

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 31, 2012

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

RE: Pennsylvania Universal Service Fund 1/2011 – 12/2011 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 1/2011 – 12/2011 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, 2011 and includes Statement of Revenues, Expenses and Changes in Fund Net Assets, Balance Sheets, and Statements of Cash Flows. Also included is a list of recommendations pertaining to the Pennsylvania USF, the **proposed** assessment rate for the 2013 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 1/2011 – 12/2011 period were \$33.93 million and Operating Expenses were \$33.79 million. The corresponding fund balance as of 12/31/11, after taking into consideration interest earned, late payment charges and administrative expenses paid, was \$1.89 million. Interest earned on the invested fund balance, which is credited to the PUSF, totaled \$3 thousand for the period, resulting in an average investment earnings rate of .10%.

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

#### **(1) Continue to Utilize an Annual Funding Contingency to 5%**

For the past seven years, the PPUC has approved an assessment factor that utilized a 5% funding contingency. This has proven to provide sufficient cash flow to ensure that all PUSF support payments are made on schedule.

#### **(2) Encourage Annual 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.

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

The fund balance is projected to decrease due to latter year write-offs and reduced billed assessments resulting in an anticipated year-end fund balance of \$100,000. In 2012, the fund was forced to draw on the previously established \$1.5 million reserve because of error resulting in a double-counting of the revenue of a Contributing Telecommunications Provider. The reserve enabled the fund to cover its obligations to Fund recipients; however, as suggested for the last two years, Solix believes it would be prudent to utilize a conservative balance of \$1.5 million as of December 31, 2013 to cover delinquent accounts and unforeseen variances. However, additional funding will be required to achieve this balance.

### C. Proposed Assessment Rate for Calendar Year 2012

In accordance with the PPUC's rules for calculating the annual assessment factor, the PUSF assessment rate for 2013 has been calculated at 1.50682720% (0.015068272) of 2011 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 2011/2010 annual access line growth rate = -12.60%; however, there was one carrier with positive access line growth, raising the total annual support by \$266.87.
- (2) Projected PUSF fund balance as of 12/31/2012 = \$100,000
- (3) Projected 2013 annual support due to recipient carriers = \$33,613,468.55
- (4) Projected 2013 annual administration and audit fees = \$120,880
- (5) Projected 2013 5% allowance for uncollectibles = \$1,675,673.43
- (6) Projected 2012 total annual fund size = \$35,310,021.98  
[(Line 3 + Line 4 + Line 5 - Line 2)]
- (7) Reported 2011 intrastate retail revenues = \$2,343,335,856.34
- (8) Recommended 2012 Assessment Rate =  $\$35,310,021.98 / \$2,343,335,856.34$   
= **0.015068272**

## D. Comparative Analysis

Here is a comparative analysis between various data points used to calculate the **proposed** 2013 Assessment Rate and the approved 2012 Assessment Rate. Please note the reduction in Net Intrastate Operating Revenue from 2010 to 2011.

<b>Items Compared</b>	<b>2010</b>	<b>2011</b>	<b>Percent Difference</b>
Net (Total) Intrastate Operating Revenue (all carriers)	\$2,694,967,351.73	\$2,343,335,856.34	-13.05%
<b>Support Carriers</b> Annual Intrastate Revenue	\$308,542,607.08	\$283,286,688.79	-8.2%
<b>Support Carriers</b> Access Lines	891,714	779,363	-12.60%
	<b>2012 Rate Calculation</b>	<b>2013 Rate Calculation</b>	
Monthly Support Amount	\$2,801,100.14	\$2,801,122.38	<b>+0.0008%</b>
# of Contributors	256	263	<b>+2.73%</b>
# of Carriers with <\$120 assessment/year	173	170	<b>-1.73%</b>
Assessment Rate	0.012569592	0.015068272	<b>+19.88%</b>
	<b>Assessment Rate Growth</b>		
	<b>2001</b>	<b>2002</b>	<b>+10.96%</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>

**Pennsylvania Universal Service Fund**  
**Balance Sheets**  
**December 31, 2011 and 2010**

---

	2011	2010
<b>Assets</b>		
Cash and cash equivalents	\$ 1,882,658	\$ 1,735,842
Accounts receivable - assessments, net	91,335	48,621
Interest receivable	<u>56</u>	<u>120</u>
	<u>\$ 1,974,049</u>	<u>\$ 1,784,583</u>
<b>Liabilities and Fund Net Assets</b>		
Accounts payable - assessments	\$ --	\$ 1,210
Deferred revenue	62,486	17,662
Administrative costs payable	<u>23,400</u>	<u>23,400</u>
	85,886	42,272
Fund net assets - unrestricted	<u>1,888,163</u>	<u>1,742,311</u>
	<u>\$ 1,974,049</u>	<u>\$ 1,784,583</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, 2011 and 2010**

---

	2011	2010
Operating revenue		
Assessments	\$ 33,929,172	\$ 33,677,557
Operating expenses		
Amounts paid and due to service providers	33,612,315	33,599,004
Bad debt expense	19,823	10,101
Administrative costs	<u>154,128</u>	<u>154,071</u>
	<u>33,786,266</u>	<u>33,763,176</u>
Operating income (loss)	142,906	(85,619)
Non-operating income		
Interest income	<u>2,946</u>	<u>4,857</u>
Net change in unrestricted fund net assets	145,852	(80,762)
<b>Fund net assets - unrestricted</b>		
Beginning of period	<u>1,742,311</u>	<u>1,823,073</u>
End of period	<u>\$ 1,888,163</u>	<u>\$ 1,742,311</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, 2011 and 2010**

---

	2011	2010
<b>Cash flows from operating activities</b>		
Receipts from assessments and service providers	\$ 33,911,459	\$ 33,590,739
Cash paid to service providers	(33,613,525)	(33,597,943)
Cash paid for administrative costs	<u>(154,128)</u>	<u>(154,071)</u>
Net cash provided by (used in) operating activities	143,806	(161,275)
<b>Cash flows from investing activities</b>		
Interest income	<u>3,010</u>	<u>4,774</u>
<b>Change in cash and cash equivalents</b>	146,816	(156,501)
<b>Cash and cash equivalents</b>		
Beginning of period	<u>1,735,842</u>	<u>1,892,343</u>
End of period	<u>\$ 1,882,658</u>	<u>\$ 1,735,842</u>
<b>Reconciliation of net cash provided by (used in) operating activities</b>		
Operating income (loss)	\$ 142,906	\$ (85,619)
Changes in assets and liabilities		
Increase in accounts receivable - assessments	(42,714)	(5,631)
Increase (decrease) in accounts payable - assessments	(1,210)	1,061
Increase (decrease) in deferred revenue	<u>44,824</u>	<u>(71,086)</u>
Net cash provided by (used in) operating activities	<u>\$ 143,806</u>	<u>\$ (161,275)</u>

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