

Division of Telecommunications

Annual Financial Report to the Governor and Legislature

July 2017 – June 2018

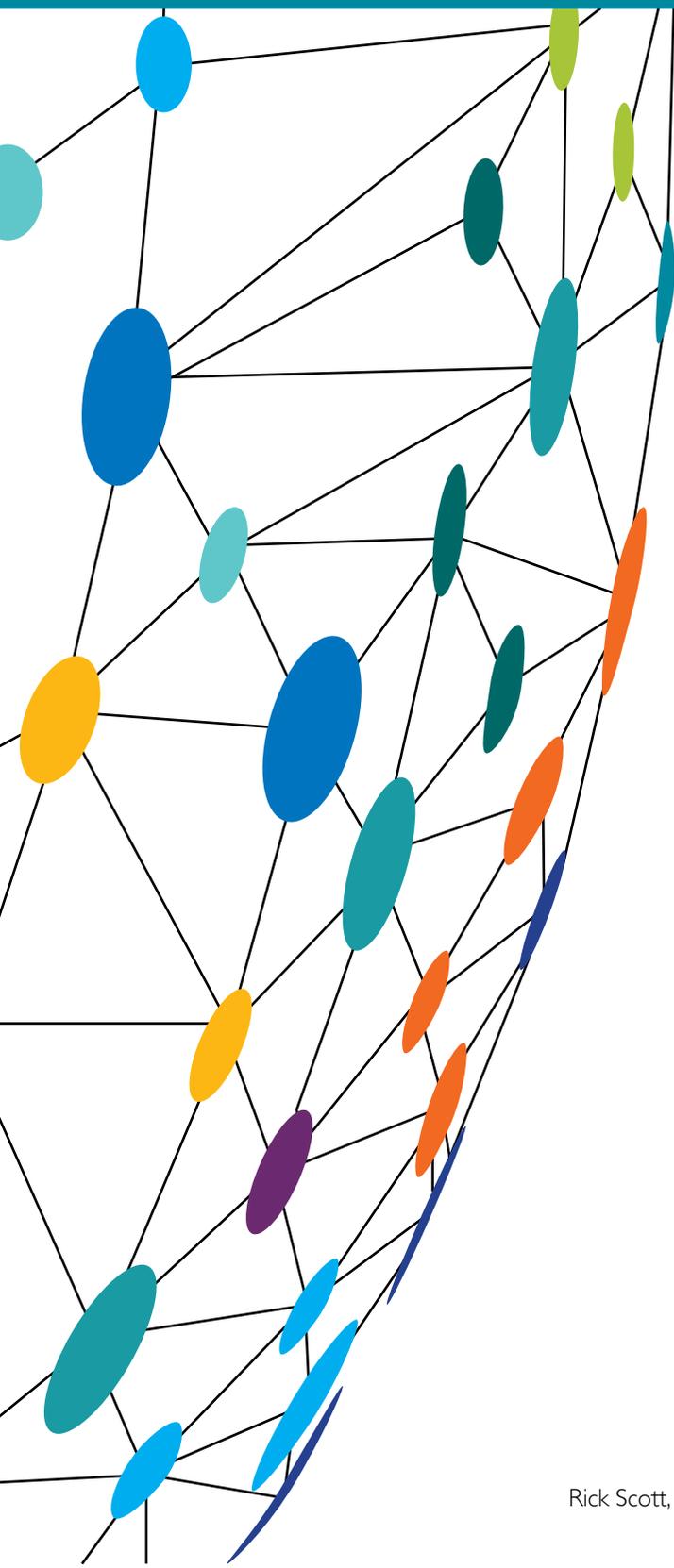


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Purpose of this Report

This report is submitted in compliance with subsection 282.702(15), Florida Statutes, which states the following:

“...The department shall annually submit to the Governor, the President of the Senate, and the Speaker of the House of Representatives a report that describes each service and its cost, the billing methodology for recovering the cost of the service, and, if applicable, the identity of those services that are subsidized.”

The subject of this report is limited to the department’s duties as outlined in sections 282.702 and 282.703, Florida Statutes, which address SUNCOM services.

SUNCOM Mission

Engineered and managed by the Division of Telecommunications (DivTel), the SUNCOM Network is Florida’s enterprise telecommunications system for providing local and long-distance voice, data, video, and radio traffic services to state agencies, political subdivisions of the state, municipalities, and qualified nonprofit corporations. In accordance with subsection 282.703(1), Florida Statutes, state agencies cooperate and assist in the development and joint use of SUNCOM telecommunications systems and services.

