



Running a Successful State Universal Service Fund  
*from a regulator's point of view*

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Elizabeth H. Barnes, Assistant Counsel  
Pennsylvania Public Utility Commission



# Introductions

- Elizabeth “Betsy” Barnes  
Chair, NARUC’s Committee of State Universal Service Fund Administrators  
Assistant Counsel, Pennsylvania Public Utility Commission  
[ebarnes@state.pa.us](mailto:ebarnes@state.pa.us)
- Eric Seguin  
Vice President – Corporate Development, Solix, Inc.  
[esequin@solixinc.com](mailto:esequin@solixinc.com)
- David Rolka  
President, Rolka Loube, Saltzer Assoc. [drolka@r-l-s-a.com](mailto:drolka@r-l-s-a.com)
- Peter Bluhm  
Consultant, Rolka, Loube, Saltzer Associates  
[pbluhm@r-l-s-a.com](mailto:pbluhm@r-l-s-a.com)



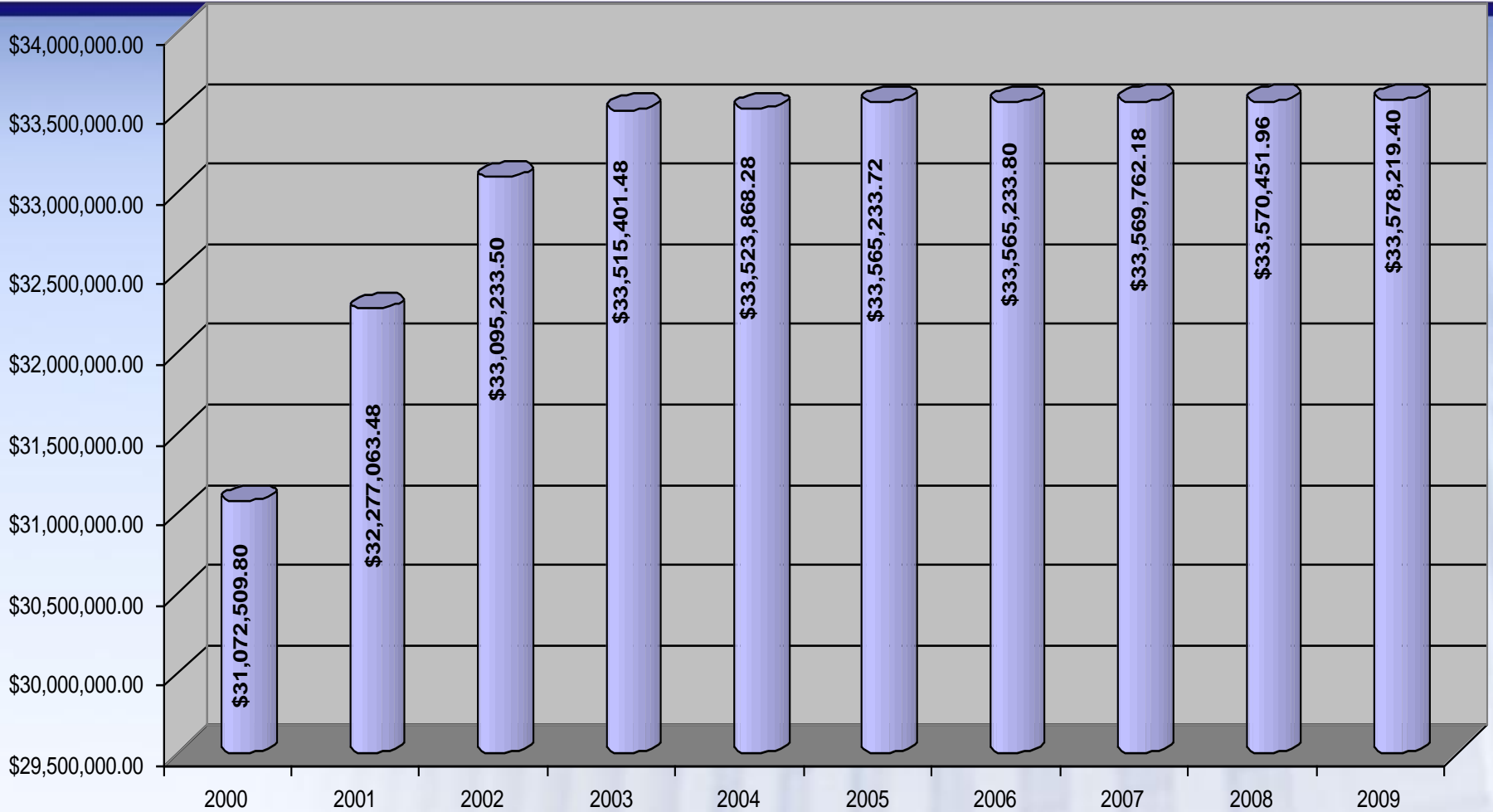
# PA USF Support Recipients

PA Code	Company
310174	Citizens Telephone Co. of New York
310250	Bentleyville Telephone Company
310369	Buffalo Valley Telephone Company
310400	Frontier Comm of Breezewood, Inc.
310550	Frontier Comm of Canton, Inc.
310650	Citizens Telephone Co. of Kecksburg
310800	Commonwealth Telephone Company
310850	Conestoga Telephone & Telegraph
311050	D&E Telephone Company
311250	Frontier Comm of PA, Inc.
311550	Hickory Telephone Company
311650	Ironton Telephone Company
311700	Lackawaxen Telephone Company
311750	Frontier Comm of Lakewood, Inc.
311800	Laurel Highland Telephone Company
311950	Mahanoy & Mahantango Telephone

PA Code	Company
312000	Marianna & Scenery Hill Telephone Co.
312050	Windstream PA fka Alltel Pennsylvania, Inc.
312350	Armstrong Telephone Company
312450	North-Eastern PA Telephone Co.
312500	North Penn Telephone Company
312550	North Pittsburgh Telephone Company
312600	Frontier Comm of Oswayo, Inc.
312650	Armstrong Telephone Company North
312700	Palmerton Telephone Company
312750	Pennsylvania Telephone Company
312800	Pymatuning Ind. Telephone Company
313000	South Canaan Telephone Company
313100	Sugar Valley Telephone Company
313200	Sprint / United Telephone Company of PA
313400	Venus Telephone Corp.
313650	Yukon-Waltz Telephone Company



