Statement of
Chairman Tom Wheeler
Federal Communications Commission

Hearing on the FCC's Fiscal Year 2016 Budget Request

Before the
Subcommittee on Financial Services and General Government
Committee on Appropriations
U.S. Senate

May 12, 2015

Chairman Boozman, Ranking Member Coons, and members of the Financial Services and General Government Subcommittee, I am pleased to appear before you to present the Federal Communications Commission's Fiscal Year (FY) 2016 Budget Request.

Since first initiating a top-to-bottom management review last year, the FCC's team has sought ways to streamline work, leverage assets, and create more efficiencies. We have not shied from making difficult choices, and you can see the results in our proposed FY 2016 budget. This proposal reflects improvements in the FCC's operational efficiency and a corresponding reduction in our FTE levels. Our requests for increased investments are largely short-term costs like IT modernization efforts that will deliver long-term savings and improvements in the agency's efficiency and effectiveness. Most notably, this year's budget contains one significant cost where we have very limited control – the agency's lease is expiring in 2017, and we must initiate plans to transition to a less expensive real estate option. With the pending lease expiration, this is no ordinary budget cycle, and adjustments will be necessary.

Before diving into the FY 2016 details, it is important to acknowledge some baseline facts. Few, if any, government agencies deliver a better return on investment than the FCC. We do not require a direct appropriation because we are funded entirely by fees collected from those we regulate. The Commission not only pays its own way, but, thanks to our world-leading auction capability, we also generate significant revenue for the Treasury. Since 1994, our financial return to the government has equaled 13 times our combined operational costs. For every dollar generated by the FCC, our agency uses only eight cents for its operations.

The Commission's spectrum auctions are one of the most significant policy innovations of the past 25 years, and they continue to generate billions of dollars and unleash massive benefits for our economy and consumers. Already in the current fiscal year, we completed the most lucrative spectrum auction in history. The AWS-3 auction generated $41 billion in net bids, and is expected to deliver over $20 billion toward deficit reduction, as well as billions of dollars of funding for nationwide public safety communications under FirstNet, and a range of other programs mandated by Congress in the Middle Class Tax Relief and Job Creation Act of

2012. The first-in-the-world Incentive Auction is slated for 2016 and holds similar promise to spur economic growth and innovation while raising billions for deficit reduction.

To build on this progress, and fulfill our statutory responsibilities, the Commission is requesting $388,000,000 in general spending authority derived from Section 9 regulatory fees for our overall non-auction costs, up from $339.8 million in FY 2015. In addition, we are requesting an auctions cap of $117,000,000, an $11 million increase from last year, as well as the transfer of $25,000,000 from the Universal Service Fund (USF) to cover our costs for that program. These are well-considered requests that reflect necessary operational demands and the unique circumstances of this budget cycle.

If the Commission's lease were not expiring in 2017, our budget proposal would look different and my presentation today would be limited to a discussion of our team's better management practices, significant IT improvements, and internal structural and processing reforms. We would have been asking for a modest increase over last year's funding level dedicated to completing the modernization program of our IT systems – so we could start reaping the benefits of lower costs and better services.

But our lease is expiring, and that is the biggest reason we are requesting a budget increase. So let me address this issue up top. We owe it to the American taxpayer to find the most cost-effective solution for our housing costs. In the near-term, that will cost money – an estimated $51 million for FY 2016. These costs are similar to recent agency moves like NIH and NLRB. Long-term, we will use the move as an opportunity to create greater cost savings and efficiencies by significantly reducing the Commission's footprint and instituting new management techniques that encourage greater use of shared space. Current projections show $13 million in annual savings under a new lease and net savings of $119 million over the life of a new lease. Yes, the costs will be significant for the coming year, but they are an investment in a better overall deal for the American people.

Since testifying before the House Financial Services Appropriations Subcommittee in March, we hired a new staff person with significant experience in agency relocations to assist us with this process. And the new leasing option is just one example of the agency's commitment to reviewing all of our policies and processes to improve efficiencies and make sure the American people are getting the most bang for every buck. We also already have initiated a space reduction plan to consolidate all FCC headquarters staff in the main building of our complex. This pre-move consolidation will result in cost avoidance and savings in FY 2016.

