Date of Hearing: May 17, 2017

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Lorena Gonzalez Fletcher, Chair

AB 1665 (Eduardo Garcia) - As Amended May 2, 2017

Policy Committee: Communications and Conveyance Vote: 12 - 0

Urgency: No State Mandated Local Program: Yes Reimbursable: No

SUMMARY:

This bill authorizes the California Public Utilities Commission (PUC) to collect \$330 million from telephone user surcharges for deposit in the California Advanced Services Fund (CASF), beginning on January 1, 2018 and continuing through the 2022 calendar year. This collection amount must not exceed \$26 million each year, unless the PUC determines that collecting a higher amount in any year will not result in an increase in the total amount of all surcharges collected from telephone customers that year. Additionally, this bill:

- 1) Revises the goal of the program to approve funding for infrastructure projects that will provide broadband access to no less than 98% of California households in each consortia region, as identified by the PUC, by December 31, 2022.
- 2) Revises the eligibility requirements for projects and project applicants, as specified.
- 3) Requires the PUC to identify priority unserved and underserved areas and delineate the priority areas in the required reports.
- 4) Eliminates the Broadband Infrastructure and Revolving Loan Account and creates the Broadband Adoption Account to provide funding for digital literacy training programs and public education and outreach.
- 5) Requires recipients of Consortia Grants to conduct annual audits and submit an annual report to the PUC.
- 6) Requires the PUC to annually report to the Legislature until April 1, 2023, and provide performance and financial audits on April 1, 2020 and April 1, 2023.

FISCAL EFFECT:

1) Increased California Advances Services surcharge of \$330 million transferred into the following accounts:

a) Broadband Infrastructure Grant Account: \$300 million

b) Rural and Urban Regional Broadband Consortia Grant Account: \$10 million

c) Broadband Adoption Account: \$20 million

2) Increased annual PUC administrative costs of approximately \$800,000 to extend five positions and increased annual contract of \$2.5 million with consultants for technical analysis and CEQA review.

COMMENTS:

- 1) **Purpose.** According to the author, "Internet access should be treated as a right, not a luxury. It is a basic necessity to access education, health care and economic opportunity. This bill will ensure vulnerable communities across the state are not left behind in the 21st century."
- 2) **Background.** SB 1193 (Padilla) Chapter 393, Statutes of 2008, established the CASF and gave the PUC authority to assess a surcharge on communication service ratepayers (wireline, wireless, and voice over internet protocol customers) receiving intrastate telecommunication services to fund the program.

The PUC is authorized to collect \$315 million for CASF through 2020, but not to exceed \$25 million per year, unless it determines that collecting a higher amount in any year will not result in an increase in the total amount of all surcharges (CASF and other surcharges) collected from telephone customers that year. CASF funding is allocated into four accounts, the Infrastructure Account, the Consortia Account, the Loan Account, and the Public Housing Account. As of January 2017, the status of each CASF account is as follows:

a) Broadband Infrastructure Grant Account:

Authorized to collect \$270 million to fund capital costs of broadband infrastructure projects in unserved and underserved areas. Approximately \$153 million has been awarded for 58 approved projects. Six additional projects are pending at a cost of approximately \$71 million if approved.

b) Broadband Infrastructure Revolving Loan Account:

Authorized to collect \$5 million to provide supplemental financing for projects that are also applying for funds from the Infrastructure Account. Approximately \$600,000 has been awarded for three approved projects. One additional project is pending at a cost of approximately \$243,000 if approved. Up to 20% of total project cost is eligible for financing. Applicant and project eligibility is the same as the Infrastructure Grant Account.

c) Rural and Urban Regional Broadband Consortia Grant Account:

Authorized to collect \$15 million to fund the cost of broadband deployment activities other than the capital cost of facilities. Approximately \$12 million has been awarded for 29 consortia groups. Five additional applications are pending at a cost of approximately \$1.4 million if approved.

d) Broadband Public Housing Account:

Authorized to collect \$25 million to provide grants and loans dedicated to broadband access and adoption in publicly supported housing communities. Approximately \$9.3

million has been awarded for 332 approved projects. 256 additional applications are pending at a cost of approximately \$10 million if approved. Remaining funds are transferred back to the Infrastructure Account and Loan Account by December 31, 2020.

- 3) Connect America Fund. The Connect America Fund (CAF) is a program established by the Federal Communications Commission to expand access to voice and broadband services through funding to local telephone companies to subsidize the cost of building new network infrastructure or performing network upgrades to provide voice and broadband services in areas where they are unavailable. Companies that accepted CAF monies, including AT&T, Consolidated Communications, Frontier, and Verizon, have six years to plan and provide broadband to consumers. The availability of CAF monies provides an opportunity for providers to build to threshold speeds higher than those currently required under CASF.
- 4) **Arguments in Support.** According to the United Way of California, "The availability of high-speed Internet access [...] is essential 21st century infrastructure for economic competitiveness and quality of life. Economic studies confirm that the use of broadband technologies increases economic productivity as a foundation for increased efficiency in organizational operations and enhanced profitability in business. However, too many Californians especially people of color, people living in rural areas and people living in areas with high poverty rates do not have access to this crucial broadband technology. This bill will ensure vulnerable communities across the state are not left behind in the 21st century."

Frontier Communications supports the goal of this bill but is requesting further amendments to ensure this bill is used to leverage state and CAF monies and does not result in customers potentially paying twice for broadband in the same area. Frontier is requesting amendments to prohibit the award of CASF grants for any project that overbuilds a broadband project deployed with specified CAF or other public funding.

Some of Frontier's requested amendments were taken in the Communications and Conveyance Committee, however, Frontier is still requesting amendments to prohibit the awarding of CASF grants for projects that overbuild broadband projects and also to require CASF applicants to indicate any steps taken to obtain available federal funding.

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