Commission on Government
Forecasting and Accountability

TELECOMMUNICATIONS DEREGULATION ISSUES and IMPACTS

A SPECIAL REPORT

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Telecommunications Deregulation Issues and Impacts

EXECUTIVE SUMMARY

The advancement of telephones, digital service lines, wireless telecommunications, etc. has made the telecommunications industry an all but unavoidable part of most people's daily existence. This new technology has changed the communication landscape of our world. However, with this change in technology comes a need for changes of the laws that assist in protecting the telecommunications consumer. A step was taken by the federal government to alter the laws governing the telecommunications industry to keep up with these advances. This step came in the form of the Telecommunications Act of 1996.

The State of Illinois' previous law regarding telecommunications expired on July 1, 2001. In an effort to encompass the changes of the Telecommunications Act of 1996, a rewrite of the Telecommunications Article of the Public Utilities Act was necessary. These changes came by way of Public Act 92-0022, which made numerous changes to the telecommunications industry including: the deployment of advanced telecommunications services, steps to increase competition and improve service quality, obligations of Incumbent Local Exchange Carriers (ILECs), establishment of two new funds, addition of four prohibited actions of telecommunication carriers, and enforcement provisions.

As the sunset date of P.A. 92-0022 approaches on July 1, 2005, the Commission on Government Forecasting and Accountability, previously the Illinois Economic and Fiscal Commission, created the following report in an effort to assist in the understanding of the current status of telecommunications in the State of Illinois. This report will present a brief history of telecommunications and the laws that have governed the telecommunications industry. In addition, it will address provisions of the 1996 Act and P.A. 92-0022, as well as their effect on the Illinois telecommunication industry. It will conclude by offering industry opinions of needed changes in another possible rewrite of the State's Telecommunications Article. (An in-depth look at the Telecommunications Act of 1996 is provided in *Telecommunications Deregulation Issues and Impacts,* issued by the Commission in April 2001.)

During the research of this report various key industry players were contacted. These included the following: AT&T; Citizens Utility Board; Gallatin River Communications; Illinois Association of Competitive Telephone Companies; Illinois Commerce Commission; Illinois Municipal Electric Agency; Illinois Telecommunications Association; SBC; Sprint; and Verizon. The following are highlights of the report:

- As the telecommunications industry grew, the federal government passed numerous statutes intended to regulate the industry's various components. These statutes included the Radio Act of 1927, the Communications Act of 1934, the Cable Communications Act of 1984, the Cable Television Consumer Protection and Competition Act of 1992, and most recently, the Telecommunications Act of 1996.

- The 1996 Act was intended to increase competition in the telecommunications industry by promoting rivalry in local telephone markets, long-distance telephone markets, and cable television markets.

- The 1996 Act granted federal, state, and local governments a portion of the regulatory authority. This Act reduced the role of the federal government and transferred additional responsibilities to the states. Municipal authority to regulate telecommunications continued to be limited by federal and state law.

- The 1996 Act rendered monopoly franchises illegal for local exchange carriers, permitted Regional Bell Operating Companies (RBOCs) to provide long-distance telephone service, and allowed local telephone companies to enter the cable television market.

- Although competition increased between local telephone service providers, most consumers did not experience lower rates. This was due to the fact that competitive local exchange carriers (CLECs) focused their efforts in areas in which they achieved the most profit while incurring the least expense. While this competition reduced business rates, it failed to address consumer rates, which appeared to contradict the intent of the 1996 Act.

- The 1996 Act was followed by a number of telecommunications mergers. These mergers included: 1) SBC's acquisition of Pacific Bell and Ameritech; 2) Bell Atlantic's purchase of Nynex and GTE; 3) WorldCom's acquisition of MCI; 4) Qwest's purchase of LCI; and 5) AT&T's acquisition of Teleport and TCI. The economic impact of these mergers depended on whether or not the given benefits outweighed the likely costs, or vice versa.

- As of December 31, 2003, there were 49 ILECS and 53 CLECS providing plain-old-telephone-service (POTS) to Illinois customers, according to the Illinois Commerce Commission. The four largest ILECs include; SBC Communications; Verizon Communications; Citizens Communications; and Consolidate Communications.

- Public Act 92–0022 made numerous changes to the Telecommunications Article of the Public Utilities Act including the following: deployment of advanced telecommunications services; steps to increase competition and improve service quality; obligations of ILECs; establishment of two new funds, addition of four prohibited actions of telecommunication carriers; and enforcement provisions.