In addition, we recently circulated to all FCC Commissioners a rule change related to our field office structure based on a comprehensive consultant's evaluation of these facilities. Overall, the offices have a one-manager-to-four-employee ratio and many have oversized rental facilities, which are draining our resources. The consultant's findings indicate that we can more efficiently deploy staff by decreasing the number of managers and relying instead on an engineer-intensive "tiger team" approach that makes better use of regional offices, including pre-deploying equipment on the ground and partnering with other federal officials in remote areas. This plan, if accepted by my fellow Commissioners, will lead to field office closures and significant annual savings without diminished productivity. I look forward to working with my colleagues to review and finalize this matter.

Even before the inclusion of these facilities plans, the FCC's operations were the leanest they've been in recent history. During the past six years – beginning after FY 2009 – the FCC has operated under essentially flat funding levels for our non-auctions activities. In fact, calculating the flat funding levels in light of inflation and sequestration impacts shows that we have suffered actual reductions in the purchasing power of our budget. Although our auctions cap increased in FY 2013 – FY 2015 after a nine-year flat cap, auctions monies only offset auctions operations. We have mostly directed these increases toward additional costs related to the broadcast incentive auctions process.

Flat funding has led to difficult decisions on staffing, as with the field facilities plan. Make no mistake; the FCC's greatest asset is its people. While the professional quality is the highest it's ever been, the quantity is at historic lows. We are currently at 1,708 FTEs, well below the 20-year average of 1,877. Nonetheless, <u>our FY 2016 budget request is the first FCC budget in a decade that does not seek more FTEs</u>. Our FY 2016 projections include a net 37 FTE reduction, including an overall non-Office of Inspector General (OIG) reduction of 45 (offset by an OIG increase of 8 FTEs). At this stage, our Managing Director's Office is using a flexible process and only fills positions opened through attrition after a complete analysis of staffing needs.

We will continue to seek efficiencies that allow the FCC to continue to perform its mission, but there are limitations. Seeking even lower FTE levels could have adverse operational effects. While the Commission's staffing and resources have been steadily shrinking, the industries we oversee have continued to grow at a healthy clip. The result is an increasing workload for a declining FTE base. For example, in the licensing operations area since 2010, our FTE levels have declined by more than 25 across several bureaus, versus steady growth in licensing activity over that same time, so at some point licensing operations could slow. The result – especially without IT system upgrades – is slower licensing.

There are other reforms under way to reduce costs and increase efficiency. We're steadily reducing our use of expensive contractors. We are currently at 483, down from over 600 in 2012, and trending down to 435 by the end of FY 2016.

We are aware that the Commission's licensees will bear the brunt of our programming costs, and we are continuing to ensure that we assess fees in a fair and equitable manner. This past year, we reduced the burden of regulatory fees on smaller businesses by increasing the *de minimis* payment level. This action relieved approximately 2,500 small licensees – those owing less than $500 – from having to pay fees. We also have recalculated the amounts due by different licensees to ensure regulatory fairness, and we will continue to revise this process as warranted by industry developments.

Here's an important point about all of these reforms: these are management efficiencies we would be pursuing regardless of budget levels. I am committed to modernizing and streamlining all agency operations, because it's the right way to run an agency, not because budget constraints demand it.

Building on this foundation of reforms, we are requesting an $84 million increase for FY 2016. This increase has three key components. First, there are "unavoidable" costs that account for 70 percent of this overall increase. Chief among these is the $51 million that I mentioned for the agency's pending move. This amount also includes adjustments for inflation, and a $1 million requested increase for the Office of the Inspector General, bringing their budget to $12.2 million.

Second, we are seeking an additional $17 million for Information Technology (IT) investments. Our commitment to improving the agency's effectiveness goes hand-in-hand with the need to improve our IT systems: numerous paper-based, manual processes exist at the FCC, resulting in hidden, human-intensive costs that could benefit from automation. Moreover, the costs of continuing business as usual with these IT systems will undermine the financial stability of the Commission. The Government Accountability Office has noted that federal agencies currently spend more than 70 percent of their IT budgets on maintaining legacy systems. The FCC, like other agencies, has been caught in this legacy trap; as of the end of FY 2013, we were trending well above even the federal average of 70 percent. We have tackled this problem head-on and targeted all available resources toward modernizing our IT systems. We pulled together our remaining funds at the end of FY 2014 and reprogrammed $8.75 million to support this process.

