

Broadband Policy Forum



Topic: Changes to the California Teleconnect Fund Program

Tuesday, October 31, 2006
1:00PM - 3:00PM

Schedule:

1:00PM - 1:15PM: Introductions
1:15PM - 1:35PM: Presentation on CPUC deliberations
1:35PM - 2:05PM: Presentation on CTF and the Legislature
2:05PM - 2:15PM: Presentation on Importance of CTF discounts
2:15PM - 3:00PM: Questions & comments from participants at local sites

Invited Speakers:

Speranza Avram — Executive Director, Northern Sierra Rural Health Network
Randy Chinn — Principal Consultant, Senate Energy & Utilities Committee
Susan Hildreth — State Librarian of California
James Lau — Director, Technology Program, The Children's Partnership
Jack Leutza — Telecommunications Division Director, CA Public Utilities Commission (CPUC)
Dan Rabovsky — Consultant, CA State Assembly Budget Committee
Russ Selken — Director, Network Services, K12 High-Speed Network

Sponsored by:



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Speranza Avram

Executive Director, Northern Sierra Rural Health Network

The Northern Sierra Rural Health Network is a nonprofit corporation dedicated to promoting the health and well-being of communities in rural Northern California through comprehensive health care planning, integrated health care delivery systems, educational activities, and charitable programs and services that expand access to care for all residents regardless of ability to pay.

Randy Chinn

Principal Consultant, Senate Energy, Utilities, and Communications Committee

The Senate Energy, Utilities and Communications Committee jurisdiction includes bills relating to utilities, energy companies, alternative energy development and conservation and communications development and technology.

Susan Hildreth

State Librarian of California

As State Librarian, Susan Hildreth manages an annual budget of over \$88 million in state and federal funds. She oversees the California State Library as it supports California libraries and cultural institutions in providing for the continued growth of the intellectual, technological, cultural and social literacy of California's diverse populations.

James Lau

Director, Technology Program, The Children's Partnership

The Children's Partnership is a national nonprofit, nonpartisan child advocacy organization with offices in Santa Monica, CA and Washington, D.C. The hallmark of The Children's Partnership is to forge agendas for youth in areas where none exist, to help ensure that disadvantaged children have the resources and opportunities they need to succeed, and to involve more Americans in the cause for children.

Jack Leutza

Telecommunications Division Director, CA Public Utilities Commission

The California Public Utilities Commission (CPUC) is a commission of the State of California tasked with regulating rates and service quality of privately-owned telecommunications, electric, natural gas, water) utilities which operate as monopolies and the safety of railroad and rail transit and passenger transportation carriers.

Dan Rabovsky

Consultant, CA State Assembly Budget Committee

The California State Assembly Budget Committee is responsible for generating the Assembly budget, which is then reconciled with the CA State Senate budget by the Budget Conference Committee in mid-June.

Russ Selken

Director, Network Services, K12 High-Speed Network

K12HSN is a state program which provides network connectivity, Internet services, teaching and learning application coordination, and videoconferencing coordination and support for California's K-12 community.

K12HSN provides for K-12's participation in the California Research and Education Network (CalREN). Network and Internet services to the 72 K-12 Node Sites are extended to 74% (7,039) of schools, 89% (887) of school districts, and 100% (58) of county offices of education in California, which provide direct service to nearly 4.8 million students.



Participating Sites

1 Los Angeles COE

9300 Imperial Hwy
Room Educational Center 290 (EC290)
Downey, CA 90242
(562) 922-6463
<http://www.lacoe.edu/>

2 Alameda COE

Room L1
313 W. Winton Ave.
Hayward, CA 94544
(510) 887-0152
<http://www.acoe.k12.ca.us/>

3 San Bernardino COE

Training Room
4595 Hallmark Pkwy
San Bernardino, CA 92407
(909) 887-7597
<http://www.sbceo.k12.ca.us/>

4 Santa Clara COE

Saratoga Room
1290 Ridder Park Dr.
San Jose, CA 95131
(408) 453-6897
Contact: Steve Mitome
steven_mitome@sccoe.org
<http://www.sccoe.k12.ca.us/>

5 Orange COE

Vision Room
200 Kalmus Dr.
Costa Mesa, CA 92626
Contact: Mike Guerena
mguerena@ocde.us
Paula Deaver
pdeaver@ocde.us
<http://www.ocde.k12.ca.us/>

6 Sacramento Location

Community College Chancellor's Office
1102 Q St.
3rd Fl. Executive Conference Room
Sacramento, CA 95814
(916) 325-1856
Contact: Adrienne Tackley
atackley@cenic.org
<http://www.cccco.edu/>





About the CA Teleconnect Fund

What is the CA Teleconnect Fund?

