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**REPORT TO THE MINNESOTA
STATE LEGISLATURE**

**TELEPHONE ASSISTANCE PROGRAM;
REVIEW AND RECOMMENDATIONS
DECEMBER 1997**

Required by Chapter 234, Section 1

**MINNESOTA DEPARTMENT OF HUMAN SERVICES
David S. Doth, Commissioner**

**Department of Human Services
444 Lafayette Road
St. Paul, MN 55155**

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Executive Summary

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Minnesota's Telephone Assistance Plan (TAP) provides up to \$7.00 per month towards the monthly telephone bills of senior citizens and disabled persons whose income is at or below 150 percent of federal poverty guidelines. The monthly benefit consists of a \$3.50 federal contribution and a \$3.50 state contribution. Recent Federal Communication Commission (FCC) regulations have changed to restructure the amount of federal funding available for the program, and to increase the total amount of monthly assistance available to program participants.

Beginning January 1, 1998, the federal government will provide a base of \$5.25 per participant per month. In addition, they will provide a 50 percent match of state funds, up to \$1.75 per participant. To access this additional federal funding, the state must broaden the TAP program's eligibility criteria to include all households whose income is below state-established standards or who are eligible for a means-tested public assistance program. In addition, the state must continue to contribute \$3.50 per participant per month. If Minnesota does this, it will increase the monthly benefit from \$7.00 to \$10.50 per participant.

The 1997 Legislature passed legislation which requires the Department of Human Services, in consultation with the Public Utilities Commission and the Commissioner of Public Service to convene a work group to review the TAP program. The work group charge was to conform the TAP program to new federal requirements and recommend the best package of telephone assistance for needy telecommunications consumers.

Work group members were drawn from state and public agencies, advocacy groups, telecommunication service providers, and other interested parties and agencies. The work group has met on six separate occasions. The work group examined the eligibility criteria that should be utilized in TAP, the populations to be served, the number of participants that could be served, and program funding.

The following are the work group's recommendations to the Minnesota State Legislature:

1. It is recommended that current policies continue which specify that TAP be available to only one telephone line per household, the telephone line which qualifies for TAP must be billed in the name of a household member, and TAP be limited to households containing a subscriber to one of the Minnesota's local exchange carriers.
2. It is recommended that, if a household's income is at or below 150% of federal poverty guidelines and criteria in #1 are met, the household would qualify for TAP.
3. It is recommended that, Minnesota comply with the Federal Universal Service rules by eliminating reference to disability and age-related eligibility criteria. Minnesota should instead adopt low-income eligibility criteria to use when determining a household's TAP eligibility.

4. It is recommended that Minnesota continue providing a contribution of \$3.50 per participant to qualify for \$7.00 in federal participation. This will result in a maximum credit on each participant's local telephone bill of \$10.50 per month.
5. It is recommended that data maintained in automated information systems be used to verify whether a participant's income qualifies the household for TAP. The automated information systems to be used are the MAXIS system operated by DHS, the Department of Children Families and Learning's data system used for Energy Assistance, and the data systems operated by the Department of Revenue.
6. It is recommended that the legislature give PUC discretion to fund TAP through the Universal Service Fund, if the Commission so chooses. Once the Universal Service Fund rules are adopted and the fund is in operation, the state share of TAP costs could be paid from the fund.
7. It is recommended that, in the event that TAP policies change to adopt a lower income threshold than that proposed in item #2 above, those TAP recipients who would lose program eligibility because of the changed income guidelines should be "grandfathered" in for a period of two years.
8. It is recommended that DHS, PUC, and the Department of Public Service conduct outreach programs regarding the availability of the TAP program, identification of potentially eligible participants, including people excluded from public assistance eligibility, and identification of households without telephones, in order to make them aware of the TAP and Link Up America programs.

Recommendations For Modification Of The Telephone Assistance Plan

Background:

The Telephone Assistance Plan (TAP) was established by the 1987 Minnesota Legislature to provide assistance with the costs of monthly telephone bills to seniors (age 65 and older) whose income is at or below 150 percent of federal poverty guidelines. In 1988 state statutes governing TAP were amended to expand program eligibility to disabled persons whose income is at or below 150 percent of federal poverty guidelines.

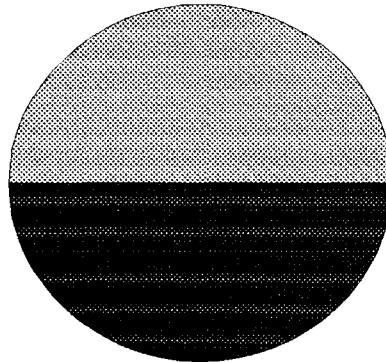
The program currently serves approximately 48,000 participants monthly. Of these, nearly 23 percent (11,000) are disabled and 77 percent (37,000) are senior citizens.

