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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Communications Division
Consumer Programs Branch**

**RESOLUTION T-17377
October 11, 2012**

R E S O L U T I O N

Resolution T-17377. Approval of the California Teleconnect Fund Administrative Committee Budget for Fiscal Year 2013-14 to Comply with the Requirements of Public Utilities Code Section 273(a), an Increase of the California Teleconnect Fund Appropriations Cap, and an Increase of the Total Discounts Available to Community Colleges.

SUMMARY

This Resolution adopts the following budget items for the California Teleconnect Fund (CTF):

- (1) a budget of \$92,429,000 for Fiscal Year 2013-14;
- (2) a \$194,000 increase to the annual appropriations cap, from \$92,234,000 to \$92,429,000; and
- (3) a cap of \$11,167,000 on the total discounts available for community colleges for Fiscal Year 2013-14.

BACKGROUND

The Commission created the CTF in Decision (D.) 96-10-066, effective October 25, 1996, to provide discounted rates for a family of telecommunications services for qualifying schools, libraries, government-owned health care providers, and community based organizations.

In May 2006, the Commission opened Rulemaking 06-05-028 to conduct a comprehensive review of the Telecommunications Public Policy Programs, including the CTF. In D.08-06-020, issued on June 12, 2008, the Commission found that the CTF was successfully enhancing universal service goals, and ordered several key changes to the CTF program. These changes included the removal of CTF tariff requirements for all carriers that provide CTF-eligible services on a detariffed or non-regulated basis, and the inclusion of California's community colleges, California Telehealth Network participants and non-profit community based organizations providing 2-1-1 Information and Referral Services in the CTF program.¹

The CTF program is funded by a surcharge assessed on revenues collected from consumers for intrastate telecommunication services. The current surcharge rate is 0.079%.

On August 9, 2012, the Legislative Analyst's Office issued a report raising concerns regarding the accounting treatment of California's Special Funds. CTF is one of the many Special Funds in the state.

1. CTF Budget

In October 1999, Public Utilities (PU) Code Sections 270-281 were enacted by Senate Bill 669 (Stats. 1999, Chapter 677). PU Code Section 280(d) requires that the Commission must use the money appropriated from the CTF only for the purpose of the fund.

Pursuant to paragraph 4.1(a) of the CTF Administrative Committee (CTF-AC) charter, the CTF-AC submitted a letter, dated May 31, 2012, to the Commission's Executive Director seeking approval of a proposed budget of \$96.893 million for Fiscal Year 2013-14. Details of this proposed budget are set forth in Appendix A.

2. CTF Appropriations Cap

In 1996 the Commission adopted D. 96-10-066, which set the initial annual funding of \$50 million for the CTF. If necessary, the CTF cap can be raised by staff recommendation via a Commission resolution at any time.²

¹ Community based organizations providing 2-1-1 Referral and Information Services must be authorized by the Commission through a resolution process to participate in the CTF program.

² D.08-06-020, Finding of Fact 4 ("The CTF is [currently] capped at \$55 million per year, but, if necessary, can be raised by staff recommendation via a Commission resolution at any time.").

On July 12, 2001, the Commission issued Resolution T-16542 to increase the fund's appropriation cap from \$50 million to \$55 million. The fund cap increase was based on projections of increased CTF participation as well as the need to cover the high speed and high cost services added to the program.

On August 21, 2008, the Commission issued Resolution T-17162 to increase the fund's appropriation cap from \$55 million to \$80 million. The Commission increased the cap in order to cover the additional expenses resulting from expansions to the CTF, as adopted in D.08-06-020.

On August 18, 2011, the Commission issued Resolution T-17333 to increase the fund's appropriation cap from \$80 million to \$92.234 million. The Commission increased the cap in order to accommodate the discounts given to a growing list of approved organizations.

