

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**Telecommunications Division  
Public Programs Branch**

**RESOLUTION T-16793  
December 18, 2003**

**R E S O L U T I O N**

**Resolution T-16793. Approval of the California High Cost Fund-A (CHCF-A) Administrative Committee Fund Surcharge Rate Effective January 1, 2004, Recasted Budget for Fiscal Year 2003-04, and Budget for July 1, 2004 Through June 30, 2005 to Comply with the Requirements of Public Utilities Code Section 270 (A).**

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**Summary**

This resolution adopts a recasted budget of \$48.78 million for FY 2003-04 and a budget of \$47.87 million for fiscal year (FY) 2004-05 for the California High Cost Fund-A (CHCF-A) program. This resolution also adopts a revised surcharge rate of 0.17% effective January 1, 2004, until further revised by the Commission, to fund this budget<sup>1</sup>. All certificated telecommunications carriers required to file tariffs with the Commission shall file advice letters by December 24, 2003 revising the CHCF-A surcharge rate to 0.17% to take effect on January 1, 2004.

**Background**

The California High Cost Fund (HCF) was implemented by D.88-07-022 as modified by D.91-05-016 and D.91-09-042 to provide a source of supplemental revenues to three mid-size and seventeen small Local Exchange Companies (LECs) whose basic exchange access line service rates would otherwise be increased to levels that would threaten universal service.

D.96-10-066 changed the name of HCF to CHCF-A and created the California High Cost Fund-B (CHCF-B). This decision included the three mid-size LECs in the CHCF-B program for the purpose of determining universal service subsidy support and maintained the CHCF-A for the 17 small LECs.

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<sup>1</sup> Pursuant to Public Utilities Code § 270 (a) (1), the fund name will be California High Cost Fund A Administrative Committee Fund.

In October 1999, PU Code § 270-281 were codified as a result of the enactment of Senate Bill (SB) 669 (Stats. 1999, Chapter 677). § 270(b) requires that the monies in the CHCF-A and five other funds may only be expended pursuant to § 270-281 and upon appropriation in the annual Budget Act.

On June 2, 2003, in compliance with Paragraph 4.a.1 of the CHCF-A AC Charter, the Vice Chairperson of the CHCF-A AC submitted a letter request to the Executive Director to publish the FY 2004-05 (July 1, 2004 to June 30, 2005) budget of the CHCF-A AC of \$ 47.943 million in the Commission's Daily Calendar. The Vice Chairperson's request was made in her personal capacity since the CHCF-A AC was unable to meet to deliberate on this matter on May 19, 2003 due to lack of a quorum and could not make a proposed budget submission before June 1, 2003.<sup>2</sup> The publication in the Daily Calendar was sought to enable the public to review and comment on the Vice Chairperson's letter request.

## **Notice/Protests**

Notice of the CHCF-A AC Vice Chairperson's letter request was published in the Commission Daily Calendar of June 3, 2003.

The Commission did not receive any protests or comments on this matter.

## **Discussion**

In this Resolution, the Commission adopts the following:

- The CHCF-A recasted budget for FY 2003-04 in the amount of \$48.78 million.
- The CHCF-A program budget for FY 2004-05 in the amount of \$47.87 million.
- The surcharge rate is reduced to 0.17% effective January 1, 2004 until further revised by the Commission from the current rate of 0.21%.

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<sup>2</sup> Pursuant to Article 4.1. (a) of the CHCF-A AC Charter, the CHCF-A AC is required to submit a proposed FY 2004-05 by June 1, 2003.

- All certificated telecommunications carriers required to file tariffs with the Commission shall file advice letters by December 24, 2003 revising the CHCF-A surcharge rate to 0.17% to take effect on January 1, 2004.

Appendix A shows a comparison of the CHCF-A Actual FY 2002-03 Budget, the Recasted FY 2003-04 Budget based on Actual 2002-03 data, and the proposed FY 2004-05 Budget as proposed by the Telecommunications Division (TD).

