

REPORT TO THE LEGISLATURE

ON

THE CALIFORNIA TELECONNECT FUND

Submitted
May 2005

Required by
Supplemental Report to the 2004 Budget Act
Item 8660-001-0462

CALIFORNIA PUBLIC UTILITIES COMMISSION

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Report to the Legislature on The California Teleconnect Fund May 2005

I. Executive Summary

The California Teleconnect Fund. This report updates the California Public Utilities Commission (Commission) January 12, 2004 legislative report and provides status and impact assessment of the California Teleconnect Fund (CTF). In 1997, the CTF was implemented to provide discounts on a wide array of telecommunications services to specific institutions and organizations identified by the legislature as providing beneficial services to Californians. Those institutions and organizations include schools and libraries, municipal, county and hospital district-owned hospitals and health clinics, and Community Based Organizations (CBOs). The covered services range from measured business service (basic telephone service) to high speed transmission lines (OC-3 through OC-192, or their functional equivalents).

Response to the 2004 Budget Act. Under the *Supplemental Report to the 2004 Budget Act*, the California Public Utilities Commission (Commission) is required to prepare a report to the Legislature that updates the initial report prepared in 2004. The Supplemental Report specifically directs the Commission to address the following in its report:

- (a) An assessment of barriers to full participation in the CTF Program among intended beneficiaries, including recommended options to encourage all eligible entities to fully utilize advanced telecommunications services.
- (b) An update on changes made to the program to improve the timely review and processing of CTF applications from customers and claims from telecommunications carriers.
- (c) Recommendations for alternative uses for CTF funds to most effectively address the Digital Divide, including examining ways to encourage the deployment of advanced telecommunications services to all eligible customers.
- (d) The anticipated effects of limiting California Teleconnect Fund discounts to the remaining portion of telecommunications costs after federal E-Rate discounts are applied for schools and libraries, including an assessment of disparities in these effects.
- (e) The effects of applying the federal E-Rate needs-based sliding scale to CTF discounts for schools.
- (f) An estimate of the surcharge level needed to meet the needs of the CTF program under each recommendation made related to the CTF program.

Program Improvements in 2004. In 2004, the Commission implemented a series of changes to the CTF program that have simplified the application process, decreased the length of time it takes for applications to be reviewed and approved, and shortened review time for claims filed by telecommunications carriers. In the short time these changes have been in effect, the program has seen a marked increase in applications to participate, especially on the part of CBOs. In addition to describing program changes and impacts, this report also describes some of the barriers that prevent full participation and provides recommendations about how the CTF could be better used to address the Digital Divide.

The Commission is required to provide an estimate of the fiscal effects of implementing SB 1102 (Enrolled on August 2, 2004, Chaptered on August 16, 2004) based on applying CTF discounts after any appropriate E-Rate discount that a participant may qualify. After exploring several methods, the Commission has determined that it is unable to quantify this impact because none of the carriers participating in the CTF program require potential participants to provide detailed information on the participants E-Rate application. As such, the Commission outlines additional steps that depend on the cooperation of schools and libraries to quantify the impact of SB 1102.

In its recommendations to the Legislature, the Legislative Analyst Office recommended that the Commission estimate the financial effects of implementing a sliding scale discount similar the one used by the FCC in determining CTF discounts. The Commission has estimated the impact to be an increase of approximately \$3 Million in discounts awarded or approximately a 19% increase. This estimate likely is too high because the entities who do not apply for E-Rate discounts tend to be those who would be awarded small discounts. The estimate was based on SBC's June 2003 CTF claim filing.

In summary, the primary benefits and impacts of the 2004 CTF program changes are:

- Expanded eligibility and discounts.
- Schools and libraries have achieved substantial CTF participation (almost 2000 participants).
- There has been a substantial increase in CBO applications
- Timely carrier reimbursements are consistently administered.
- Unpaid claims have significantly decreased.
- Digital Divide issues are still being studied and explored in new ways.
- Organizations that do not file for Federal E-Rate will be most affected by the SB 1102 requirements to apply CTF discounts last.

