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GAO

Report to the Honorable
Paul Simon, U.S. Senate

September 1987

TELEPHONE COMMUNICATIONS

Cost and Funding Information on Lifeline Telephone Service

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GAO

United States
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Resources, Community, and
Economic Development Division

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September 1, 1987

The Honorable Paul Simon
United States Senate

Dear Senator Simon:

As requested in your April 24, 1987, letter and subsequent discussions with your office, this report discusses issues relating to the cost, design, and funding of a mandatory nationwide lifeline telephone program for low-income households.[1] Specifically, this report discusses (1) the Federal Communications Commission's (FCC) current efforts to assist low-income groups to obtain telephone service, (2) alternatives used by states to identify low-income households that qualify for assistance, (3) the types of discounted telephone services offered by states to lifeline program participants, (4) key program features that would affect program costs, and (5) two basic alternatives for funding such a program. In addition, as you requested, it also provides information on California's lifeline program. As agreed with your office we will begin a more in-depth evaluation of FCC's voluntary lifeline program in early 1988.

In summary, we found that:

- FCC established a lifeline program in December 1985 to provide financial assistance to certain low-income households. Under this program, the FCC had certified lifeline telephone plans for 15 states and the District of Columbia as of July 31, 1987.
- States with lifeline programs generally tie eligibility for assistance to those households (1) qualifying for welfare programs such as food stamps or (2) having annual incomes below certain established levels such as the federal poverty income guidelines.
- State lifeline programs offer eligible households various types of discounted services, including basic local service, installation, and, in some instances, a monthly allowance for a telephone set and inside wiring.
- Factors affecting lifeline program costs include the criteria used to select eligible households, the level and kind of benefits offered, and the administrative procedures implemented.

[1] Lifeline telephone service is a local exchange service that has been specifically mandated by a legislative or regulatory body for the purpose of providing telephone service to low-income households at reduced rates. The term "lifeline" comes from the belief that for many households, particularly those with elderly and disabled members, the telephone is a communication lifeline to the outside world and the principal link to local authorities in case of emergency.

- Lifeline programs generally are funded either through general tax revenues or additional charges on local or toll telephone users.

Background

One of FCC's basic obligations is to promote the general availability of residential telephone service, often referred to as its "universal service" goal. Title I of the Communications Act of 1934, as amended (47 U.S.C. 151 et seq.) contains the nation's policy for common carrier telecommunications, including telephone service. The act created the FCC

> "[f]or the purpose of regulating interstate and foreign commerce in communication by wire and radio so as to make available, so far as possible, to all the people of the United States a rapid, efficient, Nation-wide, and worldwide wire and radio communication service with adequate facilities at reasonable charges . . ."

Determining the level of residential telephone subscribership (commonly called the "penetration level") is basic to any evaluation of universal telephone service. According to the U.S. Bureau of the Census, in March 1986 about 92 percent of the 88 million households in the United States had telephone service. Although telephone penetration at the national level has remained relatively stable during the last few years (recent data show a slight upward trend), the FCC has noted that penetration rates for low-income groups are below the national average. Of the 12 million households that were below the federal poverty level in 1986, about 75 percent had telephone service.

FCC's Voluntary Lifeline Assistance Program

To help low-income households obtain affordable telephone service, the FCC established a voluntary lifeline assistance program in December 1985. This federally certified program reduces monthly subscriber line charges for qualifying customers in states providing matching assistance for local telephone charges. In this program, residential customers do not have to pay all or part of the monthly per line subscriber line charges, and they also receive a matching reduction in local charges. This program is highly targeted to low-income households. The FCC's program hinges on the willingness of the states to develop and fund their own lifeline programs. As of July 31, 1987, the FCC had certified the lifeline plans of 15 states and the District of Columbia for participation in its lifeline program. (See app. I for additional background information.) Two other states, California and New York, have lifeline programs but have not yet applied to the FCC for certification.

There are no generally accepted standards for lifeline telephone service. The state lifeline programs differ considerably in terms of the criteria for determining eligibility for assistance and the amount and kind of assistance provided. For example, some states limit lifeline service only to the elderly, while in New York eligibility is tied to six different welfare programs. In California, almost any household with income below a certain level can receive assistance.

The eligibility criteria and level of benefits also affect the number of eligible households that decide to participate in a lifeline program. In California, which has a relatively generous program (see app. V), an estimated 1 million households receive assistance out of about 2 million eligible households. On the other hand, New York Telephone, which provides relatively modest benefits to its lifeline subscribers (a monthly $2 discount), estimated that about 55,000 households receive lifeline assistance out of about 1 million eligible households.

Identifying Eligible Households

Lifeline telephone service is intended for low-income households. States with lifeline programs have used two general approaches for identifying low-income households that qualify for assistance. Some states have used enrollment, or eligibility, in existing welfare programs, such as the Food Stamp Program or Aid to Families With Dependent Children, as eligibility criteria. Other states require that annual household income fall below the federal poverty level or a given percentage of the poverty level. California's eligibility criterion, for example, is based on 150 percent of the poverty income level.

