

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Public Programs Branch ***

**RESOLUTION T-16594
October 10, 2001**

R E S O L U T I O N

RESOLUTION T-16594. REVISED FISCAL YEAR 2001-02 BUDGET FOR THE UNIVERSAL LIFELINE TELEPHONE SERVICE TO COMPLY WITH THE REQUIREMENTS OF PUBLIC UTILITIES CODE SECTIONS 270 THROUGH 281.

SUMMARY

This resolution approves a revised Commission budget of \$281.684 million for FY 2001-02 for the ULTS program incorporating the ULTS program expense amount included in the adopted State Budget. Further, this resolution maintains the current ULTS surcharge rate of 1.45% and this surcharge rate level is to remain in effect until further revised by the Commission.

In August 2001, the California Legislature and the Governor adopted the fiscal year (FY) 2001-02 budget for the State of California. The California State Budget, among other things, incorporated the program expense amount associated with the Universal Lifeline Telephone Service (ULTS) ¹ and four other public programs, including the expenses associated with the implementation of the requirements of Public Utilities (PU) Code Sections 270 through 281 (Chapter 1.5 to Part 1, Division 1 of the PU Code). These requirements are the result of implementing the provisions of Senate Bill (SB) 699, which became effective on January 1, 2000, as amended by SB 742 (signed by the Governor in August 2001), to transfer the ULTS and other program funds to the State Treasury beginning on October 1, 2001.

¹ Pursuant to PU Code Section 270(a)(3), the Universal Lifeline Telephone Service Trust Fund is Universal Lifeline Telephone Service Trust Administrative Committee Fund.

BACKGROUND

1. ULTS Program

The ULTS program was established in 1984 (Decision 84-11-028) pursuant to PU Code Section 871. The program provides discounted basic service to low-income households. The Commission, in Decision 87-07-090, authorized a 4% surcharge on service rates of intrastate inter-Local Access and Transport Area (LATA) services beginning on July 29, 1987. The surcharge was extended to intrastate intraLATA toll services beginning on January 1, 1988 to provide adequate funding for the program. In Decision 94-09-065, the surcharge was further extended to all end user services, except for specific exceptions, on January 1, 1995. ²

The following are the historical ULTS surcharge rates since the inception of the program:

<u>Beginning</u>	<u>Decision or Resolution Number</u>	<u>Rate</u>
July 1, 1988	T-12093	4.0%
July 1, 1989	T-13071	2.5%
July 1, 1990	T-14081	3.4%
July 1, 1991	T-14400	3.0%
July 1, 1992	T-14960	4.0%
March 1, 1993	T-15221	5.0%
July 1, 1993	T-15322	6.0%
July 1, 1994	T-15558	6.0%
January 1, 1995	Decision94-09-065	3.0%
January 1, 1996	T-15799	3.2%
January 1, 1997	T-15984	3.2%
January 1, 1998	T-16176	2.4%
January 1, 1999	T-16245	0.0%
January 1, 2000	T-16366	0.5%
January 2, 2001	T-16412	0.8%
July 1, 2001	T-16435	1.45%

² Assembly Bill (AB) 386 was enacted on July 15, 1987 to replace AB 1348 (1983) and to provide funding for the ULTS program. AB 386 did not, after establishing an initial rate, provide specific directions for establishing surcharge rates or the related amount of reserve for the ULTS Fund. However, the legislation allows the Commission to “determine any questions of fact in the administration of this article.”

The Commission established the ULTS-Trust Administrative Committee (ULTS-TAC) in Decision 87-10-088. Prior to October 1, 2001, the ULTS-TAC³ was responsible for the ULTS Trust and the administration of the financial aspects of the ULTS program. The ULTS-TAC performed administrative functions for the ULTS programs, received surcharges, made payments on claims, and provided investment advice for ULTS Trust assets. The ULTS Trust office had seven full-time employees who carried out the daily administrative and financial responsibilities of the ULTS trust and ULTS Marketing Board.

The Commission established the ULTS Marketing Board (ULTS MB)⁴ in Decision 97-12-105. The ULTS MB began its activities in January 1998 as an entity with the objective of marketing the Universal Lifeline Telephone Service (ULTS) program in a competitive environment. The marketing focus is to achieve the ULTS program goal of providing subsidized basic telephone service to all qualifying low-income households.⁵ Prior to October 1, 2001, the ULTSMB was responsible for the development of the yearly marketing budget and competitively neutral marketing strategies, as well as overseeing the implementation of the ULTS marketing campaigns.

