

**Pennsylvania Universal Service Fund
Annual Report
October 2022**

Rolka Loube (RL), as the newly appointed Administrator of the Pennsylvania Universal Service Fund (Pa. USF or Fund), hereby submits the following report to the Pennsylvania Public Utility Commission (Pa. PUC or Commission) on the Fund Activities.

A. Pa. USF Financial Activities

As shown in the attached financial statements, Pa. USF Assessments during the January 2021 through December 2021 period were \$34.85 million and Operating Expenses were \$34.02 million. The corresponding Fund balance as of December 31, 2021, after taking into consideration interest earned, late payment charges, and administrative expenses paid, were \$3.853 million. Interest earned on the invested fund balance, which is credited to the Pa. USF, totaled \$2 thousand for the period.

B. Rolka Loube Recommendations for the Administration of the Pa. USF

1. Retain Annual Funding Contingency at 5%

For the past seventeen years, the Pa. PUC 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. Actual uncollectible revenue has averaged less than \$200,000 per year over the past fourteen years; however, there have been recent bankruptcies and abandonments by contributing carriers that support keeping a 5% contingency in the coming year.

2. Carryover Balance

The fund balance is projected to end the 2022 year at \$2.8 million.

The past two years, a conservative cash balance of \$1.5 million was used for calculation purposes. RL recommends utilizing a cash balance of \$1.5 million as of December 31, 2022, for our calculation purposes, providing a further cushion for any unforeseen variances.

3. Carrier Data Collection Reports of Prior Year Revenues

Carriers are required to report annual revenues from the prior calendar year by March 31st. The annually reported revenues are used in calculating the new year's Pa. USF assessment rate. The prior administrator, Vantage Point Solutions, maintained a web-based portal for online reporting whereby carriers could fulfill this requirement with the Administrator. The prior administrator collected the annual filing forms through June 30, 2022, after which any late filings or revisions were provided directly to RL for updates. RL is expected to roll out their own web-based portal early in 2023 for the filing of the 2022 revenues. Filers will be provided unique logins to file their respective submissions and revisions.

4. Recommendation to Reexamine the Pa. USF Mechanism

The substantial 2020-2021 decline in the intrastate retail revenues of the contribution base (-13.95%) indicates that the overall Pa. USF mechanism, including the contribution base methodology, may need reexamination. It should be noted that the Pa. USF contribution base has declined from its 2012 figure of \$2.2 billion by a compound annual rate of -5.31%, and by a compound annual rate of -4.34% from the 2017 figure of \$1.6 billion. The continuous decline of the contribution base leads to annual increases in the Pa. USF contribution assessment factor because the annual distributed support from the Fund essentially remains relatively stable at \$33 - \$34 million. The Commission had expressed its intention in the past to revisit its regulations that govern the Pa. USF mechanism.¹ In view of several federal regulatory policy developments that include but are not limited to the Federal Communications Commission *USF/ICC Transformation* or *Connect America Fund Order*,² a reexamination of the Pa. USF mechanism may be warranted.

C. Rolka Loube Recommendations for Ensuring Carrier Compliance

Rolka Loube recommends that the Commission continue to authorize a certain number of Carrier Compliance Reviews each year to ensure that the Carrier filings that are being conducted each year by March 31st are compliant with Pa. PUC regulations and directives. RL will submit a carrier selection plan to the Commission for approval. Upon completion of each carrier review, RL will submit a written report to the Commission that sets forth its findings and any recommended courses of action needed to remedy any findings of noncompliance.

D. Proposed Assessment Rate for Calendar Year 2023

In accordance with the Pa. PUC's rules for calculating the annual assessment factor, the Pa. USF assessment rate for 2023 has been calculated at 2.5307826% (.025307826) of 2021 average monthly intrastate end-user retail telecommunications revenue. The assessment calculation is based on data submitted by the 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 2020/2021 annual access line growth rate = (-7.18%)
2. Projected Pa. USF fund balance as of 12/31/2022 for calculation = \$1,500,000
3. Projected 2023 annual support due to recipient carriers = \$33,828,568.72
4. Projected 2023 annual administration and audit fees = \$146,610

¹ *Investigation Regarding Intrastate Access Charges and IntraLATA Toll Rates of Rural Carriers and the Pennsylvania Universal Service Fund, et al.*, Docket No. I-00040105 *et al.*, (Order entered July 18, 2011), p. 77 and Ordering Paragraph No. 20, p. 194; (Order entered August 9, 2012), pp. 66-67 and Ordering Paragraph No. 8, p. 69.

² *In re Connect America Fund, et al.*, WC Docket No. 10-90 *et al.*, (FCC Rel. Nov. 18, 2011), Report and Order and Further Notice of Proposed Rulemaking, *slip op.* FCC 11-161, 26 FCC Rcd 17663 (2011), and subsequent Reconsideration and Clarification rulings (collectively *USF/ICC Transformation* or *Connect America Fund Order*), *aff'd In re FCC-161*, 753 F.3d 1015 (10th Cir. 2014), U.S. App. LEXIS 9637, 9633.



5. Projected 2023 5% allowance for uncollectibles = \$1,616,428.44
6. Projected 2023 total annual fund size = \$34,091,607.16 [(Line 3 + Line 4 + Line 5 – Line 2)]
7. Reported 2021 intrastate retail revenues (contributing carriers) = \$1,347,077,689.46
8. Recommended 2023 Assessment Rate = $\$34,091,607.16 / \$1,347,077,689.46 = \underline{\underline{.025307826}}$

E. Comparative Analysis

Below is comparative analysis between various data points used to calculate the **proposed** 2023 Assessment Rate and the approved 2022 Assessment Rate.

Items Compared	2022 Rate Calculation	2023 Rate Calculation	Percent Difference
Monthly Support Amount	\$2,819,047.39	\$2,819,047.39	0.00%
# of Contributors	205	213	3.90%
# of Carriers with <\$120 assessment/year	97	101	4.12%
Assessment Rate	0.021255092	0.025307826	19.07%

Items Compared	2020	2021	Percent Difference
Net (Total) Intrastate Operating Revenue (all carriers)	\$1,565,499,811.80	\$1,347,151,452.88	-13.95%
Support Carriers Annual Intrastate Revenue	\$140,493,944.22	\$117,416,886.13	-16.43%
Support Carriers Access Lines	353,827	328,438	-7.18%



Assessment Rate Growth			
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%
2019	2020	↓	-1.61%
2020	2021	↑	4.01%
2021	2022	↓	-1.93%
2022	2023	↑	19.07%

