

## Staff Briefing Papers

Meeting Date	November 21, 2024	Agenda Item 1 *
Company	All Local Exchange Carriers	
Docket No.	P999/CI-24-253	
	<b>In the Matter of Telephone Assistance Plan (TAP) Review</b>	
Issues	Should the Commission accept the Telephone Assistance Plan (TAP) Fund Review submitted on September 25, 2024, for the Six-Month Period Ending June 30, 2024?	
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### Relevant Documents

### Date

<b>Report-Telephone Assistance Plan (TAP) January 1, 2024, through June 30, 2024</b>	September 25, 2024
<b>Comments of the Minnesota Department of Commerce</b>	October 17, 2024
<b>Comments of the Minnesota Department of Commerce Spreadsheet Attachment A</b>	October 17, 2024
<b>Reply Comments of the Minnesota Telecom Alliance (MTA)</b>	October 25, 2024

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## I. Statement of the Issues

Should the Commission accept the Telephone Assistance Plan (TAP) Fund Review submitted on September 25, 2024, for the Six-Month Period Ending June 30, 2024?

## II. Background

The Telephone Assistance Plan (TAP) is a state program that gives financial support to eligible telephone subscribers through discounts or bill credits, currently at \$10.00 per month. TAP is funded through a monthly surcharge, currently at \$0.03 per month, collected by local service providers on a per-access-line basis from their customers.<sup>1,2</sup>

Local service providers remit surcharge revenues to the Department of Public Safety, which deposits the funds into the state TAP Fund. Under Minn. Stat. §§ 237.69 -71, the Commission administers the TAP program, reimbursing local service providers for credits issued to subscribers and for reasonable administrative expenses.

TAP complements the similar federal Lifeline program which gives a corresponding monthly credit up to \$9.25 to eligible subscribers<sup>3</sup> (\$34.25 on tribal lands)<sup>4,5</sup>. Lifeline is the low-income component of the federal Universal Service Fund, funded through contributions from Eligible Telecommunications Carriers (ETCs) and which are passed on to their eligible customers. By law, TAP eligibility is identical to Lifeline's. (See Minn. Stat. § 237.70, subd.3)

The Commission is also charged with determining both the amount of the credit and the amount of the surcharge, subject to statutory maximums. (See Minn. Stat. § 237.70, subd. 7 (d))

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<sup>1</sup> On January 22, 2021, the Commission issued its Order Modifying Monthly TAP Program Credit and Surcharge and Reconvening Advisory Group in Docket No. P999/CI-20-665. In that Order, the TAP credit increased from \$7.00 to \$10.00 per month. The monthly TAP surcharge, which funds the TAP program, decreased from \$.10 to \$.07 per access line, to be effective on April 1, 2021.

<sup>2</sup> In an Order dated December 20, 2021, in Docket No. P-999/CI-21-72, the Commission maintained the TAP credit at \$10.00 per month and the surcharge at \$0.07 per line per month through 2022. Likewise, in an Order dated December 29, 2022, the Commission reduced the monthly per access line surcharge from \$0.07 to \$0.03.

<sup>3</sup> Eligible consumers can get up to \$9.25 towards phone or internet services.

<sup>4</sup> Tribal Lands Lifeline provides a monthly discount of up to \$34.25 off the cost of one telephone service, broadband Internet service, or bundled services (either wireline or wireless). This discount is up to \$9.25 (which is available to all eligible low-income subscribers across the United States) plus up to an additional \$25 (which is available only to eligible low-income subscribers living on Tribal lands).

<sup>5</sup> On July 3, 2024, the Wireline Competition Bureau (Bureau) extended, for one year, the pause of the phase-out of Lifeline support for voice-only services. As such, the basic Lifeline support of \$5.25 remains available to eligible consumers who subscribe to voice-only service until December 1, 2025.

(1) and (2)). Commission rules require it to examine credit and surcharge levels at least annually (See Minn. R. 7817.0500) and authorize it to adjust those levels at any point on a 45 days' notice. (See Minn. R. 7817.0700)

On September 25, 2024, the Commission's TAP Administrator filed the TAP Fund Review covering the six-month period ending on June 30, 2024.

