

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**Communications Division  
Carrier Oversight and Programs Branch**

**RESOLUTION T-17446  
November 6, 2014**

**R E S O L U T I O N**

**Resolution T-17446 - Approval of the California High Cost Fund-B  
Administrative Committee Expense Budget for Fiscal Year 2015-16 (July  
1, 2015 through June 30, 2016) to Comply with the Requirements of  
Public Utilities Code Section 273 (a).**

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**Summary**

This resolution adopts a California High Cost Fund-B (CHCF-B, or B Fund) program expense budget of \$20,001,737 for Fiscal Year (FY) 2015-16.

**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.

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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). In September 2007, the Commission issued an interim decision (D.) 07-09-020 in that rulemaking, which

adopted major reforms to the CHCF-B program to reduce the size of the CHCF-B fund, to better target the support to cover only those “high cost” areas where funding is necessary to meet universal service goals. Specifically, 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.

In June 2009, the Commission opened a successor proceeding, Rulemaking (R.) 09-06-019, to consider further modifications of the CHCF-B program. On December 20, 2012, the Commission issued D.12-12-038 which adopted an updated definition and revised the elements that constitute 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 in the provision of telephone service.

In R.09-06-019, the Commission also ordered costs to be updated for the B Fund’s 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. On June 12, 2014 the Commission adopted Decision (D.) 14-06-008 which approved a plan to update costs for CHCF-B Fund areas using 2010 census data.

In September 2013, the Commission adopted a total CHCF-B program budget for FY 2014-15 of \$22,391,500 in Resolution T-17399. The FY 2014-15 budget approved amounts for the following budget components: State Operations, \$1,441,500; Local Assistance, \$20,777,000; FI\$Cal, \$167,000; and State Controller’s Office, \$6,000. These amounts were appropriated in the state budget for FY 2014-15.

The CHCF-B program surcharge rate is 0.00% effective February 1, 2014, by Commission Resolution T-17417 dated December 5, 2013. Although the CHCF-B program incurs expenses, the CHCF-B has sufficient program reserves at the present time to cover program expenses.

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The CHCF-B program was slated to sunset on January 1, 2015 (See P.U. Code § 739.3 (h)). However, on September 20, 2014, the Governor signed into law Senate Bill 1364, extending both the CHCF-A and CHCF-B programs until January 1, 2019.

## **Discussion**

In this Resolution, CD proposes a CHCF-B program expense budget of \$20,001,737 for FY 2015-16. This proposed budget reflects the benchmark threshold changes adopted in D.07-09-020, and historic trend analysis estimates of expected FY 2015-16 claims, which is the sole component of Local Assistance (carrier claims), along with estimates for State Operations, FI\$Cal, and State Controller's Office expenses.

### **STATE OPERATIONS (Appendix A, line 1)**

State Operations expenditures for the CHCF-B program consist of the following:

- Direct Program Staff Costs and Benefits
- Audit Personnel Billing to Program Costs
- Prorata Costs (Interagency Fees)
- Auditing Contract Costs
- IT Automation
- Contracted Program Administration Costs

In FY 2014-15, the State Operations appropriation for the CHCF-B program is \$1,441,500. CD has reviewed the anticipated State Operations expenditures for FY 2015-16, and has determined that the FY 2014-15 appropriations level for State Operations resembles the level of forecasted expenses in FY 2015-16. Accordingly, CD recommends that the Commission adopt an equivalent State Operations estimate of \$1,441,500 for FY 2015-16.

### **LOCAL ASSISTANCE (Appendix A, line 2)**

Local Assistance consists of carrier claims to the CHCF-B program. On March 11, 2014, CD sent a data request to these carriers asking them to forecast their claim amounts for the 2015-16 budget year. The forecasted claim amounts for FY 2015-16 provided by the carriers totaled approximately \$18.822 million.

In addition to the carriers' claim estimates, CD used trend analysis to compute the FY 2015-16 forecasted claims amount by comparing FY 2012-13 and FY 2013-14 claims paid amounts of \$24.75 and \$22.36 million, respectively (see Table 1). The difference

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between the two years represents a 9.66% claims decrease between FY 2012-13 and FY 2013-14.

Table 1 shows comparisons of forecasted claims amounts to actual claims amounts for FY 2012-13 and FY 2013-14. The comparison for FY 2012-13 shows an over-budgeted forecast of \$7.86 million while the comparison for FY 2013-14 shows a considerably lower over-budgeted amount of \$4.54 million.

**Table 1**  
**Comparison of B Fund Forecasted Claim Amounts Compared to Actual Claims Amounts, FYs 2012-2013 and 2013-2014**

FY 2012-13 Forecasted Claims	FY 2012-13 Actual Claims Paid	FY 2012-13 Forecasted vs. FY 2012-13 Actual Claims	FY 2013-14 Forecasted Claims	FY 2013-14 Actual / Forecasted Claims Paid	FY 2013-14 Forecasted vs. FY 2013-14 Forecasted Claims Paid
\$32.61 million	\$24.75 million	\$7.86 million over-budgeted	\$26.90 million	\$22.36 million <sup>1</sup>	\$4.54 million over-budgeted

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 Voice over Internet Protocol (VoIP). The reduction in subscribership is a major factor in explaining the decreases in claim amounts presented in Table 2.

