

DRAFT

Next Generation 9-1-1 Funding Study

submitted to

The Washington State Military Department

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1. EXECUTIVE SUMMARY

L. Robert Kimball & Associates, Inc. (Kimball) is pleased to provide the Washington State Military Department with its Next Generation 9-1-1 (NG9-1-1) funding study report.

1.1 PURPOSE OF THE STUDY

Washington's enhanced 9-1-1 (E9-1-1) system has served its citizens and visitors extraordinarily well for many years. This can be attributed to the leadership, support and funding provided by the Washington E9-1-1 program office (E9-1-1 Program Office), and by the dedication and professionalism of the county 9-1-1 programs. A state E9-1-1 Advisory Committee (Committee) provides policy and planning support to the state program office. A NG9-1-1 subcommittee developed a Six-Year Plan, which accurately identified the most pressing issues facing the state of Washington's E9-1-1 system, and clearly made the connection between addressing the issues (or failing to address them) and the capability of the system to meet the public's expectations for service in the face of rapid technological change.

Enhanced 9-1-1 in Washington is funded by a state excise tax (20 cents per switched access line¹ and radio access line²) and a county excise tax (50 cents per switched access line and radio access line). The enhanced 9-1-1 tax rate set in Chapter 82.14B Revised Code of Washington (RCW) has been unchanged since it went into effect in 1992. The problem is that technology has changed, and this threatens to undermine the state's E9-1-1 system in two critical ways:

- Consumers are adopting new communications technologies that do not pay the 9-1-1 excise tax, such as Voice over Internet Protocol (VoIP), which has a harmful impact on current and future funding.
- The state's E9-1-1 system is unable to provide E9-1-1 service to callers using certain new technologies, something that can only get worse in the face of the relentless advance of technology.

A third threat is inflation, which has decreased the value of state and local 9-1-1 revenues by 34 percent, according to the Office of Financial Management's (OFM) Economic and Revenue Forecast Council's estimates for the period from 1995 through 2006. Local 9-1-1 taxes, even with the addition of funding distributions from the state, are not always adequate to pay the full cost of providing E9-1-1 service, as shown in the figure below.

¹ A Switched access line is defined in RCW 82.14B.020 (3) to mean, "the telephone service line which connects a subscriber's main telephone(s) or equivalent main telephone(s) to the local exchange company's switching office."

² A Radio Access Line is defined in RCW 82.14B.020 (5) to mean, "the telephone number assigned to or used by a subscriber for two-way local wireless voice service available to the public for hire from a radio communications service company. Radio access lines include, but are not limited to, radio-telephone communications lines used in cellular telephone service, personal communications services, and network radio access lines, or their functional and competitive equivalent. Radio access lines do not include lines that provide access to one-way signaling service, such as paging service, or to communications channels suitable only for data transmission, or to nonlocal radio access line service, such as wireless roaming service, or to a private telecommunications system."

