Center on Budget and Policy Priorities

820 First Street NE, Suite 510
Washington, DC 20002

Tel: 202-408-1080
Fax: 202-408-1056

center@cbpp.org
www.cbpp.org

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LESSONS FROM THE TELEPHONE LIFELINE PROGRAM ADD TO CONCERNS ABOUT USING UTILITIES TO DELIVER LOW-INCOME CLIMATE REBATES

by Matt Fiedler

Protecting the budgets of low-income consumers is a critical issue in the design of climate change legislation. The Lieberman-Warner Climate Security Act recently debated in the Senate contained a measure that relied primarily on electric and gas utilities to deliver such relief. However, evidence from the only existing federal program that delivers low-income assistance through utility companies — the Lifeline program for telephone service — strongly suggests that an untried utility-based mechanism would miss large numbers of consumers who could be captured using proven alternatives.

Overview

Effective climate change policies work by raising the price of fossil-fuel energy in order to encourage energy efficiency and the substitution of clean energy sources for fossil fuels. Such policies are needed to reduce the risk of significant, and potentially catastrophic, environmental and economic damage from climate change. However, these policies will also raise costs to consumers for a wide array of products and services, from gasoline and electricity to food, mass transit, and other products or services with significant energy inputs.

KEY FINDINGS

- Effective climate change policies work by raising the prices of fossil-fuel intensive goods. There is a growing consensus that climate change legislation should provide assistance to low-income consumers to offset the purchasing power losses that would result from these higher prices.
- The climate change legislation recently debated in the Senate proposed delivering assistance to low-income consumers primarily through local utility companies.
- The only existing federal program that delivers assistance to low-income consumers through utility companies is the Lifeline telephone discount program. That program has a disappointing track record — it reaches only *1 of every 3* eligible households.
- In contrast, about three-fourths of low-income households could be helped automatically — even before outreach activities are undertaken — through a program that provided climate change assistance to people who already receive food stamps, the Earned Income Tax Credit, or the low-income subsidy for the Medicare prescription drug program.
- Policymakers would be ill-advised to take a very large gamble on a new, utility-based mechanism when proven alternative mechanisms are available that are very likely to reach a much larger share of households and be substantially simpler and less costly to implement.

These price increases will have disproportionate effects on low-income families, because these families devote a relatively large share of their budgets to energy and energy-intensive products, and they are the least able to absorb higher costs or afford new investments in energy-efficient cars, heating systems, or appliances. The total size of the impact on these families will be quite significant. The Center's analysis, based on an approach developed by the Congressional Budget Office, finds that policies that cut emissions by just 15 percent would reduce the purchasing power of families in poorest 20 percent of the population by $750 per year, on average. These families' incomes average just over $13,000 per year.[1]

There is growing support for the concept of designing climate change legislation so it provides assistance to low-income households sufficient to offset the purchasing-power losses that will result from higher prices for carbon-intensive goods and services. To achieve this goal, some have proposed providing resources to local electric and natural gas utility companies, with the requirement that the utilities use some of those resources to assist their low-income customers. This approach featured prominently in S. 3036, the Lieberman-Warner Climate Security Act of 2008, which was debated by the Senate during the week of June 2.[2]

The most basic test for utility-based proposals is whether utility companies can efficiently and effectively deliver assistance to low-income households. Electric and natural gas utilities generally do not have information on their customers' incomes. To provide assistance to low-income consumers, they would first need to build new infrastructure that would allow them to target assistance based on income and then enroll millions of eligible households in a new program.

The Lifeline Program's Track Record

To get a sense of how successful utilities are likely to be in this challenging endeavor, it is instructive to examine the one existing federal program that delivers aid to low-income households through utility companies: the federal telephone Lifeline program, which provides discounted telephone service to low-income consumers who meet specified eligibility criteria.

Nationwide, the Lifeline program serves only *1 out of every 3* eligible low-income households. This participation rate is well below the participation rates of other federal programs that could be used to identify needy families and deliver assistance. In fact, a program that delivered climate-change assistance through a combination of the Earned Income Tax Credit (EITC) and the electronic benefit transfer (EBT) system that all states use to deliver food stamps could automatically reach about *three of every four* households in the bottom 20 percent of the population.[3]

While it is conceivable that a utility-based mechanism for delivering climate assistance could perform better than the Lifeline program does, it is extremely unlikely that it could come close to achieving the high level of participation that an approach building on stronger existing delivery mechanisms would attain. Moreover, a utility-based approach to delivering climate assistance would also face several other serious implementation challenges that could substantially diminish its impact and effectiveness (see the box on page 3). Because the consequence of a poorly functioning mechanism would be significant increases in poverty and hardship, and because an approach based upon low-risk, high-performing mechanisms like the EBT system and the EITC is almost certain to be more effective and simpler and cheaper to implement, taking a chance on a utility-based mechanism would be ill-advised.

Providing Assistance to Low-Income Families through Electric and Natural Gas Utility Companies Faces a Wide Variety of Potential Problems

This analysis focuses on whether utility companies can effectively identify and enroll low-income customers. Even if utility companies could do this effectively, proposals for delivering significant assistance to low-income families through utility companies would likely suffer from a number of other serious problems.*

- Many low-income households have their utilities included in their rent, and, hence, do not have a direct relationship with any utility company. It would be quite difficult for utility companies to provide assistance to these households, and such households could end up receiving no help despite the fact that they would face purchasing power losses just as large as those faced by other low-income consumers.

