

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

**Communications Division  
Broadband, Policy & Analysis Branch**

**RESOLUTION T-17403  
September 19, 2013**

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

**Resolution T-17403. Approval of the California Advanced Services Fund  
Expense Budget for Fiscal Year 2014-15 (July 1, 2014 through June 30, 2015)  
to Comply with the Requirements of Public Utilities Code Section 270.**

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**Summary**

This resolution adopts a California Advanced Services Fund (CASF) expense budget of \$82,663,504 for Fiscal Year (FY) 2014-15.

**Background**

In Decision (D.) 07-12-054 dated December 20, 2007, the California Public Utilities Commission (Commission) created a new public purpose program, the California Advanced Services Fund (CASF), to encourage the deployment of broadband services in unserved and underserved areas by funding 40% of the project cost through a one time infrastructure grant. The Commission allocated \$100 million dollars to the program to be funded by a surcharge of 0.25%<sup>1</sup> beginning January 1, 2008, assessed on revenues collected from end-users for intrastate telecommunications services, coincident with a 0.25% reduction in the California High Cost Fund-B surcharge to reflect reductions in support provided by that program. The Commission further stated that prior to any CASF disbursements the Commission would seek statutory authority to add the CASF as one of the funds the State Treasury administers and seek statutory authority for (1) specific direction to telephone corporations for remitting CASF collections and (2) the Commission's use of the funds.

Chapter 393, Statutes of 2008 (SB 1193, Padilla) amended Sections 270 and 281 of the Public Utilities (PU) Code by establishing the CASF through January 1, 2013, subject to the same fiscal and financial restrictions applicable to the six (6) existing universal service funds.<sup>2</sup>

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<sup>1</sup> On December 17, 2009, the Commission approved Resolution T-17248 which reduced the CASF surcharge from 0.25% to 0.00% effective January 1, 2010.

<sup>2</sup> The other six (6) universal service funds are: the California High Cost Fund -A Administrative Committee Fund (CHCF-A), the California High Cost Fund -B Administrative Committee Fund (CHCF-B), the California Teleconnect Fund Administrative Committee Fund (CTF), the Universal Lifeline Telephone Service Trust Administrative Committee Fund (ULTS), the Deaf and Disabled Telecommunications Program Administrative Committee Fund (DDTP), and the Payphone Service Providers Committee Fund.

Section 281 (a) of the PU Code requires the Commission to develop, implement, and administer the CASF to encourage deployment of high-quality advanced communications services to all Californians that will promote economic growth, job creation, and substantial social benefits of advanced information and communications technologies, as provided in D.07-12-054.

Further, Section 270 (b) of the PU Code states that monies in the universal service funds are proceeds of rates and are held in trust for the benefit of ratepayers. Funds may only be used for the purposes for which the funds were created and upon appropriation in the annual Budget Act.

On September 25, 2010, Governor Schwarzenegger signed SB 1040 (Chapter 317, Stats 2010), which expanded the CASF and increased the CASF appropriation from \$100 million to \$225 million. The increase of \$125 million to be collected after January 1, 2011 is allocated to the following accounts: \$100 million to the Broadband Infrastructure Grant Account, \$10 million to the Rural and Urban Regional Broadband Consortia Grant Account, and \$15 million to the Broadband Infrastructure Revolving Loan Account. The \$125 million is to be funded by a surcharge assessed on revenues collected from end-users and collected at \$25 million a year beginning on calendar year 2011. To collect the additional funds authorized by SB 1040, the Commission issued Resolution T-17343 on September 22, 2011, which revises the surcharge from 0.0% to 0.14% effective November 1, 2011. On February 13, 2013, the Commission issued Resolution T-17386 which further revised the surcharge rate to 0.164% effective April 1, 2013 after determining that the CASF has been under collecting from the cap limit of \$25 million per calendar year.

## **Discussion**

### Department of Finance (DOF) Audit

In 2012, auditors from the Department of Finance (DOF) conducted a budget process performance audit of six public purpose programs administered by the Communications Division (CD), including the CASF. The DOF's audit report contained several recommendations and the Commission has followed those recommendations in the preparation of this budget resolution.

