

TO: Members of the House Revenue Committee
FROM: Hasina E. Squires, Special Districts Association of Oregon
DATE: February 14, 2011
RE: **Testimony in Support of House Bill 2075**

INTRODUCTION

Members of the House Revenue Committee, thank you for the opportunity to appear before you today. For the record my name is Hasina Squires and I appear before you today on behalf of the Special Districts Association of Oregon (SDAO) to provide testimony in support of House Bill 2075. The Special Districts Association's membership consists of approximately 950 special service districts that provide a range of services (including but not limited to water, wastewater, irrigation, parks and recreation, 9-1-1 and rural fire protection) to citizens who reside within cities and residents of unincorporated communities.

BACKGROUND – TAX AND FUNDING

In 1981 the Oregon Legislature issued a mandate for statewide 9-1-1 services and instituted a 3% surcharge on subscriber's telephone lines. At that time there were over 280 Public Safety Answering Points (PSAPs) in Oregon with only a few providing basic 9-1-1 service and none provided Enhanced 9-1-1 service.

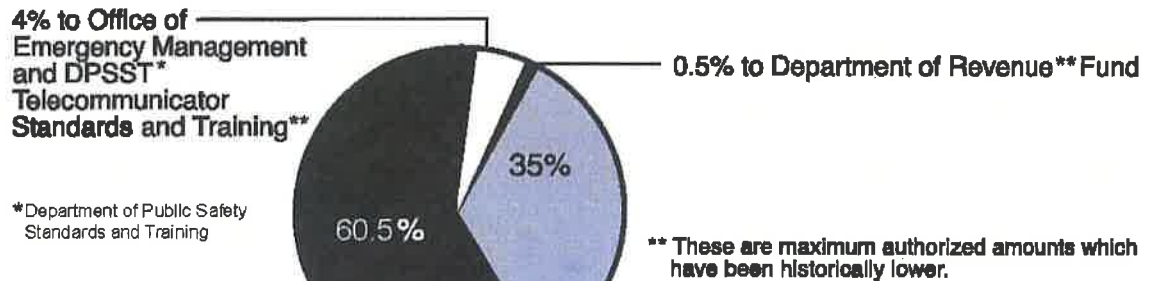
The 1991 legislature increased the surcharge to 5% and mandated Enhanced 9-1-1 service (9-1-1 caller's address and responsible police, fire and EMS provider displayed to the call-taker). However, in 1995 the 5% surcharge was converted to an approximate equivalent 75-cent surcharge to provide the 9-1-1 program with greater revenue stability and predictability. Revenue is distributed as follows:

- ✓ Sixty and one-half percent (60.5%) of the revenues are distributed to counties and cities for operation of the state's 49 PSAP's. Distribution is in proportion to population, except that no county receives less than 1% of the distribution. The funds may not be used for PSAP operations unless they are directly related to 9-1-1.
- ✓ Thirty-five percent (35 %) of the revenues are managed by Oregon Emergency Management (OEM) a Division of Oregon Military Department to pay for PSAP common network services, Federal Communications Commission Phase I and II wireless services, costs associated with the Enhanced 9-1-1 program which include network, database, equipment and other costs related to providing state-wide wire line and wireless 9-1-1 services.
- ✓ Four percent (actual costs or no more than 4% maximum) of revenues may be used by the Oregon Emergency Management to pay for OEM 9-1-1 program administration and Telecommunicator training at the Department of Public Safety Standards and Training (DPSST).
- ✓ One-half percent (actual costs or no more than 0.5% maximum) of the revenues are distributed to the Department of Revenue for administrative processing cost recovery.



The Funding of 9-1-1 Public Safety Answering Points (PSAPs) in Oregon (2009)

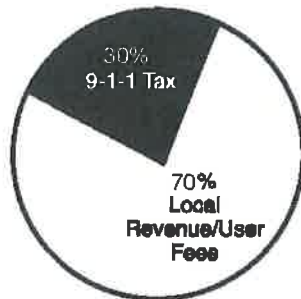
Allocation of the 75¢ Tax on Access to 9-1-1 Services



60.5% to 9-1-1 PSAP Operations

35% to Enhanced 9-1-1 Subaccount

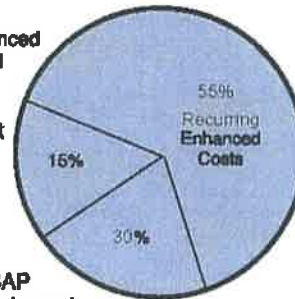
Typical 9-1-1 PSAP Operating Costs are Funded



