

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Communications Division
Consumer Programs Branch**

**RESOLUTION T-17407
October 3, 2013**

R E S O L U T I O N

**Resolution T-17407. Approval of Fiscal Year 2014-2015
California LifeLine Program Budget¹ in Compliance with
Public Utilities Code Section 273(a).**

SUMMARY

This Resolution adopts Fiscal Year (FY) 2014-2015 annual budget of \$204,438,000 for the California LifeLine Program. The FY 2014-2015 adopted budget is \$78,315,000 less than FY 2013-2014 adopted budget of \$282,753,000.

BACKGROUND

The California Public Utilities Commission (Commission or CPUC) implemented the California LifeLine (CA LifeLine) program, formerly known as Universal Lifeline Telephone Service (ULTS) in 1984, pursuant to Public Utilities (PU) Code § 871. The Commission's Communication Division (CD) administers the CA LifeLine program.

The CA LifeLine program provides discounted residential basic telephone services to low-income households with incomes below approximately 150% of the federal poverty guidelines or enrolled in qualifying public benefits programs. As of May 2013, approximately 1.3 million customers were enrolled in the CA LifeLine program².

¹ The program fund is statutorily referred to as the Universal Lifeline Telephone Service Trust Fund Administrative Committee Fund, pursuant to Public Utilities Code Sections 270 and 277, but is commonly known as the California LifeLine Program.

² In May 2012, approximately 1.6 million customers were enrolled in CA LifeLine Program.

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

On May 3, 2007, the Commission issued D.07-05-030 on May 3, 2007, which modified General Order (GO) 153 (Procedure for Administration of the Moore Universal Telephone Service Act) to address customer confusion with the third party verification process. The changes to the CA LifeLine program included requiring additional contacts between the CA LifeLine administrator and potential and existing CA LifeLine customers, additional time for LifeLine customers to return required forms, and format changes to written communications to improve their effectiveness.

On August 21, 2008, the Commission issued D.08-08-029 which further modified the CA LifeLine program and GO 153. This decision adopted a "pre-qualification" process for enrolling customers in the CA LifeLine program. Effective July 1, 2009, customers applying for CA LifeLine must pay basic service rates until they qualify for the program. Once the customer becomes qualified, the customer receives a back-credit for all benefits that would have been received if the program benefits were provided as of the application date.

On June 1, 2012, a new third-party administrator, Xerox State and Local Solutions, Inc., took over the enrollment, verification, customer notification, and database requirements from the previous contractor. The new administrator also provides the California LifeLine public call center functions (formerly under a separate contract).

In 2012, the FCC issued Order 12-11, which made fundamental changes to the federal Lifeline program including the elimination of connection charges subsidy (except for tribal customers). FCC Order 12-11 also adopted new requirements for state LifeLine programs including, but not limited to, the following:

- to collect the last four digits of the program participant's social security number (SS#) and date of birth (DOB);
- to require applicants to provide proof of program participation or eligibility by income;
- to perform identity checks on all new applicants;
- to perform a one-time sweep of each state's LifeLine customer base as of June 1, 2012; and

- to require participants to complete a certification statement that if multiple discounts are offered at the same address that different economic “household” units exist.

On July 12, 2012, the Commission issued Resolution T-17366 to address the changes ordered by the FCC in Order 12-11. In addition, Resolution T-17366 directed CD staff to implement within ninety days a “direct application process”. This new process would allow carriers to provide application forms directly to their customers (currently the CA LifeLine administrator mails forms to applicants). The cost to implement this new process will be reflected in the estimate for FY 2014-2015 contractor costs.

The CA LifeLine program is funded by a surcharge assessed against intrastate charges of end-users of all telecommunications service providers in California. The current surcharge rate is 1.150%.

ULTS (LifeLine) Trust Administrative Committee Budget

The Commission’s oversight of the CA LifeLine program is supported by the ULTS (LifeLine) Trust Administrative Committee (Committee). The Committee is comprised of carrier and consumer representatives and meets every two months to discuss various topical CA LifeLine program matters and to share advisory support with Commission staff.

In June of 2013, a public meeting was scheduled to approve a proposed budget for the CA LifeLine program for FY 2014-2015. Although the meeting was cancelled due to a lack of quorum, the Committee Chairperson presented a proposed budget in a letter to the Director of the Communications Division, dated August 27, 2013.

Department of Finance (DOF) Audit

In 2012, auditors from the Department of Finance (DOF) conducted a budget process performance audit of six public purpose programs administered by the Communications Division (CD), including LifeLine. The DOF’s audit report contained several recommendations and the Commission has followed these recommendations in the preparation of this budget resolution.

