advance the deployment of voice and broadband networks in high-cost areas and help design the Phase II competitive bidding process and Remote Areas Fund.[20] The FCC established a budget of $100 million over ten years for funding experiments in price cap areas that are not served by unsubsidized competitors.[21]

For 1Q2022, total RBE support is estimated to be $0.72 million, all of which will be paid from cash reserved in the High Cost account. Thus, there is no 1Q2022 collection requirement for RBE. Appendix HC12 provides projected RBE Support by State by Study Area for 1Q2022.

MOBILITY FUND PHASE I

In accordance with the Public Notice issued by the Wireline Competition Bureau on November 1, 2017, Mobility Fund Phase I support of $6.78 million for 1Q2022 will be paid with funds available in the High Cost account; thus, there is no 1Q2022 collection requirement for Mobility Fund Phase I.[22] Appendix HC10

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[20] *See Connect America Fund, ETC Annual Reports and Certifications*, WC Docket No. 10-90 *et al.*, Report and Order and Further Notice of Proposed Rulemaking, 29 FCC Rcd 8769 (2014) (*Rural Broadband Experiments Order*).

[21] *See id.* at 8772, para. 9.

[22] *See Wireline Competition Bureau Provides Guidance to the Universal Service Administrative Company Regarding the High-*

provides projected Mobility Fund Phase I Support by State by Study Area for 1Q2022.

RATE-OF-RETURN CARRIERS

Rate-of-return carriers not affiliated with price cap carriers may continue to receive legacy High Cost Program support.[23] In the *December 2018 Rate-of-Return Reform Order*, the FCC established a new budget for legacy carriers of $1.42 billion, to be increased annually by inflation.[24] However, the FCC has waived the budget for July 2021-June 2022.[25]

Appendix HC14 provides the rate-of-return budget control projected support amounts due to the budget control mechanism for 1Q2022.

HIGH COST LOOP SUPPORT (INCLUDING SAFETY NET ADDITIVE AND SAFETY VALVE SUPPORT)

HCL support is calculated based on the results of the annual collection of 2012 incumbent local exchange carrier (LEC) loop cost and expense adjustment data that was submitted to the FCC and USAC on October 1, 2013.[26] Growth in total HCL support for rural carriers is limited under Section 54.1302 of the Commission's

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Cost Universal Services Mechanism Budget, WC Docket No. 10-90, Public Notice, 32 FCC Rcd 9243 (WCB 2017).

[23] *See USF/ICC Transformation Order*, 26 FCC Rcd at 17740, para. 206.

[24] *See Connect America Fund et al.*, WC Docket Nos. 10-90 et al., Report and Order, Further Notice of Proposed Rulemaking, and Order on Reconsideration, FCC 18-176, para. 79, 84 (2018) (*December 2018 Rate of Return Reform Order*

[25] *See Connect America Fund*, WC Docket No. 10-90, Order, FCC 21-67 (2021)

[26] Universal Service Fund (USF) 2012 Submission of 2011 Study Results (filed Oct. 1, 2012) (*USF Data Submission*).

rules to the current level of funding adjusted yearly by the annual growth in supported rural loops.[27] The *Rural Task Force (RTF) Order* increased HCL support for rural carriers effective July 1, 2001.[28]

For 1Q2022, projected HCL support is $92.24 million, which includes $0.15 million for SVS. Appendix HC04 provides projected monthly HCL support payments by State by Study Area for 1Q2022. Appendix HC05 displays projected SVS payments by State by Study Area for 1Q2022.

ALASKA PLAN SUPPORT

In the *Alaska Plan Order*, the FCC approved for Alaska rate-of-return carriers to receive frozen support for 10 years and be obligated to offer voice and broadband services at specified speeds to a specified number of locations while meeting certain service obligations.[29]

For 1Q2022, projected Alaska Plan Support is $32.08 million. Appendix HC03 provides 1Q2022 projections for Alaska Plan Support by State by Study Area.

CONNECT AMERICA BROADBAND LOOP SUPPORT

Connect America Broadband Loop Support (CAF BLS) replaces what was previously known as Interstate Common Line Support (ICLS).[30] The FCC made modifications to modernize ICLS rules to provide support in

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[27] 47 C.F.R § 54.1302(a); *see also* 47 C.F.R. § 54.1303.

[28] *Federal-State Joint Board on Universal Service et al.,* CC Docket Nos. 96-45 *et al.*, Fourteenth Report and Order, Twenty-Second Order on Reconsideration, and Further Notice of Proposed Rulemaking, and Report and Order, 16 FCC Rcd 11244 (2001) (*RTF Order*).

[29] See WC-Docket Nos. 10-90 and 16-271 DA 16-425

[30] *See Rate-of-Return Reform Order*, 31 FCC Rcd at 3091, para. 5.

situations where the customer no longer subscribes to traditional regulated local exchange voice service.[31] CAF BLS will provide support for broadband-capable loops, regardless of whether the customer chooses traditional voice, bundle of voice and broadband, or only broadband.[32]

For 1Q2022, CAF BLS is projected to be $232.57million. Appendix HC07 provides USAC's 1Q2022 projections of CAF BLS by State by Study Area and Appendix HC08 provides USAC's 1Q2022 projections of CAF BLS by State. Appendix HC15 provides USAC's 1Q2022 projections of the CAF BLS true-up by State by Study Area.

ALTERNATIVE CONNECT AMERICA MODEL (A-CAM)

Alternative Connect America Model (A-CAM) allows carriers the option of electing a set amount of monthly support over a fixed term, or remaining with a reformed version of legacy support mechanisms with CAF-BLS and HCL support.

For 1Q2022, A-CAM support is projected to be $156.61 million, of which $48.75 million will be paid from funds available in the High Cost account. Appendix HC13 provides Alternative Connect America Cost Model Support Projected by State by Study Area for 1Q2022.

A-CAM II

On December 13, 2018, the FCC released the *December 2018 Rate-of-Return Order*, which directed the FCC to make model offers of up to $200.00 per location to all

[31] *Id.*

[32] *Id.*

legacy rate-of-return carriers that did not previously elect model support or support pursuant to the Alaska Plan.[33] To implement the increase, the FCC has released a Public Notice with the support amounts.[34]

For 1Q2022, A-CAM II support is projected to be $126.58 million. Appendix HC17 provides projected A-CAM II Support by State by Study Area for 1Q2022.

PRICE CAP CARRIERS

For 1Q2022, total frozen high cost support for price cap carriers is estimated to be $10.95 million. Appendix HC06 provides frozen high cost support for price cap carriers by State by Study Area for 1Q2022.

COMPETITIVE ELIGIBLE TELECOMMUNICATIONS CARRIERS

The *USF/ICC Transformation Order* transitioned existing Competitive Eligible Telecommunications Carriers (CETCs) support to the CAF over a five-year period beginning January 1, 2012.[35] For the transition, the FCC set each CETC's baseline support at its total 2011 support in a given study area, or an amount equal to 3,000 times the number of reported lines as of year-end 2011, whichever was lower.[36] That monthly baseline amount was provided from January 1, 2012 to Septem-

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[33] *See Id.*, para. 34.

[34] *See Wireline Competition Bureau Authorizes 171 Rate-Of-Return Companies to Receive $491 Million Annually in Alternative Connect America Cost Model II Support to Expand Rural Broadband*, WC Docket No. 10-90, Public Notice, 34 FCC Rcd at 7271 (2019).

[35] *See id.* at 17830, para. 513.

[36] *See id.* at 17831, para. 515.

ber 30, 2012.[37] Beginning July 1, 2012, each CETC's support was reduced by 20 percent for each July to June time period.[38] However, consistent with FCC rules, since Mobility Fund Phase II was not implemented by September 30, 2014, CETC support was not subject to an additional 20 percent reduction in support beginning July 2014.[39]

For 1Q2022, total frozen high cost support for CETCs is $91.89 million. Appendix HC06 provides frozen high cost support for CETCs by State by Study Area for 1Q2022.

UNIENDO A PUERTO RICO FUND/CONNECT USVI FUND

On September 30, 2019, the FCC released the *Uniendo a Puerto Rico Fund and the Connect USVI Fund Order*, which allocated nearly a billion dollars in federal universal service support to Puerto Rico and the U.S. Virgin Islands. These funds will facilitate the improvement and expansion of existing fixed and mobile networks in the Puerto Rico and the U.S. Virgin Islands.[40]

For 1Q2022, Uniendo a Puerto Rico Fund/Connect USVI Fund support is projected to be $26.86 million. Appendix HC18 provides the Uniendo Puerto Rico Fund Mobile and Fixed Support Projected by State by Study Area for 1Q2022. Appendix HC19 provides the

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[37] *See id.*

[38] *See id.*

[39] *USF/ICC Transformation Order*, 26 FCC Rcd at 17831, para. 515; *see also* 47 C.F.R. § 54.307.

[40] *See The Uniendo a Puerto Rico Fund and the Connect USVI Fund et al.*, WC Docket No. 18-143 et al., Report and Order and Order on Reconsideration, FCC 19-95, para. 3 (2019) *(Uniendo a Puerto Rico Fund and the Connect USVI Fund Order).*

Connect USVI Fund Mobile and Fixed Support Projected by State by Study Area for 1Q2022.

RURAL DIGITAL OPPORTUNITY FUND

On February 7, 2020, the FCC released the *Rural Digital Opportunity Fund Order*, which provided up to $20.4 billion to fund the deployment of up to gigabit speed broadband networks in unserved rural communities through a two-phase reverse auction mechanism.[41]

For 1Q2022, Rural Digital Opportunity Fund support is projected to be $137.28 million.

HIGH COST SUPPORT MECHANISM SUMMARY

The 1Q2022 High Cost Support Mechanism funding requirements are projected as follows: $92.24 million for HCL support, $232.57 million for CAF BLS, $10.95 million for frozen Price Cap Carrier Support, $4.92 million for CAF Phase II, $38.70 million for CAF Phase II Auction, $91.89 million for frozen CETC Support, $92.07 million for CAF/ICC Support, $32.08 million for Alaska Plan Support, $107.86 million for A-CAM, $126.58 million for A-CAM II, $26.86 million for Uniendo a Puerto Rico/Connect USVI, and $137.28 million for Rural Digital Opportunity Fund. This results in base projected demand of $994.00 million.

The following funding requirements will be paid from funds available in the High Cost account: Rural Broadband Experiments ($0.72 million), Mobility Fund Phase I ($6.78 million), and incremental A-CAM support ($48.75 million).

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[41] *See Rural Digital Opportunity Fund et al.*, WC Docket No. 19-126 et al., Report and Order, FCC 20-5 (2020) (*Rural Digital Opportunity Fund Order*).

The total funding requirement of $994.00 million is adjusted as follows: increased by prior period adjustments of $35.22 million[42] and increased by administrative costs of $15.30 million; resulting in a total projected 1Q2022 funding requirement for the High Cost Support Mechanism of $1,044.52 million.

LOW INCOME SUPPORT MECHANISM

LIFELINE SUPPORT

ETCs providing Lifeline support are entitled to receive funding for the waiver of charges and reduced rates provided to qualified low-income subscribers.[43] In the *Lifeline Reform Order*, all non-tribal Lifeline support was set to a flat rate of $9.25 for all subscribers.[44] As established in the *Tribal Order,* tribal support makes available each month up to an additional $25 per low-income subscriber to eligible residents of tribal lands.[45] The *2016 Lifeline Order* extended Lifeline sup-

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[42] Prior period adjustments reconcile projections to actual results and include adjustments for billings, interest income, bad debt, and administrative expenses.