## Total Support Amounts

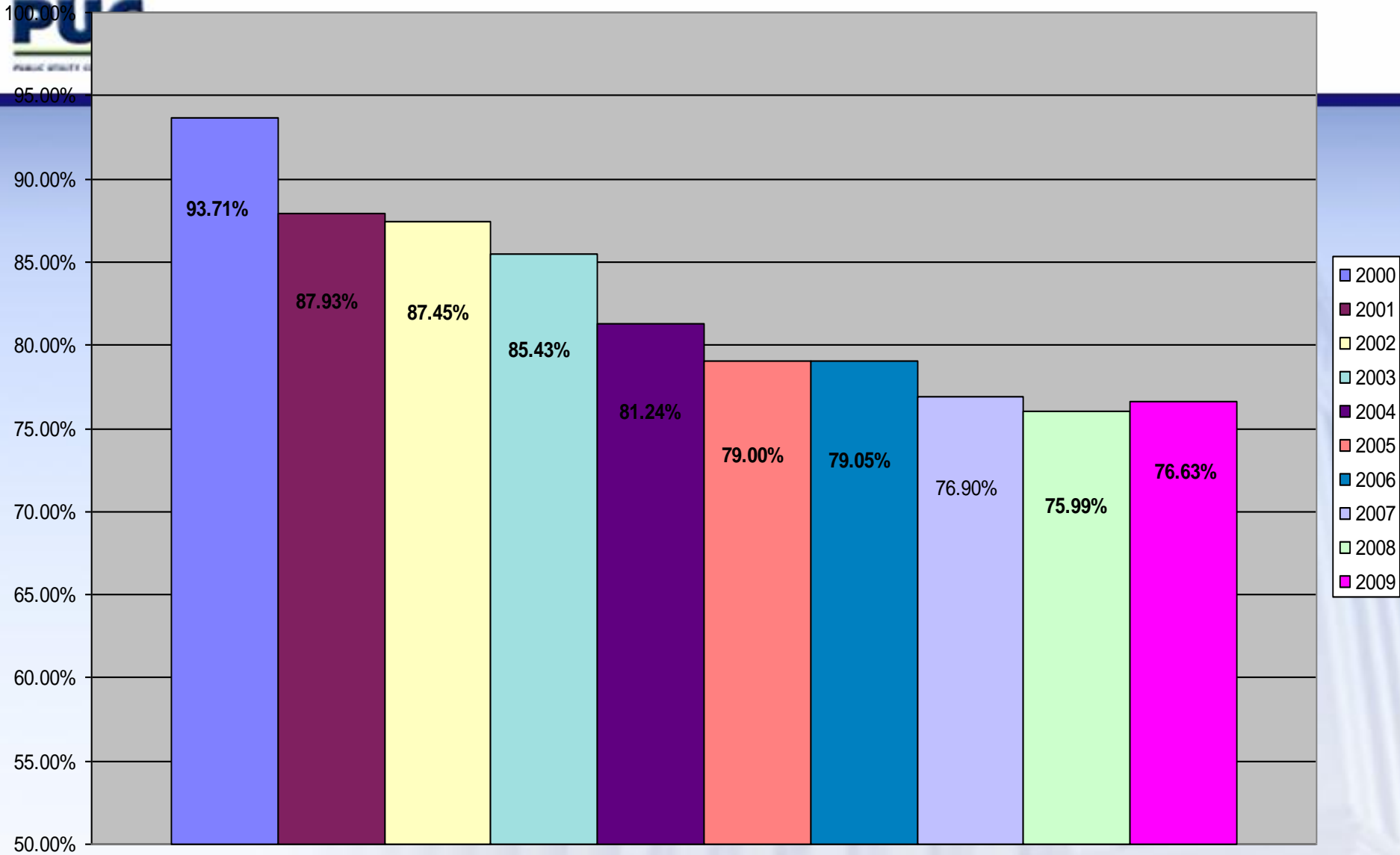


# Top 10 Contributors 2000 - 2009

<b>PA Code</b>	<b>Company</b>
310200	Verizon PA Inc. (Bell Atlantic)
311163	AT&T Communications of PA
310580	MCI Communication Svcs.
311350	Verizon North / GTE North Inc.
313200	Sprint / The United Tel. Co. of PA
312050	Windstream PA fka Alltel PA, Inc
310800	Commonwealth Tele. Co.
