



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ed Harrington
Controller
Monique Zmuda
Deputy Controller

May 7, 2007

The Honorable Gavin Newsom
Mayor, City and County of San Francisco
Room 200, City Hall

The Honorable Board of Supervisors
Room 244, City Hall

Re: FY 2007-08 Report on 911 Access Lines & Fees

San Francisco Business & Tax Regulation Code 755.1 requires that each year the Controller estimate the percentage of access lines subject to payment of the emergency response fee during the previous calendar year and report on the adjusted fee cap that will apply in the following calendar year. In odd numbered years the Controller is required to evaluate the fee rates for trunk lines and high capacity trunk lines to insure they reasonably reflect the estimated access to the 911 communications system provided by these services. The reporting requirement findings are contained herein and categorized as follows:

Section I: Answers the mandated reporting requirements, and

Section II: Reports on additional findings requiring further investigation and recommended next steps.

SECTION I: MANDATED UPDATES

Finding 1: Telephone Companies do not Comply with Reporting Requirements

The Controller has found that telephone companies still do not comply with the reporting requirements of the Tax Collector's Business Tax Section for identifying the number of exempt and non-exempt payers, nor the number of trunk and high capacity trunk lines. We have reviewed the records for remittances received by the Tax Collector's Office for calendar year 2006 and have found that of the approximately 90 reporting companies, only nine reported ever having trunk or exempt lines, and these nine companies are inconsistent in their monthly reporting. Accurate reporting of this information has historically been a problem for the telephone companies; at no time in the past have businesses submitted the requested information accurately or consistently.

Finding 2: The Percentage of Exempt Lines Remains at 15 Percent

The Tax Collector has taken further steps to identify the percentage of exempt versus non-exempt subscribers. The Tax Collector works closely with AT&T (the largest provider of telecommunication services in the city) to obtain periodic snapshots of required reporting data. According to the Tax Collector, AT&T is the main source of lifeline services, thus other reporting businesses would likely have significantly

higher proportions of non-exempt subscribers. Moreover, cell phone services do not qualify for lifeline exemption, thus companies providing cellular services will not have eligible exempt customers. Therefore, we can apply information received from AT&T to the provider information received from the Tax Collector's Office to provide a reasonable range estimate of exempt customers. This results in the estimated number of exempt lines being between 11.9 and 15.3 percent of total lines in the city.

Given this estimated range, the Controller recommends continued use of the 85:15 ratio, which also was used in the FY 2006-07 Adopted Budget. Given the continued reporting deficiencies and discussions with the Treasurer/Tax Collector, we believe this estimate to be a fair, if not conservative, estimate of the ratio of taxable, non-exempt to exempt lines in the city.

Finding 3: Subscriber Limit will Increase to \$59,252

The Controller has also reviewed the cost of living index as published by the United States Department of Labor Bureau of Labor Statistics. The CPI-U increase for the San Francisco / Oakland / San Jose Area for All Urban Consumers increased by 3.44% in the past calendar year. This brings the subscriber limit to \$59,252 for calendar year 2008, an increase of \$1,971 from its calendar year 2007 amount of \$57,281. See Table 1 below for more details.

Table 1: Annual Subscriber Limits from 1998 to 2008

Calendar Year	Annual Cap	\$ Change	% Change	Factor Adjustment
2008*	\$59,252	\$1,971	3.44%	CPI Per Administrative Code
2007*	\$57,281	\$1,098	1.95%	CPI Per Administrative Code
2006*	\$56,183	\$1,183	2.15%	CPI Per Administrative Code
2005	\$55,000	\$15,000		Fixed \$ Per Administrative Code
2004	\$40,000	\$15,000		Fixed \$ Per Administrative Code
2002	\$25,000	\$5,000		Fixed \$ Per Administrative Code
1998	\$20,000			Fixed \$ Per Administrative Code

* Adjusted by CPI-U for the San Francisco, Oakland and San Jose Metropolitan Area

Finding 4: Access Line Equivalents for Trunk and High Capacity Trunk Lines Remain Reasonable

Based on information from the Department of Telecommunications and industry consultants, the Controller has determined that the access line equivalents for trunk and high capacity trunk lines remains unchanged. A trunk line still represents on average 7.5 times the access to the 911 communications system as provided by a single access line. Furthermore, a high capacity trunk line has the ability to provide 24 times the benefit provided by a trunk line. In the past the Board of Supervisors has determined that although high capacity trunk lines have the ability to provide 24 times the access as a trunk line, real experience indicates that at times these trunk lines are used to service fewer end users and that on average a high capacity trunk line provides 18 times the access as a trunk line or 135 times the access as a single access line. According to the Controller's review, these estimates remain the same.

Table 2: Access Line Equivalents

	Actual	Current	Recommended	Change
Single Lines	1.0	1.0	1.0	0
Trunk Line	7.5	7.5	7.5	0
High Capacity Trunk Line	180	135	135	0

Conclusion

Based on our review, we project total Emergency Fee revenues for FY 2007-08 of \$43.5 million. Using proposed budget data submitted from the Department of Emergency Management and assuming the current rate structure and exemption ratio, we project that the City and County of San Francisco will recover 83 percent of total costs, or 98 percent of non-exempt, eligible costs. We therefore recommend no change to the current rate structure (see Table 3). Any under recoveries of non-exempt eligible costs are assumed to be covered using accumulated 911 fund balance. As of the Controller's 9-Month projections, the fund balance at the end of FY 2006-07 is projected to be \$8.82 million due to greater than expected revenue collections and expenditure savings. This accumulated fund balance can be used to cover future operating costs and also pay off outstanding debt. We are again reviewing the indebtedness payoff provisions to evaluate the cost effectiveness of early debt repayment. See Table 4 for a summary of these conclusions.