Varying the criteria used to select eligible households can result in widely differing estimates of potential eligible households. We had previously identified 95 different welfare programs that provide benefits to low-income, needy, and/or distressed individuals.[2] In a recent report we estimated that in September 1983 about 18 percent of 85 million U.S. households participated in one or more welfare programs.[3] We also estimated that participation in individual major welfare programs ranged from about 1.4 million households for the Section 8 Housing Program to about 6.2 million for the Food Stamp Program.

[2] Federal Benefit Programs: A Profile (GAO/HRD-86-14, Oct. 17, 1985).

[3] Welfare: Issues to Consider in Assessing Proposals for Reform (GAO/HRD-87-51BR, Feb. 19, 1987).

On the other hand, if the federal government's poverty income guidelines are used as eligibility criteria, almost 14 percent of households fell below the poverty level in 1986, 19 percent fell below 125 percent of the poverty level, and about 24 percent fell below 150 percent of the poverty level. (App. II contains additional data on low-income households and welfare programs.)

Telephone Services and Rates

State lifeline programs offer eligible households various types of discounted telephone service, including basic local service, installation and, in some instances, a monthly allowance for a telephone set and inside wiring. An FCC study of national average monthly telephone rates as of October 1986 estimated the price of basic service, including taxes and subscriber line charges, at $8.81 for low-priced party line or measured service and $15.99 for flat-rate, unlimited calling. The study also estimated the price of installing telephone service, where no premises visit is required, at about $50. (See app. IV.) We also learned from industry sources that telephones can be bought for about $7 and up, or leased for $1.65 or more per month, depending on the features and quality desired.

Factors Affecting Lifeline Program Costs

States that have estimated the cost of their lifeline programs have generally multiplied the difference between non-lifeline telephone rates and lifeline rates by the number of participating households and then added lifeline-related administrative costs. Although this is a straightforward approach, it can produce widely varying estimates, depending on the features designed into the program. Our review of state lifeline programs and other information indicates that the major program features affecting cost are (1) the criteria for selecting households eligible for assistance; (2) the level and kind of benefits offered; and (3) administrative procedures such as application and verification requirements, accounting and billing systems, and promotional and advertising efforts (referred to as "outreach") to inform eligible households about the program.

These program features determine, to a large extent, the number and type of households that decide to participate in a lifeline telephone program. However, we found differing views on which low-income groups should be targeted for assistance, what kind of discounted services should be provided, and how the program should be administered. Important policy questions underlie the design and development of these program features. For example, an important determinant of lifeline program cost is the degree to which lifeline features provide assistance to eligible households with existing telephone service. (About 75 percent of an estimated 12 million households below the poverty level have telephones.) Features chosen by lifeline program designers will influence the decisions households make regarding the kind of telephone service they acquire and whether they establish service. Although designers may want to encourage participation by households without telephone service, many households eligible for lifeline assistance are likely to already have telephone service. (See data in tables II.3 and II.6 in app. II.) These households may choose to switch to lifeline-priced service if the lifeline features and rates compare favorably with regularly priced features and rates. In such a case, the lifeline program could be quite costly even if it does not encourage many households to begin telephone service.

Other important policy questions that program designers must address include:

- Should eligibility for lifeline assistance be tied to participation in certain welfare programs or should a lifeline program develop its own eligibility criteria?
- How much flexibility should a national lifeline program allow states to develop their own program features?
- What controls should be in place to verify that participants meet eligibility criteria?
- Which telephone services should be subsidized and how much of a discount should lifeline subscribers receive?
- How aggressive an outreach effort should be undertaken?

Funding Alternatives

From our review of state lifeline programs and FCC dockets, we identified two basic funding alternatives: (1) general tax revenues or tax credits to telephone companies providing lifeline services and (2) additional charges on local or toll telephone users. FCC, the telephone industry, states, consumer groups, and others have expressed varying opinions on these funding alternatives.

One view, generally shared by FCC and the industry, considers lifeline service a social program and, therefore, prefers that lifeline service be funded through general tax revenues. The proponents of this view are of the opinion that the increasingly competitive nature of the telephone industry requires that its services be priced on the basis of cost. They contend that pricing some services above cost to subsidize other services priced below cost encourages inefficiencies such as uneconomic bypass of local telephone companies.[4] Nevertheless, they also recognize that funding lifeline service through general tax revenues appears unlikely given the perceived reluctance of government officials to increase taxes.

In contrast, others, including the Consumer Federation of America, believe that it is best to spread the cost of lifeline service among all other telephone users. This could be accomplished by either a fixed surcharge on each telephone line and/or a surcharge on toll revenues. (There are about 118 million telephone access lines in the United States and about $52 billion in toll revenues.) Variations on these alternatives are possible; for example, (1) a surcharge could be applied only against residential telephone lines or (2) a proportionately higher surcharge could be applied against interstate rather than intrastate toll revenues.

Experience With Lifeline Programs Is Limited

The FCC noted in April 1987 that since many of the state programs were just beginning to take effect, it was not possible to draw any final conclusions about their effectiveness. Experience with lifeline telephone programs has so far been limited. Several states view their program as experimental and expect that revisions may be necessary as the state gains experience. In addition, most of the current state programs certified by the FCC focus on narrow target groups, such as the elderly receiving food stamps or heating assistance.

