Testimony of Jon Wilkins
Managing Director
Federal Communications Commission

Before the Committee on Energy and Commerce
Subcommittee on Communications and Technology
U.S. House of Representatives

Hearing on "Reauthorization of the Federal Communications Commission: The FCC's FY 2016 Budget Request"

March 4, 2015

Good morning Chairman Walden, Ranking Member Eshoo, and Members of the Subcommittee. I appreciate this opportunity to appear before you to discuss the FCC's Fiscal Year (FY) 2016 Budget Request. The Commission is requesting $388,000,000 in general spending authority derived from Section 9 regulatory fees for our overall non-auction costs, with $12,253,600 of those funds designated to satisfy the Office of Inspector General's request. In addition, we are requesting an auctions cap of $117,000,000, as well as the transfer of $25,000,000 from the Universal Service Fund (USF) to cover our costs for that program.

Our FY16 budget represents management priorities developed and honed during the course of the past year, and demonstrates a dedication to creating efficiencies and executing tailored but significant long-term, cost-savings measures. As the first slide in our attached presentation shows, the FCC is – and continues to be – a fiscally responsible agency, with a financial return to the government of 13 times our combined operational costs since 1994. The Commission also continues to focus significant energy on the deficit-reducing and economy-building spectrum auctions program. Already in the current fiscal year, we are expected to generate over $20 billion toward deficit reduction, as well as billions of dollars of funding for nationwide public safety communications under FirstNet, and a range of other programs mandated by Congress in the Middle Class Tax Relief and Job Creation Act of 2012.

The FCC's FY16 request represents a marked increase over the FY15 appropriated number of $339.8 million, and the auctions cap would be $11 million more than we received last year. These are well considered requests that reflect necessary operational demands. For FY16, the Commission has been forced to adjust its costs upward to manage and execute activities leading to the termination of our headquarters lease in 2017. As slide two shows, over 70 percent of our requested increase supports "unavoidable" costs such as the restacking and move, inflationary increases, and the OIG base increase. Importantly, we will use the move as an opportunity to create greater cost savings and efficiencies by significantly reducing the Commission's footprint and instituting new management techniques that encourage greater use of shared space. Current projections show net savings of over $100 million over the life of our new post-2017 lease.

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

Given the special circumstance of the large, move-based increase, the Commission determined that FY16 would be the optimal time to properly align USF expenditures with cost outlays. Accordingly, the FY16 budget proposes shifting USF funds to cover our salary and compensation expenditures directly related to USF activities. This realignment will reduce by $25,000,000 the Section 9 regulatory fee burden on licensees with no USF relationship. USF will pay these costs instead of forcing entities such as small, local broadcasters and marine licensees to pay for USF FTE activities at the Commission. Note that without this realignment of USF costs, the Commission's FY16 budget request would have been $413 million instead of $388 million.

Last year, we requested $375 million for our overall budget but received $36 million less than our request. This FY15 spending level slowed implementation of our long-term planning efforts and led to tough budget decisions. Where we specifically requested programming funds that did not materialize, we were forced to delay or alter our goals. For instance, we suspended the high-dollar launches of two programs outlined in our FY15 budget – the Public Safety Answering Point (PSAP) Do-Not-Call Registry, and scheduled updates to the National Broadband Map. Our FY16 budget includes a funding request to restore our work in these two important areas. We have asked for $250,000 to support the start-up of the Do-Not-Call Registry and $600,000 for yearly maintenance. Updates and upkeep for the National Broadband Map will cost $3,000,000 a year. Before the FCC inherited the program, NTIA had a direct funding stream for this key nationwide broadband deployment resource. Funding for the FCC's programmatic takeover will leverage previous investments with new approaches to providing open access to government data.

It is also important to note that over the past six years – beginning after FY09 – the FCC has operated under essentially flat funding levels for our non-auctions activities. In fact, calculating the flat funding levels in light of inflation and sequestration impacts shows that we have suffered actual reductions in the purchasing power of our budget. Although our auctions cap increased in FY13 – FY15 after a nine year flat cap, auctions monies only offset auctions operations. We have mostly directed these increases toward additional costs related to the broadcast incentive auctions process.

Flat funding has led to staff reductions: our third slide in the attached presentation illustrates this trend. We already have reduced our overall projected FTE levels for FY15 and FY16. Our FY16 projections include a net 37 FTE reduction, including an overall non-OIG reduction of 45 (offset by an OIG increase of 8 FTEs), and a non-auctions reduction of 49 FTEs. Given these austere conditions, we are currently examining additional workforce restructuring in all of our facilities to realize more savings. We already are undergoing an attrition-driven workforce restructuring process in many of our bureaus. While we will seek to restructure in ways that allow the FCC to continue to perform its mission, lower FTE levels could have adverse operational effects. For example, in the licensing operations area since 2010, our full-time FTEs have declined by more than 25 across several bureaus, versus steady growth in license applications over that same time. This situation could have an impact on the speed at which we perform licensing operations.

