

# Federal Communications Commission

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**Fiscal Year 2016 Budget in Brief  
February 2015**

## Table of Contents

INTRODUCTION.....	1
Summary of Request.....	3
FY 2016 Proposed Appropriation Language .....	4
Legislative Proposals .....	5
Summary of FY 2014 – FY 2016 FTEs and Funding by Bureaus and Offices.....	6
Summary of Changes – Regulatory Fees .....	8
Narrative Explanation of Increases – Salaries and Expenses.....	9
Spectrum Auctions - Explanation of Requested Change .....	13
Spectrum Auction Expenditures Report.....	14
Summary Table – Disbribution of Resources – Spectrum Auctions.....	17
Spectrum Auctions Program .....	18
Spectrum Auctions and Collections .....	19
Recovery of USF Oversight Cost.....	20

# INTRODUCTION

The Federal Communications Commission (FCC or Commission) is pleased to present its fiscal year (FY) 2016 budget request. The Commission requests \$388,000,000 in budget authority from regulatory fee collections to carry out its core statutory mission and Congressional mandates. Over 90 percent of the increase relative to FY 2015 enacted represents the funds needed in FY 2016 to initiate a required move through GSA to new headquarters or headquarters restacking. This process is necessitated by the expiration of the FCC's current lease. GSA is working with the Commission to identify the most-cost effective alternative to the current leasing agreement. Otherwise, the Commission requests funds to follow through on essential information technology (IT) upgrades, as well as other projects initiated during FYs 2014 and 2015. These initial budget increases have been developed to provide cost savings as follows:

- (1) Move or restack the FCC Headquarters, as required by the expiration of the existing lease, establishing a more efficient space utilization to reduce the Commission's footprint. This process will save the Commission up to \$119 million over fifteen years.
- (2) Continue the IT modernization which includes replacing the FCC's legacy infrastructure with a managed IT service provider to generate efficiencies and savings; rewriting legacy applications as part of a modular "shift" to a modern, resilient cloud-based platform; and improving the IT resiliency of the FCC enterprise. These measures are estimated to realize cost savings between two and three million dollars by FY 2017 and additional five to \$10 million over the next five years.

Also, the initial budget increase is critically needed to fund the following:

- (1) Increase the Office of Inspector General baseline budget for additional staff and contractor support.
- (2) Develop and implement the Do-Not-Call registry for telephone numbers used by Public Safety Answering Points (PSAPs).
- (3) Continue activities in support of the National Broadband Map.

In addition, the Commission requests the transfer of \$25,000,000 from the Universal Service Fund (USF) to the Commission's appropriation to cover the costs related to the oversight of the USF programs. In particular, the funding will help improve USF program integrity by reducing fraud, waste, and abuse through targeted investments aimed at reducing and recovering improper payments, among other critical oversight functions.

In furtherance of these objectives and the FCC's mission, the FY 2016 budget request will be used to support the following Strategic Goals:

### **Strategic Goal 1: Promoting Economic Growth and National Leadership**

*Promote the expansion of competitive telecommunications networks which are a vital component of technological innovation and economic growth, helping to ensure that the U.S. remains a leader in providing its citizens opportunities for economic and educational development.*

### **Strategic Goal 2: Protecting Public Interest Goals**

*The rights of network users and the responsibilities of network providers form a bond that includes consumer protection, competition, public safety and security. The FCC must protect and promote this Network Compact.*

### **Strategic Goal 3: Making Networks Work for Everyone**

*In addition to promoting the development of competitive networks, the FCC must also ensure that all Americans can take advantage of the services they provide without artificial impediments.*

### **Strategic Goal 4: Promoting Operational Excellence**

*Make the FCC a model for excellence in government by effectively managing the FCC's resources and maintaining a commitment to transparent and responsive processes that encourage public involvement and best serve the public interest.*

The Commission's FY 2016 budget submission also includes a request for an increase in the cap on spending of Auctions proceeds to \$117 million to fund ongoing licensing via auctions, as well as Broadcast Television Incentive Auction administration, and relocation of auction-related personnel and systems associated with the FCC Headquarters' move/restacking initiative.

As in prior years, the Commission is submitting details of its FY 2016 budget request at the organizational level to show the proposed use of budgetary resources. In addition, the Commission's budget request also shows the proposed use of budgetary resources by key activities within each bureau and office. We welcome the budgetary process and stand ready to provide Congress with the necessary information to ensure effective operation of the Commission.

## Summary of Request

The FCC requests a fiscal year (FY) 2016 appropriation of \$388,000,000 from offsetting collections and a \$25,000,000 transfer of funds from the Universal Service Fund for a total Salaries and Expenses direct program level of \$413,000,000. The projected full-time equivalents (FTEs) is 1,671 from the requested resources. Further, the FCC requests \$117,000,000 in retained auction proceeds to administer critical spectrum auctions in furtherance of making more spectrum available for commercial use.

The Commission will use FY 2016 resources to carry out its fundamental mission to ensure that the American people have available, at reasonable costs and without discrimination, rapid, efficient, Nation-wide and world-wide communications services whether by radio, television, wire, wireless, satellite, or cable.

(Dollars in Thousands)

	FY 2015		FY 2016		Requested Change	
	FTE	Appropriation	FTE	Congressional Request	FTE	Amount
<b>Budget Authority to use Offsetting Collections:</b>						
Regulatory Fees - Commission	1,660	\$328,754	1,615	\$375,746	(45)	\$46,992
Regulatory Fees - Office of Inspector General (OIG)	48	\$11,090	56	\$12,254	8	\$1,164
<b>Subtotal - Offsetting Collections</b>	<b>1,708</b>	<b>\$339,844</b>	<b>1,671</b>	<b>\$388,000</b>	<b>(37)</b>	<b>\$48,156</b>
<b>Authority to Spend Other Offsetting Collections:</b>						
Economy Act/Misc. Other Reimbursables		\$6,000		\$4,000		(\$2,000)
Auction Cost Recovery Reimbursements - Commission		\$105,738		\$116,481		\$10,743
Auction Cost Recovery Reimbursements - OIG		\$262		\$519		\$257
<b>Subtotal - Other Offsetting Collections</b>		<b>\$112,000</b>		<b>\$121,000</b>		<b>\$9,000</b>
<b>Subtotal: Offsetting Collections</b>	<b>1,708</b>	<b>\$451,844</b>	<b>1,671</b>	<b>\$509,000</b>	<b>(37)</b>	<b>\$57,156</b>
<b>Other Budget Authority:</b>						
Credit Program Account		\$500		\$100		(\$400)
OIG - Universal Service Fund (USF)		\$4,130		\$1,685		(\$2,445)
FCC - Recovery of USF Oversight Cost		\$0		\$25,000		\$25,000
<b>Subtotal: Other Budget Authority</b>		<b>\$4,630</b>		<b>\$26,785</b>		<b>\$22,155</b>
<b>Total Gross Proposed Budget Authority</b>	<b>1,708</b>	<b>\$456,474</b>	<b>1,671</b>	<b>\$535,785</b>	<b>(37)</b>	<b>\$79,311</b>

