activity in the outer portion of the city appears to be offset by abandonment and deterioration in the inner city.

Change in commercial property values tend to show inner suburbs in the weakest position, probably because of city downtown development on the one hand, and outer suburban construction on the other.

Change in industrial values shows the expected pattern except, again, for Franklin County, and to a small extent Hamilton County where the inner suburbs have the largest decline.

This analysis of community change was limited to the central county. It is possible that in some metropolitan areas, the greatest rates of growth in households, income and property values are in counties adjacent to the central county.

CONCLUSIONS

Primary Conclusions

> Most homesellers move up in price at least 50 percent when they purchase their next home.

Ohio's seven major cities and their suburbs show little difference on this finding. "Moving up" is one of the fundamental tenets of the American way of life. First and foremost, that is what this study measured.

> Most sellers, suburban and city, move outward.

Again, this measure shows little difference among the seven cities and their suburbs. Movement outward from economically distressed cities, such as Youngstown and Cleveland, has long been recognized. But this study found high levels of city and suburban movement outward in all
seven cities, irrespective of economic condition. The dominant pattern in Ohio's seven major counties -- central cities and suburbs -- is movement outward.

Most sellers have little choice but to move further out because most higher-priced homes are located further out.

The closer a seller lives to the center of the city, the truer that statement is. The fewer the number of higher-priced homes and condominiums in a city, the less possible it is for movers either to stay in the city or to move in from suburbs, and to achieve the upward mobility they want.

Variation among the seven cities and their suburbs results from particular local conditions.

For example, annexation of what otherwise would have been suburban communities and vacant land by the city of Columbus has resulted in large numbers of higher-priced homes being built in the city. To a lesser extent, that has been the case in Toledo as well. The other cities are, for the most part, without "greenfield" land, although all have varying amounts of derelict vacant land that had been previously developed.

The cities of Akron and Cincinnati have neighborhoods containing higher-priced homes, built decades ago, that have remained attractive to middle- and higher-income households. What had been Cleveland's higher-priced districts were abandoned decades ago by middle- and upper-income households, resulting in deterioration and demolition.
To some extent, economic expansion that draws new population to an area, such as that which occurred in Columbus and Cincinnati during the 1980s, prevents negative effects of movement outward from occurring. Movers to an area create demand for housing being vacated by residents who move outward. The worst of circumstances for a city involves a combination of little net areawide job growth (and therefore no population growth) and scant higher-priced housing in the city. Cleveland and Youngstown show the extremes of that situation.

> Continuing high rates of movement outward will result in further decline of central cities, decline of inner suburbs, decline of central counties, suburban sprawl, and greater costs and inefficiencies.

Local conditions will influence the degree of decline and the rate of spread. But the extent to which movement outward involves income decline in particular neighborhoods and communities, decline will deepen and spread. Besides the central cities, inner suburbs are most vulnerable. (Consequent costs and inefficiencies are discussed below under Secondary Conclusions.)

> Production of more higher-priced housing in cities is a necessary condition for more movement inward.

If homesellers move up in price an average of 50 percent, moves inward cannot increase without suitable housing to make such moves possible. To increase movement into Cleveland, Youngstown and Dayton in particular, but
also Cincinnati and Akron, major increases in construction (or conversion of existing structures) are required. Toledo and Columbus are better situated with relatively large numbers of higher-priced homes. But those homes are for the most part located in the outer areas of both cities, particularly in Toledo. Both need more higher-priced housing at or near their centers.

Since the availability of housing is not the only factor that determines where homesellers will move, other factors, particularly concern for safety and schools, must be given serious attention. The need for very serious attention is driven by the ease with which most people can move out of, or avoid moving into, a community. The most powerful vote is through the moving van.

**Secondary Conclusions**

> Public policy strongly supports outer suburban sprawl and movement outward through investments in highways, roads, bridges, sewers, waste treatment systems and water extensions.

The primary government investment that supports sprawl and movement outward, the interstate highway system, has already been made. Now investments are being made to widen interstate highways and other roads because of traffic volumes resulting from the sprawl made possible by construction of the highways. This in turn facilitates more movement outward.

Other road improvements and the provision of sewers,
waste treatment systems, and water in rural or semi-rural areas make possible large scale developments. The scale of those investments shapes the scale of development.