Telephone assistance programs like TAP are effective in increasing the number of low income households with telephones. After the 1988 implementation of TAP in Minnesota, U.S. Census Bureau 1990 data show that telephone penetration among low income households with members over age 65 increased from 92.3 percent to 96.4 percent. A 1991 study reported by the Federal Communication Commission (FCC) found that nearly 80 percent of households receiving Lifeline subsidies would probably lose telephone service if the program were ended. (Lifeline is the name applied by FCC to telephone assistance programs such as Minnesota's TAP.) An FCC survey found that telephone penetration increased by over 10 percent among low income households in Minnesota between 1985 and 1996.

At present program participants receive a reduction on their telephone bill of up to \$7.00 monthly. The state provides \$3.50 towards this bill reduction, and the federal government provides the remaining \$3.50. While a participant's monthly telephone bill lists a reduction of \$7.00 due to TAP program participation, the \$3.50 federal contribution is actually in the form of a reduction in subscriber's end user line charge.

Lifeline/TAP Benefit Per Participating Household

Current Benefit \$7.00



■ State Share \$3.50
■ Federal Share \$3.50

TAP is funded by a surcharge assessed against each telephone access line throughout the state. Although state statutes permit a monthly surcharge of \$.10 per access line, the program has sufficient funds to serve all current participants charging only \$.06 per line. In state fiscal year 1997, \$1.98 million was raised through monthly surcharges. TAP program accounts, which are retained in the state's General Fund, currently contain a surplus of \$2.1 million. These funds are not identified in any state agency budget.

TAP is administered through a partnership consisting of the Public Utilities Commission (PUC), the Department of Human Services (DHS), and the 92 local telephone companies serving Minnesota. DHS determines the eligibility of program applicants and notifies telephone companies monthly of eligible participants. Eligibility for all program participants is redetermined on an annual basis. The PUC reimburses telephone companies for participants' monthly credits and pays the costs of administration for DHS and telephone companies. Local telephone companies reduce the monthly telephone bill of eligible program participants by \$7.00, collect and forward monthly access line charges to the Department of Administration, report to PUC the amount of funds forwarded to the Department of Administration, and notify all telephone company subscribers annually of the availability of the TAP program.

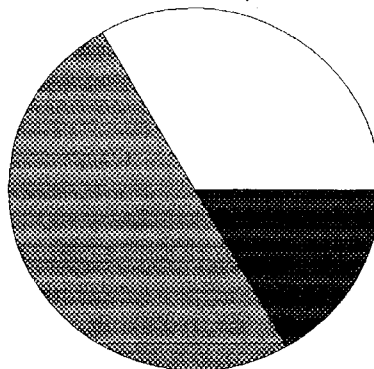
Universal Service Rule Changes:

Federal Communication Commission (FCC) regulations governing the amount of federal participation in the program have changed. Currently, TAP participants qualify for a \$3.50 reduction in their telephone bills which is provided as a federal reduction in subscriber line charges. Beginning January 1, 1998, the \$3.50 subscriber line charge reduction will be replaced by a \$5.25 federal contribution per participant.

In addition, the federal government will contribute a 50 percent match of state contributions to the program, up to a maximum of \$1.75. Thus, if the state contributes \$3.50 per participant, the federal government will contribute an additional \$1.75. Adding the various state and federal contributions would result in a reduction of \$10.50 to each program participants' monthly telephone bill (federal \$7.00 plus state \$3.50 = \$10.50).

Lifeline/TAP Benefit Per Participating Household

Future Benefit \$10.50



- State Share \$3.50
- Federal Share \$5.25
- Federal Match \$1.75

In order to receive the \$7.00 maximum federal program participation, states must conform to two requirements. Based on our current understanding of FCC regulations, these two requirements are:

- Minnesota must maintain its current support level of \$3.50 in state funds monthly for each program participant.
- Program eligibility criteria must change. The state will no longer be permitted to limit program eligibility to households containing a disabled member or a senior. Instead, eligibility must be broadened to include all households whose income is below state-established standards or who are eligible for a means-tested public assistance program.