[43] 47 C.F.R. §§ 54.401-54.417.

[44] *See Lifeline and Link Up Reform and Modernization et al.*, WC Docket Nos. 11-42 *et al.*, CC Docket No. 96-45, Report and Order and Further Notice of Proposed Rule Making, 27 FCC Rcd 6656, 6683, para. 58 (2012) (*Lifeline Reform Order).*

[45] *See* 47 C.F.R. § 54.400(e); *Federal-Joint Board on Universal Service et al.*, CC Docket 96-45, Twenty-Fifth Order on Reconsideration, Report and Order, Order, and Further Notice of Proposed Rulemaking, 18 FCC Rcd 10958 (2003) (*Tribal Order*). On August 31, 2000, the FCC stayed the implementation of the federal Lifeline and Link-up rule amendments only to the extent that they apply to qualifying low-income consumers living near reservations.

port to broadband services and adopted a phase-down of support for voice-only service beginning in 2019.[46]

For 1Q2022, USAC projects $206.06 million will be required for Lifeline support.

LINK-UP SUPPORT

Link-Up support is available for ETCs that provide support on tribal lands, but is limited to those ETCs receiving High Cost Program support.[47] ETCs may claim a 100 percent reduction up to $100 of the customary charge for commencing telephone service for a single telecommunication connection at a subscriber's principal place of residence.[48]

For 1Q2022, USAC projects that $0.04 million will be required for Link-Up support.

LOW INCOME SUPPORT MECHANISM SUMMARY

The estimated 1Q2022 Low Income Support Mechanism funding requirements are projected as follows: $206.06 million for Lifeline and $0.04 million for Link-Up, resulting in a total of $206.10 million.

The total fund requirement of $206.10 million is adjusted as follows: decreased by prior period adjustment of $83.77 million[49] and increased for administrative costs

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[46] *See Lifeline and Link Up Reform and Modernization, et al.*, WC Docket Nos. 11-42, Third Report and Order and Further Report and Order, and Order on Reconsideration, 31 FCC Rcd 3962, 3985-87, paras. 62-66 (2016) (*2016 Lifeline Order*).

[47] *See id.* at 6767, para. 254.

[48] 47 C.F.R. § 54.413(a)(1).

[49] Prior period adjustments reconcile projections to actual results and include adjustments for billings, disbursements, interest income, bad debt, and administrative expenses.

of $15.18 million; resulting in a total projected 1Q2022 funding requirement for the Low Income Support Mechanism of $137.51 million.

Appendix LI01 provides projected Low Income support amounts by State and Study Area for 1Q2022.[50] LI03 provides a list of ETCs for 3Q2021.[51] LI04 provides detail on company specific Low Income disbursement amounts for 3Q2021. LI05 provides detail on annual company-specific Low Income support claimed by state and company for January 2018 through September 2021. LI06 provides historical data of monthly support amounts claimed by ETCs from January 1998 through September 2021. LI07 provides detail on Low Income support claimed by state or jurisdiction for January 2018 through September 2021. LI08 and LI09 provide subscriber and beneficiary information by state or jurisdiction for Lifeline and Link-Up support, respectively, for January 2021 through September 2021.

RURAL HEALTH CARE SUPPORT MECHANISM

In the *2018 Rural Health Care Program Funding Cap Order*, the Commission amended its rules to allow unused funds from previous funding years to be carried forward for use in subsequent funding years, beginning in Funding Year 2018.[52] On an annual basis, unused funds will be made available in the second quarter of each cal-

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[50] Companies that are no longer ETCs have been removed from LI01.

[51] Companies that are no longer ETCs have been removed from LI03.

[52] *Promoting Telehealth in Rural America,* WC Docket No. 17-310, Report and Order, FCC 18-82, para. 25 (2018) *(2018 Rural Health Care Program Funding Cap Order).*

endar year for use in the next full funding year of the Rural Health Care Program.[53]

In the *2018 Rural Health Care Program Funding Cap Order*, the Commission also required USAC to file quarterly estimates of unused funds that will be available for carryover in subsequent funding years.[54] The following is a summary of estimated unused funds as of September 30, 2021 for Funding Years 2008 through 2020. Funding years prior to Funding Year 2008 are closed.

FUNDING YEAR 2008

Funding Year 2008 began on July 1, 2008 and ended on June 30, 2009. Balances as of September 30, 2021 are as follows:

Funding Year 2008	Amounts in Millions
Amount Authorized and Actually Collected	$205.92
Amount Carried Forward / Backward	($124.97)
Amount Authorized for Disbursement	($80.95)
Reserve for Outstanding Obligations	$0.00
Reserve for Pending Applications	$0.00
Reserve for USAC Appeals	$0.00
Reserve for FCC Appeals	$0.00
Estimated Remaining Balance	**$0.00**

[53] *Id.*, para. 27.

[54] *Id.*, para. 26.

Cumulative payments to service providers through 3Q2021 are listed in Appendix RH03.

FUNDING YEAR 2009

Funding Year 2009 began on July 1, 2009 and ended on June 30, 2010. Balances as of September 30, 2021 are as follows:

Funding Year 2009	Amounts in Millions
Amount Authorized and Actually Collected	$211.02
Amount Carried Forward / Backward	$145.02
Amount Authorized for Disbursement	($354.45)
Reserve for Outstanding Obligations	($0.33)
Reserve for Pending Applications	$0.00
Reserve for USAC Appeals	$0.00
Reserve for FCC Appeals	($1.26)
Estimated Remaining Balance	**$0.00**

Cumulative payments to service providers through 3Q2021 are listed in Appendix RH06.

FUNDING YEAR 2010

Funding Year 2010 began on July 1, 2010 and ended on June 30, 2011. Balances as of September 30, 2021 are as follows:

Funding Year 2010	**Amounts in Millions**
Amount Authorized and Actually Collected	$87.39
Amount Carried Forward / Backward	$0.00
Amount Authorized for Disbursement	($87.32)
Reserve for Outstanding Obligations	($0.06)
Reserve for Pending Applications	$0.00
Reserve for USAC Appeals	$0.00
Reserve for FCC Appeals	($0.00)
Estimated Remaining Balance	**$0.01**

Cumulative payments to service providers through 3Q2021 are listed in Appendix RH09.

FUNDING YEAR 2011

Funding Year 2011 began on July 1, 2011 and ended on June 30, 2012. Balances as of September 30, 2021 are as follows:

Funding Year 2011	**Amounts in Millions**
Amount Authorized and Actually Collected	$101.33
Amount Carried Forward / Backward	$0.00
Amount Authorized for Disbursement	($101.29
Reserve for Outstanding Obligations	($0.04)
Reserve for Pending Applications	$0.00
Reserve for USAC Appeals	$0.00
Reserve for FCC Appeals	($0.00)
Estimated Remaining Balance	**$0.00**

Cumulative payments to service providers through 3Q2021 are listed in Appendix RH12.

FUNDING YEAR 2012

Funding Year 2012 began on July 1, 2012 and ended on June 30, 2013. Balances as of September 30, 2021 are as follows:

Funding Year 2012	Amounts in Millions
Amount Authorized and Actually Collected	$118.32
Amount Carried Forward / Backward	$0.09
Amount Authorized for Disbursement	($116.95)
Reserve for Outstanding Obligations	($1.27)
Reserve for Pending Applications	$0.00
Reserve for USAC Appeals	$0.00
Reserve for FCC Appeals	($0.18
Estimated Remaining Balance	**$0.01**

Authorized funding by applicant during 3Q2021 and cumulative payments to service providers through 3Q2021 are listed in Appendices RH14 and RH15, respectively.

FUNDING YEAR 2013

Funding Year 2013 began on July 1, 2013 and ended on June 30, 2014. Balances as of September 30, 2021 are as follows:

Funding Year 2013	Amounts in Millions
Amount Authorized and Actually Collected	$178.76
Amount Carried Forward / Backward	($1.98)
Amount Authorized for Disbursement	($175.16)
Reserve for Outstanding Obligations	($1.55)
Reserve for Pending Applications	$0.00
Reserve for USAC Appeals	$0.00
Reserve for FCC Appeals	($0.07)
Estimated Remaining Balance	**$0.00**

Authorized funding by applicant during 3Q2021 and cumulative payments to service providers through 3Q2021 are listed in Appendices RH17 and RH18, respectively.

FUNDING YEAR 2014

Funding Year 2014 began on July 1, 2014 and ended on June 30, 2015. Balances as of September 30, 2021 are as follows:

Funding Year 2014	Amounts in Millions
Amount Authorized and Actually Collected	$232.88
Amount Carried Forward / Backward	$3.82
Amount Authorized for Disbursement	($224.25)
Reserve for Outstanding Obligations	($0.95)
Reserve for Pending Applications	$0.00
Reserve for USAC Appeals	$0.00
Reserve for FCC Appeals	($11.51)
Estimated Remaining Balance	**$0.01**

Authorized funding by applicant during 3Q2021 and cumulative payments to service providers through 3Q2021 are listed in Appendices RH20 and RH21, respectively.

FUNDING YEAR 2015

Funding Year 2015 began on July 1, 2015 and ended on June 30, 2016. Balances as of September 30, 2021 are as follows:

Funding Year 2015	Amounts in Millions
Amount Authorized and Actually Collected	$294.16
Amount Carried Forward / Backward	$0.45
Amount Authorized for Disbursement	($269.02)
Reserve for Outstanding Obligations	($7.62)
Reserve for Pending Applications	($0.03)
Reserve for USAC Appeals	($0.00)
Reserve for FCC Appeals	($17.90)
Estimated Remaining Balance	**$0.04**

Authorized funding by applicant during 3Q2021 and cumulative payments to service providers through 3Q2021 are listed in Appendices RH23 and RH24, respectively.

FUNDING YEAR 2016

Funding Year 2016 began on July 1, 2016 and ended on June 30, 2017. Balances as of September 30, 2021 are as follows:

Funding Year 2016	**Amounts in Millions**
Amount Authorized and Actually Collected	$402.70
Amount Carried Forward / Backward	($48.68)
Amount Authorized for Disbursement	($304.04)
Reserve for Outstanding Obligations	($5.47)
Reserve for Pending Applications	($0.05)
Reserve for USAC Appeals	($0.15)
Reserve for FCC Appeals	($32.06)
Administrative Expenses	($12.29)
Estimated Remaining Balance	**($0.04)**

Authorized funding by applicant during 3Q2021 and cumulative payments to service providers through 3Q2021 are listed in Appendices RH26 and RH27, respectively.

FUNDING YEAR 2017

Funding Year 2017 began on July 1, 2017 and ended on June 30, 2018. Balances as of September 30, 2021 are as follows:

Funding Year 2017	**Amounts in Millions**
Amount Authorized and Actually Collected	$367.59
Amount Carried Forward / Backward	$34.21
Amount Authorized for Disbursement	($334.06)
Reserve for Outstanding Obligations	($4.56)
Reserve for Pending Applications	($6.56)
Reserve for USAC Appeals	($3.91)
Reserve for FCC Appeals	($42.78)
Administrative Expenses	($10.37)
Estimated Remaining Balance	**($0.44)**

Funding commitments made to applicants during 3Q2021 are included in Appendix RH28. Authorized funding by applicant during 3Q2021 and cumulative payments to service providers through 3Q2021 are listed in Appendices RH29 and RH30, respectively.

