

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Communications Division
Carrier Oversight and Programs Branch**

**RESOLUTION T-17399
September 19, 2013**

R E S O L U T I O N

Resolution T-17399 - Approval of the California High Cost Fund-B Administrative Committee Expense Budget for Fiscal Year 2014-15 (July 1, 2014 through June 30, 2015) to Comply with the Requirements of Public Utilities Code Section 273 (a).

Summary

This resolution adopts a California High Cost Fund-B (CHCF-B, or B Fund) program expense budget of \$22.392 million for Fiscal Year (FY) 2014-15.

Background

The CHCF-B program was established in 1996 pursuant to Public Utilities (PU) Code § 739.3. This program provides universal service subsidy support in the high cost areas of non-rural telephone company service territories. The companies eligible to receive support include AT&T California, Verizon of California (Verizon), Frontier Communications of California (Frontier), Cox California Telecom (Cox), and carriers that become Carriers of Last Resort (COLR) serving high cost areas. The CHCF-B program is funded by a surcharge assessed on intrastate telecommunications service revenues collected from end-users.

PU Code § 739.3 requires the Commission to implement and maintain a program for universal telephone service support to reduce rate disparity in high cost areas.

In October 1999, PU Code § 270-281 were codified as a result of the enactment of Senate Bill (SB) 669 (Stats. 1999, Chapter 677). PU Code § 270(b) requires that monies in the CHCF-B and five other Public Purpose Program funds may only be expended pursuant to § 270-281 and upon appropriation in the annual Budget Act.

In June 2006, the Commission issued an Order Instituting Rulemaking (OIR) into the Review of the California High Cost Fund B Program (R.06-06-028). The purpose of the OIR was to review the operation of the CHCF-B program, to see if program goals could be met while reducing costs. Interested parties filed comments.

In September 2007, the Commission issued an interim decision (D.) 07-09-020 in R.06-06-028 which adopted major reforms to the CHCF-B program to reduce the size of the CHCF-B fund, and to better target the support to cover only those “high cost” areas where funding is necessary to meet universal service goals. More importantly, the COLRs would be allowed full pricing flexibility, allowing for basic service rates to increase from the current subsidized rate toward cost based rates.

In D.07-09-020, the Commission ordered the following changes:

- Increasing the benchmark at which COLRs receive CHCF-B subsidy, from \$20.30 per line served in a census block group (CBG) to \$36.00, through a series of steps beginning January 1, 2008 and ending July 1, 2009.
- Changing the method of calculation of the subsidy payment from the difference between cost and revenue, to the difference between cost and the benchmark level of \$36.00 effective July 1, 2009.
- Setting forth a schedule of reform measures to be considered in Phase II of the proceeding including: (1) consideration of a reverse auction mechanism to determine future subsidy levels and (2) establishing a new fund to subsidize broadband deployment in unserved and underserved areas of California.

The Commission opened a successor proceeding, R.09-06-019, to continue the modification of the CHCF-B program that began under R.06-06-028. On December 20, 2012, the Commission issued D.12-12-038 which adopted an updated definition and revised elements of residential basic telephone service. The adopted basic service elements were designed to apply on a technology-neutral basis to all forms of communications technology that may be utilized, including wireline, wireless, and Voice over Internet Protocol (VoIP) or any other future technology that may be used in the provision of telephone service.

In Resolution T-17311, dated March 24, 2011, the Commission set the CHCF-B surcharge rate at 0.30% effective May 1, 2011. The CHCF-B program is funded by a surcharge assessed on revenues collected from endusers for intrastate telecommunication services subject to surcharge.

Proceeding R.09-06-019 remains open for the Commission to update costs for the B Fund’s census block groups (CBGs) based on 2010 Census data, and to develop a

methodology through which to assign the cost of service to CBGs in newly assigned CHCF-B eligible areas.

The CHCF-B program has a sunset date of January 1, 2015 (See P.U. Code § 739.3 (h)).

Discussion

In this Resolution, the Communications Division (CD) proposes a CHCF-B program expense budget of \$22.392 million for FY 2014-15. This proposed budget reflects the benchmark threshold changes adopted in D.07-09-020, and historic trend analysis estimates of expected FY 2014-15 claims, along with estimates for staff and administrative costs, inter-agency fees, banking charges, audits, and administrative committee costs.

Department of Finance (DOF) Audit

In 2012, auditors from the Department of Finance (DOF) conducted a Budget Process Performance Audit of six public purpose programs administered by the Communications Division, including the CHCF-B. The DOF's Audit Report contained several recommendations and the Commission has followed those recommendations in the preparation of this budget resolution.

