

**Statement of
Chairman Tom Wheeler
Federal Communications Commission**

Hearing on the FCC's Fiscal Year 2017 Budget Request

**Before the
Subcommittee on Financial Services and General Government
Committee on Appropriations
U.S. House of Representatives**

March 15, 2016

Chairman Crenshaw, Ranking Member Serrano, and members of the Financial Services and General Government Subcommittee, thank you for inviting me here to present the Federal Communications Commission's Fiscal Year (FY) 2017 Budget Request. Our proposal demonstrates the Commission's successful efforts to keep costs down, while maximizing and leveraging resources to benefit consumers and industry. This budget asks for less than the previous year's appropriated amount and once again provides more in management efficiencies.

Last year, the Commission asked for \$388,000,000 in general spending authority derived from Section 9 regulatory fees for our overall non-auction costs, an auctions cap of \$117,000,000, and a \$25,000,000 transfer from the Universal Service Fund (USF) to oversee that program's general operations. You responded by providing \$384,012,497 overall with \$44,168,497 of that number in directed spending to initiate our FCC headquarters footprint reduction. That left \$339,844,000 for regular spending. You also granted our requested \$117,000,000 for the auctions cap, but you did not provide the USF transfer.

We have initiated the facilities process as a result of the directed funding and we expect to forge ahead with the footprint reduction as soon as GSA awards the lease. We appreciate this Committee's support for this important process and expect that the footprint reduction will save \$119 million over the life of the next lease.

During the past year, you also provided us with reprogramming and reorganizing authority to consolidate our Enforcement Bureau. We also received a reprogramming request to use unobligated funds to support our IT server move to a secure facility off-site from the FCC headquarters location. The Enforcement Bureau consolidation is well underway and we completed the server move in September.

For the past seven years, general funding for the Commission has been between \$336 and \$339.8 million, with an additional reduction of \$17 million due to the 2013 sequestration. The Commission's auction cap was stagnant at \$85,000,000 for nine years until we received increases starting in 2013 to fund the Incentive Auctions process. Most of the Commission's

increased costs have been associated with inflationary adjustments and mandated pay raises. Calculating the flat funding levels in light of inflation and sequestration impacts shows that we have experienced reductions in our purchasing power. Accordingly, we have seen significant staffing reductions. The FCC's FTE level has dropped from 1,775 in 2010 to a projected 1,650 in FY 2017, the lowest level in more than 30 years. We also have reduced our contractors by more than one-half during the same period.

The FY 2017 budget requests a total of \$358,286,000 derived from section 9 regulatory fees, a \$9,500,000 transfer from the USF to pay for the costs of reducing improper payments and enforcing that \$8.3 billion program, and a \$7,000,000 increase in the Spectrum Cap to \$124,000,000. Of the \$358,286,000 number, \$16,866,992 will be directed to complete the facilities leasing process and footprint reduction. Overall, the FY 2017 request is \$25,726,497 less than our FY 2016 appropriated level of \$384,012,497, if you allow the requested USF transfer amount. If you decide against transferring the USF funds again this year, we would be underfunded from the onset by \$9.5 million.

I am attaching a series of slides to illustrate in greater detail the Commission's resource needs, management objectives and spending process, all of which I plan to discuss with you during my oral testimony. These slides also provide a clear outline of projected funds raised, money spent, and programmatic goals. They illustrate in detail the administrative and funding issues that we have faced, while providing a positive picture of how many of our investments are paying off.

One area of progress that I wanted to highlight is our work to improve the FCC's efficiency and effectiveness. I am pleased to report that more than 77 of the 154 recommendations of the Commission's 2014 Process Reform Working Group have been fully implemented and most of the remainder are being implemented. Many of these reforms are related to operational improvements that this Subcommittee supports – enhanced transparency, greater public access, streamlined processes, cost savings measures, better employee training, and overall, more efficient use of the resources that you give us to carry out our routine mission objectives.

