

**ANNUAL REPORT OF THE
LIFELINE TELEPHONE PROGRAM
2012**

**FILED IN COMPLIANCE WITH
30 V.S.A. § 218 (c)(5)
AND INCLUDING
THE VERMONT TELECOMMUNICATIONS
RELAY SERVICE
AND
THE LINK UP VERMONT PROGRAM**

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TABLE OF CONTENTS

EXECUTIVE SUMMARY

THE LIFELINE PROGRAM

The history of the program	6
The Lifeline program in 2012	8
Telephone subscribership among low-income Vermonters	9
Program administration	9
Vermont Universal Service Funding	10

LINK UP VERMONT PROGRAM 10

VERMONT TELECOMMUNICATIONS RELAY SERVICE 10

VERMONT TELECOMMUNICATIONS EQUIPMENT DISTRIBUTION PROGRAM 11

TABLES

Table 1: 2003 – 2012 Lifeline program participation	14
Table 2: Lifeline participation by company as of December 2012	15
Table 3: 2012 Lifeline telephone program costs to the VUSF	16

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EXECUTIVE SUMMARY

- The number of households receiving Lifeline telephone benefits decreased 4.4 percent from 2011 to 2012, with 18,792 enrolled in December 2011 and 17,989 enrolled in December 2012.
- Lifeline benefits to Vermonters from the state share of Lifeline totaled \$687,952.
- The full cost of the Lifeline Program to Vermont – Lifeline credits plus reimbursed telephone company administrative expenses – was \$718,717.
- Vermonters made calls 23,211 through the Vermont Telecommunications Relay Service (VTRS) in 2012, accounting for 91,647 of minutes of usage.

THE LIFELINE PROGRAM

The history of the program

In 1985, the Vermont General Assembly approved legislation authorizing Vermont to participate in a “lifeline” telephone program set up by the Federal Communications Commission (FCC). The FCC created the program to promote universal service – a policy which originated with the Federal Communications Act of 1934. The universal service concept has evolved over time, but is commonly understood to mean widespread availability of basic service at affordable rates. It has been a mainstay of federal policy for over sixty years.

In the early 1980s, the state and federal government realized that rapid changes in the telecommunications industry threatened the concept of universal service. Specifically, lower-income households could lose telephone service because of the rising basic rates. The FCC responded by establishing the Lifeline Program to help low-income households counteract the rising cost of phone service.

Vermont, like 41 other states, accepted the FCC’s offer to participate in the Lifeline Program, thereby reducing basic telephone rates for qualifying Vermont households. The FCC agreed to waive the monthly Subscriber Line Charge (SLC)¹, which was then \$3.50, if the state contributed an equal amount. Vermont went a step further with a “match-plus-two” formula: in addition to the \$3.50 waiver, a \$5.50 was subtracted from basic charges, resulting in a total benefit to qualified applicants of \$9 per month. The pressure of rising basic service rates in 1992 led to legislative action increasing the state share of the benefit to 50 percent of charges for basic service, or \$5.50, which would be greater.

From 1985 through September 1994, the state contribution for the Lifeline Program was generated through a monthly surcharge on telephone access lines, set by the Public Service Board (PSB). Effective October 1, 1994, the surcharge by legislative action was replaced with a Vermont Universal Service Fund (VUSF), designed to fund the Lifeline program, the telecommunications relay service, the

¹ The federal SLC waiver is funded through a federal Universal Service Fund (USF), which receives its support from fees paid by interstate telecommunications carriers. It is now called the “End User Common Line Charge” but the old language has been retained here since it conforms to the Lifeline enabling statute.

statewide enhanced 911 system and, in the future if authorized, reduction of dial-tone charges in high cost areas. The VUSF surcharge, set annually by the PSB, is a percent charge on retail telecommunications services provided to Vermont consumers.

In 1997, the FCC substantially changed the federal Universal Service Fund, making Lifeline available nationwide as of January 1, 1998. At the same time, the FCC increased the share of program costs borne by the federal USF, and made various policy changes to advance the goal of universal service for low-income households.

As a result of the 1998 changes, federal funding now provides a total credit of 9.50 per month (including the SLC waiver) to each Lifeline participant, provided that the state matches this amount with at least \$3.50. In response to the increase in federal funds, the Vermont legislature made two adjustments in the Lifeline program. As of 1998, 30 V.S.A. §218 provides a minimum monthly credit of \$7. The \$7 minimum enables Vermont to utilize the maximum available federal funds in every instance. A person whose basic monthly service charge is \$14 less receives the minimum credit. Basic monthly service above \$14 generates a credit calculated at 50 percent of basic service.