California has had more experience with lifeline service than most states. Its program, started in July 1984, offers a wide range of benefits to an estimated 1 million participants. Over the last 3 years, the state legislature and utility commission have revised the program several times, enhancing benefits to increase participation while attempting to keep the program financially sound. Because the program will operate at an estimated deficit of $55 million for fiscal year 1987, the utility commission increased the tax rate on intrastate long distance carriers from 1.5 percent to the legislative limit of 4 percent. However, the additional tax revenues will not be sufficient to cover about $155 million in program expenses for fiscal year 1988; as a result, a projected lifeline fund deficit of $26.6 million could be incurred. In response, the utility commission has begun a proceeding to look at the cost effectiveness of the program and funding alternatives.

[4]The issue of uneconomic bypass is discussed in detail in our August 1986 report, Telephone Communications: Bypass of the Local Telephone Companies (GAO/RCED-86-66).

Objective, Scope, and Methodology

Our objective was to obtain and synthesize readily available, existing information on issues relating to the cost, design, and funding of a potential nationwide lifeline telephone program for low-income households. We reviewed the FCC's files on states and the District of Columbia that were participating in the FCC's voluntary lifeline program; visited the California Public Utilities Commission to discuss that state's lifeline program; talked with representatives of New York Telephone Company about its lifeline service; and collected data on low-income households from the Bureau of the Census' Current Population Survey. We also reviewed documents in FCC dockets dealing with lifeline telephone matters. We relied on our prior reports in the welfare area for information on welfare programs. We also discussed lifeline telephone service with representatives of the FCC, local and long distance telephone companies, state utility commissions, and consumer groups. We conducted our work from April through July 1987.

We discussed the material in this report with staff of the FCC's Common Carrier Bureau. The staff were in general agreement with the report's information. They pointed out that a lifeline program needs flexibility to allow each state to develop a program that meets the particular needs of its low-income population. As your office requested, we did not obtain official agency comments on this report.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from the date of this letter. At that time we will send copies to interested parties and make copies available upon request.

Major contributors to this report are listed in appendix VII.

Sincerely yours,

John H. Luke

John Luke
Associate Director

Contents

Tables

Abbreviations

AFDC	Aid to Families With Dependent Children
FCC	Federal Communications Commission
GAO	General Accounting Office
HRD	Human Resources Division
NTIA	National Telecommunications and Information Administration
RCED	Resources. Community, and Economic Development Division
SSI	Supplemental Security Income

Background Information on Universal Service and the FCC Lifeline Program

The Communications Act of 1934 (47 U.S.C. 151 et seq.) established a national goal of universal telephone service—to make residential service generally available at a reasonable price. Currently, about 92 percent of all households have telephone service. However, subscribership levels among low-income households, while stable, have remained below the national average. About 75 percent of households with incomes below the federal poverty level have telephone service.

In recent years the telephone industry has experienced fundamental changes centering on the breakup of the Bell Telephone System and the Federal Communications Commission's (FCC) decisions promoting competition. These changes have raised concerns among congressional committees, consumer groups, and others about the cost of telephone service and the ability of many low-income and elderly Americans to pay higher local telephone rates.

FCC acknowledges the concern that its decisions, in conjunction with the general upward pressure on local rates, could undermine universal telephone service. In December 1985, it adopted a lifeline assistance program that provided matching federal assistance to households that were receiving lifeline assistance through state or telephone company programs highly targeted to low-income households. The assistance given by the state/company can take several forms, such as reductions in local service rates, connection charges, or deposit requirements. The FCC lifeline program matches the value of the state/company assistance up to the amount of the FCC residential subscriber line charge ($2 a month in June 1987). Its assistance takes the form of a waiver of the subscriber line charge (or matching portion of it) for the eligible households.

FCC stipulates that state programs requesting certification for federal assistance must meet three requirements:

- Highly targeted eligibility criteria focused on those individuals with limited incomes.
- Verification procedures that routinely check to ensure that those eligible under the program are the individuals benefiting from the program.
- Assistance available only for a single telephone line for the principal residence of the eligible household.

In April 1987, FCC expanded its lifeline assistance program. One part of the expanded program is a measure to help qualified low-income households defray the front-end charges for connection and installation. This effort, called "Link Up America," will offset one-half of the connection and installation charges, up to $30. Also, where a telephone company offers a deferred payment plan for service commencement charges and it does not assess the subscriber any interest charge, federal assistance will be available to that telephone company to cover the interest charges on an amount up to $200. In addition, the current lifeline assistance program, which provides a matching federal-state discount to qualified subscribers, was increased to correspond to higher monthly subscriber line charges, which will increase in three increments from $2 to $3.50 by April 1989.

While recognizing the need for lifeline assistance, FCC rejected a federally mandated program. FCC concluded that state regulators, working with their local telephone companies, were in the best position to identify those low-income households within their jurisdictions that need assistance in affording a telephone. FCC believed that a federal lifeline program should supplement lifeline programs set up by the states in order to provide state regulators with a strong incentive to develop lifeline assistance programs appropriate to their local needs.