As provided in subsection 282.702(8), Florida Statutes, SUNCOM’s primary purpose is to manage and approve the purchase, lease or acquisition and the use of telecommunications services, software, circuits, and equipment provided as part of any other total telecommunications system to be used by the state or its agencies. To accomplish this, in accordance with subsection 282.702(4), Florida Statutes, SUNCOM establishes contracts with telecommunications service providers to provide these services to the state. These service provider contracts are the foundation on which agencies build their infrastructures in compliance with technical standards established by rule, per subsection 282.702(2), Florida Statutes. These contracts and strategies ensure the interconnection and operational security of networks and information systems for SUNCOM users.

The aggregation of state agencies’ telecommunications needs provides cost savings through economies of scale, volume discounts, and a centralized pool of engineering and technical expertise focused on delivering telecommunications solutions that meet the agencies’ requirements. The aggregation also brings transparency and accountability to the procurement, provisioning, and financial processes necessary to perform these duties.

SUNCOM Services

In subsection 282.703(2), Florida Statutes, the department is charged with designing, engineering, implementing, managing, and operating, through state ownership, commercial leasing, contracted services, or some combination thereof, the facilities, equipment, and contracts that provide SUNCOM Network services. Furthermore, this section calls for the development of a system of equitable billings and charges for telecommunications services.

Subsection 282.702(15), Florida Statutes, requires the department to establish policies that ensure the department’s cost recovery methodologies, billings, receivables, expenditures, budgeting, and accounting data are captured and reported timely, consistently, accurately, and transparently and comply with all applicable federal and state laws and rules.

Subsection 282.703(1), Florida Statutes, provides the following: “The SUNCOM Network shall be developed to transmit all types of telecommunications signals, including, but not limited to, voice, data, video, image, and radio.” The following sections contain descriptions of the various SUNCOM services currently available in four broad categories: Telephony, Data, Wireless, and Infrastructure.

Telephony

Telephony services are designed to facilitate transmission of voice or other sound between two or more points, with or without the use of wires.

Centrex Local Phone Service

One service that SUNCOM provides is local phone access, also known as Centrex. Centrex provides features and options such as access to SUNCOM’s long-distance service, caller ID, voicemail, call forwarding, etc. Incumbent Local Exchange Carriers (ILECs), such as AT&T, CenturyLink, and Frontier, provide this SUNCOM local service within their designated calling areas.

SUNCOM’s local service also provides alternatives to Centrex for customers who own and maintain switching equipment on-site through Internet Protocol Private Branch Exchanges (IP-PBXs) or traditional PBX systems. This type of switching equipment moves some of the functions and features from telephone company facilities to customer sites, allowing customers to use shared access lines provided by SUNCOM. Charges for these local phone services and features are fixed monthly fees invoiced through SUNCOM. In fiscal year 2017-18, the total cost for this service was \$22,830,229. During the same period, this service had an operating loss of \$960,475. A portion of this loss was due to customers migrating from Centrex services to more technologically advanced SUNCOM services.

Hosted VoIP Phone Service

SUNCOM also offers, through its telecommunications providers, a Voice over Internet Protocol (VoIP) alternative to traditional phone service. Providers offer their versions of hosted VoIP phone service, which provide standard features of a traditional local phone service plus additional benefits inherent to VoIP technology. Hosted VoIP phone service provides not only local service but also a bundled fixed amount of long-distance calling per line. Phone calls handled through VoIP use data circuits, rather than traditional dedicated phone circuits, to place phone calls. This process is a more economical use of circuits by using them for both computers and phones. Hosted VoIP is an alternative to premise-based VoIP systems and is meant for customers who do not need equipment on-site and who want to avoid a capital purchase or long-term rental. Charges for hosted VoIP phone service and features are fixed monthly fees invoiced through SUNCOM. In fiscal year 2017-18, the total cost for this service was \$7,559,340. During the same period, this service had an operating loss of \$168,910. As the subscriber base for this relatively new service grows, increased utilization will result in future gains.