NOTICE/PROTESTS

The Committee’s proposed budget was noticed on the Commission’s Daily Calendar on September 4, 2013 stating that any comments and/or protests must be made in writing and received by the Director of the Communications Division (CD) within 20 days from the posting date. CD did not receive any comments on the Committee’s proposed budget.

DISCUSSION

This Resolution adopts a budget for the CA LifeLine program in the amount of \$204,438,000 for FY 2014-2015, which is the same amount proposed by the ULTS Trust Administrative Committee. The table below compares the adopted FY 2013-2014 budget with the FY 2014-2015 budgets proposed by the Committee and CD:

	FY 2013-2014	FY 2014-2015	FY 2014-2015
	Adopted	Committee’s Proposed Budget	CD Proposed Budget
	(\$ thousands)	(\$ thousands)	(\$ thousands)
Carrier Claims	\$253,200	\$181,400	\$181,400
Administrative Committee Costs	\$41	\$3	\$3
CPUC Staff and Administrative Costs	\$29,512	\$21,191	\$21,191
State Operations Costs		\$1,844	\$1,844
Total Program Budget	<u>\$282,753</u>	<u>\$204,438</u>	<u>\$204,438</u>

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

Generally speaking, CA LifeLine expenditures are projected to decrease from the FY 2013-2014 to FY 2014-2015 budget for carrier claims, administrative committee costs, marketing/outreach costs, data processing automation, and the third party administrator costs. Program costs for pro-rata interagency costs, auditing, and staff costs, are expected to increase. The consulting contract is projected to remain the same. CD proposes to add an additional line item for staff travel costs, and additional program expenses related to state operations that will be established in the FY 2014 Budget Act for a portion of the State Operations in 0840 State Controller and 8880 Fiscal Information System for California (FI\$Cal). See Appendix A for comparisons and below for descriptions.

Carrier Claims

CD is estimating a decrease in carrier claims. Enrollment has been decreasing as a result of a number of factors, including customers terminating landline service and moving to wireless and the impact of the new FCC requirements (mostly from FCC Order 12-11). Program enrollment decreased by 300,000 participants in the past year. With the new requirement to do identity checks (checking a person’s social security number and date of birth against a national database), CD forecasted into its recommended budget a continued decline in participation in CA LifeLine.

Both the Legislature and the Commission are considering modifications to program rules that would include wireless and other alternative carriers to participate in California LifeLine. CD has estimated 1 million wireline participants in California LifeLine for FY 2014-2015 budget. The calculation for the claims estimate breaks down as follows:

\$ 75,900,000	1 million subscribers x \$12.65 subsidy x 6 months.
\$ 82,500,000	1 million subscribers x \$13.75 subsidy x 6 months.
\$ 6,000,000	1 million subscribers x \$ 0.50 Administrative costs x 12 months.
\$ 3,000,000	Estimated Implementation cost claims.
\$ 3,500,000	Estimated Connection/Conversion cost claims.
<u>\$ 10,500,000</u>	Estimated Surcharge and Taxes cost claims.
<u>\$181,400,000</u>	Total Estimated Carrier Claims

Resolution T-17321 revised GO 153 to incorporate changes necessary to implement the new Specific Support Amount (SSA) method of carrier reimbursement requirements adopted by D. 10-11-033 on November 19, 2010. The highest basic residential phone rate among the carriers is currently \$23.00 (AT&T). Based on this phone rate, we determine that the SSA for calendar year 2014 is \$12.65 (55% of \$23.00). Based on a history of rate increases, CD forecasts that a rate increase to \$25.00 for the following year is a reasonable expectation. A \$25 rate would result in an SSA of \$13.75 for calendar year 2015. CD will use \$12.65 SSA for calendar year 2014 and \$13.75 SSA for calendar year 2015 in computing claim reimbursements. Below is a table of the historical rates:

	<u>9/1/2006</u>	<u>1/1/2008</u>	<u>1/1/2009</u>	<u>1/2/2010</u>	<u>1/3/2011</u>	<u>3/1/2012</u>	<u>1/1/2013</u>
AT&T	10.69	10.94	13.50	16.45	19.95	21.00	23.00
Verizon	16.85	17.25	19.50	19.50	20.50	20.50	20.50
Frontier	17.85	17.85	17.85	17.85	19.00	19.00	19.00
SureWest	18.90	18.90	18.90	19.99	19.99	19.99	19.99

CD notes that in recent past, carrier claims were overestimated in developing prior program budgets. Prior fiscal year claims paid (including adjustments and accruals) were usually about \$200 million. We believe that this amount will go down due to decreased enrollment. The carriers estimated their total claims for FY 2014-2015 to be about \$164 million. We adopted the carrier's estimate of about \$3 million for Implementation costs, \$3.5 million for Non-recurring charges (connection and conversion charges), and \$10.5 million for Surcharges and Taxes.

