

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

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

**RESOLUTION T-17457  
November 6, 2014**

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

**Resolution T-17457. Approval of the California Advanced Services Fund  
Expense Budget for Fiscal Year 2015-16 (July 1, 2015 through June 30, 2016)  
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 \$97,831,451 for Fiscal Year (FY) 2015-16.

**Background**

On December 20, 2007, the California Public Utilities Commission (CPUC or Commission) approved Decision (D.) 07-12-054, which established the California Advanced Services Fund (CASF) program to provide matching funds of up to 40% of the total project costs for the deployment of broadband infrastructure in unserved and underserved areas in California. The Commission allocated \$100 million for the program funded by a 0.25% surcharge on revenues collected from end-users for intrastate telecommunications services effective January 1, 2008. 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>1</sup>

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.

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<sup>1</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.

Further, Section 270 (b) of the PU Code states that moneys 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 (Infrastructure Grant), \$10 million to the Rural and Urban Regional Broadband Consortia Grant Account (Consortia Grant), and \$15 million to the Broadband Infrastructure Revolving Loan Account (Revolving Loan). 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.

On October 03, 2013, Governor Brown approved Senate Bill (SB) 740<sup>2</sup> and Assembly Bill (AB) 1299.<sup>3</sup> Specifically, SB 740 authorized the collection of an additional \$90 million<sup>4</sup> to be deposited in the CASF Infrastructure Grant Account, extended the surcharge collection through the 2020 calendar year, established the goal of the CASF program to approve funding for infrastructure projects that will provide broadband access to no less than 98% of California households by no later than December 31, 2015, and allowed any entity which is not a telephone corporation to be eligible to apply for a CASF grant and loan if that entity otherwise satisfies the CASF's eligibility requirements and any other requirements as defined by the Commission, amongst other requirements identified in the bill. AB 1299 created an additional account under the CASF called the Broadband Public Housing Account (Public Housing Account) to support the deployment of broadband networks and adoption programs in eligible publicly supported communities. The Public Housing Account efforts will be funded through \$20 million from the Infrastructure Grant Account and \$5 million from the Revolving Loan Account, respectively. Any monies in the Public Housing Account that have not been awarded by December 31, 2016, shall be transferred back to the Infrastructure Grant Account and Revolving Loan Account in proportion to the amount transferred from the respective accounts.

On February 27, 2014, the Commission adopted Resolution T-17434, which increased the CASF surcharge rate to 0.464% effective April 1, 2014. The higher surcharge rate is intended to make up for the under collection of the authorized annual revenues for 2011 to 2013 and to have funds available to meet the new requirements imposed on the program by SB 740 and AB 1299.

## Discussion

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<sup>2</sup> SB 740 (Padilla) Stats. 2013 Ch. 522, amending Cal. Pub. Util. Code § 281.

<sup>3</sup> AB 1299 (Bradford) Stats. 2013 Ch. 507, amending Cal. Pub. Util. Code § 281

<sup>4</sup> On and after January 1, 2011, the Commission may collect an additional sum not to exceed \$215 million, for a sum total of moneys collected not to exceed \$315 million

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 \$97,831, 451 for FY 2015-16, which is the same as the total budgetary appropriation approved for FY 2014-15.<sup>5</sup> This total budget covers costs for State Operations, Local Assistance, and Other Agencies as summarized in the following table.

