

MEMO

TO: Wireless Carriers
FROM: Scott Mackey
DATE: April 14, 2015
RE: Updated Massachusetts Prepaid Point of Sale Revenue Estimate

Summary

Legislation to implement the point-of-sale collection (POS) methodology for 911 fees on prepaid wireless users – a system currently used in 37 states – would increase 911 fund revenues by \$3.9 million over current law. Collections would double from the current level of \$3.9 million to \$7.8 million at the current rate of \$.75 per retail transaction. The 911 department has requested a large increase in the 911 fee, from .75 per month to \$1.25 per month. Enactment of the POS methodology would reduce the need for such a significant increase in the 911 fee.

Background

For the last four years, I have been providing estimates showing that the proposed point-of-sale legislation would result in more revenues for public safety in Massachusetts than the current “provider pays” statute. The FCC recently released the November, 2014 “Local Competition Report” which provides wireless subscriber numbers by state, which allows me to update the estimates with more recent information. Additionally, the Massachusetts 911 Department recently released data on actual 911 collections by sector that allows the estimates to be compared with actual remittances on prepaid wireless service.

To review, 37 states (including DC) have adopted the point-of-sale methodology for collecting 911 fees from prepaid consumers while three states –Kentucky, Massachusetts, and Vermont – continue to use the old “provider pays” approach. The remaining 11 states do not impose 911 fees on prepaid users.

Here is the current breakdown of 911 fees in Massachusetts by source from FY2014, based on data reported by the 911 Department in its March 20 filing with the Department of Telecommunications and Cable (DTC):

Wireline	\$14,040,477
Wireless	\$45,252,060
Prepaid Wireless	\$ 3,867,831
VOIP	\$ 11,524,927
Total	\$74,685,295

The attached spreadsheet shows the estimated 911 revenue collections under the point-of-sale collection methodology. Under the current rate of \$.75 per retail transaction, I estimate that collections on prepaid wireless would double from \$3.9 million under current law to \$7.8 million. The 911 Department recently petitioned the DTC for an increase in the current 911 fee from \$.75 per month to \$1.25 per month. My

estimate also shows the net revenue increase from adopting the point-of-sale approach at rates of \$1.00 and \$1.25 per retail transaction.

It appears that the 911 department is seeking a significant, permanent increase in the 911 fee in order to fund one-time “Next Generation 911” capital expenditures and significantly higher ongoing operational costs in the future. It is clear from this analysis that shifting to a point of sale collection methodology could generate an additional \$3.9 million per year on a recurring basis, revenues that could be used to meet future expenditure needs and potentially minimize the need to increase the fee on all telecommunications users.

Experience in Other States

To verify the accuracy of this estimate, I gathered data on actual POS collections in states that have adopted the POS methodology and adjusted them for differing statutory 911 fee rates and subscriber counts. Here is a summary of what these state estimates show:

Maine

Maine enacted the 911 prepaid point-of-sale law in 2010. The rate is currently \$.45 per retail transaction and the state has about 1.2 million wireless subscribers according to the FCC. The Department of Revenue Services reported actual 911 collections of \$767,636 at the \$0.45 per retail transaction rate in FY13. Assuming the same growth rates as the Massachusetts estimate, FY 14 collections in Maine will be an estimated \$806,000. Again, adjusting for the higher rate in Massachusetts and the larger number of subscribers, the Maine data shows that Massachusetts would receive about \$7.5 million in prepaid collections based on Maine’s actual experience.

Pennsylvania

The Pennsylvania Emergency Management Agency reported that POS collections for FY 13 totaled \$13.6 million. Pennsylvania has a \$1.00 per transaction rate and has 11.7 million wireless subscribers, according to the FCC. Assuming the same growth rate as the Massachusetts estimate, Pennsylvania is expected to receive \$14.4 million in FY14 from prepaid. Adjusting for the lower Massachusetts rate and the smaller number of Massachusetts subscribers, the Pennsylvania data shows that Massachusetts would receive about \$6.2 million based on Pennsylvania’s actual experience.

Tennessee

I received data on POS collections from Curtis Sutton of the Tennessee 911 board, which showed that in the most recent 12-month period (ending September 2013), the state collected \$4.97 million on prepaid at a rate of \$.53 per retail transaction. According to the FCC “Local Competition Report,” Massachusetts and Tennessee have nearly the same number of wireless subscribers (6.9 million and 6.6 million, respectively), so the comparison of the two states is appropriate. Adjusting Tennessee’s actual collections upward to reflect the higher rate in Massachusetts (\$.75 per month vs. \$.53 per month), Massachusetts could expect to generate about \$7.7 million from the POS legislation using the Tennessee experience as a guide.

MA Prepaid Point of Sale Revenue Forecast -- Revised 4/8/2015								
				Source:				
FCC Reported MA Subscribers (Postpaid and Prepaid) as of December 2013		6,638,000	FCC Local Competiton Report -- latest version available					
Assumed 1% annual increase December 2013 to June 2015		99,570						
Estimated MA Wireless Subscribers (Prepaid and Contract) June 2015		6,737,570						
Estimated Prepaid Wireless Market Share		22.0%	CTIA Semi Annual Report, November 2014					
Estimated Total Prepaid Subscribers Derived from FCC Data		1,482,265						
less estimated inactive/churn/lifeline		326,098	22.0%					
Estimated Paying Prepaid Subscribers		1,156,167						
Fee amount		\$ 0.75						
Estimated recharges per year		9						
Estimated revenue per year per paying subscriber		\$ 6.75						
Estimated Revenue -- Point of Sale Methodology		\$ 7,804,127						
Estimated current law revenue		\$ 3,867,831	MA State E911 Department, March 20, 2015					
Estimated new revenue at current \$0.75 rate		\$ 3,936,296						
Estimated new revenue at \$1.00 rate		\$ 5,249,684						
Estimated new revenue at \$1.25 rate		\$ 6,560,365						