



## LEGISLATIVE ROUNDUP

What they did, what they didn't 28A

## OPENING DAY

Get a sneak peek at Stadium Lofts, formerly known as Bush Stadium. FOCUS 13A



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### SPECIAL REPORT

*After years of work, a painted green line became a landmark*

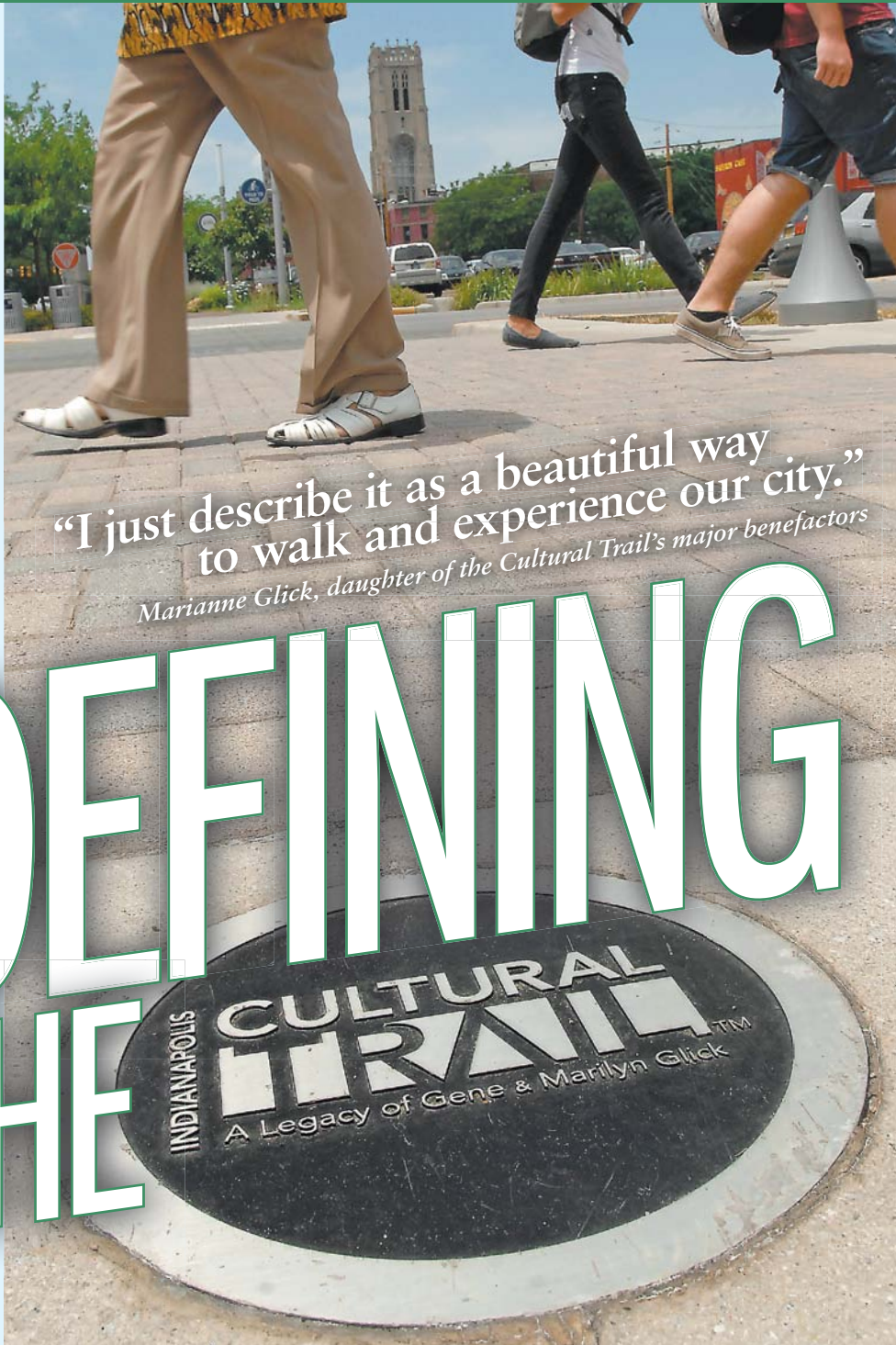
By **Lou Harry**  
lharry@ibj.com

**B**rian Payne popped his bicycle onto a curb and zipped down the sidewalk under the Virginia Avenue Parking Garage. Emerging back into daylight, he took a cell call as he pedaled, all the while staying close to a green line freshly marked on the pavement and street, indicating what would eventually become the Indianapolis Cultural Trail.

At the time, in 2007, the lack of pedestrians along Virginia Avenue didn't make his behavior much of a safety issue. Back then, the stretch between Fountain Square and downtown might as well have been the Forbidden Zone.

Payne spent a significant amount of bike time in the mid-2000s trying to explain to anyone who would listen that the green painted line was not going to evolve into just a sidewalk or bike lane. It was going to be more—something that would revolutionize the city.

