

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Communications Division
Carrier Oversight and Programs Branch**

**RESOLUTION T-17371
August 23, 2012**

R E S O L U T I O N

Resolution T-17371. Approval of the California Advanced Services Fund Expense Budget for Fiscal Year 2013-14 (July 1, 2013 through June 30, 2014) to Comply with the Requirements of Public Utilities Code Section 270.

Summary

This resolution adopts a California Advanced Services Fund (CASF) expense budget of \$58,299,386 for Fiscal Year (FY) 2013-14.

Background

In Decision (D.) 07-12-054 dated December 20, 2007, the California Public Utilities Commission (Commission) created a new public purpose program, the California Advanced Services Fund (CASF), to encourage the deployment of broadband services in unserved and underserved areas by funding 40% of the project cost through a one time infrastructure grant. The Commission allocated one hundred million dollars to the program to be funded by a surcharge of 0.25%¹ beginning January 1, 2008, assessed on revenues collected from end-users for intrastate telecommunications services, coincident with a 0.25% reduction in the California High Cost Fund-B surcharge to reflect reductions in support provided by that program. The Commission further stated that prior to any CASF disbursements the Commission would seek statutory authority to add the CASF as one of the funds the State Treasury administers and seek statutory authority for (1) specific direction to telephone corporations for remitting CASF collections and (2) the Commission's use of the funds.

Chapter 393, Statutes of 2008 (SB 1193, Padilla) amended Sections 270 and 281 of the Public Utilities (PU) Code by establishing the CASF through January 1, 2013, subject to the same fiscal and financial restrictions applicable to the six (6) existing universal service funds.²

¹ On December 17, 2009, the Commission approved [Resolution T-17248](#) which reduced the CASF surcharge from 0.25% to 0.00% effective January 1, 2010.

² The other six (6) universal service funds are: the California High Cost Fund -A Administrative Committee Fund (CHCF-A), the California High Cost Fund -B Administrative Committee Fund (CHCF-B), the California Teleconnect Fund Administrative Committee Fund (CTF), the Universal Lifeline Telephone Service Trust Administrative Committee Fund

Section 281 (a) of the PU Code requires the Commission to develop, implement, and administer the CASF to encourage deployment of high-quality advanced communications services to all Californians that will promote economic growth, job creation, and substantial social benefits of advanced information and communications technologies, as provided in D.07-12-054.

Further, Section 270 (b) of the PU Code states that moneys in the universal service funds are proceeds of rates and are held in trust for the benefit of ratepayers. Funds may only be used for the purposes for which the funds were created and upon appropriation in the annual Budget Act.

On September 25, 2010, Governor Schwarzenegger signed SB 1040 (Chapter 317, Stats 2010), which expanded the CASF and increased the CASF appropriation from \$100 million to \$225 million. The increase of \$125 million to be collected after January 1, 2011 is allocated to the following accounts: \$100 million to the Broadband Infrastructure Grant Account, \$10 million to the Rural and Urban Regional Broadband Consortia Grant Account, and \$15 million to the Broadband Infrastructure Revolving Loan Account. The \$125 million is to be funded by a surcharge assessed on revenues collected from end-users and collected at \$25 million a year beginning on calendar year 2011. To collect the additional funds authorized by SB 1040, the Commission issued Resolution T-17343 on September 22, 2011, which revises the surcharge from 0.0% to 0.14% effective November 1, 2011.

Discussion

In this Resolution, the Communications Division (CD) proposes a CASF expense budget of \$58,299,386 for FY 2013-14 to cover Broadband Infrastructure grants, Consortia grants, Broadband Infrastructure loans, and costs for administering and managing the CASF.

Since the CASF program is authorized to collect \$25 million a year to fund the three accounts, CD prorated the revenue for each account in accordance with SB 1040's distribution of the additional allocation of \$125 million to the three accounts. Thus, 80% or \$20 million of the \$25 million yearly revenue collection is allocated to the Infrastructure Grant Account, 8% or \$2 million of the \$25 million yearly revenue collection is allocated to the Consortia Grant Account, and 12% or \$3 million of the \$25 million yearly revenue collection is allocated to the Infrastructure Revolving Loan Account. With the exception of loan underwriting costs and travel costs, costs for administering the CASF are also prorated among the three accounts based on this

(ULTS), the Deaf and Disabled Telecommunications Program Administrative Committee Fund (DDTP), and the Payphone Service Providers Committee Fund.

percentage allocation. Loan underwriting costs are charged exclusively to the Broadband Infrastructure Revolving Loan Account, and travel costs are charged to the Infrastructure Grant Account and the Consortia Grant Account.