The ability of FCC's program to assist low-income households hinges, however, on the willingness of the states to develop and fund their own lifeline programs. By July 1987, FCC had certified 15 states and the District of Columbia for participation in the program.[1] Although states have been gradually deciding to participate in the FCC program, low state participation to date leaves open the question of whether a federally mandated program will be needed to bring about universal service for low-income households. However, FCC is currently planning an outreach campaign to increase state and subscriber participation. FCC plans to work with state commissions, consumer groups, the telephone industry, and others to promote the benefits of its lifeline program and Link Up America. FCC intends to test out its campaign in four states beginning in September 1987.

[1]Arizona, Arkansas, Colorado, Hawaii, Idaho, Maryland, Nevada, New Mexico North Carolina, Ohio, Oregon, Utah, Vermont, Washington, and West Virginia.

Identifying Households That Could Participate in a Lifeline Telephone Program

One significant cost component of a lifeline program is the number of households receiving assistance. This number is determined, to a large extent, by the size of the eligible target population. Consequently, we believe an important policy question that must be addressed in designing a national lifeline program is: "Which households should be targeted for assistance?" States with lifeline programs have followed one of two basic approaches for selecting needy households: (1) tying lifeline eligibility to participation in specified welfare programs or (2) requiring that annual household income fall below a given amount. Both of these approaches have advantages and disadvantages and require value judgments concerning who should receive assistance.

Using Participation in Welfare Programs as a Guideline

Eligibility for welfare assistance usually is determined by the requirements of each program. An advantage of tying telephone lifeline assistance to participation in a welfare program, therefore, is that the administrative problems of setting and verifying eligibility criteria are lessened by using an existing program that routinely certifies eligibility. Using existing welfare programs eliminates the need to establish new eligibility criteria for telephone lifeline assistance.

On the other hand, there are several disadvantages to using welfare programs. First, program designers must choose which of many different welfare programs should be targeted for lifeline assistance. Second, not all those who are eligible for welfare assistance actually sign up for assistance. And third, some lifeline advocates believe lifeline telephone service should avoid the "stigma" of a welfare program.

There is no common agreement on the programs that constitute welfare. "Welfare" can mean a few basic assistance programs centered on the Aid to Families With Dependent Children Program or it can mean as many as the 95 needs-based programs listed in table II.1. Needs-based programs provide cash and in-kind benefits to low-income, needy, and/or distressed individuals who neither financially contribute to the programs nor render service in return for the benefits received. If the individual can show sufficient "need," he or she may be eligible for a number of different programs and benefits. Collectively, the 95 needs-based benefit programs comprise the public "welfare" system.

Table II.1: Needs-Based Federal Benefit Programs

Cash Programs
Aid to Families With Dependent Children (AFDC)
Adoption Assistance
Family Group
Foster Care
Unemployed Parent
Dependency and Indemnity Compensation for Parents of Veterans
Earned Income Tax Credit
Emergency Assistance to Needy Families With Children
General Assistance to Indians
Pensions for Needy Veterans, Their Dependents, and Survivors
Refugee and Entrant Assistance, State-Administered Programs
Supplemental Security Income (SSI)
For the Aged
For the Blind
For the Disabled
Weatherization Assistance
Total 14 programs
Education Programs
Bilingual Education
Bilingual Vocational Training
Centers for Independent Living
Chapter One Migrant Education
College Assistance for Migrants
College Work Study
Education of Handicapped Children in State Schools
Guaranteed Student Loan
Handicapped Preschool and School Children
Headstart
Health Careers Opportunity
Health Professions Preparatory Scholarship for Indians
Indian Education, Assistance to Schools
Indian Education, Higher Education Grants
Migrant High School Equivalency
National Direct Student Loan
Pell Grant
Students from Disadvantaged Backgrounds
Rehabilitation Services, Basic Support
Rehabilitation Services, Service Projects
State Student Incentive Grant
Supplemental Educational Opportunity Grant
Vocational Education Work-Study
Total 23 programs
Food Programs
Child Care Food
Commodity Supplemental Food
Emergency Loans for Farmers
Food Distribution (Food Donation)
Food Distribution of Commodities on Indian Reservations
Food Stamp
National School Lunch
Nutrition Assistance for Puerto Rico
Nutrition for the Elderly
School Breakfast
Special Milk
Special Supplemental Food for Women, Infants, and Children

(continued)

Summer Food Service for Children
Total 13 programs
Housing Programs
Congregate Housing Services
Farm Labor Housing Loans and Grants
Housing for Elderly or Handicapped
Indian Housing Assistance
Interest Reduction Payments
Lower Income Housing Assistance (Section 8)
Low Income Housing, Home Ownership Assistance
Low Rent Public Housing
Mortgage Insurance, Homes for Low and Moderate Income Families
Mortgage Insurance, Rental and Cooperative Housing (Market Rate)
Mortgage Insurance, Rental Housing for Moderate Income Families
Mortgage Insurance, Special Credit Risks
Nonprofit Sponsor Assistance
Operating Assistance for Troubled Multifamily Housing Projects
Rehabilitation Loans (Section 312)
Rent Supplements
Rural Housing Loans
Rural Housing Repair Loans and Grants
Rural Housing Self-Help Technical Assistance
Rural Housing Site Loans
Rural Rental Assistance Payments
Rural Rental Housing Loans
Total 22 programs
Medical Programs
Community Health Centers
General Indian Health Services
Medicaid
Medical Assistance to Refugees
Migrant Health Centers Grants
Total 5 programs
Service Programs
Administration for Children, Youth and Families (Runaway Youth)
Child Abuse and Neglect Prevention and Treatment
Child Welfare Services, State Grants
Indian Child Welfare, Title II Grants
Indian Employment Assistance
Indian Social Services, Child Welfare Assistance
Legal Services
Social Services for Refugees
Special Programs for the Aging, Grants for Supportive Services and Senior Centers
Special Programs for the Aging, Grants to Indian Tribes
Total 10 programs
Jobs and Employment Programs
Employment Service
Employment and Training Assistance, Dislocated Workers
Job Corps
Migrant and Seasonal Farm Worker
Senior Community Service Employment
Special National Level
Summer Youth Employment
Trade Adjustment Assistance, Workers
Total 8 programs