The Internal Revenue Service Code encourages movement up in price (and therefore outward).

The IRS tax code practically requires homesellers to move up in price (and therefore outward) by giving a tax benefit for mortgage interest payments, and by taxing the capital gain of those who would move down in price (which moving inward is more likely to entail). It is in the taxpayer’s interest to carry the largest mortgage possible and to move to a more expensive home when the interest payments decline in the latter years of the mortgage. Further, sellers can avoid paying a tax on the increased value of their home only by purchasing another home priced equal to or greater than the one sold.

A study by the Housing Research Network of Ohio homeseller movement in relation to the IRS capital gain provision found that the provision has the effect of reducing the opportunity to move inward by 38 percent, and that movers who do not comply with the provision actually move inward at a rate 2.3 times greater than those who do.

Strong popular support for the mortgage interest deduction means that change is unlikely. But the provision governing the taxing of homeseller capital gain should be changed to permit moving down in price without incurring a tax penalty.
Public policy gives relatively minor support to central city and inner suburban housing development and movement inward.

No federal or state policy has the objective of facilitating construction of substantial numbers of homes, condominiums and apartments in central cities on previously developed sites for people who otherwise could afford to live in suburbs. Because of the extra costs typically associated with such developments, such as land acquisition, site clearance and environmental cleanup, development does not happen without public-sector assistance. The public-sector assistance that has been available has been minor compared with funding for infrastructure improvements that support the expansion of outer suburbs. As a consequence, residents who would prefer to move up and live in, or closer to, the central city have relatively few options open to them.

Donation of outward movement over movement inward has serious cost and efficiency impacts.

The sprawling, outward movement of population affects community efficiencies and costs in a number of spheres:

Local governments. Communities at the outer edges of metropolitan areas are faced with needs to finance expanded or new services such as police, fire and emergency medical. Inner suburban governments may see the erosion of their property and income tax bases and the emergence of "urban" problems such as housing deterioration and retail decline. Central cities are left with worsening decline and
associated fiscal problems.

**School districts.** Just as local governments are affected by population movement, school districts must adjust to changing tax bases and enrollment levels. Growth communities are faced with the need to pass levies to support and build additional facilities, while city and inner suburban districts can be burdened with trying to maintain revenues from a weakening tax base.

**Utilities.** Distant suburban sprawl requires that gas, electric and telephone companies extend their lines while usage of existing capital investments in the central city falls.

**Hospitals.** As population declines in a central city, use of existing health care facilities can decline, leading to closure; at the same time, pressures mount to build new facilities in outer suburbs where growth is occurring.

**Religious institutions.** Places of worship and affiliated schools are similarly affected. Facilities of the Catholic faith, of which there are many in most central cities, face major changes.

**Arts and cultural organizations.** Those that are located in or near downtowns will see their patrons living further and further away, which reduces the likelihood of attendance and contributions.

**Transportation systems.** The more that population sprawls across a metropolitan area, the greater the difficulty to service it with public transportation.
Existing metro core transportation systems can be faced with a decline in ridership and a rise in potential costs associated with providing new services in outlying areas. Also, automobile usage and milage increase, with consequent oil consumption and air pollution.

**Farmlands and open space.** Suburban sprawl consumes farmlands and open spaces. Depending on the form and location of development, prime land can be unnecessarily lost.

**RECOMMENDATIONS**

The objective for action based on the findings of this study is to: Increase options for movement inward and decrease outer suburban sprawl. Toward that objective, the following actions are recommended for the State of Ohio, metropolitan areas and the federal government:

**State of Ohio**

> Review policies and programs with respect to impacts on outer suburban sprawl and direction of movement; change policies to reduce sprawl and to increase options for moving in.

Principal areas for review are transportation and economic development, including activities whose purpose is to assist cities and inner suburbs overcome problems associated with land reuse.

> Require and fund metropolitan planning and implementation — i.e., plans for reducing sprawl and increasing options for moving in or staying in, and governance mechanisms for plan
implementation.

Achievement of the above objective requires cooperative action among the local governments comprising a metropolitan area. Existing metropolitan planning organizations may be positioned to engage in the needed cooperative action. The state of Ohio should provide funding support.

**Metropolitan Areas**

> Ensure role, responsibilities and effectiveness of planning organization; devise plans to reduce sprawl and outward movement.

