

TAP REPORT

I. Executive Summary

The 1987 Minnesota Legislature created the Telephone Assistance Plan (TAP) to reduce monthly telephone bills for low-income seniors with the purpose of preserving or extending universal telephone service. The 1988 amendments extended TAP assistance to low-income disabled persons' households. TAP benefits, in the form of a credit on the local telephone bill and a waiver of the federal access charge, were available in April 1988. There are 22,855 TAP recipients as of the end of September, 1988. Estimates project 80,000 recipients by June 30, 1991.

TAP is a joint federal-state program. On the state side, a ten cents per month surcharge on local telephone bills finances the state TAP credit. The surcharge was first assessed in January 1988. The state credit reduces the monthly rate for local telephone service. On the federal side, TAP has been certified by the Federal Communications Commission (FCC). FCC certification allows the federal interstate access charge for long distance service to be waived for TAP recipients up to a value equal to the monthly state credit.

The Minnesota Public Utilities Commission determines the amount of the state credit based on its analysis of the adequacy of the TAP fund level. The Commission has determined that the fund is adequate to support a state TAP credit equal to the full value of the federal access charge. Currently, the federal access charge is \$3.20 per month. The TAP credit is also \$3.20 for most local telephone companies. Only a few of the local telephone companies, those whose local service charge is less than \$6.40 per month, are affected by the limitation on the state credit that it can not exceed 50% of a company's local service rate. For those companies, the state credit equals 50% of their local service rate. For a majority of TAP recipients, however, the current maximum monthly benefit is \$6.40 with the local rate credit and the federal waiver combined.

Monthly local telephone rate reductions financed by the state TAP fund totalled \$267,823 as of the end of September 1988. The matching waiver of the federally-assessed interstate access charge for long distance service brings the total benefits to TAP recipients to \$535,646 as of the end of September 1988.

Accumulated local telephone rate reductions to TAP participants are expected to be \$6,538,000 by the end of FY 1991. Coupled with the waiver of the federal access charge, accumulated benefits to TAP participants are expected to be \$13,076,000 by the end of FY 1991.

TAP surcharge collections as of the end of September 1988 were \$2,080,999. In the most recent quarterly reporting period, \$595,611 in surcharge revenues was collected. Maintaining the surcharge at 10 cents per telephone customer line per month through to the end of FY 1991 will generate approximately \$5.0 million in the next biennium (\$2.5 million in FY 1990 and the same in FY 1991).

Surcharge revenues are expected to exceed payouts through FY 1990. Because of carry-forward surpluses, the TAP fund is expected to have a cushion of three months of benefits at the end of the next biennium even though expenses will be exceeding current collections. These estimates are based on a two percent annual growth rate in access lines against which the surcharge is assessed and a total number of participants as of June 1991 of 35,000 low-income seniors and 45,000 low-income disabled.

In addition to providing TAP credits to participants, the TAP fund also finances administration of the program. Telephone company costs statewide were \$367,310 as of the end of September 1988. This figure includes \$24,668 in ongoing expenses and \$342,642 in start-up and non-recurring expenses. A major non-recurring expense is the cost to the companies of placing the TAP participant on the program. As of the end of September 1988, this expense totalled \$235,605 or \$10.31 per recipient. This is a one time expense to the companies. When program participation levels stabilize this expense will be minimal and only occur due to the growth in the eligible TAP population.

Department of Human Services costs of \$22,000 during the first year of TAP operation are expected to increase as the number of TAP verifications increases. DHS costs may increase significantly depending upon the number of TAP applications which require manual verification of eligibility. If a TAP applicant is not currently participating in other state assistance programs, TAP eligibility will have to manually verified to satisfy FCC certification requirements.

The Commission was authorized up to \$25,000 in TAP expenses and had actual expenses during FY 1988 of \$9,000.

TAP in Minnesota compares favorably with programs in 14 other states that were analyzed. Participation rates are comparable or better and recurring administrative expenses are similar or lower than in the other states. A high level of cooperation by the 94 local telephone companies, the Department of Human Services and the Commission allowed the program to get operational quickly.

The Commission established a TAP Advisory Task Force to assist it in TAP rulemaking and to assist it in preparing the Commission's report to the Legislature on the implementation of the TAP program. The TAP Advisory Task Force prepared a report which the Commission accepted. Having made minor revisions to the report and having updated figures contained in the report, the Commission now submits the report to the Legislature. In addition to a description of the program implementation, the report identifies and discusses several issues for future consideration. These issues are:

**** Funding:**

Whether to continue funding TAP through the surcharge or change to general revenue.

**** Administration:**

Whether to continue Commission coordination of TAP in cooperation with DHS and the telephone companies or move entire program to DHS.

**** Interest on TAP Fund:**

Whether to allow the TAP fund to retain interest earnings as the TACIP fund does or keep the current system with interest going to the general fund.

**** Eligibility:**

Whether TAP eligibility should be expanded.

The Commission and its TAP Advisory Task Force recommend continuation of the program under its present design and administration. Copies of the full report have been provided to the Legislative Reference Library as required by law. Copies of the report have also been provided to the Senate Public Utilities and Energy Committee and the House Regulated Industries Committee. Requests for individual copies should be directed to Mary Ellen Hennen, Executive Secretary, Minnesota Public Utilities Commission, (612) 296-7526.

