

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Communications Division
Consumer Programs Branch**

**RESOLUTION T-17496
October 1, 2015**

RESOLUTION

**Resolution T-17496. Approval of the California Teleconnect Fund
Administrative Committee Budget for Fiscal Year 2016-17 (July 1, 2016
through June 30, 2017) to Comply with the Requirements of Public
Utilities Code Section 273(a).**

SUMMARY

This Resolution adopts the following provisions for the California Teleconnect Fund (CTF) Program:

- (1) A budget of \$148,800,000 for Fiscal Year (FY) 2016-17; and
- (2) Increase the CTF funding cap from \$148,086,714 to \$148,800,000; composed of \$145,065,000 for Local Assistance, \$3,658,000 for State Operations, \$76,000 for Financial Information System for California and \$1,000 for State Controller.

BACKGROUND

In Decision 96-10-066, the Public Utilities Commission (Commission or CPUC) created the CTF Program, effective October 25, 1996, to provide discounted rates for advanced telecommunications services for qualifying schools, libraries, government-owned health care providers, and community based organizations (CBOs).

In May 2006, the Commission opened Rulemaking 06-05-028 to conduct a comprehensive review of the Telecommunications Public Purpose Programs, including the CTF. Subsequently, the Commission issued D.08-06-020 on June 12, 2008. The Commission found that the CTF was successfully enhancing universal service goals, and ordered several key changes to the CTF program. These changes included the removal of CTF tariff requirements [for all carriers that provide CTF-eligible services on a detariffed or non-regulated basis], and the inclusion of California's community colleges, California Telehealth Network participants, and CBOs authorized to provide

2-1-1 Information and Referral Services.¹

On January 31, 2013, the Commission, on its own motion, opened Rulemaking 13-01-010 (R.13-01-010) to determine whether the CTF is fulfilling its purpose, and whether the current CTF structure and administrative processes are adequate to further program goals.² In this Rulemaking, the Commission reviewed the program goals, participant eligibility, eligible services, service provider eligibility, budget and administrative rules.

On July 23, 2015, the Commission issued Decision 15-07-007 (D.15-07-007 or Decision) in R.13-01-010, which adopted restated program goals and resolved Phase 1 and Phase 2 issues. Specifically, it sets new eligibility criteria for participants, service providers, and services; and directs service providers to post and submit various information, including pricing information requirements. With certain exceptions to be addressed in Phase 3 of R.13-01-010, the Decision also reduces discounts for voice services and eliminates discounts for data cards, but retains the 50% discount for all other CTF-eligible services. Phase 3 of R.13-01-010 will resolve administration and implementation issues that may affect the FY 2016-17 budget. The schedule for Phase 3 has yet to be determined.

The CTF Program is funded by a surcharge assessed on revenues collected from end-users for intrastate telecommunications services subject to surcharge. The current CTF surcharge rate is 1.080%.³

CTF Administrative Committee Proposed Budget

Public Utilities (PU) Code Sections 270-281 was enacted in October 1999. Section 280(d) requires that the money appropriated from the CTF Administrative Committee Fund be used only for the CTF program.⁴

The CTF Administrative Committee (CTF-AC) is required to submit a proposed budget to the Commission on or before June 1 of each year.⁵ The Committee submitted a letter, dated August 10, 2015, to the Commission's Executive Director seeking approval of a

¹ CBOs providing 2-1-1 Referral and Information Services must be authorized by the Commission through a resolution process.

² R.13-01-010 *Order Instituting Rulemaking to Conduct a Comprehensive Examination of the California Teleconnect Fund*

³ Resolution T-17471

⁴ PU Code §280(d) states that "[m]oneys appropriated from the California Teleconnect Fund Administrative Committee Fund to the commission shall be utilized exclusively by the commission for the program specified in subdivision (a), including all costs of the board and the commission associated with the administration and oversight of the program and the fund.

⁵ PU Code §273; CTF-AC Charter § 4.1(a)

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proposed budget of \$117,915,000 for FY 2016-17. Details of this proposed budget are set forth in Appendix A.

CTF Appropriations Cap

D. 96-10-066 set the initial annual funding of the CTF at \$50 million. The CTF funding cap can, if necessary, be raised through a Commission resolution at any time.⁶ On July 12, 2001, the Commission issued Resolution T-16542 to increase the funding cap from \$50 million to \$55 million, effective July 1, 2002. The funding cap increase was based on projections of increased CTF participation, as well as the inclusion of new high speed and high cost services in the program.