### Budget Development Process

CD estimates a CASF expense budget of \$82,663,504 for FY 2014-15 to cover Broadband Infrastructure grants, Consortia grants, Broadband Infrastructure loans, costs for administering and managing the CASF program, and appropriations that will be established in the 2014 Budget Act for a portion of the 8660 Public Utilities Commission (State Operations), State Operations in 0840 State Controller and 8880 Financial Information System for California. This amount represents funds available for FY 2014-15 from the \$225 million CASF program and accounts for anticipated funding of new awards. A summary of the FY 2014-15 expense budget is shown below. Administrative and inter-agency costs for each account are deducted from the corresponding estimated revenue of each account to determine the amount of funds available for infrastructure/consortia grants and infrastructure loans in the fiscal year (i.e., Lines A to C in the table).

Summary of FY 2014-15 California Advanced Service Fund Expense Budget (Fund 3141)

<b>8660 Public Utilities Commission (State Operations)</b>		<b>\$82,476,504</b>
A. Infrastructure Grants	\$69,153,032	
B. Consortia Grants	\$3,798,285	
C. Infrastructure Revolving Loan	\$6,085,287	
D. Administrative Costs	\$3,439,900	
<b>0840 State Controller (State Operations)</b>		<b>\$4,000</b>
<b>8880 Financial Information System for California (State Operations)</b>		<b>\$183,000</b>
<b>TOTAL Expenditures CASF Fund 3141</b>		<b>\$82,663,504</b>

Since the CASF program is authorized to collect \$25 million a year to fund the three accounts, CD prorated the revenue for each account in accordance with SB 1040’s distribution of the additional allocation of \$125 million to the three accounts. Thus, 80% or \$20 million of the \$25 million yearly revenue collection is allocated to the Infrastructure Grant Account, 8% or \$2 million of the \$25 million yearly revenue collection is allocated to the Consortia Grant Account, and 12% or \$3 million of the \$25 million yearly revenue collection is allocated to the Infrastructure Revolving Loan Account. Audit costs and part of personnel costs are prorated among the three accounts based on this percentage allocation. All other forecasted costs for administering the CASF are fully allocated to a specific account or allocated among the three accounts as shown below. The following table shows the breakdown and distribution of forecasted administrative costs across the three CASF accounts:

Details and distribution of forecasted administrative costs and costs associated with the Public Utilities Commission State Controller and Financial Information System for CA ( State Operations) are shown below:

Item	Total Costs	Infrastructure Grant Account	Consortia Grant Account	Revolving Loan Account
1. CPUC Personnel Costs	\$883,800	\$542,930	\$159,505	\$181,365
2. Travel	\$44,000	\$14,080	\$29,040	\$880
3. Loan underwriting and servicing	\$37,608	\$0	\$0	\$37,608
4. Information Technology Costs	\$16,692	\$16,692	\$0	\$0
5. Inter-agency Costs	\$162,000	\$162,000	\$0	\$0
6. Audit	\$795,800	\$636,640	\$63,664	\$95,496
7. Broadband Mapping Contracts	\$1,500,000	\$1,335,000	\$0	\$165,000
<b>Sub-total 8660 Public Utilities Commission Admin Costs</b>	<b>\$3,439,900</b>	<b>\$2,707,342</b>	<b>\$252,209</b>	<b>\$480,349</b>
8. 0840 State Controller (State Operations)	\$4,000	\$4,000	\$0	\$0
9. 8880 Financial Information System for California (State Operations)	\$183,000	\$183,000	\$0	\$0
<b>State Operation Costs</b>	<b>\$3,626,900</b>	<b>\$2,894,342</b>	<b>\$252,209</b>	<b>\$480,349</b>

The methodology and approach to estimate each specific cost category and item is discussed below.

*A. Infrastructure Grants*

The Broadband Infrastructure Grant Account provides funds to qualified applicants to finance a fixed percentage of the total construction or capital costs of broadband infrastructure in unserved and underserved areas of California.

Infrastructure grant funding for FY 2014-15 new projects are estimated at \$69.2 million. This total includes available funds from the original \$100 million CASF program as well as prior years' SB 1040 CASF revenues that remain available for grant awards. This amount also accounts for anticipated funding of new awards based on the current review of 27 project proposals seeking CASF infrastructure grant funding. No additional monies are being allocated in the FY 2014-15 budget for payment of already awarded CASF grants since there is sufficient budgetary authority to cover outstanding obligations.

