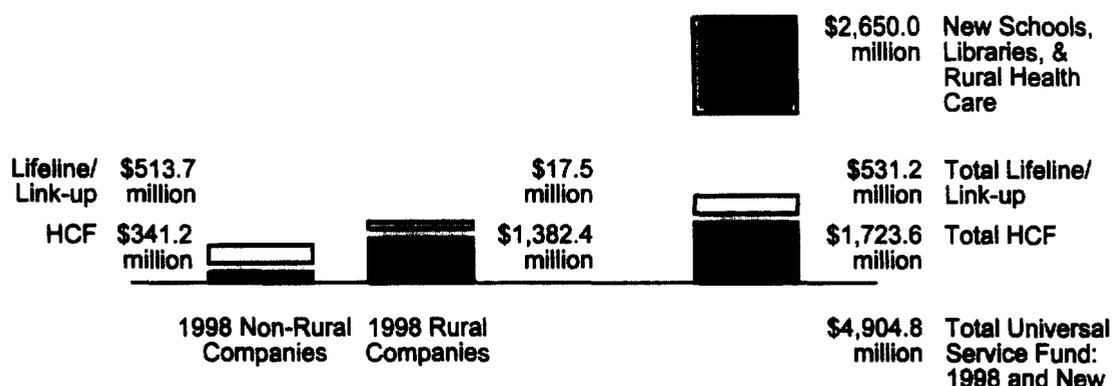


II. Total USF: Figure 1

Figure 1: Total Universal Service Fund — 1998 Subsidies and New Subsidies



	Dollars (in Millions)		
	Non-Rural Companies	Rural Companies	Total
1998 Subsidies			
Lifeline/Link-up: Renamed "Low Income Fund"	\$513.7	\$17.5	\$531.2
1998 High Cost Fund (HCF):			
Long Term Support (LTS)	\$124.5*	\$346.6	\$471.1
Weighted Dial Equipment Minutes (DEM): Renamed "Local Switching Support"	0.0	426.8	426.8
Old Universal Service Fund (USF): Renamed "High Cost Loop Fund"	216.7*	609.0	825.7
Total High Cost Fund	341.2*	1,382.4	1,723.6
New Subsidies**			
Schools and Libraries			\$2,250.0
Rural Health Care Providers			400.0
Total Education and Health Care			2,650.0
Total Universal Service Fund (USF) — 1998 and New Subsidies			\$4,904.8

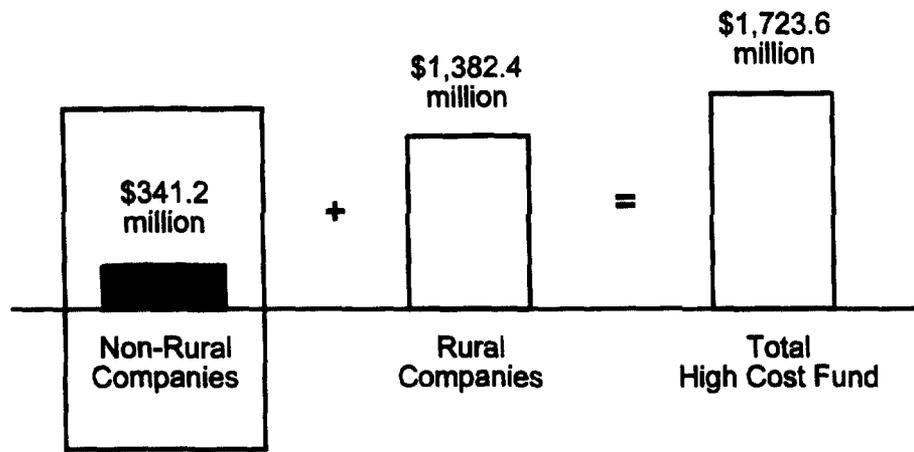
* In modeling the options in this paper, the total high cost fund (HCF) for the non-rural companies is replaced by data from the proxy models (BCPM and HAI). This proxy model data is then added to the rural data. Non-rural companies are those LECs with a total of more than 100,000 access lines. Rural companies are those with a total of 100,000 access lines or less.

**The amounts are based on the maximum levels set by the FCC.

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II. Calculation of Total HCF: Figure 2

Figure 2: Calculation of Total High Cost Fund for Options 2 through 6



For Options 2 through 6, this amount is replaced by results that use either the BCPM or the HAI proxy model data for input costs.

1988 Rural High Cost Fund

II. What Does Each Option Cover?, cont.

It should also be noted that the model output data is only for the non-rural companies. The actual proxy models generate totals (non-rural and rural). Therefore, the default output data generated by the proxy models is greater than the non-rural outputs used in this paper.¹⁰

This paper looks at funding of the high cost fund only on the federal (interstate) level. It makes no assumptions regarding the method of collecting or distributing a state fund. Individual states may want to provide support for prices that fall below the benchmarks modeled in this paper; or states may determine that the state support needed is less than that produced by the model. In other words, a state may need more or less than the amounts modeled in this paper. In addition, states may decide that additional services beyond those supported by the FCC, are worthy of state support.

What Questions Need to be Asked About Each Option?

The following is a list of questions that should be answered to determine if a proposal for the high cost fund meets the requirements of the *Act of 1996*, the needs of a competitive industry, and accomplishes the goal of supporting truly high-cost areas. These questions are discussed in detail in TIAP's *Options for the Universal Service Fund*:¹¹

- Does the fund accomplish the goal of providing sufficient support to high-cost areas so that rates can be affordable?
- Is the fund competitively neutral?
- Is the fund revenue neutral?
- Is the fund explicit?

What are Some Options?

The following is a brief overview of the options presented in this paper. **Sections III through IX** present the results of modeling each of these options. Each section contains a description of the option, a calculated nationwide surcharge for various fund sizes (allows comparisons among options), and whether a state is a net payer or a net receiver from the funds.

- **Option 1A: Ad Hoc Proposal**

Proposed by an ad hoc National Association of Regulatory Utility Commissioners (NARUC) work group. This option sends funds to those states with average costs above an established nationwide average. This option also sets rules for state distribution of these funds. It should be noted that the Ad Hoc Proposal's calculations does not include high cost support for Alaska and Puerto Rico, or any Long Term Support Eligible states receive funds based on the following choices:

1. The lesser of embedded costs and incremental costs (results based on the proxy models).
2. The greater of the result from the above step and "hold harmless" data (current amount received from the old universal service fund, or USF).

II. What Does Each Option Cover?, cont.

- **Option 1B: Modified Ad Hoc Proposal — Proxy Model Results or "Hold Harmless"**
This option is the same as Option 1A except that it omits embedded costs in determining the results.
- **Option 1C: Modified Ad Hoc Proposal — Proxy Model Results or "Hold Harmless" with 50% or 40% Interstate**
This option is the same as Option 1A except that it omits embedded costs in determining the results and changes the interstate support to 50% or 40% of the calculated support from the proxy models.
- **Option 2: \$50 Interstate Benchmark; \$30 State Benchmark**
This option increases the support defined in Option 4A (the FCC Plan) for those areas with very high costs for providing local service.
- **Option 3: Density Zones**
This option targets federal funds for the least populated areas of the country where costs are highest and where competition will probably develop more slowly, if at all.
- **Option 4A: FCC's Plan: 25% Interstate/75% State**
In the FCC Plan, the high cost fund is based on a federal contribution of 25% of the calculated support and states may be responsible for the remaining contribution of 75%.
- **Option 4B: Modified FCC Plan: 40% Interstate/60% State**
This option shows the impact of increasing the federal support from 25% to 40% and decreasing the potential state responsibility accordingly.
- **Option 5: Telephone Numbers**
In this option, there is a nationwide surcharge applied to each telephone number per month on the customer's bill.
- **Option 6: Percentage of Retail Revenues**
In this option, there is a nationwide surcharge assessed as a percentage of total retail revenues on the customer's bill.

