



April 21, 2015

Honorable Dean Heller
United States Senate
Washington, DC 20510

Re: Proceeds From Auctions Held by the Federal Communications Commission

Dear Senator:

This letter responds to several questions that you posed about proceeds from certain auctions that have been held or will be held by the Federal Communications Commission (FCC). Those auctions allow commercial firms to acquire the right to use certain portions of the electromagnetic spectrum for communications.

To briefly summarize some of the major points mentioned below:

- The FCC is planning to hold a two-sided auction—known as an incentive auction—that will provide an opportunity for television broadcasters to voluntarily sell their spectrum rights and for wireless firms to buy licenses to use those frequencies.
- Because the FCC has not conducted such an auction before, it is difficult to predict what the net proceeds of the auction will be. The Congressional Budget Office estimates that the net proceeds will probably be between \$10 billion and \$40 billion, with an expected value of \$25 billion, the middle of that range.
- Under current law, CBO expects that most of those receipts will be deposited in the general fund of the Treasury and will be applied to deficit reduction.
- CBO expects that most of the receipts will be recorded in the budget about a year after the start of the auction.
- To the extent that the actual proceeds differ from CBO's estimate, future budget deficits will be larger or smaller than CBO currently projects, and

those differences will be incorporated into the agency's baseline projections.

- Allocating the proceeds of the incentive auction to a particular fund in the Treasury would not change the amount of projected receipts and would have no effect on the budget unless agencies were authorized to spend any money credited to that fund. Legislation that provided new authority to spend the proceeds would increase the deficit.

Please explain the background and purpose of the Advanced Wireless Services auction (AWS-3) and the upcoming incentive auction.

Since 1993, commercial licenses to use the electromagnetic spectrum have been awarded through competitive auctions. The FCC auctions commercial licenses whenever frequencies become available for new uses. The authority to conduct such auctions expires at the end of fiscal year 2022. Proceeds from spectrum auctions are recorded in the budget as offsetting receipts, which are treated as reductions in mandatory spending.

The purpose of holding auctions like the recent Advanced Wireless Services proceeding (known as the AWS-3 auction) and the upcoming incentive auction is to increase the amount of spectrum available for mobile broadband services. Conducting those auctions required legislation that authorized the government to reimburse entities that relinquish their spectrum rights to free up spectrum for those new uses. In the case of the incentive auction, that process will be carried out with a two-sided auction that allows television broadcasters to voluntarily sell their spectrum rights and wireless firms to buy licenses to use those frequencies. In the AWS-3 auction, the government itself is a major source of the spectrum; more than half of the spectrum offered in that auction is currently used by federal agencies that are being moved to new frequencies. As a result, the government is spending some of the proceeds from the AWS-3 auction to relocate the affected federal operations.

If the proceeds from the AWS-3 auction satisfied the statutory purposes of the Public Safety Trust Fund (PSTF), where does the revenue generated from incentive auctions and future auctions go?

Under current law, the proceeds from the incentive auction may be used for three purposes. Some of those proceeds will be reserved to cover the FCC's auction expenses; some will be spent for broadcasters' relocation costs; and the remainder will be deposited in the general fund and will have the effect of reducing the deficit.

Several statutory provisions affect the budgetary treatment of receipts from spectrum auctions. Under certain conditions, some of those amounts may be spent without further appropriation. Such spending is considered mandatory spending; because those receipts are automatically spent, they have no net effect on the budget. In contrast, other proceeds are available for spending only if subsequent appropriation legislation provides for that spending; those receipts will have the effect of reducing the deficit. Those statutory provisions are the following:

- The FCC's auction expenses are funded directly from auction proceeds without further appropriation.
- Proceeds from auctions of licenses to use frequencies transferred from federal to commercial use are deposited into the Spectrum Relocation Fund (SRF) and may be spent, without further appropriation, to reimburse federal agencies for certain relocation costs and related expenses.
- Of the proceeds from the incentive auction, \$1.75 billion will be deposited into the TV Broadcaster Relocation Fund (TVBRF) and will be available without further appropriation to pay certain costs that will be incurred, as a result of the auction, by broadcasters that do not sell their spectrum rights.
- Proceeds from certain auctions—those held in 2014 and 2015 and the incentive auction—that are not deposited into the SRF or the TVBRF and that are not used for auction expenses must be deposited into the Public Safety Trust Fund. Certain conditions apply, however, including a directive to deposit any amounts above \$28 billion into the general fund of the Treasury and to apply those amounts to deficit reduction. Because the amounts deposited into the PSTF from auctions completed in 2015 or earlier are expected to equal \$28 billion, CBO anticipates that the proceeds from the incentive auction that are not deposited into the TVBRF or used for auction expenses will be deposited into the general fund and will have the effect of reducing the deficit.¹
- Proceeds from other auctions in the future that are not deposited into the SRF or used for the FCC's auction expenses will be deposited into the general fund of the Treasury and will have the effect of reducing the deficit.

