Resolution T-17519 Date of Issuance: September 21, 2016
CD/KCH

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Communications Division **RESOLUTION T-17519**
Consumer Programs Branch September 15, 2016

R E S O L U T I O N

Resolution T-17519. Approval of the California LifeLine Program[1] Surcharge Rate of 4.75%, Effective November 1, 2016.

SUMMARY

This resolution adopts a revised California LifeLine (CA LifeLine) Program surcharge rate of 4.75%, effective November 1, 2016, until further revised by the California Public Utilities Commission (Commission or CPUC). The current CA LifeLine surcharge rate is 5.50%. All telecommunications carriers and interconnected Voice over Internet Protocol (VoIP) service providers shall change the CA LifeLine surcharge rate assessed on revenues collected from end-users for intrastate telecommunications services subject to surcharge from 5.50% to 4.75%, effective November 1, 2016, and thereafter[2]. The revised CA LifeLine surcharge rate of 4.75% shall apply on their end-users' bills rendered on or after November 1, 2016.

BACKGROUND

The Commission implemented the California LifeLine Program, formerly known as Universal Lifeline Telephone Service (ULTS) in 1984, pursuant to Public Utilities (PU) Code § 871. The Commission's Communication Division (CD) administers the CA LifeLine Program.

The CA LifeLine program provides discounted wireline residential basic telephone services and wireless telephone services to low-income households with incomes below approximately 150% of the federal poverty guidelines or enrolled in qualifying public

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[1] The program fund is statutorily referred to as the Universal LifeLine Telephone Service Trust Fund Administrative Committee Fund, pursuant to Public Utilities Code Sections 270 and 277, but is commonly known as the California LifeLine Program.

[2] We apply this directive to VoIP providers pursuant to PU Code § 285.

benefits programs. As of June 30, 2016, approximately 2.106 million customers[3] were enrolled in the CA LifeLine program.

On July 25, 2006, the Commission implemented new federal rules for establishing customer eligibility for CA LifeLine service. Under these new rules, customers may qualify for CA LifeLine either by participating in specific low income public benefits programs or by documenting that their income falls within CA LifeLine Program guidelines. The method for certifying customer qualification changed from customer self-certification processed by carriers to certification of customers' eligibility by a third party administrator through Commission contract. These program changes were approved by the Commission in Decision (D.) 05-04-026.

On May 3, 2007, the Commission issued D.07-05-030, which modified General Order (GO) 153 (Procedure for Administration of the Moore Universal Telephone Service Act) to address customer confusion with the third party verification process. The changes to the CA LifeLine program included requiring additional contacts between the CA LifeLine administrator and potential and existing CA LifeLine customers, additional time for LifeLine customers to return the required forms, and format changes to written communications to improve their effectiveness.

On August 21, 2008, the Commission issued D.08-08-029, which further modified the CA LifeLine program and GO 153. This decision adopted a "pre-qualification" process for enrolling customers in the CA LifeLine program. Effective July 25, 2009, applicants must pay retail basic service rates until they qualify for the program. Once approved for the program, the customer receives a back-credit for all benefits/discounts that would have been received if the program benefits were provided as of the application date.

On June 1, 2012, a new third-party administrator, Xerox State and Local Solutions, Inc., took over the enrollment, verification, customer notification, and database requirements from the previous contractor. The new administrator also provides the California LifeLine public call center functions (which were provided formerly under a separate contract).

In 2012, the Federal Communications Commission (FCC) issued Order 12-11, which made fundamental changes to the federal Lifeline program including elimination of connection charges subsidy (except for tribal customers). FCC Order 12-11 also adopted new requirements for state LifeLine programs including, but not limited to:

[3] Of the 2.106 million customers, 575,073 and 1,530,872 were wireline and wireless subscribers, respectively.

- to collect the last four digits of the program participant's social security number (SS#) and date of birth (DOB);
- to require applicants to provide proof of public benefits program participation or eligibility by income;
- to perform identity checks on all new applicants;
- to perform a one-time sweep of each state's LifeLine customer base as of June 1, 2012; and
- to require participants to complete a certification statement that if multiple discounts are offered at the same address that different economic "household" units exist.

