



COMMONWEALTH of VIRGINIA
DEPARTMENT OF SOCIAL SERVICES
Office of the Commissioner

S. Duke Storen
Commissioner

December 28, 2021

MEMORANDUM

TO: The Honorable Ralph Northam
Governor of Virginia

The Honorable Janet D. Howell
Chairman, Senate Finance

The Honorable Luke E. Torian
Chairman, House Appropriations

FROM: S. Duke Storen *S. Duke Storen*

SUBJECT: Report on a Program to Provide Fixed Reimbursement for Broadband Services

I am pleased to provide the report on fixed reimbursement for broadband services for select households participating in SNAP. This report is pursuant to Item 359 (L) of the 2021 Appropriation Act. Please contact me if you have questions.

SDS:kc
Attachment

**Report of the Virginia Department of Social Services
To the Chairs of the House Appropriations and Senate Finance
and Appropriations Committee**

**Broadband Services Program for Households Currently Participating in the
Supplemental Nutrition Assistance Program**

November 1, 2021

Department of Social Services Broadband Services Program

November 2021

Executive Summary

This report is submitted pursuant to the 2021 Appropriations Act Item 359 L, requiring the Department of Social Services (DSS) to design a program to provide fixed reimbursement for broadband service costs for select households currently participating in the Supplemental Nutrition Assistance Program (SNAP). The rate of reimbursement shall not exceed \$15 a month and shall be a structured direct payment to a broadband provider who offers a low-cost broadband service for low-income households in Virginia. The Department sought and received input from the Commonwealth's Chief Broadband Advisor for this report.

Families in Virginia face distinct challenges to accessing broadband services, including lack of physical infrastructure and affordability of high speed internet service. There are federal programs in place to help support access to broadband services, but the subsidy amount is too low for many families to afford the service. Congress created additional subsidies in the various COVID-19 relief packages, but it is anticipated that federal subsidies will be discontinued by the end of 2021.

Virginia can design a program to subsidize broadband connectivity for low-income Virginians either with or without significant ongoing state general funds by investing in capacity at the DSS to operate the federal broadband subsidy program on behalf of the federal government. This approach would improve access and increase enrollment among low-income Virginians.

The estimated one-time costs for program and Information Technology system development would be \$3,394,000, with an ongoing need for three positions requiring \$328,078 new dollars annually, to bring more than \$130 million in federal benefits to Virginia households currently unable to afford broadband connectivity.

Department of Social Services Broadband Services Program

November 2021

Report Mandate

This report is submitted pursuant to the 2021 Appropriations Act Item 359 L, requiring the Department of Social Services (DSS) to design a program to provide fixed reimbursement for broadband service costs for select households currently participating in the Supplemental Nutrition Assistance Program (SNAP). The report mandate is:

L. The Department of Social Services shall design, for consideration by the 2022 General Assembly, a program that provides a fixed reimbursement, which shall not exceed \$15 monthly, for broadband service costs for select households currently participating in the Supplemental Nutrition Assistance Program. The reimbursement payments under the program shall be structured as a direct payment to a broadband provider selected by the qualifying program participant household, provided that the selected broadband provider offers a low-cost broadband service for low-income households within its service area in the Commonwealth. The department shall develop program guidelines in coordination with the Commonwealth Broadband Chief Advisor to govern eligibility for participation in the program and disbursement of program funds. The department shall report on the program design and structure, administrative cost estimates, program guidelines, and other relevant information related to implementing the program to the Chairs of the House Appropriations and Senate Finance and Appropriations Committees by November 1, 2021.

Nature of the Digital Divide

There are two distinct challenges that contribute to the digital divide: households unserved by broadband because of a lack of physical infrastructure (accessibility) and households unserved by broadband because they cannot afford to pay for high speed internet service (affordability). There are many communities in Virginia where broadband infrastructure exists but service is out of reach because of the cost. In a 2020 study, the State Council of Higher Education for Virginia (SCHEV) estimated that nearly 40% of students living in urban areas lack access to the internet, likely because their household cannot afford it.