Statutory changes in 1998 also created a new means of enrolling in Lifeline. Prior to the changes, persons under 65 were eligible for Lifeline only if they were enrolled in certain public benefit programs administered by the Agency of Human Services, Department of Children and Families (DCF, formerly PATH), Economic Services Division, which also received the applications. Persons 65 and older, with incomes of 175 percent of federal poverty standard, had a second enrollment option through an application form in the Vermont income tax package.

The amended statute made it possible for persons under 65 to enroll in Lifeline through the Tax Department in the same manner previously provided only for seniors. The income threshold is set at 150 percent of poverty for persons under 65.

In 2000, the Legislature amended 30 V.S.A. §218 to provide a new benefit for victims of domestic violence. The benefit consists of a waiver of the charges for obtaining and maintaining a non-published telephone number.

In 2012, the FCC again made substantial changes to the program, including the reduction in its share of the Lifeline benefit to \$9.25 and eliminating the Link Up program to most regions of the country.

In 1993, RCC Atlantic, Inc. d/b/a Unicel (“RCC”), received designation from the PSB as an “eligible telecommunications carrier” or “ETC” in territory served by Verizon. Only ETCs receive Lifeline reimbursement from the federal Lifeline funds, and all ETCs must offer Lifeline and Link-up. RCC was the first non-incumbent carrier and the first cellular carrier to be granted ETC status in Vermont. On September 29, 2004, RCC received designation as an ETC in the remaining areas of Vermont, those served by the independent telephone companies. Upon acquisition of RCC, AT&T elected to not seek ETC designation in Vermont, but has elected to grandfather former RCC customers who received the Lifeline credit and continue to provide those customers with the discount without AT&T seeking reimbursement from the state or federal Lifeline funds.

The Lifeline program in 2012

The number of households receiving Lifeline telephone benefits decreased from 18,792 in December 2011 to 17,989 in December 2012, reflecting a 4.4percent decrease. Table 1 on page 16, shows Lifeline participation from 2002 through 2012. Table 2, on page 17, shows Lifeline participation in 2012 by telephone company territory.

Outreach activities continued as in previous years. Activities aimed at seniors included promotion by the Department of Aging and Independent Living (DAIL) and Vermont’s Area Agencies on Aging and application assistance provided by Area Agencies on Aging, in part through their Senior Help Line. Local telephone companies sent a mandated bill stuffer to all customers describing the program. The Vermont tax booklet included a Lifeline application form. DCF also sent a letter in the spring to all persons who were enrolled in the Lifeline through the Tax Department.

Telephone subscribership among low income Vermonters

The goal of universal telephone service is a matter of Vermont statutory policy² which is largely realized through policies intended to maximize subscribership by ensuring basic local phone service remains affordable. The Lifeline discount for basic service and the Link-up credit to reduce the cost of service installation are two chief examples of these policies.

Without phone service, low-income families find it harder to get jobs, obtain services, participate in their children's education, and manage day-to-day life. The Vermont Lifeline and Link-up programs reduce both the ongoing cost and the initial connection cost barriers to telephone service.

Program Administration

Several departments of state government, a contracted fiscal agent and the state's Eligible Telecommunications Carrier are involved in the administration of the Lifeline Program. These roles include:

- DCF and the Tax Department handle applications and eligibility certification.
- DAIL, mostly through the Area Agencies on Aging, promotes the program to seniors.
- DPS is responsible for annual reporting to the Legislature, annual projection of program costs and facilitation of the Lifeline Coordinating Committee.
- The PSB ensure sufficient funding through its annual proceeding to set the appropriate level for the Universal Service Fund charge.
- Rolka Loube Saltzer Associates, acting as the VUSF fiscal agent under a contract with the PSB, collects VUSF surcharges and reimburses phone companies for credits issued to Lifeline customers.
- Local telephone companies issue the Lifeline credits.

DCF has responsibility for issuing a monthly Lifeline eligibility list to telephone companies. This list is comprised of approved applications, made through either DCF or the Department of Taxes, and of program deletions that

² 30 V.S.A. §7515

occur when participants cease receiving DCF benefits and presumably return to financial independence. DCF also issues a list annually at mid year removing the names of recipients who were eligible through the Tax application but have not reapplied for the current year.

Local telephone companies are reimbursed for their administrative costs from the VUSF. State agencies are not reimbursed for their Lifeline program costs.

Agency representatives and the telephone companies meet periodically as a Lifeline Coordinating Committee to discuss program procedures, and to resolve any administrative problems that arise from time to time.

