

# The 2024-25 Budget: Broadband Infrastructure

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## SUMMARY

**Legislative Oversight Crucial as Broadband Infrastructure Programs and Projects Move to Implementation.** Many of the federal and state broadband infrastructure programs and projects—especially the state’s middle-mile network and Federal Funding Account (FFA) grant program, as well as the federal Broadband Equity, Access, and Deployment (BEAD) program—are finishing their planning activities and moving into implementation. Billions of dollars will be encumbered and expended over the next few fiscal years. To achieve the Legislature’s goals in Chapter 112 of 2021 (SB 156, Committee on Budget and Fiscal Review) and other broadband infrastructure legislation, legislative oversight of the administration’s implementation of these programs and projects will be critical to their success.

**Recommend Approving Anticipated \$250 Million Appropriation in 2024-25 for Middle-Mile Network.** We recommend the Legislature approve the \$250 million General Fund included in the California Department of Technology’s (CDT’s) operating budget in 2024-25 for the middle-mile network, which is consistent with the Legislature’s uncodified but stated goal in Chapter 48 of 2022 (SB 189, Committee on Budget and Fiscal Review). However, given the lack of critical information about middle-mile network construction, we recommend the Legislature adopt budget bill language that conditions this funding on more information about standalone California Department of Transportation (Caltrans) construction projects as well as other information necessary for legislative oversight of middle-mile network implementation.

**Recommend Rejecting Additional \$1.5 Billion—\$250 Million in 2024-25, \$1.25 Billion in 2025-26— for Middle-Mile Network.** We also recommend the Legislature reject the additional \$1.5 billion General Fund proposed in the Governor’s budget, as well as the proposed budget bill language. The fiscal pressure facing the state does not support the General Fund investment in this proposal, particularly when more detailed information needed for legislative oversight is unavailable and some alternative funding sources may be explored. We raise no concerns with the positions requested by CDT, however, to support its middle-mile network implementation.

**Recommend Consideration of Additional Budget Solutions.** While we recommend approval of the proposed delay of \$100 million General Fund of FFA grant program funding for last-mile project grants (more reasonably considered as a reduction) and proposed reductions to the Loan Loss Reserve Fund (LLRF), the Legislature could consider additional budget solutions. Given the deterioration in the state’s budget, additional solutions would help the Legislature close the deficit. Specifically, up to \$550 million General Fund could be reduced from proposed or scheduled appropriations for last-mile project grants given the availability in 2024-25 of \$1.86 billion in federal BEAD program funding. The Legislature could also consider additional reductions of up to \$500 million General Fund in LLRF support.

## BACKGROUND

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### BROADBAND

**Federal Communications Commission (FCC) Provides Broadband Definition.** The FCC defines broadband as high-speed Internet access that provides a minimum of 25 Megabits per second (Mbps) download speed and 3 Mbps upload speed. (Mbps measures how much data can be downloaded or uploaded over a network connection.) Internet access at these speeds allows consumers to use the Internet for a variety of activities such as accessing information, studying online, and working remotely. (Other factors such as latency—how long it takes data to travel—and reliability—how long a connection is maintained—also affect whether consumers can access Internet service at these speeds.)

**Many Areas and Households Lack Broadband Access.** Unserved areas and households are generally defined as those without access to broadband (as defined by the FCC). (In this brief, we use the terms households and locations interchangeably.) Underserved areas and households can be defined as those with access to broadband but without access to broadband at faster Mbps download and upload speeds with higher reliability and/or lower latency. Federal and state broadband programs define unserved and underserved in different ways using various criteria. All of the major federal and state programs, however, estimate that there are hundreds of thousands of households in areas of the state without broadband access. For major federal and state programs discussed later in the brief, we describe relevant differences in the criteria and definitions used and provide the estimated number of unserved and/or underserved calculated for each program.

### BROADBAND INFRASTRUCTURE

**Components of Broadband Infrastructure.** Broadband infrastructure allows Internet service providers (ISPs) and other entities to offer high-speed Internet access to areas, households, and institutions. This infrastructure

can be categorized into three main groups based on distance covered, from longest to shortest distance:

- **Backbone or Long-Haul.** Backbone or long-haul broadband infrastructure often uses high-capacity fiber-optic cables laid over hundreds or thousands of miles to connect different countries, states, and/or regions to the Internet.
- **Middle-Mile.** Middle-mile broadband infrastructure also often consists of fiber-optic cables laid over tens or hundreds of miles that, once connected to by an ISP or other entity, can deliver Internet access.
- **Last-Mile.** Last-mile broadband infrastructure relies on antennae, cables, poles, wires, and other components to connect middle-mile broadband infrastructure to individual households or institutions in a community.

### MAJOR FEDERAL AND STATE BROADBAND PROGRAMS AND PROJECTS

**Three Major State Broadband Infrastructure Programs and Projects.** In recent years, the state has initiated a few significant programs related to broadband, in part due to funding provided by the federal government. There are currently three major state broadband infrastructure programs and projects underway pursuant to [Chapter 112 of 2021 \(SB 156, Committee on Budget and Fiscal Review\)](#):

- **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 project is also referred to as the Middle-Mile Broadband Initiative or MMBI.) This network is expected to be available to all public entities, ISPs, nonprofit organizations, and other entities to connect

to and deliver high-speed Internet access. Connecting entities will likely pay fees to the state to maintain, operate, and repair the network. These fees will then be deposited into the State Middle-Mile Broadband Enterprise Fund. This project is led by the California Department of Technology (CDT) and its third-party administrator, GoldenStateNet (GSN), 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 (described in a nearby box) 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 (that is, those without access to broadband as defined by the FCC) are eligible for CASF program account grants. Projects that intend to serve priority unserved households—that is, unserved households with no Internet access or with Internet access at or below a 10 Mbps download speed and 1 Mbps upload speed—often receive grant awards before projects serving other unserved households. Based on CASF program account definitions and eligibility criteria, the number of eligible priority unserved households in California is about 545,000 and the number of remaining eligible unserved households is about 360,000.

- » **FFA.** Senate Bill 156 originally created the FFA to receive federal American Rescue Plan (ARP) fiscal relief funds allocated for last-mile broadband infrastructure projects.