- One may assume P.A. 92-0022 was somewhat successful in improving the quality of services and increasing competition, especially in densely populated areas.

- Bundling typically refers to the combination of various phone services on a single bill including Internet, local, long distance, and wireless service. By bundling services, telecommunications carriers typically offer services at a reduced cost.

- While competition has increased, there has been an upward pressure on cable rates due primarily to programming costs and infrastructure, thus resulting in higher costs for the consumer.

- Illinois follows the national trend of consumers beginning to move away from landlines and relying solely on mobile wireless telecommunications.

- According to the ICC, Illinois providers served approximately 750,000 Illinois broadband customers, ADSL and cable-modem subscribers, as of June 30, 2003. This was a 70 percent increase since June 30, 2002. Additionally, "the overall market share of cable-modem providers in Illinois slipped to 44 percent at mid-year 2003. Meanwhile ADSL providers increased their market share to 42 percent at mid-year 2003."

- Revenues from the telecommunications tax decreased for fiscal years 2003 and 2004. This could be a result of reduced costs, the trend of solely going wireless and/or the emergence of Voice over Internet Protocol.

- Possible issues for the 2005 rewrite include: updating service quality standards; availability of stand-alone DSL; protections for cell phone consumers; regulation; interconnection agreements; ability for units of local government to build advanced telecommunications infrastructure; and governmental roles.

- It appears as though Public Act 92-0022 achieved its goal of increasing competition and improving quality service. However, it is debatable whether the Act succeeded in reducing costs for all consumers. Although numerous consumers experienced cost reductions, those in certain geographical areas were less likely to see cost reductions because of less options and the lack of bundling.

GLOSSARY OF TERMS

Acronyms are used throughout this report to describe various industry concepts and terms. The following list contains the definitions for several of these acronyms.

Asymmetrical Digital Subscriber Line (ADSL): A means to obtain Internet services.

Bundling: Bundling typically refers to the combination of various phone services on a single bill including Internet, local, long distance, and wireless service.

Competitive Local Exchange Carriers (CLECs): A new term used to describe independent data and voice telecommunication service companies who, after the deregulation of local telephone service, were free to compete with incumbent local telephone service providers. McLeod USA and Gallatin River Telephone Company are examples of competitive local exchange carriers.

Cramming: Adding or changing of telecommunications services without authorization.

Federal Communications Commission (FCC): The FCC is an independent U.S. government agency, directly responsible to Congress, that regulates interstate and international communications by radio, television, wire, satellite and cable.

Illinois Commerce Commission (ICC): The ICC is an independent body of five appointed commissioners. In addition to their other services, the commission is responsible for assuring that Illinois citizens receive safe, efficient, and reliable service from investor-owned public utilities at reasonable prices.

Incumbent Local Exchange Carriers (ILECs): A new term that describes traditional local telephone companies that, prior to deregulation of the telephone industry, had the exclusive right and responsibility to provide local telephone service. SBC Communications, Verizon Communications, Citizens Communications, and Consolidated Communications are examples of incumbent local exchange carriers.

Jamming: When a customer wants to change her/his carrier, but the customer's current carrier does not make the change in a timely manner.

Local Access and Transport Area (LATA): Geographic areas within which Bell Operation Companies were permitted to carry telephone traffic following their divesture from AT&T.

Plain-Old-Telephone-Service (POTS): Landlines, which are provided over the public switched telephone network.

Public Switched Telephone Network (PSTN): Used to refer to basic local voice service provided over the public switched telephone network (PSTN). Enables the end-user to place and receive calls to and from any other user on the PSTN.

Regional Bell Operating Companies (RBOC): The seven companies that were established to take over the local exchange operations of AT&T, following the 1984 AT&T divestiture. These companies are commonly referred to as "Baby Bells," and include Ameritech, Bell Atlantic, Bell South, Nynex, Pacific Bell, Southwestern Bell, and U.S. West.

Slamming: Unauthorized switching of a customer's telephone service carrier.

Unbundled Network Elements (UNE): Parts of the network that the ILECs are required to offer on an unbundled basis.

Unbundled Network Elements Platform (UNE-P): A combination of UNEs that allow end-to-end service delivery without any facilities. Unbundled Network Elements Platform is compromised of the UNE loop, port, switch, and transport.

Voice Over Internet Protocol (VoIP): Allows you to make telephone calls using a broadband Internet connection instead of a regular phone line.

