

DECISION MEMORANDUM

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

FROM: GRACE SEAMAN

DATE: APRIL 2, 2009

RE: 2008 IDAHO TELEPHONE SERVICE ASSISTANCE PROGRAM ANNUAL
REPORT; CASE NO. GNR-T-09-2.

BACKGROUND

The Idaho Telephone Service Assistance Program (ITSAP) was established by the Idaho Legislature in 1987 to provide income-eligible recipients with a reduction in costs of telecommunications services. The Idaho Public Utilities Commission determines a uniform statewide monthly surcharge on each end user business, residential and wireless access service lines and the Idaho Department of Health and Welfare administers the program. 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 2008 ANNUAL REPORT

On March 5, 2009, the Idaho Telephone Service Assistance Program (ITSAP) Administrator, Alyson Anderson, filed the ITSAP annual report for the fiscal year ending December 31, 2008. Ms. Anderson reported that 2008 saw a drop in local access lines (4.5%), an increase in wireless lines (3.5%), and a decrease in the number of ITSAP recipients (8%). Ms. Anderson reported gross revenues from surcharges of \$1,190,003, of which \$434,381 (37%) was assessed on local exchange services and \$755,622 (63%) was assessed on wireless services. Additional revenue for 2008

included \$11,914 from U.S. Treasury coupon payments and accrued interest from a Merrill Lynch CMA-Government Securities Fund. The U.S. Treasury note was redeemed in March 2008. With the inclusion of interest payments, the total fund amount collected in 2008 was \$1,201,917.

The average number of local access lines per month reported to the Administrator for 2008 decreased by 4.5% to approximately 618,000. The average number of wireless access lines per month increased by 3.5% to approximately 984,500. The total average number of lines per month decreased slightly by 4,900 for an average monthly total of approximately 1,602,500.

The 2008 average number of ITSAP recipients per month (28,006) decreased by 8% from 2007 (30,448). Telecommunications companies provided \$1,172,978 in credits to eligible recipients compared to \$1,324,118 in 2007, and disbursements for telephone company administrative costs were \$129,341, nearly the same as the 2007 amount (\$130,673).

The ITSAP Administrator's fees and expenses were \$10,025 for the year. The fund's cash balance at the end of the year was reported at \$340,917. In March 2008 the ITSAP fund had \$400,000 in U.S. Treasury notes mature (purchased in April 2007 at 4.67% interest rate). In the past, when U.S. Treasury notes matured, Ms. Anderson repurchased an equal amount of notes for the next year. In 2008, Ms. Anderson determined it was best to keep the cash in reserve. She based this decision on the negligible interest rates, combined with the instability of the banking industry, which suggested to her that the fund balance maintained should be only that which is absolutely necessary to keep the fund viable.

2009 BUDGET AND TRENDS

In Ms. Anderson's 2009 budget, she projects the funding requirement to be \$933,467. The number of local access lines is expected to decrease by 3.5% and the number of wireless lines is expected to increase by 2.5%. The average number of recipients per month is expected to decrease at a slower rate from that seen in the past few years. Based on the December 2008 data, Ms. Anderson anticipates the average number of recipients in 2009 to be approximately 26,877 per month, a slight decrease from 2008.

The estimated ITSAP recipient reimbursement is expected to be approximately \$1,128,834 and the ITSAP expenses are estimated to be \$145,550 for costs associated with administration of the ITSAP program. Telephone company administrative costs are estimated to be \$127,550, and the ITSAP Administrator and outside audit costs is expected to be \$18,000. The surcharge revenue

received from local access and wireless telephone companies, at the current rate of \$0.06, is projected to be \$1,156,828. With the 2008 end-of-year cash balance of \$340,917 and an interest accrual of approximately \$240, the 2009 year-end cash balance is estimated to be \$223,600.

ADMINISTRATOR'S 2009 FUNDING RECOMMENDATIONS

Based upon the estimated 2009 budget, Ms. Anderson believes adequate ITSAP funding will be supported at the current surcharge rate of \$.06 per line. She, therefore, recommends the current rate to be maintained during 2009. The surcharge rate of \$0.06 combined with the 2008 year-end cash balance would result in a 2009 year-end fund balance of approximately \$223,600. This amount is sufficient to provide a 3-month cushion.

STAFF RECOMMENDATION

Staff has reviewed both the ITSAP annual report and the proposed 2009 budget. Staff agrees with the Administrator's recommendation to maintain the current ITSAP surcharge rates at \$0.06 per access line. Staff, therefore, recommends that the Commission approve both the Administrator's rate proposal and the 2009 budget.

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. 30535?
2. Does the Commission wish to accept the annual report and adopt the Administrator's budget for 2009?


Grace Seaman