



Tim Garrett
State Program Management
Manager

September 28, 2010

Rosemary Chiavetta
Secretary
Pennsylvania Public Utility Commission
PO Box 3265
Harrisburg, PA 17105-3265

**RE: Pennsylvania Universal Service Fund 1/09 – 12/09 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 1/09-12/09 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, 2009 and includes Statements 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 2011 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 Fixed Utilities, PPUC
Director of the Bureau of Audits, PPUC
PUSF Participating Carriers

Attachments



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Pennsylvania Universal Service Fund

A. PUSF Financial Activities

As shown in the attached financial statements, PUSF Assessments during the 01/09 -12/09 period were \$33.78 million and Operating Expenses were \$33.75 million. The corresponding fund balance as of 12/31/09, 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 \$13 thousand for the period, resulting in an average investment earnings rate of .47%.

B. Recommendations for the PUSF

1) Continue to Utilize an Annual Funding Contingency of 5%

For the past five 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

Due to the usual January jump in revenue because of yearly filers, the fund has an average monthly increase of \$4,909. After January, this surplus has been reducing at an average monthly rate of -0.89%, slowed some by the average earned interest of \$393 per month. Following a downward trend also seen in second half of 2009, 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 \$2.5 million (only -1.94% decrease from 2009). As was suggested last year, Solix believes it would be prudent to utilize a conservative balance of \$1.5 million as of December 31, 2010 for calculation purposes, providing a further cushion for any unforeseen variances.

C. Proposed Assessment Rate for Calendar Year 2011

In accordance with the PAPUC's rules for calculating the annual assessment factor, the PUSF assessment rate for 2011 has been calculated at 1.2529634% (0.012529634) of 2009 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 and auditing fees:

- 1) For Support Recipients, reported 2008/2009 annual access line growth rate = -6.24%; however, there were three carriers with positive Access Line Growth, raising the total annual support by \$13,311.
- 2) Projected PUSF fund balance as of 12/31/10 = \$1,500,000
- 3) Projected 2011 annual support due to recipient carriers = \$33,612,315
- 4) Projected 2011 annual administration and audit fees = \$155,778
- 5) Projected 2011 5% allowance for uncollectibles = \$1,605,616
- 6) Projected 2011 total annual fund size = \$33,873,709
[(Line 3 + Line 4 + Line 5 - Line 2)]
- 7) Reported 2009 intrastate retail revenues = \$2,703,487,494
- 8) Recommended 2011 Assessment Rate = $\$33,873,709 / \$2,703,487,494 =$
0.012529634 (Line 6 / Line 7)

Continued

D. Comparative Analysis

Here is a comparative analysis between various data points used to calculate the **proposed** 2011 Assessment Rate and the approved 2010 Assessment Rate. Please note the reduction in Net Intrastate Operating Revenue from 2008 to 2009.

Items Compared	2008	2009	Per Cent Difference
Net (Total) Intrastate Operating Revenue (all carriers)	\$ 2,906,062,116.43	\$2,703,487,494.03	-6.97%
Support Carriers Intrastate Revenue ANNUAL	\$ 335,199,655.00	\$ 315,597,490.53	-5.85%
Support Carriers Access Lines	1,011,566	948,471	-6.24%
	2010 Rate Calc.	2011 Rate Calc.	
Monthly Support Amount	\$ 2,799,917.05	\$ 2,801,026.28	+0.04%
# of Contributors	273	263	-3.66%
# of Carriers with < \$120 assess/yr	129	164	+27.13%
Assessment Rate	0.011651414	0.012529634	+7.54%
	Assessment Rate Growth		
	2001	2002	+10.96%
	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	+7.54%

Pennsylvania Universal Service Fund
Statements of Revenues, Expenses and Changes in Fund Net Assets
For the Years Ended December 31, 2009 and 2008

	2009	2008
Operating revenue		
Assessments	\$ 33,784,945	\$ 33,675,221
Operating expenses		
Amounts paid and due to service providers	33,578,219	33,570,452
Bad debt expense	20,543	62,290
Administrative costs	150,988	147,856
	<u>33,749,750</u>	<u>33,780,598</u>
Operating income (loss)	35,195	(105,377)
Non-operating income		
Interest income	<u>13,246</u>	<u>75,054</u>
Net change in unrestricted fund net assets	48,441	(30,323)
Fund net assets - unrestricted		
Beginning of period	<u>1,774,632</u>	<u>1,804,955</u>
End of period	<u>\$ 1,823,073</u>	<u>\$ 1,774,632</u>

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

Pennsylvania Universal Service Fund
Balance Sheets
December 31, 2009 and 2008

	2009	2008
Assets		
Cash and cash equivalents	\$ 1,892,343	\$ 1,798,314
Accounts receivable - assessments, net	42,990	25,855
Interest receivable	<u>37</u>	<u>1,399</u>
	<u>\$ 1,935,370</u>	<u>\$ 1,825,568</u>
Liabilities and Fund Net Assets		
Accounts payable - assessments	\$ 149	\$ 1,407
Deferred revenue	88,748	26,129
Administrative costs payable	<u>23,400</u>	<u>23,400</u>
	112,297	50,936
Fund net assets - unrestricted	<u>1,823,073</u>	<u>1,774,632</u>
	<u>\$ 1,935,370</u>	<u>\$ 1,825,568</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, 2009 and 2008

	2009	2008
Cash flows from operating activities		
Receipts from assessments and service providers	\$ 33,809,886	\$ 33,681,069
Cash paid to service providers	(33,579,477)	(33,594,654)
Cash paid for administrative costs	<u>(150,988)</u>	<u>(147,856)</u>
Net cash provided by (used in) operating activities	79,421	(61,441)
Cash flows from investing activities		
Interest income	<u>14,608</u>	<u>75,633</u>
Change in cash and cash equivalents	94,029	14,192
Cash and cash equivalents		
Beginning of period	<u>1,798,314</u>	<u>1,784,122</u>
End of period	<u>\$ 1,892,343</u>	<u>\$ 1,798,314</u>
Reconciliation of net cash provided by (used in) operating activities		
Operating income (loss)	\$ 35,195	\$ (105,377)
Changes in assets and liabilities		
Increase (decrease) in accounts receivable - assessments	(17,135)	90,107
Decrease in accounts payable - assessments	(1,258)	(24,202)
Increase (decrease) in deferred revenue	<u>62,619</u>	<u>(21,969)</u>
Net cash provided by (used in) operating activities	<u>\$ 79,421</u>	<u>\$ (61,441)</u>

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