Enhanced 9-1-1 Subaccount Expenditures

Future Enhanced Wireless and Wireline

- Network
- Equipment
- Mapping
- Data



- Telephone Network
- Equipment Maintenance
- Data Maintenance
- Wireless Phase I

PSAP Equipment Replacement

- Hardware
- Software

PREPAID PHONE SERVICE

Within the past year, consumers appear to be abandoning contract-based plans offered by major carriers such as AT&T, Verizon Wireless, Sprint and T-Mobile in favor of cheaper prepaid service. In 2009, smaller prepaid carriers such as MetroPCS saw subscriber additions swell by 74% while Sprint Nextel reported losing 1.3 million customers and in the fourth quarter of 2009 prepaid customers accounted for 57% of new T-Mobile subscribers—up from 23% a year earlier (Bloomberg Businessweek 3/2/2009).

In March 2009, the New Millennium Research Council (NMRC) released results of a survey that showed that 17% of Americans had already switched from contract-based plans to cheaper prepaid plans within the past six months (see attached article).

More recently, the NMRC conducted a survey in October 2010 that indicates one in five cell phone consumers with contract-based service is likely to switch in early 2011 to a less expensive unlimited prepaid wireless service with no-early cancellation penalty. The survey also reported that 25% of respondents have only had no-contract cell phones (this is 33% more than two years ago (see attached press release).

HB 2075 PROVIDES TWO OPTIONS FOR PREPAID TAX COLLECTION

Section 2 of HB 2075 allows prepaid telecommunications service providers to select from two different tax remittance options:

1. On a monthly basis, the prepaid service provider collects an amount equal to the tax (75-cents in Oregon) from each active prepaid customer whose account balance is equal to or greater than the tax.
**Note: According to the CTIA-The Wireless Association "Of the approximately 24-states that currently impose E9-1-1 fees/taxes on prepaid consumers, the preferred method of collecting the fee from wireless prepaid users has been the decrement (this method) approach.*
2. Calculate the tax by dividing the total intrastate monthly revenue by the average revenue for each prepaid customer of the industry to determine the number of prepaid customers. Apply the tax (75-cents in Oregon).

Example:

Total Intrastate Revenue:	\$100,000
Average Revenue per Customer (industry)	÷\$50.00
Number of Prepaid Customers:	=2,000
State Tax:	x\$0.75
Provider Remittance:	=\$1,500

**Note: This method is referred to as the ARPU (average revenue per user) method.*

The current tax makes up approximately 30% (on average) of a 9-1-1 center's operating budget (user fees and property taxes fund the remaining 70%). SDAO encourages the legislature to require all systems that are capable of accessing 9-1-1 services to pay the 75-cent surcharge that other landline and wireless consumers and businesses currently pay. Thank you for the opportunity to appear before you today.

Bloomberg Businessweek

Available on the iPad

TELECOMMUNICATIONS March 20, 2009, 12:01AM EST

Prepaid Wireless Takes Off

Consumers are abandoning traditional subscription plans, which may curb growth for AT&T, Verizon Wireless, Sprint, and T-Mobile

By Olga Kharif

It looked, for a while, like the wireless industry might shrug off the worst of the recession. AT&T (T), the biggest U.S. phone company, in January reported a respectable 13.2% increase in fourth-quarter wireless sales, fueled by strong subscriber gains. Things were looking up this year, too. Surveys showed consumers would rather reduce purchases even of food and clothing before ditching cell phones.

It was nice while it lasted. Fresh survey data show that U.S. consumers are rapidly switching to cheaper calling plans, often choosing so-called prepaid packages that give carriers smaller, less predictable revenue streams.

On Mar. 19, Washington think tank New Millennium Research Council (NMRC) released results of a survey showing that 17% of Americans have already switched from contract-based plans to cheaper prepaid services in the past six months due to concerns about their jobs and the recession. Those sticking with contracts are migrating to cheaper plans and cutting such extras as texting and e-mail. "Millions of Americans are on the verge of discontinuing expensive cell-phone plans," says Graham Hueber, a senior researcher at the [Opinion Research Corp.](#), which conducted the study commissioned by the NMRC.

