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RESOLUTION NO. T-11029

EVALUATION AND COMPLIANCE DIVISION
DATE: April 16, 1986

RESOLUTION

______ Director
______ Numerical File
______ Alphabetical File
______ Accounting Officer

SUBJECT: All local exchange telecommunications utilities and intrastate telecommunications service suppliers that provide intrastate interLATA telecommunications and/or intrastate telecommunications services not defined by LATA boundaries. Order to lower the tax on the gross revenues of said service suppliers originally set at 4% to 1-1/2% to support the Universal Lifeline Telephone Service Program provided pursuant to the Moore Universal Telephone Service Act. Resolution No. T-11029.

WHEREAS: On November 7, 1984, the Commission adopted General Order (G.O.) 153, Procedure For Administration of the Moore Universal Telephone Service Act.

WHEREAS: Section 739.2(h) of the Public Utilities Code provides that the Universal Telephone Service Fund be created and administered pursuant to Part 22 of Division 2 of the Revenue and Taxation Code.

WHEREAS: Section 44030 of the Revenue and Taxation Code, Section 3 of the Moore Universal Telephone Service Act, imposes a tax on every service supplier in the state measured by the gross revenues received from intrastate telecommunications services provided on or after July 1, 1984.

WHEREAS: Section 44041 of the Revenue and Taxation Code, Section 3 of the Moore Act, requires the Commission to determine annually on or before May 1 a tax rate that it estimates will produce sufficient revenue to fund the Universal Telephone Service Fund requirements for the period from July 1 of the current calendar year to June 30 of the succeeding calendar year, and that in no event shall the rate of tax exceed 4 percent of the gross revenues received by a service supplier.

WHEREAS: Pursuant to Resolution T-11009 adopted by the Commission on February 20. 1986, the tax rate required to produce sufficient revenue to fund the Universal Lifeline Telephone Service Program for the period July 1, 1986 to June 30, 1987 shall be determined by resolution on or before May 1, 1986.

WHEREAS: The Act authorizes the Commission to set the tax rate applicable to the gross revenues from intrastate interLATA telecommunications services, intrastate telecommunications services on a basis not defined by LATAs, and intrastate intraLATA telecommunications services if necessary, considering:

(1) Universal Service Subsidy,
(2) Number of Recipients,
(3) Fund Balance,
(4) Administrative Costs,
(5) Taxable Revenues.

WHEREAS: Section 1.3.24 of G.O. 153 defines service supplier as any person supplying any of the following:

(1) InterLATA intrastate telecommunications services and/or,

(2) Intrastate telecommunications services on a basis not defined by LATA boundaries, as defined in Chapter 1143 of the Revenue and Taxation Code.

WHEREAS: Section 7 of G.O. 153 provides that the determination of service supplier status will be performed by the Commission under the procedures established by the Evaluation & Compliance Division.

WHEREAS: Section 1.3.8 of G.O. 153 defines "Gross Revenues" as all revenues billed by a service supplier for the provision of intrastate interLATA telecommunications services, excluding all federal, state, and local taxes and all accounts which have been found to be worthless and written off for income tax purposes or, if the service supplier is not required to file income tax returns, written off in accordance with generally accepted accounting principles.

WHEREAS: In D.84-04-053 the Commission set the initial tax rate required by Revenue and Taxation Code Section 44041 at 4% for fiscal year 1984/85.

WHEREAS: The Commission in D.85-05-009, found it reasonable to maintain the 4% tax rate for fiscal year 1985/86. Further, the Decision directed that after carefully monitoring program revenues and expenses, and provided the efforts to achieve increased public awareness or to modify the program do not significantly increase the cost of providing Lifeline Service, the Commission will consider adjusting the 4% tax rate downward, effective July 1, 1986.

WHEREAS: The Commission, in Decision 86-02-021, ordered that: (1) The call allowance for measured service Lifeline customers be increased from 30 untimed calls per month to 60 untimed calls per month, and (2) the income eligibility requirements shall be changed to 150% of federal poverty guidelines adjusted for family size.

