

MEMORANDUM

To: Official Case File
Case No. TO-2019-0346

From: John Van Eschen and Kari Salsman
Telecommunications Department

Subject: Missouri USF Assessment and Support Levels

Date: September 1, 2021

Summary

The Missouri Public Service Commission (“Commission”) directed Staff to file an annual update to determine if the Missouri Universal Service Fund (USF) assessment should be reinstated and further directed the Missouri Universal Service Board to report to the Commission its position on the assessment and support amounts no later than November 30, 2021. In response to this directive, Staff recommends extending the Missouri USF assessment suspension time period through September 30, 2021. In addition, Staff recommends increasing the Missouri USF support amount for Lifeline voice-only service from \$18.75 to \$24.00 if the Federal Communications Commission (“FCC”) continues with its plan to reduce federal Lifeline voice-only support by \$5.25 on December 1, 2021.¹ Companies should be given as much advance notice and flexibility as possible to implement any change in Missouri USF support. The Commission should also solicit feedback from any interested parties.² Although Staff provides assessment reinstatement projections, Staff recommends the Commission continue to delay its decision to reinstate the assessment.

Background

The Missouri USF is a fund enabled by Missouri statutes that became operational in 2005.³ The fund provides financial support to landline companies participating in the Lifeline and Disabled programs.⁴ This financial support ultimately provides discounted voice service

¹ Staff’s proposed support increase is limited to Lifeline voice-only service. Existing Missouri USF support should remain at \$14.75 for a Lifeline subscriber with voice and broadband services and \$24 for a Disabled program subscriber.

² Such feedback should be sought as soon as practical so that both the Missouri USF Board and Missouri Commission have such information before making any decisions about the Missouri USF.

³ Section 392.248, RSMo.

⁴ The Lifeline program is a national program designed to provide discounted voice and broadband services to qualifying low-income consumers. The Lifeline program is administered by a partnership arrangement between the Federal Communications Commission and state commissions. The Disabled program is a unique Missouri program designed to provide discounted voice service to qualifying disabled consumers. For additional info see: https://psc.mo.gov/Telecommunications/Lifeline_and_Disabled_Programs_1

to subscribers in both programs.⁵ Overall, the current fund balance is \$1,715,864 and is declining at the rate of approximately \$72,219 per month.⁶ The fund's decline is based on two factors: (1) suspension of the Missouri USF assessment and (2) a substantial increase in Missouri USF support. The Missouri USF assessment is currently suspended from January 2020 through December 31, 2021. At the same time the Commission suspended the assessment, it also increased Missouri USF support from \$6.50 to the following support levels:⁷

- \$18.75 for any Lifeline subscriber with voice-only service or voice service bundled with a non-qualifying broadband service.⁸
- \$14.75 for any Lifeline subscriber with a bundled voice and qualifying broadband service.
- \$24.00 for any Disabled program subscriber.

Relevant Federal Action

The FCC is phasing-out federal support for Lifeline voice-only service. Federal Lifeline support is \$9.25 for Lifeline subscribers with qualifying broadband-only service or voice service bundled with a qualifying broadband service. Federal Lifeline support is currently \$5.25 for voice-only service or for voice service bundled with a non-qualifying broadband service. The FCC intends to eliminate this \$5.25 support on December 1, 2021.⁹ If the FCC takes no further action then the support will be reduced as planned.

The Emergency Broadband Benefit Program (EBBP) became operational on May 12, 2021. This temporary program provides a \$50 discount for broadband service. EBBP can impact Missouri USF support provided to landline subscribers with bundled voice and broadband service in the Lifeline and Disabled programs. The Missouri Commission provided clarification that Missouri USF support could be combined with EBBP but total federal support when combined with Missouri USF support should not exceed the subscriber's monthly rate for service.

