

FEDERAL COMMUNICATIONS COMMISSION
Washington DC 20554

**OFFICE OF
MANAGING DIRECTOR**

March 20, 2014

**Federal Communications Commission Report
On FY 2015 Projected Auctions Expenditures**

Introduction

Pursuant to the Consolidated Appropriations Act, 2014 (P.L. 113-76) House Report (adopted by reference from House Report No. 113-172) the Federal Communications Commission (FCC or Commission), is required to submit to the Committees on Appropriations of the House of Representatives and the Senate a report providing specific details of the Commission's FY 2015 Projected Auctions Expenditures and to thereafter publish this information in the Commission's Fiscal Year Budget Estimates and provide the same material on the FCC's website.

The Commission provided its FY 2015 summary of its Auctions Cost Recovery Reimbursable Authority on page 71 of the FCC's FY 2015 Budget Estimates to Congress. The Commission also provides its comprehensive Auctions Expenditures Report to the House and Senate Appropriations Committees yearly, when the itemization and review is completed.

In response to the House language referenced above for additional information related to the FCC's auction administration, the following is provided and will be provided in Congressional Budget Justifications submitted to OMB after FY 2015, which was submitted prior to passage of the final FY 2014 Omnibus Appropriations bill.

FCC Auctions Expenditure Report

Section 309(j) of the Communications Act permits the Commission to utilize funds raised from auctions to fund auctions materials and personnel performing specific auctions tasks. The FCC's Office of General Counsel (OGC) and Office of Managing Director (OMD) provide direction to FCC employees attributing hours for this purpose. The House of Representatives and Senate Appropriations Committees review and set a cap yearly for the auctions cap. The requested cap level for FY 2015 is \$106,200,000, or a \$7,500,000 increase over the FY 2014 level.

The Commission's auctions expenditures support efficient licensing as well as contributing funds to the U.S. Treasury and providing direct support to the FirstNET programs. The Commission

has raised more than \$52 billion in auctions revenues since initiating the program in 1994. Since then, the auctions expenses have been approximately two percent of the Commission's total auctions revenues. The Commission operated the auctions program for 10 years under a cap without inflationary adjustments, only receiving an increase in FY 2013 to fund the start-up for the Incentive Auctions program. The Incentive Auction team is composed of staff from across the Commission, including the Wireless Telecommunications Bureau, Media Bureau, International Bureau, and Office of Engineering and Technology.

Auctions activities are performed agency-wide and are Information Technology (IT) -intensive, as reflected in our expenditures. Auctions funds also cover the program's share of Commission operating expenses. The FCC uses these funds to enable successful auctions and expends them in a manner consistent with that objective.

In cost accounting, costs are identified as one of the following: (1) direct cost, (2) indirect cost, or (3) generally allocated cost. The methodology for deriving the proportional share of generally allocated administrative costs to be charged to the auction program is based on the Commission's time reporting system and Generally Accepted Accounting Principles. The share is based on the percentage of actual hours that employees worked to support the auction program plus the same proportional share of the employee's indirect hours (leave hours). This FTE Employee rate is applied to costs that benefit the Commission as a whole. These items that are allocated by the FTE rate include Commission-wide Information Systems, guard service, administrative facility services, supplies, furniture, equipment, and human resources training activities. The FCC has maintained an average number of 14 percent for this purpose, with minor deviations.

The Commission conducted two auctions in FY 2013 at a total value of \$5,700,000. In addition, auctions staff participated in a mobility fund auction that distributed \$300M in universal service support to unserved areas in FY 2013. The Commission has conducted one auction thus far in FY 2014 at a value of \$1.564 billion. FCC staff also conducted a tribal lands mobility fund auction that distributed \$50M in universal support to tribal lands.

The Commission currently is engaged in a rulemaking process with regard to the AWS 3 Auction and the Incentive Auction and cannot provide more specific information related to actual scheduling. All auctions dates are scheduled on the FCC's website at http://wireless.fcc.gov/auctions/default.htm?job=auctions_all.

In addition to conducting the AWS 3 Auction utilizing regular staff and equipment, the Commission's primary auctions focus during FY 2015 will be the operation of the Incentive Auctions process. This process requires the creation and adoption of rules and procedures for the first-ever two sided auction of spectrum by the Government. Additionally, the FCC must design and develop software to implement the auction, which involves two separate but interdependent auctions – a reverse auction, which will determine the price at which broadcasters will voluntarily relinquish their spectrum usage rights, and a forward auction, which will determine

the price companies are willing to pay for flexible use wireless licenses. The lynchpin joining the reverse and the forward auctions is the “repacking” process. Repacking involves reorganizing and assigning channels to the remaining broadcast television stations in order to create contiguous blocks of cleared spectrum suitable for flexible use.