II. What Does Each Option Cover?, cont.

What Does Each Option Cover?

While the options were modeled to allow comparisons, the options for the high cost fund may answer one or more of the following three questions differently:

1. How is it collected? Who pays? Where does the money come from?
2. How much? What is the size of the fund?
3. Who gets the money? Who receives the dollars from the fund?

What's the option for the high cost fund?	How is it collected?	How much?	Who gets the money?
Option 1A: Ad Hoc Proposal	Interstate revenues.	Interstate: \$1.2 billion to \$1.7 billion.	State grant with limited discretion of distribution.
Option 1B: Modified Ad Hoc Proposal — Proxy Model Results or "Hold Harmless"	Interstate revenues.	Interstate: \$2.5 billion to \$4.5 billion.	State grant with limited discretion of distribution.
Option 1C: Modified Ad Hoc Proposal — Proxy Model Results or "Hold Harmless" with 50% Interstate	Interstate revenues.	Interstate: \$1.6 billion to \$2.9 billion.	State grant with limited discretion of distribution.
Option 1C: Modified Ad Hoc Proposal — Proxy Model Results or "Hold Harmless" with 40% Interstate	Interstate revenues.	Interstate: \$1.3 billion to \$2.4 billion.	State grant with limited discretion of distribution.
Option 2: \$50 Interstate Benchmark; \$30 State Benchmark.	Interstate revenues.	Interstate: \$2.6 billion to \$8.3 billion. Remaining State Responsibility: \$1.1 billion to \$3.4 billion.	Distribution to specific companies based on proxy models.

II. What Does Each Option Cover?, cont.

What's the option for the high cost fund?	How is it collected?	How much?	Who gets the money?
Option 3: Density zones.	Interstate revenues.	Interstate: \$2.4 billion to \$4.0 billion. Remaining State Responsibility: \$1.9 billion to \$7.7 billion.	Distribution to specific companies based on proxy models.
Option 4A: FCC Plan: 25% Interstate/75% State	Interstate revenues.	Interstate: \$1.6 billion to \$3.9 billion. Remaining State Responsibility: \$0.6 billion to \$7.7 billion.	Distribution to specific companies based on proxy models.
Option 4B: Modified FCC Plan: 40% Interstate/60% State	Interstate revenues.	Interstate: \$1.7 billion to \$5.5 billion. Remaining State Responsibility: \$0.5 billion to \$6.2 billion.	Distribution to specific companies based on proxy models.
Option 5: Telephone Numbers	Surcharge on end user based on telephone numbers.	Total: \$2.2 billion to \$11.7 billion.	Distribution to specific companies based on proxy models.
Option 6: Percent of Retail Revenues	Surcharge on end user based on percent of total (interstate and state) retail revenues.	Total: \$2.2 billion to \$11.7 billion.	Distribution to specific companies based on proxy models.

II. What Does Each Option Cover?, cont.

What is the Difference between the Current and the Proposed High Cost Fund?

In evaluating the options in this paper, one of the questions that needs to be answered, regardless of whether a state pays into the fund or receives from the fund, is "Will the state be better or worse off than it is today?" The same question can also be asked for rural and non-rural companies. **Figures 3 and 4** are an example of this type of comparison using the proposed FCC Plan (Option 4A). These figures compare current high cost fund subsidies (old USF) with the FCC's proposed high cost fund. This type of comparison can be made with other options.

These figures show non-rural, rural, and total amounts for both current and proposed high cost fund subsidies. The calculations use cost data from each of the two proxy models (BCPM or HAI) for the non-rural companies and use 1998 calculations for the rural companies. The amounts for the proposed high cost fund in **Figures 3 and 4** are calculated assuming 25% of the subsidy is based on interstate retail revenues and fund costs above \$30 per month per line.

The results are provided on a state-by-state basis and show the net payers and net receivers from the high cost fund. A positive amount indicates a net receiver; a negative amount indicates a net payer. The net monthly per line amount for each state is calculated by subtracting from the interstate subsidy for this state the product of the interstate surcharge on retail revenues needed to fund 25% of the calculated subsidy times the interstate retail revenues for this state (Option 4A, FCC Plan). This result is then divided by the number of access lines (USF loops) in the state and by twelve months to produce payers and receivers on a per line basis.

II. Current/Proposed HCF, Figure 3

Figure 3: Comparison of Current and Proposed High Cost Fund Support: Net Payers and Receivers per Access Line per Month, BCPM

