STATE OF CALIFORNIA

Budget Change Proposal - Cover Sheet

DF-46 (REV 08/15)

Fiscal Year	Business Unit	Department	Priority No.
2016	8660	Public Utilities Commission	150

Budget Request Name	Program	Subprogram
8660-150-BCP-BR-2016-MR	6685- Universal Service Telephone Programs	6685028- Universal Lifeline Telephone Service Program

Budget Request Description

Universal LifeLine Telephone Service Trust Administrative Committee—Estimates Package

Budget Request Summary

At the request of both the Assembly and Senate fiscal staff, an estimates package is being submitted to update California LifeLine projections.

Requires Legislation	Code Section(s) to be Added/Amended/Repealed
☐ Yes ☒ No	

Does this BCP contain information technology (IT) components? ☐ Yes ☒ No *If yes, departmental Chief Information Officer must sign.*	Department CIO	Date

For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance.

☐ FSR ☐ SPR Project No. Date:

If proposal affects another department, does other department concur with proposal? ☐ Yes ☐ No

Attach comments of affected department, signed and dated by the department director or designee.

Prepared By Michael Amato	Date 5/9/2016	Reviewed By Jack Dwyer	Date 5/9/2016
Department Director Timothy Sullivan	Date 5/9/2016	Agency Secretary	Date

Department of Finance Use Only

Additional Review: ☐ Capital Outlay ☐ ITCU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐ Dept. of Technology

BCP Type: ☐ Policy ☐ Workload Budget per Government Code 13308.05

PPBA	Date submitted to the Legislature
Original Signed by Ellen Moratti PPBA	MAY 13 2016

Analysis of Problem

A. Budget Request Summary

This revised proposal seeks an incremental increase in the amount of $137.4 million ($4.3 million for state operations and $133.1 million for local assistance) for fiscal year 2016-17 appropriation for the Universal LifeLine Telephone Service Trust Administrative Committee Fund, commonly known as the California LifeLine Program. The revised proposed local assistance estimate is a decrease of $142.4 million from the estimate submitted in our original BCP. The increase in funding is needed primarily to fund new and increased subscribership for wireless service plans by California LifeLine participants.

In response to concerns raised by Assembly and Senate Budget Committees, the PUC developed an estimate package for 2016-17 that forecasts that approximately 2.3 million and 0.7 million (totaling 3 million) wireless and wireline households, respectively, will be participating in the program by the end of 2016-17.

B. Background/History

The initial January estimates anticipated 2016-17 to be $625.5 million ($33.9 million for state operations and $591.6 for local assistance). The revised estimates anticipate $483.1 million ($25.8 million for state operations and $457.3 million for local assistance) which is a decrease of $142.4 million or 23 percent compared to the initial January estimates.

The projected decrease in projected expenditures is primarily due to lower participation than previously estimated. The previously projected participation rate was based on the assumption that approximately 90 percent of the 4.2 million eligible low-income households would participate in California LifeLine, resulting in 3.7 million participants in the California LifeLine Program by the end of 2016-17 compared to the revised estimate of approximately three million participants in the attached estimate package.

The lower participation level is a result of lower than anticipated renewal rates for wireless customers, which was not included in our original estimate. A large portion of California LifeLine participants is due for renewal. Taking into account an average renewal rate of 30 percent, we see a projected net decrease in participants by the end of 2016. The models originally used to predict 2016-17 expenses were developed with limited data about wireless participation. The model used to develop the estimate package includes factors, such as renewals, that most significantly affect participation levels and will more accurately predict program participation and costs for 2016-17.

C. State Level Considerations

The revised estimate is seeking $25.8 million for state operations, a decrease of 24 percent or $8.1 million compared to the January estimate of $33.9 million. The projected decrease in expenditures is due to decreased costs for the Third Party Administrator (TPA) costs which charges for each eligibility determination. The lower anticipated participation results in fewer eligibility determinations, thereby reducing the TPA costs.

D. Justification

Since the introduction of California LifeLine wireless service in 2014, the California LifeLine Program has experienced significant changes in consumer and carrier demand. These changes have affected volumes and costs to the program. Please refer to attached estimates package for details.

E. Outcomes and Accountability

The table below illustrates the number of applications received and processed by the TPA and the number of wireline and wireless participants in the program.

Note that wireless subscriptions did not commence until March 2014 and that the revised numbers shown for 2015-16 and 2016-17 for California wireline and wireless participations are projected numbers.

Analysis of Problem

Projected Outcomes

Workload Measure	PY 3 FY 11-12	PY 2 FY 12-13	PY 1 FY 13-14	PY FY 14-15	CY FY 15-16	BY FY 16-17
1. Applications received/processed	**4,961,019**	**3,311,504**	**2,501,059**	**4,755,441**	**4,425,506**	**6,654,542**
2. No. of CA LifeLine Wireline subscribers	**1,518,763**	**1,173,692**	**947,959**	**727,526**	**599,248**	**672,206**
3. No. of CA LifeLine Wireless subscribers	**0**	**0**	**90,656**	**1,440,371**	**1,392,230**	**2,322,338**
4.Total No. of CA LifeLine Wireline and Wireless subscribers	**1,518,763**	**1,173,692**	**1,038,615**	**2,167,897**	**1,991,478**	**2,994,544**

The above figures were obtained from the TPA who is required to submit monthly and annual reports to the PUC for accounting and auditing purposes. Row 1 (Applications Received/Processed) of the table represents the total number of applications/renewals per fiscal year by qualifications categories in the processing and/or disposition of California LifeLine Program applications by the TPA. These qualification categories, which were developed for billing purposes, are as follows: Applications Approved, Renewals Approved, Applications Denied, Renewals Denied, Applications Denied (non-Response), Renewals Denied (Non-Response), Applications Resent, and Renewals Resent. The combination of Rows 2 and 3 (No. of CA LifeLine Wireline and No. of CA LifeLine Wireless Subscribers) represents the number of active/approved customers on the program. Thus, the difference between Rows 1 and 2 + 3 is the total number of qualification categories that did not translate to approved customers. Row 4 represents the total number of California LifeLine subscribers in the program (Row 2 + Row 3).

F. Recommendation

The PUC recommends that the revised estimates package be approved in order to meet the statutory mandates set forth in Public Utilities Code Section 871 et. seq. The proposed state operations and local assistance for 2016-17 estimates would allow eligible low-income households to continue to receive discounted and affordable high-quality basic telephone service that best meets their communications needs. In particular, it would allow them to connect to various social services, emergency and non-emergency services, as well as to jobs and health care providers that would improve their quality of life.

Department of Finance
2016-17
Finance Letter Worksheet

8660-001-0471-2016
Prop 98: N

DEPT: Public Utilities Commission
STATE OPERATIONS

8660-150-BCP-BR-2016-MR **California Lifeline Program - Cost Estimates Update**

Proposal Summary

	Positions	Whole Dollars
Category Changes		
Operating Expenses and Equipment	0.0	-8,108,000
Total Category Changes	**0.0**	**$-8,108,000**
Program Changes		
6685 Universal Service Telephone Programs	0.0	-8,108,000
6685028 Universal Lifeline Telephone Service Program	0.0	-8,108,000
Total Program Changes	**0.0**	**$-8,108,000**
Fund Changes		
Amount Funded by 8660-001-0471-2016	0.0	-8,108,000
Net Impact to Item	**0.0**	**$-8,108,000**

ASM CONSULTANT: CG
SEN CONSULTANT: FCB
DOF ANALYST: Kathy Madison
LAO DIRECTOR: BB
SCENARIO: May Revision
VERSION: Finance Working
RUN DATE: May 03, 2016 05:16 PM

Department of Finance
2016-17
Finance Letter Worksheet

8660-101-0471-2016
Prop 98: N

DEPT: Public Utilities Commission
LOCAL ASSISTANCE

8660-150-BCP-BR-2016-MR **California Lifeline Program - Cost Estimates Update**

Proposal Summary

	Positions	Whole Dollars
Category Changes		
Operating Expenses and Equipment	0.0	-134,275,000
Total Category Changes	**0.0**	**$-134,275,000**
Program Changes		
6685 Universal Service Telephone Programs	0.0	-134,275,000
6685028 Universal Lifeline Telephone Service Program	0.0	-134,275,000
Total Program Changes	**0.0**	**$-134,275,000**
Fund Changes		
Amount Funded by 8660-101-0471-2016	0.0	-134,275,000
Net Impact to Item	**0.0**	**$-134,275,000**

ASM CONSULTANT: CG
SEN CONSULTANT: FCB
DOF ANALYST: Kathy Madison
LAO DIRECTOR: BB
SCENARIO: May Revision
VERSION: Finance Working
RUN DATE: May 03, 2016 05:16 PM

List of Values	
Year	FY16
Scenario	May Revision
Version	Finance Working
CY/BY	BY
Agency	All
Department Code	8660
Reference	All
Fund	All
ENY	All
BR Name	8660-150-BCP-BR-2016-MR
Issue Status	Approved
DOF Code	All
Prop 98	All
Character	All
Program Detail	Child Level
Phase Detail	Child Level
Principal code	All
APBM code	All
PBM code	All
Last BIP Refresh Timestamp	05-03-2016,04:12 PM
Report Run Timestamp	05-03-2016,05:16 PM

STATE OF CALIFORNIA EDMUND G. BROWN JR., *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

May 9, 2016

Mr. Michael Cohen, Director
Department of Finance
915 L Street
Sacramento, CA 95814

Subject: 2016-17 Budget Request – May Revision

Dear Mr. Cohen:

Enclosed is the Public Utilities Commission's budget change request (BCP) 8660-150-BCP-BR-2016-MR for the 2016-17 fiscal year, May Revision, with attachments. This BCP addresses the appropriation for the California LifeLine Program, which is authorized in Public Utilities Code Section 871 et. al. In response to concerns raised by Assembly and Senate Budget Committee staff, and the Legislative Analyst's Office, my staff, in cooperation with your staff, prepared an estimate package for inclusion in the Governor's May Revision.

With the inclusion of wireless service as an option in the program, unprecedented growth has occurred: the program will have doubled its participants in FY 2015. Unlike the forecast used in our original BCP (8660-003-BCP-BR-2016-GB), the revised BCP and estimate package relies upon 12 months of actual experience and a forecast model that accounts for major factors that drive program participation.

As a result of the revised forecast in the estimate package, the Public Utilities Commission has reduced its 2016-17 fiscal year appropriation request by $142 Million.

The Public Utilities Commission's revised BCP, 8660-150-BCP-BR-2016-MR, is submitted for your review and consideration.

Please have your staff contact Ryan Dulin, Acting Deputy Executive Director, at rd3@cpuc.ca.gov, or at (415)703-2163 with any questions in their review of this proposal.

Sincerely,

Timothy J Sullivan

Timothy J. Sullivan
Executive Director

Enclosures (3)

cc: Karen Finn, Program Budget Manager
Matt Paulin, Assistant Program Budget Manager
Jesse McGuinn, Principal Program Budget Analyst
Kathy Madison, Staff Finance Budget Analyst

Universal Lifeline Telephone Service Trust Administration Fund Estimate Package

2016-17 May Revision

California Public Utilities Commission

Contents

I. Estimate

The California Public Utilities Commission (CPUC) provides revised projections of Current Year (Fiscal Year 2015-16) Local Assistance costs for the Universal LifeLine Telephone Service Administrative (ULTS) Fund (currently known as the California LifeLine Program), along with projected Local Assistance and State Operations costs for the Budget Year (2016-17).

A. California LifeLine Program Overview

The California LifeLine Program provides discounted home phone (wireline) and cellphone (wireless) services to qualified households. The California LifeLine discounts help consumers lower the cost of their phone bills. As of February 29, 2016, the program had approximately 2.1 million participants, of which about 1.5 million had California LifeLine wireless services.[1]

The Legislature enacted the Moore Universal Telephone Service Act (Moore Act)[2] on July 16, 1987. The purpose of the Moore Act is to provide low-income households with access to affordable basic residential telephone service. The Moore Act "was intended to offer high quality basic telephone service at affordable rates to the greatest number of California residents, and has become an important means of achieving universal service by making residential service affordable to low-income citizens through the creation of a lifeline class of service." Prior to the Moore Act's enactment, in 1984, the CPUC created the ULTS Program in Decision (D.) 84-04-053. The Legislature established the funding mechanism for this program as a "surcharge on service rates for telephone service provided by telephone corporations operating between service areas."[3]

The CPUC began implementing the California LifeLine Program in 1984. The CPUC administers the program consistent with the Legislature's intent and directives within the Moore Act and in accordance with the Federal Communications Commission's federal Lifeline program rules. From 1984 to 2004, the telephone corporations performed the enrollment responsibilities. However, in 2005, the CPUC transferred these enrollment functions from the California LifeLine service providers/carriers to a Third Party Administrator (TPA).[4] The TPA, under the CPUC's oversight and supervision, handles the enrollment process and has the sole responsibility of determining eligibility.

