A Lifeline to High-Speed Internet Access: An Economic Analysis of Administrative Costs and the Impact on Consumers

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About the Multicultural Media, Telecom and Internet Council

The Multicultural Media, Telecom and Internet Council (MMTC) is a national nonprofit organization dedicated to promoting and preserving equal opportunity and civil rights in the mass media, telecommunications and broadband industries, and closing the digital divide. MMTC is generally recognized as the nation's leading advocate for minority advancement in communications. www.mmtconline.org.

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PREFACE

As the critical issue of Lifeline reform is debated by the Federal Communications Commission, the Multicultural Media, Telecom and Internet Council (MMTC) is pleased to share our new report, "A Lifeline to High-Speed Internet Access: An Economic Analysis of Administrative Costs and the Impact on Consumers," prepared by MMTC with distinguished economic analysis from The Brattle Group and Georgetown University's Center for Business and Public Policy. This report endorses the inclusion of broadband as an eligible service for Lifeline consumers. Further, it considers the impact of modernization on competition and consumer choice.

In 1985, the Lifeline program was created to provide low-income Americans with the opportunity to connect to wired telephone service, an essential 20th century communications tool that millions would otherwise have been unable to afford. Twenty years later, the Federal Communications Commission recognized the rise of mobile technology as the new essential communications tool and wisely modified the Lifeline program in 2005 to include access to wireless cellular service. Today, we have the opportunity to modernize Lifeline once more to keep pace with the ever-changing technologies that have become essential for economic empowerment, personal advancement, and full engagement in the digital economy.

Our report maintains that Lifeline must be reformed to include broadband as soon as it is practicable if the program is to remain relevant to our digital future. Moreover, it must be reformed in a fiscally responsible manner. A more competitive and efficient Lifeline program will, in turn, significantly benefit low-income consumers and empower them in their journey towards economic self-sufficiency.

More than thirty-one million Americans do not have access to the Internet today. They live in rural America, on Native American tribal lands, and in urban cities; they are young, old, multicultural, and they overwhelmingly live below or near the poverty line. We cannot afford to leave millions of Americans behind as we embrace this digital age. We need them, and they need us to create a modern, viable Lifeline program.

MMTC has worked for thirty years to ensure that every American has access to opportunity in the digital age. We have the technology and we have the duty to connect every American to the digital future. Now, we need only exercise our will to make this a reality.

Our goal is that this report will contribute to discussion and ultimately action, resulting in a more efficient and effective Lifeline program serving even more Americans.

Kim M. Keenan,

President and CEO
Multicultural Media, Telecom and Internet Council

Lifeline to High Speed-Internet Access: An Economic Analysis of Administrative Costs and The Impact on Consumers

EXECUTIVE SUMMARY

BY NICOL E. TURNER-LEE, PH.D., COLEMAN BAZELON, PH.D., OLGA UKHANEVA, PH.D., AND DEVAN HANKERSON, MPP

The Federal Communication Commission's (FCC) Lifeline program, established in 1985, is in desperate need of modernization. Extending Lifeline beyond the current voice telephone-only benefit, to include high-speed broadband, is essential to ensure first class, digital citizenship for America's low-income consumers. But reforms must be done in a fiscally responsible manner that facilitates support for high-speed broadband and transforms Lifeline into a more competitive and efficient program that truly benefits eligible, low-income consumers. Successfully modernizing the program will mean addressing hidden, excessive administrative costs and program burdens by leveraging synergies with existing government tools that are currently being used to administer other public benefit programs.

The lack of transparency of the costs associated with Lifeline program administration, along with our refreshed economic analysis of the FCC's expected versus actual costs, highlight the need to streamline operations and immediately eliminate the role of service providers in certain processes, such as eligibility verification.

Consumers participating in the Lifeline program will benefit from the improved streamlining of processes because it better respects their time, dignity, and privacy. Most importantly, eligible consumers will be positively impacted by the net social dividends arising from enhanced connectivity, such as access to health care and health-related resources, educational information, and employment opportunities.

In 2015, Lifeline payments totaled $1.5 billion, funding support for voice connections to approximately 13 million eligible consumers, and relatively modest administrative costs incurred by the Universal Service Administrative Company (USAC).

USAC is the FCC's entity designated to manage Lifeline and other federal Universal Service Fund (USF) programs. The FCC reported that the estimate for the administrative costs directly incurred by Eligible Telecommunications Carriers (ETCs), or service providers participating in Lifeline, was the equivalent of 41 percent of total Lifeline program support. Our analysis finds that the cost estimate for Lifeline program administration is outdated and some of the underlying assumptions are inaccurate. The more realistic administrative cost estimate presented in this paper is much higher.