The various counties within each metropolitan area need to cooperatively assess their particular movement and development patterns and formulate plans and strategies for change which they can jointly support. Local officials need to define the organization that will do that work, and the governance mechanisms that will be required for plan implementation.

> Jointly address reasons other than housing why residents move outward.

The lack of suitable housing is one reason, and possibly not the major reason, why most homeowners do not move inward when they move. Local officials and planners should determine what additional factors, such as safety, schools and public services, are influencing move decisions and take account of those factors in plans and strategies. Future research of the Ohio Housing Research Network could focus on the factors involved in move decisions.
Federal

> Change the IRS Code Section 1034 governing homeseller capital gain so that sellers can move down in price, or to renter status, without incurring a tax penalty.

Given that the strengthening of cities is a critical national need, the federal tax code should not promote movement out and away from cities, nor be punitive toward those who would move into or toward cities.

The effects of federal policies and programs on central cities are extensive and powerful. Other changes in addition to the homeseller capital gain provision would serve to strengthen cities and inner suburbs. But to address them is beyond the scope of this study and report. As the metropolitan planning organizations proceed with what is recommended above, they will identify specific federal actions needed to support achievement of local objectives. As the national scope of those actions is determined, the federal government should work closely with MPOs to implement recommended actions.
<table>
<thead>
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<th>Class of Service</th>
<th>Number of Program Participants - End of Period</th>
<th>Number of New Program Participants During Period</th>
<th>Number of Participants By Qualifying Program</th>
<th>Percentage Penetration of Optional Features</th>
<th>Participants Disconnected for Non-Payment</th>
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<tr>
<td>Flat</td>
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<td>2799</td>
<td>2782 226 93 3952 14734 1242</td>
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<td>149</td>
<td>203 11 18 217 584 10</td>
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<tr>
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<th>Class of Service</th>
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<th>Average Monthly Toll Bill (Carrier)</th>
<th>Average Service Connection Charge Waived</th>
<th>Average of Waived Deposit</th>
<th>Amount of Monthly Subscriber Line Charge</th>
<th>Number of Months for BCL Waiver</th>
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<td>$45.00</td>
<td>$3.50</td>
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</table>

"Other" indicates the number of Grandfathered TAP/LINK-UP customers prior to 8-1-91 that continue to receive the waiver of the $3.50 Subscriber Line Charge until their 18 months period is over.
REPORT TO THE OHIO GENERAL ASSEMBLY
Telephone Service Assistance Lifeline Program

Presented January 1, 1995
The Public Utilities Commission of Ohio
EXECUTIVE SUMMARY

On August 1, 1991, the State of Ohio began offering a lifeline program for the benefit of elderly or disabled, low-income individuals. Known as Telephone Service Assistance or TSA, the program offers eligible persons a waiver of the upfront costs of obtaining basic telephone service and a continuing monthly discount off the TSA recipient's telephone bill. To be eligible for TSA, an individual must show documented proof of current participation in either: the Ohio Energy Credits Program; Supplemental Security Income on the basis of disability or blindness; or both Medicaid and Medicare. Because the program is funded in part by state tax revenues, however, TSA also includes certain limitations on the types of services that the program recipients may purchase.

Telephone Service Assistance was made possible by the passage of Amended Substitute House Bill 254. Signed into law on December 26, 1990, this bill, among other things: set forth the basic requirements concerning eligibility for the lifeline program; identified the benefits to be received; established an excise tax credit mechanism to fund a portion of the program's costs; designated a sunset date for the program of January 1, 1996; and required the Public Utilities Commission of Ohio (PUCO) to promulgate any additional rules necessary to fulfill the legislative mandate. As a final matter, House Bill 254 directed the PUCO to submit a report by January 1, 1995, evaluating the effectiveness of, and making any recommendations regarding the continuation of, or modifications to the resultant lifeline program.

The following report is submitted to the Ohio General Assembly pursuant to the requirements issued in House Bill 254. Consistent with the specifications of the bill, this report addresses the effectiveness of Telephone Service Assistance on the basis of the program's subscription levels and cost to the state. Additionally, the report includes certain recommendations regarding TSA, which the Commission submits in light of recent developments within Ohio's telecommunications environment.