## California Advanced Services Fund (CASF) Program Accounts

The CASF program accounts administered by the California Public Utilities Commission support various broadband infrastructure-related activities, focusing on last-mile project grants. These accounts include:

**Broadband Adoption Account.** This account provides grants to public entities, nonprofit organizations, and others to increase access to digital literacy programs and publicly available broadband.

**Broadband Infrastructure Account.** This account provides middle- and last-mile broadband infrastructure project grants and loans. This account includes a line-extension program to offset the costs of connecting individual households or properties to certain broadband providers.

**Broadband Public Housing Account.** This account provides grants and loans to publicly subsidized multifamily housing developments to finance broadband adoption and infrastructure projects.

**Rural and Urban Regional Broadband Consortia Grant Account.** This account funds grants that assist eligible consortium grant applicants (that is, representatives from organizations that are organized by geography and/or region) with planning broadband infrastructure projects and completing associated grant application processes.

**Tribal Technical Assistance Account.** This account provides tribes with technical assistance in the development of business plans, feasibility studies, and market studies in support of their broadband efforts.

However, as we describe in more detail later in the brief, 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.) Based on FFA definitions and eligibility criteria, the number of eligible unserved households in California is around 1 million.

- **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.

**Three Federal Infrastructure Investment and Jobs Act (IIJA) Broadband Infrastructure Programs Key to Major State Programs and Projects.** The IIJA provides \$65 billion in federal funding for broadband infrastructure projects nationwide. Three of the programs created with this funding by the National Telecommunications and Information Administration (NTIA) directly relate to the three major state broadband infrastructure 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 for last-mile broadband infrastructure projects. (Some funding can be used for middle-mile broadband infrastructure if required to connect a last-mile project.) Both unserved and underserved households are eligible for grants made with BEAD program funding. Underserved households are defined as those without broadband service that offers a 100 Mbps download speed and 20 Mbps upload speed. Also, households are defined as unserved and/or underserved at their

respective speeds if they do not meet certain latency requirements. Based on federal BEAD program definitions and eligibility criteria, the current number of eligible unserved households in the state is about 305,000 and the current number of eligible underserved households in the state is about 155,000.

- **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 the acquisition, construction, or improvement of middle-mile broadband infrastructure.

## CURRENT STATE BROADBAND SPENDING PLAN

Significant Spending Plan Changes From Original 2021 Agreement to 2023-24 Budget Act. Since the initial broadband infrastructure agreement between the administration and Legislature in July 2021,

there have been significant changes in the funding amounts, sources, and timing of the three major state programs and projects. For more information about these changes, see our March 20, 2023 brief—[The 2023-24 Budget: Broadband Infrastructure](#)—and the “Broadband Infrastructure” section of our November 8, 2023 post—[The 2023-24 California Spending Plan: Other Provisions](#). **Figure 1** provides the current spending plan for state broadband infrastructure programs and projects as of the 2023-24 Budget Act.

## STATUS OF STATE BROADBAND PROGRAMS AND PROJECTS

### Statewide Open-Access Middle-Mile Network

**Total Estimated Length of Middle-Mile Network When Complete Now 10,513 Miles.**

As of January 29, 2024, the total estimated length of the statewide open-access middle-mile network is 10,513 miles. **Figure 2** provides a summary of the middle-mile network miles by delivery method. 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 (that is, construction projects where the state is working with another party to build the network) and purchases. For more information about the number of miles in each county or legislative district and their delivery method, see [CDT’s Statewide Middle-Mile Network Map](#).

Figure 1

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

(In Millions)

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

<sup>a</sup> 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.  
<sup>b</sup> The remaining \$2.363 billion in FF for the middle-mile network in 2021-22 is state ARP fiscal relief funds.  
<sup>c</sup> Chapter 189 of 2023 (SB 104, Skinner) appropriated a \$73 million award of federal funds in 2023-24 from the IJA’s Enabling Middle Mile Broadband Infrastructure Program.  
<sup>d</sup> 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.  
<sup>e</sup> 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 IJA = Infrastructure Investment and Jobs Act.

Figure 2

### Middle-Mile Network Miles by Delivery Method<sup>a</sup>

Delivery Method	Number of Miles	Percent of Total Network Miles
Leases	4,584	44%
Caltrans Construction Projects	4,032	38
Joint-Build Construction Projects	1,420	14
Purchases	477	5
<b>Total</b>	<b>10,513</b>	

<sup>a</sup> Data as of January 29, 2024.  
 Caltrans = California Department of Transportation.

**Funding Encumbered for at Least 6,500 Miles.** As of February 6, 2024, the total estimated number of middle-mile network miles with encumbered funding (that is, appropriated funds that are 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 joint-build construction projects, leases, and purchases (about 6,500 miles) is, in general, more precise than for the standalone Caltrans construction projects (about 1,800 miles). Caltrans is continuing to

finish the pre-construction work (that is, design, environmental, and permitting work) on many of its projects. Caltrans expects to complete this work by the end of 2024, after which contracts and purchase orders will be finalized and more specific amounts of funding will be encumbered. Therefore, while some number of miles for the standalone Caltrans construction projects have encumbered funding, the exact number of miles is uncertain. **Figure 3** provides a summary of the middle-mile network projects and related costs with at least some funding encumbered. The figure does not

Figure 3

**Middle-Mile Network Projects With Encumbered Funding**

Project Name	Delivery Method	Miles	Estimated Cost (In Millions)	Encumbered Funding (In Millions)		
				TF	GF	FF
CVIN	Lease	2,522	\$715	\$715	\$427	\$288
Various	Standalone Caltrans Construction	1,800 <sup>a</sup>	950	500 <sup>b</sup>	—	500
Lumen	Joint-Build	1,186	257	257	—	257
Lumen	Lease	710	141	141	—	141
Digital 395	Purchase	435	31	31	31	—
Arcadian #1	Joint-Build	310	134	134	—	134
Arcadian #2	Joint-Build	280	171	171	—	171
Arcadian #3	Joint-Build	255	127	127	—	127
Zayo	Joint-Build	193	13	13	—	13
TPN	Lease	172	40	40	40	—
Siskiyou Telephone Company	Joint-Build	165	52	52	—	52
Arcadian #5	Joint-Build	117	38	38	—	38
Boldyn	Lease	81	79	79	—	79
Arcadian #4	Joint-Build	44	17	17	—	17
Vero	Joint-Build	24	7	7	—	7
Hoopa	Joint-Build	23	10	10	—	10
Subtotals		8,317	(\$2,782)	(\$2,332)	(\$498)	(\$1,834) <sup>c</sup>

