

Agenda Date: July 9, 2003
Item Number: A3

Docket: UT-031033
Company: Telecommunications General

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Recommendation

Take no action at this time on the proposed increase in WTAP monthly local exchange rate from \$4.00 to \$9.00.

Background

On June 25, 2003, the Department of Social and Health Services (DSHS) requested that the Commission increase the monthly rate for local exchange service provided to low-income participants in the Washington Telephone Assistance Program (WTAP) from \$4.00 to \$9.00. While DSHS administers the program, the Commission establishes the WTAP rate pursuant to RCW 80.36.420(3).

Telephone companies that provide service to WTAP customers are reimbursed from state and federal sources, with some limitations, for the discounts provided to WTAP customers. An increase in the amount paid by customers would reduce the disbursements by DSHS from the WTAP fund. DSHS states that without this increase, the program's monthly expenditure will exceed available funding beginning August 2003. *Request at 1.*

DSHS' Request

In support of its request DSHS included information about the historical and current status of the program. The WTAP Excise Tax and Client Co-payment History table shows fluctuations since 1987 in the monthly rate between a high of \$10.00 per month and a low of \$4.00 per month. *Request at 1.* The current rate of \$4.00 per month, lowest in the program's sixteen year history, was established in 1999 in response to a Federal Communications Commission (FCC) decision to increase federal contributions to state low-income (or Lifeline) programs by an additional \$1.75 per month when matched by state funds. Another purpose of the \$4.00 rate was to reduce the WTAP fund balance.

DSHS also provided information on the WTAP fund balance, which historically maintained a surplus. For example, the fund balance in July 2001 was \$7,325,340 at a time when the annual disbursement was \$5,282,333. *Request at "WTAP State Treasury Fund Balance."* This pattern continued until September 2002, when the balance began to decline, reaching a projected balance of \$809,289 in June, 2003. *Request at "WTAP Projected Balance as of June 30, 2003."*

The WTAP program is funded by an excise tax on all switched, e.g., wireline, telephone lines in the state. The Commission sets the tax rate as provided in RCW 80.36.430 and WAC 480-122-060. The rate now is \$0.13 per month, and the statutory cap is \$0.14 per month. The rate was last increased in 1992 from \$0.05 per month. Expenditures for the fund in recent months have exceeded excise tax receipts. In state fiscal years 1998 through 2000, the fund balance increased each year. In 2001, expenditures began to exceed tax receipts. The trend continued through fiscal years 2002 and 2003, with the divergence between expenditures and receipts resulting in an annual disbursement of \$10,357,363, and receipts of only \$5,227,964. *Id.*

Beginning July 1, 2003, the Legislature expanded the WTAP program to include community voice mail service. This new benefit will increase program expenditures by about \$400,000 per year. *Request at 3.*

To contain the rising program costs, DSHS last month restructured the telephone company reimbursement formula by adopting a standard subsidy rate for telephone companies operating in the same telephone exchange. *Request at 2.* This was achieved through an emergency rule effective June 1, 2003, and DSHS projects that this change will reduce monthly program expenditures by about \$480,000. *Id.*

According to DSHS's request, the change in the reimbursement formula alone will not balance the program's budget, and an increase in the rate paid by WTAP customers is required. DSHS anticipates reimbursements would still have to exceed tax receipts by just over \$450,000 per month in November 2003 if customer payments are not increased. *Request at 3.* To eliminate the gap between receipts and disbursements, DSHS recommends increasing the amount customers pay for service each month in order to reduce overall reimbursement amounts. Under this approach, telephone companies receive the same amount of revenue, but more of it will come from customers and less of it from state and federal funds.

An increase to \$9.00 per month in WTAP customer payments will reduce program expenditures by approximately \$400,000 per month. This will result in annual program expenditures of \$4,800,000 and revenue of \$5,000,000. *Id.* If the increased rate is only \$8.50, DSHS anticipates projected revenue would not cover projected expenditures.¹ *Request at 4.* The annual shortfall, given approval of an \$8.50 rate, is anticipated to be just over \$300,000. *Id.*

One effect of the increased customer payments and consequent decreased reimbursements from the WTAP fund is that federal matching funds will decline. *Id.* According to DSHS, the state will lose \$1.64 million in federal matching funds with an increase in the customer rate to \$9.00 per month *Id.*

¹ DSHS stated in a letter to telephone companies dated May 30, 2003, that it would request an increase from \$4.00 to \$8.50. Letter to WTAP Providers from Michael W. Masten, Director, Community Services Division, May 30, 2003.

The request states that DSHS explored the option of increasing the excise tax from \$0.13 to \$0.14. A one-cent increase would yield an estimated \$400,000 per year. *Request at 3.* It concluded the increase would not be sufficient to sustain the program and may not be feasible given the state's economic circumstances. *Id.*

Discussion

Commission Staff received draft responses on July 3, 2003 to questions posed earlier to DSHS. It will take several days to complete the analysis. Commission Staff anticipate completing the analysis not later than July 16.

In that analysis, we hope to determine the amount of proposed increase associated with each of five factors that we have identified. These factors are:

- (1) Balancing revenues with the expenditures necessary to providing the existing service to the existing number of WTAP customers;
- (2) Increasing expenditures to cover DSHS' projection of caseload growth;
- (3) Accumulating a reserve balance in the WTAP fund;
- (4) Offsetting the loss of federal match that result from the lower state contribution level; and
- (5) Increasing expenditures by \$400,000 to fund the addition of community voice mail service.

We anticipate the analysis will address caseload projections, the amount needed for a reserve, how quickly a reserve should be accumulated, and the effect on WTAP customers if they are required to fund the new community voice mail program. Other topics may be addressed.

Summary

Staff recommends that the Commission defer action until the July 23, 2003 open meeting. This will permit Staff and interested parties to analyze the request more thoroughly. Staff anticipates that its analysis will, by separating the requested increase into components, provide options for the Commission's consideration.