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SOLIX

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September 30, 2016

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

RE: Pennsylvania Universal Service Fund 1/2015 – 12/2015 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 1/2015 – 12/2015 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, 2015 and includes Balance Sheets, Statements 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 2017 calendar year, and additional analysis.

Please contact me if you have any questions or comments regarding the enclosed materials.

Sincerely,

Rich Zarate

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 1/2015 – 12/2015 period were $34.4 million and Operating Expenses were $33.9 million. The corresponding fund balance as of 12/31/15, after taking into consideration interest earned, late payment charges and administrative expenses paid, was $2.25 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 .07%.

B. Recommendations for the PUSF

(1) Retain Annual Funding Contingency at 5%

For the past eleven 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 nine 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

As suggested for the last six years, Solix believes it would be prudent to utilize a conservative cash balance of $1.5 million as of December 31, 2016 for calculation purposes, providing a further cushion for any unforeseen variances. An increase in the assessment rate is required to achieve this balance due to 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 continue to include mandatory online filing in its 2017 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 August. 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 (2016) 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 2017

In accordance with the PPUC's rules for calculating the annual assessment factor, the PUSF assessment rate for 2017 has been calculated at 1.8259005% (0.018259005) of 2015 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 2014/2015 annual access line growth rate = -6.16%. There was no access line growth among the carriers receiving support payments.
(2) Projected PUSF fund balance as of 12/31/2016 = $1,500,000
(3) Projected 2017 annual support due to recipient carriers = $33,825,899.40
(4) Projected 2017 annual administration and audit fees = $126,050
(5) Projected 2017 5% allowance for uncollectibles = $1,616,294.97
(6) Projected 2016 total annual fund size = $34,068,244.37
[(Line 3 + Line 4 + Line 5 – Line 2)]
(7) Reported 2015 intrastate retail revenues = $1,865,832,435.40
(8) Recommended 2016 Assessment Rate = $34,068,244.37 / $1,865,832,435.40 =
<u>0.018259005</u>

D. Comparative Analysis

Here is a comparative analysis between various data points used to calculate the **proposed** 2017 Assessment Rate and the approved 2016 Assessment Rate. Please note the reduction in Net Intrastate Operating Revenue from 2014 to 2015.

Items Compared	**2014**	**2015**		**Percent Difference**
Net (Total) Intrastate Operating Revenue (all carriers)	$1,963,191,469.74	$1,865,832,435.40		-4.96%
Support Carriers Annual Intrastate Revenue	$223,088,307.70	$215,213,903.94		-3.53%
Support Carriers Access Lines	627,092	588,481		-6.16%
	2016 Rate Calculation	**2017 Rate Calculation**		
Monthly Support Amount	$2,818,824.95	$2,818,824.95		**0.00%**
# of Contributors	242	231		**-4.55%**
# of Carriers with <$120 assessment/year	149	158		**+6.04%**
Assessment Rate	0.017352055	0.018259005		**+5.23%**
	Assessment Rate Growth			
	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%**
	2012	**2013**		**+19.88%**[1]
	2013	**2014**		**+2.67%**
	2014	**2015**		**+7.35%**
	2015	**2016**		**+4.48%**
	2016	**2017**		**+5.23%**

[1]Assessment rate spike attributed to unintended impact of the Verizon restructuring.