- It is estimated that applying the Federal E-Rate sliding scale for school discounts would increase CTF claims by approximately 20% and lead to greater discounts overall.
- The CTF FY05/06 budget would increase by approximately \$2.9 Million to \$23.2 Million if the Federal sliding scale is used.

II. CTF Fund Established in 1996 to Provide Telecommunications Discounts to Qualified Entities, Eligibility and Discounts Expanded in May 2003

In CPUC Decision No. 96-10-066, issued on October 25, 1996 in compliance with Assembly Bill 3643, (Polanco), Chapter 278, Statutes of 1994, the Commission established the California Teleconnect Fund (CTF) to provide discounts on selected telecommunications services to qualified entities. An All End User Surcharge applied to customers' intrastate-billed services funds the program. The surcharge appears on customers' monthly telephone bills as a percentage applied to the intrastate-billed services. The surcharge is updated as needed in order to ensure there is adequate funding for the discounts received by the participants.

Decision No. 96-10-066 identified the entities qualified to participate in the program as:

- All public schools grades K-12 that do not have endowments over \$50 Million
- Private schools grades K-12 that do not have endowments over \$50 million
- Libraries eligible to participate in state-based plans for funds under Title III of the Library Services and Technology Act Libraries
- Municipal, county or hospital district owned and operated hospitals and health clinics
- Non-profit Community Based Organizations (CBOs) providing health care, job placement, job training or educational instruction

a. Prior to May 2003, School and Libraries Received at Least Double the Financial Discounts Given to CBOs and Health OrganizationsError! Bookmark not defined.

When the CTF program was implemented, the discount amounts and the types and quantities of eligible services varied according to the category of participating entity. The table below represents the types and quantities of services and the varying discounts available to eligible entities before the Commission issued a Resolution (T-16742) to expand CTF services and eligibility on May 8, 2003.

Qualifying Entity	Eligible Services	CTF Discount
School and/or Library	All Measured Business Service lines, Switched 56 lines, ISDN, T-1, DS-3 and up to and including OC-192 ¹ services or their functional equivalents	50%
Municipal or County Government Owned and Operated Hospital and Health Clinic	Switched 56 lines, ISDN, T-1, and DS-3 or their functional equivalents	20%
Community Based Organization	Two switched 56 lines, or two ISDN lines, or one switched 56 line and one ISDN line, or one T1 line, or their functional equivalents	25%

Several sections were added to the Public Utilities Code to expand the organizations eligible for CTF funding. Senate Bill 1863 (Bowen), Chapter 308, Statutes of 2002, added Section 884 to the Public Utilities code. Section 884(a) states:

“...that any program administered by the Commission addressing the inequality of access to advanced telecommunications services by providing those services to schools and libraries at a discounted price should also provide comparable discounts to a nonprofit community technology program.”

Section 884(b), was also added to the code and defines community technology program as:

“...a community-based nonprofit organization that is exempt from taxation under Section 501 (c)(3) of the Internal Revenue Code and engages in diffusing technology into local communities and training local communities that have no access to or have limited access to the Internet and other technologies.”

¹ Resolution T-16542, July 12, 2001, added OC-1, OC-3, OC-12, OC-48 and OC-192 services, or their functional equivalents, to the list of discounted services available to schools and libraries.

Decision No. 02-10-060, in Commission Rulemaking 01-05-046 investigating the feasibility of redefining universal telephone service to include high-speed Internet access, provided some insight regarding program participation. Comments from the public and certain parties suggested that low participation by hospitals, health clinics and CBOs may have been due, in part, to the low discounts and limited types and quantities of service available under the program. Some parties and members of the public also commented that the application process was unduly burdensome, discouraging organizations from applying for participation in the program. The decision directed the CPUC's Telecommunications Division to prepare a resolution implementing changes to the CTF program responding to the comments of the parties.