FUNDING YEAR 2018

Funding Year 2018 began on July 1, 2018 and ended on June 30, 2019. Balances as of September 30, 2021 are as follows:

Funding Year 2018	Amounts in Millions
Amount Authorized and Actually Collected	$581.28
Amount Carried Forward / Backward	($225.76)
Amount Authorized for Disbursement	($296.76)
Reserve for Outstanding Obligations	($8.72)
Reserve for Pending Applications	($6.25)
Reserve for USAC Appeals	($18.56)
Reserve for FCC Appeals	($3.96)
Administrative Expenses	($12.09)
Estimated Remaining Balance	**$9.18**

Funding commitments made to applicants during 3Q2021 are included in Appendix RH31. Authorized funding by applicant during 3Q2021 and cumulative payments to service providers through 3Q2021 are listed in Appendices RH32 and RH33, respectively.

FUNDING YEAR 2019

Funding Year 2019 began on July 1, 2019 and ended on June 30, 2020. Balances as of September 30, 2021 are as follows:

Funding Year 2019	**Amounts in Millions**
Amount Authorized and Actually Collected	$594.07
Amount Carried Forward / Backward	($66.74)
Amount Authorized for Disbursement	($389.23)
Reserve for Outstanding Obligations	($63.10)
Reserve for Pending Applications	($2.96)
Reserve for USAC Appeals	($17.23)
Reserve for FCC Appeals	($3.87)
Administrative Expenses	($16.34)
Estimated Remaining Balance	**$34.60**

Funding commitments made to applicants during 3Q2021 are included in Appendix RH34. Authorized funding by applicant during 3Q2021 and cumulative payments to service providers through 3Q2021 are listed in Appendices RH35 and RH36, respectively.

FUNDING YEAR 2020

Funding Year 2020 began on July 1, 2020 and ended on June 30, 2021. Balances as of September 30, 2021 are as follows:

Funding Year 2020	Amounts in Millions
Amount Authorized and Actually Collected	$604.76
Amount Carried Forward / Backward	$43.37
Amount Authorized for Disbursement	($199.80)
Reserve for Outstanding Obligations	($253.71)
Reserve for Pending Applications	($5.58)
Reserve for USAC Appeals	($70.99)
Reserve for FCC Appeals	($1.55)
Administrative Expenses	($19.75)
Estimated Remaining Balance	**$96.75**

Funding commitments made to applicants during 3Q2021 are included in Appendix RH37. Authorized funding by applicant during 3Q2021 and cumulative payments to service providers through 3Q2021 are listed in Appendices RH38 and RH39, respectively.

FUNDING YEAR 2021

On March 19, 2021, the Commission announced a funding cap for Funding Year 2021 of $612.02 million for the Rural Health Care Program.[55] This reflects a 1.2 percent inflation-adjusted increase in the $604.76 million cap from Funding Year 2020. The filing window for Funding Year 2021 closed on June 1, 2021.

For Funding Year 2021, USAC will collect an amount equal to the Rural Health Care Funding Cap of $612.02 million less funds available for roll forward from prior years, as directed by the Commission.[56] The collection is inclusive of administrative costs.

RURAL HEALTH CARE SUPPORT MECHANISM SUMMARY

The 1Q2022 Rural Health Care Support Mechanism collection requirement of $153.01 million represents one quarter of the cap for Funding Year 2021. The amount includes collection requirements for the Telecommunications Program, the Healthcare Connect Fund, and administrative costs. The collection requirement of $153.01 million is adjusted as follows: decreased by funds available for roll forward from prior years of $153.01 million, increased by prior period adjustment of $11.72 million[57]; resulting in a total projected 1Q2022 funding requirement for the Rural Health Care Support Mechanism of $11.72 million.

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[55] *See Wireline Competition Bureau Announces E-Rate and RHC Programs' Inflation-Based Caps for Funding Year 2021,* CC Docket No. 02-6, WC Docket No. 02-60, Public Notice, DA 21-332 (2021).

[56] 47 CFR § 54.619(a)(5).

[57] Prior period adjustments reconcile projections to actual results and include adjustments for billings, interest income, and bad debt.

CONNECTED CARE PILOT PROGRAM

On April 2, 2020, the FCC issued Order FCC 20-44, establishing the Connected Care Pilot Program within the USF, making an additional $100 million available over three years to help defray health care providers' qualifying costs of providing connected care services, which focused primarily to low-income or veteran patients.[58] The Order authorized collections of $100 million over three years (12 quarters) at $8.33 million per quarter beginning in 4Q2020.[59] The Order states that the purpose of the Pilot Program is to examine how the Fund can help support the trend towards connected care services, particularly for low income consumers and veterans.[60] The Order indicates that $100 million funding for the Pilot Program will be separate from the budgets of the other existing universal service programs and directs USAC to separately collect funds for the Pilot Program.[61]

CONNECTED CARE PILOT PROGRAM SUMMARY

The 1Q2022 Connected Care Pilot Program collection requirement of $8.33 million is adjusted as follows: increased by prior period adjustment of $0.71 million[62] and increased by $0.17 million for administrative expenses, resulting in a total projected 1Q2022 funding re-

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[58] *See Promoting Telehealth for Low-Income Consumers, COVID-19 Telehealth Program,* WC Docket Nos. 18-213 and 20-89, Report and Order, FCC 20-44, para. 37 (2020).

[59] *Id*, para. 42.

[60] *Id*, para. 5.

[61] *Id*, paras. 38, 42.

[62] Prior period adjustments reconcile projections to actual results and include adjustments for billings, interest income, and bad debt.

quirement for the Connected Care Pilot Program of $9.21 million.

SCHOOLS AND LIBRARIES SUPPORT MECHANISM

Following is a summary of Schools and Libraries Support Mechanism net commitments[63] and net authorized for payment[64] by Funding Year as of September 30, 2021.

FUNDING YEAR 1998

FUNDING YEAR 1998					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$678.95	39.97%	$507.76	36.30%	74.79%
Internet Access	$134.10	7.89%	$94.82	6.78%	70.71%
Internal Connections	$885.71	52.14%	$796.39	56.93%	89.91%
TOTAL	$1,698.76	100.00%	$1,398.97	100.00%	82.35%
Deobligations due to Expired FRNs	($299.79)				
Net Commitments	$1,398.97				

[63] Net Commitments are the amount of total funding commitments (including appeals, less funding commitment adjustments (COMADs) and other recaptures) reduced by the remaining dollar amount of commitments that had not been fully disbursed by their invoicing deadline.

[64] Net authorized for payment is the amount of total approved invoices less any returned funds. Authorized payments may be greater than net commitments due to recoveries in the process of collection.

FUNDING YEAR 1999

FUNDING YEAR 1999					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$634.28	29.54%	$452.16	27.40%	71.29%
Internet Access	$148.64	6.92%	$95.38	5.78%	64.17%
Internal Connections	$1,364.15	63.54%	$1,102.44	66.82%	80.82%
TOTAL	$2,147.07	100.00%	$1,649.98	100.00%	76.85%
Deobligations due to Expired FRNs	($497.09)				
Net Commitments	$1,649.98				

FUNDING YEAR 2000

FUNDING YEAR 2000					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$718.74	34.58%	$481.21	29.22%	66.95%
Internet Access	$218.72	10.52%	$131.92	8.01%	60.32%
Internal Connections	$1,140.97	54.90%	$1,033.81	62.77%	90.61%
TOTAL	$2,078.43	100.00%	$1,646.94	100.00%	79.24%
Deobligations due to Expired FRNs	($431.49)				
Net Commitments	$1,646.94				

FUNDING YEAR 2001

FUNDING YEAR 2001					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$766.34	35.32%	$540.87	32.26%	70.58%
Internet Access	$224.65	10.35%	$146.93	8.76%	65.40%
Internal Connections	$1,178.96	54.33%	$988.97	58.98%	83.89%
TOTAL	$2,169.95	100.00%	$1,676.77	100.00%	77.27%
Deobligations due to Expired FRNs	($493.18)				
Net Commitments	$1,676.77				

FUNDING YEAR 2002

FUNDING YEAR 2002					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$848.89	40.29%	$610.19	38.28%	71.88%
Internet Access	$250.99	11.91%	$169.40	10.63%	67.49%
Internal Connections	$1,007.24	47.80%	$814.61	51.10%	80.87%
TOTAL	$2,107.12	100.00%	$1,594.20	100.00%	75.66%
Deobligations due to Expired FRNs	($512.92)				
Net Commitments	$1,594.20				

FUNDING YEAR 2003

FUNDING YEAR 2003					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$898.73	35.68%	$657.50	33.94%	73.16%
Internet Access	$271.87	10.79%	$203.32	10.49%	74.79%
Internal Connections	$1,347.99	53.52%	$1,076.69	55.57%	79.87%
TOTAL	$2,518.59	100.00%	$1,937.51	100.00%	76.93%
Deobligations due to Expired FRNs	($581.02)				
Net Commitments	$1,937.57				

FUNDING YEAR 2004

FUNDING YEAR 2004					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$933.66	46.09%	$689.93	44.94%	73.90%
Internet Access	$242.31	11.96%	$193.34	12.59%	79.79%
Internal Connections	$849.98	41.95%	$651.97	42.47%	76.70%
TOTAL	$2,025.95	100.00%	$1,535.24	100.00%	75.78%
Deobligations due to Expired FRNs	($490.46)				
Net Commitments	$1,535.49				

FUNDING YEAR 2005

FUNDING YEAR 2005					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$983.87	49.00%	$778.02	47.92%	79.08%
Internet Access	$259.37	12.92%	$214.35	13.20%	82.64%
Internal Connections	$644.61	32.10%	$539.26	33.23%	83.69%
Internal Connections-Maint	$120.02	5.98%	$91.66	5.65%	76.37%
TOTAL	$2,007.87	100.00%	$1,623.29	100.00%	80.86%
Deobligations due to Expired FRNs	($384.50)				
Net Commitments	$1,623.37				

Funding commitments made to applicants during 3Q2021 are included in Appendix SL01.