Additional Costs	Estimated Cost (In Millions)	Encumbered Funding (In Millions)		
		TF	GF	FF
Administration	\$250	\$250	\$8	\$242
Conduit, Fiber and Vaults <sup>d</sup>	234	234	172	62
Electronics	215	— <sup>e</sup>	—	—
Huts <sup>f</sup>	69	69	61	8
Subtotals	(\$768)	(\$553)	(\$241)	(\$312)
<b>Totals</b>	<b>\$3,550</b>	<b>\$2,885</b>	<b>\$739</b>	<b>\$2,146</b>

<sup>a</sup> The exact number of miles of standalone Caltrans construction projects that can be funded with the \$500 million in encumbered federal ARP fiscal relief funds is unknown. The 1,800-mile estimate also assumes at least \$450 million GF, all of which is appropriated yet unencumbered, as well as an anticipated appropriation of \$250 million GF in 2024-25.

<sup>b</sup> The \$450 million difference between encumbered funding and the estimated cost of the standalone Caltrans construction projects is expected to be covered by appropriated yet unencumbered GF.

<sup>c</sup> This FF subtotal does not include the \$73 million award of FF in 2023-24 from the IJA's Enabling Middle-Mile Broadband Infrastructure Program.

<sup>d</sup> Conduit are physical tubes that encase fiber-optic cables. Vaults are protective shelters for network equipment that are close to the served area or household.

<sup>e</sup> Bids for network electronics remain under review, so no funding is encumbered yet for these purchase orders. CDT expects to encumber appropriated ARP fiscal relief funds for these costs once bids are reviewed.

<sup>f</sup> Huts are protective shelters for network equipment used for middle-mile broadband infrastructure.

TF = total funds; GF = General Fund; FF = federal funds; CVIN = Central Valley Independent Network; Caltrans = California Department of Transportation; IJA = Infrastructure Investment and Jobs Act; ARP = American Rescue Plan; and CDT = California Department of Technology.

include about \$665 million (\$450 million General Fund and \$215 million federal ARP fiscal relief funds) in appropriated, yet unencumbered, funding.

**Second Request for Innovative Ideas (RFI<sup>2</sup>) Process Underway.** For the remaining 2,200 or so miles of standalone Caltrans construction projects, CDT issued a second RFI<sup>2</sup> solicitation—that is, a procurement method that defines a department’s business need or problem to solve and allows vendors to design their own solutions—on November 9, 2023. The main purpose of this RFI<sup>2</sup> solicitation is to identify opportunities for joint-build construction projects, leases, and/or purchases in place of the remaining standalone Caltrans construction projects. This is because, in general, joint-build construction projects, leases, and/or purchases are less costly than standalone Caltrans construction projects. CDT also asked for ideas from vendors on the ongoing maintenance, management, and operation of the network. As of February 16, 2024, CDT received over 50 proposals from vendors. CDT expects to review these proposals over the next several months and incorporate any network changes (including in the length and number of standalone Caltrans construction projects) by mid-2024.

**Additional Network Changes Based on Last-Mile Project Grant Application Reviews.** In addition to any changes from the RFI<sup>2</sup> process, CDT and CPUC’s review of last-mile project grant applications from the federal BEAD program and state FFA also may change the length and number of standalone Caltrans construction projects (and possibly others). While federal BEAD program and state FFA funding will be used primarily for last-mile project grants, some of this funding can be used for middle-mile infrastructure for connection to a last-mile project. As we discuss in more detail later in the brief, CPUC is currently in the process of reviewing FFA grant applications. CDT, in coordination with CPUC, also reviews applications that expect to connect to the state’s middle-mile network to determine whether current middle-mile network projects can connect to the proposed last-mile project. If not, for last-mile projects awarded FFA grant funding, adjustments to the middle-mile network may be made and funding requested. (Funds could be requested either from

federal ARP fiscal relief funds or General Fund.) Similar coordination between CDT and CPUC is expected for the federal BEAD program.

**Market Research for Network Business Plan Underway.** CDT is also starting to conduct market research to develop a business plan for the maintenance, management, and operation of the middle-mile network as different segments are completed and activated. On February 12, 2024, CDT announced its market research will involve interviews with existing public middle-mile network administrators, large private middle-mile network operators, and potential state middle-mile network customers. According to CDT, their intent is to identify best practices to maintain and operate the network while minimizing the fiscal burden on the state. However, the third-party administrator GSN expects forecasting revenues to be extremely challenging due to the scale and size of the network and the unknown number of customers in both unserved and underserved areas of the state.

## Last-Mile Project Grants

**CPUC Continues to Award Grants Through CASF Grant Programs.** In 2023, CPUC CASF grant programs received 74 applications requesting \$527 million. However, CPUC’s expenditure authority for CASF grant programs in 2023 (net of state operations costs) was \$72.6 million, so only some grant applications could be funded. Other factors, such as application deadlines and review time, also may have limited the number of grants awarded. As a result, in 2023, CPUC awarded \$39.1 million from its five CASF grant programs: \$23.3 million from the Broadband Adoption Account, \$2.5 million from the Broadband Infrastructure Account (including its Line Extension Program), \$2 million from the Broadband Public Housing Account, \$10.3 million from the Rural and Urban Regional Broadband Consortia Grant Account, and \$1 million from the Tribal Technical Assistance Account.

**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 also received 896 objections against these grant applications, as well as applicants’ responses to those objections, by December 20, 2023. (Objections against FFA grant applications are written comments submitted by other parties that identify, for example, factual errors in an application or requirements in policy and/or statute for consideration alongside the application.) 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. **Figure 4** provides a summary of the FFA grant applications by applicant including the number of applications submitted, the estimated total cost of all projects for which grant funds were requested, and the total amount of grant funding requested (including as a percentage of the total amount requested by all applicants).

