

## MEMORANDUM

To: Official Case File  
Case No.

From: John Van Eschen and Dana Parish  
Telecommunications Unit

Subject: Recommendation to Reduce the Relay Missouri Surcharge

Date: July 31, 2014

### Summary

The Commission Staff (Staff) recommends the Commission reduce the Relay Missouri surcharge from \$.08 to \$.06 in order to lower the balance of the Deaf Relay Service and Equipment Distribution Program Fund (Relay Missouri Fund). The Relay Missouri Fund balance was \$6,045,677 as of February 28, 2014. The surcharge was last revised approximately one year ago.<sup>1</sup> Staff anticipates reducing the Relay Missouri surcharge to \$.06 should slowly reduce the fund balance so it reaches a target range in approximately four years. Companies should be provided at least sixty days advance notice of any change in the assessment. Staff recommends the Commission maintain the current retention amount that companies retain for recovering costs associated with billing, collecting and remitting Relay Missouri surcharge revenue.

### Background

The Relay Missouri fund is used to provide funding support for two primary purposes.<sup>2</sup> One purpose is to provide funding for Relay Missouri and CapTel services.<sup>3</sup> A second purpose of the fund is to provide funding for an equipment distribution program that is available to qualifying individuals who are unable to use traditional telecommunications equipment due to disability. Relay Missouri and CapTel services are administered by the Missouri Commission.<sup>4</sup> The equipment distribution program is administered by Missouri Assistive Technology.<sup>5</sup>

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<sup>1</sup> Missouri Commission Case File No. TO-2013-0416 *Order Granting Intervention, Adopting Relay Missouri Fund Review and Reducing Fund Surcharge*, issued April 9, 2013. This decision reduced the Relay Missouri surcharge from \$.11 to \$.08 effective July 1, 2013.

<sup>2</sup> Section 209.253 RSMo.

<sup>3</sup> Missouri statutes generically describe such services as a “dual-party system.”

<sup>4</sup> The Missouri Commission administers such services through the Request for Proposals (RFP) process. Sprint currently is under contract to provide relay and CapTel services through July 31, 2017.

<sup>5</sup> Missouri Assistive Technology is a separate state agency. The equipment program’s website is [www.at.mo.gov](http://www.at.mo.gov).

Missouri statutes place certain requirements on the Missouri Commission's oversight of the Relay Missouri surcharge. For example, the surcharge is applied to a landline basic telephone access line; however, the surcharge is not imposed upon more than one hundred lines per subscriber per location. The Commission is required to review the surcharge no less frequently than every two years but no more than annually.<sup>6</sup> This requirement should not be an issue given the Commission issued a decision regarding the assessment level slightly longer than one year ago.

Companies are able to deduct and retain a percentage of the surcharge amount collected in order to recover billing and collection-related costs.<sup>7</sup> The Commission's rules refer to this arrangement as the "retention amount."<sup>8</sup> Since the inception of Relay Missouri, the Commission has allowed companies to retain one percent of the amount collected or \$30 per month, whichever is greater. If the amount collected is \$30 or less then the company simply retains the amount collected. Staff recommends no changes to this arrangement.

The Relay Missouri surcharge fund balance has continued to grow since the surcharge was lowered to \$.08 approximately one year ago. In evaluating why the fund's balance has continued to grow, growth appears to be due to lower than expected expenses.<sup>9</sup> The remainder of this memorandum attempts to explain Staff's projections under various scenarios in formulating its recommendation to reduce the Relay Missouri surcharge to \$.06.

## **Fund Balance Projections**

The Relay Missouri Fund balance is based on the following basic formula:

$$\text{Revenues} - \text{Expenses} = \text{Net impact to the Fund balance}$$

Revenues are comprised of Relay Missouri surcharge receipts received from companies and interest earned on the fund's balance. Expenses pertain to disbursements associated with relay service, CapTel service, the equipment distribution program and other miscellaneous expenses. **Attachment A** shows actual data for revenues, expenses and Relay Missouri Fund balances from July 2008 through February 2014.

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<sup>6</sup> Section 209.259 RSMo.

<sup>7</sup> Section 209.257 RSMo.

<sup>8</sup> Missouri PSC Rule 4 CSR 240-33.170(3).

<sup>9</sup> For example, from March 2012 to February 2014 relay expenses have decreased by 26%, while CapTel expenses have decreased by 6%.

