



Media Justice Fund of the Funding Exchange Report

**MAKING BROADBAND AND CELLPHONES
AFFORDABLE FOR ALL:
PROPOSED REFORMS TO THE LIFELINE PROGRAM OF THE
UNIVERSAL SERVICE FUND**

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LIFELINE: THE LIKELY PATH TO AFFORDABLE BROADBAND

After years of disappointing growth in broadband deployment, the United States is developing a broadband plan. But broadband laid in front of a home doesn't automatically translate into broadband access by people in that home. The biggest obstacle for most people without home access is the cost of connecting. Many experts recommend that broadband access should be subsidized for low income individuals. However, the details of how those subsidies can be achieved or what kinds of services would be offered at a discounted rate are yet to be worked out. The most likely path to discounted broadband would be an expansion of the "Universal Service Fund Lifeline Program." The Lifeline program now offers discounted landline phone service to low income people. Experts we spoke with view Lifeline as a necessary but flawed program which offers many lessons of what to do and what not to do. Successfully expanding the Lifeline program to include broadband will require an exceptional level of cooperation from a variety of industry and government players. But changes in the industry- including a major migration by consumers from landline phones to mobile phones and to voice services offered by cable companies - make reform of the Universal Service Fund all but inevitable. In this brief, we take a look at the Lifeline program, the mixed results it has achieved, and some current thinking on its expansion.

WHAT IS LIFELINE?

Lifeline is one of four programs known collectively as the federal "Universal Service Fund." Land line phone companies collect a fee from all phone subscribers every month. That money gets sent to the Universal Service Administration Company, a federal agency. USAC divides the money into four pots: one for schools (e-Rate), one for rural health care communications, one for high-cost rural carriers (High-Cost Fund), and one for low income individuals to make local calls (Lifeline). Land line phone companies bill USAC for any services they provide under these programs. USAC cuts them a check every month. While USAC handles the money, the Universal Service programs are largely shaped and overseen by state public utility commissions. Phone companies decide what services will be available under Lifeline. States differ greatly in the percentage of eligible subscribers who enroll in Lifeline and in the services packages that are available under Lifeline. Some states have their own supplemental state funds which augment the USF program. Other states have never successfully implemented their own Lifeline program.

Phone carriers can choose to offer a subsidized service to low income individuals through the Lifeline Program. The low income customer gets discounted phone service and the phone company gets to dip into the USF to make up the difference. The "Lifelink" program even subsidizes installation fees.

Everyone who owns a telephone pays into the USF. It's not a tax. It's a fee that's assessed on phone companies. They in turn pass on that fee to their customers. Because different companies pay different amounts into the fund, so do customers. How much you pay into the fund as a telephone customer is based on who your phone company is and how many interstate and international calls you make.

THE MANDATE OF ACCESS FOR ALL

Should broadband service be cheaper for low income folks? According to the many experts that we talked to, there is a solid case to be made for subsidizing access to low income individuals.

The Communications Act of 1934 and the Telecommunications Act of 1996 each make universal service a goal. The 1934 Act says that service should be available for all at a “reasonable cost.” While the 1934 Communications Act only considered land line phone service, the 1996 Act opened the door to add newer services such as mobile phones and broadband Internet to the list of services that could be considered as communication tools that deserve to be universally available for the public. The Federal Communications Commission (FCC) could choose to make broadband and/or mobile phone service universally mandated services if they choose.

However, land line phone service is the product of a different era of regulation than the Internet and mobile phones which makes integrating the three services into a neat package a regulatory headache. In the US, landline phone service came up during the New Deal era when government played a more active role in regulating markets. Mobile phones and Internet have their origins in the free-market Reagan era which called for industry to work amongst themselves to solve problems, such as inter-carrier compensation.