There are two ways to qualify for the program: 1) Program-Based or 2) Income-Based. Under Program-Based eligibility, households may qualify for the California LifeLine discounts if they provide supporting documentation that at least one of the household members is already enrolled in one or more of the eligible public-assistance programs (e.g., Medi-Cal; CalFresh; Women, Infants, and Children Supplemental Nutrition Program (WIC); etc.) . Under Income-Based eligibility, households may qualify for California LifeLine if the household's total annual gross income is at or less than the California LifeLine income limits. Income limits are approximately 150% of the Federal Poverty Level. The CPUC adjusts California LifeLine income limits every year, effective June 1, to reflect inflation based on the Federal Consumer Price Index[5]. California LifeLine participants must also annually renew their participation in the program to affirmatively confirm that they continue to qualify and would like to continue receiving the discounted phone services.

Table 1 shows the summary of California LifeLine customer qualifications processed by the TPA during calendar years 2014 and 2015.

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[1] Go to http://cpuc.ca.gov/General.aspx?id=1100 for more information about program participation.

[2] *See* Pub. Util. Code §§ 871 et al.

[3] *See* Pub. Util. Code § 879.5.

[4] The Commission uses the state's competitive bidding process to acquire a contractor to perform the Administrator's functions.

[5] CPUC General Order (GO) 153, section 5.2.1, The income limit is calculated by applying the previous income limits for the different household size and multiplying it with the Consumer Price Index for all Urban Consumers (CPI-U) rate. CPUC obtained the CPI-U rate from the U.S. Department of Labor, Bureau of Labor statistics, Economic News Release. (http://www.bls.gov/news.release/cpi.toc.htm).

Table 1

Summary of Customer Qualifications Processed for Calendar Years 2014 and 2015						
		Program Based		Income Based		Total
		#	%	#	%	(#)
New Customer Applications	2014	719,603	94%	49,832	6%	769,435
	2015	1,723,007	97%	52,747	3%	1,775,754
Existing Customer Renewals	2014	613,386	67%	298,832	33%	912,218
	2015	611,102	71%	250,280	29%	861,382

During calendar years 2014 and 2015, the majority of new customers qualified through Program-Based eligibility. Additionally, the majority of existing customer renewals qualified through Program-Based eligibility in both calendar years 2014 and 2015.

For three decades, the program only discounted home phone service for consumers and not wireless phone service. In the program's 30th year (2014), several wireless telephone service providers requested to become California LifeLine providers to provide more competitive choices for consumers. As of April 15, 2016, there were 14 California LifeLine wireless telephone service providers. Within one year of launching California LifeLine wireless telephone services, the program reversed the trend of consecutive month-to-month declines in program participation, which dated back to June 2007. The voluntary participation of these California LifeLine wireless telephone service providers has begun to meet low-income households' demand and need for high quality telephone service at affordable rates as evidenced by the rapid growth in program participation.

B. Combined State Operations and Local Assistance Expenditures Overview

Local Assistance and State Operations are calculated separately. Local Assistance consists of payments to carriers (claims) to provide California LifeLine services to program participants. California LifeLine service providers report costs and subsidies offered to consumers that they seek to recover from the program in accordance with the instructions set forth in General Order 153. The maximum subsidies carriers may claim are equal for wireline and wireless participants. State Operations consist of Program costs, staff costs, contract costs, and other costs associated with the program that are unrelated to claim reimbursements. State Operations costs are driven primarily by the TPA costs.

In the 2016-17 Governor's Budget, the ULTS appropriation for 2015-16 is $345,703,000, of which $324,220,000 is for Local Assistance and $21,483,000 is for State Operations. The 2016-17 Governor's Budget proposes an appropriation of $625,506,000 for 2016-17, of which $591,620,000 is for Local Assistance and $33,886,000 is for State Operations.

The CPUC May Revision estimates reflect 2015-16 expenditures of $483,530,000 (combined State Operations and Local Assistance), which is an increase of $137,827,000 or 40% compared to the 2015-16 appropriation as shown in the 2016-17 Governor's Budget. In 2016-17, the CPUC May Revision estimates total State Operations and Local Assistance budget expenditures of $483,123,000 for 2016-17, which is a decrease of $142,383,000 or 23% compared to the 2016-17 Governor's Budget. At the time of preparing the CPUC's 2015-16 expenditure estimate, there were only several months of actual data based on the limited experience of three wireless LifeLine Service providers. For this revised estimate, the CPUC has had over a year of actual participation data and was able to identify and account for some of the factors that most significantly affect participation levels, allowing for more accurate forecasting of costs for 2015-16 and 2016-17.

Table 2 shows the difference between the 2015-16 appropriation (as shown in the 2016-17 Governor's Budget) and the revised 2015-16 expenditure projections. CPUC anticipates no change for 2015-16 for State Operations expenditure forecast. CPUC expects to operate within the appropriation. The increase in Local Assistance of $137,827,000 in 2015-16 is primarily attributed to increased carrier claims for wireless service plans. Furthermore, the increase in Local Assistance resulted from $53,204,069 of the 2015-16 appropriation being used to pay 2014-15 carrier claims.

Table 2 also shows the difference between the 2016-17 Governor's Budget estimates and the revised 2016-17 expenditures for ULTS. The decrease in State Operations in 2016-17 of $8,108,000, or 24%, is due to a projected decrease in costs to be incurred by the TPA. The revised estimate for 2016-17 Local Assistance of $457,345 (a decrease of $134,275,000) reflects lower program growth than previously forecasted and is attributed to a decrease in projected claims by wireless carriers.

Table 2

Total State Operations and Local Assistance - 2016 May Revision (dollars in thousands)									
	Current Year 2015-16					Budget Year 2016-17			
Fund 0471 Universal LifeLine Telephone Program	FY 2015-16 Budget Act	2016-17 Governor's Budget	2016 May Revision	$ Change from Governor's Budget to 2016 May Revision	% Change from Governor's Budget to 2016 May Revision	2016-17 Governor's Budget	2016 May Revision	$ Change from Governor's Budget to 2016 May Revision	% Change from Governor's Budget to 2016 May Revision
Total*	**$ 345,665**	**$ 345,703**	**$ 483,530**	**$ 137,827**	**40%**	**$ 625,506**	**$ 483,123**	**$ (142,383)**	**-23%**
State Operations	$ 21,445	$ 21,483	$ 21,483	$ -	0%	$ 33,886	$ 25,778	$ (8,108)	-24%
Local Assistance	$ 324,220	$ 324,220	$ 462,047	$ 137,827	43%	$ 591,620	$ 457,345	$ (134,275)	-23%

C. Local Assistance Historical and Projections

Local Assistance consists of Carrier Claims. Claims amounts are directly affected by the number of program participants. However, the introduction of wireless in 2014, as well as recent variability in the participation numbers, historical participation, and Local Assistance expenditures, provides limited reliability in forecasting of 2015-16 or 2016-17.

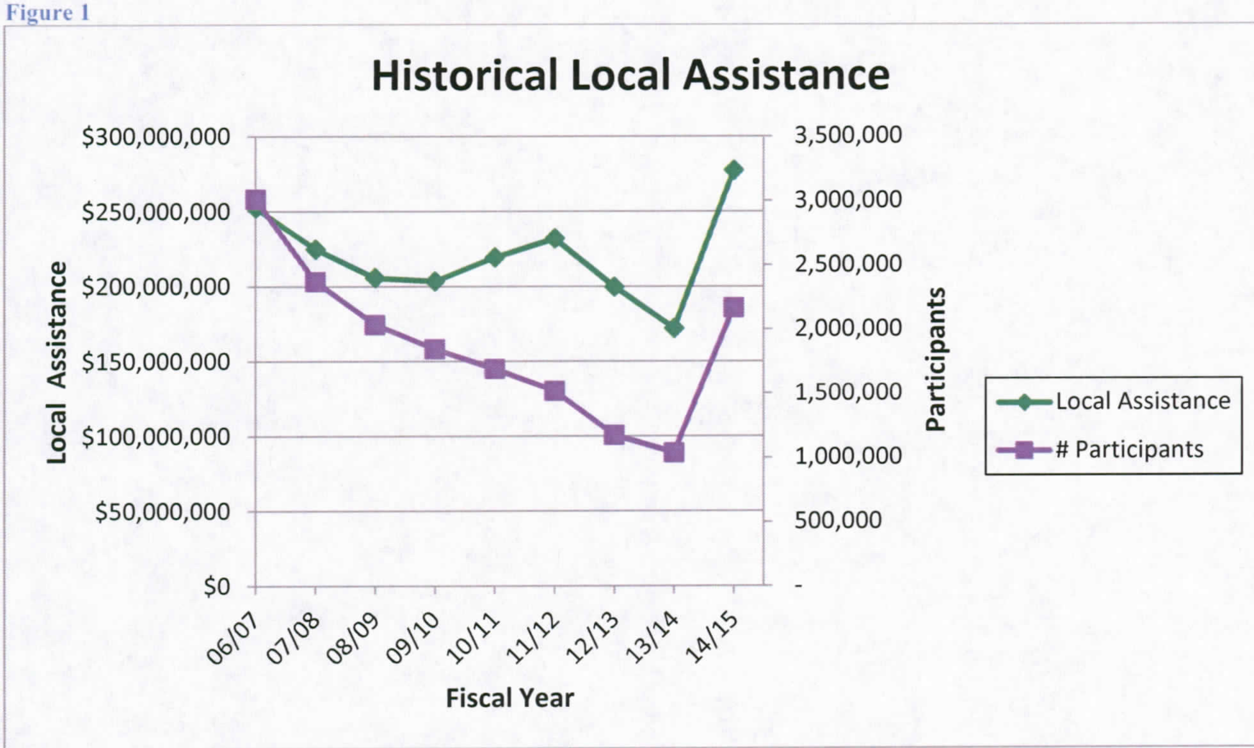
The California LifeLine service providers may claim reimbursement for administrative costs and subsidies offered to consumers from the ULTS Fund consistent with General Order 153. The California LifeLine Program provides support for the administrative costs incurred by California LifeLine service providers. The program reimburses California LifeLine service providers for the discounts offered to California LifeLine participants on their monthly service charge, connection charge, and taxes and surcharges associated with the monthly service charge. Once a customer or household member is approved or becomes a participant in the program, the service provider applies a discount to the participant's bill and then files monthly claims reimbursements with the CPUC for the discounts granted to eligible households.

i. Historical Data (2006-07 to 2014-15) - Local Assistance

General Order 153, sections 9.5.2, 9.5.4, and 9.9.1 allow the CPUC to review and process claims up to 120 days after a claim period for service providers that have more than 100 subscribers and 240 days for service providers that have less than 100 subscribers. Historically, claims payments have been processed on an expedited basis resulting in service providers typically receiving payment within 45 days of the date the claim was filed with CPUC. However, due to recent increases in participation and claims reimbursements, CPUC staff have been remitting payments to carriers close to 120 days from the date their claims were filed.

Figure 1 compares Local Assistance expenditures with the number of California LifeLine participants from 2006-07 through 2014-15. It shows that from 2006-07 to 2013-14 the number of participants was declining. As a result of the new wireless service offerings in March 2014, the California LifeLine Program experienced a substantial increase in both overall California LifeLine participants and reimbursement requests from California LifeLine wireless service providers in 2014-15. While Local Assistance expenses have generally trended with participation levels from 2009-10 to 2011-12, the increase in expenses (Local Assistance) was due to a higher per customer discount resulting from basic flat rate increases in 2010 and 2011. The CPUC has the ability to annually review the basic rate amounts charged by Carriers of Last Resort (COLRs) in California and establish a Specific Support Amount (SSA) subsidy based on 55 percent of the highest COLR's basic rate. Therefore, when the basic rate increases, the SSA subsidy increases, which results in higher per customer costs. The price of traditional wireline service is set at the discretion of the service provider. The four largest COLRs are AT&T, Verizon, SureWest, and Frontier. Participating service providers are allowed to recover implementation costs on a limited basis. After a competitive bidding process, a new TPA began providing services in 2011, resulting in service providers seeking and recovering costs associated with modifying their electronic interfaces used to exchange data with the new TPA. Increases in subsidy levels combined with recovery of implementation costs, resulted in program cost increases in 2009-10 to 2011-12

