HB 1562

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1562 (Delegate D. Davis)
Economic Matters Finance

Telephone Companies - Telephone Lifeline Service

This bill adds specified individuals as eligible for the telephone lifeline service (Tel-Life) and expands the program's available services. The bill also requires the Department of Human Resources (DHR) to provide local phone companies offering Tel-Life monthly electronic access to a file containing a list of all individuals who are eligible for the program.

The Public Service Commission (PSC) must study the implications of expanding the definition of eligible subscriber to include individuals who do not receive the specified assistance or benefits to be eligible for a telephone lifeline service and who reside in subsidized housing where residential local exchange access and other associated phone services are included as part of the individual's rent payments. PSC must report its findings and recommendations by December 31, 2006.

Fiscal Summary

State Effect: Gross receipts tax revenue could increase in FY 2007 by $14,700 but would begin decreasing to $50,500 by FY 2010 from increased subscriber participation. Expenditures would not be affected.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
GF Revenue	$14,700	($10,100)	($30,300)	($50,500)	($50,500)
Expenditure	$0	$0	$0	$0	$0
Net Effect	$14,700	($10,100)	($30,300)	($50,500)	($50,500)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: At the direction of PSC, a local phone company must provide the Tel-Life services to an eligible subscriber. The bill adds individuals who receive assistance from the electric universal service program (EUSP) and the Maryland energy assistance program (MEAP) to the pool of eligible subscribers.

An eligible subscriber may select the enhance Tel-Life service which provides unlimited local calls for $10 per month and allows the purchase, at full price, of up to two value-added services (*e.g.*, caller id, call waiting).

Current Law: Tel-Life service is a program provided to eligible subscribers that, at a discount, provides a residential local exchange dial access line plus the first 30 residential local un-timed messages per billing month. Eligible participants receive a basic land-line phone service at $0.66 per month (plus charges for calls over the 30 free calls). Repairs to inside wiring, connection, and installation are charged at 50% of the regular charge.

DHR certifies to the phone company the eligibility of an individual to participate in the telephone lifeline service program if the individual: (1) participates in any of several assistance programs administered by DHR; (2) receives State-funded public assistance benefits; or (3) receives supplemental security income under Title XVI of the federal Social Security Act.

Telephone companies that participate in the Tel-Life program receive a tax credit on the gross receipts tax for Tel-Life service charges not billed to eligible subscribers. That is, the difference between the regular service charge and the charge to the eligible Tel-Life subscriber. The gross receipts tax is a component of the State public service company franchise tax. Gross receipts are defined as the total operating revenues of a public service company. The proposed State budget for fiscal 2007 assumes general fund revenues from the gross receipts tax of $135.2 million.

Background: Tel-Life is a federally mandated program that provides subsidized telephone service to qualifying individuals. The cost for providing Tel-Life is reflected in residential and commercial users' telephone bills. DHR reports that Tel-Life currently receives approximately 375 applications per month, and that an estimated 325 per month are approved. There are approximately 4,800 individuals currently receiving Tel-Life services. DHR also supplies brochures and applications to requesting agencies that refer individuals to the Tel-Life program.

This bill has been introduced as a result of PSC Order Number 80407, issued November 23, 2005, a settlement agreement with various parties regarding additional low-income telecommunications lifeline measures. As part of the agreement, Verizon must offer a certain low-income alternative to the existing Tel-Life service for up to three years. That plan would provide dial tone line with unlimited usage package for $10 per month. Additionally, the settlement agreement provides that Verizon, PSC, and the Office of People's Council would work together to develop a bill to be presented during the 2006 legislative session codifying the low-income alternative and expanding the eligibility requirement for the service and Tel-Life to include all customers that are eligible for the EUSP. The agreement did cover MEAP participants.

State Revenues: Gross receipts tax revenue would increase by $14,700 in fiscal 2007, taking into account the 90-day delay in start up of the enhanced program. The increase in revenue results from: (1) switching of customers from the current program which has a higher per subscriber gross receipt tax credit to the enhance program which provides a lower per subscriber credit; and (2) low first year participation due to lack of program knowledge by eligible participants. The current Tel-Life program gross receipts tax credit is $6.50 per subscriber per month and the credit for the enhanced program would be $3.51 per subscriber per month. The lower credit results because the subscriber is actual paying for a larger portion of the regular rate in the enhanced $10 monthly program than they pay in the current $0.66 per month program.

Beginning in the second year of the program, it is anticipated that more subscribers will join the enhanced program than will switch from the current program. This will result in an overall increase of the gross receipts tax credit for the local phone company and, therefore, a decrease in State general fund revenue from the gross receipts tax. It is projected that the increase in the tax credit in fiscal 2008 will be $10,100 and increase to $50,500 by fiscal 2011 and beyond. Growth in participation of the enhanced Tel-Life service is assumed to match the growth in participation of EUSP when that program was initially implemented. **Exhibit 1** provides a chart of projected program participation and resulting change in the gross receipts tax credit.

The actual change in the gross receipts tax revenue depends on: (1) the number of subscribers that would switch from the current program to the enhanced program; and (2) the number of individuals receiving assistance from EUSP and MEAP who are not eligible now for the Tel-Life service that would elect to participate in either program. Additionally, the estimates provided here are based on participation rates for Verizon, the only phone company currently required to provide Tel-Life. This bill allows PSC to require other phone companies with at least 10,000 subscribers to provide the services as well. To the extent that PSC requires other companies to provide the service, the actual change in gross receipts tax could be impacted by those company's participation rates. However, according to PSC there are very few other companies that have in excess of 10,000 subscribers and those that do tend not to have very many low-income customers. PSC does not anticipate requiring other telephone companies to participate in the program at this point.

Additional Comments: Verizon indicates that it will reimburse any of DHR's costs to provide monthly electronic access to a file containing a list of all individuals who are eligible for the program. Verizon will also develop and distribute educational material for the enhanced program.

Additional Information

Prior Introductions: None.

Cross File: SB 693 (Senator Miller, *et al.*) – Finance.

Information Source(s): Department of Human Resources, Public Service Commission, Office of People's Counsel, Department of Legislative Services

Fiscal Note History:	First Reader - February 28, 2006
ncs/jr	Revised - House Third Reader - March 21, 2006

Analysis by: Karen S. Benton	Direct Inquiries to: (410) 946-5510 (301) 970-5510

Exhibit 1
Projected Participation in Enhanced Program and Change in Tax Credit

Fiscal	Enhanced Plan Participants	Per Line Credit per Month	Enhanced Gross Receipts Tax Credit	Subscribers Switching from Current Program	Per Line Credit per Month	Reduction in Current Tax Credit	Net Change Tax Credit
2007	720	$3.51	$22,745	(480)	$6.50	($37,440)	($14,695)
2008	2,328	$3.51	$98,055	(1,128)	$6.50	($87,984)	$10,071
2009	2,808	$3.51	$118,273	(1,128)	$6.50	($87,984)	$30,289
2010	3,288	$3.51	$138,491	(1,128)	$6.50	($87,984)	$50,507
2011	3,288	$3.51	$138,491	(1,128)	$6.50	($87,984)	$50,507