State	Current	Current	Current	BCPM	BCPM	BCPM
	Non-Rural	Rural	Total	Proposed	Proposed	Proposed
	Current	Current	Current	Non-Rural	Rural	Total
				\$30	\$30	\$30
AK	(\$1.03)	\$22.80	\$12.87	(\$2.08)	\$21.51	\$11.68
AL	(\$0.36)	\$10.51	\$0.57	\$1.21	\$9.56	\$1.93
AR	(\$0.46)	\$12.41	\$3.56	\$1.48	\$11.41	\$4.58
AZ	(\$0.98)	\$12.36	(\$0.13)	(\$1.20)	\$11.08	(\$0.41)
CA	(\$0.61)	\$17.38	(\$0.44)	(\$1.03)	\$16.70	(\$0.85)
CO	(\$0.97)	\$29.64	\$0.42	(\$1.27)	\$28.60	\$0.09
CT	(\$1.12)	\$4.65	(\$1.06)	(\$1.98)	\$3.23	(\$1.93)
DC	(\$0.89)	\$0.00	(\$0.89)	(\$2.07)	\$0.00	(\$2.07)
DE	(\$1.08)	\$0.00	(\$1.08)	(\$1.71)	\$0.00	(\$1.71)
FL	(\$0.91)	\$10.08	(\$0.74)	(\$1.56)	\$9.02	(\$1.39)
GA	(\$0.83)	\$10.25	\$0.30	(\$1.00)	\$9.23	\$0.04
HI	(\$0.84)	\$0.00	(\$0.81)	(\$1.29)	\$0.00	(\$1.26)
IA	(\$0.80)	\$5.36	\$0.81	\$0.98	\$4.28	\$1.84
ID	\$0.40	\$15.97	\$2.56	\$1.18	\$14.91	\$3.08
IL	(\$0.77)	\$7.68	(\$0.53)	(\$0.74)	\$6.63	(\$0.53)
IN	(\$0.78)	\$8.51	(\$0.36)	\$0.11	\$7.66	\$0.45
KS	(\$0.92)	\$18.66	\$2.25	\$0.49	\$17.64	\$3.27
KY	(\$0.85)	\$6.38	\$0.09	\$0.73	\$5.39	\$1.33
LA	(\$0.74)	\$30.82	\$1.52	\$0.56	\$30.05	\$2.67
MA	(\$0.87)	\$8.51	(\$0.86)	(\$1.68)	\$7.56	(\$1.67)
MD	(\$0.94)	\$6.98	(\$0.93)	(\$1.65)	\$5.47	(\$1.64)
ME	(\$0.92)	\$8.51	\$0.87	\$0.69	\$7.69	\$2.02
MI	(\$0.62)	\$9.66	(\$0.20)	(\$0.27)	\$8.95	\$0.10
MN	(\$0.75)	\$8.55	\$0.34	\$0.45	\$7.66	\$1.30
MO	(\$0.59)	\$15.07	\$0.48	\$0.81	\$14.28	\$1.73
MS	(\$0.31)	\$18.45	\$0.89	\$3.44	\$17.60	\$4.34
MT	(\$0.82)	\$22.42	\$6.40	\$2.68	\$21.25	\$8.45
NC	(\$0.54)	\$5.85	(\$0.11)	(\$0.10)	\$5.00	\$0.25
ND	(\$1.39)	\$12.08	\$3.75	\$0.58	\$11.19	\$4.63
NE	(\$0.95)	\$8.86	\$0.84	\$1.45	\$7.81	\$2.61
NH	(\$1.15)	\$13.36	(\$0.26)	(\$1.17)	\$11.89	(\$0.37)
NJ	(\$1.03)	\$7.49	(\$1.02)	(\$2.30)	\$6.38	(\$2.29)
NM	(\$0.82)	\$19.85	\$2.22	\$0.09	\$18.60	\$2.81
NV	(\$1.20)	\$8.20	(\$0.54)	\$0.63	\$6.88	\$1.08
NY	(\$0.87)	\$6.69	(\$0.62)	(\$1.44)	\$5.76	(\$1.20)
OH	(\$0.81)	\$6.26	(\$0.62)	(\$0.54)	\$5.35	(\$0.38)
OK	(\$0.77)	\$21.47	\$1.82	\$0.99	\$20.53	\$3.26
OR	(\$0.94)	\$11.87	\$0.66	(\$0.55)	\$10.97	\$0.89
PA	(\$0.73)	\$2.95	(\$0.54)	(\$0.83)	\$1.98	(\$0.68)
PR	\$9.70	\$0.00	\$9.70	(\$0.44)	\$0.00	(\$0.44)
RI	(\$1.00)	\$0.00	(\$1.00)	(\$1.82)	\$0.00	(\$1.82)
SC	(\$0.45)	\$5.11	\$0.99	(\$0.17)	\$3.96	\$0.90
SD	(\$1.36)	\$11.09	\$2.80	\$1.86	\$10.26	\$4.66
TN	(\$0.90)	\$5.19	(\$0.16)	(\$0.22)	\$4.22	\$0.32
TX	(\$0.55)	\$16.42	\$0.15	\$0.18	\$15.60	\$0.82
UT	(\$1.03)	\$13.22	(\$0.33)	(\$1.55)	\$12.25	(\$0.87)
VT	(\$0.96)	\$6.67	(\$0.71)	(\$0.64)	\$5.75	(\$0.43)
VA	(\$0.81)	\$13.92	\$1.47	\$0.38	\$13.41	\$2.40
WA	(\$0.27)	\$6.44	\$0.20	(\$0.65)	\$5.44	(\$0.22)
WI	(\$0.71)	\$6.67	\$0.63	\$0.04	\$5.77	\$1.08
WV	(\$0.69)	\$9.32	\$0.98	\$4.24	\$8.18	\$4.90
WY	(\$0.10)	\$31.59	\$5.23	\$2.86	\$30.26	\$7.47
Total	(\$0.68)	\$10.87	\$0.00	(\$0.62)	\$9.90	\$0.00

II. Current/Proposed HCF, Figure 4

Figure 4: Comparison of Current and Proposed High Cost Fund Support: Net Payers and Receivers per Access Line per Month, HAI

State	Current Non-Rural	Current Rural	Current Total	Proposed Non-Rural	Proposed Rural	Proposed Total
	Current	Current	Current	\$30	\$30	\$30
AK	(\$1.03)	\$22.80	\$12.87	(\$0.97)	\$22.67	\$12.82
AL	(\$0.36)	\$10.51	\$0.57	(\$0.18)	\$10.41	\$0.73
AR	(\$0.46)	\$12.41	\$3.56	(\$0.45)	\$12.31	\$3.53
AZ	(\$0.98)	\$12.36	(\$0.13)	(\$0.99)	\$12.23	(\$0.14)
CA	(\$0.61)	\$17.38	(\$0.44)	(\$0.67)	\$17.32	(\$0.49)
CO	(\$0.97)	\$29.64	\$0.42	(\$0.88)	\$29.54	\$0.50
CT	(\$1.12)	\$4.65	(\$1.06)	(\$1.20)	\$4.51	(\$1.14)
DC	(\$0.89)	\$0.00	(\$0.89)	(\$1.01)	\$0.00	(\$1.01)
DE	(\$1.08)	\$0.00	(\$1.08)	(\$1.11)	\$0.00	(\$1.11)
FL	(\$0.91)	\$10.08	(\$0.74)	(\$0.95)	\$9.98	(\$0.78)
GA	(\$0.83)	\$10.25	\$0.30	(\$0.96)	\$10.15	\$0.17
HI	(\$0.84)	\$0.00	(\$0.81)	(\$0.53)	\$0.00	(\$0.50)
IA	(\$0.80)	\$5.36	\$0.81	(\$0.44)	\$5.25	\$1.04
ID	\$0.40	\$15.97	\$2.56	(\$0.41)	\$15.86	\$1.85
IL	(\$0.77)	\$7.68	(\$0.53)	(\$0.65)	\$7.57	(\$0.41)
IN	(\$0.78)	\$8.51	(\$0.36)	(\$0.51)	\$8.42	(\$0.11)
KS	(\$0.92)	\$18.66	\$2.25	(\$0.50)	\$18.55	\$2.59
KY	(\$0.85)	\$6.38	\$0.09	(\$0.54)	\$6.28	\$0.35
LA	(\$0.74)	\$30.82	\$1.52	(\$0.47)	\$30.75	\$1.77
MA	(\$0.87)	\$8.51	(\$0.86)	(\$0.95)	\$8.41	(\$0.94)
MD	(\$0.94)	\$6.98	(\$0.93)	(\$0.95)	\$6.83	(\$0.93)
ME	(\$0.92)	\$8.51	\$0.87	(\$0.17)	\$8.43	\$1.46
MI	(\$0.62)	\$9.66	(\$0.20)	(\$0.54)	\$9.59	(\$0.13)
MN	(\$0.75)	\$8.55	\$0.34	(\$0.32)	\$8.46	\$0.71
MO	(\$0.59)	\$15.07	\$0.48	(\$0.12)	\$14.99	\$0.92
MS	(\$0.31)	\$18.45	\$0.89	\$0.41	\$18.36	\$1.55
MT	(\$0.82)	\$22.42	\$6.40	(\$0.14)	\$22.30	\$6.84
NC	(\$0.54)	\$5.85	(\$0.11)	(\$0.48)	\$5.76	(\$0.06)
ND	(\$1.39)	\$12.08	\$3.75	(\$0.65)	\$11.99	\$4.17
NE	(\$0.95)	\$8.86	\$0.84	\$0.38	\$8.75	\$1.91
NH	(\$1.15)	\$13.36	(\$0.26)	(\$0.93)	\$13.21	(\$0.07)
NJ	(\$1.03)	\$7.49	(\$1.02)	(\$1.19)	\$7.38	(\$1.18)
NM	(\$0.82)	\$19.85	\$2.22	(\$0.79)	\$19.73	\$2.23
NV	(\$1.20)	\$8.20	(\$0.54)	(\$0.87)	\$8.06	(\$0.24)
NY	(\$0.87)	\$6.69	(\$0.62)	(\$0.80)	\$6.60	(\$0.55)
OH	(\$0.81)	\$6.26	(\$0.62)	(\$0.67)	\$6.17	(\$0.49)
OK	(\$0.77)	\$21.47	\$1.82	(\$0.24)	\$21.37	\$2.27
OR	(\$0.94)	\$11.87	\$0.66	(\$0.81)	\$11.78	\$0.77
PA	(\$0.73)	\$2.95	(\$0.54)	(\$0.66)	\$2.85	(\$0.48)
PR	\$9.70	\$0.00	\$9.70	(\$0.55)	\$0.00	(\$0.55)
RI	(\$1.00)	\$0.00	(\$1.00)	(\$1.10)	\$0.00	(\$1.10)
SC	(\$0.45)	\$5.11	\$0.99	(\$0.88)	\$5.00	\$0.64
SD	(\$1.36)	\$11.09	\$2.80	(\$0.54)	\$11.01	\$3.31
TN	(\$0.90)	\$5.19	(\$0.16)	(\$0.70)	\$5.09	\$0.01
TX	(\$0.55)	\$16.42	\$0.15	(\$0.43)	\$16.34	\$0.27
UT	(\$1.03)	\$13.22	(\$0.33)	(\$0.91)	\$13.13	(\$0.22)
VT	(\$0.96)	\$6.67	(\$0.71)	(\$0.61)	\$6.57	(\$0.38)
VA	(\$0.81)	\$13.92	\$1.47	(\$0.50)	\$13.87	\$1.73
WA	(\$0.27)	\$6.44	\$0.20	(\$0.73)	\$6.34	(\$0.24)
WI	(\$0.71)	\$6.67	\$0.63	(\$0.56)	\$6.58	\$0.73
WV	(\$0.69)	\$9.32	\$0.98	\$0.33	\$9.21	\$1.81
WY	(\$0.10)	\$31.59	\$5.23	(\$0.22)	\$31.45	\$5.11
Total	(\$0.68)	\$10.87	\$0.00	(\$0.67)	\$10.77	\$0.00