2. Resolution T-16435

In Resolution T-16435, dated December 21, 2000, the Commission adopted the FY 2001-02 ULTS budget. In Resolution T-16435, the Commission approved the following: (a) a total ULTS program budget of \$281.609 million, (b) a surcharge rate of 1.45%, effective July 1, 2001 and (c) projected fund balance of \$76.966 million. (See Appendix A for other details.) Expense estimates relating to the implementation of P.U. Code Sections 270, et al, known at that time were also adopted.

3. P.U. Code Sections 270, et al.

The California Legislature passed SB 669 and the Governor signed SB 669 in October 1999. The provisions of SB 669, as amended by SB 742 in 2001, are codified as Chapter 1.5 (beginning with Section 270) to Part I, Division 1 of the PU Code. PU Code Section 270 provides for the creation of the ULTS Trust Administrative Committee Fund and five other funds in the State Treasury. The following are the major requirements of SB 669, as amended by SB 742, which have been included in the PU Code:

³ Pursuant to PU Code Section 277(a) the ULTS Trust Administrative Committee will no longer have administrative responsibilities on October 1, 2001 and thereafter. Instead, the committee will have an advisory role and continue to be known as ULTS Administrative Committee.

⁴ Pursuant to PUC Code Section 277(a), the ULTS Marketing Board will no longer have administrative responsibilities on October 1, 2001 and thereafter. Instead, the committee will have an advisory role.

⁵ At the end of 2001, the forecasted number of ULTS customers in California is approximately 3.7 million.

- a. Section 277(a) provides for the creation of the ULTS Trust Administrative Committee (an advisory board) to develop, to implement, and to administer the ULTS program.
- b. Section 277 (b) provides that all revenues collected by the telecommunications carriers authorized by the Commission to fund the ULTS program shall be submitted to the Commission on a schedule established by the Commission. Beginning on October 1, 2001, and thereafter, the Commission shall transfer the money received and all unexpended revenues collected prior to October 1, 2001 to the Controller for deposit in the ULTS Trust Administrative Committee Fund. All interest earned by moneys in the fund shall be deposited in the fund.
- c. Section 273(a) provides that the created ULTS advisory board submits an annual budget to the Commission, who shall act on the submitted budget within ninety calendar days after receipt of the ULTS budget.
- d. Section 274 provides for the financial and compliance audits of the ULTS program costs and activities at least once every three years, beginning July 1, 2002.

NOTICE/PROTESTS

The current ULTS Administrative Committee was not required to submit a revised fiscal year 2001-02 budget based upon the adopted California State FY 2001-02 Budget. Therefore, the Telecommunications Division (TD) staff revised the previously Commission adopted FY 2001-02 budget based upon the information from the California State Budget relating to the implementation of the provisions of SB 669. The resolution was mailed on September 13, 2001 to parties in accordance with PU Code Section 311(g)(1).

DISCUSSION

In August 2001, TD was informed of the approval of the State Budget for FY 2001-02 and the amounts included for the ULTS program for the last nine months of FY 2001 – 2002 to implement the provisions of SB 669 on October 1, 2001. ⁶ With the adoption of the California State Budget, TD staff revised the previously Commission adopted ULTS

⁶ In October 1999, PU Code § 270-281 were codified as a result of the enactment of Senate Bill 669 (Stats 199, Chapter 677). § 270(b) requires that the monies in the ULTS Trust Administrative Committee Fund and five other programs may only be expended pursuant to § 270-281 and upon appropriation in the annual Budget Act.

budget and surcharge rate for FY 2001-02.⁷ This revised budget resolution for FY 2001-02 takes into account the transfer of the ULTS fund into the State Treasury on October 1, 2001, California State Budget approved program expenses for ULTS for the last nine months of FY 2001-02, such as the projected payments and administrative expenses including the costs required to implement the PU Code Sections 270, et al., the program fund balances as of July 1, 2001, and minimal fiscal year ending cash balances.

In this Resolution, the Commission adopts the following:

- The ULTS program budget for FY 2001-02 in the amount of \$281.684 million.
- The maintenance of the current surcharge rate level at 1.45% and this surcharge rate level is to remain in effect until further revised by the Commission.