In many places where we made reform investments, we have seen phenomenal success. The sixth slide in the attachment lists seven of these IT success stories. A July, 2015 article in *Forbes* detailed how one of these – the new FCC Consumer Complaint System – saved the writer \$1,800 after a short investment of online time. And of course, we saved *all* taxpayers additional funds by avoiding expensive contractor costs and purchasing an off-the-shelf system to stand-up this new consumer system.

Those who use our systems on a routine basis also have praised our work. On February 24, 2016, the President of the Federal Communications Bar Association wrote the Commission on behalf of the lawyers who use our systems to thank us for improving and updating our website. While work continues to improve FCC.gov, users can navigate with less effort, saving time and resources.

Our funding levels have an impact on our process reform success rate and we must constantly review our resources and prioritize between mission objectives based on costs. The Commission requested additional funds for some reform projects, especially with regard to our Information Technology operations. Although we did not receive these funds, we did not throw in the towel – we made tough cost cutting decisions and moved ahead.

One such decision was the consolidation of our Enforcement Bureau facilities nationwide – done only after careful study, significant stakeholder input, and a full Commission vote. With your permission, we reorganized these offices to better focus on their primary responsibility – enforcement of the Commission’s rules governing radiofrequency interference – while maximizing the efficient use of our resources. This process has already saved more than \$400,000, and we are on track to save an additional \$220,000 per month. Once the other elements of the consolidation plan go into effect, we should save between \$8-9 million per year. These cost savings will allow us to make essential upgrades to our field investigative equipment, and enhance the complaint intake and database systems. In the meantime, we have continued to improve our support for public safety entities, and we have attacked pirates in high-volume areas like New York where we have the most significant number of violations.

The server ‘lift and shift’ is another good example of our flexibility in re-assigning funds to mission-critical objectives. We had been saddled with over 200 legacy systems, many of which were in disrepair. After receiving reprogramming permission, we retired approximately 70 servers and moved more than 120 to a new location in September. At the same time, we were unable to convince you to provide us with \$3 million per year to cover the ongoing maintenance and updates of our broadband map. Our solution was to go back to the drawing board and find a much cheaper option. That is why we dropped the FY 2016 request in FY 2017 and instead opted for a less expensive commercial product – a more adaptable Geospatial Mapping System that will support the 350,000 individual users per year who access the FCC Maps page.

When we ask for IT funds, as we are in the current fiscal year, we do so only after exhausting all available resources, closely examining the least expensive options, and finding the best return for the taxpayers and those we regulate. In FY 2017, we hope to take another step toward completing our projected IT modernization efforts, rewriting additional legacy applications to a resilient cloud-based platform. With regard to individual IT projects, we are focused in the current fiscal year on systems that support essential services and public safety, such as the Universal Licensing System, the Network Outage Reporting Systems and the Disaster Reporting system. With your help in the next fiscal year, we will modernize and upgrade other important systems, including our Consolidated Database System and Equipment Authorization System, among others. We will hit the most critical systems first and ask that you support our efforts to ensure that America’s communications industry has the fastest, most efficient, reliable and secure access to emergency notification systems and licensing programs available.

These improvements and upgrades represent expenditures. But the Commission also generates revenue, most notably through our management of commercial spectrum. Setting aside the money raised at auction, making spectrum available for wireless use helps spur significant economic growth and job creation.

The auctions cap increase has unquestionably been one of your wisest investments – and one that your children, grandchildren and great grandchildren will appreciate. Before 2013, the Commission endured nine years of auctions caps at \$85 million – no inflationary adjustments, no funds for improving the operational efficiencies or resiliency of our IT systems, and no money to study new projects to support auctions programming. You changed that to ensure funding that supports auctions – and now we are asking you again for a modest increase.

The infusion of additional funds since 2013 has supported our efforts to bring in over \$42 billion to the Treasury in two major auctions. But most importantly, your permission to use additional auctions funds has supported our efforts to develop and prepare for the first-ever Incentive Auction, which is slated to launch this month. This process has involved highly skilled, technologically savvy FTEs and contractors, across multiple disciplines, including cutting-edge economics and engineering. It also has involved the development of essential and resilient IT systems to support this program.