**Table 2**  
**Comparison of Fiscal Years' B Fund Local Assistance (Claim), 2011-2012 through Forecasted 2014-2015**

FY 2011-12 Actual Claims Paid	FY 2012-13 Actual Claims Paid	(a) Percent Decrease (FY 2011-12 to FY 2012-13)	FY 2013-14 Actual / Forecasted Claims Paid	(b) Percent Decrease (FY 2012-13 to FY 2013-14)	FY 2014-15 Revised Forecasted Claims	FY 2015-16 Forecasted Claims

<sup>1</sup> As of September 15, 2014, only Cox Communications had submitted its June 2014 CHCF-B monthly claim. June 2014 is the final month of FY 2013-14. Communications Division estimated the June 2014 claims amount for the six other carriers.

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\$27.81 million	\$24.75 million	<11.00%>	\$22.36 million <sup>2</sup>	<9.66%>	\$20.20 million	\$18.536 million
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Applying a 9.66% claims decrease (illustrated in Table 2 (b)) to the carriers' forecasted FY 2014-15 claims of \$22.36 million results in CD's revised forecasted claims of \$20.20 million. Applying the same percentage decrease to the carriers' forecast FY 2015-16 claims of \$18.822 million results in an adjusted forecasted claims amount of \$18.25 million. Recognizing that the line loss decrease may modify over time, CD used an adjusted average between these two figures to balance a trend of decreasing claim levels against the carriers' unadjusted forecasts. Accordingly, CD recommends an \$18.536 million budget for carriers' CHCF-B claims for FY 2015-16.

**FI\$CaL (Appendix A, line 3)**

The Financial Information System for California (FI\$CaL) line item is based on the appropriations recommended in the Governor's FY 2014-15 budget of \$24,000 for development of the FI\$CaL system, an integrated system for budgeting, accounting, procurement, cash management, financial management, and financial reporting.

**STATE CONTROLLER'S OFFICE (SCO) (Appendix A, line 4)**

The State Controller's Office line item is based on the appropriations recommended in the Governor's FY 2014-15 budget of \$237 for services rendered by the Controller's Office.

**Other CHCF-B Program Issues**

Department of Finance Audit

During 2012, auditors from the Department of Finance (DOF) conducted a Budget Process Performance Audit of six public purpose programs administered by CD, 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.

Cost Allocation

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<sup>2</sup> Ibid.

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Beginning July 1, 2014 the CPUC implemented a new costs allocation plan that directs how CPUC's administrative charges will be allocated to the sixteen special funds the agency administers, as well as expenses charged to grants. Cost allocation expenditures (sometimes referred to as indirect charges) include Administrative Services salaries and operating expenses (CPUC Accounting and Budget Offices, Business Services, Contracts, HR and IT), facilities operations (rent, security and utility expenses), as well as Executive Division, Administrative Law Judge, and a portion of shared, legal expenses.

Using the new cost allocation plan methodology administrative expenses are allocated to funds primarily on a Personnel Year (PY) basis; funds that support more staff proportionally have more CPUC indirect charges. CPUC initiated

development of a new cost allocation plan as a corrective action in response to a 2013 Department of Finance audit that highlighted the agencies lack of an updated, comprehensive, and methodologically consistent plan for allocating indirect charges to special funds and grants.

As a result of implementing the new plan, some CPUC special funds received higher proportions of costs allocation than had been allocated in previous years due to the changes in methodology related to defining administrative cost "pools" and PY analysis. Indirect charges will be built in as line-items into all funds as part of FY 2015-16 budget proposals.

#### CHCF-B Administrative Committee

On August 27 , 2014, in compliance with Paragraph 4.a.1 of the CHCF-B Administrative Committee (AC) Charter, the CHCF-B AC discussed the FY 2015-16 expense budget. Due to potential conflict of interest issues, the budget could not be adopted by a quorum of the CHCF-B AC. <sup>3</sup>

#### **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 safe, reliable and affordable telephone service to its customers in rural, high cost areas.

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<sup>3</sup> 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.