1. Auctions held in 2014 and 2015 generated net receipts of \$1.6 billion and \$41.3 billion, respectively. CBO estimates that \$28 billion of that total will be deposited into the PSTF, \$2 billion into the general fund, and most of the remainder into the SRF.

If the incentive auction were held in 2016, when could lawmakers expect to see additional revenue?

On the basis of past experience, CBO expects that most of the receipts from the incentive auction will be recorded in the budget about one year after the start of the auction. When the government sells an asset—whether a license, lease, or property—the receipts from the sale are recorded in the budget after the government transfers the asset to the winning bidder. The time needed between the start of a sale and the award of the asset depends on the complexity of the transaction. For example, in routine sales of oil and gas resources, the lease is usually issued within three months after the sale. By contrast, the bidding for spectrum licenses can last more than two months, and the process for awarding all of the licenses and recording receipts can take several months to more than a year. CBO therefore expects that if the incentive auction begins in calendar year 2016, the bulk of the receipts will probably be recorded in fiscal year 2017.

What is the estimate for the amount of receipts expected to be generated by the incentive auction?

Holding a two-sided auction for spectrum licenses is a complex and unprecedented endeavor. Until the auction begins, no one knows with any certainty how much spectrum the broadcasters will sell and at what price. Similarly, various technical and procedural factors could affect the prices that wireless firms are willing to pay for particular frequencies.

On the basis of the information available when CBO developed its March 2015 baseline budget projections, CBO estimates that the net proceeds from the incentive auction will probably be between \$10 billion and \$40 billion, with an expected value of \$25 billion, the middle of that range. That estimate reflects a wide range of possible outcomes. It is based on the expectation, for example, that the quantity of spectrum made available by broadcasters could range from 20 megahertz to more than 100 megahertz; that the portion of auction proceeds paid to broadcasters could range from about 25 percent to 75 percent; and that the prices paid by wireless firms will be similar to those paid in the AWS-3 auction but will vary according to the number, location, and characteristics of the licenses.

What is the best estimate of when the incentive auction would take place?

The FCC has not set a date for the start of the incentive auction. Agency officials have indicated that they hope to start the auction early in calendar year 2016, but it is possible that the commission and participating firms will need more time to resolve the technical, financial, and legal issues that are still pending at the FCC and in the courts. To account for that uncertainty, CBO's baseline projection for

the incentive auction spreads the estimated receipts over the 2017–2019 period. Once the FCC officially announces the starting date for the auction, CBO will revise the estimated timing of those collections.

How does CBO’s baseline projection of auction receipts affect estimates of the budgetary effects of future legislation?

In the case of mandatory programs and offsetting receipts (such as those from spectrum auctions), CBO measures an estimated change in spending or receipts against a benchmark that represents what is expected to occur under current law. That benchmark is CBO’s baseline, which is the agency’s projection of government spending and receipts for the current year and the next decade.

CBO’s baseline projections of auction receipts reflect its expectation that, under current law, the FCC will auction all of the frequencies that become available for new licensed uses. Legislation that would affect how much spectrum is auctioned or the structure of such auctions might affect future receipts, and CBO would estimate such differences relative to its baseline projections of auction receipts.

Allocating the proceeds of the incentive auction to a particular fund in the Treasury would not change the amount of projected receipts and would have no effect on the budget unless agencies were authorized to spend any money credited to that fund. Legislation that provided new authority to spend the proceeds would result in a larger deficit than the one in CBO’s baseline projections.

What are the consequences if the actual receipts from the incentive auction are more or less than the forecasts in CBO’s baseline?

Any differences between the actual auction proceeds and CBO’s estimate of those proceeds will increase or decrease the future budget deficits that CBO expects and will be reflected in the agency’s subsequent baseline projections.

If you would like further details, we would be pleased to provide them. The CBO staff contact for FCC auctions is Kathleen Gramp.

Sincerely,

A handwritten signature in black ink, appearing to read "Keith Hall". The signature is stylized and cursive.

Keith Hall
Director