



GVNW CONSULTING, INC

3220 PLEASANT RUN
SPRINGFIELD, IL 62711
TEL 217 698 2700
FAX 217 698 2715
www.gvnw.com

October 3rd, 2017

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

RE: Pennsylvania Universal Service Fund 1/2016 – 12/2016 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 1/2016 – 12/2016 period of operations.

In accordance with the terms of the contract between GVNW Consulting, Inc. and the Pennsylvania Public Utility Commission (PPUC), this report details the financial activities of the PUSF for the period ending December 31, 2016 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 2018 calendar year, and additional analysis.

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

Sincerely,


Blake R. Young
Byoung@gvnw.com

Cc: PA Office of Consumer Advocate
PA Office of Small Business Advocate
Chief Counsel, PPUC
Assistant Counsel, Collin W. Scott, 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 1/2016 – 12/2016 period were \$34.0 million and Operating Expenses were \$33.96 million. The corresponding fund balance as of 12/31/16, after taking into consideration interest earned, late payment charges and administrative expenses paid, was \$2.39 million¹. Interest earned on the invested fund balance, which is credited to the PUSF, totaled \$11 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 twelve 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 ten 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, GVNW Consulting, 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 \$1.25 million. GVNW believes it would be prudent to utilize a conservative cash balance of \$1.25 million as of December 31, 2017 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. GVNW is in the process of developing a web-based portal for online reporting, whereby carriers can fulfill this requirement with the administrator. Carriers will be given unique User IDs and Passwords to use when filing online. The online filing system will be available 24X7.

C. Proposed Assessment Rate for Calendar Year 2018

In accordance with the PPUC's rules for calculating the annual assessment factor, the PUSF assessment rate for 2018 has been calculated at 1.9568705% (0.019568705) of 2016 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 2015/2016 annual access line growth rate = -5.03%. There was a very minor amount of access line growth among two of the carriers receiving support payments.
- (2) Projected PUSF fund balance as of 12/31/2017 = \$1,250,000
- (3) Projected 2018 annual support due to recipient carriers = \$33,826,770.48
- (4) Projected 2018 annual administration and audit fees = \$118,172
- (5) Projected 2018 5% allowance for uncollectibles = \$1,628,838.52
- (6) Projected 2018 total annual fund size = \$34,323,781.00 [(Line 3 + Line 4 + Line 5 - Line 2)]
- (7) Reported 2016 intrastate retail revenues = \$1,754,013,957.72
- (8) Recommended 2018 Assessment Rate = $\$34,323,781.00 / \$1,754,013,957.72 =$
0.019568705

⁽¹⁾ During the transition of administrators of the Pennsylvania USF, GVNW discovered there was an irreconcilable difference in the beginning fund balance of (\$3,029,988.65) that Solix had reported to the PUC. After analysis of the general ledger and financial statements, GVNW concludes that the Fund Balance, as of 12/31/2016 should be (\$2,339,347.12) unless further information is furnished by the previous administrator to validate the beginning balance that was reported to the PUC

D. Comparative Analysis

Here is a comparative analysis between various data points used to calculate the **proposed** 2018 Assessment Rate and the approved 2017 Assessment Rate. Please note the reduction in Net Intrastate Operating Revenue from 2015 to 2016.

Items Compared	2015	2016	Percent Difference
Net (Total) Intrastate Operating Revenue (all carriers)	\$1,865,832,435.40	\$1,754,013,957.72	-5.99%
Support Carriers Annual Intrastate Revenue	\$215,213,903.94	\$203,176,458.31	-5.59%
Support Carriers Access Lines	588,481	549,083	-5.03%
	2017 Rate Calculation	2018 Rate Calculation	
Monthly Support Amount	\$2,818,824.95	\$2,818,897.54	+0.003%
# of Contributors	231	228	-1.3%
# of Carriers with <\$120 assessment/year	158	148	-6.33%
Assessment Rate	0.018259005	0.019421220	+7.17%
	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%
	2013	2014	+2.67%
	2014	2015	+7.35%
	2015	2016	+4.48%
	2016	2017	+5.23%
	2017	2018	+7.17%