During the three years since the inception of TSA, enrollment in the program has been low. According to December 1993 statistics obtained from the TSA qualifying programs, less than 7% of Ohio households that were otherwise eligible to receive aid through TSA actually opted for the TSA program. Moreover, although the number of households that are eligible to receive TSA constitutes over 40% of the more than 510,000 Ohio households living under the poverty line, the approximately 12,600 persons currently enrolled in TSA represents a mere 2.5% of that greater population.
The TSA program appears somewhat more effective, however, when evaluated on the basis of its cost to the state. Because it is a federally certified lifeline program, nearly half of the costs of providing TSA are recovered by the telephone companies from federal subsidy mechanisms. As a result, the benefits delivered through the TSA program are done so at an average yearly cost to the state of less than $50.00 per recipient.

Thus, while TSA is a relatively inexpensive program, it has generally failed to attract even the small group of Ohioans for whom the program was targeted. To that end, according to surveys conducted by the Commission’s Public Interest Center, many end users and consumer groups believe that TSA is too restrictive. They contend that the program’s benefits are too limited, its eligibility criteria are too narrowly defined, and most importantly, that the program is not available to enough of the low-income households in Ohio.

The PUCO believes there is a need for additional targeted universal service efforts in the state of Ohio. As such, it has recently encouraged lifeline enhancements (not subsidized by taxpayer dollars) as a commitment under the Commission’s alternative regulation procedures. In fact, two of the three large LECs that have already participated in such proceedings before the Commission have proposed, among other things, to implement company funded lifeline expansion efforts in exchange for greater regulatory flexibility. Recognizing the merit of this approach, the PUCO has publicly committed to working with other telecommunications service providers to develop similar non-tax based solutions to improving lifeline efforts within Ohio.

Regarding the recommendations presented within this report, the PUCO maintains that any prospective changes to Ohio’s lifeline programs should be made as part of an in-depth investigation the Commission intends to conduct, which will examine the impact that emerging local competition will have on universal service issues such as lifeline. An investigation of this scope, however, will depend on the commitment and cooperation of all of Ohio’s telecommunications service providers, including new entrants, and will therefore require some time to complete. In light of this, the PUCO would like to ensure that existing TSA customers continue to receive their benefits during the interim. Accordingly, to the extent that the federal matching funds associated with TSA enable the state to provide these benefits in a cost effective manner, the Commission recommends that the TSA lifeline program be continued in its existing form by extending the TSA sunset provision set forth in HB 254 to January 1, 1999. Furthermore, during the time until the TSA program sunsets, the Commission recommends that it work to develop, on an interim basis, alternative enhanced universal service mechanisms, including lifeline service, which reflect the entrance of new providers into the Ohio telecommunications market.
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Section I - INTRODUCTION

On December 15, 1988, the Ohio General Assembly adopted Amended Substitute House Bill 563, which directed the Public Utilities Commission of Ohio (PUCO or Commission) to "study the various aspects and need for a 'lifeline' telephone rate for low-income, handicapped and elderly persons and report its findings to the General Assembly by May 1, 1989." On May 1, 1989, the Staff of the PUCO (Staff) submitted a report containing telephone information regarding penetration levels, service prices, and usage patterns, as well as lifeline service options. Additionally, Staff included within its report similar data relative to other states and the nation as a whole.

Based on its findings, the PUCO convened various industry representatives and consumer groups to develop a consensus proposal for a new lifeline telephone service program. That consensus proposal was then substituted for an existing lifeline bill known as House Bill 254, and was passed by the House. Subsequently modified by the Senate, the bill's revised form was ultimately adopted as amended substitute House Bill 254 (HB 254).

Signed into law on December 26, 1990, HB 254 set forth specific guidelines as to the nature of the lifeline program, including the level of benefits to be provided through the program, the amount of those benefits to be funded by the State of Ohio, the particular funding mechanism to be utilized by the State, and the means test criteria by which persons may qualify for the program. The bill further directed the PUCO to adopt those rules necessary to carry out the legislative mandate. Additionally, HB 254 required the Commission to submit a report no later than January 1, 1995, for the purpose of evaluating the effectiveness of the resultant lifeline program, and making "...any recommendations for continuation of, and changes relative to..." the bill's provisions. Finally, HB 254 established a sunset provision, whereby the TSA lifeline program would be discontinued on January 1, 1996, absent any action to the contrary by the General Assembly.