FEWER MINUTES, LESS TEXTING

Other evidence also suggests consumers are taking a closer look at their wireless bills. Of 2,151 U.S. cell-phone users surveyed online by [JupiterResearch](#) in November, one-third were considering cutting back on wireless spending and the number of minutes and texts they use. In February, Sprint Nextel (S) indicated that "economic uncertainty" was partly to blame for a [sales decline and customer losses in the fourth quarter](#).

One maker of air cards, Sierra Wireless (SW), announced on Jan. 29 it would lay off 10% of its workforce amid a drop in fourth-quarter revenue. "We are going to see more and more of this in the U.S. and the rest of the world," says Carrie Pawsey, senior analyst at researcher [Ovum](#).

Of course, some carriers are faring better than others. "Despite the economic environment, we grew revenues in 2008, and I expect 2009 will be another year of overall revenue growth and solid progress for our company," AT&T Chief Executive [Randall Stephenson](#) said during the company's January earnings call. AT&T wouldn't say whether it's seeing an impact from the worsening economy now.

AND FEWER DATA CARDS, TOO

But consumer cutbacks are sure to catch up with carriers in the coming months, and those reductions could result in slower revenue and customer growth. Of U.S. consumers who have wireless contracts, almost 40%, or 60.3 million, are likely to curtail cell-phone spending to save money if the economy worsens in the next six months, according to the NMRC survey. Some 41% of survey respondents are considering paring back on extras like text messaging. Many already are scaling back on data cards for computers, which, according to wireless industry consultant Chetan Sharma, contribute about 12% of carriers' data revenue.

Even smartphone users, typically among the most profitable customers, may soon trim usage. As professionals in finance and other industries continue to lose jobs, Sharma estimates that 10% to 20% of the people who own these souped-up, Web-surfing phones may downsize plans this year. Smartphone users typically pay \$70 to \$200 a month for wireless service. As they reduce spending, U.S. wireless data revenue may grow only 15% this year, vs. 38% in 2008, Sharma estimates.

Carriers that specialize in prepaid calling may be among the few beneficiaries of cutbacks. Now, only about 15% of Americans use prepaid wireless plans, which can cost 50% to 75% less than contract-based plans. In contrast, 68% of Britons already use prepaid plans. "There's clearly a lot of additional movement that could take place," says Allen Hepner, a scholar at the NMRC. "Thanks to the recession, the U.S. marketplace is undergoing fundamental changes." Indeed, prepaid may grow to 20% of the market by yearend, Sharma estimates. In the fourth quarter, prepaid customers accounted for 57% of new subscribers at T-Mobile USA, up from 23% a year earlier.

WIDESPREAD DEFECTIONS

Some consumers are leaving the four largest carriers—AT&T, Verizon Wireless, Sprint, and T-Mobile—for smaller, prepaid carriers. In the fourth quarter, MetroPCS (PCS) saw net subscriber additions surge 74%, to 519,519, from a year earlier. In the same quarter, Sprint Nextel lost 1.3 million customers, most of them postpaid. Sprint executives are hopeful that the industry will nevertheless fare better than other areas of the economy. "We believe wireless has become so important in people's lives, we won't see as much impact as other industries."

Providers of prepaid calling, typically considered the domain of younger callers or those with bad credit, are taking steps to make their plans more alluring by adding features and better phones. Such services as MetroPCS and Leap (LEAP) are available in more markets. On Mar. 9, Leap expanded into Philadelphia. Nowadays, users can purchase not only voice but also data plans that permit texting and e-mail.

And prepaid phones have turned from clunky to cool. On Mar. 10, MetroPCS introduced Research In Motion's (RIMM) BlackBerry Curve 8330 smartphone, which features a Qwerty keyboard and rich multimedia capabilities, in many of its markets. For only \$50 a month, without a contract, users of the device can talk, text, browse the Web, and send multimedia messages and e-mail. Steps like that are helping foster loyalty. Leap's monthly subscriber turnover declined to 3.8% in the fourth quarter, from 4.2% a year earlier.

DEVELOPING WAR IN PRICE CUTTING?

Contract carriers are responding by updating and rolling out new prepaid plans and lowering prices. This year, T-Mobile USA began offering a \$50-a-month unlimited voice plan to longtime subscribers to prevent them from leaving.

