

**STATE OF CALIFORNIA**  
**Budget Change Proposal - Cover Sheet**  
 DF-46 (REV 07/23)

<b>Fiscal Year</b> 2024-25	<b>Business Unit Number</b> 7502	<b>Department</b> California Department of Technology
<b>Hyperion Budget Request Name</b> 7502-033-BCP-2024-GB		<b>Relevant Program or Subprogram</b> 6230

**Budget Request Title**  
 Middle Mile Broadband Initiative

**Budget Request Summary**

The California Department of Technology (CDT) requests \$250 million General Fund (GF) in 2024-25, and \$1.25 billion General Fund in 2025-26, to fund completion of the Middle Mile Broadband Initiative (MMBI) network and make 36 administratively established positions permanent. CDT also requests provisional language allowing up to \$500 million additional General Fund in 2024-25, to support MMBI.

<b>Requires Legislation (submit required legislation with the BCP)</b> <input type="checkbox"/> Trailer Bill Language <input type="checkbox"/> Budget Bill Language <input checked="" type="checkbox"/> N/A	<b>Code Section(s) to be Added/Amended/Repealed</b> N/A	
<b>Does this BCP contain information technology (IT) components?</b> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	<b>Department CIO</b> N/A	<b>Date</b> N/A

**For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), the approval date, and the total project cost.**

**Project No.** N/A **Project Approval Document:** N/A

**Approval Date:** N/A **Total Project Cost:** N/A

**If proposal affects another department, does other department concur with proposal?**  Yes  No

*Attach comments of affected department, signed and dated by the department director or designee.*

<b>Prepared By</b> Mark Monroe	<b>Date</b> 12/15/2023	<b>Reviewed By</b> Jared Johnson	<b>Date</b> 12/15/2023
<b>Department Director</b> Liana Bailey-Crimmins	<b>Date</b> 12/15/2023	<b>Agency Secretary</b> Amy Tong	<b>Date</b> 12/15/2023

**Department of Finance Use Only**

**Additional Review:**  Capital Outlay  ITCU  FSCU  OSAE  Dept. of Technology

<b>Principal Program Budget Analyst</b> Danielle Brandon	<b>Date submitted to the Legislature</b> 1/18/2024
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## A. Problem Statement

Due to an increase in network mileage as design has finalized and related construction cost increases, CDT requires an additional \$1.5 billion (\$250 million in 2024-25 and \$1.25 billion in 2025-26) to complete the State's Middle Mile Broadband Initiative (MMBI) project and bring broadband connectivity to the state's remaining unserved communities.

- The 2021 Budget Act appropriated \$3.25 billion one-time federal American Rescue Plan Act (ARPA) funding estimated to fund development of the statewide system through a combination of construction and leases. However, several factors have driven increases in the cost of the project requiring additional funding. The length of the network needed to reach the state's unserved and underserved communities was initially estimated to be between 8,000 and 8,100 miles. However, following public input and analysis, CDT identified a need of more than 10,000 miles to reach all the state's unserved communities with a resilient network.
- Construction costs were initially estimated to be in the range of \$455,000/mile. However, after going out to bid for more than half of the network using Job Order Contracts (JOC) authority in Chapter 112, Statutes of 2021 (SB 156), bids came in more than 40 percent higher than originally estimated.

SB 156 did the following:

- Required that CDT work with a third-party administrator that had experience developing a network such as CDT's MMBI network. CDT has contracted with GoldenStateNet to help develop this project.
- Required California Public Utilities Commission (CPUC) to hold a public proceeding to get public input regarding the locations of unserved and underserved communities and the state highway routes that connect these locations.
- Envisioned Caltrans overseeing design and construction of new broadband infrastructure along the state highway system. This involves both preconstruction work such as design, surveying, and securing permits, prior to going out for construction contracts, and then oversight and contract management through project completion.

The initial estimated cost of constructing this network was between \$3.7 billion and \$4 billion, assuming construction costs of \$455,000 per mile and an estimated network size between 8,000 and 8,100 miles. The 2021 Budget Act included a \$3.25 billion appropriation for CDT to develop the MMBI network, with the understanding that the state would build as much as funding would permit and lease the remainder of the network through Indefeasible Rights of Use (IRUs), which are long term capitalized leases of existing infrastructure. The appropriation level was based on high-level estimates and did not take into consideration inflation, administrative costs, and the broader potential cost increases associated with increased demand for equipment, materials, and labor.