Subsequently, as a result of program expansion over the years and, most recently, factors such as the education initiatives set forth in the Governor's Budget, and changes to the Federal E-rate program, the funding cap has increased over time. On November 6, 2014, the Commission approved Resolution T-17456, which increased the funding cap from \$107,983,000 to \$148,086,714 for FY 2015-16.

The proposed CTF budget for FY 2016-17 is \$148.800 million. The Communications Division (CD) recommends that the CTF funding cap be raised to \$148.800 million in order to continue to accommodate program expenses, beginning with FY 2016-17.⁷

Community College Cap

Upon expanding the CTF to include California Community Colleges (CCC), the Commission placed a cap on the total CTF discounts that could be granted to community colleges.⁸ The purpose of the cap is to ensure that the eligibility of community colleges does not negatively impact other CTF program participants.⁹ The cap was adjusted annually based on the Western Consumer Price Index.¹⁰ Based on historical experience and anticipated data exchange with CCC, D.15-07-007 removed the community college cap.¹¹

⁶ D.08-06-020 at 23. FN.96

⁷ See D.08-06-080, Finding of Fact 4.

⁸ Id., Conclusion of Law 7.

⁹ Id. at 28.

¹⁰ Source: Western Consumer Price Index <http://www.bls.gov/ro9/cpiwest.htm>

¹¹ D.15-07-007, pp.18-19.

DISCUSSION

CTF Budget Development Process

As shown below in Table 1, CD proposes to maintain the FY 2016-17 budget at the FY 2015-16 level of \$148,800,000 because its projected FY 2016-17 expenses are similar to the expenses for FY 2015-16. The FY 2015-16 budget, as shown below, is slightly higher than the budget approved in Resolution T-17456 because it conforms to the Budget Act of 2015.¹² The 2015 Budget Act provided a slightly larger allowance for State Operations to account for, among other things, the cost of collecting the mobile telephony services (MTS) surcharge.¹³

Table 1. Summary of the California Teleconnect Fund Expense Budgets

CTF Cost Categories (Fund 493)	FY 2015-16 Enacted Budget	FY 2016-17 Proposed Budget
Local Assistance		
Carrier Claims	\$145,065	\$145,065
Subtotal	\$145,065	\$145,065
State Operations		
Subtotal	\$3,658	\$3,658
8660 Public Utilities Commission Total (Local Assistance & State Operations)	\$148,723	\$148,723
0840 State Controller (State Operations)	\$1	\$1
8880 Financial Information System for California (State Operations)	\$76	\$76
Total Program Budget	\$148,800	\$148,800

Local Assistance

The CTF Local Assistance budget is comprised of carrier claim payments. They are reimbursements to carriers for discounts given to CTF participants.

For the FY 2016-17 budget, CD reviewed carriers' claims forecasts and historical claims data. The carriers' forecasts do not include the changes related to the D.15-07-007, as the Decision was issued after the carriers submitted their forecast. CD also took into consideration Governor's education initiatives, changes in the federal E-rate program,

¹² See Resolution T-17456, Ordering Paragraph 2

¹³ With the passage of Assembly Bill 1717 (Perea, Chapter 885, Statutes of 2014) regarding prepaid mobile telephony services (MTS) surcharge collection and remittance, the Commission, through the Budget Change Proposal (BCP) process, increased budgetary appropriations for FY 2015-16 for six universal service public purpose programs, which include CTF, to cover allocated costs to each program associated with implementation of that statute. The MTS cost allocated to CTF for FY 2015-16 is \$474,203. The 2015 Budget Act approved this increase, which is reflected in the enacted budget for CTF of \$148.800 million for FY 2015-16. The MTS cost allocated to CTF was reduced to \$177,551 for FY 2016-17.

and program changes adopted in D.15-07-007. CD continues to work with the education community to ascertain the impact of their technology programs on the CTF. While D.15-07-007 established the policies for program reform, the upcoming decision in Phase 3 of the R.13-01-010 will address the implementation of those policies. When Phase 3 will commence has not yet been determined. The impact of D.15-07-007 on the budget is unknown or uncertain at this time, for the following reasons:

1. Changes in Health Care/Health Services CBO Eligibility

The Decision adopted a new subcategory of CBOs: Health Care/Health Services CBOs. The prior revenue cap criterion of \$50M per individual entity no longer applies to participants that fall under this new subcategory. This new rule may have a large impact on the fund as new applicants over the \$50M revenue that were not eligible in the past, may join the CTF program in the future. The Commission, however, will develop new rules and a budget cap for this subcategory as whole in Phase 3 of R.13-01-010.