Figure 1

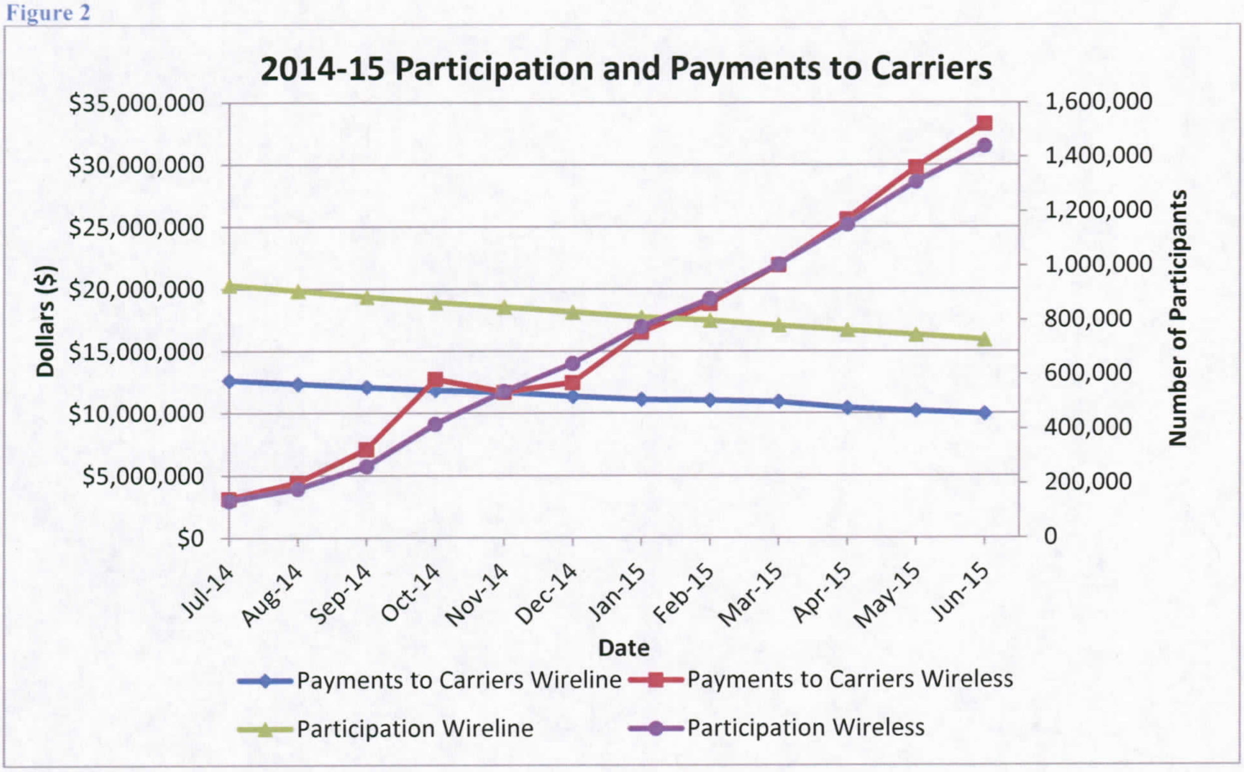


As part of developing the Governor's Budget each year, the CPUC develops its program budget a year in advance. When developing the 2014-15 budget in July 2013, the CPUC did not anticipate wireless service participation in the first quarter of 2014 or the increased participation during that fiscal year, which resulted in underestimating the total program participation and budget for 2014-2015. The CPUC did not vote on wireless offerings until 2014.[6] The rapid increase of wireless subscription in 2014-2015 resulted in an overall increase in costs to the program. Consequently, CPUC requested, and was granted, a $90 million supplemental appropriation for 2014-2015. 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 2014-15. Therefore, payment for a portion of the 2014-15 claims ($53.2 million) was shifted into 2015-16. The CPUC subsequently increased the surcharge to provide a sufficient cash balance to cover program costs.

Figure 2 shows the breakdown of the reimbursements to the wireless and wireline carriers and the number of wireless and wireline participants from June 2014 to June 2015.

[6] On January of 2014, the Commission introduced Wireless services to the California LifeLine Program. See D. 14-01-036.

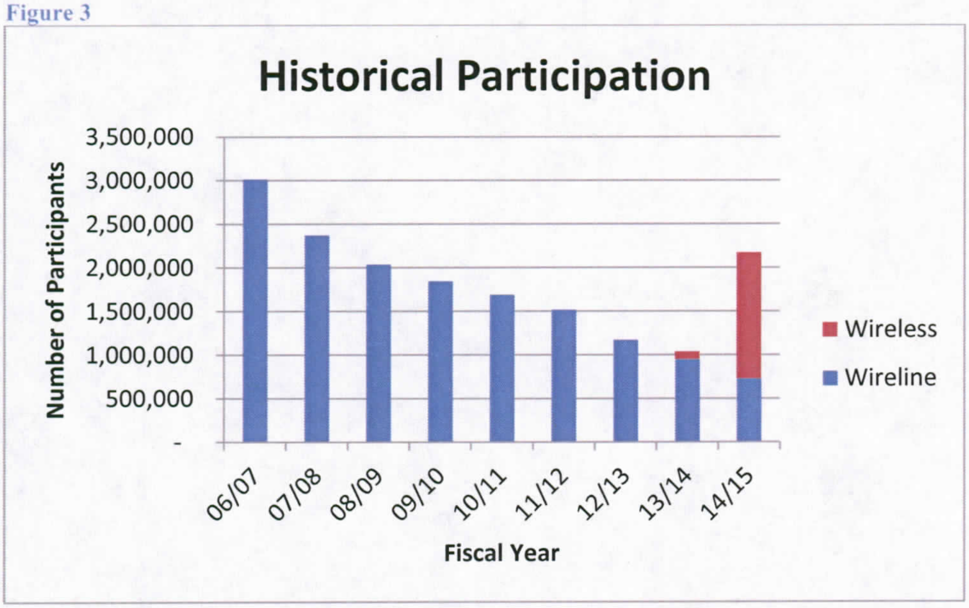
Figure 2



As illustrated by Figure 2, Local Assistance expenditures closely track the number of program participants over time. Additionally, the rapid increase in wireless participation led to the increase in Local Assistance spending for 2014-15.

Program participation is the main driver of Local Assistance spending, but participation and renewal rates are vastly different for wireline and wireless subscribers. As shown in Figure 3, wireline program participation had been steadily declining prior to adding wireless service in 2014. However, after adding wireless service in 2014-15, program participation increased significantly. The additional participation has contributed to significant cost increases. At the end of 2014-2015, approximately 2.2 million customers were enrolled in the California LifeLine program.

Figure 3



ii. Current Year (2015-16) – Local Assistance

For 2015-16, CPUC estimates Local Assistance expenditures will total $462,047,000[7], which is an increase of $137,827,000 or 43% compared to the 2015-16 Governor's Budget. This projected increase in expenditures is due to increased carrier claims from wireless service providers. In addition, as noted previously, $53,204,069 of the 2015-16 appropriation was used to pay 2014-15 carrier claims.

Table 3 shows the difference between the Governor's Budget appropriation for 2015-16 and the revised forecast for 2015-16 expenditures for the ULTS Local Assistance.

Table 3

Local Assistance - 2016 May Revision (dollars in thousands)					
	FY 2015-16				
Fund 0471 Universal LifeLine Telephone Program	FY 2015-16 Budget Act	2016-17 Governor's Budget	2016 May Revision	$ Change from Governor's Budget to 2016 May Revision	% Change from Governor's Budget to 2016 May Revision
Local Assistance Total	**$ 324,220**	**$ 324,220**	**$ 462,047**	**$ 137,827**	**43%**
Carier Claims	$ 324,220	$ 324,220	$ 462,047	$ 137,827	43%

In developing the initial 2015-16 Budget in July 2014, CPUC anticipated approximately 50,000 monthly net new participants to the program for wireless. CPUC estimated that by the end of 2015-16, there would be approximately 1.976 million participants (600,000 wireline subscribers and 1,376,000 wireless subscribers). This number was based on 45% participation of the approximately 3 million eligible low-income households in California. Since wireless service providers began offering wireless service in March 2014, the CPUC had only 4 months of data available to develop the 2015-16 Budget in July 2014. With limited data, the impact of introducing wireless service to the program was subject to significant uncertainty.

The 2015-16 estimate of $324,200,000 was based on average total subscribership for both wireline and wireless services and the projected SSA monthly subsidy of $13.65, plus monthly subsidy of administrative costs of $0.50 per subscriber, one-time $39 connection for wireless, one time $39 connection/conversion charges for wireline, and

[7] See Appendix A for breakdown of Local Assistance calculation for 2015-16.

taxes and surcharges costs. Only wireline service providers may seek subsidy support for conversion charges paid by LifeLine participants.

As of June 30, 2015, the total number of California LifeLine participants was 2,167,322, which was 9% higher than the total number originally forecasted in July 2014 for 2015-16. The program was adding approximately 100,000 net new customers monthly for wireless. That trend changed when the CPUC eliminated the connection/conversion subsidy on July 1, 2015 for wireless service. That change decreased the rate at which customers were enrolled in the wireless program.

iii. Budget Year (2016-17) Revised Estimate – Local Assistance

For 2016-17, CPUC estimates Local Assistance expenditures will total $457,345,000[8], which is a decrease of $134,275,000, or 23%, compared to the 2016-17 Governor's Budget. This decrease in projected expenditures is due to lower participation than previously projected. The previously projected participation rate was based on the assumption that approximately 90% (given the rapid growth in wireless participation in 2014-15) of the 4.2 million eligible low-income households would participate in California LifeLine, resulting in 3.7 million participants in the California LifeLine Program by the end of 2016-17 compared to the approximate 3 million participants currently projected.

Table 4 shows the difference between the 2016-17 Governor's Budget projections for the current and budget years and the 2016 May Revision projections for both years.

Table 4

Local Assistance - 2016 May Revision
(dollars in thousands)

Fund 0471 Universal LifeLine Telephone Program	Current Year FY 2015-16				Budget Year FY 2016-17			
	FY 2015-16 Budget Act	2016-17 Governor's Budget	2016 May Revision	$ Change from Governor's Budget to 2016 May Revision	% Change from Governor's Budget to 2016 May Revision	2016-17 Governor's Budget	2016 May Revision	$ Change from Governor's Budget to 2016 May Revision	% Change from Governor's Budget to 2016 May Revision
Local Assistance Total	**$ 324,220**	**$ 324,220**	**$ 462,047**	**$ 137,827**	**43%**	**$ 591,620**	**$ 457,345**	**$ (134,275)**	**-23%**
Carier Claims	$ 324,220	$ 324,220	$ 462,047	$ 137,827	43%	$ 591,620	$ 457,345	$ (134,275)	-23%

iv. Expenditure Methodology - Local Assistance

a) Factors Affecting Local Assistance Expenditures

Local Assistance expenditures consist of carrier claims and are therefore driven by program participation. The number of participants in the California LifeLine program is primarily driven by the following factors:

1. Renewal Rates
2. Specific Support Amount (SSA) Subsidy Increase
3. Ruling Reinstating Reimbursements for Non-Recurring Charges ($39 activation/conversion fee)
4. Program Participation Analysis in Other Public Assistance Programs
5. Current Growth Factors (last 12 months)
6. Number of Active and Pending Wireless Service Providers

Below, we summarize each of the factors.

1. <u>Renewal Rates</u>

California LifeLine participants must annually renew their participation in the program to affirmatively confirm that they continue to qualify and would like to continue receiving the discounted phone service. The first wireless service

[8] See Appendix B for breakdown of Local Assistance calculation for 2016-17.

provider participation in the program commenced in March 2014, which means the first wireless customer renewals were due in March 2015. Currently, there are three ways existing participants can renew: 1) Return completed renewal form via mail, 2) Complete renewal form on the public website, and 3) Complete renewal via Interactive Voice Response system (IVR).

2. Specific Support Amount (SSA) Subsidy Increase

The level of SSA subsidy influences program expenditures. As part of a comprehensive reexamination of the California LifeLine program, in January 2014 (D.14-01-036), the CPUC adopted rules permitting wireless service providers to participate in California LifeLine. In that same decision, the CPUC affirmed a November 2010 decision that establishes wireline subsidy to be set at 55% of the highest COLR[9] rate in effect in the prior year. This is a monthly subsidy that is applied to all qualified wireline and wireless participants and is paid directly to their telecommunications carrier. Ordering Paragraph Nos. 6 and 8 of D.14-01-036 states, "The Specific Support Amount for California LifeLine wireline providers shall be capped at $12.65 per month for each eligible participant from January 1, 2014 through June 30, 2015" and "the Specific Support Amount for California LifeLine wireless providers that offer qualifying wireless telephone service plans with 1,000 or more voice minutes shall be $12.65 per month for each eligible participant through June 30, 2015". The monthly subsidy/support for wireline and wireless service providers is updated annually and is currently capped at $13.20 through June 30, 2016.

3. Ruling Reinstating Reimbursements for Connection Charges

California LifeLine wireless enrollment experienced a dramatic increase in 2014 after D.14-01-036 authorized California Wireless LifeLine to participate in California LifeLine program. In the 2014 decision, the Commission authorized up to a $39 connection subsidy for both wireline and wireless participants. On July 1, 2015, wireless participants ceased receiving connection subsidies. After the suspension of service connection reimbursement for wireless carriers, California LifeLine wireless enrollment growth declined. On December 24, 2015, the assigned Commissioner issued a ruling to reinstate the reimbursement for connection/activation support of $39 for wireless carriers to no more than twice annually per eligible household. Connection payments are made by CPUC to carriers when a customer establishes or activates a new service. These payments are limited to no more than two payments annually per eligible household/subscriber. Although the reinstatement is expected to boost participation, it is difficult to quantify the effects at this point. It will take several months after carriers have received the connection subsidies to see the impacts to the ULTS fund. A more detailed analysis can be found in Appendix D under Ruling Reinstating Non-Recurring Charges.