Causes of lower participation by CBOs and health organizations prior to May 2003:

- Lower discounts to CBOs and health entities
- Burdensome application process may have discouraged number of applicants

b. Higher CTF Discounts and Expanded Eligibility After May 8, 2003 Resulting From SB 1863

Among other things, SB 1863 declared the legislature's intent that the CTF program be broadened to provide comparable services and discounts to nonprofit community technology programs. On May 8, 2003, to implement the relevant portions of SB 1863 (2002) and pursuant to Decision No. 02-10-060, the Commission issued Resolution T-16742. The resolution expanded the list of services available to hospitals, health clinics and CBOs to match that available to schools and libraries. The resolution also added hospital district owned hospitals and health clinics to the list of eligible entities and added community technology centers to the list of qualifying activities for CBOs. The table below illustrates that all eligible entities now receive a 50 percent CTF discount and the same services qualify for funding.

Qualifying Entity	Eligible Services	CTF Discount
School and/or Library, Municipal, County Government or Hospital District Owned and Operated Hospital and Health Clinic, Community Based Organization	All Measured Business Service lines, Switched 56 lines, ISDN, DSL, T-1, DS-3 and up to and including OC-192 services or their functional equivalents	50%

Finally, the resolution streamlined the application process. Although these changes have been in effect for a short period of time, they appear to have had the desired effect. The majority of new applications filed with the Commission are from CBOs and the number of CBOs approved for participation in the program since the changes took effect is almost seven times the number approved in the first six years of the program.

III. Schools and Libraries Have Substantial CTF Participation With Close to 2000 Participants, CBOs Catching Up As Barriers Are Reduced

Since the CTF program's inception, schools and libraries have been the predominant recipients of program benefits with almost 2000 current participants. In its last report to the legislature, the Commission outlined several reasons for low participation by CBOs, including low levels of expected benefits, a complicated and lengthy application process, and relatively smaller amounts of advanced communication services used by CBOs.

Lower CBO participation in CTF due to the following barriers:

- Unaware of the CTF Program
- Need DSL but it is not offered by participating carriers
- Delays in claim processing
- No guarantee of carriers reimbursement

While the changes adopted by the legislature have resulted in a significant increase in CBOs and health care organizations applying for CTF discounts, at least four barriers still exist that prevent full participation in the CTF program. First, and foremost, many entities are unaware of the CTF program. In developing the Broadband Deployment Report, the Telecommunications Division conducted two surveys of broadband users in the middle of 2004. Results indicate that while many CBOs rely on the CTF to pay for broadband service, there are even more that are unaware of the program's existence.² The survey revealed that there are a number of organizations that do not receive any type of support for broadband service and are not familiar with the CTF Program.³

The CPUC currently conducts outreach to CBOs in order to expand awareness of the CTF program and to increase subsidies to these groups. As an example, in 2004 the Commission's Public Outreach Officer in Los Angeles presented information about the CTF program at a conference held by the Community Clinic Association of Los Angeles County. Subsequently, many of the approximately 40 participants submitted applications to receive CTF discounts. The CTF Administrative Committee is continuing to develop and manage an outreach effort to promote awareness to entities other than schools and libraries.

² 47% of respondents received support from the CTF while 35% received support from E-Rate and another 18% from Rural Utilities Service (RUS). RUS is discussed later in this chapter. Of the 82 respondents to the second survey, only eight reported receiving the CTF subsidy. 39 respondents reported that they were not aware of the CTF at all.

³ Of the respondents not identifying the CTF program as a support mechanism used, 58% stated that they did not know about the program.