Responding to the General Assembly's lifeline mandate, the PUCO released a Finding & Order on July 19, 1991, which introduced Telephone Service Assistance, or TSA, to Ohioans, effective August 1, 1991. In addition to setting forth all of the lifeline program's terms and conditions, the July 19th Finding & Order also required all participating telephone companies\(^1\) to annually submit specific cost and usage data deemed useful by the PUCO for the purpose of monitoring and assessing the effectiveness of the TSA lifeline program.

\(^1\) HB 254 exempted from its lifeline requirement any telephone company that "offers residential basic local exchange, single-party, flat-rate, unlimited calling telephone service, including access and local usage, for ten dollars or less per month."
The following is presented pursuant to the reporting requirement established by the General Assembly under HB 254. Included within this report are: a description of the TSA program; statistics regarding the level of participation in the program and its cost to the state; an assessment of the effectiveness of the program; and the PUCO's recommendations concerning the future of the Telephone Service Assistance program.

Section II - THE TELEPHONE SERVICE ASSISTANCE PROGRAM

The Telephone Service Assistance program developed by the PUCO was specifically designed to satisfy FCC criteria for state certification. By doing so, TSA incorporates matching federal subsidies, as well as the funding provided through HB 254, to offer the maximum level of benefits to its program participants. Consequently, TSA offers eligible customers a full waiver of the upfront charges associated with basic local service, including the telephone company's standard service deposit, and either the service connection or conversion charges incurred as a result of an individual's admittance into the TSA program. Furthermore, TSA recipients receive a monthly discount off their basic local service charges for as long as the customer remains in the TSA program. The monthly discount is currently in the amount of $7.00, and represents a $3.50 deduction funded through HB 254, and a federal matching waiver of the $3.50 subscriber line charge.

To qualify for TSA, an individual must provide to his local exchange company (LEC) documented proof of participation in any of the following: the Ohio Energy Credits Program (OECP); Supplemental Security Income (SSI) on the basis of disability or blindness; or both Medicaid and Medicare. Upon establishing initial eligibility, HB 254 requires that TSA customers' participation in any of the above qualifying programs be annually verified in order to remain in the lifeline program.

Regarding the funding of TSA, HB 254 established a mechanism by which just over half of a company's cost of providing TSA can be recovered from the state via a credit applied to the company's yearly excise tax bill. Specifically, the state excise tax credit remunerates a company's TSA costs in the following amounts:

(1) the dollar amount of a TSA customer's waived service connection or service conversion charges that the company has not otherwise recovered through federal subsidies;

(2) one-half of the total dollar amount of a TSA customer's monthly discounts;\(^2\) and

\(^2\) As stated, TSA customers presently receive a monthly discount equal to $7.00, of which $3.50 is recovered by the telephone company through the state tax credit.
(3) all of the revenue deficiency amount experienced as a result of waiving the customer service deposit for a TSA recipient.

As previously mentioned, the remaining costs incurred by a company in the course of providing TSA (i.e., the other half of the waived service charges and monthly discounts) are recovered through federal matching subsidies drawn from the national Universal Service Fund.

In delineating the lifeline program to be established through HB 254, the General Assembly applied certain conditions to the type of telephone service provided under Telephone Service Assistance. First, wherever it is available, TSA customers must subscribe to usage-sensitive service. In that six of Ohio's largest local exchange carriers--representing 97.5% of all access lines in the state--do offer some form of usage-sensitive service, TSA's prohibition of flat-rate service is nearly ubiquitous.

The other condition associated with TSA is a restriction on the types of non-basic, optional services that the program recipients may purchase. Currently, TSA optional services are limited to Touch-tone, Non-published Number Service, Call Trace, and Per-line Blocking. As such, TSA customers cannot subscribe to any other optional service, unless they can establish, through a special exceptions process, that the service is necessary due to a medical or life-threatening situation.

Section III - THE LEVEL OF SUBSCRIPTION TO TSA

Presently, 29 of Ohio's 42 local exchange companies are required to provide TSA to eligible customers. These 29 LECs serve over 4,200,000 residential access lines in the state, representing 71.5% of the total access lines in Ohio. In light of this, at the conclusion of TSA's third year of operation in June 1994, only 12,667 Ohioans were participating in the lifeline program. During those first three years, 1,620 TSA recipients were involuntarily disconnected for non-payment of toll charges, and 1,473 were disconnected of their own volition, while 833 individuals left the program and returned to traditional basic local service. The growth of TSA, when viewed on a monthly basis, indicates significant enrollment increases during the first 18 months, with new enrollments slowing down from January to December of 1993, and ultimately leveling off beyond January of 1994. (See Appendix A for monthly participation levels.)

