

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Communications Division
Carrier Oversight & Programs Branch**

**RESOLUTION T-17572
July 13, 2017**

R E S O L U T I O N

RESOLUTION T-17572- Approval of the California Telecommunications Public Purpose Programs estimated budgets for the 2017-2018 Fiscal Year.

SUMMARY

This Resolution proposes the Fiscal Year 2017-18 budgets for California's six telecommunications public purpose programs that the California Public Utilities Commission administers. The programs included here and their proposed budgets are as follows:

- | | |
|--|---------------|
| • California Advanced Services Fund | \$75,800,000 |
| • California High Cost Fund-A | \$49,190,000 |
| • California High Cost Fund-B | \$22,289,000 |
| • California LifeLine Program | \$630,046,000 |
| • California Teleconnect Fund | \$147,545,000 |
| • Deaf and Disabled Telecommunications Program | \$67,973,000 |

BACKGROUND

The California Public Utilities Commission (Commission or CPUC) is responsible for the administration of the State's mandated six Telecommunications Public Purpose Programs and their respective end user surcharges, with each surcharge required to be assessed on intrastate telecommunications service revenue in California.

The Commission's Public Purpose Programs and their respective surcharges are set forth in Public Utilities Code Sections 270 to 281.¹

California Advanced Services Fund

Section 281 requires the Commission to develop, implement, and administer the California Advanced Services Fund (CASF). The fund was created to encourage the deployment of high-quality advanced communications services to all Californians

¹ All section references hereafter are to the California Public Utilities Code unless otherwise stated.

which will promote economic growth, job creation, and the substantial social benefits of advanced information and communications technologies.²

The latest Commission adopted CASF program budget of \$98,450,000 for Fiscal Year (FY) 2016-17 was adopted in Resolution T-17494. The current CASF program surcharge rate is 0.00%, established in Resolution T-17536, as the current statutory collection limit has been reached.

California High Cost Fund-A

Section 275.6 requires the Commission to implement a program for universal service support to reduce rate disparity in rural areas. The California High Cost Fund-A (CHCF-A) program provides a source of supplemental revenue to Small Incumbent Local Exchange Carriers, whose basic residential telephone service rates may otherwise need to be increased to levels that would threaten universal service goals.³

The latest Commission adopted CHCF-A program budget of \$43,485,237 for FY 2016-17 was adopted in Resolution T-17491. The current CHCF-A program surcharge rate is 0.35%, established in Resolution T-17453.

California High Cost Fund-B

The California High Cost Fund-B (CHCF-B) program was established pursuant to Section 739.3. Section 739.3 requires the Commission to implement and maintain a program for universal telephone service support to reduce rate disparity in high cost areas. The program provides subsidies to Carriers of Last Resort who provide basic residential telephone service to customers in high-cost areas.⁴

The latest Commission adopted CHCF-B program budget of \$20,580,237 for FY 2016-17 was adopted in Resolution T-17483. The current CHCF-B program surcharge rate is 0.00% established in Resolution T-17417 due to the present fund balance being sufficient to cover claims without any additional collections.

California LifeLine Program

The Commission implemented the California LifeLine Program (Lifeline), also known as Universal Lifeline Telephone Service (ULTS) Trust Administrative Committee Fund in 1984, pursuant to Section 871. The LifeLine program provides discounted basic residential telephone and mobile wireless telephone services to reduce service charges

² See the CASF webpage for program information at (<http://www.cpuc.ca.gov/casf/>).

³ See the CHCF-A webpage for program information at (<http://www.cpuc.ca.gov/General.aspx?id=991>).

⁴ See the CHCF-B webpage for program information at (<http://www.cpuc.ca.gov/General.aspx?id=989>).

to qualified households. As of March 31, 2017, approximately 2 million Californians participated in the program. Of the total number of LifeLine participants, approximately 1.5 million had wireless services.⁵

The latest Commission adopted LifeLine program budget of \$627,496,000 for FY 2016-17 was adopted in Resolution T-17499. The current LifeLine program surcharge rate is 4.75% established in Resolution T-17519.

California Teleconnect Fund

The California Teleconnect Fund (CTF) was established by Decision (D.) 96-10-066 and is governed by Sections 280 and 884. In this decision, the Commission reaffirmed its commitment to universal service, and in accordance with state and federal directives, created the CTF to provide discounted rates for a host of telecommunications services for schools, libraries, government-owned health care providers and qualifying community based organizations.⁶

The latest Commission adopted CTF program budget of \$148,800,000 for FY 2016-17 was adopted in Resolution T-17496. The current CTF program surcharge rate is 1.08% established in Resolution T-17471.

