

AMERICANS *for* TAX REFORM

Statement of

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Hearing Testimony on HR 4884 CURB Lifeline Act of 2016

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I. Introduction

Chairman Walden, Ranking Member Eshoo and Members of the Subcommittee, thank you for the opportunity to testify before you today on behalf of all taxpayers, or, in this situation, I should say fee-payers. My name is Katie McAuliffe, Federal Affairs Manager at Americans for Tax Reform. Americans for Tax Reform advocates on behalf of taxpayers for a system in which taxes are simpler, flatter, more visible, and lower than they are today.

I am happy to lend **a voice of support for HR 4884, Controlling the Unchecked and Reckless Ballooning of Lifeline Act of 2016, also known as the CURB Lifeline Act of 2016.** This legislation provides the necessary safe guards to enhance methods for stopping waste, fraud and abuse, while also ensuring those most in need of Lifeline receive support as intended. It also protects ratepayers from footing the bill on waste, fraud and abuse.

Before delving into the CURB Act, **I would like to congratulate you and all of Congress on passing the Permanent Internet Tax Freedom Act, a widely popular bipartisan legislation that permanently prevents taxes on Internet access for consumers.** This is certainly a positive step in keeping broadband costs low. However, it does not prevent the assessment of fees on consumers' voice

and/or data service. The fees for the universal service fund, of which lifeline is a part, will still be included as a line item on ratepayers' bills.

II. Lifeline

Lifeline is a part of the universal service fund that has long been in need of reform. It was established in 1985 in the form of a fixed dollar subsidy to the carriers for eligible low-income subscribers Americans afford basic phone service.

In 2012, spending hit an all time high and the Federal Communications Commission moved to target rampant waste fraud and abuse. With a \$400 million dollar spending decrease between 2012-2013 alone, the FCC has shown it is capable of controlling its budget. Spending in the Lifeline program is set to drop a total of \$670 million by the end of this year, with spending dropping from \$2.2 billion to \$1.5 billion.

The FCC recently voted to expand the Lifeline subsidy to cover broadband as well as voice service. As we saw, when a new service is added, spending goes up, not necessarily because of need or increased availability, but more likely because of fraud and abuse. In its new order, the FCC reestablished the \$9.25 subsidy to carriers to use for Lifeline eligible subscribers, and set the quality standard for broadband at 3G with 500MB of data for wireless, and speeds of 1mbps upload and

10Mbps download. It creates a new verification process for eligible applicants, and sets a budget of \$2.5 billion that can be “reevaluated” should spending hit 90% of the \$2.5 billion fund.

While I will agree that expanding on the verification process the FCC will do a better job of targeting fraud and abuse, unless the new third party verifier incurs waste on its own, the order does not do all that it can. A powerful tool for controlling waste and fraud is to set a hard budget. While Americans for Tax Reform would prefer there were no subsidies lashed to ratepayers that is not the option before us today.

When faced with no budget or a \$1.5 billion dollar cap, as proposed in HR 4884 the CURB Lifeline Act of 2016, **Congress has the authority and the responsibility to set a firm budget cap.** All other programs under the Universal Service Fund do have budget caps.

I would like to suggest that the \$1.5 billion dollar cap is solid legislation on two points:

- (1) \$1.5 billion is an ample budget, and
- (2) The a budget is necessary to control waste, fraud and abuse.

III. Closing the Affordability Gap

All other preferences aside, Americans for Tax Reform strongly supports a budget cap on the Lifeline fund, especially in the current environment.

The stated goal for including broadband as part of the subsidy is to bridge the digital divide and close the broadband affordability gap. While perhaps broadband may become more affordable for some, the order does not focus on those who need access the most – Those who have no broadband access at all.

In 2014, the NTIA found that 48% of non-adopting households cited lack of need or lack of interest as reason for not subscribing to broadband in the home. The Pew Charitable Trust found in 2015 that 70% of non-adopters were uninterested in subscribing to broadband in the future.

Many “smartphone-only” users say that the reason they do not have broadband at home is because their smartphone lets them do all they need to do online, underscoring the device’s utility for those without a home high-speed subscription, and 59% say they have other options for internet access outside of the house.

Another survey conducted jointly by the FCC and Connected Nation Inc., found that 37% of non-subscribing households were willing to adopt broadband at a “reasonable” price. The remaining 68% of non-subscribing households cited non-price associated reasons. Among 37% of willing households, price as an adoption factor was highest for those

making below \$15,000 (49.1) upon reaching the \$35,000 marker only 32% cited cost as the primary factor.