- Climate change legislation will raise prices for many goods *other than* home energy; in fact, the majority of the impact on households' budgets will come through higher prices for goods other than home energy. In some cases, the overall impact on households' budgets will exceed their utility bills, in which case even zeroing out the consumer's entire bill would not be enough to offset the full loss of purchasing power.

- Providing assistance through utility bills masks the true cost of energy and could reduce the "sticker shock" associated with higher home energy bills and thereby reduce households' willingness to conserve energy or make investments in energy efficiency.

- Many proposals to provide low-income assistance through utility companies, including the proposal in the Lieberman-Warner legislation that the Senate recently debated, would set a national cap on the resources available for low-income assistance. For a utility-based approach to work, procedures would have to be developed for allocating this pot of resources among utility companies. Yet detailed data on how many low-income consumers are served by each utility company do not exist, and it thus would be virtually impossible to develop a formula that would allocate the resources among the nation's *more than 3,000* electric and natural gas utilities in a manner that matched the needs of low-income consumers nationwide. Some utility companies would inevitably receive a disproportionately large share of the resources relative to the needs of the low-income customers they served, while other utility companies would be substantially under-compensated relative to their customers' needs.

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* For a more detailed discussion of these shortcomings, particularly as they apply to the proposal put forward in the Lieberman-Warner climate legislation, see Robert Greenstein, et al. "How Low-Income Consumers Fare in the Senate Climate Change Bill," Center on Budget and Policy Priorities, June 3, 2008, http://www.cbpp.org/6-3-08climate.htm.

Structure of the Lifeline Program

The Lifeline program is a joint state-federal program that subsidizes local phone service for low-income consumers. Consumers receive a discount on their monthly phone bills, and local phone companies are subsequently reimbursed for the cost of providing that discount by federal and state governments. The federal government and the states jointly set the benefit levels, but the sizeable majority of the funding for the benefits is federal. Nationwide, the annual Lifeline benefit averaged

approximately $130 per household in 2006. The federal portion of the Lifeline discounts is funded by a tax on inter-state and international phone service. The Federal Communications Commission sets the tax on a quarterly basis to match projected Lifeline program costs for the coming quarter.

Under federal rules, a household is eligible for Lifeline if its income is below 135 percent of the poverty line, or if it participates in any of seven major means-tested federal programs. States that provide an add-on to the federal benefit, as most do, may set their own eligibility rules. About half of states do not allow households to qualify simply on the basis of income; in these states, households are permitted to qualify only on the basis of participation in a qualifying program. Many states also pare down the list of programs for which participation confers Lifeline eligibility. A small number of states expand eligibility significantly beyond the federal rules, most commonly by allowing households with incomes between 135 percent and 150 percent of the poverty line to qualify.

In about fourth-fifths of states, local phone companies administer the Lifeline enrollment process. In the other fifth of states, enrollment is handled by a state agency or a designated "third-party administrator" and approved applications are then forwarded to local telephone companies. To apply, households generally submit a paper application, sometimes along with documentation proving their eligibility for assistance. In about one-third of states, state human service agencies or state utility regulators have made some effort to integrate the Lifeline enrollment process with the enrollment processes for programs that confer Lifeline eligibility. These efforts vary widely in scope and sophistication.

For a more detailed description of the Lifeline program's structure and rules, see Appendix 1.

Lifeline Participation Rates

The Lifeline program experience casts considerable doubt on the prospects for reaching a broad swath of the low-income population through utility companies. Estimates of the Lifeline-eligible population constructed using the Census Bureau's Current Population Survey, combined with administrative data on the number of households participating in Lifeline, indicate that only about *1 of every 3 households* eligible for Lifeline in 2007 were actually enrolled. (For details on this estimate, see Appendix 3.) Excluding California, which achieves perhaps the highest participation rate in the country and accounted for more than 40 percent of all Lifeline participants in 2007, the national participation rate is *only 1 in 4*.

Underlying the low national participation rate are exceptionally low participation rates in large numbers of states. Estimates by the Universal Service Administrative Company (USAC), the quasi-governmental entity that oversees the federal government's participation in the Lifeline program, indicate that *fully half* of state Lifeline programs served less than *one of every five* eligible households in 2007.[4] Only six states managed to serve more than half of eligible households. (For a discussion of these six states' programs and why their successes are unlikely to be replicable, see Appendix 2.)

Lifeline participation rates look particularly poor when compared with other programs that serve populations similar to those that the Lifeline program serves. For example, data from the Department of Agriculture indicate that the Food Stamp Program reached 63 percent of eligible

households (and 67 percent of eligible *people*) in 2006.[5] Treasury Department estimates and other studies indicate that the EITC does even better, reaching at least 3 of every 4 eligible tax filers.[6]

While state-by-state EITC participation rates are not available, state-level estimates of food stamp participation rates provide an even starker contrast with the Lifeline program.[7] Whereas, as noted above, only six states enroll more than half of the eligible Lifeline population, the overwhelming majority of states enrolled at least half of the food-stamp eligible population in that program in 2005.[8] Moreover, Congress enacted a series of reforms to the Food Stamp Program in 2008 that will boost access to the program and are expected to raise participation to still higher levels. (For a state-by-state table comparing Lifeline and food stamp participation rates, see Appendix 4.)

Even these simple comparisons suggest that a utility-based mechanism would have to perform dramatically better than Lifeline to meet the goal of providing broad-based relief from the impact of climate change legislation on the purchasing power of low-income consumers. The higher rates of participation in food stamps and the EITC suggest that developing a mechanism around these programs is much more promising.