On October 3, 2013, the Commission adopted Resolution T-17407 approving a CA LifeLine budget of $202.594 million for Fiscal Year (FY) 2014-15.

On January 27, 2014, the Commission issued D.14-01-036, which expanded and modernized the California LifeLine Program, as well as authorized the voluntary participation of wireless service providers in the Program. Today, a low-income eligible household may subscribe to either a wireline or wireless service plan that includes voice, text, and data at discounted and affordable rates.

On November 6, 2014, the Commission adopted Resolution T-17454 approving a CA LifeLine budget of $345.414 million for FY 2015-16.

In April 2015, the Commission requested, and was granted, a $90 million supplemental appropriation for FY 2014-15, increasing the total LifeLine appropriation to $292.594 million for FY 2014-15.

The CA LifeLine appropriations for FY 2015-16 and FY 2016-17 are $483.530 million and $483.123 million, respectively.

The CA LifeLine Program is funded by a surcharge assessed against intrastate charges of end-users of all telephone corporations and interconnected VoIP service providers in California. On August 27, 2015, the Commission adopted a surcharge rate of 5.50% in Resolution T-17486, which was effective on October 1, 2015. Historical CA LifeLine surcharge rates are available online at http://www.cpuc.ca.gov/General.aspx?id=1124.

DISCUSSION

CD periodically reviews universal service public purpose program balances and surcharge rates to ensure that the programs are sufficiently funded. CD strives to maintain a positive program fund level which 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 collecting too much in program surcharges.

The CA Lifeline adopted an interim surcharge rate increase of 5.50% effective October 1, 2015. The temporary increase was needed to increase program fund reserves and meet increased program growth from wireless customers. The rapid increase of wireless subscription in FY 2014-15 resulted in an overall increase in costs to the program. As a result, CPUC requested, and was granted, a $90 million supplemental appropriation for FY 2014-15. This supplemental appropriation covered a portion but not all of the unanticipated caseload increase. Because of the unanticipated magnitude of the caseload increase, revenues were insufficient to cover all cost increases in FY 2014-15. Therefore, payment for a portion of the FY 2014-15 claims ($53.2 million) was shifted into FY 2015-16.

For this Resolution, the Commission evaluated the current CA LifeLine surcharge rate of 5.50% relative to the CA LifeLine fund balance. CD analysis shows that current CA LifeLine surcharge may be reduced to 4.75% due to adequate fund reserves, even though CD expects an increase in program participation during the second half of FY 2016-17, as shown in Table 1 below.

Table 1.

ULTS - FY 2016/17	Projected participation	Total program expenditures
July	1,936,346	$ 38,646,723
August	1,936,245	$ 38,651,259
September	1,961,003	$ 38,996,122
October	2,017,964	$ 39,781,399
November	2,105,910	$ 40,991,012
December	2,229,577	$ 42,689,806
January	2,370,807	$ 36,433,553
February	2,467,784	$ 37,817,365
March	2,579,571	$ 39,409,920
April	2,708,276	$ 41,236,762
May	2,846,019	$ 43,186,469
June	2,994,544	$ 45,282,713

In determining the surcharge revenues, CD applied a billing base of $12.310 billion for the first half of FY 2015-16, $11.610 billion for the remaining of FY 2015-16, and $11.030 billion for FY 2016-17. For the past several years, the billing base has declined dramatically, this decline is related to: decline in number of landlines, decline in billing amounts due to price declines and increases in wireless carriers reporting intrastate revenues using the Federal Communication Commission's safe harbor formula[1] when reporting intrastate revenues.

Given that the program has attained adequate fund reserve, CD proposes that the surcharge rate be decreased. CD estimated that a surcharge rate of 4.75% strikes a good balance between sufficient revenues to meet anticipated growth in participation and maintain a positive program fund balance. As shown in Appendix A, CD projects an ending fund balance of $240.746 million on June 30, 2017. Therefore, CD recommends that the Commission adopt a surcharge rate of 4.75%, effective November 1, 2016. CD will continue to evaluate the surcharge level and adjust accordingly to match revenues and expenses.