On September 30, 2024, the Commission issued a Notice of Comment period on the TAP budget.

On October 17, 2024, Comments on the TAP budget were filed by the Minnesota Department of Commerce (Department).

On October 25, 2024, reply comments were filed by the Minnesota Telecom Alliance.

### **III. Comments**

#### **Department**

##### **A. TAP Fund Credit and Surcharge**

The Department prepared Attachment A to estimate the impact on the fund balance, through the end of the current fiscal year, of various levels of TAP surcharges assuming the TAP credit of \$10.00 is maintained at the same level. The estimates, included in the spreadsheet, do not account for monthly variations in TAP subscribership, variances between the dates on which carriers collect TAP fees from landline customers and the dates that carriers remit TAP funds to the Minnesota Department of Public Safety, and the dates on which the carrier remittances are placed in the TAP Fund. While the spreadsheet has limitations, it indicates that the fund balance will be reduced over the next year if no increase is made to the existing TAP surcharge.

The TAP Fund balance was \$3.5 million as of June 30, 2023. The current balance as of June 2024 is \$3.2 million. The level of the Fund balance may support a further a reduction in the TAP surcharge. Even with a \$.01 surcharge, the TAP Fund balance is projected to significantly exceed the threshold level necessary to cover the projected credits and expenses of administering the TAP fund. If no changes are made, it is estimated that the fund balance will decline by approximately \$637,000 by June 30, 2025. According to the Department's estimates, the TAP fund balance would increase through the end of the current fiscal year, if the TAP surcharge is increased to \$.09 or \$.10 per month.

Through the end of the current fiscal year, the TAP fund balance increases because of the estimated increase in the interest rate on the TAP fund balance. The interest earned on the TAP fund balance during the fiscal year ending in June 2022 to the 2023 fiscal year has increased from \$10,850 to \$96,470. This jump represents a 789.4 percent increase from year-to-year. The

uptick in earned interest is due to increases in interest rates applied to the TAP fund balance, which are expected to continue at least through the end of the current fiscal year. The recent increase in the interest rates may be explained by the Federal Reserve's raising of the federal funds rate to mitigate inflation.

Administrative and other expenses have been relatively constant in recent years. For fiscal years 2022 and 2024, administrative expenses range between 5 and 6 percent of total expenditures. The Department has no concerns with the calculations of administrative and other expenses in Commission Staff's September 25, 2024 TAP memo for the six-month period ending June 30, 2024.

The balance in the TAP Fund is significant enough to sustain approximately two years' worth of TAP credits, at the existing TAP subscribership level, with no TAP surcharge. The Commission was faced with this same situation in Docket P999/CI-22-478 and decided to reduce the TAP surcharge from \$.07 per line to \$.03 per line in its December 29, 2022, Order. The reduction in the TAP surcharge to \$.03 per line then went into effect on April 1, 2023.

Ideally, the combination of TAP credit and surcharge should result in a stable fund balance, but given the size of the current fund balance, consideration could be given to further decreases in the surcharge. However, (1) the projected TAP fund balance is expected to drop significantly by June 30, 2025, if the current credit and surcharge levels are maintained and (2) the total access line count paying surcharges into the TAP fund has dropped, significantly, by approximately 8.7% from December 31, 2023, to June 30, 2024, and it is uncertain whether similar reductions will occur in the next year. The Department believes that these two factors are related. Therefore, the Department does not recommend additional reductions in the TAP surcharge until additional time has passed, to ascertain whether the total access line count (paying surcharges into the TAP fund) might stabilize.

Therefore, the Department recommends that the Commission maintain the existing TAP fund credit and surcharge. Please see pages 2 through 4 of the Department's October 17, 2024, comments.

## **B. Increasing the TAP Subscribership through Advertising and Outreach**

The Department indicated that it is especially important to consider focused outreach measures for low-income Minnesotans, particularly to those individuals who choose not to subscribe to Internet service. In addition, outreach on tribal lands may assist with the enrollment uptake of another vulnerable demographic group. The Department is continuing to review ways to increase TAP subscribership through advertising and outreach efforts and will report its recommendations in future comments. For the Department's complete discussion regarding advertising and outreach, please see pages 4 through 5 of the Department's October 17, 2024, comments.

