Universal Service
Administrative Co.

High Cost and Low Income

Briefing Book

Monday, October 29, 2018

1:00 p.m. - 4:00 p.m. Eastern Time

Universal Service Administrative Company Offices

700 12th Street NW, Suite 900

Washington, D.C. 20005

Universal Service Administrative Company
High Cost & Low Income Committee Quarterly Meeting
Agenda

Monday, October 29, 2018
1:00 a.m. – 4:00 p.m. Eastern Time
USAC Offices
700 12th Street, N.W., Suite 900
Washington, D.C. 20005

	HIGH COST OPEN SESSION		*Estimated Duration in Minutes*
Chair	**a1.**	Consent Items (each available for discussion upon request): 　**A.** Approval of High Cost & Low Income Committee Meeting Minutes of July 23, 2018 　**B.** Approval of moving all *Executive Session* items into *Executive Session*	5
Vic	**a2.**	Approval of High Cost Support Mechanism 1st Quarter 2019 Programmatic Budget and Demand Projection for the November 2, 2018 Filing	10
Kianna Braxton-Johnson	**i1.**	Information on Two USAC Internal Audit Division High Cost Support Mechanism Beneficiary Audit Reports	5
Vic	**i2.**	High Cost Support Mechanism Business Update	35

	HIGH COST EXECUTIVE SESSION **Confidential** – *Executive Session Recommended*		
Craig	**a3.**	Consideration of a One Year Contract Option for High Cost Model Operations and Maintenance	15
Vic	**i3.**	Information on Preliminary 2019 Annual High Cost Support Mechanism Budget	15

	LOW INCOME OPEN SESSION	*Estimated Duration in Minutes*
Michelle	**a4.** Approval of Low Income Support Mechanism 1st Quarter 2019 Programmatic Budget and Demand Projection for the November 2, 2018 Filing	15

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Jeanette Santana-Gonzalez	**i4**. Information on Nine USAC Internal Audit Division Low Income Support Mechanism Beneficiary Audit Reports	10
Michelle	**i5.** Low Income Support Mechanism (Lifeline) Business Update	35
Michelle	**i6.** Lifeline Program Integrity Update	15

	LOW INCOME EXECUTIVE SESSION	
	Confidential – *Executive Session Recommended*	
Michelle	**i7.** Information on Preliminary 2019 Annual Low Income Support Mechanism Budget	15
Chair	**i8.** *Executive Session* Discussion with the Committee/Board	15

Next Scheduled USAC High Cost & Low Income Committee Meeting

Monday, January 28, 2019 **10:00 a.m. – 12:00 p.m. Eastern Time** **USAC Offices, Washington, D.C.**

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Universal Service Administrative Company
High Cost & Low Income Committee Meeting

ACTION ITEM

Consent Items

Action Requested

The High Cost & Low Income Committee (Committee) is requested to approve the consent items listed below.

Discussion

The Committee is requested to approve the following items using the consent resolutions below:

   A. Committee meeting minutes of July 23, 2018 (*see* **Attachment A**).

   B. Approval for discussing in *Executive Session* agenda items:

   (1) **a3** – Consideration of a One Year Contract Option for High Cost Model Operations and Maintenance. USAC management recommends this item be discussed in *Executive Session* because this matter relates to USAC's *procurement strategy and contract administration*.
   (2) **i3 –** Information on Estimated 2019 Annual High Cost Support Mechanism Budget. USAC management recommends this item be discussed in *Executive Session* because this matter relates to USAC's *procurement strategy and contract administration*.
   (3) **i7 –** Information on Estimated 2019 Annual Low Income Support Mechanism Budget. USAC management recommends this item be discussed in *Executive Session* because this matter relates to USAC's *procurement strategy and contract administration*.
   (4) **i8** – Executive Session with the Committee/Board. USAC management recommends this item be discussed in *Executive Session* because the matter relates to the Committee's oversight responsibilities and may involve discussion of *internal rules and procedures* concerning the administration of the universal service support mechanisms, where discussion of the matter in open session would result in *disclosure of confidential techniques and procedures* that would compromise program integrity.

Upon request of a Committee member any one or more of the above items are available for discussion by the Committee.

Recommended USAC High Cost & Low Income Committee Action

APPROVAL OF THE FOLLOWING RESOLUTION:

   RESOLVED, that the USAC High Cost & Low Income
Committee hereby approves: (1) the Committee meeting minutes of July 23, 2018; and
(2) discussion in *Executive Session* of the items noted above.

UNIVERSAL SERVICE ADMINISTRATIVE COMPANY
700 12th Street, N.W., Suite 900
Washington, D.C. 20005

HIGH COST & LOW INCOME COMMITTEE MEETING
Monday, July 23, 2018

(DRAFT) MINUTES[1]

The quarterly meeting of the High Cost & Low Income Committee (Committee) of the USAC Board of Directors (Board) was held at USAC's offices in Washington, D.C. on Monday, July 23, 2018. Mr. Joe Gillan, Committee Chair, called the meeting to order at 2:06 p.m. Eastern Time, with a quorum of ten of the 11 Committee members present:

Feiss, Geoff
Freeman, Sarah
Gerst, Matthew
Gillan, Joe – Chair
Kinser, Cynthia

Lubin, Joel
Mason, Ken
Sekar, Radha – Chief Executive Officer
Tinic, Atilla
Wein, Olivia – Vice Chair

Members of the Board not present:

Jacobs, Ellis

Other Board members and officers of the corporation present:

Beckford, Ernesto – Vice President, General Counsel and Assistant Secretary
Beyerhelm, Chris – Vice President of Enterprise Portfolio Management
Bocher, Bob – Member of the Board
Buzacott, Alan – Member of the Board
Davis, Craig – Vice President Procurement and Strategic Sourcing
Gaither, Victor – Vice President of High Cost
Garber, Michelle – Vice President of Lifeline
Holstein, Bob – Vice President and Chief Information Officer
Salvator, Charles – Vice President of Finance, Chief Financial Officer and
     Assistant Treasurer
Scott, Wayne – Vice President of Internal Audit
Sweeney, Mark – Vice President of Rural Health Care
Wibberly, Dr. Kathy – Member of the Board

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[1] Draft resolutions were presented to the Committee prior to the Committee meeting. Where appropriate, non-substantive changes have been made to the resolutions set forth herein to clarify language where necessary or to correct grammatical or spelling errors.

Others present:

NAME	**COMPANY**
Abera, Nikki	USAC
Anderson, Jarnice	USAC
Anderson, Latoya	USAC
Ayer, Catriona	USAC
Baker, Allison	FCC
Batista, Everton	USAC
Bilodeau, Amanda	USAC
Brady, Tiffany	USAC
Burgess, Melody	USAC
Carpenter, Nikki-Blair	USAC
Delmar, Teleshia	USAC
Duval, Rashann	FCC
Eltgroth, Deborah	USAC
Fischer, Dennis	USAC
Goode, Vernell	USAC
Gustafson, Jaymie	USAC
Guyan, Josh	Kelley Drye & Warren LLP
Hawkins, Crystal	USAC
Hughet, Pam	USAC
Khan, Sammy	USAC
King, Lauren	USAC
Lee, James	USAC
Mishara, Rekha	USAC
Moncada, Jose	Kelley Drye & Warren LLP
Nakahata, John	Harris, Wiltshire & Grannis LLP
Nuzzo, Patsy	USAC
Richardson, Rashonda	USAC
Simab, Habib	USAC
Smith, Chris	USAC
Szubrowski, Leigh	USAC
Tawes, Pauline	USAC
Tomlin, Nicole	USAC
Weith, Tim	USAC
Zufolo, Jessica	USAC

HIGH COST OPEN SESSION

All materials from Open Session can be found on the USAC website.

1. **High Cost & Low Income Committee Approvals.** Mr. Gillan introduced these items to the Committee for consideration.

A. **Consent Items**.

　　　A1.Approval of High Cost & Low Income Committee Minutes of April 23, 2018 and May 30, 2018.

　　　A2.Approval for discussing in *Executive Session* agenda items:

　　　　(1)　**3A –** High Cost Business Update (*Continued*). New Order Impact Assessments. Mr. Beckford recommended this item be discussed in *Executive Session* because this matter relates to USAC's *specific internal controls and/or confidential company data* and would constitute a discussion of internal rules and procedures**.**

　　　　(2)　**7A –** Lifeline Business Update (*Continued*). Mr. Beckford recommended this item be discussed in *Executive Session* because this matter relates to *specific internal controls and internal personnel matters.*

On a motion duly made and seconded and after discussion, the Committee adopted the following resolutions:

　　　　　RESOLVED, that the USAC High Cost & Low Income Committee hereby approves: (1) the Committee meeting minutes of April 23, 2018 and May 30, 2018; and (2) discussion in *Executive Session* of the items noted above.

B. **Approval of High Cost Support Mechanism and Demand 4th Quarter 2018 Programmatic Budget and Projection for the July 2, 2018 FCC Filing.** Mr. Gaither presented this item for consideration.