Current Status of the Missouri USF

The Missouri USF fund balance can accommodate continued suspension of the assessment and a \$5.25 increase in Missouri USF Lifeline voice-only support. The graph below shows Missouri USF fund balance projections if Missouri USF support remains at current levels as shown by the \$18.75 support line versus increasing Missouri USF support for

⁵ The Missouri USF provides support for discounted voice-only service and discounted voice service bundled with broadband service; however, the Missouri USF does not support a discounted broadband-only service.

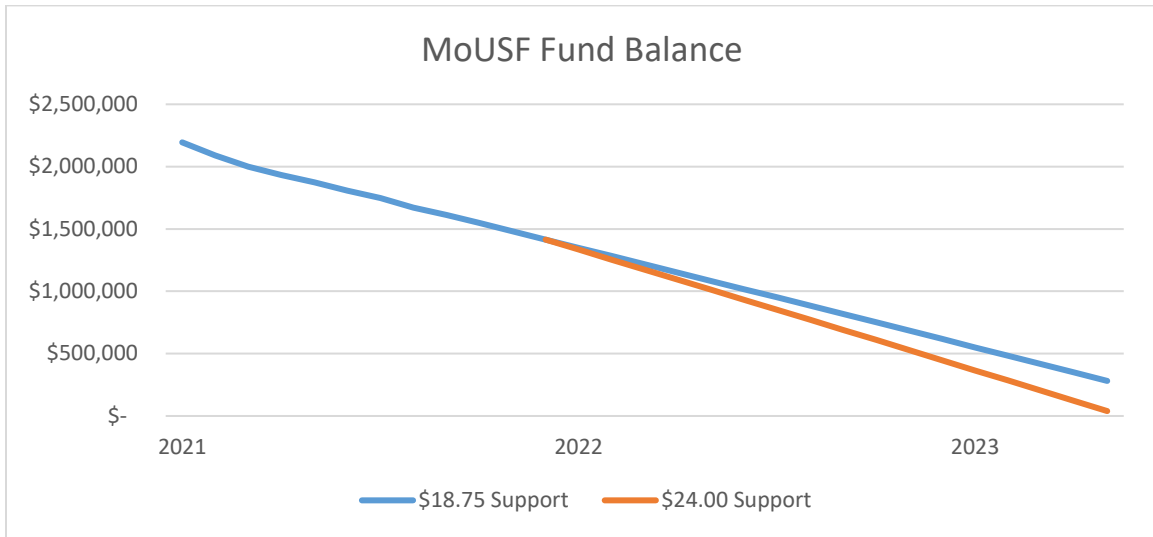
⁶ Account balance as of July 31, 2021 per Missouri USF Administrator's Monthly Report. The average decline is the average of the monthly change over the last 12 months (September 2020 to August 2021).

⁷ These amounts strive to ensure a subscriber in either program receives a total discount of \$24 per month. Lifeline support has two different Missouri USF support amounts to correspond with federal Lifeline funding's structure.

⁸ Qualifying broadband service is defined by the FCC and is currently referring to a broadband speed of at least 25 (down) /3 (up) Mbps or meets the exceptions identified in FCC rule 54.408(d).

⁹ Federal Lifeline support for voice-only service was reduced from \$9.25 to \$7.25 on December 1, 2019 and then further reduced from \$7.25 to \$5.25 on December 1, 2020.

Lifeline voice-only service to \$24.00. This graph shows that the outcome if the assessment remains suspended is that the fund balance is predicted to become negative in 2023.



Staff Projections

Staff projections essentially attempt to forecast future fund balances by applying the basic formula of subtracting expenses from revenues. Revenues or fund inflows consist primarily of assessment remittances; however, revenue can also be attributed to late payment fees as well as interest earned on the fund’s balance. Expenses or fund outflows consist primarily of Missouri USF support payments to companies for providing discounted voice service to qualifying landline subscribers in the Lifeline and Disabled programs but fund expenses can also include payments to a fund administrator for providing fund administration services and also payments to a third party performing independent auditing services and tax preparations services.