In response, the Administration requested an additional \$1.1 billion to address some of these cost increases. As part of the 2023 Budget Act, the Legislature allocated \$550 million in future General Fund resources (\$300 million was appropriated in 2023-24 and \$250 million in 2024-25). With these additional resources, the MMBI budget totaled \$3.8 billion.

CDT also applied for a \$100 million grant from the National Telecommunications and Information Administration (NTIA) from its Enabling Middle Mile grant program. In June 2023, CDT was approved \$73 million, bringing total funding for MMBI network development to \$3.87 billion.

CDT went out to bid for five regional construction contracts in 2022 for up to 5,150 miles of the network. These bids came in more than 40 percent higher than originally estimated by

Caltrans. It is understood that other states ramping up construction on broadband projects will in turn drive up cost for labor, materials, and equipment. CDT also went out to bid for a range of alternative development methods for the network at the same time. Using the information received from all bids, CDT went through an extensive optimization process. This yielded the following results:

- The initial funding provides for the development of approximately 8,300 miles of the more than 10,000 miles that make up the MMBI network, using a combination of construction, purchases, and IRUs.
- The Administration is working on several strategies to mitigate cost increases.
- CDT estimates that it will need an additional \$1.5 billion General Fund over the next two budget years in order to complete the full MMBI network by December 2026.

Beginning in 2022, CDT established 36 positions to support MMBI. However, administratively established positions are temporary and the need to support MMBI is ongoing; therefore, CDT is requesting these positions be made permanent.

To the extent MMBI progresses faster than anticipated in 2024-25, an additional \$500 million General Fund may be needed to continue timely progress on the MMBI network. In addition, CDT may need additional position authority in the budget year to meet deadlines. Therefore, provisional language authorizing the Department of Finance to approve these funding and staffing augmentations will allow the project to progress without delays.

**Resource History**  
(Dollars in thousands)

<b>Program Budget</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>
Authorized Expenditures	N/A	N/A	N/A	\$23,761	\$245,641	\$3,262,757
Actual Expenditures	N/A	N/A	N/A	\$23,761	\$245,063	\$2,894,140
Revenues	N/A	N/A	N/A	\$0	\$0	\$0
Authorized Positions	N/A	N/A	N/A	11	16	36
Filled Positions	N/A	N/A	N/A	3	15	20
Vacancies	N/A	N/A	N/A	8	1	16

## Workload History

<b>Workload Measure</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>
Miles contracted for construction	N/A	N/A	N/A	N/A	20	450
Miles contracted for joint build with industry partner	N/A	N/A	N/A	N/A	306	2,283
Miles contracted for IRU/lease	N/A	N/A	N/A	N/A	0	3,508
Miles contracted for purchase	N/A	N/A	N/A	N/A	0	435
<b>Total Miles Developed</b>	N/A	N/A	N/A	N/A	<b>326</b>	<b>6,676</b>

### B. Justification

While CDT currently plans for remaining miles of the network to be constructed by Caltrans, given the success CDT has achieved in securing contracts for leases and joint-build through its solicitation for Requests for Innovative Ideas (RFI<sup>2</sup>), CDT has issued a second solicitation for RFI<sup>2</sup> proposals to help accelerate completion of middle mile, as well as drive down costs. Initial proposals in response to the solicitation are due January 26, 2024. Based on the time involved in the negotiations process for the first RFI<sup>2</sup> effort in 2022-23, CDT hopes to finalize contracts by July or August of 2024. We note that RFI<sup>2</sup> has yielded 65 percent of the network thus far. In addition to these efforts, CDT estimates that it will need a total of \$1.5 billion to complete the 10,000 plus mile network.

### C. Departmentwide and Statewide Considerations

The MMBI network was passed and funded starting in 2021, to connect the communities with unserved households in the state. With the current \$3.87 billion in funding, CDT estimates that it will only be able to reach approximately 84 percent of the state's unserved households. To reach the remaining 16 percent of communities with unserved households, CDT will need \$1.5 billion in additional funding over the next two budget years.