On a motion duly made and seconded and after discussion, the Committee adopted the following resolutions:

　　　　　RESOLVED, that the USAC High Cost & Low Income Committee approves a 4th Quarter 2018 High Cost Support Mechanism direct program budget of $3.09 million; and

　　　　　RESOLVED FURTHER, that the USAC High Cost & Low Income Committee directs USAC staff to submit a collection requirement of $3.09 million for High Cost Support Mechanism administrative costs in the required August 2, 2018 filing to the FCC on behalf of the Committee; and

　　　　　RESOLVED FURTHER, that the USAC High Cost & Low Income Committee, having reviewed at its meeting on July 23, 2018, a summary of the 4th Quarter 2018 High Cost Support Mechanism demand estimate, hereby directs USAC staff to proceed with the required August 2, 2018 filing to the FCC on behalf of the Committee. USAC staff may make adjustments

if the total variance for the High Cost Support Mechanism is equal to or less than $10 million, or may seek approval from the Committee Chair to make adjustments if the total variance is greater than $10 million, but not more than $15 million.

2. **High Cost Business Update.** Mr. Gaither presented this item to the Committee for discussion providing updates on the following:

    - Discussion of open items from the April quarterly meeting.
    - Program view of the Connect America Fund, Mobility Fund and implementation activities resulting from new FCC orders.
    - Operational performance metrics.
    - Major deliverables and areas of focus for CY 2018, by quarter.

At 2:43 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Executive Session* for the purpose of discussing the confidential items listed above.

HIGH COST EXECUTIVE SESSION

3. **High Cost Business Update (***Continued***).** New Order Impact Assessment. Ms. Bilodeau and Mr. Kahn provided an overview of the impact of new FCC orders including the Rate of Return Reconsideration Order (FCC 18-29) and the Uniendo Puerto Rico and Connect USVI Order (FCC 18-57).

At 2:55 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Open Session* and reconvened at 3:02 p.m. Eastern Time.

LOW INCOME OPEN SESSION

4. **Approvals of the Low Income Support Mechanism and Demand 4th Quarter 2018 Programmatic Budget and Projection for the August 2, 2018 FCC Filing.** Ms. Garber presented this item to the Committee for consideration.

    On a motion duly made and seconded and after discussion, the Committee adopted the following resolutions:

    RESOLVED, that the USAC High Cost & Low Income Committee approves a 4th Quarter 2018 Low Income Support Mechanism direct program budget of $7.81 million; and

    RESOLVED FURTHER, that the USAC High Cost & Low Income Committee directs USAC staff to submit a collection requirement of $7.81 million for Low Income Support Mechanism administrative costs in the required August 2, 2018 filing to the FCC on behalf of the Committee; and

    RESOLVED FURTHER, that the USAC High Cost & Low Income Committee, having reviewed at its meeting on July 23, 2018, a summary

of the 4th Quarter 2018 Low Income Support Mechanism demand estimate, hereby directs USAC staff to proceed with the required August 2, 2018 filing to the FCC on behalf of the Committee. USAC staff may make adjustments if the total variance for the Low Income Support Mechanism is equal to or less than $10 million, or may seek approval from the High Cost & Low Income Committee Chair to make adjustments if the total variance is greater than $10 million, but not more than $15 million.

5. **Information on Seven USAC Internal Audit Division Low Income Support Mechanism Beneficiary Audit Reports.** The reports were provided for information purposes, no discussion was held.

6. **Lifeline Business Update**. Ms. Garber presented this item to the Committee and provided updates on the following:
   - Discussion of open items from the April quarterly meeting.
   - Major deliverables and areas of focus for CY2018.
   - Review of accomplishments, upcoming milestones and highlights for the program.
   - Operational performance metrics.

At 3:53 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved into *Executive Session* for the purpose of discussing the confidential items listed above.

LOW INCOME EXECUTIVE SESSION

7. **Lifeline Business Update** *(Continued)*. Ms. Garber presented this item to the Committee and provided updates on the following:
   - Employee Engagement.
   - Lifeline Program Integrity Initiatives.

At 4:55 p.m. Eastern Time, on a motion duly made and seconded, the Committee moved out of *Executive Session* and immediately reconvened in *Open Session*, at which time Mr. Gillan reported that in *Executive Session*, the Committee discussed items 3 and 7. On a motion duly made and seconded, the Committee adjourned at 4:57 p.m. Eastern Time.

/s/ Ernesto Beckford
Assistant Secretary

Universal Service Administrative Company
High Cost & Low Income Committee Meeting

ACTION ITEM

Approval of High Cost Support Mechanism
1st Quarter 2019 Programmatic Budget and
Demand Projection for the November 2, 2018 FCC Filing

Action Requested:

The High Cost & Low Income Committee (Committee) of the USAC Board of Directors (Board) is requested to approve the 1st Quarter 2019 (1Q2019) programmatic budget and demand projection for the High Cost Support Mechanism for submission to the Federal Communications Commission (FCC) in USAC's November 2, 2018 quarterly filing.

Discussion:

On a quarterly basis, USAC is required to submit to the FCC each program's budget[1] and projected demand for the upcoming quarter.[2]

Funding Requirement:

Based on data filed by supported carriers, USAC estimates the 1Q2019 funding requirement for the High Cost Support Mechanism as follows:

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[1] 47 C.F.R. § 54.715(c).
[2] 47 C.F.R. § 54.709(a)(3).

Table A. Program Funding Requirement

(in millions)	**4Q2018**	**Increase/ (Decrease)**	**1Q2019**
Steady State:			
High Cost Loop Support[3]	$122.70	($0.09)	$122.61
Connect America Fund Broadband Loop Support[4]	184.64	(1.54)	183.10
Interstate Common Line Support True-Up	5.66	(5.66)	0.00
Frozen Price Cap Carrier Support[5]	36.74	0.00	36.74
Connect America Fund Phase II[6]	379.42	0.00	379.42
Frozen Competitive ETC Support[7]	121.05	(1.13)	119.92
Connect America Fund Intercarrier Compensation[8]	102.33	0.04	102.37
Alaska Plan Support[9]	32.08	0.00	32.08
Alternative Connect America Cost Model (A-CAM)[10]	91.34	(0.23)	91.11
Additional Requirements:			
CAF Phase II Auction	0.00	37.21	37.21
Uniendo a Puerto Rico Fund and Connect USVI Fund[11]	64.20	(64.20)	0.00
Additional Collections to True-Up 1Q2018 and 2Q2018 Collections to $1.125 billion, spread evenly across 3Q2018 and 4Q2018[12]	65.68	(65.68)	0.00
Additional Collections to Collect $1.125 billion for 1Q2019[13]	0.00	20.44	20.44
Total Program Demand (see Note 1)	**$1,205.84**	**($80.84)**	**$1,125.00**
Prior Period Adjustment (see Note 2)	(16.06)	26.55	10.49
USAC Administrative Expenses (see Table C)	11.35	2.45	13.80
Interest Income	(1.71)	0.25	(1.46)
Total Funding Requirement	**$1,199.42**	**($51.59)**	**$1,147.83**

Note 1: Program demand decreased because funding was not required for Uniendo a
Puerto Rico Fund and Connect USVI Fund in 1Q2019, and the 2018 collection

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[3] High Cost Loop (HCL) support is provided pursuant to 47 C.F.R. §§ 54.1301-.1304 and includes Safety Net Additive Support (SNA) and Safety Valve Support (SVS).

[4] *See Connect America Fund et al*., WC Docket Nos. 10-90 et al., Report and Order, Order and Order on Reconsideration and Further Notice of Proposed Rulemaking, 31 FCC Rcd 3087, 3117-56, paras. 80-185 (2016) (*Rate-of-Return Reform Order*).

[5] *See Connect America Fund et al.,* WC Docket Nos. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking, 26 FCC Rcd 17663, 17715, 17725-26, paras. 133, 159 (2011) (*USF/ICC Transformation Order*).

[6] *See Connect America Fund et al.*, WC-Docket Nos. 10-90 et al., Report and Order, 29 FCC Rcd 15644 (2014).

[7] *See USF/ICC Transformation Order,* 26 FCC Rcd at 17715, para. 133.

[8] *Id.* at 17956, para. 847.

true-up was completed in 4Q2018, offset by new requirement to collect for CAF Phase II auctions.

Note 2: Prior period adjustments reconcile projections to actual results and include adjustments for billings, interest income, bad debt and administrative expenses.

1Q2019 demand for the following support components will be paid from funds available in the High Cost Account:

Table B. Reserve Funding

(in millions)	Reserve Funding
Rural Broadband Experiments[14]	0.83
A-CAM[15]	53.25
Mobility Fund Phase I[16]	23.00
Total Reserve Funding	**$77.08**

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[9] *See Wireless Telecommunications Bureau Approves Performance Plans of the Eight Wireless Providers that Elected to Participate in the Alaska Plan*, WC Docket No. 16-271, Public Notice, 31 FCC Rcd 13317 (WTB 2016); *Connect America Fund et al.*, WC Docket No. 10-90 et al., Report and Order and Further Notice of Proposed Rulemaking, 31 FCC Rcd 10139, 10155, paras. 47-49 (2016) (*Alaska Plan Order*).