Deaf and Disabled Telecommunications Program

The legislative mandates currently governing the Deaf and Disabled Telecommunications Program (DDTP) are as follows: Section 2881(a), which authorized the provision of Teletypewriters to deaf or hard of hearing individuals; Section 2881(b), which authorized third-party intervention, also known as the California Relay Service, to connect by telephone, consumers who are deaf, hard of hearing, or speech-impaired with other parties; Section 2881(c), which authorized the provision of other specialized telecommunications equipment to consumers with hearing, vision, mobility, speech, and/or cognitive disabilities; and Section 2881(d) which authorized, the provision of speech-generating devices to any subscriber who is certified as having a speech disability.⁷

The latest DDTP program budget of \$65,030,000 for FY 2016-17 was adopted in Resolution T-17492. The current DDTP program surcharge rate is 0.50%, established in Resolution T-17458.

⁵ Go to <http://cpuc.ca.gov/General.aspx?id=1100> for more information about program participation.

⁶ See the CTF webpage for program information at (<http://www.cpuc.ca.gov/ctf/>).

⁷ See the DDTP website for program information at (<http://www.cpuc.ca.gov/General.aspx?id=3422>).

DISCUSSION

The Commission’s Communications Division (CD) proposes to maintain the approved FY 2016-17 State Operations and Local Assistance state budgetary funding levels for FY 2017-18 for the various public purpose programs unless otherwise noted in the discussion below. State Operations expenses include Commission staff, Administrative Committees, contracts, and/or other expenses related to administration of the programs. Local Assistance includes the grants, claims and/or subsidies payed to utilities who are public purpose program participants.

The following discussion and tables provide an overview of the budget appropriation, actual/projected expenditures, and projected appropriation balances by program for FY 2014-15 through FY 2016-17 as well as the proposed FY 2017-18 budgets.

California Advanced Services Fund

California Advanced Services Fund							
Expense Items	FY 2014-15		FY 2015-16		FY 2016-17		FY 2017-18
	Appropriation in Governor's Enacted Budget	Actuals	Appropriation in Governor's Enacted Budget	Actuals	Appropriation in Governor's Enacted Budget	Forecasted (Actuals Annualized)	Proposed*
State Operations	\$3,871,525	\$3,134,557	\$4,496,000	\$4,333,560	\$3,667,000	\$3,667,000	\$3,700,000
Local Assistance	\$94,011,000	\$24,740,473	\$94,011,000	\$41,151,245	\$94,011,000	\$89,834,343	\$72,100,000
TOTALS	\$97,882,525	\$27,875,030	\$98,507,000	\$45,484,805	\$97,678,000	\$93,501,343	\$75,800,000

* Rounded to the nearest one-hundred thousand.

State Operations

Actual expenditures for State Operations as of March, 2017, for the FY 2016-17 totaled slightly more than \$2.88 million leaving a residual budget balance of \$791,248 from the enacted appropriation. The total end of FY expenditure for State Operations will use the full allocation of appropriated funds at the current monthly average expenditure rate. Therefore, given historical expenditures the CD is proposing a similar State Operations budget for FY 2017-18.

Local Assistance

Staff estimated the CASF expense budget for FY 2016-17 to remain consistent with FY 2015-16. Infrastructure Grant funding for FY 2016-17 for new projects was estimated at \$76.397 million. Public Housing Account funding for FY 2016-17 was budgeted at \$14.156 million. Assembly Bill 1262 authorized an additional \$5 million in funding for

the Consortia Grant Account; \$1.957 million was budgeted for FY 2016-17 for consortia grant funding.⁸

A total of eight CASF infrastructure project grants were awarded during FY 2016-17 for a total subsidy of \$69.67 million. A total of 219 CASF public housing project grants were awarded for a total subsidy of \$6.9 million. A total of 17 consortia grants were awarded for a total subsidy of \$4.61 million. The total grant subsidy awarded in FY 2016-17 was \$81.2 million. Additional grants may be awarded before the end of the FY. Not all grants may be fully encumbered in FY 2016-17.

A Change in Local Assistance for FY 17/18 is Necessary

In FY 2017-18, the Commission submitted a Budget Change Proposal (BCP) to request a baseline adjustment for the CASF to decrease budgetary spending authority for Local Assistance to \$72.1 million, which is approximately \$21.9 million less than FY 2016-17. The decrease is necessary in order to comply with the \$315 million statutory limit on revenue collections in support of the CASF program. Thus, for FY 2017-18, the proposed expense budget for the CASF would be \$75.8 million which includes \$3.7 million for state operations⁹ and \$72.1 million for Local Assistance.