*B. Consortia Grants*

Funds in the Rural and Urban Regional Broadband Consortia Grant Account are made available for grants to eligible consortia to finance the cost of broadband deployment activities other than the capital cost of facilities.

Consortia grant funding for FY 2014-15 is estimated at \$3.8 million. This total includes \$2.8 million to fund existing Consortia grantees pursuant to SB 1040, Resolution T-17349, and Resolution T-17355.<sup>3</sup> The remainder, \$950,000, represents the estimated funding for new Consortia awards after deducting the Consortia Grant Account's share of the CASF's administrative costs. A new round of Consortia project proposals are expected to be awarded in the fiscal year.

*C. Infrastructure Revolving Loans*

The Broadband Infrastructure Revolving Loan Account is intended to finance capital costs of broadband facilities not funded by a grant from the Broadband Infrastructure Grant Account.

Infrastructure loan funding for FY 2014-15 new projects are estimated at \$6.1 million. This total includes available funds from prior years' SB 1040 CASF revenues that remain available for loan awards. This amount also accounts for anticipated funding of loan awards based on the current review of seven project proposals seeking CASF infrastructure loan funding as well as any new additional project proposals received in the future.

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<sup>3</sup> SB 1040 does not set any restrictions on how much of the \$25 million collected annually is to be distributed to each of the CASF accounts, as long as only \$10 million is allocated to the consortia account over the 5-year collection period. The total annual budget for Consortia grants is greater than \$2 million because the Commission adopted a higher funding level in Resolutions T-17349 and T-17355 to fund a total of 14 regional consortia.

*D. Administrative and State Operation Costs*

1. CPUC Staff Expenditures

The amount of \$883,800 represents the estimated CPUC staff costs associated with the administration of the CASF program. Several divisions within CPUC are responsible for different aspects of the program. While the CD is primarily responsible for the program, the Information and Management Services Division and the Legal Division also provide staff resources to the program. The amount budgeted for this item is based on projected personnel allocation. While some CD personnel costs are allocated directly to each of the three CASF accounts, the rest of the staff costs are pro-rated across all three accounts based on the percentage allocation discussed above.

2. Travel Expenditures

An estimated \$44,000 will be required to fund CASF staff's attendance in the Consortia Learning Summit,<sup>4</sup> meetings with the Rural and Urban Regional Broadband Consortia, and inspection of on-going and completed infrastructure projects. Travel estimates considered historical costs and projected visits to project sites, consortia meetings, and attendance at the annual summit. Staff also used approved state travel reimbursement rates and actual travel costs into consideration when estimating the budgeted travel costs.

3. Loan Underwriting and Servicing

An external agency will perform the financial eligibility review of loan applications, processing, and servicing of loans since the Commission does not have the staff or expertise to perform these functions. The amount of \$37,608 is forecasted to cover costs pertaining to the external agency's financial eligibility review and loan servicing fees. The total cost is charged to the Infrastructure Loan account.

4. Information Technology Expenditures

The CPUC has established electronic filing for CASF surcharge remittances and electronic filing for grants and loans. The amount of \$16,692 is allocated for programming, operation, and maintenance of this electronic filing system as well as for costs of a new automated claims system being developed for programs that includes the CASF.

5. Interagency Expenditures

An estimated \$162,000 represents CASF's contribution to the statewide administrative cost for services rendered by other State agencies.

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<sup>4</sup> In D.11-06-038, the Commission directed Communications Division to schedule and host on at least on an annual basis a Regional Consortia Learning Community Summit to enable the various regional and rural urban consortia to exchange ideas and information, lessons learned and best practices to achieve common broadband adoption and deployment goals.

6. Audit Fees

Existing Commission Decisions give the CPUC the right to audit CASF projects in order to ensure that CASF funds are spent appropriately, and in accordance with CPUC directives and authorization<sup>5</sup>. Thus, the amount of \$795,800 is budgeted for the audit of CASF awards and costs to conduct an audit of surcharge remittances.