[10] *See Wireline Competition Bureau Authorizes 182 Rate-of-Return Companies To Receive $454 Million Annually in Alternative Connect America Cost Model Support To Expand Rural Broadband,* WC-Docket No. 10-90, Public Notice, 32 FCC Rcd 842 (WCB 2017) (*A-CAM Authorization PN*); *Rate-of-Return Reform Order*, 31 FCC Rcd at 3094-117, paras. 17-79; *See Connect America Fund et al.*, WC Docket Nos. 10-90 et al., Report and Order, Third Order on Reconsideration, and Notice of Proposed Rulemaking, FCC 18-29, para. 68 (rel. Mar. 23, 2018) 83 Fed. Reg. 18951 (May 1, 2018) (*2018 Rate of Return Reform Order*).

[11] *See The Uniendo a Puerto Rico Fund and the Connect USVI Fund Connect America Fund ETC Annual Reports and Certifications*, WC Docket No. 18-143 et al., Order and Notice of Proposed Rulemaking, FCC 18-57, para. 13 (rel. May 29, 2018).

[12] *Rate of Return Reform Order*, FCC 18-29 at para. 71.

[13] *Id.* at para. 70.

[14] *See Wireline Competition Bureau Announces Entities Provisionally Selected for Rural Broadband Experiments; Sets Deadlines for Submission of Additional Information,* WC Docket No. 10-90, Public Notice, 29 FCC Rcd 14684 (WCB 2014)*; Wireline Competition Bureau Announces Additional Provisionally Selected Bidders for Rural Broadband Experiments and Sets Deadlines for Submission of Additional Information,* WC Docket Nos. 10-90 et al., Public Notice, 30 FCC Rcd 2045 (WCB 2015).

[15] *See A-CAM Authorization PN*; *see also Connect America Fund,* WC Docket No. 10-90, Report and Order and Further Notice of Proposed Rulemaking, 31 FCC Rcd 13775 (2016) (*A-CAM Revised Offer Order*).

[16] *See Mobility Fund Phase I Support Authorized for 11 Winning Bids Default on 35 Winning Bids Determined*, Public Notice, 31 FCC Rcd 1721 (WTB 2016); *Tribal Mobility Fund Phase I Support Authorized for Final Fifty-One Winning Bids*, Public Notice, 30 FCC Rcd 2226 (WTB 2015).

The projected 1Q2019 funding requirement includes administrative expenses for the High Cost Program of $13.80 million as follows:

Table C. Quarterly Programmatic Budget

(in millions)	**4Q2018 Budget**	**Increase/ (Decrease)**	**1Q2019 Budget**	**Explanation**
Direct Program Costs				
Employee Expenses	$1.57	$0.64	$2.21	Increase due to budget of 40 FTEs in 4Q2018 (28 HC, 12 IT) versus budget of 56 FTEs in 1Q2019 (37 HC, 19 IT)
Professional Services	1.31	1.94	3.25	Increase for professional services to support new FCC Orders, as well as increase to steady-state for High Cost audits (2018 was wrap-up year for prior High Cost audits)
Overhead	0.21	(0.08)	0.13	
Total Direct Program Costs	**$3.09**	**$2.50**	**$5.59**	
Common Allocated Costs	$8.26	(0.05)	$8.21	Common costs include costs not directly attributable to a program and are allocated based on the Cost Allocation Methodology
Total Program Budget	**$11.35**	**$2.45**	**$13.80**	

A comparison of actual expenditures to the budget for the nine months ending September 30, 2018 is provided in **Attachment A.**

Recommendation:

USAC management recommends that the Committee approve the 1Q2019 budget and projection of demand as proposed.

Recommended High Cost & Low Income Committee Actions:

APPROVAL OF THE FOLLOWING RESOLUTIONS:

>   **RESOLVED,** that the USAC High Cost & Low Income Committee approves a 1st Quarter 2019 High Cost Support Mechanism direct program budget of $5.59 million; and

>   **RESOLVED FURTHER**, that the USAC High Cost & Low Income Committee directs USAC staff to submit a collection requirement of $5.59 million for High Cost Support Mechanism administrative costs in the required November 2, 2018 filing to the FCC on behalf of the Committee; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee, having reviewed at its meeting on October 29, 2018 a summary of the 1st Quarter 2019 High Cost Support Mechanism demand estimate, hereby directs USAC staff to proceed with the required November 2, 2018 filing to the FCC on behalf of the Committee. USAC staff may make adjustments if the total variance for the High Cost Support Mechanism is equal to or less than $10 million, or may seek approval from the Committee Chair to make adjustments if the total variance is greater than $10 million, but not more than $15 million.

Attachment A

High Cost Administrative Costs
Comparison of Actual Expenditures to the Budget for the
Nine Months Ending September 30, 2018

(in millions)	YTD Actual	YTD Budget	Variance
Direct Program Costs			
Employee Expenses	$4.21	$4.68	$0.47
Professional Services	3.24	4.24	1.00
Overhead	0.31	0.36	0.05
Total Direct Program Costs (see Note 3)	**$7.76**	**$9.28**	**$1.52**
Common Allocated Costs (see Note 4)	**$22.32**	**26.70**	**$4.38**
Total Program Budget	**$30.08**	**$35.98**	**$5.90**

Note 3: Actual direct program costs were lower than the budget due to fewer employees than budgeted (average of 36 actual FTEs vs. 40 budgeted), and lower spending on contract labor, Mobility Fund verifications, and IT security testing.

Note 4: Common costs include costs not directly attributable to a program and are allocated based on the Cost Allocation Methodology.

High Cost Business Update

High Cost & Low Income Committee

October 29, 2018

Universal Service
Administrative Co.

Agenda: High Cost

Topic	Description	Purpose	Presenter	Length
Program Goals & Objectives	Review of major goals & objectives of HC	Informational	Vic	5 min
Business View				
HC at a glance (Chevron Chart)	Overview of HC activities for next 12 months (Program implementation, System initiatives, Training approach, system enhancements)	Informational	Vic	10 min
Accomplishments	Significant program quantitative & qualitative accomplishments	Informational	Vic	10 min

Current Topics

- High Cost 18 Month Plan
- Implementation of New Orders in 2019
- High Cost Systems Short Term and Long Term

| Operational Performance Metrics	Operational Performance Metrics Overview for 3Q2018	Informational	Vic	5 min
Upcoming Key Milestones	Key milestones for the next 2 quarters	Informational	Vic	5 min

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USAC HC Goals & Objectives

Closing the U.S. Digital Divide through broadband deployment one location at a time…..

Goals	Objectives / Program Outcomes	How High Cost will meet the goal
Execute Mission Critical Performance Goals	Expand broadband and maintain voice and broadband coverage in support of closing the digital divide.	Monitor Network Build Out Obligations by Fund and Execution of Fund Level Validations and Verifications. – **On Track**
Implement New FCC Orders and Mandates	Implement FCC Orders, Policy Clarifications/ Changes and Mandates in a timely manner.	Timely and accurate implementation of FCC Orders and Mandates such **as HUBB Enhancements, MF II Challenge, CAF Verifications, CAF II Auctions, Performance Measures Order, PR/USVI, etc. - On Track**
Improved Operational Efficiency and Effectiveness measures	Increase High Cost (HC) Business productivity through increased efficiency and effectiveness of both HC and USAC Operational Processes.	Execute USAC Governance Initiatives, improve HC Business Processes, Collaborate with key stakeholders to ensure alignment with changing FCC Priorities and USAC Business Needs, etc. – **On Track**
Improve Program Participant / FCC Experience	Streamline and simplify the stakeholder experience to enable successful participation.	Certifications, Systems Performance, Outreach Effectiveness, Effective Call Center Support, etc. – **On Track**
Enhance Program Integrity	Monitor, Report, and Implement enhanced controls to assess program effectiveness and program business value.	**Meet or exceed OMB targets for** Improper Payments Rate, Disbursements – Timely and Accurate, Effective Audit Support – **On Track**
Employee Engagement	Enhance individual, career development and foster a positive work environment.	Conduct regular individual conversations, implement agreed upon action plans, and celebrate team successes. - **On Track**

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High Cost Program at a Glance