This total ULTS program budget of \$281.684 million consists of the following components:

	<u>Amount</u> (Sin Thousands)
Carrier Claims for ULTS Service	\$273,858
Marketing Projects	5,950
Administrative / Staff	627
Other Expenses	1,249
TOTAL	<u>\$ 281,684</u> =====

TD staff adjusted the previously Commission adopted FY 2001/02 budget for the administrative and staff expenses, such as the seven external positions, and related PU Code Sections 270, et. al. costs associated with the transfer of the ULTS fund balance to the State Treasury on October 1, 2001. The seven external positions are not budgeted beyond September 30, 2001, as their functions are to be performed by three new Commission employees. In addition, TD included \$163,000 for ULTS for the allocated portion of the internal staff in the Information and Management Services Division who would carry out work responsibilities associated with the implementation and on-going operations of PUC Code Sections 270, et al. The estimated amount includes expenses associated with the addition of facilities for these staff members.

⁷ Resolution T-16435 dated December 21, 2000, adopted the ULTS budget of \$281.609 million and surcharge rate of 1.45% for FY 2001-02.

The marketing projects consist of an interim marketing program and a call center for the last eight months of FY 2001-02. The amount for these two projects will not exceed the \$5 million budgeted in FY 2001-02. In addition, \$750,000 is budgeted for a market research study and \$200,000 for a market assessment study of the Interim Market Plan, Phase II.

Of the \$1.249 million budgeted for FY 2001-02, \$1.120 million is for three different types of audits - \$20,000 for a financial audit, \$600,000 for surcharge remittance audits, and \$500,000 for carrier claims audits. The remaining amount of \$129,000 is for advisory committee expenses and banking service expenses.

The ULTS surcharge rate of 1.45% will generate \$221.349 million in surcharge remittance revenues for FY 2001-02. The surcharge remittance revenue is based upon a lower billing base of \$15,181 million from the previously adopted billing base of \$19,414 million for FY 2001-02 (Resolution T-16435). Based on the sharp downturn of the telecommunications revenues subject to surcharges reported to the Commission by telecommunications carriers in recent months and the growing concerns about the health of the national economy, the estimated telecommunications revenues subject to surcharges are revised to \$15,181 million for FY 2001-2002. The revised forecast for FY 01-02 is based on the average reported telecommunications revenues subject to surcharges in recent months, annualized compounded by a reduction of \$411 million. This \$411 million adjustment reflects the anticipated amount of "catch-up" surcredits that will be implemented by Pacific Bell and Roseville Telephone Company during FY 01-02 pursuant to D.98-11-039. Finally surcharge remittance revenue will leave an estimated fund balance of \$46.875 million on June 30, 2002 based upon the actual fund balance on July 1, 2001 and projected revenues and expenses for FY 2001-02. TD intends to maintain the surcharge rate at 1.45% through fiscal year 2002-03.

COMMENTS

In compliance with PU Code § 311 (g), the draft of this Resolution was mailed on September 13, 2001 to the parties on the service list of R.98-09-005 and I.95-01-20/021. A copy of the cover letter of this mailing was also sent to each of the Commission certificated telecommunications carriers informing parties that this draft resolution is available at the Commission's website www.cpuc.ca.gov/static/industry/telco/resolutions/index.htm and is available for public comments. In addition, the Telecommunications Division (TD) informed these parties of the availability of the conformed resolution at the same website.

TD did not receive any comments on this resolution. In the absence of any comments or protests, this is an uncontested matter for which the Commission may reduce the period for comment or review. (Commission Rule of Practice and Procedure 77.7 (f))

Accordingly, the comment and the review period for this resolution are shortened from 30 to 27 days.

FINDINGS

1. In October 1999, Public Utilities (PU) Code § 270-281 were codified as a result of the enactment of Senate Bill 669, as amended by Senate Bill 742 in 2001.
2. PU Code § 270(b) requires that the monies in Universal Lifeline Telephone Service Trust (ULTS) Fund Administrative Committee Fund may only be disbursed pursuant to § 270-281 and upon appropriation in the annual Budget Act.
3. In August 2001, Telecommunications Division (TD) was informed of the approval of the State Budget and the amounts included for ULTS for fiscal year (FY) 2001-02 to implement on October 1, 2001 the requirements of PU Code Section 270, et. al.
4. The ULTS total budget of \$281.684 million for FY 2001-02 is reasonable and should be adopted.
5. Of the total adopted amount of \$281.684 million for FY 2001-02, \$273.858 million is for ULTS claims filed by carriers.
6. The adopted ULTS budget includes \$5.950 million for marketing projects including \$5 million for both an Interim Market Plan, Phase II, and a Call Center.
7. The ULTS surcharge rate should continue to be 1.45% until further revised by the Commission.
8. The adoption of a surcharge rate of 1.45% will result in funding the ULTS total expenses of \$281.684 million for FY 2001-02, and will leave an estimated fund balance of \$46.875 million on June 30, 2002.
9. The draft of this resolution was mailed to the parties of record in R.98-09-005 and I.95-01-020/021 on September 13, 2001. A copy of the cover letter of that mailing was also sent to each of the Commission certificated telecommunications carriers advising them of the availability of this draft resolution and the conformed resolution, when adopted by the Commission, on the Commission's web site.