Table 3: Recommend Rates

	Current	Recommended	Change
Single Lines	\$2.75	\$2.75	\$0.00
Trunk Line	\$20.62	\$20.62	\$0.00
High Capacity Trunk Line	\$371.15	\$371.15	\$0.00

Table 4: Summary of Estimated Recoveries for FY 2007-08

Total 911 System Eligible Costs	\$52.31
Estimated Eligible Costs Attributed to Non-Exempt Users	\$44.46

Cost Recovery of Non-Exempt Costs Only	Cost Recovery of Total Costs	\$ Per Line Equivalent Per Month	Estimated Over/(Under) Recovery from Non- Exempt Only (US\$ millions)	
98%	83%	\$2.75	(\$0.96)	Current Fee Since Nov 2004
89%	76%	\$2.50	(\$4.92)	
80%	68%	\$2.25	(\$8.87)	
71%	60%	\$2.00	(\$12.83)	
62%	53%	\$1.75	(\$16.78)	Nov 2003 - Oct 2004
44%	38%	\$1.25	(\$24.69)	Dec 2002 - Oct 2003
36%	30%	\$1.00	(\$28.65)	Dec 1997 - Nov 2002
18%	15%	\$0.50	(\$36.55)	Prior to Dec 1997

Key Assumptions	Estimated Total Revenue	
% of Telephone Lines Subject to Fee (Non-Exempt)	85%	
Telephone Line Equivalents (Monthly) - Total	1,550,800	\$43.50
Telephone Line Equivalents (Monthly) - Non-Exempt	1,318,180	\$43.50
Telephone Line Equivalents (Monthly) - Exempt	232,620	\$0.00

SECTION II: ADDITIONAL FINDINGS REQUIRING INVESTIGATION AND RECOMMENDED NEXT STEPS

Finding 5: The Rates for Trunk and High Capacity Trunk Lines are Approaching or Exceeding the Base Service Rates

The Controller has heard repeated claims that the Emergency Response Fee for trunk and high capacity trunk lines is approaching or even exceeding the rate of the service itself. The Department of Telecommunication and Information Services conducted a preliminary investigation of this claim and found evidence that these claims can be substantiated. In the case of trunk lines, the Emergency Response Fee is approximately 125% of the basic charge, and for high capacity trunk lines the fee is approximately 99 percent of the basic charge. Table 4 below summarizes this information.

Table 5: Emergency Fee Remittance as a Percent of Base Rates

Service	Line Equivalent	Emergency Response		Percent of Base Rate
		Fee	Base Rate	
Residential Flat Rate	1	\$2.75	\$15.20	18%
Business Measure Rate	1	\$2.75	\$16.50	17%
Trunk Line	7.5	\$20.62	\$16.50	125%
High Capacity Trunk Line	135	\$371.15	\$375.00	99%

The Base Rates reflected above represent blended rates based on AT&T charges, end user common line charges, assured Private Branch Exchange trunks capable of outgoing calls, and for High Capacity Trunk lines, a limited-scope survey of competitors.

This comparison does not take into account charges for features such as local calling, toll calls, or other fees and taxes. So in reality, consumers will have additional charges and taxes and the Emergency Response Fee can represent a lower proportion of their total bill.

At this time, we do not recommend changing the city's fee methodology for trunk and high capacity trunk lines. However, we do recommend that the next time the Department of Telecommunications and Information Services conducts a survey that they consider both Base Rates and average bill costs, including related telephony services.

Finding 6: Voice Over Internet Protocol (VOIP) Users are Increasing and may not be Paying the Emergency Response Fee

Voice Over Internet Protocol (VOIP) technology allows customers to make voice calls using their Internet connection. Use of VOIP technology to access 911 has increased dramatically over the last two years. Consider that in 2005, there were eight 911 calls placed by VOIP users. In 2006, this increased to 321, and already through March 19, 2007 there were 228 emergency (911) calls placed by VOIP users. (Although this increase is dramatic, VOIP calls still represent less than half of 1 percent of all 911 calls.) In 2005, the Federal Communications Commission (FCC) required that all "interconnected" VOIP services (services that allow uses to make and receive phone calls from the regular telephone network) be 911 compliant. They also required interconnected VOIP providers to contribute to the Universal Service Fund. What is unclear, however, is whether these providers are also having their subscribers pay the San Francisco 911 Fee.

The FCC provides a list of VOIP providers who have submitted information about their services' 911 capabilities. On comparing that list to the list of providers submitting 911 Fees to the City we found twelve matches, indicating that some VOIP providers are paying the 911 Fee. However, there are some notable exceptions including Vonage, the top VOIP provider in the United States. It remains unclear if all VOIP providers with access to the San Francisco Emergency Communications System are paying the 911 Fee.

We recommend: 1) that the Treasurer/Tax Collector change the service provider form to have providers indicate the number of VOIP phone lines they have and the amount of 911 Fees they are remitting on behalf of VOIP customers, and 2) that the Treasurer/Tax Collector consider working with the Department of Emergency Management to conduct a study on the VOIP providers with access to the Emergency Communications System and explore ways to further enforce compliance.

Conclusion

The Controller's Office will continue to work with the Department of Telecommunication and Information Systems, the Treasurer/Tax Collector, and the Department of Emergency Management to ensure that the City is accurately and efficiently reviewing the 911 Fee revenues. As growth and technology change occurs in the telecommunications industry, we will advise the Mayor and the Board of Supervisors of the projected impact to the 911 Fee.

If you have any questions regarding the information presented in this report, please contact me, Monique Zmuda, Deputy Controller, or Todd Rydstrom, Director of Budget and Analysis, at (415) 554-7500.

Sincerely,



ED HARRINGTON
Controller

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