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## SENATE COMMITTEE ON APPROPRIATIONS

Senator Anthony Portantino, Chair  
2021 - 2022 Regular Session

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### **SB 857 (Hueso) - Telecommunications: universal service programs**

**Version:** March 21, 2022

**Urgency:** Yes

**Hearing Date:** April 4, 2022

**Policy Vote:** E., U., & C. 12 - 0

**Mandate:** Yes

**Consultant:** Ashley Ames

**Bill Summary:** This bill would extend the sunsets for the California High Cost Fund programs (CHCF-A and CHCF-B) by five years.

#### **Fiscal Impact:**

- Unknown ongoing revenue to the California High Cost Fund-A (CHCFA) likely in the tens of millions of dollars annually, from the CHCF-A telecommunications customer surcharge, to be expended each year by the California Public Utilities Commission (CPUC) to support small rural telephone companies.
- Ongoing expenditures from the California High Cost Fund-B (CHCFB), likely in the low tens of millions of dollars, to be expended by the CPUC to support telecommunication companies providing service in high-cost areas.
- Unknown potential costs to the state as a customer of telecommunications services who pays the CHCF-A and CHCF-B surcharges.

**Background:** The CHCF-A and CHCF-B are two of several programs that comprise California's Universal Service Programs, which are aimed at ensuring that all Californians have access to affordable, high-quality telecommunications services. The CPUC established California's High Cost Fund in 1988 pursuant to AB 1466 (N. Waters, Chapter 755, Statutes of 1987), which required the CPUC to develop a program to reduce telephone rate disparities between small independent telephone companies serving rural areas and companies serving urban areas. The High Cost Fund subsidized small to mid-sized telephone companies serving rural and small metropolitan communities through subsidies administered by Pacific Bell. Until 1995, local telephone service was generally provided through one telephone utility in each service territory. In 1995, the CPUC issued a decision opening California's local telephone exchanges to competition between companies. In 1996, The CPUC issued a decision modifying the High Cost Fund to address increased competition between different types of carriers in local exchange markets. These modifications included splitting the High Cost Fund into the CHCF-A and CHCF-B programs.

The CHCF-A supports small, rate-regulated telephone corporations that operate in high-cost rural areas of the state where few other telecommunications providers offer services. The CHCF-B supports larger companies that operate as Carriers of Last Resort (COLRs), which have an obligation to provide basic telephone services in other high-cost communities. In addition to establishing these two different programs, the CPUC's decision also relieved Pacific Bell of its administrative duties for the High Cost Fund by making the CPUC the administrator of the CHCF-A and CHCF-B. Since the creation of the CHCF-A and CHCF-B, the Legislature has regularly extended the

operation of the high cost funds. This bill would extend the existing sunset by five years to January 1, 2028.

**Proposed Law:** This bill would extend the sunset dates for the CHCF-A and CHCF-B from January 1, 2023 to January 1, 2028.

**Related Legislation:**

AB 1959 (Wood, Chapter 256, Statutes of 2018) extended the CHCF-A and B programs from January 1, 2019, to January 1, 2023.

SB 1364 (Fuller, Chapter 520, Statutes of 2014) extended the sunset date for the CHCF programs A and B from January 1, 2015, to January 1, 2019. The bill also encouraged the CPUC to maximize the use of federal funding when administering universal service programs.

SB 3 (Padilla, Chapter 695, Statutes of 2011) extended the sunset date for the CHCF programs A and B from January 1, 2012, to January 1, 2015.

SB 780 (Wiggins, Chapter 342, Statutes of 2008) extended the sunset dates for the CHCF programs A and B and required the CPUC to submit a report on the affordability of basic telephone services within the CHCF-B service territories by July 1, 2010.

**Staff Comments:** Both the CHCF-A and CHCF-B are funded by a surcharge on in-state telecommunications services. This bill would extend the CPUC's authority to collect those surcharges; however, this extension does not necessarily mean that surcharges will be collected for both funds. While the amount needed to cover costs for CHCF-A company expenses is determined through rate cases at the CPUC, claims submitted by the small independent telephone corporations for CHCF-A subsidies have remained relatively stable and have not risen with the rate of inflation. The CHCF-B fund has carried a surplus for several years. Since December 2013, the CPUC has declined to collect the CHCF-B surcharge due to the surplus in the account. As of March 2022, the CHCF-B surplus is approximately \$22 million. In recent budget years, the state has borrowed funds from the CHCF-B surplus to fund other universal service telecommunications programs. As funds are repaid to the CHCF-B fund, the surplus may grow to \$106 million in future years.

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