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3 Revenue deficiencies occur when TSA customers are involuntarily disconnected on the basis of non-payment. In such cases, the revenue deficiency is equal to the total dollar amount of the deposits waived for disconnected customers, where such deposit monies could have been applied to the customer's outstanding debts.

4 Usage-sensitive service is typically comprised of a low monthly recurring charge (which is lower than the monthly rate for flat rate service), plus per-minute or per-message rates assessed according to the customer's local usage.

5 However, an exception to this prohibition is granted where a customer subscribes to flat-rate TSA before the customer's company introduces usage-sensitive service.
Another measure of program participation is displayed in Appendix B, where TSA enrollment is stated as a percentage of each telephone company’s total residential customer base. Presented in this manner, subscription to TSA appears quite low, with more than two-thirds of the companies showing a level of less than 1%.

Perhaps the most accurate representation of the level of TSA participation, however, is best achieved by separating the participants according to the assistance programs through which they verified their eligibility for TSA. As previously stated, to qualify for TSA, a customer must demonstrate proof of current enrollment in either: the Ohio Energy Credit Program; Supplemental Security Income on the basis of disability or blindness; or both Medicare and Medicaid. In December 1993, 5.0% of Ohioans receiving assistance through OECP were also enrolled in TSA. In the same month, enrollment figures regarding Medicare/Medicaid recipients and relevant SSI recipients indicate that the percentage of these individuals taking advantage of their eligibility for TSA was even lower, at 2.0% and 2.7%, respectively (See Appendix C).

**Section IV - THE COST OF TSA TO THE STATE OF OHIO**

In its first three years of operation, TSA delivered nearly 2.9 million dollars worth of benefits to its program participants. The State of Ohio provided $1,457,853 of those benefits through the tax credit mechanism set forth in HB 254, while the remainder was recovered by the telephone companies through the federal Universal Service Fund administered by the National Exchange Carriers Association (NECA). A breakdown of the State's total cost of providing TSA for the first three years shows that $213,128 was spent on waived service connection and conversion charges, $1,169,854 on monthly discounts, and $74,870 on revenue deficiencies from involuntary disconnections (See Appendix D). Table 1 on the following page presents both total and Ohio specific costs of TSA for fiscal years 1992, 93, and 94.

**Section V - THE EFFECTIVENESS OF THE TSA PROGRAM**

As evidenced by the reporting requirements set forth in HB 254, any assessment of the success of Ohio’s TSA lifeline program must be based upon at least two general measures-- the level of participation in the TSA program, and the cost incurred by the State of Ohio in providing TSA benefits to its citizens. The conclusions drawn regarding TSA’s success, however, seem to vary depending on the measure applied. As such, this section will separately address the issue of TSA’s effectiveness on both a participation and cost basis.
Table 1

THE YEARLY COSTS OF TSA

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<th>91/92</th>
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<td>Waived Service</td>
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<td>Connection &amp; Conversion</td>
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<td>Charges(^1)</td>
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<td>Ohio Specific Cost</td>
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\(^1\) The State of Ohio reimburses half of these costs.
\(^2\) The State of Ohio reimburses all of the revenue deficiencies.

When evaluating the success of TSA based upon its level of enrollment, it should first be noted that the program was, by legislative design, established to benefit a very limited group of Ohio citizens.\(^6\) Accordingly, December 1993 data provided by the individual qualifying programs indicates that there were approximately 76,000 Ohioans participating in the Ohio Energy Credits program, 189,820 receiving Supplemental Security Income benefits on the basis of disability or blindness, and 165,000 Ohioans enrolled in both Medicare and Medicaid. At the same time, only 12,500 persons were enrolled in TSA. While no information is available regarding the extent of overlap between these programs, the number of actual TSA customers represents a participation rate of no more than 6.9%, and possibly as low as 2.9% of potential recipients.