WHEREAS: A 1 1/2 percent tax rate will produce sufficient revenue to support the Universal Lifeline Telephone Service Program for the period July 1, 1986 to June 30, 1987 after considering:

(1) The estimated available balance in the Universal Telephone Service fund for the fiscal year ending June 30, 1986 is $77,664,000, which is 2.18 times the estimated total cost of funding the Lifeline Program in the fiscal year 1985-1986. Section 44183.5 of the Revenue and Taxation Code, Section 3 of the Moore Act, requires that any monies remaining in the fund after disbursement by the Controller remain with the fund and be considered by the Commission in the calculation of the subsequent year's tax rate.

(2) The estimated gross revenues of all intrastate telecommunications service suppliers providing intrastate interLATA telecommunications service and/or intrastate telecommunications services not defined by LATA boundaries for the period July 1, 1986 to June 30, 1987 is $2,095,826,000.

(3) At a tax rate of 1 1/2 percent, the estimated Universal Service fund Revenues including tax receipts and interest earned on fund balance for the period July 1, 1986 to June 30, 1987 is $47,066,000.

(4) The estimated total cost of the Universal Telephone Service Fund requirements for the 12-month period July 1, 1986 to June 30, 1987 is 64,984,000. This estimate includes a $10,000,000 contingency expenditure to absorb possible errors in the financial impact assessment of D.86-02-021.

(5) Given all the above estimates, at a tax rate of 1 1/2 percent the estimated fund balance ending June 30, 1987 is $59,747,000. This amount is a reasonable reserve in light of the Commission's intention, expressed in D.86-02-021, to consider after its rate design decision on A.85-01-034 involving Pacific Bell: (a) further increasing the untimed call allowance for Lifeline participants from 60 to 130 calls per month, and (b) the appropriateness of the flat rate option for Lifeline participants in measured service areas. It must be stressed that these are only proposed changes to be considered in the near future. The impact of these proposed changes are not incorporated in the cost calculation of the Lifeline Program for the fiscal year 1986-1987.

The Commission finds that:

(1) The estimated available balance of $77,664,000 in the Universal Telephone Service Fund is excessive and should be lowered to a reasonable level.

(2) A tax rate of 1 1/2 percent for the fiscal year 1986-1987, coupled with the available fund surplus, will be sufficient to support the Universal Lifeline Telphone Service Fund requirements for the period July 1, 1986 to June 30, 1987.

(3) After approximately two years, The Universal Lifeline Telephone Service Program is still young and subject to adjustments and changes in the future, as deemed necessary by the Commission and/or the State Legislature. Therefore:

(a) The tax rate should not be lowered to a level that may preclude the flexibility needed in the Universal Telephone Service Fund.

(b) It is necessary to maintain an adequate reserve to meet possible changes in the Lifeline Program and potential additional future demands.

(c) A fund reserve of $59,747,000 in the fiscal year ending June 30, 1987 is reasonable.

(4) It is not necessary to tax intraLATA telecommunications services at this time, since a tax rate of 1 1/2 percent imposed on all intrastate telecommunications service suppliers providing intrastate interLATA telecommunications service not defined by LATA boundaries will be sufficient to fund the Universal Lifeline Program for the period July 1, 1986 to June 30, 1986.

(5) The Commission reserves the right in the future to raise the tax rate if necessary, up to the maximum limit of 4 percent, to support the Lifeline Program fund requirements.

IT IS ORDERED that:

(1) A tax rate of 1-1/2 percent shall be imposed on every service supplier in the state applicable to the gross revenues received from intrastate interLATA telecommunications services and/or intrastate telecommunications services not defined by LATA boundaries to fund the Universal Lifeline Telephone Service Program.

(2) The tax rate shall be effective for the period July 1, 1986 to June 30, 1987.

(3) All telecommunications utilities subject to the tax shall file revised tariff schedules in accordance with the provisions of G.O. 96-A on or before June 20, 1986 and shall be effective on July 1, 1986.

The Commission finds that the rates, charges and conditions authorized in this Resolution are just and reasonable and present rates, charges and conditions, as they differ from the rates, charges and conditions authorized in this Resolution are for the future unjust and unreasonable; and good cause appearing,

The effective date of this Resolution is today.

I hereby certify that the foregoing Resolution was duly introduced, passed and adopted at a regular meeting of the Public Utilities Commission of the State of California, held on April 16, 1986, the following Commissioners voting favorably thereon:

DONALD VIAL
President
VICTOR CALVO
FREDERICK R. DUDA
Commissioners

Joseph E. Bodovitz
Executive Director

I abstain
PRISCILLA C. GREW, Commissioner