

M-2014-2399137



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SECRETARY'S BUREAU

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,

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

Pennsylvania Universal Service Fund
Balance Sheets
December 31, 2013 and 2012

	2013	2012
Assets		
Cash and cash equivalents	\$ 1,761,331	\$ 233,512
Accounts receivable - assessments, net	10,452	47,333
Interest receivable	<u>33</u>	<u>61</u>
	<u>\$ 1,771,816</u>	<u>\$ 280,906</u>
Liabilities and Fund Net Assets		
Deferred revenue	\$ 49,546	\$ 55,260
Administrative costs payable	<u>24,205</u>	<u>23,400</u>
	73,751	78,660
Fund net assets - unrestricted	<u>1,698,065</u>	<u>202,246</u>
	<u>\$ 1,771,816</u>	<u>\$ 280,906</u>

The Notes to Financial Statements are an integral part of these statements.

Pennsylvania Universal Service Fund
Statements of Revenues, Expenses and Changes in Fund Net Assets
For the Years Ended December 31, 2013 and 2012

	2013	2012
Operating revenue		
Assessments	\$ 35,266,042	\$ 32,065,175
Operating expenses		
Amounts paid and due to service providers	33,613,469	33,613,202
Bad debt expense	38,497	4,530
Administrative costs	<u>119,280</u>	<u>136,176</u>
	<u>33,771,246</u>	<u>33,753,908</u>
Operating income (loss)	1,494,796	(1,688,733)
Non-operating income		
Interest income	<u>1,023</u>	<u>2,816</u>
Net change in unrestricted fund net assets	1,495,819	(1,685,917)
Fund net assets - unrestricted		
Beginning of period	<u>202,246</u>	<u>1,888,163</u>
End of period	<u>\$ 1,698,065</u>	<u>\$ 202,246</u>

The Notes to Financial Statements are an integral part of these statements.

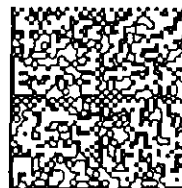
Pennsylvania Universal Service Fund
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Receipts from assessments and service providers	\$ 35,258,712	\$ 32,097,421
Cash paid to service providers	(33,613,469)	(33,613,202)
Cash paid for administrative costs	<u>(118,475)</u>	<u>(136,176)</u>
Net cash provided by (used in) operating activities	1,526,768	(1,651,957)
Cash flows from investing activities		
Interest income	<u>1,051</u>	<u>2,811</u>
Change in cash and cash equivalents	1,527,819	(1,649,146)
Cash and cash equivalents		
Beginning of period	<u>233,512</u>	<u>1,882,658</u>
End of period	<u>\$ 1,761,331</u>	<u>\$ 233,512</u>
Reconciliation of net cash provided by (used in) operating activities		
Operating income (loss)	\$ 1,494,796	\$ (1,688,733)
Changes in assets and liabilities		
Decrease in accounts receivable - assessments	36,881	44,002
Decrease in deferred revenue	(5,714)	(7,226)
Increase in administrative costs payable	<u>805</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>\$ 1,526,768</u>	<u>\$ (1,651,957)</u>

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