## **FY 2016 Proposed Appropriation Language**

For necessary expenses of the Federal Communications Commission, as authorized by law, including uniforms and allowances therefore, as authorized by 5 U.S.C. §§ 5901-5902; not to exceed \$4,000 for official reception and representation expenses; purchase and hire of motor vehicles; special counsel fees; and services as authorized by 5 U.S.C. § 3109, \$388,000,000, to remain available until expended: *Provided*, That \$388,000,000 of offsetting collections shall be assessed and collected pursuant to section 9 of title I of the Communications Act of 1934, shall be retained and used for necessary expenses and shall remain available until expended: *Provided further*, That the sum herein appropriated shall be reduced as such offsetting collections are received during fiscal year **2016** so as to result in a final fiscal year **2016** appropriation estimated at **\$0**: *Provided further*, That any offsetting collections received in excess of \$388,000,000 in fiscal year **2016** shall not be available for obligation: *Provided further*, That remaining offsetting collections from prior years collected in excess of the amount specified for collection in each year and otherwise becoming available on October 1, **2015**, shall not be available for obligation: *Provided further*, That, notwithstanding 47 U.S.C. § 309(j)(8)(B), proceeds from the use of a competitive bidding system that may be retained and made available for obligation shall not exceed \$117,000,000 for fiscal year **2016**, including not to exceed \$518,981 for obligation by the Office of the Inspector General: *Provided further*, That, of the amount appropriated under this heading, not less than \$12,253,600 shall be for the salaries and expenses of the Office of Inspector General. *Provided further*, That, in addition \$25,000,000 shall be transferred from the Universal Service Fund to the Commission in fiscal year **2016** to remain available until expended, to oversee the Universal Service Fund.

## **Legislative Proposals**

The Administration is proposing legislative changes in the President's FY 2016 Budget that pertain to the FCC and that are designed to improve spectrum management and represent sound economic policy. The proposed legislative changes are included below.

### **Spectrum License User Fee**

To promote efficient use of the electromagnetic spectrum, the Administration proposes to provide the FCC with express authority to use other economic mechanisms, such as fees, as a spectrum management tool. The FCC would be authorized to set user fees on unauctioned spectrum licenses, which could be useful in certain instances. Fees would be phased in over time to determine the appropriate application and level for fees. Fee collections are estimated to begin in 2016, and total \$4.8 billion through 2025.

### **Repurpose 1675 -1680 Megahertz using Auction or Fee Authority**

The Administration proposes to direct that the FCC use either auction or fee authority to repurpose spectrum frequencies between 1675-1680 megahertz for wireless broadband use by 2017, subject to sharing arrangements with Federal weather satellites. Currently, the spectrum is being used for radiosondes (weather balloons). A new weather satellite that is scheduled for launch in 2016 will operate in adjacent frequencies. If this proposal is enacted, the National Oceanic and Atmospheric Administration would move the radiosondes to another frequency, allowing the spectrum to be repurposed for commercial use with limited protection zones for the remaining weather satellite downlinks. Without this proposal, these frequencies are unlikely to be repurposed to commercial use. The proposal is expected to raise \$230 million over the next 10 years.

### **Auction Domestic Satellite Service Spectrum Licenses**

The FCC would be allowed to assign licenses for certain satellite services that are predominantly domestic through competitive bidding, as had been done before a 2005 court decision called the practice into question on technical grounds. The proposal is expected to raise \$50 million from 2016-2025.