### Minnesota Telecom Alliance (MTA)

The MTA indicated that it is pleased to agree with the Department's comments in this docket. The MTA believes, given the surplus in the Telephone Assistance Plan (TAP) and the steady decrease in landline telephone access lines, it makes sense to keep the benefit at \$10 and keep the fee at \$.03 per access line. The MTA fully supports the Department's recommendation.

## IV. Staff Analysis

### TAP Credit and Surcharge Levels

As part of their comments in this docket, the Department filed a spreadsheet providing various surcharge levels and a \$10 TAP credit.<sup>6</sup> Staff highlights just a few of those scenarios with a \$10 credit assumed on a going-forward basis. The Table below provides the various surcharge levels, annual surcharge revenue, and monthly credit amounts projected for 6/30/2024 to 6/30/2025:

Surcharge Amount	Projected Annual Surcharge Revenue	Monthly Credit July 2024 to June 2025	Annual Projected Credits	Fund Balance	
				6/30/2024 (Actual)	6/30/2025 (Projected)
				6/30/2025	
\$0.10	\$ 1,083,829	\$10.00	\$ 1,082,760	\$3,199,557	3,341,040
\$0.09	\$ 975,446	\$10.00	\$ 1,082,760	\$3,199,557	3,229,839
\$0.08	\$ 867,063	\$10.00	\$ 1,082,760	\$3,199,557	3,118,638
\$0.07	\$ 758,680	\$10.00	\$ 1,082,760	\$3,199,557	3,007,437
\$0.06	\$ 650,297	\$10.00	\$ 1,082,760	\$3,199,557	2,896,237
\$0.05	\$ 541,914	\$10.00	\$ 1,082,760	\$3,199,557	2,785,036
\$0.04	\$ 433,532	\$10.00	\$ 1,082,760	\$3,199,557	2,673,835
\$0.03	\$ 325,149	\$10.00	\$ 1,082,760	\$3,199,557	2,562,634
\$0.02	\$ 216,766	\$10.00	\$ 1,082,760	\$3,199,557	2,451,433
\$0.01	\$ 108,383	\$10.00	\$ 1,082,760	\$3,199,557	2,340,232

<sup>6</sup> The DOC's analysis assumes that the number of funding access lines will range between 944,064 (6/30/2024) and 862,317 (6/30/2025), and the number of TAP subscribers will remain constant at 9,023.

As was discussed by the Department, the TAP fund balance is significant enough to sustain approximately two years' worth of TAP credits, at the current subscribership level, with no TAP surcharge. At the present time, if the Commission wishes to reduce the TAP fund balance, a reduction in the surcharge appears to be the most practical method of accomplishing that goal.<sup>7</sup> However, if no changes are made, it is estimated that the fund balance will decline by \$636,923 by June 30, 2025. As such and agreed to by the parties, the Commission may wish to leave the TAP credit at \$10.00 and the surcharge at \$0.03 per line per month. Staff finds this is appropriate given the recent reduction in the surcharge from \$0.07 to \$0.03 that became effective April 1, 2023.

## V. Decision Options

1. Maintain the current TAP Credit level of \$10.00 per line per month and surcharge of \$0.03 per access line per month. (All Parties, Staff) **OR**
2. Modify the monthly TAP credit and/or surcharge. Delegate authority to the Executive Secretary to issue a notice setting the deadline for the credit and surcharge changes on telephone bills.

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<sup>7</sup> In the 2021 TAP budget review, Docket No. P999/CI-21-72, the MTA informed the Commission that for companies that participate in the Connect America Fund Basic Loop Support (CAF-BLS), they must have local service rates at or above \$30 per month to maintain program support eligibility. As the state TAP subsidy increases, it can act to lower the Access Recovery Charge (ARC) calculation below \$30. Somewhat ironically, the affected LECs will then be required to increase local rates to maintain a rate at or above \$30. While this amount will vary by company the somewhat rigorous customer notice requirements for LEC rate increases in Chapter 237 will be triggered, quite often to reflect nominal rate increases of only a few cents. Reply comments of the Minnesota Telecom Alliance at page 1 in Docket No. P999/CI-21-72.