SIP Trunking Service

SUNCOM SIP Trunk allows communications between an enterprise IP-PBX and telecommunications service providers’ network services. The MyFloridaNet (MFN) data network is the underlying infrastructure that provides secure and reliable access to SIP Trunk service providers. SIP Trunk phone service options provide local service and either unlimited long-distance calling per line or access to long distance. Phone calls handled through SIP use data circuits rather than traditional dedicated phone circuits and it is a more economical process to use circuits for both computers and phones. In fiscal year 2017-18, the total cost for this service was \$1,598,970. During the same period this service had an operating gain of \$68,949. As the subscriber base for this relatively new service grows, increased utilization will result in future gains.

STEPS

The SUNCOM Telephony Equipment Premises-Based Services (STEPS) program offers telephone switching equipment known as IP-PBXs, which moves some of the functions and features from a telephone company's central office to the customer's premises. These IP-PBXs give customers more direct control over features such as voicemail and call routing within their organization. This technology is replacing legacy PBXs at an accelerating rate.

Equipment for STEPS can be purchased through a state term contract. SUNCOM no longer offers rental systems to new customers but provides ongoing support and invoicing for existing rental systems for STEPS equipment. In most cases, the equipment requires connections into MFN, the local exchange carrier, and the long-distance carrier. These trunk lines and data circuits are provided by and invoiced through SUNCOM for many customers. In fiscal year 2017-18, the total cost for this service was \$12,928,641. During the same period, this service had an operating gain of \$276,935.

Hosted Contact Center Services

SUNCOM Hosted Contact Center Services offer customers the ability to implement an enterprise-wide Interactive Voice Response (IVR) and Automatic Call Distribution (ACD) service. Services include the following: speech recognition, the ability to retrieve and update real-time information by linking the IVR system to an agency's database (Computer Telephony Integration – CTI), the ability to transfer callers to live agents, and reporting capabilities concerning the operation and effectiveness of the Contact Center system.

Charges associated with the service are based upon usage. Any additional professional services development is priced by the hour. In fiscal year 2017-18, the total cost for this service was \$2,282,341. During the same period this service had an operating loss of \$169,912.

Long-Distance Phone Services

SUNCOM Long-Distance Phone Service allows local service customers to place calls outside a local area throughout the United States and most countries internationally. For large customers, SUNCOM can provide dedicated circuits to make long-distance calls. Smaller customers use SUNCOM's Switched Long Distance at a slightly higher price. Long-distance telephone calls are charged incrementally (per minute) on monthly invoices. In fiscal year 2017-18, the total cost for this service was \$2,239,454. During the same period, this service had an operating gain of \$191,249.

Toll-Free Phone Services

SUNCOM Toll-Free Phone Service offers customers the ability to establish in-bound toll-free services. Customers can designate toll-free numbers for in-state, national, and (limited) international toll-free calls. Offered with many enhanced service feature options, this SUNCOM service terminates on local telephone lines/trunks and is handled like any other incoming telephone call. Toll-free telephone calls are charged incrementally (per minute) on monthly invoices through SUNCOM. In fiscal year 2017-18, the total cost for this service was \$5,558,430. During the same period this service had an operating gain of \$133,800.

Conference Services

SUNCOM offers three conference services. In fiscal year 2017-18, the total cost for these services was \$1,114,129. Combined, these three services had an operating gain of \$316,078 in the same period.

Reservationless Voice

SUNCOM Reservationless Voice Conference Service provides on-demand voice conferencing, 24 hours a day, seven days a week, for up to 150 participants, without the need to make a reservation. Reservationless sessions are charged incrementally (per user/per minute) on monthly invoices through SUNCOM.

Video

SUNCOM provides video bridging and gateway services that enable real-time audio and video interaction between three or more locations equipped with video conference equipment.

Customers are invoiced through SUNCOM per hourly session. Many state agencies elect to accommodate video teleconferences using SUNCOM (MFN) data circuits and their own equipment.

Web

Web conferencing is used to conduct live meetings, trainings, or presentations via the Internet. This enables customers to share projects, data, presentations, and ideas from and to any computer connected to the Internet, with or without a telephone, if the computer is equipped for voice communications. Charges for web conferencing are fixed monthly fees that are billed to the conference sponsors and invoiced through SUNCOM.

Data

To meet the growing demand for cloud-based services, network applications, and internet access, the State of Florida network infrastructure must provide sufficient functionality and reliability. The following services are designed to satisfy these growing demands.