Source: Federal Benefit Programs: A Profile (GAO/HRD-86-14, Oct. 17, 1985)

Welfare recipients generally are single-parent or two-parent families with children. or the aged, blind, and disabled. The major programs in the system targeted specifically to people with low income are Aid to Families With Dependent Children, Supplemental Security Income, Medicaid, Food Stamp, Public and Section 8 Housing, and the School Breakfast and Lunch Programs. According to estimates based on the Census Bureau's Survey of Income and Program Participation, about one in five households nationwide was receiving welfare benefits in September 1983. Table II.2 shows households participating in major welfare programs and table II.3 shows for three types of welfare assistance the number of households with and without a telephone.

Table II.2: September 1983 Estimates of Participation in Selected Welfare Programs

Number of households in thousands

	Number of households	Percentage of all U.S. households
Total U.S. households	84,756	100.00
Participating in one or more welfare programs	15,273	18 02
Participating in major welfare programs		
Food Stamp	6 218	7.34
Medicaid	5 312	6 27
Free School Lunch	4 698	5 54
SSI	2 691	3 18
AFDC	2,647	3 12
Public Housing	2,276	2.57
Free School Breakfast	1,602	1 89
Energy Assistance	1,402	1 65
Section 8 Housing	1,383	1 63

Source Welfare Issues to Consider in Assessing Proposals for Reform (GAO/HRD-87-51BR Feb 19, 1987)

Table II.3: Households With and Without Telephone Service That Participate in Selected Welfare Programs, March 1986

Numbers in thousands

Welfare program	Households	No. with telephone	No. without telephone	Percentage without a telephone
Food stamps	6,758	4,660	2,098	31.0
Subsidized School Lunch	5,769	4,369	1,400	24 3
Energy Assistance	4,403	3,356	1,047	23 8

Source. Current Population Survey, U S Census Bureau

Because programs often are targeted to overlapping groups, many recipients participate in several programs simultaneously. More than 8 out of

10 households on welfare participated in two or more programs during September 1983, according to Survey of Income and Program Participation data. About half the households participated in three or more programs.

However, these numbers do not include some persons who would be eligible for welfare but do not participate reportedly because they

- are not provided local outreach services to make them aware of the programs and help them apply for benefits,
- perceive that society places a stigma on receiving welfare, and
- have difficulty dealing with the forms and procedures necessary to receive assistance.

For example, in 1983 the Department of Agriculture estimated that more than 40 percent of those persons eligible for food stamps did not participate because they did not know they were eligible.

Using Poverty Income Guidelines

Table II.4 breaks out the number of households with and without a telephone by income level. As the table shows, most of those without telephone service are in the lower income brackets. Of 6.8 million households without telephone service, 5.1 million have income below $17,500.

Table II.4: Number of Households With and Without a Telephone by Income Level, March 1986

	Numbers in thousands			
Household income	Households	Number with telephone	Number without telephone	Cumulative number without telephone
Loss	208	196	12	12
None	384	248	136	148
$1 to $2.499	1,601	1,088	513	661
$2,500 to $4,999	4,658	3,494	1,164	1.825
$5,000 to $7,499	6.028	4,970	1,058	2.883
$7,500 to $9,999	4,970	4,260	710	3.593
$10,000 to $12,499	5,313	4,690	623	4.216
$12,500 to $14,999	4,800	4.324	476	4,692
$15,000 to $17,499	4.954	4.538	416	5,108
Total	**32,916**	**27,808**	**5,108**	
$17,500 and above	55.277	53.541	1,736	6,844
Total	**88,193**	**81,349**	**6,844**	

Source Current Population Survey, U.S Bureau of the Census

However, the figures in table II.4 could be misleading in that they do not account for differences in household size. The federal government's poverty income guidelines can be used for this purpose. The poverty guidelines are series of income levels, with different values for families of different sizes, below which the families are considered poor for administrative purposes. The poverty guidelines are issued by the Department of Health and Human Services and are used for determining whether a person or family is financially eligible for assistance or services under a particular federal program. Some federal welfare programs modify the guidelines for determining eligibility, for example, and use 130 percent or 150 percent of the guidelines. Table II.5 shows the poverty income guidelines for 1987 and table II.6 estimates the number of households at various percentages of the poverty guidelines broken down between those with a telephone and those without. Based on these numbers, a lifeline telephone program targeted to households at or below 150 percent of the poverty level could assist about 21.3 million households.