Second, essentially no carriers provide DSL under the program, even though DSL service is eligible to receive discounts from the CTF by law and Commission resolution. For many CBOs, DSL is the most attractive option to access the internet.⁴ Greater participation and more use of advanced services could be achieved if providers offered DSL under the CTF program.⁵ Several small CBOs have told the Telecommunications Division that they would prefer DSL service because dial-up service is too slow and T-1 service or higher services are too expensive.

The Commission has made it clear that carriers may offer CTF discounts for DSL service, but most carriers have not chosen to participate. The legislative authority establishing the CTF program makes participation voluntary for both telecommunications carriers and recipients. The Commission continues to work with telecommunication carriers to encourage greater participation in the CTF program.

Commission stepping up efforts to educate carriers about streamlined CTF filing processes.

Need to build confidence that carriers will be reimbursed by the state, in spite of budget uncertainties.

Third, telecommunications providers who participate in the CTF program have stated that there are delays in claim processing and uncertainty about the availability of funds given the state's ability to borrow money for the General Fund.⁶ Claim processing delays occur when there is a significant influx of claims filed at the same time. Claim processing procedures have been significantly streamlined with CPUC adoption of Resolution T-16763 in May 2004, reducing the potential for future backlogs. Among other things, the resolution requires telecommunications carriers to file claims within a year of billing customers. Currently, the inventory of unprocessed claims ready for review and payment is approximately \$4.2 Million. In February of 2004, the backlog was \$17.5 Million.

Because of the uncertainty created over certain CTF funding, providers may be hesitant to further promote the CTF program because providers apply the discount to end user's bills, with no guarantee that the state will reimburse them for the discount. In 2004, the Commission took a series of actions to address telecommunications carriers' concern that claims were being processed too slowly. As a result of these actions, most of the outstanding claims have been eliminated and the Telecommunications Division is

⁴ Resolution T-16742, adopted May 8, 2003, required that all carriers who participate in the CTF program to offer a 50% discount on DSL service because DSL is a functional equivalent of other advanced services approved in D. 96-10-066.

⁵ The CPUC has determined that CTF discounts apply to all services deemed CTF eligible irrespective of the inter- or intra- state nature of the service. SBC filed an intrastate tariff with the CPUC for DSL service and is the only broadband provider to have done so. Telecommunications carriers contend that the CPUC doesn't have jurisdiction over DSL service.

⁶ Funding for the CTF Program was not included in the 2004-2005 State budget. However, Senate Bill 1276, signed by Governor Schwarzenegger on September 28, 2004, authorizes funding for the CTF Program.

working closely with those carriers that continue to need extra assistance with their claims.

IV. Streamlined CTF Application Process Leads to Substantial Increase in Applications by CBOs and Others, Timely Carrier Reimbursements Now the Norm

In 2003, the Commission streamlined the CTF Application Process allowing applicants to file directly with the Commission for review and approval. The Commission reviews the applications for qualifications and required supporting documentation. After its review, the Commission determines which applicants qualify, and approved applicants receive a confirmation letter from the Commission informing them that they have been approved to participate in the program. The approval letter directs the applicant to contact their carrier regarding receiving discounts on all eligible services. The carrier may require the applicant to provide a copy of the approval letter or application, or check for the applicant's name on the Commission's website which has a list of all CTF participants. This list may be viewed at: <http://www.cpuc.ca.gov/static/industry/telco/public+programs/ctflist.html>.

CTF streamlining includes:

- Website of CTF participants
- Ability to add eligible discount services via a quick phone call
- Prescreening of applications with email notification of deficits
- Rewritten application procedures on website
- Full online application process and status database under development

The new procedure also streamlined the process for currently participating entities to add discount-eligible services to their monthly telecommunications services. Now, with just a phone call to their carrier, most participating organizations and institutions may subscribe to and receive the discounts on new eligible services. The old process required a CTF participant to file another complete application with their telecommunications carrier whenever the CTF participant wanted to qualify for discounts on previously unsubscribed CTF eligible services. Before any discounts were awarded, both the telecommunications carrier and the Commission would review the submitted application.