In our review of the FCC's estimates of the program's direct administrative costs, we conclude that participating service providers incur **$0.65 of costs to administer the Lifeline program for every one dollar** expended by the 2015 Lifeline program in supported discounts and costs. This estimated program support is much higher than the $0.41 per dollar derived from the FCC's estimated provider administrative costs reported to the Office of Management and Budget (OMB). Our updated analysis of the expected costs of the Lifeline program yields a more realistic estimate of more than $977 million, a *59 percent increase* over official FCC reporting. According to our analysis, annual eligibility recertification alone accounts for 73 percent of total costs, despite the Lifeline program having less than a 30 percent take-up rate among eligible consumers.

Although these costs are borne by ETCs and not USAC, they significantly mute the benefits of the program. Due to the fact that service providers are not reimbursed for incurred administrative expenses, these costs operate as a "hidden tax" on all consumers. Second, such significant overhead to participate in Lifeline makes the program unattractive to many broadband access service providers. Eliminating this "hidden tax" and pushing for more transparency will help drive efficiency and perhaps make it easier to offer advanced and innovative services to consumers participating in the Lifeline program.

In our view, these cost inefficiencies in program administration are a problem that must be addressed so that the Lifeline program can meet its full potential as a tool to help bring high-speed Internet connections within reach of all consumers.

Further, the FCC should institute a coordinated enrollment process in which agencies that manage other government benefits would qualify consumers for Lifeline by also administering eligibility, enrollment, de-enrollment, and payment of benefits, thus

eliminating duplicative processes. Our analysis reveals that if these specific functions were shifted to a coordinated enrollment framework, the expected reduction in administrative costs of service providers is estimated to be between $687 and $700 million, which is more than 70 percent of current costs. Even though these costs savings cannot be directly shifted to increase the actual program benefit, since they are incurred by service providers and are not reflected in the current Lifeline budget, consumers will benefit from the lower administration costs through more attractive service offerings and the shift of administrative functions to agencies that have extensive experience to scale the program.

Moving forward, this paper offers the following *three* action items to support Lifeline modernization:

1. Eliminate the role of participating Lifeline service providers in the eligibility verification, enrollment, de-enrollment, and payment of benefit processes for the Lifeline program.
2. Transition eligibility verification to a coordinated enrollment/de-enrollment framework, using the U.S. Department of Agriculture's Supplemental Nutrition Assistance Program (SNAP) and the Food Distribution Program in Indian Reservations (FDPIR) as initial pilots for the Lifeline program.
3. Encourage voluntary participation of Lifeline service providers by reducing the administrative costs, thereby ultimately expanding the availability of robust choices to participating consumers, including broadband.

Taken together, these action items will promote increased program efficiency to benefit the public interest by inviting greater service provider participation that, in turn, will shift the focus towards the availability of more creative product offerings in the Lifeline marketplace, including high-speed Internet services.

I. Introduction

"Connectivity is a path to greater opportunity. In today's world, broadband and fluency with technology fuel economic growth, provide access to the world's knowledge, promote skill development, and build stronger and more connected communities."
– The White House, March 9, 2016

The Federal Communication Commission's Lifeline program, established in 1985, is in desperate need of modernization. Moving forward with program reform is critical to ensure that millions of vulnerable populations will attain first class, digital citizenship.[1] Extending Lifeline beyond the current voice telephone-only benefit, to include broadband,[2] is essential to ensure access to 21st century networks for America's low-income consumers. Reforming the program's administrative structure and shifting responsibilities for program administration and determining consumer eligibility from service providers to a more centralized government process will improve efficiencies, reduce administrative costs, and enhance competition by attracting new service providers into the program.

The Lifeline program currently provides a discount on voice service ($9.25 per month, for most eligible consumers)[3] for qualified low-income consumers to ensure their access to emergency services as well as to connections with family and friends.

In 2015, Lifeline payments totaled $1.5 billion,[4] funding support for voice connections to approximately 13 million eligible consumers,[5] and relatively modest administrative costs incurred by the Universal Service Administrative Company (USAC). USAC is the FCC's entity designated to manage Lifeline and other federal Universal Service Fund (USF) programs. Despite these impressive numbers, participation rates in Lifeline have been historically low—less than 30 percent of eligible consumers enroll in the program.[6]

This paper addresses why and how administrative efficiency should be included in the effort to reform and improve the federal Lifeline program. This paper also addresses why streamlining the enrollment and eligibility processes towards coordinated enrollment with federally-managed programs, such as the U.S. Department of

Agriculture's Supplemental Nutrition Assistance Program (SNAP),[7] and immediately removing all Lifeline service providers from this role will improve program effectiveness and increase the number of eligible subscribers. Such reforms are particularly beneficial to historically disadvantaged, low-income populations that include seniors, the disabled, and people of color who have been greatly impacted by affordability concerns.