2. Changes to CTN membership

CTN anticipates increasing membership from 281 to 800 sites¹⁴. To mitigate the impact of CTN members on CTF resources, D.15-07-007 determined that the level of the budget cap for the CTN will be developed in Phase 3. To assist in that effort, the Commission directed CTN to submit a forecast to CD within 60 days of the effective date of the D.15-07-007.

3. Addition of Critical Access Hospitals to Government Health Care Category

There are 34 Critical Access Hospitals (CAHs) and 16 are already approved for CTF. The addition of CAHs to the Government Health Care category could bring in additional participants.

4. Changes to the eligibility criteria for CBOs

Staff expects D.15-07-007 new eligibility rules will have the greatest impact on the number of participating CBOs. One new significant eligibility criterion for CBOs is a reduction in the individual entity revenue cap from \$50 million to \$5 million for eligibility. Therefore, the number of ineligible participants based on the new \$5 million criterion and any potential decrease in the CTF fund are uncertain at this time.

The budgetary impacts of other changes to the CBO eligibility criteria are also unknown at this time because Phase 3 of R.13-01-010 will address some of the

¹⁴ D.15-07-007 p. 33.

implementation issues associated with new application rules. For example, Phase 3 will determine what metrics to use to assess if CTF qualifying services¹⁵ are 50% of a CBO's mission.

5. Removal of the community college cap

As explained above, the Commission removed the community college cap in D. 15-07-007. Historically, CTF claims for community colleges have been under the prior established cap. Removal of the cap may potentially spur growth in community college discounts.

6. Services bundled with ineligible components

D.15-07-007 adopted the Federal E-rate program rules regarding cost allocation for products or services that contain ineligible components. If certain conditions are met, the bundle may be allowed to receive the full CTF discount.

Furthermore, if a product or service contains ineligible products that are inseparable and on an ancillary basis, they may also qualify for the full CTF discount.¹⁶ This new rule may increase CTF discounts as services that did not qualify in the past may qualify under the new ancillary rule. Phase 3 will address implementation issues associated with the new rules.

7. Changes to discounts for voice and wireless data plans

The Federal E-rate program is phasing out voice service over a five year period beginning with FY 2015-16. Each year, an entity's E-rate percentage discount is reduced by 20%. By FY 2016-17, the E-rate percentage discount will be reduced by 40% percentage points. Starting in FY 2016-17, CTF will also reduce the voice services discounts for all category groups from 50% to 25%, with certain exceptions.

The E-rate program also eliminated discounts on wireless data plans, unless they are determined to be cost-effective. D.15-07-007 adopted a similar policy for all CTF participants. For schools and libraries, the CTF cost-effectiveness test relies on E-rate's assessment of cost-effectiveness.

Phase 3 of R.13-01-010 will determine 1) the process for exempting certain applicants from the reduction in voice discounts and 2) the cost-effective test for data plans for CTF participants that do not receive E-rate discounts.

¹⁵ Qualifying services are job training/placement, community technology programs, health care, 211 information and referral service approved by CPUC Resolution and educational instruction.

¹⁶ D.15-07-007 p.45

The above list demonstrates the many challenges in forecasting a budget in the middle of an on-going rulemaking. While some factors will reduce pressure on the fund, resulting in a decrease in the CTF budget, other factors may increase the budget. Many of issues remain unresolved until Phase 3 of R.13-01-010 and the net effect of offsetting pressures is unknown. Until more information is known and predictable, CD recommends that the Commission pursue a prudent approach that preserves its flexibility to meet future obligations by maintaining the CTF Local Assistance budget at \$145,065,000 for FY 2016-17.

State Operations

State operation expenses include categories such as: CPUC direct staff costs, staff travel, the administrative committee per diem and travel, marketing and outreach, audits, data processing automation, cost allocation expense, interagency costs, and MTS. The forecast developed for FY 2016-17 is similar to the anticipated level of expense projected for FY 2015-16. Therefore, CD determined it is reasonable to use the FY 2015-16 expenses in the Budget Act of 2015, for FY 2016-17.

CPUC Direct Staff Costs

CPUC staff costs directly associated with the administration of the CTF program (includes salaries and benefits): The amount budgeted for this item is based on the number of positions that are directly charged to the CTF fund.

Travel Costs

Staff plans to travel in-state to support the program. These trips are primarily used for visiting CTF participants to see if they are meeting program objectives. Additionally, staff plans to travel to attend field and public participation hearings. Travel estimates include in-state airfare, hotel, per diem, gas, meals, etc.

