

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Communications Division
Carrier Oversight & Programs Branch**

**RESOLUTION T- 17606
July 26, 2018**

R E S O L U T I O N

Resolution T-17606 Approval of the California Teleconnect Fund Program Surcharge Rate of 0.78% Effective September 1, 2018.

SUMMARY

This resolution adopts a California Teleconnect Fund program surcharge rate of 0.78%, effective September 1, 2018, until further revised by the California Public Utilities Commission. All telecommunications carriers shall reduce the California Teleconnect Fund surcharge rate assessed on revenues collected from end-users for intrastate telecommunications services subject to surcharge from 1.08% to 0.78% effective September 1, 2018, and thereafter.

BACKGROUND

In Decision (D.)96-10-066, the California Public Utilities Commission (Commission) created the California Teleconnect Fund (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 (CBO).

The CTF program is funded by a surcharge assessed on revenues collected from end-users for intrastate telecommunications services subject to surcharge. On March 26, 2015, the Commission adopted Resolution T-17471, which increased the CTF surcharge rate from 0.93% to 01.08% effective June 1, 2015 to meet forecasted CTF budget requirements. The surcharge has not been adjusted since then. Historical CTF surcharge rates are available online at <http://www.cpuc.ca.gov/>.

DISCUSSION

This Resolution proposes a CTF surcharge rate of 0.78% to be effective September 1, 2018, until further revised by the Commission in order to better align the surcharge with ongoing funding needs. This surcharge amount is sufficient to maintain a program fund level with a reserve covering approximately three-months of monthly expenditures which currently average approximately \$8 million per month. This reserve strikes a reasonable balance between the need to have sufficient liquidity in the fund to cover program expenditures and the desire to not overburden ratepayers by over-collecting program surcharges.

Prior Year's Budget

For fiscal year (FY) 17-18 the budget appropriation of \$145 million was set for the CTF's local assistance program. This budget appropriation was similar to the prior year's appropriations. In Decision (D).15-07-007 the Commission adopted program rule changes and as a result it has become apparent that claim expenditures have been reduced. In particular the reduction of the voice discount from 50% to 25% and the current status of wireless services as ineligible for the program results in a lower overall claim draw. For these reasons the FY 18-19 local assistance budget was reduced by \$20 million dollars to \$125 million as depicted in the table below. Current analysis projects lower than appropriated claim expenses again by the end of FY 18-19.

| CTF Local Assistance Budget Allocation Compared to FY Claims and Projections | FY 14-15 | FY 15-16 | FY 16-17 | FY 17-18 | FY 18-19 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Fiscal Year Local Assistance Budget | \$ 107,550,000 | \$ 145,065,000 | \$ 145,065,000 | \$ 145,065,000 | \$ 125,000,000 |
| Claims for Budget Year (thru April 2018) | \$ 91,778,719 | \$ 103,574,342 | \$ 90,816,317 | \$ 37,324,059 | \$ - |
| Claims for Budget Year w/ Projections | \$ 91,778,719 | \$ 103,574,342 | \$ 93,534,237 | \$ 99,607,774 | \$ 106,344,356 |
| Budget to Actual Claims w/ Projection Variance | \$ 15,771,281 | \$ 41,490,658 | \$ 51,530,763 | \$ 45,457,226 | \$ 18,655,644 |

Resulting Excess Cash Balance

The unanticipated result of the D.15-07-007 program changes and a static local assistance budget allocation for the past three fiscal years has resulted in a high cash balance. As shown in the table below, even with the reduction of the budget to \$125 million, the excess cash balance will continue to grow. Current analysis suggests that projected claim expenses and maintaining the existing surcharge rate of 1.08% will result in an excess cash reserve of \$108.76 million by the end of FY 20-21

| Cash Flow Impact for Maintaining a Surcharge of 1.08% | FY 17-18 | FY 18-19 | FY 19-20 | FY 20-21 |
|---|----------------|----------------|----------------|----------------|
| Beginning cash balance | \$ 85,516,000 | \$ 96,885,808 | \$ 102,909,808 | \$ 108,533,808 |
| Fiscal Report Surcharge Revenue | \$ 116,661,600 | \$ 111,024,000 | \$ 105,624,000 | \$ 100,224,000 |
| Claims in Fiscal Year * | \$ 105,291,792 | \$ 105,000,000 | \$ 100,000,000 | \$ 100,000,000 |
| Surcharge over (under) collection | \$ 11,369,808 | \$ 6,024,000 | \$ 5,624,000 | \$ 224,000 |
| Ending cash balance | \$ 96,885,808 | \$ 102,909,808 | \$ 108,533,808 | \$ 108,757,808 |

* Claims: FY 15-16, FY 16-17, and FY 17-18 thru April reflects the CTF Master Database. FY 17-18 May onward reflects Estimate.

As described above, in managing public purpose program fund balances, Communication Division Staff (Staff) aims to have a program cash reserve equal to three months of average claim expenses, or about \$24 million for the CTF program. The projected ending cash balance for FY 20-21 of \$108.76 is more than four times the targeted cash reserve. For this reason, this resolution reduces the surcharge rate from 1.08% to 0.78% beginning September 1, 2018. The table below shows a projection of how much the cash reserve will be reduced based on anticipated claim expenses and revenue generated with the reduced surcharge. Staff projects a cash reserve of \$25 million by the end of FY 20-21. This amount is in line with the target cash reserve of \$24 million.

| Cash Flow Impact for Changing Surcharge to 0.78% in 9/18 | FY 17-18 | FY 18-19 | FY 19-20 | FY 20-21 |
|--|----------------|-----------------|-----------------|-----------------|
| Beginning cash balance | \$ 85,516,000 | \$ 96,885,808 | \$ 76,937,611 | \$ 52,910,862 |
| Fiscal Report Surcharge Revenue | \$ 116,661,600 | \$ 85,051,803 | \$ 75,973,251 | \$ 72,089,138 |
| Claims in Fiscal Year * | \$ 105,291,792 | \$ 105,000,000 | \$ 100,000,000 | \$ 100,000,000 |
| Surcharge over (under) collection | \$ 11,369,808 | \$ (19,948,197) | \$ (24,026,749) | \$ (27,910,862) |
| Ending cash balance | \$ 96,885,808 | \$ 76,937,611 | \$ 52,910,862 | \$ 25,000,000 |

* Claims: FY 15-16, FY 16-17, and FY 17-18 thru April reflects the CTF Master Database. FY 17-18 May onward reflects Estimate.