Using the same appropriation in FY 2017-18 as was appropriated in FY 2016-17 would result in a negative fund balance given current budgetary projections and given the statutory limit on revenue collection. A decrease in budgetary spending authority for Local Assistance is therefore necessary in order to comply with the statutory cap.

California High Cost Fund-A

California High Cost Fund-A							
Expense Items	FY 2014-15		FY 2015-16		FY 2016-17		FY 2017-18
	Appropriation in Governor's Enacted Budget	Actuals	Appropriation in Governor's Enacted Budget	Actuals	Appropriation in Governor's Enacted Budget	Forecasted (Actuals Annualized)	Proposed
State Operations	\$1,474,000	\$1,219,000	\$1,631,000	\$1,043,000	\$1,251,000	\$1,000,000	\$1,251,000
Local Assistance	\$37,838,000	\$34,265,000	\$41,813,000	\$33,543,000	\$41,813,000	\$38,415,000	\$47,939,000
TOTALS	\$39,312,000	\$35,484,000	\$43,444,000	\$34,586,000	\$43,064,000	\$39,415,000	\$49,190,000

⁸ The Commission undertook a consortia grant solicitation within FY 15-16. The Local Assistance budget for FY 15-16 was adjusted to allow for \$1.957 in grants for FY 15-16. The \$1.957 million budgeted for FYs 15-16 and 16-17 for the Consortia Grant Account represents the total grant funding available per AB 1262, less administrative costs for this program area.

⁹ Rounded to the nearest one-hundred-thousand to be consistent with the figures provided in the CASF BCP.

State Operations

State Operations consist of the administrative expenses necessary to support the CHCF-A program. These expenses include employee salary and travel, consultants, and administrative committee costs. The actual State Operations expenditure for FY 2014-15 was \$1,219,000; for FY 2015-16 it was \$1,043,000; and for FY 2016-17 is forecasted to be \$1,000,000. This figure was annualized from the March 2017 State Operations year-to-date figure of \$538,318. The projected State Operations expense for FY 2017-18 is \$1,251,000 the same as FY 2016-17. After reviewing this projection against past actual expenses, CD believes the proposed State Operations budget of \$1.251 million for FY 2017-18 is reasonable and should be adopted.

Local Assistance

CHCF-A FY funding levels are determined annually, pursuant to Commission Decision (D) 91-05-016. The governor's enacted budget for FYs 2015-16 and 2016-17 appropriated \$41.813 million in Local Assistance for the CHCF-A fund. Based on estimates provided by the Small Incumbent Local Exchange Carriers, the CD sought an increase in Local Assistance funding, and issued a BCP for FY 2017-18 to request an increase in Local Assistance of \$6.1 million. The requested \$6.1 million budget increase is necessary to provide the 10 carriers who draw from the fund with the financial support necessary to keep rural telephone service rates affordable and comparable to rates paid by customers that live in urban areas.

Factors that contribute to the need for increased CHCF-A funding include:

- A general rate case adopted for FY 2017-18 for Volcano Telephone Company that will increase the company's need for support by approximately \$900,000;
- Four general rate case applications that were submitted in late-2016 for Calaveras, Cal-Ore, Ponderosa, and Sierra Telephone corporations that will directly affect the FY 2017-18 CHCF-A budget. It is anticipated that the increase in CHCF-A support for Sierra Telephone company alone will be approximately \$3.0 million, and we project that approximately \$2.1 million in increased CHCF-A costs will be attributed to the other three companies;
- Estimated increases of \$0.1 million to the CHCF-A subsidy resulting from funding reductions from universal service support and intercarrier compensation, which must be made up by the CHCF-A pursuant to code Section 275.6(c)(4);
- Allowing the Small Incumbent Local Exchange Carriers to recover broadband investments that were previously not included in the companies' results of

operations Section 275.6(c)(6) or reflected in the FY 2016-17 CHCF-A budget is expected to result in fund increases. Although, the effect on the FY 2017-18 budget cannot be estimated at this time.

The requested Local Assistance increase of \$6.1 million addresses financial support for Small Incumbent Local Exchange Carriers due to increased subsidy amounts. The request does not affect the CHCF-A State Operations budget directly because workload and administrative costs are not related to the amount of financial support that the carriers receive. Nothing in the annual CHCF-A program administration process will change as a result of adopting an increased CHCF-A budget for FY 2017-18.