**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. Awards will be in the form of a debt service reserve—that is, a cash reserve of funds to make debt service payments if a project’s cash flow is delayed or disrupted—guaranteed by a CPUC reserve fund. This debt service reserve guarantee is intended to function as a form of credit enhancement for the eligible debts associated with a financed broadband infrastructure project.

Figure 4

**Nearly 500 FFA Grant Applications Totaling More Than \$4.5 Billion**

Applicants	Number of Applications Submitted	Estimated Total Project Costs (In Millions)	Total Funding Amount Requested (In Millions)	Percent of Total Funding Amount Requested <sup>a</sup>
AT&T	250	\$2,614	\$1,437	32%
Golden State Connect Authority	37	1,251	818	18
Comcast	36	633	559	12
Cox	20	397	391	9
Frontier	23	226	170	4
Fort Bidwell Indian Community	1	87	86	2
Gateway Cities Council of Governments	1	79	78	2
Plumas-Sierra Telecommunications	11	75	75	2
Round Valley Indian Tribes	1	90	75	2
El Dorado County	4	66	66	1
Spectrum	22	85	64	1
AV Broadband Cooperative	1	155	45	1
City of Sacramento	1	41	39	1
AVX Networks	1	36	36	1
County of Los Angeles	1	85	35	1
Ranch WIFI	2	30	30	1
County of Placer	2	33	30	1
Karuk Tribe	1	454	29	1
The City of Huntington Park	1	25	25	1
Plenary Broadband Infrastructure Crenshaw	1	71	25	1
Hankins Information Technology	2	25	25	1
All Other Applicants <sup>b</sup>	64	483	412	9
<b>Totals</b>	<b>483</b>	<b>\$7,041</b>	<b>\$4,550</b>	

<sup>a</sup> The percentages of total funding amount requested may not add up to 100 percent due to rounding.

<sup>b</sup> Includes all other applicants with requested amounts representing less than one percent of the total amount requested.



## 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 this additional federal funding, CPUC was required to submit to NTIA both the state's Five-Year Action Plan—that is, a plan establishing the state's broadband goals and priorities over the next five years with a comprehensive needs assessment—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. CPUC received several dozen comments during the public comment period that ended December 7, 2023. CPUC then submitted the state's initial proposal as two volumes (based on federal guidance) on December 27, 2023.

***NTIA Approval of State's 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 the challenge process that is required by the BEAD program. This process allows ISPs, local governments, or nonprofit organizations to challenge a determination made by CPUC that households or other locations are unserved or underserved. Successful challenges are submitted to NTIA for its review and approval. Approval of the second initial proposal volume will make available at least the first 20 percent of the state's BEAD program allocation.

***...But 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's 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.

***CPUC Anticipates Use of Budget Control Section for BEAD Program Funding.*** It is our understanding from CPUC that any funding from the state's BEAD program allocation will be received and made available for expenditure using a control section instead of a budget proposal. Specifically, Control Section 28.00 gives the administration flexibility to expend unanticipated federal funds or other nonstate funds during the current year. The Department of Finance could approve a Control Section 28.00 application from CPUC to receive and expend the state's BEAD program allocation, pending notification of the Legislature.

### Digital Equity Act Programs

***CDT Completed Draft Digital Equity Plan in December 2023.*** Using the \$4 million award received in November 2022 from the IJJA'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 IJJA's State Digital Equity Capacity Grant Program, as well as other sources of funding such as the IJJA's Digital Equity Competitive Grant Program, will be used by CDT (in coordination with other government entities) to implement the digital equity plan. 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 in federal funds for the state's

middle-mile network from the Enabling Middle-Mile Broadband Infrastructure Program. [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.

# GOVERNOR'S 2024-25 BUDGET

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## FUNDING CHANGES

**Requested 2024-25 Appropriations Reflect Funding Delays and Reductions as Well as New Augmentations.** The Governor's budget requests a net total of \$750 million General Fund in 2024-25 for state broadband infrastructure programs and projects—\$500 million in planned appropriations and \$250 million in new appropriations. The \$500 million in planned appropriations is net of a proposed \$100 million delay and \$150 million reduction in otherwise planned appropriations for 2024-25.

- **\$500 Million for Statewide Open-Access Middle-Mile Network Costs.** Of the \$500 million General Fund requested in 2024-25, \$250 million is included in CDT's state operations budget as an anticipated appropriation based on [uncodified statutory language adopted in Chapter 48 of 2022 \(SB 189, Committee on Budget Fiscal Review\)](#). The Governor's budget requests a new, additional appropriation of \$250 million in 2024-25 as part of [CDT's MMBI proposal \(described below\)](#). CDT plans to use all \$500 million requested on standalone Caltrans construction projects.
  - » **Proposed Budget Bill Language Would Allow Administration to Increase 2024-25 Amount.** The Governor's budget also 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.

- **\$100 Million for Last-Mile Project Grants.** As a General Fund budget solution, the Governor's budget proposes to delay \$100 million in planned last-mile project grant funding available through the CASF FFA from 2024-25 to 2026-27. This delay would leave \$100 million General Fund appropriated in 2024-25 for last-mile project grants.
- **\$150 Million for LLRF Awards.** As a General Fund budget solution, the Governor's budget also proposes to reduce \$150 million in planned LLRF awards in 2024-25. This reduction would leave \$150 million General Fund appropriated in 2024-25 for LLRF awards.

**Proposed 2025-26 Allocations Reflect Both Reductions and New Augmentations.** The Governor's budget also proposes a net total of \$1.625 billion General Fund in 2025-26 for state broadband infrastructure programs and projects—\$1.25 billion in new allocations and \$375 million in planned allocations (net of proposed reductions).

- **\$1.25 Billion for Statewide Open-Access Middle-Mile Network Costs.** The Governor's budget proposes a new, additional allocation of \$1.25 billion General Fund in 2025-26 as part of [CDT's MMBI proposal](#). CDT plans to use all \$1.25 billion requested on standalone Caltrans construction projects.
- **\$200 Million for Last-Mile Project Grants.** There are no proposed changes in the Governor's budget to the \$200 million in planned last-mile grant funding available through the CASF FFA in 2025-26.