II. Introduction and Legislative History

The Telephone Assistance Plan (TAP) was enacted by the Minnesota state legislature (the Legislature) during the 1987 session as part of a comprehensive telecommunications bill¹. On August 1, 1987, the law creating TAP became effective. Codified as Minn. Stat. Section 237.71, the TAP law empowered the Minnesota Public Utilities Commission (the Commission) to adopt rules under Minnesota's administrative procedures act² necessary or appropriate to establish TAP.

The TAP law directed the Commission to establish TAP to be effective January 1, 1988, or as soon after that date as Federal Communications Commission (FCC) approval and certification of Minnesota's TAP was obtained. FCC certification was required to enable Minnesota's TAP to qualify for the federal matching plan offered under the FCC's universal service lifeline programs.³ TAP became effective on January 1, 1988 when the TAP surcharge was first assessed. TAP applications were distributed in April 1988; by the end of September 1988, over 22,000 households were participating in the program.

TAP was initially designed by the Legislature to provide financial assistance to low income persons 65 years of age and over to maintain their local telephone service. This assistance is in the form of a credit on their monthly local telephone bill and a waiver of the federal interstate access charge up to an amount equal to the credit. The credit is funded by the state through a monthly surcharge on each local telephone customer's bill. The federal access charge waiver is provided through the federal matching plan offered by the FCC.

During the 1988 session, the Legislature amended the TAP law to expand TAP benefits to the low income disabled population (amended TAP law).⁴ The Legislature also made some administrative changes to TAP. The initial TAP law had allowed telephone companies to deduct their TAP expenses before remitting TAP surcharge revenues to the state. These expenses included program start-up costs, the expense of collecting the TAP surcharge (this included the cost of billing the surcharge) and the cost of the TAP credits.

The surplus surcharge revenues (what was left after each telephone company covered its TAP expenses) were remitted directly to the Commission and then deposited into a TAP surcharge pool. Companies which couldn't cover all of their TAP expenses directly from the TAP surcharge revenues generated from their own customers could request additional expense reimbursement from the TAP surcharge pool.

¹ Minn. Laws 1987, Ch. 340.

² Minn. Stat. Ch. 14.

³ The FCC's Lifeline Assistance and Lifeline Connection Programs.

⁴ Codified as Laws of Minnesota 1988, chapter 621, subd. 9 to 20.

The amended TAP law prohibits the local telephone companies from recovering TAP expenses associated with collecting the TAP surcharge. It also prohibits telephone companies from deducting expenses prior to remitting the TAP surcharge revenues. The amended TAP law requires that all TAP surcharge revenues be remitted to the Department of Administration (the DOA) along with each companies' 911 and TACIP⁵ fees.

The TAP surcharge revenues are placed in the state's TAP fund, which replaces the TAP surcharge revenue pool. The TAP fund is administered by the Commission.

The amended TAP law also limited the amount of reimbursement for TAP administrative expenses incurred by the Commission and the Department of Human Services (the DHS).⁶

III. TAP Implementation: Rulemaking and Program Development

The Commission began implementation work on TAP in July of 1987. The work followed along two separate but related tracks: TAP rulemaking and TAP program development.

The Commission assigned three members of its professional staff to coordinate the TAP rulemaking and program development process. The Commission's "TAP team" was headed by one of the Commission's telecommunication analysts who had worked on a previous Commission investigation into telephone rates for the low-income. This staff member was also knowledgeable about the FCC's universal service and lifeline programs.

Other members of the Commission's TAP team included the Commission's Consumer Affairs Office (CAO) supervisor and the Commission's rules attorney. The involvement of the CAO in the TAP implementation process was necessary for several reasons. The CAO handles consumer inquiries and complaints about utilities on a daily basis. Because of its daily contact with telephone ratepayers from all walks of life, the CAO could provide a unique insight into designing TAP to serve its target groups efficiently and effectively.

It was also anticipated that TAP would generate inquiries to the Commission CAO and therefore it was important that the CAO be involved in the implementation of the program early on. As it turned out, TAP generated 5,829 contacts with the Commission's CAO through telephone calls and letters over a nine month period starting in January of 1988.

⁵ TACIP stands for the Telecommunications Access for Communicatively Impaired Persons. This is a program which provides telephone equipment used by communicatively-impaired persons to access the telephone network. The equipment is provided free of charge to eligible persons. TACIP also will construct a message relay system to enable hearing persons to call and speak with communicatively-impaired persons over the telephone network.

⁶ The Commission is limited to \$25,000 in TAP reimbursements per year for fiscal year 1989; DHS is limited to \$90,000 through the end of the present biennium.

The Commission's rules attorney was assigned to TAP implementation to coordinate the rulemaking process from the technical and legal perspective; i.e. making sure all rulemaking deadlines and requirements were met. A member of the Minnesota Attorney General's staff assigned to the Commission was also assigned to provide general legal guidance during the TAP implementation process.

A. TAP Rulemaking

The Commission began laying the foundation for the TAP rulemaking and program implementation at a July 14, 1987 Commission-sponsored Telecommunications Forum. The Commission devoted a panel session to TAP. As part of the panel session, interested parties had the opportunity to express their views about TAP and ask questions of the Commission, the industry and other agencies affected by TAP.