The CA Teleconnect Fund (CTF) is a state program administered by the California Public Utilities Commission (CPUC). Funded by all end-users of telecommunications services via a 0.13% surcharge on monthly bills, the CTF is used to support 50% discounts on telecommunications services for qualified organizations, including:

- K-12 public and private schools having endowments of less than \$50 million
- Public libraries
- Municipal, County, or District-owned hospitals and clinics
- Community-based Organizations
- Consortia

The CTF discount services cannot be resold to, or shared with, any other non-qualifying entity or person.

Why was the CA Teleconnect Fund created?

The California Teleconnect Fund (CTF) was created to narrow the digital divide. To ensure low-income communities can access Internet-enabled technology services, CTF encourages these organizations to adopt and use broadband services. By doing so, these organizations can serve as places where community members can access and benefit from Internet-enabled technology services.

Which services are eligible for CTF discounts?

Currently, recurring charges associated with the following services are eligible for the 50% CTF discount:

- Measured business line or its functional equivalent
- Switched 56 or its functional equivalent
- Integrated Services Digital Network (ISDN) or its functional equivalent
- T-1 line
- DSL
- OC 3 – OC 192 (fiber transfer that has a bandwidth of up to 1 Gbps)

Functional equivalents vary between service providers.

Which services are not eligible for CTF discounts?

Non-recurring charges are not eligible for CTF discounts. These include installation and usage charges.

In addition, the CPUC's SB 720 program requires carriers to provide a 40% discount on first-time advanced services installation charges, such as a T-1 line, OC 3 to OC 192 and their functional equivalents installed between 9/23/03 and 3/1/06.

The SB 720 program was modified by SB 909, which will take effect on January 1, 2007. Among the changes of SB 909 is to increase the installation discount to 100%. The implementation of this program has yet to be determined by the CPUC.

Where can I learn more?

More information about the CA Teleconnect Fund, eligible organizations and services, and application forms can be found at the CA Public Utilities Commission CTF website, located at:

http://www.cpuc.ca.gov/static/telco/public+programs/ctf_faq.htm



CPUC Proceedings on Universal Service — Background

On April 14, 2006, the California Public Utilities Commission (CPUC) published a staff report on the CPUC's public policy programs including, but not limited to, the California Teleconnect Fund program (see http://www.cpuc.ca.gov/word_pdf/REPORT/55299.doc). The report lists a number of reasons that compel the Commission to conduct a comprehensive review of all public policy programs:

- 1) The programs have not been reviewed since they were first established.
- 2) Communications needs have changed due to the availability of new and advanced technologies, but the programs have not been revised to take these changes into account.
- 3) Changes in technology may affect continued funding.

Major Issues

The report lists the specific issues that the Commission seeks to explore through formal proceedings, including the following issues that relate directly to the California Teleconnect Fund Program:

1. Is current CTF program in compliance with the statute?

2. At the time CTF was established, the advanced services, such as switched 56 lines, ISDN and T1 lines, were expensive and typically in institutional settings such as colleges and office buildings. Most eligible entities used dial-up Internet access, and did not receive a discount on those services. Eventually, less expensive high speed services became available and as such were suitable for use by eligible entities such as schools and CBOs. Legislation was revised to include these services and also to extend the 50% discount available to schools and libraries to all participants.

Senate Bill 1863 added Public Utilities Code Section 884. Section 884(a) states the intent of the legislature:

"...that any program administered by the Commission addressing the inequality of access to advanced telecommunications services by providing those services to schools and libraries at a discounted price should also provide comparable discounts to a nonprofit community technology program."

The bill also stated the policy goal of focusing efforts on providing educational institutions, health care institutions, and CBOs with access to advanced telecommunications services in recognition of their economic and societal impact. Does the current program support this goal?

3. Are there any changes to the CTF program that the Commission should consider?

4. Should the Commission consider including advanced services such as VoIP, wireline broadband via PCS, and wireline broadband via several wi-fi technologies or their functional equivalents, in the list of services eligible for program subsidy? Is it appropriate to fund services beyond the Commission's jurisdiction?

5. Should the Commission review the 50% discount mechanism and replace it with a different mechanism?

The report also raises issues regarding the current funding mechanism for the Commission's programs. Specifically, the report notes, "California's existing funding mechanism may not be viable in the face of emerging technologies and potential customer migration to new technologies that are not within state jurisdiction."

