

Arkansas High Cost Fund Update

Joint Meeting of the Senate and House Committees on Insurance and Commerce
December 10, 2018

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- Monthly reports regarding the Arkansas High Cost Fund (AHCF) are filed in Arkansas Public Service Commission Docket No. 97-393-A and are available at http://www.apscservices.info/efilings/docket_search.asp.
 - Attached is the Administrator's most recent monthly report which is for calendar month October 2018.
 - The total 2018 projected annual cash outlay for the AHCF is \$43,915,000. This amount includes AHCF support for eligible telecommunications providers (22 telecommunications companies); extension of facilities funds for remote service that would otherwise be unavailable; calling plan funds to allow rural customers to have local telecommunications services within a reasonable radius; and administrative costs and funding to the Arkansas Department of Emergency Management to support rural 9-1-1 services.
 - Audited Financial Statements for calendar years 2016 and 2017 are also filed in this docket.
 - A brief overview of the AHCF is also included.
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**ARKANSAS RURAL STRATEGIES, LLC.
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Kala Mitchell - MANAGER

479-495-5881

November 26, 2018

RE: Monthly Report for October 2018

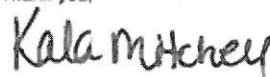
Docket No. 97-393-A

Secretary of the Commission
Arkansas Public Service Commission
1000 Center Street
Little Rock, AR 72201

Secretary of the Commission:

Enclosed is the monthly report on the Arkansas High Cost Fund performance for the month of October 2018. Please record in Docket No. 97-393-A.

Thank you,



Kala Mitchell
Arkansas Rural Strategies, LLC
Administrator - ARHCF

Enc: October 2018

2018-10 October 2018 Statement of Account.xlsx
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Arkansas Universal Service Fund
Statement of Fund Performance
 Prepared for the Arkansas Public Service Commission by Arkansas Rural Strategies, LLC

Monthly Activity For	Y-T-D 2017	October 2018	Y-T-D 2018
Balance transfers:	\$0.00		\$0.00
Revenues / Assessments			
Monthly Assessments	\$0.00	\$4,095,330.94	\$36,321,649.16
Prior Fiscal Year Assessments	\$0.00		\$0.00
Transition Reserve Funding	\$0.00		\$0.00
Late Payment Charges	\$0.00	\$1,350.00	\$17,800.00
Unapplied Receipts	\$0.00		\$0.00
Miscellaneous	\$0.00		\$0.00
Interest Income	\$0.00	\$353.82	\$1,633.19
Total Revenue	\$0.00	\$4,097,034.76	\$36,341,082.35

Disbursements	Y-T-D 2017	October 2018	Y-T-D 2018
Support Payments		\$4,150,204.34	\$36,252,048.40
Transition Support Payments			\$0.00
Program Administration		\$8,128.33	\$81,283.30
External Audit Fees			\$20,425.00
Bad Debt / Write Off			\$7,348.87
Transition Funding			\$0.00
Refunds			\$0.00
Misc.			\$0.00
Total Disbursements		\$4,158,332.67	\$36,361,100.57

Operating Surplus / Deficit (661,297.91) (\$20,018.22)

Fund Balance as of:	October 2018	Accounts
Opening Balance	\$212,540.96	Checking \$60,977.98
Transition Reserve	\$0.00	Investment 1 \$28,473.35
YTD Operating Surplus / Deficit	(\$20,018.22)	Investment 2 \$103,071.41
Closing Fund Balance	\$192,522.74	\$192,522.74

Arkansas High Cost Fund

The procedures used to develop the annual determination of funds to be distributed to ETCs are dictated by A.C.A. § 23-17-404.

The AHCF was developed to provide Arkansans in all areas of the state access to a baseline level of service. The goals of universal service, at federal and state levels, are to provide:

- quality service available at affordable rates;
- increased access to advanced telecommunication services (including broadband);
- availability of service to all Arkansans, including those in low income, rural; insular and high cost areas at rates that are reasonably comparable to the rates charged in urban areas;
- increased access of advanced telecommunications services in schools, libraries, and rural health facilities; and
- equitable fees for service from all providers of telecommunications services to the fund supporting universal service programs.