Therefore, we estimate that the CA LifeLine Carrier Claims are projected to decrease by \$71.8 million, from \$253.2 million in FY 2013-2014 to \$181.4 million in FY 2014-2015.

CPUC Staff Costs

Staff costs includes employees working directly for the CA LifeLine program and staff that bill part of their time to the program. These include staff from the Consumer Affairs Branch (who handle complaints), the Fiscal Office, the Legal and Administrative Law Judge Divisions, as well as audit staff from the Division of Water and Audits.

CD does not anticipate any major changes to staffing levels for the budget year 2014-2015. However, due to salary rate increases, and a division-wide analysis that specifically identified every staff person that charges time to the fund, we are estimating a total cost increase to \$1.431 million for the year. This represents an increase of \$38,000 from the prior year estimate of \$1.393 million.

CA LifeLine Administrator

On June 1, 2012, the CA LifeLine Administrator contract was transitioned to a new vendor. In last year's CA LifeLine Administrator contract, the CA LifeLine Public Call Center and CA LifeLine administrator (previously called the "third-party administrator") functions were combined and as such the costs for those functions now appear as one line item cost (CA LifeLine Administrator) in the FY 2014-2015 CA LifeLine budget.

In November 2012, the CA LifeLine Administrator was authorized a new enrollment rate of \$2.16. Therefore, CD used that month going forward (November 2012 - April 2013) to develop an estimated ongoing enrollment cost for the contract.

\$11,200,000	Ongoing Enrollment (actual \$5.6 million for 6 months x 2)
\$ 384,000	Database Management (\$32,000 x 12 months)
\$ 30,000	Website Maintenance (\$2,400 x 12 months)
\$ 100,000	Data Compliance Audit (rate set in the contract)
\$ 30,000	Allowance for Additional Mailings, Form Changes, etc.

\$ 15,000	Proposed Amendment - Direct Application Process (DAP)
\$ 150,000	Proposed Amendment - DAP (after hours support)
\$ 60,000	Proposed Amendment - Image Exchange Process
\$ 6,000	Proposed Amendment - Web Enrollment Process
<u>\$ 325,000</u>	Proposed Amendment - Identity Verification Process
<u>\$12,300,000</u>	Total Estimated Third Party Administrator Cost

Note that the Ongoing Enrollment line item includes costs related to the Call Center. The first five estimated lines are derived from current contract rate structure. Currently, CD staff is pursuing an amendment to the contract to add services and processes that are required by the FCC and the Commission of the third party administrator. The Direct Application Process was mandated by the Commission in Resolution T-17366. The Image Exchange Process will allow carriers to maintain electronic copies of all their customer enrollment forms only, pursuant to FCC Order 12-11 requirement. The Web Enrollment option was set forth in the original contract. Finally, the Identity Verification Process is a requirement of the FCC as a condition of California opting out of the National Duplicates Database. Impacts on the CA LifeLine Administrator costs are estimated for FY 2014-2015.

CA LifeLine Consultant

Beginning in FY 2011-2012, an outside contractor has provided technical support in the areas of website design and database management. CD anticipates the continued use of a consulting contractor for budget year 2014-2015. Billing is done on a per-hour basis, and the consultant typically invoices on average about \$16,000 per month. Therefore, we propose to budget the same amount as prior year, \$200,000 (rounded up from \$192,000, which is \$16,000 x 12 months).

Auditing Costs

Beginning in FY 2011-2012, staff used outside contractors to conduct the CA LifeLine audits. Audit expenses are estimated to be \$2,356,000. This budget increase is intended to allow for a greater number of carrier audits of surcharge remittances in accordance with P.U. Code Section 274.

Pro Rata Interagency Costs

Pro Rata Interagency costs for FY 2014-2015 are projected to be \$2,668,000 million for the CA LifeLine program. 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.

Marketing/Outreach Costs

The outreach contractor promotes the program at various events and provides information to help educate the public on California LifeLine. Over the past seven months, the program's current outreach contractor (Richard Heath and Associates), has incurred costs on average of about \$175,000 per month. CD forecasts FY 2014-2015 expenditures at an amount consistent with prior expenditures. Twelve months at the current expenditure rate is equal to \$2,100,000.