7. Broadband Mapping Expenditures

Under a 2009 federal grant of \$2.3 million<sup>6</sup>, the Commission collects information on broadband service availability in the state and created an interactive web-based map that will give California residents the ability to access information about the services and providers available at their own address. To implement this grant, the CPUC partnered with California State University (CSU), Chico Research Foundation through a four-year agreement. In addition, the Commission conducts a field test every six months measuring actual mobile broadband performance throughout the state, and has created mobile applications to allow the public to provide the Commission with crowd-sourced data. Much of this mobile testing work has been done for the Commission under contract with CSU Chico and CSU Monterey Bay.

The California Interactive Broadband Availability Map<sup>7</sup> including the demographic data collected through the federal grant, as well as the mobile testing activities, have been critical sources of information and tools in the implementation of the CASF program. Infrastructure Grant applicants can use the tools built into the interactive map to complete their applications, and Commission staff uses the map to evaluate applications and challenges to determine if areas are grant-eligible and to determine how many households are impacted. The broadband data the Commission collects also provide key information on the status of broadband availability in various areas of the state, which the Commission uses in providing reports to the Legislature on the CASF program.

Since the federal grant is only through September 2014, it is imperative that the CASF program provides the needed funding to continue the Commission's data collection, interactive map development and mobile testing application work and include it in the CASF budget beginning in FY 2014-15. Accordingly, \$1.5 million has been forecasted for these efforts based on the projected costs associated with the CSU Chico and CSU Monterey Bay contracts. The total cost is pro-rated across the Infrastructure Grant and Loan accounts as shown in the above table.

8. 0840 State Controller (State Operations)

This item represents funds for the State Controller's Office and remains relatively unchanged from prior years at \$4,000 for FY 2014-15 as estimated in the Governor's budget for FY

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<sup>5</sup>D. 07-12-054 pages 50, 51, 57, 63; D.09-07-020 page 17; R. T-17233 pages 4, 6; D.12-02-015 Appendix 1 pages 25, 26

<sup>6</sup> The Commission obtained the grant in October 2009 under the State Broadband Data and Development Grant Program administered by the National Telecommunications and Information Administration (NTIA).

<sup>7</sup> <http://www.broadbandmap.ca.gov/>

2012-13. Final appropriations will be determined when the Budget Act of 2014 is approved by the Legislature and the Governor.

9. 8880 Financial Information System for California (State Operations)

This item represents funds for the Financial Information System for California (FISCal). FISCal 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 2014-15 is \$183,000 as estimated in the Governor's budget for FY 2013-14. Final appropriations will be determined when the Budget Act of 2014 is approved by the Legislature and the Governor.

**Safety**

The CASF program encourages the deployment of broadband throughout the state which can enable the public to access Internet-based safety applications, access to emergency services, and allow first responders to communicate with each other and collaborate during emergencies. The forecasted FY2014-15 CASF budget ensures that there are sufficient funds for the program to continue to promote the deployment of broadband throughout California.

**Conclusion**

CD's proposed California Advanced Services Fund Fiscal Year 2014-15 expense budget of \$82.664 million composed of \$82.477 million for 8660 Public Utilities Commission (State Operations), \$0.004 million for 0840 State Controller (State Operations) and \$0.183 million for 8880 Financial Information System for California (State Operations) is reasonable and should be adopted. The FY 2014-15 budget adopted today is subject to final appropriations adopted in the Budget Act of 2014 for 8660 Public Utilities Commission (State Operations), 0840 State Controller (State Operations) and 8880 Financial Information System for California (State Operations). The appropriations adopted in the Budget Act of 2014, if different from the adopted FY 2014-15 budget, will supersede the FY 2014-15 Budget adopted in this resolution.

**Comments**

In compliance with PU Code § 311 (g), a Notice of Availability was e-mailed on August 20, 2013 to the CASF Distribution List, which is comprised of parties of record in R.10-12-008 & R.06-06-028, CASF applicants, telecommunications service providers licensed and/or registered with the Commission, and other interested parties, informing them that the draft of this Resolution is available at the Commission's website <http://www.cpuc.ca.gov/> and is available for public comments. In addition, CD will inform these parties of the subsequent availability of the conformed resolution, when adopted by the Commission, at the Commission's website as indicated above.