II. Broadband Internet Access Is Critical to Success in the Modern Economy

Access to high-speed broadband has revolutionized how individuals earn, learn, and make connections in what is now an information-driven economy, yet millions of Americans do not have broadband access because they cannot afford it. At first glance, the substantial increase and dependence on wireless could suggest that the digital divide has narrowed. Among more vulnerable consumers—particularly, consumers of color, low-income populations, and rural residents—smartphone adoption is at historically high rates.[8] However, a recent Pew Research Center study, along with data from the U.S. Census Bureau, find that increased wireless adoption is also hindered by cost sensitivities and monthly maintenance concerns, especially for low-income consumers whose sustained use is predicated on the affordability of the service.[9]

Today, broadband connectivity is equally important to wireline and wireless services and must be included in the Lifeline program going forward. Whether it is the "homework gap" threatening the progress of children who do not have access to broadband at home, the need to apply for jobs online, or connections with healthcare providers, access to broadband—and digital literacy—have become critical to participation in the modern economy.

III. Inefficiencies in the Current Lifeline Program Call for Fundamental Reform

Providers participating in Lifeline were initially restricted to incumbent landline voice telephone carriers and facilities-based mobile voice service providers. Starting in 2008, the FCC authorized mobile wireless resellers, such as TracFone and Virgin Mobile, among others, to participate in the federal Lifeline program.[10] Collectively, these

wireless carriers are referred to as Eligible Telecommunications Carriers (ETCs), or service providers of the Lifeline program. While the regulatory changes attracted new consumers, it also resulted in rapid growth of the Lifeline subsidy payments, partly due to inappropriate spending of subsidy funds.[11]

In 2012, the FCC enacted a number of changes to the Lifeline program intended to prevent program abuses and to suppress the increase in subsidy payments.[12] The 2012 reforms imposed additional requirements on participating service providers, including obligations to obtain documentation demonstrating eligibility when consumers apply for Lifeline; to populate and check the National Lifeline Accountability Database (NLAD), which was established in order to ensure that participating consumers and their households were not receiving duplicative benefits; and, to annually recertify the continuing eligibility of 100 percent of consumers enrolled in the Lifeline program (when prior rules required recertification of only a portion of consumers).[13]

This last wave of reforms placed burdensome program requirements on participating providers.[14] Uniquely, when compared to other federal benefits programs, Lifeline places the burden of program administration onto service providers rather than government.[15] Under this framework, service providers bear any additional and hidden administrative costs of participating in the current Lifeline program. The federal Lifeline program does not reimburse participating providers for these expenses.

The FCC estimated in 2013 that the administrative compliance costs of the 2012 reforms incurred by service providers of Lifeline would be $614 million, or the equivalent of 41 percent of the total 2015 Lifeline program support.[16] Yet, the $614 million estimate only includes providers' *additional* costs to implement the 2012 reforms, and does not reflect the entirety of expenses that service providers incur in administering the Lifeline program.[17]

In this paper, we offer an update to the FCC's estimate that portrays a more accurate picture of the actual factors that encompass higher costs and inefficiencies in the existing Lifeline program.

The refreshed economic analysis in this paper reveals that the FCC's initial cost assessment likely *underestimated* the costs of service provider administration of Lifeline. Based on our update, there is reason to believe that participating providers incur an

estimated **$0.65 in Lifeline administrative costs for every one dollar** expended by the 2015 Lifeline program in supported discounts and costs. Our estimated provider expense is much higher than $0.41 per dollar expended by the Lifeline program derived from the statement of the FCC to the Office of Management and Budget (OMB) and significantly more when compared to other federally-managed public assistance programs.[18] It is also important to note that this paper only updates the categories of provider administrative expenses addressed in the 2013 FCC Supporting Statement. For example, we have not attempted to quantify the costs that participating providers incur to publicize the availability of Lifeline service pursuant to 47 C.F.R. Sec. 54.405(b); nor does this paper attempt to quantify the costs arising from the states' Lifeline requirements, which can vary significantly from state to state.[19]

Further, our analysis finds that annual eligibility recertification is the largest expense category, which accounts for 73 percent of these total provider costs,[20] despite the Lifeline program serving less than 30[21] percent of eligible consumers. As will be proposed in the paper, the annual eligibility certification costs can be significantly reduced along with other expense categories through coordinated enrollment with other public assistance programs managed by state government entities, thereby concurrently reducing the burdens that the existing Lifeline program imposes on participating providers.

To more accurately update the provider costs associated with administrating Lifeline, *six* major assumptions impacting the current valuation of the Lifeline program are worth noting.