TELECOMMUNICATIONS INDUSTRY

BACKGROUND

Merriam-Webster's College Dictionary defines telecommunications as communication at a distance. Applying this definition, the telecommunications industry is the sector of the business community that provides interstate and international communications via cable, radio, satellite, television, and wire. Although these services are all examples of telecommunications, each service emerged by different means and, thus, faces distinct challenges. Therefore, each component is subject to a specific set of government regulations.

Although the telecommunications industry incorporates all of the previously mentioned mediums to transmit information, this report will focus primarily on local telephone service, long-distance telephone service, and cable television service. The following sections provide a brief history of these sectors of the telecommunications industry.

LOCAL AND LONG-DISTANCE TELEPHONE SERVICE

In 1875, Alexander Graham Bell invented the telephone. Following his invention, Bell established the American Bell Telephone Company. By 1882, the company acquired a controlling interest in the Western Electric Company and issued the licenses by which most municipalities installed local telephone exchanges. In 1885, American Bell incorporated the American Telephone and Telegraph Company (AT&T) and assigned it the duty of building and operating the first long-distance telephone system. In 1899, AT&T acquired the assets of American Bell and became the parent company of the Bell System. Although other telephone service providers emerged, Bell's invention and development of the telephone system allowed AT&T (long-distance) and its Bell System (local) to function as a regulated monopoly.

New technologies, introduced between the 1940s and the 1970s, reduced AT&T's technological and economic advantage in the area of long-distance telephone service. These changes increased competition in long-distance service, and eventually led the U.S. government to file an antitrust suit against AT&T. The suit began in 1974 and was settled in 1982, when AT&T agreed to divest itself of the wholly owned Bell Operating Companies. This divestiture eliminated the Bell System on January 1, 1984, and replaced it with a new AT&T and seven Regional Bell Operating Companies (RBOCs). (The RBOCs included Pacific Bell, U.S. West, Southwestern Bell, Bell South, Bell Atlantic, Nynex, and Ameritech.) As a result, AT&T was forced to compete with other companies in the highly competitive long-distance service market, while the RBOCs maintained a natural monopoly over their local service areas. This monopoly is now being affected by the 1996 Act, which allowed CLECs to enter into competition with ILECs over local phone service. *(The 1996 Act will be discussed in further detail later in the report).*

CABLE TELEVSISION SERVICE

According to the Federal Communications Commission (FCC), cable television is defined as "…a video delivery service provided by a cable operator to subscribers via a coaxial cable or fiber optics." It was introduced originally as Community Antenna Television (CATV) in 1948. CATV was designed as a service for communities unable to receive television signals because of mountainous terrain or distance from local television stations. As cable operators began using microwave to pick up signals from greater distances, access to these signals changed the focus of cable's role from one of transmitting local broadcast signals to one of providing additional programming choices. These additional offerings resulted in cable subscriber growth, which eventually brought cable into the cities from which local programming originated.

As cable operators expanded their programming options, local television stations began complaining about the new competition. In response to these concerns, the FCC expanded its jurisdiction and placed restrictions on the ability of cable systems to import distant television signals. The Supreme Court recognized the FCC's jurisdiction over cable in the case of the *United States v. Southwestern Cable Company* (1968). The Court ruled that the FCC had reasonably concluded that regulatory authority over CATV was imperative. The FCC continued its restrictive policies in the early 1970s by enacting regulations that limited the programming offered by cable operators. This policy was replaced in 1972 by a policy focusing on gradual cable deregulation, which led to a modification of the restrictions on the importation of distant signals; a trend that continued throughout the 1970s.

The Cable Communications Policy Act of 1984 and the 1992 Cable Television Consumer Protection and Competition Act later affected the Cable industry. Details of these Acts are provided in Appendix 1. The Telecommunications Act of 1996 then repealed many of the major provisions of the Cable Act of 1992 by creating provisions designed to facilitate the entry of telephone companies into the cable television market.

FEDERAL TELECOMMUNICATION ACTS

As the telecommunications industry grew, the federal government passed numerous statutes intended to regulate the industry's various components. These pieces of legislation shaped the development of the telecommunications industry and serve as the foundation of the U.S. telecommunications market. The following list highlights the most significant federal statutes related to the telecommunications industry. (See Appendix 1 for a summary of each act.)

- *The Radio Act of 1927* created the Federal Radio Commission and authorized it to regulate the communications industry so as to prevent chaotic interference over the airwaves.

