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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Communications Division
Program Management & Implementation Branch

RESOLUTION T-17091
August 23, 2007

R E S O L U T I O N

Resolution T-17091. Approval of Fiscal Year 2008-09 Universal Lifeline Telephone Service Trust Fund Budget in Compliance with Public Utilities Code Sections 270(A)

Summary

This Resolution adopts a budget of \$306.587 million for the Universal Lifeline Telephone Service Trust Fund (LifeLine) for fiscal year (FY) 2008-09. The FY 2008-09 adopted budget is \$19.541 million greater than the adopted budget of FY 2007-08.¹

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 ULTS program was renamed California LifeLine in 2005. This program provides discounted basic telephone services to qualifying households whose incomes are below 150% of the federal poverty guidelines.

As of July 1, 2006, 3.5 million customers were enrolled in the program. On July 1, 2006, new guidelines for establishing customer eligibility were implemented. Under the new rules, customers qualify either by participation in specific low income programs or by documenting that their income meets program guidelines. Qualification of customers was changed from being performed by the carriers to being performed by the Commission through a third-party administrator. These program changes were approved by the Commission in D.05-04-026.

¹ Res. T-17042 provided for a Fiscal Year 2007-08 budget of \$287,046,000.

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Shortly after implementing the new program, Commission 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 Communications Division (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 were 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. This decision ratified most of the recommendations made in the staff report and implemented a ramp up of the verification process beginning on June 1, 2007.

The changes to GO 153 effectuated in D.07-05-030 involve additional expense, both for service providers and for the Commission's contracted third party administrator. A contract amendment was sought and approved to cover the additional contractor expenses. Additional carrier expenses have been and will continue to be reflected in carrier claims for reimbursement from the fund.

ULTS Trust Administrative Committee Budget

On June 5, 2007, the ULTS Trust Administrative Committee (Committee) held a public meeting and approved a proposed budget for the LifeLine program for FY 2008-09 in the amount of \$314,587 million. This proposed amount was based on FY 2007-08 adopted budget and updated with FY 2008-09 ULTS projected claims received by CD from telecommunications carriers. Not all carriers contributed to the claims forecast of \$230 million. The Committee felt that additional marketing and the possibility of continued program revisions would increase carrier claims and determined that the amount budgeted for carrier claims should be an amount that is an increase over the prior year of 5%. The \$275.625 million budgeted for claims is a 5% increase over the approved amount for claims in FY 07-08.

The Committee also felt that increases to the marketing budget were necessary to fund educational efforts about the fund in general in addition to marketing to the hard-to-reach communities. Their budget calls for \$6 million for general marketing \$5 million

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for hard to reach marketing for a total of \$11 million and \$5 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 11, 2007.

Notice/Protests

The Committee's proposed budget was noticed on the Commission's Daily Calendar on June 13, 2006 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.

Discussion

This Resolution adopts a LifeLine program budget of \$307,715 million for FY 2008-09. The table below compares the FY 07-08 adopted budget, FY 2008-09 budgets adopted by the Committee, proposed by CD, and adopted in this Resolution:

	FY 2007-08	FY 2008-09	FY 2008-09	FY 2008-09
	Adopted Budget (T-17042)	Committee's Proposed Budget	CD's Proposed Budget	Adopted Budget
	(\$ millions)	(\$ millions)	(\$ millions)	(\$ millions)
Carrier Claims	\$262,500	\$275,625	\$275,625	\$275,625
Administrative Committee Costs	\$36	\$36	\$36	\$36
CPUC Staff and Administrative Costs	<u>\$24,510</u>	<u>\$38,926</u>	<u>\$32,054</u>	<u>\$32,054</u>
Total Program Expenditure	<u>\$287,046</u>	<u>\$314,587</u>	<u>\$307,715</u>	<u>\$307,715</u>

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

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A. Carrier Claims

CD increased the carrier claims from amounts approved for FY 07-08 to \$275.625 million. The increase of \$13.125 million reflects the potential for continued extraordinary program implementation expenses in FY 08-09. Although the carrier forecast for this period is \$230.2 million, CD believes a higher carrier estimated claim for FY 2008-09 is reasonable because program changes initiated by D. 07-05-030 have just been implemented. Therefore, it is unknown at this time whether these changes will be successful in achieving the goals of the Commission for the program or additional measures will be necessary. The additional monies budgeted for claims will give the Commission the latitude to make additional changes, if necessary, in FY 08-09.

B. Administrative Committee Costs

The Charter requires the Committee to meet monthly² 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. The Committee and CD's proposed cost of \$36,000 for FY 2008-09 will cover reimbursement for five committee members and 12 meetings, and is consistent with reimbursement guidelines set forth in the Charter.

C. CPUC Staff and Administrative Costs

CD's proposed expenditures for CPUC staff and administrative costs of \$32.054 million reflect an increase of \$7.544 million from that of FY 2007-08.³ Increased expenditures are projected for the pro-rata share of state overhead, marketing and outreach contracts, the third-party administrator contract and CPUC staff costs. Audit fees, data processing costs and banking fees are projected to remain the same as the prior fiscal year. Major proposed changes are explained below:

- Staff Costs: Staff costs for legal, communications division and fiscal are decreased from \$750 thousand to \$667 thousand, a decrease of \$83 thousand. However, the state budget calls for the creation of an entire new unit in the Consumer Affairs Branch to deal with LifeLine issues. This will involve an augmentation of CPUC staff equal to thirty-one positions at a cost of

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

³ \$24.510 million was adopted for CPUC staff and administrative costs for FY 07-08 in Res. T-17042.

