

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL
WORKING FILE

FROM: BIRDELLE BROWN *GNR-T-03-27*

DATE: AUGUST 15, 2003

RE: IDAHO UNIVERSAL SERVICE FUND – 2003 ANNUAL REPORT

On July 14, 2003, Alyson Anderson, the Administrator of the Idaho Universal Service Fund, filed her Annual Report to the Commission for the period of July 1, 2002 through June 30, 2003. Staff has reviewed the calculations and recommendations in this report and finds them to be accurate and comprehensive. Once again, Staff commends Ms. Anderson for her continued outstanding performance as Administrator of this fund.

Ms. Anderson reports surcharge revenue for the year in the amount of \$1,655,317 of which \$902,422 (55%) was contributed by local exchange services and \$752,894 (45%) was contributed by MTS/WATS services. This is a decrease in local surcharge revenue of more than \$300,000 (from \$1,231,353 in 2002) and a decrease in toll surcharge revenue of more than \$500,000 (from \$1,266,744 in 2002). These decreases are due largely to the Commission's decrease in surcharge rates and due to a decrease in inventory. In 2002 the Commission reduced surcharge rates from \$0.10 for residential lines to the current \$0.08 per line, from \$0.15 for business lines to the current \$0.13 per line and from \$0.0035 per billed toll minute to the current \$0.0025 per minute.

Annual disbursements to the eight qualifying incumbent local exchange carriers (ILECs) remains at \$1,898,303. The ending fund cash balance at June 30, 2003 after applying bank charges, administrative expenses, and interest received was \$154,721; additionally, investments carry a cash value of \$688,000 with staggered maturity dates through March 31, 2004.

Local Service

As of May 1, 2003 companies reported 519,505 residential lines and 200,050 business lines, for a total of 719,555 lines. This represents a net decrease in lines of 1% with residential declining 2.4% and business increasing 5.1% from the prior year.

The newly calculated statewide average rates and threshold rates are:

	2002 Current Weighted Average Rate	2003 Statewide Weighted Average Rate	125% Statewide Weighted Average Rate - 2001	125% Statewide Weighted Average Rate - 2002
Residential	\$17.61	\$17.58	\$22.01	\$21.98
Business Services	\$32.42	\$31.52	\$40.53	\$39.40

Switched Access Service

Toll access minutes reported by the local exchange companies were 533,011,016, which represents a 12.5% decrease from 609,012,001 million minutes reported in 2002. The new statewide average switched access rate has increased to \$0.0525 per minute from last year's average of \$0.0525.

Of the eight companies receiving Universal Service funds, three have switched access rates in excess of the statewide threshold rate. According to the numbers reported by ATC, it must reduce its switched access rates by \$14,114 annually and increase its USF draw by a corresponding amount; Fremont must reduce its rates by \$13,813 and increase its USF draw by that amount and Midvale must reduce its rates by \$17,294 and make corresponding increases in its USF draw. If these adjustments are made to comply with the eligibility rule (Idaho Universal Service Fund Rule 106.02), total USF draws would increase by \$45,221 to \$1,943,524.

Toll Minutes

The number of toll minutes reported by the local exchange carriers to the USF decreased by 6.20% from 297 million minutes in the 2002 report to about 279 million minutes in the 2003 report.

Disbursements

Total disbursements for the year were \$1,898,303. Outside of the possible adjustment made in the access rates of the three USF companies, no changes are expected in total disbursements in the coming year.

ADMINISTRATOR'S OPTIONS

The Administrator has presented three funding options for the coming year. These options are as follows:

Option 1: Status Quo - Ms. Anderson stated that if current surcharge levels are maintained and no additional funding is needed, the fund will increase to a balance of approximately \$457,630 by June 30, 2004.

Option 2: Adjust Funding to meet Statewide Averages and Maintain Surcharge Rates - In this discussion, Ms. Anderson compares the companies' current local and switched access rates to the statewide threshold rates and applies the eligibility rule (Idaho Universal Service Fund Rule 106.02) to determine the revisions required by current participants. She notes that ATC's, Fremont's, and Midvale's switched access rates are above the threshold rate and they should reduce their rates (thus increasing their draw from the Universal Service Fund) by a total of \$45,221. If these adjustments are made and the current assessment is not changed, Ms. Anderson projects an ending balance of approximately \$412,409 by June 20, 2004.