3. Community College Cap on CTF Discounts

Upon initially expanding the CTF to include community colleges, the Commission placed a cap on the total CTF discounts received by community colleges.³ The purpose of the cap is to ensure that the eligibility of Community Colleges does not negatively impact the other CTF program participants.⁴ The Commission originally set the cap at \$7.200 million, based on 2007 dollars.⁵ The cap is adjusted annually based on the Western Consumer Price Index.⁶

On August 18, 2011, the Commission issued Resolution T-17333 to increase the Fiscal Years 2010-11 and 2011-12 caps on total discounts available to community colleges by \$2.3 million per fiscal year. These augmentations account for CTF-eligible expenses which were not accurately captured within the original estimations in D.08-06-020.

Resolution T-17333 also set the cap on total CTF discounts available for eligible community colleges for Fiscal Year 2012-13. Pursuant to D.08-06-020, the Commission increased the cap according to changes in the Western Consumer Price Index, to \$10.865 million for Fiscal Year 2012-13.

³ Id., Conclusion of Law 7.

⁴ Id. at 28.

⁵ Id. at 28 and Conclusion of Law 7.

⁶ Id.

Table 1. Cap on the total CTF discounts received
by Community Colleges.

Fiscal Year	Community College Cap
2010-11	\$10,393,000
2011-12	\$10,599,000
2012-13	\$10,865,000

4. CTF Outreach

In August 2011, the Commission contracted outreach services for the CTF from Richard Heath and Associates, Inc. The outreach campaign will last at least two years and is intended to raise awareness and participation among eligible community based organizations, hospitals and health clinics.

NOTICE/PROTESTS

Notice of the CTF-AC's proposed budget for Fiscal Year 2013-14 was published in the Commission's Daily Calendar on June 18, 2012. The Communications Division (CD) did not receive any protests.

DISCUSSION

1. Fiscal Year 2013-14 Budget

(A) Summary

CD recommends a CTF budget for Fiscal Year 2013-14 in the amount of \$92.429 million.

As set forth in Appendix A, CD's proposed Fiscal Year 2013-14 budget includes \$86.646 million for payments to carriers providing CTF discounted services; \$50,000 for interest payments; \$750,000 for financial and compliance audits; \$34,000 for Advisory Committee expenses; \$1.112 million for CPUC staff costs; \$289,000 for inter-agency costs; \$2.148 million for programming and automation expenses; and \$1.400 million for outreach services.

Claims expenses, which are reimbursements to carriers, account for the vast majority of the proposed Fiscal Year 2013-14 budget. A claims expense of \$86.646 million is the same amount as authorized in the Governor's Fiscal Year 2012-13 Budget. Previously, primarily due to the outreach program, CD recommended a significant increase of 27% over the Fiscal Year 2012-13 adopted expenditures in the initial draft Resolution T-17377 issued on July 24, 2012. For the same reason, CD also recommended augmenting the budgets for Fiscal Years 2011-12 and 2012-13, primarily due to the outreach program.

Although CD still anticipates substantial growth in CTF participation and a concomitant increase in claim expenses, the outreach program is new, dynamic, and evolving. Instead of using limited outreach data from a new program to project claims expenses two years in the future, we believe it is prudent to apply a more measured approach at this time. CD will seek if necessary supplements to Fiscal Year 2013-14 and prior budgets at a later date if additional funding authority is needed based on more comprehensive data and CD's ongoing assessment of the effects of the outreach program.

(B) Fiscal Year 2012-13 vs. Fiscal Year 2013-14

CD's budget recommendation for Fiscal Year 2013-14 of \$92.429 million is \$194,000 (0.2%) greater than the prior Fiscal Year's budget of \$92.234 million (Resolution T-17333). The difference is due to changes in the amounts budgeted for program audits, interagency costs, staff costs, and programming and document storage.

(C) CD's Proposal vs. CTF-AC's Proposal

CD's budget recommendation for Fiscal Year 2013-14 is \$4.467 million less than the CTF-AC's proposed budget. The variance is primarily due to CD's recommendation for claims expenses, which is \$3.354 million less than the CTF-AC's proposal. As discussed above, CD recommends a measured approach to claims expenses, by recommending the same level as within Fiscal Year 2012-13 budget, and waiting to augment budgets, if necessary in the future.