Details and distribution of the administrative costs are:

Item	Total Costs	Infrastructure Grant Account	Consortia Grant Account	Revolving Loan Account
Prorated %		80%	8%	12%
CPUC Personnel Costs	\$836,548	\$669,238	\$66,924	\$100,386
Travel (60% is charged to the Consortia grant account and 40% to the Infrastructure grant account)	\$40,000	\$16,000	\$24,000	\$0
Loan underwriting and servicing (to be charged 100% to the Loan account)	\$65,395	\$0	\$0	\$65,395
Information Technology Costs	\$8,500	\$6,800	\$680	\$1,020
Inter-agency Costs	\$173,000	\$138,400	\$13,840	\$20,760
Audit	\$100,000	\$80,000	\$8,000	\$12,000
Total Administrative Costs	\$1,223,443.00	\$910,438	\$113,444	\$199,561

Administrative costs for each account are then deducted from the corresponding revenue of each account to determine the amount of infrastructure/consortia grants and infrastructure loans available for the fiscal year.

A summary of the FY 2013-14 expense budget is shown below.

Infrastructure Grants*	\$51,426,091
Current Year Available Funding (SB 1040)	\$19,089,562
Budgetary Re-Appropriations ³ of Prior Years' Remaining Available Funding (D.07-12-054)	\$32,336,529
Consortia Grants	\$2,849,413
Loans	\$2,800,439
CPUC Staff Costs	\$836,548
Travel	\$40,000
Loan underwriting and servicing	\$65,395
Information Technology	\$8,500
Inter-agency Costs	\$173,000
Audit	\$100,000
TOTAL	\$58,299,386

³ Budgetary appropriations are the amount of funds approved for expenditures in a given fiscal year. On June 30, 2012, fiscal year 2009 - 2010 closed and therefore requires re-appropriation of un-awarded CASF infrastructure grant funds from the original \$100 million CASF surcharge collection authorized in D.07-12-054.

Infrastructure Grants

The Broadband Infrastructure Grant Account provides funds to qualified applicants to finance a fixed percentage of the total construction or capital costs of broadband infrastructure in unserved and underserved areas of California.

Infrastructure grant funding for FY 2013-14 new projects are estimated at \$58.185 million. This total includes \$19.089 million representing the prorated revenue allocated to this account pursuant to SB 1040 less the Infrastructure Grant Account's share of the CASF's administrative costs (\$20 million less \$910,438), and \$32.336 million representing budgetary re-appropriations of prior years' CASF revenues that remain available for grant awards from the original \$100 million CASF surcharge revenues collected in 2008-2009. No additional moneys are being allocated in the 2013-14 budget for payment of already awarded CASF grants since there is sufficient budgetary authority for the total amount needed to reimburse grantees.

Consortia Grants

Funds in the Rural and Urban Regional Broadband Consortia Grant Account are made available for grants to eligible consortia to finance the cost of broadband deployment activities other than the capital cost of facilities.

The budget for Consortia grants is \$2,849,413 after deducting administrative expenses of \$113,444 from the \$2,962,857 revenue allocated to this account for 2013-14. As discussed above, \$2 million of the \$25 million yearly revenue collection is allocated to the Consortia Grant Account. However, SB 1040 does not set any restrictions on how much of the \$25 million dollars collected annually is to be distributed to each of the CASF accounts, as long as only \$10 million is allocated to the consortia account over the 5 year collection period. The total annual budget for Consortia grants is greater than \$2 million because the Commission adopted a higher funding level in Resolutions T-17349 and T-17355 to fund a total of 14 regional consortia.

Infrastructure Revolving Loans

The Broadband Infrastructure Revolving Loan Account is intended to finance capital costs of broadband facilities not funded by a grant from the Broadband Infrastructure Grant Account.

The budget for revolving loans is set at \$2,800,439 after deducting administrative expenses of \$199,561 from the \$3 million allocated to this account by SB 1040.

CPUC Staff Costs

The amount of \$836,548 represents the estimated CPUC staff costs associated with the administration of the CASF program. Several divisions within CPUC are responsible for different aspects of the program. While the Communications Division is primarily responsible for the program, the Information and Management Services Division and the Legal Division also provide staff resources to the program. The amount budgeted for this item is based on projected personnel allocation.

Travel Costs

An estimated \$40,000 will be required to fund CASF staff's attendance in the Consortia Learning Summit⁴, meetings with the Rural and Urban Regional Broadband Consortia, and inspection of on-going and completed infrastructure projects.

Loan Underwriting and Servicing

An external agency will perform the financial eligibility review of loan applications, processing, and servicing of loans since the Commission does not have the staff or expertise to perform these functions. The amount of \$65,395 is budgeted to cover costs pertaining to the external agency's financial eligibility review and loan servicing fees.

Information Technology Costs

The CPUC has established electronic filing for CASF surcharge remittances and electronic filing for grants and loans. The amount of \$8,500 is allocated for programming, operation, and maintenance of this electronic filing system.

Interagency Costs

An estimated \$173,000 represents CASF's contribution to the statewide administrative cost of central service agencies such as the Department of Finance, the Office of the State Controller, the State Personnel Board, and the Legislature.

