



STATE OF WASHINGTON

DEPARTMENT OF SOCIAL AND HEALTH SERVICES

Economic Services Administration

P.O. Box 45070, Olympia, Washington 98504-5070

July 7, 2003

TO: Carole Washburn, Secretary
Washington Utilities and Transportation Commission

FROM: Phyllis Lowe, Acting Assistant Secretary
Economic Services Administration

SUBJECT: PROPOSAL TO INCREASE CLIENT CO-PAYMENT FOR THE
WASHINGTON TELEPHONE ASSISTANCE PROGRAM (WTAP)
RESPONSE TO SUPPLEMENTAL QUESTIONS

Please find attached responses to the Commission's questions regarding the Department and Social Health Services' proposal to increase the WTAP client co-payment. Please feel free to share the information with interested parties.

If you need additional information or have any questions regarding this proposal, please contact Michael Masten at (360) 413-3370.

Attachment

Cc: Dennis Braddock
Mike Masten

Commission Additional Questions
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Commission Staff Questions Concerning WTAP Increase Request
June 27, 2003

1. On page 2, the filing states that approximately \$3.2 million is considered prudent reserve.
 - a. This appears to be 8.2 times the amount of expected expenditure of \$386,000 in June 2004. Is that correct?

ANSWER: A prudent reserve is calculated at an amount equal to six months of expenditures. The \$3.2 million total was a carryover from the June 2002 activity when WTAP program disbursements were about \$600,000 per month. It takes nearly six months to make major program changes through the permanent rule-making process, and therefore prudent to carry six months of funding to address program needs while changes are finalized.

- b. What is the authority that supports \$3.2 million as opposed to a higher or lower amount?

ANSWER: There is no authority other than Generally Accepted Accounting Principles (GAAP) which recommend that adequate operating reserves be planned and maintained to deal with unexpected eventualities. Telephone companies can request tariff changes or make price list changes in 10 days. These changes can greatly impact the WTAP fund in a shorter time frame than WTAP would be able to adjust the program to react. WTAP may modify its expenditures by changing the client co-pay (threshold), changing the excise tax or changing program eligibility, all of which takes about six months time in planning and implementation – so a six-month prudent reserve is highly desirable.

2. On page 2, the filing refers to adoption of WAC 480-122-020.
 - a. Prior to February 2002 did WTAP provide reimbursement to any telecommunications company in excess of \$20.00 per line, per month? In excess of \$30.00 per line, per month? In excess of \$40.00 per line, per month?

ANSWER: Prior to February 2002, no amounts were reimbursed to any telecommunications company in excess of \$20.00 per line. Tel West was the first reseller to initiate services to WTAP clients in May 2002 at a \$50 reimbursement, at a low participation rate resulting in a relatively low expenditure level (\$7,771) for May.

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- b. In the period November 2000 through February 2002, did WTAP consider altering the reimbursement level to preclude reimbursements substantially above that provided to most ILECs?

ANSWER: Yes, there were limited internal discussions at the WTAP staff level regarding altering the reimbursement level in 2000 and 2001. At the administrative level, it is unknown how far discussions progressed as the administrative personnel have since left the agency, but no administrative decision was given to implement a reimbursement level change. The program subsequently moved into another division with different administrative staff. Serious consideration and a decision to implement a reimbursement change were made in the period January 2003 through May 2003. From November 2000 through December 2002 the fiscal outlook was stable, and there was no identified need to modify the reimbursement levels to participating telephone companies.

3. On page 3, the filing states that DSHS explored the option of increasing the excise tax from 13 to 14 cents. An increase of one cent would yield an estimated \$400,000 a year. The filing states that an increase may not be feasible given the state's current economic condition.
 - a. What did the exploration consist of?

ANSWER: DSHS administration and WTAP staff discussed possible options for adjusting the WTAP fund balance. An excise tax increase of one-cent will not address the funding issue by itself. Also, it was felt that requesting an excise tax increase in the current anti-tax climate with the high unemployment rate and the continuing economic downturn in Washington state made this a poor option.

- b. What effect would a one-cent increase have on the state's economic condition?

ANSWER: A one-cent increase would represent a partial solution to the funding issue, and raising taxes at this time didn't appear to be a viable option. A one-cent increase in the excise tax would generate only \$400,000 per **year** in additional revenue. The projected negative cash outflow in July 2003 would be \$411,000 **per month**. This is prior to the client co-pay increase (threshold) requested to be effective on August 1, 2003.

- c. Could the excise tax be reduced if the planned fund-balance level were reduced below \$3.2 million, or if that amount were planned to be attained over a longer period?

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ANSWER: No. At the current rate of expected expenditures and if the commission approves a client co-pay (threshold) of \$9.00 per month, it will take several years to rebuild the fund balance to an acceptable level. Even if the planned reserve amount is reduced to for example, \$2 million, it would take five or six years before the excise tax or the client co-pay amount could be lowered at current anticipated rates of revenue and expenditures.

- d. Did DSHS consider whether a decrease of one cent or more in the excise tax would improve the state's economic condition?