## Summary of FY 2014 – FY 2016 FTEs and Funding by Bureaus and Offices

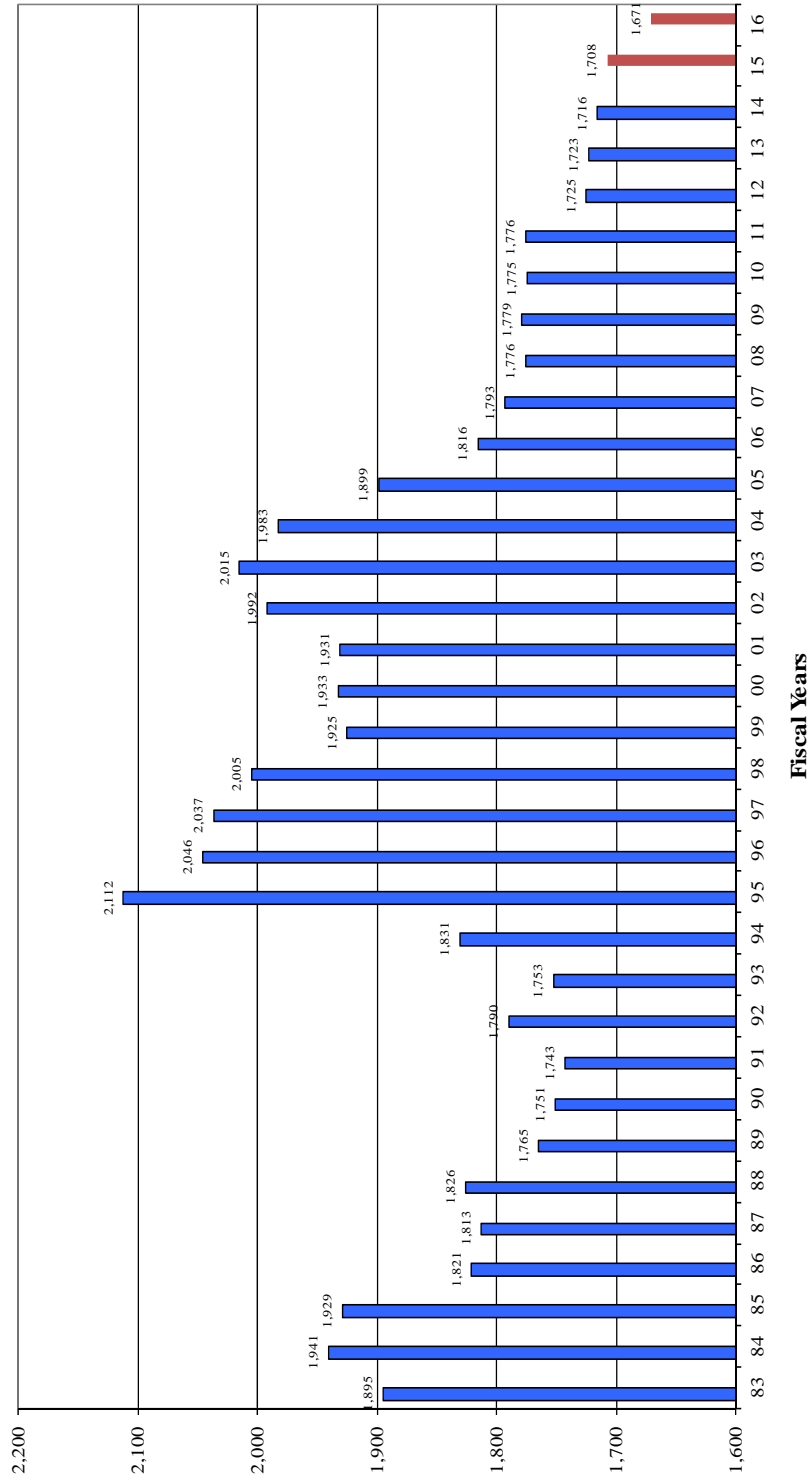
(Dollars in Thousands)

Bureaus and Offices	FY 14		FY 15		FY 16	
	FTEs	Actuals	FTEs	Appropriation	FTEs	Congressional Request
Chairman and Commissioners	23	\$4,492	23	\$5,105	23	\$5,207
Consumer & Governmental Affairs Bureau	151	\$22,992	148	\$23,742	144	\$23,641
Enforcement Bureau	259	\$44,416	254	\$44,438	246	\$44,051
International Bureau	117	\$21,129	116	\$21,104	113	\$20,942
Media Bureau	179	\$26,215	178	\$26,585	173	\$26,341
Public Safety & Homeland Security Bureau	109	\$18,489	108	\$17,771	106	\$17,741
Wireless Telecommunications Bureau	216	\$16,167	215	\$16,528	210	\$15,882
Wireline Competition Bureau	172	\$30,831	171	\$30,393	165	\$30,222
Office of Administrative Law Judges	4	\$356	4	\$372	4	\$380
Office of Commun. Business Opportunities	12	\$1,929	12	\$1,935	12	\$1,974
Office of Engineering & Technology	89	\$15,375	89	\$15,489	86	\$15,407
Office of the General Counsel	75	\$14,186	75	\$14,383	73	\$14,282
Office of Legislative Affairs	12	\$1,978	12	\$2,205	12	\$2,250
Office of the Managing Director <sup>1</sup>	210	\$96,263	207	\$101,327	200	\$175,099
Office of Media Relations	15	\$2,610	15	\$2,849	15	\$2,905
Office of Strategic Planning & Policy Analysis	29	\$4,549	29	\$3,874	29	\$3,757
Office of Workplace Diversity	4	\$745	4	\$653	4	\$666
Recovery of USF Oversight Cost		\$0		\$0		(\$25,000)
<b>FCC SUBTOTAL</b>	<b>1,676</b>	<b>322,722</b>	<b>1,660</b>	<b>\$328,754</b>	<b>1,615</b>	<b>\$375,746</b>
Office of Inspector General	40	10,923	48	\$11,090	56	\$12,254
<b>FCC TOTAL</b>	<b>1,716</b>	<b>\$333,645</b>	<b>1,708</b>	<b>\$339,844</b>	<b>1,671</b>	<b>\$388,000</b>

Note 1 - The Office of the Managing Director will manage the GSA-required HQ Move/Restacking.



## Historical & Estimated FTEs FY 1983 - 2016



## Summary of Changes – Regulatory Fees

(Dollars in Thousands)

	FY 2015 Appropriation	FY 2016 Congressional Request	Net Change
Offsetting Collections	\$328,754	\$375,746	\$46,992
Offsetting Collections - OIG	11,090	12,254	1,164
<b>Total Spending Authority - Offsetting Collections</b>	<b>\$339,844</b>	<b>\$388,000</b>	<b>\$48,156</b>
FCC Full-Time Equivalents	1,660	1,615	(45)
FCC-OIG Full-Time Equivalents	48	56	8
<b>Total Full-time Equivalents</b>	<b>1,708</b>	<b>1,671</b>	<b>(37)</b>

### Explanation of Changes

#### FCC - Without Office of Inspector General:

##### **Salaries and Inflationary Increases to Base:**

Salary Increases - Pay Raise (1%)	\$2,387
Salary Increases - Within Grade & Career Ladder Increases (1%)	\$2,468
Non Salary Increases (1.6%)	\$1,514

**Subtotal** **\$6,369**

##### **Other Adjustments to Base**

IT - Broadband Map	\$3,000
IT - Public Safety Answering Points (PSAP) Do Not Call Registry	\$600
IT - Replacing FCC's Legacy Infrastructure with a Managed IT Service Provider	\$5,790

**Subtotal** **\$9,390**

##### **One-Time Requests:**

FCC HQ Move/Restacking	\$44,169
IT - Rewriting of FCC Legacy Applications as a Modular "Shift" to a Modern, Resilient Cloud-based Platform	\$9,569
IT - Improving the Resiliency of the FCC Enterprise	\$2,245
IT - Public Safety Answering Points (PSAP) Do Not Call Registry	\$250

**Subtotal** **\$56,233**

Recovery of USF Oversight Cost (\$25,000)

**FCC Subtotal - without Office of Inspector General** **\$46,992**

#### FCC - Office of Inspector General (OIG):

OIG Base Increase (Eight FTEs & Contract Services) \$1,164

**TOTAL** **\$48,156**

## Narrative Explanation of Increases – Salaries and Expenses

### Salaries and Inflationary Increases to Base

**\$6,369,123**

1. **Personnel Compensation and Benefits** - The requested \$4,855,473 provides funds to cover the cost of 1% FY 2016 pay raise (\$2,386,955) and 1% within grade and career ladder increases (\$2,468,518).
2. **Non-Salary Increases** - The requested \$1,513,650 provides expected inflationary increases for space rentals (GSA and non-GSA facilities), phones, utilities, printing and reproduction services, contractual services, and supplies. These increases are developed in accordance with OMB guidelines for projected inflationary costs of 1.6%.