To ensure preservation of service for broadcast viewers and timely network deployment, we have been focused on post-auction planning for over a year, including the release of the draft relocation reimbursement form and a reimbursement cost catalog, and we have already begun to pivot and to accelerate our planning for the post-auction transition. Like the auction, the transition will be a complex effort spanning several years. So we will continue to experience costs associated with the Incentive Auctions into the next fiscal year and beyond. But I have no doubt that the money spent in this effort will yield important dividends – financially for the Treasury, and for industry growth supported by freed-up commercial spectrum.

Also, since I testified last year, the Commission has been asked to do even more to promote spectrum resources. The Bipartisan Budget Act of 2015 not only extended our auction authority but it mandated that we work with other agencies to identify and develop resources for a “spectrum pipeline.” In addition to the Incentive Auction and other innovative auctions on our planning list, we will be expending resources to support the core goals of the new legislation. To do so, we need to upgrade our traditional and aging auction IT systems – the ones that were not upgraded during the pre-2013 years – for use into the next decade, and engage in a broad range of economic and engineering studies to ensure that the next generation of auctions are at least as successful as past auctions.

Conclusion

The Federal Communications Commission’s mission to maximize the benefits of communications technology for the American people helps to grow our economy, expand opportunity, and boost U.S. competitiveness. With appropriate funding, we can achieve Congress’ varied mandates and do so in a fiscally sound manner.

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.

Executive Summary

- Down \$26m from FY 2016
- Fewest FTEs in over 30 Years
- Flat Base Budget Since 2010
- IT Investments Paying Off
- Pay-Go for Universal Service Fund Oversight