- *The Communications Act of 1934* created the Federal Communications Commission (FCC) and centralized interstate telephone regulation and spectrum allocation regulation within this new commission.

- *The Cable Communications Policy Act of 1984* amended the Communications Act of 1934, and gave the FCC jurisdiction over cable television and preempted local regulation of cable television rates.

- *The Cable Television Consumer Protection and Competition Act of 1992* focused on cable television rate regulation and included a number of changes regarding cable television regulation.

- *The Telecommunications Act of 1996* sought to increase competition in the telecommunications industry by promoting new rivalry in local telephone markets, long-distance telephone markets, and local cable television markets.

NECESSITY OF THE TELECOMMUNICATIONS ACT OF 1996

The 1996 Act updated the Communications Act of 1934, and the other previous telecommunication acts. It was conceived to untangle the web of laws originally intended to protect the consumer, but which prior to the law tended to protect the individual industries from competition. The Act's stated purpose was "to provide for a pro-competitive, de-regulatory national policy framework designed to accelerate rapidly private sector deployment of advanced telecommunications and information technologies and services to all Americans by opening all telecommunications markets to competition, and for other purposes."

TELECOMMUNICATIONS ACT OF 1996

The 1996 Act sought to increase competition in the telecommunications industry by promoting new rivalry in local telephone markets, long-distance telephone markets, and local cable television markets. The Act hoped to achieve this through the accomplishment of three major steps. These steps:

- opened local telephone markets for the first time in over 80 years
- allowed the Regional Bell Operating Companies (RBOCs) to provide long-distance telephone service as a means of increasing competition in long-distance telephone markets
- provided additional competition in the cable television market by allowing telephone companies to compete

LOCAL TELEPHONE SERVICE

In order to introduce competition into local telephone markets, the 1996 Act removed statutory, regulatory, and operational barriers to potential competitors by making three changes:

- Competitive local exchange carriers (CLECs) were allowed to resell the services of incumbent local exchange carriers (ILECs).
- CLECs were permitted to make use of ILEC facilities. (An example of this arrangement can be seen when CLECs lease ILEC unbundled network element (UNE) loops for use in combination with their own switching capabilities, and/or when CLECs lease the so-called UNE-platform that combines the loop with ILEC switching services.)
- CLECs were given the authority to build the facilities necessary to compete with the incumbent service providers.

Although ILECs were allowed to charge CLECs for using their facilities, ILECs must set their prices at reasonable rates. In fact, the Act stated that ILECs have "the duty to provide, to any requesting telecommunications carrier for the provision of telecommunications service, nondiscriminatory access to network elements on an unbundled basis at any technically feasible point on rates, terms, and conditions that are just, reasonable, and nondiscriminatory…" The Act further stated that "No State or local statute or regulation, or other State or local legal requirement, may prohibit or have the effect of prohibiting the ability of any entity to provide any interstate or intrastate telecommunications service." This provision was included to eliminate the local service monopoly franchises that existed in most states.

LONG-DISTANCE TELEPHONE SERVICE

The major change that the 1996 Act had on the long distance telephone industry was the allowance of RBOCs into long-distance telephone markets. However, the RBOCs were only allowed to compete in the long distance market if they met certain conditions. Section 271 of the Act outlined the conditions that a RBOC must meet prior to being allowed to provide long-distance telephone service within its local phone service region. For entry, a RBOC must prove it had met certain industry requirements, satisfied a 14-point competitive checklist and proved that its entry serves the public interest. A detailed summary of these requirements can be found in the IEFC's 2001 report.

CABLE TELEVISION SERVICE

The 1996 Act affected the cable television industry by creating provisions designed to facilitate the entry of telephone companies into the cable television market. The Act repealed many of the major provisions of the Cable Act of 1992, which regulated cable television rates. It allowed cable companies with annual revenues less than $25 million to have their rate caps repealed. Any cable system could have their rate caps repealed, regardless of their annual revenues, once it faced "effective competition" from a local telephone service providing comparable video programming. The Act authorized local telephone companies to offer video services either by distributing programming as a cable television system or by establishing an "open video system" to deliver video programming to the home. State and local governments are prohibited to regulate telecommunications services provided by cable systems.

THE ROLES OF THE VARIOUS GOVERNMENT ENTITIES IN RESPONSE TO THE 1996 ACT

The Telecommunications Act of 1996 granted federal, state, and local governments a portion of the regulatory authority. The following sections detail each governmental unit's role.