Table II.5: 1987 Federal Poverty Income Guidelines

Size of family unit	Contiguous (48) states and District of Columbia	Alaska	Hawaii
1	$5,500	$6,860	$6,310
2	7,400	9,240	8,500
3	9,300	11,620	10,690
4	11,200	14,000	12,880
5	13,100	16,380	15,070
6	15,000	18,760	17,260
7	16,900	21,140	19,450
8	18,800	23,520	21,640

Note For family units with more than 8 members, add the following amount for each additional family member $1 900 (contiguous states and the District of Columbia) $2,380 (Alaska) $2,190 (Hawaii).

Source Published in the Federal Register February 20, 1987 by the Department of Health and Human Services

Table II.6: Estimated Number of Households Below Selected Poverty Levels With and Without a Telephone, March 1986

Numbers in thousands

	U.S. total	Below poverty level	Below 125% of poverty level	Below 130% of poverty level	Below 150% of poverty level
Households with a telephone	81,314	9,073	13,138	13,882	17 203
Households without a telephone	6,879	3,009	3,619	3,757	4,140
Number of households	**88,193**	**12,082**	**16,757**	**17,639**	**21,343**

Source Estimated by FCC's Common Carrier Bureau using data from the Census Bureau's Current Population Survey

Advantages of relying on the poverty income guidelines are that they (1) can simplify program administration and (2) possibly increase participation, especially among those households that resist complex forms and procedures. Perceived disadvantages are (1) the administrative cost of verifying that participating households meet income criteria, (2) the potential, if controls are lax, for abuse by some households that obtain assistance but exceed the income criteria, and (3) exclusion from the income guidelines of non-cash benefits such as food stamps, Medicare, Medicaid, and public housing. We observed that California's lifeline program, which uses the poverty income guidelines and self-certification to determine eligibility, has generated differences of opinion over whether much abuse has been occurring and what steps, if any, should be taken to verify participating households' income levels. (See app. V for additional information on California's lifeline program.)

Economic and Geographic Mobility of Low-Income Groups

Regardless of which criteria are used to identify eligible households—welfare programs or income level—additional complicating factors that will affect participation in a lifeline program are the changing economic condition of low-income groups and how often they change residence. The economic and geographic mobility of low-income households is referred to as "churn" or "turnover" by lifeline program administrators. The churn rate may require that lifeline rolls be frequently updated to reflect households entering and leaving the program as their eligibility changes. Also, if lifeline service provides reduced installation charges, the churn rate includes the percentage of participating households that move and need their telephones reconnected.

Studies indicate that certain welfare programs exhibit considerable turnover in the recipient population. In our report on the Food Stamp Program,[1] we noted that the number of households participating in the program fluctuates depending on the number of households entering or leaving the program. While about 6.2 million households received food stamps in September 1983, we estimated that about 13.7 million households participated in the program during the year. In a paper on welfare recipiency,[2] it was reported that about 40 percent of unmarried mothers who received assistance and then left the Aid to Families With Dependent Children Program subsequently returned.

Census Bureau data in table II.7 on families and unrelated individuals that changed residence during 1985 show that those living in poverty tend to move more often than the overall population.

[1] Food Stamp Program: Trends in Program Applications, Participation, and Denials (GAO/RCED-87-80BR, Apr. 1987).

[2] Roberton Williams, "Research on Welfare Recipiency," Congressional Budget Office, contained in Data and Material Related to Welfare Programs for Families With Children, Committee on Finance, United States Senate, Senate Print 100-20, March 1987.

Table II.7: Current Residence Versus Residence 12 Months Ago by Poverty Status in 1985

Numbers in Thousands

	Total	In poverty
Family householders	63,558	7,223
Current residence versus 12 mo. ago:		
Same	53,397	5,264
Different	9,939	1,903
Percent changing residence	15.6	26 3
Unrelated individuals	31,351	6,725
Current residence versus 12 mo. ago:		
Same	22,228	4,530
Different	8,850	2,045
Percent changing residence	28.2	30 4

Source Table prepared by U S Bureau of the Census, Poverty and Welfare Branch using Current Population Survey data

These percentages suggest that a lifeline program that provides assistance on installation charges will need to decide how often it will help households to re-establish telephone service when they move. FCC established its "Link Up America" program to help defray charges for commencement of services. However, to help control program costs, FCC decided to limit assistance from Link Up America to once every 2 years. Therefore, if a household obtains telephone service with help from Link Up America, but moves during the following 2 years, the household is responsible for paying installation charges at its new address.

Although program costs may be reduced, a lifeline program with this kind of installation restriction may also result in reduced participation by some households targeted by the program: those without telephone service. A survey undertaken jointly by the telephone industry and consumer groups indicates that households without telephone service are more mobile than households in general.[3] Also, installation and deposit charges are seen by these households as more important than monthly recurring charges in limiting their access to telephone service.

[3]Joint Telecommunications Project. Consumer Federation of America, American Association of Retired Persons, and American Telephone and Telegraph, Feb. 1987.

Households With No Telephone Facilities

Some low-income households, even if eligible for lifeline assistance, may be located in rural areas where no telephone facilities are available. The cost of connecting these households to the telephone network may be prohibitive.