California High Cost Fund-B

California High Cost Fund - B							
Expense Items	FY 2014-15		FY 2015-16		FY 2016-17		FY 2017-18
	Appropriation in Governor's Enacted Budget	Actuals	Appropriation in Governor's Enacted Budget	Actuals	Appropriation in Governor's Enacted Budget	Forecasted (Actuals Annualized)	Proposed
State Operations	\$20,777,000	\$1,438,513	\$1,750,000	\$411,153	\$1,512,000	\$424,633	\$1,512,000
Local Assistance	\$1,441,000	\$17,458,749	\$20,777,000	\$17,125,729	\$20,777,000	\$16,612,855	\$20,777,000
TOTALS	\$22,218,000	\$18,897,262	\$22,527,000	\$17,536,882	\$22,289,000	\$17,037,488	\$22,289,000

Local Assistance

Table 1 shows that for FYs 2014-15 and 2015-16, the Local Assistance actual claim amounts paid to carriers were \$17.459 and \$17.126 million, respectively. At the time of drafting this resolution for FY 2016-17, CHCF-B carriers had only submitted Local Assistance claims through February and/or March 2017. Therefore, the carriers' actual Local Assistance claims are annualized in Table 1, resulting in a forecasted expense of \$16.613 million.

After the end of the 2016-17 FY, CD will have a better understanding of what is anticipated to be a continuous downward trend in Local Assistance claims. At that point, the CD will perform an analysis, to determine if it is necessary to submit a BCP to reduce the Local Assistance budget for FY 2018-19 for the CHCF-B program. In the meantime, the CD proposes to maintain Local Assistance at the Governor's Enacted Budget amount of \$20.777 million.

State Operations

State Operations consist of the administrative expenses necessary to support the CHCF-B program. These expenses include employee salary and administrative committee costs. The actual State Operations expenditure for FY 2014-15 was \$1,441,000; for FY 2015-16 it was \$411,153; and for FY 2016-17 the expenditure is forecasted to be \$424,633. This figure was annualized from the March 2017 State Operations year-to-date figure of \$318,475. Therefore, given historical expenditures the CD is proposing a similar budget for FY 2017-18 as was used in FY 2016-17.

California LifeLine Program

California LifeLine Program							
Expense Items	FY 2014-15		FY 2015-16		FY 2016-17		FY 2017-18
	Appropriation in Governor's Enacted Budget	Actuals	Appropriation in Governor's Enacted Budget	Actuals	Appropriation in Governor's Enacted Budget	Forecasted*	Proposed
State Operations	\$18,380,000	\$15,460,000	\$21,482,000	\$21,448,000	\$25,806,000	\$25,852,000	\$30,580,000
Local Assistance	\$277,400,000	\$277,400,000	\$462,047,000	\$444,470,000	\$457,345,000	\$459,928,000	\$599,466,000
TOTALS	\$295,780,000	\$292,860,000	\$483,529,000	\$465,918,000	\$483,151,000	\$485,780,000	\$630,046,000

* For Local Assistance, CD is seeking an increase through a 2017-18 May Revision Estimate.

Local Assistance

Local Assistance consists of reimbursement to carriers (claims) for providing California LifeLine Services to program participants. California LifeLine service providers provide subsidies directly to consumers by deducting the subsidy amounts from monthly bills. The carriers then receive reimbursements for the subsidies. The subsidies consist of surcharges and taxes, connection or conversion charges, and a Specific Support Amount for the monthly recurring charge. Participating service providers recover administrative costs and implementation costs on a limited basis.

Local Assistance expenditures are largely driven by program participation. The CD forecasts approximately 3,245,170 participants (563,903 for wireline and 2,681,267 for wireless) by the end of FY 2017-18 for the purpose of projecting Local Assistance expenditures.

For FY 2017-18, total Local Assistance is the sum of the Specific Support Amount, administrative charges, wireless new connection charges, wireless surcharges and taxes, wireline new connection/conversion charges, and wireline surcharges and taxes. Local Assistance expenditures for FY 2017-18 are projected to be \$599,466,000.