Table 1. Summary of California Advanced Service Fund Expense Budget (Fund 3141)

<b>Cost Categories (Fund 3141)</b>	<b>FY 2014-15</b>	<b>FY 2015-16</b>
<b>State Operations</b>	<b>\$3,772,000</b>	<b>\$3,772,000</b>
<b>Local Assistance</b>	<b>\$94,011,000</b>	<b>\$94,011,000</b>
A. Infrastructure Grants	\$69,801,980	\$80,324,960
B. Consortia Grants	\$3,798,285	\$0
C. Infrastructure Revolving Loans	\$6,085,287	\$3,456,986
D. Public Housing Grants/Loans	\$14,325,448	\$10,229,054
<b>8660 Public Utilities Commission Total</b>	<b>\$97,783,000</b>	<b>\$97,783,000</b>
<b>0840 State Controller (State Operations)</b>	<b>\$451</b>	<b>\$451</b>
<b>8880 Financial Information System for California (State Operations)</b>	<b>\$48,000</b>	<b>\$48,000</b>
<b>TOTAL FY 2015-2016 BUDGET</b>	<b>\$97,831,451</b>	<b>\$97,831,451</b>

CPUC State Operations

The estimated budget for CPUC State Operations for the CASF program in FY 2015-16 is the same as the budget appropriation for FY 2014-15 (i.e., \$3,772,000). CD allocated certain forecasted State Operations costs items to each of the four CASF Accounts according to the percentage share of each account’s funding to the total authorized funding of \$315 million to the CASF program overall per SB 740.<sup>6</sup> Other State Operations costs are fully allocated to a specific account depending on the cost item.

The CPUC State Operations costs include the following items:

1. *CPUC staff costs directly associated with the administration of the CASF program (includes salaries and benefits):* The amount budgeted for this item is based on the number of

<sup>5</sup> In Resolution T-17403, issued September 19, 2013, the Commission adopted \$82,663,504 as the total CASF budget for FY 2014-15. With the passage of SB 740 and AB 1299, the Commission requested through the Budget Change Proposal (BCP) process increased CASF budgetary appropriation for FY 2014-15. The 2014 Budget Act approved the increase; hence, the CASF budget for FY 2014-15 is set at \$97.831 million.

<sup>6</sup> The percentage allocations are as follows: Infrastructure Grant 86% (\$270 million/\$315 million), Revolving Loan 3% (\$10 million/\$315 million), Regional Consortia Grant 3% (\$10 million/\$315 million), and Public Housing 8% (\$25 million/\$315 million)

positions that are directly charged to the CASF fund and allocated across each of the four CASF accounts either fully or prorated according to the percentages discussed above depending on the position.

2. *Indirect personnel costs allocated to CASF:* Beginning July 1, 2014, the Commission implemented a new costs allocation plan that directs how CPUC's administrative charges will be allocated to the sixteen special funds the agency administers, as well as expenses charged to grants. Cost allocation expenditures (sometimes referred to as indirect charges) include Administrative Services salaries and operating expenses (CPUC Accounting and Budget Offices, Business Services, Contracts, Human Resources 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. Using the new cost allocation plan methodology administrative expenses are allocated to funds primarily on a Personnel Year (PY) basis; funds that support more staff proportionally have more CPUC indirect charges. CPUC initiated development of a new cost allocation plan as a corrective action in response to a 2013 Department of Finance audit that highlighted the agencies lack of an updated, comprehensive, and methodologically consistent plan for allocating indirect charges to special funds and grants.

As a result of implementing the new 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 be built in as line-items into all funds as part of FY 2015-16 budget proposals. The total amount budgeted for FY 2015-16 is allocated across the four CASF accounts according to each account's share of the total CASF authorized funding as discussed above.

3. *CPUC staff travel costs:* These reflect estimated travel expenses to conduct field visits and inspections of ongoing and completed infrastructure and public housing projects, attend meetings with various consortia groups, and organize the annual Consortia Learning Summit. Travel estimates considered historical costs and projected number of visits to project sites, consortia meetings, and attendance at the annual consortia summit.
4. *Contract and personnel services for loan underwriting and servicing:* The Commission has contracted with an external agency to 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 budget for FY 2015-16 reflects the estimated cost of the contract for the fiscal year, which includes loan underwriting and financial eligibility review of applications and servicing of loans awarded under the Revolving Loan Account.
5. *Contract and personnel services for broadband mapping:* Under a 2009 federal grant of \$2.3 million, 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 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, the FY 2015-16 budget amount is based on the projected costs associated with the CSU Chico and CSU Monterey Bay contracts. The total cost is pro-rated across the four CASF accounts as discussed above.