4. Program Participation Analysis in Other Public Assistance Programs

An alternative method to project the number of California LifeLine participants would be to apply the participation rate from other government programs to the total number of households eligible for California LifeLine. CPUC used CalFresh and Medi-Cal because participation in these programs qualifies households for California LifeLine and these programs have publicly available information. However, due to differences in the eligibility criteria and the method that CalFresh used to calculate the participation rate, a direct comparison with California LifeLine was not feasible. A more detailed analysis can be found in Appendix D under Program Participation Analysis section.

5. Current Growth Factors

One method of predicting expense is to analyze recent trends in program participation. An analysis in Appendix D shows that due to the variability the growth cannot reasonably be used to predict the 2016-17 program participation and expenses. As evidenced by the recent rapid increase in wireless participation, the growth rate of wireless participation can have a significant impact on overall participation levels and, therefore, on Local Assistance expenditures. From January to March 2016, the weekly percentage change in wireless participation has been highly variable and, therefore, it would be difficult to predict future growth rates with a high degree of confidence. For this

[9] General Order 153 defines COLR as follows: A carrier that is required by D. 96-10-066 to provide telephone service, upon request, to all residential and business customers within a designated geographic area.

reason, the growth rate was not taken into account in the Local Assistance projections. A more detailed analysis can be found in Appendix D under Current Growth Factors.

6. Active and Pending Wireless Carriers

Carrier participation can impact program participation; however, at this time, the number of participants and, therefore, program costs, cannot be reliably predicted. The California LifeLine program has expanded to include more carriers, which can increase participation by reaching a larger client base. Since the introduction of wireless services in March 2014, the CPUC has approved fourteen (14) wireless service providers. Two wireless service providers were approved in January 2016: Blue Jay Wireless and TracFone, which is one of the largest pre-paid wireless carriers in the nation. As of March 26, 2016, TracFone had 25,895 active California LifeLine participants with 33,307 pending certifications. In addition, as of March 31, 2016, the CPUC had seven (7) pending wireless service providers' requests to participate in California LifeLine Program. Thus, by the end of 2016-17, there could be as many as seven (7) additional new wireless service providers in the California LifeLine Program. The number of wireless carriers may affect the number of participants, but the CPUC is unable to predict the result of pending applications or the number of new applicants, and therefore cannot reliably quantify the likely effect at this time.

b) Expenditure Projection

While all of the factors discussed in the previous section are expected to have a significant impact on local assistance costs and program participation, many of these factors are exposed to too much uncertainty to incorporate into projections. The model that the CPUC used to predict 2015-16 and 2016-17 program participation is limited to renewal analysis and carrier claims cost factors, such as SSA subsidy increase and Administrative costs. The CPUC expects that in the future, additional years of data will enable enhanced utilization of these factors in cost projections.

Renewal Analysis

Renewals are a primary factor in forecasting program participation. Since the introduction of wireless service to the program in 2014, many participants are now in the process of renewing to continue receiving their discount benefits. Although multiple methods of renewal are available, current data shows that approximately 30% of the wireless subscribers are renewing, while approximately 80% of wireline subscribers renew. It appears that wireline subscribers, most of whom have been long-term program participants, are accustomed to the annual renewal and redetermination process. Almost 1.6 million customers will be renewing during the nine months from April 2016 to December 2016. The current average wireline and wireless renewal rates of 30% and 80%, respectively, corresponds to approximately 867,203 participants (91,719 for wireline and 775,484 for wireless) that will have a lapse in eligibility. An analysis by the TPA of participant renewal patterns shows that 89.72% of wireless participants who were denied during the renewal process are participating again in the program within one year. Typically, customers are denied during the renewal process because they fail to fill out the required form or respond to a renewal request. Self-certification under penalty of perjury is required to renew. A large portion of California LifeLine participants are due for renewal during 2016 and when some of these participants are denied during the renewal process, even if they later rejoin, the temporary loss of participants significantly affects the overall number of program participants and thus affects local assistance expenditures.

Table 5 below shows the monthly projected number of wireline, wireless, and total participants generated using this model through the end of 2016-17. Figure 4 is a visual representation of the monthly projected number of wireline, wireless, and total participants generated using this model through the end of 2016-17. Appendix C includes a more detailed description of how this model was constructed.

Table 5

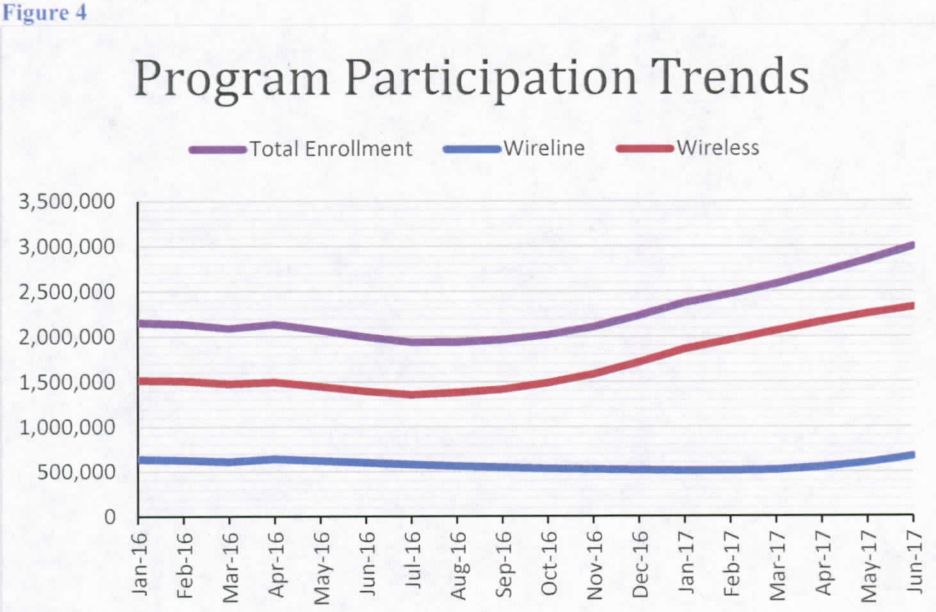
Renewal Model Method	Fiscal Year 2015-2016					
	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
Total Enrollment Projection	2,151,893	2,134,904	2,086,915	2,134,791	2,066,462	1,991,478
Wireline Enrollment Projection	639,141	627,382	611,859	641,712	620,232	599,248
Wireless Enrollment Projection	1,512,752	1,507,522	1,475,056	1,493,079	1,446,230	1,392,230
Invoice Projection:	$ 1,444,680	$ 1,344,413	$1,434,760	$1,387,614	$1,343,200	$1,294,461

*Actuals used for Jan-2016 and Feb-2016.

Renewal Model Method	Fiscal Year 2016-2017					
	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
Total Enrollment Projection	1,936,346	1,936,245	1,961,003	2,017,964	2,105,910	2,229,577
Wireline Enrollment Projection	580,042	561,545	545,372	533,572	524,235	517,703
Wireless Enrollment Projection	1,356,303	1,374,699	1,415,631	1,484,392	1,581,675	1,711,873
Invoice Projection:	$1,258,625	$1,258,559	$1,274,652	$1,311,677	$1,368,842	$1,449,225

Renewal Model Method	Fiscal Year 2016-2017					
	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Total Enrollment Projection	2,370,807	2,467,784	2,579,571	2,708,276	2,846,019	2,994,544
Wireline Enrollment Projection	511,046	511,215	519,466	550,062	599,697	672,206
Wireless Enrollment Projection	1,859,761	1,956,569	2,060,105	2,158,215	2,246,322	2,322,338
Invoice Projection:	$ 1,541,024	$ 1,604,060	$ 1,676,721	$ 1,760,380	$ 1,849,913	$ 1,946,454

Figure 4



Cost Factors

Local Assistance expenditures are driven by the number of claims by California LifeLine Service Providers for the reimbursement of California LifeLine-related costs and subsidies offered to participants. Claims may include:

- Specific Support Amount (SSA) subsidy
- Non-recurring charges (service connection/conversion charges)
- Applicable taxes/surcharges
- One-time implementation costs if applicable
- Administrative expenses

Below is a brief description of the SSA subsidy increase methodology and the projected administrative expense methodology used for the purpose of calculating claim costs. Other cost factors, such as non-recurring charges, taxes, and one-time implementation costs, do not require extensive calculations, and are included in Appendix A (2015-16) and Appendix B (2016-17).

General Order 153, section 8.5.2, authorizes the Communications Division of the CPUC to reset the SSA subsidy annually, effective January 1 of each year at 55%[10] of the highest COLR rate effective July 31st of the previous year. Currently, the highest COLR basic residential rate is $24, which results in an SSA subsidy of $13.20. Therefore, the CPUC has applied $13.20 in computing claim reimbursements for July 2016 to December 2016. In addition, based on history of rate increases, CPUC forecasts that a rate increase of COLR basic residential service to $25.00 for the following year, effective July 31, 2016, would result in an SSA subsidy of $13.75. Therefore, the CPUC has applied $13.75 in computing claim reimbursements for January 2017 to June 2017. This applies to both wireline and wireless subscribers.

In addition to the monthly subsidy, carriers offering California LifeLine service are eligible to collect an administrative support subsidy from the program. The administrative support subsidy is $0.03 monthly for claims filed without cost information and $0.50 monthly for those with cost information. For the purpose of calculating the administrative costs, CPUC applied the average administrative costs of $0.36 for wireless participants and $0.20 for wireline participants for 2016-17.

Table 6 below shows the Administrative Costs that the fund reimbursed to carriers for 2014-15 and 6 months of 2015-16.

Table 6

Administrative Costs for Wireless			
FY	Total Admin Paid Wireless	Actual wireless participants	Average Admin per Participant
2014-15	$ 3,066,788.60	1,439,796.00	$ 0.36
Jul-Dec 2015	$ 3,336,296.90	1,545,428.00	$ 0.36

Administrative Costs for Wireline			
FY	Total Admin Paid Wireline	Actual wireline participants	Average Admin per Participant
2014-15	$ 1,967,422.68	727,526.00	$ 0.20
Jul-Dec 2015	$ 823,117.40	651,828.00	$ 0.20

To calculate the total projected Local Assistance costs, CPUC projects the monthly participants by applying the renewal rate identified via renewal analysis for wireline and wireless for the remainder of 2015-16 and 2016-17 and multiplies those rates against the allowable subsidies.[11] To calculate total projected Local Assistance, we applied the following calculations for both wireless and wireline:

[10] The 55% was established so that the consumers will pay no more than half of the basic rate pursuant to section 874 of the Public Utilities Code.

[11] See Appendix A (2015-16 Local Assistance Breakdown) and Appendix B (2016-17 Local Assistance Breakdown) for detailed calculation of Local Assistance expenditures.

For Wireless:

A	Total customer recurring charge	=	CA LifeLine subscribers month-to-month for wireless	x	Specific Support Amount (55% highest COLR rate)
B	Total Administrative charge for wireless	=	CA LifeLine subscribers month-to-month for wireless	x	Wireless Administrative Average Cost of $0.36
C	Total Wireless Connection charge	=	CA LifeLine subscribers for wireless	x	Connection/Activation Average Cost
D	Total Wireless Surcharge and Taxes	=	CA LifeLine subscribers for wireless	x	Taxes and Surcharge rate of 16%
E	Total projected wireless claims expenditure	=	A + B + C + D		

For Wireline:

F	Total customer recurring charge	=	CA LifeLine subscribers month-to-month for wireline	x	Specific Support Amount (55% highest COLR rate)
G	Total Administrative charge for wireline	=	CA LifeLine subscribers month-to-month for wireline	x	Wireline Administrative Average Cost of $0.20
H	Total CA LifeLine wireline Connection/Conversion	=	Adopted Carrier's forecasts of total connection/conversion charges, which carriers are required to submit annually according to GO 153, Section 10.4.2		
I	Total Wireline Surcharge and Taxes	=	Adopted Carrier's forecasts of surcharge and taxes, which carriers are required to submit annually according to GO 153, Section 10.4.2		
J	Total projected wireline claims expenditure	=	F + G + H + I		

Total projected Local Assistance = E + J

D. State Operations Projections

State Operations expenditures are estimated separately from Local Assistance expenditures. State Operations consists of the following categories:

- Program costs (Administrative Committee related costs and staff travel)
- Staff costs
- Contracts costs (marketing/outreach)
- California LifeLine Administrator
- California LifeLine consultant and auditing
- Other program costs (goods, training, and office equipment)
- ProRata
- Overhead/Indirect (Cost Allocation)

For 2015-16, CPUC estimates State Operations expenditures will equal those shown in the 2016-17 Governor's Budget.