Vermont Universal Service Funding

The Public Service Board annually sets the VUSF charge on retail telecommunications services to meet the funding needs of the program which the VUSF funds. The rate is capped at 2 percent.

LINK UP VERMONT PROGRAM

The Link Up Vermont program lowers financial barriers to the initiation of telephone service, thus complementing the Lifeline Program, which lowers financial barriers to the continuation of service. The program cuts telephone installation charges in half for low income Vermonters and is paid for through an interstate revenue pool, which was established by the FCC and is administered by the Universal Service Administrative Company (USAC). The phone companies are reimbursed through USAC. No state funds are involved. Vermont supports the program by administering Link-Up applications.

Federal rules now require that states maintain the same eligibility guidelines for Link-Up and Lifeline. Phone companies issue Link Up benefits to any person who demonstrates Lifeline eligibility.

As of April 2012, the FCC has ceased the Link Up program to most regions of the country.

VERMONT TELECOMMUNICATIONS RELAY SERVICE

On March 20, 1991, Governor Richard Snelling signed Act 6 of the Vermont General Assembly establishing a full-time, 24-hour-a-day telecommunications relay service to connect deaf, hard-of-hearing, and speech disabled Vermonters with a telephone network.

A relay service provides specially trained communications assistants to relay messages between hard-of-hearing, speech disabled, or deaf people and people who can hear. To communicate, a hard-of-hearing, speech disabled or deaf person uses a text telephone (TTY) – a telephone with a keyboard and a small screen – to type his or her part of the conversation. The communications assistant simultaneously receives and reads the messages to the hearing person at the other end of the line. The communications assistant then types back the hearing person's spoken words to the TTY user.

Between 1988 and 1990, a volunteer relay center operated at the Austine School for the Deaf in Brattleboro. In 1990, the DPS solicited competitive bids as required by state law and awarded to the Austine School a contract for a part-time, transitional relay service, funded by a \$.04 surcharge on telephone access lines.

A permanent relay service, mandated in the 1991 legislative session, was initiated on July 1, 1991, with the DPS as the responsible state agency. After a competitive bidding process and approval by the Public Service Board, AT&T was awarded a contract for the Vermont Telecommunications Relay Service (VTRS) through June 1994. Additional competitive bid processes have been conducted every four years beginning in 1993 (for the award of the contract that began July 1, 1994). From 1994 through 2002, AT&T won the contract and provided Vermont's relay service. A competitive bid process for the contract cycle

beginning July 1, 2002, was commenced by DPS in October 2001, with public forums around the state to assess user needs. Following an approval process before the PSB, the new contract was awarded to Sprint, which began providing service, following a smooth transition between providers, on July 1, 2002. The contract was for two years with the option to extend for an additional two years. DPS exercised the extension option, which commenced July 1, 2004. In 2010, a new contract was awarded to Sprint, to run from July 1, 2010 through June 30, 2012, with an extension available to run until June 30, 2014. Vermont's relay service program was certified by the FCC as meeting all required standards in July of 1993, and was recertified in 1997, 2002, 2007, and 2012.

Vermonters made 23,211 calls through VTRS in 2012, accounting for 91,647 minutes of usage. The state must pay only for the cost of relaying intrastate calls. Interstate, international, internet-based and video relay services are paid for by federal relay service funds.

VERMONT TELECOMMUNICATIONS EQUIPMENT DISTRIBUTION PROGRAM

Act 135 of the 1997 Vermont General Assembly (enacted in 1998) established a new program to be funded by the VUSF as part of the telecommunications relay service statute. This program provides adaptive telecommunications equipment, such as TTYs, to person who cannot use the telephone system without this equipment.

The statute provides \$75,000 per year of funding from the VUSF. Originally, the program was established with the same income guidelines as the Lifeline program for persons over 65 (175 percent of the federal poverty standard for a family of two). Benefits were capped at \$400 per recipient. In addition, the law required the PSB to adopt rules or an order for the equipments program's operation, taking into consideration "(1) prior benefits, (2) degree of functional need, (3) income, (4) number of applicants, and (5) disposition of equipment upon change of residence."

In accordance with statute, the PSB adopted program guidelines in 1998 that set up a grant program in which eligible individuals identify the qualifying equipment they wish to purchase, and apply to the program for a grant to cover the purchase. For those who meet income and disability screening criteria, benefits under the program are available on a first-come, first-served basis until funding has run out for the year. Grants on behalf of eligible persons are paid directly to the consumers' equipment dealer of choice.