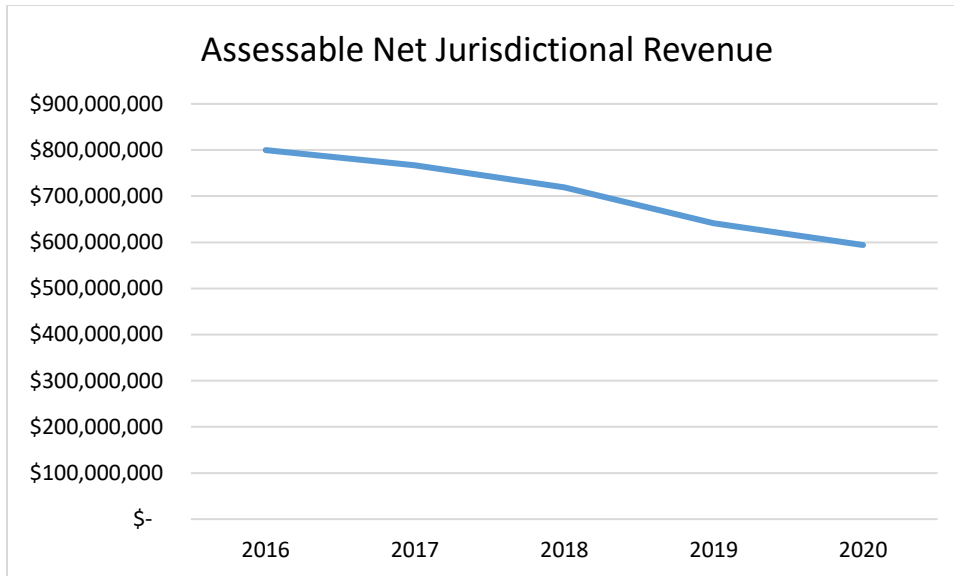
Fund Revenues: The Missouri USF receives most of its revenue through an assessment applied to a company’s net jurisdictional revenue (NJR).¹⁰ Companies bill consumers the Missouri USF assessment and remit the amount collected to the Missouri USF fund.¹¹ Remittances are either made monthly, quarterly or annually depending on a company’s NJR.¹² Assessable NJR has been declining as shown below:¹³

¹⁰ Net Jurisdictional Revenue is defined by Missouri Commission rule 20 CSR 4240-31.010(10) and refers to a company’s intrastate retail (but not wholesale) revenue for telecommunications and IVoIP services.

¹¹ An exception provided by Missouri Commission rule is a company with less than \$24,000 in annual net jurisdictional revenue is not required to remit.

¹² A total of 198 companies had above \$24,000 in NJR and would have been required to submit payments to the Missouri USF had the assessment not been suspended in 2020. The number of companies and their aggregate NJR for 2020 are: Monthly remitters (52 companies, \$561,771,283), Quarterly remitters (47 companies, \$21,896,562), Annual remitters (99 companies, \$10,485,099).

¹³ Assessable NJR is the sum of NJR of all Missouri telecommunications and IVoIP companies that reported at least \$24,000 in annual NJR for that year.



Over the past four years, assessable NJR has declined by an average of 7.03% per year.¹⁴ The most recent time period, from 2019 to 2020, annual assessable NJR declined 7.3%. Staff projects assessable NJR will continue to decline at the annual rate of 7.3%. This rate is only slightly greater than the overall average but reflects a slightly more conservative approach to forecasting future fund balances should an assessment be reinstated.¹⁵

Fund revenues can also include interest and late payment fees. The Missouri USF earns a small amount of interest. Interest is earned daily by taking each day's collected balance by the current interest rate which is then divided by the number of days in the year. Interest earned is not included in Staff's projections. Late payment fees are applied if a company fails to remit in a timely manner. Staff's projections assume all companies will remit on a timely basis and consequently no late payment fees are included in Staff's projections.

