PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Communications Division **RESOLUTION T-17491**
Carrier Oversight & Programs Branch **October 1, 2015**

R E S O L U T I O N

Resolution T-17491. Approval of California High Cost Fund-A Administrative Committee Fund Expense 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 an expense budget of $43.485 million for Fiscal Year (FY) 2016-17 for the California High Cost Fund-A (CHCF-A) program.

Background

Public Utilities (P.U.) Code § 275.6 requires the California Public Utilities Commission (CPUC or Commission) to implement a program for universal service support to reduce rate disparity in rural areas. Accordingly, the Commission Decision (D.) 88-07-022 as modified by D.91-05-016 and D.91-09-042 implemented the California High Cost Fund (HCF) to provide a source of supplemental revenues to three mid-size and seventeen small Incumbent Local Exchange Carriers (ILECs), whose basic exchange access line service rates would otherwise need to be increased to levels that would threaten universal service goals.

D.96-10-066 changed the name of the California HCF to CHCF-A, otherwise known as the California High Cost Fund-A Administrative Committee Fund, and also created the California High Cost Fund-B (CHCF-B) program. The decision maintained the CHCF-A for the 17 small ILECs, and created the CHCF-B program, which included the three mid-size LECs, for the purpose of determining universal service support.

The CHCF-A was initially comprised of 17 small ILECs. D.08-10-010 authorized the consolidation of three small CHCF-A ILECs: Citizens Telecommunications Company of Tuolumne, Citizens Telecommunications Company of the Golden State and Global Valley Networks, Inc., with the midsize CHCF-B ILEC, Citizens Telecommunications Company of California Inc., (now doing business as Frontier

Communications of California). Additionally, D.13-05-028 authorized another consolidation of Frontier Communications West Coast Inc., into the larger ILEC, Citizens Telecommunications Company of California Inc. doing business as Frontier Communications of California. Accordingly, 13 small ILECs that are eligible for CHCF-A funding now provide service in rural areas of California.

To qualify for and receive CHCF-A funding, the small ILECs are required to submit a General Rate Case (GRC) application subject to CHCF-A waterfall provisions. Carrier payment levels are impacted by the Implementation Rules from D.91-09-042, which established a phase-down of the CHCF-A funding level effective January 1st following the year after the completion of a small ILEC's GRC proceeding. According to these rules, CHCF-A funding levels for small ILECs associated with program claims are maintained at 100% of the total claim amount for the first three years after a GRC is completed, with funding decreasing to 80% by the fourth year if no subsequent GRC application is filed, then reducing to 50% for the fifth year, and further reducing to 0% thereafter, until a subsequent GRC application is filed. This six-year phase down of funding level is commonly known as the "waterfall".

Public Utilities (PU) Code § 270(b) states that funds in the CHCF-A and five other Public Purpose Programs may only be expended pursuant to PU Code §§ 270-281 and upon appropriation in the annual Budget Act. Since FY 2001-2002, the CHCF-A Fund expenditures have been authorized in the state's annual Budget Act.

In November 2014, the Commission adopted a total CHCF-A program budget for FY 2015-16 of $43,328,314 in Resolution T-17447. The State then enacted the FY 2015-16 CHCF-A program budget of $43,485,237 on June 24, 2015. The FY 2015-16 enacted program budget is slightly higher to reflect salary and other adjustments occurring after Resolution T-17447 was issued.

The Commission is reviewing the CHCF-A program in Rulemaking (R.) 11-11-007 to address the issues of whether the program needs further modification to more efficiently and effectively meet the program's universal service goals. On December 18, 2014, the Commission adopted D.14-12-084 in R.11-11-007, closing Phase 1 of the CHCF-A review. To balance multiple objectives, the Commission enacted a "two-prong" test to determine whether to account for federal subsidy changes. First, the decision implemented new rules for GRC review, adopting the Federal Communications Commission's updated formula for recovery of corporate expense caps, pegged to a federal cap on per line expenses.

Second, the decision establishes a "rebuttable presumption" requiring the small ILEC to justify additional draw in the face of decreased federal subsidies, by demonstrating the reasonableness of investment recovery when deploying broadband-capable facilities, to support both high-quality voice communications and broadband service.

To help modify the CHCF-A draw, D.14-12-084 also established a mechanism to set the small ILECs' basic rate floors, and ordered a Broadband Networks and Universal Service study to determine if competition should be opened in the small ILEC territories, and whether to impute broadband revenues in future GRCs.