Could a Utility-Based Program for Delivering Climate Assistance Do Better Than Lifeline?

Utility-based programs for delivering climate-related assistance could conceivably do a better job of identifying and enrolling low-income households than today's Lifeline program does. But, as discussed below, it seems unlikely that a utility-based approach would match the performance of a program that built on existing public-program infrastructure.

Impact of Using "Best Practices" Such as Automatic Enrollment

One way in which utility-based programs for delivering low-income assistance could improve on the Lifeline program is by implementing more widely the types of best practices that have been shown to increase participation in Lifeline. For example, several state Lifeline programs have seen promising results from "automatic enrollment" systems that use state databases on enrollment in public benefit programs to identify Lifeline-eligible households and then forward those households' information directly to telephone companies.

But while automatic enrollment can have an impact and should be implemented more widely in the Lifeline program, it also has limitations. Automatic enrollment is unlikely to be an effective mechanism to reach low-income households with significant earnings, who are generally less likely to be eligible for, and to participate in, public benefit programs (as distinguished from the EITC, which they are far more likely to receive). For this reason, a tax-based mechanism such as the EITC is likely to provide a far superior way to reach these families.[9] Even for those households that do participate in public programs, automatic enrollment in a utility-based program is far from an optimal solution. Even in the best automatic enrollment systems, large numbers of households that participate in public programs like food stamps fall through the cracks and are not enrolled, despite the transfer of information from public-program databases to utility-company databases.

For example, Texas operates one of most comprehensive automatic enrollment systems in the nation based on the records of several public programs, including the Food Stamp Program. Yet

enrollment in the Texas Food Stamp Program alone was more than 20 percent higher than the entire Texas Lifeline program in 2007, indicating that large numbers of food stamp households are being lost in the transition. Moreover, this figure almost certainly understates significantly the number of food stamp households that fall through the cracks, since many households that participate in programs other than food stamps also are "automatically" enrolled in the Texas Lifeline program, and the Lifeline participation tally includes some of these households, as well as households that qualify on the basis of income rather than participation in a low-income program.

New Jersey also has a reasonably sophisticated automatic enrollment system. Yet in New Jersey, total Lifeline enrollment is only a bit over 50 percent of food stamp enrollment. And as in Texas, this figure almost certainly understates the share of food stamp households that fall through the cracks, which suggests that half or more of the households enrolled in qualifying public programs are lost.[10]

The experience of Lifeline programs in California and Maine (discussed in more detail in Appendix 2) suggest that aggressive outreach, funded by the state or through mandates on utility companies, can increase participation. Such outreach activities entail additional expenditures by the state or utility rate payers.

Could Larger Benefits Produce Higher Participation?

Utility-based programs that aim to fully offset the purchasing power losses resulting from climate change legislation would likely provide considerably larger benefits than the Lifeline program does. This could increase program participation.

A larger benefit could induce state agencies to take a more active role in overseeing utility-run programs, perhaps making them more likely to implement the types of best practices discussed above. But while this could occur in some states, it is uncertain how many states would do so and to what extent, particularly because there is considerable variation across state public utility commissions and state agencies in their funding and commitment to low-income and other consumer programs.

A larger benefit also could make some low-income households more willing to go through the administrative burdens of the enrollment process. For this reason, a utility-based program that aimed to fully offset consumers' purchasing power losses from climate change policies would likely achieve somewhat higher participation rates than the Lifeline Program. Nevertheless, benefit levels in such a program would remain significantly *below* the benefits that the Food Stamp Program and the EITC provide, and so it seems unlikely that participation rates would approach the levels those programs achieve on the basis of higher benefit levels alone.

It is also conceivable that a larger benefit could have indirect effects that would tend to *discourage* participation. In most states, the Lifeline program requires applicants to provide relatively little documentary proof of eligibility. Self-certification is often allowed. (For details on the documentation required in the application process, see Appendix 1.) It is plausible that higher federally funded benefit levels would drive policymakers to institute more exacting screening and enrollment procedures. If so, that would tend to discourage participation among eligible households. (Tighter screening and enrollment procedures are also likely to significantly increase the

administrative costs borne by the federal government, the states, and the utility companies themselves.)

Difficult to Justify Taking a Chance on a Utility-based Program

While it may be possible to design a utility-based program that would achieve better results than the Lifeline program, it is hard to see why policymakers should take a chance on an unproven delivery mechanism that almost certainly would achieve participation rates lower than alternative mechanisms and risks missing a majority of low-income households. Proponents of utility-based approaches must meet a particularly high burden of proof given that it would be so much simpler — and less costly — to build upon existing public mechanisms than to implement a new utility-based program.

Analysis by the Center finds that low-income assistance delivered through a combination of the EBT system and the EITC would reach 28 million low- and moderate-income households *automatically*, with no additional paperwork because these households already participate in these programs. An additional 7 million elderly low-income households that participate in the Medicare low-income subsidy program could be enrolled in the EBT mechanism almost automatically, with very little (and possibly no) additional paperwork (see the box on page 8). All told, such an approach would reach three-quarters of the households in the bottom fifth of the U.S. population, with virtually no new administrative infrastructure.[11] In contrast, any utility-based solution would need to build an administrative infrastructure largely from scratch, a costly and time-consuming undertaking.