- **\$175 Million for LLRF Awards.** As a General Fund budget solution, the Governor’s budget proposes to reduce \$100 million in planned LLRF awards in 2025-26. This reduction would leave \$175 million General Fund allocated in 2025-26 for LLRF awards.

**Proposed 2026-27 Allocation.** The Governor’s budget reflects the proposed delay of \$100 million General Fund in last-mile project grant funding available through the CASF FFA in 2024-25 by increasing the total planned allocation in 2026-27 by \$100 million—from \$150 million to \$250 million. **Figure 5** provides the broadband infrastructure spending plan as of the Governor’s 2024-25 budget.

## OTHER BUDGET PROPOSALS

In the next section, we assess three other broadband-related proposals in the Governor’s budget that we briefly describe below—(1) CDT’s MMBI proposal, (2) CPUC’s CASF Local Assistance Budget Authority Augmentation proposal, and (3) CPUC’s Ongoing Implementation of Broadband for All proposal.

- **CDT’s MMBI Proposal.** This proposal contains the new, additional appropriation of \$250 million General Fund in 2024-25 and allocation of \$1.25 billion General Fund in 2025-26 discussed in the prior section.

Figure 5

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

(In Millions)

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

<sup>a</sup> 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.

<sup>b</sup> Last-mile project funding amounts do not include \$50 million GF in Local Agency Technical Assistance funding.

<sup>c</sup> Last-mile project FF amounts do not include \$1.86 billion in additional last-mile project funding from the IJA, some of which could be allocated to the state starting in 2023-24.

<sup>d</sup> The Governor’s 2024-25 budget proposes to delay \$100 million in last-mile project funding from 2024-25 to 2026-27.

<sup>e</sup> FF amounts do not include additional IJA 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 IJA = Infrastructure Investment and Jobs Act.

CDT also proposes to make permanent 36 positions that were established on a temporary basis in 2022 to support middle-mile network efforts using existing funding. **Figure 6** provides a list of these positions by classification and working title.

» ***Proposed Budget Bill Language Would Allow Administration to Authorize Up to Three Additional Permanent Positions.***

The Governor’s budget also proposes budget bill language that would allow CDT to request authority from the Department of Finance to establish up to three additional permanent positions to support state middle-mile network efforts.

- ***CPUC’s CASF Local Assistance Budget Authority Augmentation Proposal.***

CPUC proposes to increase its CASF local assistance expenditure authority from the current \$72.6 million to \$136.2 million in 2024-25 and ongoing. An additional \$13.8 million in CASF expenditure authority is requested primarily to cover state operations costs, for a total expenditure authority request of \$150 million. CPUC would use increased local assistance expenditure authority to provide additional CASF program grants.

Figure 6

**Proposed Permanent Positions in CDT’s MMBI Proposal**

Title	Classification
Deputy Director	CEA
Program Manager	IT Manager II
Assistant Program Manager	IT Manager I
IT Manager I - GIS	IT Manager I
Procurement Manager	IT Manager I
Senior Business Manager	IT Manager I
Assistant Business Technology Manager	IT Supervisor II
Business Manager	IT Supervisor II
Business Manager	IT Supervisor II
Senior Agreements Officer	IT Supervisor II
Senior Procurement Officer	IT Supervisor II
Senior Procurement Officer	IT Supervisor II
Senior Procurement Officer	IT Supervisor II
Senior Procurement Officer	IT Supervisor II
IT Specialist II - GIS	IT Specialist II
IT Specialist II - GIS	IT Specialist II
IT Specialist II - GIS	IT Specialist II
IT Specialist II - GIS	IT Specialist II
Financial Officer	IT Specialist I
Region 1 Business Manager	IT Specialist I
Region 2 Business Manager	IT Specialist I
Region 3 Business Manager	IT Specialist I
Region 4 Business Manager	IT Specialist I
Region 5 Business Manager	IT Specialist I
Staff Services Manager III	Staff Services Manager III
MMBI Legislative Manager	Staff Services Manager II
Assistant Delivery Manager	Staff Services Manager I
Stakeholder Engagement	Staff Services Manager I
Attorney III	Attorney III
MMBI Information Officer I	Information Officer I
Senior Accounting Officer - AP	Senior Accounting Officer
Senior Accounting Officer - AR	Senior Accounting Officer
Senior Management Auditor	Senior Management Auditor
Senior Telecommunications Engineer	Senior Telecommunications Engineer
AGPA - Administration	AGPA
AGPA - Financials	AGPA

CDT = California Department of Technology; MMBI = Middle-Mile Broadband Initiative; CEA = Career Executive Assignment; IT = information technology; GIS = Geographic Information Systems; AR = Accounts Receivable; AP = Accounts Payable; and AGPA = Associate Governmental Program Analyst.

- ***CPUC’s Ongoing Implementation of Broadband for All Proposal.*** CPUC proposes to use \$9.9 million in budget authority from its Utilities Reimbursement Account in 2024-25 and ongoing to make permanent limited-term funding approved in 2021-22 for CPUC’s broadband-related efforts. CPUC would use the budget authority to fund 46 permanent positions and convert 4 limited-term positions into permanent ones, for a total of 50 permanent positions.

# ASSESSMENT

## OVERALL CONSIDERATIONS

**California Faces Serious Budget Problem in 2024-25, Significant Future Budget Deficits in 2025-26 and 2026-27.** In our [overview publication](#), we describe the serious budget problem facing the state in 2024-25 as well as the significant future budget deficits that are projected over 2025-26 and 2026-27. Our [most recent deficit update](#) suggests even further downside risk in 2024-25. Therefore, our assessment of the broadband infrastructure proposals in the Governor’s budget considers not only the merit of the proposals, but also the fiscal pressure facing the state. Moreover, our assessment applies the recommendations from our overview publication to these proposals—namely, applying a very high bar for all discretionary spending proposals and maximizing one-time spending reductions.

**Substantial Amount of General Fund Appropriated for Broadband Infrastructure Remains Unencumbered and Unexpended.** Out of the \$2.3 billion General Fund appropriated through 2023-24 across the middle-mile network (\$1.2 billion), last-mile project grants (\$900 million), and LLRF (\$175 million), approximately \$740 million is encumbered and only \$30 million has been expended. Therefore, nearly \$1.5 billion in General Fund appropriated for state broadband infrastructure remains unencumbered and unexpended.