Briefing book excludes all materials discussed in Executive Session.
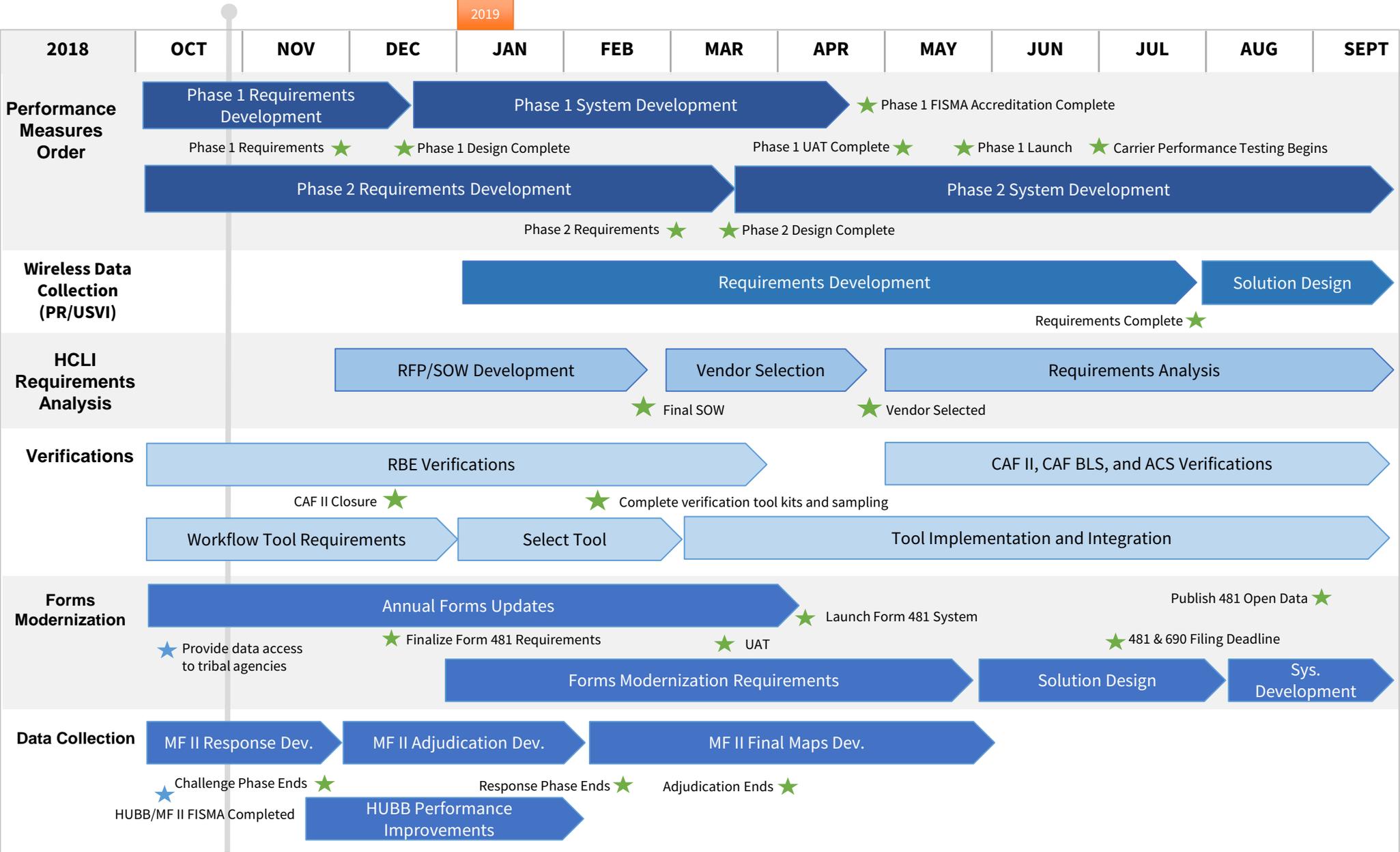
Accomplishments

Recent Accomplishments

- Operations
  - As of August 2018, disbursed $3.14 billion in HC support to over 1,580 carriers across 14 funds
  - Issued PR/USVI Stage 1 support, $64.12 million out of total awarded $64.2 million
  - Implemented new ACAM support per FCC Public Notice 18-465 ($55.7 million)
- Process Changes
  - Provided Form 481 filings to State PUCs, collected carrier requests for confidentiality of Form 481 data and released non-confidential Form 481 data for public access
  - Completed content for Knowledge Management (KM) framework for High Cost
- System Changes
  - FISMA accreditation (ATO) for High Cost Broadband Portal (HUBB and MF II Challenge) system – 9/28
  - Implemented performance improvements for MF II Challenge system
- Verifications
  - Completed CAF Phase II verifications (9 out of 11 Holding Companies)
    - 11 companies - large price cap carriers receiving funding to deploy broadband across the U.S. as well as its territories
    - 1.9 million locations certified as of March 1, 2018 as carriers satisfied their 40% deployment milestone
    - Approximately 87% of locations sampled passed verifications (As of 10/12/18)
- Outreach
  - High Cost field visit to Frontier network in Martinsburg and Berkeley Springs, W. Va., to see impact of CAF investment
  - User testing with State PUCs for the state access tool
  - MF 2 Challenge Process webinar for Tribal representatives
  - Developed CAF Map content and user guide to explain the map to general audience

High Cost 18-Month Plan

HC has instituted robust, comprehensive portfolio management with project and milestone tracking and quarterly Board updates.

Background	Objectives and Approach
• Increase in new FCC Orders (e.g. Performance Measures, PR/VI, etc.) with significant program impacts requiring multi-year changes starting in 2019. • USAC recognizes the need for a more focused perspective on program administration and planning. • Plan documents key project-based activities highlighting milestones, assumptions, dependencies, and objectives.	• 18 month plan will support the program goals by ensuring USAC has set out a plan using a structured approach, and in a comprehensive way to impact all areas of the program, including people, process, and technology. • Will be updated on a quarterly basis to incorporate changes and managed by the VP of High Cost, with oversight from the Office of CEO. • On a monthly basis USAC will report on progress against the key milestones to the FCC and on a quarterly basis report on progress to the USAC Board of Directors.

Projects Included	
• CAF II Auctions • MF2 Response / MF2 Adjudication • Form 481 Updates • State Access Enhancements • Performance Measures Data Collection • PR/VI Data Collection	• HUBB Annual Filing • CAF2 Verifications

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Current Topics – Implement New Orders in 2019

- **CAF Phase II Auction**. New program implementation. Estimated first disbursements in 2019 and first data collection in 2020.

- **PR / USVI Order (Wireless and Wireline) –** *Open Proceeding* Planning and preparation for new program implementation in anticipation of new FCC requirements for Stage 2. Estimated first disbursements for stage 2 in 2019 and first data collection in 2020.

- **Performance Measures Order**. New program implementation. First data collection beginning 2020.

- **Mobility Fund Phase II**. New program implementation. Estimated first disbursements in 2019 and first data collection in 2021.

Program Lifecycle	2019 Major Activities
Determine Eligibility	• Determine CAF II , PR/USVI, and MF II carrier eligibility
Data Collection	• Implement system and processes to collect CAF II Auction, planning for PR/USVI (wireless and wireline data)
Validation	• Implement CAF II Auction validations of location data in HUBB • Implement Performance data validations in system • Plan for PR/USVI HUBB system validations for PR/UVI programs. Similar to process and validations setup for other CAF programs.
Verification	• Implement verification process and procedures for verification of Performance Measures data
Disbursements	• Implement disbursement system and process changes for CAF II Auction, PR/USVI, and MF II

Current Topics – High Cost Short and Long Term System Planning

Short Term

- Preparing for all of the new orders

- Looking at existing requirements and processes to implement the orders

Long Term

- HCLI Requirements Analysis

  - Develop detailed requirements for processing High Cost payments

  - Eliminate manual processing of calculations

  - Multiple year project, including migration of existing funds

- Forms System Redesign (481, 690, 54.314)

  - Forms systems need to be updated to achieve FISMA accreditation

  - Develop capability to accept and process requests for confidentiality from carriers

  - Redesign systems to improve experience based on stakeholder feedback

Operational Performance Metrics Overview as of September 2018

	Metric	Target	Apr	May	June	July	Aug	Sep	Variance	Description/mitigation
1	Wireless Road miles build out	63,698	49,140	49,140	49,140	49,140	49,140	49,140	14,558	Target Completion is July 2019
2	Wireless Tribal population build out	56,932	38,351	38,351	38,351	38,351	38,351	38,478	18,454	On track with verifications, disbursements to occur in 4Q2018.
3	Wireline Locations validated (CAFII)	100%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	0.0%	CAFII target 40% by 3/1/2018, only two carriers did not file milestone locations
4	Wireline Locations Verified (CAFI)	1,547							0.0%	CAF1r.1 and CAF1r.2 review completed.
	Wireline Locations Verified (CAF II)	100%	N/A	N/A	N/A	60%	84%	97%	3%	CAF Phase I will have additional reviews for FairPoint Round 2 in the state of Virginia specifically as well as for ACS Round 1 and Round 2
5	Disbursements completed ($M)	375.5	375	375	389	376	491	383	-7.5	Disbursements included PPAs not included in forecast. Actuals based on Sep (Aug Disb.) cash flow month 2018.
6	Disbursement cycle time	17 Days	19 Days	20 Days	17 Days	19 Days	18 Days	16 Days	1	Monthly cycle time disbursement
7	IT Systems availability (%)	99%	100%	100%	100%	100%	100%	100%	-1.0%	Availability of HUBB, CAP and HCLI systems
8	Appeals	N/A	2	2	1	0	0	0	N/A	No new appeals were opened in September.
9	Call Ctre Abandon Rate	3%	0%	0%	0%	0%	1%	4%	-1%	3 calls were abandoned in September.