How this hodgepodge of the different regulatory structures gets ironed out will shuffle billions of dollars per year in one direction or the other and could well shift the course of these industries. With so much money at stake, and so many parties affected, the call for “Universal Service Reform” has been going on for quite a while, but seems stalled. However, Derek Turner of Free Press believes that momentum is forming on tackling Lifeline expansion, “It’s likely Lifeline will be tackled first.” Experts like Turner and Mark Cooper of Consumers Federation of America hope that expanding Lifeline to include the net could push the rate of home broadband adoption from its current rate of only 2/3 of Americans up to 95% - the highest rate that home phone service ever achieved. To attain Universal Service in broadband, Mark Cooper believes that all measures of success, including a subsidy like Lifeline, must be measured by the same yardstick: “The key issue here is that the success or failure of communication policy in the broadband space has to be measured by adoption not by availability. Affordability equals adoption.”

Would it be better to go for structural reform of the industry to drive the average price down for everyone as many countries with higher broadband adoption rates have done? Or is it better to let the market dictate the price of broadband, but to give subsidies like Lifeline to low-income people? According to Cooper, a Lifeline program is the only likely alternative in the American context. “There is no other way without re-regulation and that ain’t gonna happen.” It’s worth noting that many of the countries who have surpassed the US in the number of broadband subscribers have done so by staying the course of highly regulated communication markets that keep the cost of service low for all consumers, not just low income. Their regulatory models have led to higher adoption rates for broadband service and lower communication costs for public and private sector enterprise including health and education. Korea has achieved universal service of broadband by both pursuing a national policy that drives the cost of ubiquitous broadband low for all consumers and by offering substantial discounts to low income

consumers. Low income consumers in Korea get the same high-quality service options as everyone else, just at a lower price.

The cultural drift away from the New Deal idealism of universal inclusion to free-market enthusiasm has left large divides in the consumer protections among various communication services. Landline phone service rates have always been regulated, while mobile phone and Internet rates are not regulated. State public utility commissions must approve service packages offered by land line phone service providers, but don't oversee mobile phone or Internet services packages. Both state and federal governments have played a heavy hand in coordinating inter-carrier subsidies that allow money to flow from land line providers with low-overhead which serve cities and suburbs to land line providers with high-overhead who serve rural areas.

While it may be tempting to regulators and industry to take their time muddling through, reform can't wait indefinitely. The Universal Service Fund is starting to crack as a groundswell of consumers are abandoning landline service in favor of mobile service and VoIP (Internet phone). According to Lou Manuta of the Public Utility Law Project in New York, Verizon, the largest landline provider in the state, has lost half of its landline customers. Though a mobile phone or VoIP call may seem a lot like a landline phone call to a user, these services don't pay money into or get money out of the state Universal Service Fund and are not subject to consumer protection or service quality standards. Nor are they required to offer low-cost alternatives to low income individuals. The result is that there is a burden on landline providers to pony up more money to subsidize the state USF program including Lifeline, while at the same time they are experiencing dramatic losses in customers and revenues "It's a really untenable situation," Manuta says. The answer in states like California has been dramatic increases in the rates for basic phone service. According to Montes of TURN, a California based utility watchdog group, "In CA, the price cap was just lifted on basic phone services. There is going to be a 30% increase. In 2011 phone companies will be able to charge whatever they want! In a lot of states the rates have gone up. Despite the belief that the increase would not impact the LifeLine Program, Lifeline rates have gone up and we are worried about how much it will cost in 2011. We need a flat fixed rate." This will likely mean that even more consumers will vote with their feet in favor of mobile phone service and VoIP.

LIFELINE LANDLINE: LESSONS LEARNED, CHALLENGES TO OVERCOME

Expanding the Lifeline Program to cover net and cell service is gaining momentum, yet Lifeline so far has a very uneven track record. In a recent paper called "Demand-Side Programs to Stimulate Adoption of Broadband: What Works?" professors Janice Hauge and James Prieger give an overview of several studies that look at how effective the Lifeline Program has been in helping low income people to acquire telephone service. They conclude that Lifeline has been wholly ineffective at meeting its goals. While the money for the fund is administered federally, state public utility commissions and phone companies have a lot of leeway in how Lifeline is implemented from one state to the next. Enrollment rates among eligible people are as low as 3.3% in some states. Nationally, only 1/3 of eligible low income households are signed up for Lifeline. While some states never got their act together, others have lost the ball.