The actual FY 2002-03 budget reflects the actual revenues earned and expenses incurred by the CHCF-A Fund from July 1, 2002 through June 30, 2003 as reported by the Commission in the Certification of Year-end June 30, 2003 Financial report submitted to the State Controller's Office in August 2003. This report shows an ending fund balance as of June 30, 2003 of \$27.087 million.

The recasted FY 2003-04 budget revises the beginning fund balance FY 2003-04 as projected in Resolution T-16702 adopted by the Commission in April 2003. The revised FY 2003-04 beginning fund balance of \$27.087 million is based on the August 2003 Certification of FY 2002-03 Year-End Financial Reports submitted to the Controller's Office by the Commission. Program expenses are now projected at \$48.783 million, a reduction of some \$162,000 from the \$48.945 million approved in Resolution T-16702. The reductions are reflected in the following costs: CHCF-A AC per diem and travel costs, and interagency costs. In addition, the recasted budget revises revenue forecasts by considering changes in estimated intrastate billings subject to surcharge and the surcharge rate. Based on the telecommunications surcharge revenue remittances for the past fiscal year 2002-03, TD revised the total intrastate billings subject to surcharge to \$20,045,096,000 for FY 2003-04. This forecast is based on a 3.6%<sup>3</sup> growth on the actual FY 2002-03 billing base of \$19,357,891. The recasted budget also changes the surcharge rate to 0.17% effective January 1, 2004 from the current surcharge rate of 0.21%. The updated budget will result in a projected fund balance of \$16.900 million as of June 30, 2004.

Although the CHCF-A AC Vice Chairperson submitted a proposed FY 2004-05 CHCF-A AC Fund budget to the Executive Director, which was published in the Commission's Daily Calendar, this budget was never adopted and approved by the CHCF-A AC. Instead, TD proposes an FY 2004-05 Budget in the amount of \$47.87 million as shown in Appendix A of this Resolution.

The proposed FY 2004-05 CHCF-A budget is \$47.87 million with \$36.205 million allocated to claim payments or monthly support to the small LECs, \$10 million for

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<sup>3</sup> This growth rate reflects personal income percentage changes for California projected by UCLA Anderson in September 2003 for 2003 and 2004.

Assembly Bill (AB) 140,<sup>4</sup> \$1.200 million for financial, compliance and surcharge remittance audits, \$23,000 for banking fees, \$800 for Advisory Committee expenses, \$182,000 for Administrative/Staff Costs, \$207,815 for Inter-agency costs and \$50,000 for other operating and maintenance expenses (SQL programming and maintaining the electronic and monitoring system, staff travel, equipment and other CPUC overhead and administrative costs). The estimated billing base subject to surcharge is estimated at \$20,947,125,000, a 4.5% growth on the estimated FY 2003-04 billing base of \$20,045,096,000.<sup>5</sup> The projected ending fund balance as of June 30, 2005 is \$4.879 million, which is equivalent to approximately one month of forecasted program expenses proposed for FY 2004-05.

The optimum surcharge rate that will generate enough revenue to support the FY 2004-05 budget is 0.275%. However, since the Fund has a fund balance of more than one-month's reserve at the end of FY 2002-03, the surcharge rate can be reduced to 0.17% as early as January 1, 2004. All certificated telecommunications carriers in California shall apply the surcharge rate of 0.17% on their end-users' bills rendered on or after January 1, 2004.

### **Notice to Other Carriers, Advice Letter Filing, and Notice of Availability**

In Resolution T-15558 (dated June 8, 1994), we waived the notice requirements of General Order (G.O.) 96-A, Section III.G.1 to furnish competing utilities either public or private with copies of related tariff sheets. We did so because it did not appear to be in public's interest for each utility to send and receive over two hundred notices advising them of regulatory changes about which they already know. Since that time nothing has happened to change our opinion, so we will waive this notice requirement for tariff changes which comply with this resolution.

