

Department of Legislative Services
Maryland General Assembly
2012 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1087

(Delegates Hixson and Davis)

Economic Matters

Finance

Communications Companies - Universal Service Trust Fund - Surcharge

This bill expands the services that are subject to the Universal Service Trust Fund (USTF) surcharge from switched local exchange access (landline service) in the State to all “communications services” in the State. The bill also alters the surcharge from a per telephone charge not to exceed 45 cents per month to a per account charge not to exceed 18 cents per month. The bill requires the Public Service Commission (PSC) to set the surcharge in fiscal 2014 and annually thereafter at an amount that is no higher than necessary, given the current fund balance, to generate sufficient revenues to fund the costs of USTF’s programs and administrative costs for the following fiscal year. The bill also establishes specific uses for the money in USTF.

The bill takes effect July 1, 2012.

Fiscal Summary

State Effect: The bill alone does not materially affect State finances, as discussed below.

Local Effect: Minimal or none.

Small Business Effect: Minimal or none.

Analysis

Bill Summary: A “communications company” means a public service company, as defined in § 1-101 of the Public Utilities Article, or any other company, that provides a communications service. “Communications service” means landline telephone service, wireless or cellular telephone service, or Voice-over-Internet Protocol (VoIP) service.

PSC must annually set the surcharge for the following fiscal year at an amount that is no higher than necessary to generate sufficient revenues to fund the costs of the programs for the following fiscal year, given the current fund balance. Money in USTF may only be used to fund the costs of specified programs and for administration of the fund. Any funds remaining in USTF at the end of a fiscal year must be carried forward within the fund for the maintenance and operation of the fund's programs in the following fiscal year.

The Secretary of Information Technology must direct the affected communications companies to add the surcharge, as calculated by PSC, to all current bills rendered for communications service in the State. The surcharge may not exceed 18 cents per month for each account. Communications companies must act as collection agents for the fund, and must remit all proceeds (minus 1.5% for administrative expenses) to the Comptroller on a monthly basis.

Current Law: USTF pays for the Maryland Relay Service and additional services and equipment for persons with disabilities. The Comptroller collects fees for this purpose through a surcharge, determined by PSC, on individuals' phone bills (landline services only). The surcharge is currently \$0.18 per month, but may not exceed \$0.45 per month. Telephone companies must act as collection agents for the fund, and must remit all proceeds (minus 1.5% for administrative expenses) to the Comptroller on a monthly basis. USTF is administered by the Department of Information Technology, which submits information to PSC each year for PSC to determine an appropriate surcharge based on several factors, including the current fund balance and anticipated expenditures.

Background: USTF expenditures have remained at approximately the same level over the last five years, while fund revenues have declined from a high of \$6.6 million in 2008 to \$4.4 million in 2013. In addition, the fund balance has been reduced by \$12.0 million over three years by the Budget Reconciliation and Financing Acts of 2009, 2010, and 2011. PSC advises that it set the surcharge so as to reduce the fund balance over this time period. Legislative Services notes that the excess fund balance is eliminated as of the end of fiscal 2013 as illustrated in **Exhibit 1**.

The Maryland Relay Service was initiated by Telecommunications Access of Maryland in December 1991 to convey dual-party telephone messages for persons with disabilities. The service enables a deaf person to communicate via a telecommunications device with an intermediary party who then verbally relays the message to a third party. For State residents who are deaf or have impaired hearing, speech, vision, or mobility, the service makes telephone use possible 24 hours per day, seven days per week. In addition, USTF funds a program that provides financial assistance for the purchase of specialized telecommunications devices for persons with disabilities. Finally, USTF funds the distribution of accessible information in the form of audio editions of daily newspapers.