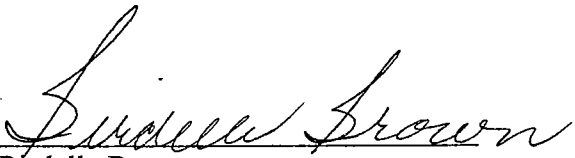
Option 3: Adjust Funding to meet Statewide Averages and Increase Surcharge Rates - In this option, Ms. Anderson proposes an increase in current surcharge rates to \$0.09 per residential line, \$0.10 per business line and \$0.0029 per toll minute and increasing disbursements resulting from adjusted access rates as discussed in Option 2. At these rates, the fund would be approximately \$514,204 by June 30, 2004.

ADMINISTRATOR'S RECOMMENDATION

Ms. Anderson recommends Option 2, which would maintain the surcharge rates at \$0.0025 per MTS/WATS billed minute and to \$.08 per residential and \$.13 per business line. She also recommends adjustments to Fremont, ATC and Midvale switched access rates. This would leave the fund with an ending balance by June 30, 2004 of approximately \$412,409.

COMMISSION DECISION

Does the Commission approve the Administrator's recommended Option No. 2 to maintain surcharge rates at \$0.08 for residential lines, \$0.13 for business lines and \$0.0025 per toll minute? Does the Commission approve access rate decreases for Albion, Midvale and Fremont to the statewide threshold level and the corresponding increases in USF draws?



Birdelle Brown

Attachment

udmemos/usf 2003 annual report
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IDAHO UNIVERSAL SERVICE FUND OPTIONS

7/22/2003

OPTION 1 - STATUS QUO

		RATE	FUND CHANGE	
BANK BALANCE 7/1/03			\$154,721	
ANNUAL INVENTORY				
RESIDENTIAL LINES	519,474	0.08	\$498,695	33% OF TOTAL SURCHARGE REVENUE
BUSINESS LINES	196,013	0.13	305,780	20% OF TOTAL SURCHARGE REVENUE
TOLL MINUTES	278,681,411	0.0025	696,704	47% OF TOTAL SURCHARGE REVENUE
TOTAL IUSF FUNDING FOR YEAR			1,501,179	
US TREASURIES REDEEMED			688,000	
ESTIMATED INTEREST INCOME			22,705	
ESTIMATED IUSF DISBURSEMENTS			(1,898,303)	
ESTIMATED ADMINISTRATIVE EXPENSES			(17,000)	
TOTAL ESTIMATED EXPENSES			(1,204,598)	
PROJECTED INCOME/(DRAWDOWN)			296,581	
PROJECTED BALANCE 6/30/04			\$451,302	

OPTION 2 - ADJUST RULE 106 & MAINTAIN SURCHARGE RATES

		RATE	FUND CHANGE	
BANK BALANCE 7/1/03			\$154,721	
ANNUAL INVENTORY				
RESIDENTIAL LINES	519,474	0.08	\$498,695	33% OF TOTAL SURCHARGE REVENUE
BUSINESS LINES	196,013	0.13	305,780	20% OF TOTAL SURCHARGE REVENUE
TOLL MINUTES	278,681,411	0.0025	696,704	47% OF TOTAL SURCHARGE REVENUE
TOTAL IUSF FUNDING FOR YEAR			1,501,179	
US TREASURIES REDEEMED			688,000	
ESTIMATED INTEREST INCOME			22,705	
ESTIMATED IUSF DISBURSEMENTS			(1,943,524)	
ESTIMATED ADMINISTRATIVE EXPENSES			(17,000)	
TOTAL ESTIMATED EXPENSES			(1,249,819)	REFELCTS INCREASED FUNDING TO ATC, FREMONT AND MIDVALE
PROJECTED INCOME/(DRAWDOWN)			251,360	
PROJECTED BALANCE 6/30/04			\$406,081	