The input received at the Telecommunications Forum helped the Commission draft a notice of intent to solicit outside opinion on TAP. This notice, which was the commencement of the formal TAP rulemaking process, was published by the Commission in the State Register on July 20, 1987. Comments were due August 28, 1987. The Commission published the proposed TAP rule in the State Register on October 19, 1987 and the TAP rule became effective on December 28, 1987.

The amended TAP law necessitated changes in the Commission's TAP rule. On July 5, 1988, the Commission proposed for adoption, through the noncontroversial process, amendments to its rule to implement the requirements of the amended TAP law. The proposed rules were published in the State Register November 14, 1988, and comments/requests for hearing were due December 14, 1988. The TAP Advisory Task Force reviewed the comments which were filed. All comments were supportive of the proposed rule amendments. The Advisory Task Force recommended that the Commission adopt the proposed rule amendments without a hearing. The Commission will take up this recommendation in early January 1989. If no hearing is held, the proposed rule amendments can take effect as early as February 1989. Appendix G contains the present TAP rule and the proposed amendments.

B. TAP Program Development

It was recognized by the Commission early on in the TAP implementation process that one of the factors crucial to making TAP a successful program was the cooperation of the diverse entities involved, by law, in the program. These included the Commission and the other TAP administrators -- the 94 local telephone companies, and the DHS -- as well as the Department of Public Service (the DPS, which investigates TAP complaints made against telephone companies), the DOA (which collects the TAP surcharge revenues), the State Planning Agency, Minnesota's senior and disabled population, the social service agencies and state organizations which represent their interests, and the public in general.

1. Establishment of Advisory Groups

To encourage the hands-on participation of these entities in the TAP rule drafting and program development process the Commission established three TAP advisory groups: the TAP Advisory Task Force, the TAP Technical Work Group and the TAP Research Work Group. A membership list for each of these groups is attached as Appendix A of this report.

Three objectives were established by the Advisory Task Force to guide its work in assisting the Commission to implement TAP. These were the following:

- (1) To design a program that the population eligible for TAP would use;
- (2) To design a program that met the requirements of the enabling Minnesota statute, including the provision that the plan meet FCC matching plan requirements; and,
- (3) To design a program that minimizes the administrative expenses so as to devote the greatest possible portion of program dollars to program beneficiaries.

Although the Advisory Task Force's immediate purpose was to assist the Commission draft the TAP rule, the Task Force was also created to have an ongoing advisory and evaluation role during the first year of TAP implementation. At the end of the first year of TAP operation the Advisory Task Force will be disbanded.

The Technical Work Group was established to monitor TAP funding, expense, benefit and participation levels. The Technical Work Group has an ongoing function to recommend to the Commission changes in the TAP surcharge and credit levels to ensure TAP fund integrity.

The Research Work Group was initially established to evaluate the most effective means to ensure the participation of the eligible population in TAP. As part of its work, the Research Work Group evaluated and made recommendations on various means to verify TAP eligibility and distribute the TAP credits. The Research Work Group also worked on the design of the TAP application form and the design of an effective method of promoting TAP which would distinguish TAP from other income assistance programs. The purpose behind a creative promotion of TAP was to avoid the welfare stigma deterrents to full program participation by the eligible population.

2. Design of TAP Eligibility Verification Procedures

At times, the three TAP implementation objectives conflicted with one another: a prime example was the FCC's requirement that income of TAP recipients be verified annually. This requirement threatened to raise the administrative costs of TAP because verification of income is

expensive. Conflicting objectives, however, also gave greater incentive to the TAP groups to design creative solutions to resolve the conflicts.

In the case of the costly administrative procedures suggested by the FCC's strict eligibility verification requirements, the Advisory Task Force and the Research Work Group fashioned a creative solution which reduced the verification costs while meeting the FCC's criteria: a computer matching verification program was devised which verifies eligibility using an household's existing participation in other state assistance programs (those with similar income guidelines) as proof of eligibility.

The computer match process was designed by a subcommittee of the TAP Advisory Task Force.⁷ This computer match process keeps verification costs at a minimum and is the only type of self-verification process the FCC will allow for its federal matching plan certification. For those households applying for TAP which are not on any other state assistance program, income is separately verified. It is hoped that the numbers of these households, however, will be considerably reduced by the use of the computer match process.

3. Design and Development of the TAP Application and Promotion of TAP To Reach the Eligible Population

It was recognized at the onset of the TAP program development process that for TAP to work and for the eligible populations to use it, TAP could not look like, nor be promoted as another welfare program. Competing with that objective was the requirement that DHS be involved in the program to verify TAP eligibility. The computer match process described above helped to minimize DHS visibility in the program and keep verification costs low.

To further minimize the perception that TAP was just another welfare program and make it easy for the eligible population to use TAP, the design of the TAP application and the promotion of TAP became extremely important factors in the program development process.

a. The TAP Application

The TAP application was designed to be as simple as possible while still obtaining the necessary verification information. Credit for the majority of work on the design of the TAP application form must go to the Senior Consumer Advisory Panel of US West (the Senior Panel). The membership of the Senior Panel is comprised of senior citizens who are customers of US West in Minnesota.

⁷ This group was comprised of members of the staff of the Commission assigned to TAP and representatives of the DHS working on TAP. This subcommittee met with representatives of the local telephone companies at various times throughout the computer match program design process.