Many of our workforce issues go hand-in-hand with the need to improve our Information Technology (IT) systems: numerous paper-based, manual processes exist at the FCC, resulting in hidden, human-intensive costs that could benefit from automation. Moreover, the costs of continuing business as usual with these IT systems will undermine the financial stability of the Commission. The Government Accountability Office has noted that federal agencies currently spend more than 70 percent of their IT budgets on maintaining legacy systems. The FCC, like other agencies, has been caught in this legacy trap; as of the end of FY13, we were trending well above even the federal average of 70 percent. We have tackled this problem head-on and targeted all available resources toward modernizing our IT systems. We pulled together our remaining funds at the end of FY14 and received a reprogramming to apply $8.75 million to support this process.

The Chairman has identified our ongoing IT modernization as a management imperative, both to support process reform efforts as well as to improve cost efficiency, and our FY16 budget request reflects this emphasis. As our fourth slide summarizes, our IT-focused management strategy and reprogramming have delivered solid, early results. We are well on our way toward making the necessary changes to ensure that our FCC.gov website is accessible and user friendly for consumers and stakeholders. We have initiated a process to move all onsite IT infrastructure to a secure, lower cost, off-site service provider ahead of our 2017 required move, to realize cost savings and improve system resiliency. We also rolled out the new Consumer Complaint Database at 1/6th the traditional cost for such a project, which epitomizes many of the agency-wide changes that we hope to implement – inexpensive, off-the-shelf solutions, combined with resiliency, user-friendly options, and the potential to improve our internal data collection methods to increase transparency and inform policy-making decisions.

Still, limited funds have delayed many improvements and threaten to cost us more each day that we are unable to move ahead. The specific funds required are outlined in our FY16 budget: $5.8 million to replace the FCC's legacy infrastructure with a managed IT Service provider, as well as one-time infusions of $9.6 million to rewrite the FCC's legacy applications as part of a modular "shift" to a modern, resilient, cloud-based platform. We also have asked for $2.2 million to improve the resiliency of the FCC systems, specifically to address gaps identified in our recent FISMA audit process. These funding requests have been refined over a year-long planning process and are essential to our core agency mission. Without this infusion of funding in FY16, we face the prospect of being unable to follow-through on critical upgrades and costing those who we license more – with far fewer benefits.