- *First*, for the purpose of cost calculation, the Commission assumes that there are 940 ETCs. The statistics reported by USAC state that there were on average 2,367 ETCs across four quarters in 2015.[22] Most of the ETCs were affiliated with a parent company.[23] We believe that the time estimates used by the Commission in costs calculations underestimate costs since they are based for a standalone carrier rather than for a parent company with many affiliates. Updating the number of ETCs reported in 2015 to incorporate a more realistic view toward the number of carriers yields an immediate increase in the program's administrative costs by as much as $11,087,790.

- *Second*, the FCC assumes that, on average, it takes 2.5 hours per month for service providers to prepare and file the Form 497 which reports the number of Lifeline beneficiaries in a given month and is the basis for the Lifeline discount reimbursements. Some service providers contend that the Form 497 process takes significantly more time to prepare and estimate that time at approximately 5.7 hours per month per provider.[24] Incorporating this revised time estimate into the calculation of costs of the Form 497 preparation process results in an increase of $3,898,212.[25]
- *Third*, the FCC's estimates fail to include the cost of foregone interest due to delays in reimbursements to service providers. There is a time lag between the time when Lifeline providers deliver the actual benefit and when they are reimbursed for it. USAC processes providers' discount reimbursements based on the Form 497 submissions and takes, on average, 29 days to do so.[26] Given that there were 13,102,939 Lifeline subscribers in 2015, with the federal Lifeline support amount being $9.25 per month, per subscriber, the average total delayed payment is approximately $121,202,186 (equal to 13,102,939 subscribers multiplied by $9.25) per month. The cost of capital for a wireless telecommunications service provider is about 5.5 percent.[27] This suggests that the cost of delay for all participating providers is roughly $536,993 ([$121,202,186*0.055/12 months]*29/30, assuming that on average there are 30 days in a month).[28]
- *Fourth*, the costs of annual recertification of participating consumers' continuing eligibility are most likely underestimated by the FCC. Certain Lifeline service providers estimated that the overall cost of annual recertification of consumer eligibility exceeds the FCC's estimate by 37 percent.[29] Adjusting costs related to annual recertification by 37 percent increases overall costs of the program by $152,810,000.
- *Fifth*, the average wage rate of ETCs' staff used by the Commission is $40 per hour. According to the Bureau of Labor Statistics (BLS), an average salary of Business and Financial Operations Occupations at wireless and wired telecommunications carriers in May 2014, the latest available data point, was

$39.57.30 While the average salary statistic collected by the BLS is very close to the hourly wage used by the FCC, the amount, $39.57, fails to include health, pension, and other benefits typically incorporated into employment contracts and usually factored into fully loaded labor estimates. Adjusting an hourly cost per employee may have significant impact on total costs estimates. Each $1 per hour difference in hourly employee costs creates more than a $19 million difference in program costs. Under the assumption that an average benefits package adds around 25 percent to labor costs, the adjusted program costs increase by $195,319,476.[31]

- *Finally*, the cost of service providers' biannual audits appears understated for those entities receiving greater than $5 million in annual Lifeline support. Some participating providers observed that the FCC's cost estimate did not include any costs for the service provider staff necessary to interact with Lifeline program auditors, but that company staff costs were often substantial, often exceeding $20,000 per audit.[32] Also, cost estimates of biannual audits are based on the assumption that it takes roughly 250 hours per audit. Some carriers argue that 250 hours underestimates the time necessary to audit service providers that operate nationwide.[33] No data are available on what a representative and credible time estimate should be for these audits, and therefore, an adjustment of these costs is not provided here.

Taking into account these six revised assumptions, our update to the FCC's estimate of provider versus FCC reported costs of the Lifeline program yields a more realistic estimate of more than $977 million, which is *59 percent more than the FCC estimate.* Put differently, we estimate that providers are burdened with the equivalent of 65 cents in administrative costs (not 41 cents, according to the FCC's estimate) for every dollar the Lifeline program expends in discount reimbursements and USAC administrative costs.

These costs are effectively a "hidden tax" on all consumers. Moreover, such significant overhead to participate in the Lifeline program may well make participation unattractive to many service providers, thus suppressing competition and innovation in

Lifeline services, and ultimately limiting the choices available to participating consumers. Eliminating these hidden costs will help to drive efficiency and make the costs of the program more transparent.