For 2016-17, CPUC forecasts total State Operations expenditures of $25,778,000, which is a decrease of $8,108,000 or 24% compared to the 2016-17 Governor's Budget. This projected decrease in expenditures is due to lower than anticipated participation, which results in fewer eligibility determinations and reduces TPA costs.

Table 7 shows the difference between the 2016-17 Governor's Budget and the anticipated 2015-16 expenditures and proposed 2016-17 expenditures for the ULTS State Operations.

Table 7

State Operations - 2016 May Revision (dollars in thousands)									
	Current Year 2015-16					Budget Year 2016-17			
Fund 0471 Universal LifeLine Telephone Program	FY 2015-16 Budget Act	2016-17 Governor's Budget	2016 May Revision	$ Change from Governor's Budget to 2016 May Revision	% Change from Governor's Budget to 2016 May Revision	2016-17 Governor's Budget	2016 May Revision	$ Change from Governor's Budget to 2016 May Revision	% Change from Governor's Budget to 2016 May Revision
State Operations Total	$ 21,445	$ 21,483	$ 21,483	$ -	0%	$ 33,886	$ 25,778	$ (8,108)	-24%

i. Historical data (2006-07 to 2014-15) – State Operations

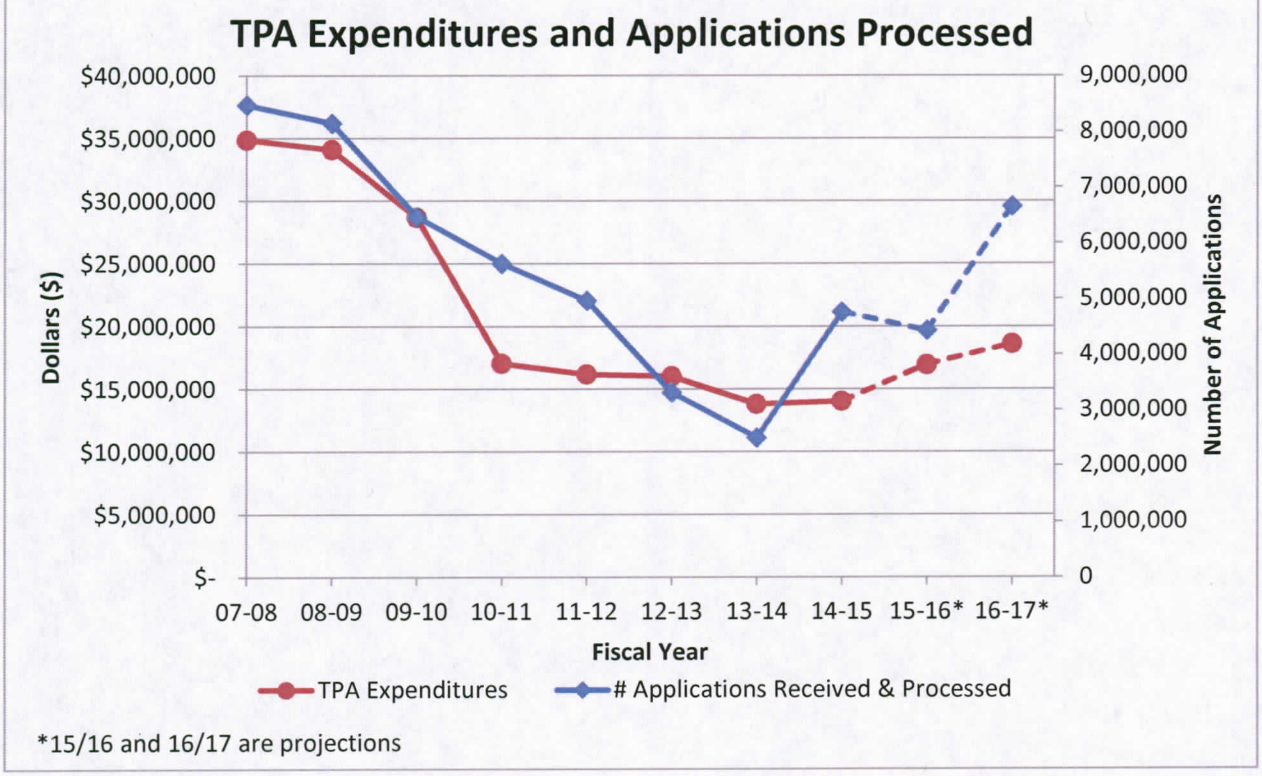
For State Operations, the key driver of costs is the Third Party Administrator expenses (TPA), which is illustrated in Table 8. The TPA services are very complex, and include extensive technical communications and coordination between the contractor, the participating carriers, the CPUC, and the public. TPA services are essential to effective implementation of the California LifeLine Program. The TPA carries out processes including, but not limited to, the following:

- Determining the eligibility of households, and enrolling and denying participants;
- Operating and monitoring an automated electronic database and communication system between Contractor, California LifeLine Service Providers, and CPUC staff;
- Providing electronic customer service, including a call center, toll-free service lines, Interactive Voice Response (IVR) system, and website;
- Performing records and database management;
- Printing, mailing, and processing documents;
- Preventing waste, fraud, and abuse of the California LifeLine Program; and
- Communicating and interacting with internal and external stakeholders.

Since the introduction of California LifeLine wireless, the California LifeLine Program has experienced a significant, rapid increase in consumer and carrier demand, which has increased program volume and costs proportionately.

As illustrated by Figure 5, overall TPA expenditures are primarily driven by the number of applications received and processed. Since TPA costs make up approximately 80% of State Operations expenses, the number of applications received is also the primary driver of total State Operations expenses.

Figure 5



State Operations amounts included several categories: contract costs such as TPA costs, employee salaries and benefits, travel, minor equipment costs, consumer education, marketing, and a call center to answer questions about eligibility and status.

ii. Current Year (2015-16) – State Operations

For 2015-16, the ULTS appropriation for State Operations is $21,483,000, as shown in the 2016-17 Governor's Budget.

Table 8 below shows the State Operations program expenditures from July 2015 through February 2016. State Operations include other categories beyond those listed in the table; however the categories included in the table are the main driver of State Operations costs. "Other" consists of other program related costs such as travel costs, training costs, consultant costs, and overhead (cost allocation) charges. As of February 2016, TPA's total actual expenditures were approximately $11.5 million.

Table 8

	State Operations Expenditures July 2015-February 2016						
1	FY	State Operations	Salaries/ Benefits	Audit	Pro Rata	TPA	Other
2	15/16 (Jul - Feb 2016)	$ 14,058,730	$ 442,640	$ 550,031	$ 992,739	$ 11,475,103	$598,217.00

Table 9 shows the breakdown by categories of the State Operations 2016 May Revision of $21,483,000. Of the $21,483,000, the biggest driver of State Operations program expenditures is the TPA costs which is estimated to be approximately $16,935,138 for 2015-16. To project the remainder of the TPA expenditures for 2015-16, a ratio of 65% was used based on projected program monthly enrollment. Between July 2015 and February 2016, TPA's actual monthly invoices averaged 64% of the total enrollment. The projection applied a ratio of 65%, rather than the 64% invoice average, to allow for month-to-month variation in participation. Costs associated with "Other" consist of travel, cost allocation, surcharge audit, and the program's technical consultant costs.

Table 9

	Revised FY 2015-16 State Operations					
	FY	2016 May Revision	Salaries/ Benefits	Pro Rata	TPA	Other
1	FY15/16	$ 21,483,000	$ 1,129,268	$ 1,324,000	$ 16,935,138	$ 2,094,594

iii. Budget Year (2016-17) – State Operations

In 2016-17, CPUC estimates State Operations expenditures will total $25,778,000, which is a decrease of $8,108,000 or 24% compared to 2016-17 Governor's Budget. The decrease is associated with lower TPA expenditures than originally anticipated.

Table 10

State Operations - 2016 May Revision (dollars in thousands)									
	Current Year 2015-16					Budget Year 2016-17			
Fund 0471 Universal LifeLine Telephone Program	FY 2015-16 Budget Act	2016-17 Governor's Budget	2016 May Revision	$ Change from Governor's Budget to 2016 May Revision	% Change from Governor's Budget to 2016 May Revision	2016-17 Governor's Budget	2016 May Revision	$ Change from Governor's Budget to 2016 May Revision	% Change from Governor's Budget to 2016 May Revision
State Operations Total	$ 21,445	$ 21,483	$ 21,483	$ -	0%	$ 33,886	$ 25,778	$ (8,108)	-24%

iv. Expenditure Methodology - State Operations

In developing the estimated 2016-17 TPA invoice projections, the CPUC applied the same ratio of 65% as used in the Current Year projection.

Table 11 illustrates the number of applications received and processed by the TPA and the number of wireline and wireless participants in the program.

The data in Table 11 below were obtained from the TPA who is required to submit monthly and annual reports to the CPUC for accounting and auditing purposes. The Applications Received/Processed category of the table represents the total number of applications and renewals per fiscal year in the processing of California LifeLine Program applications by the TPA. The TPA estimates that they will receive and process approximately 4,425,506 and 6,654,542 applications for 2015-16 and 2016-17, respectively. The projection was based on the approximate average ratio of 45% of active customers on the program to the number of applications received and processed. The projections were calculated as follows:

1) Compute the volume of applications received/processed between July 2015 and February 2016, then calculate the monthly average, and then project for the entire 12 months, which resulted to an average ratio rate of 45.52%.
2) Project using the same methodology used when calculating 2014-15 (applying 45%).

Comparing the results from the two approaches above indicates a nominal difference. Thus, the CPUC believes that 45% is a reasonable assumption based on historical information and the forecasting methodology that was used to project the number of applications received/processed.

Table 11

CPUC CA LL Projections									
Category	PY 3	PY 2	PY 1	PY	Current Year	Budget Year	Growth %	Growth %	Growth %
	11-12	12-13	13-14	14-15	15-16*	16-17*	13-14/14-15	14-15/15-16	15-16/16-17
Applications received/processed	4,961,019	3,311,504	2,501,059	4,755,441	4,425,506	6,654,542	90.14%	-6.94%	50.37%
No. of CA LifeLine Wireline Subscribers	1,518,763	1,173,692	947,959	727,526	599,248	672,206	-23.25%	-17.63%	12.17%
No. of CA LifeLine Wireless Subscribers	0	0	90,656	1,440,371	1,392,230	2,322,338	1489%	-3%	66.81%
Total No. of CA LifeLine WireLine &Wireless Subscribers	1,518,763	1,173,692	1,038,615	2,167,897	1,991,478	2,994,544	108.73%	-8.14%	50.37%
Ratio of Total Subscribers to Applications Processed	30.61%	35.44%	41.53%	45.59%	45.00%	45.00%	N/A	N/A	N/A

*Wireless subscriptions did not commence until March 2014. The numbers shown for 2015-16 and 2016-17 for California LifeLine wireline and wireless participation are projections.

E. Revenue Projections

i. Historical Years and Current Year (2015-16) – Revenue

The California LifeLine Program is funded by a surcharge assessed against intrastate charges of end-users of all telephone corporations and interconnected Voice over Internet Protocol (VoIP) service providers in California. Historical California LifeLine surcharge rates are listed in Table 13. CPUC periodically reviews universal service public purpose program balances and surcharge rates to ensure that the programs are sufficiently funded. CPUC strives to maintain a positive program fund level that 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.

Table 12 below shows the ULTS fund annual revenues from 2006-07 through 2015-16. Figure 6 graphs this information against the ULTS surcharge rate over the same years. In addition, the graph also includes the projected revenues for 2015-16, represented by the dotted line.

Table 12

Fiscal Year	Total Revenue
06/07	$ 308,717,615
07/08	$ 298,174,380
08/09	$ 274,682,788
09/10	$ 249,989,592
10/11	$ 218,519,362
11/12	$ 187,125,926
12/13	$ 196,954,193
13/14	$ 158,981,819
14/15	$ 227,526,824
15/16*	*$ 591,120,833*

*15/16 is a projection.

