FEBRUARY 28, 2024

Overview of Major Federal and State Broadband Programs and Projects

PRESENTED TO:

Assembly Budget Subcommittee No. 7 on
Accountability and Oversight
Hon. Avelino Valencia, Chair

LEGISLATIVE ANALYST'S OFFICE

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Overview of State Broadband Programs and Projects

Three Key Broadband Programs and Projects Funded by Spending Plan

The multiyear broadband infrastructure spending plan as of the *2023-24 Budget Act*—displayed on page 4—shows funding support for three state broadband programs and projects:

- ***Statewide Open-Access Middle-Mile Network.*** The state is building, leasing, and purchasing middle-mile broadband infrastructure to create a statewide, open-access middle-mile network deployed primarily along the state's highways and other rights of way. This network is expected to be available to all public entities, Internet service providers (ISPs), nonprofit organizations, and other entities to connect to and deliver high-speed Internet access. The middle-mile network project is led by the California Department of Technology (CDT) and its third-party administrator, GoldenStateNet, in consultation with the California Public Utilities Commission (CPUC) and the California Department of Transportation (Caltrans).
- ***Last-Mile Project Grants.*** The state is providing grants to ISPs, public entities, nonprofit organizations, and others for last-mile broadband infrastructure projects. These grants are awarded by CPUC through several California Advanced Services Fund (CASF) program accounts as well as the Federal Funding Account (FFA).
  - ***CASF Program Accounts.*** CASF program accounts are funded by a surcharge rate on revenues collected by telecommunications companies from end-users of intrastate telecommunications services. State law allows CPUC to collect up to $150 million in surcharge revenues each year until December 31, 2032. Projects that intend to serve unserved households are eligible for CASF program account grants. Projects that intend to serve priority unserved households often receive grant awards before projects serving other unserved households.

Overview of State Broadband Programs and Projects

(Continued)

- ***FFA.*** Chapter 112 of 2021 (SB 156, Committee on Budget and Fiscal Review) originally created the FFA to receive federal American Rescue Plan fiscal relief funds allocated for last-mile broadband infrastructure projects. However, as shown on the next page, the FFA is now mostly supported by the General Fund. Unserved households are eligible for FFA program grants, with the FFA program rules further defining unserved households as those in areas without a reliable cable or fiber connection to a broadband provider. (Technologies such as fixed wireless and satellite Internet services are examples of broadband offerings that do not require a direct cable or fiber connection.)

- ***Loan Loss Reserve Fund (LLRF).*** The LLRF will provide local government entities, nonprofit organizations, and tribes with grants to help them obtain financing for last-mile projects through, for example, establishing and funding reserves and paying the costs of debt issuance for broadband infrastructure projects.

Current State Broadband Infrastructure Spending Plan

Broadband Infrastructure Spending Plan as of the *2023-24 Budget Act*

(In Millions)

Program or Project	Fiscal Year	Funding Source GF	FF	TF
Middle-Mile Network	Prior Years	$887[a]	$2,363[b]	$3,250
	2023-24	300	73[c]	373
	2024-25	250	—	250
	2025-26	—	—	—
	2026-27	—	—	—
Subtotals		($1,437)	($2,436)	($3,873)
Last-Mile Projects Grants	Prior Years	$647[d]	$550[e]	$1,197
	2023-24	253	—	253
	2024-25	200	—	200
	2025-26	200	—	200
	2026-27	150	—	150
Subtotals		($1,450)	($550)	($2,000)
LLRF	Prior Years	—	—	—
	2023-24	$175	—	$175
	2024-25	300	—	300
	2025-26	275	—	275
	2026-27	—	—	—
Subtotals		($750)	(—)	($750)
All Programs and Projects	Prior Years	$1,534	$2,913	$4,447
	2023-24	728	73	801
	2024-25	750	—	750
	2025-26	475	—	475
	2026-27	150	—	150
Totals		**$3,637**	**$2,986**	**$6,623**

[a] Pursuant to Control Section 11.96 of the *2022-23 Budget Act*, the Department of Finance shifted $887 million for the middle-mile network from ARP fiscal relief funds to GF in 2021-22.

[b] The remaining $2.363 billion in FF for the middle-mile network in 2021-22 is state ARP fiscal relief funds.