310752	MCI Metro MATS LLC
310183	Sprint Comm. Co
310510	CTSI, INC.
311140	Comcast Phone of PA LLC
310470	Telcove of PA Inc fka Adelphia Bus Sltns of PA Inc.
310104	ATX Telecom Services (Discontinued: 2004)
312550	North Pittsburgh Tele. Co.
310258	TCG Delaware Valley, Inc.



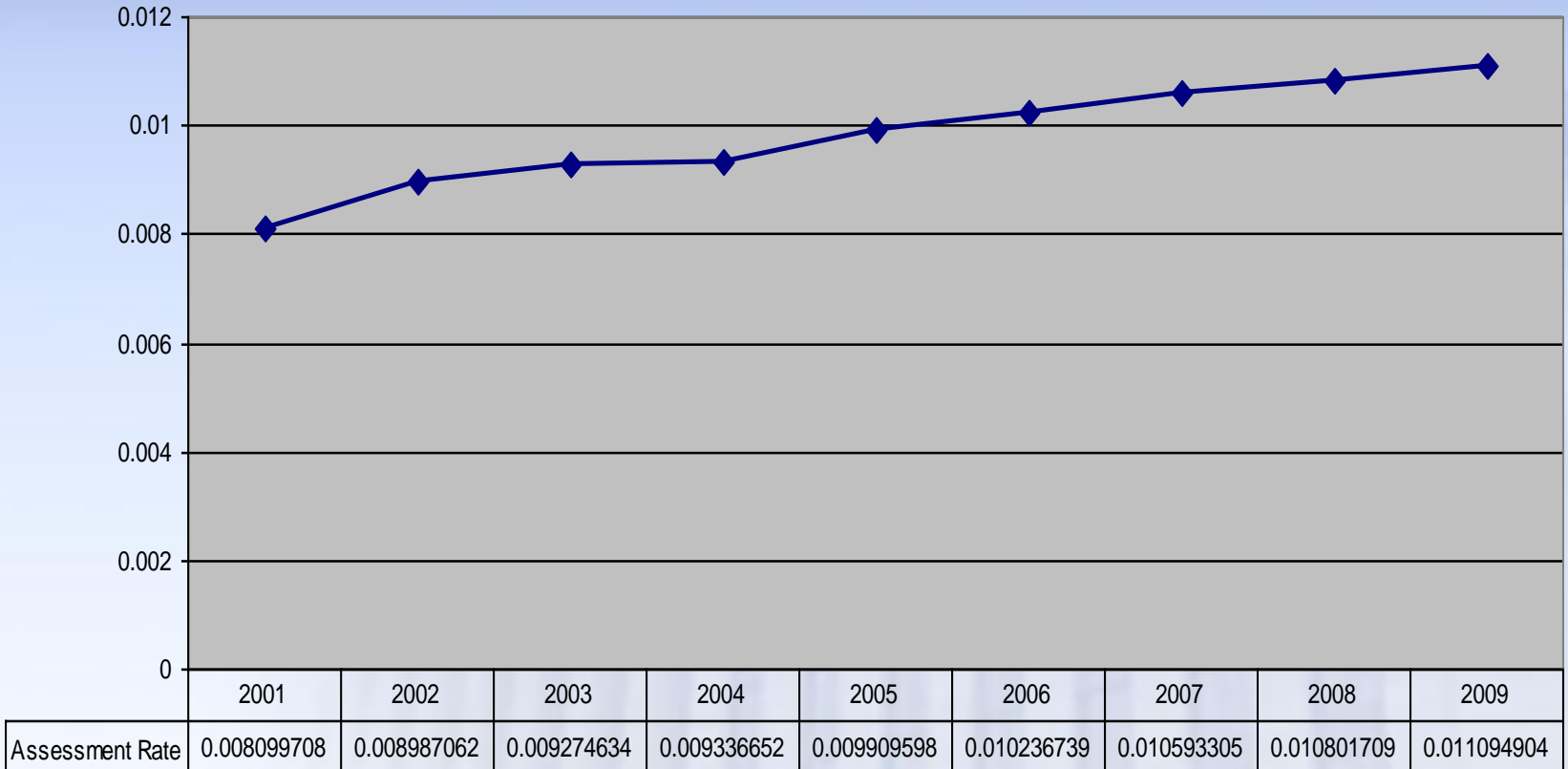
## Top 10 Contributors as a Percentage of All Contributors