Funding Without Move/Restack, Flat Since 2010 - FTEs At Historic Lows

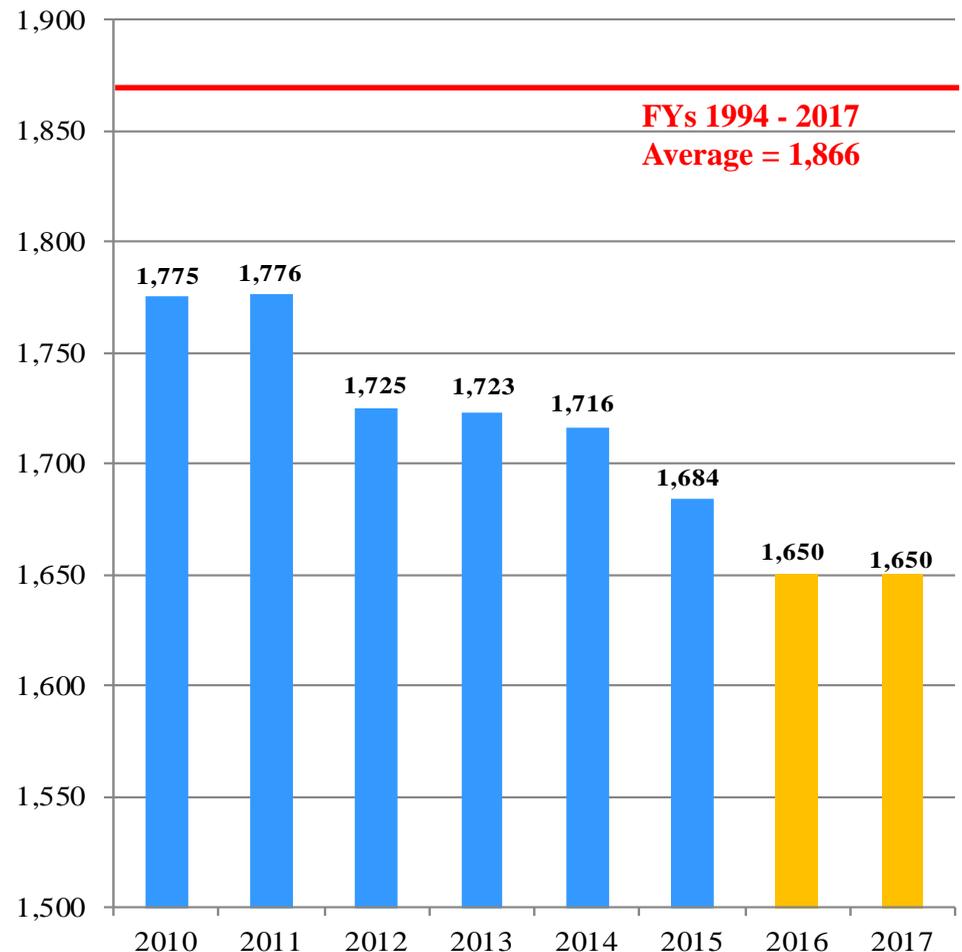
Millions

Agency Funding