6. *Contract and personnel services for audits:* Existing Commission decisions give the CPUC the right to audit CASF projects/grantees in order to ensure that CASF funds are spent appropriately, and in accordance with CPUC directives and authorization. The total amount budgeted for FY 2015-16 represents costs associated with the audit of CASF projects/grantees and costs to conduct an audit of surcharge remittances.
7. *Information technology cost:* The CPUC has established electronic filing for CASF surcharge remittances and electronic filing for grants and loans. The budgeted amount for FY 2015-16 represents CASF's share of the contract costs 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.
8. *Pro-rata interagency cost:* This represents CASF's contribution to the statewide administrative costs for services rendered by other State agencies.

#### CPUC Local Assistance

The Local Assistance budget category covers grants and/or loans to eligible entities under the Infrastructure Grant, Consortia Grant, Revolving Loan, and Public Housing Accounts. The amounts shown in Lines A to D in Table 1 above represent funds available to expend for grants and/or loans during the fiscal year. The total budget for Local Assistance for the CASF program in FY 2015-16 is the same as the total budget appropriation for FY 2014-15 (i.e., \$94,011,000). However, the budget breakdown across the four CASF accounts for FY 2015-16 differs from FY 2014-15, as further discussed below.

*A. Infrastructure Grants*

The 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 2015-16 for new projects are estimated at \$80.325 million. This total includes available funds from estimated surcharge revenue collections for FY 2015-16 and prior years' SB 1040 CASF revenues that remain available for grant awards, less the \$20 million that is transferred to the Public Housing Account, per SB 740 and AB 1299. No additional moneys are being allocated in the FY 2015-16 budget for payment of already awarded CASF grants since there is sufficient budgetary authority to cover outstanding obligations and encumbrances. The increase in the budgeted amount for Infrastructure Grants in FY 2015-16 is necessary given the expected increase in CASF infrastructure grant applications and the statutory mandate in SB 740 that the Commission award grants to projects that will provide broadband access to no less than 98% of California households by no later than December 31, 2015.

*B. Consortia Grants*

Funds in the 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.

Since the \$10 million total Consortia Grant Account funding is expected to be fully awarded and encumbered during the current fiscal year 2014-15, no funds are budgeted for new Consortia Grant awards in FY 2015-16.

*C. Infrastructure Revolving Loans*

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

Infrastructure loan funding for FY 2015-16 for new projects are estimated at \$3.457 million. This amount represents the funds remaining from the \$10 million authorized for the account (after transfer of \$5 million to the Public Housing Account) that are available for new loan awards during the fiscal year.

*D. Public Housing Grants/Loans*

The Public Housing Account provides a total of \$20 million for grants and loans to finance projects connecting eligible publicly supported communities (PSCs) with broadband internet, and \$5 million for adoption projects for residents in PSCs.

A total of \$10.229 million is budgeted for the Public Housing Account for FY 2015-16, which represents the remainder of the \$25 million authorized for the account less the budgeted amount for FY 2014-15 and administrative costs for the program.

Other State Agencies

*0840 State Controller (State Operations)*

This item represents funds for the State Controller's Office. The budget for FY 2015-16 is based on the actual amount shown in the Detailed Fund Balance Report (DF-303) for FY 2013-14. Final appropriations will be determined when the Budget Act of 2015 is approved by the Legislature and the Governor.