### Other Increases to Base

**\$10,553,707**

#### 1. **IT Modernization (\$9,390,107)**

##### a. **National Broadband MAP: (\$3,000,000)**

In FY 2014 and prior fiscal years, maintenance and improvement costs for the National Broadband Map were included in the Department of Commerce's National Telecommunications and Information Administration's (NTIA) appropriations. Subsequently, NTIA entered into reimbursable agreements with the FCC for the work performed by the Commission staff. In FY 2015, the Commission will be fully responsible for the maintenance and improvement costs of the National Broadband Map. The modernization of FCC Form 477 will drive an evolution of the National Broadband Map to further improve its utility as a key resource of broadband deployment for consumers, policymakers, researchers, economists, and others. The online platform will leverage previous investments with new approaches to open government data and in creating a robust and sustainable online platform. The ongoing maintenance and improvement costs of these efforts for FY 2016 will be \$3 million.

##### b. **Public Safety Answering Points (PSAP) Do Not Call Registry: (\$600,000)**

Section 6507 of the *Middle Class Tax Relief and Job Creation Act of 2012* requires the Commission to create a Do-Not-Call registry for telephone numbers used by Public Safety Answering Points (PSAPs) and to prohibit the use of automatic dialing equipment to contact those numbers. PSAPs are facilities that have been designated to receive emergency calls and route them to emergency service personnel. On October 17, 2012, the Commission released a Report and Order creating such a registry. Under the statute, verified PSAP administrators or managers must be able to place into the PSAP registry telephone numbers that are used for the provision of emergency services or for communications between public safety agencies.

**c. Replacing FCC's Legacy Infrastructure with a Managed IT Service Provider: (\$5,790,107)**

The FCC, like most agencies in the 1990s, has traditionally utilized monolithic enterprise servers, an approach that previously served us well. However, as these servers pass end-of-life (EOL) status, the Commission needs to transition by moving its IT infrastructure off-premise and shifting to an externally hosted, managed IT service environment vs. attempting to maintain and upgrade IT hardware on-site at FCC Headquarters. Transitioning to a managed IT service provider will provide a foundation for the Commission's cloud-based IT modernization, offering a much higher level of service and security for both internal and external clients. Cost savings in future years, in addition to cost avoidance, are expected as the FCC will be able to reduce its onsite contracts supporting physical hardware. The net result will be faster, more resilient, and more efficient IT service to FCC stakeholders, in addition to a cost reduction of \$2 to \$3 million in labor and non-automated tasks by FY 2017.

The FCC has started this transition in FY 2015 and is projected to finish in FY 2016 with the additional funding requested. Funds need to be invested to complete the shift to a managed IT environment. Not doing so before the end of FY 2016 would result in dramatically increased costs maintaining the existing legacy infrastructure and server rooms on-site at FCC. Absent such an investment, the Commission's Operations and Maintenance costs will continue to increase. Moreover, IT service performance has been declining in recent years because the Commission has been relying on 207 different systems, of which more than 50 percent are over 10 years old.

**2. Office of the Inspector General: (\$1,163,600)**

The Office of Inspector General's (OIG) efforts have been increasing in the areas of audits and investigations. As a result, OIG has initiated top level investigative cases and top risk program audits. The OIG's FTEs have been increasing over the past few budget years and this influx of additional staff has provided the OIG the capability to maintain mission accomplishment and basic compliance. Nevertheless, more can be done to improve the OIG's mission. The OIG is requesting a compensation and benefit base line increase of \$948,262 in the FY 2016 budget request. The OIG will use these funds to hire six auditors and two investigators at the GS-12 level. The OIG has over 70 open cases with more forthcoming. With additional criminal investigators the OIG can take on more cases and decrease the number of open cases. The OIG currently has 11 active audits and four ready to start. The OIG is also planning over 50 audits of the Universal Service Fund Programs over the next five years. The additional OIG audit staff can manage more audits and resolve more cases.

The OIG is requesting a contract funding base line increase of \$215,338 in the FY 2016 budget request. The OIG has reduced its contract funding to offset some of the cost of adding additional FTEs. The OIG needs additional contract funds to assist investigation division legal support. The cost of outsourced legal support has increased substantially over the past few years. There are more cases that need additional attention and adding contract funding provides the OIG with the funding necessary to process cases for trial.

## **One-Time Requests**

**\$56,233,170**

### **1. FCC Headquarters Move (\$44,168,497)**

The Commission's current leases for Portals I and Portals II at 445 12th Street, Washington, DC will expire in October 2017. Prior to expiration, the Commission is required to either move to a new facility or restack the existing facility and, as part of this process, substantially reduce our square footage and lower our rental expense. If the Commission does not move or restack the building before the termination of the lease, GSA has informed the Commission that the new lease payments are likely to increase by approximately \$9 million per year. It is estimated that the move or restacking will provide up to \$119 million in total savings over fifteen years.

The FCC Headquarters Lease Budget Scenario estimates for the move provided by GSA under GSA requirements are as follows:

- The new lease will include a total of 473,000 rentable square feet or a 28% reduction from 659,030 rentable square feet.
- The real and personal property cost for the modifications is estimated at \$70,971,499. Out of that \$51,358,717 will be spent in FY 2016 and \$19,612,782 will be spent in FY 2017.
- It is expected that the utilization rate per person will be 180 or a 34% reduction from the current space utilization rate of 272.