■ S&E ■ Auctions ■ HQ Move/Restack



FTEs

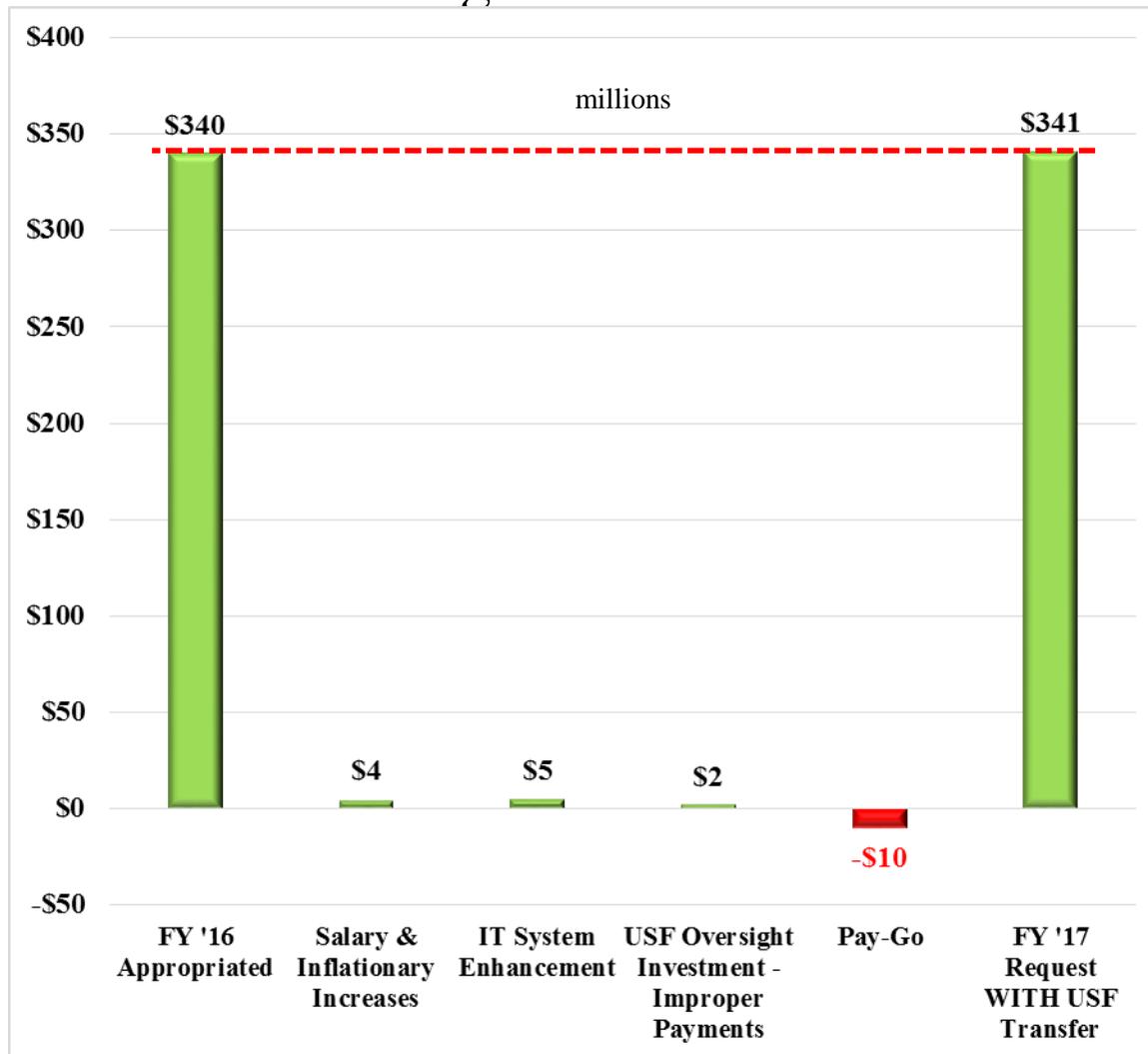


Estimated

Regulatory Fees (Offsetting Collections)