See **TRAIL** page 30A



*"I just describe it as a beautiful way to walk and experience our city."*  
Marianne Glick, daughter of the Cultural Trail's major benefactors

## Inquiry targets cellphone subsidies

*State reviewing payouts under Lifeline program*

By **Dan Human**  
dhuman@ibj.com

State officials want to know how an Oklahoma City company managed to set up 30,000 Indiana accounts for a federally subsidized phone program in less than a year.

The Indiana Utility Regulatory Commission has launched an investigation into whether TerraCom LLC is repeating federal violations it allegedly committed in Oklahoma. A February settlement with the Federal Communications Commission ended an investigation into whether the company was improperly seeking multiple reimbursements for individual customers.

The service carrier draws subsidies from the federal Lifeline program to provide cheap phone plans to low-income customers. About 90,000 people in Indiana took advantage of the program in 2011, at a cost to the federal government of \$9.3 million.

TerraCom—which joined the roster of Lifeline companies in Indiana in January 2012 and started doing business in June—now receives \$250,000 to \$300,000 in Lifeline reimbursements every month in Indiana, records show. The payments put the 8-year-old firm behind industry giants Virgin Mobile, which collects about

See **TERRACOM** page 31A

**MORE TRAIL COVERAGE INSIDE:** Walk with Lou Harry along the trail 33A | First in a month-long series of trail-side food reviews 34A | Editorial 8A



### INSIDE

#### Swinging at political curveballs

A look at Republican politicians who made adjustments to survive  
SECTION B

#### Parking controversy

Privatization talk ignites concerns at IUPUI. 4A



## TERRACOM

Continued from page 1A

\$800,000 per month, and T-Mobile affiliate iWireless, which gets about \$300,000 per month.

The IURC gave permission to TerraCom to offer the service in the state at roughly the same time federal government regulators began targeting fraud and abuse in the program, which saw its costs almost triple over four years, to \$2.2 billion in 2012.

Documents suggest IURC agency officials are concerned TerraCom may have signed up 30,000 Lifeline subscribers in just over six months by improperly activating duplicate accounts.

TerraCom's trouble with the FCC in Oklahoma related to a rule that restricts Lifeline plans to one per household. Investigators found the company was filing for two government reimbursements for individual customers—once for landline accounts and again for wireless accounts, even though rules restrict use to one phone per household.

TerraCom settled in February for \$416,000. A sister company, YourTel, which does not operate in Indiana, paid another \$600,000 as part of the same investigation.

Corporate officials told Oklahoma media a software malfunction caused the duplicate reimbursements and the company was addressing the issue.

The settlement came amid heightened scrutiny into waste and fraud in the program. Cost overruns led to reform in early January 2012.

In February, *The Wall Street Journal* reported millions of Lifeline customers used the government-funded phones even though they did not prove their eligibility—a key measure of the program's recent reform.

### State wants answers

The IURC has scheduled a hearing for May 30 to discuss TerraCom's case. Agency spokeswoman Danielle McGrath would not comment on what possible outcomes may await the company.

"We don't know, and so that's why the investigation is being opened—to determine what's going on," McGrath said. "We have concerns at this point, and we want to gather more information before drawing any conclusions."

TerraCom Chief Operating Officer Dale Schmick issued a statement to *IBJ* saying the company, during its eight years in existence, has figured out how to successfully market itself to its low-income customer base.

"Historically, Indiana has had low adoption rates on the Lifeline program," he wrote. "This could have contributed to the ramp-up, but we also believe it's attributable to our experience in bringing service directly to those who need it most."

"Nevertheless, we will welcome the opportunity to respond to the commission's questions about how we conduct our business in their state."

He did not specify what marketing tactics the company uses to recruit customers.

### Surcharges for subsidies

TerraCom proclaims home phone service for \$1.95 a month and free long-distance. Its mobile phone affiliate, TerraCom Wireless, flashes message on its website for its "free cell phone and wireless program."

The company is one of almost 40 providing Lifeline in Indiana, with most of them offering only landline connections. Companies as large as AT&T and T-Mobile receive subsidy dollars.

To sign up for a Lifeline phone plan, consumers must be at or below 135 percent of the federal poverty level. A family of four would have to earn a little less than \$32,000 a year to qualify. Or they need to qualify for one of a dozen other welfare programs, such as Medicaid or food stamps.

Participating companies charge all of their full-price customers a monthly surcharge, which covers the program's costs in lieu of a tax. Consumers, on average, pay an extra \$2.50 per month to the Universal Service Fund, an umbrella program that includes Lifeline and other government aid.

The money boomerangs back to the companies, which receive an average \$9.25 subsidy nationwide (\$8.74 in Indiana) per month per Lifeline customer for providing discount service plans. The customers pay as little as a few bucks per month for a basic service plan (about \$5 for TerraCom customers).

### New rules

In January 2012, the FCC announced sweeping changes to the program that intend to halt some of the abuses and high expenses.

Lifeline has always barred multiple phone accounts for a single customer, but growing use of mobile phones has made it a tricky rule to enforce.