The CHCF-A program review continues in Phase 2 of R.11-11-007. On June 25, 2015, the Commission adopted D.15-06-048 in R.11-11-007 and issued a rate case plan for the small ILECs. The Decision established a timeline for small ILECs to file their respective GRCs over the next three years and into the future, at which point data regarding the amount of future CHCF-A funding requests will be provided. The Commission fully recognizes the challenge of complying with PU Code 275.6 requirements and meeting policy objectives balanced against the specter of decreased federal funding and resulting demands on CHCF-A program funding.

CHCF-A is funded by a surcharge assessed on revenues collected from end-users for intrastate telecommunications services subject to surcharge. The Commission established the current surcharge rate of 0.35% of intrastate revenue for the CHCF-A in Resolution T-17453, effective January 1, 2015.

The CHCF-A program as established by P.U. Code §275.6(g), was set to expire on January 1, 2015. However, on September 20, 2014 the Governor signed into law Senate Bill 1364, extending both the CHCF-A and CHCF-B programs until January 1, 2019.

Discussion

In this Resolution, CD proposes a CHCF-A program expense budget of $43,485,237 for FY 2016-17. This proposed budget reflects the small ILECs' estimated CHCF-A claims, (carrier claims being the sole component of Local Assistance and subject to CD staff analyses to determine respective appropriate funding levels), along with estimates for State Operations, FI$Cal, and State Controller's Office expenses.

STATE OPERATIONS (Appendix A, line 1)

State Operations expenditures for the CHCF-A program consist of the following:

- Administrative Committee Costs
- Direct program Staff Costs and Benefits
- Audit Personnel Billing to Program
- Pro Rata
- Audit-Contract
- IT Automation-Contract
- Contracted Program Administration Costs
- Cost Allocation

For FY 2015-16, the enacted State Operations appropriation for the CHCF-A program is $1,631,000,[1] in excess of the Resolution T-17447 approved amount of $1,474,077, resulting from the annual end-of-year collaboration between the Commission's Fiscal office and the State's Department of Finance, to recognize salary and benefit adjustments to this appropriation for the upcoming fiscal year. The estimated State Operations expenditures for FY 2014-15 are $1,244,748. [2]

While this expenditure estimate is lower than the appropriated amount, we propose to maintain the FY 2016-17 State Operations budget at the FY 2015-16 level enacted in the Budget Act of 2015. Maintaining the State Operations budget at this level will provide for an expected upward trend in expenses associated with, for instance, additional costs assumed in implementing legislation requiring a change in public purpose program surcharge collection policy and related programming costs, which would fall under the various expenditure components itemized above. Accordingly, CD recommends that the Commission adopt a State Operations estimate of $1,631,000 for FY 2016-17.

LOCAL ASSISTANCE (Appendix A, line 2)

Local Assistance consists of carrier claims to the CHCF-A program. Estimated Local Assistance support for FY 2014-15 is $34.135 million. For FY 2015-16, the Budget Act of 2015 enacted a Local Assistance appropriation of $41.813 million. Additionally, Local Assistance payments for FY 2016-17 are estimated at $40.967 million, based on data submitted by the small ILECs' cumulative response to CD's annual May 2015 data request. The FY 2014-15 estimated Local Assistance support equals approximately 83% of the FY 2016-17 Local Assistance estimate before considering known estimates of small ILEC GRCs filings that should be ruled on during FY 2016-17.

CD has factored this information in its FY 2016-17 Local Assistance estimate. Kerman Telephone Company's (Kerman) Test Year (TY) 2016 GRC filing requests $6.490 in CHCF-A support, representing a $2.887 million increase from its estimated actual support for FY 2014-15. Additionally, both Siskiyou Telephone Company and Volcano Telephone Company will have 2017 GRC TY filings accompanied by expected requests for increases in funding, with Volcano returning to 100% funding after being subject to the 80% waterfall provision. These known events increase the small ILEC Local Assistance support estimate to $40.967 million. Adopting last year's appropriation of $41.813 million sets a reasonable margin of error of approximately 2% as a contingency for any additional unknown events.

[1] Resolution T-17447 first adopted a FY 2015-16 State Operations budget appropriation of $1,474,077; however the Budget Act of 2015 enacted a State Operations appropriation level of $1,631,000.
[2] Estimated State Operations expenditures for FY 2014-15 is the sum of: Personal Services $246,912; Operations $334,591; Pro-Rata/SWCAP $346,742; Cost Allocation $316,503: Total $1,244,748.

