

Minnesota Public Utilities Commission
Staff Briefing Papers

Meeting Date: **August 20, 2015***Agenda Item # 2

Companies: All Local Service Providers

Docket No. **P999/CI-15-535**

In the Matter of the Telephone Assistance Plan (TAP) Annual Review

- Issues:**
1. Should the Commission accept the TAP reports?
 2. What if any changes should the Commission make to the benefit and/or surcharge levels?

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Relevant Documents

Order Accepting 2013 TAP Reports and Retaining Benefit and Surcharge Level (14-470).....
..... September 8, 2014

Revised TAP Reports for CY 2014 July 14, 2015

The attached materials are work papers of the Commission Staff. They are intended for use by the Public Utilities Commission and are based upon information already in the record unless noted otherwise.

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Statement of the Issues

1. Should the Commission accept the TAP reports?
2. What if any changes should the Commission make to the benefit and/or surcharge levels?

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 \$3.50 per month. TAP is funded through a monthly surcharge, now at \$0.03 per month, collected by local service providers on a per access line basis from their customers. Local service providers remit surcharge revenues to the Department of Public Safety, which deposits the funds into the state TAP Fund.

TAP complements the federal Lifeline program which gives a corresponding monthly credit up to \$9.25 to eligible subscribers. Lifeline is the low-income component of the federal Universal Service Fund, funded through contributions from telecommunications carriers and which are passed on to their customers. By law, TAP eligibility is identical to Lifeline's.

The Commission administers TAP, reimbursing local service providers for credits issued to subscribers and for reasonable administrative expenses. All local service providers are required to file reports at least annually detailing the number of lines served and surcharge revenues remitted, the number of TAP subscribers, credit disbursements, and associated expenses. These reports are now electronically compiled and provide the data source of the TAP report summarized in the Attachment.

On September 8, 2014, the Commission retained the current levels of TAP benefit and surcharge, noting that the funding appeared sufficient to meet current demands at that time.

On July 14, 2015, the 2014 TAP Reports were submitted by the Administrator. The Reports included a couple of companies that were inadvertently omitted in the earlier filing.

The Reports consist of:

- 1) the Administrator's summary of fund data collected from the database, compared with relevant fund balance, collections and expenditure data gathered from the state's accounting system called Swift, and with remittances reports collected by the Department of Public Safety, the state agency handling the surcharge collections for TAP, TAM, and 911; and
- 2) the summarized compilation of the local telephone service providers' periodic reports filed with the Commission.

Applicable Law

Pertinent sections of Minnesota law related to TAP include:

237.70 DEVELOPMENT OF TELEPHONE ASSISTANCE PLAN.

Subd. 1. Commission responsibility.

The commission shall develop a telephone assistance plan under this section.

Subd. 2. Scope.

The telephone assistance plan must be statewide and apply to local service providers that provide local exchange service in Minnesota.

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Subd. 4a. Household eligible for credit.

The telephone assistance plan must provide telephone assistance credit for a residential household in Minnesota that is eligible for the federal Lifeline telephone service discount.

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Subd. 6. Funding.

The commission shall provide for the funding of the telephone assistance plan by assessing a uniform recurring monthly surcharge, not to exceed ten cents per access line, applicable to all classes and grades of access lines provided by each local service provider in the state.

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Subd. 7. Application, notice, financial administration, complaint investigation.

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(d) The commission shall serve as the coordinator of the telephone assistance plan and be reimbursed for its administrative expenses from the surcharge revenue pool. As the coordinator, the commission shall:

- (1) establish a uniform statewide surcharge in accordance with subd. 6;
 - (2) establish a uniform statewide level of telephone assistance plan credit that each local service provider shall extend to each eligible household in its service area;
 - (3) require each local service provider to account to the commission on a periodic basis for surcharge revenues collected by the provider, expenses incurred by the provider, not to include expenses of collecting surcharges, and credits extended by the provider under the telephone assistance plan;
 - (4) require each local service provider to remit surcharge revenues to the Department of Public Safety for deposit in the fund; and
 - (5) remit to each local service provider from the surcharge revenue pool the amount necessary to compensate the provider for expenses, not including expenses of collecting the surcharges, and telephone assistance plan credits. When it appears that the revenue generated by the maximum surcharge permitted under subdivision 6 will be inadequate to fund any particular established level of telephone assistance plan credits, the commission shall reduce the credits to a level that can be adequately funded by the maximum surcharge. Similarly, the commission may increase the level of the telephone assistance plan credit that is available or reduce the surcharge to a level and for a period of time that will prevent an unreasonable overcollection of surcharge revenues.
- (e) Each local service provider shall maintain adequate records of surcharge revenues, expenses, and credits related to the telephone assistance plan and shall, as part of its annual report or separately, provide the commission and the Department of Commerce with a financial report of its experience under the telephone assistance plan for the previous year. That report must also be adequate to satisfy the reporting requirements of the federal matching plan.
- (f) The Department of Commerce shall investigate complaints against local service providers with regard to the telephone assistance plan and shall report the results of its investigation to the commission.