The Federal Communications Commission (FCC) recognized the affordability portion of the digital divide, and in 2015 added broadband internet service as an option to Lifeline – a government program that provides subsidies for low-income families who need phone service. At a monthly subsidy rate of \$9.25 and without all Virginia internet service providers (ISPs) participating in the program, Lifeline has had a limited impact for those who cannot afford broadband. Families struggling to put food on the table and pay for housing have little or no discretionary income to pay for high speed internet, and a \$9.25 subsidy cannot fill this gap.

To be eligible for the Lifeline program, a household must have income below 135% of the federal poverty threshold or be a participant in SNAP, Medicaid, SSI, or receive federal public housing assistance.

Federal Broadband Subsidy Efforts

Like other government assistance programs, the COVID-19 pandemic drastically changed broadband subsidies. The society-wide shift to online work and online learning in 2020 elucidated the demand for broadband and the affordability crisis, and it became apparent the \$9.25 monthly rate of Lifeline was insufficient. In response, late in 2020, Congress established the \$3.2 billion, FCC-administered Emergency Broadband Benefit (EBB) program implemented by the same entity on behalf of the FCC, the Universal Service Administrative Company (USAC) as the Lifeline program EBB, which launched in May 2021, provides a \$50-a-month subsidy for eligible households for broadband service. Households can qualify for EBB if at least one member of the household:

- Qualifies for the Lifeline Program
- Has been approved for free and reduced price lunch or breakfast
- Has experienced a substantial loss of income through unemployment
- Has received a Federal Pell Grant
- Has gross household income at or below 135 percent of the federal poverty level.
- Meets eligibility criteria for a participating ISP's existing low-income or COVID-19 program

By August 2021 the EBB program had served 4 million households, yet the program has been inadequate at addressing the affordability digital divide in a meaningful fashion. A recent report by the Benton Institute for Broadband & Society showed that only one in twelve eligible households are enrolled in EBB¹. The lack of participation can be attributed to two major factors: 1) Households seeking to participate in EBB must proactively enroll through their ISP or directly with the USAC. If a household cannot afford broadband, then it is unlikely they will engage an ISP. Additionally, low-income households needing assistance seek out the State Department of Social Services or their local department of social services. Having this benefit offered directly by a federal entity with limited capacity for outreach, no physical presence in the Commonwealth, and complex application process inhibits program awareness and participation. 2) Like the Lifeline program, not all ISPs are participating, meaning that some households that find out about the program and seek to sign up are unable because their only ISP is not participating.

The \$3.2 billion budget for EBB will likely be exhausted in fall 2021 without additional federal investment, although at this point it seems very unlikely that Lifeline returns as the sole federal broadband subsidy. The Infrastructure Investment and Jobs Act would extend and modify the EBB, creating a permanent Affordable Connectivity Benefit program with a starting budget of \$14.2 billion. The new program would reduce the monthly subsidy rate to \$30 per month but would streamline the program operations by providing a voucher for eligible households to use on internet

¹ https://www.benton.org/blog/emergency-broadband-benefit-has-thus-far-enrolled-just-1-12-eligible-households-places-low?utm_campaign=Newsletters&utm_source=sendgrid&utm_medium=email

service of their choice, instead of the EBB model of the FCC reimbursing participating ISPs. Eligibility for the new program would be broadened from EBB, adding the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) to the list of qualifying programs and moving household income eligibility from 135 percent of the federal poverty level to 200 percent. Yet the two factors that limited participation in the EBB program – onus on the household to enroll through a federal entity and voluntary participation of ISPs – would remain in the new Affordable Connectivity Benefit.

Subsidy Program Design and Parameters

The Commonwealth has an opportunity to create a high-impact state broadband subsidy program by seeking a waiver from the FCC to implement its broadband subsidy program through the DSS instead of the USAC. By housing the program at DSS, households on SNAP and Medicaid could automatically be enrolled, immediately expanding participation among eligible households. Additionally, because DSS knows where SNAP and Medicaid participants live, DSS in partnership with the Chief Broadband Advisor, can work directly with ISPs to demonstrate demand and estimate the amount of subsidy, enabling the private market to reduce risk, more efficiently connect eligible households, and expand its broadband footprint.