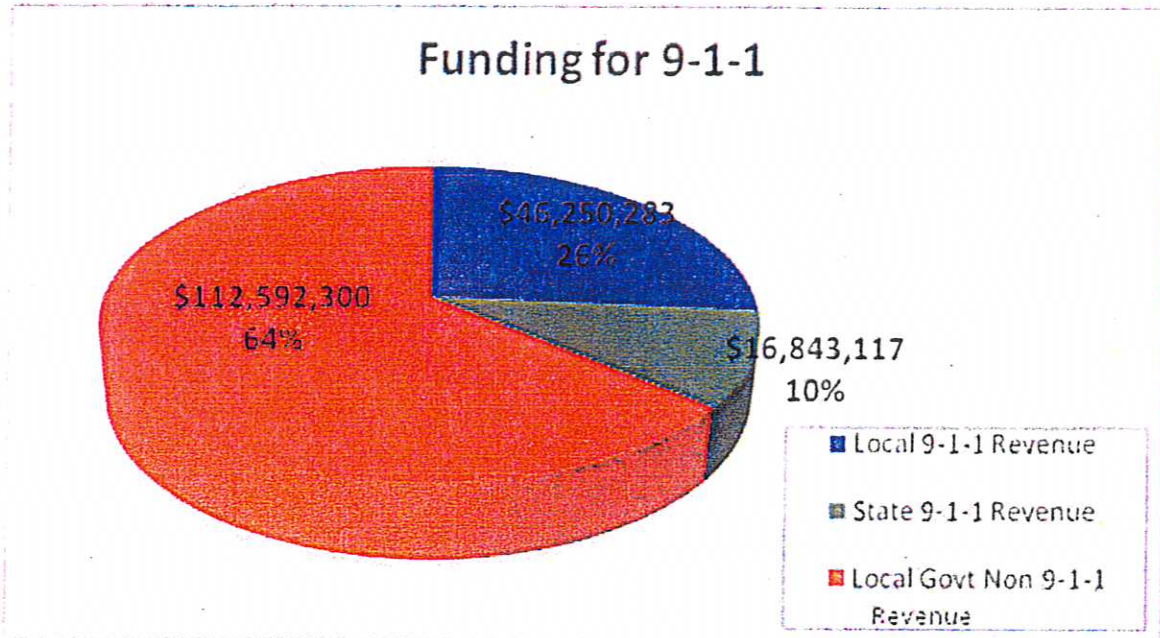


Figure 1

The reality of the situation is this: Right now, landline and wireless telecommunications consumers—based solely on their technology or service—subsidize other consumers who use technologies or services that do not contribute to the cost of the 9-1-1 system. Right now, some consumers—based solely on their technology or service—do not have access to the E9-1-1 system at all; for example, the youth and the hearing impaired, whose primary mode of communication is text messaging. Since the U.S. Department of Justice enforces the provisions of the Americans with Disabilities Act (ADA), which requires government to provide the hearing impaired with equal access to the E9-1-1 system, immediate action must be taken to make the necessary upgrades. The funding crisis must be solved not only to address current shortfalls, but also to ensure the E9-1-1 system continues to serve the public in the face of changing technology. It is not an option for E9-1-1 to fail.

In response to these concerns, the 2008 legislature directed the Military Department’s E9-1-1 Program Office to undertake an enhanced 9-1-1 revenue study and to deliver a report to its oversight committees by December 1, 2008. The Military Department issued a Request for Proposals (RFP) and engaged Kimball to conduct the study and make recommendations for a funding mechanism that would address current funding shortfalls, the unique costs of transitioning to NG9-1-1, and ongoing operations and maintenance.

Kimball is one of the nation’s largest engineering/architectural firms, annually ranked among the top 200 A/E firms by the Engineering News Record. We are a multidisciplinary firm with full in-house design services and a staff of more than 500 people to serve any client need, providing Telecommunications and Technology Consulting and Engineering, Architecture, Engineering and Environmental Science services. Kimball has managed over 200,000 projects across the country, ranging from \$1,000 to \$300,000,000.

Kimball’s Telecommunications and Technology Division began offering public safety consulting services in 1990. Its staff is comprised of seasoned professionals with expertise in communication system planning and design, telecommunications and public safety technology, public policy (legislative and regulatory),

9-1-1 planning and funding. The individuals assigned to the state of Washington's project have been "in the trenches" managing and operating 9-1-1 programs at the state and local levels, and have helped numerous state-level clients to analyze 9-1-1 funding, and develop legislation and public policy, including Maine, Pennsylvania, Delaware, Tennessee and Missouri. In addition to state-level experience, our state of Washington team has been intimately involved in the U.S. Department of Transportation's NG9-1-1 project, thus providing the state of Washington with the benefit of their insight into the federal 9-1-1 policy environment that will have an impact on NG9-1-1 implementations nationwide.

Our unique position in the industry allows us to take a broad view of industry trends, vendor direction and vendor pricing, as well as policy development trends all across the country. Kimball used this experience to provide reality and credibility to our work on behalf of the state of Washington.

1.2 METHODS

Kimball worked with the Washington State E9-1-1 Program Office's staff and key state, county and industry stakeholders to gather information necessary for the study. We obtained copies of county contracts and audits, revenue and cost information relating to the state and county 9-1-1 excise tax; current legislation, administrative rules and policies; statistical economic data and a variety of documents and reports containing essential information. We participated in a series of stakeholder meetings that the E9-1-1 Program Office hosted on October 7, 2008. Finally, we utilized cost information from the responses to the state's RFP for a statewide Emergency Services IP network (ESInet) to understand more precisely what NG9-1-1 would cost.