**Figure 7** provides a summary of all the broadband infrastructure appropriations with encumbrance and expenditure estimates as of late 2023/early 2024.

**Legislative Oversight Crucial as Broadband Infrastructure Programs and Projects Move to Implementation.** Many of the federal and state broadband infrastructure programs and projects—especially the state’s middle-mile network and FFA grant program along with the federal BEAD program—are finishing planning activities and moving into implementation. Billions of dollars, some of which are federal funds subject to specific encumbrance and expenditure deadlines, will be encumbered and expended over the next few fiscal years. (All federal ARP fiscal relief funds must be encumbered by the end of 2024 and expended by the end of 2026.) To achieve the goals of SB 156 and subsequent broadband infrastructure

Figure 7

### Broadband Infrastructure Appropriations, Encumbrances, and Expenditures To Date

(In Millions)

Program or Project	Funding Status	Funding Source		
		GF	FF	TF
<b>Middle-Mile Network</b>	Appropriated	\$1,187	\$2,436	\$3,623
	Encumbered	737 <sup>a</sup>	2,354 <sup>b</sup>	3,091
	Expended	30	932	962
<b>Last-Mile Project Grants<sup>c</sup></b>	Appropriated	\$900	\$550	\$1,450
	Encumbered	—	—	—
	Expended	—	—	—
<b>LLRF</b>	Appropriated	\$175	—	\$175
	Encumbered	—	—	—
	Expended	—	—	—
Program or Project	Funding Status	Funding Source		
		GF	FF	TF
<b>All Programs and Projects</b>	Appropriated	\$2,262	\$2,986 <sup>c</sup>	\$5,248
	Encumbered	737	2,354	3,091
	Expended	30	932	962

<sup>a</sup> Difference of \$2 million between GF encumbrance amount in Figure 3—Middle-Mile Network Projects With Encumbered Funding—and amount in this figure likely due to rounding.

<sup>b</sup> Difference of \$208 million between FF encumbrance amount in Figure 3—Middle-Mile Network Projects With Encumbered Funding—and amount in this figure likely due to reporting funding for network electronics as encumbered in most recent quarterly ARP state fiscal recovery fund report.

<sup>c</sup> Last-mile project appropriation, encumbrance, and expenditure amounts do not include \$50 million GF in Local Agency Technical Assistance funding. Most of this funding is encumbered and in the process of being expended.

GF = General Fund; FF = federal funds; TF = total funds; LLRF = Loan Loss Reserve Fund; and ARP = American Rescue Plan.

legislation, the Legislature's oversight of the administration's implementation of these programs and projects will be critical to their success. As part of our assessment and recommendations, we provide several different opportunities for the Legislature to perform this oversight role.

## MIDDLE-MILE NETWORK PROPOSALS

### ***CDT Proposed Alternative Approach to Middle-Mile Network Implementation...***

On July 21, 2023, CDT proposed to implement the middle-mile network in two phases—approximately 8,300 miles in the first phase and 1,700 miles in the second phase. The first phase would be an operational network built, leased, and purchased using \$3.87 billion in funding appropriated or planned to be appropriated through 2024-25. (The \$3.87 billion includes a planned appropriation of \$250 million General Fund in 2024-25 that we discuss later in this brief.) The second phase would be built, leased, and/or purchased with alternative funding sources such as design changes and efficiencies to standalone Caltrans construction projects in the first phase and last-mile grant program funding for middle-mile infrastructure that is required to connect to a last-mile project.

***...But Abandoned the Approach Shortly Thereafter.*** However, by October 20, 2023, the negative response from members of the Legislature and stakeholders to the two-phased approach resulted in CDT abandoning this approach. CDT committed instead to bring forward the MMBI proposal in the Governor's budget to fund all remaining miles of the middle-mile network.

### ***\$250 Million General Fund Appropriation in 2024-25 Consistent With Legislative Goal...***

We find that the planned appropriation of \$250 million General Fund included in CDT's state operations budget for the middle-mile network is consistent with uncodified statutory language adopted in SB 189. This language separates this appropriation from the additional \$1.5 billion General Fund requested in the Governor's budget, but does not require the Legislature to fund this amount as it remains an uncodified statement of legislative intent.

### ***...But Requires Additional Information.***

CDT expects to use the \$250 million General Fund in 2024-25 for standalone Caltrans construction projects. However, key information about these projects is unavailable. First, CDT acknowledges that the RFI<sup>2</sup> process might identify other joint-build construction projects, leases, or purchases that are available at lower cost and could replace at least some of the Caltrans construction projects. CDT does not expect to finish reviewing RFI<sup>2</sup> proposals until 2024-25, so this information will remain unknown for some time. Second, CDT is unable to provide the Legislature with more detailed information about each standalone Caltrans construction project until Caltrans completes its pre-construction work. Therefore, it is unclear which projects would be funded by this \$250 million General Fund or, for that matter, by the \$950 million currently allocated for these projects in Figure 3. This information will be critical for the Legislature to obtain as it considers whether or not to fund this appropriation and CDT's MMBI proposal.

***\$1.5 Billion General Fund Requested Does Not Meet the Very High Bar Required for Discretionary Spending Proposals.*** We find that the Governor's request for an additional \$250 million General Fund in 2024-25 and \$1.25 billion General Fund requested to be allocated in 2025-26 would not be sustainable under current revenue and expenditure projections. Furthermore, we do not find that this proposal meets the very high bar we set in our overview publication for discretionary spending proposals included in the Governor's budget. First, CDT expects to use the requested funding for standalone Caltrans construction projects absent any additional information about changes from the RFI<sup>2</sup> proposals or the status of pre-construction work. Second, CDT expects funding for these projects will be first come, first served as Caltrans pre-construction work is completed. A first-come, first-served approach limits the ability of the Legislature to prioritize projects based on, for example, ensuring a middle-mile network connection to last-mile projects funded through the federal BEAD program or FFA grant program. Third, the two-phased approach CDT presented in July 2023 suggests that an operational middle-mile network

of approximately 8,300 miles can be developed with existing and planned funding, and that the additional miles can be funded with alternative funding sources. Given the serious budget problem in 2024-25 and significant projected budget deficits in future years, this proposed use of General Fund is not advisable.