[c] Chapter 189 of 2023 (SB 104, Skinner) appropriated a $73 million award of federal funds in 2023-24 from the IIJA's Enabling Middle Mile Broadband Infrastructure Program.

[d] Pursuant to Control Section 11.96 of the *2022-23 Budget Act*, the Department of Finance shifted $522 million for last-mile projects from ARP fiscal relief funds to GF in 2021-22.

[e] The remaining $550 million in FF for last-mile project grants in 2021-22 is the state's allocation from the ARP's Coronavirus Capital Projects Fund.

GF = General Fund; FF = federal funds; TF = total funds; LLRF = Loan Loss Reserve Fund; ARP = American Rescue Plan; SB = Senate Bill; and IIJA = Infrastructure Investment and Jobs Act.

Proposed Spending Plan Changes in Governor's 2024-25 Budget

The Governor's 2024-25 budget proposes augmentations, delays, and reductions across the three major state broadband programs and projects:

- ***$1.5 Billion Increase in Middle-Mile Network Costs.*** In addition to the $250 million General Fund in 2024-25 included in CDT's state operations budget for the middle-mile network, the Governor's budget also requests an additional $250 million General Fund in 2024-25 and $1.25 billion General Fund in 2025-26 for increased middle-mile network costs. The Governor's budget proposes budget bill language that would allow the Department of Finance to increase CDT's $500 million appropriation in 2024-25 by up to an additional $500 million General Fund. These augmentations, if approved, would increase the total cost of the middle-mile network to $5.37 billion ($2.94 billion General Fund, $2.43 billion federal funds).
- ***$100 Million Delay of Last-Mile Project Grants.*** As a General Fund budget solution, the Governor's budget proposes to delay $100 million in last-mile project grant funds available through the FFA from 2024-25 to 2026-27. This delay, if approved, would leave $100 million General Fund appropriated in 2024-25 for last-mile project grants, but the total amount of last-mile project grant funding across all fiscal years would be the same at $2 billion ($1.45 billion General Fund, $550 million federal funds).
- ***$250 Million Reduction in LLRF Awards.*** As a General Fund budget solution, the Governor's budget proposes to reduce $150 million in 2024-25 and $100 million in 2025-26 in LLRF awards. These reductions, if approved, would leave $150 million General Fund appropriated in 2024-25 for LLRF awards, with a total amount of $500 million General Fund in the LLRF across all fiscal years.

The next page provides the broadband infrastructure spending plan as of the Governor's 2024-25 budget.

Broadband Infrastructure Spending Plan as of the Governor's 2024-25 Budget

Broadband Infrastructure Spending Plan as of the Governor's 2024-25 Budget

(In Millions)

		Funding Source			
Program or Project	**Fiscal Year**	**GF**	**FF**	**TF**	
Middle-Mile Network	Prior Years	$887	$2,363	$3,250	
	2023-24	300	73	373	
	2024-25	500[a]	—	500	Augmentation
	2025-26	1,250	—	1,250	Augmentation
	2026-27	—	—	—	
Subtotals		($2,937)	($2,436)	($5,373)	Augmentation
Last-Mile Project Grants[b]	Prior Years	$647	$550[c]	$1,197	
	2023-24	253	—	$253	
	2024-25	100[d]	—	$100	Delay
	2025-26	200	—	$200	
	2026-27	250[d]	—	250	Delay
Subtotals		($1,450)	($550)	($2,000)	
LLRF	Prior Years	—	—	—	
	2023-24	$175	—	$175	
	2024-25	150	—	150	Reduction
	2025-26	175	—	175	Reduction
	2026-27	—	—	—	
Subtotals		($500)	(—)	($500)	Reduction
All Programs and Projects	Prior Years	$1,534	$2,913	$4,447	
	2023-24	728	73	801	
	2024-25	750	—	750	
	2025-26	1,625	—	1,625	
	2026-27	250	—	250	
Total		**$4,887**	**$2,986**[e]	**$7,873**	

[a] Chapter 48 of 2022 (SB 189, Committee on Budget and Fiscal Review) included a legislative goal to appropriate $250 million in 2024-25 for the middle-mile network.

[b] Last-mile project funding amounts do not include $50 million GF in Local Agency Technical Assistance funding.