## Revenues

Staff's revenue projections make the following assumptions:

- The Relay Missouri surcharge will be revised effective October 1, 2014.
- Line quantities will continue to decline at the rate of -.56% per month (or -6.77% annually).
- Interest amount assumes .0005% monthly interest rate applied to the prior fund balance amount.

These assumptions are further discussed below.

### Revenues:

Revenues reflect the revenue remitted to the Relay Missouri Fund by landline companies. As previously indicated, the Relay Missouri surcharge is applied to an access line with a cap of 100 lines per subscriber per location. Consequently, Relay Missouri receipts are impacted by line quantities. **Attachment B** reflects revenues received for the July 2008 through February 2014 time period. Line quantities can be estimated by dividing revenues by the applicable Relay Missouri surcharge. Performing this type of calculation suggests line quantities experienced an overall decline of 33% from 2,945,567 in July 2008 to 1,985,188 in February 2014. This 33% decline translates to an average monthly change of -.48% (.0048) or average annual change of -5.75% for this 68 month time period. Analysis of more recent months suggests line quantity loss has accelerated. For example during the past 13 months from January 2013 to February 2014 line quantities declined from 2,142,367 to 1,985,188 for an average monthly change of -.56% or average annual change of -6.77%. Although the averages over both time periods are similar, Staff projects line quantities will change at the rate of -.56% per month or -6.77% annually.

Projected relay revenues are reflected in **Attachment C**. This schedule projects line quantities and corresponding receipts for various Relay Missouri surcharge levels of \$.08 through \$.04 for the time period of December 2012 through December 2020. For all scenarios it was assumed a Relay Missouri surcharge revision becomes effective in October 2014 and the resulting revenue impact of an assessment change will begin to show in November 2014.

### Interest:

Interest reflects the amount of interest earned on the Relay Missouri Fund balance as reported by the Missouri State Treasurer's Office. In other words, the Missouri State Treasurer's Office is able to generate some interest earned based on the Relay Missouri Fund balance and such interest is simply re-invested into the Relay Missouri Fund. **Attachment A** shows the amount of interest earned for the July 2008 through February 2014 time period. The monthly interest average for the past year is \$3,133. Based on a

fund balance of approximately \$6 million this average interest amount translates into an average monthly interest rate of approximately .05% (or .0005).

## **Expenses**

Staff's expense projections make the following assumptions:

- Existing relay/CapTel reimbursement rates will continue.
- Relay usage will decline at the rate of -1.72% per month (or -20.68% annually).
- CapTel usage will decline at the rate of -.0056% per month (or 6.07% annually).
- Equipment program expenses will average \$125,000 per month (or \$1.5 million annually).
- Outreach expenses will average \$7,281 per month (or \$87,373 annually).
- Committee meetings will average \$1,116 per meeting.
- State expenses will average \$2,809 per month (or \$33,707 annually).

These assumptions are further discussed below.

### Relay Expense:

Relay expense reflects expenses associated with traditional relay service. Relay expense is based on relay minutes times the applicable reimbursement rate as reflected in the Relay Missouri service contract. The reimbursement rate for relay service under the current contract is \$.80 per minute.

**Attachment D** shows actual relay expenses for the July 2008 through February 2014 time period. This attachment determines relay minutes by dividing these expenses by the applicable reimbursement rate in effect at the time. For a variety of reasons traditional relay usage reimbursed by the Relay Missouri Fund is declining.<sup>10</sup> For example, in July 2008 relay minutes totaled 126,137 versus 32,245 in February 2014. In comparing the average monthly relay minutes for the past two years relay usage has declined at an annual rate of -20.68% (or -1.72% per month). **Attachment E** assumes relay usage will continue to decline based on the monthly rate of -1.72% and the current \$.80 per minute reimbursement rate will continue into the next contract award. Attachment E shows Staff's monthly relay expense projections from December 2012 through December 2020.

### CapTel Expense:

CapTel expense reflects expenses associated with CapTel service. CapTel expense is based on CapTel minutes times the applicable reimbursement rate as reflected

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<sup>10</sup> Many users of traditional relay service are now using IP-based (broadband) relay services whereby IP-based relay services are solely reimbursed by the federal relay fund. Increased use of wireless text messaging is also viewed as a substitute for traditional relay service.

in the Relay Missouri service contract. The reimbursement rate for CapTel service is \$1.60 per minute under the current contract.