Upcoming Key Milestones

Briefing book excludes all materials discussed in Executive Session.

Upcoming Activities

- Process Changes
  - Provide Tribal access to Form 481 (Oct 2018)
  - New CAF II Auctions Funds Implementation (Mid / Late 2019)
- System Changes
  - Develop business requirements for Performance Measures Order (DA 18-710) (Feb 2019)
  - Develop requirements for Form 481 changes (Dec 2018)
  - MF2 Challenge Process Final Maps (May 2019)
  - HUBB performance testing and improvements in preparation for the 3/1/19 filing deadline (Dec 2018)
- Verifications
  - Begin CAF I waiver verifications and Form 481 IDVs (Dec 2018)
  - Develop verification tool kit new funds and update tool kit for CAF II (based on lessons learned)
  - Draft and finalize CAF II 40% milestone verification project closure report and send to FCC (Nov 2018)
  - Verification activities for CAF II (60% milestone), ACS, and RBE (Feb 2019)
- Outreach
  - Develop/update outreach materials, and conduct webinar(s), to prepare carriers for March 2019 HUBB filing
  - CAF Map outreach
  - Multiple industry presentations (at WTA, SHLB, NECA and NARUC conferences)

10

Universal Service Administrative Company
High Cost & Low Income Committee Meeting

ACTION ITEM

Approval of Low Income Support Mechanism
1st Quarter 2019 Programmatic Budget and
Demand Projection for the November 2, 2018 FCC Filing

Action Requested:

The High Cost & Low Income Committee (Committee) of the USAC Board of Directors (Board) is requested to approve the 1st Quarter 2019 (1Q2019) programmatic budget and demand projection for the Low Income Support Mechanism for submission to the Federal Communications Commission (FCC) in USAC's November 2, 2018 quarterly filing.

Discussion:

On a quarterly basis, USAC is required to submit to the FCC each program's budget[1] and projected demand for the upcoming quarter.[2]

Funding Requirement

Based on current subscribership levels, USAC estimates the 1Q2019 funding requirement for the Low Income Support Mechanism as follows:

Table A. Program Funding Requirement

(in millions)	**4Q2018**	**Increase/ (Decrease)**	**1Q2019**
Steady State:			
Lifeline	$289.94	($10.61)	$279.33
Link Up	0.04	0.03	0.07
New Requirements:			
N/A	0.00	0.00	0.00
Total Program Demand (see Note 1)	**$289.98**	**($10.58)**	**$279.40**
Prior Period Adjustments (see Note 2)	(22.95)	7.65	(15.30)
USAC Admin Expenses (see Table B)	12.31	2.70	15.01
Interest Income	(0.09)	0.00	(0.09)
Total Funding Requirement	**$279.25**	**($0.23)**	**$279.02**

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[1] 47 C.F.R. § 54.715(c).
[2] 47 C.F.R. § 54.709(a)(3).

Note 1: Program demand decreased due to a decline in Lifeline subscribership.

Note 2: Prior period adjustments reconcile projections to actual results and include adjustments for billings, disbursements, interest income, bad debt and administrative expenses.

The projected 1Q2019 funding requirement includes administrative expenses for the Low Income Program of $15.01 million, as detailed in the table below:

Table B. Quarterly Programmatic Budget

(in millions)	4Q2018 Budget	Increase/ (Decrease)	1Q2019 Budget	Explanation
Direct Program Costs				
Employee Expenses	$1.77	$0.87	$2.64	Increase due to budget of 45 FTEs in 4Q2018 (34 LI, 9 IT, 2 OGC) versus budget of 70 FTEs in 1Q2019 (48 LI, 20 IT, 2 OGC)
Professional Services	5.15	2.35	7.50	Increase primarily for Lifeline eligibility verifications and program risk assessment
Overhead	0.89	0.07	0.96	
Total Direct Program Costs	**$7.81**	**$3.29**	**$11.10**	
Common Allocated Costs	**$4.50**	**(0.59)**	**$3.91**	Common costs include costs not directly attributable to a program and are allocated based on the Cost Allocation Methodology.
Total Program Budget	**$12.31**	**$2.70**	**$15.01**	

A comparison of actual expenditures to the budget for the nine months ending September 30, 2018 is provided in **Attachment A.**

Recommendation:

USAC management recommends that the Committee approve the 1Q2019 budget and projection of demand as proposed.

Recommended High Cost & Low Income Committee Actions:

APPROVAL OF THE FOLLOWING RESOLUTIONS:

RESOLVED, that the USAC High Cost & Low Income Committee approves a 1st Quarter 2019 Low Income Support Mechanism direct program budget of $11.10 million; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee directs USAC staff to submit a collection requirement of $11.10 million for Low Income Support Mechanism administrative costs in the required November 2, 2018 filing to the FCC on behalf of the Committee; and

RESOLVED FURTHER, that the USAC High Cost & Low Income Committee, having reviewed at its meeting on October 29, 2018 a summary of the 1st Quarter 2019 Low Income Support Mechanism demand estimate, hereby directs USAC staff to proceed with the required November 2, 2018 filing to the FCC on behalf of the Committee. USAC staff may make adjustments if the total variance for the Low Income Support Mechanism is equal to or less than $10 million, or may seek approval from the High Cost & Low Income Committee Chair to make adjustments if the total variance is greater than $10 million, but not more than $15 million.

Attachment A

Low Income Administrative Costs
Comparison of Actual Expenditures to the Budget for the
Nine Months Ending September 30, 2018

| (in millions)	YTD Actual	YTD Budget	Variance
Direct Program Costs			
Employee Expenses	$4.81	$5.29	$0.48
Professional Services	11.69	15.59	3.90
Overhead	0.97	2.75	1.78
Total Direct Program Costs (see Note 3)	**$17.47**	**$23.63**	**$6.16**
Common Allocated Costs (see Note 4)	**$11.73**	**$14.52**	**$2.79**
Total Program Budget	**$29.20**	**$38.15**	**$8.95**

Note 3: Actual direct program costs were lower than the budget due to delays in launching the National Verifier.

Note 4: Common costs include costs not directly attributable to a program and are allocated based on the Cost Allocation Methodology.

Lifeline Business Update

High Cost Low Income Committee

October 29, 2018
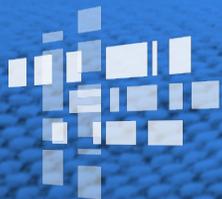
Universal Service
Administrative Co.

Agenda: Lifeline

Topic	Description	Purpose	Presenter	Length
Recap	Review of action items and status from previous HCLI Committee meeting	Informational	Michelle	2 min
Program Goals & Objectives	Review of major goals & objectives of Lifeline	Informational	Michelle	- min
Lifeline at a glance	Overview of Lifeline activities for next 12 months	Informational	Michelle	10 min
Key Accomplishments	Significant program quantitative & qualitative accomplishments	Informational	Michelle	5 min
Current Topics • National Verifier • Enhanced Tribal Benefit • Improved Operational Effectiveness • 18 Month Plan		Informational	Michelle	20 min
Operational Metrics	Update on key operational status and measures	Informational	Michelle	5 min
Upcoming Key Milestones	Key milestones for the next 2 quarters	Informational	Michelle	5 min
Lifeline Program Integrity Activities	Overview of the key reviews that protect the fund from fraud, waste, and abuse	Informational	Teleshia	5 min

2

July Board Recap

Action items and updates from previous HCLI Committee meetings

Activity	Status	Due Date	Owner
<u>NV Pre-Production Environment:</u> Please provide an update in the next High Cost Low Income Committee meeting	Pre-production environment launched on September 19, 2018. More will be discussed in this business update.	10/29	Lifeline
<u>State Roll-Out Plan:</u> When will Lifeline have an updated plan?	Lifeline has provided more information in this business update regarding the National Verifier in 2019.	10/29	Lifeline
<u>Service Provider API:</u> What is the status of a carrier API?	The FCC is considering a petition related to this matter.	10/29	Lifeline

3

Program Goals & Objectives

Goals	Objectives / Program Outcomes	How Lifeline will meet the goal
Mission Critical Performance Focused Culture	Execute program operations to ensure the timely and accurate delivery of Lifeline (LL) funds to those who are eligible.	Monthly disbursements of funds based on validated NLAD subscribership, completion of USAC-elected rolling recertification, and completion of accurate and timely enrollment decisions through National Verifier.
	Implement FCC Orders, Policy Clarifications/Changes, and Mandates in a timely manner.	Timely implementation of the **National Verifier** milestones, **2017 Lifeline Order** milestones, and **Lifeline Safeguards Plan** milestones in compliance with the directives.
Operational Efficiency	Increase LL Business Productivity through increased efficiency and effectiveness of both LL and USAC Operational Processes.	Actively support USAC Governance Initiatives, consistently review LL Business Processes to ensure they are aligned with changing FCC Priorities and USAC Business Needs, improve the documentation of processes and decision making within the program.
Customer Experience	Streamline and simplify the program participants' experience to enable successful participation and to enhance the FCC relationship.	Meet metrics associated with customer service, turnaround times, and system performance. Continue to cultivate positive relationships with state and federal partners for the National Verifier. Collaborate with the FCC across all Lifeline activities to identify goals and strategies, align on expectations, and track against desired outcomes.
Program Integrity	Monitor, report, and implement enhanced controls to assess program effectiveness and program business value.	Continuously review LL data to identify trends that require attention or that may drive the Improper Payment Rate. Respond quickly to findings in audits.
Employee Engagement	Enhance individuals through career development and fostering a positive work environment.	Implement action plans, including confirming goals and expectations, delivering regular feedback, and conducting routine individual and team level meetings to exchange information and celebrate successes.