[c] Last-mile project federal funding amounts do not include $1.86 billion in additional last-mile project funding from the IIJA, some of which could be allocated to the state starting in 2023-24.

[d] The Governor's 2024-25 budget proposes to delay $100 million in last-mile project funding from 2024-25 to 2026-27.

[e] Federal funding amounts do not include additional IIJA funding from Digital Equity Act programs, specifically the state planning and state capacity programs.

GF = General Fund; FF = federal funds; TF = total funds; LLRF = Loan Loss Reserve Fund; SB = Senate Bill; and IIJA = Infrastructure Investment and Jobs Act.

Status of Major State Broadband Programs and Projects

Middle-Mile Network

- ***Total Estimated Middle-Mile Network Length Now 10,513 Miles When Complete.*** The total estimated length of the middle-mile network, once it is completed, is now 10,513 miles. Leases and standalone Caltrans construction projects account for most of the network miles—8,616 miles or 82 percent of the total network. The remainder of the network miles are joint-build construction projects and purchases.
- ***Funding Encumbered for at Least 6,500 Miles.*** The total estimated number of miles with encumbered funding—appropriated funding committed to an unfilled purchase order or unfulfilled contract—is at least 6,500 miles. It is our understanding from the administration that the amount of encumbered funding for the joint-build construction projects, leases, and purchases is generally more precise than for standalone Caltrans construction projects. Caltrans is continuing to finish pre-construction work on many of its projects, which Caltrans expects to complete by the end of 2024. Therefore, some number of miles for standalone Caltrans construction projects have encumbered funding, but the exact number of miles is uncertain.
- ***Additional Network Changes Based on Last-Mile Project Grant Application Review and Request for Innovative Ideas (RFI²) Process.*** CDT and CPUC's review of last-mile project grant applications also may change the length and number of standalone Caltrans construction projects (and possibly others). While federal and state last-mile project funding will be used primarily for last-mile project grants, some funding can be used for middle-mile infrastructure for connection to a last-mile project. Also, for the remaining 2,200 or so miles of standalone Caltrans construction projects, CDT issued a second RFI² solicitation to identify additional opportunities for joint-build construction projects, leases, and/or purchases.

Status of Major State Broadband Programs and Projects

(Continued)

Last-Mile Project Grants

- ***CPUC Received Nearly 500 FFA Applications Requesting About $4.5 Billion in Funding.*** CPUC closed the first FFA grant application round on September 29, 2023 after receiving 484 applications requesting a total of $4.55 billion. CPUC received 896 objections against these grant applications, as well as applicants' responses to those objections, by December 20, 2023. CPUC, in coordination with CDT, will review these applications and objections over the next six months and expect to make grant awards by the end of June 2024.

LLRF

- ***First LLRF Application Round Expected to Open in March.*** CPUC expects to open the first application round of the LLRF in March, followed by funding cycles of equal amounts opening every three months thereafter, and make its first awards sometime in the first half of 2024-25.

Overview of Federal Broadband Programs

Three Federal Infrastructure Investment and Jobs Act (IIJA) Broadband Programs Key to Major State Programs and Projects

Three federal programs created with $65 billion in IIJA funding nationwide for broadband infrastructure directly relate to the state's key broadband programs and projects:

- ***Broadband Equity, Access, and Deployment (BEAD) Program.*** The BEAD program received $42.45 billion of the $65 billion total, most of which is to provide states and other jurisdictions with funding primarily for last-mile project grants. Unserved and underserved households are eligible for grants made with BEAD program funding.
  - ***Requires Submission of Plans and Proposals to National Telecommunications and Information Administration (NTIA).*** To access BEAD program funding, the administering entities for states and other jurisdictions (for example, CPUC) must submit several plans and proposals to NTIA. This documentation includes a Five-Year Action Plan, an initial proposal, and a final proposal.
  - ***Requires Challenge Process After Submission of Initial Proposal and Before Allocation of Program Funds.*** To allocate BEAD program funding, entities also must conduct a challenge process in which ISPs, local governments, or nonprofit organizations can challenge a determination made by the administering entity in its initial proposal that households or other locations are unserved or underserved. Successful challenges are submitted to NTIA for its review and approval.
  - ***Competitive Grant Process Begins After Initial Proposal Approval.*** After NTIA approves the initial proposal, entities can begin their competitive grant processes using at least 20 percent of their state or other jurisdiction's allocation.

