



State of Utah
 Department of Commerce
 Division of Public Utilities

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-=- MEMORANDUM -=-

TO: Utah Public Service Commission

FROM: Division of Public Utilities
 Chris Parker, Director
 William Duncan, Manager, Telecommunication & Water Section
 Paul Hicken, Utility Analyst

SUBJECT: Speech and Hearing Impaired Surcharge Rates – *Reduction recommended* - Docket # 13-999-05

DATE: March 15, 2013

Recommendation

The Division of Public Utilities (Division) recommends that the surcharge rate be reduced to either \$.05 or \$.04 cents per number per month.

As shown in the table below, the fund balance is likely to increase significantly over the next three years if current rate of \$.06 per number is not reduced as soon as possible.

FUND PROJECTIONS at \$.06 SURCHARGE				
	2012 Actual	2013	2014	2015
Fund Bal BOY	\$2,069,693	\$2,996,200	\$4,360,786	\$6,256,211
Revenue	\$2,040,042	\$2,474,449	\$3,001,358	\$3,640,467
Expense	\$(1,113,805)	\$(1,109,862)	\$(1,105,933)	\$(1,102,018)
Fund Bal EOY	\$2,996,200	\$4,360,786	\$6,256,211	\$8,794,659

This projection is based on a revenue growth of 21.4% from the prior year which was experienced during CY 2012. The expenses for CY 2012 were relatively stable, decreasing less than 1% from the prior year. If the surcharge rate were reduced from \$.06 to \$.05, this would be a reduction of 16.7% in revenues, and if the rate were reduced to \$.04 this would be a reduction of 33.3% in revenues. Either of these rate changes would generate less revenue and result in less growth to the fund balance as shown in the following two tables.

FUND PROJECTIONS at \$.05 SURCHARGE				
	2012 Actual	2013	2014	2015
Fund Bal BOY	\$2,069,693	\$2,996,200	\$3,948,296	\$5,343,394
Revenue	\$2,040,042	\$2,061,958	\$2,501,031	\$3,033,601
Expense	\$(1,113,805)	\$(1,109,862)	\$(1,105,933)	\$(1,102,018)
Fund Bal EOY	\$2,996,200	\$3,948,296	\$5,343,394	\$7,274,977

FUND PROJECTIONS at \$.04 SURCHARGE				
	2012 Actual	2013	2014	2015
Fund Bal BOY	\$2,069,693	\$2,996,200	\$3,536,053	\$4,431,125
Revenue	\$2,040,042	\$1,649,715	\$2,001,005	\$2,427,099
Expense	\$(1,113,805)	\$(1,109,862)	\$(1,105,933)	\$(1,102,018)
Fund Bal EOY	\$2,996,200	\$3,536,053	\$4,431,125	\$5,756,206

The projections in these tables are based on a 21.4% annual revenue increase and less than 1% annual expense decrease realized in CY 2012.

Background

At the request of the Public Service Commission (Commission), the Division performed an analysis of the Hearing and Speech Impaired Fund. As of February 28, 2013 the balance of the fund was approximately \$2.7 million. The fund balance has gradually increased since 2010. The reasons for the increase are twofold: 1) collections have increased, and 2) disbursements have decreased.

Revenues have increased. In May 2011, legislation was signed into law that allowed a surcharge to be assessed on all business and residential access lines for local exchange service and for mobile telephone service. The surcharge rate established by the Commission and effective August 1, 2011 was \$.06 per month for each residential and business telephone number within the state from local exchange providers and mobile service providers. Prior to this time the surcharge rate was \$.10 per line per month and applied only to local exchange carriers. Mobile service was exempt from the surcharge prior to this time. Consequently, the total collections increased even though the rate decreased, because of the broader application of the surcharge.

Expenses have decreased. During the last 3 years disbursements from the fund have decreased. Most of these disbursements are to pay for Professional and Technical services. P&T services are costs paid primarily to providers of Relay Utah services. In fiscal year 2010, P&T accounted for about 93% of the total disbursements. This expense dropped to 90% and 86% of the total disbursements in fiscal years 2011 and 2012 respectively. The reason for the decline in disbursements is because a few years ago the Commission reviewed the qualifications for

hearing impaired assistance and found some recipients were ineligible because they did not fit below the federal poverty guidelines.

These changes in revenues, expenses and balance are illustrated in the following table.

HEARING & SPEECH IMPAIRED SURCHARGE FUND			
Annual Collections and Disbursements			
YEAR	COLLECTED	DISBURSED	EOY BAL
2010	\$1,131,260	\$1,237,297	\$1,511,806
2011	\$1,680,850	\$1,122,693	\$2,069,963
2012	\$2,040,042	\$1,113,805	\$2,996,200
AVERAGE	\$1,617,384	\$1,157,932	\$2,192,656

Another factor that could influence the balance of the fund is the distribution of funds to those who provide services and to those who receive services. If the Commission were to consider a way to distribute more hearing devices to those who need services, this would increase the expenses and cause the fund balance to decrease.

However, if there are no changes to the program, the fund balance will increase significantly and in consideration of the projected growth of the fund, the Division recommends a reduction in the surcharge rate as soon as possible.