

## 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:

	<b>2002 Current Weighted Average Rate</b>	<b>2003 Statewide Weighted Average Rate</b>	<b>125% Statewide Weighted Average Rate - 2001</b>	<b>125% Statewide Weighted Average Rate - 2002</b>
<b>Residential</b>	\$17.61	\$17.58	\$22.01	\$21.98
<b>Business Services</b>	\$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.

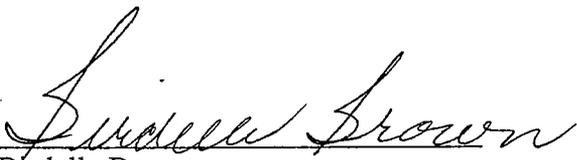
Option 3: Adjust Funding to meet Statewide Averages and Increase Surcharge Rates - In this option, Ms. Anderson proposes an increase in current surcharge rates to \$0.09 per residential line, \$0.10 per business line and \$0.0029 per toll minute and increasing disbursements resulting from adjusted access 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  
T:/... IUSF.2003.decisionmemo

**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)	REFELCTS INCREASED FUNDING TO ATC, FREMONT AND MIDVALE
ESTIMATED ADMINISTRATIVE EXPENSES			(17,000)	
TOTAL ESTIMATED EXPENSES			(1,249,819)	
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
<b>Total</b>		<b>\$1,898,303</b>

## 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.

Total MTS/WATS billed minutes of use for the year ended December 31, 2002 were 278,681,411 (page 38), a 6.2% decrease from the prior year.

## **STATEWIDE WEIGHTED AVERAGE RATES**

A schedule summarizing the total funding eligibility for the local exchange companies is shown on page 11.

### **ONE-PARTY, SINGLE LINE SERVICE**

The statewide weighted average rates for one-party single-line residential and business services are shown on pages 23 and 33. The following table shows the statewide weighted averages for one-party, single line service.

	<b>STATEWIDE WEIGHTED AVERAGE RATE</b>	<b>IUSF THRESHOLD 125% STATEWIDE WEIGHTED AVERAGE RATE</b>
<b>RESIDENTIAL SERVICES</b>	<b>\$17.58</b>	<b>\$21.98</b>
<b>BUSINESS SERVICES</b>	<b>\$31.52</b>	<b>\$39.40</b>

### **TOLL SWITCHED ACCESS**

The statewide weighted average revenue per MTS/WATS access minute is shown on page 13. The statewide weighted average revenue is \$ .0525 per minute.

## **FUNDING OPTIONS**

### **GENERAL INFORMATION**

#### **OPTION 1: STATUS QUO**

If current surcharge levels (\$.08 per residential line, \$.13 per business line, and \$.0025 per intrastate MTS/WATS billed minute) are maintained and no additional IUSF funding is authorized, the fund will increase by approximately \$302,908 (page 39). The fund would have a balance of approximately \$457,630 at June 30, 2004. Additionally, with current

surcharge rates, MTS/WATS services would contribute approximately 47% of the surcharge revenue and local exchange services would contribute 53% of the surcharge revenue.

## OPTION 2: ADJUST FUNDING TO MEET STATEWIDE AVERAGES & MAINTAIN SURCHARGE RATES

Idaho Universal Service Fund rule 106.02 indicates that to continue receiving IUSF funding after the first year of eligibility, the company may need to revise rates to meet the statewide threshold rates. If the rate is below the statewide threshold rate, and difference between the rates are greater than 3% and \$6,000, the company must revise it's rates to equal or exceed 100% of the statewide average for MTS/WATS access service and 125% of the statewide average for local exchange service. The following applies rule 106 to each company currently drawing from the IUSF. All of the companies drawing IUSF funds have had rate proceedings during the past several years, and the Commission has already reviewed and approved the rates for local access service. Therefore, I think it is unnecessary to adjust the local rates to meet the statewide average.