Overview of Federal Broadband Programs

(Continued)

- ***Digital Equity Act Programs.*** The Digital Equity Act programs received $2.75 billion nationwide for three grant programs to improve digital equity across specific populations such as low-income households, racial and ethnic minorities, and rural areas. Below are the three programs:
  - ***State Digital Equity Planning Grant Program.*** This grant program received $60 million to provide states with allocations to support their development of a digital equity plan, which will identify barriers to digital equity and plan how to address related outcomes across program areas such as education and health care.
  - ***State Digital Equity Capacity Grant Program.*** This grant program received $1.44 billion to provide states with annual allocations for five calendar years to support the implementation of their digital equity plans.
  - ***Digital Equity Competitive Grant Program.*** This grant program received $1.25 billion to provide applicants, including some state entities, with annual allocations for five calendar years to implement digital equity projects.
- ***Enabling Middle-Mile Broadband Infrastructure Program.*** This grant program received $1 billion nationwide to provide funding for acquisition, construction, or improvement of middle-mile broadband infrastructure.

Status of Federal Broadband Programs

BEAD Program

- ***NTIA Notified California of $1.86 Billion Program Allocation in June 2023.*** On June 26, 2023, NTIA announced that California will receive $1.86 billion in federal funds from the BEAD program. To receive these funds, CPUC is required to submit to NTIA the state's Five-Year Action Plan and initial proposal describing the competitive process for last-mile broadband infrastructure project grants.
- ***CPUC Submitted Five-Year Action Plan to NTIA in August 2023.*** Using the $5 million award received in November 2022 from the state's initial BEAD program allocation of $100 million, CPUC completed its draft of the state's Five-Year Action Plan on July 17, 2023. CPUC received over 500 pages of comments during the public comment period that ended August 11, 2023. CPUC then submitted the state's final Five-Year Action Plan to NTIA on August 28, 2023.
- ***CPUC Submitted Initial Proposal to NTIA in December 2023.*** CPUC completed its draft of the state's initial proposal for the BEAD program on November 7, 2023. The commission received several dozen comments during the public comment period that ended December 7, 2023. CPUC then submitted the initial proposal as two volumes (based on federal guidance) on December 27, 2023.
- ***NTIA Approval of Second Initial Proposal Volume Will Make Available at Least 20 Percent of State's Allocation.*** CPUC expects NTIA to approve the first volume of the state's initial proposal by the end of February 2024 and the second volume in May 2024. Approval of the first volume will allow CPUC to conduct its challenge process. Approval of the second volume will make available at least the first 20 percent of the state's BEAD program allocation.
- ***Some of State's Remaining Allocation Also Could Be Made Available.*** However, CPUC also requested (based on federal guidance) that NTIA make available to the state its entire program allocation, but condition some amount of funding on NTIA approval of the state's final proposal. BEAD program rules require CPUC to submit the state's final proposal one year after the state's second initial proposal volume is approved, so any remaining funding conditions could be removed as early as May 2025.

Status of Federal Broadband Programs

(Continued)