Even though consumers are feeling squeezed by the economy, states like New York and California are seeing a decline in Lifeline subscribers. Lou Manuta reported in a blog post in May that even as the number of New Yorkers on food stamps has increased to 1.1 million, the number of subscribers to Lifeline in New York is only 300,000- a dramatic decrease from the enrollment high of 756,000 Lifeline subscribers back in 1996.

Once praised by groups like the Leadership Council on Civil Rights as having an exemplary Lifeline program, California is seeing a decline in enrollment and coming Lifeline price hikes. Ana Montes of TURN sees many reasons for the decline of Lifeline enrollment in California. “The biggest impact has come from changes in the way Lifeline is promoted. Community-based organizations used to get grants to promote Lifeline. Now they get paid by the hit. Small organizations that really touch the community can’t afford to promote the program anymore.” Another cause for the decline of Lifeline subscribers, according to Montes, are changes in the income verification process. “We had self-certification with random audits. There was very little fraud. Now it’s harder for people to sign up.” Montes also sees that the value of the Lifeline package has eroded since it was introduced, “The service package has been eroding. It has been a decent package.”

However, even eligible customers who know about Lifeline may choose not to sign up. Phone companies select the package of services that are included in a Lifeline package. Then state public utility commissions approve the submitted plans. According to Lou Manuta of PULP, the packages offered by the largest phone companies in New York State don’t include such basic telephone perks such as long distance, call waiting, and caller ID. Customers may not always save money on Lifeline if they want these additional services and can’t get them in a package. Customers prefer the simplicity of the flat rates plans offered by cell companies. Unsurprisingly, academic researchers (Burton and Mayo 2005) have found that when the service package offered under Lifeline is limited, customers vote with their feet. Hauge and Prieger see a lesson in this for implementing a broadband Lifeline program: “This suggests that offering one specific broadband technology, speed, or quality within a universal service plan for broadband might suffer from similar rejection by consumers interested in obtaining a precise service.”

THE SHAKY ENTRANCE OF WIRELESS LIFELINE

The widespread migration to cell phones has affected all consumers including the very poorest. Marcy Shapiro of Twin Cities Community Voice Mail has been supporting the communication needs of the homeless population in Minnesota since 1994. Shapiro became knowledgeable about the Universal Service Fund four years ago when a proposed change to the way that fees are assessed on providers would have wiped out TCCVM’s not-for-profit service. She observes that the widespread use of cell phones and the widespread use of broadband are creating new expectations and new demands on low income people. “To get a low-skill job today you need broadband to apply, but to accept the job you need a phone. If a potential employer doesn’t get you on the phone, they’ll just go to the next person on the list.”

Very low income people often have unstable living arrangements that make cell phones an even more important tool for them than they are for other consumers. So, it is good news that a number of cell phone providers are now piloting Lifeline programs or have been approved to

do so. However, the public interest experts we spoke with who are familiar with the emerging wireless Lifeline programs are highly critical of them so far. They concur that the offerings to date are neither guided by an understanding of Lifeline customers' needs nor are they grounded by an understanding of what they can afford. Marcy Shapiro of Twin Cities Community Voice Mail is skeptical of the motive of cell carriers moving into the low income market via Lifeline subsidies, "The mobile phone market is saturated. The only place for growth is in the low income market."

In California, Ana Montes and Christine Mailloux have been closely following the public utility commission's proceedings regarding expansion of Lifeline to wireless. Wireless providers pay into the California Universal Service fund, but they do not offer a LifeLine program, yet. The CPUC currently has proposed a LifeLine Wireless phone service. But no decision has been made yet. Montes states, "We're concerned about the proposed changes to Lifeline in California. The proposal is so broad. How much is it going to cost for both rate-payers and subscribers? What would a wireless Lifeline plan look like? Will people get stuck with a two year contract? Will people get an affordable plan that provides them with a decent number of minutes, like 700 minutes a month? A plan that offers 60 - 90 minutes does not really allow people to job hunt, check in with loved ones or take care of other important business. What is affordable? There is no research done. There is nothing in there about wireless carriers- no position on what rate they can charge, what features they will offer, no discussion of how complaints will be handled, the cost of handsets or how many minutes."