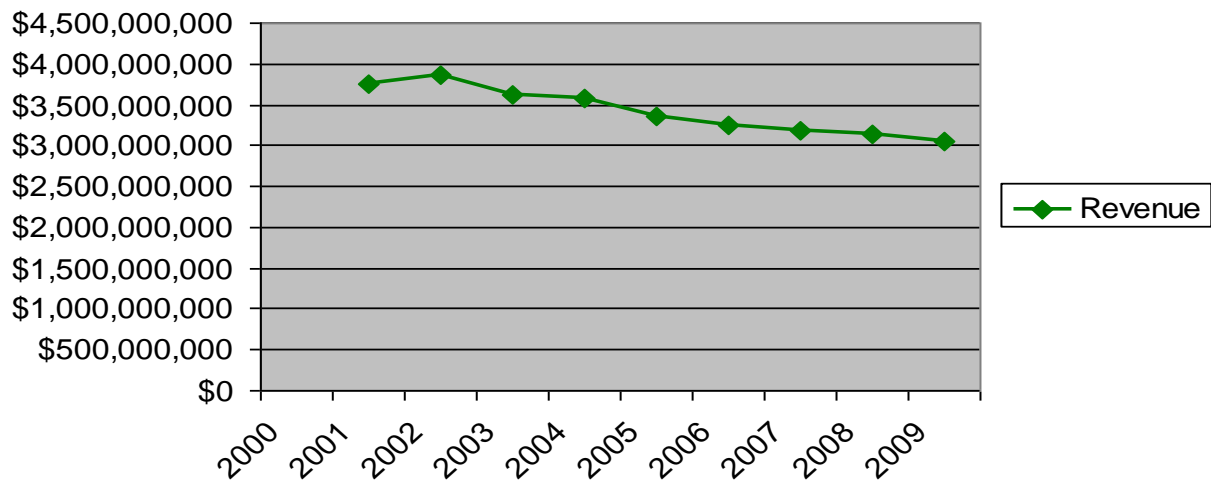


# Assessment Rates

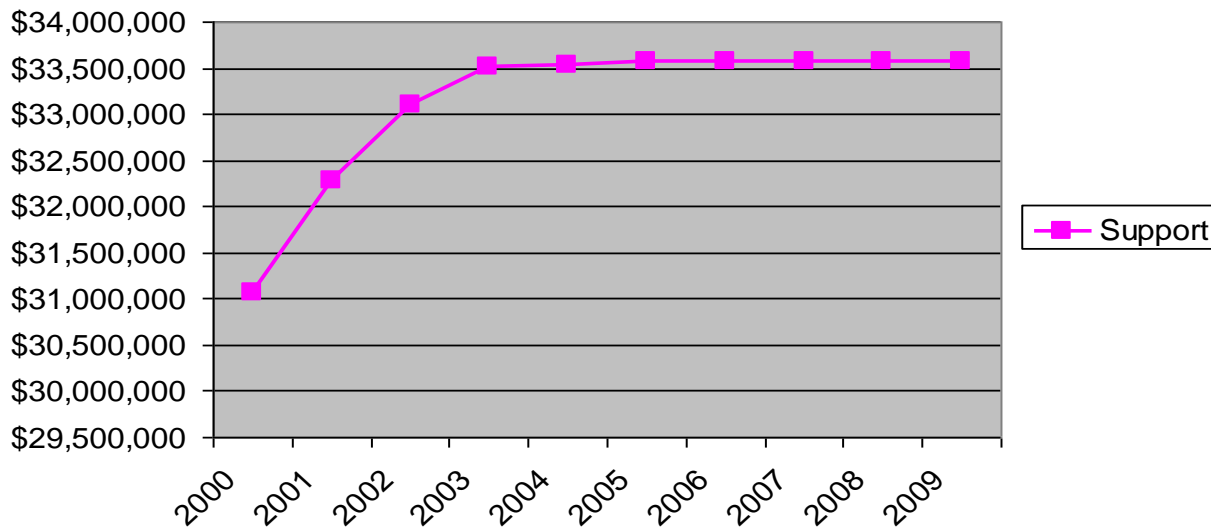
Assessment Rate by Year



### Revenue

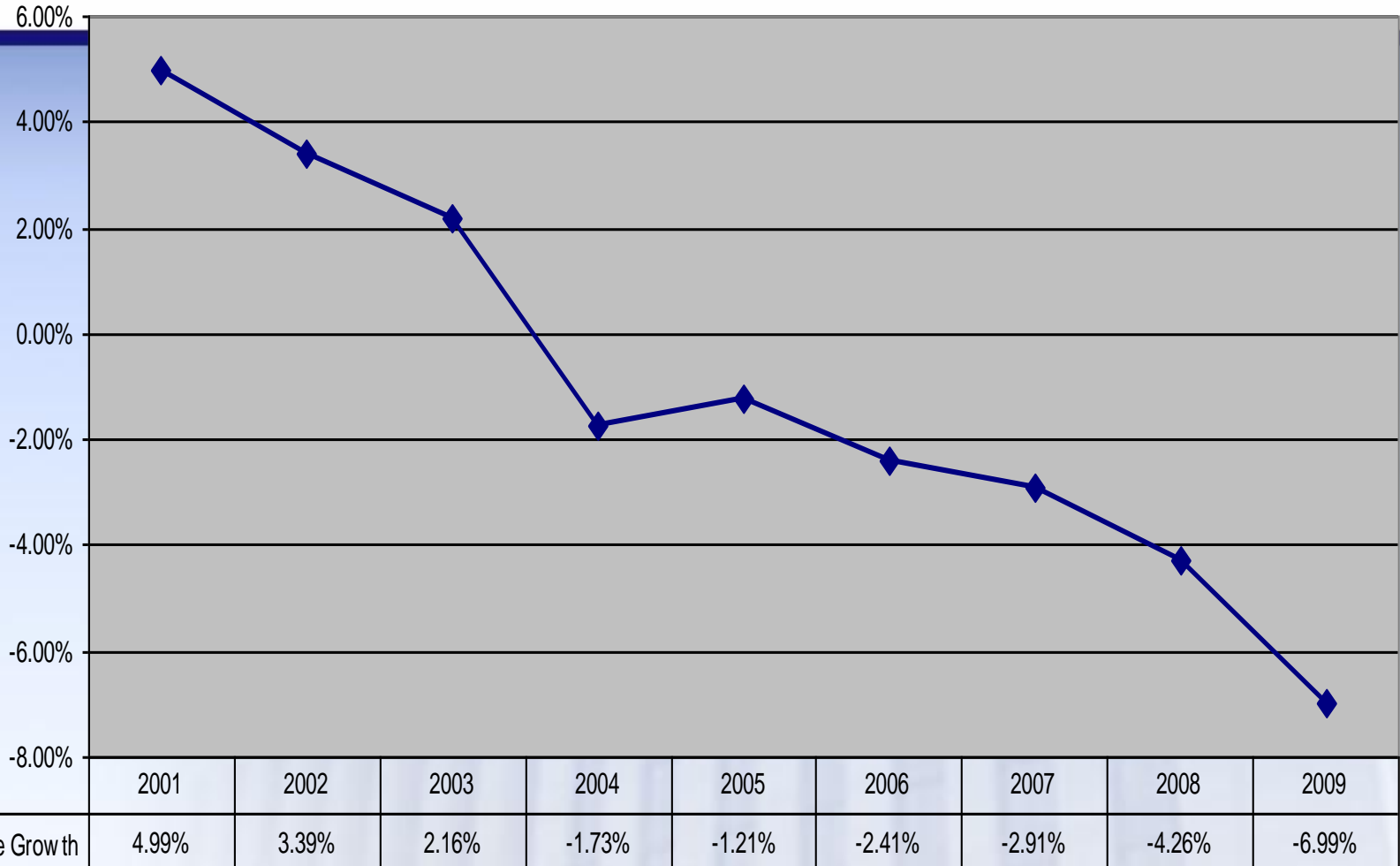


### Support





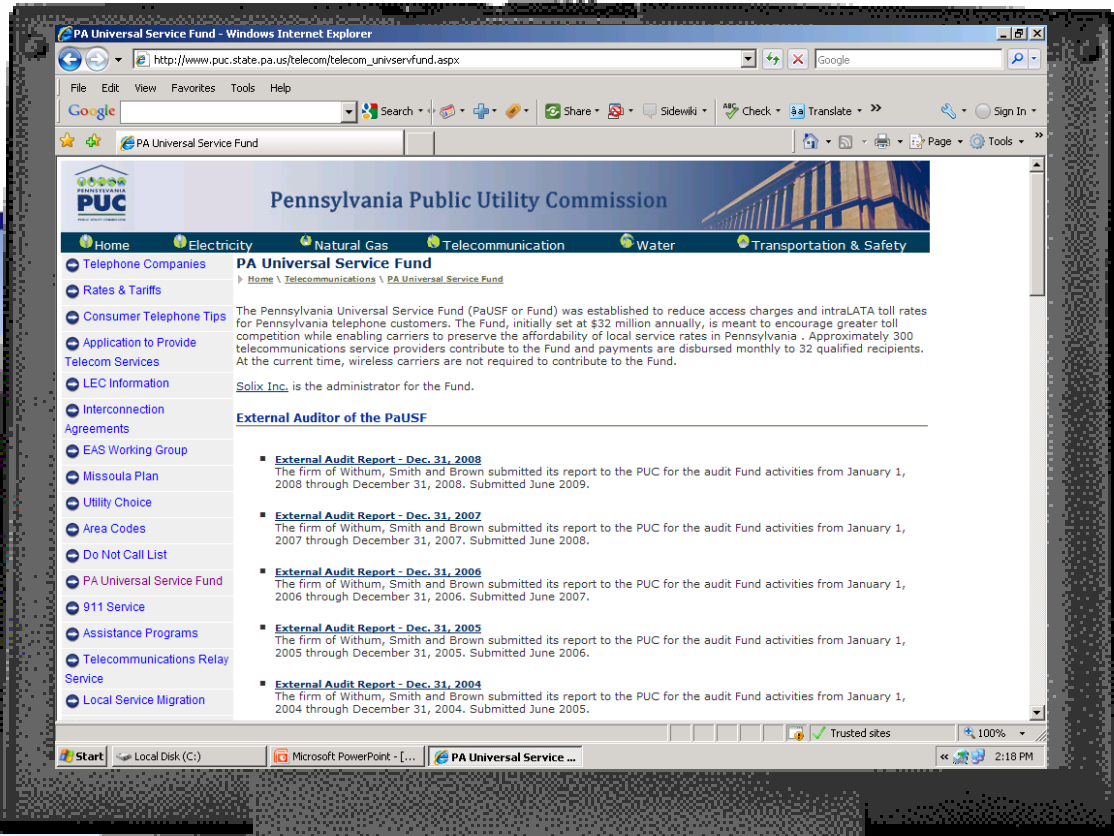
## Decrease in Access Line Growth



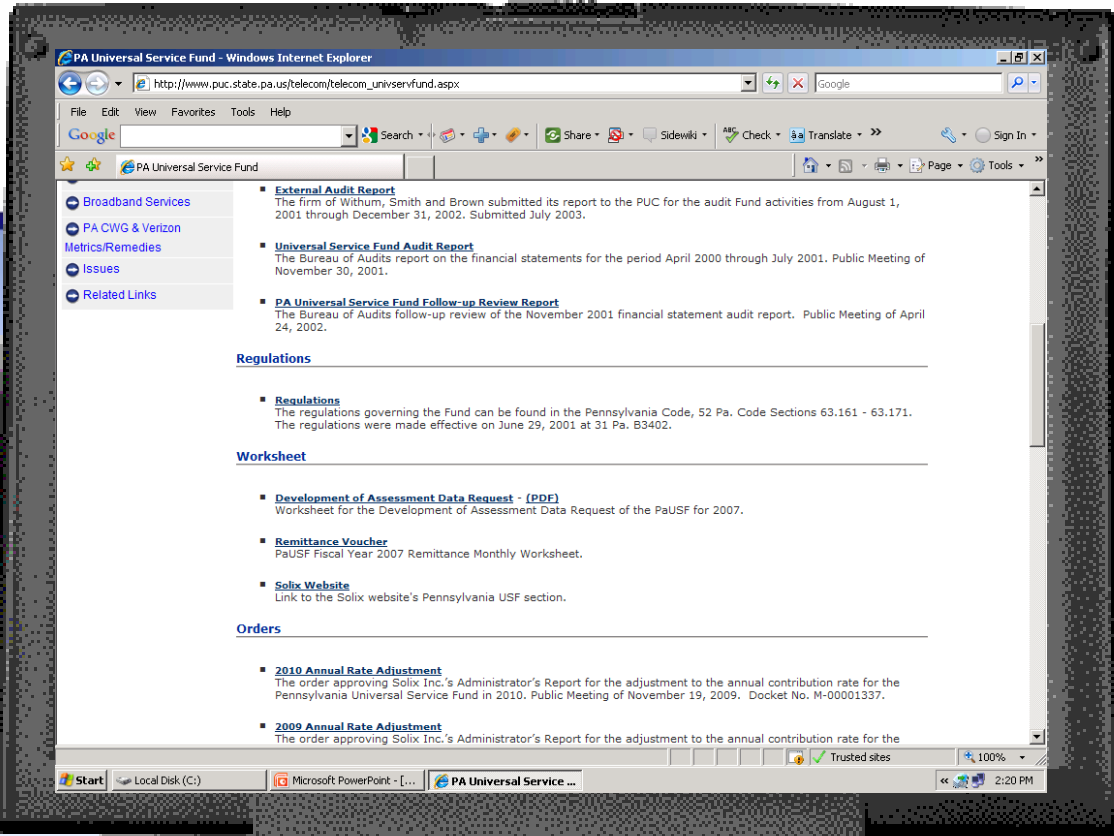


# VoIP Contributions to State USF

- New Mexico USF has been collecting assessments from interconnected VoIP providers since 2008
  - In 2008, 12 carriers reported approximately \$837K in VoIP revenue
  - In 2009, 11 carriers have reported approximately \$400K in VoIP revenue
- May 2009 – Eighth Circuit Court of Appeals affirmed District Court decision and ruled that the Nebraska PSC was preempted from requiring nomadic interconnected VoIP providers to contribute to the Nebraska USF. Nebraska has joined with Kansas in asking the FCC for a declaratory ruling that States have authority under the safe harbor provision to assess 35% of fixed VoIP revenues for contributions to State USFs.
- PA thus far only assesses certificated telecom providers, and since there are no certificated VoIP providers in PA at this time, we have not been assessing the VoIP carrier for contributions to the PaUSF. We have taken a conservative view so far, and we watch with interest what the final ruling will be regarding whether States have explicit authority to assess VoIP revenues for contributions to intrastate USFs.



Start a Fund. Start a Website.