In order to access the increased federal funding, and to comply with federal requirements, Minnesota Statutes, Section 237.69 to 237.72 and Minnesota Rules, Part 7817, which governs TAP must be revised. Current statutory provisions basing program eligibility on disability or age must be amended to adopt eligibility criteria based on participants' income levels. Federal criteria dealing with eligibility are specified in the Universal Service Report and Order, CC Docket No. 96-45, FCC 97-157 (Order). These changes will necessitate decisions regarding the level of resources needed to serve an anticipated increase in the number of participants who will qualify under the new eligibility criteria.

Advisory Work Group:

Enacted in 1997, Minnesota Statutes, Chapter 234 requires creation of an advisory work group to conform the TAP program to federal requirements and to develop recommendations for the best package of telephone assistance for needy telecommunications consumers. This statute directs the Commissioner of DHS, in consultation with the PUC and the Commissioner of Public Service, to convene the work group to review the TAP program. In addition, the statute specifies that the following agencies or groups be represented on the work group:

- Attorney General's Office
- Telecommunication providers
- Consumer organizations representing the interests of seniors, children, the disabled, and low-income utility consumers

DHS, the Department of Public Service, and the PUC have worked together to involve interested parties in participation on the work group. The following agencies and groups participated on the work group:

<u>Agency/Business</u>	<u>Participant</u>
● AT&T Wireless	Dee Austin Ryberg
● Children's Defense Fund	Diane Benjamin
● MN Attorney General	Garth Morrisette
● MN Attorney General	Joshua Wirtschafter
● MN Seniors Federation	August Blegen
● MN Telephone Association	Jerry Knickerbocker
● MN Telephone Association	Mike Nowick
● Public Utilities Commission	Lillian Brion
● Public Utilities Commission	Mark Oberlander
● Public Utilities Commission	Eric Witte
● Sprint	Moses Dennis
● Twin Cities Community Voice Mail	Jerri Sudderth
● Urban Coalition	Allan Malkis

- US West
- US West
- Air Touch Cellular

Pete Budner
 Ann Richardson
 Paul Cassidy of Winthrop & Weinstine

The following state agency staff helped select work group members and assisted the group in its discussions and deliberations:

Jim Alan, Department of Public Service
 Bonnie L. Becker, Department of Human Services
 Jason Bonnett, Public Utilities Commission
 Bruce Bentson, Department of Human Services
 JoAnn Hanson, Department of Public Service
 Michael Sirovy, Department of Human Services
 Anna Wagner, Department of Human Services

The work group met and deliberated on the following dates during 1997:

- October 2
- October 30
- November 13
- December 3
- December 10
- December 17

Work Group Considerations:

Work group discussions and deliberations were centered around four major areas of concern: populations to be served; eligibility criteria; number of participants to serve; and funding.

- A. Eligibility Criteria. The work group discussed what criteria should be used to determine participant eligibility under the new federal requirements. The group first reaffirmed that current program policy should continue which makes TAP assistance available for only one telephone line per household, and the line which qualifies must be billed in the name of a household member.

The next consideration was whether to limit TAP eligibility to recipients of specific public assistance programs. If public assistance eligibility is required in order to qualify for TAP, the group considered that the participants in the following programs should then qualify for assistance: Food Stamps; Supplemental Security Income; the Low Income Household Energy Assistance Program; and, Minnesota Supplemental Aid.

The group also deliberated simply requiring that participants have income at or below some percentage of the federal poverty guidelines. The group decided that Minnesota should serve as many people as possible and recommends that program eligibility be conditioned on the household having income at or below 150 percent of the federal poverty guidelines.

Another consideration was what to do about provision of service to currently eligible groups of disabled and senior TAP participants. Under new federal regulations, eligibility must shift to an examination of income levels. However, current program requirements specify that TAP eligibility is granted only if the household with a disabled or senior member has income at or below 150 percent of the federal poverty guidelines. If program eligibility is conferred on households with income at or below 150 percent of the federal poverty guidelines, all of the

current senior or disabled households will continue to qualify for TAP because they have income at or below that level. The group recommended “grandfathering” eligibility in TAP for a minimum of two years for those current program participants who would lose eligibility if the income standards were set below 150 percent of federal poverty guidelines.

- B. Populations to be served. The group recognized the need to tie TAP eligibility to federal poverty guidelines or to public assistance program eligibility in order to access increased federal funding and to comply with federal requirements. The group expressed a clear preference that the program be designed to serve the maximum number of participants possible with the level of funding that can be accessed. This decision led to the recommendation that TAP eligibility be conferred to households having income at or below 150 percent of federal poverty guidelines.
- C. Number or participants to serve. A major concern was the lack of information about the number of persons who would qualify for TAP if program eligibility criteria are changed in order to comply with federal requirements. Some helpful information has been obtained from State Demographer’s Office, from telephone company records, and from DHS estimates of public assistance recipients for whom information is contained in the Department’s management information system. However, projections of the number of eligible applicant numbers must still be considered estimates.