Amalia Deloney of the Media Action Grassroots Network has worked on broadband policy for community based organizations such as the Main Street Project. She concurs with Montes that grounding affordability in evidence-based assessments is key to meeting the needs of low-income customers. "Affordability is the outcome of real wages minus cost of living expenses. To make communication services affordable for everyone we need targeted strategies that take into account income and living expenses across a spectrum from those with very tiny incomes like those on disability to moderate income earners with families."

While several cell providers have applied for or have been approved to be Lifeline providers, the most successful wireless Lifeline provider has been TracFone. State-based public interest advocates have much to say about the TracFone Lifeline program. According to Christine Mailloux of TURN, "The TracFone Lifeline pilot program called Safelink is now operating in about 20 states. Safelink customers have a proscribed number of minutes which ranges from 50 to 70 minutes per month depending on the state. Safelink consumers pay 20 cents a minute for additional minutes or they hold onto the phone without service for the rest of the month. We were told by TracFone that only 10% of the people on the SafeLink service request additional minutes. That 10% figure is very anecdotal because it came from TracFone itself, we don't have any proof of that figure. We do not know if the other 90% are running out of minutes, or what they are doing for phone service once they run out. The likelihood that these people are staying within their minutes is slim." Montes questions the merit of handing out subsidies for services that don't meet consumer needs. "In my opinion, drawing Lifeline funding for a mobile service with less minutes than meets consumer needs is not a good model for wireless Lifeline service. With 50 minutes a month can you really use it to do job hunting? It's really just an emergency phone. That's not a good model." Keep in mind that this includes incoming and outgoing

minutes. TCCVM has found that to meet even basic communication needs, low-income people need several times the amount of minutes that are now being offered by the TracFone's Safelink. Shapiro sees the Safelink service as "exploiting people" accustoming them to more expensive services than they could get by other means such as calling cards- if they can afford it- or leaving them incommunicado for days or weeks as they run out of minutes early in the month. Mailloux states, "There is a lot of good feeling, a lot of noise about how to design the program so customers don't get screwed but when you sit down and look at the program as proposed it won't give them choice. There is no guarantee that they'll get service they need." While discussed as a pilot, TracFone is now the second largest Lifeline provider in New York State.

Twin Cities Community Voice Mail (TCCVM) has operated a state-wide voice mail service for homeless people in Minnesota since 1994. Though voice mail is outdated, it is an affordable way for homeless people to stay in touch with friends, family, services, and work. TCCVM gives homeless people their own phone number to receive calls, a service that costs TCCVM about \$5 per month per person. They serve 5000 people a year, 70% of whom are homeless. TCCVM has been conducting focus groups with low income to moderate income individuals to better understand both the needs of low income market and what is truly affordable for them. Their research indicates that the minimum number of minutes that are required by low income people to make only business related calls such as connecting with employers, making doctors appointments, and finding temporary housing is 150 minutes a month. This does not include social connections with friends and family. "We think the bare bones minimum is 150 minutes per month. We'd like to give 200-300 minutes but it's just too expensive. In focus groups people say they would use 500-600 minutes if they could afford it." TCCVM has begun approaching cell providers in Minnesota to see if any of them are willing to come up with an affordable service plan to meet the needs of low income consumers, perhaps through a buying cooperative. They are about to start a pilot project with 25 phones that will offer unlimited minutes for \$50 a month.

But \$50 a month is out of range for many low income people, Shapiro continues, "Some low income people can't afford anything. Some can afford 10 dollars a month. We're in contact with low income people on public assistance. Maybe they can afford \$25 a month. A lot of low-income people are so desperate for a cell phone they'll pay that before food and rent. That's the one bill they'll pay first. If you're struggling everyday, you want to talk to your best friend."