Local Assistance Assumptions

The assumptions for the computations for FY 2017-18 Local Assistance are as follows:

- Caseload: CD estimates 3,245,170 participants by the end of FY 2017-18.
- Specific Support Amount: CD projects that the Specific Support Amount will increase from \$13.75 to \$14.30 in January 2018 based on the historical rate increases of Carrier of Last Resort basic residential telephone service.¹⁰
- Administrative Support Subsidy: The administrative charge per wireless program participant is \$0.34 and \$0.19 per wireline program participant based on the average of actual reimbursements to service providers during FY 2015-16.
- Wireless New Connection Subsidy: The cost of reimbursements for wireless new connection subsidies is assumed to be \$6,259,000 monthly based on the average of actual claims for new connection subsidies from January 2016 through December 2016.
- Wireline Connection/Conversion charge: Wireline connection/conversion charges are assumed to be 12% of the monthly wireline enrollment based on the average of 2016 payments.
- Surcharges and Taxes: Wireless surcharges/taxes are estimated by applying the total surcharge/tax rate to monthly wireless enrollment. The surcharge and tax rate is 15%.¹¹

Local Assistance Drivers

The biggest drivers of Local Assistance program expenditures are the Specific Support Amount costs and the Wireless New Connection charges.

State Operations

State Operations consist of the following categories: staff salaries and benefits, California LifeLine Third Party Administrator (Third Party Administrator), California LifeLine Auditing, California LifeLine IT Consultant, and other costs such as Administrative Committee-related costs, travel, goods, training, and office equipment.

The current contract with the Third Party Administrator is expiring in May 2017, and the CPUC anticipates a new Third Party Administrator will not be assuming the California LifeLine eligibility determination responsibility until June 2018. A solicitation will be issued in the second quarter of 2017 for a new three and one-half year contract.

¹⁰ See Resolution T-17499 p.5 and 6 for a description of how the Specific Support Amount is determined.

¹¹ See Resolution T-17499 p.7 for the surcharge and taxes methodology.

The CPUC anticipates making an award in August 2017, transitioning to the new Third Party Administrator in November 2017 and completing the transition in May 2018. In the interim (FY 2017-18), the CPUC intends to extend its contract with the current Third Party Administrator. However, the CPUC will be using the Office of State Publishing, rather than the Third Party Administrator, for printing and mailing services beginning in FY 2017-18. Therefore, the interim contract for FY 2017-18 is being renegotiated to exclude printing and mailing services.

To estimate the monthly Third Party Administrator's invoice costs, CD used actual Third Party Administrator invoices from 2016 and recalculated the annual estimated costs for FY 2017-18 using the new qualifications rate of \$1.59.¹²

To develop the estimate for the cost of the Office of State Publishing providing printing and mailing services in FY 2017-18, CD used actual volumes from FY 2015-16 combined with the projected number of qualifications for FY 2017-18 to estimate the FY 2017-18 printing volumes and cost.

As shown in table, State Operations expenditures for FY 2017-18 are projected to be \$30,580,000.

Third Party Administrator

The Third Party Administrator accounts for the majority of State Operations expenses. The Third Party Administrator's services are essential to the effective implementation of the California LifeLine Program and include extensive communication and technical coordination between the contractor, participating carriers, CD, and the public.

In light of the above discussion, CD believes that its proposed California LifeLine Program budget estimate of \$630,046,000 for FY 2017-18, composed of Local Assistance of \$599,466,000 and State Operations of \$30,580,000, is reasonable and should be adopted by the Commission.

¹² 2016 invoices originally applied a rate of \$2.16 per qualification.

California Teleconnect Fund

California Teleconnect Fund							
Expense Items	FY 2014-15		FY 2015-16		FY 2016-17		FY 2017-18
	Appropriation in Governor's Enacted Budget	Actuals	Appropriation in Governor's Enacted Budget	Actuals	Appropriation in Governor's Enacted Budget	Actuals*	Proposed
State Operations	\$2,945,000	\$2,725,807	\$3,658,000	\$2,534,671	\$2,480,000	\$1,124,826	\$2,480,000
Local Assistance	\$104,605,000	\$92,567,213	\$145,065,000	\$99,419,400	\$145,065,000	\$30,102,548	\$145,065,000
TOTALS	\$107,550,000	\$95,293,020	\$148,723,000	\$101,954,071	\$147,545,000	\$31,227,374	\$147,545,000

* See Local Assistance and State Operations discussion for explanation

As shown in the table, the CD proposes to maintain the FY 2017-18 CTF Local Assistance budget at the FY 2016-17 level of \$145,065,000 because its projected claim expenses are similar and at this time CD cannot accurately predict the impacts of Phase 3 of the CTF Rulemaking (R) 13-01-010. CD proposes to maintain the FY 2017-18 CTF State Operations budget at FY 2016-17 levels based on historical State Operations expenditures.