As a result of these changes, the number of applications has increased greatly, especially from CBOs. In January 2005, there were approximately 546 applications filed under the new process that were still pending initial/follow-up review. Of the 546 applications, 122 schools, 38 government owned hospitals and clinics, and 126 CBOs applicants were contacted and the Commission was awaiting receipt of additional information; 94 school applications and 101 non-hospital or non-clinic organizations applying as CBOs were awaiting initial review; 65 hospital/clinics applying as CBOs were pending as the Commission is still developing certain criteria and parameters for this type of application. In view of the fact that the initial approval of any clinic/hospital applying as a CBO that

was received by the Commission post May 8, 2004 will be the basis of future approvals, the Commission is extra cautious in the criteria development of these applications, as several of them have revenues that exceed \$50 million and may not need subsidies from the CTF program.

Approved CTF Participants by Year				
Year	CBO	Schools & Libraries	Government Owned Hospital/Clinic	Cumulative Total
1997	8	1,051	8	1,067
1998	14	307	9	330
1999	14	194	2	210
2000	2	82	0	84
2001	0	65	0	65
2002	0	61	0	61
2003	227	146	1	374
2004	35	48	0	83
Total	300	1,954	20	2,274

In the above table, CTF participants with multiple sites are counted only as one active participant. Discounts offered by the CTF program are retroactive and applicable as of the date the application was date stamped by the Commission. Hence, if an application was received in November 2003, but not reviewed and approved until January 2004, the application count is reflected in Year 2003.

In response to an increase in CTF applications, the Commission has begun prescreening applications as they are submitted. Some applicants remain unaware of the reforms adopted in 2003 and still file a new application every time they want to add new CTF eligible services. In these situations, the Commission sends an e-mail to the applicant informing it that a new application is unnecessary and to contact their telephone service provider to add a new CTF eligible service. If the application fails to include all the information and supporting documentation, then an email is sent outlining the missing information and providing a checklist of all information that is needed.

In November of 2004, the web-based instructions for filing CTF applications were re-written for greater clarity and a detailed list of supporting documentation needed was added to the instructions. This should help entities to file complete applications. Also since mid-January 2005, 30% of a Commission staff person's time has been dedicated to prescreening applications.

The Information Management and Services Division is developing a computer system that will track applications, supporting documentation and approval status. The system will facilitate faster review of applications and more timely notification to entities when

approval is granted. This system will automatically update the list of approved CTF Participants on the Commission's website as new applicants are approved. The system is scheduled to be operational by the summer of 2005.

In addition to the 546 pending applications, there are approximately 200 applications that were filed before May 8, 2003 and their approval was governed by the old approval process. Many of these applicants have previously qualified to participate in the CTF program, but under the old approval process, the applicants were required to file entire, new applications to add additional services. The Commission will approve these applications under the current criteria. Thus, any application from an entity that has previously been determined eligible to participate in the CTF program will be approved immediately.

V. Commission Reforms Have Substantially Reduced Unpaid Claims

As noted previously, the Commission took a series of actions to address telecommunications carriers' concern that claims were being processed too slowly in 2004. As a result, most of the outstanding claims have been eliminated and the Telecommunications Division is working closely with those carriers that continue to need extra assistance with their claims.

Under the new process, carriers are still required to file monthly claims for reimbursement with the Commission. They are also required to file claims forecasts for the upcoming fiscal year based on the preceding year's claims and judgments about future events. With the increased participation, it is crucial to continue to monitor the estimated annual claims amounts and the fund cap.

