



CONSULTING

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October 10<sup>th</sup>, 2018

Rosemary Chiavetta  
Secretary  
Pennsylvania Public Utility Commission  
400 North Street, 2nd Floor  
Harrisburg, PA 17105-3265

RE: Pennsylvania Universal Service Fund 1/2017 -12/2017 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 1/2017 - 12/2017 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, 2017 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 2019 calendar year, and additional analysis.

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

Sincerely,

A handwritten signature in cursive script that reads "Blake Young".

Blake Young, Consultant  
[byoung@gvnw.com](mailto:byoung@gvnw.com)

Cc: Pa Office of Consumer Advocate  
Pa Office of Small Business Advocate  
Chief Counsel, PPUC  
Assistant Counsel, Colin W. Scott, PPUC  
Director of the Bureau of Technical Utility Services, PPUC  
Director of the Bureau of Audits, PPUC  
PAUSF Participating Carriers

Attachments

# **Pennsylvania Universal Service Fund**

## **Annual Report**

### **October 2018**

GVNW Consulting, Inc. [GVNW], as Administrator of the Pennsylvania Universal Service Fund [PUSF], hereby submits the following report to the Pennsylvania Public Utilities Commission [PPUC] on the Fund Activities

#### **A. PUSF Financial Activities**

As shown in the attached financial statements, PUSF Assessments during the 1/2017 – 12/2017 period were \$34.06 million and Operating Expenses were \$33.99 million. The corresponding fund balance as of 12/31/17, after taking into consideration interest earned, late payment charges and administrative expenses paid, was \$2.44 million. Interest earned on the invested fund balance, which is credited to the PUSF, totaled \$25 thousand for the period, resulting in an average investment earnings rate of .75%.

#### **B. GVNW Recommendations for the Administration of PUSF**

##### **1. Retain Annual Funding Contingency at 5%**

- For the past thirteen 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 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. GVNW believes it would be prudent to utilize a conservative cash balance of \$1.5 million as of December 31, 2018 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 has developed a web-based portal for online reporting, whereby carriers can fulfill this requirement with the Administrator. Carriers are given unique User IDs and Passwords to use when filing online. The online filing system will be available 24X7.

## C. **GVNW Recommendations for ensuring Carrier Compliance**

After administering the PUSF for more than a year, GVNW has had the opportunity to evaluate the operations of the Fund and as a result, offers two recommendations for the future operations of the Fund:

### 1. **GVNW recommends that the Commission assess a Late Filing Penalty for any company that submits its Annual Assessment Data Request 30 days or more after the due date.**

- The Fiscal Year 2019 Annual Development of Assessment Data Request was due by March 31, 2018. The Commission extended the deadline to April 30, 2018 due to the large number of delinquent filers. As of May 21, 2018 there remained 35 delinquent filers, which was the final number as the PPUC directed GVNW to no longer send notifications.
- The recommendation to assess a Late Filing Penalty may provide motivation for many of these companies to make filings in a timely manner. At this time, there is no consequence for filing late.
- There are penalty options that can be discussed

**2. GVNW recommends that the Commission authorize a certain number of Carrier Audits each year to ensure that the Carrier filings are compliant with the PPUC regulations**

- The practice of the Administrator conducting Carrier Audits is used in other states to not only confirm the compliance of the auditees, but also as a motivation to all contributing carriers to be compliant with the PPUC regulations.

**D. Proposed Assessment Rate for Calendar Year 2019**

In accordance with the PPUC's rules for calculating the annual assessment factor, the PUSF assessment rate for 2019 has been calculated at 2.1179564% (0.021179564) of 2017 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 2016/2017 annual access line growth rate = - 7.32%.
2. Projected PUSF fund balance as of 12/31/2018 = \$1,500,000.00
3. Projected 2019 annual support due to recipient carriers = \$33,826,770.48
4. Projected 2019 annual administration and audit fees = \$125,672
5. Projected 2019 5% allowance for uncollectibles = \$1,616,338.52
6. Projected 2018 total annual fund size = \$34,068,781.00 [(Line 3 + Line 4 + Line 5 – Line 2)]
7. Reported 2017 intrastate retail revenues = \$1,608,568,564.65
8. Recommended 2019 Assessment Rate =  $\$34,068,781.00 / \$1,608,568,564.65 =$   
**0.021179564**

## E. Comparative Analysis

Here is a comparative analysis between various data points used to calculate the **proposed** 2019 Assessment Rate and the approved 2018 Assessment Rate. Please note the reduction in Net Intrastate Operating Revenue from 2016 to 2017.

Items Compared	2018 Rate Calculation	2019 Rate Calculation	Percent Difference
Monthly Support Amount	\$2,818,897.54	\$2,818,897.54	0.00%
# of Contributors	228	231	+1.32%
# of Carriers with <\$120 assessment/year	148	133	-10.14%
Assessment Rate	0.019568705	0.021179564	+8.23%

Items Compared	2016	2017	Percent Difference
Net (Total) Intrastate Operating Revenue (all carriers)	\$1,754,013,957.72	\$1,608,568,564.65	-8.29%
<b>Support Carriers</b> Annual Intrastate Revenue	\$203,176,458.31	\$188,883,166.28	-7.03%
<b>Support Carriers</b> Access Lines	549,083	495,386	-7.32%

<b>Assessment Rate Growth</b>		
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%
2018	2019	+8.23%