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Lifeline Program at a Glance

2019
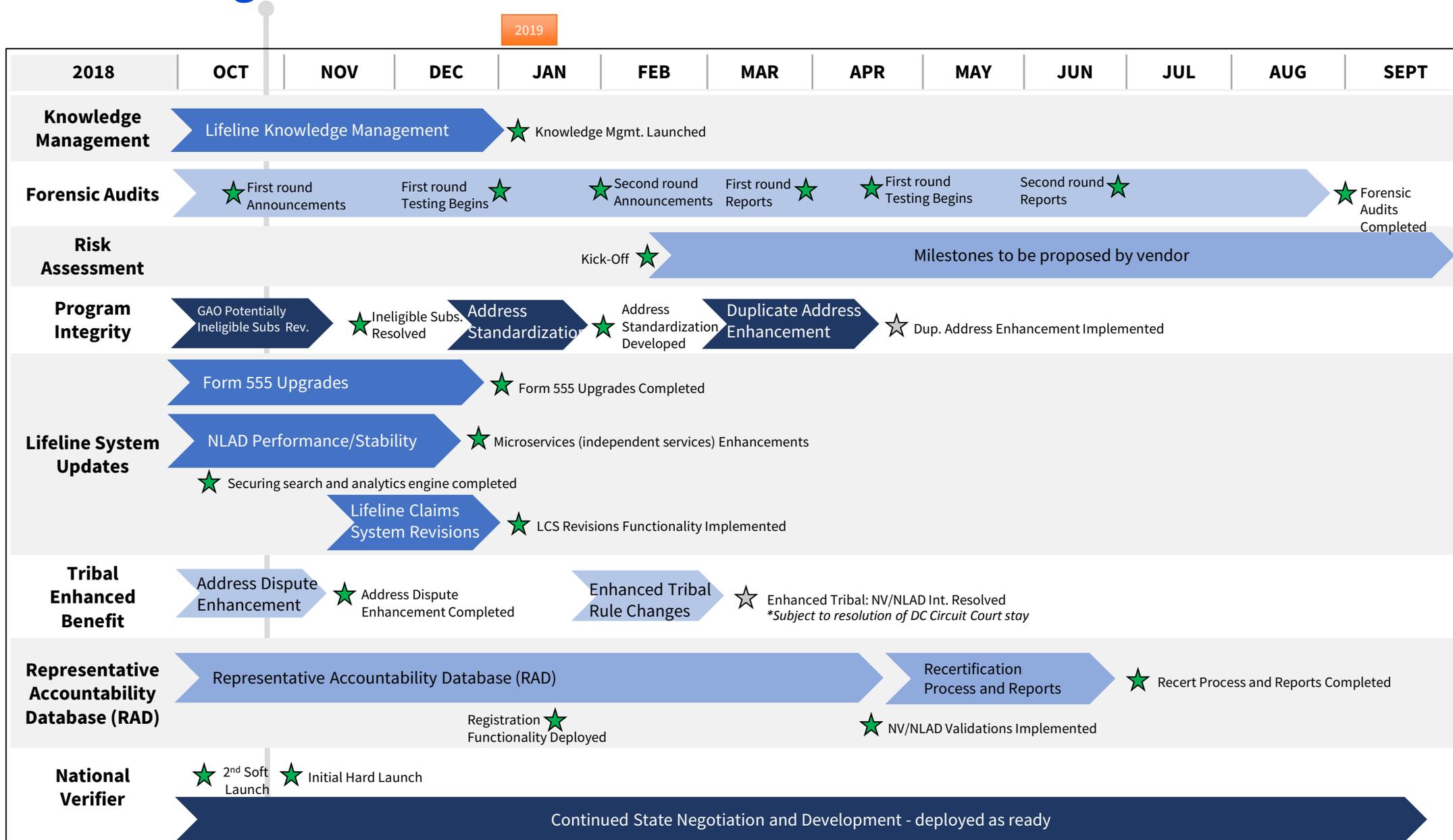
Legend
- ⭐ Milestone Completed
- ⭐ Milestone on Track
- ⭐ Milestone at Risk
- ⭐ Milestone Delayed
- ⭐ Milestone On Hold/TBD

2018	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT

Knowledge Management
- Lifeline Knowledge Management
- ⭐ Knowledge Mgmt. Launched

Forensic Audits
- ⭐ First round Announcements
- First round Testing Begins ⭐
- ⭐ Second round Announcements
- First round Reports ⭐
- ⭐ First round Testing Begins
- Second round Reports ⭐
- ⭐ Forensic Audits Completed

Risk Assessment
- Kick-Off ⭐
- Milestones to be proposed by vendor

Program Integrity
- GAO Potentially Ineligible Subs Rev.
- ⭐ Ineligible Subs. Resolved
- Address Standardization
- ⭐ Address Standardization Developed
- Duplicate Address Enhancement
- ☆ Dup. Address Enhancement Implemented

Lifeline System Updates
- Form 555 Upgrades
- ⭐ Form 555 Upgrades Completed
- NLAD Performance/Stability
- ⭐ Microservices (independent services) Enhancements
- ⭐ Securing search and analytics engine completed
- Lifeline Claims System Revisions
- ⭐ LCS Revisions Functionality Implemented

Tribal Enhanced Benefit
- Address Dispute Enhancement
- ⭐ Address Dispute Enhancement Completed
- Enhanced Tribal Rule Changes
- ☆ Enhanced Tribal: NV/NLAD Int. Resolved *Subject to resolution of DC Circuit Court stay*

Representative Accountability Database (RAD)
- Representative Accountability Database (RAD)
- Recertification Process and Reports
- ⭐ Recert Process and Reports Completed
- Registration Functionality Deployed ⭐
- ⭐ NV/NLAD Validations Implemented

National Verifier
- ⭐ 2nd Soft Launch
- ⭐ Initial Hard Launch
- Continued State Negotiation and Development - deployed as ready

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Accomplishments

Recent Accomplishments

National Verifier
- National Verifier training environment for pre-production testing made available
- Publicly announced the Hard Launch on November 2nd
- Deployed 2nd Soft Launch on October 15th (GU, HI, ID, ND, NH, SD)
- Began reverifying eligibility of existing subscribers in the initial six states
- Traveled to Montana to meet with key Tribal contacts and identify best practices for eligibility verification in tribal communities

Lifeline System Updates
- Released enhanced duplicate detection logic in NLAD on 8/22, significantly reducing the risk of carriers manipulating data to get around our existing checks
- Deployed enhanced Forms System on 7/23, allowing carriers to search all previous filings in one tool, rather than going to separate legacy systems
- Implemented new internal Review Feature associated with modernization of Lifeline Forms on 9/13, reducing the time it previously took to manual review claims

2017 Lifeline Order
- Released an address look-up tool for carriers to verify subscribers' Tribal eligibility on 8/19

Current Topics - National Verifier

A total of 12 states are implemented.

- **6 more states soft launched** on Oct. 15th, and the initial **6 states will hard launch** on Nov. 2nd.
- Since the June 18th initial soft launch, **400 applications** have been filed, with **69% of program eligibility passing automatically** in automated states.
- Throughout soft launch, USAC provided ongoing training and held "office hours" for continuous feedback.
  - Developed a pre-production environment in response to carrier request for a test environment.
  - Enhanced error messaging on screens for clarity on next steps.

Reverification, or confirming eligibility of existing subscribers, is underway in the first six states.

- USAC has checked all **285k subscribers** in the initial states against available databases, with **68% of program eligibility passing automatically** in automated states.
- The National Verifier will rely on documentation review for the remaining subscribers, due from carriers in various phases through January 2019.

USAC is continuing discussion with Centers for Medicare and Medicaid Services (CMS) to automate Medicaid verification across all states and territories.

