



OFFICE OF
THE CHAIRMAN

FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON

June 18, 2009

The Honorable Joe Barton
Ranking Member
Committee on Energy and Commerce
U.S. House of Representatives
2125 Rayburn House Office Building
Washington, DC 20515-6115

JUN 26 2009

The Honorable Cliff Stearns
Ranking Member
Subcommittee on Communications, Technology, and the Internet
U.S. House of Representatives
2125 Rayburn House Office Building
Washington, DC 20515-6115

Dear Ranking Members Barton and Stearns:

This letter is in response to your inquiry dated June 9, 2009 expressing your concern about the state of the Universal Service Fund ("USF"), and requesting additional information about the USF contribution factor. Specifically, you sought information regarding (1) whether any sources of revenue other than industry revenues were used to impact the contribution factor and, if so, how much from each source; (2) the reasons why the projected demand increased (or decreased) from the previous quarter; and (3) the reasons why the projected industry revenues decreased (or increased) from the previous quarter. Our responses follow below.

1. *Whether any sources of revenue other than industry revenues were used to impact the contribution factor and, if so, how much from each source.*

No source of revenue other than industry revenues were used to calculate the contribution factor or impact the contribution factor. Attached to this letter is a chart that lists all of the revenue sources used to calculate the proposed contribution factor for the third quarter of 2009. This chart is based on the analysis conducted by USAC and sets forth the total revenues that are currently projected for each of these industry segments for the period of July through September 2009, when the third quarter 2009 contribution factor will be in effect.

2. *A summary of the reasons why the projected demand increased (or decreased) from the previous quarter.*

We note that program demand increased by approximately \$100.5 million for all support mechanisms as compared to the previous quarter. This increase in demand is due to several factors:

- Demand for funds from the High Cost program increased by approximately \$66.5 million, most notably for interstate common line support (ICLS). This increase was caused by increased operating costs, as well as a reduction of revenue earned by rate-of-return carriers due to the significant loss of land lines.
- Demand for funds from the Low Income program increased by approximately \$21.2 million, mainly as a result of increased demand in the lifeline program. Here too, the plight of the economy is obviously a factor. Also, and notably, during the fourth quarter of 2008 and the first quarter of 2009, 46 new Competitive Eligible Telecommunication Carriers (CETCs) became eligible to provide wireless service in the lifeline program. This increased demand reflects additional eligible low income recipients who are receiving service by these new market entrants.
- Funds available for use from the Schools and Libraries program increased by approximately \$8.1 million, in particular due to projected decrease in expenses incurred by USAC, the Fund Administrator, to manage the USF programs. Due to the fact that the disbursements from the Schools and Libraries program are capped at a specific amount, administrative costs reduce the amount of funds available to program participants, and do not alter the amount collected to fund the program. Administrative expenses incurred in managing the program are deducted from the available monies prior to determining how much is available for disbursement.
- Demand for funds from the Rural Health Care program increased approximately \$4.7 million, mainly due to projected increase in support for Funding Year 2007 through 2009.
- In addition to the above, projected administrative expenses, projected interest, and routine and customary adjustments affected the contribution base as follows. Projected administrative expenses for all USF programs decreased by a total of approximately \$11.43 million from the previous quarter due to USAC's completion of its scheduled audits. Projected interest income decreased by approximately \$6.86 million from the previous quarter, mainly due to a projected decrease in interest earned on treasury bills as a result of a decrease in interest rates. USAC includes interest anticipated to be received when calculating the contribution factor for each quarter. The contribution requirement increased by approximately \$37.37 million for the upcoming quarter due to a routine and customary adjustment that reconciles previous projections to actual results, and includes adjustment in billings, disbursements, interest income and bad debt expenses.

3. *A summary of the reasons why the projected industry revenues decreased (or increased) from the previous quarter.*

The revenue base for the third quarter 2009 of approximately \$18,032.8 million is approximately \$681.9 million less than the revenue base for the second quarter 2009, which was \$18,714.7 million. Interexchange carriers (IXCs) projected the biggest revenue reduction of \$452.3 million. Local exchange carriers (LECs) projected a revenue decrease of \$143.8 million and Cellular/PCS/SMR Providers (CEL) also projected a revenue decrease of \$140.1 million. This data is based on quarterly reports filed by IXCs, LECs, and Cellular/PCS/SMR Providers, and consolidated by USAC as part of the process of calculating a proposed contribution factor. These projected revenue decreases were partly offset by increases in revenue projected by the interconnected Voice over Internet Protocol (VoIP) providers (\$77.7 million) and other toll providers (\$23.1 million).

If we can be of any further assistance, please do not hesitate to contact me.

Sincerely,



Michael J. Copps
Acting Chairman

cc: The Honorable Henry A. Waxman
Chairman
Committee on Energy and Commerce

The Honorable Rick Boucher
Chairman
Subcommittee on Communications, Technology, and the Internet

Enclosure

Attachment A

<u>Carrier Type</u>	<u>3Q09 Projected Revenues</u>
Cellular/PCS/SMR Providers	7,802,678,639
Interexchange Carriers	4,244,520,208
Local Exchange Carriers	2,795,250,314
Competitive Access Providers	1,034,948,384
Toll Resellers	984,068,316
Interconnected VoIP	543,725,643
Private Service Providers	278,388,999
Other Toll Providers	122,836,753
Other Mobile Providers	65,325,841
Operator Service Providers	39,679,439
Local Resellers	23,769,780
Other (Local/Toll) Providers	22,863,599
Prepaid Calling Card Providers	15,368,677
Coaxial Cable	15,034,723
Satellite Service Providers	11,388,051
Payphone Service Providers	11,071,554
Paging Services Providers	10,179,123
All Distance	3,900,965
Specialized Mobile Radio	3,287,131
Wireless Data	2,274,713
Shared Tenant Service Providers	2,271,114
TOTAL	\$ 18,032,831,967