IDAHO UNIVERSAL SERVICE FUND OPTIONS

7/22/2003

OPTION 3 - ADJUST FUNDING LEVELS PER RULE 106 & INCREASE SURCHARGE RATES

		RATE	FUND CHANGE	
BANK BALANCE 7/1/03			\$154,721	
ANNUAL INVENTORY				
RESIDENTIAL LINES	519,474	0.09	\$561,032	35% OF TOTAL SURCHARGE REVENUE
BUSINESS LINES	196,013	0.10	235,216	15% OF TOTAL SURCHARGE REVENUE
TOLL MINUTES	278,681,411	0.0029	808,176	50% OF TOTAL SURCHARGE REVENUE
TOTAL IUSF FUNDING FOR YEAR			1,604,424	
US TREASURIES REDEEMED			688,000	
ESTIMATED INTEREST INCOME			22,705	
ESTIMATED IUSF DISBURSEMENTS			(1,943,524)	
ESTIMATED ADMINISTRATIVE EXPENSES			(17,000)	
TOTAL ESTIMATED EXPENSES			(1,249,819)	
PROJECTED INCOME/(DRAWDOWN)			354,605	
PROJECTED BALANCE 6/30/04			\$509,326	

ADMINISTRATOR'S REPORT
IDAHO UNIVERSAL SERVICE FUND
YEAR ENDED JUNE 30, 2003

**ADMINISTRATOR'S REPORT
IDAHO UNIVERSAL SERVICE FUND
YEAR ENDED -- JUNE 30, 2003**

SURCHARGE REVENUES

Surcharge revenues collected during the year totaled \$1,655,317 of which \$902,422, or 55%, was assessed on local exchange services and \$752,894, or 45%, was assessed on MTS/WATS services. Current monthly surcharge rates are \$.08 per residential line, \$.13 per business line, and \$.0025 per MTS/WATS billed minute.

DISBURSEMENTS

COMPANIES RECEIVING DISBURSEMENTS

Authorized disbursements to Local Exchange Companies during the year ended June 30, 2003 totaled \$1,898,303 (page 10). The following table shows the Local Exchange companies authorized by the Idaho Public Utilities Commission to receive disbursements from the Idaho Universal Service Fund.

Company Name	Original IPUC Order Authorizing Disbursement	Current Authorized Annual Disbursement
ACT Communications	22718 & 22128	\$514,238
Cambridge Telephone	22131	\$167,381
Fremont Telecom	28085 & 28166	\$110,081
Inland Telephone Co	23838	\$43,161
Midvale Telephone Exc.	22377	\$362,366
Direct Comm Rockland	22132	\$221,847
Rural Telephone Co	22414 & 26598	\$316,128
Silver Star Telecom	22237 & 22370	\$163,101
Total		\$1,898,303

ADMINISTRATIVE FEES AND EXPENSES

Administrative fees and expenses for the year ended June 30, 2003 were \$11,600. Administrative expenses include bank charges of \$629. Administrative expenses payable at June 30, 2003 are \$1,018.

INVESTMENTS AND FUNDS

CASH

At June 30, 2003, the Idaho Universal Service Fund had a cash balance of \$154,721. The following is a table showing the beginning, ending, and quarterly fund cash balances for the year ended June 30, 2002.

<u>Beginning Balance</u> <u>6/30/02</u>	<u>Balance</u> <u>9/30/02</u>	<u>Balance</u> <u>12/31/02</u>	<u>Balance</u> <u>3/31/03</u>	<u>Ending Balance</u> <u>6/30/03</u>
\$646,286	\$486,250	\$581,144	\$186,855	\$154,721

INTEREST

Interest earned on funds for the year ended June 30, 2003 totaled \$18,902. Coupon payments from investments in US Treasury Notes totaled \$13,080 and interest earned on funds held in a Merrill Lynch CMA-Government Securities Fund account, with a current yield of .66%, totaled \$5,822.

INVESTMENTS

The Idaho Universal Service Fund currently has investments in US Treasury Notes (Page 9). The T-Notes are valued at \$692,637 (face value \$688,000) have staggered maturity dates through March 31, 2004.

INVENTORIES

Total residential and business lines at May 1, 2003 were 519,505 and 200,050 respectively (pages 34 and 35). This represents a 2.4% decrease in residential lines and a 5.1% increase in business lines from the prior year.