Administrative Committee Costs

The Administrative Committee costs are for the Administrative Committee members travel expenses which include in-state airfare, hotel, per diem, gas, meals, etc. for the purposes of Administrative Committee meetings.

Outreach

The Outreach expense allows continued outreach and marketing efforts in FY 2016-17.

Audits

Audit expenses are intended to allow for a greater number of carrier audits to examine claims and surcharge remittances in accordance with PU Code Section 274.

Program Claim Automation

The Administrative Services Division and CD are developing a new automated claims system for public purpose programs including the CTF. This new program is intended to bring greater efficiency to universal service programs.

Cost Allocation Expense

CPUC's costs allocation plan directs how CPUC's administrative charges are allocated to the sixteen special funds the agency administers, as well as overhead charged to grants. Cost allocation expenditures (sometimes referred to as indirect charges, or overhead) include Administrative Services salaries and operating expenses (CPUC Accounting and Budget Offices, Business Services, Contracts, Human Resources and Information Technology), facilities operations (rent, security and utility expenses), as well as Executive Division, Administrative Law Judge, and a portion of shared, legal expenses. The cost allocation plan methodology allocates to funds primarily on a Personnel Year (PY) basis; funds that support more staff absorb proportionally more CPUC overhead costs.

Inter-Agency Costs

The Inter-agency fee budget includes costs charged to the CTF fund for services rendered by other State agencies.

0840 State Controller

This item appropriates funds for the State Controller's Office. The budget for FY 2016-17 is \$1,000 as estimated in the Governor's FY 2014-15 budget¹⁷.

8880 Fiscal Information System for California

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 2016-17 is \$76,000 as estimated in the governor's budget for FY 2014-15.

Total Program Expenses

Total forecasted expenses for FY 2016-17 are \$148,800,000. Appendix A illustrates that CD's forecasted FY 2016-17 expense budget is identical to the FY 2015-16 enacted budget as approved. CD's budget recommendation is 26% higher than the Administrative Committee's (AC's) proposed budget of \$117,915,000. While CD's

¹⁷ The estimate for FY 2014-15 was not available; therefore staff used the estimate for the prior year.

budget took into consideration the impact of D.15-07-007, the AC did not have the same opportunity to do so because they adopted their budget in June 2015.

Conclusion

Based on the discussions above, the Commission agrees with the CD and finds that the following provisions are reasonable and should be adopted:

- (1) A total CTF expense budget of \$148,800,000 for FY 2016-17, composed of \$145,065,000 for Local Assistance, \$3,658,000 for State Operations, \$1,000 for 0840 State Controller and \$76,000 for 8880 Financial Information System for California; and
- (2) A CTF funding cap of \$148,800,000 for FY 2016-17.

The FY 2016-17 budget adopted today is subject to final appropriations adopted in the Budget Act of 2016 for 8660 Public Utilities Commission (State Operations and Local Assistance), 0840 State Controller (State Operations) and 8880 Financial Information System for California (State Operations).

The appropriations adopted in the Budget Act of 2016, if different from the adopted FY 2016-17 budget, will supersede the Commission's FY 2016-17 budget adopted in this Resolution.

Safety Consideration

This Resolution ensures that there is adequate funding, at an appropriate level, to support the CTF program budgetary expenditures. The CTF program helps to promote universal service by subsidizing advanced communications services of qualified anchor institutions, which also can enhance the safety of these entities.

NOTICE/PROTESTS

Notice of the CTF-AC's proposed budget for FY 2016-17 was published in the Commission's Daily Calendar on August 14, 2015. No parties submitted protests.

Notice of Availability and Comments

In compliance with PU Code § 311 (g), the Commission e-mailed on September 1, 2015, a notice letter informing telecommunications carriers serving CTF customers, members of the CTF-AC, and the parties of records in R. 95-01-020/I95-01-021, R.06-05-028 and

R.13-01-010 of the availability of this revised draft resolution for comments, as well as the availability of the conformed resolution, if adopted by the Commission, on the Commission website at www.cpuc.ca.gov. No comments were filed.