As the box on page 3 explains, if funding for utility-based assistance were capped at the national level — as it would be under proposals for utility-based programs to date, like that included in the Lieberman-Warner bill — implementing such a program would require finding an accurate way to allocate the capped amount of funds among the nation's *more than 3,000* electric and natural gas utilities so that each utility company received the right amount of funding to provide the appropriate level of assistance to its low-income consumers. Due to data limitations, devising a formula to achieve that goal would be virtually impossible. Data do not exist on the number (and size) of low-income households that each of the nation's more than 3,000 utility companies serves. The almost certain result would be serious mismatches between the geographic distribution of funding and the distribution of need.

Each utility company would also need to build an infrastructure for conducting outreach to eligible households, processing applications, and verifying applicants' eligibility. Getting utilities to build that infrastructure (or, at least, high-quality infrastructure) would require significant infusions of public dollars, dollars that would then not be available to provide assistance to low-income families.

Broadly implementing the types of best practices (such as automatic enrollment and aggressive outreach) that have been shown to increase enrollment in Lifeline also is likely to involve other complications. Doing so will require sustained effort by, and coordination between, local electric and natural gas utility companies, state human service agencies, and, most importantly, state utility regulators. The lack of such effort and coordination in the Lifeline program appears to be a key

reason that, despite encouragement from the Federal Communications Commission, the sizeable majority of states' Lifeline programs do not use the sorts of best practices described here. Given this experience, it seems like wishful thinking to believe that all, or even most, electric and natural gas utilities could be made to adopt these sorts of best practices.

An EBT Program Can Readily Reach Low-Income Seniors with Little or No Additional Paperwork

The Medicare low-income drug subsidy provides a straightforward way to bring low-income seniors into an EBT system for delivering climate rebates. The subsidy is jointly administered by the federal government and state human service agencies; hence the data-sharing infrastructure needed to support this type of automatic enrollment already exists. Moreover, automatic enrollment is considerably easier in this context than in the context of utility-company programs for at least two important reasons. First, the federal government and state human service agencies can match records based on Social Security numbers, an option not available to utility companies. Second, the number of entities involved is considerably smaller. Just over 50 entities (the federal government and the state human service agencies) would be involved in a data-sharing effort between the Medicare low-income subsidy program and states' EBT systems. Automatic enrollment in the utility-company context would involve all of the nation's more than 3,000 local electric and natural gas distribution companies.

Conclusion

As the only existing federal program that seeks to deliver assistance to low-income households via local utility companies, the Lifeline program provides useful insights into the prospects for delivering low-income assistance through electric and natural gas utility companies in the climate change context. Put simply, the Lifeline experience suggests there is significant risk that millions of low-income households would be left out under such an approach, many of which could be reached nearly automatically if policymakers instead provided assistance through existing mechanisms like the EBT system and the EITC.

It is possible that utility-based programs set up to provide low-income assistance in a climate change context could improve upon the Lifeline program's performance. But it would require a very large leap of faith — and one that is directly contradicted by evidence from the Lifeline program — to conclude that utility-based programs would reach close to as many low-income consumers as, for example, a system that delivered assistance nearly automatically through a combination of the EITC and the EBT system. Given that an inadequate system would result in substantial increases in poverty and hardship, and that low-risk, high-performing mechanisms like the EBT system and the EITC are readily available and at lower administrative cost, making such a leap of faith would be particularly ill-advised.

Appendix 1: Structure of the Lifeline Program

The Lifeline program operates under the auspices of the Universal Service Fund (USF), a federal umbrella entity that funds a collection of federal programs that aim to ensure universal access to telecommunications services. All USF programs, including Lifeline, are administered by a quasi-governmental organization called the Universal Service Administrative Company.

Approximately 85 percent of the USF's annual disbursements go for programs that subsidize telecommunication services for rural consumers and for schools and libraries. The sizeable majority of the remainder, or a bit over $800 million annually, goes for the Lifeline program. Funding for the USF derives from a dedicated tax on interstate and international phone service, which the Federal Communications Commission sets on a quarterly basis to cover projected USF expenses for the coming quarter.[12]

Benefit Amounts

Lifeline provides enrolled consumers with discounted local telephone service via a credit on their monthly telephone bill. The purpose of the program is to ensure that quality telecommunications services are available to low-income customers at reasonable and affordable rates. Local phone companies are reimbursed for the cost of providing the discount.

The size of the Lifeline discount is set jointly by the federal government and states. It consists of a base amount set at the federal level (but which can vary from phone company to phone company),[13] plus an additional amount of state support (provided at state option). In states providing additional support, there is a federal match equal to 50 percent of the state support, up to a maximum of $1.75 per customer per month. Nationwide, the Lifeline benefit averaged approximately $130 per year in 2006.[14,15]

Eligibility

The Federal Communications Commission (FCC) sets "federal default" Lifeline eligibility rules. Under those rules, a household is eligible if its income is below 135 percent of the federal poverty line ($28,620 for a family of four in 2008). Households also are eligible if the head of household participates in any of a list of seven "portal programs," the largest of which are Medicaid, the Food Stamp Program, and the Supplemental Security Income Program.[16]

States, however, are afforded wide latitude to deviate from federal eligibility rules, and all but 11 states take advantage of this latitude in one way or another.[17,18] In most cases, states use this flexibility to set eligibility rules that are stricter than the federal rules. Most significantly in this regard, approximately half of the states do not allow households to qualify for Lifeline on the basis of household income, but rather only on the basis of participation in a "portal program." A similar number of states pare down the list of Lifeline portal programs, although this typically has smaller implications for the size of the eligible population than does disallowing income eligibility.