We identified our ongoing IT modernization as a management imperative, both to support process reform efforts as well as to improve cost efficiency, and our FY 2016 budget request reflects this emphasis. Our IT-focused management strategy – made possible by the reprogramming granted by this Subcommittee – has delivered solid, early results. We are well on our way toward making the necessary changes to ensure that our FCC.gov website is accessible and user friendly for consumers and stakeholders. We have initiated a process to move all onsite IT infrastructure to a secure, lower cost, off-site service provider ahead of our 2017 required move, to realize cost savings and improve system resiliency. We also rolled out the new Consumer Complaint Database at one-sixth the traditional cost for such a project, epitomizing many of the agency-wide changes that we hope to implement – inexpensive, off-the-shelf solutions, combined with resiliency, user-friendly options, and the potential to improve our internal data collection methods to increase transparency and inform policy-making decisions.

Still, limited funds have delayed many improvements and threaten to cost us more each day that we are unable to move ahead. The specific funds required are outlined in our FY 2016 budget: $5.8 million to replace the FCC's legacy infrastructure with a managed IT Service provider, as well as one-time infusions of $9.6 million to rewrite the FCC's legacy applications as part of a modular "shift" to a modern, resilient, cloud-based platform. Without this infusion of funding in FY 2016, we face the prospect of being unable to follow-through on critical upgrades, costing those who we license more – with far fewer benefits.

The third area of requested budget increases – about $7 million – are aimed at satisfying Congressional mandates. We seek $2.5 million to ensure a smooth and legally compliant process for administering the $1.75 billion fund for relocating broadcasters after the incentive auction. We have asked for $250,000 to support the start-up of the Do-Not-Call Registry and $600,000 for yearly maintenance. We also requested $3,000,000 a year for updates and upkeep for the National Broadband Map. Before the FCC inherited the program, NTIA had a direct funding stream for this key nationwide broadband deployment resource. The map attracted over 2.5 million hits in 2014 and we expect it to be an important resource going forward. Funding for the FCC's programmatic takeover will leverage previous investments with new approaches to providing open access to government data.

In addition to these requested increases, the budget also proposes aligning sources of funds with uses to maximize fairness. Given the special circumstance of the large, move-based increase, the Commission determined that FY 2016 would be the optimal time to properly align our USF expenditures with cost outlays. Accordingly, the FY 2016 budget proposes shifting USF funds to cover our salary and compensation expenditures directly related to universal service activities. With this funding realignment, we will make USF pay for USF. It will reduce by $25,000,000 the Section 9 regulatory fee burden on licensees with no universal service relationship. USF will pay these costs instead of forcing entities such as local broadcasters and marine licensees to pay for USF FTE activities at the Commission. Overall, it would reduce Section 9 fee burdens by about six percent. For example, the impact on a large-market broadcaster would be several thousand dollars per year. It will take the pressure off of our other licensees at a critical juncture and it will ensure that there is adequate enforcement of USF programs.

The $25 million transfer will go a long way toward making certain that we have a reliable funding stream for program oversight. Although regulatory fairness supports this transfer request, the importance and ongoing complexity of our universal service work underscores the need for this funding. Universal access to communications has been at the core of the FCC's mission since the agency was established 80 years ago. With broadband increasingly necessary for full participation in our economy and democracy, connectivity for all is more important than ever. While the private sector must play the leading role in extending broadband networks to every American, there are some areas where it doesn't make financial sense for private companies to build. That's why the Commission modernized USF to focus on broadband, establishing the Connect America Fund – a process that this Subcommittee has recognized as an essential activity. Already, the Connect America Fund (CAF) has made investments that will make broadband available to 1.6 million previously unserved Americans.

The Commission approved the first major modification of E-rate – another universal service program and America's largest education technology program. We refocused the program away from funding 20th century technologies like pagers and dial-up phone service toward supporting 21st century high-speed broadband connectivity. In the process, we moved to close the Wi-Fi gap by ensuring that over the next two years an additional 20 million students will have Internet access at their school or library desk. Importantly, we took steps to improve the cost-effectiveness of E-rate spending through greater pricing transparency and by enabling bulk purchasing to drive down costs.

Conclusion

I am proud of the Commission's FY 2016 Budget Request. It reflects our commitment to an efficient workforce, IT modernization and returning resources to the Treasury. During the next fiscal year, the Commission will have unprecedented opportunities to become a model for excellence in government. At the same time, we will manage an essential $8.8 billion USF program that brings broadband services to all Americans. We will continue our work in developing and deploying spectrum resources, while providing billions of dollars for important public safety programs. With this Subcommittee's support, we will make that happen.

I appreciate this Subcommittee's attention to the Commission's funding for the next fiscal year, and I look forward to answering your questions. Thank you.