MyFloridaNet (MFN)

The technology at the core of MFN, known as Multi-Protocol Label Switching (MPLS), is considered the current standard for robust enterprise data networks. When MFN was implemented through SUNCOM, it combined the best features of several of SUNCOM's existing data services into one. The result was a data service with even more features, better security, and higher reliability at a lower cost. Through MFN, customers can get equipment and local access to a dedicated enterprise network and the Internet, with the independent ability to design and manage their subnetworks, make connections, and monitor their security, regardless of their location within the state. Charges for data communications circuits and features are fixed monthly fees invoiced through SUNCOM. In fiscal year 2017-18, the total cost for this service was \$53,068,787. During the same period, this service had an operating loss of \$1,213,068. This service is in the process of being migrated to the newest generation of networks, MyFloridaNet-2 (MFN-2).

Virtual Private Network (VPN)

SUNCOM's VPN service provides customers with remote access to a state network through the Internet. User data is encrypted then encapsulated for transport through what is termed an "encrypted tunnel." The encrypted tunnel protects passing data from intrusion by using strong encryption and user authentication of remote users or host devices while masking information about the private network topology. A VPN may exist between an individual machine and a private network (Client-to-LAN) or a remote network and a private network (LAN-to-LAN). In fiscal year 2017-18, the total cost for this service was \$1,176,683. During the same period, this service had an operating loss of \$557,090. This loss will be addressed with the migration to MFN-2 VPN.

Remote Broadband Services (RBS)

SUNCOM's RBS provides customers with access to the Internet from locations outside large customer offices. RBS uses the latest business grade, rather than consumer grade, broadband transport. RBS provides cost-effective remote broadband access via Digital Subscriber Lines (DSLs), which is digital data transmission over local telephone wires. Charges for RBS circuits are fixed monthly fees invoiced through SUNCOM. In fiscal year 2017-18, the total cost for this service was \$354,050. During the same period, this service had an operating loss of \$99,525. The effort to add higher bandwidth offerings on RBS is currently underway via a new contract, RBS-2, and is expected to increase the number of subscribers to the service and thereby move toward reducing this operating loss.

Florida Information Resource Network (FIRN)

The Florida Information Resource Network provides data communications to K-12 schools. Schools pay for FIRN services almost exclusively through a federal subsidy program known as E-Rate. These E-Rate subsidies come from the Universal Service Fund (USF), which is financed through fixed fees charges to every user of telecommunications services throughout the U.S. Charges for FIRN services are fixed monthly fees invoiced through SUNCOM. In fiscal year 2017-18, the total cost for this service was \$5,733,871. During the same period, this service had an operating loss of \$268,540. This loss will be addressed with the migration to MFN-2 FIRN.

Southwood Shared Resource Center (SSRC) Wide Area Network (WAN) Access

Almost all servers in the SSRC need to communicate outside the building, which requires a WAN connection. SUNCOM meters usage by each customer to achieve substantial enterprise savings and an equitable chargeback model. Customers are charged monthly by SUNCOM for their incremental use of this service (per gigabyte). In fiscal year 2017-18, the total cost for this service was \$262,645. During the same period, this service had an operating gain of \$366,461.

Capital Circle Office Complex (CCOC) Local Area Network (LAN) Port Service

The CCOC LAN port service provides access to resources such as servers, applications, and printers through data ports on LAN switches installed in the CCOC. Customers are billed a fixed cost for each port. In fiscal year 2017-18, the total cost for this service was \$55,762. During the same period, this service had an operating gain of \$84,748.

Wireless

This category of telecommunications service is designed to facilitate the wireless transmission of voice and data.

Wireless Data Services

SUNCOM's AirCard service gives laptop computers mobile access to the internet or the state network through SUNCOM's secure and encrypted VPN service. Charges consist of fixed monthly fees billed through SUNCOM. Additionally, cell phone services are also included in this contract. In fiscal year 2017-18, the total cost for this service was \$4,173,542. During the same period, this service had an operating gain of \$905,963.

Infrastructure

This category of service involves facilitating the installation of low-voltage cabling requirements for telecommunications systems in new construction or renovation projects. This category of service is unique because SUNCOM's statutory authority and business model do not include services within a building infrastructure or campus infrastructure beyond the point where a building or campus connects to the state network, in accordance with subsection 282.0041(24), Florida Statutes.