- USAC will continue negotiating state database connections where cost effective, and states will roll out as they are ready throughout 2019.
- States without their own database connections can be supported by the CMS connection to offset otherwise manual reviews.

Current Topics - Enhanced Tribal Benefit

Effective in late 2000, the Lifeline enhanced Tribal benefit provides up to $25 additional per month ($34.25 total) for qualifying consumers living on Tribal lands.

On December 1, 2017 the FCC released an order that made several reforms to the Tribal Lifeline policy.
1. Eliminates self-certification of residency on tribal lands in favor of a USAC independent validation
2. Limits the enhanced Tribal Lifeline support to subscribers living on tribal lands that are also rural
3. Limits the enhanced Tribal Lifeline support to facilities-based providers

On August 10, 2018, the D.C. Circuit Court stayed the rule changes.

Administrative implementation is various stages during the stay.

#	Administrative Actions	Implementation Status
1	• Develop tools to independently validate whether addresses are within boundaries for enhanced support.	• Deployed in Aug. for carriers to see functionality. Can be updated easily with alternate map when effective. Identified program-wide improvements to dispute processes w/in current rules for Dec. implementation.
2	• Post new FCC-created maps to website. • Calculate disbursements based on address.	• Posted in June 2018. • On hold.
3	• Calculate disbursements based on carrier type.	• On hold.

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Current Topics - Improved Operational Effectiveness

In partnership with IT, Lifeline has made various improvements to day to day disbursement operations.

- Carrier Claim Search
  - **Reduced the number of applications** holding disbursement claim filings (including PDFs) **from 3 to 1**, consolidating 188k historical filings.
  - Created a **single access point** for carriers and internal users to search and view all completed filings and PDFs.
  - Improves internal searching by form status based on the filing's current position in the review process.
  - Enables **single sign on** and **compatibility with modern browsers**.
  - Reduces risks associated with unsupported software and improves security posture.

- Automated Internal Review Process
  - **Automated 25 previously manual checks** comparing data from claim to claim.
  - Implemented real time alerts to Operations team to perform follow up using thresholds that are red, yellow, or green.
  - **Saves the Operations team 16 hours per monthly disbursement cycle**.

- Coming Soon
  - Evaluating additional improvements that will reduce IT time to monitor and support systems, and reduce Lifeline time in processing and reporting results.

Lifeline 18-Month Plan

Lifeline is implementing a robust, comprehensive portfolio management with project and milestone tracking and quarterly Board updates.

Background	Objectives and Approach
• Several significant program changes since 2016 Lifeline Order, primarily focused on improving program integrity. • USAC recognizes the need for a more focused perspective on program administration and planning. • Plan documents key project-based activities highlighting milestones, assumptions, dependencies, and objectives .	• 18 month plan will support the program goals by ensuring USAC has set out a plan using a structured approach, and in a comprehensive way to impact all areas of the program, including people, process, and technology. • Will be updated on a quarterly basis to incorporate changes and managed by the VP of LL, with oversight from the Office of CEO. • On a monthly basis USAC will report on progress against the key milestones to the FCC and on a quarterly basis report on progress to the USAC Board of Directors.

Projects Included	
• National Verifier • Representative Accountability Database • Enhanced Tribal Benefit Reform • Program Integrity • Forensic Audits • Lifeline Risk Assessment	• Knowledge Management System • Training and Outreach • Recruitment • Business Intelligence and Open Data • FCC Reporting

Operational Performance Metrics Overview

	Metric		Target	April Actuals	May Actuals	June Actuals	July Actuals	August Actuals	September Actuals	Variance to Target	Comment
1	Recertification Rate		65%	68%	58%	62%	64%	60%	N/A	N/A	Sept/Aug combined to facilitate transition to new BPO.
2	Disbursements Completed		101	107.5	96.9	96.2	96.6	94.3	91.9	- 9.1	Actuals equal original claims plus prior period revisions.
3	System Uptime (%)	NLAD	99%	100%	96%	100%	100%	99.47%	100%	0%	100% uptime in September.
		LED	99%					99.86%	100%	0%	100% uptime in September.
4	Call Center Abandon Rate		3.00%	0.90%	1.80%	3.10%	0.50%	3.20%	1.10%	- 2.90%	Staff balancing and trainings have improved the abandon rate.
5	Appeals over 90 days aged		0	46	40	41	40	81	82	+ 82	In September, 1 case aged greater than 90 days. In August, 42 cases aged greater than 90 days as related FCC appeal decision allowed them to become workable in May 2018.
6	Appeals Average Age (days)		90	165	111	139	172	192	217	+ 127	Lifeline is on track to eliminate backlog by end of year.
7	Average Manual Review Time		<10 min			27 min	23 min	13 min	8 min	- 2 min	Significant improvement by BPO during baselining period.
8	Reverifications Completed	Launch 1:	285k				106,094	62,015	0	N/A	All subscribers have been checked against available databases, resulting in 59% completed. 117k remaining consumers will require reverification by manual review. Launch 1 reverification will end in March 2019.
9	Variable unit volumes versus forecast [future metric for 1Q2019]		TBD							N/A	Not enough data currently to create a meaningful forecast. Actuals Jan - Aug 2018, are 20% of the contracted NTE for CY 2018.

Key Takeaways:
- Appeal workstream is on track to resolve open appeals by year end.
- National Verifier manual review cycle time is significantly improved, from 27 minutes to 8 minutes since June.
- Over half of National Verifier Launch 1 reverifications are completed, and remainder are subject to manual review through March 2019

Upcoming Key Milestones

National Verifier
- Hard Launch in initial states on November 2nd
- Prepare for additional state launches
- Begin using National Verifier framework for improved USAC-elected recertification
  - Live customer service support
  - Daily reporting available to carriers on progress
  - Automatic de-enrollment of ineligible subscribers, reducing carrier administrative burden

**Knowledge Management launched for Lifeline**

Risk Assessment Kick Off

GAO Potentially Ineligible Subscribers de-enrolled and recovery sought as appropriate

Address Validation Dispute Process Enhancement implemented

12

Lifeline Program Integrity Activities

While managing the risk of waste, fraud and abuse has always been an important initiative, there has been an increased focus in the Lifeline Program as a result of the 2017 GAO audit.
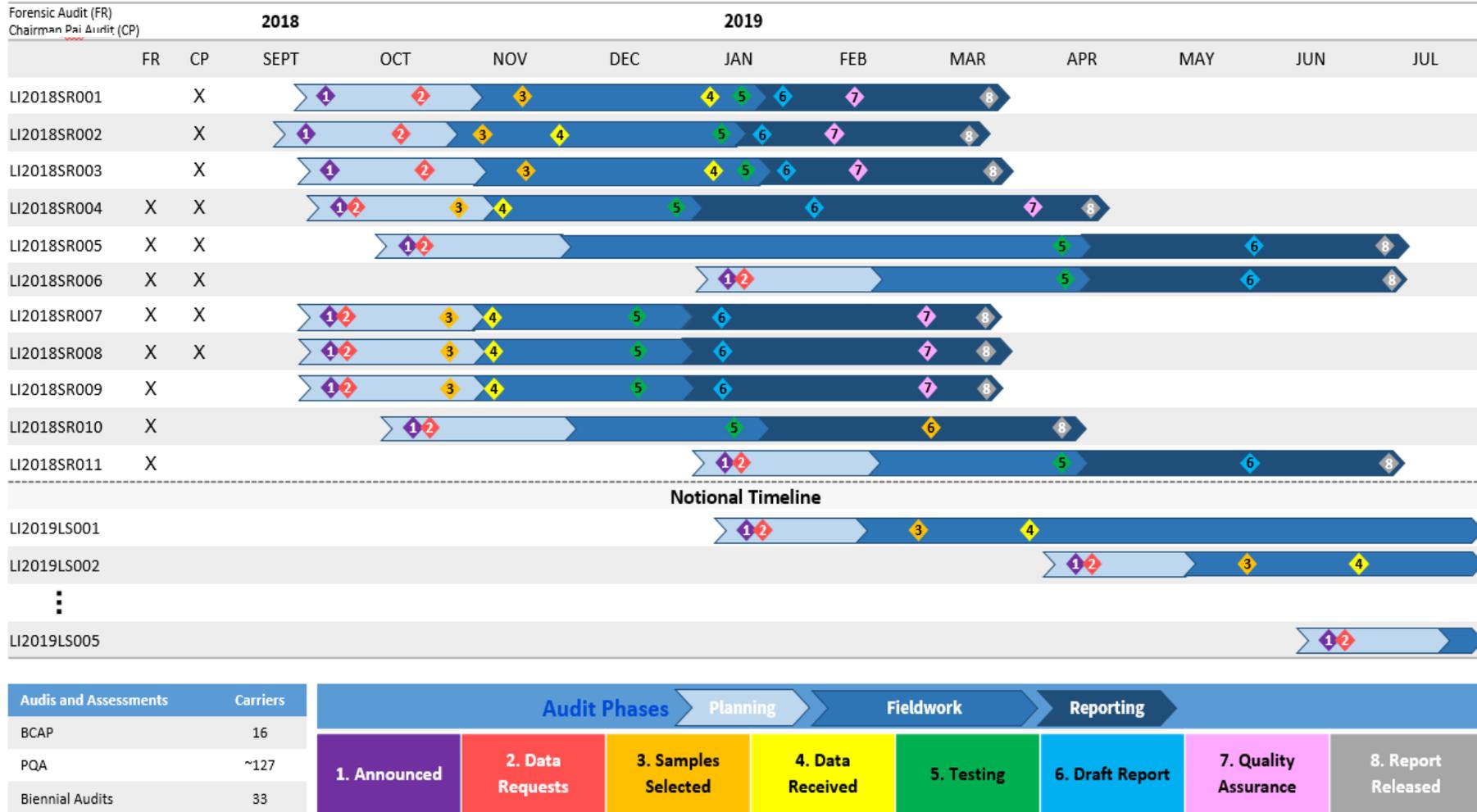

Recent Accomplishment:
20 points of the 21.93% 2017 Lifeline Improper Payment Rate calculated based on PQA reviews was related to flawed certification forms created by service providers, a new area of testing in the 2017 period. Universal forms compliant with FCC rules were implemented program wide in July 2018, which is expected to improve the error rate in future periods.