# Drafting Regulations

## Statement of purpose and policy.

The purpose of the Fund is to maintain the affordability of local service rates for end-user customers while allowing rural telephone companies to reduce access charges and intraLATA toll rates, on a revenue-neutral basis, thereby encouraging greater competition.



# Drafting Regulations

## Definitions.

*Assessment rate*-The percentage rate which when multiplied by each contributing telecommunications provider's total intraState end-user telecommunications retail revenue for the prior month will determine that provider's monthly contribution to the annual Fund budget. The assessment rate is computed annually under 63.165 (relating to calculation of contributions).

*Basic universal service*-An evolving set of telephone services, as defined by the Commission, which represents the set of services essential for a resident of this Commonwealth to participate in modern society at any point in time.

*Contributing telecommunications providers*-Telecommunications carriers that provide intraState telecommunications services. Whether a provider or class of providers is a telecommunications carrier will be determined based upon whether the provider or class of providers is considered a telecommunications carrier under Federal law as interpreted by the Federal Communications



# Definitions

Commission except that wireless carriers are exempt from this subchapter under 66 Pa.C.S. 102(2)(IV) (relating to definitions).

*End-user revenue-Revenues* received from telecommunications subscribers who consume the final service unadjusted for any expense or other purpose. Total intrastate end-user telecommunications retail revenue does not include those revenues received from access, resale (toll or local), or the sale of unbundled network elements or other services which are essentially wholesale in nature.

*Fund-The* Universal Service Fund.

*Fund recipient-An* entity which receives funds from the Fund. Incumbent local exchange carriers operating in this Commonwealth, with the exception of Verizon Pennsylvania and Verizon North, Inc. are eligible Fund recipients.

*Local service provider-A* telecommunications company to which retail customers subscribe for basic universal service.



### **Universal service fund administration.**

- (a) Third party or Commission administrator and auditor? Sole source or competitive bidding?
- (b) Tax exempt status.
- (c) Keep Fund monies separate from any other general fund.
- (d) The administrator shall be responsible for assessing contributing telecommunications providers for contributions to the Fund . The administrator shall also be responsible for receiving contributions, validating contributions and distributing payments to fund recipients.
- (e) Make deadlines for administrator reports and stick to them.
- (f) Allow interested parties an opportunity to file comments to the administrator's report.

### **Commission oversight.**

The Commission will issue an order within 90 days of receipt of the administrator's annual report, which establishes the size of the Fund, a budget, assessment rate for contributing telecommunications providers, and administrative guidelines for the upcoming calendar year.



### **Administrator criteria.**

Administrators should be neutral and independent from telecommunications service providers operating in your state.

To avoid conflicts of interest, the administrator should not advocate specific positions before the Commission in non-universal service administrative proceedings related to telecommunications issues.

### **Administrator's duties.**

- (1) Maintain a database to track contributing telecommunications providers.
- (2) Develop Commission-approved forms which all telecommunications service providers will submit to the administrator on a monthly basis with their monthly contributions.
- (3) Review the completed forms to ensure completeness and accuracy of reported revenue and Fund assessments and contact providers whose accounts contain unexplained variances in reported revenues or Fund assessments.
- (4) Assess late-payment charges of 1.5% per month pro rata per diem on contributions that are 30 days or more past due.
- (5) Send initial notices of delinquency to delinquent contributors when a payment is 30 days past due and follow up with at least one subsequent written notice, phone call, or both, to the contributor to pursue collection of Fund payments that are 60 days past due.