Comparison to FY '16 Appropriation

Excluding Move/Restack Cost



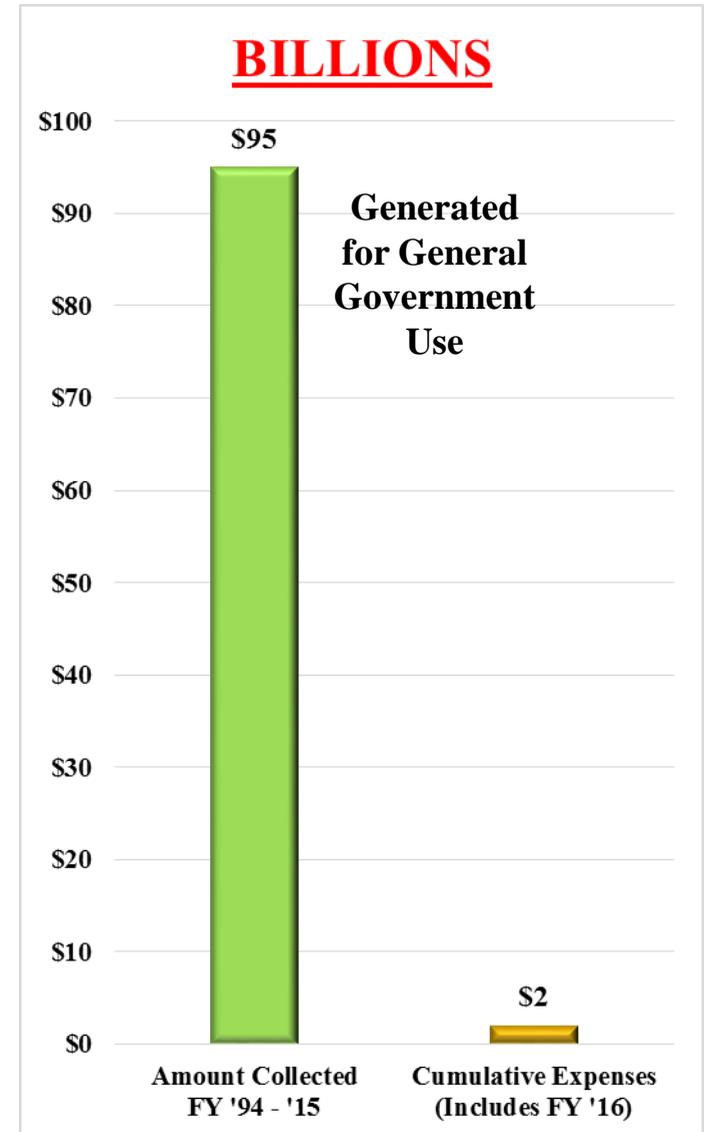
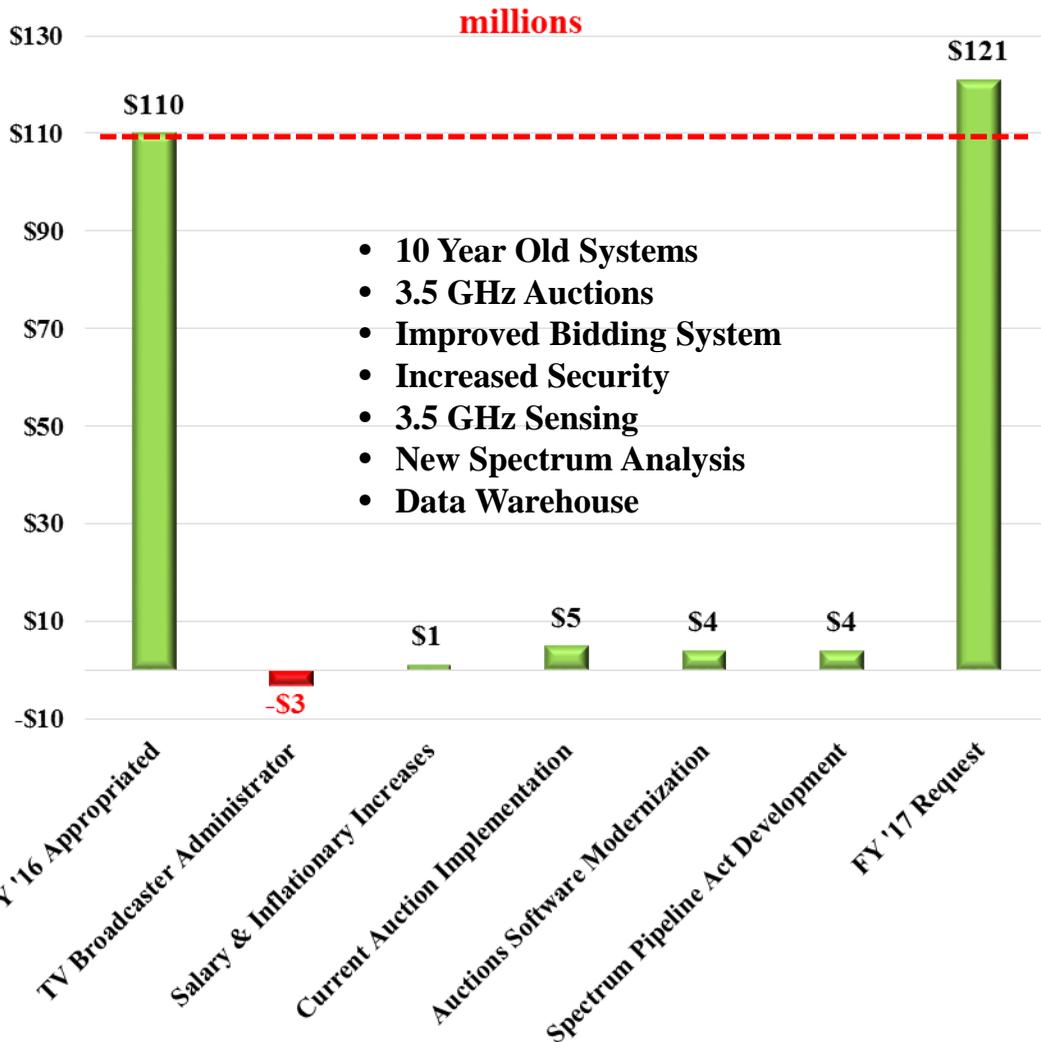
Doing MORE
Without Increases

- Field Reinvestment
- Public Safety Systems
- Licensing Systems
- Public Filing System Enhancements