Telecommunications Infrastructure Project Services (TIPS)

The Telecommunications Infrastructure Project Services assists customers in procuring, installing, and project-managing telecommunications infrastructure (e.g., cabling and wires) for telecommunication services, including: voice, data, video, closed-circuit TV, imaging, and wireless LAN within a building or campus. TIPS also establishes contracts, monitors performance of vendor installations, and simplifies contracting and project management with a single point of contact from start to finish. SUNCOM invoices customers on an individual case basis for the time and material associated with the entire job. In fiscal year 2017-18, the total cost for this service was \$2,357,246. During the same period, this service had an operating loss of \$147,433. The SUNCOM team will actively work to increase usage among agencies; however, it should be noted that TIPS is a non-mandatory service, and agencies are currently free to procure these services independently.

SUNCOM Cost Accounting The Cost Recovery Model

In compliance with the statutory requirement to "develop a system of equitable billings and charges for telecommunications services" stated in subsection 282.703(2), Florida Statutes, SUNCOM uses a cost recovery method to establish rates for each service. Approximately 93.6 percent of SUNCOM's costs are payments to contracted telecommunications vendors. The remaining 6.4 percent pays for the costs of engineering, designing, procuring, ordering, installing, monitoring, auditing, invoicing, and managing these services. These support service costs are added to vendor charges for SUNCOM services. Some services bear more of these costs than others based upon the relative share of support service resources committed to sustaining the service. The underlying goal of the cost recovery model is to ensure the solvency of the Communications Working Capital Trust Fund.

Rate Reductions and Customer Credits

The convergence of technology presents a constant budgeting challenge when it comes to predicting service utilization. Per subsection 282.702(15), Florida Statutes, SUNCOM captures expenditures associated with the telecommunications services it provides. Each quarter, SUNCOM staff and DivTel's Director review a report to ensure the established service rates are appropriate. Two methods are used to address any inequity identified upon review of these quarterly figures: rate reductions and customer credits.

Rate Reductions

A reduction in the rates associated with SUNCOM's telecommunications services results in recurring savings for existing customers of the affected service and cost avoidance for future customers. The fiscal impact of a rate reduction requires adequate consideration of both existing and future market conditions associated with the SUNCOM service.

With the maturity and growth of SUNCOM's Wireless Data Service, we are experiencing an increase in revenues. As a result, SUNCOM is in the process of implementing rate reductions for Wireless Data Service customers.

Customer Credits

A customer credit is a one-time liquidation of excess revenue without any associated rate reduction. Customer credits are issued when a service achieves unanticipated excess revenue over expenses. Through customer credits, SUNCOM can ensure equitable billings without risking its ability to sustain a service over the long term.

The SUNCOM'S Wireless Data Service is a stable service with low overhead. As a result, multiple credits to its Wireless Data Service customers were issued totaling \$1,400,000.

SUNCOM provided credits to its toll-free customers of \$500,000.

Support of the Florida Government Enterprise

Statutory language requires SUNCOM to provide support for several ongoing enterprise-wide services for which costs have been recovered by distributing them over other billable services.

State Directory Information

Subsection 282.703(4), Florida Statutes, requires the department to maintain a directory of information and services, including the names, phone numbers, and email addresses for employees, agencies, and network devices served by the SUNCOM network.

Starting in 1986, SUNCOM published lists of state telephone numbers and staffed an information line (866-693-6748 toll-free or 850-488-1234 from within Tallahassee) to help callers contact state offices and employees. SUNCOM was also the source of Florida government listings to all local telephone book publishers throughout the state.

The printed SUNCOM telephone book was replaced in 1996 by a website (http://411.myflorida.com/apps/411/tel411.public_411), but SUNCOM personnel continue to answer callers' questions when they call state information and to provide local phone number listings in accordance with statutory requirements. These individuals also work as lobby receptionists, checking in visitors for two buildings in the Capital Center Office Complex for the Department of Management Services. The costs associated with these activities are comprised of contracted services, rent, supplies, and the salaries associated with administration and oversight of the function. The total cost is approximately \$235,890 per fiscal year.

State Emergency Services Telecommunications

Subsection 282.702(7), Florida Statutes, directs the department to cooperate with any federal, state, or local emergency management agency in providing for emergency telecommunications services. This assigns DivTel responsibility for supporting Florida's emergency telecommunications services, which is the Emergency Support Function-2 (ESF-2) in the Division of Emergency Management's Comprehensive Emergency Plan. This means that any of DivTel's staff, services, and assets are available to help during a disaster, and that DivTel must sustain disaster preparedness including planning, preparing, and coordinating with other entities. During fiscal year 2017-18, DivTel paid telecommunication provider's invoices of \$745,478 to support a call center for Hurricane Irma and Maria.