Conversely, some states use their flexibility to expand eligibility beyond the federal criteria. A handful of states set the program's income eligibility cutoff at 150 percent of the poverty line, rather than the 135 percent threshold set in the federal rules. A significantly larger number of states

(including some states with eligibility rules that are, in other respects, stricter than the federal rules) expand the list of Lifeline portal programs to include programs not listed in the federal rules.

Enrollment Procedures

Lifeline enrollment procedures vary from state to state, and often, among phone companies within a state.[19] In about 80 percent of the states, the enrollment process is handled by local telephone companies. In the other roughly 20 percent of states, a state agency or a designated "third-party administrator" processes applications and then forwards approved applications to the appropriate local telephone company. In most cases, applicants are required to submit a paper application, although applicants can apply by phone in some areas. Applicants claiming eligibility on the basis of program participation are typically allowed to qualify by signing a statement on penalty of perjury that attests to their eligibility, although some states require documentation of eligibility. Under federal rules that apply to all states (including states that set eligibility rules that differ from the federal rules), all applicants claiming eligibility on the basis of income must submit proof of income.

About one-third of states have some system for facilitating enrollment in Lifeline by households participating in Lifeline portal programs. A handful of states, for example, send "pre-approved" Lifeline applications to Lifeline-eligible households that households can return to their phone companies to enroll in Lifeline.

Other states have created "automatic enrollment" systems. For example, some states integrate the Lifeline enrollment process with the enrollment process for one of the Lifeline portal programs. Others use the enrollment database of one or more Lifeline portal programs to identify eligible households and forward those households' information to local phone companies. In most cases, however, integration between Lifeline and public programs is limited in scope and involves only the smaller public programs, with the most common being the Low-Income Home Energy Assistance Program. Only three states, New York, New Jersey, and Texas, have ever implemented full-fledged automatic enrollment using the enrollment records of a public program that reaches a broad swath of the low-income population, like the Food Stamp Program.[20]

Appendix 2: Lifeline Programs in the Six States with Participation Rates Above 50 Percent

Six states (Alaska, California, Colorado, Maine, Montana, and Oklahoma) have managed to enroll more than half of the eligible population in Lifeline. A close examination of four of these states (Alaska, Colorado, Montana, and Oklahoma) reveals that these states' successes reflect idiosyncratic factors and are not evidence that a utility-based approach could effectively deliver assistance to a broad swath of the low-income population nationwide. The final two states, California and Maine, have achieved relative success only because state regulators have invested significant effort and resources in regulating the program. A more detailed description of each state's experience is below.

- **Alaska and Oklahoma:** Under Federal Lifeline rules, households residing on federally recognized tribal lands are eligible to receive an additional $25 per month ($300 per year) in federally funded Lifeline discounts beyond the standard discount. Such discounts are sufficient to bring the cost of local or cellular phone service almost to zero.[21] Most of the major population centers in Alaska and Oklahoma are designated as tribal lands for the purposes of the Lifeline program, so the vast majority of Lifeline-eligible households in these states are also eligible for the enhanced tribal benefit.

  In both states, telephone companies have used this generous Lifeline benefit to aggressively advertise very low-cost telephone service plans to Lifeline-eligible consumers. The advertising appears to have two advantages for the companies. First, advertising extremely low-cost services can allow companies to sell additional telecommunications services to Lifeline-eligible customers. Second, even in instances where most consumers already purchase the service in question, such advertising can help to attract and retain low-income customers in a competitive market. Indeed, a company that fails to publicize its Lifeline discount runs a significant risk of losing its low-income customers to competing companies that do a better job of informing eligible consumers about Lifeline.

  This pattern is particularly striking in Alaska. As recently as 2003, Lifeline enrollment in Alaska stood at less than one-third its current level. Then, starting in 2004, two cellular phone companies began aggressively marketing cellular phone service costing as little as $1 per month to Lifeline-eligible households.[22,23] Since then, Alaskan Lifeline enrollment has risen sharply, and these two cellular phone companies have seen their total reimbursements from the Lifeline program rise from nothing in 2003 to more than $12 million in 2007 (or more than 70 percent of total Lifeline reimbursements in Alaska in 2007).[24] A similar pattern seems to have unfolded in Oklahoma following the creation of the more generous tribal benefit in 2000, with traditional (wired) carriers beginning to aggressively market very low-cost local telephone service to Lifeline-eligible consumers.

  This same pattern of aggressive marketing by phone companies has *not* appeared in states without large tribal populations, likely because the smaller Lifeline benefits available in non-tribal areas do not permit the types of eye-catching advertising that have been so successful in Oklahoma and Alaska. Moreover, for two important reasons, a similar phenomenon would be unlikely to occur in climate change relief programs operated by local electric and natural gas distribution companies, even if benefit levels were relatively generous.

First, because the vast majority of households already have electricity and natural gas service, and because the goal of climate change legislation is to reduce energy consumption not increase it, electric and natural gas utilities cannot and should not use climate assistance to sell additional services (as Alaskan cellular phone companies have used the Lifeline discount). Second, unlike telephone companies, electric and natural gas distribution companies are typically local monopolies and hence run virtually no risk of losing customers to competitors. Nor do they have the ability to "steal" customers away from competing companies by marketing discounts. For both of these reasons, local electric and natural gas utilities would have little or no incentive to aggressively advertise discounts that might be available through a utility-based low-income climate assistance program.