### **2. IT Modernization (\$12,064,673)**

#### **a. Rewriting of FCC Legacy Applications as a Modular "Shift" to a Modern, Resilient Cloud-based Platform: (\$9,569,493)**

Since many of the Commission's 207 IT systems contain applications which are more than a decade old, the software and code associated with the Commission's existing IT architectures are unable to support a move to a cloud-based infrastructure as they currently stand – they are simply too old to be hosted in a cloud-based platform. To accomplish this task, the Commission's IT modernization plan includes an update to applications in a modular fashion in order to place them in the cloud structure while supporting continuing operations. The Commission will follow a three-part plan: (1) adapt open source solutions for Commission application needs where appropriate; (2) buy commercial software if adaption is not available or if a cost effective option is not available; and (3) create code if neither open source nor commercial options are available.

The applications will be redesigned and provided through a service catalog approach in a true cloud environment. This rewrite also provides an opportunity to simultaneously improve resiliency, security, and functionality. The replacing of the Commission's legacy infrastructure with a managed IT service provider will complete the "lift" away from the Commission's physical infrastructure – this rewriting of the Commission's legacy IT applications will complete the "shift" to a cloud-based platform. Some data can be moved readily to the cloud;

however, existing applications with programmed logic must be recoded using agile methods that leverage open source and commercially available solutions wherever possible.

Moving to the cloud and rewriting of applications within a cloud infrastructure enables the Commission to achieve an estimated long-term cost avoidance of \$5 to \$10 million over five years in hardware and personnel/contractor costs. Transitioning to the cloud also accelerates the modernization of the Commission's infrastructure, allowing the bulk of the work to be completed by the end of FY 2016, and improves the resiliency and security of the Commission's IT.

**b. Improving the Resiliency of the FCC Enterprise: (\$2,245,180)**

The Commission's IT group has worked tirelessly over the last several years to implement improved security architecture both in the internal user network and the traditional web infrastructure. The Commission has multiple embedded applications which operate commercial software that are no longer supported, and this increases the Commission's vulnerability to cyber-attacks and failures which cannot be cured without replacing the software. While the Commission moved to Windows 7 before the support for Windows XP expired, 54 instances of Sybase and numerous Cold Fusion applications are still in operation. The pace and persistence of cyber-attacks continues to rise and there is no foreseeable end. The Commission must therefore shift away from these outdated platforms.

Accomplishing this task requires immediate fixes to pass Federal Information Security Management Act (FISMA) audits and ensure the security of the Commission's enterprise. As the Commission moves to a hosted cloud-based solution, the security implementation needs to be retooled for this new threat model. The Commission will extend and enhance its existing security tool-set to provide the appropriate assurance level and resiliency for the external shared environments and internal environments.

**c. Public Safety Answering Points (PSAP) Do Not Call Registry: (\$250,000)**

Section 6507 of the *Middle Class Tax Relief and Job Creation Act of 2012* requires the Commission to create a Do-Not-Call registry for telephone numbers used by Public Safety Answering Points (PSAPs) and to prohibit the use of automatic dialing equipment to contact those numbers. PSAPs are facilities that have been designated to receive emergency calls and route them to emergency service personnel. On October 17, 2012, the Commission released a Report and Order to create such a registry. Under the statute, verified PSAP administrators or managers must be able to place into the PSAP registry telephone numbers that are used for the provision of emergency services or for communications between public safety agencies.

## Spectrum Auctions - Explanation of Requested Change

The Federal Communications Commission is requesting \$117,000,000 for the Spectrum Auctions Program for FY 2016, as shown below.

(Dollars in Thousands)

	FY 2015		FY 2016		Requested Change	
	FTE	Appropriation	FTE	Congressional Request	FTE	Amount
<b>Auction Cost Recovery</b>	<b>226</b>	<b>\$106,000</b>	<b>230</b>	<b>\$117,000</b>	<b>4</b>	<b>\$11,000</b>

Explanation of Changes	
<b>Salaries and Inflationary Increases to Base:</b>	
Salary Increases - Pay Raise (1%)	\$382
Salary Increases - Within Grade & Career Ladder Increases (1%)	\$380
Non Salary Increases (1.6%)	\$591
<b>Subtotal</b>	<b>\$1,353</b>
<b>One-Time Requests:</b>	
Broadcasting Relocation Fund Administrator and Related Government Compliance Work	\$2,457
FCC HQ Move/Restacking	\$7,190
<b>Subtotal</b>	<b>\$9,647</b>
<b>TOTAL</b>	<b>\$11,000</b>

The one-time request for the TV Broadcaster Relocation Fund (Relocation Fund) will mainly be used to engage an Administrator to manage the \$1.75 billion that will be reimbursed to the TV Broadcasters. The funds will also be used to reasonably ensure that the Administrator has implemented proper internal controls to detect and to deter waste, fraud, and abuse in the Relocation Fund. This includes work required to comply with the *Standards for Internal Control in the Federal Government* issued by the Government Accountability Office, *OMB Circular A-123, Management's Responsibility for Internal Control*, and other required standards and guidelines. Also, the funds will also be used to comply with the requirements of *Improper Payments Elimination and Recovery Improvement Act*.

## Spectrum Auction Expenditures Report

Section 309(j) of the *Communications Act* permits the Commission to utilize funds raised from auctions to fund auctions purchases, including contracts for services, and personnel performing work in support of Commission auctions authorized under that section. The FCC's Office of General Counsel (OGC) and Office of Managing Director (OMD) provide direction to FCC employees attributing hours for this purpose. The House of Representatives and Senate Appropriations Committees review and set a cap yearly for the auctions cap. The requested cap level for FY 2016 is \$117,000,000, or an \$11,000,000 increase over the FY 2015 level.

The Commission's auctions expenditures support efficient licensing while also contributing funds to the U.S. Treasury and providing direct support to government programs. In particular, in the *Middle Class Tax Relief and Job Creation Act of 2012* Congress directed that proceeds from certain spectrum auctions, including auctions of licenses covering spectrum offered (or to be offered) in the H Block auction, AWS-3 auction, and Incentive Auction, fund certain public safety related programs and contribute to deficit reduction. Specifically, Congress directed that the proceeds from these auctions be distributed as follows: \$135 million for a state and local FirstNet implementation fund, \$7 billion for FirstNet build out, \$300 million for public safety research, and \$20.4 billion and any additional proceeds for deficit reduction.