III. Option 1A: Ad Hoc Proposal

Option 1A: Ad Hoc Proposal

This proposal is from an ad hoc group working at the request of the Chairman of the NARUC Communications Committee. With the Ad Hoc Proposal, the following points provide an overview of the major steps used to calculate and to distribute the high cost fund among the states:

1. "Using forward-looking cost models, calculate the difference between each state's average cost and the national average."¹² "That amount, if distributed to carriers, would allow the state's net cost to be reduced to the national average."¹³ In order to account for separations effects, "Federal support under step 1 is set equal to 75% of that amount."¹⁴
2. "Using reported embedded costs of incumbent carriers, calculate the difference between each state's average (embedded) cost and the national average."¹⁵ Like step 1, federal support is set equal to approximately 75% of that amount. "To the extent that embedded costs are used in calculating federal fund distributions, because of the history of funding the high cost program, the reasonably comparable standard can be pushed as high as 105% of national cost."¹⁶
3. "For each state, take the lesser of the amounts from step 1 and step 2. This is the minimum amount of federal support for each state."¹⁷
4. "Calculate hold-harmless support for each state. For most states, this consists of support under existing support systems (i.e., support for loops and switches). For states with above average embedded costs that currently make a net contribution to federal support, the hold-harmless amount is increased to ensure that the state will not have to increase its net contribution."¹⁸
5. "Federal support under the proposal is the greater of this 'hold-harmless' amount and the amount from step 3."¹⁹
6. "State commissions would assign federal support first to carriers who would receive support under existing systems, and distribute remaining support (if any) according to plans adopted by the states and approved by the FCC to ensure consistency with the Telecom Act." States could distribute federal support in accordance with one of several options, each of which would ensure that rates in rural areas are reasonably comparable to rates in urban areas.²⁰

III. Option 1A: Ad Hoc Proposal, cont.

Monthly Surcharges for Option 1A: Ad Hoc Proposal

	Option 1A: Nationwide Surcharge* (%)	Interstate Fund: Net of 75% Interstate Incremental, Embedded, and "Hold Harmless" (in millions)
Amount of Benchmark (in dollars)	Average Cost	Average Cost
BCPM	2.4%	\$1,699 m
HAI	1.7%	\$1,196 m

*This hypothetical surcharge is based on 1996 interstate retail revenues. The benchmark for the proxy models is set at average cost. For BCPM this is \$34.20 and for HAI it is \$21.38. The benchmark for embedded cost is set at 105% of average cost, \$35.58.

The above chart contains hypothetical nationwide surcharges that, under Option 1A (the Ad Hoc Proposal), would generate support calculated by the Ad Hoc model. The Ad Hoc model's forward-looking costs are replaced with two separate proxy models inputs — BCPM and HAI for total (rural and non-rural) costs. These two hypothetical surcharges calculated for Option 1A provide a range of results. The surcharge is the interstate fund generated from each model divided by interstate retail revenues.²¹ The surcharge is for comparison purposes only. Actual collection is through service rates.²²

The chart shows a nationwide hypothetical monthly surcharge for both totals (BCPM and HAI). The calculations by the NARUC Ad Hoc Working Group show a hypothetical interstate surcharge of 2.4%.²³ The amount of state responsibility will be determined by the state and will be dependent upon the level of deaveraging, the level of the rates within the state, and the necessity of technology modernization.

Figure 5 illustrates Option 1A, the Ad Hoc Proposal. These tables show the amount needed per month per line to support the federal fund for both non-rural and rural companies. **Figure 5** indicates net payers and receivers from the fund. This difference between what a state receives minus what it pays determines whether the state is a net payer or a net receiver. As with the earlier charts, a positive amount in **Figure 5** indicates a net receiver; a negative amount indicates a net payer. The monthly per line amount for each state is calculated by subtracting from the interstate subsidy for this state the product of the interstate surcharge on interstate retail revenues times the interstate retail revenues for this state. This result is then divided by the number of access lines (USF loops) in the state and by twelve months to produce payers and receivers on a per line basis.

III. Option 1A: Figure 5

Figure 5: Option 1A: Ad Hoc Proposal, Net Payers and Receivers per Access Line per Month, BCPM and HAI

State	BCPM Average Cost	State	HAI Average Cost	
AK	NA	AK	NA	
PR	NA	PR	NA	
WY	9.03	WY	8.85	
VT	8.41	MT	6.85	
MT	6.85	MS	6.14	
MS	6.12	VT	6.09	
AR	5.42	AR	5.39	
ME	4.59	ME	4.60	
WV	4.23	WV	4.14	
NM	4.00	NM	3.96	
SC	3.38	ID	3.04	
ID	2.45	KS	2.46	
KS	2.41	NE	2.10	
LA	2.34	KY	2.07	
NE	2.17	SC	1.92	
KY	2.09	SD	1.87	
SD	1.93	ND	1.74	
GA	1.51	LA	1.58	
ND	1.49	OK	1.47	
OK	1.13	AL	0.72	
OR	0.61	CO	0.66	
NC	0.50	OR	0.59	
TX	0.32	GA	0.53	
NH	0.29	NC	0.49	
AL	0.28	MO	0.44	
MO	0.09	NH	0.31	
WI	(0.15)	TX	0.26	
CO	(0.19)	WI	0.07	
WA	(0.21)	WA	0.07	Receiver
AZ	(0.28)	AZ	(0.09)	Payer
MI	(0.35)	MI	(0.27)	
MN	(0.48)	UT	(0.36)	
CA	(0.50)	MN	(0.36)	
UT	(0.53)	CA	(0.55)	
IN	(0.62)	FL	(0.58)	
TN	(0.65)	TN	(0.58)	
IA	(0.65)	IA	(0.60)	
FL	(0.66)	IN	(0.64)	
IL	(0.67)	OH	(0.74)	
NY	(0.71)	NY	(0.76)	
OH	(0.73)	IL	(0.77)	
PA	(0.73)	PA	(0.79)	
HI	(0.80)	HI	(0.92)	
VA	(0.84)	VA	(0.93)	
DC	(0.85)	RI	(0.99)	
MD	(0.90)	MA	(1.05)	
MA	(0.90)	MD	(1.08)	
RI	(0.98)	DE	(1.17)	
DE	(0.98)	CT	(1.24)	
NJ	(1.00)	NJ	(1.29)	
CT	(1.14)	DC	(2.05)	
NV	(2.94)	NV	(2.94)	

IV. Option 1B: Modified Ad Hoc Proposal — Proxy Model Results or “Hold Harmless”

Option 1B: Modified Ad Hoc Proposal — Proxy Model Results or “Hold Harmless”

This option is the same as Option 1A except that it omits embedded costs in determining the results. Therefore, embedded costs are not used to determine the size or distribution of funds.