***Proposed Provisional Budget Bill Language Does Not Reflect Administration's Intent and Complicates Legislative Oversight.***

The proposed provisional budget bill language would allow the Department of Finance to increase the middle-mile network appropriation in 2024-25 by up to \$500 million General Fund but apparently without a commensurate reduction in the proposed appropriation in 2025-26. The proposed language also does not include legislative notification requirements. While we understand CDT intended for this provisional budget bill language to allow middle-mile network project implementation to accelerate, the administration drafted language that does not accomplish this intent and ignores the Legislature's role in reviewing current-year changes to enacted appropriations.

***Legislative Oversight of Middle-Mile Network Requires Even More Information...***

To provide oversight of CDT's middle-mile network implementation, the Legislature must have more information about key aspects of the project.

This information includes:

- ***Standalone Caltrans Construction Project Details.*** Specifically, information is required about when Caltrans expects to complete pre-construction work on each project, how much funding is needed to complete the project, and whether last-mile projects funded through the federal BEAD program or FFA grant program will be served by the construction project. We advise prioritizing information about the first 1,800 miles or so of projects, as these are funded or to be funded consistent with legislative intent.
- ***RFI<sup>2</sup> Proposal Effects on Standalone Caltrans Construction Projects.*** Specifically, information is required about whether any standalone Caltrans construction projects will be replaced with a joint-build construction project, lease, or purchase; how much less

the replacement project will cost than the Caltrans construction project; and how those cost savings will be used for the remainder of middle-mile network implementation.

- ***FFA Grant Applications Anticipating Connection to State's Middle-Mile Network.*** Specifically, information is required about how many of the projects in the nearly 500 FFA grant applications are expected to connect to the state's middle-mile network; whether currently planned and/or implemented middle-mile network projects are sufficiently available; and, if not, what amount of FFA grant program funding may be available for middle-mile infrastructure to connect last-mile projects.
- ***Business Plan and Market Research Information.*** Specifically, information is required about when an initial draft of the business plan for the middle-mile network will be available; what information will be contained in the business plan; and what key assumptions will be made such as customer churn and subscription rates, operating expenditures, and the timing of network activation.

***...Including Evaluation of Alternative Approaches to Network Implementation.***

Given the current budget problem and projected future budget deficits, the Legislature also could direct the administration to evaluate alternative approaches to network implementation. For example, one alternative might be lease revenue bond financing that uses network customer revenues to finance its expansion without using General Fund. This evaluation could provide the Legislature with opportunities to determine whether the current implementation approach is the most cost-effective and efficient given the fiscal pressure facing the state.

## **LAST-MILE PROJECT GRANT PROPOSALS**

***Proposed Delay of FFA Grant Program Funding Likely Unsustainable in 2026-27.***

The proposed delay of \$100 million General Fund of FFA grant program funding from 2024-25 to



2026-27 in the Governor's budget represents a relatively small solution to the serious budget problem in 2024-25. Furthermore, both the administration and our office are forecasting a nearly \$30 billion budget deficit in 2026-27, which means the delayed funding is unsustainable under current revenue and expenditure projections. Therefore, based on these projections, this delay in FFA grant program funding could be viewed reasonably as a reduction.

**Federal BEAD Program Funding Will Be Made Available in 2024-25.** CPUC anticipates the state will receive at least 20 percent of its federal BEAD program allocation of \$1.86 billion (about \$370 million) in May 2024 when NTIA approves its second initial proposal volume. This amount of additional federal funding would exceed the amount of General Fund support proposed for delay in the Governor's budget. Moreover, if NTIA also approves CPUC's request to make available to the state its entire BEAD program allocation, \$1.86 billion in additional federal funding could be allocated for last-mile project grants before the end of 2024-25. This amount far exceeds all of the proposed and scheduled General Fund appropriations for FFA grant program awards, which total \$550 million from 2024-25 to 2026-27. Any reductions in these proposed and scheduled appropriations could help address the immediate budget problem in 2024-25 and the significant future budget deficits in 2025-26 and 2026-27.

**Federal BEAD Program Non-Supplantation Language Does Not Preclude Prospective General Fund Reductions.** Federal BEAD program documentation does include language that requires states and other program funding recipients to use their allocations to supplement, not supplant, amounts otherwise made available for last-mile project grants. However, based on our review of this non-supplantation language, reductions in proposed and scheduled General Fund appropriations from 2024-25 to 2026-27 would not be deemed supplantation because these funds have not yet been appropriated by the Legislature.

**Legislative Oversight of How Federal BEAD Program and FFA Grant Program Work Together Is Necessary.** In addition to the need for the Legislature to consider last-mile project grant funding from the General Fund within the context of

the budget problem and future budget deficits, the Legislature also could provide additional oversight of how the federal BEAD program and the FFA grant program complement one another. While the BEAD program requirements and rules are largely set by NTIA, CPUC can administer the FFA grant program based on the program requirements and rules set through its rulemaking procedures (with the partial exception of the \$550 million in federal ARP fiscal relief funds). Moreover, while the federal ARP fiscal relief funds must be encumbered by the end of 2024 and expended by the end of 2026, these deadlines do not apply to \$900 million General Fund in appropriations for the FFA grant program. How these two programs complement one another to distribute last-mile project funding to unserved and underserved areas and households in the state is one key area for legislative oversight during the budget process, particularly if additional reductions in one-time spending are needed to address the budget problem.

**Anticipated Budget Control Section Process Limits Legislative Oversight.** The Legislature also might consider whether the budget control section process CPUC expects to use to receive and expend the federal BEAD program allocation is appropriate for this amount of federal funds. We find that this process limits legislative oversight, as CPUC will not be required to submit a budget proposal to the Legislature for consideration and deliberation during the budget process. Furthermore, the legislative notification required by the budget control section only occurs after the Department of Finance approves CPUC's proposed use of the funds. Given that the federal BEAD program allocation is not unanticipated and that at least 20 percent of the state allocation will be made available to the state in May 2024 when the budget process is still underway, the Legislature could consider an alternative approach to this process through provisional budget bill language or trailer bill language.

