

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 16, 2015

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

RE: Pennsylvania Universal Service Fund 1/2014 – 12/2014 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 1/2014 – 12/2014 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, 2014 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 2016 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 1/2014 – 12/2014 period were \$34.0 million and Operating Expenses were \$33.9 million. The corresponding fund balance as of 12/31/14, after taking into consideration interest earned, late payment charges and administrative expenses paid, was \$1.79 million. Interest earned on the invested fund balance, which is credited to the PUSF, totaled \$2 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 ten 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 eight 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, have been encouraged to remit payments on a quarterly basis as an alternative 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 five years, Solix believes it would be prudent to utilize a conservative cash balance of \$1.5 million as of December 31, 2015 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 (by March 31) that are used in calculating the next year's PUSF rate assessment. Through Solix's Universal Solutions Platform, a web-based portal for online reporting, carriers can fulfill this requirement with the administrator, Solix. Carriers are given unique User IDs and Passwords to use when filing online. The online filing system is available 24X7. Mandatory online filing through Commission order has worked successfully with other states' USF programs. Data collection reports that are faxed, mailed or e-mailed must be entered manually by Solix. Illegible entries on reports lead to follow up that will be eliminated through online filing. It is recommended that the PPUC include mandatory online filing in its 2016 assessment rate order.

Additionally, carriers are given ample time to file reports. Correspondence with directions, the form to be submitted to the PPUC Secretary, and filing credentials is mailed at the end of January. The online data collection is available until March 31 and, as in years past, with PPUC permission, extended until April 30. However, the administrator and staff pursue delinquent filers well into September. It is recommended that a late filing penalty fee be imposed. Solix suggests that carriers be given until March 31 to file reports with a one month grace period before imposition of either a 1% late filing fee calculated on the monthly amount of the prior year annual assessment (2015) or \$50 penalty per month, whichever is larger, for late filing. This penalty would apply to all carriers including *de minimus* and support carriers.

### C. Proposed Assessment Rate for Calendar Year 2016

In accordance with the PPUC's rules for calculating the annual assessment factor, the PUSF assessment rate for 2016 has been calculated at 1.7352055% (0.017352055) of 2014 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 2013/2014 annual access line growth rate = -5.63%.  
There was no access line growth among the carriers receiving support payments.
- (2) Projected PUSF fund balance as of 12/31/2015 = \$1,500,000
- (3) Projected 2016 annual support due to recipient carriers = \$33,825,899.40
- (4) Projected 2016 annual administration and audit fees = \$123,212
- (5) Projected 2016 5% allowance for uncollectibles = \$1,616,294.97
- (6) Projected 2016 total annual fund size = \$34,065,406.37  
[(Line 3 + Line 4 + Line 5 - Line 2)]
- (7) Reported 2014 intrastate retail revenues = \$1,963,191,469.74
- (8) Recommended 2016 Assessment Rate =  $\$34,065,406.37 / \$1,963,191,469.74 =$   
**0.017352055**

## D. Comparative Analysis

Here is a comparative analysis between various data points used to calculate the **proposed** 2016 Assessment Rate and the approved 2015 Assessment Rate. Please note the reduction in Net Intrastate Operating Revenue from 2013 to 2014.

Items Compared	2013	2014	Percent Difference
Net (Total) Intrastate Operating Revenue (all carriers)	\$2,051,097,302.69	\$1,963,191,469.74	-4.29%
<b>Support Carriers</b> Annual Intrastate Revenue	\$246,743,353.06	\$223,088,307.70	-9.59%
<b>Support Carriers</b> Access Lines	664,526	627,092	-5.63%
	<b>2015 Rate Calculation</b>	<b>2016 Rate Calculation</b>	
Monthly Support Amount	\$2,818,824.95	\$2,818,824.95	<b>0.00%</b>
# of Contributors	241	242	<b>0.41%</b>
# of Carriers with <\$120 assessment/year	168	149	<b>-11.31%</b>
Assessment Rate	0.016608161	0.017352055	<b>+4.48%</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>
	<b>2015</b>	<b>2016</b>	<b>+4.48%</b>