Status

The CPUC initiated an Order Instituting Rulemaking (OIR) with Commissioner Chong playing a key role in the proceedings. The last two public hearings are scheduled as follows:

DATE: November 3, 2006
TIME: 10:00 AM – 4:30 PM
LOCATION: California Energy Commission - Hearing Room A
1516 Ninth Street, Sacramento, CA



California Teleconnect Fund (CTF) Program and the Annual State Budget Process Background

During the past two years, securing funding in the annual state budget required to reimburse telecommunications carriers for discounts provided to schools, libraries, community technology centers, and public hospitals and health clinics has not been an easy task. The 2006-07 Budget Act appropriation for the CTF program was accompanied by budget bill language that makes 50% of the amount required to fully fund the program contingent upon compliance with current law. The language reads as follows:

8660-001-0493--For support of Public Utilities Commission, for payment to Item 8660-001-0462, payable from the California Teleconnect Fund Administrative Committee Fund \$26,829,000.

Provisions:

- 1) Of the amount appropriated in this item, up to \$68,000 shall be used by the public Utilities Commission to fund administrative and staffing costs for the California Teleconnect Fund Administrative Committee Program.
- 2) No expenditure shall be made from the appropriation in this item, other than for staffing and administrative costs, after December 31, 2006, or in excess of \$13,415,000 prior to that date, without the written approval of the Director of Finance. The director's approval shall become effective no sooner than 30 days after the director files written notification thereof with the Chairperson of the Joint Legislative Budget Committee, and the chairpersons of the fiscal committees of each house of the legislature. The director's notification shall identify the actions that the Public Utilities Commission has taken to bring the Teleconnect Program into full compliance with Section 884.5 of the Public Utilities Code.

Major Issues

The following excerpt from one of the Assembly Budget Subcommittee hearings sheds light on the issues that have surfaced during the state budget process. NOTE: The wording of the analysis is being provided for informational purposes only. The entities co-sponsoring this forum are not endorsing or opposing the opinions reflected in the Assembly Budget Committee analysis.

ISSUE #2: TELECONNECT PROGRAM

The Teleconnect Program provides discounts on regular telephone service and advanced telecommunication services that provide access to the internet to schools, libraries, and qualifying hospitals, health clinics, and community-based organizations. Dial-up and T1 lines qualify. Some DSL providers participate, but the largest do not. The program provides a 50 percent discount for qualifying entity's telecommunications bill. The service carrier then submits claims to PUC to be reimbursed for the discounts provided. Schools receive about 90 percent of the benefit under the program – much of it as a subsidy to regular phone service. The program is funded by telephone ratepayers through a surcharge on their phone bills.

The Governor's budget proposes \$22 million to fund the Teleconnect Program in the budget year. The May Revision proposes \$4.8 million in additional Teleconnect fund monies to support additional claims that are projected to be received in the budget year. In addition, the PUC has identified funding deficiencies of \$8.2 million in the current year and \$4.8 million for the prior year, based on carrier claims.

Based on the figures above, total proposed spending in 2006-07 is \$26.8 million, compared with an estimated total of \$28.6 million in the current year and \$24.6 million in the prior year.



COMMENTS

Poor Implementation of E-Rate Coordination:

SB 1102, a 2004 budget trailer bill, established new requirements to coordinate the state Teleconnect discount with the federal E-Rate discount. These requirements became effective January 1, 2006.

E-Rate:

The federal government's E-Rate Program also offers discounts on telecommunications services to schools and libraries (but not hospitals, clinics, or nonprofit organizations). E-Rate provides a 20 percent discount on eligible services to libraries and a discount of 20 percent to 90 percent on services to schools (higher discounts are awarded to schools in rural locations and to schools with a higher percentage of students that qualify for the National School Lunch Program). Schools and libraries may receive both federal E-Rate and state Teleconnect discounts, the federal discount is applied first, and then the state discount is applied to the remaining costs. For example, a school with 50 percent of students qualifying for the National School Lunch Program would receive a 60 percent E-Rate discount. The PUC's Teleconnect Program would then provide a 50 percent discount on the remainder of the bill, so the cost to the Teleconnect Fund would be 20 percent of the full bill (half of the 40 percent remainder after the E-Rate discount).

New Coordination Requirements:

Prior to SB 1102, the PUC relied on schools and libraries to apply for E-Rate discounts and on service providers to take them into account. There was no assurance that schools and libraries were using E-Rate or that service providers were properly applying E-Rate discounts prior to Teleconnect discounts because the two programs operate differently. SB 1102 imposes the following two requirements:

1) The PUC must require eligible schools to provide it with simple information needed (such as percentage of students eligible for the School Lunch Program) for the PUC to compute the applicable E-Rate discount.

2) The PUC must calculate the discount and then the Commission must apply that E-Rate discount prior to providing the Teleconnect discount without regard to whether or not an eligible school or library has applied for E-Rate.