Monthly Surcharges for Option 1B: Modified Ad Hoc Proposal — Proxy Model Results or “Hold Harmless”

	Option 1B: Nationwide Surcharge* (%)	Interstate Fund: Net of 75% Interstate Incremental and “Hold Harmless” (in millions)
Amount of Benchmark (in dollars)	Average Cost	Average Cost
BCPM	6.2%	\$4,461 m
HAI	3.5%	\$2,514 m

*This hypothetical surcharge is based on 1996 interstate retail revenues. The benchmark for the proxy models is set at average cost. For BCPM this is \$34.20 and for HAI it is \$21.38.

IV. Option 1B: Figure 6

Figure 6: Option 1B: Modified Ad Hoc Proposal — Proxy Model Results or "Hold Harmless", Net Payers and Receivers per Access Line per Month, BCPM and HAI

State	BCPM Average Cost	State	HAI Average Cost	
AK	NA	AK	NA	
PR	NA	PR	NA	
SD	17.56	SD	27.00	
ND	14.27	ND	26.98	
MT	13.78	MT	26.19	
AR	13.04	WY	14.76	
MS	12.39	NE	12.67	
WV	11.43	WV	9.30	
IA	11.40	MS	8.98	
WY	8.73	AR	7.44	
VT	7.33	NM	7.19	
OK	7.19	KS	6.36	
NE	7.06	ID	6.08	
AL	6.11	ME	5.77	
ID	5.82	OK	5.69	
KY	5.80	IA	5.61	
ME	5.57	VT	4.83	
KS	5.21	AL	4.66	
MO	4.64	MN	2.95	
NM	4.19	MO	2.88	
SC	3.36	KY	2.33	
MN	3.34	NC	1.89	
WI	2.47	TN	0.95	
TN	2.06	SC	0.88	
LA	1.53	LA	0.65	
NC	1.20	OR	0.31	
IN	1.05	WI	0.26	Receiver
OR	0.45	CO	(0.60)	Payer
NV	0.22	TX	(0.65)	
GA	(0.19)	GA	(0.72)	
TX	(0.61)	WA	(0.96)	
AZ	(0.79)	NH	(1.00)	
MI	(1.38)	MI	(1.04)	
VA	(1.51)	IN	(1.05)	
CA	(1.59)	UT	(1.11)	
NH	(1.69)	AZ	(1.27)	
WA	(1.73)	CA	(1.45)	
IL	(1.90)	VA	(1.54)	
CO	(2.00)	FL	(1.60)	
PA	(2.02)	OH	(1.66)	
OH	(2.04)	PA	(1.73)	
HI	(2.15)	IL	(1.76)	
UT	(2.16)	NY	(1.86)	
NY	(2.16)	HI	(1.94)	
FL	(2.17)	RI	(2.08)	
DC	(2.28)	MA	(2.20)	
MD	(2.40)	MD	(2.27)	
MA	(2.41)	DE	(2.47)	
RI	(2.63)	CT	(2.60)	
DE	(2.63)	NJ	(2.75)	
NJ	(2.70)	DC	(4.32)	
CT	(3.04)	NV	(7.06)	

V. Option 1C: Modified Ad Hoc Proposal — Proxy Model Results or “Hold Harmless” with 50% or 40% Interstate

Option 1C: Modified Ad Hoc Proposal — Proxy Model Results or “Hold Harmless” with 50% or 40% Interstate

This option is the same as Option 1A except for two variations:

1. Embedded costs are not used to determine the size or distribution of funds.
2. The size of the fund is controlled by the percentage of support the federal fund would assume. Percentages are shown at 50% and 40%.

This alternative proposal provides support to all states based upon proxy model costs unless the support is lower than the amount of support currently received. The size of the federal (interstate) fund would be controlled by the percentage of support the federal fund would assume. The support is calculated in the same manner as Option 1A with the exception that no support is based upon embedded cost and a lower percentage of support is applied. **Figures 7 and 8** depict the distribution to states and depict the size of the federal fund based upon a federal fund assuming 50% and 40% of the support calculated by the proxy models.

Monthly Surcharges for Option 1C: Modified Ad Hoc Proposal — Proxy Model Results or “Hold Harmless” with 50% Interstate

	Option 1C: Nationwide Surcharge* (%)	Interstate Fund: Net of 50% Interstate Incremental and “Hold Harmless” (in millions)
Amount of Benchmark (in dollars)	Average Cost	Average Cost
BCPM	4.1%	\$2,948 m
HAI	2.2%	\$1,623 m

*This hypothetical surcharge is based on 1996 interstate retail revenues. The benchmark for the proxy models is set at average cost. For BCPM this is \$34.20 and for HAI it is \$21.38.

Monthly Surcharges for Option 1C: Modified Ad Hoc Proposal — Proxy Model Results or “Hold Harmless” with 40% Interstate

	Option 1C: Nationwide Surcharge* (%)	Interstate Fund: Net of 40% Interstate Incremental and “Hold Harmless” (in millions)
Amount of Benchmark (in dollars)	Average Cost	Average Cost
BCPM	3.3%	\$2,358 m
HAI	1.8%	\$1,299 m

*This hypothetical surcharge is based on 1996 interstate retail revenues. The benchmark for the proxy models is set at average cost. For BCPM this is \$34.20 and for HAI it is \$21.38.

V. Option 1C: Figure 7

Figure 7: Option 1C: Modified Ad Hoc Proposal — 50% Interstate, Net Payers and Receivers per Access Line per Month, BCPM and HAI

State	BCPM	State	HAI	
	Interstate		Interstate	
	Average Cost		Average Cost	
AK	NA	AK	NA	
PR	NA	PR	NA	
SD	11.72	SD	18.05	
ND	9.53	ND	18.03	
MT	9.20	MT	17.50	
AR	8.71	WY	9.90	
MS	8.27	NE	8.49	
WV	7.64	WV	6.24	
IA	7.61	MS	6.03	
WY	5.84	AR	5.00	
VT	4.90	NM	4.84	
OK	4.81	KS	4.28	
NE	4.72	ID	4.10	
AL	4.08	ME	3.88	
ID	3.89	OK	3.83	
KY	3.88	IA	3.78	
ME	3.73	VT	3.27	
KS	3.49	AL	3.14	
MO	3.11	MN	2.01	
NM	2.81	MO	1.95	
SC	2.26	KY	1.60	
MN	2.24	NC	1.30	
WI	1.66	TN	0.67	
TN	1.39	SC	0.63	
LA	1.03	OR	0.25	
NC	0.81	WI	0.21	
IN	0.71	LA	0.07	Receiver
OR	0.31	CO	(0.35)	Payer
NV	0.20	GA	(0.43)	
GA	(0.11)	TX	(0.58)	
TX	(0.39)	NH	(0.61)	
AZ	(0.51)	IN	(0.66)	
MI	(0.91)	UT	(0.70)	
VA	(0.99)	MI	(0.73)	
CA	(1.08)	WA	(0.77)	
NH	(1.11)	AZ	(0.96)	
WA	(1.25)	VA	(0.98)	
IL	(1.27)	CA	(0.98)	
PA	(1.34)	OH	(1.09)	
OH	(1.36)	FL	(1.09)	
HI	(1.42)	PA	(1.13)	
CO	(1.43)	IL	(1.15)	
NY	(1.45)	NY	(1.24)	
FL	(1.47)	HI	(1.26)	
UT	(1.50)	RI	(1.34)	
DC	(1.51)	MA	(1.42)	
MD	(1.58)	MD	(1.47)	
MA	(1.59)	DE	(1.59)	
RI	(1.74)	CT	(1.68)	
DE	(1.74)	NJ	(1.78)	
NJ	(1.79)	DC	(2.79)	
CT	(2.01)	NV	(4.67)	