Accordingly, all telephone corporations[4] and interconnected VoIP service providers[5] shall assess a CA LifeLine surcharge rate of 4.75% on revenues collected from end-users for intrastate telecommunications services subject to surcharge effective November 1, 2016. The CA LifeLine surcharge rate of 4.75% shall apply on their end-users' bills rendered on or after November 1, 2016, and thereafter, until further ordered 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 Purpose Program surcharge rates and the Reimbursement Fee. This process change became effective with surcharge rates and reimbursement fees implemented on January 5, 2005, and thereafter, until further revised by the Commission.

[1] "Safe Harbor" is an FCC-approved percentage that a carrier may use to separate intrastate vs. interstate billings for the purpose of calculating surcharges.

[4] *See* PU Code §2881(g).

[5] *See* PU Code §285(c).

In accordance with Resolution T-16901, AT&T California should file an advice letter on or before October 1, 2016 to modify the CA LifeLine surcharge rate from 5.50% to 4.75%, effective November 1, 2016, 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 already be cross-referenced to AT&T California's tariff for all future changes in the Public Program surcharges, including the CA LifeLine Fund. Therefore, these carriers are not required to file an advice letter reflecting the new surcharge rate of 4.75%, effective on November 1, 2016 and thereafter. These concurring carriers, however, are required to implement the new CA LifeLine surcharge rate of 4.75%, effective November 1, 2016. All interconnected VoIP service providers are similarly required to revise and implement the new CA LifeLine surcharge rate.

SAFETY ISSUES

The carriers that provide Lifeline benefits to their customers are required to adhere to all Commission rules, decisions, GOs, and statutes, including PU Code § 451, to take all actions "…necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public." The CA LifeLine Program helps to promote universal service by subsidizing essential communications links to low-income and at-risk individuals throughout California.

CA LifeLine Program allows participants to have access to 211 for essential community services, 311 for non-emergency municipal services, 511 for traffic and transportation information, 711 for relay services, 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. This Resolution ensures that there is adequate funding, at an appropriate level, to support the CA LifeLine Program budgetary expenditures, which help and enhance the safety of Californians, particularly eligible low-income households.

In light of the preceding paragraphs, CD believes that the 4.75% surcharge rate on intrastate telecommunications revenues, effective November 1, 2016, is reasonable and should be adopted.

COMMENTS

In compliance with PU Code § 311 (g), the Commission e-mailed on August 12, 2016, a notice letter informing all telephone corporations, members of the CA LifeLine Administrative Committee and Working Group, and the parties of records in R. 11-03-013 of the availability of this draft resolution for comments, as well as the availability of the final resolution, if adopted by the Commission, on the Commission website at www.cpuc.ca.gov. The Communications Division did not receive any comments.

FINDINGS

1. The California LifeLine Program (CA LifeLine), known as the Universal Lifeline Telephone Service Program, was implemented by the California Public Utilities Commission (CPUC or Commission) in 1984 pursuant to Public Utilities (PU) Code § 871.

2. On October 3, 2013, the Commission adopted Resolution T-17407 approving a CA LifeLine budget of $202.594 million for fiscal year (FY) 2014-15.

3. On January 27, 2014, the Commission issued D.14-01-036, which expanded and modernized the California LifeLine, as well as authorized the voluntary participation of wireless service providers in the Program.

4. On November 6, 2014, the Commission adopted Resolution T-17454 approving a CA LifeLine budget of $345.414 million for FY 2015-16.

5. In April 2015, the Commission requested, and was granted, a $90 million supplemental appropriation for FY 2014-15, increasing the total LifeLine appropriation to $292.594 million for FY 2014-15.

6. The CA LifeLine appropriations for FY 2015-16 and FY 2016-17 are $483.530 million and $483.123 million, respectively.

7. The current CA LifeLine surcharge rate of 5.50% was approved by the Commission in Resolution T-17486 on August 27, 2015.