The Commission oversees several public programs. The surcharge rates of one or more of these programs will be revised on January 1, 2004 and will remain effective until revised again by another Commission order. For administrative efficiency, we will allow all telecommunications utilities that are subject to the surcharges for these various programs to file concurrently revised tariff schedules in compliance with resolutions and decisions revising these surcharges in accordance with the provisions of G.O. 96-A on or before December 24, 2003. These advice letters shall become effective January 1, 2004 and will remain effective until revised again by another Commission order.

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<sup>4</sup> Assembly Bill 140 § 7 adds § 276.5 to the Public Utilities Code ordering the CPUC to establish a grant program for aid in the establishment of telecommunications service in areas not currently served by existing local exchange carriers. The funding level is set not to exceed \$10 million per year.

<sup>5</sup> This growth rate reflects personal income percentage changes for California projected by UCLA Anderson in September 2003 for 2004 and uses the fourth quarter of 2004 personal income percentage change for 2005.

To be consistent with the Commission's commitment to utilize the Internet for distributing Commission orders and information, the Telecommunications Division has sent a letter to the telecommunications carriers and the parties of record in R01-08-002 and A99-09-044 notifying them of the availability of the draft resolution as well as the conformed resolution, when adopted by the Commission on the Commission's web-site, [www.cpuc.ca.gov](http://www.cpuc.ca.gov).

## **Comments**

In compliance with PU Code § 311 (g), copies of the notice letter were mailed on November 18, 2003 to the 17 small LECs, the CHCF-AC, the parties of record in R.01-08-002, A.99-09-044, and all Commission certificated telecommunications carriers informing these parties that this draft resolution is available at the Commission's website [www.cpuc.ca.gov/static/industry/telco/resolutions/index.htm](http://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 received no comments on this resolution.

## **Findings**

1. In October 1999, Public Utilities Code (PU) Code § 270-281 were codified as a result of the enactment of Senate Bill 669.
2. PU Code § 270(b) requires that the monies in California High Cost Fund-A (CHCF-A) Administrative Committee Fund may only be disbursed pursuant to § 270-281 and upon appropriation in the annual Budget Act.
3. The recasted FY 2003-04 CHCF-A budget, as shown in Appendix A, projects expenses to be \$48.78 million and ending fund balance as of June 30, 2004 to be \$16.900 million. This recasted budget is reasonable and should be adopted.
4. On June 2, 2003, the Vice Chairperson of the California High Cost Fund - A Administrative Committee in her personal capacity filed a request to publish a \$47.943 million California High Cost Fund A Administrative Committee Fund Budget for July 1, 2004 through June 30, 2005 in the Commission's Daily Calendar. This budget was never adopted or approved by the California High Cost Fund Administrative Committee.

5. Based on the updated FY 2003-04 recasted budget, the current surcharge rate of 0.21% should be reduced to 0.17%, effective January 1, 2004, until further revised by the Commission.
6. The budget for the CHCF-A for FY 2004-05 of \$47.87 million, as set forth in Appendix A of this resolution, is reasonable and should be adopted.
7. For administrative efficiency, it is reasonable to allow all telecommunications utilities that are subject to the various public program surcharges to file concurrently revised tariff schedules in compliance with the resolutions and decisions revising these surcharges in accordance with the provisions of G.O. 96-A on or before December 24, 2003. Such filings will become effective January 1, 2004 and remain in effect unless revised by another Commission order.
8. Since nothing has happened since the time the Commission waived the notice requirements of General Order 96-A, Section III, G.1(Resolution T-15558 dated June 8, 1994) , the notice requirement for tariff changes complying with this resolution will continue to be waived.
9. All certificated telecommunications carriers in California should apply this surcharge rate on their end-users' bills rendered on or after January 1, 2004.
10. Copies of the notice letter advising parties of the availability of this draft resolution and the conformed resolution, when adopted by the Commission on the Commission's web site were mailed to the 17 small LECs, the CHCF-AC, and the parties of record in R.01-08-002, A.99-09-044, and all telecommunications carriers on November 18, 2003.
11. TD received no comments on this resolution.