The combination of anticipated known events and the small contingency for unknown events provide justification for setting the FY 2016-17 Local Assistance estimate at $41.813 million, identical to the Local Assistance amount reflected in the FY 2015-16 Budget Act of 2015 enacted for this program. Accordingly, CD recommends a Local Assistance estimate of $41.813 million for FY 2016-17, believing that this recommendation is reasonable given a review of past carrier claims results and prior Local Assistance forecasts.

Table 1
Comparison of Local Assistance: FY 2014-15 Support Paid, FY 2016-17 Carrier Estimates and FY 2015-16 Enacted Budget Support Amounts, in Millions

(a)	(b)	(c)	(d)
FY 2014-15 Estimated Local Assistance	FY 2015-16 Enacted support for Res. T-17447	Small ILECs FY 2016-17 support estimate	Proposed Local Assistance for FY 2016-17
$34.135	$41.813	$40.967	$41.813

FI$Cal (Appendix A, line 3)

The Financial Information System for California (FI$Cal) line item is based on the appropriations recommended in the Governor's FY 2015-16 budget of $41,000 for development of the FI$Cal system, an integrated system for budgeting, accounting, procurement, cash management, financial management, and financial reporting.

STATE CONTROLLER'S OFFICE (SCO) (Appendix A, line 4)

The SCO's line item is based on the appropriations recommended in the Governor's FY 2015-16 budget of $237 for services rendered by the Controller's Office.

Total Program Expenses
The proposed CHCF-A budget for FY 2016-17 is $43,485,237 ($1,631,000 for State Operations; $41,813,000 for Local Assistance; $41,000 for FI$Cal, and $237 for State Controller's Office.

Final appropriations for 8660 Public Utilities Commission (State Operations and Local Assistance), 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. The FY 2016-17 budget adopted today is subject to final appropriations adopted in the Budget Act of 2016. To the extent that appropriations adopted in the Budget Act of 2016 differ from the FY 2016-17

Budget adopted in this resolution, the appropriations adopted in the Budget Act of 2016 will supersede the budget adopted in this resolution.

Appendix A compares CD's forecasted FY 2016-17 expense budget versus the enacted FY 2015-16 expense budget.

Other CHCF-A Program Issues

Cost Allocation

The CPUC's cost allocation plan directs how 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, HR 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 methodology allocates to funds primarily on a Personnel Year (PY) basis; funds that support more staff absorb proportionally more CPUC overhead costs.

The CPUC initiated development of a cost allocation plan as a corrective action in response to a 2013 Department of Finance audit that highlighted the agency's lack of an updated, comprehensive, and methodologically consistent plan for allocating indirect charges to special funds and grants.

As a result of implementing the plan, some CPUC special funds received higher proportions of costs allocation than had been allocated in previous years due to the changes in methodology related to defining administrative cost "pools" and PY analysis. Indirect charges will continue to be built in as line-items into all funds as part of FY 2016-17 budget proposals.

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

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 § 274.

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

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.

Inter-Agency Costs
The Inter-agency fee budget includes costs charged to the CHCF-A Fund for services rendered by other State agencies.

CHCF-A Administrative Committee (AC)
The CHCF-A AC charter charges the AC to advise the Commission regarding the development, implementation, and administration of the CHCF-A program and requires the AC to meet at least quarterly.

P.U. Code § 273(a) requires the CHCF-A AC to submit a proposed budget including estimated program expenditures and the committee's projected expenses for the fiscal year commencing thirteen (13) months thereafter to the CD Director. On May 21, 2015, the CHCF-A AC held a public meeting to discuss the proposed FY 2016-17 expense budget. On June 1, 2015, the AC Chairperson submitted a proposed $43.943 million FY 2016-17 CHCF-A AC budget to the CD Director.

Appendix A summarizes CD's forecasted FY 2016-17 expense budget of $43.485 million versus the enacted FY 2015-16 expense budget of $43.485 million.

Safety Issues

The small ILECs are required to adhere to all Commission rules, decisions, General Orders and statutes including Public Utilities Code § 451 by undertaking all actions "…necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public." The CHCF-A program provides carriers with subsidies to provide safe, reliable and affordable telephone service to its customers in rural, high cost areas.