But the recent flurry of cheaper, unlimited plans from T-Mobile, Boost Mobile, Alltel, and Zer01 Mobile raises a red flag for Sanford C. Bernstein analyst Craig Moffett. "As growth slows, pricing [war] risk rises," he wrote in a recent report. As more carriers start offering unlimited voice calling and data plans, they increasingly will have to compete on price.

The hope for some within the industry is that when economic prospects improve, "people will go back to postpaid" calling plans, Sharma says. But the more attractive prepaid plans become, the harder they will be to shake.

Khanif is a senior writer for BusinessWeek.com in Portland, Ore.

SURVEY: 25 MILLION PENNY-PINCHING U.S. CONSUMERS SET TO SWITCH TO NO-CONTRACT/PREPAID WIRELESS IN NEXT SIX MONTHS

Will 2011 be "The Year of the Prepaid Cell Phone Consumer," Building on Major Inroads Made This Year?; Fueling a Major Shift in Consumer Habits: Cutting Costs, Avoiding Painful Cancellation Penalties, and the Rise of the Unlimited No-Contract/Prepaid Option.

WASHINGTON, D.C.//November 4, 2010//One in five U.S. cell phone consumers with contract-based service – an estimated 24.6 million American adults – is likely to switch in early 2011 to less expensive unlimited prepaid wireless service with no early-cancellation penalty. And nearly one in 10 additional contract-based cell phone users would consider switching if they were not currently subject to an early-cancellation penalty, according to the first annual "Net10 Prepaid Wireless Consumer Trends National Poll" conducted by Infogroup/ORC for the independent New Millennium Research Council (NMRC).

In March 2009, NMRC was the first to correctly forecast an imminent shift by cell phone consumers from more expensive contract-based cell phone service with often hefty cancellation penalties to less expensive no-contract prepaid service. In March of this year, NMRC reported that – for the first quarter ever -- the number of new prepaid wireless phone customers in U.S. eclipsed the number of new contract-based phone customers during the final three months of 2009.

The new survey of 715 U.S. cell phone consumers also found that:

- Overall, roughly half (47 percent) of U.S. cell phone users with contract-based service – an estimated 57.8 million consumers – are "very likely" (23 percent) or "somewhat likely" (24 percent) to switch to "a no-contract or prepaid phone" when "your cell phone early-cancellation penalty period ends and you can switch at no cost."
- Among U.S. cell phone consumers with contract-based service who say they are unlikely to switch to no-contract/prepaid service in the next six months well over half (56 percent) are "very or somewhat open to switching to a no-contract or prepaid cell plan *at some point in the future*, but you're not planning to do so now." Fewer than two in five contract-based phone users (38 percent) indicated they "don't see yourself *ever* switching to a no-contract or prepaid cell phone."
- The top four reasons cited for U.S. consumers to switch to a no-contract/prepaid cell phone (including "major" or "somewhat" of an impact): 68 percent "needed or wanted to cut cell phone bill costs"; 58 percent were "paying too much for a Smartphone with features you didn't need or use"; 49 percent were "unhappy with (an) early-cancellation penalty for contract-based phone service"; and 48 percent cited the "recent availability of unlimited talk, text, Web and email access on no-contract basis for about \$50 a month."

Sam Simon, senior fellow, New Millennium Research Council, said: "**With millions of recession-weary consumers looking to trim even more fat from their household budgets, 2011 is shaping up to be the Year of the Prepaid Cell Phone Consumer. Even without the need to pinch pennies during the current economic downturn, consumers are clearly fed up with the high prices of contract-based cell phone service and the gouging that goes on with early-termination fees (ETF). We were the first to forecast a big shift to no-contract/prepaid cell phone service by U.S. consumers, but we may have actually underestimated just how quickly this trend would catch on.**"

Important note: While the new national survey was underwritten with a grant from TracFone's Net10, the Council maintained 100 percent editorial control over the poll, the analysis of the results, and the manner in which the information is released to the public.

