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June 20, 2005

The Honorable John D. Dingell
Ranking Member
Committee on Energy and Commerce
The Honorable Edward J. Markey
Ranking Member
Subcommittee on Telecommunications
and the Internet
House of Representatives

Subject: *Digital Television Transition: Questions on Administrative Costs of an Equipment Subsidy Program*

On May 26, 2005, I testified before the Subcommittee on Telecommunications and the Internet on a staff discussion draft of the DTV Transition Act of 2005.¹ At that time, I discussed several challenges to administering a program for subsidizing the purchase of digital converter boxes to advance the DTV transition. This letter responds to your June 9, 2005 letter requesting that we provide information on the approximate cost of various administrative steps that might be necessary to administer such a subsidy program. Specifically, your letter identifies a number of administrative steps that might be required to administer a rebate program targeted to low-income households that rely solely on over-the-air television signals, and asks us to estimate the costs of specific administrative steps. As I indicated at the hearing, estimating the specific costs of these administrative steps is difficult because of the substantial uncertainty about exactly what would be required to implement them. Your letter also notes that the administrative costs for the rebate and voucher programs that we reviewed ranged from 10 percent to 39 percent. However, as we noted in our written statement, due to differences in the scope of the rebate and voucher programs we reviewed and a potential DTV subsidy, it is not clear how applicable the administrative costs of these programs are to estimating the costs of a DTV subsidy.

We recognize that the Committee desires a clear understanding of the administrative costs associated with implementing a converter box subsidy program in considering legislation to end the DTV transition on a date certain. As your letter suggests, several administrative steps would likely be taken to establish a rebate program targeting low-income households that rely solely on over-the-air television signals. Costs would be incurred to complete these administrative steps. For example, during our review, we heard from a rebate clearinghouse that it usually charges between

¹GAO, *Digital Broadcast Television Transition: Several Challenges Could Arise in Administering a Subsidy Program for DTV Equipment*, GAO-05-623T (Washington, D.C.: May 26, 2005).

\$0.30 and \$0.45 per redeemed rebate to cover the processing costs, with an additional cost of \$0.37 for first class postage to mail the rebate check to the recipient. We believe that this estimate might not reflect all of the rebate clearinghouse costs for the rebate program you describe because a DTV subsidy program requires the clearinghouse to complete more steps than would be typical for most manufacturer or retailer rebates. This program step is just one small element of the overall subsidy program.

Regarding other costs, the various uncertainties surrounding a hypothetical subsidy complicate measuring or approximating the administrative costs of such a program. For example, it is unclear what approach would be most efficient to identify over-the-air households. As we indicated in our written statement, determining over-the-air households could be accomplished through different, albeit highly challenging, approaches. The tasks necessary to attain a list of over-the-air households and the associated administrative costs of doing so could vary depending on how this is done and until it is clearer what would need to be accomplished to develop this list, the cost of its derivation is unknown. Restricting eligibility further by requiring an income means test adds more uncertainty to the administrative costs of a potential DTV subsidy program. We noted in our written statement that one possible approach to identify low-income households would be to use receipt of an existing social service program as eligibility criteria for the DTV subsidy. However, the program could be set up in different ways depending on which social service programs are included as criteria for identifying low-income households. These differences would have implications for administrative costs, as would the unknown burdens placed on local social service agencies that oversee those programs.

In addition, your letter asks us to determine the total administrative costs for a DTV subsidy program given two hypothetical funding levels. Your letter subsequently asks us to determine the number of households that would be able to receive a rebate under various scenarios, given the administrative costs that would be subtracted from the total funding level. Because we are unable to determine the subsidy program's administrative costs, we cannot address these questions.

For additional information on our work on the DTV transition, please contact me or Amy Abramowitz on (202) 512-2834 or goldsteinm@gao.gov or abramowitza@gao.gov.



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