8. The current balance of CA LifeLine monies allows the Commission to decrease the surcharge rate for the CA LifeLine fund from 5.50% to 4.75%, effective November 1, 2016, and thereafter, until further revised by the Commission.

9. In determining the surcharge revenues, CD applied a billing base of $12.310 billion for the first half of FY 2015-16, $11.610 billion for the remainder of FY 2015-16, and $11.030 billion for FY 2016-17.

10. The CA LifeLine surcharge rate of 4.75%, effective November 1, 2016, is reasonable and should be adopted.

11. All telecommunications carriers and interconnected VoIP service providers should revise the CA LifeLine surcharge rate assessed on intrastate telecommunications service revenues to 4.75%, effective November 1, 2016, and thereafter, until further directed by the Commission.

12. All telecommunications carriers and interconnected VoIP service providers shall apply the CA LifeLine surcharge rate of 4.75% in their end-users' bills rendered on or after November 1, 2016.

13. Consistent with Resolution T-16901, dated December 2, 2004, AT&T should file an advice letter on or before October 1, 2016, modifying the CA LifeLine surcharge rate from 5.50% to 4.75% to take effect on November 1, 2016, and thereafter, until further revised by the Commission.

14. In compliance with PU Code § 311 (g), the Commission e-mailed on August 12, 2016 a notice letter informing all telephone corporations, members of the CA LifeLine Administrative Committee and Working Group, and the parties of record in R.11-03-013 of the availability of this revised draft resolution for comments, as well as the availability of the conformed resolution, if adopted by the Commission, on the Commission website at www.cpuc.ca.gov.

15. The Communications Division did not receive any comments.

THEREFORE, IT IS ORDERED that:

1. The California LifeLine Program surcharge rate of 4.75% shall be effective November 1, 2016, until further revised by the Commission, and is adopted.

2. AT&T shall file an Advice Letter on or before October 1, 2016, modifying the surcharge rate for the California LifeLine Program from 5.50% to 4.75%, effective, November 1, 2016, and thereafter, until further revised by the Commission.

3. All telecommunication carriers should assess a LifeLine surcharge rate of 4.75% on revenues collected from end users for intrastate telecommunications services subject to surcharge on November 1, 2016, and thereafter, until further ordered by the Commission.

This resolution is effective today.

I certify that this Resolution was adopted by the Public Utilities Commission as its regular meeting on September 15, 2016, the following Commissioners approved it:

/s/ Timothy J. Sullivan

TIMOTHY J. SULLIVAN
Executive Director

MICHAEL PICKER
President
MICHEL PETER FLORIO
CATHERINE J.K. SANDOVAL
LIANE M. RANDOLPH
Commissioners

Commissioner Carla J. Peterman, being necessarily absent, did not participate.

Appendix A

Appendix A

CALIFORNIA LIFELINE FUND

Projected Budgets and Revenue

Millions of Dollars

	FY 2015-16	FY 2016-17
Beginning Balance[1]	$ 96.885	$ 172.369
Budget[2]	$ 483.530	$ 483.123
Actual Revenue for FY 2015-16 [3]	$ 559.014	
Projected Revenue for FY 2016-17 [4]		
4 months Surcharge Revenue at 5.50% (effective 10/1/15)		$ 202.217
8 months Surcharge Revenue at 4.75% (effective 11/1/16)		$ 349.283
Total Revenue	$ 559.014	$ 551.500
Ending Balance	$ 172.369	$ 240.746

[1] Beginning Balance from Governor's Proposed Budget for FY 15-16.

[2] FY 2015-16 appropriation
FY 2016-17 appropriation

[3] Actual Revenue derived from CD's Telecommunications and User Fees Filing System

[4] **Projected Billing Base used to calculate revenue:**
Billing Base used for July 2015-December 2015 is $12.310B
Billing Base used for January 2016-June 2016 is $11.610B
Billing Base used for July 2016-June 2017 is $11.030B

End of Appendix-A