Digital Equity Act Programs

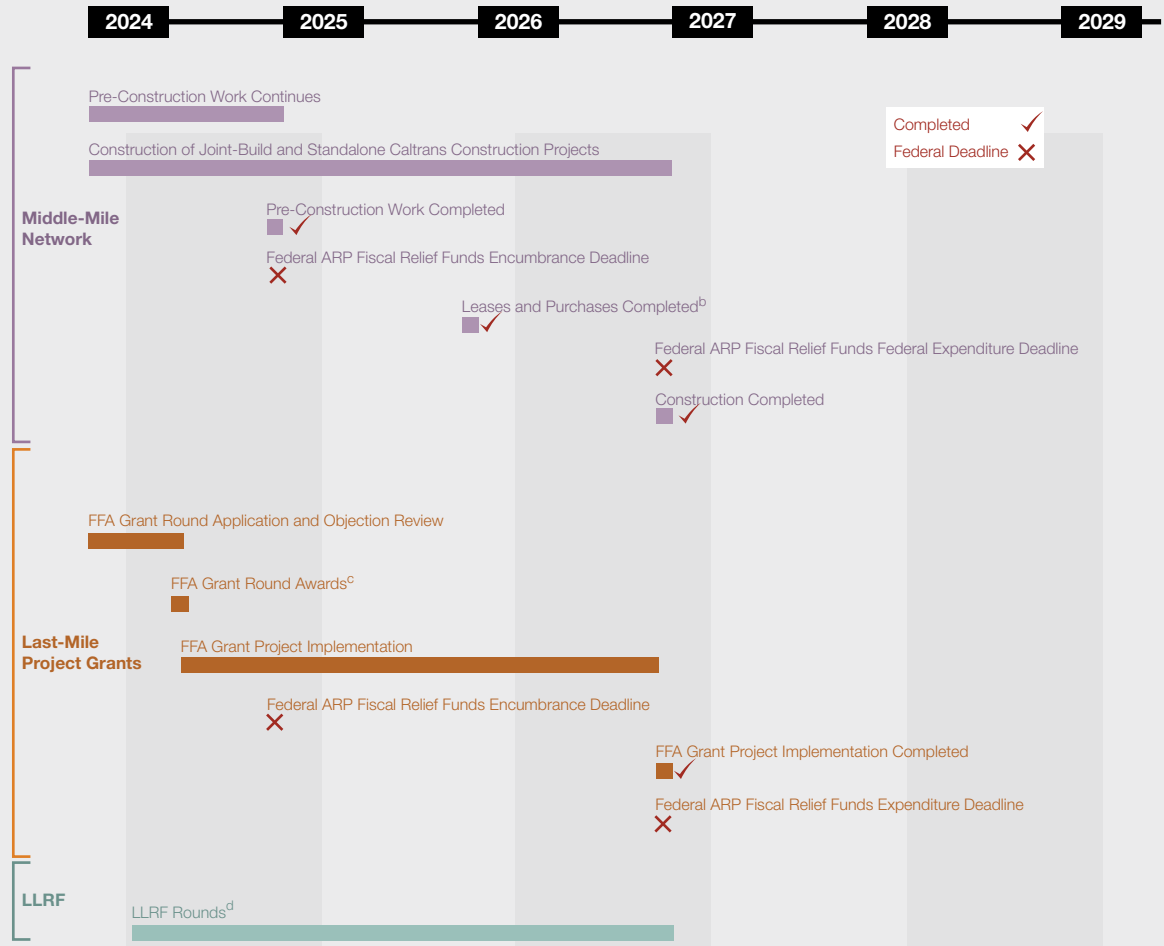
- ***CDT Completed Draft Digital Equity Plan in December 2023.*** Using the $4 million award received in November 2022 from IIJA's State Digital Equity Planning Grant Program, CDT completed its draft of the state's digital equity plan on December 12, 2023. CDT received over 400 comments on the draft plan during the public comment period that ended January 25, 2024. The final digital equity plan is expected to be released before the end of 2023-24.
- ***Federal Funding to Implement State's Digital Equity Plan Forthcoming.*** Funding from the IIJA's State Digital Equity Capacity Grant Program, as well as other sources of funding such as the IIJA's Digital Equity Competitive Grant Program, will be used by CDT (in coordination with other government entities) to implement digital equity plan activities. However, the program rules and time line for these programs remain under development by NTIA. Therefore, the amount of additional federal funding the state could receive to implement its digital equity plan is not available.

Enabling Middle-Mile Broadband Infrastructure Program

- ***NTIA Notified California of $73 Million Program Award in June 2023.*** On June 16, 2023, NTIA announced that California will receive $73 million federal funds from the Enabling Middle-Mile Broadband Infrastructure Program for the state's middle-mile network. Chapter 189 of 2023 (SB 104, Skinner) appropriated this additional federal funding in 2023-24. However, it is our understanding from the administration that the state has not yet received this funding.

Estimated State Broadband Program and Project Time Lines

Estimated Major State Broadband Program and Project Time Lines[a]



[a] Approximate time lines based on information available as of February 27, 2024.

[b] Activation of leased and purchased network miles expected in the following quarter.