# Annual Data Collection

- Online Data Collection System with Solix was open in 2009
- In 2009, 83% of Active Companies Filed Online vs. 60% in 2008
- 317 companies filed
- PUC staff has read only access to the reports. Eliminates need for separate paper filings with State Commissions.



# PAUSF Calculation of Contribution

## Calculation of contributions.

(a) Contributing telecommunications providers shall submit an affidavit to the administrator by March 31 of each year, identifying the provider's total intrastate end-user telecommunications retail revenue for the previous calendar year.

A copy shall be served upon the Commission.

(b) In determining the annual assessment rate, the administrator will utilize the following calculation:

$$\underline{W+X+Y+Z} = C$$

## A 12

W = Increase in funding requirement due to growth in access lines of recipient carriers. W equals the access line growth percentage for each recipient carrier multiplied by each recipient carriers' prior year net support (prior year funding minus prior year payment). The individual recipient carriers' required fund increases are totaled to yield W.  $W = ALG \times (PYF-PYP)$ .

X = Prior year's size of fund minus the estimated surplus from the prior year or plus any shortfall from the prior year.

Y = Surcharge for uncollectables is 1% times (X + W). (Give yourself more flexibility)

Z = Commission approved administrative and auditing expenses.

A = Aggregate Statewide end-user intraState retail revenue of all contributing telecommunications providers for the previous calendar year.

B = Individual contributing telecommunications provider's end-user intra-state retail revenue for the prior calendar year.

C = Individual contributing telecommunications provider's monthly contribution.

(c) To the extent the funding received from providers in any 1 year exceeds 1be disbursements required for the Fund plus the cost of administering the Fund (including 1 % of the total size of the Fund to cover delinquent accounts and contingencies), the excess shall remain in the Fund, and the subsequent year's Fund size reduced by that surplus.



# Auditor

## **Auditor's duties.**

(a) An independent external auditor chosen by the Commission will audit the Fund records covering both collections and disbursements for the fiscal year. The costs for conducting audits will be included in the computation of Fund requirements. Thereafter, an audit of the Fund collections and disbursements will be done annually.

(b) Following the audit, the Fund auditor will prepare and submit a report to the Commission and the administrator by July 1 of each year. The audit report should make recommendations regarding the finances of the Fund and should identify undercollections or overcollections experienced by the Fund in the previous year.



### **Collection of universal service fund contributions.**

**Late fees:** 1.5% per month pro rata per diem on the delinquent contribution.

**De minimus:** If a carrier's contribution to the Fund in a given year is less than \$120, that carrier will not be required to submit a contribution.

### **End-user surcharge prohibited.**

A telecommunications service provider may not implement a customer or end-user surcharge or any other direct or indirect charge to recover any contributions to the Fund.

### **Enforcement.**

A telecommunications service provider that fails to pay, in a timely manner, any contribution required under this subchapter may be prohibited from providing service in this Commonwealth and be subject to other penalty as authorized under law.



# Collection Efforts

- Be consistent with treatment of bankrupt contributors, waiver of late fees, etc.
- Have adequate contingency for uncollectables.
- Timely approve write-offs. February 2008 Commission Staff approved a write-off of 55 Closed companies old balances, totaling \$49k
- May 2009 Delinquent Contributors Report Lists 47 Companies, Total of \$103k delinquent
- Stay on top of the delinquent carriers. Must know right away if largest contributors are late.



# Stability of Funds

- Keep an eye on financial markets.
- Money Market Security
- Check Fraud
- Keep Fund monies separate from other Funds



# Prevent Check Fraud

- Use blank check stock, with fraud resistant features, segregated responsibilities and timely bank account reconciliations
- Bank's fraud department should be looking out for suspicious activity
- Debit block to prevent unauthorized debits to the bank account



# Program Administration

## Lessons Learned

- Be sure to calculate your Fund surplus (contingency) accurately. Contingency should allow for largest contributor to be at least one month late.
- Require Administrator's reports in a timely fashion such that interested parties have opportunity to comment, and Commission staff has time to do annual rate adjustment orders.
- Take care with the wording of regulations.
- Start RFP processes early, or draft renewal language in contracts.
- Review and ask questions regarding monthly reports.
- No sunset provision in your regulations gives a regulator greater flexibility
- Periodically, do investigations or re-evaluate the purpose and need for your State's USF.
- Keep fund money safe and secure.
- Be consistent with handling of bankruptcies, waiver of late fees, and other collection efforts.