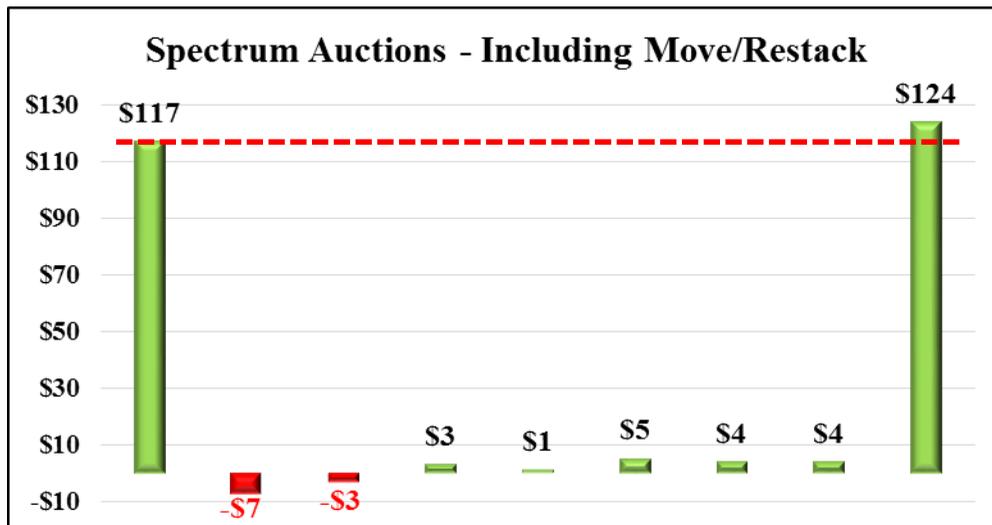
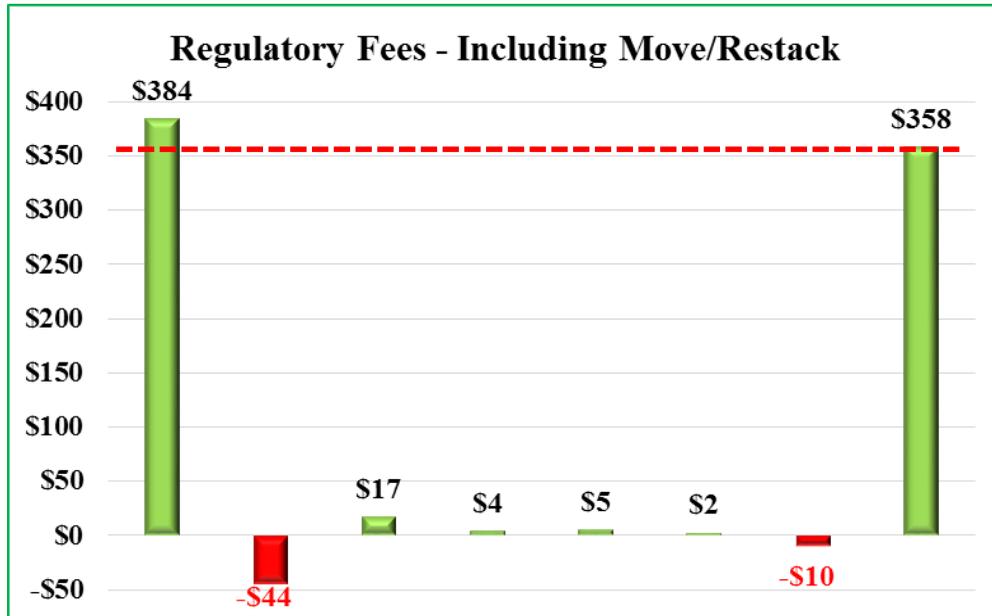
Spectrum Auctions Program