The AHCF was designed to accommodate the unique needs for support in rural areas. Following the initiation of the AHCF, telecommunications, including broadband, have improved and expanded in rural areas accordingly.

Infrastructure Investment

Infrastructure investments in the local service areas are made by ETCs two years prior to the disbursement of any funds for which the company is eligible. Following infrastructure investment, a cost per loop is determined to represent the investment made by each company. Cost per loop has historically been calculated using publicly available federal reports filed with the National Exchange Carrier Association (NECA) and the Universal Service Administration Company (USAC). After the Federal Communications Commission (FCC) established the Alternative Connect America Model (ACAM), companies participating in that program are required to supply cost data in the same format with supporting documentation directly to the AHCF administrator. The Arkansas companies participating in ACAM are Arkansas Telephone Company; Mountain View Telephone; Ritter Telephone Company; Scott County Telephone Company; Tri-County Telephone Company; Walnut Hill Telephone Company; and Yelcot Telephone Company. CenturyLink and Windstream similarly supply information to the AHCF administrator through their participation in the Connect America Fund (CAF).

For all other Category 1 companies, as defined in state statute, the investment information is submitted and used in federal high cost algorithm calculations to determine cost per loop, eligible subscriber counts and federal high cost fund support. The cost data continues to be received from NECA and USAC and is publicly available for use in AHCF calculations of each company's cost per loop. The cost data is also booked into each company's regulated general ledger as required by federal law, FCC rules and regulations, Part 32, 36, 64, and 69. In recent years, increased capital investments made by the companies began to outpace the amounts available through the AHCF due to cap limitations.

Federal Determination of Cost Per Loop

There is a predetermined process to qualify infrastructure investments that affect the cost per loop calculations for each company with the following processes and costs to be included in eligible cost calculations:

- Engineering design fees related to an infrastructure project;
- Application process / loan acquisition U.S. Department of Agriculture (USDA) Rural Utilities Services (RUS) or a commercial lending institution;
- USDA, RUS, or commercial lending institution formal review of infrastructure design;
- Preparation of formal loan revenue projections;
- Development of a detailed financial pro-forma;
- Construction of the network (infrastructure investment is entered in the company's general ledger based on FCC part 32 rules and regulations requiring that only approved costs are included);
- Each company prepares an annual universal service data submission, based on the general ledger balances. The submission of the company data is subject to review and audit from NECA, USAC, and the FCC. The submission of data by ACAM and CAF 1 funded companies goes directly to the AHCF administrator;
- For each company, USAC calculates an average cost per loop (investment and support required to run telecommunication infrastructure lines to a customer location from the company's central office); and
- USAC calculates federal universal service support for each company.

The AHCF administrator follows the prescribed statutory formula (use of the total cost per loop, adding a local switching component, subtracting federal support and an amount attributed to local service revenue) to make the required calculations in determining universal service support that is provided back to the companies from the fees they pay into the fund.

AHCF Company Assessments

Each company that provides intrastate retail telecommunications services in the state of Arkansas is required to pay an assessment based on those intrastate revenues on a monthly, quarterly, or annual basis. Each company must submit a report listing the amount of intrastate revenue they received the prior month, or period, and pay the assessment based on those reported revenues. As stated in § 23-17-404(b)(2)(A)(i), this AHCF charge for all telecommunications providers shall be proportionate to each provider's Arkansas intrastate retail telecommunications service revenues.

A.C.A. § 23-17-404(b)(2)(ii)(B) further states 'Because customers of the telecommunications providers that would pay the AHCF charge receive the benefits of a universal network, the telecommunications providers may surcharge their customers to recover the AHCF charges paid by the telecommunications provider.'

