



The Federal Lifeline Program: A Year of Seismic Changes

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The Old Universal Service



- Ma Bell got monopoly in exchange for:
 - Cheap local phone service
 - Service for all areas, including rural

“One policy, one system, universal service”



A Highway of Communication

It goes by your door. Every home, every office, every factory, and every farm in the land is on that great highway or within reach of it. It is a highway of communication and every Bell Telephone is a gateway by which it can be reached.

Millions of messages travel over this highway every day. In the great cities they follow one another like the bullets from a machine gun, and over the wide reaches of the country they fly with the speed of shooting stars.

The Bell service carries the thoughts and wishes of the people from room to room, from house to house, from community to community, and from state to state.

This service adds to the efficiency of each citizen, and multiplies the power of the whole nation.

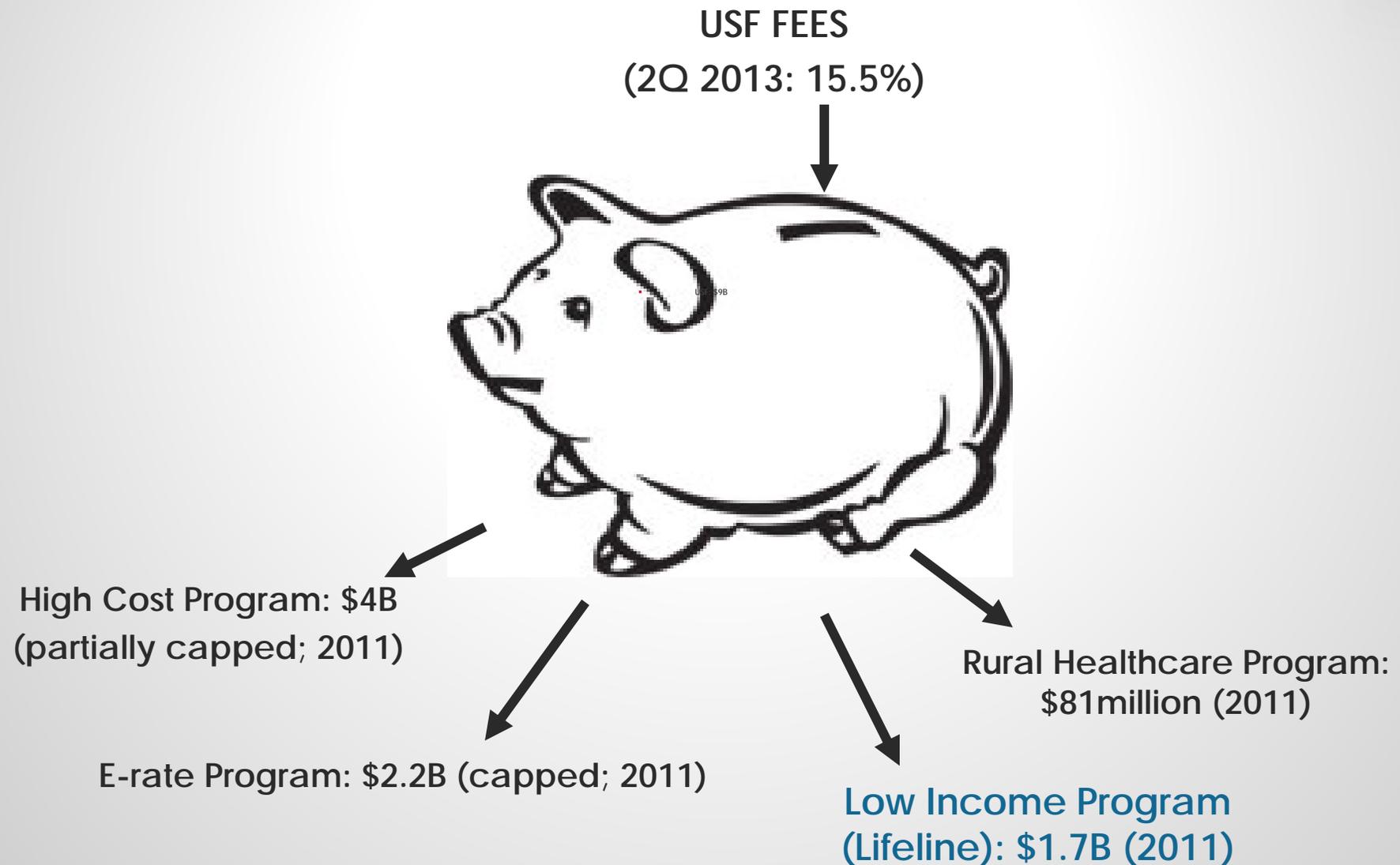
The Bell system brings eighty million men, women and children into one telephone commonwealth, so that they may know one another and live together in harmonious understanding.

A hundred thousand Bell employees are working all the time on this highway of communication. Every year it is made longer and broader, and its numerous branches are more widely extended. Every year it is furnished with a larger number of telephone gateways and becomes the means of greater usefulness.

