

**STATEMENT OF
CHAIRMAN AJIT PAI
FEDERAL COMMUNICATIONS COMMISSION**

HEARING ON THE FCC'S FISCAL YEAR 2021 BUDGET REQUEST

**BEFORE THE
SUBCOMMITTEE ON FINANCIAL SERVICES AND GENERAL GOVERNMENT
U.S. SENATE COMMITTEE ON APPROPRIATIONS**

MARCH 10, 2020

Chairman Kennedy, Ranking Member Coons, 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 2021 Budget Request. The Commission requests \$343,070,000 for FCC salaries and expenses and an auction spending cap of \$134,495,000.

I'd like to take this opportunity to thank the Subcommittee for supporting the Commission's work. The funding you have provided has allowed us to pursue policies that are working and delivering real results for the American people. The digital divide is closing with new fiber deployment setting records in both 2018 and 2019. Broadband service is improving with average speeds skyrocketing, and the Internet remaining free and open. The United States is leading in 5G with the FCC delivering low-, mid-, and high-band spectrum. One national carrier now covers over 200 million Americans with 5G and small-cell deployment is booming. And communications technology is making the American people safer and more secure with improved and more targeted wireless emergency alerts now available to the vast majority of our citizens.

But of course, our work is not done. And looking to the future, our budget request would modestly increase general spending by \$4 million and lift the spectrum auctions cap by \$2 million. These additional funds would support our continuing commitment to improving and modernizing information technology as well as cover legally mandated pay increases for our staff.

I last appeared before the Subcommittee on October 17, 2019, to discuss the Commission's auctions process, and FCC staff appeared a month later to provide additional information related to our work in this area. Even in the short passage of time since the October hearing, the Commission has moved ahead aggressively to accomplish its strategic goals—closing the digital divide, promoting innovation, protecting consumers and public safety, and reforming the FCC's processes. As our budget and strategic goals indicate, we aim to move full speed ahead in the next fiscal year. I'd like to discuss with you some of the Commission's most important priorities for the upcoming year.

Our top priority continues to be closing the digital divide. I've seen for myself what affordable high-speed Internet access can do for a community—for its families, its schools, its hospitals, its farms, its businesses—as well as the impact of its absence. That's why we've been working to promote rural broadband deployment by reducing regulatory burdens and reforming our Universal Service Fund (USF) programs to efficiently distribute funding for those areas where there isn't currently a business case for the private sector to deploy on its own. And I'm proud that during the first two years of this Administration, we've reduced the number of Americans without access to 25/3 Mbps fixed broadband by 30% and the number of Americans without access to 250/20 Mbps fixed broadband by about three-quarters.

Through our 2018 Connect America Fund Phase II reverse auction, the Commission has now authorized nine waves of funding totaling over \$1.4 billion to expand connectivity to more than 627,000

homes and businesses nationwide, including in Arkansas, Delaware, Illinois, Kansas, Louisiana, Maryland, Montana, Oklahoma, and West Virginia. And by allocating these funds through a reverse auction process, we ended up reducing the costs of connecting these homes and businesses by more than two-thirds.

Going forward, the Rural Digital Opportunity Fund represents the Commission's boldest step yet in bridging the digital divide. This new program will build on the success of the CAF Phase II auction and provide more than \$20 billion over the next decade to support up to gigabit service for up to 6 million rural home and businesses through a competitive reverse auction. We'll target support to areas that lack access to fixed 25/3 Mbps broadband through a two-phase approach. The first phase will address areas of the country that everybody agrees are unserved. The second phase will cover areas in which the first phase doesn't yield winning bidders and any areas that are partially served (for instance, some households in a census block are covered but the remainder are not). And to identify eligible areas for this second phase, we will use the data to be gathered through our Digital Opportunity Data Collection, a new program to collect more granular deployment data that we adopted last August.

Through the Rural Digital Opportunity Fund, we will connect more Americans to faster broadband networks than any other USF program in history. On February 28, 2020, the Commission adopted a Public Notice proposing bidding procedures for the first phase of the auction, which is scheduled to begin in October and will make up to \$16 billion available for the deployment of fixed broadband networks across rural America. Our staff's initial estimate shows that in each of 25 states, there would be more than 100,000 locations that would be eligible for Phase I of the Fund. The benefits would be felt from the Gulf Coast to Appalachia, and from the Great Plains to the Pacific Ocean. For example, in Louisiana, the FCC staff estimates that approximately 188,000 rural homes and businesses could be eligible for Phase I RDOF bidding. And Phase I would also have a big impact in Arkansas (222,000 estimated eligible locations), Oklahoma (162,000), Illinois (246,000), and West Virginia (130,000), just to name a few states.