The Senior Panel, working through the Commission's TAP Research Work Group, organized focus groups throughout the state for the purpose of gathering information from people who would actually use the application form. Focus group participants were asked what they liked and disliked about several alternative forms. Based on these focus group comments, the application form was designed to be simple to fill out and understandable. A copy of the present TAP application is found in Appendix B.

TAP applications can be mailed or delivered in person to the local telephone company offices. The mail-in process is particularly convenient for TAP households who do not have readily accessible transportation or who have difficulty with their mobility. The TAP mail-in application process also helps to minimize DHS visibility in the program and keep verification costs lower because applications do not have to be reviewed directly by the DHS.

**b. Distribution of TAP Applications
and TAP Program Promotion**

TAP applications are now made available through a variety of sources including local social service agencies, senior citizens centers, congregate dining sites, volunteer senior and disabled organizations, and through the local telephone company offices. When TAP applications first became available in April, 1988, the Commission initiated a Consumer Outreach Program for TAP through its CAO.

The Commission's Consumer Outreach Program was designed to provide information on TAP and Link-Up America⁸ to various interest groups serving the TAP and Link-Up America target populations in Minnesota, distribute TAP and Link-Up America applications through non-DHS agencies, and to schedule and conduct informational meetings to various groups which express an interest in hearing about the programs.

To initiate its Consumer Outreach Program, the Commission contacted over one hundred different agencies and social service organizations that served the elderly population throughout Minnesota. These included all of the Regional Development Commission senior offices, the regional senior federation groups, local and regional senior citizens centers, congregate dining site coordinators, and the numerous church organizations that serve senior citizens. The Commission's Consumer Outreach Program continues to deliver information about the TAP and Link-Up America programs to the public and interested consumer groups.

In addition to the Commission's program to deliver information to the public about TAP and Link-Up America, the local telephone companies provide TAP and Link-Up America information

⁸ The Commission initiated the Link-Up America program in Minnesota by seeking FCC certification of a Link-Up plan. Link-Up is administered on a state level in Minnesota, through the Commission and the local telephone companies and provides assistance to eligible low-income individuals without telephone service to obtain telephone service. Link-Up America is primarily funded with monies from the federal universal service fund. The universal service fund is supported by a portion of the interstate access charges paid by long-distance carriers.

to their own telephone customers through various speaker bureau programs. For example, through September of 1988, US West's Speaker Bureau had delivered 44 talks on TAP to a total audience of almost 1,500 persons. Members of the Senior Panel have visited congregate dining sites, senior centers, and highrises in the state to encourage eligible seniors to apply. They have also acted as resource people (with applications and information in hand) at meetings of senior organizations. The Senior Panel plans to continue this effort.

4. Telephone Company TAP Reporting and Expense Reimbursement Procedures

The local telephone companies receive reimbursement for TAP expenses allowable under the amended TAP law. To receive reimbursement, each local telephone company must submit a reimbursement request report to the Commission. These reports must be submitted on either a monthly or quarterly basis, depending upon the preference of the local telephone company. In addition to the detailing of TAP expenses reported on the forms, the report forms are also used to provide the Commission with information about TAP participation levels and the amount of revenues generated from the surcharge.

The reimbursement request report forms are provided by the Commission. The TAP Technical Work Group developed the initial reimbursement request reporting forms. After several months of program experience, the TAP reimbursement forms were simplified to minimize the time needed in completing the forms and the confusion and mistakes experienced in filling out the initial forms. A copy of the present reporting form is contained in Appendix C of this report.

The Commission audits the reimbursement reports submitted by each local telephone company prior to reimbursing the telephone's company for allowable TAP expenses. The auditing process has worked smoothly because of the cooperative attitude demonstrated by the local telephone companies. Where the Commission's audit has revealed mistakes in expenses calculations, the companies involved have displayed a quick willingness to make corrections and work with the Commission staff to resolve other audit questions.

5. FCC Matching Plan Certification

TAP was certified by the FCC in December of 1987. To maintain the federal matching program benefits to TAP, TAP must be recertified annually by the FCC. The next recertification application for TAP must be received by the FCC by May of 1989. To minimize problems with annual recertification the Commission has established and maintained good contacts with the FCC office responsible for reviewing and approving state lifeline matching plans.

IV. TAP: How It Works and Its Present Status

A. Administration

TAP is administered jointly by the Commission, the DHS, and all of the 94 local telephone companies serving customers in Minnesota. The DOA and the DPS also have some responsibilities with respect to TAP. The roles of the various state agencies and the local telephone companies are described below.

1. The Role of the Commission

The Commission serves as the coordinator of TAP. In that capacity, the Commission has several responsibilities:

- The Commission establishes the level of the TAP surcharge and credits.
- The Commission collects and audits the TAP reimbursement reports required of each local telephone company which describe the number of TAP recipients each company has, the amount of surcharge revenues collected, the amount of expenses incurred for the TAP and the amount of credits extended under TAP. These reports are filed on a monthly or quarterly basis depending on the telephone company's preference.
- The Commission reimburses the local telephone companies for TAP expenses and credits allowable under state law and after audit of the telephone company's TAP reimbursement report. Reimbursement is made out of the TAP fund.