As of September 30, 2014, the Commission has raised more than \$53 billion in auctions revenues since initiating the program in 1994. Since then, the auctions expenses have been approximately two percent of the Commission's total auctions revenues. The Commission operated the auctions program for 10 years under a cap without inflationary adjustments, only receiving an increase in FY 2013 to fund the start-up for the Incentive Auctions program. The Incentive Auction team is composed of staff from across the Commission, including the Wireless Telecommunications Bureau, Media Bureau, International Bureau, Office of Engineering and Technology, Office of the Managing Director, and Office of General Counsel.

Auctions activities are performed agency-wide and are Information Technology (IT) intensive, as reflected in our expenditures. Auctions funds also cover the program's share of Commission operating expenses. The FCC uses these funds to enable successful auctions and expends them in a manner consistent with that objective.

In cost accounting, costs are identified as one of the following: (1) direct cost, (2) indirect cost, or (3) generally allocated cost. The methodology for deriving the proportional share of generally allocated administrative costs to be charged to the auction program is based on the Commission's time reporting system and Generally Accepted Accounting Principles. The share is based on the percentage of actual hours that employees worked to support the auction program plus the same proportional share of the employee's indirect hours (leave hours). This FTE Employee rate is applied to costs that benefit the Commission as a whole. These items that are allocated by the FTE rate include Commission-wide Information Systems, guard service, administrative facility services, supplies, furniture, equipment, and human resources training activities. The FCC has maintained an average number of 14 percent for this purpose, with minor deviations.

The Commission conducted two spectrum auctions in FY 2014. The H Block auction of licenses for 10 megahertz of spectrum in the 1.9 gigahertz band and an auction of 22 AM Broadcast construction



permits netted a total of \$1,564,594,550. So far, in FY 2015 the FCC is conducting the AWS-3 auction for 65 megahertz of spectrum in the 1.7 and 2.1 gigahertz bands, which has bids totaling more than \$44 billion, and is working on rules and procedures for several other auctions.

In addition to conducting the AWS-3 auction utilizing regular staff and equipment, the Commission's primary auctions focus during FY 2015 will be the development and operation of the Incentive Auctions process. This process requires the creation and adoption of rules and procedures for the first-ever two sided auction of spectrum by the Government. Additionally, the FCC must design and develop software to implement the auction, which involves two separate but interdependent auctions – a reverse auction, which will determine the price at which broadcasters will voluntarily relinquish their spectrum usage rights, and a forward auction, which will determine the price companies are willing to pay for flexible use wireless licenses. The lynchpin joining the reverse and the forward auctions is the “repacking” process. Repacking involves reorganizing and assigning channels to the remaining broadcast television stations in order to create contiguous blocks of cleared spectrum suitable for flexible use. The repacking component of this auction makes it uniquely computationally complex, requiring additional software, cloud computing resources and the assistance of skilled computer scientists, software engineers, and technology security experts.

The Commission has said publicly that it expects to begin the auction in early 2016, so it is likely that the auction event and related FCC activities and actions will continue at a high intensity through FY 2015, FY 2016 and FY 2017. Given the level of interest in this auction, the involvement of both the broadcast and wireless communities, and the novelty and uniqueness of the auction, additional staff is required to administer the auction process, including accepting and reviewing auction applications (from both wireless parties and broadcast parties); developing and conducting bidder training and outreach; accepting and reviewing final applications for winning bidders in both the forward and reverse auctions; monitoring and supporting the bidding process; and issuing licenses to winning wireless bidders and modifying licenses for broadcasters who are changing channels or voluntarily changing bands as well as terminating licenses for those who voluntarily choose to cease broadcasting. Finally, staff must design and manage the repacking and transition process for clearing the appropriate portions of the band of broadcast licenses so it can be repurposed for broadband use.

In addition, in the interest of ensuring a robust and effective auctions administration system for the future in furtherance of its core auction responsibility, the Commission is developing a more secure, flexible, and technically up-to-date auction bidding system to replace the system it has been using since 2005.

The Commission does not use the “Base” and “Programmatic Increase” formula for Auctions. In addition to the previous year funding levels and projects supporting the program, the following are specific items requested in FY 2014 that have continuing costs into FY 2015 and FY 2016:

- Hardware and software costs to support the unique aspects of the Incentive Auction. These hardware and software resources (including integer optimization software, propagation modeling software, and cloud computing) will be used for repacking analysis and to support both the reverse and forward auctions.
- Auction design and implementation experts. The incentive auction is novel and complex and the FCC has contracted with leading experts in auction design and implementation to help execute the auction.