**Attachment F** shows actual CapTel expenses for the July 2008 through February 2014 time period. This attachment attempts to determine CapTel minutes by dividing these expenses by the applicable reimbursement rate in effect at the time. CapTel usage reimbursed by the Relay Missouri Fund is declining.<sup>11</sup> For example, in July 2008 CapTel minutes totaled 50,629 versus 30,437 in February 2014. In comparing the average monthly relay minutes for the past two years, CapTel usage has declined at an annual rate of -6.72% (or -.56% per month). **Attachment G** assumes CapTel usage will continue to decline based on the monthly rate of -.56% and the current \$1.60 per minute reimbursement rate will continue into the next contract period. Attachment G shows Staff's monthly CapTel expense projections from December 2012 through December 2020.

#### Equipment Program Expense:

Equipment program expenses refer to payments to Missouri Assistive Technology for the purpose of funding the equipment distribution program. **Attachment A** includes the identification of actual monthly expenses for the equipment program. Actual monthly equipment expenses have varied from \$30,478 to \$199,631 for the time period of July 2008 to February 2014. Overall actual annual equipment expenses have generally declined from \$1,525,148 in June 2008 to \$1,246,464 in February 2014.

Equipment program expenses are projected to increase and be in the range of \$1,500,000 to \$1,700,000 per year. This range is based on consultation with Marty Exline, Director of Missouri Assistive Technology. According to Mr. Exline the equipment program is being expanded to include the distribution of wireless equipment. He anticipates actual equipment program expenses will be \$1,500,000 over the next year and may possibly be closer to \$1,700,000 in subsequent years.

Staff's projections assume a monthly equipment program expense of \$125,000 per month, or \$1,500,000 annually. Given the current fund balance size Staff prefers to underestimate this expense. Nevertheless, this amount reflects a 20% increase over the actual average monthly equipment expense of \$103,872 for the most recent twelve month time period of March 2013 to February 2014. In Staff's opinion a monthly equipment program expense projection of \$125,000 is reasonable. The fund balance should be able to easily absorb a higher program expense if this projected amount turns out to be too low.

#### Other Expenses:

Other expenses include outreach, Relay Missouri Advisory Committee expenses, and State of Missouri expenses. The projected amounts for other expenses are as

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<sup>11</sup> Many users of CapTel service reimbursed from the Relay Missouri Fund have switched to IP-based (broadband) CapTel service that is solely reimbursed from the federal relay fund.

follows: Outreach \$7, 281 monthly, State of Missouri \$2,809 monthly and Relay Missouri Advisory Committee \$1,116 bi-annually.

Outreach expenses reflect expenses associated with publicizing Relay Missouri service and these expenses are paid to the existing Relay Missouri service provider. Prior to September 1, 2012 outreach was simply incorporated into the contractual per minute reimbursement rates. The current contract separately considers outreach expense whereby the Relay Missouri service provider seeks pre-approval from Staff for reimbursement of specific outreach expenses with a total annual outreach cap of \$100,000. Staff anticipates this current arrangement will continue in future contracts, but Staff has lowered the total annual amount of outreach to \$87,372 annually or \$7,281 per month.

Relay Missouri Advisory Committee expenses are expenses associated with conducting two committee meetings each year. At these meetings, issues relating to the provisioning of relay and CapTel services are discussed with committee members and the relay service provider. Staff projects Relay Missouri Advisory Committee expenses will be \$2,232 annually or \$1,116 bi-annually.

State of Missouri expenses are expenses associated with the State of Missouri withdrawing money from the fund, conceptually to recover costs associated with administering funds. These withdrawals are outside the control of the Missouri Commission. Total amount withdrawn by the State of Missouri for the July 2008 through February 2014 time period is \$268,505. Staff projections assume State of Missouri expenses will be \$33,707 annually or \$2,809 per month.

#### Fund Balance Projections:

**Attachment H** identifies Staff's fund balance projections for surcharge levels of \$.08, \$.07, \$.06, \$.05, and \$.04, respectively. These attachments attempt to project the Relay Missouri Fund balances out to December 2020 for each of these surcharge levels. **Attachment I** attempts to graphically show the actual and projected fund balances for each of these surcharge scenarios. It is worth noting fund balance growth appears to have leveled off in 2013. For example, the fund balance hovered around \$6 to \$6.1 million in 2013. Total expenses and total revenues were essentially equal in 2013; however, total revenues are expected to be less than total expenses by approximately \$530,098 in 2014 and by \$587,918 in 2015. In this regard, the fund balance is projected to begin declining in 2014 even if the surcharge level remains at \$.08. The projected fund balance descent is caused by declining line quantities generating less revenue for the fund.