IV. Centralizing Lifeline Program Administration with a Government Entity Will Yield Cost Savings and Consumer Benefits

Another important reform to reduce excessive administrative overhead will be the coordinated enrollment of Lifeline with other federally managed public assistance programs. According to USAC, the Lifeline program had 13 million subscribers in 2015, yet the take-up among eligible low-income consumers was low. The Lifeline discount is currently available to any adult over 18 years of age in a household whose income is at or below 135 percent of the federal poverty guidelines or whose members participate in one of the following federal assistance programs:

- Federal Public Housing Assistance (FPHA) or Section 8,
- Supplemental Nutrition Assistance Program (SNAP), formerly known as Food Stamps,
- Low Income Home Energy Assistance Program (LIHEAP),
- Medicaid,
- National School Lunch Program's (NLSP) free lunch program,
- Supplemental Security Income (SSI),
- Temporary Assistance for Needy Families (TANF), and/or
- Any state qualifying program.

Tribal consumers are also eligible for enhanced Lifeline support if they live on Tribal lands and participate in one or more of the following public assistance programs administered by the Bureau of Indian Affairs General Assistance; Head Start (if the household meets the income threshold); Tribal Temporary Assistance for Needy Families (Tribal TANF); or the Food Distribution Program in Indian Reservations (FDPIR).

Research suggests that coordinated enrollment may increase participation rates in public assistance programs.[34] Specifically, with respect to Lifeline, coordinated

enrollment simplifies the verification process for eligibility by using existing income-based verification systems and leveraging the infrastructure and expertise of state agencies that already manage programs assisting consumers who have limited incomes.[35]

While the FCC could choose any number of public benefit programs to collaborate with, we believe that the SNAP/FDPIR program is a good starting point because the majority of Lifeline subscribers qualify for subsidy through SNAP/FDPIR[36] and there is significant overlap between the beneficiaries of these programs.[37]

More importantly, the administration costs of SNAP account for 6.1 percent of the total subsidy budget,[38] which is much lower than the ratio of estimated provider administrative costs to the 2015 Lifeline program benefits discussed above. Finally, SNAP's higher participation rate of 85 percent in 2013 (the latest year available), along with its transitional value to eligible consumers makes it an easier match with Lifeline.[39] In our view, the Lifeline program can leverage the experience and infrastructure of the SNAP program to bolster the benefit and increase the take-up rate, while becoming more efficient. This initial "test and learn" will also allow for ample data collection on the process of coordinated enrollment.

The centralization, along with the expertise of state agencies, seems likely to cost materially less than the current system, which today requires over 2000 Eligible Telecommunications Carriers to administer the program separately, thus performing redundant or duplicate functions. Notably, these reforms will yield cost efficiencies for service providers, which will benefit consumers.

Initially, the coordinated enrollment process could be patterned after existing models for engagement between state agencies that already manage SNAP/FDPIR and other federal assistance programs.[40] When a consumer initially applies for SNAP/FDPIR or is recertified for continued participation in SNAP/FDPIR, she would be offered an option to enroll in Lifeline. If the consumer expresses interest in Lifeline participation and she is eligible for SNAP/FDPIR, the state agency would submit an electronic Lifeline enrollment request to USAC. State agencies managing SNAP/FDPIR would also participate in a coordinated de-enrollment process. By involving these state agencies in this process, consumers would stay enrolled in Lifeline until they are de-enrolled from SNAP/FDPIR.

The Lifeline program should consider other alternatives to similarly empower consumer choice by allowing consumers to direct how to use their Lifeline benefit. For example, a Lifeline account can be established for each participating consumer, allowing a consumer to fund eligible services or to direct USAC to make payments on his/her account with his/her Lifeline provider of choice for eligible services.

If the Lifeline benefit were to be portable, consumers could opt to participate in programs like these or those offered by incumbents or new service providers that accommodate their communications needs. Further, when subscribers decide to switch service providers, they would not have to repeat the process of eligibility verification as each subscriber would carry approval for the duration of their underlying SNAP/FDPIR administered benefits.

It seems likely that Lifeline enrollment will increase if it is coordinated with SNAP/FDPIR. In 2015, there were 22.4 million households participating in SNAP and 13 million Lifeline beneficiaries. Under the proposed framework, the number of SNAP beneficiaries is estimated to increase and include between 9 and 22 million households.[41]

Further, while this paper does not provide precise calculations of cost efficiencies that would be achieved, leveraging state agencies existing systems, processes, and expertise in administering benefits, targeting low-income consumers is likely to yield material benefits:

- Initial recertification of eligibility – savings over the status quo, because they would eliminate the hidden costs borne by all consumers; eliminate the duplication resulting from more than 2000 providers all separately administering eligibility and enrollment-related functions; and would better honor consumers' privacy, dignity, and time.
- Annual recertification of eligibility – under the coordinated enrollment framework, this function will be entirely eliminated. Lifeline beneficiaries would receive the Lifeline subsidy as long as they are enrolled in SNAP\FDPIR. Savings of approximately $707 million.
- Preparation of Form 555 – USAC would have all of the data reported on the Form 555 as a result of the coordinated enrollment process recommended, such that

participating providers would no longer be required to submit them. Savings of approximately $1.9 million (using fully loaded labor cost estimates).