DISCUSSION OF ISSUES

Issue 1. Should the Commission accept the CY 2014 TAP reports?*Staff Analysis*

The Commission first implemented TAP's electronic database in 2010. It has allowed for easier administration and improved recording and reporting of required data from the local service providers to TAP. The database compiles the periodic reports (monthly, quarterly or annually) filed by local service providers, and is the source of the TAP Reports contained in the record. It aggregates the companies' reported data on number of access lines and TAP subscribers, remittances, and TAP reimbursements to companies for customer credits and allowed administrative expenses.

The highlights of the CY 2014 TAP report, with comparative data for the previous year, are:

Description	Source of Data/Period	2013	2014
No. of Access Lines	TAP database	1,948,566	1,885,102
No. of TAP Subscribers	TAP database	40,412	33,802
Amount of Surcharge	Jan-Sept	\$ 0.06	\$ 0.03
	Oct-Dec	\$ 0.03	\$ 0.03
Amount of Credit	Jan-Sept	\$ 2.50	\$ 3.50
	Oct-Dec	\$ 3.50	\$ 3.50
Fund Balance, end of year	Swift state accounting records	\$ 2,016,810	\$ 1,539,468

The TAP Reports show a consistent decline in both the number of access lines and TAP subscribers.

Staff has reviewed the filed TAP Reports and is confident of the validity and robustness of the data compiled in the TAP database. The number of access lines, for instance, is consistent with industry trends and reports. The number of TAP subscribers follows the huge de-enrollment numbers seen in the Lifeline eligibility survey results in light of the FCC's ruling from the Lifeline Reform Order,¹ where 100 percent of Lifeline (and similarly TAP) subscribers are annually re-certified as to their eligibility. The Fund balance closely tracks the state accounting records and the remittances records from the Department of Public Safety.

¹ FCC REPORT AND ORDER AND FURTHER NOTICE OF PROPOSED RULEMAKING released February 6, 2012 in FCC 12-11.

The TAP administrator's notes, on page 2 of the TAP Reports, explain the discrepancy between the TAP results and other data sources such as the state accounting records, the DPS records, and similar sources.

Commission Options on Issue 1: Should the Commission accept the TAP reports?

- 1.a. Accept the TAP reports.
- 1.b. Other action recommended by parties.
- 1.c. Other action determined by the Commission

Staff Recommendation

Staff recommends 1.a.

Issue 2. What if any changes should the Commission make to the benefit and/or surcharge levels?

Staff Analysis

In overseeing TAP, the Commission's overarching objectives, as reflected in its past decisions, are to ensure that the program meets its goal of helping low-income telephone subscribers pay their telephone bills, as well as to implement the program in a manner that is prudent, sustainable and effective within the financial and logistical conditions prescribed in the statutes.

To satisfy these goals, the Commission periodically reviews TAP's credit and surcharge levels, and the impact of any changes thereof to the fund balance. The following factors are worth considering:

Previous Decision to Drawdown the TAP Fund Balance

On July 10, 2013, the most recent change in the surcharge and credit levels, the Commission directed the increase in credit support to TAP customers from \$2.50 to \$3.50 per month, and the decrease in the surcharge from \$0.06 to \$0.03 per access line per month effective October 1, 2013.² The Commission's action was prompted partly by the desire to drawdown the TAP Fund Balance which was then reported at \$2,439,732 as of March 31, 2013.

² Commission Order Establishing New Credit and Surcharge Levels dated July 10, 2013 in Docket No. P999/CI-13-213.

By choosing a high level of credit support of \$3.50 to eligible low income consumers, coupled with a low \$0.03 surcharge, the Commission acted to immediately drawdown the fund to more reasonable levels. The TAP credit had been in the \$1.75 to \$3.50 range since the program's inception, while the surcharge ranged from \$0.02 to \$0.07 during the same period. In the past, two to three months' cash flow reserve in the fund was deemed reasonable to allow for operational expenditures.

Trends and Developments

The Commission's surcharge and credit determinations would need to consider the inherent risks and variability in the program, including the decline in both revenue base and the pool of participating TAP subscribers. For example, in 2012, access lines were reported at 2.1 million, compared to 2014's 1.9 million. TAP subscribers likewise declined from 72,213 in 2012 to 33,802 in 2014. These result in the downward slope for both collections and expenditures.