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\$1.343 million per fiscal year. The original staff estimate of \$667 thousand is combined with the \$1.343 million to reach the projected CPUC staff cost of \$2.020 million.

- **Third-Party Administrator Contract:** Changes ordered by D07-05-030 required changes and more tasks to be performed by the third party administrator. The term of the existing contract ends on June 30, 2008. To ensure a seamless change of contractors, a new contract commencing FY 2008-09 will be entered in FY 2008-09 and charged against the FY 2008-09 budget. The new contract will contain the additional requirements ordered by the Commission. In anticipation of the new expanded contract, CD increased the budget associated with the third-party administrator contract from \$16 million for FY 2007-08 to \$20 million for FY 2008-09.
- **Pro Rata Interagency Costs:** These costs represent the program's contribution to the statewide general administrative costs of central service agencies such as Department of Finance, Office of the State Controller, State Personnel Board, and Legislature. The projected Pro Rata of \$1.429 million for FY 2008-09 is based on the program's contribution for FY 2008-09 proposed in the Governor's budget.
- **Marketing/Call Center costs** - the current contract for marketing services will be expiring on August 31, 2007. The call center contract will be expiring on March 31, 2008. A new contract for marketing California LifeLine services will be entered into shortly. 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 increased \$1 million over the \$6 million budgeted in FY 07-08 for marketing. This area accounts for the largest difference between CD's proposed budget and the Committee's adopted budget. CD believes that an increase is necessary but

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not to the extent of the \$11 million adopted by the Committee.

The call center contract was included in the \$6 million budgeted for marketing in prior years. This expense has been about \$500,000 per year. The budget is increased by \$250 to \$750,000 to account for increased call volumes.

CD's projection of \$275.625 million for carrier claims as discussed in Paragraph A are reasonable and should be adopted. CD's projection of \$36,000 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 \$32,054 million, as outlined in paragraph C, is reasonable and should be adopted. CD's FY 2008-09 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 23, 2007. 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).

Findings

- 1) Complying with its chartered responsibility, on June 11, 2007, the Universal Lifeline Telephone Trust Administrative Committee (Committee) submitted to the California Public Utilities Commission (Commission) a proposed fiscal year (FY) 2008-09 budget for the Universal Lifeline Telephone Service Trust Administrative Committee Fund in the amount of \$314,587 million.
- 2) The Committee's proposed budget was noticed on the Commission's Daily Calendar on June 13, 2007 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.
- 3) A Notice of Availability was emailed on July 23, 2007, to parties of record in R.04-12-001, incumbent and competitive local exchange carriers, and the committee members of the Committee advising them that the draft of this Resolution is

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accessible on the Commission's web site (www.cpuc.ca.gov) and is available for comments in accordance with PU Code Section 311(g).

- 4) The Commission's Communications Division recommends a budget of \$307,715 million for FY 2008-09. This proposed budget is \$20.669 million more than the adopted budget for FY 2007-08. This budget should be adopted because the increase is due to necessary program activities.

THEREFORE, IT IS ORDERED that:

- 1) This resolution adopts a Universal Lifeline Telephone Service Trust Fund budget of \$307.715 million for fiscal year 2008-09 as set forth in Appendix A of this resolution.

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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 August 23, 2007. The following Commissioners approved it:

PAUL CLANON
Executive Director

APPENDIX A

All numbers in 000's		FY 2006-2007	FY 2007-08	FY 2008-09	FY 2008-09	FY 2008-09
		<u>Adopted Budget</u>	<u>Adopted Budget</u>			
		<u>T-16593</u>	<u>T-17042</u>	AC Adopted	Proposed	Adopted
A	Carrier Claims:					
1	Carrier Claims	<u>\$273,000</u>	<u>\$262,500</u>	<u>\$275,625</u>	<u>\$275,625</u>	<u>\$275,625</u>
2	Sub-Total	\$273,000	\$262,500	\$275,625	\$275,625	\$275,625
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
4	Sub-Total	\$36	\$36	\$36	\$36	\$36
C	CPUC Staff and Admin Costs:					
1	Staff Costs	\$540	\$750	\$667	\$2,020	\$2,020
2	Pro-Rata Interagency cost	\$1,500	\$930	\$1,429	\$1,429	\$1,429
3	Marketing- General & Hard to Reach	\$5,508	\$6,000	\$11,000	\$7,000	\$7,000
5	Call-Center			\$5,000	\$775	\$775
6	3rd Party Administrator	\$8,000	\$16,000	20,000	\$20,000	\$20,000
7	Audits	\$1,200	\$750	\$750	\$750	\$750
8	Banking Fees	\$50	\$30	\$30	\$30	\$30
9	Data Processing Automation	<u>\$50</u>	<u>\$50</u>	<u>\$50</u>	<u>\$50</u>	<u>\$50</u>
10	Sub-Total	\$16,848	\$24,510	\$38,926	\$32,054	\$32,054
D	Total Program Budget	\$289,884	\$287,046	\$314,587	\$307,715	\$307,715