

DECISION MEMORANDUM

TO: COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSIONER KEMPTON
COMMISSION SECRETARY
LEGAL
WORKING FILE

FROM: GRACE SEAMAN

DATE: APRIL 11, 2008

RE: 2007 IDAHO TELEPHONE SERVICE ASSISTANCE PROGRAM ANNUAL
REPORT; CASE NO. GNR-T-08-2.

BACKGROUND

The Idaho Telephone Service Assistance Program (ITSAP) was established by the Idaho Department of Health and Welfare to provide income-eligible recipients with a reduction in costs of telecommunications services. The ITSAP program maximizes federal "lifeline" and "link-up" contributions to Idaho's low-income customers. *Idaho Code* § 56-901. Telephone companies provide assistance in the form of a monthly discount of \$3.50 to eligible subscribers of residential basic local exchange service. *Idaho Code* § 56-902.

To be eligible for the ITSAP program, an applicant must be the head of a household and meet narrowly targeted eligibility criteria established by the Department of Health and Welfare. *Idaho Code* § 56-903. The Idaho Public Utilities Commission determines a uniform statewide monthly surcharge on each end user's business, residential and wireless access service. The surcharge must be an amount sufficient to reimburse each telephone company for the total amount of telephone assistance provided as well as the company's and the administrator's expenses of administering the plan. *Idaho Code* § 56-904.

THE 2007 ANNUAL REPORT

On March 3, 2008, the Idaho Telephone Service Assistance Program (ITSAP) Administrator, Alyson Anderson, filed the annual report for the fiscal year ending December 31, 2007. In general, 2007 saw a drop in local access lines, an increase in wireless lines, and a slight decrease in the

number of ITSAP recipients. Ms. Anderson reported gross revenues from surcharges of \$1,144,820 of which \$464,737 (41%) was assessed on local exchange services and \$680,083 (59%) was assessed on wireless services. Additional revenue for 2007 included accrued interest of \$27,322 from U.S. Treasury notes and a Merrill Lynch CMA-Government Securities Fund. Total fund amount collected with the surcharges and interest for 2007 was \$1,172,142.

The 2007 average number of ITSAP recipients per month (30,448) decreased by 5% from 2006 (32,025). Disbursement credits for eligible subscribers did not show a corresponding decrease due to reporting delays by some telephone companies. Instead, disbursement remained almost identical at \$1,324,118, compared to \$1,323,371 in 2006, and disbursements for telephone company administrative costs increased by 11% to \$130,673. This increase in administrative costs is primarily due to the additional reports received by new wireless companies.

The ITSAP Administrator's fees and expenses were \$12,168 for the year. These expenses included bank charges and audit fees. The fund's cash balance at the end of the year was reported at \$51,344. In March 2007 the ITSAP fund had \$400,000 in U.S. Treasury notes mature (purchased in March 2007 at 4.58% interest rate), and in April 2007 Ms. Anderson repurchased \$400,000 in U.S. Treasury notes with a maturity date of March 31, 2008 and a interest rate of 4.67%.

The average number of local access lines per month reported to the Administrator for 2007 decreased by 6% to approximately 637,477 from 686,800 in 2006. The average number of wireless access lines per month increased by almost 11% to approximately 1,081,000 from 855,400 in 2006. The total number of lines per month increased overall by nearly 176,277 (11%) to approximately 1,718,477 from 1,542,200.

2008 BUDGET AND TRENDS

Ms. Anderson projected the funding requirement for 2008 to be \$1,373,295. The number of local access lines is expected to decrease by 6%, the number of wireless lines is expected to increase by 11%, and the number of ITSAP recipients is expected to decrease from an average of 30,448 per month to 29,306. The estimated ITSAP recipient reimbursement is expected to be approximately \$1,230,852 and the ITSAP expenses are estimated to be \$142,543 for costs associated with administration of the ITSAP program (\$130,543 for telephone company administrative costs and \$12,000 for ITSAP Administrator's costs). The surcharge revenue received from local access and wireless telephone companies, at the current rate of \$0.06, is estimated to be \$1,237,402. With the

2007 end-of-year cash balance of \$51,344, treasury bond investment of 400,000, and the interest accrual of \$19,250, the 2008 year-end cash balance is estimated to be \$334,601, an amount sufficient to provide a four-month reserve.

ADMINISTRATOR'S 2008 FUNDING RECOMMENDATIONS

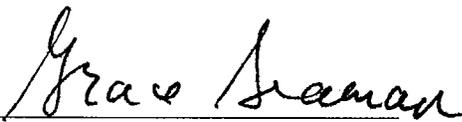
Based upon the estimated 2008 budget, Ms. Anderson believes adequate ITSAP funding will be supported by maintaining the current surcharge rate of \$.06 per line. She, therefore, recommends no changes to the ITSAP monthly rate for 2008. The current surcharge rate of \$0.06 combined with the investments in U.S. Treasury notes that matured in March, 2008, and the 2007 year-end cash balance would result in a 2008 year-end fund balance of approximately \$334,600. This fund balance will provide an adequate four-month reserve.

STAFF RECOMMENDATION

Staff agrees with Ms. Anderson's assessment that the 2007 monthly ITSAP surcharge rate should remain at the current \$0.06 per line. In addition, the four-month reserve provides adequate funding to adjust to potential demands on the program by new companies who may become eligible to receive ITSAP reimbursements.

COMMISSION DECISION

1. Does the Commission wish to maintain the monthly Idaho Telephone Service Assistance Program surcharge rate of \$0.06 per line as adopted in Order No. 30289?
2. Does the Commission wish to accept the annual report and adopt the Administrator's budget for 2008?
3. Does the Commission wish to change the surcharge distribution or the methodology in some other way?


Grace Seaman