Clearly, the statistics presented within this report regarding TSA participation are, by any standards, low. According to surveys conducted by the Commission's Public Interest Center, the two most frequently cited reasons for the low enrollment are the usage-sensitive service requirement and the narrowly defined eligibility criteria. Furthermore, consumer groups and many end-users state that, with over 510,000 Ohio households currently living under the poverty line, the reach of the TSA program is simply too limited.

\(^6\) Low-income Ohioans who fall outside of the eligibility criteria for TSA may still qualify for Ohio's other lifeline program, Service Connection Assistance, or SCA. SCA provides eligible low-income customers limited financial assistance with the upfront costs of getting on the network.
But while the TSA program has been largely unsuccessful in addressing the needs of even the small group of low-income Ohioans it was targeted for, the PUCO has identified a manner by which lifeline efforts may be increased on an individual company basis. In recent alternative regulation proceedings, the Commission has granted three of Ohio's largest LECs greater regulatory flexibility in exchange for the companies' commitment to fulfill certain universal service obligations. Included among the commitments made by these companies is an effort to improve upon their respective lifeline programs. In fact, two of the companies have actually committed to corporate investments intended to effect such improvements. Ameritech Ohio, for example, has pledged to finance an expansion of its lifeline efforts, which will be provided under the new title of Universal Service Assistance (USA). According to Ameritech's proposal, the USA program will incorporate all of the benefits and provisions associated with TSA, as well as the following enhancements: (1) a slightly higher monthly discount; (2) free Touch-Tone service; (3) the option of Residence Flat Rate service; (4) free toll restriction; and (5) free automatic blocking for 900 and 976 calls. As a result of these enhancements, the USA program will both increase the level of benefits available to individuals who can qualify for TSA, and introduce additional low-income Ohioans who do not meet TSA criteria to a similar level of lifeline benefits. Furthermore, the USA plan will accomplish these objectives at no additional cost to the state. This is particularly significant, given that Ameritech Ohio accounts for nearly 60% of the access lines in Ohio. Thus, recognizing the merit of the approach described above, the PUCO has publicly stated in the Ameritech alt reg case that it urges other local exchange companies, and any new entrants seeking certification to provide switched services, to also develop non-tax supported lifeline expansion efforts in respective service territories. Furthermore, the Commission suggested that they do so before the TSA program sunsets. The Commission intends to work with each of the involved companies to develop such enhanced universal service programs.

At this point it should be noted that, although the level of TSA enrollment has been low, those customers that are enrolled in the program seem to display a degree of stability not unlike that of the general customer base. Table 2 on page 8 presents a comparison of the large LEC's total and involuntary disconnection statistics for

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7 Western Reserve Telephone Co., Case No. 93-230-TP-ALT; Cincinnati Bell Telephone Co., Case No. 93-432-TP-ALT; and Ohio Bell Telephone Co., Case No. 93-487-TP-ALT.
8 The proposed USA plan offers an $8.00 monthly discount on standard service prices, as opposed to the current $7.00 monthly discount provided through TSA.
9 While Ameritech intends to finance all program enhancements, it will continue utilizing the existing lifeline funding to recover the cost of any benefits that still comply with the TSA eligibility criteria established in HB 254.
11 A large LEC is defined as a local exchange company with greater than 15,000 access lines. The large LECs include Ameritech Ohio, GTE North, Cincinnati Bell, United, Western Reserve, ALLTEL Ohio, Century, and Chillicothe Telephone.
Table 2

LARGE LEC DISCONNECTIONS
(JULY 1993 TO JUNE 1994)