Carrier Claims - FY 2014-15 (Appendix A, line item 1)

Claims paid to CHCF-B eligible carriers are the major expense component of the CHCF-B program. On March 22, 2013, as in prior years, CD sent a data request to these carriers asking them to forecast their claim amounts for the 2014-15 budget year. The forecasted claim amounts for FY 2014-15 returned by the carriers totaled approximately \$21.914 million.

In addition to the carriers' claim estimates, CD used trend analysis to compute the FY 2014-15 forecasted claims amount by comparing FY 2011-12 and FY 2012-13 actual claim amounts (see chart below). The difference of the two amounts represents a 10.948% decrease in claims totals from FY 2011-12 to FY 2012-13.

The CHCF-B carriers, like other telephone companies in California, are experiencing subscribership line losses as customers give up their landline home phones for mobile phones and other technologies such as VoIP. The reduction in subscribership is a major factor in explaining the decrease in claim amounts that is presented in Table 1.

Table 1
Comparison of Fiscal Years' B Fund Claim Amounts, 2011-2012 through Forecasted 2014-2015

FY 2011-12 Actual Claims Paid	FY 2012-13 Actual Claims Paid	Percent Decrease (FY 2011- 12 to FY 2012-13)	FY 2013-14 Revised Forecasted Claims	Forecasted Percent Decrease (FY 2013-14 to FY 2014- 15)	FY 2014-15 Forecasted Claims	Average Forecasted Claims for FY 2014- 15
\$27.809 million	\$24.764 million	-10.948%	\$22.053 million	-10.948%	\$19.639 million	\$20.777 million

By applying a 10.948% claims amount decrease into FY 2013-14 from FY 2012-13 actuals, the resulting forecasted claims amount equals \$22.053 million. Applying the same 10.948% decrease into FY 2014-15 would reduce the forecasted claims amount to \$19.639 million. CD compared this amount with the \$21.914 million forecast reported by the carriers' data request responses for FY 2014-15 (see previous section), calculating an average between these two figures at \$20.777 million. CD recommends a \$20.777 million claims forecast for FY 2014-2015. The methodology results in a modified and more appropriate forecast based on available data, as it balances a trend of decreasing claim levels against a straight-line percentage decrease from the prior two-year period. CD recommends that \$20.777 million be budgeted for carriers' CHCF-B claims for FY 2014-2015.

Other Program Costs (Appendix A, line items 5 and 6)

Since May 2010, the collection of surcharge payments from carriers, which claim California intrastate revenue, has been handled by the CPUC's internal Telecommunications User Fee Filing System (TUFFS). As a result, no banking fees are estimated for FY 2014-15.

The FY 2013-14 forecast for data processing expense was \$75,000. During FY 2014-15 a new claims automation project is planned and will be developed. The project cost is divided among the six public purpose programs, with \$34,824 being assigned to the CHCF-B program for FY 2014-15.

Auditing Costs (Appendix A, line item 4)

CHCF-B auditing costs for FY 2014-15 are forecasted at \$617,100. The forecast assumes an increase in the number of audits of carrier surcharge remittances. This budget increase is intended to allow for a greater number of carrier audits of surcharge remittances in accordance with P.U. Code Section 274.

Administrative Committee Costs (Appendix A, line items 7-9)

Historically, past Administrative Committee (AC) estimated costs were based on travel and other expenses for four meetings in the fiscal year. In FY 2012-13, no committee members claimed travel or other expenses. Given this fact, CD projects \$0 for AC costs in FY 2014-15.

CPUC Staff and Administrative Costs (Appendix A, line items 10 and 11)

Commission staff and administration costs have two components: 1) inter-agency fees that are estimated by the Department of Finance and sent to the Commission and 2) CPUC staff and administrative cost related to CPUC employees working on the CHCF-B program. The related costs of these two components are \$266,000 and \$523,600 respectively. The CPUC staff and administrative costs estimate is increased, in part, to cover the additional effort needed to conduct the surcharge audits discussed above.

State Controller (State Operations; 0840) and Financial Information System for California (State Operations Costs; 8880) (Appendix A, line items 13 and 14)

Estimated appropriations for the State Controller's Office (0840) and the Financial Information System for California (Fi\$CAL, 8880) are based on the appropriations recommended in the Governor's FY 2013-14 budget of \$6,000 for services rendered by the Controller's Office and \$167,000 for development of the Fi\$CAL system, an integrated system for budgeting, accounting, procurement, cash management, financial management, and financial reporting.

Safety Issues

The CHCF-B carriers are required to adhere to all Commission rules, decisions, General Orders and statutes including Public Utilities Code § 451 to take all actions "...necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public." The CHCF-B subsidy provides carriers with financial support to provide reliable and affordable telephone service to its customers in rural, high cost areas.

