

ORIGINAL



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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

February 10, 2000

Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, SW Room TWB-204
Washington, DC 20554

EX PARTE OR LATE FILED

RE: Notice of Ex Parte Meeting
In the Matter of the Funding Mechanism of the Universal Service Fund
CC Docket No. 96-45

Dear Ms. Salas:

Yesterday, Mark Lemler and I, both of AT&T met with Lawrence Strickling, Chief of the Common Carrier Bureau, Jack Zinman, Counsel to the Bureau Chief, Katherine Schroder, Deputy Chief, Accounting Policy Division, Carol Matthey, Chief, Policy and Program Planning Division, Jim Lande, Industry Economist, Industry Analysis Division, and Praveen Goyal, Attorney Advisor. During that meeting, we discussed matters related to the referenced proceedings using the attached document as an outline.

Two copies of this Notice are being submitted in accordance with Section 1.1206 of the Commission's rules.

Sincerely,

cc: L. Strickling
J. Zinman
K. Schroder
C. Matthey
J. Lande
P. Goyal

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**THE COMMISSION CAN ACHIEVE COMPETITIVE NEUTRALITY BY
REQUIRING CARRIERS TO CONTRIBUTE TO THE USF BASED ON
CURRENT REVENUES**

- **Elements of Proposal:**

- Carriers complete USAC Form 499 twice a year as they currently do.
- USAC calculates a quarterly factor reflecting USF support requirements divided by the appropriate Interstate and International Retail Revenues from the Forms 499.
 - **The factors for the 1st and 2nd quarters are based on the 1st half of the previous year's revenues and the factors for the 3rd and 4th quarters are based on the 2nd half of the previous year's revenues.**
- The quarterly factor is converted to a periodic USF assessment rate that is applied to the Retail Revenues of each telecommunications service provider's periodic end-user billings to determine that service provider's obligation.¹
 - **Provider's can select either a monthly or quarterly assessment rate, based on their end-user billing cycles.**
- Carriers remit to USAC within 30 days of the end of each period their periodic assessments.

- **Example of Payment Schedules:**

<u>Quarter</u>	<u>Monthly Payment Schedule</u>	<u>Quarterly Payment Schedule</u>
1 st Quarter	Feb. 30, Mar. 30, Apr. 30	Apr. 30
2 nd Quarter	May 30, Jun. 30, Jul. 30	Jul. 30
3 rd Quarter	Aug. 30, Sep. 30, Oct. 30	Oct. 30
4 th Quarter	Nov. 30, Dec. 30, Jan. 30	Jan. 30

- USAC performs a quarterly "true-up" and adjustments are reflected in the next quarter's factor.
 - **There is no need for USAC to create a "cushion" in the USF to mitigate concerns over a shortfall from collections. Historical year-to-year revenue growth by quarter (See Attachment) demonstrates that collections from *current* revenues should exceed the historical assessment base.**
 - **If, in the spirit of ensuring fund integrity, the Commission wants to put in place procedures to allow for mid-quarter true-ups, it can:**

1) Invoke Part 54.709(c), authorizing USAC to borrow funds in the middle of the quarter, or:

¹ In the Texas USF, the factor is converted to a monthly assessment rate. For the Colorado USF, the factor is applied to quarterly billings.

2) Modify Part 54.709(a)(3), allowing the Commission to re-state the assessment rate for the remaining portion of the quarter within 3 days following release of a Public Notice.

- USAC performs an annual reconciliation (April) with each telecommunications service provider to ensure that the total monthly revenues billed the previous year correspond to the March 31 Form 499 submissions. An officer of each service provider certifies to the accuracy of its Form 499 submission.

**TABLE 3.5 - QUARTERLY TOLL REVENUES REPORTED TO SHAREHOLDERS
(DOLLAR AMOUNTS SHOWN IN MILLIONS)**

	% Growth			% Growth			
	Nominal	Half-Yr Avg	(n vs Avg n-4)	Nominal	Half-Yr Avg	(n vs Avg n-4)	
1Q84	\$9,524	9,790		1Q91	14,436	14,523	4.3%
2Q84	10,055	9,790		2Q91	14,611	14,523	5.6%
3Q84	9,995	10,130		3Q91	14,900	14,922	4.5%
4Q84	10,265	10,130		4Q91	14,945	14,922	4.8%
1Q85	10,543	10,802	7.7%	1Q92	15,214	15,285	4.8%
2Q85	11,060	10,802	13.0%	2Q92	15,356	15,285	5.7%
3Q85	11,038	11,147	9.0%	3Q92	15,811	15,698	6.0%
4Q85	11,255	11,147	11.1%	4Q92	15,584	15,698	4.4%
1Q86	11,462	11,469	6.1%	1Q93	15,917	15,972	4.1%
2Q86	11,476	11,469	6.2%	2Q93	16,027	15,972	4.9%
3Q86	11,514	11,474	3.3%	3Q93	16,599	16,649	5.7%
4Q86	11,435	11,474	2.6%	4Q93	16,699	16,649	6.4%
1Q87	11,156	11,236	-2.7%	1Q94	17,563	17,733	10.0%
2Q87	11,317	11,236	-1.3%	2Q94	17,904	17,733	12.1%
3Q87	11,694	11,727	1.9%	3Q94	18,181	18,181	9.2%
4Q87	11,759	11,727	2.5%	4Q94	18,181	18,181	9.2%
1Q88	11,748	11,857	4.6%	1Q95	19,208	19,521	8.3%
2Q88	11,965	11,857	6.5%	2Q95	19,833	19,521	11.8%
3Q88	12,377	12,549	5.5%	3Q95	20,517	20,632	12.8%
4Q88	12,722	12,549	8.5%	4Q95	20,748	20,632	14.1%
1Q89	12,906	12,952	8.9%	1Q96	\$21,616	21,737	10.7%
2Q89	12,998	12,952	9.6%	2Q96	21,857	21,737	12.0%
3Q89	13,087	13,188	4.3%	3Q96	22,552	22,729	9.3%
4Q89	13,289	13,188	5.9%	4Q96	22,906	22,729	11.0%
1Q90	13,768	13,842	6.3%	1Q97	23,436	23,598	7.8%
2Q90	13,916	13,842	7.4%	2Q97	23,760	23,598	9.3%
3Q90	14,191	14,260	7.6%	3Q97	24,185	24,317	6.4%
4Q90	14,329	14,260	8.7%	4Q97	24,449	24,317	7.6%
				1Q98	25,521	25,756	8.1%
				2Q98	25,990	25,756	10.1%
Average	7.1%			3Q98	26,140	26,229	7.5%
Std Dev	3.4%			4Q98	26,318	26,229	8.2%

Source: Long Distance Market Shares Fourth Quarter 1998, March 1999