THEREFORE, IT IS ORDERED that:

1. The budget for the Universal Lifeline Telephone Service (ULTS) for fiscal year (FY) 2001-02 of \$281.624 million, as set forth in Appendix A, of this resolution is adopted.
2. A surcharge rate level of 1.45% for the ULTS program shall remain in effect for FY 2002-03.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 10, 2001. The following Commissioners approved it:

/s/ WESLEY M. FRANKLIN

WESLEY M. FRANKLIN
Executive Director

LORETTA M. LYNCH
President
HENRY M. DUQUE
RICHARD A. BILAS
CARL W. WOOD
GEOFFREY F. BROWN
Commissioners

APPENDIX A

UNIVERSAL LIFELINE TELEPHONE SERVICE TRUST ADMINISTRATIVE COMMITTEE FUND			
PROGRAM BUDGET FOR FISCAL YEAR 2001-02			
		(A)	(B)
		Resolution T-16435	Commission Adopted
		FY 2001-02	ADJUSTED
			FY 2001-02
(Dollars in Thousands)			
1	BEGINNING FUND BALANCE	\$73,402	\$107,210
	REVENUES		
2	PROJECTED BILLING BASE	19,414,000	15,181,000
3	SURCHARGE RATE	1.45%	1.45%
4	SURCHARGE REVENUE (L2 X L3)	281,503	220,125
	OTHER INCOME		
5	INVESTMENT INCOME	3,672	1,224
6	INTEREST	-	-
7	PENALTY	-	-
8	TOTAL OTHER INCOME (L5+L6+L7)	3,672	1,224
9	TOTAL REVENUE (L4+L8)	285,175	221,349
	PROGRAM EXPENSE		
10	CLAIM PAYMENTS	273,858	273,858
	AUDITS		
11	FINANCIAL AUDIT	17	20
12	COMPLIANCE AUDIT	-	-
13	REMITTANCE AUDIT	-	600
14	CARRIER AUDIT	500	500
15	TOTAL AUDITS (L 11+L12 +L13+L14)	517	1120
	BANKING FEES		
16	TRUST	108	54
17	LOCKBOX	-	14
18	TOTAL BANKING FEES (L16+L17)	108	68
	ADVISORY COMMITTEE EXPENSES		
19	PER DIEM	37	37
20	TRAVEL & OTHER EXPENSES	24	24
21	TOTAL COMMITTEE EXPENSES (L19+L20)	61	61
	MARKETING PROJECTS		
22	MARKETING PROGRAM	5,000	4,000
23	CALL CENTER	N.A.	1,000
24	MARKET RESEARCH	750	750
25	PROGRAM ASSESSMENT	200	200
26	TOTAL MARKETING EXPENSE	5,950	5,950
27	TOTAL PROGRAM EXPENSES	280,494	281,057
	ADMIN/STAFF		
28	EXTERNAL STAFF & RELATED EXPENSES	475	119
29	ALL OTHER EXTERNAL OPERATING	310	128
30	SB 669 INTERNAL STAFF *	328	380
31	TOTAL ADMIN/STAFF (L22+L23+L24)	1,113	627
32	SB 669 INTERAGENCY COST		
33	TOTAL EXPENSES	281,607	281,684
34	PROJECTED ENDING BALANCE (L1+L9-	76,970	46,875

1. Portion of the amount FOR SB 669 Internal Staff includes Bldg. Addition for IMSD staff allocated to this program.
2. Adopted FY 2001-02 (Column A) was adopted by the Commission in Resolutin T-16435
3. Proposed Adjusted FY 2001-02 (Column B) reflects the implementation of SB 669 in October 2001.
All external staffing and relatged expenses, and other expenses are included for three months.
4. ULTS external Office Space/Rent is budgeted to April 2002 to comply with the lease agreement.
5. For FY 2001-02, trust fee is calculated to Dec. 2001. Lockbox starts in October 2001.
6. There are no SB 669 inteagency costs for FY 2001-02
7. The Fund balance in the Adjusted FY 2001-02 Column is based upon actual fund balance as of July 1, 2001.