Data Processing Automation Costs

Data Processing Automation costs are expected to decrease to \$133,000 based on the estimate of actual work to be performed in FY 2014-2015. The cost element is to design and implement Electronic Claims Processing. This project, still in the planning stages, will begin in FY 2014-2015 and continue into FY 2015-2016.

Travel Costs (New Line Item)

Staff is occasionally required to travel in-state to support the program. These trips can include offsite administrative committee meetings, public participation hearings, presentations to the Low Income Oversight Board, and trips to Sacramento to provide support at legislative hearings. CD forecasts a total of five trips for the year for each of the two senior analysts. Assuming a rough estimate of \$300 per trip (including in-state airfare, hotel, per diem, gas, meals, etc.), we propose a budget of \$3,000 for the year.

Administrative Committee Costs

The Administrative Committee Charter requires the Committee to meet every quarter³ 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. Currently, there is only one committee member who is a member of the public. However, that member has not claimed expenses from the fund in over ten

³ Charter of the Universal Lifeline Telephone Service Trust Administrative Committee (ULTS Charter) Section 3.8

years. Therefore, CD recommends that only a *de minimus* amount of \$1,000 in each sub-category be budgeted.

0840 State Controller (State Operations Costs) (New Line Item)

This item appropriates funds for the State Controller's Office. The budget for FY 2014-2015 is \$52,000, which is the same amount estimated in the Governor's proposed budget for FY 2012-2013.

8880 Fiscal Information System for California (New Line Item)

This item appropriates funds for the Financial Information System for California (FI\$Cal). FI\$Cal is an information technology (IT) project managed by a partnership of Department of Finance, the State Treasurer's Office, the State Controller's Office, and the Department of General Services. The purpose of this project is to create and implement a new statewide financial system. The budget for FY 2014-2015 is \$1.792 million, which is the same amount estimated in the governor's proposed budget for FY 2012-2013.

Total Program Expenses

CD recommends a total program budget for FY 2014-15 of \$204,438,000 composed of \$198,994,000 for 8660 Public Utilities Commission (State Operations), \$52,000 for 0840 State Controller (State Operations) and \$1,792,000 for 8880 Financial Information Systems of California (State Operations). CD's proposed FY 2014-15 expense budget of \$204,438,000 is reasonable and should be adopted.

Final appropriations for 0840 State Controller (State Operations), 8660 Public Utilities Commission (State Operations), and 8880 Financial Information System for California (State Operations) will be determined when the Budget Act of 2014 is approved by the Legislature and the Governor. The FY 2014-15 budget adopted today is subject to final appropriations adopted in the Budget Act of 2014. To the extent that appropriations adopted in the Budget Act of 2014 differ from the FY 2014-15 Budget adopted in this resolution, the appropriations adopted in the Budget Act of 2014 will supersede the budget adopted in this resolution.

Safety Issues

The carriers that provide Lifeline benefits to their customers are required to adhere to all Commission rules, decisions, General Orders and statutes including Public Utilities Code § 451 to take all actions "...necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public." The CA LifeLine program helps to promote universal service by subsidizing essential communications links to low-income and at-risk individuals throughout California.

CA LifeLine program allows participants to have access to 211 for essential community services, 311 for non-emergency municipal services, 511 for traffic and transportation information, 811 for public infrastructure underground location information, and 911 to reach police, fire and medical responders when fire, natural disasters, medical emergencies, or other crises occur. This Resolution ensures that there is adequate funding, at an appropriate level, to support the CA LifeLine program budgetary expenditures.

COMMENTS

In compliance with PU Code Section 311(g), a Notice of Availability (Notice) was emailed to parties of record in R. 11-03-013, and members of the Working Group and Administrative Committee on September 3, 2013. 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). CD did not receive any comments on this Resolution.

FINDINGS AND CONCLUSIONS

1. The California LifeLine Program (CA LifeLine), known as the Universal Lifeline Telephone Service program, was implemented by the California Public Utilities Commission (CPUC or Commission) in 1984 pursuant to Public Utilities (PU) Code §871.
2. As of May 31, 2013, approximately 1.3 million California customers were enrolled in the program.
3. Complying with its chartered responsibility, on September 3, 2013, the Universal Lifeline Telephone Trust Administrative Committee (Committee) submitted to the California Public Utilities Commission (Commission) a proposed fiscal year (FY)

2014-2015 budget for the Universal Lifeline Telephone Service Trust Fund in the amount of \$204,438,000.

