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November 19, 2007

The Honorable John D. Dingell
Chairman
Committee on Energy and Commerce
House of Representatives

Subject: *Digital Television Transition: Questions on the DTV Converter Box Subsidy Program and a DTV Inter-Agency Task Force*

Dear Chairman Dingell:

This letter responds to questions from your November 7, 2007, letter inquiring about issues discussed at the October 17, 2007, hearing before the Subcommittee on Telecommunications and the Internet on the digital television (DTV) transition.¹ In your letter, you asked if we have concerns about the converter box subsidy program. You also asked whether the National Telecommunications and Information Administration (NTIA) should prepare for a potential shortfall in program funding, in part by developing a process to address a potential shortfall. You also asked us to elaborate on the statutory provisions that we believe provide the Federal Communications Commission (FCC) with the necessary authority to convene an inter-agency task force. We prepared our responses during November 2007 in accordance with generally accepted government auditing standards. Our responses are based on our previous and ongoing work and our knowledge of the subjects raised by your questions. Because our responses are based on work for which we sought and incorporated agency comments, we did not seek agency comments on our responses to these questions.

Regarding the converter box subsidy program, we believe the subsidy program faces challenges that could affect the outcome of the program. These challenges include the coordination of several groups, readiness of retailers to accept coupons, and potential issues related to inventory planning. In particular, the subsidy program's outcome depends on the coordination and participation of NTIA, its contractor IBM, converter box manufacturers, retailers, and consumers. Manufacturers and retailers are voluntarily participating in the program, as NTIA does not have the authority to require their participation. Further, retailers we contacted expressed concerns about the possibility of a coupon redemption system that would affect their point-of-sale systems, noting that modifying these systems can be time-consuming, resource-intensive, and expensive, and

¹GAO, *Digital Television Transition: Preliminary Information on Progress of the DTV Transition*, [GAO-08-191T](#). (Washington, D.C.: October 17, 2007).

can affect their other financial systems. Retailers told us that March or April of 2008—3 to 4 months after consumers can begin requesting coupons—is a likely time frame for retailers to be ready to participate in the program. Retailers also told us that participating in the converter box subsidy program could require a considerable amount of effort for a one-time program with a product that has a limited shelf life and low profit margin. In addition, since retailers’ participation in the subsidy program is voluntary, some manufacturer, advocacy, and retailer representatives we contacted expressed concern about consumers’ ability to find participating retailers that are able to redeem coupons and have converter boxes in stock. Furthermore, uncertain demand for the converter boxes, as well as uncertainty about the extent of retailers’ participation in the program, could affect the number of converter boxes that manufacturers produce and the corresponding availability of coupon-eligible converter boxes in stores. During our ongoing work associated with the DTV transition, we will continue to analyze and examine the converter box subsidy program, exploring issues such as fraud and retailer knowledge about the program.

We have not evaluated whether NTIA should prepare for a shortfall in funding for the converter box subsidy program. However, we note that the Digital Television Transition and Public Safety Act provided an initial amount of \$990 million for the converter box subsidy program, of which \$100 million can be used for administrative expenses. If NTIA determines the initial allocation of funds is insufficient to fulfill coupon requests, the act requires NTIA to certify that the funds are insufficient to the House Committee on Energy and Commerce and the Senate Committee on Commerce, Science, and Transportation. The act provides that 60 days following this notification, NTIA will receive \$510 million in additional program funds, of which \$60 million can be used for administrative expenses (see table 1). NTIA established that during the initial funding allocation, any household is eligible to request and receive coupons, but once NTIA receives the additional allocation of funds (after \$890 million worth of coupons have been redeemed, and issued but not expired) any households requesting coupons during this second phase must certify that they do not receive cable, satellite, or other pay television service. In addition, NTIA required that IBM develop a Web-based electronic “dashboard” that provides real-time access to program status and performance measures, including the number of coupons pending, mailed, redeemed, expired, and canceled. NTIA officials told us that they will monitor the coupon metrics on the electronic dashboard and use this information to inform the congressional committees if they would need the additional funds. They added that this monitoring should help avoid any lapse in depletion of the initial \$890 million and receiving the additional funding.

Table 1: Converter Box Subsidy Program Funding

Dollars in millions			
	Funds available for coupons	Funds available for administrative costs	Total
Initial allocation	\$890	\$100	\$990
Additional allocation	\$450	\$60	\$510
Grand total	\$1,340	\$160	\$1,500

Source: GAO analysis of NTIA data.

In response to your question about the statutory authority for FCC to convene an inter-agency task force, the Federal Advisory Committee Act² (FACA) authorizes federal agencies (in addition to Congress and the President) to establish federal advisory committees, which may consist of private as well as public sector members. FCC has several federal advisory committees that provide advice and recommendations to the commission on numerous technical, operational, and consumer telecommunications issues. All of FCC's federal advisory committees are discretionary, meaning the committees were not required to be established by law but rather were established by FCC. FACA requires advisory committees to have membership fairly representing an array of viewpoints and interests. We reviewed FCC's federal advisory committees in 2004³ and found that its advisory committees had members representing numerous sectors across telecommunications including industry, academia, advocacy groups, private consulting, and government. We note that in June 2007, FCC rechartered an intergovernmental advisory committee comprising 15 representatives from local, state, and tribal governments to help it address, among other things, consumer education about the DTV transition. Similarly, it rechartered a consumer advisory committee that will also make recommendations to FCC about the DTV transition on behalf of consumers, with specific representation for people with disabilities and other underserved or at-risk populations.

If you or your staff have any questions or would like to discuss this response, please contact me at (202) 512-2834 or goldsteinm@gao.gov.

Sincerely yours,



Mark L. Goldstein
Director, Physical Infrastructure Issues

(543198)

²Pub. L. 92-463, codified at 5 U.S.C. app. 2.

³GAO, *Federal Communications Commission: Federal Advisory Committees Follow Requirements, but FCC Should Improve Its Process for Appointing Committee Members*, [GAO-05-36](#). (Washington, D.C.: Dec. 10, 2004).

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