THE FEDERAL GOVERNMENT

At the federal level, the FCC regulates the telecommunications industry. The FCC's mission is to encourage competition and to protect the public interest. It is the role of the Congress to direct the FCC to develop and to implement policy concerning telecommunications. Noticing a need for more competition in the telecommunications market, the federal government created the 1996 Act. The Act reduced the role of the FCC, as the industry was deregulated in several areas. However, the FCC continues to implement and, where necessary, clarify the language of the 1996 Act to protect the interests of the telecommunications consumer. In short, the Act stated that the FCC is directed to implement specific regulations governing the provisions of interconnection of incumbent local exchange carrier (ILEC) facilities with new competitive local exchange carriers (CLECs) and the competitive entry of Regional Bell Operating Companies (RBOCs) into previously-prohibited long-distance service markets.

STATE GOVERNMENTS

The 1996 Act increased state government's regulatory authority over the telecommunications industry. The Federal Government made this change because it felt that the states would be more capable of addressing the steps by which a "fair marketplace" could be created in each state. Therefore, much of the authority that had previously been granted to the federal government was transferred to state legislatures, utility commissions, and regulators.

Under the provisions of the 1996 Act, the states were now responsible for numerous regulatory tasks. State commissions were responsible for defining the term "affordable" as it relates to the provision that "basic telephone service should be available at "affordable" rates." State regulators were given the authority to determine the competitiveness of local telephone markets and the privilege of commenting to the FCC regarding whether or not they believed that a RBOC had satisfactorily completed the 14-point checklist. Furthermore, the states were now responsible for determining the steps that carriers must take to inform consumers about the discounts for which they were eligible, and serving as the first line of defense for consumers who suffer any adverse effects from deregulation.

In addition, state commissions were responsible for clarifying the rules by which libraries, schools, and non-profit organizations were allowed to form consortiums in order to buy telecommunications services in bulk. As the telecommunications industry

advances, it is important for these organizations to maintain modern technology. However, technology costs money. Therefore, by involving themselves in the rules that affect these organizations, the state commissions could "improve the quality of the services they can buy, and extend affordable telecommunications services to more community-based organizations."

LOCAL GOVERNMENTS

At the local level, municipal authority to regulate telecommunications is limited by both state and federal law. The 1996 Act prohibited any state or local law that prohibits or has the effect of prohibiting the provision of telecommunication services. CLECs have used this statute to strike down local regulations that impose burdensome requirements on those CLECs building local networks. The 1996 Act did allow municipalities to "set rules for construction and street cuts in the right-of-way, establish appropriate bonding, insurance and indemnity requirements, and generally ensure that public streets and rights-of-way are kept in good repair – but cannot regulate a CLEC's provision of service."

Federal courts have ruled that municipal authority to impose franchise fees is limited. There was controversy as to whether gross-revenue-based fees are an appropriate way to recover the costs of managing the rights-of-way, because they are considered a barrier to entry.

SUMMARY OF PUBLIC ACT 92-0022

When the Illinois Telecommunications Act of 1996 was scheduled to expire on July 1, 2001, Illinois leaders worked to create a rewrite of the Act, which would improve all aspects of telecommunications for Illinois citizens and would encompass the new changes related to the 1996 Act. This action came via Public Act 92-0022.

With a sunset date of July 1, 2005, P.A. 92–0022 made numerous changes to the Telecommunications Article of the Public Utilities Act. The Act includes the following: the deployment of advanced telecommunications services, steps to increase competition and improve service quality, obligations of Incumbent Local Exchange Carriers (ILECs), establishment of two new funds, addition of four prohibited actions of telecommunication carriers, and enforcement provisions.

DEPLOYMENT OF ADVANCED TELECOMMUNICATIONS

The Act requires all incumbent local exchange carriers to offer advanced telecommunications and high-speed service, to at least 80 percent of their customers by January 1, 2005. The Illinois Commerce Commission (ICC) has the ability to grant a full or partial waiver to an ILEC in the event the above would be unduly economically burdensome or technically infeasible or otherwise impractical in exchanges with low population density. Verizon is the only carrier to file and be granted a limited partial waiver by the ICC during this time. The waiver granted Verizon a two-year extension, ending 2007, for the most rural areas served. The Act identifies the process in which waivers are granted.

