

Universal Service Contribution Factor Continues Roller Coaster Ride

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Do you need another sign that the universal service fund needs reform? Today, the FCC announced another significant change in the quarter USF contribution factor. This time, the factor will **decrease** by nearly two percentage points, to [13.6% for the third quarter of 2010](#). The last four contribution factors have been (in order): 12.3%, 14.1%, 15.3% and now 13.6%. In other words, **for three quarters in a row, the USF fund has seen a change of at least 1.2 percentage points up or down from the previous quarter's factor.**

This volatility results from the structure of the contribution mechanism itself. At its core, the USF contribution factor is a simple calculation: quarterly USF distributions divided by quarterly projected revenues. The 3Q contribution factor declined primarily because projected revenues were nearly \$1 billion higher than the 2Q projections. With a larger denominator (and a numerator that was roughly the same), the contribution factor declined. Of course, if 4Q projections decline, we could see the USF contribution factor reverse course again and rise once again. Stay tuned and hold on for the ride.