#### Target Range for the Fund Balance:

The Commission has never established a target range for the Relay Missouri Fund balance. In contrast, the Missouri Universal Service Fund Board has established a target fund balance based on a rolling target range of five to nine months' worth of total expenses. **Attachment H** attempts to apply this same target fund balance criteria to the

Relay Missouri Fund. Consequently, the far right-hand columns on these attachments attempts to show the maximum and minimum target range for the fund balance. In other words, the fund balance column, maximum column, and minimum amount column show the prospective target range based on the respective five and nine prior months' worth of total expenses. The upper or maximum level for this target range is generally less than \$1.9 million on a going forward basis. Based on this criterion, it might be argued the current Relay Missouri Fund balance of approximately \$6 million should be reduced by at least \$4.1 million.

### Staff Recommendation

As previously pointed out, if the surcharge level remains at \$.08 the fund balance is expected to slowly decline beginning in 2014. Although the Commission could keep the surcharge at \$.08 it will take many years before the fund balance reaches a more realistic level. In addition, once the fund balance gets reduced to a more realistic level, Staff projects the surcharge will have to be ultimately increased in order to stabilize the fund balance.

The following chart demonstrates Staff estimates for reaching the maximum and minimum amount within the target range at various surcharge levels. It also projects when the fund would be insolvent absent a future increase in the surcharge. Staff recommends the Commission slowly reduce the fund balance within four years or by the end of 2018. In this regard, Staff discards surcharge levels of \$.08 or \$.07 because they fail to reduce the fund balance to within the proposed target range by the end of 2018. Staff also discards consideration of surcharge levels of \$.04 or less because the fund could also become bankrupt within four years. For example, Staff projects a \$.04 surcharge will cause the fund balance to reach the maximum range by July 2017 and ultimately become negative by September 2018 if the surcharge remains at \$.04.

<b>Surcharge</b>	<b>Maximum</b>	<b>Minimum</b>	<b>Bankrupt</b>
\$.08	September 2020	<i>After September 2020</i>	<i>After September 2020</i>
\$.07	July 2019	March 2020	<i>After March 2020</i>
\$.06	August 2018	April 2019	February 2020
\$.05	January 2018	August 2018	April 2019
\$.04	July 2017	January 2018	September 2018

To reduce the fund balance within four years and minimize the “yo-yo” effect of later increasing the surcharge, Staff recommends the Commission adjust the surcharge to \$.06. If approved, the fund balance should be reduced to the proposed target range by August 2018. Regardless of what surcharge level is selected by the Commission the surcharge will need to be increased in order to stabilize the fund balance within the target range.<sup>12</sup> The Relay Missouri Advisory Committee has reviewed Staff’s recommendation and has no objections.

<sup>12</sup> For example if the Commission approves reducing the surcharge to \$.06 Staff projects the surcharge will need to be increased to \$.13 prior to April 2019. In general, the \$.13 level applies to the \$.08, \$.07 and

In summary, Staff makes the following recommendations:

- Lower the Relay Missouri surcharge from \$.08 to \$.06.
- Maintain the current retention amount intended to compensate companies for costs associated with billing, collecting and remitting Relay Missouri surcharge revenue.
- Provide companies a minimum advance notice of 60 days' notice of any assessment change.

**Summary of Attachments:**

Attachment A: Actual Relay Missouri Fund data for July 2008 through February 2014

Attachment B: Translating actual revenues to line quantities

Attachment C: Projected revenues for various surcharge levels

Attachment D: Translating actual relay expenses into relay minutes

Attachment E: Projected relay expenses

Attachment F: Translating actual CapTel expenses into CapTel minutes

Attachment G: Projected CapTel expenses

Attachment H: Projections under various surcharge levels

Attachment I: Graph of projections under various surcharge levels

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\$.06 scenarios while \$.12 applies for the \$.05 and \$.04 scenarios. These subsequent surcharge levels are intended to enable monthly revenues to equal monthly expenses at the time the fund balance reaches the minimum target level.