Reliable service is crucial in these sometimes isolated areas, and program funding helps provide access for residents to dial 211 for essential community services, 311 for non-emergency municipal services, 511 for traffic and transportation information, 811 for public infrastructure underground location information, and 911 to reach police, fire and medical responders when fire, natural disasters, medical emergencies, or other crises occur. The forecasted FY 2014-15 budget ensures that the CHCF-B program

promotes universal service by subsidizing essential communications links in high cost, rural communities.

Conclusion

Communications Division’s forecasted costs for the FY 2014-15 budget are included in Appendix A and are summarized below in Table 2:

Table 2

Description		FY 2014-15 Proposed Budget (\$ million)
8660	Public Utilities Commission (State Operations)	\$ 22.219
0840	State Controller (State Operations)	\$ 0.006
8880	Financial Information System for California (State Operations)	\$ 0.167
Total Program Budget		\$ 22.392

On August 14, 2013, in compliance with Paragraph 4.a.1 of the CHCF-B Administrative Committee (AC) Charter, the Chairperson of the CHCF-B AC submitted a letter to CD, supporting an expense budget for FY 2014-15 totaling \$ 22.392 million. Due to potential conflict of interest issues, the budget could not be adopted by a quorum of the CHCF-B AC.¹

In this Resolution, we adopt the proposed FY 2014-15 CHCF-B expense budget of \$22.392 million.

The adopted CHCF-B Budget of \$22.392 million assumes that the program will operate throughout FY 2014-15. Should the program not be extended and sunset on January 1, 2015 as currently mandated, Commission staff will undertake efforts to adjust the 2014-15 budget as necessary.

Final appropriations for 0840 State Controller (State Operations), 8660 Public Utilities Commission (State Operations) and 8880 Financial Information System for California (State Operations) will be determined when the Budget Act of 2014 is approved by the

Legislature and the Governor. The FY 2014-15 Budget adopted today is subject to final appropriations adopted in the Budget Act of 2014. To the extent that appropriations adopted in the Budget Act of 2014 differ from the FY 2014-15 Budget adopted in this

¹ All CHCF-B AC members are required to conform to the requirements of Govt. Code § 1090 and “The Fair Political Practices Act”. AC members may not participate in an activity where there is an actual or a perceived conflict of interest.

resolution, the appropriations adopted in the Budget Act of 2014 will supersede the budget adopted in this resolution.

Notice/Protests

Notice of the CHCF-B AC Chairperson's expense budget letter was published in the Commission's Daily Calendar on August 16, 2013. The proposed budget letter can be viewed on the Commission's website under the CHCF-B Budget heading at: <http://www.cpuc.ca.gov/PUC/Telco/Public+Programs/Advisory+Boards/CA+High+Cost+Fund-B.htm>

In compliance with PU Code § 311 (g), the Commission e-mailed a Notice of Availability on August 20, 2013 to the CHCF-B claimants, the CHCF-B AC members and alternates, and to parties on the service list of R.09-06-019 informing these parties that the draft of this Resolution is available at the Commission's website <http://www.cpuc.ca.gov>, and is available for public comments. Additionally, CD also informed these parties of the subsequent availability of the conformed resolution, when adopted by the Commission.

Findings

1. The California High Cost Fund-B (CHCF-B) program was established in 1996 pursuant to Public Utilities (PU) Code § 739.3 to implement a program for universal service support to reduce rate disparity in high cost areas.
2. In October 1999, PU Code § 270-281 were codified as a result of the enactment of Senate Bill (SB) 669.
3. PU Code § 270(b) requires that the monies in the CHCF-B Administrative Committee (AC) Fund may only be disbursed pursuant to § 270-281 and upon appropriation in the annual Budget Act.
4. In September 2007, D.07-09-020 ordered CHCF-B program changes to increase the census block group subsidy benchmark/threshold from \$20.30 to \$36.00 through a series of steps; reduce the CHCF-B surcharge from 1.3% to 0.5% effective January 1, 2008, and changes the method of calculation of the subsidy payment from the difference between cost and revenue to the difference between cost and the benchmark/threshold level. Additionally, the Commission stated that in the next phase of the proceeding, it wanted to consider a reverse auction mechanism to determine future CHCF-B subsidy levels.