<table>
<thead>
<tr>
<th>Company</th>
<th>Residential Disconnects Total (%)</th>
<th>TSA Disconnects Total (%)</th>
<th>Residential Disconnects Invol. (%)</th>
<th>TSA Disconnects Invol. (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ALLTEL</td>
<td>14.40%</td>
<td>8.75%</td>
<td>3.08%</td>
<td>3.30%</td>
</tr>
<tr>
<td>CENTURY</td>
<td>N/A(^1)</td>
<td>10.92%</td>
<td>4.64%</td>
<td>4.93%</td>
</tr>
<tr>
<td>CHILLCOTHE</td>
<td>15.00%</td>
<td>6.91%</td>
<td>3.36%</td>
<td>4.71%</td>
</tr>
<tr>
<td>CINCI BELL</td>
<td>23.72%</td>
<td>10.59%</td>
<td>4.89%</td>
<td>0.90%</td>
</tr>
<tr>
<td>GTE NORTH</td>
<td>5.04%</td>
<td>7.83%</td>
<td>1.19%</td>
<td>2.61%</td>
</tr>
<tr>
<td>OHIO BELL</td>
<td>11.99%</td>
<td>17.23%</td>
<td>3.22%</td>
<td>4.46%</td>
</tr>
<tr>
<td>UNITED</td>
<td>14.09%</td>
<td>20.25%</td>
<td>3.80%</td>
<td>8.22%</td>
</tr>
<tr>
<td>WEST. RESERVE</td>
<td>11.16%</td>
<td>3.40%</td>
<td>5.31%</td>
<td>2.38%</td>
</tr>
</tbody>
</table>

\(^1\) Century Telephone did not submit total residential disconnect data for any of TSA's annual reports.

Table 3

TSA AVERAGE YEARLY OHIO COST
PER PROGRAM PARTICIPANT

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Participants</td>
<td>9,558</td>
<td>11,787</td>
<td>12,667</td>
</tr>
<tr>
<td>at End of Year</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total TSA Cost</td>
<td>$ 647,375</td>
<td>$ 1,075,373</td>
<td>$ 1,118,087</td>
</tr>
<tr>
<td>Less Federal</td>
<td>$ 314,874</td>
<td>$ 522,916</td>
<td>$ 545,191</td>
</tr>
<tr>
<td>Reimbursement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Ohio Cost</td>
<td>$ 332,500</td>
<td>$ 552,456</td>
<td>$ 572,896</td>
</tr>
<tr>
<td>Average Ohio Cost</td>
<td>$ 34.78</td>
<td>$ 46.87</td>
<td>$ 45.23</td>
</tr>
<tr>
<td>Per Participant</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Given the recent emergence of competition in the local telecommunications market, the PUCO recognizes the need to consider the effects such competition may have on the nature of lifeline services in Ohio. Included among these considerations are the influence that local competition will have on telephone price levels, and the appropriateness of extending social obligations to new local service providers. In light of this, the Commission intends to conduct a re-examination of Ohio lifeline issues, as they exist within the broader context of universal service in an increasingly competitive environment. Such an effort, however, will involve a commitment of all of Ohio's telecommunications providers, including new entrants, to address the issues, and explore and implement non-tax based solutions. Furthermore, the Commission's efforts to effect company financed lifeline enhancements like that of Ameritech's will also take time. To that end, until these objectives can be met, the PUCO would like to ensure that the more than 12,600 existing TSA customers will not be deprived of their benefits during the interim. And to the extent that the federal matching funds associated with TSA enable the state to provide these benefits in a cost effective manner, the Commission recommends that the TSA lifeline program be continued in its existing form by extending the TSA sunset provision set forth in HB 254 to January 1, 1999. Provided this recommendation is adopted, the Commission will submit a report on the findings of its investigation, and the success of its company specific efforts by January 1, 1998.

Section VII - CONCLUSION

In sum, the Commission believes that, from a cost-effectiveness standpoint, the limited monies expended by the State over the 3 plus years of the lifeline program have been well spent. On the other hand, in terms of addressing the magnitude of the universal service problem at issue, the effect has been far too small, and has substituted a government tax-based solution for a solution which the private sector, which benefits from the revenues gained from providing telecommunications service, should work to resolve. Furthermore, while participation by those eligible has been minimal, the Commission, in recent proceedings with several large local telephone companies, has identified and is committed to pursuing alternative methods to effect certain enhancements to Ohio lifeline programs that are not dependent on state tax revenues. Lastly, the Commission will be examining lifeline issues as part of its investigation into the introduction of competition in the local telephone service market. Thus, the PUCO strongly recommends the continuation of state funding for the existing lifeline program for at least the next three years, given the understanding that the Commission will work to implement alternative solutions (similar to that put forward by Ameritech) with the other affected suppliers during the interim period. If this recommendation is adopted and the sunset date of this legislation is extended to January 1, 1999, we will evaluate and test the lifeline program (and alternatives to it) in light of our investigation into competition and universal service (as well as part of our alternative regulation process), and will report our findings and further recommendations to the legislature by January 1, 1998.