- **Colorado and Montana:** Both of these states appear to have achieved high participation rates by limiting eligibility for Lifeline to relatively narrow subsets of the low-income population that already have a relationship with state agencies. Colorado limits eligibility to recipients of Supplemental Security Income (SSI) and various state SSI-supplements and sends a "pre-approved" Lifeline application to all households enrolled in those programs. Similarly, Montana limits eligibility to Medicaid recipients and makes significant efforts to provide information on Lifeline during the Medicaid enrollment process. (Montana also has a significant population residing on tribal lands, and its participation rate benefits from a small-scale version of what has unfolded in Alaska.)

- **California and Maine:** Both of these states have achieved relatively high participation rates because their regulators have taken an unusually active role in structuring and overseeing their programs, one that could not be expected of utility regulators in all 50 states, given past experience and the substantial political pressures on regulators in many states not to demand too much of the companies they oversee. California has invested substantial resources in creating an applicant-friendly enrollment process. Applicants initially apply by phone and then are mailed an enrollment form that they can either sign and return or complete online. (Households claiming eligibility on the basis of income must also submit some documentation of their income.) Operating this system costs California $16 million per year, and California also spends more than $5 million per year promoting its Lifeline program and mandates significant additional outreach activities by local phone companies, including annual mailings to all customers.

  Maine has achieved a high participation rate in much the same way as California. As in California, Maine regulators have mandated significant outreach by local telephone companies. Maine also has relatively lenient documentation requirements. Applicants can self-certify eligibility for Lifeline over the phone; phone companies verify eligibility on an annual basis by matching against state records.

Appendix 3: Methodology for Estimating National Lifeline Participation Rate

Because Lifeline eligibility rules vary by state, any estimate of the national participation rate must build upon state-level estimates of the number of Lifeline-eligible households. These estimates were obtained by combining a comprehensive database of state Lifeline eligibility rules with data from the Annual Social and Economic Supplement of the Census Bureau's Current Population Survey (CPS) for the years 2005-2007. The CPS contains detailed information on income and program participation for a representative sample of U.S. households. A more detailed description of the methodology is provided below.

The database of state eligibility rules was compiled using a directory of Lifeline eligibility rules maintained by USAC and available at LifelineSupport.org. This information was then checked against four sources: the results of a survey of state Lifeline programs conducted by USAC in 2005,[25] states' Lifeline websites, telephone company websites, and additional information on state Lifeline eligibility rules obtained via correspondence with USAC.

As noted above, these data on eligibility rules were combined with CPS data for the years 2005-2007 to obtain estimates of each state's Lifeline-eligible population. Limitations of the CPS data required making two simplifications to states' Lifeline eligibility rules in order to generate these estimates:

1) In some states, Lifeline eligibility rules vary across different phone companies. The CPS data, however, do not provide sufficient information to match households to local telephone companies. As a result, each state's eligible population was estimated on the assumption that the most restrictive set of eligibility rules in effect anywhere in the state applied state-wide.

2) The CPS does not ask detailed survey questions about all of the programs on which states base Lifeline eligibility. Due to these data limitations, participation in only the following programs was considered in constructing the estimates: federal housing assistance programs, the free meals part of the National School Lunch Program, the Food Stamp Program, the Low-Income Home Energy Assistance Program, Medicaid, the Supplemental Security Income Program, and Temporary Assistance for Needy Families. (Two examples of programs that are sometimes included in states' Lifeline eligibility criteria but which could not be included in these estimates due to data limitations are the State Children's Health Insurance Program and states' General Assistance programs.)

Due to these two simplifications, these estimates will tend to understate the eligible population and, thus, to overstate Lifeline participation rates.

Summing the resulting state-by-state estimates of the eligible population generates an estimate of the number of Lifeline-eligible households nationwide. This estimate was compared to USAC administrative data on the number of households participating in Lifeline in 2007 in order to calculate a national participation rate.[26] The estimated participation rate was approximately 34 percent, or about 1 in 3.

Due to the large sample size achieved by pooling CPS data from three different years, the sampling error of this estimate is negligible (a 90 percent confidence interval stretches from roughly

33.5 percent to 34.2 percent). Non-sampling error may be more significant. Most importantly, the CPS significantly undercounts the number of households receiving means-tested benefits, which also likely leads this approach to understate the eligible population and to overstate the Lifeline participation rate. As noted, the two simplifications made in modeling states' eligibility rules (described above) likely lead to further overstatement of the Lifeline participation rate.

Finally, as a check on these results, the USAC estimates of state participation rates were used to calculate an implied national participation rate. USAC does not provide point estimates for each state's participation rate and instead only indicates into which of four broad ranges the state's participation rate falls. For purposes of this calculation, each state's participation rate was assumed to fall at the mid-point of the range USAC reported. This "point estimate" was then combined with USAC data on the *level* of participation in each state to calculate a national participation rate. The participation rate calculated using this method was 30 percent, similar to the participation rate estimate generated using the CPS.