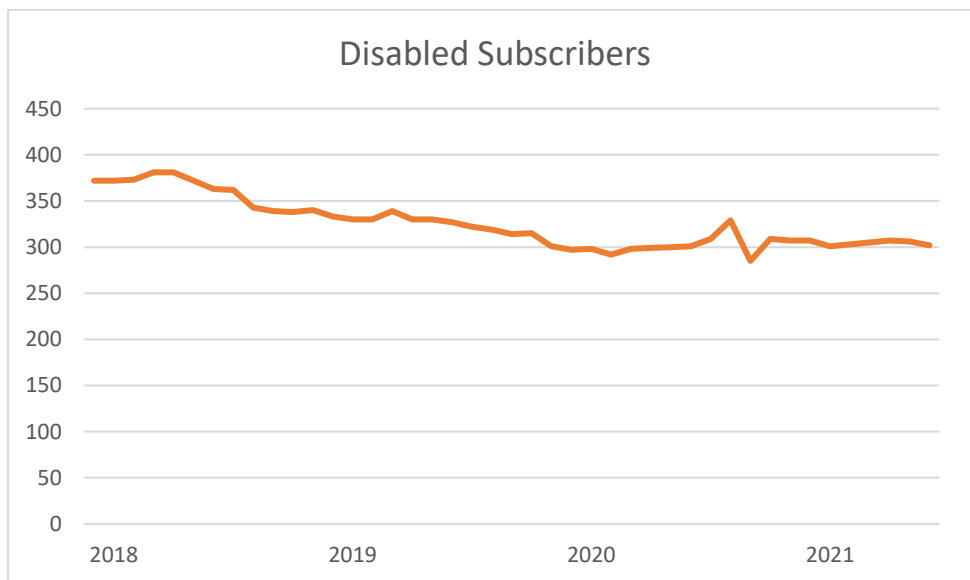
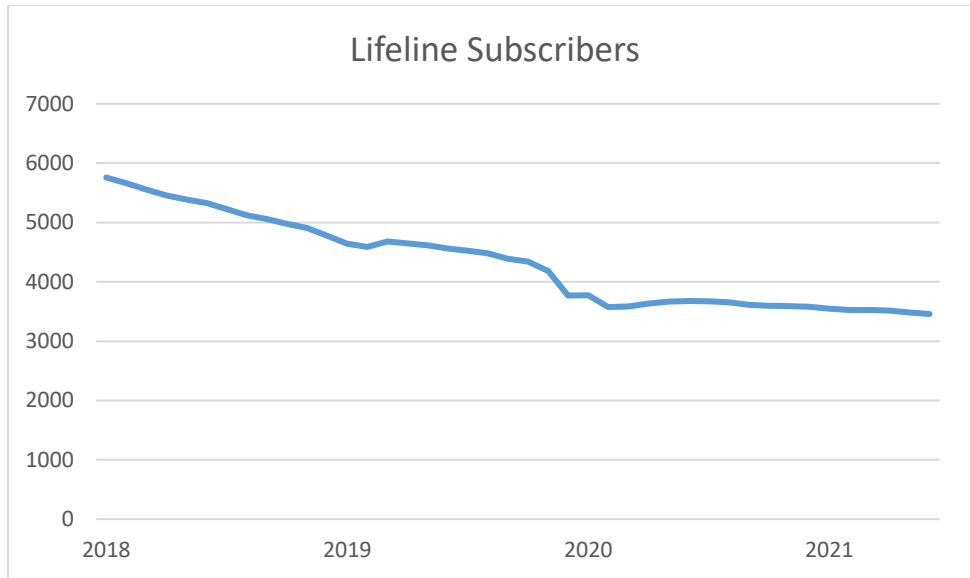
Fund Expenses

Fund expenses consist of two components: (1) Support payments made to companies for providing discounted service to qualifying consumers in the Lifeline and Disabled programs and (2) administrative expenses. Support payments essentially replace lost revenue created by the discounts provided to subscribers within the Lifeline and Disabled programs. Future support payment projections will depend on subscriber quantities and the amount of Missouri USF support provided to these subscribers.

Subscriber quantities in the Lifeline and Disabled programs that receive Missouri USF support are shown below since 2018 to mid-2021:

¹⁴ The annual decline over the past four years averaged -\$51,423,880 based on average assessable NJR of \$731,805,090. Therefore $-\$51,423,880/\$731,805,090 = -7.9\%$.