- Interest due to delayed reimbursement – savings of approximately $540,000, and
- There would be expenses, in the form of financial institution fees, for distribution of Lifeline payments to consumers via consumer Lifeline accounts – additional costs of $9.5 - $23.1 million.[42]

To summarize, our data analysis found that if the Lifeline administration responsibilities, such as consumer eligibility verification and de-enrollment, were shifted to a coordinated enrollment/de-enrollment framework with state-based agencies, **the expected savings could be estimated to be between $687 and $700 million, which is more than 70 percent of saving of current costs**. Even though these costs savings cannot be directly shifted to consumers, since they are incurred by service providers and are not reflected in the current framework as Lifeline program costs, consumers will benefit from better service offerings and a more competitive marketplace when service providers are not tethered to these exorbitant costs.

V. Conclusion

Lifeline must be reformed to include high-speed Internet access to benefit low-income consumers. Transforming Lifeline to include high-speed Internet will be most successful only when the current excessive administrative costs are controlled. The lack of transparency of the costs associated with Lifeline administration, along with our refreshed economic analysis, highlights the need to streamline program operations and immediately eliminate the role of service providers in all eligibility and enrollment-related functions.

Moving forward, this paper offers the following *three* urgent action items to support Lifeline modernization:

1. Eliminate the role of participating Lifeline service providers in the eligibility verification, enrollment, de-enrollment, and payment of benefit processes for the Lifeline program.

2. Transition eligibility verification to a coordinated enrollment/de-enrollment framework, using the U.S. Department of Agriculture's Supplemental Nutrition Assistance Program (SNAP) and the Food Distribution Program in Indian Reservations (FDPIR) as initial pilots for the Lifeline program.
3. Encourage voluntary participation of Lifeline service providers by reducing the administrative costs, thereby ultimately expanding the availability of robust choices to participating consumers, including broadband.

Taken together, these action items will promote increased program efficiency to benefit the public interest by inviting greater service provider participation that, in turn, will shift the focus towards the availability of more creative product offerings in the Lifeline marketplace, including high-speed Internet services. The matter is urgent, and the time for action is now.

ENDNOTES

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2. The term "broadband" is used here to describe access to high-speed Internet services.

3. Consumers living on Tribal lands are eligible for an additional Lifeline discount up to $25 per month.

4. According to the 2015 FCC Universal Service Monitoring Report administrative costs of USAC accounted for $20.02 million in 2015 (Table 1.11). Retrieved from the Federal and State Staff for the Federal-State Joint Board on Universal Service. (2015). *Universal Service Monitoring Report (CC Docket No. 96-45; WC Docket No. 02-6; WC Docket No. 02-60;WC Docket No. 06-122;WC Docket No. 10-90; WC Docket No. 11-42; WC Docket No. 13-184; WC Docket No. 14-58)* (Federal Joint Board Monitoring Reports). Washington, DC: Federal Communications Commission.

5. These data are retrieved from the FCC filings available at http://www.usac.org/about/tools/fcc/filings/2016/q2.aspx. Specifically, total Lifeline payments in 2015 are available in the table "LI06 Historical Data - Support Claimed by ETCs Each Month - January 1998 - December 2015.xlsx," and total number of subscribers in 2015 is available in the table "LI08 Lifeline Subscribers by State or Jurisdiction - January 2015 through December 2015.xlsx."

6. Consumers living on Tribal lands are eligible for an additional Lifeline discount up to $25 per month.

7. USAC reports that the participation rate in Lifeline was 27 percent in 2015. This statistics was retrieved from the Universal Service Administrative Company. (2016, November 15). Lifeline Program: Subscribers By Eligibility Program. USAC. Retrieved from http://usac.org/_res/documents/about/pdf/quarterly-stats/LI/Subscribers-by-Eligibility-Program.pdf

8. The U.S. Department of Agriculture administers the SNAP program that offers nutrition assistance to millions of eligible, low-income individuals and families and provides economic benefits to communities. The Food and Nutrition Service (FNS) works with State agencies, nutrition educators, and neighborhood and faith-based organizations to ensure that those eligible for nutrition assistance can make informed decisions about applying for the program and can access benefits. FNS also works with State partners and the retail community to improve program administration and ensure program integrity.