V. Option 1C: Figure 8

Figure 8: Option 1C: Modified Ad Hoc Proposal — 40% Interstate, Net Payers and Receivers per Access Line per Month, BCPM and HAI

State	BCPM		State	HAI	
	Interstate	Average Cost		Interstate	Average Cost
AK	NA		AK	NA	
PR	NA		PR	NA	
SD	9.38		SD	14.44	
ND	7.62		ND	14.43	
MT	7.36		MT	14.00	
AR	6.97		WY	7.92	
MS	6.62		NE	6.79	
WV	6.11		WV	5.00	
IA	6.09		MS	4.82	
WY	4.67		AR	4.00	
VT	3.92		NM	3.87	
OK	3.85		KS	3.42	
NE	3.78		ID	3.28	
AL	3.27		ME	3.11	
ID	3.12		OK	3.06	
KY	3.11		IA	3.02	
ME	2.98		VT	2.62	
KS	2.79		AL	2.51	
MO	2.48		MN	1.60	
NM	2.25		MO	1.56	
SC	1.81		KY	1.28	
MN	1.79		NC	1.04	
WI	1.33		TN	0.54	
TN	1.11		SC	0.50	
LA	0.83		OR	0.20	
NC	0.65		WI	0.16	
IN	0.57		LA	0.05	Receiver
OR	0.25		CO	(0.28)	Payer
NV	0.16		GA	(0.35)	
GA	(0.09)		TX	(0.46)	
TX	(0.32)		NH	(0.49)	
AZ	(0.41)		IN	(0.53)	
MI	(0.73)		UT	(0.56)	
VA	(0.80)		MI	(0.59)	
CA	(0.86)		WA	(0.62)	
NH	(0.89)		AZ	(0.77)	
WA	(1.00)		VA	(0.78)	
IL	(1.02)		CA	(0.78)	
PA	(1.08)		OH	(0.87)	
OH	(1.09)		FL	(0.87)	
HI	(1.14)		PA	(0.90)	
CO	(1.14)		IL	(0.92)	
NY	(1.16)		NY	(0.99)	
FL	(1.18)		HI	(1.00)	
UT	(1.20)		RI	(1.07)	
DC	(1.21)		MA	(1.14)	
MD	(1.27)		MD	(1.17)	
MA	(1.28)		DE	(1.28)	
RI	(1.39)		CT	(1.34)	
DE	(1.39)		NJ	(1.43)	
NJ	(1.43)		DC	(2.23)	
CT	(1.60)		NV	(3.74)	

VI. Option 2: \$50 Interstate Benchmark; \$30 State Benchmark

Option 2: \$50 Interstate Benchmark; \$30 State Benchmark

In this option, two benchmarks determine the size and the jurisdiction of the fund. Costs that are above the \$50 per line benchmark are funded entirely by the federal jurisdiction (100% interstate). Costs between a \$30 and a \$50 benchmark are divided between the two jurisdictions: 25% interstate and 75% state. The states are not required to have a fund with this option. If a state elects to fund universal service and adopts the same model and benchmark as the FCC, then the state responsibility would be for 75% of the difference between the two benchmarks.

Option 2 differs from the FCC Plan (Option 4A) in that it increases the interstate support to areas with very high costs for providing local service. Whereas the FCC Plan provides interstate support based on 25% of the costs above the benchmark, in Option 2 the interstate support is 100% when the cost per month is over \$50. Option 2 is similar to the FCC's Plan since the support is 25% interstate for those costs between the \$30 and \$50 benchmarks.

Monthly Surcharges for Option 2: \$50 Interstate Benchmark; \$30 State Benchmark

	Option 2: Nationwide Surcharge* (%)	Interstate Fund: 100% above \$50 plus 25% (\$50 - \$30) (in millions)	Remaining State Responsibility 75% (\$50 - \$30) (in millions)
Amount of Benchmarks (in dollars)	\$30 and \$50	\$30 and \$50	\$30 and \$50
BCPM	11.5%	\$8,318 m	\$3,352 m
HAI	3.5%	\$2,556 m	\$1,072 m

*This hypothetical surcharge per access line is based on 1996 interstate retail revenues. This surcharge is for comparison purposes only. Actual collection is through service rates. The federal surcharge is the sum of costs above \$50 and 25% of the difference between the \$30 benchmark and the \$50 benchmark. The remaining state amount is 75% of the difference between the two benchmarks.

The above chart contains hypothetical nationwide surcharges that, under Option 2, would generate percentages of interstate support calculated by results from the two proxy models (BCPM and HAI) at the \$30 and \$50 benchmarks. The data is the sum of the 1998 calculated rural amounts (Figure 2) for the high cost fund and results from the proxy models (BCPM and HAI) for the three benchmark levels. This surcharge is the interstate fund generated from each model for a given benchmark divided by 1996 interstate retail revenues. The surcharge is for comparison purposes only.

Figure 9 provides the distribution to the states of the federal (interstate) fund and Figure 10 shows the remaining state responsibility.

VI. Option 2: Figure 9

Figure 9: Option 2: \$50 Interstate Benchmark; \$30 State Benchmark, Net Payers and Receivers per Access Line per Month, BCPM and HAI

State	BCPM		State	HAI Interstate	
	\$30 and \$50			\$30 and \$50	
WY	\$16.40		AK	\$12.66	
MT	\$14.44		MT	\$7.94	
WV	\$12.45		WY	\$6.66	
MS	\$12.14		ND	\$4.82	
SD	\$10.10		SD	\$4.13	
AK	\$9.21		AR	\$3.80	
ND	\$7.75		NE	\$3.11	
ID	\$7.57		KS	\$2.93	
NE	\$7.43		OK	\$2.89	
AR	\$6.83		MS	\$2.77	
OK	\$6.17		LA	\$2.71	
KS	\$5.91		ID	\$2.54	
NV	\$5.60		WV	\$2.46	
MO	\$4.83		NM	\$2.02	
LA	\$4.66		VA	\$1.92	
NM	\$4.65		ME	\$1.82	
AL	\$4.50		MO	\$1.64	
IA	\$4.37		MN	\$1.28	
VA	\$4.30		IA	\$1.23	
MN	\$3.74		AL	\$1.04	
ME	\$3.69		NV	\$0.88	
KY	\$3.47		OR	\$0.68	
TX	\$2.50		WI	\$0.60	
WI	\$1.79		CO	\$0.60	
IN	\$1.29		TX	\$0.57	
OR	\$1.25		SC	\$0.34	
SC	\$0.43		KY	\$0.25	Receiver
TN	\$0.26		GA	(\$0.02)	Payer
MI	\$0.25		NC	(\$0.08)	
NC	\$0.17		WA	(\$0.10)	
WA	\$0.03		AZ	(\$0.14)	
CO	(\$0.40)		IN	(\$0.16)	
VT	(\$0.43)		UT	(\$0.18)	
IL	(\$0.65)		TN	(\$0.18)	
OH	(\$0.67)		MI	(\$0.24)	
GA	(\$0.73)		HI	(\$0.32)	
NH	(\$1.22)		VT	(\$0.35)	
PA	(\$1.46)		IL	(\$0.45)	
AZ	(\$1.57)		NH	(\$0.52)	
PR	(\$1.57)		CA	(\$0.61)	
CA	(\$1.69)		OH	(\$0.65)	
UT	(\$2.17)		PA	(\$0.65)	
HI	(\$2.54)		PR	(\$0.74)	
NY	(\$2.63)		NY	(\$0.76)	
FL	(\$3.17)		FL	(\$1.03)	
MD	(\$3.58)		MD	(\$1.23)	
MA	(\$3.66)		MA	(\$1.24)	
DE	(\$3.74)		DC	(\$1.34)	
RI	(\$4.21)		NJ	(\$1.47)	
DC	(\$4.37)		RI	(\$1.47)	
CT	(\$4.54)		DE	(\$1.50)	
NJ	(\$4.95)		CT	(\$1.55)	