Information from the State Demographer’s Office indicates that there are a maximum of 283,000 Minnesota households who have telephones and who have income below 150 percent of federal poverty guidelines.

Households At Various Levels of Poverty With Telephones		
Percent of Poverty Level	Number of Households	Cumulative Number of Households
Under 100%	155,400	155,400
100% to 109%	24,600	180,000
110% to 119%	22,500	202,500
120% to 129%	27,500	230,000
130% to 139%	25,000	255,000
140% to 149%	27,900	283,000

In determining the number of potential program participants, one must estimate the percentage of households who would be eligible for TAP under the new eligibility criteria who would actually apply for and receive program benefits. If eligibility for other public assistance programs is all the verification of income needed, one might estimate that 100 percent of those public assistance households could be enrolled in the program. If applicants would be required to apply for the program and document their household income, the percentage of eligible households who actually apply and utilize program benefits may drop to as low as 60 percent.

The group discussed automatic eligibility verification of public assistance recipients who have income at or below 150 percent of federal poverty guidelines. For program simplification and to reduce administrative overhead, the group recommends that public assistance programs be the primary source of referral to TAP, and income information available on automated eligibility systems should be used to verify income levels and program eligibility. The primary public assistance programs to include are those operated by the Department of Human Services (which includes all recipients for whom data is maintained in the MAXIS system), persons for whom data is on file with the Department of Revenue, and persons registered with the Department of Children Families and Learning for the Energy Assistance program.

MAXIS, the Minnesota management information system contains data about approximately 230,000 Minnesota households receiving public assistance. Of that number approximately 90 percent (207,000) have income at or below 150 percent of federal poverty guidelines. Of those with income at or below 150 percent of federal poverty guidelines 90 percent (186,000) have telephones.

The work group assumed that 100 percent of the 186,000 households whose income will be verified by the MAXIS information system could automatically participate in TAP. The group also estimated that 37,000 more households would have income eligibility verified through Energy Assistance and Department of Revenue information systems, and that 100 percent of such persons could automatically participate in TAP. Finally, the group assumed that 60 percent of the remaining 61,000 low income persons, or 37,000 persons, would apply for TAP assistance and would meet program eligibility requirements. The total number of households who could be eligible for and who could take part in TAP during State Fiscal Year 1999 is estimated to be 260,000 (186,000 + 37,000 + 37,000 = 260,000).

To determine the cost of serving 260,000 participants, the group examined participant and administrative costs. Administrative costs increase most with a manual enrollment process and are lowest when an automated income verification system can be used. In state fiscal year 1997, \$314,000 administrative expenses were allocated to DHS. Telecommunication companies actually received \$23,740 for their administrative costs. It should be noted that adding eligible participants will require increases in administrative cost for DHS and telecommunication companies.

TAP ADMINISTRATIVE EXPENSES STATE FISCAL YEAR 1997		
DHS Salaries	Six and ½ positions	\$212,400.00
DHS Office Space Rental	Work space for 6 persons	\$42,400.00
DHS Operating Costs	Office Operations	\$65,000.00
Sub Total	Budgeted Expenses	\$320,300.00
Telephone Co. Admin. Cost	All Companies	\$23,740.00
Total		\$343,740.00

DHS administrative costs for serving 260,000 households will escalate from the \$314,000 state fiscal year 1997 costs. The PUC included an estimation of increased administrative costs for DHS, but did not include any increase of costs for the telecommunication companies. The PUC then estimated that the state level cost of serving 260,000 clients will be \$12.1 million per year.

- D. Funding. Three potential sources of funding were identified: assessing telecommunication companies a percentage of their revenues; charging customers a surcharge per access line; and seeking funding from the general fund through the legislature.

It must be noted that Minnesota Statutes, Section 237.16, Subdivision 9, requires the PUC to establish a universal service fund which has as its purpose preserving the availability of universal telephone service throughout the state. Under this statute, PUC must administer the fund and adopt rules governing the fund. It is recommended the legislature give the PUC the discretion to fund TAP through the Universal Service Fund if the Commission so chooses. When these rules are adopted and the fund is in operation, the state share of TAP costs could be paid from the fund. The statute specifies that the Universal Service Fund will be supported by all providers of telecommunications. This includes all providers of telephone services, whether or not they are telephone companies under section 237.01, including but not limited to, local telephone companies, independent telephone companies, cooperative telephone companies, municipal telephone companies, telecommunication carriers, radio common carriers, personal communication service providers, and cellular carriers.