¹⁵ For example, a greater amount of funding will flow into the fund if actual assessable NJR declines at -7.03% rather than Staff's projected -7.3%.



These graphs show subscriber quantities were declining but appear to have leveled out. As of June 2021 the total number of Lifeline and Disabled program subscribers was 3,458 and 302, respectively. Among the Lifeline program subscribers, 2,710 subscribers (78%) are classified as voice-only subscribers and receive up to \$18.75 in Missouri USF support and 748 subscribers (22%) have a bundled voice and qualifying broadband service and receive up to \$14.75 in Missouri USF support.¹⁶ Among the Disabled program subscribers, 297 subscribers (98%) are classified as voice-only subscribers and 5 subscribers (2%) have a bundled voice and qualifying broadband service. Staff projections assume subscriber quantities remain stable at current levels.

¹⁶ The Missouri USF Administrator started maintaining these records beginning in May 2020. Voice-only Lifeline subscriber quantities receiving \$18.75 in Missouri USF support have been declining at the rate of approximately 19 subscribers per month. In contrast, Lifeline bundled service subscribers receiving \$14.75 in Missouri USF support have been increasing at the rate of approximately 5 subscribers per month.

Support payment expenses are affected by the amount of Missouri USF support provided to these subscribers. This amount can change depending on adjustments made by the Board; however, the implementation of the previously described EBB program in May 2021 can also potentially affect Missouri USF support expense. The EBB program may increase subscriber quantities as suggested by bundled service subscribers totaling 682 subscribers in April 2021 to 750 subscribers in June 2021. On the other hand the EBB program can cause a bundled service subscriber to receive less than the maximum amount in Missouri USF support.¹⁷ In June 2021, 203 of the 753 bundled service subscribers received less than the maximum amount in Missouri USF support¹⁸ At this time the ultimate impact of the EBB program remains unclear. More data is needed to evaluate the impact of the EBB program but for now Staff projections assume bundled subscriber quantities remain unchanged but will receive the full amount of Missouri USF support.

Fund administrative expenses consist of payments made to two outside parties who perform various fund services. These services are performed under two, competitively bid, Board approved contracts. One contract pertains to fund management services while the other contract is for an independent annual audit and tax preparation services. These expenses are paid on a quarterly basis; however, to simplify Staff projections fund administrative expenses are reflected on a monthly basis.¹⁹

Staff recommendation for Missouri USF support levels

Staff recommends the Missouri USF support level for Lifeline voice-only service increase from \$18.75 to \$24.00 if the FCC proceeds with its plan to eliminate federal monthly subscriber support for Lifeline voice-only service on December 1, 2021. Should the FCC not proceed with this plan then Staff recommends Missouri USF support levels remain unchanged. Staff's recommendation is intended to prevent affected Lifeline voice-only subscribers from experiencing a rate increase. It also helps ensure voice-only service remains an important part of the Lifeline program as the FCC attempts to transition the Lifeline program into a program solely supporting broadband service. Overall, this recommendation will benefit most Lifeline subscribers supported by the Missouri USF because as previously indicated 78% of Lifeline subscribers benefiting from Missouri USF support are voice-only subscribers. Staff further recommends the support for the Disabled Program and the non-voice-only subscribers remain unchanged.

The timing of a decision to increase the Missouri USF support level for Lifeline voice-only service should provide as much advance notice as possible to enable companies to make

¹⁷ This situation occurs if a company needs to seek a smaller amount of per-subscriber Missouri USF support in order to ensure the total of all federal and state support does not exceed the monthly rate for service plus subscriber line charge.

¹⁸ These subscribers are served by four companies who applied for Missouri USF support ranging from \$11.25 to \$13.94.