2. Increase in CTF Appropriations Cap

The CTF budget for Fiscal Year 2013-14, which is to be adopted in this Resolution, is \$92.429 million. This amount exceeds the \$92.234 million appropriations cap as set by Resolution T-17333, adopted August 18, 2011. Therefore, CD also recommends the CTF

appropriations cap be raised to \$92.429 million in order to accommodate program expenses, beginning with Fiscal Year 2013-14.⁷

3. Community College Cap

Pursuant to D.08-06-020, the Commission raises the cap on total CTF discounts available for eligible community colleges. The increase is according to changes in the Western Consumer Price Index. Thus, CD recommends an increase of \$302,000, from \$10.865 million to \$11.167 million, for the California Community College cap for Fiscal Year 2013-14.

4. Conclusion

In light of the above discussions, CD recommends the following budget items for the CTF as appropriate and reasonable:

- (1) a budget of \$ 92.429 million for Fiscal Year 2013-14;
- (2) a CTF appropriations cap increase from \$92.234 million to \$92.429 million;
and
- (3) a cap of \$11.167 million on the total CTF discounts available for California community colleges for Fiscal Year 2013-14.

Therefore, CD respectfully recommends that the Commission adopts the proposals set forth above.

NOTICE OF AVAILABILITY AND COMMENTS

In the past, to comply with PU Code Section 311(g), the Commission had served a hard copy of revised resolutions regarding CTF budgets to all telecommunications carriers and the parties of record in R. 95-01-020/I95-01-021. To be consistent with the Commission's commitment to utilize the Internet for distributing Commission orders and information, on August 28, 2012, CD e-mailed a notice letter informing telecommunications carriers serving CTF customers, members of the CTF-AC, and the parties of records in R. 95-01-020/I95-01-021 and R.06-05-028 of the availability of this revised draft resolution for comments, as well as the conformed resolution, if adopted by the Commission, on the Commission web-site at www.cpuc.ca.gov.

⁷ See D.08-06-020, Finding of Fact 4.

COMMENTS

1. Opening Comments

Division of Ratepayer Advocate's (DRA) Comments

The initial resolution was e-mailed for comments on July 24, 2012. On August 8, 2012, DRA submitted comments on that resolution. In particular, DRA urges the Commission to reevaluate the CTF expenditures and recommends that the Commission review and analyze the CTF program with the opportunities for public comments. Among other things, DRA proposes that the review should include the following: (1) whether the funding is appropriately targeting entities that may be left behind in the information age; and (2) reexamination of the number and categories of entities that still require subsidies and costs to connect to advanced communications services.

2. Reply Comments

CD did not receive any reply comments.

3. Discussion of Comments

DRA's comments are boarder than the scope of this budget resolution and are appropriately addressed in an Order Instituting Rulemaking.

FINDINGS

1. The California Teleconnect Fund was adopted in Decision 96-10-066, effective October 25, 1996, to provide discounted rates for a family of telecommunications services for qualifying schools, libraries, government-owned health care providers, and community based organizations.
2. In October 1999, Public Utilities Code Sections 270-281 were codified as a result of the enactment of Senate Bill 669.
3. Public Utilities Code Section 280(d) requires that the Commission use the money appropriated from the CTF fund only for the purpose of the fund.