5. The Commission opened R.09-06-019 to further review aspects of the CHCF-B program. In December 2012, D.12-12-038 adopted an updated definition and revised service elements of residential basic telephone service (basic service). This proceeding remains open for the Commission to update (remap) the B Fund's census block groups (CBGs) with more recent 2010 Census data and to develop a methodology in which to assign costs to those updated/remapped CBGs.
6. The authorizing legislation for the CHCF-B program, PU code § 739.3 is set to expire on January 1, 2015.
7. On August 14, 2013, the Chairperson of the CHCF-B AC submitted to the Commission a proposed fiscal year (FY) 2014-15 expense budget for the CHCF-B AC Fund of \$22.392 million.
8. Communications Division's proposed FY 2014-15 expense budget of \$22.392 million, composed of \$22.219 million for 8660 Public Utilities Commission (State Operations), \$6,000 for 0840 State Controller (State Operations) and \$167,000 for 8880 Financial Information System for California (State Operations) is reasonable and should be adopted.
9. Final appropriations for 0840 State Controller (State Operations) and 8880 Financial Information System for California (State Operations) will be determined when the Budget Act of 2014 is approved by the Legislature and the Governor.
10. The FY 2014-15 budget adopted today is subject to final appropriations adopted in the Budget Act of 2014 for 8660 Public Utilities Commission (State Operations), 0840 State Controller (State Operations) and 8880 Financial Information System for California (State Operations).
11. The appropriations adopted in the Budget Act of 2014 will supersede the FY 2014-15 Budget adopted in this resolution.
12. The CHCF-B AC's proposed expense budget was noticed in the Commission's Daily Calendar of August 16, 2013.
13. Copies of the notice letter advising parties of the availability of this draft resolution and the conformed resolution, when adopted by the Commission on the Commission's web site were e-mailed to the CHCF-B claimants, the CHCF-B Administrative Committee and the parties on the service list of R.09-06-019 on August 20, 2013.

THEREFORE, IT IS ORDERED that:

1. The expense budget for the California High Cost Fund-B Administrative Committee Fund for Fiscal Year 2014-15 in the amount of \$22.392 million composed of \$22.219 million for 8660 Public Utilities Commission (State Operations), \$6,000 for 0840 State Controller (State Operations) and \$167,000 for 8880 Financial Information System for California (State Operations) is adopted.
2. Communications Division staff are authorized to modify the FY 2014-2015 expense budget adopted today to conform to the final appropriations adopted in the Budget Act of 2014 for 8660 Public Utilities Commission (State Operations), 0840 State Controller (State Operations) and 8880 Financial Information System for California (State Operations).

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on September 19, 2013.

PAUL CLANON
Executive Director

APPENDIX A
CALIFORNIA HIGH COST FUND B ADMINISTRATIVE COMMITTEE FUND
PROGRAM BUDGETS

Program Expenditures	FY July 2012 - June 2013	FY July 2013 - June 2014	FY July 2014 - June 2015
	Adopted per Res T-17328	Adopted per Res T-17370	Proposed
a	b	c	d
Expenditures			
Program			
1 Carrier Claim Payments (Current) ¹	\$ 32,614,000	\$ 26,896,000	\$ 20,777,000
2 Carrier Claims for Prior Years	\$ 700,000	\$ 700,000	\$ -
3 Interest for Untimely Payments	\$ 1,000,000	\$ 500,000	\$ -
4 Audits	\$ 175,000	\$ 300,000	\$ 617,100
5 Banking Fees	\$ 23,000	\$ -	\$ -
6 Data Processing/ Program Claims Automation Project for FY 2014-15	\$ 78,000	\$ 75,000	\$ 34,800
Administrative Committee			
7 Administrative Committee-Per Diem	\$ 2,000	\$ 2,000	\$ -
8 Administrative Committee-Travel and Others	\$ 4,000	\$ 4,000	\$ -
9 Administrative Committee-Other Expenses	\$ 2,000	\$ 2,000	\$ -
PUC Staff and Administrative Costs			
10 Inter-Agency Fee ²	\$ 1,245,000	\$ 344,000	\$ 266,000
11 CPUC Staff and Administrative Costs ³	\$ 490,000	\$ 519,000	\$ 523,600
12 8660 Public Utilities Commission (State Operations)	\$ 36,333,000	\$ 29,342,000	\$ 22,218,500
13 0840 State Controller (State Operations) ⁴	\$ -	\$ -	\$ 6,000
14 8880 Financial Information System for California (State Operations) ⁵	\$ -	\$ -	\$ 167,000
15 Total Program Expenditures	\$ 36,333,000	\$ 29,342,000	\$ 22,391,500

Notes

- 1 Claim payments for FY 2014-15 are based on trend analysis of FYs 2011-12 & 2012-13 and carriers' submitted estimates.
- 2 Based on estimate of pro-rata costs allocated to state service agencies, e. g. DGS, State Personnel Board, etc. - overestimated in past.
- 3 Based on personnel staff allocation estimate and program priorities for the five public purpose programs and CASF, but only includes CHCF-B portion.
4. and 5. Based on recommended appropriation in Governor's FY 2013-14 budget. Final appropriations to be determined upon approval of 2014 Budget Act, and will supersede the FY 2014-15 Budget adopted in this Resolution.