On the mobile side of the broadband ledger, we recognize that there are going to be rural areas where the business case for deploying 5G, the next generation of wireless connectivity, may not exist. I firmly believe we must ensure that 5G narrows rather than widens the digital divide and that rural Americans receive the benefits that come from wireless innovation. That's why I intend to circulate a proposal soon to establish the 5G Fund. This program would make up to \$9 billion in USF support over 10 years available to carriers to deploy advanced 5G mobile wireless services in rural America. This is a major investment in rural areas that will be allocated through a reverse auction and will target hard-to-serve areas with sparse populations or rugged terrain.

One component of the 5G Fund bears special mention. I've seen first-hand that America's farms and ranches have unique wireless connectivity needs. That's why I intend to propose reserving at least \$1 billion specifically for deployments facilitating precision agriculture.

In another action aimed at closing the digital divide, the Commission at our February 28 Open Meeting adopted a Notice of Proposed Rulemaking to expand our White Space device rules, paving the way for improved broadband coverage for rural Americans. Unlicensed White Space devices operate in slivers of spectrum in the TV broadcast bands as well as other 600 MHz frequencies which are not being used for other authorized services. These airwaves are attractive because they can deliver communications services over long distances, making them well-suited for wireless broadband services in rural areas. As part of our balanced spectrum strategy, I am optimistic that these proposed rules would provide for more robust service and efficient use of White Space devices particularly in rural areas, without increasing the risk of harmful interference to protected services in the TV bands. Our proposed rules would also provide flexibility for these devices to support applications like the Internet of Things.

The Commission's budget request also is essential to advancing the FCC's strategy to Facilitate America's Superiority in 5G Technology, our 5G FAST Plan. The 5G FAST Plan includes three main

components: freeing up spectrum, promoting wireless infrastructure, and modernizing regulations to encourage fiber deployment. I'd like to give you an update on the significant progress we've made on implementing this plan.

During my tenure as Chairman, we have left no stone unturned in our exhaustive search for spectrum resources. We have repurposed airwaves to provide licensed and unlicensed spectrum and leveraged our engineers' expertise to find better and more efficient ways to use spectrum we've already allocated. The details may be complex, but the result is simple: American consumers are getting better value for the public resources they own, and our economy is better off.

During the last 16 months, we have completed three 5G spectrum auctions. In Auction 101, we auctioned 850 megahertz of spectrum in the 28 GHz band. In Auction 102, we auctioned 700 megahertz of spectrum in the 24 GHz band. And just last week, we concluded Auction 103, where bidders won licenses for 3,400 megahertz of spectrum in the upper 37, 39, and 47 GHz bands. All told, these three auctions made available almost five gigahertz of high-band spectrum for commercial use. To put that in perspective, that is more spectrum than is currently used for terrestrial mobile broadband by all wireless service providers in the United States combined. And gross proceeds for these three auctions totaled over \$10 billion.

All of this highlights that money spent on our auctions program is an exceptionally wise investment. By the end of the last fiscal year, the Commission had held 93 auctions since Congress granted the FCC this authority in 1993 and raised an average of \$4.5 billion a year, for a total of \$117 billion sent to the Treasury.

But despite the difficult and highly technical nature of this work, we have only used a small fraction of auctions proceeds—less than \$2 billion of the \$117 billion total raised—to operate the program. That's a massive return on the investment you've helped make possible over the years.

Looking ahead, we will continue to be exceptionally active with respect to 5G spectrum auctions, and our focus will be on mid-band spectrum. On June 25, for example, we will begin our 3.5 GHz auction, where we will make available 70 megahertz of spectrum for Priority Access Licenses. Indeed, this auction will involve the greatest number of licenses—over 22,000—ever offered by the FCC in a single auction.

And I am pleased to report that we're on track to begin a C-band auction on December 8. I know that the C-band proceeding is of great interest to this Subcommittee, and I am proud of the decisive action that the FCC majority took last month to bring this essential spectrum to market for 5G.

When I last testified before you on the C-band, I stated that my decision in the proceeding would be based on four guiding principles. First, the FCC must make available a significant amount of C-band spectrum for 5G. Second, we must do so quickly. Third, we must generate revenue for the federal government. And fourth, we must ensure that the services that are currently delivered using the C-band can continue to be delivered to the American people.

The Order that the FCC adopted advances each of these principles, and it's important to recognize that on many of the issues we tackled there is a lot of common ground. When it comes to making available a significant amount of C-band spectrum for 5G, there is broad consensus that we got it right by reallocating 280 megahertz of spectrum (3.7-3.98 GHz) for flexible use, including 5G. When it comes to ensuring that services that are currently delivered using the C-band can continue to be delivered to the American people, there is broad consensus that we got it right by reserving the upper 200 megahertz of the C-band (4.0-4.2 GHz) for incumbent operators and by requiring winning bidders in the C-band auction to pay for incumbents' reasonable relocation expenses. When it comes to generating revenue for the federal government, there is broad agreement that we got it right by deciding to hold a public auction of C-band spectrum rather than authorizing satellite operators to conduct a private sale. And when it comes to making available C-band spectrum for 5G quickly, there is broad agreement among Republicans

and Democrats in Congress that accelerated relocation payments should be offered to satellite operators if they meet deadlines for clearing C-band spectrum quickly.