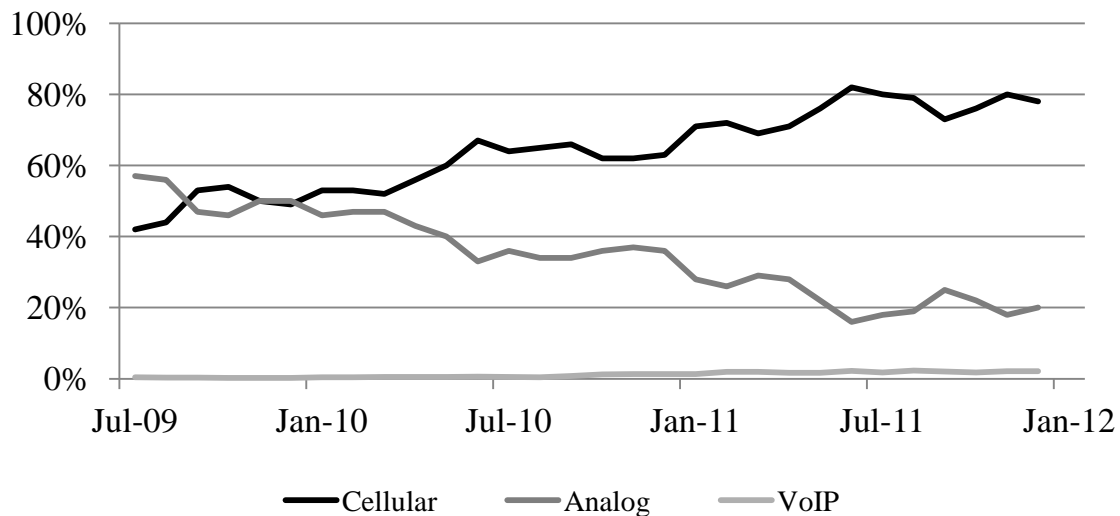
Exhibit 1
Universal Service Trust Fund Budget
(\$ in Thousands)

	<u>Actual</u> <u>2008</u>	<u>Actual</u> <u>2009</u>	<u>Actual</u> <u>2010</u>	<u>Actual</u> <u>2011</u>	<u>Est.</u> <u>2012</u>	<u>Est.</u> <u>2013</u>
Opening Fund Balance	\$15,190	\$16,624	\$12,038	\$6,044	\$3,137	\$1,807
Revenue	6,591	5,977	5,094	4,805	4,614	4,380
Interest	926	574	0	0	0	0
Expenditures	-6,082	-6,137	-6,089	-5,712	-5,944	-6,187
BRFA Transfer	0	-5,000	-5,000	-2,000	0	0
Closing Fund Balance	\$16,624	\$12,038	\$6,044	\$3,137	\$1,807	\$0

Source: Department of Legislative Services

A 2011 study by the National Institutes of Health found that nearly one-third (31.6%) of all Americans use only a cellular phone, instead of a landline. The trend has been consistent and shows continuous growth: in 2003, less than 5% of Americans used only a cellular phone; in 2008, it was 15%. This trend is also evident in those who use the Maryland Relay Service. The Department of Information Technology advises that the proportion of users who access the service through cellular phones has risen dramatically, from 40% in July 2009, to 80% by July 2011. **Exhibit 2** shows the distribution of calls into the service over these years.

Exhibit 2
Distribution of Calls to Maryland Relay Service, by Type



Source: Department of Information Technology

State Fiscal Effect: The Department of Information Technology advises that operating USTF is a requirement of the Federal Communications Commission, and that, in absence of the bill, there is sufficient statutory authority to raise the surcharge on landline customers to meet the annual funding requirement. In the absence of the bill, PSC would increase the surcharge on all landline telephone customers to maintain the program's revenues and expenditures. (The current surcharge is \$0.18 per month and statute authorizes a maximum surcharge of \$0.45 per month.) This bill increases the customer base, but prohibits PSC from setting the surcharge at an amount greater than the annual budget of the fund's programs and administrative costs for the following fiscal year, given the fund balance. Thus, this bill alone does not materially affect State finances.

Additional Comments: Although the bill specifies that investment earnings from the fund accrue to the fund, it does not amend § 6-226 of the State Finance and Procurement Article to exempt the fund from existing law that requires all investment earnings and interest from special funds to accrue to the general fund.

Additional Information

Prior Introductions: HB 1007 of 1996, a similar bill received a hearing in the House Environmental Matters Committee. The bill was referred to interim study.

Cross File: SB 746 (Senator Middleton) - Finance.

Information Source(s): Public Service Commission, Office of People's Counsel, Department of Information Technology, Department of Disabilities, National Institutes of Health, Department of Legislative Services

Fiscal Note History: First Reader - March 1, 2012
mc/lgc Revised - House Third Reader - April 7, 2012

Analysis by: Stephen M. Ross

Direct Inquiries to:
(410) 946-5510
(301) 970-5510