VI. Option 2: Figure 10

Figure 10: Option 2: \$50 Interstate Benchmark; \$30 State Benchmark, Remaining State Responsibility per Access Line per Month, BCPM and HAI

State	BCPM State \$30 and \$50	State	HAI State \$30 and \$50
WV	\$6.03	MS	\$2.58
MS	\$5.56	WV	\$2.44
AL	\$3.93	NE	\$2.05
VA	\$3.79	VA	\$1.90
KY	\$3.37	AL	\$1.49
NC	\$3.34	ME	\$1.48
ME	\$3.04	NH	\$1.34
AR	\$2.98	KY	\$1.33
LA	\$2.84	MO	\$1.31
OK	\$2.76	ID	\$1.26
SC	\$2.70	NM	\$1.19
TN	\$2.70	NC	\$1.19
ID	\$2.67	WY	\$1.11
IN	\$2.65	VT	\$1.10
WY	\$2.50	OK	\$0.97
MO	\$2.48	MT	\$0.91
NH	\$2.47	MN	\$0.87
NM	\$2.42	IN	\$0.81
VT	\$2.28	IA	\$0.80
MT	\$2.28	HI	\$0.78
AZ	\$2.09	SD	\$0.76
OH	\$2.09	TN	\$0.72
IA	\$2.06	KS	\$0.70
PR	\$2.05	ND	\$0.65
GA	\$2.02	AR	\$0.65
NV	\$1.94	PA	\$0.63
MN	\$1.91	TX	\$0.63
TX	\$1.89	CO	\$0.62
NE	\$1.74	OH	\$0.58
OR	\$1.74	OR	\$0.55
PA	\$1.72	Nationwide Avg.	\$0.54
MI	\$1.72	WI	\$0.49
Nationwide Avg.	\$1.68	SC	\$0.47
SD	\$1.68	GA	\$0.45
WI	\$1.65	WA	\$0.45
KS	\$1.64	NY	\$0.44
WA	\$1.64	MI	\$0.42
DE	\$1.62	IL	\$0.42
CT	\$1.54	DE	\$0.35
CO	\$1.46	UT	\$0.31
RI	\$1.33	AZ	\$0.30
IL	\$1.17	MD	\$0.30
FL	\$1.10	FL	\$0.21
MD	\$1.10	CT	\$0.19
HI	\$1.09	MA	\$0.11
UT	\$1.06	CA	\$0.11
ND	\$1.04	RI	\$0.10
NY	\$0.88	LA	\$0.09
MA	\$0.78	PR	\$0.07
CA	\$0.62	AK	\$0.04
NJ	\$0.40	DC	\$0.00
AK	\$0.27	NJ	(\$0.07)
DC	\$0.01	NV	(\$0.18)

VII. Option 3: Density Zones

Option 3: Density Zones

This option targets federal funds for the least populated areas of the country where costs are highest and where competition will probably develop more slowly, if at all. The average state cost per line for the lowest density zone, 0 to 5 lines per square mile, is two to four times the next density zone, 5 to 100 lines per square mile. The average state cost per line for the lowest density zone is 4 to 10 times the nationwide average cost per line for the non-rural companies.²⁴ This option assumes that 100% of the support for the non-rural companies will be provided by the federal fund above the \$30 benchmark.

The level of support is developed by calculating the support from the proxy models in the lowest geographic density zone with a \$30 benchmark. This produces a federal fund size of \$2.6 billion for BCPM and \$1.05 billion for HAI for the non-rural companies. **Figure 11** depicts the distribution to the states of a federal (interstate) fund that provides support to only the lowest density zone. **Figure 12** shows the remaining state responsibility.

Monthly Surcharges for Option 3: Density Zones

	Option 3: Nationwide Surcharge* (%)	Interstate Fund (in millions)	Remaining State Responsibility (in millions)
Amount of Benchmark (in dollars)	Zone 1 \$30	Zone 1 \$30	Zone 1 \$30
BCPM	5.5%	\$3,965 m	\$7,704 m
HAI	3.3%	\$2,410 m	\$1,866 m

*This hypothetical surcharge is based on 1996 interstate retail revenues.

The above chart contains hypothetical nationwide surcharges that, under Option 3, would generate percentages of interstate support calculated by results from the two proxy models (BCPM and HAI) at the \$30 benchmark. The data is the sum of the 1998 calculated rural amounts (**Figure 2**) for the high cost fund and results from the proxy models (BCPM and HAI) for the \$30 benchmark. This surcharge is the interstate fund generated from each model for a given benchmark divided by 1996 interstate retail revenues. The surcharge is for comparison purposes only.

The next size density zone calculated by the models is 5 to 100 lines per square miles. The cost in this zone are not as extreme as in the lowest density zone.²⁵ If the federal fund were to provide support for the non-rural companies above the \$30 benchmark for the two lowest zones, 0 to 5 and 5 to 100 lines per square miles, this would increase the federal fund 312% for BCPM and 277% for HAI.

VII. Option 3: Figure 11

Figure 11: Option 3: Density Zones, Net Payers and Receivers per Access Line per Month, BCPM and HAI

