

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

HEARING ON THE FCC'S FISCAL YEAR 2020 BUDGET REQUEST

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

MAY 7, 2019

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 (FY) 2020 Budget Request. The Commission's Office of Management and Budget-designated spending level for FY20 is \$335,660,000, derived exclusively from regulatory fees for regular FCC operations, and an auction spending cap of \$132,538,680.

But before I discuss the Commission's plans for the next fiscal year, I want to take this opportunity to thank this Subcommittee for its support during the prior year. We greatly appreciate your decision to provide us with funds above the FY19 request, as well as your permission to complete internal reorganizations to advance agency reform efforts.

Let me highlight a few positive impacts of this Subcommittee's decisions.

First, you increased auction funding by more than \$17 million. The funds provided by this Subcommittee have enabled us to meet our statutory deadline to complete our rulemaking to implement changes to the TV Broadcaster Relocation Fund and provide money to reimburse low-power television, TV translator, and FM radio stations impacted by the post-Incentive Auction spectrum repack. They have also helped us establish a dedicated call center and launch a public education campaign to assist consumers impacted by the relocation of broadcast stations. And they have funded monthly reports to Subcommittee staff on our progress with respect to the repack.

Second, you authorized two agency reorganization initiatives to help the Commission better carry out its mission. You approved the creation of the Office of Economics and Analytics, which brought together economists who were previously scattered throughout the Commission. The Office is already having a positive impact on the Commission's work, and going forward, I am confident that it will allow us to continue expanding and deepening the use of economic analysis in the Commission's decision-making. This Subcommittee also permitted us to transfer the audit and enforcement responsibilities associated with our Equal Employment Opportunity rules from the Media Bureau to the Enforcement Bureau. This reorganization, which took place earlier this year, was supported by many civil rights organizations and will help us to more effectively enforce these rules.

Third, you gave us nearly \$6 million above our general request for FY19, which is supporting a broad range of Commission efforts essential to our core mission. The FCC greatly appreciates your decision to return our funding to \$339,000,000 in FY19. This amount means a great deal to a small agency and aids our efforts to expand the deployment of rural broadband, improve public safety, foster technological innovation, protect consumers, and modernize our information technology.

Turning to the future, I'd like to discuss some of the Commission's most important priorities for next year—priorities that the funds requested in this budget submission are critical to advancing.

First, we will continue our work to secure our nation's leadership in 5G, the next generation of wireless connectivity. 5G networks will be 100 times faster than today's networks, maybe even more.

They will have lag times that are a tenth of what they are today. And they'll have much more capacity, being able to connect as many as one million devices per square kilometer.

Our work on 5G will open the door to new services and applications that will grow our economy and improve our standard of living. Smart transportation networks will link connected cars—reducing traffic, preventing accidents, and limiting pollution. Ubiquitous wireless sensors will enable healthcare professionals to remotely monitor your health and transmit data to your doctor before problems become emergencies. Connected devices will empower farms to apply precision agriculture. And there will be more innovations that we can't even conceive of today.

These breakthroughs will boost our economy. One study pegs 5G's potential at three million new jobs, \$275 billion in private investment, and \$500 billion in new economic growth.

To realize this potential, we've developed a comprehensive strategy that will "Facilitate America's Superiority in 5G Technology"; it's called the "5G FAST" plan. It has three key components: (1) pushing more spectrum into the marketplace; (2) promoting the deployment of wireless infrastructure; and (3) modernizing outdated regulations. In my testimony today, I'd like to concentrate on the first prong, spectrum.

The applications and services of tomorrow will require much more bandwidth. They cannot be developed and deployed without spectrum. This critical resource represents the lifeblood of the communications industry—and with it, the future of our economy. That's why the FCC must continue its work to aggressively make more spectrum available for commercial use.

In my testimony to this Subcommittee last year, I said that the FCC would hold two high-band spectrum auctions during FY19: one for the 28 GHz band and another for the 24 GHz band. And I noted that conducting these auctions successfully and promptly would be important to U.S. leadership in 5G.

I am pleased to report that we have done what I said we would do. Our 28 GHz auction began last November and concluded this January. All in all, bidders won 2,965 licenses, and the auction raised \$702,572,410 in gross bids for the U.S. Treasury. Our 24 GHz auction began in March. The clock phase of this auction ended in April, and the assignment phase is currently taking place. Gross bids so far have more than doubled from the amount raised in the 28 GHz auction, to just short of \$2 billion.

