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October 30, 2013

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

RE: Pennsylvania Universal Service Fund 1/2012 – 12/2012 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 1/2012 – 12/2012 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, 2012 and includes Balance Sheets, Statement 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 2014 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 1/2012 – 12/2012 period were \$32.07 million and Operating Expenses were \$33.75 million. The corresponding fund balance as of 12/31/12, after taking into consideration interest earned, late payment charges and administrative expenses paid, was \$202 thousand. 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 .12%.

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

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

For the past eight 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 six years recent bankruptcies and abandonments by carriers makes a 5% contingency a prudent decision.

#### **(2) Encourage Annual Payments and Introduce 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 three years, Solix believes it would be prudent to utilize a conservative cash balance of \$1.5 million as of December 31, 2013 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.

### C. Proposed Assessment Rate for Calendar Year 2014

In accordance with the PPUC's rules for calculating the annual assessment factor, the PUSF assessment rate for 2014 has been calculated at 1.5470915% (0.015470915) of 2012 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 2012/2011 annual access line growth rate = -6.11%; however, there was two carriers with positive access line growth, raising the total annual support by \$203,272.28.
- (2) Projected PUSF fund balance as of 12/31/2013 = \$1,500,000
- (3) Projected 2014 annual support due to recipient carriers = \$33,816,740.84
- (4) Projected 2014 annual administration and audit fees = \$122,680
- (5) Projected 2014 5% allowance for uncollectibles = \$1,615,837.04
- (6) Projected 2014 additional funding = \$203,272.28
- (7) Projected 2013 total annual fund size = \$34,055,257.88  
[(Line 3 + Line 4 + Line 5 - Line 2)]
- (8) Reported 2012 intrastate retail revenues = \$2,201,243,884.68
- (9) Recommended 2014 Assessment Rate = \$34,055,257.88 / \$2,201,243,884.68  
= **0.015470915**

## D. Comparative Analysis

Here is a comparative analysis between various data points used to calculate the **proposed** 2014 Assessment Rate and the approved 2013 Assessment Rate. Please note the reduction in Net Intrastate Operating Revenue from 2011 to 2012.

Items Compared	2011	2012	Percent Difference
Net (Total) Intrastate Operating Revenue (all carriers)	\$2,343,335,856.34	\$2,201,243,884.68	-6.06%
<b>Support Carriers</b> Annual Intrastate Revenue	\$283,286,688.79	\$267,587,819.35	-5.54%
<b>Support Carriers</b> Access Lines	779,363	731,766	-6.11%
	<b>2013 Rate Calculation</b>	<b>2014 Rate Calculation</b>	
Monthly Support Amount	\$2,801,122.38	\$2,818,061.73	<b>+0.60%</b>
# of Contributors	263	256	<b>-2.66%</b>
# of Carriers with <\$120 assessment/year	170	169	<b>-0.59%</b>
Assessment Rate	0.015068272	0.015470915	<b>+2.67%</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>

**Pennsylvania Universal Service Fund**  
**Balance Sheets**  
**December 31, 2012 and 2011**

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	2012	2011
<b>Assets</b>		
Cash and cash equivalents	\$ 233,512	\$ 1,882,658
Accounts receivable - assessments, net	47,333	91,335
Interest receivable	<u>61</u>	<u>56</u>
	<u>\$ 280,906</u>	<u>\$ 1,974,049</u>
<b>Liabilities and Fund Net Assets</b>		
Deferred revenue	\$ 55,260	\$ 62,486
Administrative costs payable	<u>23,400</u>	<u>23,400</u>
	78,660	85,886
Fund net assets - unrestricted	<u>202,246</u>	<u>1,888,163</u>
	<u>\$ 280,906</u>	<u>\$ 1,974,049</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, 2012 and 2011**

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	2012	2011
Operating revenue		
Assessments	\$ 32,065,175	\$ 33,929,172
Operating expenses		
Amounts paid and due to service providers	33,613,202	33,612,315
Bad debt expense	4,530	19,823
Administrative costs	<u>136,176</u>	<u>154,128</u>
	<u>33,753,908</u>	<u>33,786,266</u>
Operating income (loss)	(1,688,733)	142,906
Non-operating income		
Interest income	<u>2,816</u>	<u>2,946</u>
Net change in unrestricted fund net assets	(1,685,917)	145,852
<b>Fund net assets - unrestricted</b>		
Beginning of period	<u>1,888,163</u>	<u>1,742,311</u>
End of period	<u>\$ 202,246</u>	<u>\$ 1,888,163</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, 2012 and 2011**

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	2012	2011
<b>Cash flows from operating activities</b>		
Receipts from assessments and service providers	\$ 32,097,421	\$ 33,911,459
Cash paid to service providers	(33,613,202)	(33,613,525)
Cash paid for administrative costs	<u>(136,176)</u>	<u>(154,128)</u>
Net cash provided by (used in) operating activities	(1,651,957)	143,806
<b>Cash flows from investing activities</b>		
Interest income	<u>2,811</u>	<u>3,010</u>
<b>Change in cash and cash equivalents</b>	(1,649,146)	146,816
<b>Cash and cash equivalents</b>		
Beginning of period	<u>1,882,658</u>	<u>1,735,842</u>
End of period	<u>\$ 233,512</u>	<u>\$ 1,882,658</u>
<b>Reconciliation of net cash provided by (used in) operating activities</b>		
Operating income (loss)	\$ (1,688,733)	\$ 142,906
Changes in assets and liabilities		
(Increase) decrease in accounts receivable - assessments	44,002	(42,714)
Decrease in accounts payable - assessments	--	(1,210)
Increase (decrease) in deferred revenue	<u>(7,226)</u>	<u>44,824</u>
Net cash provided by (used in) operating activities	<u>\$ (1,651,957)</u>	<u>\$ 143,806</u>

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