CD reviewed carrier claim forecasts and historical claim data for the FY 2017-18 budgets. Carriers were instructed to include in their estimates the effects of the reduction in the voice discount and the omission of data plans from program eligibility which took effect on July 1, 2016, as directed by D.15-07-007. Approximately 77% of carriers provided forecasts for a total Local Assistance budget of \$103,774,216. CD recommends maintaining the FY 2016-17 Local Assistance budget for FY 2017-18 for the reasons outlined below.

Local Assistance

The CTF Local Assistance budget is comprised of carrier claim payments, which are reimbursements to carriers for discounts given to CTF participants. D.15-07-007 established several program policy changes that will be addressed in Phase 3 of the CTF proceeding R.13.01.010 and that will have an impact on the overall program budget. These are:

- Changes in Health Care/Health Services Community Based Organization Eligibility
- Changes to California Telehealth Network membership
- Changes to the eligibility criteria for Community Based Organizations
- Services bundled with ineligible components

- Transparent and Detailed Pricing Information
- Changes to wireless data plans

Phase 3 will address the implementation of these policies. As such, these program changes have not yet been implemented; there are many challenges related to forecasting a budget in the middle of an on-going rulemaking. While some program changes will reduce pressure on the fund, resulting in a decrease in the CTF budget, other factors may increase the budget. These issues will remain unresolved until Phase 3 is completed. Until more information is known, CD recommends that the Commission maintain the Local Assistance budget at FY 2016-17 levels. In addition, to date, only approximately 40% of the claims for FY 2016-17 have been received which limits CD's ability to develop an accurate trend analysis from FY 2016-17.

State Operations

State operation expenses include categories such as CPUC direct staff costs, staff travel, the administrative committee per diem and travel, marketing and outreach, audits, data processing automation, and cost allocation expenses. As depicted in the CTF Table, the State Operations budget request for FY 2017-18 of \$2,480,000 is the same as that which was approved for FY 2016-17.

Budget change proposal

The governor's proposed budget for FY 2017-18 includes a proposal to increase State Operations appropriation to provide additional resources to facilitate a triennial review of Community Based Organization eligibility and the online posting of carrier price disclosures. The proposal would increase State Operations appropriation by \$3.6 million to fund two additional, permanent public utilities regulatory analyst three positions (totaling \$240,000) and related consulting costs of \$3.4 million to implement the recently adopted CTF program reforms and to better enforce program eligibility requirements. If the proposal is approved in the final FY 2017-18 state budgets, State Operations appropriation will be increased to \$6,080,000, representing approximately 4% of the overall CTF total projected program expenditures for FY 2017-18.

Total Program Expenses

CD's Local Assistance budget recommendation of \$145,065,000 is 27% higher than the Administrative Committee's proposed budget for Local Assistance of \$114,000,000 and

40% higher than the total carrier forecast of \$103,774,216.¹³ The Administrative Committee's budget was adopted at the September 9, 2016, Administrative Committee meeting. The Administrative Committee's and carrier's forecasts were lower due to an emphasis on expected voice discount reduction impacts which took effect July 1, 2016. CD recommends maintaining the FY 2017-18 program budget for Local Assistance at FY 2016-17 levels as impacts from program changes in D.15-07-007 are not yet quantified.

Historical Comparison

The overall CTF program budget increased by 38% from FY 2014-15 to FY 2015-16. This increase was due to external factors such as the Governor's Education Initiative, higher demand by schools and libraries, and changes to the Federal E-Rate Program.¹⁴ One cause for the discrepancy between the enacted budget and actual claims for FY 2015-16 was the long lead times for construction projects for schools and libraries that have resulted in projects not materializing in FY 2015-16. Since FY 2015-16, the Local Assistance budget has remained constant and CD is proposing it remain unchanged for FY 2017-18 due to the unknown budget impact of program changes enacted via D.15-07-007. Actual expenses for FY 2016-17 are unknown as all the claims have not yet been submitted for this FY. To date only approximately 40% of FY 2016-17 claims have been received.

State Operations budgets were reduced for FY 2016-17 by 33% when compared to FY 2015-16. Prior State Operations budgets remained fairly constant. The reduction in State Operations for FY 2016-17 was due to interagency costs no longer being charged to the CTF Program. Similar to Local Assistance, CD recommends maintaining the State Operations budget at FY 2016-17 levels.

