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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Communications Division **RESOLUTION T-17161**
Program Management & Implementation Branch **August 21, 2008**

R E S O L U T I O N

Resolution T-17161. Approval of Fiscal Year 2009-10 Universal Lifeline Telephone Service Trust Fund Budget in Compliance with Public Utilities Code Section 273(a)

Summary

This Resolution adopts a budget of $331.303 million for the Universal Lifeline Telephone Service Trust Fund (LifeLine) for fiscal year (FY) 2009-10.

Background

The Universal Lifeline Telephone Service (LifeLine) program was implemented by the California Public Utilities Commission (CPUC or Commission) in 1984 pursuant to Public Utilities (PU) Code §871. The Commission's Communication Division (CD) provides administrative oversight of the Lifeline program.

Formerly known as ULTS, the program was renamed California LifeLine (or LifeLine) in 2005. This program provides discounted basic telephone services to qualifying households whose incomes are below approximately 150% of the federal poverty guidelines. As of a May 31, 2008, 2.4 million California customers were enrolled in the program.

On July 1, 2006, the Commission implemented new federal rules for establishing customer eligibility for LifeLine service. Under these new rules, customers can qualify for LifeLine either by participating in specific low income programs or by documenting that their income falls within LifeLine program guidelines. Qualification of customers was changed from customer self-certification performed by the carriers to certification of customers' eligibility by a third party administrator through Commission contract. These program changes were approved by the Commission in D. 05-04-026.

Shortly after implementing the new program, CD staff found that the customer response to the LifeLine verification notice was significantly lower than the response level that had been anticipated. In addition, complaints due to eligible customers being dropped from the program to the CPUC's Consumer Affairs Branch (CAB) and the carriers increased dramatically to a level of 300-500 letters per day in October 2006.

The combination of low response rates and high consumer complaints precipitated a CD staff investigation and suspension of the verification process for existing LifeLine customers on November 1, 2006. After working with the carriers and consumer groups, a staff report was issued highlighting problem areas and recommending changes to program procedures. Recommendations included additional contacts with potential and existing LifeLine customers, additional time for LifeLine customers to return required forms and format changes to written communications to improve their effectiveness.

The Commission issued D. 07-05-030 on May 3, 2006, which modified General Order (GO) 153. This decision ratified many of the recommendations made in the staff report and implemented a ramp up of the verification process beginning on June 1, 2007. The adopted recommendations also created additional program expenses, both for service providers and for the Commission's contracted third party administrator.

The LifeLine program is funded by a surcharge assessed on consumers' intrastate telecommunication services which is applied by wireline and wireless carriers. The current surcharge rate is 1.150%.

ULTS Trust Administrative Committee Budget

The Commission's oversight of the LifeLine program is supported by a ULTS Trust Administrative Committee (Committee). The Committee is comprised of carrier and consumer representatives and it meets every two months to discuss various topical LifeLine program matters and to share advisory support with Commission staff. Among its responsibilities, the Committee initiated the budget process by proposing a LifeLine budget each year.

On June 10, 2008, the ULTS Trust Administrative Committee (Committee) held a public meeting and approved a proposed budget for the LifeLine program for FY 2009-10 in the amount of $330.303 million. This proposed amount was based on the FY 2008-09 adopted budget and updated with FY 2009-10 projected LifeLine claims received by CD from telecommunications carriers. Most, but not all carriers contributed to the claims forecast of $226.80 million. The Committee believes that additional marketing costs and the possibility of continued program revisions would increase carrier claims and LifeLine fund expenses. Accordingly, the Committee proposed that the amount budgeted for carrier claims should be increased by 9% over the FY 2008-09 budget to $300 million for FY 2009-10.

The Committee also recommended that the FY 2009-10 budget include sufficient funds to cover additional marketing costs necessary to provide additional educational efforts to the general public about the availability of the LifeLine program, as well as targeted marketing to the hard to reach low–income communities. The Committee budget calls for $5 million for general marketing and for hard to reach marketing as well as $0.8 million for the new call center contract. The Committee submitted the proposed budget to the Communications Division in accordance with Paragraph 4.a.1 of its Charter on June 10, 2008.

Notice/Protests

The Committee's proposed budget was noticed on the Commission's Daily Calendar on July 10, 2008 stating that any comments and/or protests must be made in writing and received by the Director of The Communications Division within 20 days from the posting date. CD received no comments or protests to the Administrative Committee's proposed LifeLine budget for FY 2009-2010.

Resolution 17161 was noticed on the commission's Daily Calendar on July 22, 2008. CD received no comments or protests to the proposed LifeLine budget for FY 2009-10.