These requirements were intended to provide a strong incentive for schools and libraries to make use of E-Rate in order to minimize state costs, to simplify administration and reduce the burden on carriers, and simplify verification of carrier claims.

Requirements Not Met:

The PUC has not required schools to provide the necessary information to calculate E-Rate discounts, nor has the PUC done the calculations. Instead, the PUC is still relying on the service providers. It has asked the service providers to use an average E-Rate discount if a customer has not applied for E-Rate or an application is pending; use the actual E-Rate discount if the customer has one; perform a true-up adjustment when a customer obtains their E-Rate federal approval; and determine if a customer is qualified for special treatment as a small school. These provisions fail to comply with SB 1102 and continue the reliance on carriers to interact with their customers and properly coordinate E-Rate and Teleconnect discounts.

Funding Request Fails to Take New Requirements into Account:

The estimate on which the budget request is based fails to include any savings from better coordination with E-Rate.

Staff suggests that it would be appropriate to place the Teleconnect Program in Conference. Prior to Conference Action, the PUC should redesign its program to comply with SB 1102 and revise its spending estimate for both the current year and 2006-07."



Public Library E-rate Non-Participation Reasons by State

The final report on **Public Libraries and the Internet 2006: Study Results and Findings**, carried out by the Information Use Management and Policy Institute at Florida State University can be found online in its entirety at

http://www.ii.fsu.edu/plinternet_reports.cfm

The 2006 national study presents findings from both a national survey and case sites. The national survey provides longitudinal data regarding public library Internet connectivity and public access computing services and resources, but also explores the impacts and benefits that communities derive from public library connectivity. The case sites focused primarily on successfully networked public libraries and the issues, solutions, and approaches that these libraries faced and resolved in order to develop sustainable and high-quality public access computing and Internet services.

Of particular interest are the data on pages 87-90, illustrating "Public Library System Percentage of Libraries Receiving E-rate Discount by Category and by State," and "Public Library System Reasons for Non-Receipt of E-rate Discounts by State." This information is reproduced here for the state of California:

Public Library System Percentage of Libraries Receiving E-rate Discount by Category and by State

Internet connectivity:	12.8% ± 3.4%
Telecommunications services:	37.3% ± 4.9%
Internet connections cost:	3.2% ± 1.8%

Public Library System Reasons for Non-Receipt of E-rate Discounts by State

Application process is too complicated:	32.5% ± 4.7%
Staff did not feel library would qualify:	9.9% ± 3.0%
Discount is too low and not worth the time to participate:	23.3% ± 4.2%
Discount received as part of consortium:	3.0% ± 1.7%
Funding denied in the past:	3.0% ± 1.7%
Decided not to apply because did not wish to comply with CIPA:	17.3% ± 3.8%
Has applied in the past but no longer finds it necessary:	5.1% ± 2.2%

The top three reasons in the second chart are given in bold and may be of relevance to the discussion given the CA Teleconnect Fund's "E-rate First" focus.

Issues Affecting Community Technology Participation

The participation of CBOs in CTF has been low. There have been issues affecting participation, such as the low discount rate, the length of time for application approval, the type of broadband service that qualifies, and a reduction in funding for the program. In these proceedings, community technology advocates have raised a number of issues to help increase CBO participation. These issues include:

1. How can the administration of CTF be improved?
2. Should the types of eligible CBOs be expanded?
3. How can the CTF discounts be directed to reduce the digital divide?
4. Are there services that CTF could cover that would be more relevant for CBOs?



Broadband Policy Forum Evaluation

Please take the time to fill out this Broadband Policy Forum evaluation form. Your feedback will be used to shape similar future events in order to make them as rich and useful for participants as possible.

You can also fill out this form online at <http://www.cenic.org/BBPF/>.

1. How did you find the length of today's Broadband Policy Forum? Not long Enough Too long
2. How did you find the technical level of the presentations and discussion? Too technical Not technical enough
3. How interesting did you find the topic of today's Broadband Policy Forum? Very interesting Not very interesting
4. How relevant do you feel the topic of today's Broadband Policy Forum is to your organization? Very relevant Not very relevant
5. Do you anticipate putting what you've learned today to professional use for your organization? Yes No

6. What was your opinion of the format of today's Broadband Policy Forum (presentations followed by discussion)?

7. What locations in California would you like to see included in future Broadband Policy Forums?

8. What topics would you like to see covered in future Broadband Policy Forums?

9. What speakers would you like to see participate in future Broadband Policy Forums?

10. What improvements would you suggest for future Broadband Policy Forums?