The surcharge funding mechanism for TAP must be revised to provide for additional program participant costs and increased program participation. One consideration is to continue the subscriber assessment currently in place, but to broaden the base to include customers of providers required to participate when the federal and state universal service rules are effective. This would include local telephone companies and wireless service providers.

The work group also considered assessing telecommunication companies a percentage of their revenues. The group also considered assessing telecommunication companies a charge based on the number of phone lines the company has, the number of customers with that company, or the number of telephone numbers that company has assigned. This would require legislating a new carrier assessment system.

The final funding source considered was an annual appropriation from the general revenue fund. If this method of funding TAP is selected, it will spread the costs of services to all taxpayers in Minnesota rather than relying only on current telephone subscribers to fund the program.

Cost and Surcharge Level Necessary to Serve Participants at Various Income Levels, Including Present Administrative Cost				
Poverty Level	Number of Participating Households	Total Cost to Serve	Surcharge Without *Cellular	Surcharge With *Cellular
Under 100%	155,400	\$ 7,764,000	\$0.20	\$0.15
Under 110%	180,000	\$ 8,797,500	\$0.23	\$0.17
Under 120%	202,500	\$ 9,742,500	\$0.25	\$0.20
Under 130%	230,000	\$10,897,500	\$0.29	\$0.22
Under 140%	255,000	\$11,947,500	\$0.32	\$0.25
Under 150%	283,000	\$13,123,500	\$0.35	\$0.27

*Cellular = In determining the amount of surcharge needed to fund TAP, projections included the additional revenue that could be generated if a surcharge were to be assessed on cellular telephones. Because data was not available, projections could not be made about revenue generated by placing a surcharge on other wireless devices.

People Without Telephones:

A significant number of people with low income do not have telephones and will not be able to utilize this program until they do have a telephone. The Link-Up America/Link-Up Minnesota program can help with the cost of installing telephone service. Link-Up Minnesota can provide a reduction of one half, up to \$30.00 toward local telephone connection and installation. Persons with household income at or below 150 percent of federal poverty guidelines and who are participating in some public assistance programs may qualify. DHS, PUC, and the Department of Public Service should consider identifying people without telephones, including people who do not receive public assistance, from data in the MAXIS management information system or that is available from other sources, and then should notify such persons that the Linkup America program can provide assistance in getting a telephone. Once the person has a telephone, the TAP program is available to help with the monthly cost of maintaining telephone service.

Work Group Recommendations

The deliberations and recommendations of the advisory work group are located within the text of this report. To highlight the work group's recommendations, and to emphasize the importance of the recommendations, they are also listed here.

1. It is recommended that current policies continue which specify that TAP be available to only one telephone line per household, the telephone line which qualifies for TAP must be billed in the name of a household member, and TAP be limited to households containing a subscriber to one of the Minnesota's local exchange carriers.
2. It is recommended that, if a household's income is at or below 150% of federal poverty guidelines and criteria in #1 are met, the household would qualify for TAP.
3. It is recommended that, Minnesota comply with the Federal Universal Service rules by eliminating reference to disability and age-related eligibility criteria. Minnesota should instead adopt low-income eligibility criteria to use when determining a household's TAP eligibility.
4. It is recommended that Minnesota continue providing a contribution of \$3.50 per participant to qualify for \$7.00 in federal participation. This will result in a maximum credit on each participant's local telephone bill of \$10.50 per month.
5. It is recommended that data maintained in automated information systems be used to verify whether a participant's income qualifies the household for TAP. The automated information systems to be used are the MAXIS system operated by DHS, the Department of Children Families and Learning's data system used for Energy Assistance, and the data systems operated by the Department of Revenue.
6. It is recommended that the legislature give PUC discretion to fund TAP through the Universal Service Fund, if the Commission so chooses. Once the Universal Service Fund rules are adopted and the fund is in operation, the state share of TAP costs could be paid from the fund.
7. It is recommended that, in the event that TAP policies change to adopt a lower income threshold than that proposed in item #2 above, those TAP recipients who would lose program eligibility because of the changed income guidelines should be "grandfathered" in for a period of two years.
8. It is recommended that DHS, PUC, and the Department of Public Service conduct outreach programs regarding the availability of the TAP program, identification of potentially eligible participants, including people excluded from public assistance eligibility, and identification of households without telephones, in order to make them aware of the TAP and Link Up America programs.