¹⁹ Fund administrative expenses are totaled for the year then divided by 12 months. New contracts were awarded in August 2021 and these expenses reflect the rates contained in the new contracts. The contracts are for one-year terms with the option to annually renew.

billing system adjustments. Missouri’s rules specify companies will be provided with 60 days advance notice for changes to the Missouri USF assessment. Staff recommends similar advance notice provided, if possible, for changes in Missouri USF support levels.²⁰ If Missouri USF support is increased as recommended by Staff then companies should be given some flexibility to accommodate the change so a company can implement the change on December 1, 2021 or soon as possible after that date but before February 1, 2022.

Staff recommendation for the Missouri USF assessment

The Missouri USF can accommodate continued suspension of the Missouri USF assessment according to Staff’s projections. Regardless of whether the Missouri Commission increases Missouri USF support for Lifeline voice-only service, the assessment suspension can be extended at least to September 30, 2022. The assessment will need to be reinstated shortly thereafter in order to stabilize the fund balance at a level to recover five to nine months’ worth of expenses.²¹ At this time, Staff projects the following assessment levels and date of implementation depending on the Board’s decision regarding increasing Missouri USF support for Lifeline voice-only service:

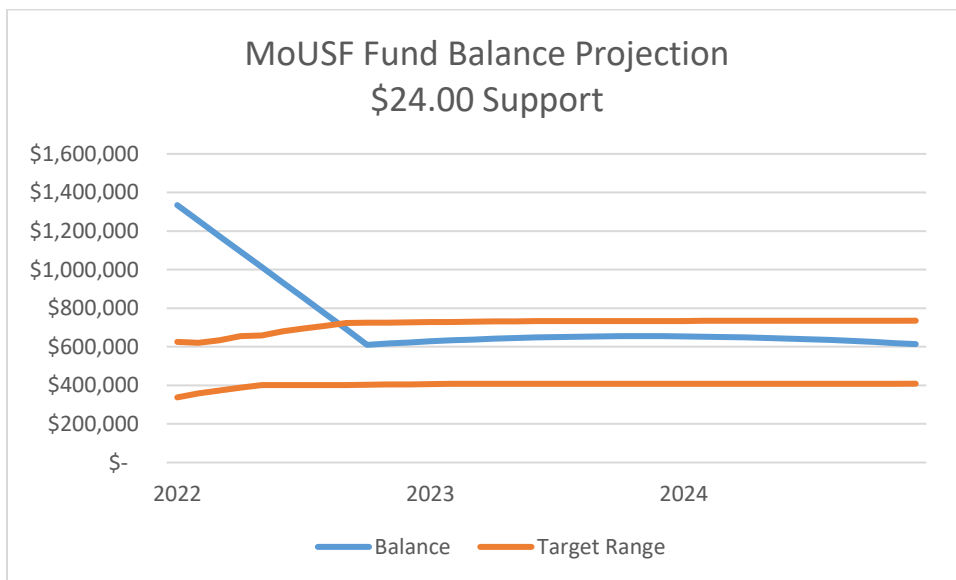
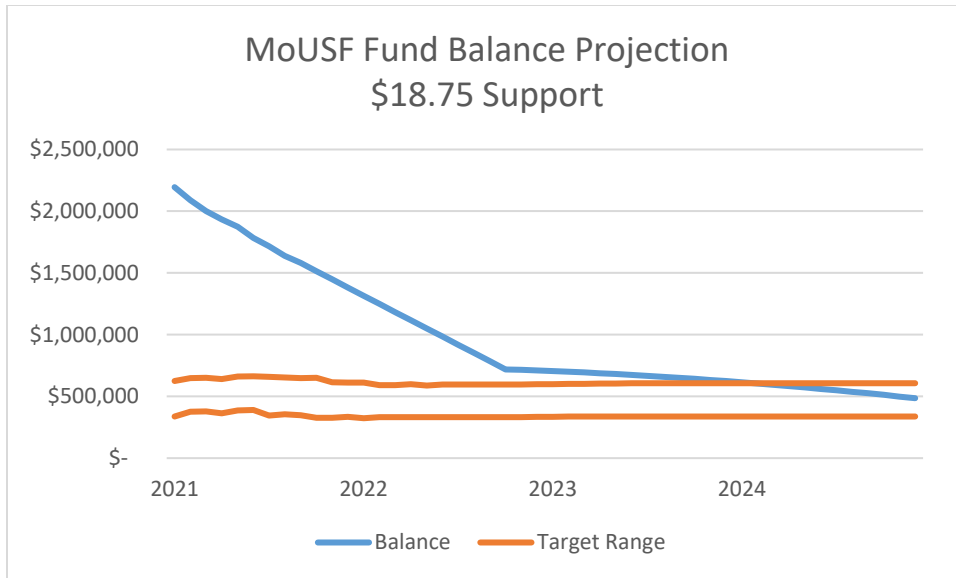
Board Action	Assessment Level	Date of reinstating Assessment
Maintain \$18.75	.0015	January 1, 2023
Increase to \$24.00	.0021	October 1, 2022 ²²

