

Richard Zarate  
Manager  
State Program Management  
rzarate@solixinc.com



30 Lanidex Plaza West  
Parsippany, NJ 07054  
973.581.5017  
[www.solixinc.com](http://www.solixinc.com)

October 14, 2014

Rosemary Chiavetta  
Secretary  
Pennsylvania Public Utility Commission  
P.O. Box 3265  
Harrisburg, PA 17105-3265

RE: Pennsylvania Universal Service Fund 1/2013 – 12/2013 Period Report  
Docket No. M-00001337

Dear Ms. Chiavetta:

Enclosed for filing in Docket No. M-00001337 is a summary of the activity for the Pennsylvania Universal Service Fund (PUSF) for the 1/2013 – 12/2013 period of operations.

In accordance with the terms of the contract between Solix, Inc. and the Pennsylvania Public Utility Commission (PPUC), this report details the financial activities of the PUSF for the period ending December 31, 2013 and includes Balance Sheets, Statements of Revenues, Expenses and Changes in Fund Net Assets, and Statements of Cash Flows. Also included is a list of recommendations pertaining to the Pennsylvania USF, the **proposed** assessment rate for the 2015 calendar year, and additional analysis.

Please contact me if you have any questions or comments regarding the enclosed materials.

Sincerely,

A handwritten signature in black ink that reads "Rich Zarate". The signature is written in a cursive, slightly slanted style.

Cc: PA Office of Consumer Advocate  
PA Office of Small Business Advocate  
Chief Counsel, PPUC  
Director of the Bureau of Technical Utility Services, PPUC  
Director of the Bureau of Audits, PPUC  
PUSF Participating Carriers

Attachments

## *Pennsylvania Universal Service Fund*

### **A. PUSF Financial Activities**

As shown in the attached financial statements, PUSF Assessments during the 1/2013 – 12/2013 period were \$35.27 million and Operating Expenses were \$33.77 million. The corresponding fund balance as of 12/31/13, after taking into consideration interest earned, late payment charges and administrative expenses paid, was \$1.70 million. Interest earned on the invested fund balance, which is credited to the PUSF, totaled \$1 thousand for the period, resulting in an average investment earnings rate of .04%.

### **B. Recommendations for the PUSF**

#### **(1) Retain Annual Funding Contingency at 5%**

For the past nine years, the PPUC has approved an assessment factor that utilized a 5% funding contingency. This percentage contributes to the rate factor and is intended to account for uncollectible revenues and bad debt. Although actual uncollectible revenue has averaged less than \$200,000 per year over the last seven years recent bankruptcies and abandonments by carriers makes a 5% contingency a prudent decision.

#### **(2) Encourage Annual Payments and Quarterly Payments**

Since its inception, most carriers that are required to pay into the PUSF have paid via monthly contributions, regardless of their total annual amount due. As a way to increase operational efficiencies for the carriers as well as the Administrator, Solix, Inc. recommends that the PPUC continues to encourage carriers to pay their annual contribution in a lump sum rather than monthly installments, if economically feasible. Additionally, those carriers that have nominal monthly contributions, less than \$500 monthly, will be encouraged to remit payments on a quarterly basis as an option to an annual payment.

#### **(3) Carryover Balance**

The fund balance is projected to increase due to the increase in this year's assessment rate resulting in an anticipated year-end fund balance greater than \$1.5 million. As suggested for the last four years, Solix believes it would be prudent to utilize a conservative cash balance of \$1.5 million as of December 31, 2014 for calculation purposes, providing a further cushion for any unforeseen variances. However, an increase in the assessment rate is required to achieve this balance due to the decreasing assessable carrier revenues.

#### (4) Carrier Data Collection Reports of Prior Year Revenues

During the current Fund Year, carriers are required to report annual revenues from the prior year that are used in calculating the next year's PUSF rate assessment. Through a Solix-maintained online reporting system carriers can fulfill this requirement with the administrator, Solix. However, the carrier is also required to send a separately completed form to the PPUC. Although directions to carriers clearly indicate the need to complete both steps, many carriers have only reported to one entity, the PPUC, or the other, Solix. It is recommended that carriers who complete online filing be able to submit a printed copy of the report to the PPUC.

### C. Proposed Assessment Rate for Calendar Year 2015

In accordance with the PPUC's rules for calculating the annual assessment factor, the PUSF assessment rate for 2015 has been calculated at 1.6608161% (0.016608161) of 2013 average monthly intrastate end-user retail telecommunications revenue. The assessment calculation is based on data submitted by carriers during the annual data collection process as well as projections of the fund carryover balance and administrative auditing fees:

- (1) For Support Recipients, reported 2012/2013 annual access line growth rate = -9.19%; however, there were three carriers with positive access line growth, raising the total annual support by \$9,158.59.
- (2) Projected PUSF fund balance as of 12/31/2014 = \$1,500,000
- (3) Projected 2015 annual support due to recipient carriers = \$33,825,899.32
- (4) Projected 2015 annual administration and audit fees = \$122,760
- (5) Projected 2015 5% allowance for uncollectibles = \$1,616,294.97
- (6) Projected 2015 total annual fund size = \$34,064,954.32  
[(Line 3 + Line 4 + Line 5 – Line 2)]
- (7) Reported 2013 intrastate retail revenues = \$2,051,097,302.69
- (8) Recommended 2015 Assessment Rate =  $\$34,064,954.32 / \$2,051,097,302.69 =$   
**0.016608161**

## D. Comparative Analysis

Here is a comparative analysis between various data points used to calculate the **proposed** 2015 Assessment Rate and the approved 2014 Assessment Rate. Please note the reduction in Net Intrastate Operating Revenue from 2012 to 2013.

Items Compared	2012	2013	Percent Difference
Net (Total) Intrastate Operating Revenue (all carriers)	\$2,201,243,884.68	\$2,051,097,302.69	-6.82%
<b>Support Carriers</b> Annual Intrastate Revenue	\$267,587,819.35	\$246,743,353.06	-7.79%
<b>Support Carriers</b> Access Lines	731,766	664,526	-9.19%
	<b>2014 Rate Calculation</b>	<b>2015 Rate Calculation</b>	
Monthly Support Amount	\$2,818,061.73	\$2,818,824.95	<b>+0.38%</b>
# of Contributors	256	241	<b>-5.86%</b>
# of Carriers with <\$120 assessment/year	169	168	<b>-0.006%</b>
Assessment Rate	0.015470915	0.016608161	<b>+7.35%</b>
	<b>Assessment Rate Growth</b>		
	<b>2002</b>	<b>2003</b>	<b>+3.20%</b>
	<b>2003</b>	<b>2004</b>	<b>+0.67%</b>
	<b>2004</b>	<b>2005</b>	<b>+6.14%</b>
	<b>2005</b>	<b>2006</b>	<b>+3.30%</b>
	<b>2006</b>	<b>2007</b>	<b>+3.48%</b>
	<b>2007</b>	<b>2008</b>	<b>+1.97%</b>
	<b>2008</b>	<b>2009</b>	<b>+2.71%</b>
	<b>2009</b>	<b>2010</b>	<b>+5.02%</b>
	<b>2010</b>	<b>2011</b>	<b>+7.55%</b>
	<b>2011</b>	<b>2012</b>	<b>+0.32%</b>
	<b>2012</b>	<b>2013</b>	<b>+19.88%</b>
	<b>2013</b>	<b>2014</b>	<b>+2.67%</b>
	<b>2014</b>	<b>2015</b>	<b>+7.35%</b>