

Coburn Budget Amendment 413: Reform FCC's Free Cell Phone Program.

Reform of the Federal Communications Commission's Lifeline program by requiring recipients of subsidized cell phones to pay a small participation fee.

By collecting a \$5 participation fee from the program's 16.5 million participants, savings would be over \$82 million. If the fee decreases fraud and abuse in the program by even 3 percent, savings could be over \$127 million total.

Every year, taxpayers are paying \$1.5 billion for a program to provide free cell phones to low-income recipients.¹ Providing all Americans access to communication is a valuable public goal, and asking recipients to pay a minimal charge to participate in the cell phone program would both promote self-sufficiency and root out rampant waste, fraud and abuse.

Charging a minimal copay would ensure recipients have a vested interest in the program.

Thanks to Congress and the Federal Communications Commission (FCC), what began as an effort in the 1930s to ensure all Americans had access to telecommunications service has morphed into a massive entitlement. Any person on a means-tested program is entitled to free or reduced-price cell phone service, and the program is ballooning out of control. People who sign up for the program do not need to demonstrate need for a cell phone, but rather qualify based on income levels or categorical eligibility. Simply showing a food stamp card – which many people with incomes well over the poverty line have – can qualify people to receive a free phone.

Enrollment and costs have skyrocketed in recent years. From 2011 to 2012, the enrollment grew 43 percent to over 16.5 million participants.² This program now costs taxpayers \$1.5 billion annually, funds that come from a federal fee applied to most Americans' phone bills.³

Wireless subsidies consume 70 percent of the total Lifeline budget, with three prepaid cell phone companies alone receiving 40 percent of the budget.⁴

Instituting a small charge nationwide to participate in the program would allow the program to continue providing important access to communication while discouraging overdependence on the assistance. This idea is not new. At least one state, Oklahoma, has already instituted a minimal fee of \$1.⁵

One advocate for the homeless in Los Angeles recently criticized the idea of providing cell phones to those on the street. "I don't not think we should be doing anything to make the streets more hospitable to live," said Estela Lopez, executive director of the Central City East Association.⁶ She argues the phones may even help people gain access to narcotics more easily.

By expanding the safety net too widely, the federal government can lose focus on ensuring individuals are depending on their own ability to provide for themselves. One of the greatest tragedies is when government means-tested programs promote dependence, which often occurs unintentionally.

A participation fee would also help control the program's waste, fraud, and abuse.

Lifeline has struggled immensely with companies and people who understand how to game the system to receive multiple phones without repercussion. Hundreds of thousands of people who sign up for the program are not even eligible for service and/or have multiple phones.^{7 8 9} Many people have both subsidized cell and landline service.¹⁰ To date, program rules have been inadequate in controlling this problem. If clients are required to put "skin in the game" through a minimal copay, they would be less likely to game the system for multiple telephones.

This reform would assist the FCC's current effort to strengthen the program's integrity. The agency should continue to find ways to ensure individuals are not signing up multiple times, selling their subsidized telephones, or leaving bills with homeless shelters.

One investigation in Oklahoma documented how cell phone companies set up tents near homeless shelters to give away phones to those with low- or no-income.¹¹ Visitors often have multiple phones, even at the same time. **One man collected over 20 phones in one year alone, using fake names and no proof of identity.** He sells the phones for \$10-\$20 apiece.

Another man in Baltimore told one reporter, "I could go to the same place tomorrow and get another phone," even just after signing up for service.¹²

By collecting a \$5 participation fee from the program's 16.5 million participants, savings would be over \$82 million. However, if the fee decreases fraud and abuse in the program by even 3 percent, savings could be over \$127 million total.

¹ Universal Service Administrative Company (USAC) disbursements to wireless companies from July 2011-June 2012. Information provided by USAC to the Office of Senator Tom Coburn, August 20, 2012.

² Sweigart, Josh. "1 million Ohioans using free phone program," *Dayton Daily News*, August 17, 2012, <http://www.daytondailynews.com/news/news/subsidized-cell-phone-program-nearly-doubles-in-oh/nRDqC/>, accessed March 19, 2013.

³ Universal Service Administrative Company (USAC) disbursements to wireless companies from July 2011-June 2012. Information provided by USAC to the Office of Senator Tom Coburn, August 20, 2012.

⁴ From July 2011-June 2012, Lifeline disbursements totaled \$2,066,912,266, of which \$1,452,806,857 was disbursed to wireless companies. Of that sum, \$832,685,143 was disbursed to prepaid wireless companies. Information provided by USAC to the Office of Senator Tom Coburn, August 21, 2012.

⁵ Raymond, Jeff. "Two More OK Phone Companies Under Investigation For Federal Cell Phone Program," News9, February 19, 2013. Available at <http://www.news9.com/story/21253526/two-more-ok-phone-companies-under-investigation-for-federal-cell-phone-program>, accessed March 19, 2013.

⁶ Anson, Matthew Grant. "California begins providing free cell phones and service to impoverished," *CAFWD.Org*, March 18, 2013. Available at <http://www.cafwd.org/reporting/entry/california-begins-providing-free-cell-phones-and-service-to-impoverished>, accessed March 19, 2013.

⁷ Letter to Sharon Gillett, RE: Results of Lifeline Duplicate In-Depth Data Validations, WC Docket No. 11-42, CC Docket No. 96-45, WC Docket No. 03-109, January 10, 2012, <http://apps.fcc.gov/ecfs/document/view.action?id=7021753115>, accessed March 19, 2013.

⁸ Letter to Sharon Gillett, RE: Results of Lifeline Duplicate In-Depth Data Validations, WC Docket No. 11-42, CC Docket No. 96-45, WC Docket No. 03-109, January 10, 2012, <http://apps.fcc.gov/ecfs/document/view.action?id=7021753115>, accessed March 19, 2013.

⁹ "Telecommunications: Improvement Management Can Enhance FCC Decision Making for the Universal Service Fund Low-Income Program," Government Accountability Office, October 2011, GAO-11-11, p. 35. Available at <http://gao.gov/assets/320/312708.pdf>, accessed March 19, 2013.

¹⁰ "Telecommunications: Improvement Management Can Enhance FCC Decision Making for the Universal Service Fund Low-Income Program," Government Accountability Office, October 2011, GAO-11-11, p. 35. Available at <http://gao.gov/assets/320/312708.pdf>, accessed March 19, 2013.

¹¹ Loren, Jennifer. "Despite Reforms, Federal Cell Phone Program Still Plagued By Fraud," *Oklahoma News 6*, February 11, 2013. Available at <http://www.newson6.com/story/21130471/despite-reforms>, accessed March 19, 2013.

¹² "While you pay your cell phone bill, others are collecting phones on the government dime," *21News*, February 22, 2013. Available at <http://www.whptv.com/news/local/story/While-you-pay-your-cell-phone-bill-others-are/mnv4-1zV6ku5zFuVtfbx8Q.csp>, accessed March 19, 2013.