Reliable telephone service is essential in these generally rural areas that are sometimes isolated. The CHCF-A program provides financial support to the small ILECs to aid them in providing customers with 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 emergency medical responders when fire, natural disasters, medical emergencies, or other crises occur.

PU Code § 275.6 promotes customer access to advanced services and deployment of broadband-capable facilities in rate base, which benefits emergency response providers, educational institutions, teachers and students to have access to high speed broadband for their important uses.

CHCF-A funding has allowed the small ILECs to locate their facilities underground and use fiber optic cable which protects equipment in case of fire and allows for the quicker deployment of broadband-capable facilities. In some small ILEC territories, emergency responders set up emergency command centers and the small ILECs must quickly provide responders with access to high quality voice communications and broadband.

This Resolution ensures that the CHCF-A program continues to promote the goals of universal service by subsidizing essential communications links in high cost, rural communities.

Conclusion

Communications Division's forecasted costs for the FY 2016-17 expense budget are included in Appendix A and are summarized in Table 2:

Table 2

Program Categories	FY 2016-17 Proposed Budget
State Operations	$ 1,631,000
Local Assistance	$ 41,813,000
FI$Cal	$ 41,000
SCO	$ 237
Total Program Budget	**$ 43,485,237**

In this Resolution, we adopt the proposed FY 2016-17 CHCF-A expense budget of $43.485 million, which is identical to the amount enacted for FY 2015-16. Final appropriations for 8660 Public Utilities Commission (State Operations and Local Assistance), 8880 Financial Information System for California (FI$Cal), and 0840 State Controller's Office (SCO), will be determined when the Budget Act of 2016 is approved by the Legislature and the Governor. The FY 2016-17 Budget adopted today is subject to final appropriations adopted in the Budget Act of 2016. To the extent that appropriations adopted in the Budget Act of 2016 differ from the FY 2016-17 Budget adopted in this resolution, the appropriations adopted in the Budget Act of 2016 will supersede the budget adopted in this resolution.

Notice/Protests

Notice of the CHCF-A AC's Proposed Expense Budget for FY 2016-17 was published in the Commission Daily Calendar on August 11, 2015. No parties submitted protests.

Comments on Proposed Resolution

In compliance with P.U. Code § 311 (g), the Commission on September 1, 2015, provided notice to the 13 small ILECs, the CHCF-A AC, and parties of record in R.01-08-002 and Application 99-09-044, informing them that this proposed Resolution is available at the Commission's website http://www.cpuc.ca.gov/ and is available for public comment. Additionally, CD informed these parties of the availability of the conformed resolution at the same website. The Commission received no comments.

Since mailing the resolution for comments, CD staff discovered a small error in reporting the enacted State Operations appropriation for this program. This Resolution has been updated throughout to reflect the correct figures.

Findings and Conclusions

1. Public Utilities (PU) Code § 275.6 requires the California Public Utilities Commission (Commission) to implement a program for universal service support to reduce rate disparity in rural areas.

2. PU Code § 270(b) states that the monies in California High Cost Fund-A (CHCF-A) Administrative Committee (AC) Fund may only be disbursed pursuant to PU Code § 270-281 and upon appropriation in the annual Budget Act.

3. In November 2014, the Commission adopted a total CHCF-A program budget for FY 2015-16 of $43,328,314 in Resolution T-17447.

4. The State then enacted the FY 2015-16 CHCF-A program budget of $43,485,237 on June 24, 2015. The FY 2015-16 enacted program budget is slightly higher to reflect salary and other adjustments occurring after Resolution T-17447 was issued.

5. The CHCF-A program as established by P.U. Code §275.6(g), was set to expire on January 1, 2015. However, on September 20, 2014 the Governor signed into law Senate Bill 1364, extending both the CHCF-A and CHCF-B programs until January 1, 2019.

6. The enacted State Operations appropriation for FY 2015-16 is $1,631,000, in excess of the Resolution T-17447 amount of $1,474,077, resulting from the annual end-of-year collaboration between the Commission's Fiscal office and the State's

Department of Finance, to recognize salary and benefit adjustments to this appropriation for the upcoming fiscal year.

7. The estimated State Operations expenditure for FY 2014-15 is $1,244,748. CD proposes to adopt the FY 2016-17 State Operations budget at the same amount as included in the FY 2015-16 Enacted Budget of $1,631,000, to provide for an expected upward trend in expenses associated with additional costs assumed in implementing legislation requiring a change in public purpose program surcharge collection policy and related programming costs.

