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October 18, 2012

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Via Electronic Transmission

Julius Genachowski,
Chairman
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Dear Chairman Genachowski,

I write about a matter concerning the Federal Communications Commission (FCC) program known as "Lifeline," which provides discounted phone service to low-income consumers. The Lifeline benefit program was created by Congress over 25 years ago with the best of intentions: to bring basic telecommunication services to millions of American families that otherwise would be deprived of this basic necessity. I am worried that those good intentions have been hijacked, turning this otherwise worthwhile program into a gross misuse of the public fisc.

According to Bloomberg News, there are over 12.5 million Lifeline accounts today, up from 7.1 million in 2008.¹ Each of these over 12.5 million Lifeline subscribers receives a free phone and 250 minutes of monthly airtime courtesy of the federal government, which pays mobile phone providers \$10 a month for each user.² In order to finance these benefits, the federal government taxes ordinary consumers, requiring them to contribute part of each phone bill to the Universal Service Fund. The larger and more costly the program grows as more and more eligible people apply, the higher this tax becomes to ordinary users.

Critics of the program assert that Lifeline has become a taxpayer-funded benefit program filled with fraud, waste, and abuse. Many applicants are apparently defrauding the program by receiving multiple Lifeline subsidies for their wireless devices and landline phones. An audit conducted last year of the program found that 269,000 wireless Lifeline subscribers were receiving free phones and monthly service from two or more carriers.³ Furthermore, the program is subsidizing mobile phone carriers because it is quite clearly a large source of revenue: these corporations may sell extra cellular minutes to low-income customers once they have consumed their free, government-provided minutes. Indeed, it seems that one of the largest benefactors of

¹ Joshua Rhet Miller, *Viral Video Touting Free 'Obama Phone' Puts Spotlight on Federal Program*, FOXNEWS.COM, Sept. 29, 2012, <http://www.foxnews.com/politics/2012/09/28/viral-video-touting-obama-phone-puts-spotlight-on-16-billion-federal-program/>.

² Todd Shields, *How an FCC Free Phone Program Went Rogue*, BLOOMBERG-BUSINESSWEEK MAGAZINE, Feb. 2, 2012, <http://www.businessweek.com/magazine/how-an-fcc-free-phone-program-went-rogue-02022012.html>.

³ *Id.*

this program is Carlos Slim, a foreign national billionaire who has seen millions of dollars in profits on Lifeline services and phones.⁴ If these allegations are true, then Lifeline has become a program that has sharply departed from its intended purpose.

In the past few weeks, a video putting a spotlight on the Lifeline program has gone viral on the Internet and has sparked a national debate about the number of Americans who do not pay taxes but get substantial government benefits.⁵ Congressman Tim Griffin notes that the program has “swelled from \$772 million in 2008 to \$1.6 billion” and is a government-run program that continues to grow while costing the taxpayer more and more money.⁶ In fact, Congressman Griffin has offered legislation to cancel the program amidst claims that subsidized phones are being sent to ineligible applicants and deceased persons.

I am encouraged to learn that the FCC has begun addressing some of the more egregious allegations of fraud, waste, and abuse in the Lifeline program through new modernization techniques and creating updated databases.⁷ However, I have a responsibility to root out government waste and the fraudulent collection of public benefits wherever they may exist. To that end, please answer the following questions to help me better understand the Lifeline program and steps that have been made to save the taxpayers’ money:

- Explain why and what factors have caused the Lifeline program to almost double from 7.1 million to 12.5 million subscribers since 2008.
- Is there a metric in place to calculate the number of subscribers that purchase cellular minutes once their free minutes are used? If so, provide the number of subscribers who purchase extra air time minutes each month. Additionally, provide the number of cellular minutes each subscriber purchases on average and in total.
- Describe what procedures have been implemented to help curb the fraud, waste, and abuse in the Lifeline program. Explain the results the procedures have made in deterring fraud, waste, and abuse in the program.
- The FCC has already discovered more than \$100 million of fraud in the Lifeline program. How many cases of fraud related to the Lifeline program have been prosecuted? Please provide a list of all successful prosecutions.
- How much money in fraud, waste, and abuse do you estimate the Lifeline program is costing American taxpayer annually? Provide this information for fiscal years 2008, 2009, 2010, 2011, and 2012.

⁴ *Mexican Billionaire Making Millions From American Government Program that Gives Poor Free Cell Phones*, DAILY MAIL, Oct. 10, 2012, <http://www.dailymail.co.uk/news/article-2215966/Mexican-billionaire-making-millions-American-government-program-gives-poor-free-cell-phones.html>.

⁵ Miller, *supra* note 1.

⁶ *Id.*

⁷ See *Lifeline Program for Low-Income Consumers*, FCC ENCYCLOPEDIA, <http://www.fcc.gov/lifeline> (last visited Oct. 1, 2012).

- Do you anticipate the Universal Service Fund tax to be reduced once the program has been scrubbed and the guidelines are fully enforced?
- As noted above, there is pending legislation to end the Lifeline program. Do you support legislation to eliminate or at least drastically modify the program? If not, what changes to the current legislation would you support? What other changes to the program would you recommend?
- Currently, the Lifeline program pays for up to 3,000 free text messages per subscriber each year. Does the FCC believe that providing 3,000 free text messages is an acceptable use of FCC universal service fees?
- Does the FCC audit phone bills to ensure that Lifeline users are not using their free phones and phone plans for improper or illegal purposes? For example, how does the FCC ensure that lifeline users are not using their free phones and phone plans to dial “adult” phone lines? Please provide the guidelines the FCC gives Lifeline program participants.
- According to news reports, the FCC is also attempting to expand the lifeline program to include subsidized broadband internet. What steps has the FCC taken to ensure that subsidized broadband access does not increase universal service fees?
- How much does each American pay per year to subsidize the Lifeline program?
- Can a user opt out of the FCC universal service fees?

Given the serious nature of this inquiry and the ongoing risk to American taxpayer dollars, I request that you respond to this letter no later than October 24, 2012.

Sincerely,



Charles E. Grassley
Ranking Member