4. The CTF cap can, if necessary, be raised by staff recommendation via a Commission resolution at any time.
5. On July 12, 2001, the Commission issued Resolution T-16542 to increase the fund's appropriation cap from \$50 million to \$55 million.
6. On June 12, 2008, Commission D.08-06-020 ordered changes to the CTF, which included, among other things: the removal of the CTF tariff requirements for all carriers that provide CTF-eligible services on a detariffed or non-regulated basis, and the inclusion of community colleges, California Telehealth Network participants and non-profit community based organizations providing 2-1-1 Information and Referral Services to the CTF.
7. On August 21, 2008, the Commission issued Resolution T-17162 to increase the fund's appropriation cap from \$55 million to \$80 million.
8. On August 18, 2011, the Commission issued Resolution T-17333 to increase the fund's appropriation cap from \$80 million to \$92.234 million.
9. D.08-06-020 limits the participation of community colleges in the CTF program to \$7.2 million per year, in 2007 dollars, adjusted annually based on Western-CPI.
10. On August 18, 2011, the Commission issued Resolution T-17333 to increase the Fiscal Year 2010-11 and Fiscal Year 2011-12 caps on total discounts available to community colleges by \$2.3 million per fiscal year.
11. On August 18, 2011, the Commission issued Resolution T-17333 to set the cap on total CTF discounts available for eligible community colleges at \$10.865 million for 2012-13.
12. In a letter dated May 31, 2012, the CTF Administrative Committee submitted to the Executive Director a proposed budget of \$96.893 million for Fiscal Year 2013-14, as set forth in Appendix A.
13. The California Teleconnect Fund Administrative Committee's proposed budget for Fiscal Year 2013-14 was noticed in the Commissions Daily Calendar of June 18, 2012. CD did not receive any protests.
14. CD's proposed CTF Fiscal Year 2013-14 budget of \$92.429 million, as set forth in Appendix A, is reasonable and should be adopted.

15. An increase of \$194,000, from \$92.234 million to \$92.429 million, to the annual appropriations cap for the California Teleconnect Fund, is reasonable and should be adopted.
16. The cap on community college participation in the CTF program should be set at \$11.167 million for Fiscal Year 2013-14.
17. A Notice of Availability for Resolution T-17377 was e-mailed on July 24, 2012 and reissued on August 28, 2012 to telecommunications carriers serving CTF customers, members of the CTF-AC, and the parties of records in R. 95-01-020/I95-01-021 and R.06-05-028, advising them of the availability of the draft resolution for comments, and the conformed resolution, if adopted by the Commission, on the Commission web site at www.cpuc.ca.gov.
18. On August 8, 2012, DRA filed comments on the initial draft resolution; the comments are boarder than the scope of this budget resolution and are appropriately addressed in an Order Instituting Rulemaking.
19. No reply comments were filed on this resolution.

THEREFORE, IT IS ORDERED that:

1. The California Teleconnect Fund budget for Fiscal Year 2013-14 of \$92.429,000 as set forth in Appendix A of this Resolution is adopted.
2. The annual appropriations cap for the California Teleconnect Fund is increased from \$92,234,000 to \$92,429,000.
3. The total California Teleconnect Fund discounts available to community colleges are \$11,167,000 million for Fiscal Year 2013-14.

APPENDIX A
California Teleconnect Fund
Public Programs :: Expense Budget (\$000s)
Fiscal Year 2013-2014 :: July 1, 2013 through June 30, 2014

<u>PROGRAM EXPENSES</u>	FY 12-13	FY 13-14	FY 13-14	FY 13-14
	<u>Resolution T-17333</u>	<u>Submitted by CTF-AC</u>	<u>Proposed by CD</u>	<u>Adopted</u>
A. Carrier Claims	\$ 86,646	\$ 90,000	\$ 86,646	\$ 86,646
B. Interest for Untimely Payment	\$ 50	\$ 50	\$ 50	\$ 50
C. Administrative Committee-Per Diem	\$ 8	\$ 8	\$ 8	\$ 8
D. Administrative Committee-Travel and Others	\$ 18	\$ 18	\$ 18	\$ 18
E. Administrative Committee-Special Needs Accommodation	\$ 8	\$ 8	\$ 8	\$ 8
F. Audits	\$ 1,100	\$ 1,400	\$ 750	\$ 750
G. Banking Fee	\$ -	\$ 5	\$ -	\$ -
H. Interagency Cost	\$ 53	\$ 56	\$ 289	\$ 289
I. CPUC Staff Costs	\$ 804	\$ 804	\$ 1,112	\$ 1,112
J. Programming and Document Storage (Claims Automation)	\$ 2,147	\$ 3,147	\$ 2,148	\$ 2,148
K. Outreach	\$ 1,400	\$ 1,400	\$ 1,400	\$ 1,400
L. Total Program Expenses	\$ 92,234	\$ 96,896	\$ 92,429	\$ 92,429

End of Appendix A