The Rural Electrification Administration in cooperation with industry organizations has estimated that about 485,600 households are in areas where no telephone facilities are available.[1] Many of these households would typically be spread over a wide geographic area rather than reside in clusters. The high costs associated with linking these widely dispersed subscribers to switches and other telephone network facilities often make conventional wireline technology impractical. Proposals to apply radio technology to these areas may, however, provide telephone service at a reasonable cost in the future.

[1] Petition for Rulemaking to establish a basic exchange telecommunications radio service submitted to FCC by the Rural Electrification Administration and four industry associations, May 9, 1986.

Information on Telephone Rates, Access Lines, and Toll Revenues

State lifeline programs offer eligible households various types of discounted telephone service, including basic local service, installation, and, in some instances, a monthly allowance for a telephone set and inside wiring. Table IV.1 shows telephone rates for these services as of October 1986. A national lifeline program could be designed to include discounted rates for any or all of these services. The resulting program cost would depend on the amount of the discount for the service or services provided and the number of households participating.

Table IV.1: Average Monthly Telephone Rates as of October 1986

	Rate	Tax	Total
Lowest generally available price[a]	$5.97	$ 58	$6 55
Federal and state subscriber line charges	2.05	.21	2 26
Total	**8.02**	**.79**	**8.81**
Private rotary line, unlimited calling[b]	12.45	1.28	13 73
Federal and state subscriber line charges	2.05	.21	2 26
Total	**14.50**	**1.49**	**15.99**
Additional optional charges			
Lease of rotary telephone set[c]	2 25	.23	2 48
Inside wire charge	.58	.08	66
Touch tone dialing	1 41	15	1 56
Additional cost of touch tone set[c]	1 30	.12	1 42
Installation of service where no premises visit is required			
Rotary service	45 17	4.82	49 99
Touch tone service	46 51	4.92	51 43

[a]The lowest generally available price is the monthly charge for party line or measured service if available in the downtown area In five cities, where no such option was available, the price for flat-rate service was used to compute the average figure The average does not include lifeline rates or subsidies, which are available only to customers who meet "means" criteria

[b]The rates for New York and Chicago were the measured-service rate with 100 telephone calls. Unlimited calling service is not available in New York City or Chicago

[c]AT&T Information Systems lease rates were used where local operating companies do not provide rental equipment The differential for touch tone equipment is based on AT&T lease rates

Source Primer and Sourcebook on Telephone Price Indexes and Rate Levels April 1987, FCC

Two funding options for a national lifeline program include adding a fixed surcharge to each telephone line or a percentage surcharge on toll revenues. The United States Telephone Association has reported that in 1985 there were about 118 million telephone lines in the United States. Table IV.2 shows 1984 annual domestic toll revenues. By dividing lifeline costs by the number of telephone lines, the magnitude of the surcharge per telephone line can be approximated; similarly, by dividing lifeline costs by the amount of toll revenue, the magnitude of the surcharge per dollar of toll revenue can also be approximated.

Table IV.2: 1984 Domestic Interexchange (Toll) Revenues

Revenues in billions

Company	Revenues
AT&T	$33 25
Competitive carriers	4.95
Bell operating companies and independents	13.40
Private microwave	.80
Total	**$52.40**

Source NTIA Competition Benefits Report, November 1985 National Telecommunications and Information Administration

Summary of California's Lifeline Program

We surveyed the California lifeline telephone program during June 1987 because of its broad range of benefits, its high level of participation (an estimated 1 million households), and its length of time (3 years) in operation. Although we do not endorse any aspect of California's lifeline program, we believe it provides various program features which might be considered in designing a nationwide lifeline program.

Universal Lifeline Telephone Service, California's lifeline program, was established in 1983 and became effective in July 1984 to provide basic, minimum local telephone service to qualified state residents. The program was a direct response to the growing concern in the state that telephone rates would rapidly increase and threaten universal service after the divestiture of the Bell Telephone System.

The California lifeline program relies on a self-certified income test requirement to determine eligibility. Lifeline subscribers sign a form attesting that they meet the income criteria for participation and submit the form to their local telephone company. Documentation or other proof of income is not required. Verification of lifeline subscribers was eschewed by the California Public Utilities Commission because it was considered too costly and burdensome in relation to the abuse it might uncover. Self-certification was also chosen because it would (1) preserve the dignity and privacy of lifeline subscribers, (2) encourage participation, and (3) minimize administrative costs.

In our discussions with Commission staff, consumer groups, and telephone companies in California, we noted differences of opinion over whether much abuse has been occurring and what steps, if any, should be taken to verify participating households' income levels. Nevertheless, the Commission, because of the rapid rise in participation and the possibility of obtaining FCC funding, has begun discussing methods of verifying that lifeline subscribers meet income requirements. If verification of lifeline subscribers is added to the program, California could qualify for the FCC lifeline program.

Since the program's inception, the Commission has enhanced the program's benefits to increase participation. For example, the Commission has modified the program by (1) providing the subscriber with an option of having flat-rate or measured service, (2) increased the limit for measured service from 30 to 60 calls, and (3) increased household income limitations to reflect larger households.