9. Horrigan, J. B., & Duggan, M. (2013). Home Broadband 2015. Washington, DC: Pew Research Center. Retrieved from http://www.pewinternet.org/files/2015/12/Broadband-adoption-full.pdf (last visited February 22, 2016). *See also*, United States Census Bureau. (2014). American Community Survey (ACS) [Federal Agency Resource Site]. Retrieved February 22, 2016, from https://www.census.gov/programs-surveys/acs/

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16. This conclusion is based on comparison of the administrative costs of the Lifeline service providers reported by the FCC and USAC's administrative costs for Lifeline. Specifically, carriers' administrative costs, which account for $614 million, are much higher than USAC's administrative costs, which account to $20.02 million.

17. Supporting Statement. (2013, October 30). Retrieved February 22, 2016, Office of Information and Regulatory Affairs, & Office of Management and Budget. (2013, October 30). ICR Documents, Supporting Statement A. U.S. General Services Administration. Retrieved from http://www.reginfo.gov/public/do/DownloadDocument?objectID=51157401. These costs do not include costs associated with the Lifeline Pilot program. USAC's administrative costs are relatively small; they amount to $20.02 million and are not discussed in this paper.

18. In fact, average non-Tribal subsidy payments across states declined from $11.46 in 2011 to $9.32 in 2012. See Table 2.3 in 2012 FCC Monitoring Report and Table 2.4 in 2013 FCC Monitoring Report.

19. Here, we provide comparison of Lifeline administrative costs with SNAP administrative costs. The costs of SNAP administration account for only 6.1 percent of the program's budget, which is much lower than Lifeline administrative costs.

20. See, e.g., US Telecom Ex Parte, Re Lifeline & Link Up Reform & Modernization, WC Docket No 11-42 (filed March 4, 2016)

21. Based on the estimated derived from the 2013 FCC Supporting Statement, annual eligibility recertification is still the largest expense category, which accounts for 67 percent of total administrative costs of Lifeline.

22. USAC reports that the participation rate in Lifeline was 27 percent in 2015. This statistics was retrieved from http://usac.org/_res/documents/about/pdf/quarterly-stats/LI/Subscribers-by-Eligibility-Program.pdf

23. FCC quarterly filings are available at http://www.usac.org/about/tools/fcc/filings/default.aspx

24. Number of parent companies is not available for 2015. According to the 2015 FCC Monitoring Report there were in total 824 parent companies in 2014 (see supplementary material).

25. See AT&T Ex Parte—Lifeline and Link-up Reform and Modernization WC Docket No. 1142 at 5 (filed December 21, 2015).

26. AT&T Inc. (2015, December 21). Ex Parte – Lifeline and Link-Up Reform and Modernization WC Docket No. 11-42. Ex Parte Letter. Retrieved from http://apps.fcc.gov/ecfs/document/view?id=60001389543.

27. See 2014 USAC annual report available at http://www.usac.org/_res/documents/about/pdf/annual-reports/usac-annual-report-2014.pdf.

28. NYU Stern Business School, & Damodaran, A. (2016, January). Cost of Capital by Sector (US) [Educational Institution, Research Site]. Retrieved from http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/wacc.htm

29. The amount of interest for one month was calculated by first computing interest for the whole year at 5.5 percent interest rate and then divided by 12 month, i.e. $550,510 = ($121,201,186*0.055)/12.

30. Mitchell, J. (2012). Smith Bagley, Inc, PR Wireless, & US Cellular. (2012, October). *Lifeline Program: FCC's Compliance Burden Estimates*. Powerpoint presented at OMB, Washington, DC. Retrieved from http://www.reginfo.gov/public/do/DownloadDocument?objectID=51159201(last visited February 22, 2016).

31. U.S. Department of Labor, Bureau of Labor Statistics. (2014). May 2014 National Industry-Specific Occupational Employment and Wage Estimates: NAICS 517100 - Wired Telecommunications Carriers [Federal Agency Database]. Retrieved from http://www.bls.gov/oes/current/naics4_517100.htm. *See* also United States Department of Labor, Bureau of Labor Statistics. (2014). May 2014 National Industry-Specific Occupational Employment and Wage Estimates: NAICS 517200 - Wireless Telecommunications Carriers (except Satellite) [Federal Agency Database]. Retrieved from http://www.bls.gov/oes/current/naics4_517200.htm#13-0000

32. Catherine Clifford, "Why a $14/hour employee costs $20," from http://money.cnn.com/2010/03/26/smallbusiness/employee_costs/

33. Ibid.

34. Mitchell, J. (2012). Smith Bagley, Inc, PR Wireless, & US Cellular. (2012, October). *Lifeline Program: FCC's Compliance Burden Estimates*. Powerpoint presented at the OMB, Washington, DC. Retrieved from http://www.reginfo.gov/public/do/DownloadDocument?objectID=51159201(last visited February 22, 2016). *See* also *Joint Comments on OMB Review of Lifeline Requirements. Re: OMB Control Number: 3060-00819; WC Docket Nos. 12-23, 11-42, 03-109, CC Docket No. 96-45* (Joint Comments) (pp. 1–10). McLean, Virginia: Lukas, Nace Gutierrez & Sachs, LLP. Retrieved from http://www.reginfo.gov/public/do/DownloadDocument?objectID=51159101. *See* also http://www.reginfo.gov/public/do/PRAViewDocument?ref_nbr=201410-3060-011

35. Mark Burton, Jeffrey Macher, and John W. Mayo. "Understanding participation in social programs: Why don't households pick up the lifeline?." The BE Journal of Economic Analysis & Policy 7.1 (2007).