Reforms in Claim Process:

- Unpaid claims reduced from \$17.5 Million to \$4.2 Million
- Claims are now reviewed and paid within a month of receipt
- Ultimate goal for further convenience via an online claim filing system

Over the past year, the Telecommunications Division has eliminated almost all of the outstanding, unpaid claims. These are claims that have been reviewed and are ready for payment. Claims typically experience a review cycle during which a portion of the claims are returned to the carrier for reasons including, for example, inadequate documentation or incorrect calculations. On February 20, 2004, there were \$17.5 Million of outstanding claims. On February 21, 2005, one year later, the Telecommunications Division had reduced the level to \$4.2 Million of claims ready for review and payment and another \$3.0 Million of claims under second review by carriers. In addition, over \$18 million of claims were filed and paid during 2004. Most of the \$4.2 million in outstanding claims, approximately \$3.7 Million, are from the 2003-2004 fiscal year. Only \$80,000 of outstanding claims are from the current fiscal year.

Currently, claims are reviewed and paid within a month of receipt. In the past, carriers filed multiple claims that required a significant amount of time to determine which claims were duplicates, which were not, and how much was actually owed. To streamline the process and reduce the backlog, the Commission eliminated rules and procedures that produced multiple claims for each month and provided a vehicle for claiming carriers to capture multiple month discounts in a single claim. Finally, carriers are now required to file claims on a timely basis. Under this requirement, designed to incent carriers not to file claims for several months and then file several claims all at once, carriers have responded, and the workload is beginning to smooth out. While carriers may not file a claim until several months after the period when the CTF discount was provided to a customer, sometime as long as six to twelve months later, carriers and the Division are working to compress the time from the point of discount to the time a claim payment is received.

The Commission is continuing to evaluate options that would provide even speedier carrier claims payments. The ultimate goal is to develop an online system that would allow carriers to file claims electronically, validate claims automatically, and schedule claims for payment processing electronically. Telecommunications Division is currently working with the Commission's Information and Management Services Division to determine system requirements and contracting needs.

VI. Digital Divide Issues May be Addressed in Several Ways, Still Being Studied

The Commission is still identifying ways to use CTF funding to better address the Digital Divide. One option recommended by the Legislative Analyst Office is to better target funding to schools and libraries by using the Federal Communications Commission's E-Rate discounts which are based on the number of children receiving free-school lunches. The CTF Administrative Committee has expressed concern that this option places a large administrative burden on schools and libraries. Especially with the increased legal complexity of E-Rate, the CTF Administrative Committee felt that if an applicant applied, but was denied an E-Rate discount, the applicant should still receive CTF discounts. Consequently, some entities may choose not to participate in the CTF program. The CTF Administrative Committee is concerned that imposing sliding scale discounts, as the E-Rate does, could work against the legislative goal of full participation in the CTF program. The economic impact on the fund of imposing sliding scale discounts is estimated in Section VIII.

Some approaches for decreasing the gap in access to advanced telecommunications services:

- Apply Federal sliding scale
- Offer incentives for new infrastructure
- Offer discounts on installation costs

Another option to address the Digital Divide is to develop additional discounts for communities that currently do not have telecommunications carriers offering advanced services. The additional discounts might create enough demand that a telecommunications carrier would invest in the infrastructure necessary to offer advanced services to that community.

A third option is to discount the installation costs associated with advanced telecommunications services. The CTF Administrative Committee and several CBOs have indicated that installation costs can pose an economic barrier to CBOs using advanced telecommunication services. SB 720, signed by the Governor on October 10, 2003, provides the CPUC with authority to use any difference between appropriations and expended funds in the CTF Fund to provide a 40% discount on one-time installation costs of advanced telecommunications services. The total authority granted for Fiscal Years 2003-04 and 2004-05 is \$3.0 Million. The CPUC is working to implement SB 720 with input from the CTF Administrative Committee.

VII. SB 1102 Requires the Commission to Apply CTF Discounts After Federal E-Rate, Impact Will Be on Participants That Do Not File for E-Rate

SB 1102, filed on August 14, 2004, requires the Commission to apply CTF discounts after applying the Federal Universal Services E-Rate discount. The legislation also requires the Commission to apply the E-Rate discount to CTF participants who both applied and were denied an E-Rate discount, or CTF participants who did not

More data is needed from carriers to quantify the impact of applying the federal E-Rate.