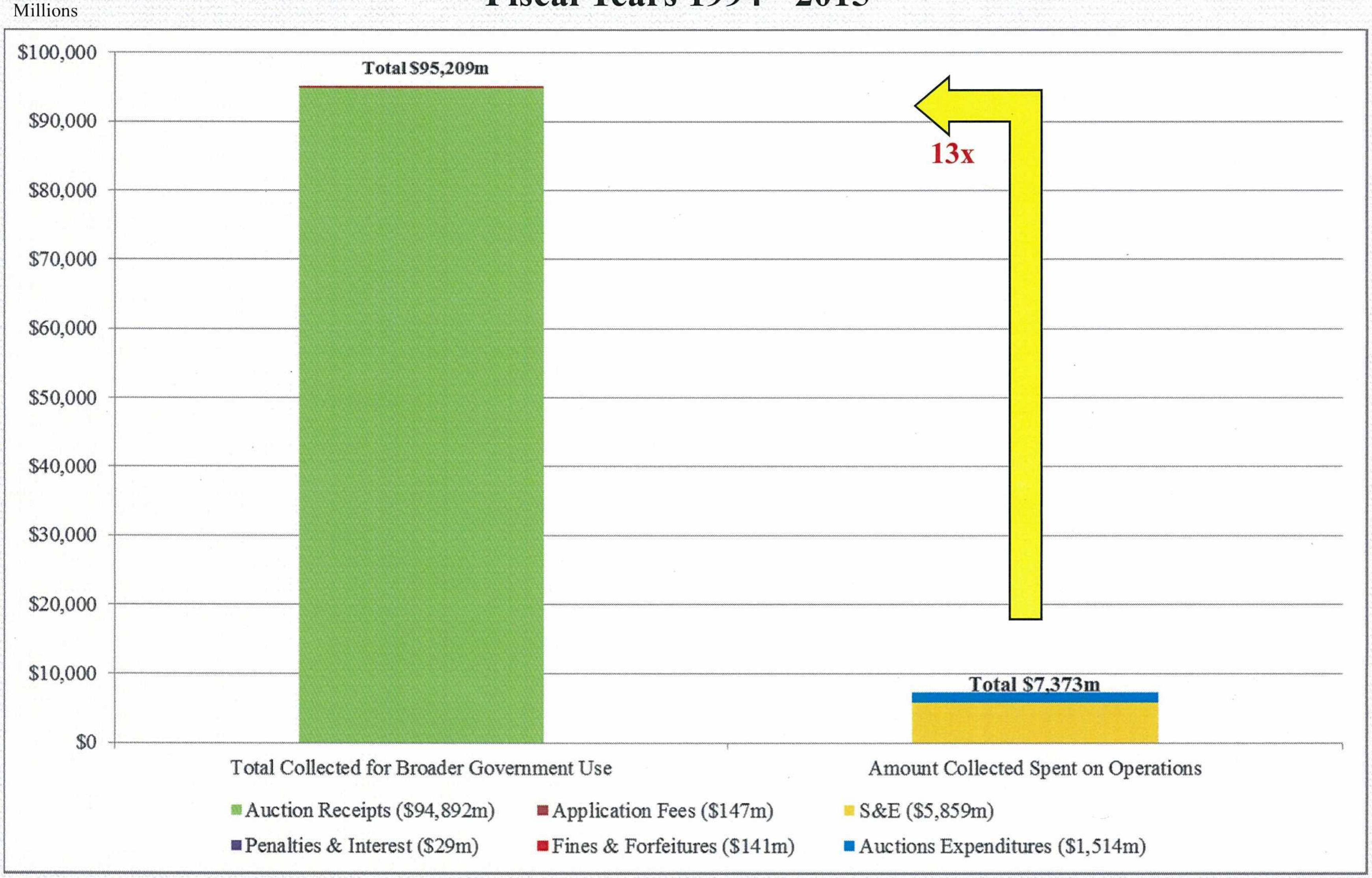
Conclusion

The FCC's FY16 Budget Request provides specific, targeted funding solutions to IT system issues, while ensuring the availability of resources for a required 2017 re-stacking and headquarters move. We are firmly committed to demonstrating the financial benefits of our IT modernization strategy; if we are able to make our planned investment in FY16, we would be on track to reduce our go-forward IT budget by at least $2 million in FY17. The Commission also has included a request to use USF funds to administer USF programs to improve regulatory fee fairness. These basic changes and funding increases are necessary for long-term planning and cost-savings, as well as the improvement of overall agency operations.

Thank you for this opportunity to discuss our FY16 budget and related management issues. I look forward to answering the Subcommittee's questions.

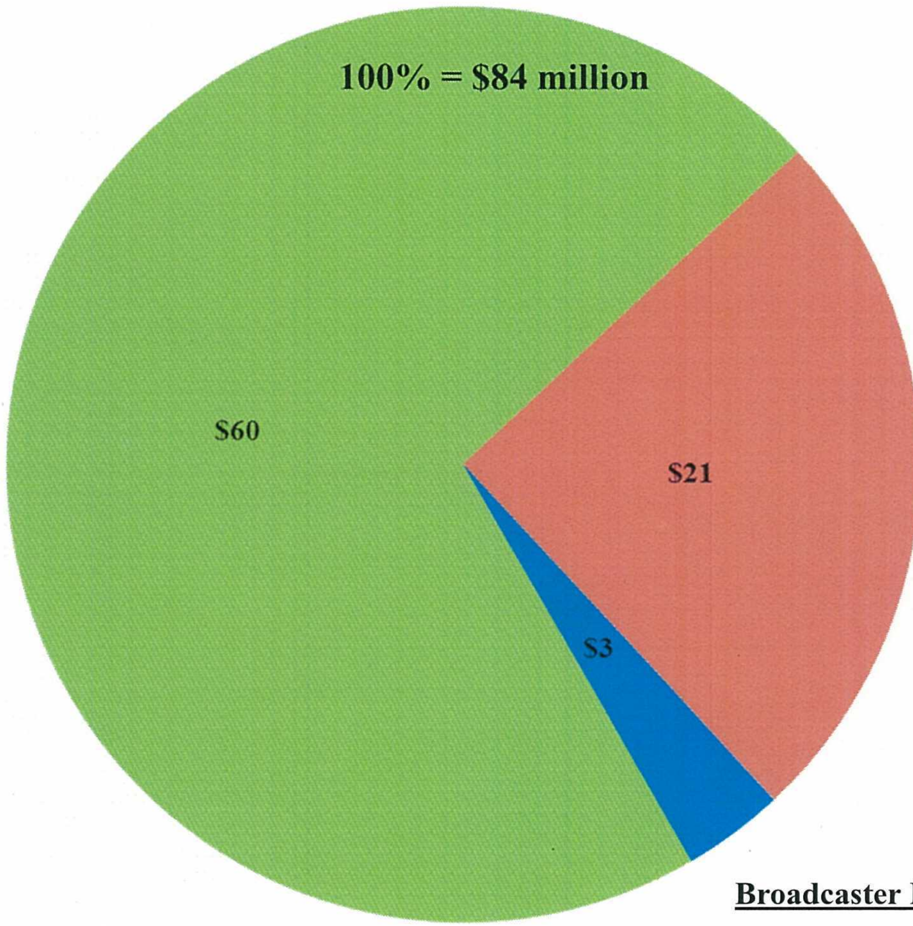
FCC Returns 13x Our Budget to the U.S. Treasury