- ◆ ATC Communications shows a need to reduce access rates, thereby increasing the draw from the IUSF by \$14,114.
- ◆ Cambridge Telephone Company does not need to adjust access rates, or the IUSF draw at this time.
- ◆ Direct Communications Rockland does not need to adjust access rates, or the IUSF draw at this time.
- ◆ Fremont Telecom shows a need to reduce access rates, thereby increasing the draw from the IUSF by \$13,813.
- ◆ Inland Telephone Company does not need to adjust access rates, or the IUSF draw at this time.
- ◆ Midvale Telephone Company shows a need to reduce access rates and increase the IUSF draw by 17,294.
- ◆ Rural Telephone Company does not need to adjust access rates, or the IUSF draw at this time.
- ◆ Silver Star Telecom does not need to adjust access rates, or the IUSF draw at this time.

The 2003-2004 IUSF disbursements, including the adjustments to funding per rule 106, will be \$1,943,524.

The current surcharge rates were maintained (\$.08 per residential line, \$.13 per business line, and \$.0025 per intrastate MTS/WATS billed minute), and

therefore the contribution from local exchange services and MTS/WATS services would continue at 53% and 47% respectively. The fund will increase by approximately \$257,687, and have a balance of approximately \$412,409 at June 30, 2004 (page 39).

### **OPTION 3: ADJUST FUNDING TO MEET STATEWIDE AVERAGES & INCREASE SURCHARGE RATES**

Increasing the MTS/WATS surcharge rate to \$.0029 per minute, the local exchange residential surcharge rate to \$.09 per line and the local exchange business surcharge rates to \$.10 each, will maintain an adequate reserve balance of \$500,000. At these rates, MTS/WATS services would contribute 50% of the total surcharge revenue and local exchange services would contribute 50% of the total surcharge revenue, with a projected income of \$359,482. The fund balance at June 30, 2004 would be approximately \$514,204. Thus, maintaining an adequate reserve balance (page 40).

### **ADMINISTRATOR'S RECOMMENDATION**

I recommend that the Commission adopt Option 2, maintaining the current surcharge rates at \$.0025 per MTS/WATS billed minute, \$.08 per residential line, and \$.13 per business line. Additionally, the access rates and funding for ATC Communications, Fremont Telecom, and Midvale Telephone Company should be adjusted. While this option will provide a reserve less than the ideal \$500,000, it should be adequate. Additionally, this option provides consistency in the surcharge rates. The fund will continue investing unused balances in US Treasuries. This option approximates a 50-50 contribution of surcharge revenues from local exchange services and MTS/WATS services. The fund balance at June 30, 2002 should be approximately \$412,409.

IDAHO UNIVERSAL SERVICE FUND  
BALANCE SHEET  
JUNE 30, 2003

ASSETS		LIABILITIES & EQUITY	
CASH IN BANK	\$154,721	ACCOUNTS PAYABLE	\$1,018
INVESTMENT IN US TREASURIES	688,000	JUNE ADMINISTRATIVE EXPENSE	861,281
UNAMORTIZED PREMIUM(DISCOUNT)	4,637		
ACCRUED INTEREST PURCHASED	5,249		
INTEREST RECEIVABLE	<u>9,692</u>	FUND BALANCE AT YEAR END	<u>861,281</u>
TOTAL ASSETS	<u>\$862,299</u>	TOTAL LIABILITIES & EQUITY	<u>\$862,299</u>

**IDAHO UNIVERSAL SERVICE FUND  
STATEMENT OF FUND BALANCE  
JUNE 30, 2003**

REVENUES

SURCHARGE REVENUE	\$1,655,317
INTEREST REVENUE	<u>28,593</u>

TOTAL REVENUE	\$1,683,910
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EXPENSES

DISBURSEMENTS TO COMPANIES	\$1,898,303
AMORTIZATION EXPENSE	9,826
BANK/BROKERAGE CHARGES	629
ADMINISTRATIVE EXPENSE	<u>11,085</u>

TOTAL EXPENSES	<u>1,919,842</u>
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CHANGE IN FUND BALANCE	(\$235,932)
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FUND BALANCE JULY 1, 2002	<u>\$1,097,213</u>
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FUND BALANCE JUNE 30, 2003	<u><u>861,281</u></u>
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**IDAHO UNIVERSAL SERVICE FUND  
BANK ACCOUNT ACTIVITY  
FOR YEAR ENDED JUNE 30, 2003**