New data collection efforts are being evaluated.

apply for E-Rate discounts. For CTF participants that have applied, but been denied E-Rate discounts, the Commission does not anticipate reaching an alternative determination on a CTF participant's eligibility for E-Rate discounts. Thus, the impact of SB 1102⁷ would be on CTF participants who did not file a request for an E-Rate discount. *The Supplemental Report of the 2004 Budget Act* required the Commission to calculate the impact of limiting CTF Discounts to CTF Claims after the Federal E-Rate is applied.

After exploring several methods of quantifying the impact, the Commission has determined that it is unable to quantify this impact because none of the carriers participating in the CTF program require potential participants to provide detailed information on the participants E-Rate application. Carriers require CTF participants indicate which services an approved E-Rate discount applies to. The participants are not required to provide any detail about denied requests for E-Rate discounts, nor if the participant chose not to apply for an E-Rate discount. To calculate the impact of applying E-Rate discounts, the Commission would need to determine which participants applied for E-Rate and were denied. This activity would require schools to provide the Commission with a list of all E-Rate applications, the status of the application and which

⁷ SB 1102 was Enrolled on August 2, 2004, Chaptered on August 16, 2004 as Chapter 227 of the 2004 Statues.

services the application was intended for. The Commission will also need to determine which schools choose not apply for an E-Rate discount. Since this information is not currently being collected by either Carriers or the Commission, schools and libraries will need to assist the Commission in the data collection effort.

VIII. Applying the Federal E-Rate Sliding Scale to CTF School Discounts Would Increase CTF Claims by 20% and Lead to Higher Discounts

The current CTF discount is 50% for all participants. The Federal E-Rate needs based sliding scale offers a discount between 20% and 90%. The actual discount level varies based on the percentage of students in a school that qualify for the National School Lunch Program. If the E-Rate sliding scale discount were applied instead of the current CTF discounts, the CTF claims would increase by approximately 19%. This estimate was derived using SBC's June 2003 claim and the E-Rate discounts as reported by SBC. The increase is related to fact that weighted average discount was 59%. On average, using the sliding scale grants CTF participants a higher level of discount than they would receive from the current program (50%).

This is an estimate for several reasons. First, school districts often will file a single application covering several schools that maximizes the discount from the federal E-Rate program. The districts do not use the same groupings for CTF discounts because the discount rate is fixed. This makes determining the appropriate E-Rate discount to apply very difficult. Second, if a sliding scale discount is introduced, some schools and/or districts may choose not to apply for a discount, similar to the decision that schools and libraries make when applying for Federal E-Rate. Third, the average discount did not include data from schools that choose not to apply for E-Rate discounts or failed to qualify for an E-Rate discount. Fourth, schools and libraries are required to inform the carriers of both the discounts they qualified for and which services the discount applies to. Many schools and libraries delay in reporting this information and this could affect the sample that was used to determine the estimate. Finally, it should be noted that the estimated impact is likely an overestimate because the percentage increase to the fund is derived from a subset of all CTF participants. The subset does not include entities that choose not to apply for E-Rate discounts. The Telecommunications Division believes that many of these entities would likely qualify for the minimum discount. By applying the estimated percentage increase to all CTF claims, it is very probable that the impact of applying the sliding discount is overestimated for those entities that choose not to apply.

IX. Using the Federal Sliding Scale Would Change the CTF Budget From \$20.3 Million to \$23.2 Million in FY'05/'06

The only programmatic change that is sufficiently developed to estimate a fiscal impact is using the Federal E-Rate sliding rate discount. The estimated budget for the CTF program for the 2005-2006 fiscal year is \$20.292 Million. Implementing the Federal E-Rate sliding scale discount increases the CTF program budget to \$23.224 Million in the 2005-2006 fiscal year.