Findings and Conclusions

1. The California Teleconnect Fund was adopted in D.96-10-066, effective October 25, 1996, to provide discounted rates for advanced telecommunications services for qualifying schools, libraries, government-owned health care providers, and community based organizations.
2. D.15-07-007 was adopted on July 23, 2015. The Decision resolved Phase 1 and Phase 2 issues of Rulemaking 13-01-010 (R.13-01-010), restated program goals, and instituted program reforms. It sets new eligibility criteria for participants, service providers, and services, and directs service providers to post and submit various information, including pricing information. Phase 3 of R.13-01-010 will resolve administration and implementation issues that may affect the FY 2016-17 budget.
3. Public Utilities Code Sections 280(d) requires that the money appropriated from the CTF funds be used only for the purposes of the program.
4. The CTF cap can, if necessary, be raised by a Commission resolution at any time. On July 12, 2001, the Commission issued Resolution T-16542 to increase the funding cap from \$50 million to \$55 million.
5. On November 6, 2014, the Commission issued Resolution T-17456 to increase the funding cap from \$107,983,000 to \$148,086,714.
6. CD recommends a CTF funding cap for FY 2016-17 of \$148,800,000 to accommodate program expenses for FY 2016-17.
7. In a letter dated August 10, 2015, the CTF Administrative Committee submitted to the Executive Director a proposed budget of \$117,915,000 for FY 2016-17.
8. The California Teleconnect Fund Administrative Committee's proposed budget for FY 2016-17 was noticed in the Commission's Daily Calendar of August 14, 2015. No comments were filed.

9. Final appropriations for 0840 State Controller (State Operations) and 8880 Financial Information System for California (State Operations) will be determined when the Budget Act of 2016 is approved by the Legislature and the Governor.
10. CD's proposed FY 2016-17 expense budget of \$148,800,000, composed of \$145,065,000 for Local Assistance, \$3,658,000 for State Operations, \$1,000 for 0840 State Controller and \$76,000 for 8880 Financial Information System for California, is reasonable and should be adopted.
11. The FY 2016-17 budget adopted today is subject to final appropriations adopted in the Budget Act of 2016 for 8660 Public Utilities Commission (State Operations and Local Assistance), 0840 State Controller (State Operations) and 8880 Financial Information System for California (State Operations).
12. The appropriations adopted in the Budget Act of 2016, if different from the adopted FY 2016-17 budget, will supersede the FY 2016-17 budget adopted in this resolution.
13. In compliance with PU Code § 311 (g), the Commission e-mailed on September 1, 2015, a notice letter informing telecommunications carriers serving CTF customers, members of the CTF-AC, and the parties of records in R. 95-01-020/I95-01-021, R.06-05-028 and R.13-01-010 of the availability of this revised draft resolution for comments, as well as the availability of the conformed resolution, if adopted by the Commission, on the Commission website at www.cpuc.ca.gov. No comments were filed.

THEREFORE, IT IS ORDERED that:

1. The expense budget for the California Teleconnect Fund Administrative Committee Fund for FY 2016-17 in the amount of \$148,800,000 composed of \$145,065,000 for Local Assistance, \$3,658,000 for State Operations, \$1,000 for 0840 State Controller and \$76,000 for 8880 Financial Information System for California is adopted.
2. The California Teleconnect Fund funding cap of \$148,800,000 is adopted.
3. Communications Division staff is authorized to modify the FY 2016-17 expense budget adopted today to conform to the final appropriations adopted in the Budget Act of 2016 for 8860 Public Utilities Commission (State Operations and Local

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Assistance), 0840 State Controller, and 8880 Financial Information System for California.

This Resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 1, 2015 by the following Commissioners:

/s/ Timothy J. Sullivan

TIMOTHY J. SULLIVAN

Executive Director

MICHAEL PICKER

President

MICHEL PETER FLORIO

CATHERINE J.K. SANDOVAL

CARLA J. PETERMAN

LIANE M. RANDOLPH

Commissioners

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APPENDIX

APPENDIX A

California Teleconnect Fund Program Budget
 Fiscal Year 2016-2017:: July 1, 2016 through June 30, 2017
 (Numbers in Thousands)

		FY 15-16	FY 16-17	FY 16-17
		Enacted Budget	Submitted by AC	Proposed by CD
A	Local Assistance			
1	Carrier Claims	<u>\$145,065</u>	<u>\$114,470</u>	<u>\$145,065</u>
	Sub Total	\$145,065	\$114,470	\$145,065
B	State Operations	<u>\$3,658</u>	<u>\$3,368</u>	<u>\$3,658</u>
	Sub Total	\$3,658	\$3,368	\$3,658
C				
1	8860-0493 Public Utilities Commission (Local Assistance and State Operations)	\$148,723	\$117,838	\$148,723
2	0840 State Controller	\$1	\$1	\$1
3	8880 Financial Information System for California	\$76	\$76	\$76
	<u>TOTAL PROGRAM BUDGET</u>	<u>\$148,800</u>	<u>\$117,915</u>	<u>\$148,800</u>