Discussion

This Resolution adopts a LifeLine program budget of $331.303 million for FY 2009-10. The table below compares the FY 2008-09 adopted budget, FY 2009-10 budgets adopted by the Committee, proposed by CD, and adopted in this Resolution:

	FY 2008-09	FY 2009-10	FY 2009-10	FY 2009-10
	Adopted Budget (T-17091)	Committee's Proposed Budget	CD's Proposed Budget	Adopted Budget
	($ millions)	($ millions)	($ millions)	($ millions)
Carrier Claims	$275.625	$300.000	$300.000	$300.000
Administrative Committee Costs	$.036	$.041	$.041	$.041
CPUC Staff and Administrative Costs	$32.054	$30.262	$31.262	$31.262
Total Program Expenditure	$307.715	$330.303	$331.303	$331.303

Itemized costs of the above budgets are set forth in Appendix A and discussed below:

A. Carrier Claims

CD staff concurs with the Committee's carrier claim forecast for FY 2009-10 of $300 million. The increase of $24.375 million recognizes the probability that carriers will have higher program implementation expenses in FY 2009-10. Although the carrier forecast for this period is $226.80 million, not all carriers submitted estimates. CD believes a higher carrier estimated claim for FY 2009-10 is reasonable. Additional program changes are anticipated in Phase II of R. 04-12-001 and R. 06-05-028, Universal Service Reform. Therefore, it is unknown at this time the extent of the additional changes that will be necessary to achieve the Commission's Universal Service goals. The additional monies budgeted for claims will give the Commission the latitude to make additional changes, if necessary, in FY 2009-10.

B. Administrative Committee Costs

The Charter requires the Committee to meet every other month[2] and prescribes reimbursement for per diem and expenses to members who are not employees of carriers, the Commission, or other governmental agencies of the State of California. CD concurs with the Committee's proposed cost of $41,000 for FY 2009-10. This amount will cover reimbursement for five committee members and 6 meetings, and is consistent with reimbursement guidelines set forth in the Charter. An additional $5,000 is added

[2] Charter of the Universal Lifeline telephone Service Trust Administrative Committee (ULTS Charter) Section 3.8

to the FY 2009-10 budget to cover the costs of public attendees with special needs for participation at the Administrative Committee meetings.

C. CPUC Staff and Administrative Costs

CD's proposed expenditures for CPUC staff and administrative costs of $31.262 million reflect a decrease of $792.000 from that of FY 2008-09. Generally speaking, increased expenditures are projected for the pro-rata share of state overhead, the CPUC staff costs, and the call center contract. The marketing and outreach contract as well as audit fees are projected to decrease. Data processing costs, banking fees and the third-party administrator contract costs are projected to remain the same as the prior fiscal year. CD proposed expenditures for this area are $1.0 million greater than the Committee's to allow for a higher level of costs for marketing and outreach.

Proposed changes in the budge between FY 2008-09 and 2009-10 are explained below:

- <u>Staff Costs</u>: Staff costs for legal, CD, audit and fiscal are increased from $667 thousand to $896 thousand, an increase of $229 thousand. In addition, the state budget called for the creation a new unit in the Consumer Affairs Branch to deal with LifeLine issues. This will involve an augmentation of CPUC staff equal to approximately thirty-one positions at a cost of $1.826 million per fiscal year. The original staff estimate of $896 thousand is combined with the $1.826 million to reach the projected CPUC staff cost of $2.722 million.

- <u>Third-Party Administrator Contract</u>: Changes ordered by D. 07-05-030 and more tasks to be performed by the third party administrator, such as an outbound dialer and improvements to customer correspondence (colored envelopes and first class postage). The term of the existing contract ended on June 30, 2008, but was extended for one year (until June 30, 2009). The new contract extension (approved for approximately $17 million for FY 2008-09) contains the additional requirements ordered by the Commission. CD has the option of one final 1-year extension covering FY 2009-10, which will be priced at the FY 2008-09 value plus a Consumer Price Index inflation factor. In anticipation of extending the current contract or hiring a new third party administrator CD maintained the budget amount associated with the third-party administrator contract of $20 million for FY 2009-10.

- Pro Rata Interagency Costs: These costs represent the program's contribution to the statewide general administrative costs of central service agencies such as the Department of Finance, Office of the State Controller, State Personnel Board, and the Legislature. The LifeLine program's projected Pro Rata share of $1.600 million for FY 2009-10 is based on the program's contribution for FY 2009-10 proposed in the Governor's budget.

- Marketing/Call Center Costs: The current contract for marketing services will be expiring in July, 2009. The call center contract will be expiring in October, 2009. To ensure that the budget will contain sufficient authorization to enter into continued contracts for both marketing and call center services the amount budgeted for these program expenses is rounded up. The Marketing contract budget amount is increased to $6 million to allow for increased costs related to potential changes in the public program proceeding; and the Call Center contract budget is increased to $800,000 for FY 2009-10.

