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## ***MEMORANDUM***

**TO:** Commission Members  
**FROM:** Cliff Lippard *Cliff*  
Executive Director

**DATE:** 24 May 2017

**SUBJECT:** Emergency Communications Services Funding (Public Chapter 795, Acts of 2014)—Draft Report for Review and Comment

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The attached commission report is submitted for your review and comment. The report was required by Public Chapter 795, Acts of 2014, which replaced the 911 funding system that relied on a combination of state and local fees to fund 911 services with a flat statewide fee of \$1.16 on all types of telecommunications services that connect to 911. The Act also established a new method for distributing funds: the Tennessee Emergency Communications Board (TECB) distributes revenue from the flat fee to the emergency communications districts (ECDs) in an amount “equal to the average of total recurring annual revenue the district received from distributions from the board and from direct remittance of 911 fees for fiscal years 2010, 2011, and 2012.” The law includes a provision that the distribution to any ECD will not be less than the amount of revenue it received in fiscal year 2012.

The Act directed the Commission to study nine questions. These questions along with the proposed responses are outlined below.

- *Is there a need or benefit to consolidate emergency communications districts or PSAPs?* Because of variation in local jurisdictions and the mixed success of mandated consolidation in other states, ECDs and public safety answering points (PSAPs) should not be required to consolidate. But similar to recommendations by the Commission in its previous reports, the TECB should continue its education efforts on the potential benefits of ECD and PSAP consolidation and continue to

encourage ECD consolidation, when the local jurisdictions find it makes sense, through the reimbursement of associated costs.

- *Should the board membership of the state emergency communications board be amended to include other stakeholders such as telecommunications providers, emergency communications districts that dispatch, and other interested parties?* There is no consensus recommendation on changes to state board membership.
- *Is there a need or benefit for the providers of communications services to register with the board prior to providing service?* State law already requires telecommunications service providers to register with the TECB and the Department of Revenue, so an additional registration requirement is not necessary.
- *Is there a need or benefit for providers of communications services to notify the board when there is a known service interruption?* Because TECB would be able to better assist ECDs when interruptions occur if they knew about them sooner, telecommunications service providers should be required to notify the TECB when there are service outages.
- *Is a flat rate communications services surcharge the best manner in which to fund 911 system costs, or should such costs be funded by a percentage surcharge or a different source, such as water service, electric power service, or state general funds or local taxes?* Almost every other state uses a similar fee on telecommunication services to fund 911, setting fees at the state or local level, or both. Like other 911 funding methods, the telecommunication service fee has advantages and disadvantages. But so do the other funding methods reviewed, and there is no compelling argument to replace the current flat-fee on telecommunications services with another structure.
- *Is the 911 surcharge generating more revenue than necessary to implement the purpose of this act, and can it be reduced to the benefit of communications consumers?* It does not appear that the fee amount could or should be reduced. When including depreciation as an expense, 32 ECDs showed a negative change in net position in fiscal year 2016; excluding depreciation only six did. Of the 32, sixteen were in their first year of negative change in net position, 12 were in their second consecutive year, and four were in their third consecutive year. ECD directors say they are cutting expenses and dipping into their reserves to pay for equipment and balance budgets, and the quality of service is already decreased. Additionally, the state is planning for future technology changes and investing in its Next Generation 911 (NG911) network, and although ECDs received funds through grant programs to offset the cost of NG911 equipment, upgrades will require more revenue.

- *Is the 911 surcharge generating adequate revenue to cover the costs of the services, equipment, maintenance, and improvements needed to provide a uniform, stable, and effective statewide 911 system?* Determining whether the fee generates adequate revenue for the state 911 system depends on whether you consider just funds from the flat fee or from all revenue and whether you include depreciation when looking at district costs. The inability of some districts to cover all their expenses with fee revenue may be because some fund more things than others, such as dispatch. In fact, the new system is generating more revenue than the old system would if it was still being used in fiscal year 2016—a total of \$70,994,669 would have been generated from wireline and wireless fees statewide and distributed to ECDs, excluding non-recurring distributions such as grant funds. This is an estimated \$8,947,615 less than what was actually received from the flat rate that year through the base and excess distributions. Regardless, because 32 districts had a negative change in net position based on the fiscal year 2016 audit data, the fee amount should not be reduced. But raising the fee amount would not be a solution for all of the ECDs because the current distribution model favors districts already receiving the greatest proportion of revenue.

Building on a Commission recommendation from its 2006 report, the TECB could tie the distribution of any additional revenue generated by rate increases to a standard set of cost components. This idea is similar to the state’s Basic Education Program (BEP) funding formula consisting “of 45 components that have been deemed necessary for a school district to provide a basic level of education.” The BEP cost components serve as the basis for calculating the level of funding for each school system but does not prescribe specific levels of expenditures for individual components. The cost components for providing a minimum standard of 911 services could be developed with input from the existing TECB operations and technical committees using minimum technical operating standards and should be reviewed regularly. The method would determine and distribute funding to ECDs, but ECDs would have flexibility with spending as long as they meet the minimum technical operating standards. This distribution method would only apply to revenue generated by a rate increase and not to the base amounts.

- *Is there a need or benefit for the board to have the ability to raise the 911 fee rate should there be a financial reason to do so?* There is no consensus that the TECB should have authority to raise rates without state legislative approval.
- *Has the expansion of 911 system functionality resulting from implementation of IP (internet protocol)-based next generation 911 technology increased or decreased costs for emergency communications districts?* Tennessee’s transition to the NG911 network

could affect ECDs expenses, but because NG911 is not fully implemented yet in Tennessee, it is unclear if statewide implementation has substantively affected the expenses of ECDs.

The Act requires the Commission to report its conclusions to the joint committee on government operations on or before September 15, 2017. A final report reflecting your guidance will be submitted for approval at the next meeting.