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Reliable telephone service is crucial in these generally rural areas that are sometimes isolated. 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 most importantly the ability to dial 911 to reach police, fire and emergency medical responders when fire, natural disasters, medical emergencies, or when other crises occur. The forecasted FY 2015-16 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 2015-16 budget are included in Appendix A and are summarized in Table 3:

<b>Description</b>	<b>FY 2015-16 Proposed Budget</b>
<b>State Operations</b>	<b>\$1,441,500</b>
<b>Local Assistance</b>	<b>\$18,536,000</b>
<b>FI\$Cal</b>	<b>\$24,000</b>
<b>SCO</b>	<b>\$237</b>
<b>Total Program Expenditure Budget</b>	<b>\$20,001,737</b>

In this Resolution, we adopt the proposed FY 2015-16 CHCF-B expense budget of \$20.002 million. Final appropriations for 8660 Public Utilities Commission (State Operations and Local Assistance) and 8880 Financial Information System for California (FI\$Cal), and 0840 State Controller’s Office (SCO), will be determined when the Budget Act of 2015 is approved by the Legislature and the Governor. The FY 2015-16 Budget adopted today is subject to final appropriations adopted in the Budget Act of 2015. To the extent that appropriations adopted in the Budget Act of 2015 differ from the FY 2015-16 Budget adopted in this resolution, the appropriations adopted in the Budget Act of 2015 will supersede the budget adopted in this resolution.

### Notice/Protests

In compliance with PU Code § 311 (g), the Commission e-mailed a Notice of Availability on October 6, 2014 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. The Commission received no 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, 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.
5. On June 12, 2014 the Commission adopted Decision (D.) 14-06-008 which approved a plan to update costs for CHCF-B Fund area using 2010 census data.
6. The authorizing legislation for the CHCF-B program, PU code § 739.3 was set to expire on January 1, 2015. However, on September 20, 2014, the Governor signed into law Senate Bill 1364, extending both the CHCF-A and CHCF-B programs until January 1, 2019.
7. Communications Division's proposed total FY 2015-16 expense budget of \$20,001,737 million, composed of \$18,536,000 million for Local Assistance, \$1,441,500 million for State Operations, \$24,000 for Financial Information System for California (FI\$Cal), and \$237 for State Controller's Office (SCO), is reasonable and should be adopted.
8. On August 27, 2014 in compliance with Paragraph 4.a.1 of the CHCF-B Administrative Committee (AC) Charter, the CHCF-B AC discussed the proposed

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FY 2015-16 expense budget. Due to potential conflict of interest issues, the budget could not be adopted by a quorum of the CHCF-B AC.

9. The FY 2015-16 budget adopted today is subject to final appropriations adopted in the Budget Act of 2015 for 8660 Public Utilities Commission (State Operations and Local Assistance), 8880 Financial Information System for California (FI\$Cal), and 0840 State Controller's Office (SCO).
10. The appropriations adopted in the Budget Act of 2015 will supersede the FY 2015-16 Budget adopted in this resolution.
11. 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 in October 2014. The Commission received no comments.

**THEREFORE, IT IS ORDERED that:**

1. The expense budget for the California High Cost Fund-B Administrative Committee Fund for Fiscal Year 2015-16 in the amount of \$20,001,737; being composed of \$18,536,000 for Local Assistance, \$1,441,500 for State Operations, \$24,000 for Financial Information System for California (FI\$Cal), and \$237 for State Controller's Office (SCO), and as contained in Appendix A, is adopted.
2. Communications Division staff is authorized to modify the FY 2015-16 expense budget adopted today to conform to the final appropriations adopted in the Budget Act of 2015 for 8660 Public Utilities Commission (State Operations and Local Assistance), 8880 Financial Information System for California (FI\$Cal), and 0840 State Controller's Office (SCO).

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This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on November 6, 2014.

/s/ Paul Clanon

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PAUL CLANON  
Executive Director

MICHAEL R. PEEVEY  
President  
MICHEL PETER FLORIO  
CATHERINE J.K. SANDOVAL  
CARLA J. PETERMAN  
MICHAEL PICKER  
Commissioners

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Appendix-A

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<b>APPENDIX A</b>			
<b>CALIFORNIA HIGH COST FUND B ADMINISTRATIVE COMMITTEE FUND</b>			
<b>PROGRAM BUDGET</b>			
		<b>July 2014 - June 2015</b>	<b>July 2015 - June 2016</b>
<b>Program Expenditures</b>		<b>Adopted per Res T-17399</b>	<b>Proposed</b>
	<b>a</b>	<b>b</b>	<b>c</b>
		<b>July 2015 - June 2016</b>	<b>Adopted per Res T-17446</b>
			<b>d</b>
<b>1</b>	<b>State Operations</b>	<b>\$1,441,500</b>	<b>\$1,441,500</b>
<b>2</b>	<b>Local Assistance</b>	<b>\$20,777,000</b>	<b>\$18,536,000</b>
<b>3</b>	<b>FI\$Cal</b>	<b>\$167,000</b>	<b>\$24,000</b>
<b>4</b>	<b>SCO</b>	<b>\$6,000</b>	<b>\$237</b>
<b>5</b>			
<b>6</b>	<b>TOTAL PROGRAM EXPENSES</b>	<b>\$22,391,500</b>	<b>\$20,001,737</b>