*8880 Financial Information System for California (State Operations)*

This item represents funds for the Financial Information System for California (FI\$Cal). FI\$Cal 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 FY 2015-16 budget of \$48,000 reflects estimates in the Governor's budget for FY 2014-15. Final appropriations will be determined when the Budget Act of 2015 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 FY 2015-16 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 FY 2015-16 expense budget of \$97,831 million for FY 2015-16 composed of \$3.772 million for CPUC State Operations, \$94.011 million for Local Assistance, and \$0.048 million for Other State Agencies is reasonable and should be adopted. The FY 2015-16 budget adopted today is subject to final appropriations adopted in the Budget Act of 2015. The appropriations adopted in the Budget Act of 2015, if different, will supersede the FY 2015-16 budget adopted in this resolution.

**Comments**

In compliance with PU Code § 311 (g), a Notice of Availability was e-mailed on October 1, 2014 to the CASF Distribution List, which is comprised of parties of record in R.06-06-028, R.10-12-008, and R.12-10-012; 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 (CASF), 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 CASF 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 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.
4. PU Code § 270 (b) requires that moneys in the CASF may only be disbursed pursuant to §§ 270 and 281 and upon appropriation in the annual Budget Act.
5. SB 1040 (Chapter 317, Stats 2010) 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.
6. To collect the additional funds authorized by SB 1040, the Commission revised the CASF surcharge from 0.0% to 0.14% effective November 1, 2011, in Resolution T-17343. The Commission further revised the surcharge rate to 0.164% effective April 1, 2013, in Resolution T-17386, after determining that the CASF has been under collecting from the cap limit of \$25 million per calendar year.
7. 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.
8. SB 740, enacted in October 2013, authorized the collection of an additional \$90 million to be deposited in the CASF Infrastructure Grant Account, extended the surcharge collection through the 2020 calendar year, established the goal of the CASF program to approve funding for infrastructure projects that will provide broadband access to no less than 98% of California households by no later than December 31, 2015, and allowed any entity which is not a telephone corporation to be eligible to apply for a CASF grant and loan if that entity otherwise satisfies the CASF's eligibility requirements and any other requirements as defined by the Commission, amongst other requirements identified in the bill.
9. AB 1299, also enacted in October 2013, created an additional account under the CASF called the Broadband Public Housing Account (Public Housing Account) to support the deployment of broadband networks and adoption programs in eligible publicly supported communities. The Public Housing Account efforts will be funded through \$20 million from the



Infrastructure Grant Account and \$5 million from the Revolving Loan Account, respectively. Any monies in the Public Housing Account that have not been awarded by December 31, 2016, shall be transferred back to the Infrastructure Grant Account and Revolving Loan Account in proportion to the amount transferred from the respective accounts.

10. In Resolution T-17434, the Commission further increased the CASF surcharge rate to 0.464% effective April 1, 2014. The higher surcharge rate is intended to make up for the under collection of the authorized annual revenues for 2011 to 2013 and to have funds available to meet the new requirements imposed on the program by SB 740 and AB 1299.
11. Communications Division's proposed CASF FY 2015-16 expense budget of \$97,831 million composed of \$3.772 million for CPUC State Operations, \$94.011 million for Local Assistance, and \$0.048 million for Other State Agencies is reasonable and should be adopted.
12. The FY 2015-16 budget adopted today is subject to final appropriations adopted in the Budget Act of 2015. The appropriations adopted in the Budget Act of 2015, if different, will supersede the FY 2015-16 budget adopted in this resolution.
13. A Notice of Availability was e-mailed on October 1, 2014 to the CASF Distribution List, which is comprised of parties of record in R.06-06-028, R.10-12-008, and R.12-10-012; 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.

**THEREFORE, IT IS ORDERED that:**

1. The Fiscal Year 2015-16 California Advanced Services Fund expense budget of \$97,831 million composed of \$3.772 million for CPUC State Operations, \$94.011 million for Local Assistance, and \$0.048 million for Other State Agencies is adopted.
2. Communications Division staff is authorized to modify the FY 2015-16 expense budget adopted today to conform to the final appropriations adopted in the Budget Act of 2015.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on November 6, 2014. The following Commissioners approved it:

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PAUL CLANON  
Executive Director