Appendix 4: State-by-State Table of Lifeline and Food Stamp Participation Rates

State	Lifeline Program	Food Stamp Program	
	Estimated Participation Rate Range (%)	Estimated Participation Rate (%)	Margin of Error (%)
Alabama	10-20	65	± 4
Alaska	>50	67	± 6
Arizona	10-20	66	± 5
Arkansas	10-20	76	± 5
California	>50	50	± 3
Colorado	>50	54	± 5
Connecticut	20-50	62	± 6
Delaware	<10	65	± 6
District of Columbia	10-20	71	± 6
Florida	10-20	59	± 4
Georgia	10-20	74	± 6
Hawaii	<10	70	± 6
Idaho	20-50	62	± 7
Illinois	10-20	75	± 5
Indiana	10-20	71	± 5
Iowa	20-50	66	± 4
Kansas	10-20	61	± 4
Kentucky	10-20	76	± 5
Louisiana	<10	76	± 8
Maine	>50	85	± 5
Maryland	<10	55	± 5
Massachusetts	20-50	54	± 4
Michigan	10-20	75	± 5
Minnesota	20-50	62	± 6
Mississippi	10-20	60	± 6
Missouri	10-20	95	± 6
Montana	>50	61	± 5
Nebraska	20-50	65	± 5
Nevada	10-20	49	± 5
New Hampshire	<10	55	± 5
New Jersey	20-50	58	± 5
New Mexico	20-50	69	± 4
New York	10-20	61	± 3
North Carolina	10-20	58	± 5
North Dakota	20-50	57	± 5
Ohio	20-50	68	± 3
Oklahoma	>50	77	± 5
Oregon	20-50	86	± 6
Pennsylvania	10-20	68	± 5
Rhode Island	20-50	56	± 4
South Carolina	10-20	71	± 5
South Dakota	20-50	57	± 5
Tennessee	10-20	88	± 6
Texas	20-50	60	± 3
Utah	20-50	61	± 5
Vermont	20-50	68	± 6
Virginia	<10	62	± 5
Washington	20-50	68	± 6
West Virginia	<10	80	± 6
Wisconsin	20-50	59	± 5
Wyoming	20-50	49	± 6

For sources and notes on these data, see technical notes on the next page.

Technical Notes on State-by-State Table of Lifeline and Food Stamp Participation Rates

Sources: Lifeline estimates are for 2007 and from the Universal Service Administrative Company (USAC). The range presented for New Jersey is higher than the one published by USAC because USAC appears to have used an incorrect version of the New Jersey eligibility rules in making its estimate. Food stamp estimates are for 2005 and from the U.S. Department of Agriculture. The margin of error reflects the radius of a 90 percent confidence interval around the point estimate. Note that USDA's published materials show a full confidence interval rather than a margin of error; these confidence intervals were occasionally asymmetric. The margin of error shown here reflects the longer of the two sides of the confidence interval.

Note: The state-level *food stamp* participation rates cited here reflect the share of eligible *people* participating in food stamps, while the *Lifeline* participation rates reflect the share of eligible *households* participating. Participation rates based on numbers of eligible people and those based on numbers of eligible households can differ if larger households are more or less likely to participate than other households. Comparing the two types of rates can, in some cases, be misleading. In this case, however, because the national food stamp participation rate as a share of eligible people (65 percent in 2005, the year of these state estimates) is only modestly higher than the participation rate as a share of eligible households (59 percent in 2005), distortions are likely to be minor.

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[1] See Robert Greenstein, Sharon Parrott, and Arloc Sherman, "Designing Climate-Change Legislation that Shields Low-Income Households from Increased Poverty and Hardship," Center on Budget and Policy Priorities, revised May 9, 2008, http://www.cbpp.org/10-25-07climate.htm.

[2] For a detailed analysis of the bill's low-income assistance provisions, see Robert Greenstein, Chad Stone, Martha Coven, and Matt Fiedler, "How Low-Income Consumers Fare in the Senate Climate Change Bill," Center on Budget and Policy Priorities, June 3, 2008, http://www.cbpp.org/6-3-08climate.htm.

[3] For a description of how the EBT system and the EITC could be used to deliver a "climate rebate" to low-income households, see "How a 'Climate Rebate' Would Work," Center on Budget and Policy Priorities, June 3, 2008, http://www.cbpp.org/6-3-08climate-fact.htm.

[4] See Universal Service Administrative Company, "2007 Lifeline Participation Rates by State," February 19, 2008, http://www.usac.org/_res/documents/li/pdf/li-participation-rate-map-2007.pdf.

[5] See United States Department of Agriculture, "Trends in Food Stamp Program Participation: 1999 to 2006," June 2008, http://www.fns.usda.gov/oane/menu/Published/FSP/FILES/Participation/Trends2000-2006.pdf.

[6] See United States Department of Treasury, "Statement by Secretary Paulson on EITC Awareness Day," January 31, 2008, available at http://www.treasury.gov/press/releases/hp791.htm. This recent Treasury estimate appears to be based upon findings from a previous Internal Revenue Service study, "Participation in the Earned Income Tax Credit Program For Tax Year 1996," Fiscal Year 2001 Research Project #12.26, with more recent information developed through the IRS National Research Program's audits of samples of returns. A recent review of the literature indicates that the Treasury estimate is within the range of results found in previous research. See Steve Holt, "The Earned Income Tax Credit at Age 30: What We Know," The Brookings Institution, Feb. 2006, http://www.brookings.edu/reports/2006/02childrenfamilies_holt.aspx.

[7] See United States Dept. of Agriculture, "Reaching Those in Need: State Food Stamp Participation Rates in 2005," Oct. 2007, http://www.fns.usda.gov/oane/MENU/Published/FSP/FILES/Participation/Reaching2005.pdf.