FUNDING YEAR 2006

FUNDING YEAR 2006					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$1,063.77	54.59%	$849.65	54.23%	79.87%
Internet Access	$290.31	14.90%	$236.49	15.09%	81.46%
Internal Connections	$475.89	24.42%	$394.60	25.19%	82.92%
Internal Connections-Maint	$118.83	6.10%	$86.00	5.49%	72.37%
TOTAL	$1,948.80	100.00%	$1,566.74	100.00%	80.40%
Deobligations due to Expired FRNs	($381.81)				
Net Commitments	$1,566.99				

FUNDING YEAR 2007

FUNDING YEAR 2007					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$1,163.90	49.39%	$947.37	48.51%	81.40%
Internet Access	$310.51	13.18%	$258.89	13.26%	83.38%
Internal Connections	$724.64	30.75%	$627.73	32.14%	86.63%
Internal Connections-Maint	$157.47	6.68%	$118.96	6.09%	75.57%
TOTAL	$2,356.52	100.00%	$1,952.95	100.00%	82.88%
Deobligations due to Expired FRNs	($403.57)				
Net Commitments	$1,952.95				

FUNDING YEAR 2008

FUNDING YEAR 2008					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$1,291.40	54.42%	$1,047.22	54.36%	81.09%
Internet Access	$333.48	14.05%	$278.65	14.46%	83.56%
Internal Connections	$623.21	26.26%	$508.17	26.38%	81.54%
Internal Connections-Maint	$124.87	5.26%	$92.46	4.80%	74.04%
TOTAL	$2,372.96	100.00%	$1,926.50	100.00%	81.19%
Deobligations due to Expired FRNs	($446.47)				
Net Commitments	$1,926.49				

FUNDING YEAR 2009

FUNDING YEAR 2009					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$1,353.49	48.22%	$1,111.21	47.63%	82.10%
Internet Access	$350.22	12.48%	$292.66	12.54%	83.56%
Internal Connections	$910.66	32.45%	$788.74	33.81%	86.61%
Internal Connections-Maint	$192.36	6.85%	$140.36	6.02%	72.97%
TOTAL	$2,806.73	100.00%	$2,332.97	100.00%	83.12%
Deobligations due to Expired FRNs	($473.50)				
Net Commitments	$2,333.23				

FUNDING YEAR 2010

FUNDING YEAR 2010					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$1,428.40	47.65%	$1,176.80	48.04%	82.39%
Internet Access	$392.65	13.10%	$330.23	13.48%	84.10%
Internal Connections	$973.91	32.49%	$795.38	32.44%	81.60%
Internal Connections-Maint	$202.50	6.76%	$147.96	6.04%	73.07%
TOTAL	$2,997.46	100.00%	$2,450.37	100.00%	81.73%
Deobligations due to Expired FRNs	($542.08)				
Net Commitments	$2,455.38				

Funding commitments made to applicants during 3Q2021 are included in Appendix SL02. Authorized funding by applicant during 3Q2021 and cumulative payments to service providers through 3Q2021 are listed in Appendices SL03 and SL04, respectively.

FUNDING YEAR 2011

FUNDING YEAR 2011					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$1,467.20	55.09%	$1,188.62	55.26%	81.01%
Internet Access	$467.45	17.55%	$387.77	18.03%	82.95%
Internal Connections	$602.82	22.63%	$498.42	23.17%	82.68%
Internal Connections-Maint	$126.02	4.73%	$76.22	3.54%	60.49%
TOTAL	$2,663.49	100.00%	$2,151.03	100.00%	80.76%
Deobligations due to Expired FRNs	($511.29)				
Net Commitments	$2,152.20				

FUNDING YEAR 2012

FUNDING YEAR 2012					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$1,515.71	51.14%	$1,220.97	51.47%	80.55%
Internet Access	$569.95	19.23%	$461.64	19.46%	81.00%
Internal Connections	$746.14	25.17%	$610.51	25.73%	81.79%
Internal Connections-Maint	$132.30	4.46%	$79.36	3.34%	59.83%
TOTAL	$2,964.10	100.00%	$2,372.48	100.00%	80.03%
Deobligations due to Expired FRNs	($588.79)				
Net Commitments	$2,375.31				

Funding commitments made to applicants during 3Q2021 are included in Appendix SL05. Authorized funding by applicant during 3Q2021 and cumulative payments to service providers through 3Q2021 are listed in Appendices SL06 and SL07, respectively.

FUNDING YEAR 2013

FUNDING YEAR 2013					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$1,563.58	71.08%	$1,239.97	70.73%	79.30%
Internet Access	$636.22	28.92%	$513.06	29.27%	80.65%
Internal Connections	$0.00	0.00%	$0.00	0.00%	0.00%
Internal Connections-Maint	$0.00	0.00%	$0.00	0.00%	0.00%
TOTAL	$2,199.80	100.00%	$1,753.03	100.00%	79.69%
Deobligations due to Expired FRNs	($446.68)				
Net Commitments	$1,753.12				

Authorized funding by applicant during 3Q2021 and cumulative payments to service providers through 3Q2021 are listed in Appendices SL08 and SL09, respectively.

FUNDING YEAR 2014

FUNDING YEAR 2014					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$1,629.41	69.49%	$1,301.81	69.51%	79.90%
Internet Access	$715.45	30.51%	$570.90	30.49%	79.80%
Internal Connections	$0.00	0.00%	$0.00	0.00%	0.00%
Internal Connections-Maint	$0.00	0.00%	$0.00	0.00%	0.00%
TOTAL	$2,344.86	100.00%	$1,872.71	100.00%	79.87%
Deobligations due to Expired FRNs	($471.82)				
Net Commitments	$1,873.04				

Funding commitments made to applicants during 3Q2021 are included in Appendix SL10. Authorized funding by applicant during 3Q2021 and cumulative payments to service providers through 3Q2021 are listed in Appendices SL11 and SL12, respectively.

FUNDING YEAR 2015

FUNDING YEAR 2015					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$812.78	25.30%	$701.64	25.14%	86.34%
Internet Access	$719.80	22.40%	$604.35	21.65%	83.96%
Internal Connections	$1,157.33	36.02%	$1,096.66	39.27%	94.70%
Internal Connections-Maint	$22.70	0.71%	$17.29	0.62%	76.29%
MIBS	$23.16	0.72%	$13.13	0.47%	56.75%
Voice	$477.17	14.85%	$358.34	12.84%	75.13%
TOTAL	$3,212.94	100.00%	$2,791.41	100.00%	86.87%
Deobligations due to Expired FRNs	($412.95)				
Net Commitments	$2,799.99				

Funding commitments made to applicants during 3Q2021 are included in Appendix SL13. Authorized funding by applicant during 3Q2021 and cumulative payments to service providers through 3Q2021 are listed in Appendices SL14 and SL15, respectively.

FUNDING YEAR 2016

FUNDING YEAR 2016					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$0.00	0.00%	$0.00	0.00%	0.00%
Internet Access	$1,653.15	59.70%	$1,374.46	58.60%	83.11%
Internal Connections	$795.35	28.72%	$730.03	31.06%	91.56%
Internal Connections-Maint	$23.25	0.84%	$15.60	0.67%	67.24%
MIBS	$23.17	0.84%	$20.52	0.88%	88.61%
Voice	$274.38	9.91%	$206.06	8.79%	75.13%
TOTAL	$2,769.30	100.00%	$2,346.67	100.00%	84.66%
Deobligations due to Expired FRNs	($412.01)				
Net Commitments	$2,357.29				

Funding commitments made to applicants during 3Q2021 are included in Appendix SL16. Authorized funding by applicant during 3Q2021 and cumulative payments to service providers through 3Q2021 are listed in Appendices SL17 and SL18, respectively.

FUNDING YEAR 2017

FUNDING YEAR 2017					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$0.00	0.00%	$0.00	0.00%	0.00%
Internet Access	$1,651.46	69.75%	$1,392.90	70.16%	84.21%
Internal Connections	$542.79	22.92%	$472.22	23.65%	86.38%
Internal Connections-Maint	$22.74	0.96%	$10.89	0.55%	47.70%
MIBS	$25.35	1.07%	$20.10	1.01%	79.28%
Voice	$125.36	5.29%	$91.83	4.63%	73.28%
TOTAL	$2,367.70	100.00%	$1,987.94	100.00%	83.73%
Deobligations due to Expired FRNs	($330.06)				
Net Commitments	$2,037.64				

Funding commitments made to applicants during 3Q2021 are included in Appendix SL19. Authorized funding by applicant during 3Q2021 and cumulative payments to service providers through 3Q2021 are listed in Appendices SL20 and SL21, respectively.

FUNDING YEAR 2018

FUNDING YEAR 2018					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$0.00	0.00%	$0.00	0.00%	0.00%
Internet Access	$1,746.96	75.98%	$1,509.26	75.50%	83.00%
Internal Connections	$487.18	21.19%	$432.14	22.12%	87.19%
Internal Connections-Maint	$22.70	0.99%	$11.75	0.59%	49.64%
MIBS	$20.20	0.88%	$18.86	0.98%	93.36%
Voice	$22.32	0.97%	$15.67	0.82%	70.23%
TOTAL	$2,299.36	100.00%	$1,987.68	100.00%	83.53%
Deobligations due to Expired FRNs	($251.74)				
Net Commitments	$2,047.62				

Funding commitments made to applicants during 3Q2021 are included in Appendix SL22. Authorized funding by applicant during 3Q2021 and cumulative payments to service providers through 3Q2021 are listed in Appendices SL23 and SL24, respectively.

FUNDING YEAR 2019

FUNDING YEAR 2019					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$0.00	0.00%	$0.00	0.00%	0.00%
Internet Access	$1,582.69	66.91%	$1,272.50	67.56%	75.79%
Internal Connections	$739.17	31.14%	$582.77	30.94%	73.33%
Internal Connections-Maint	$25.22	1.07%	$8.91	0.48%	28.63%
MIBS	$20.86	0.88%	$19.21	1.02%	92.09%
Voice	$0.00	0.00%	$0.00	0.00%	0.00%
TOTAL	$2,367.94	100.00%	$1,833.39	100.00%	79.54%
Deobligations due to Expired FRNs	($149.65)				
Net Commitments	$2,218.29				

Funding commitments made to applicants during 3Q2021 are included in Appendix SL25. Authorized funding by applicant during 3Q2021 and cumulative payments to service providers through 3Q2021 are listed in Appendices SL26 and SL27, respectively.

FUNDING YEAR 2020

FUNDING YEAR 2020					
	Net Commitments		Net Authorized for Payment		Auth/Com
	Millions of Dollars	% of Total Commitments	Millions of Dollars	% of Total Authorized for Payment	% of Committed Authorized for Payment
Telecommunications	$0.00	0.00%	$0.00	0.00%	0.00%
Internet Access	$1,498.65	63.56%	$933.88	65.64%	62.32%
Internal Connections	$805.66	34.17%	$464.23	32.63%	57.62%
Internal Connections-Maint	$26.34	1.12%	$5.06	0.36%	19.21%
MIBS	$27.33	1.16%	$19.57	1.38%	71.68%
Voice	$0.00	0.00%	$0.00	0.00%	0.00%
TOTAL	$2,357.98	100.00%	$1,422.74	100.00%	60.34%
Deobligations due to Expired FRNs	$21.63				
Net Commitments	$2,379.61				

Funding commitments made to applicants during 3Q2021 are included in Appendix SL28. Authorized funding by applicant during 3Q2021 and cumulative payments to service providers through 3Q2021 are listed in Appendices SL29 and SL30, respectively.

FCC DECISIONS AND UNUSED FUNDS

In the *Schools and Libraries Third Report and Order*, the Commission amended its rules to allow unused funds from prior Funding Years to be carried forward on an annual basis in the second quarter of each calendar year for use in the next full Funding Year.[65] The

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[65] Schools and Libraries Universal Service Support Mechanism, CC Docket No. 02-6, Third Report and Order and Second Further

Commission required USAC to file quarterly estimates of unused funds from prior Funding Years in submitting its projection of Schools and Libraries Support Mechanism demand for the upcoming quarter.

The following is a summary of estimated unused funds as of September 30, 2021 for each funding year, including adjustments made by the Commission and projections of unused funds as required by Commission rules.