**THEREFORE, IT IS ORDERED that:**

1. The recasted CHCF-A Fiscal Year (FY) 2003-04 budget of \$48.78 million, as shown in Appendix A, of this resolution, is adopted.
2. The budget for the California High Cost Fund-A (CHCF-A) for FY 2004-05 of \$47.87 million, as set forth in Appendix A of this resolution, is adopted.
3. The current surcharge rate of 0.21% is reduced to 0.17% effective January 1, 2004 until further revised by the Commission. All certificated telecommunications

carriers in California shall apply the surcharge rate of 0.17% on their end-users' bills rendered on or after January 1, 2004.

4. All telecommunications carriers who are required to collect the surcharges for the various public programs may concurrently file revised tariff schedules in compliance with the resolutions or decisions revising these surcharges by advice letters in accordance with the provisions of General Order 96- A, Section III, G.1 (Resolution T-15558 dated June 8, 1994) on or before December 24, 2003. The advice letter shall become effective January 1, 2004 and remain in effect until further revised by the Commission.
5. All Local Exchange Companies (LECs) and Interexchange Companies (IECs) are granted an exemption from the noticing requirement of General Order 96- A, Section III, G.1 (Resolution T-15558 dated June 8, 1994), for surcharge changes resulting from this resolution only.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 18, 2003. The following Commissioners approved it:

/s/ WILLIAM AHERN

WILLIAM AHERN  
Executive Director

MICHAEL R. PEEVEY  
President

CARL W. WOOD

LORETTA M. LYNCH

GEOFFREY F. BROWN

SUSAN P. KENNEDY

Commissioners



APPENDIX A  
CALIFORNIA HIGH COST FUND A ADMINISTRATIVE COMMITTEE FUND  
PROGRAM BUDGET FOR FY 2004-05

A	FY 04-05 TELECOMMUNICATIONS REVENUE SUBJECT TO SURCHARGES		\$20,045,086,000	\$20,947,125,000	\$20,947,125,000
B	SURCHARGE RATES				
a	effective May 1, 2003		0.21%		
b	effective January 1, 2004		0.17%	0.17%	0.17%
		<b>Actual</b>	<b>Recent <sup>5</sup></b>	<b>Proposed</b>	<b>Adopted <sup>6</sup></b>
		<b>July 2002 - June 2003</b>	<b>July 2003 - June 2004</b>	<b>July 2004 - June 2005</b>	<b>July 2004 - June 2005</b>
1	BEGINNING FUND BALANCE <sup>1</sup>	\$14,770,443	\$27,087,420	\$16,089,623	\$16,089,623
2	PRIOR PERIOD ADJUSTMENTS <sup>2</sup>	\$502,012	\$0	\$0	\$0
3	REVISED BEGINNING FUND BALANCE (sum of Ln 1 and Ln 2)	\$14,768,435	\$27,087,420	\$16,089,623	\$16,089,623
4	TRANSFER TO GENERAL FUND PER LEGISLATIVE MANDATE <sup>4</sup>	(\$27,200,000)	\$0	\$0	\$0
5	REVENUES				
a	Surcharges (Ln A x Ln B) <sup>4</sup>	\$75,448,940	\$38,066,682	\$35,510,113	\$35,510,113
b	Investment Income <sup>4</sup>	\$353,360	\$509,753	\$236,090	\$236,090
c	Others	\$0	\$0	\$0	\$0
d	Total 04-05 Revenues (sum of a thru c)	\$75,802,299	\$38,576,435	\$35,746,203	\$35,746,203
6	FUND6 AVAILABLE FOR FY 04-05 (Sum of Ln 3, Ln 4 and Ln 5)	\$63,362,754	\$65,663,855	\$52,747,825	\$52,747,825
7	PROGRAM EXPENSES				
a	Carrier Claims <sup>8</sup>	\$35,881,292	\$37,211,916	\$36,205,355	\$36,205,355
b	Other Program Services	\$0	\$0	\$0	\$0
c	Other Legislative Mandated Programs <sup>9</sup>	\$0	\$10,000,000	\$10,000,000	\$10,000,000
d	Administrative Committee-Per Diem <sup>8</sup>	\$300	\$300	\$300	\$300
e	Administrative Committee-Travel and Others <sup>8</sup>	\$358	\$500	\$500	\$500
f	Administrative Committee-Special Needs Accommodation <sup>10</sup>	\$0	\$0	\$0	\$0
g	Financial Audit	\$0	\$100,000	\$100,000	\$100,000
h	Compliance Audit	\$100,000	\$500,000	\$500,000	\$500,000
i	Surcharge Remittance Audit	\$100,000	\$600,000	\$600,000	\$600,000
j	Claim Audit	\$0	\$0	\$0	\$0
k	Banking Fee <sup>11</sup>	\$84,870	\$23,000	\$23,000	\$23,000
l	Interagency Cost	\$0	\$115,516	\$257,815	\$257,815
m	CPUC Staff Costs <sup>11</sup>	\$65,255	\$180,000	\$180,000	\$180,000
n	Other Operating Expenses <sup>12</sup>	\$63,359	\$50,000	\$50,000	\$50,000
o	Total Program Expenses (sum of a thru o)	\$36,295,334	\$48,783,232	\$47,668,970	\$47,668,970
8	FUND BALANCE AS OF JUNE 30, 2005 (sum - Ln 1p)	\$27,087,420	\$16,089,623	\$4,578,855	\$4,578,855
	1 Beginning fund balance for FY 2003-03 is based on the Certification of Year-End 6/30/03 Financial Report and beginning fund balance for FY 2003-04 is based on the Certification of Year-End 6/30/03 Financial Report.				
	2 Prior Period adjustments consist of the following:				
	01-02 Revenues Received in 02-03	\$1,255,189.75			
	01-02 Expenses paid in October 02	(\$777,511.53)			
	01-02 Encumbrance reversal	\$23,179.54			
	01-02 Expense Adjustment	\$1,154.37			
		\$502,011.73			
	3 The FY 2003-04 budget is updated to reflect the ending fund balance as of June 30, 2003, the revised billing base for FY 2003-04, changes in the Administrative Committee per diem, travel and other expenses, and interagency costs.				
	4 The \$27,200,000 transfer to the General Fund in FY 2002-03 is pursuant to Chapter 379 Statutes 2002 (2002 Budget Act).				
	5 For FY 2002-03, based on actual income as reported by the State Controller. For FY 2003-04 and FY 2004-05, based on 2% interest per annum and average monthly balances.				
	6 Projections for FY 2004-05 are based on estimates submitted by the carriers in May 2003.				
	7 Assembly Bill 140 (AB 140) (2001) - provides transfer payments to telephone corporations providing service in high cost areas. At this time, only the CHCF-A program will provide funding for this program until issues relating to the California High Cost Fund-B program are resolved. AB 140 funding level is not to exceed \$10 million per year.				
	8 Pursuant to D 02-04-058, the per diem and other costs are authorized for committee member's attendance in the CHCF-A Administrative Committee meeting. Consistent with Department of Finance Budget Letter 03-02, one meeting is scheduled for FY 2004-05.				
	9 Represents cost for maintaining the mailbox account.				
	10 This includes costs for AB 140 staff - \$79,000 and fiscal office staff - \$105,000.				
	11 This includes costs for SQL programming and maintaining the electronic filing system, staff travel, equipment and other overhead and administrative costs.				