Lifeline Business Update

High Cost Low Income Committee
Appendix

October 29, 2018
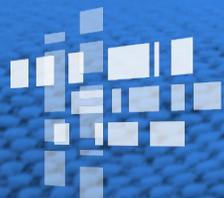
Universal Service
Administrative Co.

Strengthening Lifeline Program Integrity

While managing the risk of waste, fraud and abuse has always been an important initiative, there has been an increased focus in the Lifeline Program as a result of the 2017 GAO audit.

- November 2017 - Automated deceased subscriber check – Prevents enrollment of deceased subscribers
- February 2018 – Payments based on NLAD – Retires the carrier self-certified FCC Form 497, preventing any claim for a subscriber not validated by NLAD
- June 2018 – National Verifier Launch #1 – Six states launched, transferring the responsibility of subscriber eligibility checking from carriers to USAC.
- July 2018 – Universal Forms – Roll out of OMB approved Lifeline forms to resolve issue of flawed forms created by carriers, which comprised 20 points of the 21.93% 2017 Lifeline Improper Payment Rate
- August 2018 – Enhanced duplicate check – Improvement to NLAD duplicate algorithm to further reduce risk of duplicate subscribers, particularly where attempts are made to slightly manipulate PII data to circumvent controls
- October 2018 – National Verifier Launch #2 – Six additional states launched
- Ongoing – Additional sampling of carrier transactions as described in iHCLI06 102918 Lifeline Program Integrity Update

2

National Verifier State Implementation Process

Manual vs. Automated

- While connecting to available state databases is preferred for automated eligibility verification, cost effectiveness is a consideration.
- In states with lower subscribership, the breakeven on a state-specific automated interface connection may be many years as compared to processing applications with supporting documentation manually.
- In these states, we may choose to implement "manually", but rely on available federal databases that provide nationwide validation (i.e., HUD and CMS).
- "Manual" states do not require the process below.

Automated Connection Implementation Process

| **Matching Agreement** | USAC/Agency Negotiation (varies) | FCC DIB (approx. 30 days) | OMB and Congress (30 days) | Federal Register (30 days) | Min (4 mo.) |

- Technical development (requirements, development, testing) occurs in parallel, on varying timelines (min 5 mo.)
- CMA effectiveness, technical development, and BPO staff onboarding and training are dependencies to launch

3

National Verifier State Implementation Process

State	USAC Approve	FCC Approve	OMB/Congress Period Ends	Fed Reg Period Ends	Soft Launch	Hard Launch
CO - Auto	X	X	X	X	6/18/18	11/2/18
MS – Auto	X	X	X	X	6/18/18	11/2/18
MT – Man	N/A	N/A	N/A	N/A	6/18/18	11/2/18
NM – Auto	X	X	X	X	6/18/18	11/2/18
UT – Auto	X	X	X	X	6/18/18	11/2/18
WY – Man	N/A	N/A	N/A	N/A	6/18/18	11/2/18
GU – Man	N/A	N/A	N/A	N/A	10/15/18	11/2/18
HI – Man	N/A	N/A	N/A	N/A	10/15/18	TBD
ID – Man	N/A	N/A	N/A	N/A	10/15/18	TBD
ND – Man	N/A	N/A	N/A	N/A	10/15/18	TBD
NH – Man	N/A	N/A	N/A	N/A	10/15/18	TBD
SD – Man	N/A	N/A	N/A	N/A	10/15/18	TBD
MO – Auto	X	X	X	11/14/18	TBD	TBD
NC – Auto	X	X	X	11/14/18	TBD	TBD
PA – Auto	X	X	X	11/14/18	TBD	TBD
TN - Auto	X	X	X	11/14/18	TBD	TBD

Manual states are not subject to approval process described on prior slide.

4

Universal Service Administrative Company
High Cost & Low Income Committee Meeting

INFORMATION ITEM

Update on Program Integrity Initiatives

Information Presented:

USAC management is providing an update to the USAC High Cost & Low Income Committee on USAC's progress with Program Integrity initiatives.

Background:

In 2016, USAC created a Lifeline Program Integrity team for the sole purpose of reducing waste, fraud, and abuse in the Lifeline Program, and the team began identifying and conducting projects to that end. In July 2017, Chairman Pai sent a letter to USAC concerning the Lifeline program, directing USAC to implement various additional safeguards to protect the program from waste, fraud, and abuse. The letter was largely prompted by a June 29, 2017 Government Accountability Office (GAO) audit report. Since then, USAC and the Lifeline Program Integrity team have been working diligently to address the issues raised by Chairman Pai in his letter.

Discussion:

Activities that are in progress or that USAC has completed are presented in the table below.

Focus Area	Activities	Status	De-enrollments[1]
Ineligible Subscribers Reviews of carrier performed eligibility verifications, which require ETCs to submit proof of eligibility documentation for subscribers. Monthly reviews are targeted to the top 10 companies identified by GAO as having potentially ineligible subscribers. A subscriber was de-enrolled where the documentation could not substantiate the enrollment.	One-time review of GAO identified potentially ineligible subscribers	In Progress	
	January - September 2018 review of top 10 companies' enrollments and recertifications in the prior month	In Progress	
	Full audits of top 10 companies with GAO-identified potentially ineligible subscribers	In Progress	
Oversubscribed Addresses Reviews of addresses associated with large numbers of subscribers, which require ETCs to confirm subscriber addresses in NLAD. A subscriber was de-enrolled for failure to confirm his or her address.	One-time review of all addresses with 500+ subscribers	Completed Feb 2018	4,800 of 7,200
	Q3 2017 quarterly sampling of addresses with 25+ subscribers	Completed Mar 2018	2,700 of 4,500
	Q4 2017 quarterly sampling of addresses with 25+ subscribers	Completed Apr 2018	1,700 of 2,400
	Q1 2018 quarterly sampling of addresses with 25+ subscribers	Completed Jul 2018	800 of 1,200
	Q2 – Q4 2018 quarterly sampling of addresses with 25+ subscribers	In Progress	
Phantom Subscribers Reviews of variances between subscribers enrolled in NLAD and subscribers claimed for reimbursement, which requires ETCs to explain the variance. A subscriber was de-enrolled where the carrier had failed to update NLAD correctly.	Q1 2018 analysis of unclaimed subscribers trends	Completed Jul 2018	600 of 5,200
	Q2 2018 analysis of unclaimed subscribers trends	In Progress	
Deceased Subscribers Reviews of subscribers suspected by USAC to be deceased, which requires ETCs to submit proof of life documentation to dispute. A subscriber was de-enrolled because he/she could not provide proof of life documentation.	Implementation of Death Master File	Completed Nov2017	N/A
	One-time review of GAO identified potentially deceased subscribers	Completed Sep2018	57 of 58
	Q3 2017 sampling of recertified subscribers	Completed Jul 2018	20 of 20
	Q4 2017 sampling of enrolled and recertified subscribers	Completed A 2018	121 of 135
	Q1 2018 sampling of enrolled and recertified subscribers	In Progress	
	Q2 2018 sampling of enrolled and recertified subscribers	In Progress	
Exact Duplicates	Check GAO's exact duplicates list against NLAD	Completed Feb 2018	None remaining in NLAD
Sales Agent Registry Creates a unique identifier for each carrier employee conducting Lifeline transactions to better track activity for prevention of waste, fraud, and abuse.	Project plan submitted to FCC	Completed Jan 2018	N/A
	Development of Sales Agent Registry	In Progress	

[1] USAC employs a combination of random and targeted reviews. Because targeted reviews focus on high risk populations, higher levels of de-enrollment should be expected. As such, the percentages above should not be presumed to apply to the population overall.