The statute establishing the equipment program requires DPS to conduct a competitive bid process to select a vendor to operate the program. This process resulted in an initial contract with the Vermont Center for Independent Living, which served as the program vendor from 1999 through 2004. In 2004, the most recent competitive bid process resulted in award of the contract to the Vermont Center for the Deaf and Hard of Hearing.

During the 2000 legislative session, the Vermont General Assembly enacted legislation to correct three eligibility problems that VCIL and the equipment program advisory council had identified with the program: (1) people with physical disabilities were not covered by the enabling statute despite their potential need for adaptive equipment, such as voice activated dialers, to use the phone; (2) the lack of a sliding income scale excluded low income families with children who would qualify if income eligibility was based on family size; and (3) some people had equipment already and needed repairs rather than replacement, but repairs were not eligible for reimbursement under the original statute.

Despite the changes made in 2000, which were effective July 1, 2000, the contractor continued to report that many needy Vermonters are over-income for the program. Legislation passed in the 2001 legislative session expanded income eligibility and lifted the \$400 cap on benefits per recipient. Adjustments to the program guidelines recommended by the Advisory Council to implement the new law were approved by the PSB in the fall of 2002, and program promotional

materials and applications reflecting the new guidelines went into distribution in March of 2003.

Table 1: 2003-2012 Lifeline Program Participation

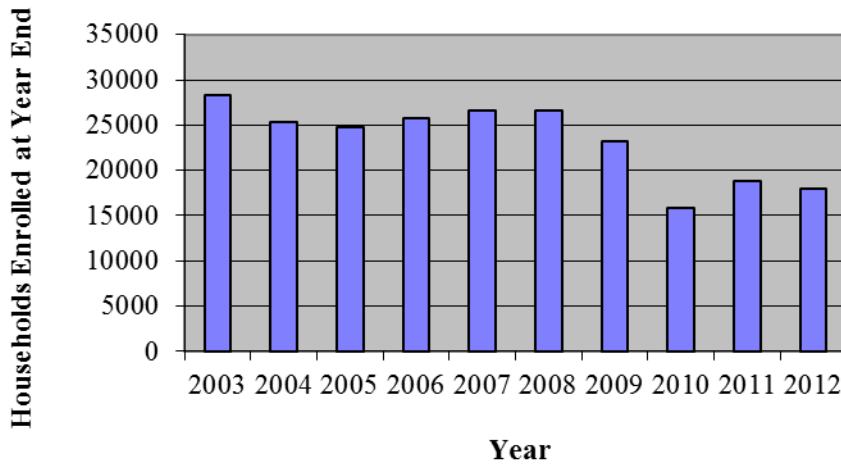


Table 2: Lifeline Participation by Company				
As of December, 2012				
<i>Telephone Company</i>	<i>Total Residential Access Lines*</i>		<i>Number of Lifeline Recipients</i>	<i>% of Total Residential Lines with Lifeline</i>
FairPoint - NNE	121,642		14,395	11.8%
Vermont Telephone	13,685		1,118	8.2%
Waitsfield/Champlain Valley	15,182		1,119	7.4%
Fairport-Northland	4,993		468	9.4%
Ludlow	3,120		158	5.1%
Northfield	1,853		183	9.9%
Shoreham	2,998		229	7.6%
Topsham	1,455		166	11.4%
Perkinsville	678		54	8.0%
Franklin	798		71	8.9%
SoVerNet	6,244		28	0.4%
Total	172,648		17,989	10.4%
* From 2011 company annual reports				

Table 3: 2012 Lifeline Telephone Program Costs to VUSF				
<i>Telephone Company</i>	<i>VUSF Funded Credits</i>	<i>Administrative Costs</i>	<i>Total Costs</i>	<i>Admin. Costs as a percent of program costs</i>
Telephone Operating Co. of VT	\$535,563	\$4,824	656,409	0.7%
Vermont Telephone	\$44,528	\$4,020	48,548	8.3%
Waitsfield-Champlain Valley	\$47,645	\$5,428	53,073	10.2%
Fairpoint-Northland	\$23,004	\$825	23,829	3.5%
Northfield	\$7,847	\$231	8,078	2.9%
Shoreham	\$9,314	\$704	10,018	7.0%
Ludlow	\$6,636	\$147	6,783	2.2%
Topsham	\$6,437	\$345	6,782	5.1%
Franklin	\$2,472	\$319	2,791	11.4%
Perkinsville	\$2,295	\$84	2,379	3.5%
SoVerNet	\$2,212	\$4,824	6,021	8.0%
Total	\$152,389	\$18,782	\$168,300	10.2%
*Costs in this chart reflect only the state share.				