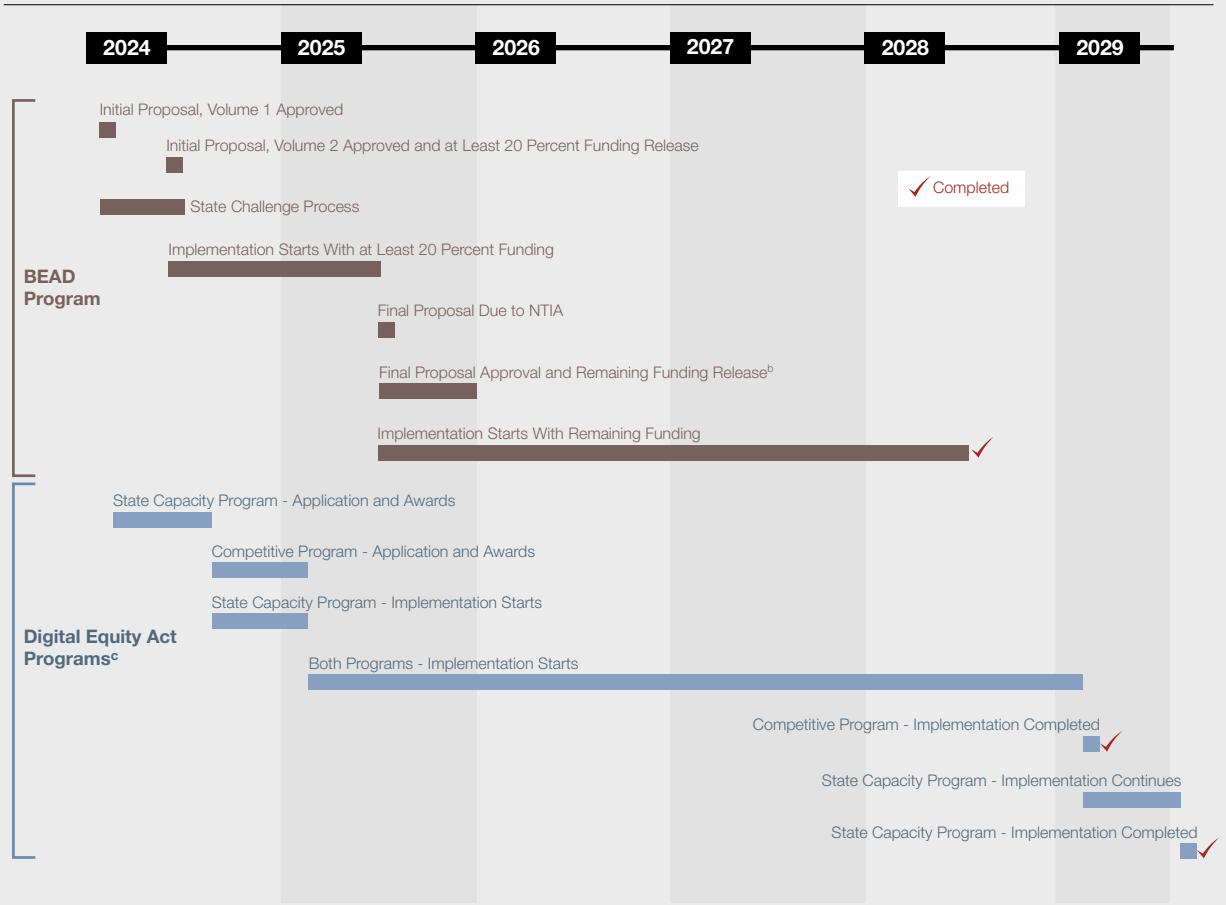
[c] Given the initial FFA grant application volume and requested grant amounts, it is unclear if and when subsequent funding rounds will begin.

[d] First LLRF round expected to open in March 2024 and subsequent rounds to open every three months until 2026-27.

ARP = American Rescue Plan; FFA = Federal Funding Account; Caltrans = California Department of Transportation; and LLRF = Loan Loss Reserve Fund. LAO

Estimated Federal Broadband Program Time Lines

Estimated Major Federal Broadband Program Time Lines[a]



[a] Approximate time lines based on information available as of February 27, 2024.

[b] Final proposal approval time line and remaining funding release based on initial proposal review and approval time line.

[c] Time lines in 2024 and future years for Digital Equity Act programs do not indicate specific dates or time lines. Rather, they indicate time frames within which specific dates or time lines will be forthcoming.

BEAD = Broadband Equity, Access, and Deployment and NTIA = National Telecommunications and Information Administration.

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