The Commission has said publicly that it expects to begin the auction in mid-2015, so it is likely that the auction event and related FCC activities and actions will continue at a high intensity level through FY 2015 and FY 2016. Given the level of interest in this auction and the involvement of both the broadcast and wireless communities, additional staff is required to administer the auction process, including accepting and reviewing auction applications, monitoring and supporting the bidding process and accepting and reviewing final applications for winning bidders in both the forward and reverse auctions and issuing licenses to winning wireless bidders and modifying licenses for broadcasters who are changing channels or voluntarily changing bands as well as terminating licenses for those who voluntarily choose to cease broadcasting. Finally, staff must design and manage the repacking and transition process for clearing the appropriate portions of the band of broadcast licenses so it can be repurposed for broadband use.

The Commission does not use the “Base” and “Programmatic Increase” formula for Auctions. In addition to the previous year funding levels and projects supporting the program, the following are specific items requested for FY 2014, with additional contracts carried over into FY 2015:

- Hardware and software costs to support the unique nature of the incentive auction. These hardware and software resources (including integer optimization software, propagation modeling software and cloud computing) will be used for repacking analysis and to support the novel reverse and forward auctions.
- Auction design and implementation experts. The incentive auction is novel and complex and the FCC has contracted with leading experts in auction design and implementation to help execute the auction.

Additionally, the following staff are considered mission-essential for FY 2015:

- Additional staff to support the efficient processing of applications from broadcasters and wireless bidders (six staff total).
- Additional staff to operate the FCC Call Center and initiate consumer outreach to support increased volume related to television channel changes.
- Broadcaster Relocation Fund Administrator.

Estimated FTE levels for FY 2015 are as follows:

	Estimated FY 2015
S&E FTEs	1,540
Auction FTE	250
Other FTE	0
Total	1,790

Below is the chart at page 71 of the FCC's Budget Estimates.

FY 2015 Budget Estimates to Congress
SUMMARY TABLES
DISTRIBUTION OF RESOURCES
(\$ in thousands)

AUCTIONS COST RECOVERY REIMBURSABLE AUTHORITY:

-- The following table depicts the distribution of the actual resources for FY 2013, Congressional Approved for FY 2014, and estimated for FY 2015 obligations utilizing auctions cost recovery reimbursable authority.

<u>Object Class Description</u>	<u>FY 2013 Actuals</u>	<u>FY 2014 Cong. Approp.</u>	<u>FY 2015 Cong. Request</u>
Personnel Compensation & Benefits:			
Full-time/Part-time Permanent (11.0)	\$26,357	\$26,376	\$29,533
Personnel Benefits (12.0)	7,035	6,223	7,009
Subtotal Personnel Comp. & Benefits	<u>\$33,392</u>	<u>\$32,599</u>	<u>\$36,542</u>
Other Expenses:			
Benefits for Former Personnel (13.0)	\$4	\$4	\$4
Travel (21.0)	170	164	317
Transportation of Things (22.0)	7	10	10
GSA Rent (23.1)	6,844	8,108	6,954
Other Rents, Comm., Utilities (23.3)	2,821	1,550	2,858
Printing and Reproduction (24.0)	157	156	158
Contract Services - Non-Fed (25.2)	11,280	19,577	22,000
Fed. Purchase, Goods & Services (25.3)	330	329	335
Operation & Maint. of Equipment (25.7)	41,296	31,458	31,962
Supplies and Materials (26.0)	158	275	280
Equipment (31.0)	2,191	4,499	4,571
Land and Structures (32.0)	0	0	0
Insurance Claims & Indemnities (42.0)	0	10	10
Subtotal Other Expenses	<u>\$65,258</u>	<u>\$66,140</u>	<u>\$69,458</u>
Total Auctions Cost Recovery			
Reimbursable Obligations:	\$98,650 ^{1/}	\$98,739	\$106,000

^{1/} The FCC received a Continuing Resolution Anomaly for FY 2013 in the amount of \$13.7M for Auctions.


Mark Stephens
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