BEGINNING BALANCE JULY 1, 2002		\$646,286
<b>RECEIPTS</b>		
LOCAL SURCHARGE	\$902,422	
TOLL SURCHARGE	<u>752,894</u>	
TOTAL SURCHARGE COLLECTED		\$1,655,317
TREASURY NOTE REDEEMED		\$453,000
INTEREST		<u>18,901</u>
<b>TOTAL RECEIPTS</b>		<b>\$2,127,218</b>
<b>DISBURSEMENTS</b>		
BANK/BROKERAGE CHARGES		629
PURCHASE US TREASURY BILL		708,880
COMPANY DISBURSEMENTS		\$1,898,303
ADMINISTRATIVE EXPENSES		<u>10,971</u>
<b>TOTAL DISBURSEMENTS</b>		<b><u>\$2,618,783</u></b>
<b>ENDING BALANCE JUNE 30, 2003</b>		<b><u><u>\$154,721</u></u></b>

**IUSF INVESTMENTS  
AT JUNE 30, 2003**

DATE ACQUIRED	SECURITY DESCRIPTION	QUANTITY	PRICE	TOTAL COST	UNAMORTIZED PREMIUM OR (DISCOUNT)	INVESTMENT AT 6/30/2003	ACCRUED INTEREST AT 6/30/03	ESTIMATED MARKET VALUE	ESTIMATED ANNUAL INCOME	CURRENT YIELD %
9/10/2002	US TREASURY NOTE 3.875%, 7/31/02	488,000	102.0586	498,046	913	488,913	7,879	489,220	18,909	3.86
2/24/2003	US TREASURY NOTE 3.625%, 3/31/04	200,000	102.793	205,586	3,724	203,724	1,813	203,938	7,250	3.55
					<u>\$4,637</u>	<u>\$692,637</u>	<u>\$9,692</u>			

2000-2001 AUTHORIZED DISBURSEMENTS

7/22/2003

	ALBION TELEPHONE	CAMBRIDGE TELEPHONE	FREMONT TELCOM	INLAND TELEPHONE	MIDVALE TELEPHONE	DIRECT COMM ROCKLAND	RURAL TELEPHONE	SILVER STAR TELECOM	TOTAL
June-02	42,853.17	13,948.34	9,173.42	3,596.76	30,197.17	18,487.25	26,344.00	13,591.77	158,191.88
July-02	42,853.17	13,948.34	9,173.42	3,596.76	30,197.17	18,487.25	26,344.00	13,591.77	158,191.88
August-02	42,853.17	13,948.34	9,173.42	3,596.76	30,197.17	18,487.25	26,344.00	13,591.77	158,191.88
September-02	42,853.17	13,948.34	9,173.42	3,596.76	30,197.17	18,487.25	26,344.00	13,591.77	158,191.88
October-02	42,853.17	13,948.34	9,173.42	3,596.76	30,197.17	18,487.25	26,344.00	13,591.77	158,191.88
November-02	42,853.17	13,948.34	9,173.42	3,596.76	30,197.17	18,487.25	26,344.00	13,591.77	158,191.88
December-02	42,853.17	13,948.34	9,173.42	3,596.76	30,197.17	18,487.25	26,344.00	13,591.77	158,191.88
January-03	42,853.17	13,948.34	9,173.42	3,596.76	30,197.17	18,487.25	26,344.00	13,591.77	158,191.88
February-03	42,853.17	13,948.34	9,173.42	3,596.76	30,197.17	18,487.25	26,344.00	13,591.77	158,191.88
March-03	42,853.17	13,948.34	9,173.42	3,596.76	30,197.17	18,487.25	26,344.00	13,591.77	158,191.88
April-03	42,853.17	13,948.34	9,173.42	3,596.76	30,197.17	18,487.25	26,344.00	13,591.77	158,191.88
May-03	42,853.17	13,948.34	9,173.42	3,596.76	30,197.17	18,487.25	26,344.00	13,591.77	158,191.88
<b>TOTAL</b>	<b>514,238.04</b>	<b>167,380.08</b>	<b>110,081.04</b>	<b>43,161.12</b>	<b>362,366.04</b>	<b>221,847.00</b>	<b>316,128.00</b>	<b>163,101.24</b>	<b>1,898,302.56</b>

Disbursements to local exchange companies are expensed when paid.