

DECISION MEMORANDUM

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

FROM: GRACE SEAMAN

DATE: APRIL 13, 2012

RE: 2011 IDAHO TELEPHONE SERVICE ASSISTANCE PROGRAM ANNUAL
REPORT; CASE NO. GNR-T-12-02.

BACKGROUND

Each year the Administrator of the Idaho Telecommunications Service Assistance Program (ITSAP) files a report detailing the activities and status of the program during the previous year. The Administrator also determines the funding requirement for the following year and submits a recommended budget with the annual report.

In 1987, the Idaho Legislature established the Idaho Telephone Service Assistance Program to provide income-eligible recipients with a reduction in costs of residential basic local exchange telephone service. The Idaho Department of Health and Welfare administers the program in conjunction with federal programs to maximize federal "lifeline" and "link up" contributions to Idaho's low-income customers. *Idaho Code* § 56-901(1). Funds for the program are raised through a uniform statewide monthly surcharge on end-user business, residential, and wireless access service lines as determined by the Idaho Public Utilities Commission. *Idaho Code* § 56-904(1). Idaho telephone companies provide assistance in the form of a monthly discount of \$3.50 to eligible subscribers. *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 2011 ANNUAL REPORT

In her report filed on March 5, 2012, the ITSAP Administrator, Alyson Anderson, reported a drop in wireline access lines of 4%, an increase in wireless lines (6%), and a decrease in the

number of ITSAP recipients (8%). The gross revenue for the year was reported at \$1,325,600, of which \$413,473 (31%) was assessed on wireline services and \$912,127 (69%) was assessed on wireless services. Accrued interest from a Merrill-Lynch Fund added a nominal \$12.00.

The average number of wireline access lines per month reported to the Administrator was 481,903 compared to 532,315 in 2010, and the average number of wireless access lines per month was 1,132,324 compared to 1,070,738 in 2010. Overall, there was an increase of approximately 41,896 in the total number of lines subject to the ITSAP surcharge (1,644,996 lines compared to 1,603,100 in 2010).

The average number of reported ITSAP recipients per month in 2011 (25,310) decreased by 8% from 2010 (27,539). Telecommunications companies received \$1,103,137 in disbursements for ITSAP credits paid to eligible recipients compared to \$1,103,137 in 2010. Disbursements for telephone company administrative costs were \$90,416, a decrease from 2010 (\$93,154).

The Administrator's fees and expenses, including bank charges, were \$9,890 for the year. The fund's cash balance at the end of the year was reported at \$192,991.

2012 BUDGET AND TRENDS

To establish the 2012 budget, the Administrator applies the current program trends; wireline access lines continuing to decrease by 8%, the wireless lines continuing to increase by 6%, and the number of ITSAP recipients decreasing to an average of about 23,600 per month. Based on this data, Ms. Anderson projects the funding requirement for 2012 will be approximately \$1,089,665.

The ITSAP recipient reimbursement to the companies for 2012 is projected to be approximately \$990,066, and the expenses are estimated to be \$99,599 for costs associated with administration of the program.¹ The surcharge revenue received from wireline and wireless telephone companies, at the current rate of \$0.07, is projected to be \$1,666,000.

ADMINISTRATOR'S 2012 FUNDING RECOMMENDATIONS

Based upon the estimated 2012 budget, Ms. Anderson believes the ITSAP fund, at the current rate, will result in an end-of-year balance of approximately \$769,000. In her report, the Administrator notes that it is challenging to predict the number of credit recipients as well as the

¹ This amount includes the expense associated with the Administrator's costs and the Telecommunications Company's administrative costs. The cost associated with the Administrator (\$17,800) includes audit and bank fees. The cost associated with company expenses is estimated to be \$81,799.

number of access lines that will be assessed the surcharge. She states that she had hoped to avoid the up and down adjustments to the surcharge rate,² but feels the estimated 2012 year-end fund balance at the current surcharge rate is excessive. Thus, the Administrator recommends the surcharge rate be decreased to \$.05 per access line.