Huge Challenges = Huge Returns

FY '17 Retained Auctions Proceeds Without Move/Restack

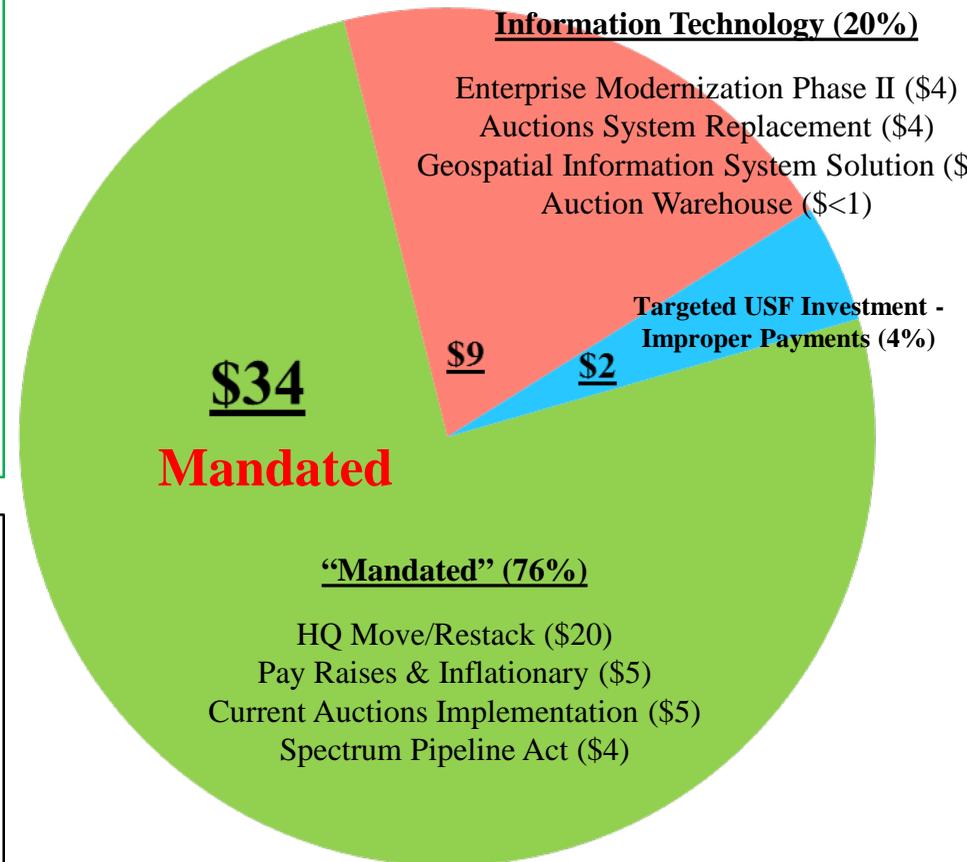


FCC Budget Compared to FY '16



Dollars in Millions & Rounded

Total new requests (Reg fees+Auctions)
100% = \$45m



IT Investments Are Paying Off

FY '15 – FY '16 Investments

Consumer Help Center	Built at 1/6th the price (\$450K vs. \$3.2M) in less than half the time (6 months vs. 18 months). Received praise in Forbes. Reduced number of employees required to staff this.
New FCC.gov Website	Built based on extensive input from external stakeholders. Received 90% positive feedback from constituents, including praise from the FCBA. Easier to update and maintain content.
Cloud Based Email & VDI	Increased use by 400% while reducing operational support costs by 30%. Unlimited telework opportunity from any location with higher levels of security.
Server Lift	Cost avoidance of over \$10M. Reduced backup and maintenance costs by >\$250K per year. Reduced operational costs from 85% to <50% by moving to a commercial service provider.
ECFS	Modernizing 16+ year old system used to support 5M public comments last year. If not cloud-based, would have required many more employees to staff.
NORS/DIRS	COTS platform delivered for \$300K using a native cloud platform in less than 3 months. On-premise approach would have been >3x more (\$1m) and taken >3x the time.
FISMA & Cyber Security	Reduced FISMA findings by more than 50% over two years. Increased the resiliency of FCC to respond to cyber issues of concern.

Universal Service Pay-Go

- \$8.3 Billion Annually Disbursed
- Heard from Congress About Waste, Fraud, & Abuse
 - Step #1 – Program Improvement
 - Step #2 – Predictive Analysis Tools
 - Step #3 – Dedicated Staff
- Regulatory Fee Payer Fairness
 - e.g. – Why should broadcasters be assessed to pay for something that they are not involved in?