- The Commission maintains contact with the FCC in order to keep current on the status of the federal matching plan certification requirements for all telephone assistance plans currently in existence. In addition to TAP, the Commission also coordinates the federal/state Link-Up America program on behalf of Minnesota consumers.
- The Commission also serves as the program's clearinghouse for problems that arise from time to time.

2. The Role of the DHS

The DHS has several responsibilities under the TAP program. First and most important, the DHS determines an applicant's eligibility for TAP through the computer matching process and by direct verification in those situations where no computer match can be made. Second, the DHS hears consumer appeals in cases where eligibility is denied or terminated. Finally, the DHS is responsible for the design, printing and distribution of the TAP application forms. Through its local agencies, the DHS provides TAP application forms and consumer assistance to potential TAP recipients.

3. The Role of the Local Telephone Companies

Each local telephone company has the following responsibilities under TAP:

- Fulfill its obligations under the TAP tariff to collect the TAP surcharge from each local telephone subscriber and to give the TAP credit and federal waiver to each TAP recipient.
- Provide TAP applications to its customers upon request and to annually mail a notice to each customer which describes the availability of TAP.
- File on either a monthly or quarterly basis, a TAP reimbursement report to the Commission.
- File an annual TAP report describing its financial experience under TAP.
- Remit to the DOA, all TAP surcharge revenues collected for the reporting period.

4. The Role of the DOA

The DOA collects the TAP surcharge and deposits the monies into the TAP fund.

5. The Role of the DPS

The DPS investigates complaints against telephone companies associated with the TAP.

B. Distribution of TAP Benefits

TAP was designed to minimize customer confusion over receipt of the program benefits -- the state credits and the federal access charge waiver. Presently, TAP benefits are distributed once a TAP applicant is enrolled in the program; after the TAP application is completed and mailed to the telephone company, no further contact with the local telephone company is necessary to receive TAP benefits. TAP credits and the federal waiver are automatically applied to the TAP recipient's bill, within approximately 30 days after enrollment in the program.

The level of the state credit portion is set by the Commission within the limits set in the TAP law. Under the TAP law, the level of the TAP credit offered by each local telephone company can be set no higher than the level of the federal access charge and no greater than 50% of a company's local service rate. The TAP fund is presently adequate to support credit levels equal to the level of the federal access charge which is now \$3.20 per month.⁹ This combined with the \$3.20 federal matching plan waiver of the interstate access charge means that the TAP benefit is now \$6.40 per month for most TAP recipients.

For those TAP recipients served by companies that have local service rates less than \$6.40 per month, the 50% of local service rate limitation operates such that the TAP recipient only pays \$3.20 for his or her basic local service per month.

C. TAP Funding

The TAP program is funded through two mechanisms: a state-imposed surcharge and a federal waiver of the interstate access charge. The state-imposed surcharge provides monies to cover TAP credits and TAP program expenses. The federal waiver of the interstate access charge is authorized through the FCC. Local telephone companies are reimbursed for the federal waiver portion of the TAP using federal universal service funds (generated through interstate access charges paid by long-distance telephone companies). The federal funds are administered by the National Exchange Carriers Association (NECA).

The state portion of TAP is funded with a monthly surcharge collected from each local telephone subscriber in the state of Minnesota. Under the amended TAP law the surcharge can not exceed \$0.10 per customer access line.

⁹ The federal access charge was \$2.60 prior to December 1, 1988. It will increase to \$3.50 on April 1, 1989.

The TAP surcharge was initially set by the Commission at \$0.10 per customer line and was first assessed in January 1988. The TAP surcharge level has not been changed since January. Total surcharge revenues collected as of the end of the 3rd quarter were \$ 2,080,999¹⁰.

Under the TAP rules, the Commission reviews the surcharge level at least annually and no later than November 30th of each year. It monitors collection levels compared to expense and credit disbursement at least quarterly and will make modifications to the surcharge level when conditions demand.

The federal waiver portion of the TAP benefit is capped by the level of the state TAP credit, but can go as high as the level of the interstate access charge, which is presently \$3.20. In most instances, the state credit equals the maximum possible level of the federal waiver. Besides adequacy of funding, the only condition limiting the level of the state credit is the 50% of local service rate restriction.

TAP funding levels have been adequate to maintain the maximum benefit levels. The maximum possible level of the federal waiver, however, will increase to \$ 3.50 on April 1, 1989. Prior to April 1, 1989, the Commission will review projected funding, expense, and participation levels for TAP to determine whether the state credit can be raised to meet the \$3.50 level as of April 1st and thus take full benefit of the federal matching plan. Because participation levels can not be predicted with any certainty, the accuracy of the TAP budget projections is conditioned upon participation levels increasing by 20,000 households per year until 80,000 households are using the program. The DHS estimated that approximately 75,000 households would be eligible for TAP and actually use the program if eligibility guidelines remain the same.

The budget projections assume some growth in the 75,000 household estimate and place 80,000 households on the program by the end of fiscal year 1991. If there were 80,000 households on the program by the end of fiscal year 1991, TAP revenues generated in that year would not cover TAP expenses if the state credit was \$3.50 per month. Carry-over revenues, however, would cover the deficit experienced in fiscal year 1991. Refer to Appendix D for TAP Budget Projection figures.