Why are these payments necessary? The answer is simple: speed. The Commission, wireless providers, and American consumers all want satellite operators to vacate the lower portion of the C-band quickly. And this transition will be much faster if we align the incentives of satellite operators with the public interest in expedited access to that spectrum.

To be sure, I recognize that there is disagreement regarding the amount of these accelerated relocation payments. Some believe that the payments in our Order were too small; indeed, we saw numbers proposed that were greater than the annual GDP of Iceland. Others have criticized them as being too large. But I believe we've gotten it just right at a maximum of \$9.7 billion.

We arrived at this figure by working with our economists and other expert staff to determine the value to auction winners of having satellite operators clear the spectrum in an accelerated timeframe and to approximate the size of payments that would be made in the private marketplace absent holdout and free-rider problems. You can find a detailed discussion of this topic at paragraphs 211 through 240 of our Order.

I also think that it is important to clear up a couple of points of potential confusion about accelerated relocation payments. First, they will be made by wireless carriers, not by the FCC and not by the American taxpayer. And second, to the extent they impact the proceeds of the auction at all, they are likely to increase those proceeds. That's because without a strong incentive for satellite operators to cooperate, it will take years longer to clear this spectrum, dramatically reducing the value of this spectrum opportunity to wireless bidders. It's like repainting one's house before selling it; yes, there are costs to doing that, but the costs are more than offset by the higher sales price. And our conservative approach here means the costs of accelerated relocation are outweighed by the benefits to the Treasury (not to mention the public at large).

In short, the idea that we would raise \$9.7 billion more for the Treasury if we removed the \$9.7 billion of accelerated relocation payments from our Order is simply wrong. As our agency's expert economists informed me, this is not a matter of shifting money from one pot to the other. Indeed, had we taken that step or reduced accelerated relocation payments to \$1 billion, we would be likely to raise less revenue through our C-band auction.

Finally, I would note that the Communications Act gives us ample legal authority to move forward with our approach to the C-band. Section 316 of the Act allows us to modify the licenses of C-band incumbents. Section 309 of the Act authorizes a public auction of the lower 280 megahertz of the C-band for flexible-use, overlay licenses. Section 303 of the Act gives us the authority to set new technical rules for the band. And section 303(r) of the Act lets us require the winners of the public auction to pay for the relocation of the band's incumbents under our *Emerging Technologies* framework.

In addition to the C-band, we've been hard at work on the two other aspects of the 5G FAST plan—promoting wireless infrastructure and modernizing regulations to encourage fiber deployment. And our work to clear regulatory hurdles and facilitate infrastructure build-out is spurring record-breaking capital investments in essential infrastructure, including fiber-optic cables and small cells. Indeed, hundreds of thousands of small cells are being deployed on an annual basis in addition to new towers, creating new employment opportunities for skilled employees doing this work. Notably, Commissioner Carr has been at the forefront of bringing attention to the need to train more skilled infrastructure specialists and developing programs to address this problem.

Thus far, I've discussed closing the digital divide and promoting innovation. Our third priority is to continue fulfilling our important mission to enhance consumer protection and protect public safety. We ended last month by following up on a number of consumer protection and safety issues of importance to this Subcommittee. First, we acted on the outstanding investigatory efforts of our

Enforcement Bureau and proposed significant fines against the nation's four largest wireless carriers for apparently selling access to their customers' location information without taking reasonable measures to protect against unauthorized access to that information. We also let the carriers know in no uncertain terms that they may not disclose their customers' location information to a third party without their customers' express consent. This FCC will not tolerate phone companies putting Americans' privacy at risk.

We also continue to protect American citizens and the national security of the United States. At our November 2019 meeting, the FCC unanimously adopted rules to prohibit USF fund recipients from purchasing equipment from vendors deemed national security risks, initially designated Huawei and ZTE as such vendors. In February 2020, the FCC launched an information collection from carriers on their use of Huawei and ZTE equipment and services in their networks.

Under the leadership of Commissioner O'Rielly, the Commission has been reporting on and calling attention to the diversion of 911 fees collected at the state level. Our latest report finds that in 2018, over \$187 million in taxpayer funds (or approximately 7.0% of all 911/E911 fees collected) that should have been used for the implementation and support of 911, E911, and NG911 services were instead used to fund other activities. This is an outrageous misuse of these funds and an abuse of public trust.