4. The Commission's Communications Division recommends a budget in the amount of \$204,438,000 for FY 2014-2015. This proposed budget is \$78.315 million less than the budget for FY 2013-2014.
5. In July 2011, the Commission issued Resolution T-17321 to incorporate changes to implement the new Specific Support Amount (SSA) method of carrier reimbursement adopted in Decision 10-11-033.
6. In 2012, the Federal Communications Commission issued Order 12-11, which made fundamental changes to the federal Lifeline program.
7. In July 2012, the Commission issued Resolution T-17366 to address the changes ordered by the FCC in Order 12-11.
8. The proposed Universal Lifeline Telephone Service Trust Administrative Committee's FY 2014-2015 CA LifeLine budget was noticed on the Commission's Daily Calendar on September 4, 2013 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. The Communications Division did not receive any comments on the Committee's budget letter.
9. A Notice of Availability for Resolution T-17407 was emailed on September 3, 2013, to parties of record in R. 11-03-013, the working group, 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). The Communications Division did not receive any comments on this Resolution.
10. The Communications Division's proposed ULTS Trust Fund Budget of \$204,438,000 for FY 2014-2015, composed of \$198,994,000 for 8660 Public Utilities Commission (State Operations), \$52,000 for 0840 State Controller (State Operations), and \$1,792,000 for 8880 Financial Information System for California (State Operations) is reasonable and should be adopted.
11. Final appropriations for the 0840 State Controller (State Operations) and 8880 Financial Information System for California (State Operations) will be determined when the Budget Act of 2014 is approved by the Legislature and the Governor.
12. The FY 2014-2015 budget adopted today is subject to final appropriations adopted in the Budget Act of 2014 for 8660 Public Utilities Commission (State Operations), 0840

State Controller (State Operations) and 8880 Financial Information System for California (State Operations).

13. The appropriations adopted in the Budget Act of 2014, if different from the adopted FY 2014-2015 program budget, will supersede the FY 2014-2015 program budget adopted in this Resolution.

THEREFORE, IT IS ORDERED that:

1. The expense budget for the CA LifeLine Program of \$204,438,000 of FY 2014-2015 composed of \$198,994,000 for 8660 Public Utilities Commission (State Operations), \$52,000 for 0840 State Controller (State Operations), and \$1,792,000 for 8880 Financial Information System for California (State Operations) is adopted.
2. Communications Division staff is authorized to modify the FY 2014-2015 expense budget adopted today to conform to the final appropriations adopted in the Budget Act of 2014 for 8660 Public Utilities Commission (State Operations), 0840 State Controller (State Operations) and 8880 Financial Information System for California (State Operations).

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 3, 2013. The following Commissioners approved it:

PAUL CLANON
Executive Director

APPENDIX A

California LifeLine Fund Program Budget
Fiscal Year 2014-2015:: July 1, 2014 through June 30, 2015
(Numbers in Thousands)

		FY 2012-2013	FY 2013-2014	FY 2014-2015	FY 2014-2015
		Adopted Budget	Adopted Budget	Committee Proposed Budget	CD Staff Proposed Budget
A					
1	Carrier Claims	<u>\$330,000</u>	<u>\$253,200</u>	<u>\$181,400</u>	<u>\$181,400</u>
2	Sub-Total	\$330,000	\$253,200	\$181,400	\$181,400
B					
1	AC-Per Diem	\$18	\$18	\$1	\$1
2	AC-Travel	\$18	\$18	\$1	\$1
3	AC-Other Costs	<u>\$5</u>	<u>\$5</u>	<u>\$1</u>	<u>\$1</u>
4	Sub-Total	\$41	\$41	\$3	\$3
C					
1	Staff Costs	\$1,280	\$1,393	\$1,431	\$1,431
2	Travel Costs	\$0	\$0	\$3	\$3
3	Pro-Rata Interagency Cost	\$1,906	\$1,906	\$2,668	\$2,668
4	Marketing/Outreach	\$6,000	\$10,000	\$2,100	\$2,100
5	3rd Party Administrator	\$14,050	\$14,405	\$12,300	\$12,300
6	LifeLine Consultant – Contract	\$200	\$200	\$200	\$200
7	Audits	\$200	\$300	\$2,356	\$2,356
8	Data Processing Automation	<u>\$1,308</u>	<u>\$1,308</u>	<u>\$133</u>	<u>\$133</u>
9	Sub-Total	\$24,944	\$29,512	\$21,191	\$21,191
D					
1	8660 Public Utilities Commission	\$354,985	\$282,753	\$198,994	\$198,994
2	0840 State Controller			\$52	\$52
3	8880 Financial Information System for California			\$1,792	\$1,792
	<u>TOTAL PROGRAM BUDGET</u>	<u>\$354,985</u>	<u>\$282,753</u>	<u>\$204,438</u>	<u>\$204,438</u>