D. TAP Expenses

TAP administrative expenses as reported by the local telephone companies as of the end of September 1988 were \$367,310. The major portion of these expenses are attributable to start-up, non-recurring costs, which were \$342,642. Allowable recurring expenses comprised only \$24,668 of the total TAP administrative costs incurred by the local telephone companies. Commission TAP expenses for fiscal year 1988 were approximately \$9,000; DHS expenses were \$22,000.

¹⁰ This figure is based expense and revenue figures contained in the local telephone companies' 1st, 2nd and 3rd quarter 1988 TAP reimbursement reports filed with the Commission. Refer to Appendix E for a detail of these figures by company.

Appendix E contains a table of TAP expenses, revenues, and participation levels by local telephone company for the first, second and third quarters of 1988. The table also distinguishes between non-recurring and recurring expenses of TAP.

Non-recurring expenses of TAP are divided into two categories: service order handling charges and billing development costs. Service order handling charges are the costs of making changes to a company's billing system so that TAP recipients can receive the TAP credit and federal waiver. Billing development costs include all of the computer programming and/or manual bookkeeping changes necessary to implement the TAP program at the local telephone company level.

Until TAP participation levels stabilize, non-recurring expenses, and specifically service order handling charges, will make up the bulk of the local telephone company TAP expenses. As of the end of September 1988, 93% of the local telephone companies' expenses were due to non-recurring expenses. Service order handling charges made up almost 69% of the non-recurring expense.

Once TAP participation stabilizes, however, and new TAP recipients are due to growth in the eligible population rather than enrolling members of the initial eligible population in to the program, local telephone companies' TAP expenses should be minimal. Where presently the majority of the telephone company expenses is due to non-recurring expenses, once TAP participation stabilizes, recurring expenses will comprise the majority of the telephone companies' TAP costs. As of the end of September 1988, recurring costs for local telephone companies amounted to approximately \$1.08 per TAP recipient for a total of \$24,668.

Reimbursement of a local telephone company's TAP expenses are limited by the amended TAP law's prohibition on reimbursement for expenses associated with collecting the surcharge.

E. Complaint and Appeal Procedures

1. Complaints

The complaint procedure for TAP involves two separate areas; complaints regarding TAP itself, and complaints against telephone companies.

Consumer complaints concerning the TAP may be filed with the Commission through its CAO. The complaints are processed and reviewed by the Commission's CAO staff. These complaints include but are not limited to consumers who object to paying the surcharge.

Complaints against telephone companies regarding the TAP must be investigated by the DPS. The DPS is required to report the status or results of its investigation to the Commission within 45 days after receiving the complaint.

2. Appeals

An applicant who is denied TAP eligibility or a TAP recipient whose eligibility is terminated, has the right to appeal the decision. The appeal review must be conducted at a reasonable time, date and place by an impartial referee who is employed by the DHS. The applicant or TAP recipient may introduce evidence relevant to the issues of the appeal. Recommendations of the appeals judge to the Commissioner of the DHS must be based on the evidence introduced at the hearing. The judges recommendations are not limited to a review of the propriety of a local agency's actions.

IV. Effectiveness of TAP

The effectiveness of TAP can be evaluated using two standards. First, and most important, the objective standard -- evaluating the program in terms of whether its objectives had been met based on factual evidence and comparisons with similar programs in other states. A second, subjective standard is people's perceptions and intangibles.

As described previously, there were three objectives in mind in the design of the TAP program. The first objective was to design a program that the population eligible for TAP would use. This meant making the applications easily understandable and available at convenient locations. It also meant making the participation of DHS invisible to TAP applicants to minimize the welfare stigma barrier to fullest participation.

At the end of fiscal year 1988, just three months after the initial applications targeted to the low-income senior population were distributed, just over 19,000 households were participating in TAP. Because the newest version of the TAP application designed to include the eligible low-income disabled population was not available and distributed until July 1988, it is reasonable to assume that the program participation levels through fiscal year end 1988 reflect only senior citizen participation, the first group targeted for program benefits.

Original projections by the DHS estimated that 30,000 households out of the eligible senior population would participate in TAP. Thus, in only three months after TAP applications became available, participation levels reached almost two-thirds of the original estimate. The high level of TAP participation in such a short time, shows that the eligible population is using the program. The method of promotion of TAP, the distribution, availability and the design of TAP applications all worked successfully to achieve the first objective of TAP.

As of the end of September 1988, four months after the new TAP applications were available which reflected the eligibility of both the low income senior and disabled population, 22,855 households were participating in TAP. This reflects an almost 18% increase in participation levels over a three month period. To promote program participation among the low income disabled, the Commission will expand its TAP consumer outreach programs throughout the disabled community, as well as continue the consumer programs with the senior community.

The second TAP program design objective was to design a program that met the requirements of the enabling Minnesota statute, including the provision that the plan meet FCC matching plan requirements. The TAP rule was drafted to be consistent with the enabling TAP statute and to meet the requirements for FCC certification of the Minnesota TAP. The TAP rule became effective of December 28, 1987; FCC certification was received on January 27, 1988.

Since the amended TAP law was enacted, the Commission, the DHS and the TAP Advisory Task Force and Work Groups have worked to successfully expand the program to include the low-income disabled population. The Commission has published proposed modifications to the TAP rule which may become effective as early as February 1989. The Commission and the DHS worked to modify the TAP application; new TAP applications reflecting the availability of program benefits to the low-income disabled population were distributed in July 1988.