Projected TAP Fund Balance

At current credit and surcharge levels, Expenditures exceed Revenues (\$1,511,709 - \$687,169) by \$824,540. If present conditions remain, the Fund would be below the \$1 million mark by the end of 2015.

The following chart shows the projected fund balance for the end of CY 2015 if the Commission retains the surcharge level at \$0.03, and the credit at \$3.50 assuming that line counts and TAP subscription rates and other factors remain the same.

TAP Fund Balance, beginning CY 2015		\$1,539,468
Add: Revenues		
Surcharge Collections (at \$0.03)	\$ 678,636	
Other Revenues, Interest	\$ 8,533	
Total Revenues		\$ 687,169
Less: Expenditures		
Credits (at \$3.50)	\$1,419,684	
Companies' Administrative Exp.	\$ 41,153	
Other Expenses	\$ 50,872	
Total Expenditures		\$1,511,709
TAP Projected Fund Balance, end CY 2015		\$ 714,928

It appears that the TAP Fund is being drawn down as desired. To mitigate results of unforeseen circumstances or any spike in expenditures that may jeopardize the Fund in the coming months, Staff is presenting a couple of options detailed below.

Alternatives for Commission Consideration

A six-month update

Staff has suggested that the Administrator closely monitor the Fund and to submit an updated report for the six months ending June 30, 2015. Staff has learned that the Administrator is prepared to submit this six-month update by September 1, 2015. At that time, the Commission should have better information as to Fund levels, with opportunities to solicit parties' recommendations as to appropriate levels of surcharge and/or credits to maintain a reasonable fund level.

This alternative contemplates the following schedule:

Filing of six-month update by TAP Administrator	September 1, 2015
Deadline for filing comments from interested parties	October 1, 2015
Target Commission meeting date	November 12, 2015
Effective date of approved changes	On or after the January 1, 2016 billing cycle

Implement changes in surcharge and/or credit effective January 1, 2016

Another way to look at it is to be cognizant of the fund's depletion in about 10 months. With the projected annual drawdown of \$824,540, the monthly drawdown is \$68,712. If all things remain the same (mostly numbers of TAP subscribers and line access), funds are expected to be depleted by November of 2016.

The table below shows projected fund balances at the end of CY 2016 if the Commission makes the following changes effective January 1, 2016, based on (1) a surcharge increase from 3 cents by 1 cent increments, and (2) the same surcharge increase in (1) combined with a reduction in credit from \$3.50 to \$3.00.

Projected Fund Balance for December 31, 2016

Changes in Fund Balance Due to Surcharge / Credit Changes	1.Surcharge increase only	2.Surcharge increase +Credit reduction from \$3.50 to \$3.00
Retain surcharge at 3 cents	-\$109,611	\$ 185,226
Surcharge increase from 3¢ to 4¢	\$ 116,655	\$ 411,438
Surcharge increase from 3¢ to 5¢	\$ 342,813	\$ 637,650
Surcharge increase from 3¢ to 6¢	\$ 569,025	\$ 863,862
Surcharge increase from 3¢ to 7¢	\$ 795,258	\$1,090,095

An operating reserve for cash flow requirements of about 3 months is likely needed. Thus, it appears that a surcharge increase to 4 cents or a combination of a surcharge increase to 3 cents

with credit reduction to \$3.00 may be reasonable options. However, these projections are based on CY 2014 TAP numbers, including volatile results for TAP subscribers, and would benefit from more recent data.

Staff is not recommending any change in the surcharge or credit levels at this time. Staff believes that there is an opportunity for the Commission in the near future to choose levels of surcharge and credit that could be sustainable for a longer period of time. And that it would need more timely data from the TAP reports and inputs from interested parties. Staff suggests that the Commission wait for the six-month update of TAP reports.

Commission Options on Issue 2: What if any changes should the Commission make to the benefit and/or surcharge levels?

- 2.a. Retain the current levels of benefit and surcharge at this time.
- 2.b. Approve the following schedule for a six-month update of the TAP reports”

Filing of six-month update by TAP Administrator	September 1, 2015
Deadline for filing comments from interested parties	October 1, 2015
Target Commission meeting date	November 12, 2015
Implementation of changes	On or after the January 1, 2015 billing cycle

Also delegate authority to the Executive Secretary to revise the schedule.

- 2.c. Increase the surcharge level to 5 cents effective January 1, 2016.
- 2.d. Increase the surcharge level to 4 cents and decrease the credit level to \$3.00 effective January 1, 2016.
- 2.b. Other action determined by the Commission.

Staff Recommendation

Staff recommends Options 2.a. and 2.b.