Insight

What’s Missing from Lifeline Reforms

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The Federal Communications Commission (FCC) is moving forward with reforms of the Lifeline program, the most important of which will expand the communication subsidy for low income Americans to now pay for broadband service. While there are some parts of this plan that should have been adopted some time ago, the Commission has taken a bold step in including broadband considering that the two most needed reforms haven’t been adopted. The FCC has still failed to define the programs purpose and set up an evaluation process. While the administration has praised the program expansion as putting 20 million people onto high speed Internet, only 2 million Americans right now aren’t online because of the cost of Internet service.[1] Lifeline needs an overhaul, but first it needs a purpose.

Even though the full text of the order has yet to be released, Chairman Wheeler and Commissioner Clyburn have outlined the changes in a factsheet. AAF has been engaged on this issue and previously published a primer to explain the program, a cost estimate of it, and a package of reforms to set it back on the right path. As we said then, the FCC should:

1. Define the problem that Lifeline aims to solve;
2. Cap the budget;
3. Reform eligibility requirements;
4. Reconsider the current contribution method, which is harmful to the poorest families; and
5. Implement an economically rigorous evaluation.

What follows below is a list of how the administration is changing the Lifeline program:

Lifeline will now apply to broadband

The Lifeline program will soon apply to both stand-alone mobile and fixed broadband Internet. To get the subsidy, the broadband service will need to reach a minimum of 10 Mbps. Interestingly enough, this threshold puts the program into direct opposition to the definitions of broadband set by the FCC. Back in January of 2015, Chairman Wheeler upped the definition of broadband from 4 Mbps to 25 Mpbs, and we noted then that “the move is completely divorced from the market and creates a double standard within the agency.” The separation between the 10 Mbps standard for the FCC subsidy programs and 25 Mbps for commercial entities has now deepened into a fissure.

Lifeline Eligibility will now be determined by a third party

At least since 2008, there have been calls for reforming the program’s verification process. Just after the FCC expanded the kinds of companies that could receive the funds, the enrollment in the program exploded. From 2008 to 2012, Lifeline spending grew from $821 million to over $2.1 billion, while the 6.7 million recipients grew to about 17.2 million. If the proposed changes go through, companies will now be certified by a third party, which could help cut down on program excess.

Lifeline is going to be budgeted for $2.25 billion, allowing 20 million households to join

As part of the suite of programs within the Universal Service Fund, Lifeline was the only one of the four to still lack a formal budget. The factsheet indicates that there will now be a $2.25 billion budget, but this would more than double the $1 billion expenditures in 2015. The increased budget could support 20 million households per year. In part, the Commissioner recognizes the extensive change and will require the Wireline Competition Bureau "to notify Commission when spending reaches 90 percent of the budget and to prepare an analysis of the causes of spending growth, followed by Commission action within 6 months." Reaching that threshold for action means that program can still double its current size and have breathing room. Part of that expansion will come when the FCC creates a new class of company, Lifeline Broadband Providers. While the details are still fuzzy, it is unlikely that the Commission will justify why these companies are needed in the dynamic market.

While the administration has touted this program as putting 20 million people onto high speed Internet, only 2 million Americans right now aren't online because of the cost of Internet service. Indeed, of those who aren't online, 66 percent cite relevancy and usability as the primary reason, not price. The discrepancies highlight the real problems that have yet to be solved. In the simplest of terms, the FCC has not defined the problem that this program aims to solve, nor has it properly evaluated the program to see if it is working.

Conclusion

Is Lifeline meant to get people connected? Does it aim for affordability? Are the poorest Americans being hurt by the tax that supports these programs? None of these big questions can be answered. And so, the most important question must be left unanswered, even though we all know the answer. Is Lifeline the best way to help people considering all of the other options? Like the General Accounting Office suggested, the answer is probably not.

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[1] These numbers are rough estimates. In 2015, Pew found that around 15 percent of Americans aren't on the Internet, the same as their 2013 study on the same topic. However, the 2015 survey doesn't include reasons why people aren't on the Internet, whereas the 2013 survey does. Using the most recent Census data from 2014, the US adult population was calculated at 245 million. Since 15 percent of adults aren't connected, this means the population of unconnected adults is 37 million. In the 2013 survey, Pew found that 6 percent of this group cited "too expensive" as the reason for not being on the Internet. All total, just 2 million American adults are not connected and would like say that Internet service cost is the reason.