Funding Year 1998

Funding Year 1998 began on July 1, 1998 and ended on June 30, 1999. Balances as of September 30, 2021 are as follows:

FY 1998	Amounts in Millions
Amount Authorized and Actually Collected	$1,925.00
Amount Authorized for Disbursement	($1,398.97)
Administrative Expenses (21 months)	($41.79)
Amount Carried Forward / Backward	($7.08)
Amount Applied to Adjust 2000, 2001, and 2002 Collections	($477.16)
Potential Additional Disbursements on Committed FRNs	$0.00
Reserve for USAC Appeals	($0.01)

Notice of Proposed Rulemaking, 18 FCC Rcd 26912, paras. 52-57 (2003) (*Schools and Libraries Third Report and Order*).

Reserve for FCC Appeals	($0.35)
Estimated Remaining Balance	**($0.36)**

Funding Year 1999

Funding Year 1999 began on July 1, 1999 and ended on June 30, 2000. Balances as of September 30, 2021 are as follows:

FY 1999	Amounts in Millions
Amount Authorized and Actually Collected	$2,250.00
Amount Authorized for Disbursement	($1,649.98)
Administrative Expenses	($32.32)
Amount Applied to Adjust Third Quarter 2002 Collections	($256.16)
Amount Applied to Adjust Fourth Quarter 2002 Collections	($212.93)
Amount Carried Forward / Backward	($94.60)
Amount Received from Rollover	$0.00
Reserve for USAC Appeals	($0.00)
Reserve for FCC Appeals	($4.88)
Estimated Remaining Balance	**($0.87)**

Funding Year 2000

Funding Year 2000 began on July 1, 2000 and ended on June 30, 2001. Balances as of September 30, 2021 are as follows:

FY 2000	Amounts in Millions
Amount Authorized and Actually Collected	$2,250.00
Amount Authorized for Disbursement	($1,646.94)
Administrative Expenses	($32.24)
Amount Applied to Adjust Fourth Quarter 2002 Collections	($136.85)
Amount Applied to Adjust First Quarter 2003 Collections	($246.18)
Amount Carried Forward / Backward	($182.65)
Reserve for FCC Appeals	($5.13)
Estimated Remaining Balance	**($0.01)**

Funding Year 2001

Funding Year 2001 began on July 1, 2001 and ended on June 30, 2002. Balances as of September 30, 2021 are as follows:

FY 2001	Amounts in Millions
Amount Authorized and Actually Collected	$2,250.00
Amount Authorized for Disbursement	($1,676.77)
Administrative Expenses	($30.56)

Amount Carried Forward / Backward	($489.28)
Remaining Uncommitted Requests	($20.33)
Reserve for USAC Appeals	($11.25)
Reserve for FCC Appeals	($24.30)
Estimated Remaining Balance	**($2.49)**

Funding Year 2002

Funding Year 2002 began on July 1, 2002 and ended on June 30, 2003. Balances as of September 30, 2021 are as follows:

FY 2002	Amounts in Millions
Amount Authorized and Actually Collected	$2,250.00
Amount Authorized for Disbursement	($1,594.20)
Administrative Expenses	($38.53)
Amount Carried Forward / Backward	($594.10)
Potential Additional Disbursements on Committed FRNs	$0.00
Remaining Uncommitted Requests	($0.93)
Reserve for USAC Appeals	($0.00)
Reserve for FCC Appeals	($22.43)
Estimated Remaining Balance	**($0.19)**

Funding Year 2003

Funding Year 2003 began on July 1, 2003 and ended on June 30, 2004. Balances as of September 30, 2021 are as follows:

FY 2003	Amounts in Millions
Amount Authorized and Actually Collected	$2,250.00
Amount Authorized for Disbursement	($1,937.51)
Administrative Expenses	($44.19)
Amount Carried Forward / Backward	($640.82)
Amount Received from Rollover	$420.00
Potential Additional Disbursements on Committed FRNs	($0.06)
Remaining Uncommitted Requests	($32.83)
Reserve for USAC Appeals	($0.00)
Reserve for FCC Appeals	($17.23)
Estimated Remaining Balance	**($0.19)**

Funding Year 2004

Funding Year 2004 began on July 1, 2004 and ended on June 30, 2005. Balances as of September 30, 2021 are as follows:

FY 2004	Amounts in Millions
Amount Authorized and Actually Collected	$2,250.00

Amount Authorized for Disbursement	($1,535.24
Administrative Expenses	($55.75)
Amount Carried Forward / Backward	($723.47)
Amount Received from Rollover	$150.00
Amount Applied to Adjust Collections	($550.00)
Adjustment for Reduction in Collections	550.00
Potential Additional Disbursements on Committed FRNs	($0.25)
Reserve for USAC Appeals	($0.00)
Reserve for FCC Appeals	($85.29)
Estimated Remaining Balance	**($0.00)**

Funding Year 2005

Funding Year 2005 began on July 1, 2005 and ended on June 30, 2006. Balances as of September 30, 2021 are as follows:

FY 2005	Amounts in Millions
Amount Authorized and Actually Collected	$2,250.00
Amount Authorized for Disbursement	($1,623.29)
Administrative Expenses	($64.99)
Amount Carried Forward / Backward	($533.61)

Potential Additional Disbursements on Committed FRNs	($0.08)
Remaining Uncommitted Requests	($0.16)
Reserve for USAC Appeals	($0.00)
Reserve for FCC Appeals	($27.69)
Estimated Remaining Balance	**($0.18)**

Funding Year 2006

Funding Year 2006 began on July 1, 2006 and ended on June 30, 2007. Balances as of September 30, 2021 are as follows:

FY 2006	Amounts in Millions
Amount Authorized and Actually Collected	$2,250.00
Amount Authorized for Disbursement	($1,566.74)
Administrative Expenses	($80.74)
Amount Carried Forward / Backward	($584.65)
Potential Additional Disbursements on Committed FRNs	($0.25)
Remaining Uncommitted Requests	($0.00)
Reserve for USAC Appeals	($0.38)
Reserve for FCC Appeals	($16.21)
Estimated Remaining Balance	**$1.03**

Funding Year 2007

Funding Year 2007 began on July 1, 2007 and ended on June 30, 2008. Balances as of September 30, 2021 are as follows:

FY 2007	**Amounts in Millions**
Amount Authorized and Actually Collected	$2,250.00
Amount Authorized for Disbursement	($1,952.95)
Administrative Expenses	($81.24)
Amount Carried Forward / Backward	($850.23)
Amount Received from Rollover	$650.00
Remaining Uncommitted Requests	($0.94)
Reserve for USAC Appeals	($0.06)
Reserve for FCC Appeals	($14.55)
Estimated Remaining Balance	**($0.03)**

Funding Year 2008

Funding Year 2008 began on July 1, 2008 and ended on June 30, 2009. Balances as of September 30, 2021 are as follows:

FY 2008	**Amounts in Millions**
Amount Authorized and Actually Collected	$2,250.00
Amount Authorized for Disbursement	($1,926.49)
Administrative Expenses	($125.59)

Amount Carried Forward / Backward	($778.39)
Amount Received from Rollover	($600.00)
Potential Additional Disbursements on Committed FRNs	($0.00)
Remaining Uncommitted Requests	($0.00)
Reserve for USAC Appeals	($0.59)
Reserve for FCC Appeals	($19.17)
Estimated Remaining Balance	**($0.23)**

Funding Year 2009

Funding Year 2009 began on July 1, 2009 and ended on June 30, 2010. Balances as of September 30, 2021 are as follows:

FY 2009	Amounts in Millions
Amount Authorized and Actually Collected	$2,250.00
Amount Authorized for Disbursement	($2,332.97)
Administrative Expenses	($81.27)
Amount Carried Forward / Backward	($726.67)
Amount Received from Rollover	$900.00
Potential Additional Disbursements on Committed FRNs	($0.26)

Reserved for Invoices Awaiting Approvals Expired FRNs	($0.00)
Remaining Uncommitted Requests	($0.02)
Reserve for USAC Appeals	($0.00)
Reserve for FCC Appeals	($10.18)
Estimated Remaining Balance	**($1.37)**

Funding Year 2010

Funding Year 2010 began on July 1, 2010 and ended on June 30, 2011. Balances as of September 30, 2021 are as follows:

FY 2010	Amounts in Millions
Amount Authorized and Actually Collected	$2,270.25
Amount Authorized for Disbursement	($2,450.37)
Administrative Expenses	($75.33)
Amount Carried Forward / Backward	($740.73)
Amount Received from Rollover	$1150.00
Amount Applied to Adjust Collections FY2004	($140.00)
Potential Additional Disbursements on Committed FRNs	($5.01)
Reserved for Invoices Awaiting Approvals Expired FRNs	($0.00)

Reserve for USAC Appeals	($0.76)
Reserve for FCC Appeals	($14.32)
Estimated Remaining Balance	**($6.27)**

Funding Year 2011

Funding Year 2011 began on July 1, 2011 and ended on June 30, 2012. Balances as of September 30, 2021 are as follows:

FY 2011	Amounts in Millions
Amount Authorized and Actually Collected	$2,290.68
Amount Authorized for Disbursement	($2,151.03)
Administrative Expenses	($69.17)
Amount Carried Forward / Backward	($649.83)
Amount Received from Rollover	$850.00
Amount Applied to Adjust Collections FY2004	($250.00)
Potential Additional Disbursements on Committed FRNs	($1.16)
Reserved for Invoices Awaiting Approvals Expired FRNs	($0.00)
Remaining Uncommitted Requests	($0.00)
Reserve for USAC Appeals	($0.36)
Reserve for FCC Appeals	($13.59

Estimated Remaining Balance	**($5.54)**

Funding Year 2012

Funding Year 2012 began on July 1, 2012 and ended on June 30, 2013. Balances as of June 30, 2021 are as follows:

FY 2012	Amounts in Millions
Amount Authorized and Actually Collected	$2,338.80
Amount Authorized for Disbursement	($2,372.48)
Administrative Expenses	($67.31)
Amount Carried Forward / Backward	($881.49)
Amount Received from Rollover	$1050.00
Amount Applied to Adjust Collections FY2004	($40.00)
Potential Additional Disbursements on Committed FRNs	($2.83)
Reserved for Invoices Awaiting Approvals Expired FRNs	($1.08)
Remaining Uncommitted Requests	($0.60)
Reserve for USAC Appeals	($1.15)
Reserve for FCC Appeals	($12.55)
Estimated Remaining Balance	**($9.31)**

Funding Year 2013

Funding Year 2013 began on July 1, 2013 and ended on June 30, 2014. Balances as of September 30, 2021 are as follows:

FY 2013	**Amounts in Millions**
Amount Authorized and Actually Collected	$2,380.30
Amount Authorized for Disbursement	($1,753.03)
Administrative Expenses	($62.90)
Amount Carried Forward / Backward	($878.13)
Amount Received from Rollover	$450.00
Amount Applied to Adjust Collections FY2004	($120.00)
Potential Additional Disbursements on Committed FRNs	($0.09)
Reserved for Invoices Awaiting Approvals Expired FRNs	($0.24)
Remaining Uncommitted Requests	($1.38)
Reserve for USAC Appeals	($0.29)
Reserve for FCC Appeals	($12.39)
Estimated Remaining Balance	**($1.85)**

Funding Year 2014

Funding Year 2014 began on July 1, 2014 and ended on June 30, 2015. Balances as of September 30, 2021 are as follows:

FY 2014	Amounts in Millions
Amount Authorized and Actually Collected	$2,413.82
Amount Authorized for Disbursement	($1,872.71)
Administrative Expenses	($74.94)
Amount Carried Forward / Backward	($649.50)
Amount Received from Rollover	$200.00
Potential Additional Disbursements on Committed FRNs	($0.33)
Reserved for Invoices Awaiting Approvals Expired FRNs	($0.05)
Remaining Uncommitted Requests	($0.48)
Reserve for USAC Appeals	($6.04)
Reserve for FCC Appeals	($14.18)
Estimated Remaining Balance	**($4.41)**

Funding Year 2015

Funding Year 2015 began on July 1, 2015 and ended on June 30, 2016. Balances as of September 30, 2021 are as follows:

FY 2015	Amounts in Millions
Amount Authorized and Actually Collected	$2,250.00
Amount Authorized for Disbursement	($2,791.41)
Administrative Expenses	($103.04)
Amount Carried Forward / Backward	($915.51)
Amount Received from Rollover	$1,575.05
Potential Additional Disbursements on Committed FRNs	($8.58)
Reserved for Invoices Awaiting Approvals Expired FRNs	($0.52)
Remaining Uncommitted Requests	($0.40)
Reserve for USAC Appeals	($27.39)
Reserve for FCC Appeals	($9.47)
Estimated Remaining Balance	**($31.27)**

Funding Year 2016

Funding Year 2016 began on July 1, 2016 and ended on June 30, 2017. Balances as of September 30, 2021 are as follows:

FY 2016	Amounts in Millions
Amount Authorized and Actually Collected	$1,842.25
Amount Authorized for Disbursement	($2,346.67)
Administrative Expenses	($120.35)

Amount Carried Forward / Backward	($1,240.81)
Amount Received from Rollover	$1,900.00
Potential Additional Disbursements on Committed FRNs	($10.62)
Reserved for Invoices Awaiting Approvals Expired FRNs	($0.24)
Remaining Uncommitted Requests	($0.06)
Reserve for USAC Appeals	($2.18)
Reserve for FCC Appeals	($22.75)
Estimated Remaining Balance	**($1.43)**

Funding Year 2017

Funding Year 2017 began on July 1, 2017 and ended on June 30, 2018. Balances as of September 30, 2021 are as follows:

FY 2017	Amounts in Millions
Amount Authorized and Actually Collected	$2,064.22
Amount Authorized for Disbursement	($1,987.94)
Administrative Expenses	($110.67)
Amount Carried Forward / Backward	($1,104.10
Amount Received from Rollover	$1,200.24

Potential Additional Disbursements on Committed FRNs	($49.70)
Reserved for Invoices Awaiting Approvals Expired FRNs	($3.26)
Remaining Uncommitted Requests	($0.40)
Reserve for USAC Appeals	($5.28)
Reserve for FCC Appeals	($11.97)
Estimated Remaining Balance	**($8.86)**

Funding Year 2018

Funding Year 2018 began on July 1, 2018 and ended on June 30, 2019. Balances as of September 30, 2021 are as follows:

FY 2018	Amounts in Millions
Amount Authorized and Actually Collected	$1,629.45
Amount Authorized for Disbursement	($1,987.70)
Administrative Expenses	($97.28)
Amount Carried Forward / Backward	($640.49)
Amount Received from Rollover	$1,200.00
Potential Additional Disbursements on Committed FRNs	($59.92)
Reserved for Invoices Awaiting Approvals Expired FRNs	($3.85)

Remaining Uncommitted Requests	($1.21)
Reserve for USAC Appeals	($8.42)
Reserve for FCC Appeals	($22.85)
Estimated Remaining Balance	**($2.73**

Funding Year 2019

Funding Year 2019 began on July 1, 2019 and ended on June 30, 2020. Balances as of September 30, 2021 are as follows:

FY 2019	Amounts in Millions
Amount Authorized and Actually Collected	$1,699.18
Amount Authorized for Disbursement	($1,883.39)
Administrative Expenses	($74.11)
Amount Carried Forward / Backward	($241.15)
Amount Received from Rollover	$1,000.00
Potential Additional Disbursements on Committed FRNs	($334.90)
Reserved for Invoices Awaiting Approvals Expired FRNs	($6.34)
Remaining Uncommitted Requests	($8.68)
Reserve for USAC Appeals	($5.92)
Reserve for FCC Appeals	($46.53

Estimated Remaining Balance	**($98.16)**

Funding Year 2020

Funding Year 2020 began on July 1, 2020 and ended on September 30, 2021. Balances as of September 30, 2021 are as follows:

FY 2020	Amounts in Millions
Amount Authorized and Actually Collected	$2,313.05
Amount Authorized for Disbursement	($1,422.76)
Administrative Expenses	($75.08)
Amount Carried Forward / Backward	($148.01)
Amount Received from Rollover	$500.00
Potential Additional Disbursements on Committed FRNs	($956.85)
Reserved for Invoices Awaiting Approvals Expired FRNs	($0.00)
Remaining Uncommitted Requests	($244.06)
Reserve for USAC Appeals	($14.76)
Reserve for FCC Appeals	($8.58)
Estimated Remaining Balance	**($57.05)**

SCHOOLS AND LIBRARIES SUPPORT MECHANISM SUMMARY

On March 19, 2021, the FCC announced the funding cap for Funding Year 2021 of $4,276.83 million.[66] This reflects a 1.2 percent inflation-adjusted increase to the $4,226.12 million cap from Funding Year 2020.[67] The filing window for Funding Year 2021 closed on March 25, 2021. Based on applications received, USAC estimates demand for Funding Year 2021 will be $2,793.54 million (net of projected post window close adjustments).

In consultation with the FCC, USAC projects that a total of $500 million will be available to carry-forward to Funding Year 2021 from prior funding years as follows, 2000: $0.03 million; 2001: $27.52 million; 2004: $3.71 million; 2005: $5.12 million; 2006: $0.76 million; 2007: $0.41 million; 2008: $0.07 million; 2011: $3.10 million; 2013: $1.98 million; 2014: $2.84 million; 2016: $6.69 million; 2017: $31.43 million; 2018: $99.44 million; 2019: $168.89 million; and 2020: $148.01 million (net of funds carried back to funding years with a negative carry forward balance). Based on the estimated demand of $2,793.54 million, and funds carried forward of $500.00 million, the collections requirement for Funding Year 2021 is $573.39 million, which is one quarter of demand for Funding Year 2021.

The net fund requirement of $573.39 million is adjusted as follows: increased by the prior period adjust-

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[66] *See Wireline Competition Bureau Announces E-Rate and RHC Programs' Inflation-Based Caps for Funding Year 2021,* CC Docket No. 02-6, WC Docket No. 02-60, Public Notice, DA 21-332 (2021).

[67] *Id.*

ments of $45.58 million[68] and increased by $18.98 million for administrative expenses; resulting in a total projected 1Q2022 funding requirement for the Schools and Libraries Support Mechanism of $637.95 million.

AUTHORIZATION TO FILE WITH THE COMMISSION

At their October 25, 2021 meeting, USAC's High Cost & Low Income, and Schools & Libraries Committees adopted resolutions authorizing USAC staff to file with the Commission the 1Q2022 projected support mechanism funding requirements described herein. On October 26, 2021, USAC's Rural Health Care Committee voted via email, authorizing USAC staff to file with the Commission the 1Q2022 projected support mechanism funding requirement. At their October 26, 2021 meeting, the USAC Board of Directors adopted a resolution authorizing the inclusion of the projected 1Q2022 administrative expenses in this report to the Commission.

Respectfully submitted,

UNIVERSAL SERVICE
ADMINISTRATIVE COMPANY

Michelle Garber, Vice President of Finance and
Chief Financial Officer

November 2, 2021

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[68] Prior period adjustments reconcile projections to actual results and include adjustments for billings, interest income, and bad debt.

EXPERT REPORT OF DR. GEORGE S. FORD

Professional Qualifications & Experience

My name is George S. Ford. I am the President of Applied Economic Studies—an economic consulting firm. I hold a Ph.D. in Economics from Auburn University. After receiving a Ph.D. in Economics in 1994, I have worked as a professional economist in government, industry, the nonprofit sector, and as a private consultant. In 1994, I became an economist in the Competition Division of the Federal Communications Commission, an organization located in the General Counsel's Office that provided legal and economic analysis to the many bureaus of the Commission. My work at the Commission covered a wide range of topics from multichannel video services, broadcasting policies, wireline and wireless telecommunications services, international policy, radio interference standards, and general financial, statistical, and econometric analysis. After my government tenure, I became an economist at MCI Communications, a large provider of local and long-distance telecommunications services to households and businesses, where my work focused on telecommunications regulation and policy at both the federal and state levels. I also conducted analysis of entry into new markets and merger and acquisition activity. In April 2000, I became the Chief Economist of Z-Tel Communications in Tampa, Florida, a small competitive telephone company. At Z-Tel, I performed regulatory and business analysis, overseeing a team that ensured the company's compliance with regulatory requirements and cost management. I also participated in the development of financial models for business plans and investments and represented the company as an expert in proceedings before state regulatory commissions and at the Federal Communications Commission. In the summer of 2004, I founded Applied Economic Studies, a private consulting firm.

I am also the Chief Economist of the Phoenix Center for Advanced Legal & Economic Policy Studies, a Washington, D.C. based 501(c)(3) research organization that specializes in the legal and economic analysis of public policy issues involving the communications, technology, and infrastructure industries. The Phoenix Center does not do consulting work, and the views expressed in this testimony do not represent the views of the Phoenix Center or its staff. For several years I served as an Adjunct Professor at Samford University where I taught Economics to graduate students.

My areas of specialty are the application of microeconomics and econometrics to industry and public policy with particular emphasis on the telecommunications industry. Over the years I have written many papers on a variety of topics, publishing over eighty papers in economic and law journals including the *Antitrust Bulletin*, the *Journal of Law & Economics*, *Energy Economics*, *Telecommunications Policy*, the *Journals of Gerontology*, *Empirical Economics*, the *Journal of Business*, the *Journal of Regulatory Economics*, the *Southern Economic Journal*, the *Quarterly Review of Economics and Finance*, the *Journal of Public Choice and Finance*, *Communications in Statistics*, the *Yale Journal on Regulation*, the *Federal Communications Law Journal*, and many others. My work has been cited in nearly 1,900 articles (according to Google Scholar). I have also published book chapters on telecommunications policy and financial econometrics. My curriculum vitae is attached.

Assignment

I was retained as an expert by Boyden Gray & Associates to provide my expert opinion as an economist on the question of whether levies on telecommunications providers by the Federal Communications Commission (FCC) for purposes of its Universal Service Fund Programs possess the characteristics of a "fee," or a "tax."

Summary of Opinions

In both law and economics, the difference between a "tax" and a "fee" goes to the question of whether the payer or the public benefits most from the levies. A "fee" bestows benefits on the payer not shared by other members of the public. A fee is paid for a business license or a passport. Contrariwise, a "tax" defrays the costs of programs that benefit the public, and the payer may receive no benefit at all. Today, the FCC uses the USF Program to subsidize schools to "promote digital learning," to subsidize rural health care providers "to improve the quality of health care," and subsidizes individuals and corporations to promote "economic growth" and "jobs." These are public benefits that offer no special benefit to the telecommunications providers whose revenues support such expenditures. It is my opinion, therefore and at the present time, that the collection of levies from telecommunications providers for some if not all USF Programs possess the characteristics of a "tax" rather than a "fee."