Fiscal Years 1994 - 2015



Included AWS-3 auction net of bidding credits. Auction Revenues are earned when the licenses are granted. Does not include Applications Fees, Penalties & Interest and Fines & Forfeitures from FYs 1994 to 1999

More Than 70% of Requested FY2016 Budget Increase Is For "Unavoidable" Costs



"Unavoidable"
(71%)

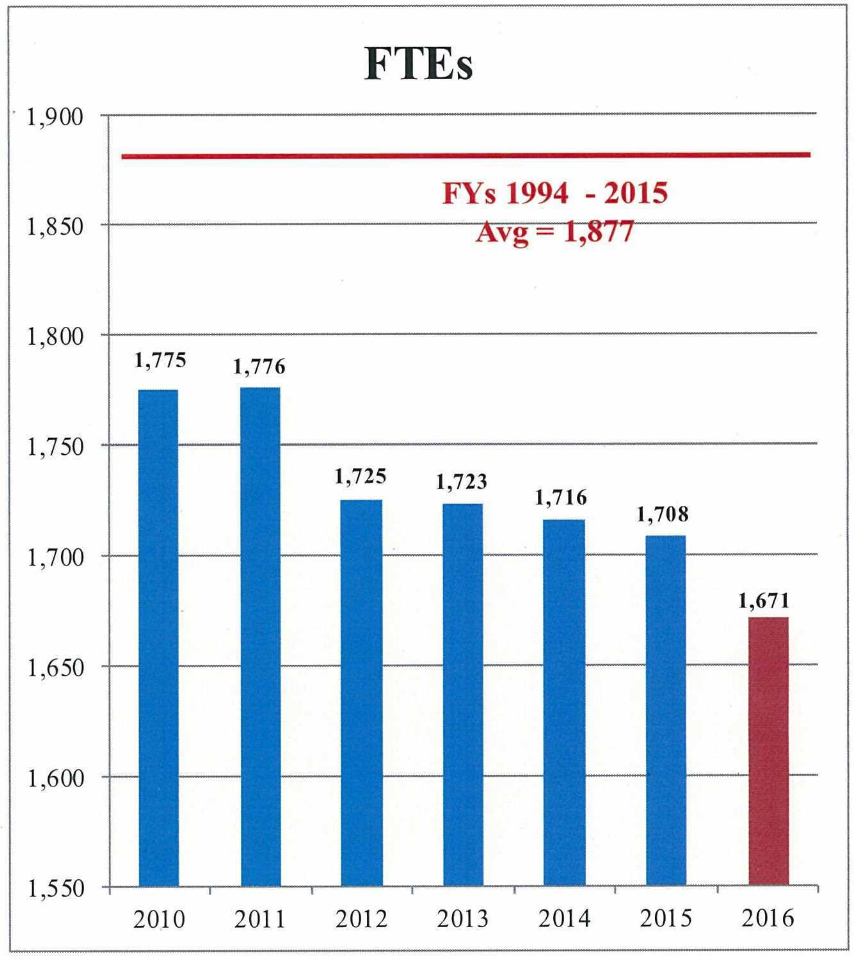
HQ Move ($51)
Inflationary ($8)
OIG ($1)

Information Technology
(25%)

Enterprise Modernization ($15)
Security Fixes ($2)
BB Map ($3)
PSAP ($1)

Broadcaster Relocation Support (4%)

Non-Auctions Funding Has Been Flat Since 2010, and FTEs Continue to Trend to Historic Lows



FY 2016 Projected

Requested IT Investments Would Support Significant Improvements in Cost, Speed, Security, and Quality

Infrastructure

From: Over 200 on-premise, antiquated servers occupying expensive downtown real estate

To: 100% off-premise, cloud-based deployment in a secure multi-agency facility

Data

From: 100,000 unique data objects, 43 Tb of stove-piped, inaccessible and non-reusable data

To: Single data architecture for ALL internal and external data, significantly enhanced transparency

Mission systems

From: 207 systems, typical $600,000 cost for new projects, 6 months to complete, very high ongoing maint/support

To: Handful of core systems supporting multiple front end applications, 50-75% lower cost / faster timelines per project