While these auctions are significant accomplishments, the FCC cannot and will not rest on our laurels. Instead, we will continue to free up spectrum for commercial use. Starting on December 10, we will hold the largest auction in Commission history—we expect the upper 37 GHz, 39 GHz, and 47 GHz bands will release 3.4 gigahertz of spectrum into the commercial marketplace. During the next fiscal year, we also intend to auction mid-band spectrum in the 3.5 GHz band. We will continue our work to make additional mid-band spectrum bands available for flexible use, including in the 2.5 GHz and 3.7-4.2 GHz bands.

All in all, these auctions will free up for the commercial marketplace over 5 gigahertz of spectrum for flexible use. For context, that's more spectrum than is currently used for mobile broadband by all mobile broadband providers in the United States *combined*.

As part of our balanced spectrum strategy, we have also been working to make more spectrum available for unlicensed use. Earlier this year, for example, we allocated over 21 gigahertz of spectrum above 95 GHz for unlicensed operations. And we are continuing our effort to open up a large amount of unlicensed spectrum in the 6 GHz band, proposing to safeguard incumbents with innovative technologies and sharing techniques that will make sure we get the most use of this limited, essential resource.

The second priority I'd like to address involves our continuing efforts to close the digital divide. Closing the digital divide has been my top priority since becoming chairman. That's why last year, the Commission took a variety of steps to better enable the private sector to deploy broadband infrastructure.

For example, we made it easier and cheaper for competitive providers to attach fiber to utility poles through a groundbreaking reform called “one-touch make ready.”

Of course, there are some areas where the business case for broadband deployment just won’t exist—no matter how much red tape we cut. These are typically rural areas with sparser populations and lower incomes. The FCC manages programs to connect these rural communities through what is called the Universal Service Fund (USF). And we’ve been aggressively taking action to maximize the USF’s impact—to stretch scarce dollars as far as we can.

Last year, we finished a landmark reverse auction called Connect America Fund Phase II. Through this novel approach, we’re awarding about \$1.5 billion to connect over 713,000 homes and businesses nationwide. Before the auction, we identified parts of our country that were unserved by broadband. This was so that we could target funding to leverage—not displace—private capital expenditures. We didn’t want to fund overbuilding. We also made sure the auction was open to providers of all types, including rural telecom companies, cable, fixed wireless, and satellite companies, as well as electric utilities. This ensured that there would be plenty of competition.

The outcome of the auction was a tremendous success. We distributed funding much more efficiently thanks in part to intermodal, competitive bidding, saving \$3.5 billion from the \$5 billion price we initially thought would be required to connect these unserved areas. We also ensured that 99.7% of the winning bids would provide consumers with service of at least 25/3 Mbps. And we set a level playing field that enabled a variety of entities, from fixed wireless to electric utilities, to win.

Moreover, last December, we implemented reforms to the FCC’s Alternative Connect America Cost Model (A-CAM). As a result, a total of 186 small, rural carriers participating in the A-CAM program have now accepted \$65.7 million in additional annual support over the next decade to provide 106,000 more rural homes and small businesses with 25/3 Mbps broadband service. This represents a 31.8% increase in the number of locations that will have high-quality service available through the FCC’s A-CAM program. And the increase is much larger in many states, such as 105.4% in Montana and 92.4% in my home state of Kansas.

In December, for the first time we also began requiring that small, rural carriers that continue to rely on the Commission’s legacy, cost-based support mechanism provide 25/3 Mbps broadband service to specific numbers of rural homes and small businesses in their service areas. Under the prior Administration’s rules, these carriers were only required to provide 10/1 Mbps service to 115,441 locations; under our new rules, these same carriers will have to provide 25/3 Mbps broadband to at least 600,535 locations. At the same time, we also initiated a second round of A-CAM offers of fixed, model-based support for a term of ten years to these carriers, in exchange for building out 25/3 Mbps broadband to all fully-funded locations in their service areas. If all legacy-reliant carriers accept the new A-CAM offers, they will be required to provide 25/3 Mbps service to at least 1,126,082 locations.