Kimball compiled all financial information into a series of spreadsheets to facilitate analysis and drew heavily upon the industry experience and knowledge of our project team to interpret the data and draw conclusions.

Kimball built an excise tax calculator to determine the tax rate needed to fully fund current costs, NG9-1-1 transition costs and NG9-1-1 ongoing operations and maintenance costs. The calculator provided two options: the current funding mechanism (tax on switched access landlines and radio access lines) and the recommended funding mechanism (tax on switched access landlines, radio access lines, Voice over IP, and any other telecommunications service that enables a caller to make contact with the E9-1-1 system). The calculator enabled us to identify the maximum tax rate needed to fund 9-1-1 through 2016. The recommendation for a 9-1-1 tax maximum authorization was a simple average of the eight years from Fiscal Year 2009 through Fiscal Year 2016, rounded up to the nearest five cent increment.

Kimball conducted a thorough review of Chapter 82.14B RCW and the E9-1-1 Program Office's Administrative Code. In consultation with the E9-1-1 Program Office's staff and drawing upon the industry experience and expertise of its project team, Kimball developed recommendations for legislation. We used Washington's legislative drafting conventions, understanding that the Advisory Committee will work with its legislative liaisons to draft the precise language that will ultimately become a bill for the legislature's consideration. We note for the record that we are not lawyers.

1.3 ASSUMPTIONS

Kimball assumed all information provided by the state and counties was correct. We assumed NG9-1-1 transition costs to be the sum of current costs and NG9-1-1 implementation costs. We assumed an average annual rate of inflation of 2.12 percent. Due to the short timeframe for the project, which made it impossible to consider non-traditional funding mechanisms, we assumed that the basic funding approach of assessing a 9-1-1 excise tax on telecommunications services would remain in place.

1.4 RECOMMENDATIONS

It is desirable to establish a maximum tax authorization in the interest of not returning to the legislature every year. Kimball projected cost estimates for fiscal years 2009 through 2016 for both the state and the counties. Using the calculator, we determined the tax rate needed to cover those cost estimates and then took an average tax rate to determine an appropriate maximum. We rounded all results to the next highest five-cent increment. Based on the projected costs, we estimate these tax maximums will generate enough revenue to fully fund current E9-1-1 costs, NG9-1-1 transition costs and ongoing NG9-1-1 system operations.

Kimball has recommended a minimum number of changes to the existing statute.

- Amend Chapter 82.14B RCW to apply to the estimated 92,491 Washington households with VoIP service. If all VoIP users were to pay the E9-1-1 excise tax at the existing maximum excise tax rates, counties would raise an estimated \$554,946 per year, and the state would raise an estimated \$221,978 per year.
- Increase the maximum authorized state 9-1-1 excise tax to 25 cents per subscriber. (This assumes that all VoIP subscribers would be included and that prepaid wireless subscribers would comply with the law.³)
- Increase the maximum authorized county 9-1-1 excise tax to \$1.75 per subscriber to fully fund the actual costs of providing statewide E9-1-1 service. (This assumes that all VoIP subscribers would be included and that prepaid wireless subscribers would comply with the law.⁴)
- Add four new definitions in Chapter 82.14B RCW in an effort to modernize and broaden the language to which the excise tax applies.

The purpose of these recommendations is to apply the E9-1-1 excise tax in a technologically neutral manner on all current and future devices and services that users reasonably expect should provide them with access to 9-1-1, and to fund the technological migration necessary to make that happen.

³ We estimate prepaid wireless subscribers owe the state \$1,523,846 per year at the current 9-1-1 tax rate.

⁴ We estimate prepaid wireless subscribers owe Washington's counties \$3,809,616 per year at the current 9-1-1 tax rate.

1.5 ACKNOWLEDGEMENTS

We gratefully acknowledge the support, information and assistance we received from the E9-1-1 Program Office's staff, the E9-1-1 Advisory Committee and its NG9-1-1 subcommittee, the Department of Revenue (DOR), the Office of Financial Management (OFM), the Utility and Transportation Commission, representatives from the telecommunications service companies in the state of Washington and the County 9-1-1 Coordinators. It was our pleasure to work alongside them to assure the project's success.