These projections are contained in Attachment A and B and also graphically shown below:

²⁰ Advance notice is generally needed to make changes to consumer bills. In this instance, adjustments to consumer bills may not be ultimately necessary but uncertainty of federal or state support levels places companies in a difficult position.

²¹ This desired range is based on prior guidance provided by the Missouri USF Board.

²² Prior Staff recommendations have suggested limiting assessment changes to January 1st to best accommodate annual payment schedules. January 1 is the optimum date for assessment changes but problems caused by assessment changes occurring on other dates can be minimized if adjustments occur on April 1st, July 1st or October 1st.



At this time Staff recommends the assessment suspension period simply be extended to September 30, 2022 and that the Commission delay any decision about reinstating the assessment. Staff further recommends the Commission direct Staff to file updated fund financial information and a finalized recommendation regarding the assessment by June 1, 2022. This time frame will enable Staff to fine tune Staff projections regarding the assessment level.²³ If the Missouri Commission increases Missouri USF Lifeline voice-only support to \$24 and if the Missouri Commission wants to reinstate the assessment then

²³ Company annual reports identifying 2021 NJR will be filed April 15, 2022 enabling better NJR projections. In addition, more time is needed to evaluate the impact of the EBB program on Missouri USF support expenses.

the Commission will need to issue a decision regarding the assessment by August 2, 2022.²⁴ This deadline will require certain actions to occur within a compressed time frame.²⁵

Additional Staff recommendations

The Commission should invite interested parties to immediately file comments. The comment deadline should be set so that the Board has access to any comments prior to the Board's October 2021 meeting.

Summary of Staff recommendations

- Extend the suspension of the MoUSF assessment through September 30, 2022.
- Increase Missouri USF support for Lifeline voice-only service from \$18.75 to \$24.00, effective December 1, 2021 on the condition the FCC eliminates federal support for these subscribers. Companies should be allowed flexibility to implement this increase on or after December 1, 2021 but no later than February 1, 2022.
- Maintain the existing \$24 support for the Disabled Program and the \$14.75 for Lifeline service with voice and broadband services.
- Immediately seek comments from interested parties.
- Direct Staff to file updated fund financial information and a finalized assessment recommendation by June 1, 2022.

Attachment A: Projections for \$18.75 lifeline discount

Attachment B: Projections for \$24.00 lifeline discount

²⁴ Missouri Commission rule 20 CSR 4240-31.012(2) requires at least 60 days advance notice of an assessment change. If the assessment is reinstated on October 1, 2022 then a Commission order must be issued no later than Tuesday August 2, 2022. If the assessment is reinstated on January 1, 2023 then a Commission order must be issued no later than Tuesday November 2, 2022.

²⁵ The proposed procedure could be: June 1, 2022 Staff files updated assessment recommendation. July 1, 2022 deadline for filing comments. The Board will then need to make a recommendation to the Commission at its July 2022 Board meeting. The timing of the Board's July 2022 meeting needs to be coordinated with the Missouri Commission's schedule so that the Missouri Commission may issue a decision by August 2, 2022.