The third and final objective of the TAP program design and implementation was to design a program that minimized administrative expenses so as to devote the greatest possible portion of program dollars to program beneficiaries. As the program is operating today, allowable recurring local telephone company administrative expenses are minimal, averaging approximately 1% of total program revenues collected to date.¹¹

Total allowable recurring administrative expenses will comprise only 4% of total program revenues collected through the surcharge during fiscal year 1989; 2% in fiscal year 1990; and 2% in fiscal year 1991.¹²

The final objective evaluation of TAP is a comparison of TAP to other TAP-like programs offered in other states. Appendix F shows a tabular summary of TAP-like programs offered by other states in the US West region for US West customers only. Review of each of the other state programs shows that Minnesota's TAP participation levels among US West customers are comparable or better than the other states; the recurring administrative expenses of Minnesota's TAP are either similar or better than the other states'.

Finally, if the effectiveness of a program is measured by the level of cooperation achieved, then TAP is an example of a successful program. The legislature's enactment of TAP presented a challenging task to design and implement a program that combined the resources of several diverse

¹¹ This number was calculated by dividing the total TAP recurring expenses incurred for the reporting period (1st, 2nd and 3rd quarter 1988) of \$24,638.45 by the total surcharge revenues collected over the same period which was \$ 2,073,849.09. These numbers are found in Appendix E.

¹² These figures were derived from the working papers used in the compilation of the numbers found in Appendix D on TAP budget projections. Recurring expenses were calculated by taking total TAP expenses for each fiscal year less nonrecurring expenses of \$190,000 per year. \$190,000 is the non-recurring cost of placing 20,000 new recipients per year on the program at a cost to each local telephone company of \$9.50 per TAP enrollee for service record handling charges.

entities: the Commission, the DHS and the 94 local telephone companies providing service throughout the state. That challenge was met as a result of the high level of cooperation exhibited by all of the people involved in making the TAP law a working program.

VI. Issues for Future Consideration in Review and Evaluation of TAP

The general consensus of the Commission and its TAP Advisory Task Force is that TAP can and should continue to function under its present design and administration. However, there are several questions which should be discussed in any future review and evaluation of TAP. The questions and the various issues raised by each are discussed below:

A. How should TAP be funded?

An early and major source of public criticism of the TAP program was the method of funding: the TAP surcharge. Of the 5,829¹³ contacts received by the Commission on TAP, 749 calls and letters were about the method of funding. Over 140 people have now refused to pay the surcharge. Although complaints about the surcharge have decreased significantly and the refusals are insignificant relative to the number of telephone customers who do pay the surcharge, the method of funding remains a question for future debate.

Although its general position is that TAP is working and successful as presently designed, the Commission and its TAP Advisory Task Force want to provide a discussion of the various issues surrounding the funding question.

The state portion of the TAP is currently funded through a \$0.10 surcharge on all local telephone company access lines. The surcharge method of funding arose out of a legislative compromise in the 1987 session which sought to protect universal service and assist in the transition to a more competitive telephone industry. One of the advantages to the surcharge is that it is a stable source of funds. This stability helps the TAP program to achieve the goal of universal service. Although there have been over 140 customers who have at least once refused to pay the surcharge, at \$0.10 per line this amounts to a total monthly variation of only \$14.00 per month.

An alternative to the surcharge method would be to fund TAP out of the state's general fund. Some of the task force members believe that the general fund is not as stable a source of funds as the present funding method: with money coming from the general fund, every two years the TAP program administrator would have to go to the legislature and compete with other programs to obtain funds from a finite source of revenues. If TAP was not considered high priority it may experience funding decreases or worse, no funding at all.

¹³ These are figures recorded for the period of 1/1/88 through 9/30/88.

Another factor to consider which favors the current surcharge funding is that the program is working effectively as presently designed. Although there were complaints received on TAP initially, there were far more calls to the Commission requesting TAP applications. The decrease in TAP-related calls to the Commission's CAO and the over 22,000 households now enrolled in TAP demonstrates that the public has now accepted the surcharge and the program design.

A final factor to consider if TAP were to be funded through the general fund, is the possibility of stricter eligibility standards and verification procedures being required, similar to other state income assistance programs now funded out of the general fund. Such strict standards of eligibility and verification would defeat the two of the program's objectives: to minimize administrative costs and make the program readily accessible to the eligible population.

Some members of the Advisory Task Force believed that TAP should be funded through the general fund instead of the present TAP surcharge. They gave several reasons for this position:

- The telephone bill is not an appropriate vehicle for collecting a legislature-mandated charge which is considered a tax.
- Customers view TAP as a social program and the surcharge as "taxes in disguise." In fact, the federal government has refused to pay the surcharge because it is a tax. The credibility of both government and the telephone industry is compromised by the surcharge funding method.
- The surcharge also imposes substantial costs on the telephone companies. These costs arise from the labor and printing expenses involved in collecting the surcharge and remitting the revenues to the state. Although the most recent changes to the TAP law prohibit the local telephone companies from recovering the expenses associated with collecting the surcharge directly from the TAP fund, this does not make the expense disappear nor does it prevent the companies from recovering the expense from their general body of ratepayers through changes in the companies' local rates. It would be less expensive to all citizens of Minnesota to fund the TAP through the general fund rather than through the phone bills.