The Bell Long Distance Telephone will meet your new needs and serve your new purposes. It means—one policy, one system, universal service. Every Bell Telephone is the center of the system.

**AMERICAN TELEPHONE AND TELEGRAPH COMPANY
AND ASSOCIATED COMPANIES**

Modern Universal Service (Post 1996)



Lifeline: Brief Overview



- Subsidies to lower retail rates of voice services to low income people
 - Qualify based on
 - participation in another social program (e.g., food stamps) or
 - certain income level (most states 135% of federal poverty guidelines)
 - Carrier must be an “eligible telecommunications carrier” (ETC) and offer “voice telephony”

Lifeline: Fact vs. Myth



- Myth: Lifeline pays for cell phone handsets.
- Fact: Lifeline subsidizes the service, not handsets.
- Myth: Non-responses and de-enrollments mean that the subscriber was never eligible.
- Fact: Non-response gives no data regarding eligibility upon sign up.
- Myth: Lifeline is funded with taxpayer dollars.
- Fact: Lifeline is funded through industry contributions.

Lifeline's Origins



- ~~Obamaphone~~ *Reaganphone*
 - Federal Lifeline created in 1985
- 1996 Act introduced competition for residential market and created the modern Lifeline/Link Up program
 - ILECs saw Lifeline as a burden
- In the 2000s, wireless grew exponentially and wholesale pricing dropped
- 2008 severe economic recession
 - 1 in 8 on food stamps
- 2008 Lifeline participation expanded

From Underutilization to Growth



- 2009: 29% participation
 - 17 M households enrolled in Lifeline
 - 24.5 M eligible households (USAC est.)
- End 2012: 55% participation (approx.)
 - 17 M households enrolled in Lifeline
 - Roughly 31 M eligible households (based on food stamp eligibility)
- Conclusion:
 - Still approx. 14 M households unserved
 - gap is rapidly closing on historically low participation

Drivers of Growth



1. Poor Economy

- *Almost two-thirds of the growth in spending on [food stamps from 2007-2011] stemmed from . . . [l]abor market conditions [which] deteriorated dramatically between 2007 and 2009 and have been slow to recover ..."*
<http://www.cbo.gov/publication/43175> (emphasis added)

2. Wireless became affordable for resale

- Lifeline population is adopting wireless like the rest of us
 - almost 1/3 all households only wireless service
- Big wireless carriers:
 - Don't focus on Lifeline population as a general rule
 - Credit checks, long term contracts, early term. fees
 - Focused on high margin plans, brand preservation, and top 30% who buy majority of smartphones

2012: Enormous Changes to the Program



- Sign up process: no longer an honor system
 - Proof of eligibility (documentation like food stamp card)
- Further safeguards
 - Continued interim process of eliminating duplicates
 - 100% annual re-certification
 - Lengthy end user certifications and marketing disclosures
 - One-per-household finally codified; parameters for group housing
 - Usage (texting doesn't count but should)
 - Audits
- Funding changes
 - Link Up eliminated (with limited exceptions)
 - Standard reimbursement rate

Savings Thus Far



- \$214 M savings by end 2012
- \$400 M savings anticipated by end 2013
- Due to:
 - 60-day non-usage
 - Proof
 - Interim duplicate resolution process
 - Link Up elimination
- Savings from annual re-certification process not yet published
- Databases will bring more

Reforms are Not Over



- Continued implementation of the reform order
 - “NLAD” database to systematically prevent duplicates at the ordering stage
 - Being developed
 - Launch end 2013/early 2014
 - Eligibility database
 - 2014??
 - Household duplicates (same address, different subscribers)
 - Pilot program to assess how to best resolve issues remaining after household worksheet

Annual Re-Certification



- Subscriber annually sent form (or asked to provide oral certification) to affirm continued qualification
- Non-response a big problem—often misconstrued!!
 - Does not mean that subscriber was never eligible or no longer eligible
 - Transient population that moves often, homeless
 - Forms may be confusing—why need to respond if no change in status? Legalistic language
 - Non-response = Non-response
 - Also means no more Lifeline funding

Databases: Savings, Regulatory Certainty



- Once established, much of the uncertainty of serving the Lifeline population will be removed
 - End 2013?
 - ETC designation can take months, sometimes a year, depending on the state
- State opt-outs
- Challenges in Establishing:
 - Privacy concerns
 - Getting the states to work together

Shift to Broadband: Modernizing Lifeline



- All USF shifting to funding broadband
 - High Cost → the new Connect America Fund
 - Schools and Libraries (“E-rate”) and Rural Healthcare programs already funding broadband
- Pilot to fund broadband through Lifeline launched in early 2013
 - \$13 million awarded
 - 12 months
 - Then, study of what subsidy level needed, end user equipment, etc.

Shift to Broadband: Modernizing Lifeline



- May help providers tap into the unserved portions of this market
- Until broadband funded, bundling blessed in Lifeline reform order
 - Lifeline-supported services may be bundled with other, non-supported services such as broadband
 - May help retain subscribers to non-supported services



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