### D. Outcomes and Accountability

The completed network will provide a middle mile internet backbone supporting last mile services in virtually all the unserved communities throughout the state. Additionally, by expanding the locations reached by the MMBI network, the State will be able to provide a competitive and affordable alternative to communities along currently unfunded routes, which will drive down market prices, making all broadband service more affordable.

Ultimately, the public is only served by broadband through last mile service. As grant applicants apply for the \$2 billion in federal/state grant funds being administered by the CPUC, as well as the \$1.86 billion in Broadband Equity, Access, and Deployment funding the State is receiving from the NTIA, last mile grant recipients will finally be able to apply for grant funding to provide service in

previously unserved and underserved communities because they will have an affordable, open access middle mile network to which they can connect.

### Projected Outcomes

<b>Workload Measure</b>	<b>2023-24</b>	<b>2024-25</b>	<b>2025-26</b>	<b>2026-27</b>
Miles of broadband constructed by Caltrans with current appropriation	450	1,331	0	0
Miles of broadband constructed by Caltrans with additional requested appropriation	0	372	1,860	0
<b>Total Miles of broadband constructed by Caltrans</b>	<b>450</b>	<b>1,703</b>	<b>1,860</b>	<b>0</b>

### E. Implementation Plan

Given the State's commitment to completing the full network, CDT has asked Caltrans to continue working towards completing preconstruction work such as design and permitting on all of the remaining miles. Caltrans will move from preconstruction to construction on approximately 1,800 miles during the 2024 calendar year within existing funding. However, the additional funding identified in this request is needed to move all remaining miles of the 10,000 plus mile network to construction and complete the network by 2026.

ARPA-funded initial work must be completed by December 2026, and CDT plans for Caltrans to start construction on 450 miles during 2023-24, to meet this 2026 deadline. Caltrans began construction on the first of these segments in Mendocino County in early December. The additional \$1.5 billion will allow Caltrans to advance more mileage from preconstruction to construction in 2024-25 and 2025-26, with completion of construction anticipated by end of calendar year 2026.

# BCP Fiscal Detail Sheet

BCP Title: Middle Mile Broadband Initiative

BR Name: 7502-033-BCP-2024-GB

Budget Request Summary

## Personal Services

Personal Services	FY24 Current Year	FY24 Budget Year	FY24 BY+1	FY24 BY+2	FY24 BY+3	FY24 BY+4
Positions - Permanent	0.0	36.0	36.0	36.0	36.0	36.0
<b>Total Positions</b>	<b>0.0</b>	<b>36.0</b>	<b>36.0</b>	<b>36.0</b>	<b>36.0</b>	<b>36.0</b>

## Operating Expenses and Equipment

Operating Expenses and Equipment	FY24 Current Year	FY24 Budget Year	FY24 BY+1	FY24 BY+2	FY24 BY+3	FY24 BY+4
5340 - Consulting and Professional Services - External	0	250,000	1,250,000	0	0	0
<b>Total Operating Expenses and Equipment</b>	<b>\$0</b>	<b>\$250,000</b>	<b>\$1,250,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## Total Budget Request

Total Budget Request	FY24 Current Year	FY24 Budget Year	FY24 BY+1	FY24 BY+2	FY24 BY+3	FY24 BY+4
<b>Total Budget Request</b>	<b>\$0</b>	<b>\$250,000</b>	<b>\$1,250,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## Fund Summary

### Fund Source

Fund Source	FY24 Current Year	FY24 Budget Year	FY24 BY+1	FY24 BY+2	FY24 BY+3	FY24 BY+4
State Operations - 0001 - General Fund	0	250,000	1,250,000	0	0	0
<b>Total State Operations Expenditures</b>	<b>\$0</b>	<b>\$250,000</b>	<b>\$1,250,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Total All Funds</b>	<b>\$0</b>	<b>\$250,000</b>	<b>\$1,250,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

# Program Summary

## Program Funding

Program Funding	FY24 Current Year	FY24 Budget Year	FY24 BY+1	FY24 BY+2	FY24 BY+3	FY24 BY+4
6230 - Department of Technology	0	250,000	1,250,000	0	0	0
<b>Total All Programs</b>	<b>\$0</b>	<b>\$250,000</b>	<b>\$1,250,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>