The problem is, the program dates back to 1985. The Reagan administration set up the subsidy when the status quo was one landline for one household, an FCC spokesman said.

Today's prominence of mobile phones—and changes in 2005 and 2008 that let wireless carriers into the program—has resulted in multiple Lifeline phone lines in

## Lifeline costs

Indiana subscribers to the Lifeline phone program cost the federal government almost \$9.3 million in 2011, the most recent year for which data was available.

	Indiana	United States
Average monthly reimbursement	\$8.74	\$9.25 (\$21.26 for tribal subscribers)
Subscribers	88,500	13.3 million
Annual cost	\$9.29 million	\$1.6 billion

Source: Federal Communications Commission

a single house.

Program costs spiked along with poverty rates at the onset of the recession in 2008 because a rush of hard-hit households signed up for multiple Lifeline plans.

The new rules require phone companies to recertify their Lifelines customers' eligibility every year.

Roger Entner, a wireless industry analyst for Recon Analytics in Dedham, Mass., said tracking down the customers can be tricky and expensive for the companies.

"It takes more money to reach out, find that person, recertify them," Entner said. "And a good number of these people are also homeless. Good luck finding that homeless person and recertifying them."

Politicians and pundits have slammed the program and its rising costs, incorrectly referring to the phones as "Obama phones."

"It's not fair that people save and work and pay for phones from whatever funds they have, and other people get them for free," U.S. Rep. Tim Griffin, an Arkansas Republican who wants to shut down Lifeline, told Bloomberg in April.

To date, the FCC has chopped \$214 million from the program since the reform, and the agency says it's on track to cut \$2 billion by 2014.

## Cheap phone market

As the debate continues, phone providers have made out well on the Lifeline subsidies.

TracFone Wireless Inc., owned by Mexican billionaire Carlos Slim, the world's richest man, has been the biggest benefactor. The company, a subsidiary of Slim's publicly traded América Móvil, pulled in \$451.7 million from the program in 2011, which was 28 percent of all the funding handed out.

About 100 other companies popped up in the wake of TracFone's successes using Lifeline to tap the low-income market, said Recon Analytics' Entner.

"They sprung up all over because it was a smart way to start a company because you have the government guaranteeing to pay you \$9.25," he said. "There're no bad debts with the government."

Oklahoma, where TerraCom is based, became a hot bed for the new breed of phone service providers because a lot of the state's land belongs to Native American tribes, which are eligible for larger subsidies, he continued.

While most households claim an average subsidy of \$9.25 per month, households on tribal land claim an average of \$21.26. In Oklahoma, tribal accounts make up 99 percent of all Lifeline disbursements, according to FCC data.

### 'F' grades

Consumers haven't all received the subsidized service with enthusiasm.

Along with its FCC and IURC investigations, TerraCom's consumer ratings have been harsh. Both its landline and wireless affiliates have received "F" grades from the Better Business Bureau in Oklahoma after collectively receiving 41 formal complaints in the past year.

Sister company YourTel, on the other hand, scored an "A," with six complaints in the past year.

The Indiana chapter of the Better Business Bureau had no records of the company.

## Company Index

This index includes Indiana-based companies or companies with a major local presence. It does not include companies mentioned in letters to the editor, lists, charts and records. The page numbers listed refer to the pages where articles begin.

500 Festival ..... 1A	eCorp..... 3A	Indianapolis Foundation..... 1A	South of Chicago..... 34A
Alexander Hotel, The ..... 1A	Glick Foundation ..... 1A	Indianapolis Motor Speedway. 29A, 35A	Summit Realty Group ..... 13A
Angie's List ..... 5A, 6A	Hampton Inn..... 6A	IndyCar Series..... 35A	Susquehanna Financial Group Inc. .... 6A
Art Institute of Indianapolis, The ..... 3A	Harrison College ..... 3A	Infuse Accelerator ..... 5A	Trail Side on Mass ..... 1A
Best Chocolate in Town ..... 1A	Heartland Truly Moving Pictures 1A	Interactions Corp..... 5A	Umbaugh Filmworks..... 3A
Conrad Indianapolis, The ..... 1A	Hulman Co..... 35A	IUPUI..... 4A, 9A, 11A	VentureCamp..... 3A
Core Redevelopment LLC ..... 13A	Hyatt Regency Hotel..... 3A	Ivy Tech Community College..... 3A	Videopolis.tv..... 12A
DeveloperTown ..... 5A	Indiana Gasification LLC... 29A	Libertine, The..... 1A	Village Pantry..... 29A
Deylen Realty ..... 1A	Indiana Landmarks..... 13A	Lilly and Co., Eli..... 5A, 29A	Walker Parking Consultants..... 4A
Duke Realty Corp..... 6A	Indiana University..... 4A	Meijer..... 6A	WellPoint Inc..... 6A
Eagle Creek Park Foundation..... 23A	Indianapolis Cultural Trail Inc..... 1A, 8A	Regenstrief Institute Inc..... 5A	WTHR-TV Channel 13 ..... 12A
		Simon Property Group..... 11A	

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