The national food stamp participation rate estimate cited above was for 2006, while these estimates of state food stamp participation rates, which are the most recent available, are for 2005. Nationwide, food stamp participation rose from 2005 to 2006, so the state-level participation rates cited here likely modestly understate current food stamp participation rates for many states.

[8] Three states were estimated to have food stamp participation rates of 49 or 50 percent in 2005. For three other states, the confidence interval surrounding the participation rate estimate includes participation rates at or below 50 percent. In all other states, the food stamp participation exceeded 50 percent.

The state-level food stamp participation rates cited here reflect the share of eligible *people* participating in food stamps, while the Lifeline participation rates reflect the share of eligible *households* participating. Participation rates based on numbers of eligible people and those based on numbers of eligible households can differ if larger households are more

or less likely to participate than other households. In this case, the national food stamp participation rate as a share of eligible people (65 percent in 2005, the year of these state estimates) is only modestly higher than the participation rate as a share of eligible households (59 percent in 2005). Consequently, it is virtually certain that participation rates were above 50 percent in at least three-quarters of states in 2005, even measured as a share of eligible households.

[9] One could conceivably attempt to reach working families by automatically enrolling families on the basis of their incomes as reported on tax forms. This, however, has never been attempted by any state Lifeline program and would raise serious legal and privacy concerns.

[10] Rhode Island and North Dakota operate "automatic outreach" systems, where households participating in public programs that qualify them for Lifeline receive "pre-approved" Lifeline applications from the state human service agency. A household can then return this application to its telephone company to enroll in Lifeline. In both of these states, total Lifeline enrollment is close to food stamp enrollment. Nonetheless, it is likely that some significant numbers of food stamp participants are not making the transition into Lifeline since, in both states, households also can qualify for Lifeline through other channels. It also is worth noting that both of these states are very small. It is unclear whether these sorts of systems would scale effectively to larger states.

[11] For a more detailed discussion of an approach that combines the EITC and the EBT system, see "How a 'Climate Rebate' Would Work," Center on Budget and Policy Priorities, June 3, 2008, available at http://www.cbpp.org/6-3-08climate-fact.htm.

[12] For additional information on the USF programs, see Congressional Research Service, "Universal Service Fund: Background and Options for Reform," April 25, 2007, http://assets.opencrs.com/rpts/RL33979_20070425.pdf. For the full federal Lifeline rules, see 47 CFR 54.400-417.

[13] The base federal support amount can vary from phone company to phone company because a portion of it is linked to the End User Common Line charge, a charge that telephone service providers must assess on all of their customers' bills and then remit to whatever company owns and maintains the local telecommunications infrastructure. This charge can vary from area to area. In practice, this feature of the Lifeline benefit formula generates only modest variation in benefit levels. In most areas, the EUCL charge sits at $6.50; it averaged $5.37 among Lifeline households in 2006.

[14] See Table 2.3 of Federal Communications Commission, "Universal Service Monitoring Report," December 2007, http://www.fcc.gov/wcb/iatd/monitor.html.

[15] Households residing on federally recognized tribal lands are eligible for significantly more generous benefits. The average benefit figure cited here is for non-tribal households.

[16] The other portal programs are Temporary Assistance for Needy Families, the Low-Income Home Energy Assistance Program, federal housing assistance, and the free-meals component of the National School Lunch Program. With the exception of the National School Lunch Program, federal rules require that the head of household be enrolled in the portal program to be Lifeline eligible.

[17] States' latitude is limited for households residing on federally recognized tribal lands. For these households, states can set rules no narrower than the federal default rules.

[18] For a description of the sources of information on state eligibility rules, see Appendix 3.

[19] Unfortunately, there is no comprehensive repository of information on state enrollment procedures. The information presented below reflects a compilation of data collected from several sources, including, most importantly, a survey of state procedures conducted by the Universal Service Administrative Company in 2005 (available at http://www.usac.org/li/tools/state-surveys.aspx), state Lifeline websites, and the websites of local telephone companies.

[20] Automatic enrollment in New York is limited to Verizon customers. Verizon apparently abandoned automatic enrollment at some point in the last several years and has resumed it only recently. For details, see Lou Manuta, "Verizon Re-Launches Automatic Enrollment for Lifeline," Public Utility Law Project Network, February 25, 2008, http://pulpnetwork.blogspot.com/2008/02/verizon-re-launches-automatic.html.

[21] Federal rules require that the consumer's contribution, after the discount, cannot fall below $1 per month.

[22] Additional research would be required to determine why this trend began in 2004. One plausible explanation is that it was spurred by the expansion in the Lifeline-eligible population that occurred in 2004 when the FCC began allowing households to qualify for Lifeline on the basis of income, rather than just program participation.

[23] For an example of how cellular phone companies have promoted Lifeline service in Alaska, see "Lifeline Wireless Service," Alaska DigiTel, January 11, 2008, http://www.akdigitel.com/catalog/lifeline-p-42.html.

[24] This figure was calculated using data from Appendix LI05 of "Quarterly Administrative Findings for 2008: Third Quarter," Universal Service Administrative Company, May 2, 2008, http://www.usac.org/about/governance/fcc-filings/2008/quarter-3.aspx.

[25] States' responses to this survey are available at http://www.usac.org/li/tools/state-surveys.aspx.

[26] See Appendix LI08 of "Quarterly Administrative Findings for 2008: Third Quarter," Universal Service Administrative Company, May 2, 2008, http://www.usac.org/about/governance/fcc-filings/2008/quarter-3.aspx.