Background: The USF Programs

The Universal Service Fund Program (USF), authorized by Section 254 of the Telecommunications Act of 1996, directs the Federal Communications Commission (FCC) to implement policies that ensure that all regions of the Nation have access to advanced telecommunications and information services at just, reasonable, and affordable rates.[1] Congress provided the Commission wide discretion to determine both how to collect and spend the dollars necessary to support the program.

The USF Program existed prior to the Telecommunications Act of 1996. The program was then limited to subsidizing the deployment and maintenance of voice-grade services in high-cost rural areas and stimulating adoption by low-income Americans through subsidized, discounted services. The revenues required to support the subsidies were collected in a complex regulatory scheme including many implicit cross subsidies among telecommunications providers and their customers. After the passage of the Telecommunications Act of 1996, the FCC modernized the USF Program in several ways. First, at the direction of the 1996 Act, the Commission established two new subsidy programs: (1) the *Schools & Libraries Program* (or the *E-Rate Program*), which provided financial support to obtain discounted telecommunications and Internet services for schools and libraries; and (2) the *Rural Healthcare Program*, which provided financial support to rural health providers for telecommunications and Internet services. Second, in 2011, the Commission extended USF subsidy support to Internet services (or "broadband service") to those USF programs previously limited to voice-grade ser-

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[1] Prior to the 1996 Telecommunications Act, "universal service" was funded through a complex system of cross-subsidies among service providers. In the 1996 Act, Congress replaced the regulatory cross-subsidies with direct subsidies. The universal service program is administered for the FCC by the Universal Service Administrative Company (or USAC), a not-for-profit corporation (http://www.usac.org/).

vices.[2] These reforms, among other factors, expanded the size of the USF Program as the FCC began pursuing broad, social goals beyond increasing telephone subscriptions. Between 1995 and 2005, the budget of the USF Program increased from $1.37 billion to $8.4 billion in 2019 dollars.[3]

In 2019, the USF Program redistributed $8.35 billion in subsidy dollars across four programs:[4]

(1) the *High-Cost Program* provides subsidies to providers serving high-cost, mostly rural areas;

(2) the *Lifeline Program* provides subsidies to providers offering monthly discounts to qualifying low-income consumers for voice and broadband services;

(3) the *Schools and Libraries Program* provides subsidies to eligible schools and libraries for telecommunications and Internet services; and

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[2] Recipients of these subsidy dollars must also provide voice-grade services.

[3] *Universal Service Monitoring Reports*, Federal-State Joint Board on Universal Service (1996, 2020), (available at: https://www.fcc.gov/general/federal-state-joint-board-monitoring-reports). Nominal values are $1.4 billion and $6.5 billion. The Gross Domestic Product deflator is used for the conversion: https://fred.stlouisfed.org/series/USAGDPDEFAISMEI.

[4] Is some years, the subsidy levels approached $10 billion. *Universal Service Monitoring Report*, Federal-State Joint Board on Universal Service (Sept. 2020), at Table 1.2 (available at: https://docs.fcc.gov/public/attachments/DOC-369262A1.pdf).

(4) the *Rural Health Care Program* that provides subsidies rural healthcare providers for providing telecommunications and Internet services.[5]

Funding levels for each program are summarized in Table 1. The largest program is the High-Cost Fund accounting for 61.6% of funding dollars with Schools & Libraries Program in second at 23.6% of funding.

Table 1. USF Funding by Program (2019)

Program	Funding ('000)	Share
High-Cost	$5,146,679	61.6%
Schools & Libraries	$1,968,776	23.6%
Lifeline/Linkup	$982,005	11.8%
Rural Healthcare	$251,516	3.0%
Total	$8,348,976	100%

* Source: Table 1.9. Numbers may not sum due to rounding.

Where do these billions in subsidies come from? The revenues required to support these four subsidy programs are collected using an ad valorem assessment (the "contribution factor") on the interstate and international revenues of nearly all telecommunications providers. In 2019, retail interstate and international revenues (the contribution base) equaled 9.2% of total industry revenues.[6] Providers are neither required nor prohibited from passing these costs onto their customers, though collections from consumers may not exceed the provider's contributions. Most providers directly pass these costs through to consumers as a line-item on their bills. In many respects, the providers serve as a

[5] For a description of the programs, see https://www.fcc.gov/general/universal-service.

[6] *Universal Service Monitoring Report* (2020), *supra* n. 3, at Tables 1.1 and 1.2.

collection agent of the government, in the same way a retail store collects sales taxes for state and local governments.[7]

With the rapid growth of Internet-based communications, the contribution base of voice-grade interstate and international service revenues materially declined but USF obligations rose. Between 2001 and 2019, the contribution base for the USF Program (interstate and international revenues) declined by 40% while the USF subsidies rose by 83%. Consequently, the contribution factor (the ad valorem levy) increased sharply. In 2001, the contribution factor averaged 6.8% while in 2021 the average assessment averaged 31.5%, a near five-fold increase.[8] The high assessment rate has furthered the decline in the contribution base by reducing demand for interstate and international voice services and incentivizing consumers and providers to find alternative modes of communication not subject to the levies. The declin-

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[7] Passing the contributions through to consumers as a line-item (or in the form of higher prices) does not imply that providers are unharmed by the levies. Higher levies increase costs, reduce quantity demanded, and thus reduce profits. Also, if the ad valorem levy leads providers to lower service prices (excluding the levy), the providers will bear some of the burden of the levies. But empirical evidence indicates that telecommunications consumers are price insensitive, implying the consumer will bear the bulk of the levies through higher gross prices (net prices plus the levy). Also, as time progresses and consumers and providers divert traffic away from the contribution base, what is left is consumers with few options and thus very inelastic demands. On tax incidence, *see*, *e.g.*, C.R. McConnell, S.L. Brue, and S.M. Flynn, ECONOMICS: PRINCIPLES, PROBLEMS, AND POLICIES (2015), at pp. 416-423.

[8] Data available at: https://www.fcc.gov/general/contribution-factor-quarterly-filings-universal-service-fund-usf-management-support.

ing contribution base, rising contribution factor, and high subsidy levels of the USF Program have led many analysts and policymakers to worry about the sustainability of the current program.[9]

Distinguishing a Tax from a Fee

Among other reasons, the increasing burden on the interstate and international voice services and the expanding scope of the USF Program have led to questions about whether the USF Program's levies constitute a "fee" or a "tax." In legal matters, it is often important to distinguish between different kinds of government levies, mainly because taxation is a legislative function.[10] In distinguishing between a "fee" and "tax," whether a legislature or government agency labels a particular levy a "fee" or a "tax" is largely immaterial.[11] Rather, it is the characteristics of the levy that determines its nature, and those characteristics may change over time when a government agency lacks clear legislative guidance, oversight, or constraint.

Definitions of "tax" and "fee" are common between law and economics. A tax, as defined by Pflen in the classic

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[9] *See*, *e.g.*, C.D. Jarrett, *Nearing a Tipping Point on USF Contribution Reform*? 11 NATIONAL LAW REVIEW (Feb. 19, 2021) (available at: https://www.natlawreview.com/article/nearing-tipping-point-usf-contribution-reform).

[10] *See*, *e.g.*, J. Henchman, *How Is the Money Used? Federal and State Cases Distinguishing Taxes and Fees*, National Tax Foundation, Background Paper No. 63 (2013) (available at: https://files.taxfoundation.org/20190103161206/TaxesandFeesBook.pdf).

[11] Henchman, *id.*; *Nat'l Fed'n of Indep. Bus. v. Sebelius*, 567 U.S. 519, 544 (2012) ("Congress cannot change whether an exaction is a tax or a penalty for constitutional purposes simply by describing it as one or the other.").

Introduction to Public Finance, is a compulsory contribution of wealth levied upon persons or corporations "to defray the expenses incurred in conferring a common benefit upon the residents of the State. A tax is justified, but not necessarily measured, by the common benefit conferred."[12] Similarly, Seligman defines a tax as a "compulsory contribution from a person to the government to defray the expenses incurred in the common interest of all."[13] Dalton defines a "tax" as "a compulsory contribution imposed by the public authority, irrespective of the exact amount of service rendered to the taxpayer in return."[14] A tax, therefore, is a compulsory contribution to the state for services rendered by the state for the general benefit of its people.[15] That is, taxes benefit the public, not necessarily the taxpayer.

In contrast, a fee, is a payment to the government by an entity seeking a beneficial service from the government. Pflen states a fee "has a different justification from a tax. A fee never exceeds the cost of the special service rendered [and] confirms a special benefit" on the payer.[16] Seligman defines a fee as a "payment to defray the cost of each recurring service undertaken by the government primarily in the public interest, but conferring a measurable special advantage on the fee payer."[17] Or, a "fee" is "only paid by those persons who enjoy the

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[12] C.C. Pflen, INTRODUCTION TO PUBLIC FINANCE (1891), at p. 87.

[13] M.M.J. Kennedy, PUBLIC FINANCE (2012), at p. 34.

[14] *Id.*

[15] *Types of Taxes*, economicconcepts.com (last viewed Sept. 22, 2021).

[16] Pflen, *supra* n. 12, at p. 88.

[17] Kennedy, *supra* n. 13.

special benefit of the services rendered by the state."[18] For instance, the "Application Fee" for a U.S. passport is $110 and applicants may pay an "Expedite Fee" of $60.[19] Revenue from these fees offset the cost of processing a passport (at least, in part), the benefits of which are "not shared by other members of society."

From the economic perspective, the distinction between a "tax" and a "fee" turns on whether the benefits supported by levies flow to the payer (a fee), or to the public (a tax). The same distinction appears in the law. For instance, in *National Cable Television Association v. U.S.* (1974), the Supreme Court observed, "A fee . . . is incident to a voluntary act, e. g., a request that a public agency permit an applicant to practice law or medicine or construct a house or run a broadcast station. The public agency performing those services normally may exact a fee for a grant which, presumably, bestows a benefit on the applicant, not shared by other members of society."[20] Similarly, in *Skinner v. Mid-Am. Pipeline Co.* (1989), the Court observes that a levy may be more like a "tax" than a "fee" when "some of the administrative costs at issue inure[] to the benefit of the public, rather than directly to the benefit of those parties."[21] A "fee" benefits the payer and not the public.

There are two conditions, therefore, that permit one to distinguish between a tax and a fee. First, to qualify as a "fee," the payer of the levy must be the primary, if not

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[18] *Types of Taxes*, supra n. 15.

[19] https://travel.state.gov/content/dam/passports/formsfees/Passport%20Fees%20Chart_TSG_JAN2021.pdf.

[20] *National Cable Television Association v. U.S.*, 415 U.S. 336, 340-41 (1974).

[21] *Skinner v. Mid-Am. Pipeline Co.*, 490 U.S. 212, 214 (1989).

the exclusive, beneficiary of the services justifying the levy. The more the benefits of the government expenditures advantage the public, the less the levy has the character of a fee. Second, an economists would characterize a "fee" by saying that, on average at least, there should be a positive increasing relationship (or a "monotonic" relationship) between payer liability and the benefits the payer expects from the program(s) the fee is designed to support. A "tax" does not have this property; a tax has no particular relationship between payer liability and the benefits the payer expects from that liability. For example, tax dollars used to fund food stamps levy taxes on higher income Americans that do not qualify for food stamps to the benefit of lower-income Americans that often pay no income tax at all.