CD's projection of $300 million for carrier claims as discussed in Paragraph A are reasonable and should be adopted. CD's projection of $41,000 in Administrative Committee expenses, as described in paragraph B above, are reasonable and should be adopted. CD's forecast for CPUC staff and administrative costs of $31.262 million, as outlined in paragraph C, is reasonable and should be adopted. CD's FY 2009-10 LifeLine budget is reasonable and should be adopted.

Comments

In compliance with PU Code Section 311(g), a Notice of Availability (Notice) was emailed to parties of record in R. 04-12-001, incumbent and competitive local exchange carriers, and members of the Committee on July 22, 2008. This Notice advises parties that the draft of this Resolution is accessible on the Commission's web site (www.cpuc.ca.gov) and is available for comments in accordance with PU Code Section 311(g).

The Commission received no comments were received by CD regarding Res. T-17161.

Findings

1) The Universal Lifeline Telephone Service (LifeLine) program was implemented by the California Public Utilities Commission (CPUC or Commission) in 1984 pursuant to Public Utilities (PU) Code §871.
2) The LifeLine program provides discounted basic telephone services to qualifying households whose incomes are below approximately 150% of the federal poverty guidelines.
3) As of May 31, 2008, 2.4 million California customers were enrolled in the program.
4) Complying with its chartered responsibility, on June 10, 2008, the Universal Lifeline Telephone Trust Administrative Committee (Committee) submitted to the California Public Utilities Commission (Commission) a proposed fiscal year (FY) 2009-10 budget for the Universal Lifeline Telephone Service Trust Administrative Committee Fund in the amount of $330.303 million.
5) The Commission's Communications Division recommends a budget of $331.303 million for FY 2009-10. This proposed budget is $23.588 million more than the adopted budget for FY 2008-09 and $1.0 million more than proposed by the Committee to reflect higher marketing and outreach expenses. This budget should be adopted because the increase is due to necessary program activities.
6) This proposed LifeLine budget resolution was noticed on the Commission's Daily Calendar on July 22, 2008 stating that any comments and/or protests must be made in writing and received by the Director of the Communications Division within 20 days from the posting date.
7) A Notice of Availability was emailed on July 22, 2008, to parties of record in R. 04-12-001, incumbent and competitive local exchange carriers, and the committee members of the Administrative Committee advising them that the draft of this Resolution is accessible on the Commission's web site (www.cpuc.ca.gov) and is available for comments in accordance with PU Code Section 311(g).
8) No comments were received in response to the draft resolution T-17161.

THEREFORE, IT IS ORDERED that:

1) This resolution adopts a Universal Lifeline Telephone Service Trust Fund budget of $331.303 million for fiscal year 2009-10 as set forth in Appendix A of this resolution.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on August 21, 2008. The following Commissioners approved it:

/s/ Paul Clanon
PAUL CLANON
Executive Director

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners

APPENDIX A

All numbers in 000's		FY 2007-08	FY 2008-09	FY 2009-10	FY 2009-10	FY 2009-10
		Adopted Budget	**Adopted Budget**			
		T-17042	**T-17091**	**AC Adopted**	**Proposed**	**Adopted**
A	Carrier Claims:					
1	Carrier Claims	$262,500	$275,625	$300,000	$300,000	$300,000
2	Sub-Total	$262,500	$275,625	$300,000	$300,000	$300,000
B	Administrative Committee Costs:					
1	AC-Per Diem	$18	$18	$18	$18	$18
2	AC-Travel	$18	$18	$18	$18	$18
3	AC-Other Costs	$0	$0	$5	$5	$5
4	Sub-Total	$36	$36	$41	$41	$41
C	CPUC Staff and Admin Costs:					
1	Staff Costs	$750	$2,020	$2,722	$2,722	$2,722
2	Pro-Rata Interagency cost	$930	$1,429	$1,600	$1,600	$1,600
3	Marketing and Outreach	$6,000	$7,000	$5,000	$6,000	$6,000
5	Call-Center		$775	$800	$800	$800
6	3rd Party Administrator	$16,000	$20,000	$20,000	$20,000	$20,000
7	Audits	$750	$750	$60	$60	$60
8	Banking Fees	$30	$30	$30	$30	$30
9	Data Processing Automation	$50	$50	$50	$50	$50
10	Sub-Total	$24,510	$32,054	$30,262	$31,262	$31,262
D	Total Program Budget	$287,046	$307,715	$330,303	$331,303	$331,303