Last year, we took other steps through the Fund to help close the digital divide as well. For example, we increased the annual cap on rural healthcare program spending by nearly 43%, to \$571 million per year for that funding year—the first increase in the program’s funding level since it was established in the 1990s. These additional funds will help to provide critical connectivity to rural healthcare institutions.

And we plan to continue our emphasis on closing the digital divide. Later this year, for example, we will begin a rulemaking to establish a \$20.4 billion Rural Digital Opportunity Fund. Applying lessons learned from the Connect America Fund Phase II reverse auction, this program will spur the deployment of high-speed broadband networks across more of rural America over the next decade, bringing greater economic opportunities to America’s heartland. Service providers that win funding in the reverse auction will deploy needed infrastructure to provide up to gigabit-speed broadband in the parts of the country most in need of connectivity. I’m excited about this program—it will be the FCC’s single biggest step yet

to close the digital divide and will connect up to four million rural homes and small businesses to high-speed broadband networks.

Of course, it is important that we spend USF funds wisely and eliminate waste, fraud, and abuse in these programs. That's why last month, we sent you a reorganization plan to create a Fraud Division within the Enforcement Bureau. I am pleased that this proposal was unanimously endorsed by the Commission and cleared by the Office of Management and Budget. This reform will embed a permanent effort to combat USF fraud within the structure of the Enforcement Bureau.

Our third priority is to continue fulfilling our important mission to protect public safety. Last year, for example, we took important steps to improve Wireless Emergency Alerts, which play a critical role in notifying Americans when emergencies strike.

In February, I visited the Orleans Parish Communications District, which is the 911 call-handling and dispatch center for the Crescent City. And in March, I traveled to New Jersey and Delaware and visited 911 call centers. These interactions underscored to me the importance of supporting those who work every day to help their fellow Americans in their time of need. During the last fiscal year, we began work to implement laws passed by Congress to improve 911 calling. For example, we proposed rules to implement Kari's Law. Kari's Law requires multi-line telephone systems—which commonly serve hotels, office buildings, and campuses—to enable users to dial 911 directly. And it also contains a notification requirement so that when a 911 call is made in these settings, a front desk or security office will be alerted to facilitate building entry by first responders. We have proposed rules to help first responders locate wireless 911 callers in multi-story buildings. In the coming year, the Commission intends to take further steps to improve 911 calling. Among other things, I believe that we will be able to take final action to add a vertical, or “z-axis” metric to our location accuracy rules and finalize rules implementing Kari's Law.

Our work in this area also extends to national security and involves our review of foreign companies that seek to do business in the United States. Later this week, at our May open meeting, the Commission will act to promote secure communications—a long-standing FCC priority. In 2011, China Mobile USA, which is ultimately owned by the Chinese government, applied to the Commission seeking to provide international telecommunications services in the United States. Consistent with agency policy, we solicited the views of the relevant federal agencies on whether the application raised national security, law enforcement, or related concerns.

After a lengthy review of the application and in consultation with the U.S. intelligence community, in 2018, the Executive Branch agencies recommended that the FCC deny China Mobile USA's application due to substantial national security and law enforcement concerns that cannot be resolved through an agreement with the company (called “voluntary mitigation”). Notably, this is the first time the Executive Branch has ever recommended that the FCC deny an application due to national security concerns. Based on this recommendation and the full public record in this proceeding, I have determined that approving this application would not serve the public interest. At our May meeting, the Commission therefore will vote on an order that would deny China Mobile USA's application.

Going forward, we will continue to use our statutory authority to protect the people and overall security of United States. That includes following through with our proposal to ban the use of money from the FCC's Universal Service Fund from being used by recipients to procure equipment or services from companies that pose a national security threat to our communications networks or the communications supply chain.

* * *

I would like to conclude by highlighting the FCC's most important resource: our staff. Day in and day out, they come to work ready and eager to advance the public interest. Whether they are working to expand broadband deployment, combat robocalls, promote wireless innovation, protect public safety,

or address consumer complaints, they serve the American people with skill and dedication, and I am honored to have them as colleagues. The funds that you provide to our Commission enable them to do their jobs, and for that I am very grateful.

Thank you for this opportunity to discuss this budget proposal. I will be pleased to answer any questions that you may have.