Audit Fees

PU Code Section 281(f)(1) requires the Commission to conduct an interim and final financial and performance audit of the implementation and effectiveness of the CASF to ensure that funds have been expended in accordance with the approved terms of the grant awards and loan agreements and this section. The Commission was required to submit its interim findings to the Legislature by April 1, 2011 and must submit its final findings by April 1, 2017.

⁴ In D.11-06-038, the Commission directed Communications Division to schedule and host on at least on an annual basis a Regional Consortia Learning Community Summit to enable the various regional and rural urban consortia to exchange ideas and information, lessons learned and best practices to achieve common broadband adoption and deployment goals.

Although the Commission conducted a financial and performance audit and submitted an interim report to the Legislature in April 2011, auditing of CASF projects is an on-going activity. Thus, the amount of \$100,000 is budgeted for the audit of completed projects.

Conclusion

Upon consideration of the above and the fact that administrative costs represent only 2.10% of the total budget, we believe the CASF Expense Budget of \$58,299,386 is reasonable and should be adopted.

Comments

In compliance with PU Code § 311 (g), a Notice of Availability was e-mailed on July 20, 2012 to the CASF Distribution List, which is comprised of parties of record in R.10-12-008 & R.06-06-028, CASF applicants, telecommunications service providers licensed and/or registered with the Commission, and other interested parties, informing them that the draft of this Resolution is available at the Commission's website <http://www.cpuc.ca.gov/> and is available for public comments. In addition, CD will inform these parties of the subsequent availability of the conformed resolution, when adopted by the Commission, at the Commission's website as indicated above.

Findings

1. In Decision (D.) 07-12-054 dated December 20, 2007, the Commission created a new public purpose program, the California Advanced Services Fund, to encourage the deployment of broadband services in unserved and underserved areas.
2. Chapter 393, Statutes of 2008 (SB 1193, Padilla) amended Sections 270 and 281 of the Public Utilities Code (PU Code) by establishing the California Advanced Services Fund through January 1, 2013, subject to the same fiscal and financial restrictions applicable to the six (6) existing universal service funds.
3. Section 281 (a) of the PU Code requires the Commission to develop, implement, and administer the California Advanced Services Fund to encourage deployment of high-quality advanced communications services to all Californians that will promote economic growth, job creation, and substantial social benefits of advanced information and communications technologies, as provided in D.07-12-054.

4. PU Code § 270 (b) requires that moneys in the California Advanced Services Fund may only be disbursed pursuant to §§ 270 and 281 and upon appropriation in the annual Budget Act.
5. On September 25, 2010, Governor Schwarzenegger signed SB 1040 (Chapter 317, Stats 2010), which expanded the CASF and increased the CASF appropriation from \$100 million to \$225 million. The increase of \$125 million to be collected after January 1, 2011 is allocated to the following accounts: \$100 million to the Broadband Infrastructure Grant Account, \$10 million to the Rural and Urban Regional Broadband Consortia Grant Account, and \$15 million to the Broadband Infrastructure Revolving Loan Account. The \$125 million is to be funded by a surcharge assessed on revenues collected from end-users and collected at \$25 million a year beginning on calendar year 2011. To collect the additional funds authorized by SB 1040, the Commission issued Resolution T-17343 on September 22, 2011, which revises the surcharge from 0.0% to 0.14% effective November 1, 2011.
6. The Communications Division (CD) proposes a California Advanced Services Fund Fiscal Year 2013-14 expense budget of \$58,299,386 million as follows:

Infrastructure Grants*	\$51,426,091
Current Year Available Funding (SB 1040)	\$19,089,562
Budgetary Re-Appropriations ⁵ of Prior Years' Remaining Available Funding (D.07-12-054)	\$32,336,529
Consortia Grants	\$2,849,413
Loans	\$2,800,439
CPUC Staff Costs	\$836,548
Travel	\$40,000
Loan underwriting and servicing	\$65,395
Information Technology	\$8,500
Inter-agency Costs	\$173,000
Audit	\$100,000
TOTAL	\$58,299,386

7. CD's proposed Fiscal Year 2013-14 expense budget of \$58,299,386 million, as set forth in this resolution, is reasonable and should be adopted.

⁵ Budgetary appropriations are the amount of funds approved for expenditures in a given fiscal year. On June 30, 2012, fiscal year 2009 - 2010 closed and therefore requires re-appropriation of un-awarded CASF infrastructure grant funds from the original \$100 million CASF surcharge collection authorized in D.07-12-054.

8. A Notice of Availability was e-mailed on July 20, 2012 to the CASF Distribution List, which is comprised of parties of record in R.10-12-008 & R.06-06-028, CASF applicants, Telecommunications Carriers registered with the Commission, and other interested parties, informing them that the draft of this Resolution is available at the Commission's website <http://www.cpuc.ca.gov/>.

THEREFORE, IT IS ORDERED that:

1. The Fiscal Year 2013-14 California Advanced Services Fund expense budget of \$58,299,386, as set forth in this resolution, is adopted.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on August 23, 2012. The following Commissioners approved it:

PAUL CLANON
Executive Director