STAFF ANALYSIS AND RECOMMENDATION

Staff has reviewed the 2011 annual report, the proposed 2012 budget, and the 2012 funding recommendation. Staff believes the 2012 budget is reasonable and recommends that the Commission approve the budget. Staff, however, disagrees with the Administrator's recommendation to decrease the current surcharge rate from \$0.07 to \$0.05 per access line. The Administrator's recommendation is based on a 12-month view of historical data and trends within the program. There are, however, outside influences beyond the Administrator's knowledge that must be considered. Applications for ETC designation and recent events at the Federal Communications Commission (FCC) may significantly impact Idaho's low-income program. These are outlined below.

1. Lifeline Reform Order. On February 6, 2012, the FCC released its Lifeline Reform Order, FCC 12-11 (the Order). In the Order, the FCC amended sections 54.401 and 54.403 of the FCC's rules to adopt a rule "permitting ETCs in all states to allow qualifying low-income consumers to apply Lifeline discounts to all residential service plans that provide voice telephony service, including bundled service packages combining voice and broadband, or packages containing optional calling features."³ In addition, the FCC clarified that consumers may apply their Lifeline discount to family shared calling plans and eliminated language in section 54.401 to clarify that ETCs are free to apply the Lifeline discount to any retail service offering beyond those specifically offered to low-income consumers.⁴ These changes will increase consumer choice by making broadband and mobile voice services more accessible and affordable for all eligible low-income consumers.⁵ Staff believes these changes may increase the number of low-income recipients who will seek and receive eligibility to participate in the ITSAP program.

² The surcharge rate was increased in 2011 from \$0.06 to \$0.07 in Order No. 32237.

³ *Lifeline Reform Order* FCC-12-11, para. 315.

⁴ *Id.*, para. 315-316.

⁵ *Id.* at para. 317.

2. USF/ICC Transformation Order. On November 18, 2011, the FCC released the USF/ICC Transformation Order FCC 11-161 (the Report and Order) that comprehensively reforms and modernizes the universal service and intercarrier compensation systems. In the Report and Order, the FCC adopted reforms that will secure direct funding for mobility through the establishment of the Mobility Fund.⁶ The first phase of the Mobility Fund will provide one-time support of \$300 million through a reverse auction to be held in 2012 with funds to begin flowing no later than 2013. Phase 1 includes a designation of an additional \$50 million for one-time support for advance mobile services on Tribal lands.⁷ The Mobility Fund will provide one-time support to “immediately accelerate deployment of networks for mobile voice and broadband services in unserved areas.”⁸ To be eligible to participate in the Mobility Fund Phase 1 auction, a carrier must be designated as an ETC in all census blocks (unserved areas) for which it desires to submit a bid.

This week, the Commission received the first Application from a wireless carrier for a conditional ETC designation in areas outside its existing ETC Area for the specific purpose of participating in the Mobility Fund Phase 1 auction.⁹ Staff believes this Application may be one of several that the Commission will receive in the coming weeks.

3. Applications for ETC Designation. The Commission recently granted ETC designation to two wireless companies.¹⁰ ETC Applications for 4 additional wireless companies are pending before the Commission. The impact to the program from the recent ETC designations as well as the outcome of the pending ETC Applications is unknown, but Staff believes the number of eligible recipients could increase significantly as more wireless carriers become ETCs.

For all of the above reasons, Staff believes there is the potential to significantly increase the number of low-income recipients in Idaho as consumers have increased choices among wireless carriers to receive ITSAP support. Staff believes it is prudent to maintain the current surcharge rate for this year until a more accurate assessment can be determined of how these changes will impact the program.

Staff recommends that the Commissions maintain the current surcharge rate of \$0.07 per line.

⁶ *USF/ICC Transformation Order* FCC 11-161 at para. 298, 299.

⁷ *Id.* at para. 299.

⁸ *Id.* at para. 28.

⁹ See Case No. TMW-T-12-01.

¹⁰ See Case Nos. TMW-T-10-01 and CRI-T-11-01.

COMMISSION DECISION

1. Does the Commission wish to adopt the Administrator's recommendation to decrease the monthly ITSAP surcharge rate from \$0.07 to \$0.05 per access line with an effective date of June 1, 2012?
2. Does the Commission wish to adopt Staff's recommendation to maintain the current assessment at \$0.07 established in Order No. 32237?
3. Does the Commission wish to accept the annual report and adopt the Administrator's budget for 2012?



Grace Seaman
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