State	BCPM Interstate Zone 1, \$30	State	HAI Interstate Zone 1, \$30	
WY	\$16.71	AK	\$12.53	
MT	\$14.69	WY	\$11.24	
AK	\$11.57	MT	\$9.20	
SD	\$11.19	ND	\$6.76	
ND	\$9.95	SD	\$6.33	
NE	\$8.38	NE	\$5.02	
KS	\$6.89	KS	\$4.17	
ID	\$6.53	AR	\$4.08	
AR	\$5.30	NM	\$3.77	
NM	\$5.19	ID	\$3.38	
MS	\$4.94	OK	\$3.25	
OK	\$4.72	MS	\$2.62	
IA	\$4.45	LA	\$1.94	
MN	\$3.02	IA	\$1.79	
MO	\$2.61	MN	\$1.60	
WV	\$2.57	ME	\$1.36	
TX	\$2.03	MO	\$1.35	
LA	\$1.88	CO	\$1.14	
OR	\$1.66	OR	\$1.07	
AL	\$1.36	WV	\$0.93	
CO	\$0.94	VA	\$0.90	
ME	\$0.91	TX	\$0.85	
WA	\$0.69	AL	\$0.78	
WI	\$0.52	WI	\$0.59	
VA	\$0.35	SC	\$0.41	
SC	\$0.04	NV	\$0.38	
KY	\$0.03	WA	\$0.21	
IL	(\$0.12)	UT	\$0.07	
GA	(\$0.26)	GA	\$0.04	Receiver
AZ	(\$0.36)	AZ	(\$0.02)	Payer
UT	(\$0.49)	KY	(\$0.27)	
NV	(\$0.53)	MI	(\$0.29)	
TN	(\$0.70)	TN	(\$0.39)	
MI	(\$0.72)	HI	(\$0.45)	
IN	(\$0.75)	NH	(\$0.50)	
CA	(\$0.76)	CA	(\$0.55)	
NC	(\$1.10)	IL	(\$0.56)	
PR	(\$1.17)	NC	(\$0.62)	
HI	(\$1.39)	IN	(\$0.63)	
VT	(\$1.48)	PR	(\$0.68)	
PA	(\$1.49)	PA	(\$0.86)	
OH	(\$1.50)	NY	(\$0.91)	
NH	(\$1.50)	OH	(\$0.94)	
FL	(\$1.61)	FL	(\$0.95)	
NY	(\$1.65)	VT	(\$1.07)	
MA	(\$1.99)	MA	(\$1.23)	
DC	(\$2.08)	DC	(\$1.27)	
MD	(\$2.10)	MD	(\$1.29)	
RI	(\$2.33)	RI	(\$1.42)	
NJ	(\$2.43)	NJ	(\$1.48)	
DE	(\$2.48)	DE	(\$1.49)	
CT	(\$2.53)	CT	(\$1.53)	

VII. Option 3: Figure 12

Figure 12: Option 3: Density Zones, Remaining State Responsibility per Access Line per Month, BCPM and HAI

State	BCPM State Zone 1, \$30	State	HAI State Zone 1, \$30
WV	\$18.24	MS	\$5.06
MS	\$15.10	WV	\$5.05
NV	\$11.11	VA	\$3.51
VA	\$10.73	AL	\$3.13
KY	\$9.30	NC	\$2.65
AL	\$9.20	ME	\$2.49
ME	\$8.08	MO	\$2.37
LA	\$7.70	KY	\$2.26
NC	\$6.86	VT	\$2.08
MO	\$6.80	TN	\$1.84
AR	\$6.76	IN	\$1.70
IN	\$6.66	NH	\$1.63
ID	\$6.57	OK	\$1.63
OK	\$6.34	MN	\$1.44
TN	\$5.92	LA	\$1.39
NH	\$5.91	ID	\$1.37
VT	\$5.86	NE	\$1.32
SC	\$5.55	AR	\$1.20
WY	\$5.39	SC	\$1.16
OH	\$4.99	OH	\$1.15
NM	\$4.83	PA	\$1.06
MN	\$4.80	GA	\$1.05
MT	\$4.76	IA	\$1.03
WI	\$4.75	WI	\$0.98
MI	\$4.34	Nationwide Avg.	\$0.94
IA	\$4.26	OR	\$0.93
TX	\$4.25	MI	\$0.85
GA	\$4.18	TX	\$0.81
Nationwide Avg.	\$3.86	NY	\$0.78
PA	\$3.83	IL	\$0.68
OR	\$3.75	CO	\$0.65
AZ	\$3.66	WY	\$0.57
SD	\$3.45	MD	\$0.56
WA	\$3.36	NM	\$0.56
NE	\$3.16	WA	\$0.51
DE	\$3.13	MT	\$0.51
CO	\$2.96	CT	\$0.48
KS	\$2.96	KS	\$0.48
PR	\$2.95	DE	\$0.40
IL	\$2.62	PR	\$0.37
CT	\$2.39	AZ	\$0.31
NY	\$2.12	FL	\$0.27
HI	\$2.09	UT	\$0.25
MD	\$2.03	ND	\$0.22
RI	\$2.02	MA	\$0.21
UT	\$1.97	SD	\$0.16
FL	\$1.91	HI	\$0.15
ND	\$1.71	NV	\$0.15
CA	\$1.37	RI	\$0.15
MA	\$1.34	AK	\$0.11
NJ	\$0.60	CA	\$0.11
AK	\$0.48	NJ	\$0.07
DC	\$0.01	DC	\$0.00

VIII. Option 4A: FCC Plan: 25% Interstate/ 75% State

Option 4A: FCC Plan: 25% Interstate/75% State

This is the current FCC plan for the non-rural portion of the high cost fund. (For a cash flow diagram of the FCC's plan, see **Section XIV**).²⁶ The FCC funds only the interstate portion and the states fund the remainder. The FCC described this plan as follows:

Beginning on January 1, 1999, the Commission will modify universal service assessments to fund 25 percent of the difference between cost of service defined by the applicable forward-looking economic cost method less the national benchmark, through a percentage contribution on interstate end-user telecommunications revenues.²⁷

The FCC's plan assesses the federal contribution to the high cost fund (25% of the total requirement identified by the FCC) on interstate retail revenues. The plan also allows for an adjustment to interstate access to reflect the net of the following:

1. Increases in interstate access to recover payments made by the LECs into the fund for high-cost areas/low-income households, schools and libraries, and rural health care subsidy requirements; and
2. Decreases in interstate access to reflect support received by the LECs from the fund for their high-cost areas.

Monthly Surcharges for Option 4A: FCC Plan: 25% Interstate/75% State

Amount of Benchmark (in dollars)	Option 4A: Nationwide Surcharge* (%)			Interstate Fund (in millions)			Remaining State Responsibility (in millions)		
	\$30	\$40	\$50	\$30	\$40	\$50	\$30	\$40	\$50
BCPM	5.5%	4.2%	3.9%	\$3,938 m	\$3,063 m	\$2,820 m	\$7,732 m	\$5,109 m	\$4,380 m
HAI	2.7%	2.3%	2.2%	\$1,927 m	\$1,693 m	\$1,570 m	\$1,701 m	\$999 m	\$629 m

*This hypothetical surcharge is based on 25% of 1996 interstate retail revenues. This surcharge is for comparison purposes only. Actual collection is through service rates.

The above chart contains nationwide surcharges that, under the FCC's Plan, would generate 25% of the support calculated by the two proxy models (BCPM and HAI) at the three benchmarks. The data is the sum of the 1998 calculated rural amounts (**Figure 2**) for the high cost fund and results from the proxy models (BCPM and HAI) for the three benchmark levels. This surcharge is the interstate fund generated from each model for a given benchmark divided by 1995 interstate retail revenues. The surcharge is for comparison purposes only. Actual collection is through service rates.

Figures 13 and 14 illustrate the option proposed by the FCC's May 8, 1997 *Universal Service Order*, to fund 25% of the necessary support for high-cost non-rural providers.²⁸ The

VIII. Option 4A: FCC Plan: 25% Interstate/ 75% State, cont.

monthly per line amount for each state is calculated by subtracting from the interstate subsidy for this state the product of the interstate surcharge on retail revenues times the interstate retail revenues for this state. This result is then divided by the number of access lines (USF loops) in the state and by twelve months to produce payers and receivers on a per line basis.

Figures 15 and 16 demonstrate the per month per line amount for each state that would be needed should a state determine it is necessary to fund the remaining 75% of the amounts determined by the model of the FCC's plan. The monthly per line amount for each state is calculated by dividing the remaining amount of the subsidy (total minus 25% interstate) in each state by the number of access lines in the state and by twelve months. Also illustrated are the nationwide average state payment amounts for each of the three benchmarks.