36. Some states have already implemented a version of coordinated enrollment of the Lifeline program. For example, in 2007, the state of Florida implemented coordinated enrollment processes between Lifeline service providers and the Department of Children and Families (DCF) that helps to confirm participation of Lifeline applicant for Medicaid, Supplemental Nutrition Assistance Program (SNAP), and Temporary Cash Assistance (TANF) programs. Over 41 percent of all Lifeline-eligible households in Florida receive Lifeline assistance, which by far exceeded the national 27 percent Lifeline take-up rate at that time. More information on Florida's coordinated enrollment process can be found in 2015 Florida Lifeline Assistance Report issued by Florida Public Service Commission available at http://www.psc.state.fl.us/Home/NewsLink?id=1342

37. According to USAC, 38% of Lifeline beneficiaries qualify based on participation in SNAP. USAC statistics is available at http://usac.org/_res/documents/about/pdf/quarterly-stats/LI/Subscribers-by-Eligibility-Program.pdf

38. According to the report published by the Center on Budget and Policy Priorities (CBPP) 92 percent of SNAP beneficiaries are households with income below poverty level. In addition, household's income should be at or below 130 percent of poverty guidelines to qualify for SNAP. Lifeline targets households at or below 135 percent of poverty threshold, which includes all SNAP beneficiaries. The CBPP report is available at http://www.cbpp.org/research/policy-basics-introduction-to-the-supplemental-nutrition-assistance-program-snap

39. United States Department of Agriculture. (2016, February 17). Supplemental Nutrition Assistance Program (SNAP) - National Level Annual Summary: Participation and Costs, 1969-2015. USDA. Retrieved from http://www.fns.usda.gov/sites/default/files/pd/SNAPsummary.pdf

40. See more details at http://www.cbpp.org/research/snap-costs-declining-expected-to-fall-much-further.

41. *See* MMTC. (2015, May 11). Re: Lifeline Reform, WC Dockets 11-42 and 03-109. Letter. Retrieved from http://mmtconline.org/wp-content/uploads/2015/05/Lifeline-Letter-051115-FINAL.pdf. *See* also Multicultural Media, Internet and Telecom Council. (2015). *In the Matter of Lifeline and Link Up Reform and Modernization; Telecommunications Carriers Eligible for Universal Service Support; Connect America Fund: Comments Of Asian Americans Advancing Justice (AAJC), Blacks In Government, League Of United Latin American Citizens (LULAC), Multicultural Media, Telecom And Internet Council (MMTC), NAACP, National Association Of Neighborhoods, National Action Network, National Coalition On Black Civic Participation And Black Women's Roundtable, National Council Of La*

Raza, National Policy Alliance, National Puerto Rican Chamber Of Commerce, National Urban League, National Organization Of Black County Officials (NOBCO), Nobel Women, OCA-Asian Pacific American Advocates, And U.S. Black Chambers, Inc. (FCC Comments). Washington, DC: MMTC. Retrieved from http://www.mmtconline.org/wp-content/uploads/2015/09/COMMENTS-OF-LIFELINE-SUPPORTERS-v2.pdf

42. The lower bound of this estimate, 9 million, is derived under assumption that 41 percent of eligible households would participate in Lifeline, based on statistics in Florida where coordinated enrollment with three federal programs was implemented in 2007. Given a transition period, the lower bound would more likely be the current level of enrollment, 13 million. The upper bound of estimate is derived under assumption that take-up rate would be close to 100 percent.

43. Distribution of Lifeline benefit via EBT costs on average $1.05 per beneficiary per month. Under assumption that the number of Lifeline subscribers is likely to fall between 9 and 22 million of subscribers, the estimated costs of provision of benefits via EBT is between $9.5 and $23.1 million. Cost of distribution of payment via EBT is taken from the report of Government Accountability Institute "Profits from Poverty: How Food Stamps Benefit Corporations," September 2012. Retrieved from http://www.g-a-i.org/wp-content/uploads/2012/10/GAI-Report-ProfitsfromPoverty-FINAL.pdf

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