¹³ This number represents the forecasts of 77% of the overall carriers who responded to CD's data request. 23% of participating carriers did not respond.

¹⁴ California Public Utilities Commission, California Teleconnect Fund FY 2015-16 Budget Resolution T-17456, November 2, 2014, p. 5.

Deaf and Disabled Telecommunications Program

Deaf and Disabled Telecommunications Program							
Expense Items	FY 2014-15		FY 2015-16		FY 2016-17		FY 2017-18
	Appropriation in Governor's Enacted Budget	Actuals	Appropriation in Governor's Enacted Budget	Actuals	Appropriation in Governor's Enacted Budget	Forecasted (Actuals Annualized)	Proposed
State Operations	\$62,657,000	\$41,740,000	\$64,374,000	\$47,869,000	\$67,763,000	\$51,618,000	\$67,763,000
Local Assistance	\$210,000	\$142,000	\$210,000	\$109,000	\$210,000	\$74,000	\$210,000
TOTALS	\$62,867,000	\$41,882,000	\$64,584,000	\$47,978,000	\$67,973,000	\$51,692,000	\$67,973,000

* Enacted Budget for State Operations includes expenses allocated to all State Agencies (Interagency Fee) to cover these expenses that are not directly related to program administration.

** Historical Expenditures for State Operations do not include interagency fees.

CD estimates a FY 2017-18 DDTP budgets of \$67.973 million based on the following state budget categories for which appropriations will be established in the 2017 Budget Act:

1. State Operations which consists of contracts and personal services; rents and leases; DDTP Equipment; CPUC staff and administrative and committee costs; and
2. Local Assistance which consists of telecommunications carrier claims.

CD believes that a budget of \$67.973 million is sufficient to support the DDTP. In determining the DDTP budget for projected FY 2017-18 expenses, CD reviewed actual expenses incurred for three fiscal years.

There are several reasons why the actual expenditures are below the enacted budget for FY 2016-17. The demand for speech generating devices has not been as robust as had been estimated; however, the number of applications processed for the devices has doubled each year since the CPUC started distributing them in FY 2013-14. The DDTP has added wireless telephones to the program; however, these telephones used older technology which companies have stopped supporting. Due to the short life span of cellular telephones and the high cost of data plans, the DDTP has not found a phone and wireless service provider to support long-term distribution. Lastly, relay usage by consumers who are deaf, hard of hearing, or speech-impaired has decreased as consumers move to video relay services that are not within the Commission's jurisdiction.

State Operations

CD proposes a budget of \$67.763 million for State Operations for FY 2017-18, which is the same as State Operations in the Enacted Budget for FY 2016-17. State Operations consists of payments to contractors such as the DDTP administrator, relay provider and marketing vendor; rents and leases for DDTP service centers and headquarters; equipment provided to DDTP constituents; and CPUC staff and administrative costs. We are proposing this budget as the expenditures for the speech generating devices have increased due to the doubling of applications each year since inception of the program in FY 2013-14. The DDTP has recently entered into a contract with a vendor to distribute iPads to those with speech disabilities. This demonstration started January 11, 2017 and will end December 31, 2018. In total, 200 iPads are available. Since the start of this effort four months ago, 60 iPads have been provided to consumers. However, it is too early to develop conclusions about this demonstration though it appears to be popular with product demand exceeding expectations. Lastly, the DDTP's rental costs for its service centers and headquarter space will increase.

Local Assistance

CD proposes a budget of \$210,000 for Local Assistance for FY 2017-18. Which is the amount adopted in the Enacted Budget for FY 2016-17. Local Assistance consists of claims by landline carriers to provide specific services for the deaf and the disabled. Examples include three-way calling and speed dialing. While subscribership has gone down, the rates and charges for service have increased.

SAFETY CONSIDERATIONS

The six Telecommunications Public Purpose Programs facilitate universal service and access for all Californians to the communications network and emergency services. Adoption of this resolution will assure the programs continue to be sufficiently funded to fulfill their stated goals.

COMMENTS

Public Utilities Code section 311(g)(1) requires that a draft resolution be served on all parties, and be subject to a public review and comment period of 30 days or more, prior to a vote of the Commission on the resolution. A draft of today's resolutions was distributed for comment to the utilities and other interested parties. The Commission received no comments in response to this resolution.