8. The estimated Local Assistance for FY 2014-15 is $34.135 million. For FY 2015-16, the Budget Act of 2015 enacted a Local Assistance appropriation of $41.813 million.

9. CD has included known event estimates in the FY 2016-17 Local Assistance estimate. Kerman Telephone Company's (Kerman) Test Year (TY) 2016 GRC filing requests $6.490 in CHCF-A support, representing a $2.887 million increase from its estimated actual amount for FY 2014-15.

10. Both Siskiyou Telephone Company and Volcano Telephone Company will have 2017 GRC TY filings accompanied by expected requests for increases in funding, with Volcano returning to 100% funding after being subject to the 80% waterfall provision.

11. The combination of anticipated known events and the small contingency for unknown events provide justification for setting the FY 2016-17 Local Assistance estimate at $41.813 million. Accordingly, CD recommends a Local Assistance estimate of $41.813 million for FY 2016-17.

12. CD's proposed FY 2016-17 expense budget of $43.485 million ($1,631,000 for 8660 State Operations; $41,813,000 for Local Assistance; $41,000 for 8880 Financial Information System for California (FI$Cal); and $237 for 0840 State Controller's Office (SCO) is reasonable and should be adopted.

13. Final appropriations for 0840 SCO, 8660 State Operations and Local Assistance, and 8880 Financial FI$Cal will be determined when the Budget Act of 2016 is approved by the Legislature and the Governor.

14. The FY 2016-17 budget adopted today is subject to final appropriations adopted in the Budget Act of 2016 for State Operations, SCO Operations, and FI$Cal.

15. 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.

16. On June 1, 2015, the CHCF-A AC submitted to the CD's Director a proposed Fiscal Year (FY) 2016-17 expense budget for the CHCF-A AC Fund, totaling $43.943 million.

17. The small ILECs are required to adhere to all Commission rules, decisions, General Orders and statutes including Public Utilities Code § 451 by undertaking all actions "…necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public."

18. Notice of the CHCF-A AC's proposed expense budget for FY 2016-17 was published in the Commission's Daily Calendar on August 11, 2015. No parties submitted protests.

19. In compliance with P.U. Code § 311 (g), the Commission on September 1, 2015, provided notice to the 13 small ILECs, the CHCF-A AC, and parties of record in R.01-08-002 and Application 99-09-044, informing them that this proposed Resolution is available at the Commission's website http://www.cpuc.ca.gov/ and is available for public comment. Additionally, CD informed these parties of the availability of the conformed resolution at the same website.

20. The Commission received no comments on this draft Resolution.

21. On June 24, 2015, the State enacted the Budget Act of 2015. In the course of review, CD staff discovered that the appropriated and enacted State Operations line item for this budget is $1,631,000. This Resolution has been updated throughout to reflect these appropriations.

THEREFORE, IT IS ORDERED that:

1. The expense budget for the California High Cost Fund-A Administrative Committee Fund for Fiscal Year 2016-17, in the amount of $43,485,237, comprised of $1,631,000 for State Operations; $41,813,000 for Local Assistance; and $41,000 for FI$Cal, and $237 for State Controller's Office, is adopted.

2. Communications Division staff is authorized to modify the adopted Fiscal Year 2016-17 budget to conform to the final appropriations adopted in the Budget Act of 2016 for 8660 State Operations and Local Assistance, 0840 State Controller's Office and 8880 Financial Information System for California.

This Resolution is effective today.

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

/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

Appendix

APPENDIX A

CALIFORNIA HIGH COST FUND-A ADMINISTRATIVE COMMITTEE FUND PROGRAM BUDGET				
	Program Categories	FY 2015-16 Enacted Budget	FY 2016-17 Proposed Budget per Res. T-17491	FY 2016-17 Adopted Budget per Res. T-17491
	a	b	c	d
1	State Operations	$ 1,631,000	$ 1,631,000	$ 1,631,000
2	Local Assistance	$ 41,813,000	$ 41,813,000	$ 41,813,000
3	FI$Cal	$ 41,000	$ 41,000	$ 41,000
4	SCO	$ 237	$ 237	$ 237
5	**Total Program Budget**	**$ 43,485,237**	**$ 43,485,237**	**$ 43,485,237**

End of Appendix