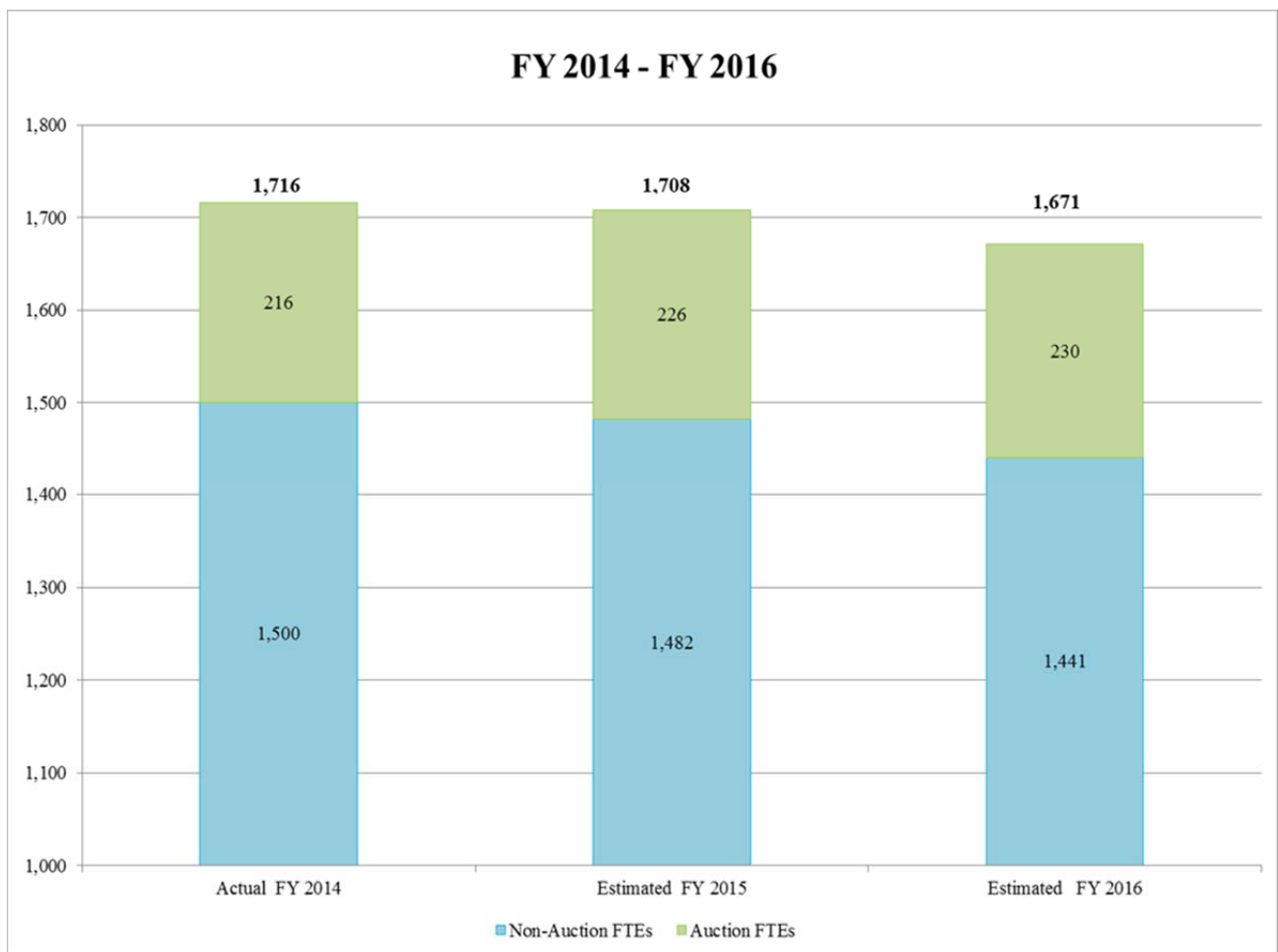
- Broadcaster Relocation Fund Administrator to lead and manage and track distributions from the Broadcaster Relocation Fund.

Additionally, the following staffs are considered mission-essential for FY 2015 and FY 2016:

- Additional staff to support the efficient processing of applications from broadcasters and wireless bidders (six staff total).
- Additional staff to operate the FCC Call Center and initiate consumer outreach to support increased volume related to television channel changes caused by the incentive auctions.

The actual FTE level for FY 2014 and estimated FTE levels for FY 2015 and 2016 are shown below.

### FTEs By Fund Category



**FY 2016 Budget Estimates to Congress**  
**Summary Table – Disbribution of Resources – Spectrum Auctions**  
(Dollar in Thousands)

**AUCTIONS COST RECOVERY REIMBURSABLE AUTHORITY:**

-- The following table depicts the distribution of the actual resources for FY 2014, Congressional Approved for FY 2015, and estimated obligations for FY 2016 utilizing auctions cost recovery reimbursable authority.

<u>Object Class Description</u>	<u>FY 2014 Actuals</u>	<u>FY 2015 Cong. Approp.</u>	<u>FY 2016 Cong. Request</u>
<b>Personnel Compensation &amp; Benefits:</b>			
Full-time/Part-time Permanent (11.0)	\$27,991	\$29,639	\$30,233
Personnel Benefits (12.0)	7,632	8,384	8,552
Subtotal Personnel Comp. & Benefits	<u>\$35,623</u>	<u>\$38,023</u>	<u>\$38,785</u>
<b>Other Expenses:</b>			
Benefits for Former Personnel (13.0)	\$10	\$8	\$8
Travel (21.0)	403	451	456
Transportation of Things (22.0)	8	7	7
GSA Rent (23.1)	7,753	6,754	6,821
Other Rents, Comm., Utilities (23.3)	1,938	1,649	1,666
Printing and Reproduction (24.0)	150	210	212
Contract Services - Non-Fed (25.2)	10,971	19,212	29,576
Fed. Purchase, Goods & Services (25.3)	557	333	337
Operation & Maint. of Equipment (25.7)	38,468	37,546	37,306
Supplies and Materials (26.0)	203	257	260
Equipment (31.0)	1,039	1,549	1,565
Land and Structures (32.0)	0	0	0
Insurance Claims & Indemnities (42.0)	0	1	1
Subtotal Other Expenses	<u>\$61,502</u>	<u>\$67,977</u>	<u>\$78,215</u>
<b>Total Auctions Cost Recovery Reimbursable Obligations:</b>	<u><u>\$97,125</u></u>	<u><u>\$106,000</u></u>	<u><u>\$117,000</u></u>

## Spectrum Auctions Program

The *Omnibus Budget Reconciliation Act of 1993*, P.L. 103-66, required the Commission to auction portions of the spectrum for certain services, replacing the former lottery process. The Commission is required to ensure that small businesses, women, minorities, and rural telephone companies have an opportunity to participate in the competitive bidding process. The Commission initiated regulations implementing the spectrum auction authority granted by the legislation and conducted its first round of auctions in July 1994. To date the Commission has completed 85 auctions. As of September 30, 2014, total net winning bids collected and deposited into Treasury from this program have exceeded \$53.6 billion. The original spectrum auction authority was scheduled to expire in FY 1998; however, it was extended through FY 2007 in the *Balanced Budget Act of 1997*, P.L. 105-33; extended through FY 2011 by the *Deficit Reduction Act of 2005*, P.L. 109-171; extended through FY 2012 by the *DTV Delay Act* (2012), P.L. 111-4; and most recently, the authority was extended through September 30, 2022, by the *Middle Class Tax Relief and Job Creation Act of 2012*, P.L. 112-96.