BEYOND THE PLATFORM

Lifeline expansion in California so far means that eligible families must choose whether they get one landline home phone or one cell phone. Mailloux states, "We concerned that the push for wireless service is happening without enough consideration for what low income people really need. If a family has opted to go with mobile, what happens to the rest of the household? What happens when that person walks out of the door with the phone? What if there is an emergency in the house? These things should have been addressed before incentivizing customers to go wireless." Shapiro believes that for the very lowest income people, mobile technologies that travel with them are preferable to home connections since "home" may not be a permanent location. "The best option for our very poorest would be a smart phone or netbook which could

provide both net and cell access.” So far, none of the pilot Lifeline cell phone projects offer web services as part of their program.

Edyael Casaperalta of the Center for Rural Strategies sits on a rural Universal Service Fund task force. Casaperalta also sees the necessity for flexibility in how low income people get access to communication, “ In south Texas when a hurricane strikes the only way to stay connected is landlines. The wireless goes down. Your mobile phone doesn’t work. Cable goes out. Even when you’re electricity goes out your phone still works. We know that broadband is not a substitute for telephone. We want to have a choice of platforms.”

Equipment costs are another barrier that has yet to be worked out. Shapiro notes that cell phones cost more than home phones, she adds, “ In other countries you can get a smart phone for 25 or 30 dollars and use that to access the web. Here a smart phone is ten times that, the web access is more expensive and it’s not as good.” Mallioux echoes this sentiment, “Even if people can get Lifeline on their cells, can they afford the handset?”

Another detail of wireless and broadband Lifeline that is yet to be worked out is that quality of service guidelines and consumer protections are not consistent among landline phone, wireless, and broadband services. Lou Manuta of the Public Utility Law Project, “Consumers don’t realize that when they move from land line to mobile service they lose many consumer protections.” Ana Montes sees many quality of service issues that need to be ironed out for vulnerable consumers. “We get lots of stories of no cell reception in a lot of the residences. We hear a lot of stories when there is an emergency that cell phones slow things down. Emergency response is much faster with landlines. People tell us after emergencies, “Thank god, I had a landline.”

Interestingly, Mailloux, Montes, and Manuta all lay blame for the poor performance of Lifeline in part on the way that Lifeline is clumped together by decision makers as just one piece of the four distinct bits of the Universal Service Fund. They all mentioned how state hearings typically try to deal with USF as a whole instead of paying separate attention to the rather different aims of each USF program including Lifeline. Policy analyst, Derek Turner of Free Press states, “The bulk of the job for USF revolves around settling inter-carrier fees between phone service providers. The fund mainly balances out small, midsize, and large companies who provide phone service.” When Lifeline has to share focus with such different but complex issues, it’s not a wonder that Lifeline isn’t performing up to expectations.

CALL FOR PUBLIC PARTICIPATION

Even among experts who understand Lifeline needs improvement, it is believed to be the best option to support home adoption of broadband and to support access to mobile telephones. The current expansion of Lifeline into wireless seems to be perpetuating the flaws of landline Lifeline service. Montes states, “ How do you determine if Lifeline meets people’s needs? Public participation. On affordability it’s crucial.”

Without thoughtful intervention, we should expect that Lifeline broadband will share the flaws of its predecessors. The experts focused on federal Lifeline policy - Cooper, Turner - and those focused on state Lifeline policy- Manuta, Mailloux, Montes- observe a vacuum among affected

groups influencing Lifeline policy. But, public participation on this issue is stymied by its complexity and the way that vital aspects of the program are split between states' public utility commissions, the federal government, and providers. However, the cost of not getting involved in Lifeline expansion is also high. Cooper states, "Broadband infrastructure is the infrastructure for overcoming poverty. This is a space that should be occupied by low income advocates and communities of color."

Where should an advocate start with such a complex issue? To gain inspiration for how to move forward, Deloney looks backward. "There is something really beautiful and profound about the intention of the 1934 Communications Act. It talks about communication for all. It talks about non-discrimination. That's not something you typically see in US law. We really have to go back to the intent of that moment."