## Findings

1. In Decision (D.) 07-12-054 dated December 20, 2007, the Commission created a new public purpose program, the California Advanced Services Fund, to encourage the deployment of broadband services in unserved and underserved areas.
2. Chapter 393, Statutes of 2008 (SB 1193, Padilla) amended Sections 270 and 281 of the Public Utilities Code (PU Code) by establishing the California Advanced Services Fund through January 1, 2013, subject to the same fiscal and financial restrictions applicable to the six (6) existing universal service funds.
3. Section 281 (a) of the PU Code requires the Commission to develop, implement, and administer the California Advanced Services Fund to encourage deployment of high-quality advanced communications services to all Californians that will promote economic growth, job creation, and substantial social benefits of advanced information and communications technologies, as provided in D.07-12-054.
4. PU Code § 270 (b) requires that moneys in the California Advanced Services Fund may only be disbursed pursuant to §§ 270 and 281 and upon appropriation in the annual Budget Act.
5. On September 25, 2010, Governor Schwarzenegger signed SB 1040 (Chapter 317, Stats 2010), which expanded the CASF and increased the CASF appropriation from \$100 million to \$225 million. The increase of \$125 million to be collected after January 1, 2011 is allocated to the following accounts: \$100 million to the Broadband Infrastructure Grant Account, \$10 million to the Rural and Urban Regional Broadband Consortia Grant Account, and \$15 million to the Broadband Infrastructure Revolving Loan Account. The \$125 million is to be funded by a surcharge assessed on revenues collected from end-users and collected at \$25 million a year beginning on calendar year 2011. To collect the additional funds authorized by SB 1040, the Commission issued Resolution T-17343 on September 22, 2011, which revises the surcharge from 0.0% to 0.14% effective November 1, 2011. On February 13, 2013, the Commission issued Resolution T-17386 which further revised the surcharge rate to 0.164% effective April 1, 2013 after determining that the CASF has been under collecting from the cap limit of \$25 million per calendar year.
6. In 2012, the Department of Finance conducted a budget process performance audit of six public purpose programs administered by the Communications Division including the CASF.
7. The federal 2009 State Broadband Data and Development Grant obtained by the Commission ends by September 2014. It is imperative that the CASF program provides the needed funding to continue the Commission's data collection, interactive map development and mobile testing application work and include it in the CASF budget beginning in FY 2014-15.
8. The CASF program encourages the deployment of broadband throughout the state which can enable the public to access Internet-based safety applications, access to emergency services, and allow first responders to communicate with each other and collaborate during emergencies. The



forecasted FY2014-15 CASF budget ensures that there are sufficient funds for the program to continue to promote the deployment of broadband throughout California.

9. Communications Division's (CD) proposed California Advanced Services Fund Fiscal Year 2014-15 expense budget of \$82.664 million, composed of \$82.477 million for 8660 Public Utilities Commission (State Operations), \$0.004 million for 0840 State Controller (State Operations) and \$0.183 million for 8880 Financial Information System for California (State Operations) is reasonable and should be adopted

10. The FY 2014-15 budget adopted today is subject to final appropriations adopted in the Budget Act of 2014 for 8660 Public Utilities Commission (State Operations), 0840 State Controller (State Operations) and 8880 Financial Information System for California (State Operations).

11. The appropriations adopted in the Budget Act of 2014, if different from the adopted FY 2014-15 budget, will supersede the FY 2014-15 Budget adopted in this resolution.

12. A Notice of Availability was e-mailed on August 20, 2013 to the CASF Distribution List, which is comprised of parties of record in R.10-12-008 & R.06-06-028, CASF applicants, Telecommunications Carriers registered with the Commission, and other interested parties, informing them that the draft of this Resolution is available at the Commission's website <http://www.cpuc.ca.gov/>.

**THEREFORE, IT IS ORDERED that:**

1. The Fiscal Year 2014-15 California Advanced Services Fund expense budget in the amount of \$82.664 composed of \$82.477 million for 8660 Public Utilities Commission (State Operations), \$0.004 million for 0840 State Controller (State Operations) and \$0.183 million for 8880 Financial Information System for California (State Operations), is adopted.
2. Communications Division staff is authorized to modify the FY 2014-15 expense budget adopted today to conform to the final appropriations adopted in the Budget Act of 2014 for 8660 Public Utilities Commission (State Operations), 0840 State Controller (State Operations) and 8880 Financial Information System for California (State Operations).

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on September 19, 2013. The following Commissioners approved it:

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PAUL CLANON  
Executive Director