Cost can be interpreted in different ways depending on how a question is asked, but more so in terms of what else is available. I don't believe this hypothesis has been tested, but it is possible that those who cite cost as the primary reason for not subscribing, may actually mean that they don't see the point in subscribing at home when broadband is so readily available elsewhere.

In America, we are fortunate that broadband availability via wireline and/or wireless covers 99% of the population, with an 88% in-home adoption rate. We used to go to Internet cafes and pay by the minute to get online, then there were hotspots or private wireless networks, but there was usually a cost. Now, access is freely available nearly everywhere. If not at a local coffee shop, restaurant or McDonalds, there is access in public libraries and schools.

This leads us to a position where monetary cost has significantly decreased as the prominent deterrent from having access at home for non-subscribers.

Even as early as 2013 consumers demonstrated the cost factor was decreasing as a barrier to connecting the unconnected. In 2013, the FCC's 14 experimental broadband Lifeline offerings, wireline and wireless broadband providers signed up less than 10% of the predicted number of new subscribers.

This, the only real world experiment with Lifeline applied to broadband, showed it is exceedingly difficult to encourage the disconnected to subscribe via discounts. To participate in the pilots, subscribers had to certify that they met income requirements and had not had a broadband subscription for at least 6 months. For one carrier, just over half of the applicants were rejected because they had broadband sometime within the previous six months.

If the goal is connecting the disconnected to reduce the digital divide, then the subsidies applied to broadband were not as effective as expected. From this data it is likely that subsidies given based on income criteria will mostly go to those already subscribing to broadband, rather than connecting the disconnected. In his paper *Learning from the FCC's Lifeline Broadband Pilot Projects*, Scott Wallsten concluded if this is the case, then “the Universal Service Fund becomes an inefficient general welfare fund rather than a mechanism that encourages connectivity.”

IV. Controlling Waste, Fraud & Abuse

The Lifeline program has a long history of abuse. Congress should use its oversight to reign in spending that encourages abuse on the backs of ratepayers.

A budget of \$2.25 billion dollars that can be “re-evaluated” when 90% of the fund has already been spent does not adequately provide the proper incentives to stop abuse.

The Federal Communications Commission has taken measures to stop rampant abuse of the program.

The Lifeline annual recertification process established in the 2012 Lifeline Reform Order to verify that a subsidy recipient did meet the lifeline requirements, and households were not receiving multiple subsidies significantly cut spending in the program.

As a result, 29 percent of all of 2012 lifeline subscribers were de-enrolled, and between 2012 and 2013 waste, fraud, and abuse of the program was cut by nearly \$400 million dollars.

As a whole, since 2012 abuse has been cut by nearly \$670 million, and spending of the fund reduced from nearly \$2.2 billion to about \$1.5 billion.

As broadband is included, the National Eligibility Verifier adds another layer of abuse protection, though I cannot speculate as to whether this entity will incur more government waste. Another reason a budget cap is important is not only to curb

carrier abuse, but also to prevent government waste of dollars that should be directed toward helping those in need.

This shows promise, and the Commission under Congress' direction should not stop there.

While there are penalties both monetary and otherwise, they only serve as a mild deterrent. Importantly, the ones actually defrauded, the ratepayers, do not receive restitution. Setting an actual budget that must be adhered to is key to protecting ratepayers, while still providing support to those in need of access.

There is no direction as to how the budget will be reevaluated should spending reach 90% of 2.5 billion dollars. Without a statutory budget cap the FCC could choose to unilaterally increase its own budget, meaning there never really was a budget to begin with.

An endless budget does not provide the newly formed National Eligibility Verifier or the carriers the most robust incentive to stop waste and fraud. It certainly does not dissuade bad actors from signing up ineligible participants and households multiple times.

V. Conclusion.

With Lifeline eligibility set at 135% of the poverty line, about \$32,737 for a family of 4, the cost of wireline access becoming a decreasing factor, smartphone substitution on the rise, and current Lifeline spending at just over \$1.5 billion, it can be expected that a \$1.5 billion budget cap can adequately address the digital-divide for those most in need.

I would like to reiterate that Congress has the authority and the responsibility to set a firm budget cap.

Thank you again for the opportunity to provide testimony today.