Do USF Liabilities Possess the Characteristics of Taxes, or of Fees?

Given the above, whether the levies on telecommunications providers constitute a "fee" or a "tax," or at least lean one way or the other, depends on the distribution of liabilities and benefits. Who pays and who benefits? If the benefits largely accrue to the public at large rather than to the telecommunications providers or the specific telecommunications services funding the program, then USF liabilities have the properties of tax.

Telecommunications providers are the immediate payers in the USF Program. Their liabilities are equal to the contribution factor (now about 30%) multiplied by telecommunications providers' revenues obtained only from the sale of interstate and international telecommunications services.[22] At present, the liabilities are just over $8 billion dollars. For these liabilities to have the character of a fee, then almost all the benefits of the $8 billion in expenditures must accrue to the payers. Also, the relationship between the liability and the benefits must be monotonically positive. If these conditions do not apply, then the USF liabilities have the characteristics of a tax.

There are two possible channels from which telecommunications providers—the parties immediately liable for the subsidy funds—may benefit from their liabilities. First, there is the issue of network effects. That is, a network is more valuable as more consumers are connected to it, so expanding the size of the Public Switched Telephone Network (PSTN) arguably benefits providers and their customers. Today, network effects are likely to be small if not zero. Second, providers making contributions to the program may benefit directly by receiving payments from the one or more of the four USF programs.

Aside from telecommunications providers, there may be benefits that flow to third parties—schools and libraries, rural health care providers, employers, job seekers —and such benefits to the public give the levies the character of a tax. Moreover, since liability adheres only to interstate and international revenues, and the mix of such revenues vary by provider, there may be third-party benefits even among telecommunications providers. Some providers receiving direct payments

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[22] Larger providers typically face large liabilities. In 2019, the largest ten payers accounted for 78% of USF liabilities and 76% of total telecommunications revenues. *Universal Service Monitoring Report* (2020), *supra* n. 3, Tables 1.3 and 1.7.

from the program pay little to nothing into the system, so that liabilities and benefits may not be monotonically related.

Network Effects

A larger communications network is sometimes (but not always) more valuable than a smaller one. These network effects (or network externalities), to the extent they exist, are subject to diminishing marginal returns. A small increase in subscribers to a small network has a larger network effect than does a small increase in subscribers to a network that is nearly universally adopted. While network effects may have been important at the turn of 20th century when telecommunications networks were not always interconnected, for several reasons the presence of sizable network effects today is questionable, especially for the voice-grade services that fund the USF Program.[23]

The presence or magnitude of network effects is an empirical question. The FCC has made no attempt to quantify the presence or magnitude of network effects as a benefit to telecommunications providers, and there are reasons to suspect the size of such effects is now small. Academic research suggests that the USF Programs have done little, if anything, to increase the adoption of telecommunications services beyond the market outcome.[24] Also, given the high adoption rates absent

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[23] G. Woroch, *Local Network Competition*, in HANDBOOK OF TELECOMMUNICATIONS ECONOMICS (eds. M. Cave, S. Majundar, and I. Vogelsang) (2012); M.K. Kellog, J. Thorne, and P.W. Huber, FEDERAL TELECOMMUNICATIONS LAW (1992).

[24] D.L. Kaserman, J.W. Mayo, and J.E. Flynn, *Cross-Subsidization in Telecommunications: Beyond the Universal Service Fairytale*, 2 JOURNAL OF REGULATORY ECONOMICS 231-249 (1990); J.

such programs, the network effects created by such programs are likely absent or small.[25]

Also, the liabilities to the USF Program need not bear a direct relation to a network effect. Say, for instance, a customer of a telecommunications provider makes one more interstate call, thereby increasing the liability of the provider. The caller and the called are both on the network, so there is no network effect from expanded adoption but there is an increase in liability.

Furthermore, today about 97% of American adults (about 258.3 million persons) have a cellphone, which permits nearly everyone to be contacted over the PSTN.[26] There are about 6.2 million Lifeline accounts and almost all are mobile wireless accounts. Thus, about 95% of Americans have a cellphone absent any subsidy, assuming Lifeline subscribers would not have service absent the program.[27] With near universal

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Hausman, T. Tardiff, and A. Belinfante, *The Effects of the Breakup of AT&T on Telephone Penetration in the United States*, 83 AMERICAN ECONOMIC REVIEW 178-184 (1993); C. Garbacz and H.G. Thompson, Jr., *Assessing the Impact of FCC Lifeline and Link-Up Programs on Telephone Penetration*, 11 JOURNAL OF REGULATORY ECONOMICS 67-78 (1997).

[25] A.H. Barnett and D.L. Kaserman, *The Simple Welfare Economics of Network Externalities and the Uneasy Case for Subscribership Subsidies*, 13 JOURNAL OF REGULATORY ECONOMICS 245-524 (2998).

[26] Mobile penetration is from Pew Research (https://www.pewresearch.org/internet/fact-sheet/mobile/); Adult population from the U.S. Census Bureau (https://www.census.gov/library/stories/2021/08/united-states-adult-population-grew-faster-than-nations-total-population-from-2010-to-2020.html#:~:text=In%202020%2C%20the%20U.S.%20Census,from%20234.6%20million%20in%202010).

[27] Lifeline Subscribers is from Universal Service Administrative Company (USAC) (https://www.usac.org/lifeline/resources/program-

adoption absent USF support, network effects are presumably very small or possibly zero. With a near universal adoption of mobile services, neither the High-Cost Fund nor the Lifeline Program can be said to produce meaningful network effects. As far as I am aware, there is no claim that the Schools & Libraries Fund or the Rural Healthcare Fund produce network effects for the telecommunications providers.

Receipt of Subsidies

Given the confidentiality of USF liabilities, it not possible to directly evaluate the relationship between liability and USF support for individual providers. Assuming that interstate and international revenues are correlated with total revenues, it becomes possible to say something about the relationship between liability and benefits. In Table 2, the total revenues and High-Cost support received by several providers is summarized.[28] The list includes companies with public financial data; many recipients of High-Cost funding are cooperatives or privately-held small companies that do not report formal financial results.

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data/#Participation). The FCC's Mobility Fund subsidizes mobile wireless network deployment in rural areas but only small distributions have been made to date. More meaningful distributions are planned for Phase II of the program. *See*, *e.g.*, *FCC Should Improve the Accountability and Transparency of High-Cost Program Funding*, Government Accountability Office, GAO-14-587 (July 2014) (available at: https://www.gao.gov/assets/gao-14-587.pdf).

[28] *Universal Service Monitoring Report* (2020), *supra* n. 3, at Table 3.7. Revenues from Yahoo Finance or company Annual Reports.

Table 2. Examples of Liability and High-Cost Support

Company	Total Revenues	High-Cost Support	Support/Revenues
AT&T	181,193,000,000	548,000,000	0.30%
Verizon	131,868,000,000	72,000,000	0.05%
CenturyLink	22,401,000,000	516,000,000	2.30%
Frontier	8,107,000,000	339,000,000	4.18%
TDS	5,176,000,000	211,000,000	4.08%
Consolidated Comm.	1,336,542,000	60,000,000	4.49%
LICT Corp.	117,958,000	36,000,000	30.5%

For the nation's largest providers of telecommunications services, AT&T and Verizon, the High-Cost support is a trivially small share of revenues—about 0.3% for AT&T and 0.05% for Verizon. For smaller providers that serve more rural markets, the share of High-Cost support to revenues is much higher. Setting aside network effects, the companies that contribute large sums to the program receive few benefits, and companies that contribute little to the fund receive large benefits. In terms of direct benefits, there is no monotonic relationship between liabilities and subsidy receipts.

The subsidization of broadband service introduces third-party benefits in the subsidy scheme. Revenues from broadband services are not subject to the USF levy. Only retail interstate and international services are in the contribution base. Consequently, a service that provides no financial support to the USF Program is a beneficiary of the subsidy program. Since the revenue sources of providers vary, often substantially, the discrepancy between the source of subsidy dollars and the recipients of subsidy dollars gives the USF levies the character of taxes. Broadband service is a "third party" beneficiary to levies placed on voice-grade service.

Making matters worse, the funding of broadband services creates additional substitutes for the voice-grade services that support the USF Program, reducing the demand for interstate and international calling. Providers with relatively high shares of interstate and international revenues are subject to liabilities the proceeds of which are used to harm their interstate and international businesses. Those liable for USF contributions are harmed by the program. Like taxation, liabilities may be spent in ways that harm the taxpayer.

Third Party Beneficiaries

When the FCC modernized the USF Program after the Telecommunications Act of 1996, the Commission largely abandoned the notion that it was telecommunications providers that benefit from the programs' subsidies. Today, USF spending represents a galaxy of policy concerns with no obvious connection to carrier liabilities so that a large portion of the benefits of USF payments go to third parties.

Take, for instance, the Schools & Libraries Fund and the Rural Healthcare Fund. The FCC's stated goal of the Schools & Libraries Fund is "to support digital learning in schools and robust connectivity for all libraries."[29] The FCC's stated goal of the Rural Healthcare Fund is "to improve the quality of health care available

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[29] *Summary of the E-Rate Modernization Order*, Federal Communications Commission (2014) (available at: https://www.fcc.gov/general/summary-e-rate-modernization-order#:~:text=The%20Order%20adopts%20three%20goals,making%20the%20E%2Drate%20application).

to patients in rural communities."[30] These are broad social goals that benefit the public, not the telecommunications providers that support the program by paying levies. For these programs, there is no linkage between liabilities and benefits; the benefits are for the public at large. This inclusive perspective is not limited to these programs. The Commission's stated goal of the USF Program broadly is to promote "economic growth, jobs and opportunities."[31] Such concerns are not benefits to telecommunications providers but to the public at large.

Conclusion

From the economic perspective, it seems clear that the contributions to the USF Program, and especially for certain of its components, possess the characteristics of a "tax" rather than a "fee." Today, USF spending represents a galaxy of policy concerns with no obvious connection to providers' liabilities. In distributing the program's funds, the FCC aims "to support digital learning," "to improve the quality of health care," to promote "economic growth" and "jobs," and to provide "educational, employment, civic, social, and other benefits." Such broad goals are beyond the scope of a fee-based system as the benefits accrue to the public at large and not those responsible for funding the program. The primary benefit of USF Programs that may accrue to telecommunications providers is from the network effects

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[30] *Rural Health Care Program*, Federal Communications Commission (undated) (available at: https://www.fcc.gov/general/rural-health-care-program).

[31] *In the Matter of Universal Service Contribution Methodology; A National Broadband Plan For Our Future*, Federal Communications Commission, WC Docket No. 06-122, FCC 12-46 (Rel. April 30, 2012), at ¶ 1.

of a more connected society, but such effects, if any, are likely to be small in modern times as consumers are able to communicate across a variety of broadly-deployed and widely-adopted communications modalities. Whether in whole or in part, the modern USF Program is social policy, the benefits of which largely serve the public and not the telecommunications providers that immediately pay for the scheme.

I declare under penalty of perjury that the foregoing testimony is true and correct.

September 23, 2021	/s/	GEORGE S. FORD
Date		GEORGE S. FORD