ANSWER: No, a decrease in excise tax would result in less revenue for the program and would require the Department to consider adjustments in other areas, including the threshold amount.

4. On page 3, the filing refers to addition of community voice mail (CVM). The filing assumes \$400,000 will be spent on CVM for SFY 2004.
 - a. On what analysis does DSHS base the expectation of spending the entire 8% of WTAP revenues permitted by SHB 1624 on CVM in SFY 04?

ANSWER: In a planning meeting with DSHS, Department of Community, Trade and Economic Development (CTED), and CVM program staff, CVM providers expressed disappointment with the anticipated low level of funding currently planned (\$400,000). CTED's expectation was that they would receive and utilize the maximum funding available to administer the CVM program.

- b. What is the present enrollment in CVM that is associated with WTAP?

ANSWER: Currently, WTAP is not paying for any CVM services, and accordingly has to no enrollment numbers to report.

- c. What has the enrollment been for each month for the last 18 months?

ANSWER: Zero.

5. The filing assumes Service Code 200 (Connection fees) at \$81,000 per month for each of the next twelve months. \$43,000 per month is assumed for Tel West and Vilaire, an amount that is more than half the total.

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- a. Should the amounts change now that (1) Tel West has exited the residential market, and (2) Vilaire has increased its connection fee to \$300.00?

ANSWER: a1. The amounts were projected using FY03 actual activity. First, it is still unclear what markets Tel West and Vilaire will continue to serve. Both companies are still connecting new customers, although enrollment for TelWest has slowed somewhat. If these companies exit certain markets or stop delivering service altogether to WTAP clients, virtually all of these clients (10,000+) will likely migrate to other telephone companies and clients will incur yet another Service Code 200 charge during FY04. It is anticipated that it is highly likely SC200 fees will run above average during FY04.

a2. Vilaire may have increased their connection fee to \$300.00, but the cap for WTAP reimbursement is \$22.00.

- b. Does DSHS anticipate its final rule will retain the \$22.00 cap on payments for connection fees?

ANSWER: Yes, DSHS plans to retain the same \$22 cap on connection fee payments in the final rule.

6. On page 3, the filing states that no caseload growth is assumed for the four high-cost companies that were affected by the June 1, 2003 subsidy rate change. The projection does assume caseload growth for other companies based on historical participation data.

- c. What is assumed about former customers of Tel West?

ANSWER: Tel West sent many of its customers a letter dated June 18, 2003 which gave them notice that effective July 18 Tel West would no longer be their telephone service provider. Grizzly has also sent letters stating they would no longer service WTAP customers effective August 4, 2003. For these reasons and the general uncertainty regarding the continued activities of the high-cost telephone companies, growth for these companies was flat lined for FY04. The assumption was that at lower reimbursement rates (from \$50 per month to \$5.00 per month) in June and July, and an additional assumed reduction (client co-pay change) effective August 1 to \$1.17 for monthly services - the past aggressive growth of these companies would slow. The amounts in the FY04 projections cost out Qwest, Tel West, and Vilaire clients at the same rate, assuming that many of the clients migrating will subsequently be served by Qwest.

- d. What is assumed about the level of advertising by companies for WTAP service going forward? What effect on enrollment is assumed?

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ANSWER: The assumption is that incumbent telephone companies will continue with the same level of advertising (billing inserts and information in the telephone directories) and reseller companies will slow their aggressive advertising (TV ads). The assumed effect on enrollment is a more gradual increase in participation over the year, rather than exponential growth within a few months.

7. The filing does not contain any historical data or projections of the number of participants.

a. Please provide monthly participation by company since January 2000.

ANSWER: The FY04 projections are a reflection of actual disbursement activity occurring in FY03 through the first nine months plus growth projections based on actuals for the last three months of FY03. This represents the most meaningful picture of actual activity levels. The June 2003 caseload was reduced by about 10% for client terminations/re-certification, then the monthly growth patterns during FY03 were used to project individual company growth for FY04.

Please see tables in the separate attachment.

b. Please provide projections for monthly participation through June 04, and beyond if you have projections beyond that date. For these projections, please provide all assumptions on which the projections are based.

ANSWER: This projection is difficult in that it is unknown exactly at what levels the resellers will choose to participate in the WTAP program in the foreseeable future. See table in separate attachment.

8. Tables C and D concern federal reimbursement.

a. Does WTAP reimburse telecommunications companies the equivalent of federal tier 1, 2 and 3 support if the company is not eligible to collect those amounts from the FCC?