With federal waiver approval from the FCC, the Virginia Digital Equity Fund would draw down the federal subsidy funds based on the number of eligible participants enrolled by the Department of Social Services. Additional state funds or funds from other sources could supplement these federal dollars, increasing the subsidy amount for each household or targeting increases in communities with higher than average broadband costs or targeting households with the lowest incomes. FCC Senior Staff have already shown interest in the idea based on initial discussions.

Drawing on the budget language directing this study, using the 387,000 SNAP households as an estimate of the base population for service, one can estimate Virginia's share of the federal program budget would be approximately \$100 million to \$130 million. If Medicaid were used for the estimation, then this amount would increase significantly. In order to facilitate the drawdown of these federal dollars and implementation of this subsidy in Virginia, DSS would need state general funds to cover the administrative costs of developing and administering the program.

Once equipped with funding, DSS would solicit the internet status from SNAP and Medicaid households and begin outreach to Virginia ISPs to entice participation in the program. The Virginia Digital Equity Fund will likely have more success at recruiting ISPs than federal programs for several reasons: 1) DSS would aggregate households in bulk for each ISP (some of which might not currently have service) and provide more paying customers than traditional subsidies, 2) DSS is a reliable payer and ISPs could deal with a single entity instead of individually enrolling participating households, 3) the Commonwealth has strong relationships with most Virginia ISPs and 4) the Chief Broadband Advisor would personally work to recruit companies and address issues.

One benefit to aggregating households is the ability to leverage increased demand to lower broadband rates. As it stands currently, many ISPs do not provide a service plan for \$30 a month or a specific low-cost plan. However this trend could change if DSS required such a low-cost option in order to participate in the Virginia Digital Equity Program. The opportunity to reliably receive \$30 a month for hundreds or thousands of households, many of which would be new customers, at little effort or cost to the ISP would be persuasive.

Program Operations

The Virginia Digital Equity Fund would be administered by the Department of Social Services. We would likely be required to serve the same eligible population as the EBB and not be limited to only SNAP households. Launching the program would require two business analysts to manage data, develop program policy, develop outreach material, conduct outreach and prepare reports. Fiscal and other agency staff working on the program would be charged through indirect costs. There will also be costs for IT systems development and maintenance.

Each month the Department of Social Services will send a payment on behalf of the enrolled participants to their respective ISP. The payment process details will be determined once all ISPs are identified and funding streams are finalized.

Program Outreach

Program outreach would begin with SNAP and Medicaid households. Targeted households would receive a survey and promotional materials to identify all ISPs in the Commonwealth that would potentially participate and advertise the program. The Commonwealth's broadband office can also identify participating ISPs by locality, and ensure that they are ready to serve customers. Once the program is established and initial participants enrolled, additional recruitment would begin if needed. The program would be added to our combined application to allow households easy access to completing the application but would also be available for households that do not apply for any other benefits.

Cost Projections

- **Least cost scenario**
Serve 275,000 SNAP households at \$30 monthly subsidy = 90,000,000 total annual budget
 - \$49,500,000 sourced from FCC for subsidization
 - \$49,500,000 sourced from state general fund

- **Recommended funding scheme**
Serve 387,000 SNAP and Medicaid households at \$30 monthly rate = \$130,000,000 total annual budget
 - \$125m sourced from FCC for subsidization
 - \$5m sourced from state general fund for administrative and outreach purposes

- Full-service scenario
Serve 387,000 SNAP and Medicaid households at \$50 monthly rate = \$225,000,000 annual budget
 - \$139m sourced from FCC for subsidization
 - \$86m sourced from state general fund for subsidization, administrative and outreach purposes

- Additional costs for all scenarios
 - One time IT cost \$3,394,000
 - IT costs \$500,000 annually
 - Staffing Costs \$328,078 annually
 - Indirect Costs \$144,000