Figure 6

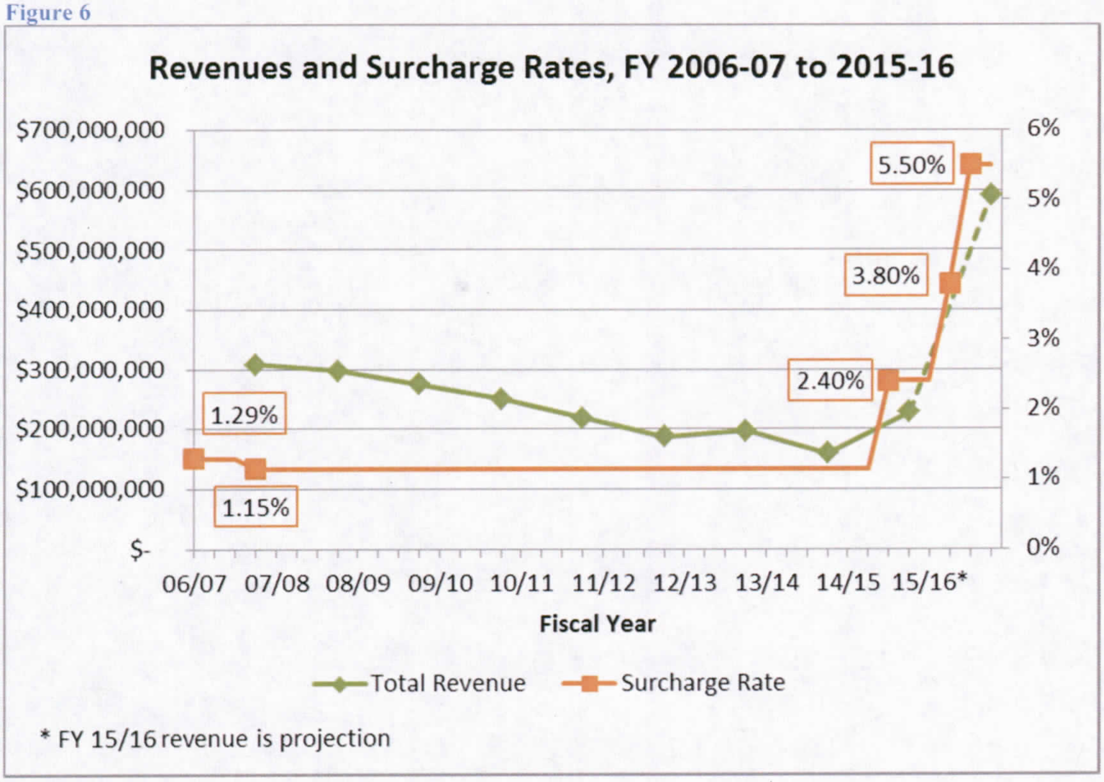


Table 13

Historical Surcharge Rates	
Effective Date	Surcharge Rate
1/1/2006	1.290%
4/1/2007	1.150%
1/1/2015	2.400%
8/1/2015	3.800%
10/1/2015	5.500%

The above chart and tables illustrate that while the surcharge rate remained constant at 1.15% from 2007 until 2015, revenues consistently decreased over the same period. This decrease in revenues is due to the declining intrastate revenues against which the surcharge is applied.

To determine revenues from the surcharge, staff uses the annual intrastate revenues. The intrastate revenue is determined by intrastate revenue reported by all carriers and VoIP providers authorized to operate in the state of California. For the past several years, the intrastate revenue has declined substantially. This decline is related to:

- Decline in number of landlines
- Decline in billing amounts due to:
  - Competition and price declines, including family plans

- Elimination of toll calls within the state, which may be caused by cellphone use and increased number of wireless carriers using Federal Communications Commission's (FCC) safe harbor[12] when reporting intrastate revenues

Declining intrastate revenue affects how much revenue a public purpose program can expect to collect. Therefore, the CPUC increased the surcharge in 2015-16 in order to meet program expenses.

In the current year (2015-16), the CPUC raised the surcharge twice in order to accommodate the increase in expenditures caused by the rapid increase in California LifeLine wireless participation. Historically, the surcharge remained at a consistent rate for over seven years; however, with the inclusion of California LifeLine wireless users in March 2014, revenues were not sufficient to meet the increased expenses. From January 2015 through June 2015, the number of participants in the program doubled with almost 300,000 participants added in May and June 2015 as a result of including wireless services in California LifeLine. With the rapid increase in participation, service providers' claims increased from approximately $20 million per month to over $40 million per month. As mentioned previously, as part of developing the 2016-17 Governor's Budget, the CPUC develops its program budget a year in advance. Hence, when CPUC was developing the California LifeLine budget for 2014-15 in July 2013, wireless service providers were not yet participating in the program. In forecasting its resource needs, CPUC estimated the 2014-15 total service providers' claims to be $202 million, which was substantially less than the level of current claims. As a result, CPUC increased the program surcharges. Additionally, as mentioned above, staff has to take into account the declining intrastate revenue.

For the 2015-16 budget, staff assumed intrastate revenue of $13.81 billion. Staff now estimate intrastate revenue of approximately $11.61 billion. For 2014-2015, the intrastate revenue was $14.06 billion. Table 12 shows the revenue collected from 2006-07 through 2014-15. Therefore, for 2015-16, staff used intrastate revenue of $12.31 billion from July 2015 to December 2015 and $11.61 billion from January 2016 to June 2016 and multiplied the approved surcharge increases in 2015-16 (provided in Table 13) to develop the estimated revenues for 2015-16.[13]

ii. Budget Year (2016-17) - Revenue

CPUC estimates that the intrastate revenue, which forms the basis for setting the Universal Lifeline surcharge, will decrease to approximately $11.03 billion in 2016-17.

CPUC estimates that the surcharge rate of 5.5% for 2015-16 will generate approximately $591,120,833. In addition, CPUC anticipates decreasing the surcharge rate to approximately 3.8% for 2016-17, which will generate approximately $419,140,000 assuming the continued decline of intrastate revenue. These revenues, plus the fund balance from 2015-16, will be sufficient to cover projected expenses for 2016-17 and provide adequate ULTS fund reserve. The CPUC will continue to evaluate the surcharge level and adjust accordingly to match revenues and expenses.

iii. Revenue Methodology

To forecast revenues for 2015-16, the approved surcharge increases are multiplied by the forecasted intrastate revenue for 2015-16. For 2016-17, the CPUC multiplied the proposed surcharge rate of 3.8% by the revised intrastate revenue (see Table 14). Estimated revenues for 2015-16 and 2016-17 are projected to be $591,120,833 and $419,140,000, respectively.

[12] "Safe Harbor" is an FFC-approved percentage that a carrier may use to separate intrastate vs interstate billings for the purpose of calculating surcharges.
[13] See Estimated Revenues Table 14

Table 14

Estimated Revenues (Numbers in thousands)		
	Estimated Revenue (2015-16)	**Estimated Revenue (2016-17)**
4129200 - Other Regulatory Fees	$591,121	$419,140
4163000 - Invest Inc-Surplus Money Inves	$162	$162
Total Revenues	**$591,283**	**$419,302**
*** FY 15/16 - Revenue is projected with approved surcharge increases using an Intrastate Revenue of $12.310 Billion for the first 6 months and $11.610 Billion for the remaining 6 months** *** FY 16/17 - Revenue is projected with the decrease surcharge of 3.8% with a Intrastate Revenue of $11.030 Billion.**		

FY 15/16	Monthly	Yearly
Revenues		
1 month @ 2.400%	$ 24,620,000	$ 24,620,000
2 months @ 3.800%	$ 38,981,667	$ 77,963,333
3 months @ 5.500% with $12.310 Billion Intrastate Revenue	$ 56,420,833	$ 169,262,500
6 months @ 5.500% with $11.610 Billion Intrastate Revenue	$ 53,212,500	$ 319,275,000
Total		$ 591,120,833
Intrastate Revenue (July - December 2015)	12,310,000,000	
Intrastate Revenue (January - June 2016)	11,610,000,000	
FY 16/17		
Revenues		
12 months @ 3.80% surcharge	$ 34,928,333	$ 419,140,000
Intrastate Revenue	11,030,000,000	

II. Future Fiscal Issues

A number of factors may influence future California LifeLine expenditures. The following factors have not been included in CPUC's revised projections for the ULTS fund for 2015-16 and 2016-17, but may have a fiscal impact in future years.

A. FCC Order modernizing LifeLine

On April 27, 2016, the Federal Communications Commission (FCC) issued an order[14] that expanded the services funded by the federal Lifeline program to include broadband internet services while setting minimum service standards for all federal Lifeline funded services. Additionally, the FCC adopted some administrative changes for the federal Lifeline program such as: 1) establishing a national entity to determine eligibility for federal Lifeline participants, 2) limiting the federal Lifeline eligibility criteria, 3) adopting durations for benefit port freezes, and 4) revising the de-enrollment for non-usage rules.

Currently, the CPUC administers eligibility determinations for both California LifeLine and the Federal Lifeline program, so that consumers only need to file a single application to obtain both benefits. As the FCC changes Federal Lifeline rules, the CPUC has modified the California LifeLine program to comply with the Federal Lifeline program requirements. With these new changes, the CPUC anticipates that the California LifeLine program will require modifications, but cannot analyze impacts to program expenses at this time.

B. Open CPUC Proceeding regarding California LifeLine

The CPUC currently has an open proceeding[15] to consider changes to the California LifeLine program including, but not limited to, the following: improving application and renewal processes, reimbursement for non-recurring charges, and moving Lexis Nexus up front to allow the TPA and carriers to identify customers and reduce late transfers. Changes to program rules that result from this proceeding could alter State Operations and Local Assistance expenditures. If adopted, these changes will impact both State Operations and Local Assistance expenditures.

C. Active and Pending Wireless Carriers

Since wireless carriers began participating in California LifeLine in 2014, there has been a significant increase in the number of participating carriers. The CPUC is not able to project the number of additional carriers that will apply and be approved as California LifeLine providers before the end of 2016-17. Expanding the number of participating carriers may increase participation by reaching a larger client base, and thus increase Local Assistance expenditures. However, the results cannot be reliably predicted.

[14] Full text of FCC-16-38 is available at https://www.fcc.gov/document/fcc-modernizes-lifeline-program-low-income-consumers

[15] Order Instituting Rulemaking Regarding Revisions to the California Universal Telephone Service (LifeLine) Program (R1103013)

III. Fund Condition

The CPUC analyzed the impact of the projected revenues and expenses on the Fund Condition.

Table 15 shows the program's projected Fund Condition based on forecasted expenses and revenues for 2015-16 and 2016-17. Based on the current revenue projections of $591,120,833 for 2015-16, CPUC estimates a projected ending fund balance of approximately $204,600,000 on June 30, 2016. CPUC estimates 2016-17 revenue of $419,140,000 with an adjusted surcharge rate of 3.80%, resulting in a projected ending fund balance of $142,312,000 on June 30, 2017. With the revised surcharge rate of 3.80% in 2016-17, the California LifeLine fund will have a sufficient ending fund balance.

Table 15

8660 Public Utilities Commission			
FUND CONDITION STATEMENTS			
Numbers in Thousands			
	2014-15*	2015-16*	2016-17*
0471 Universal Lifeline Telephone Program			
BEGINNING BALANCE	$ 50,020	$ 96,885	$ 204,600
Prior year adjustments			
Adjusted Beginning Balance	$ 50,020	$ 96,885	$ 204,600
REVENUES, TRANSFERS, AND OTHER ADJUSTMENTS			
Revenues:			
4129200 Other Regulatory Fees	$249,583	$ 591,121	$ 419,140
4163000 Income From Surplus Money Investments	$ 162	$ 162	$ 162
Total Revenues, Transfers, and Other Adjustments	$249,745	$ 591,283	$ 419,302
Total Resources	$299,765	$ 688,168	$ 623,902
EXPENDITURES AND EXPENDITURE ADJUSTMENTS			
Expenditures:			
0840 State Controller (State Operations)			
8660 Public Utilities Commission			
State Operations	$ 21,247	$ 21,483	$ 24,207
Local Assistance	$181,400	$ 462,047	$ 457,345
8880 Financial Information System for CA (State Operations)	$ 233	$ 38	$ 38
Total Expenditures and Expenditure Adjustments	$202,880	$ 483,568	$ 481,590
FUND BALANCE	$ 96,885	$ 204,600	$ 142,312

IV. Appendices

Appendix A. 2015-16 Local Assistance Breakdown

I. CUSTOMER COUNT

The numbers below represent customer count for Wireline and Wireless for the California LifeLine Program for 2015-16.

	Customer Count
	2015-16
No. of California LifeLine Wireline subscribers	599,248
No. of California LifeLine Wireless subscribers	1,392,230
Total No. of California LifeLine subscribers	1,991,478

II. PROGRAM BUDGET

The below table represents the breakdown of the California LifeLine Budget expenses

	California LifeLine Budget 2015-16	
A	Total customer recurring	$ 332,710,326
B	Total Administrative charge for Wireless	$ 6,513,948
C	Total Administrative charge for Wireline	$ 1,571,032
D	Wireless New Connection	$ 55,285,297
E	Wireline New Connection (based on carriers forecast)	$ 2,318,915
F	Implementation	$ -
G	Wireless Surcharge & Taxes (16%)	$ 1,412,289
H	Wireline Surcharge & Taxes (based on carrier's forecast)	$ 9,030,872
I	2014-15 Claims	$ 53,204,069
J	**Total Projected Carrier Claims 2015-16**	**$ 462,046,748**
K	**Projected State Operations**	**$ 21,483,000**
L	**Total Forecasted Budget**	**$ 483,529,748**
M	2015-16 Budget Act	$ 345,703,000
N	**$ Change**	**$ 137,826,748**

III. BUDGET TABLE EXPLANATION

Below is a brief explanation of the above table (California LifeLine Budget 2015-16).
The letters below correspond to the letters in the California LifeLine Budget 2015-16 table.