ANSWER: Yes, the reimbursement formula follows, and the monthly reimbursement is capped at \$19 per eligible household:

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Example of the WTAP reimbursement to telephone companies:

	30 Days in Service		Recover from:
	ETC	Non-ETC	
Service rate of incumbent company	\$12.50	\$12.50	
+Fed. SLC	+ 6.00	+ 6.00	
Total basic charge	18.50	18.50	
Customer pays	(4.00)	(4.00)	Customer
	\$14.50	\$14.50	
Fed. SLC credit Tier 1	(6.00)	(0)	Universal Service Administration Company (Lifeline program)
Fed. Rate reduction credit Tier 2	(1.75)	(0)	
Fed. Matching credit Tier 3	(1.75)	(0)	
State (WTAP) Matching credit	(3.50)	(3.50)	WTAP up to \$19
State (WTAP) remainder credit	(1.50)	(11.00)	
Total credits to telephone company	\$(14.50)	\$(14.50)	

- b. Has DSHS considered asking the WUTC to designate Qwest as an Eligible Telecommunications Carrier (ETC) for the approximately 50 exchanges where it serves WTAP customers but is not eligible to collect tier 1, 2, and 3 support from the FCC?

ANSWER: No. Although WTAP will compensate for federal Tier 1, 2, and 3 for non-ETCs, Qwest bills WTAP at the same lower ETC amount for all exchange areas, whether Qwest holds ETC status in that exchange area or not.

The request for ETC status would come from the telephone company, as DSHS has no authority to make such a request.

9. Has DSHS considered contracting with one telecommunications company to provide service to WTAP clients throughout the state with service purchased at a wholesale discount from the WTAP rate? (See Commission Staff memo of June 16, 2003, titled "Supplemental Information on the Obligation to Offer WTAP Service." (Docket No. UT-030867))

ANSWER: No, although this will be under consideration in the future.

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SUPPLEMENTAL QUESTIONS June 30, 2003

The table on page 3 of the Client Co-Payment Proposal shows a \$14,946 difference between Projected Revenues and Projected Expenditures per month based on the current \$4 co-payment and standard subsidy rate effective June 1, 2003.

Q: What are the factors explaining this consistent difference? Please provide a breakdown showing the \$14,946.

A: A calculation was completed projecting the estimated WTAP program total expenditures with the emergency WAC change in effect, and no change to the current \$4.00 client co-pay amount. Expenditures for connection fees, telephone company administration, WTAP administration and the new community service voice mail program were flat-lined. The monthly basic service costs were calculated with an approximate ten percent (10%) reduction on July, 2003 due to the annual re-certification/termination process. Historical average monthly caseload growth was applied each month to SC300. Since an average was used for each company, the growth for each successive month was computed with the same amount, a monthly increase of \$14,946.

Q: Similarly, the monthly difference between costs and revenues in Table A (using the \$9 co-pay) is maintained at \$3,763, then increased to \$6,132 between May and June 2004. What factors lead to the change at the end of the fiscal year?

A: A minor calculation error of \$2,369 was discovered on one of the seven largest companies during the final review of the table. Since Table A already had wide distribution, and the grand totals were being utilized by many state offices, a correction was made adjusting the June 2004 SC300 total for the Other 23 Companies upward by \$2,369 to compensate for the error. This accounts for the difference between \$3,376 and \$6,132.

Q: What is the projected ongoing difference between costs and revenues using the \$9 co-payment and standard subsidy rate effective June 1, 2003?

A: Revenue projections are unchanged in all calculations. The reduced monthly SC300 expenditure level, when changing from the \$4.00 client co-pay to the \$9.00 co-pay, averages approximately \$502,000 per month during the period August through December 2003.

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Supplemental Question

Commission Staff Questions Concerning WTAP Increase Request
July 3, 2003

1-S. On page 3, the filing states that DSHS considered the option of increasing the WTAP excise tax from 13 cents to 14 cents, that the increase in revenue from a one-cent increase is estimated at \$400,000 per year, and concluded that such an increase may not be feasible given the state's current economic circumstance. Also on page 3, the filing states that one reason for the proposed increase is the cost of community service voice mail (CVM), \$400,000.

- a. As proposed, will the \$400,000 annual cost of CVM come from the WTAP fund?

ANSWER: Yes, it has been calculated in as part of the expenditure projections, at an average of \$33,333 per month for 12 months. See Table A in the TOTALS section.

- b. Does paying for CVM from proceeds from a 13-cent excise tax rather than a 14 cent excise tax result in the need for a \$9.00 monthly rate rather than a lower monthly rate?
- c. If an additional \$400,000 in tax receipts were collected each year, could the monthly rate for WTAP customers be lowered below \$9.00? How much lower? (Please provide the calculation necessary to answer this question.)

ANSWER: Table B shows the estimated payments to telephone companies if the client co-pay was \$8.50. If the excise tax was raised one cent, and the additional revenue received was about \$400,000 for the year, then the projected revenues of \$5,399,992 would just cover the projected expenditures of \$5,313,219 for the year, allowing a slim \$86,773 remainder for prudent reserve or unexpected costs.

Analyses of increasing the excise tax were not pursued beyond this point. Even if effected, the resulting additional revenue would not provide enough funding to balance the WTAP fund. The focus was to make as few major program changes as possible, while proposing expedient and viable modifications to keep the fund in balance. A one-cent increase to the excise tax may be proposed at a later date if it is still necessary to make adjustments to keep the fund balanced.