Additionally, February 17, 2020 was the effective date of Kari's Law, which requires all new multi-line telephone systems—which are commonly used in hotels, office buildings, and college campuses—to directly route 911 calls, without the need to dial a prefix to reach an outside line. This will help save lives by enabling those who need it most to reach help immediately.

Another public safety issue involves suicide prevention and mental health. Suicide rates in this country are reaching levels not seen since World War II. Vulnerable populations are particularly at risk, such as veterans, rural Americans, and LGBTQ youth. Access to trained counselors could make the difference between life and death. And so, with the urging of Members of this Subcommittee, we have proposed to designate 988 as a new, nation-wide, 3-digit number for suicide prevention and mental health. If this number is implemented, those in crisis will only need to dial a 3-digit number to be connected with professionals who staff the current National Suicide Prevention Lifeline (1-800-273-TALK).

Another serious public safety issue involves the illicit use of contraband cellphones in prison. I've seen for myself the impact that these devices can have within and outside of prison walls, in places like Jess Dunn Correctional Center in Taft, Oklahoma. We intend to continue our work in addressing this dangerous problem, and I want to thank Senator Lankford for his leadership on the issue.

I am also pleased to provide you with an update on our work to combat what Chairman Kennedy has called "a nuisance and an intrusion into family dinners, jobs, weddings, graduations and ballet recitals"—robocalls. I know this is another important concern of every member of this Subcommittee. Like most Americans, and like me, you are sick and tired of robocalls. The Commission has continued its mission to fight robocalls—consistently our top source of consumer complaints—by allowing telephone providers to block suspected malicious and illegal calls by default, and we've taken aggressive enforcement action against these violators. And last week, I shared with my fellow commissioners a draft Report and Order to mandate the implementation of caller ID authentication technology known as STIR/SHAKEN. This technology enables phone companies to verify the caller ID information that is transmitted with a call and will help them identify calls with illegally spoofed caller ID information before those calls reach Americans' phones. At our March Open Meeting, we'll vote on this item—a significant step toward ending the scourge of spoofed robocalls and a step supported by Congress's passage of the TRACED Act.

We're pleased that we can absorb the costs for the TRACED Act—less than \$200,000—within our budget, but that isn't always the case. For example, our staff estimates that the newly enacted

PIRATE Act will cost upwards of \$11 million to administer, potentially bringing our total budget figure to \$354 million. That number would include an \$8 million increase to the base budget. Specifically, in order to combat the problem of illegal radio operations, the statute requires a sweeping process that will require new equipment and a substantial number of additional field agents to implement fully. We are submitting a formal amendment to the Office of Management and Budget concerning costs associated with the full implementation of the PIRATE Act and will work with this Subcommittee toward determining a reasonable funding level for that program.

As we move ahead in FY20 and look forward to FY21, I want to assure the Subcommittee that we will continue essential projects that focus on American territories and Tribal communities. A good example of the former is the \$950 million in long-term funding we approved last year to expand, improve, and harden broadband networks in Puerto Rico and the U.S. Virgin Islands through the Uniendo a Puerto Rico Fund and Connect USVI Fund.

And with respect to Tribal communities, with the Subcommittee's support and direction, we will be continuing our efforts to expand broadband opportunities on Tribal Lands. We have increased support for carriers providing communications services on Tribal lands and created a priority window that allows Tribes to obtain free access to unassigned 2.5 GHz spectrum on rural Tribal Lands. This priority window opened on February 3, 2020 and will close on August 3, 2020. We are also following through with the Subcommittee's direction to work with Tribes to ensure that the Commission is adequately addressing their needs.

What's next for the Commission itself? During the current fiscal year, the Commission will be making a fresh start in a new headquarters building where we will realize rent savings of millions of dollars in FY21 and future years. This Subcommittee is responsible for funding the move and we greatly appreciate your support. Our staff has worked hard to develop a comprehensive plan and we are hoping to have a seamless move at the end of June.

Finally, I want to thank Senator Moran once again for his leadership in prioritizing information technology for all agencies. We hired a new Chief Information Officer since I last testified, and we continue to upgrade and modernize our systems.

As you can see from this testimony, the FCC has been exceptionally busy and will continue to be so during FY21. And we have been able to accomplish all of this because of the talents and dedication of our extraordinary staff. Indeed, since I became Chairman, we have held 38 monthly Open Meeting at which more than 200 items were adopted, 80% of which were passed with bipartisan support. The hard-working men and women of the FCC serve the American public each day with skill and commitment, and I am deeply honored to work alongside them.

* * *

Chairman Kennedy, Ranking Member Coons, and Members of the Subcommittee, thank you for this opportunity to testify. I am pleased to answer your questions.