In response to the concern that funding through the general fund may lead to termination of TAP because of inadequate appropriations, the members of the Task Force who supported the general funding alternative believed that the success of the program as indicated by the high number of participants would encourage legislators to support the program even if the funding was through the general fund. They argued that it is doubtful that legislators would want to be responsible to their 19,000 plus constituents now on the program for eliminating or reducing the state credit resulting in the elimination or reduction of the matching federal waiver.

The Task Force members who supported the general fund alternative also believe that funding TAP out of the general fund would eliminate the surcharge collection expenses incurred by the local telephone companies because there would no longer be a surcharge to bill, collect and remit to the state. In addition, eliminating the surcharge would also minimize public criticism of the

program funding and would resolve the problem of dealing with the customer who refuses to pay the surcharge.

B. Should the Administration of the TAP Program Be Moved to the DHS?

An objective of the TAP program was to make the involvement of the DHS in TAP invisible to program participants and would-be applicants. This would encourage program participation by minimizing the welfare stigma some might attach to the program. The purpose of TAP is to provide income assistance to eligible low-income telephone subscribers to help them stay on the telephone system.

Thus, TAP, by its very purpose and nature, may be considered by some to be an income assistance program rather than a universal service program. Because most income assistance programs in the state of Minnesota are administered by the DHS or other agencies specifically designed to administer such programs, another future question for debate regarding TAP is whether the program administration should be moved completely into the DHS.

The answer to the question of whether TAP should be moved to DHS depends on a person's perspective of what TAP is. Is it a program designed to promote universal service or is it another type of income assistance program? If it is the latter, some may argue that the Commission was not designed to administer income assistance programs and the program should be administered by DHS. If the program is viewed as the former, a universal service program, then perhaps, the appropriate agency to administer and coordinate the program is the Commission. The purpose of the Commission is to regulate telephone, gas and electric utilities in the state of Minnesota, balance the interests of the industry and the consumers so as to maintain reasonable utility and telephone rates.

As a member of the TAP Advisory Task Force, DHS offered the following views on TAP administration: as the Commission already has authority and an effective working relationship with the telephone companies, it would be difficult for DHS to assume administrative duties over a group DHS is not familiar with and has no authority.

Although DHS administers most income assistance programs, one of the TAP program objectives was to keep DHS involvement in TAP at a minimum so eligible households would participate. Too much DHS visibility in the program would make it appear as a "welfare" program and some eligible persons would decline to apply for that reason.

There are also comparable programs which DHS is involved in but doesn't administer: employment and training is administered by the Department of Jobs and Training; educational programs (loans, grants, etc.) are administered by educational institutions. Also, TAP's current interdepartmental relationship seems to work well.

DHS has requested sufficient monies from the general fund for administrative expenses for TAP. Changes in TAP administration are not built into DHS' budget.

C. Should TAP be allowed to retain the interest earned on the TAP fund?

The TACIP program is currently allowed to retain the interest earned on revenue source which is kept in a separate state fund. TACIP is funded exactly the same way TAP is: through a monthly 10 cents per customer line surcharge on every telephone subscriber's local telephone bill which is remitted along with 911 monies and placed in a separate state account. There is a separate TACIP fund and a separate TAP fund. The only difference between the two funds is that TACIP is allowed to retain the interest earned on the monies held in its fund; interest earned on the TAP fund is rolled over into the general fund.

The Commission and its Advisory Task Force believed that TAP should be treated no differently than TACIP regarding the retention of interest earned on the surcharge revenues placed in their separate state fund. Retained interest could be used to cover administrative expenses and/or increase the funds available for TAP benefits. For the reasons stated above, the Commission and its Advisory Task Force recommend to the Legislature that interest earned on the TAP fund be retained in the TAP fund.

D. Should TAP eligibility be expanded?

Regarding eligibility, the Commission and its TAP Advisory Task Force is not opposed to expanding, at some time in the future, eligibility to include other low-income groups. However, expansion at this time would be premature, and may result in a severe reduction in benefits for existing recipients given the present program funding levels.

Expansion should not be considered until a significant percentage of the eligible low-income disabled population is enrolled in the program. At that time, program expense, revenue and participation levels can be examined to determine if expansion is financially feasible. The Commission and the TAP Advisory Task Force believes that the question of program expansion should be discussed and evaluated in one year so as to determine the adequacy of the TAP funding before making any expansion move. In one year's time, more of the eligible disabled population will have enrolled in the program and there will be additional program history and experience upon which to evaluate whether TAP eligibility should be expanded.

VII. Appendices

A. TAP Advisory Groups -- Membership

B. Current TAP Application Form

C. Current TAP Reimbursement Report Form

D. TAP Budget Projections Through End of FY 1991

E. Table of Expenses, Revenues for TAP By Telephone Company

F. Summary Information On TAP-Like Programs in Other US West States

G. TAP Rule and Proposed Amendments

MINNESOTA PUBLIC UTILITIES COMMISSION

REPORT TO THE LEGISLATURE ON
THE MINNESOTA TELEPHONE ASSISTANCE PLAN

December 31, 1988