With the approval of the surcharge rate reduction, Staff does not anticipate needing to increase the surcharge again until FY 21-22. We note, however, that the Commission currently has an open rulemaking (R. 13-01-010) performing a comprehensive review of the CTF program. If the Rulemaking results in a significant change to the forecasted level of CTF funding, a resolution will be issued to change the CTF surcharge rate as needed.

All telecommunications carriers shall assess a CTF surcharge rate of 0.78% on their revenues collected from end-users for intrastate telecommunications services subject to surcharge effective September 1, 2018, until otherwise directed by the Commission.

Advice Letter Filing

In Resolution T-16901, issued December 2, 2004, the Commission modified the tariff process for revising telecommunications Public Programs surcharge rates. The revised process requires all certificated carriers filing tariffs with the Commission to file a generic tariff reference to AT&T California (formerly SBC California) tariffs for the list

of Public Program surcharge rates and the Reimbursement Fee. This process change is effective with surcharge rates and reimbursement fees implemented on January 1, 2005 and thereafter, until revised by the Commission.

In order to comply with the modified tariff process, AT&T California should file an Advice Letter on or before August 1, 2018, to modify the CTF surcharge rate from 1.08% to 0.78%, effective September 1, 2018 and thereafter, until further revised by the Commission. Pursuant to Ordering Paragraph 1 of Resolution T-16901, all other carriers with Commission-filed scheduled tariffs should be cross-referenced to AT&T California's tariff for all future changes in the Public Program surcharges, including the CTF. Therefore, these carriers are not required to file an Advice Letter reflecting this change. These concurring carriers, however, are required to implement the new CTF surcharge rate of 0.78% effective September 1, 2018, similar to AT&T.

SAFETY ISSUES

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 that continues to enhance the safety of these entities.

COMMENTS

In compliance with PU Code § 311(g), a notice letter was emailed on June 22, 2018, to all telecommunications carriers, the CTF Administrative Committee (AC) and the parties of record in Rulemaking 13-01-010, informing these parties of the availability of the draft of this Resolution for public comment at the Commission's website <http://www.cpuc.ca.gov>. This letter also informed parties that the final Resolution, adopted by the Commission, will be available at the same website.

No comments were received by the Communications Division regarding this resolution.

FINDINGS AND CONCLUSIONS

1. The California Teleconnect Fund (CTF) was adopted in Decision 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. Public Utilities Code Section 280(d) requires that the money appropriated from the CTF funds be used only for the purpose of the program.
3. Rulemaking 13-01-010 will review program goals, participant eligibility, eligible services, service provider eligibility, and budget and administrative rules.
4. On March 26, 2015, the California Public Utilities Commission (Commission) adopted resolution T-17471, which increased the CTF surcharge rate from 0.93% to 1.08%, effective June 1, 2015 until further revised by the Commission.
5. The California State Budget for Fiscal Year (FY) 17-18 adopted a \$145.07 million appropriation for the CTF program's local assistance budget.
6. A reduction of the CTF surcharge rate from 1.08% to 0.78%, effective September 1, 2018, is needed to reduce a unreasonably high cash balance for the program.
7. Communication Division's proposal of decreasing the CTF surcharge rate to 0.78% effective September 1, 2018 is reasonable and should be adopted.
8. All telecommunications carriers and interconnected VoIP service providers should revise the CTF surcharge rate assessed on end-user intrastate telecommunications service revenues to 0.78% beginning on September 1, 2018, and thereafter, or until otherwise directed by the Commission.
9. In accordance with Resolution T-16901, dated December 2, 2004, AT&T should file an advice letter by August 1, 2018, modifying the CTF surcharge rate from 1.08% to 0.78%, until further revised by the Commission.
10. In compliance with Public Utility Code § 311 (g), the Commission e-mailed on June 22, 2018, a notice letter informing all telecommunications carriers, members of the CTF Administrative Committee, and the parties of record in Rulemaking 13-01-010 of the availability of this draft resolution for comment, as well as the availability of this draft resolution on the Commission website at www.cpuc.ca.gov.
11. Comments are due on or before July 23, 2018.
12. No comments were received by the Communications Division regarding this resolution.

THEREFORE, IT IS ORDERED that:

1. The California Teleconnect Fund surcharge rate of 0.78%, effective September 1, 2018 and thereafter, until further revised by the California Public Utilities Commission, is adopted.
2. AT&T shall file an Advice Letter on or before August 1, 2018, modifying the surcharge rate for the California Teleconnet Fund from 1.08% to 0.78%, effective, September 1, 2018, and thereafter, until further revised by the California Public Utilities Commission.
3. All telecommunication carriers and interconnected Voice Over Internet Protocol (VoIP) service providers shall assess a California Teleconnect Fund surcharge rate of 0.78% on revenues collected from end users for intrastate telecommunications services subject to surcharge on September 1, 2018, and thereafter, until further ordered by the California Public Utilities Commission.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on July 26, 2018. The following Commissioners approved it:

Alice Stebbins
Executive Director