Key Elements of California's Lifeline Telephone Program as of June 1987

The key elements of California's program are eligibility requirements for recipients, services provided and costs to recipients, the level of participation, program cost, and how the program is funded. Unless otherwise noted, our information came from the California Public Utilities Commission.

Eligibility Requirements

Participation in the California program is based on a self-certified income test requirement. As table V.1 shows, the total income of the applicant's household cannot exceed $12,100 for a household of two, with an upward adjustment based on approximately 150 percent of federal poverty income guidelines to reflect the needs of a family with three or more persons.

Table V.1: Income Limitations by Household Size

Household size	Income limit
1	$12,100
2	12,100
3	14,100
4	17,000
5	19,900
6	22,800
7	25,700
Each additional member	2,900

Lifeline Services and Costs to Recipients

Lifeline service includes basic dial tone service for one line at the household's principal residence. The basic cost to the recipient is 50 percent of the regular monthly rate for either flat-rate service or measured service with a 60-call limit. Other cost reductions include

- a 50 percent reduction for service connection charges for one telephone and modular jack (if required),
- a 75-cent monthly credit for telephone rental or purchase,
- a 25-cent monthly credit for maintenance and repair of inside wiring,
- waiver of the $2 federal subscriber line charge, and
- waiver of deposit for lifeline subscribers that do not have a poor credit rating.

Participation

According to FCC's estimate, there were about 2 million California households in March 1986 at or below 150 percent of the poverty level. (This estimate was made using data from the Census Bureau's Current Population Survey.) The California Public Utilities Commission estimates that households participating in its lifeline program increased from about .6 million to about 1 million during the last four quarters.

Table V.2: Number of Program Participants in the Last Four Quarters

Quarter	Number of Participants
July-Sept. (1986)	633,284
Oct -Dec (1986)	703,300
Jan -March (1987)	914,701 (est)
April-June (1987)	1,050,000 (est.)

The California Public Utilities Commission attributes the increased participation beginning in January 1987 (depicted in table V.2) to (1) an increase in the calling allowance from 30 to 60 calls for measured service, (2) an increase in the income eligibility level and the family size eligibility, (3) optional flat-rate service for those customers in measured-rate service areas, and (4) an increase in outreach efforts by Pacific Bell.

Cost

Table V.3 provides the cost of California's lifeline program over the last four quarters. As might be expected, expanded benefits and increased participation have resulted in higher costs.

Table V.3: Cost of the Program Over the Last Four Quarters

Quarter	Total
July-Sept (1986)	$15,272,000
Oct.-Dec (1986)	16,426,000
Jan.-March (1987)	31,500,000 (est)
April-June (1987)	33,500,000 (est.)
State administrative costs (for FY 1986/87)	358,000
Total (for the year ending 6/30/87)	**$97,056,000**

Funding

California's lifeline program is funded by a tax levied on the gross revenues of intrastate long distance carriers. Because the program will operate at an estimated deficit of $55 million for fiscal year 1987, the utility commission increased the tax rate from 1.5 percent to the legislative limit of 4 percent. However, the additional tax revenues will not be sufficient to cover about $155 million in program expenses for fiscal year 1988. As a result, the projected lifeline fund balance as of June 30, 1988, will be a deficit of $26.6 million. In response, the utility commission has begun a proceeding looking at the cost effectiveness of the program and funding alternatives to remedy this projected deficit.

U.S. G.P.O. 1987-181-235:60092

Request Letter

PAUL SIMON
ILLINOIS

COMMITTEES
LABOR AND HUMAN RESOURCES
JUDICIARY
FOREIGN RELATIONS
BUDGET

United States Senate
WASHINGTON, DC 20510

April 24, 1987

The Honorable Charles A. Bowsher
Comptroller General of the
United States
General Accounting Office
441 G St., N.W.
Washington, D.C. 20548

Dear Mr. Bowsher:

It is estimated that 7,000,000 Americans do not have a telephone in their household because of their inablity to afford one. These citizens often are handicapped or infirm as a result of illness or age. They do not have the means to communicate with others in the event of a burglary, a medical emergency, a fire, or to ask others to bring food. If we could provide these people with a telephone, we could reduce crime, provide safety for a health or fire emergency, and enrich the lives of many of our citizens.

Eleven states currently have in place some form of "lifeline" program which is designed to meet some of this underlying need. The Federal Communications Commission has extablished a voluntary "lifeline" program which is a step in the right direction. However, until Congress establishes a mandatory program funded through an appropriate source, most of the citizens in need of a telephone for basic emergencies who, unfortunately, find that telephone service is an unaffordable luxury, will not have access to one.

I request that you examine the cost of a nationwide "lifeline" program along the lines of particular criteria which will be supplied by my staff. Moreover, I would appreciate it if you would examine various funding options which will be supplied by my staff, and relate those options to the estimated costs of the program. This information would be particularly useful for future hearings with respect to this issue.

I also request that you evaluate what improvements are needed to increase greater participation in the FCC's "lifeline" program.

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My staff will be available to cooperate with GAO and further define the areas of study. Obviously, the outline of the study addressed in this letter is broad and must be specifically defined. Please contact Ira Lechner at 224-5575 for further information and consultation.

I look foward to your assistance on this issue which is of such critical importance to millions of Americans.

Sincerely,

Paul Simon
United States Senator

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