## LLRF PROPOSALS

**Proposed Reductions in LLRF Reasonable.** Given the serious budget problem, we find the reductions to the LLRF that are proposed in the Governor's budget to be a reasonable start.

As shown in Figure 7, none of the appropriated LLRF is encumbered or has been expended. A \$250 million General Fund reduction to the LLRF over two fiscal years, however, does not maximize one-time spending reductions as we recommend in our budget overview publication.

***Additional Reductions or Elimination of LLRF Also Worthy of Consideration.*** Given the significant projected budget deficits across the three years for which LLRF funding is appropriated, consideration of additional reductions or even the elimination of the LLRF is warranted. CPUC does anticipate some demand for the LLRF in March, but this demand has yet to be demonstrated because rule-making for the program only recently concluded in November 2023. Furthermore, LLRF awards are not grants and will depend on applicants applying for and securing financing for their own broadband infrastructure projects. Some applicants might instead receive last-mile project grant funding from the FFA, federal BEAD program, or other CASF program accounts which might negate the applicants' need for credit enhancement offered by LLRF. To address the budget problem and/or preserve funding for other broadband programs and projects, the Legislature could consider additional reductions of LLRF appropriations and/or redirection of funding to the state's middle-mile network and/or FFA grant program.

## OTHER PROPOSALS

***No Concerns With Positions Requested in CDT's MMBI Proposal.*** We have no concerns with ongoing funding for the 36 administratively

established permanent positions that support CDT's middle-mile network implementation. Completion of the middle-mile network projects will take several more years and the maintenance, management, and operation of the network will be ongoing. We think the permanent positions that were established, based on an analysis of their workload, are warranted. We also have no concerns with related proposed provisional budget bill language allowing the administration to authorize up to three additional permanent positions. (The exact amount of funding to appropriate from CDT's MMBI proposal for these positions is unclear, but is likely in the millions of dollars.)

***No Concerns With CPUC's CASF Local Assistance Budget Authority Augmentation Proposal.*** We have no concerns with CPUC's request to increase its local assistance expenditure authority to provide additional CASF program grants. The requested amount of grant funding in applications for CASF program accounts in 2023 far exceeded CPUC's expenditure authority. Moreover, there is statutory authorization to collect the amount of surcharge revenues that could be disbursed as grant awards with this expenditure authority.

***No Concerns With CPUC's Ongoing Implementation of Broadband for All Proposal.*** We have no concerns with CPUC's request to make permanent limited-term funding for 50 positions that support CPUC's broadband-related efforts. Several of the broadband programs and projects led by CPUC have long or ongoing implementation periods and will require permanent staff.

## RECOMMENDATIONS

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***Approve \$250 Million General Fund in 2024-25 for Middle-Mile Network With New Provisional Budget Bill Language.*** We recommend the Legislature approve the \$250 million General Fund included in CDT's operating budget as a planned appropriation in 2024-25. This funding would meet the Legislature's stated goal in SB 189 to provide additional funding for increased middle-mile network costs and, as presented in July 2023, allow CDT to build, lease, and purchase enough miles to deliver an

operational middle-mile network. However, given the lack of critical information about middle-mile network construction, we also recommend the Legislature adopt provisional budget bill language that conditions this funding on more information about standalone Caltrans construction projects and other information that is deemed necessary for legislative oversight of middle-mile network implementation such as an initial draft of the business plan.

**Reject Additional \$250 Million General Fund in 2024-25, \$1.25 Billion in 2025-26 for Middle-Mile Network.** We recommend the Legislature reject the \$1.5 billion General Fund in CDT's MMBI proposal—\$250 million in 2024-25 and \$1.25 billion in 2025-26. The serious budget problem in 2024-25 and significant projected budget deficit in 2025-26 do not support the substantial General Fund investment in this proposal, particularly when detailed information is unavailable and alternative funding sources may be explored.

**Reject Provisional Budget Bill Language Allowing for Increases in 2024-25**

**Appropriation.** We recommend the Legislature reject the provisional budget bill language that allows the Department of Finance to increase CDT's 2024-25 middle-mile network appropriation by up to \$500 million. This is consistent with our recommendation on the \$1.5 billion in CDT's MMBI proposal, as well as our assessment that the language does not reflect the administration's intent and complicates legislative oversight.

**Consider Provisional Budget Bill Language or Trailer Bill Language as Alternative to Budget Control Section Process.**

We recommend the Legislature consider adopting provisional budget bill language or trailer bill language clarifying the appropriation and allocation of federal BEAD program funds once received. The language also could request specific information from CPUC as the state entity administering the funds, such as any conditions placed on the funding by NTIA and any required changes by NTIA to state-administered BEAD program processes.

**Consider Other Budget Solutions Using Planned Appropriations, Unencumbered and Unspent Funds.** We recommend the Legislature consider other General Fund budget solutions using some of the remaining broadband infrastructure funding available. These solutions include:

- **Reductions in Last-Mile Project Funding.** Additional federal BEAD program funds of up to \$1.86 billion will be made available to the state in 2024-25. Reductions in proposed or scheduled appropriations of up to \$550 million General Fund in last-mile project funding from 2024-25 through 2026-27 would help with the budget problem and projected future budget deficits.
- **Reductions in or Elimination of LLRF.** Additional reductions to, or the complete elimination of, the LLRF would maximize one-time General Fund spending reductions already begun in the proposed Governor's budget. Up to \$500 million General Fund from 2023-24 to 2025-26 could be made available to close budget deficits.

**Approve Other Proposals as Budgeted.** As we have no concerns with them, we recommend the Legislature approve the following other proposals:

- Funding for the 36 administratively created positions in CDT's MMBI proposal that support its middle-mile network implementation efforts.
- CDT's proposed provisional budget bill language that allows the administration to authorize up to three additional permanent positions for CDT's middle-mile network implementation efforts.
- CPUC's CASF Local Assistance Budget Authority Augmentation proposal.
- CPUC's Ongoing Implementation of Broadband for All proposal.



## LAO PUBLICATIONS

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This report was prepared by Brian Metzker, and reviewed by Mark C. Newton and Carolyn Chu. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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