A	Total customer recurring discounts is calculated by applying the California LifeLine subscribers month-to-month for both wireline and wireless in FY 2015-16 x 55% of COLR highest rate.
	$12.65 SSA (55% of highest COLR rate of $23 rate) for 2015-2016 for months July 2016-December 2016.
	Assumes $13.20 SSA (55% of highest COLR rate currently $24) for 2015-2016 for months January 2016-June 2016.
B	Administrative charge is calculated by applying the California LifeLine subscribers month-to-month for wireless in 2015-16 x a monthly administrative charge of $0.36 per projected wireless subscriber ($0.36 = average of Admin charge paid in 2014-15 through December 2015 for Wireless).
C	Administrative charge is calculated by applying the California LifeLine subscribers month-to-month for wireline in 2015-16 x a monthly administrative charge of $0.20 per projected wireline subscriber ($0.20 = average of Admin charge paid in 2014-15 through December 2015 for Wireline).
	Administrative charge is assessed monthly.
D	Per Decision 14-01-036, the variable $39 non-recurring activation/connection support will be in effect until June 30, 2015. Assigned Commissioner issued a Ruling on December 24,2015, Reinstating Reimbursements for Non-Recurring Charges of $39 from December 24, 2015 through December 23, 2016 or until the Commission adopts a decision addressing this issue within the scope of the LifeLine proceeding, whichever comes first.
E,H	General Order 153, Section 10.4.2, requires carriers to annually submit to CPUC, a forecast of the utility's California LifeLine Program claims.
	Adopted Wireline carriers forecast of $1,044,436 for new connection and $6,365,677 for surcharges and taxes for 2015-16.
F	CPUC does not anticipate implementation costs for 2015-16 that would require any IT system upgrades or changes by carriers.
G	Wireless Surcharge & Taxes is calculated by applying the California LifeLine subscribers month-to-month x surcharge rate of 16%.
	Based on average of city taxes & surcharges of 8% + program surcharges of 7.89% (LifeLine 3.8%, DDTP 0.50%, CTF 1.08%, CASF 0.46%, CHCF-A 0.35%) + 1.7% (increase for LifeLine from 3.8% to proposed 5.5%) = 15.58%. (CPUC applied 16% to forecast Surcharges & Taxes).
I	Actual 2014-15 expenditures exceeded 2014-15 approved Budget, therefore approximately $53M of carrier claims remaining in 2014-15 was absorbed in 2015-16.
J	Total Carrier Claims (A+B+C+D+E+F+G+H)
K	State operations include expenses such as staff travel costs, salaries, contracts costs, administrative committee costs, Pro-Rata costs.
L	The total forecasted budget for 2015-16 (H+I).
N	The $137,826,748 is the difference between the total forecasted budget for 2015-16 of $483,529,748 and 2015-16 appropriation of $345,703,000.

Appendix B. 2016-17 Local Assistance Breakdown

I. CUSTOMER COUNT

The numbers below represent customer count for Wireline and Wireless for the California LifeLine Program for 2015-16 and 2016-17

	Customer Count	
	2015-16	**2016-17**
No. of California LifeLine Wireline subscribers	599,248	672,206
No. of California LifeLine Wireless subscribers	1,392,230	2,322,338
Total No. of California LifeLine subscribers	1,991,478	2,994,544

II. PROGRAM BUDGET

The below table represents the breakdown of the California LifeLine Budget expenses

	California LifeLine Budget 2016-17	
A	Total customer recurring	$ 380,415,251.65
B	Total Administrative charge for Wireless	$ 7,750,038
C	Total Administrative charge for Wireline	$ 1,325,232
D	Wireless New Connection	$ 57,000,000
E	Wireline New Connection (based on carriers forecast)	$ 1,044,436
F	Implementation	$ -
G	Wireless Surcharge & Taxes (16%)	$ 3,444,461
H	Wireline Surcharge & Taxes (based on carrier's forecast)	$ 6,365,677
I	**Total Projected Carrier Claims 2016-17**	**$ 457,345,097**
J	**Projected State Operations**	**$ 25,777,892**
K	**Total Forecasted Budget**	**$ 483,122,990**
L	2016-17 Governor's Budget	$ 625,506,000
M	**$ Change**	**$ (142,383,010)**

III. BUDGET TABLE EXPLANATION

Below is a brief explanation of the above table (California LifeLine Budget 2016-17).

The letters below correspond to the letters in the California LifeLine Budget 2016-17 table.

A	Total customer recurring discounts is calculated by applying the California LifeLine subscribers month-to-month for both wireline and wireless in 2016-17 x 55% of COLR highest rate.
	$13.20 SSA (55% of highest COLR rate currently $24) for 2016-2017 for months July 2016-December 2016.
	Assumes $13.75 SSA (55% of highest COLR rate tncrease to $25) for 2016-2017 for months January 2017-June 2017.
B	Administrative charge is calculated by applying the California LifeLine subscribers month-to-month for wireless in 2016-17 x a monthly administrative charge of $0.36 per projected wireless subscriber ($0.36 = average of Admin charge paid in 2014-15 through December 2015 for Wireless).
	Administrative charge is assessed monthly.
C	Administrative charge is calculated by applying the California LifeLine subscribers month-to-month for wireline in 2016-17 x a monthly administrative charge of $0.20 per projected wireline subscriber ($0.20 = average of Admin charge paid in 2014-15 through December 2015 for Wireline).
	Administrative charge is assessed monthly.
D	Per Decision 14-01-036, the variable $39 non-recurring activation/connection support will be in effect until June 30, 2015. Assigned Commissioner issued a Ruling on December 24,2015, Reinstating Reimbursements for Non-Recurring Charges of $39 from December 24, 2015 through December 23, 2016 or until the Commission adopts a decision addressing this issue within the scope of the LifeLine proceeding, whichever comes first.
E	General Order 153, Section 10.4.2, requires carriers to annually submit to CD, a forecast of the utility's California LifeLine Program claims.
	Adopted Wireline carriers forecast of $1,044,436 for new connection and $6,365,677 for surcharges and taxes for 2016-17.
F	CPUC does not anticipate implementation costs for 2016-17 that would require any IT system upgrades or changes by carriers.
G	Wireless Surcharge & Taxes is calculated by applying the California LifeLine subscribers month-to-month x surcharge rate of 16%.
	Based on average of city taxes & surcharges of 8% + program surcharges of 7.89% (LifeLine 3.8%, DDTP 0.50%, CTF 1.08%, CASF 0.46%, CHCF-A 0.35%) + 1.7% (increase for LifeLine from 3.8% to proposed 5.5%) = 15.58%. (CPUC applied 16% to forecast Surcharges & Taxes).
I	Total Carrier Claims (A+B+C+D+E+F+G+H)
J	State operations include expenses such as staff travel costs, salaries, contracts costs, administrative committee costs, Pro-Rata costs.
K	The total forecasted budget for 2016-17 (H+I).
M	The $142,383,010 is the difference between the total projected budget for 2016-17 of $483,122,990 and 2016-17 Governor's Budget of $625,506,000.

Appendix C. Projection Model

Since wireless participation numbers are currently driven by renewals, a model was developed that uses this information to project the number of wireline and wireless participants through the end of 2016-17.

This model contains two key elements, approved renewals and new certifications, for both wireline and wireless consumers, and has a more quantitative underlying methodology. A table showing the model projections, including renewals, is shown below. For the approved renewals component, the model lists program wireline and wireless carriers along with their respective average renewal rates based on calendar year 2015 data. For January 2015 to February 2016 the actual number of approved renewals per carrier is listed (these cells are highlighted in yellow to indicate this is empirical data). The approved renewals listed for March to December 2016 are projected by carrier based on the number of pending renewals per month (consumer's anniversary date minus 105 days) multiplied by the associated average renewal rate per carrier. December 2016 is the last month where approved renewals can be projected based on consumers with an anniversary date 105 days into the future. The average 2015 renewals approval rates for wireline and wireless carriers were 79.61% and 28.47%, respectively.

Projected approved renewals for January 2017 to June 2017 utilized a different methodology since no empirical data was available yet for the number of anticipated upcoming renewal anniversary dates. For both wireline and wireless approvals projected within this time frame, the rolling 6-month average was used for projected approvals.

For the approved certifications component, the model lists program wireline and wireless carriers along with the respective number of new consumers enrolled on the program between January 2015 and February 2016. The approved certifications listed for March 2016 to December 2016 are projected by wireline carrier based on a running 6-month median multiplied by an estimated carrier specific growth factor based on existing enrollment trends.

As for wireline carriers, approved certifications listed for March 2016 to December 2016 are projected by wireless carrier based on a running 6-month median multiplied by an estimated carrier specific growth factor based on existing and anticipated enrollment trends. For some carriers, shorter duration running medians were used due to skewed data extremes at the high or low end of the spectrum. There are two exceptions to the above process. Two wireless carriers were recently approved and just recently started enrolling consumers. Neither carrier has any historical trend data to use for statistical enrollment projections. Therefore, individual monthly growth factors were used based on their respective anticipated business plans.

Projected approved certifications for January 2017 to May 2017 used a rolling 6-month median for wireline approvals and a rolling 6-month average for wireless approvals.

Approved Renewals

	Fiscal Year 2014-2015						Fiscal Year 2015-2016											
	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
Wireline Renewal Totals:	65,049	63,806	66,857	58,671	59,032	53,085	54,713	53,845	47,008	44,661	44,471	61,347	50,623	49,510	39,252	38,291	38,711	34,794
Wireless Renewal Totals:	5,400	4,436	5,949	9,045	12,156	13,724	16,501	20,518	24,310	29,476	24,563	22,011	26,484	26,519	17,197	23,392	29,915	30,212
Renewal Approvals:	70,449	68,242	72,806	67,716	71,188	66,809	71,214	74,363	71,318	74,137	69,034	83,358	77,107	76,029	56,449	61,683	68,626	65,006

Approved Certifications (New consumers on the program only)

	Fiscal Year 2014-2015						Fiscal Year 2015-2016											
	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
Wireline Certification Totals:	2,672	2,423	2,313	2,268	1,983	2,395	3,161	2,824	2,723	2,190	2,107	1,747	1,785	1,196	1,115	1,169	1,320	1,480
Wireless Certification Totals:	116,045	124,402	145,725	160,640	178,050	165,702	116,153	101,554	83,803	76,595	72,387	65,451	69,639	69,853	90,749	99,443	106,291	113,287
Certification approvals:	118,717	126,825	148,038	162,908	180,033	168,097	119,314	104,378	86,526	78,785	74,494	67,198	71,424	71,049	91,863	100,612	107,611	114,767
Wireline	67,721	66,229	69,170	60,939	61,015	55,480	57,874	56,669	49,731	46,851	46,578	63,094	52,408	50,706	40,367	39,459	40,031	36,274
Wireless	121,445	128,838	151,674	169,685	190,206	179,426	132,654	122,072	108,113	106,071	96,950	87,462	96,123	96,372	107,945	122,835	136,206	143,500
	189,166	195,067	220,844	230,624	251,221	234,906	190,528	178,741	157,844	152,922	143,528	150,556	148,531	147,078	148,312	162,295	176,237	179,774
Total Approvals (Renewals & New Certifications):	189,166	195,067	220,844	230,624	251,221	234,906	190,528	178,741	157,844	152,922	143,528	150,556	148,531	147,078	148,312	162,295	176,237	179,774
Enrollment Projection:	Projected Enrollment based on rolling 12 months												**2,295,947**	**2,255,312**	**2,207,323**	**2,134,791**	**2,066,462**	**1,991,478**
												Invoice Projection:	$1,492,366	$1,465,953	$1,434,760	$1,387,614	$1,343,200	$1,294,461
												Enrollment Multiplier (Invoice Projection):	0.65					

Approved Renewals

	Fiscal Year 2016-2017											
	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Wireline Renewal Totals:	37,655	38,067	34,323	32,774	33,248	45,637	36,951	36,833	36,628	37,012	37,718	38,463
Wireless Renewal Totals:	21,844	19,672	18,696	20,612	18,752	17,332	19,485	19,091	18,995	19,044	18,783	18,788
Renewal Approvals:	59,499	57,739	53,019	53,386	52,000	62,969	56,435	55,925	55,622	56,056	56,501	57,252

Approved Certifications (New consumers on the program only)

