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October 13, 2011

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

RE: Pennsylvania Universal Service Fund 1/2010 – 12/2010 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 1/2010 – 12/2010 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, 2010 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 2012 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 1/2010 – 12/2010 period were \$33.68 million and Operating Expenses were \$33.76 million. The corresponding fund balance as of 12/31/10, after taking into consideration interest earned, late payment charges and administrative expenses paid, was \$1.74 million. Interest earned on the invested fund balance, which is credited to the PUSF, totaled \$5 thousand for the period, resulting in an average investment earnings rate of .16%.

B. Recommendations for the PUSF

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

For the past six 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 \$2.3 million. 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, 2011 for calculation purposes, providing a further cushion for any unforeseen variances.

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 2012 has been calculated at 1.2569592% (0.012569592) of 2010 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 2009/2010 annual access line growth rate = -6.05%; however, there was one carrier with positive access line growth, raising the total annual support by \$887.
- (2) Projected PUSF fund balance as of 12/31/2011 = \$1,500,000
- (3) Projected 2012 annual support due to recipient carriers = \$33,613,202
- (4) Projected 2012 annual administration and audit fees = \$155,778
- (5) Projected 2012 5% allowance for uncollectibles = \$1,605,660
- (6) Projected 2012 total annual fund size = \$33,874,640
[(Line 3 + Line 4 + Line 5 - Line 2)]
- (7) Reported 2010 intrastate retail revenues = \$2,694,967,352
- (8) Recommended 2012 Assessment Rate = $\$33,874,640 / \$2,694,967,352$
= **0.012569592**

D. Comparative Analysis

Here is a comparative analysis between various data points used to calculate the **proposed** 2012 Assessment Rate and the approved 2011 Assessment Rate. Please note the reduction in Net Intrastate Operating Revenue from 2009 to 2010.

Items Compared	2009	2010	Percent Difference
Net (Total) Intrastate Operating Revenue (all carriers)	\$2,703,487,494.03	\$2,694,967,351.73	-0.32%
Support Carriers Annual Intrastate Revenue	\$315,597,490.53	\$308,542,607.08	-2.2%
Support Carriers Access Lines	948,471	891,714	-5.98%
	2011 Rate Calculation	2012 Rate Calculation	
Monthly Support Amount	\$2,801,026.26	\$2,801,100.14	+0.03%
# of Contributors	263	256	-2.66%
# of Carriers with <\$120 assessment/year	164	173	+5.49%
Assessment Rate	0.012529634	0.012569592	+0.32%
	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	+7.55%
	2011	2012	+0.32%

Pennsylvania Universal Service Fund
Statements of Revenues, Expenses and Changes in Fund Net Assets
For the Years Ended December 31, 2010 and 2009

	2010	2009
Operating revenue		
Assessments	\$ 33,677,557	\$ 33,784,945
Operating expenses		
Amounts paid and due to service providers	33,599,004	33,578,219
Bad debt expense	10,101	20,543
Administrative costs	154,071	150,988
	<u>33,763,176</u>	<u>33,749,750</u>
Operating (loss) income	(85,619)	35,195
Non-operating income		
Interest income	<u>4,857</u>	<u>13,246</u>
Net change in unrestricted fund net assets	(80,762)	48,441
Fund net assets - unrestricted		
Beginning of period	<u>1,823,073</u>	<u>1,774,632</u>
End of period	<u>\$ 1,742,311</u>	<u>\$ 1,823,073</u>

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

Pennsylvania Universal Service Fund
Balance Sheets
December 31, 2010 and 2009

	2010	2009
Assets		
Cash and cash equivalents	\$ 1,735,842	\$ 1,892,343
Accounts receivable - assessments, net	48,621	42,990
Interest receivable	<u>120</u>	<u>37</u>
	<u>\$ 1,784,583</u>	<u>\$ 1,935,370</u>
Liabilities and Fund Net Assets		
Accounts payable - assessments	\$ 1,210	\$ 149
Deferred revenue	17,662	88,748
Administrative costs payable	<u>23,400</u>	<u>23,400</u>
	42,272	112,297
Fund net assets - unrestricted	<u>1,742,311</u>	<u>1,823,073</u>
	<u>\$ 1,784,583</u>	<u>\$ 1,935,370</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, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Receipts from assessments and service providers	\$ 33,590,739	\$ 33,809,886
Cash paid to service providers	(33,597,943)	(33,579,477)
Cash paid for administrative costs	(154,071)	(150,988)
Net cash (used in) provided by operating activities	<u>(161,275)</u>	<u>79,421</u>
Cash flows from investing activities		
Interest income	<u>4,774</u>	<u>14,608</u>
Change in cash and cash equivalents	(156,501)	94,029
Cash and cash equivalents		
Beginning of period	<u>1,892,343</u>	<u>1,798,314</u>
End of period	<u>\$ 1,735,842</u>	<u>\$ 1,892,343</u>
 Reconciliation of net cash (used in) provided by operating activities		
Operating (loss) income	\$ (85,619)	\$ 35,195
Changes in assets and liabilities		
Increase in accounts receivable - assessments	(5,831)	(17,135)
Increase (decrease) in accounts payable - assessments	1,061	(1,258)
(Decrease) increase in deferred revenue	<u>(71,086)</u>	<u>62,619</u>
Net cash (used in) provided by operating activities	<u>\$ (161,275)</u>	<u>\$ 79,421</u>

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