FINDINGS

1. The California Public Utilities Commission (Commission or CPUC) is responsible for the administration of the State's Telecommunications Public Purpose Programs.
2. The Commission is required to prepare a resolution or other public document to provide public notice and adopt the proposed budgets of the Telecommunications Public Purpose Programs.
3. Section 281 requires the Commission to develop, implement, and administer the California Advanced Services Fund to encourage the deployment of high-quality advanced communications services to all Californians, which will promote the economic and social benefits of advanced information and communications technologies.
4. The Commission's Communications Division (CD) proposed California Advanced Services Fund FY 2017-18 expense budget of \$75,800,000 composed of \$3,700,000 for State Operations and \$72,100,000 for Local Assistance to be reasonable and should be adopted.
5. Section 275.6 requires the Commission to implement a program for universal service support to reduce rate disparity in rural areas.
6. The CD's proposed California High Cost Fund-A FY 2017-18 expense budget of \$49,209,000 which includes \$1,251,000 for State Operations and \$47,939,000 for Local Assistance to be reasonable and should be adopted.
7. Section 739.3 requires that the Commission implement and maintain a program for universal telephone service support to reduce rate disparity in high cost areas.
8. The CD's proposed California High Cost Fund-B Fiscal Year 2017-18 expense budget of \$22,306,000, which is comprised of \$1,529,000 for State Operations and \$20,777,000 for Local Assistance to be reasonable and should be adopted.
9. The California LifeLine Program, also known as Universal Lifeline Telephone Service Trust Administrative Committee Fund, was implemented by the Commission in 1984, pursuant to Section 871.
10. The Communications Division's proposed California LifeLine Budget of \$630,046,000 for FY 2017-18, composed of State Operations of \$30,580,000 and Local Assistance of \$599,466,000 to be reasonable and should be adopted.

11. The California Teleconnect Fund (CTF) is governed by Sections 280 and 884 to promote universal service by providing discounted rates for a host of telecommunications services for schools, libraries, community colleges, government-owned health care providers, and qualifying community based organizations.
12. Phase 3 of Rulemaking 13-01-010 will seek to implement many program changes that will impact the CTF budget for FY 2017-18.
13. The CD's proposed CTF budget of \$147,545,000 for FY 2017-18, composed of State Operations of \$2,480,000 and Local Assistance of \$145,065,000 to be reasonable and should be adopted.
14. The Commission established the Deaf and Disabled Telecommunications Program (DDTP) to provide specialized equipment to consumers with hearing, vision, mobility, speech and/or cognitive disabilities through Decisions issued in the 1980s.
15. The Legislature codified the program through passage of several statutory provisions contained in Section 2881.
16. The CD's proposed DDTP budget of \$67,973,000 for FY 2017-18, composed of State Operations of \$67,763,000 and Local Assistance of \$210,000 to be reasonable and should be adopted.
17. The FY 2017-18 budgets adopted today are subject to final appropriations adopted in the Budget Act.

THEREFORE, IT IS ORDERED that:

1. The expense budget for the California Advanced Services Fund for the Fiscal Year 2017-18, in the amount of \$75,800,000, comprised of \$3,700,000 for State Operations and \$72,100,000 for Local Assistance, is adopted.
2. The expense budget for the California High Cost Fund-A Administrative Committee Fund for Fiscal Year 2017-18, in the amount of \$49,190,000, comprised of \$1,251,000 for State Operations and \$47,939,000 for Local Assistance, is adopted.
3. The expense budget for the California High Cost Fund-B Administrative Committee Fund for Fiscal Year 2017-18, in the amount of \$22,306,000, comprised of \$1,529,000 for State Operations and \$20,777,000 for Local Assistance, is adopted.

4. The expense budget for the California LifeLine Program of \$630,046,000 for Fiscal Year 2017-18, comprised of State Operations of \$30,580,000 and Local Assistance of \$599,466,000, is adopted.
5. The expense budget for the California Teleconnect Fund for Fiscal Year 2017-18, in the amount of \$147,545,000, comprised of \$2,480,000 for State Operations and \$145,065,000 for Local Assistance, is adopted.
6. The expense budget for the Deaf and Disabled Telecommunications Program for Fiscal Year 2017-18 in the amount of \$69,973,000, comprised of \$67,763,000 for State Operations and \$210,000 for Local Assistance, is adopted.

This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on - 07/13/2017, the following Commissioners voting favorable thereon:

/s/ Timothy J. Sullivan
TIMOTHY J. SULLIVAN
Executive Director

MICHAEL PICKER
President
CARLA J. PETERMAN
LIANE M. RANDOLPH
MARTHA GUZMAN ACEVES
CLIFFORD RECHTSCHAFFEN
Commissioners