	Fiscal Year 2016-2017											
	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Wireline Certification Totals:	1,722	2,429	3,608	4,740	6,798	10,799	15,627	22,123	34,334	52,083	74,822	112,290
Wireless Certification Totals:	129,206	143,332	158,178	182,742	208,396	218,018	173,446	180,817	187,061	191,898	193,438	190,943
Certification approvals:	130,928	145,761	161,785	187,483	215,194	228,817	189,073	202,940	221,395	243,981	268,260	303,233
Wireline	39,377	40,496	37,931	37,514	40,046	56,436	52,577	58,957	70,962	89,095	112,540	150,753
Wireless	151,050	163,004	176,874	203,354	227,148	235,350	192,931	199,908	206,056	210,943	212,222	209,731
	190,427	203,500	214,805	240,868	267,195	291,786	245,508	258,865	277,018	300,038	324,762	360,484
Total Approvals (Renewals & New Certifications):	190,427	203,500	214,805	240,868	267,195	291,786	245,508	258,865	277,018	300,038	324,762	360,484
Enrollment Projection:	**1,936,346**	**1,936,245**	**1,961,003**	**2,017,964**	**2,105,910**	**2,229,577**	**2,370,807**	**2,467,784**	**2,579,571**	**2,708,276**	**2,846,019**	**2,994,544**
Invoice Projection:	$1,258,625	$1,258,559	$1,274,652	$1,311,677	$1,368,842	$1,449,225	$1,541,024	$1,604,060	$1,676,721	$1,760,380	$1,849,913	$1,946,454

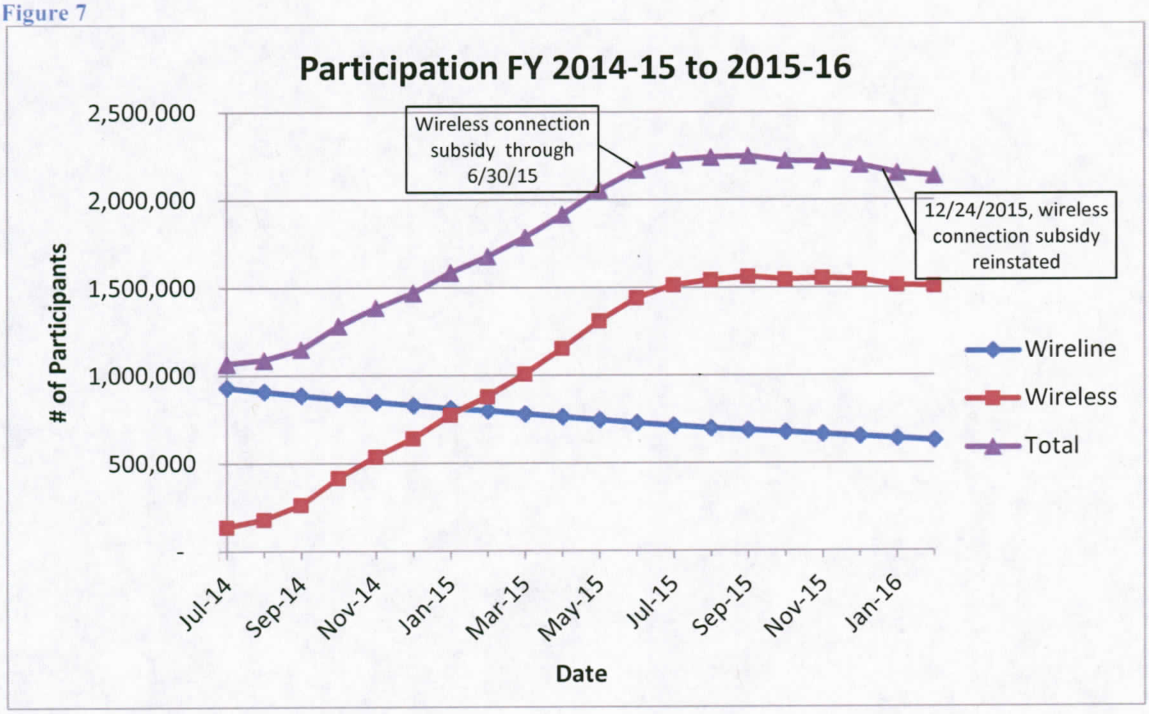
Appendix D. Factors Affecting Local Assistance Detail

Ruling Reinstating Non-Recurring Charges

On January 27, 2014, the CPUC reaffirmed that a subsidy should be provided to participating carriers to reduce connection charges assessed upon participants at the time of service initiation, transfers between carriers or service address, and in situations where carriers assess charges associated with changing to or from California LifeLine service plans (see D. 14-01-036, Section 4.6 (page 41)). The California LifeLine Program provided for service connection and conversion discounts, of up to $39 per participant per instance for wireless carriers. On July 1, 2015, wireless carriers ceased receiving connection subsidies. On December 24, 2015, the assigned Commissioner issued a ruling to reinstate the reimbursement of connection discounts to no more than twice annually. Shortly after, on March 8, 2016, CPUC provided detailed implementation guidance for reinstating the reimbursement for non-recurring charges for California LifeLine wireless telephone services. The guidance covered four areas: reimbursement mechanism, tracking reimbursements, consumer education, and advice letters. The guidance confirms and finds it reasonable for the effective period for discounts and reimbursements for service connection charges to be December 24, 2015 through December 23, 2016, or until the CPUC adopts a decision regarding these non-recurring charges, whichever comes first.

Figure 7 below shows wireline and wireless participation from July 2014 through February 2016. From July 2014 to July 2015, wireless participation was increasing rapidly. However, starting in July 2015 when the $39 subsidy for connection charge was eliminated for wireless carriers, participation growth subsided and in some months declined. While we cannot definitively state the suspension of the $39 subsidy paid to wireless carriers for connection charges caused the decrease, there does appear to be a correlation. The extent to which other factors may have played a role is unclear. CPUC may be in a better position to review this issue and the potential impacts, once more trend data is available regarding the December 24, 2015 reinstatement of the $39 connection subsidy paid to wireless carriers.[16]

Figure 7



Program Participation Analysis in Other Public Assistance Programs

Another projection method that the CPUC explored was to use the participation rates of other government programs, such as CalFresh and Medi-Cal. Based on these participation rates and the eligibility criteria of the two programs,

[16] See GO 153, sections 9.5.2, 9.5.4 and 9.9.1 that allows CD 120 days after a claim period to review and process a claim.

the CPUC concluded that one possible method of projecting the number of California LifeLine participants would be to estimate it as 64% of the households at or below 200% of the FPL.

In 2014-15, there were 2,167,322 participants in the Californian LifeLine Program as illustrated in Figure 6. The total number of California LifeLine participants was approximately 72% of the 3.2 million (at or below 150% poverty level) eligible low-income households.

As shown in Table 16 below, in 2014, there were 4,475,930 people (2,085,940 households) receiving CalFresh benefits. To qualify for CalFresh benefits, households must have gross income of less than or equal to 200% of the FPL and net income less than or equal to 100% of the FPL[17]. However, for the purposes of calculating the number of Potential CalFresh Eligibles, the population under 130% of the FPL is used as a proxy. In 2014, the number of Potential CalFresh Eligibles (under 130% of FPL) was 6,980,319[18], thus the participation rate was 64.12%.

Table 16

CalFresh Caseload (# of Participants)[19]		
	Jul-Sep 2014	Jul-Sep 2015
CalFresh Households (1)	2,085,940	2,148,124
CalFresh Persons (1)	4,475,930	4,489,568

As of October 2015, there were 13,060,434 people enrolled in Medi-Cal[20]. This is approximately one third of the total population of California (38.7 million in January 2015[21]). While adults are only eligible for Medi-Cal if their household income is less than 138% of the FPL, children are also eligible for Medi-Cal if their family income is less than or equal to 250% of the FPL[22]. Therefore, households with income up to 250% of the FPL may qualify for California LifeLine through their participation in Medi-Cal.

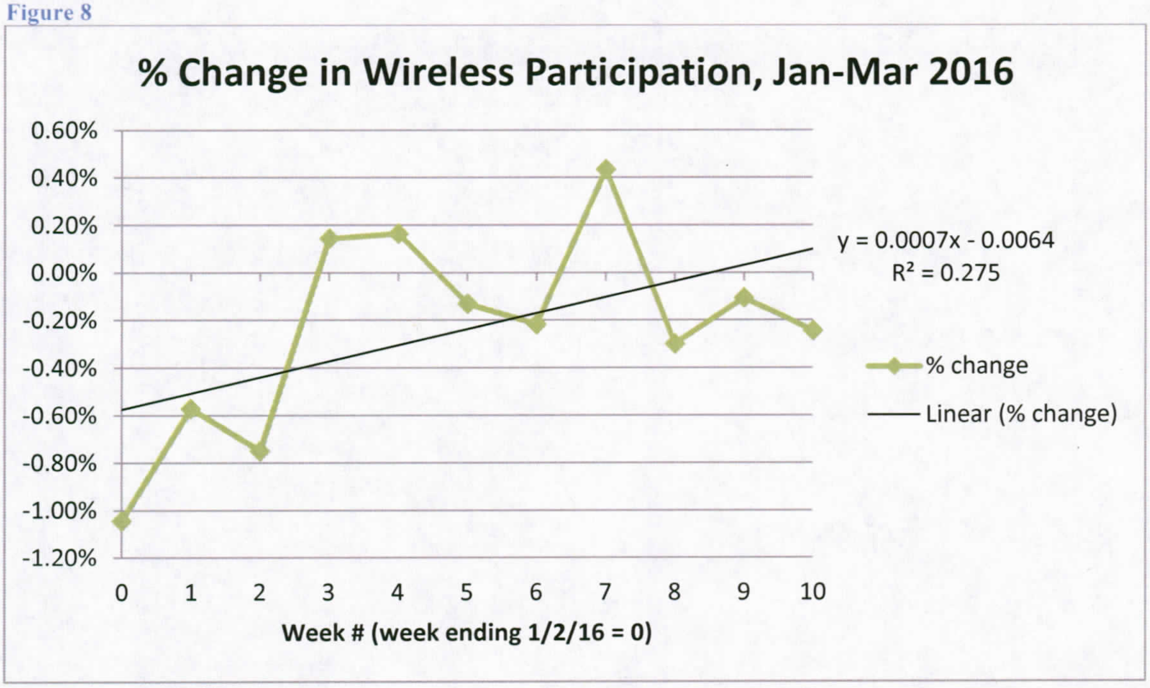
CPUC considered developing an alternative estimate of subscribers based on the participation rates of qualifying government assistance programs. If CPUC based its eligibility on CalFresh data, including a participation rate of approximately 64.12%, and 4.2 million eligible low-income households, it would result in approximately 2,688,000 participating households in the California LifeLine Program by the end of 2016-17. However, a direct comparison between the CalFresh and Lifeline participation rates is inaccurate because the available CalFresh data uses 130% of the FPL to approximate the combined 200% of FPL gross income and 100% net income eligibility requirements of CalFresh. Therefore, this projection method was not used in calculating the 2016-17 budget.

Current Growth Factors

Another method of forecasting program costs is to look at the growth rate of wireless participation. The growth rate reflects the change in the number of participants, which drives the cost of claims. However, the growth rate can be volatile, especially given the short period of wireless participation data. The graph below (Figure 8) shows the weekly percentage change in wireless participation from January to March 2016 and reveals significant fluctuation in the growth rate.

[17] "CalFresh Eligibility and Issuance Requirements," Accessed March 9, 2016, http://www.cdss.ca.gov/foodstamps/PG841.htm
[18] "CalFresh Data Dashboard July-September 2015," Last modified December 24, 2015, http://www.cdss.ca.gov/research/PG3575.htm.
[19] "CalFresh Data Dashboard July-September 2015."
[20] "Medi-Cal Monthly Enrollment Fast Facts, October 2015," February 2016, http://www.dhcs.ca.gov/dataandstats/statistics/Documents/Fast_Facts_October_2015_ADA.pdf
[21] "Demographic Research Unit," Accessed April 04, 2016, http://www.dof.ca.gov/research/demographic/dru/index.php
[22] "DHCS Fact Sheet," Last modified January 2016, http://www.dhcs.ca.gov/formsandpubs/publications/opa/Pages/factsheet.aspx.

Figure 8



The trend line shown in Figure 8 can be used to project the growth rates through the end of 2016-17 as shown in the following table.

Table 17

Date	Projected % Change (y)
March-16	0.250%
April-16	0.550%
May-16	0.860%
June-16	1.160%

However, as illustrated on the graph above, there has not been a clear trend in the wireless growth rate since the connection subsidy was reinstated on December 24, 2015. As a result, the trend line does not fit the data closely, with a low r^2 "goodness-of-fit" value of 0.275. Alternatively, the renewals projection model (Appendix C) predicts a negative growth rate through the end of 2015-16. If this growth rate trend line were used to project the growth rates through 2016-17, it would result in a growth rate of 4.81% by the end of June 2017. The growth rate has been highly variable and it is not reasonable to draw long-term program participation and cost forecast.

V. References

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