OTHER KEY FINDINGS

The "Net10 Prepaid Wireless Consumer Trends National Poll" survey conducted by Infogroup/ORC for the independent New Millennium Research Council also showed the following:

- One in five U.S. cell phone users with contract-based service – an estimated 24.6 million consumers – are "very likely" (8 percent) or "somewhat likely" (12 percent) to "switch *in the next six months* from your contract-based cell phone service with an early-cancellation penalty to a no-contract cell phone with unlimited talk, text and Web or email access and no early-cancellation penalty." Nearly one in 10 additional contract-based cell phone users (9 percent or an estimated 11.7 million consumers) "would consider switching, but you're still going to be in your early-cancellation penalty phase six months from now."
- Among U.S. cell phone consumers with a contract-based service who say they are unlikely to switch to no-contract/prepaid service in the next six months, the Number 1 reason cited for reluctance: "You like your current phone and don't want to lose it and its features," which was cited by over six in 10 (61 percent) as having a "major impact" (39 percent) or "somewhat of an impact" (23 percent). The Number 2 reason for reluctance: "You would be subject to a cancellation penalty and you don't want to pay that," which was cited by over half (52 percent) as having a "major impact" (33 percent) or "somewhat of an impact" (19 percent).
- Nearly six in 10 (59 percent) U.S. cell phone users with contract-based service – an estimated 72.5 million consumers – are "very likely" (36 percent) or "somewhat likely" (23 percent) to switch to "a no-contract or prepaid phone" when "you could get unlimited talk, text and Web or email access for \$50 a month with no penalty."
- Over half (53 percent) of U.S. cell phone users with contract-based service – an estimated 65.1 million consumers – are "very likely" (26 percent) or "somewhat likely" (27 percent) to switch to "a no-contract or prepaid phone" when "you could get unlimited phone use for \$50 a month with no penalty for early-cancellation with a smart phone that costs you less than \$100."
- Over two in five (42 percent) U.S. cell phone users with contract-based service – an estimated 51.6 million consumers – are "very likely" (17 percent) or "somewhat likely" (24 percent) to switch to "a no-contract or prepaid phone" when "you could tailor your phone bill to your needs, switching between unlimited phone use for \$50 a month for some months and \$25 a month for 750 minutes other months."
- More than one in 10 U.S. cell phone users with contract-based cell phones – 12 percent or an estimated 18.1 million consumers -- are either "no longer in the penalty period and are actively exploring less expensive service" (7 percent) or feel "you pay too much for your cell phone bill, but you don't know if your early-cancellation penalty is still in effect or if it is expired" (5 percent). Nearly one in five other consumers (19 percent) say: "You pay too much for your cell phone bill and you feel trapped by the penalty that you know you would pay for cancelling your service early." Fewer than six in 10 (57 percent) agree with the following statement: "You are satisfied with your cell phone bill and would not switch because of cost."
- **How recently have consumers switched to no-contract/prepaid service?**
 - 25 percent - have only had no-contract cell phones.
 - 33 percent - more than two years ago.
 - 16 percent - in the last one-two years.
 - 9 percent - between six months to a year ago.
 - 14 percent - in the last six months.
- Additional reasons cited for U.S. consumers to switch to a no-contract/prepaid cell phone (including "major" or "somewhat" of an impact): 40 percent mentioned "poor phone service, such as dropped calls"; 40 percent cited "poor customer service" and 36 percent mentioned "recent availability of Smartphones on a no-contract basis." (See top four reasons on the first page of this news release.)

- Two in five cell phone consumers (39 percent) have a "basic, no frills cell phone that you use only or primarily for making phone calls," 28 percent "a cell phone that makes calls, but is also designed for a lot of texting." Another 11 percent say they have "Blackberry for personal use," 7 percent an iPhone, 7 percent an Android smart phone, and 4 percent some other kind of smart phone.

METHODOLOGY

The "*Net10 Prepaid Wireless Consumer Trends National Poll*" was conducted for the New Millennium Research Council by Infogroup/ORC October 7-10, 2010 among a sample of 1,008 adults comprising 500 men and 508 women 18 years of age and older living in the Continental U.S. Respondents were screened for ownership of a working cell phone. All questions are based at least on this smaller subsample of 715 respondents with a working cell phone. Completed interviews were weighted by four variables: age, gender, region and race to ensure reliable and accurate representation of the total population, 18 years of age and older. The margin of error for results based on the total sample of cell phone owners is plus or minus 4 percentage points.

ABOUT NMRC

Created in 1999, the New Millennium Research Council is a Washington, D.C. think tank. The work of NMRC focuses primarily on the fields of telecommunications and technology. The contributors to NMRC reports develop workable, real-world solutions to the issues and challenges confronting policymakers. For more information, please visit <http://www.thenmrc.org> on the Web.

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EDITOR'S NOTE: A streaming audio recording of the news event will be available on the Web as of 6 p.m. EDT on November 4, 2010 at <http://www.thenmrc.org>.