The Commission is authorized to retain funds from auction revenues necessary to develop, implement, and maintain the auction program. These funds cover the personnel and administrative costs required to plan and execute spectrum auctions; operational costs to manage installment payments and collections activities; development, implementation, and maintenance of all information technology systems necessary for Auctions operations, including development of a combinatorial bidding system; and a proportional share of the general administrative costs of the Commission based on the split of direct FTE hours. This budget submission assumes the auctions program will continue to recover the costs of conducting all auctions activities from spectrum license auction receipts as the Commission continues to use auctions as a licensing mechanism for spectrum based communications services. The FY 2015 Appropriations language capped the auctions program at \$106 million. We have requested \$117 million in FY 2016 for the auctions program.

The *Balanced Budget Act of 1997*, P.L. 105-33, required that the Commission provide to authorizing committees a detailed report of obligations in support of the auctions program for each fiscal year of operation, as a prerequisite to the continued use of auctions receipts for the costs of all auctions activities. The FY 2014 Auction Expenditures Report will be provided to the appropriate Congressional committees by September 30, 2015. The FY 2015 and FY 2016 Auction Expenditures Reports will be submitted by the end of September 2016 and 2017, respectively.

### FY 2009 - FY 2014 Auctions Activities

	2009	2010	2011	2012	2013	2014
<b>Beginning Cash as of October 1st</b>	\$208,389,094	\$86,739,323	\$217,280,263	\$199,151,298	\$166,489,365	\$69,071,964
<b>Current Year Net Cash</b>	(76,190,354)	164,048,851	23,580,516	(18,800,654)	(90,056,921)	252,795,558
<b>Less: Deferred Revenue as of Sept 30th</b>	(27,234,636)	(33,210,155)	(41,411,725)	(13,135,795)	(6,759,936)	(3,318,096)
<b>Less: Deposit Liability - Refunds as of Sept 30th<sup>1</sup></b>	(18,224,781)	(297,756)	(297,756)	(725,484)	(600,544)	(617,544)
<b>Available Auction Cash as of Sept 30th</b>	<b><u>\$86,739,323</u></b>	<b><u>\$217,280,263</u></b>	<b><u>\$199,151,298</u></b>	<b><u>\$166,489,365</u></b>	<b><u>\$69,071,964</u></b>	<b><u>\$317,931,882</u></b>

<sup>1</sup> Cash associated with licenses that have not been granted.

**Spectrum Auctions and Collections**  
**FY 1994 through FY 2014**  
**As of September 30, 2014**

<u>FY</u>	<u>Number of Auctions</u>	<u>Number of Licences Granted</u>	<u>Amount Collected</u>
1994	2	604	\$652,954,213
1995	2	129	\$8,234,321,195
1996	6	2,026	\$2,019,328,594
1997	4	1,614	\$2,205,922,232
1998	2	1,388	\$860,926,006
1999	6	1,693	\$499,598,445
2000	8	4,403	\$1,335,043,186
2001	4	3,447	\$583,599,901
2002	7	7,036	\$135,575,062
2003	7	3,144	\$77,121,620
2004	5	267	\$126,790,232
2005	6	2,803	\$2,208,332,556
2006	5	1,284	\$13,834,972,696
2007	5	293	\$163,429,971
2008	3	1,144	\$18,987,913,049
2009	2	115	\$5,592,769
2010	3	4,788	\$25,967,083
2011	3	126	\$31,036,203
2012	1	93	\$3,868,825
2013	2	3197	\$5,766,729
2014	2	186	\$1,564,594,550
<b>Total</b>	<b>85</b>	<b>39,780</b>	<b>\$53,562,655,117</b>

## **Recovery of USF Oversight Cost**

The Commission requests a transfer of \$25 million from the Universal Service Fund (USF) for the Commission's oversight costs of USF programs and administration. Significant resources are required to adequately oversee almost ten billion dollars collected and distributed annually through the universal service programs. Since 2010 the Commission has initiated several reform efforts in the universal service programs, including the High Cost programs, which focus on supporting and expanding broadband availability to all Americans; the Lifeline program, which provides telecommunications and broadband services to low-income families; the Rural Health Care programs, which provides broadband connectivity to non-profit health care providers; and the Schools and Libraries program, which ensures access to telecommunications and broadband services to eligible schools, school districts, libraries, and consortia. These reforms require substantial ongoing work to implement and clarify the changes, to direct outreach and stakeholder communications, and to develop new procedures to both validate commitments and disbursements at the beginning of the process and confirm that the support was accurate post-disbursement. In addition, the Commission takes seriously its responsibility to ensure program integrity and combat fraud, waste, and abuse through targeted program enforcement and oversight investments.

While the USF administrator is responsible for the daily tasks associated with applications, collections of receipts, and disbursements; Commission staff must still provide significant guidance in developing and approving many of the critical procedures to ensure they are being conducted consistent with the Commission's rules and directives. Further, beneficiaries call upon the Commission to interpret its rules and review decisions made by the USF administrator regarding denial or changes to their funding requests.

In addition to overseeing the day-to-day operations of the programs and addressing issues as they arise, the Commission is actively involved in identifying, reducing, and combating improper payments, including waste, fraud, and abuse. Approximately \$10 million of the request will be used for anti-fraud efforts – many of which are currently being developed by the Commission. Specifically, the Commission is in the process of creating a Joint USF Anti-Fraud Task Force (Task Force) to combine resources agency-wide. The Task Force will develop and implement a strategic, targeted approach to identifying, preventing, eliminating, and prosecuting activities that undermine the integrity of the USF programs, in addition to recovering of funds that should not have been disbursed due to those fraudulent activities. In time, it is expected that these additional investments will return substantially more than they cost in the form of reduced and recovered improper payments, as well as improved improper payment identification and mitigation.

The Enforcement Bureau, the Office of Managing Director and the Wireline Competition Bureau will manage these resources. These divisions within the Commission will work together to pro-actively analyze data to identify risk areas and develop a plan for targeted audits and investigations. Those audits and investigations could, for example, result in enforcement actions, as warranted, or the creation of corrective action plans to reduce improper payments. Additionally, USF information technology resources require significant modernization. Enhanced financial and programmatic information systems will improve the efficiency of data collection, which can be used to identify and reduce improper payments, fight waste, fraud, and abuse, as well as provide opportunities for outcomes-based policy-making.