INCREASE COMPETITION

With the intent to offer savings for the average consumer by increasing competition, the Act states that telecommunication carriers shall include three new optional unlimited local service packages. The three packages include budget, flat rate, and enhanced flat rate. A budget package consists of residential access service and unlimited local calls. A flat rate package consists of residential access service, unlimited local calls, and the customer's choice of 2 vertical services. Lastly, the enhanced flat rate package consists of residential access service for 2 lines, unlimited local calls, the customer's choice of 2 vertical services and unlimited local toll service. According to the ICC, this last rate package "will have the greatest impact on customers who spend a lot of time on the Internet, where per minute charges can be costly."

IMPROVE QUALITY SERVICE

All telecommunication carriers must meet minimum service quality standards in providing basic local exchange services on a non-discriminatory basis to all classes of customers. Carriers at a minimum must meet the following:

- install basic local exchange service within five business days or, for a competitive carrier utilizing some part of the incumbent's network, install within three days after the necessary network elements are provisioned by the incumbent;

- restore basic local service within 24 hours;

- keep all repair and installation appointments for basic local exchange service when a customer premises visit requires a customer to be present;

- and inform a customer when a repair or installation appointment requires a customer to be present.

Public Act 92–0022 includes provisions for customers to be credited by the telecommunications carrier for violations of the above basic local exchange service quality standards. As a safeguard, telecommunications carriers are required to provide ICC, on a quarterly basis and in a form suitable for posting on the ICC website, a public report that includes performance data for basic local exchange service quality of service. Carrier-to-carrier wholesale service quality rules and remedies to ensure enforcement of the rules are to be established and implemented by the ICC.

The Act adds anti-jamming language to prevent unreasonable delay of execution of changes in service, such as when a customer has elected to switch local carriers. In addition, the Act enhances slamming and cramming provisions already in law by adding authorization and verification requirements that mirror the FCC's.

OBLIGATIONS OF ILECS

Public Act 92-0022 requires ILECs to open its network to competition. Specific duties are outlined in the Act. According to the ICC, "in some instances these requirements go above and beyond the requirements of the federal law and FCC orders; however, it is important to note that the federal law and FCC orders clearly authorize the State to go beyond the federal requirements in the interest of promoting competition, as long as the requirements are not inconsistent with federal law and FCC orders. The [Act] makes it clear that the additional state requirements contemplated are not inconsistent with the federal act and are not preempted by FCC orders."

NEW FUNDS

In order to address economically depressed areas and dense/rural areas, the Act established two new funds, Digital Divide Elimination and Digital Divide Elimination Infrastructure Funds. The Digital Divide Elimination Fund is administered by DCCA under the ongoing Digital Divide Elimination Act/Community Technology Grant Program. Annually, $5 million for three years, $15 million total, is to be deposited into the Fund under a SBC settlement arrangement provided for in the Act. Also, 20 percent of fine monies collected under Article 13 are deposited into this Fund. Additionally, the Act broadens the definition of entities eligible for grants under the program by

including public hospitals, libraries and park districts. It also lowers the poverty threshold for eligibility. Lastly, the Act creates a 5-member advisory committee with one appointment each from the Governor and the four legislative leaders.

The ICC administers the Digital Divide Elimination Infrastructure Fund. Annually, $5 million for three years, $15 million total, is to be deposited in to the Fund under an SBC settlement arrangement provided for in the Act. Also, 20 percent of fine monies collected under Article 13 are deposited into this Fund. Effectively, this Fund is to provide grants to entities willing to invest in constructing the required infrastructure to provide high-speed data services to areas, primarily rural, which would otherwise not be reached due to the economic burden of rolling out such technology to remote areas.

PROHIBITED ACTS

Public Act 92-0022 adds four new prohibited actions of telecommunication carriers, which include the following:

1. unreasonably refusing or delaying access to or provision of operation support systems to another telecommunications carrier or providing inferior operation support systems to another telecommunications carrier;

2. unreasonably failing to offer network elements that ICC or FCC has determined must be offered on an unbundled basis to another telecommunications carrier in a manner consistent with ICC or FCC orders or rules requiring such offerings;

3. violating the aforementioned ILECs obligations;

4. and violating an order of ICC regarding matters between telecommunications carriers.

According to ICC, "the maximum penalty provided for in this [Act] is 2 ½ times greater than that of any other State. [However], it is the listing of these additional prohibited actions along with the penalties associated with violating them that provides an essential hammer in the bill to expedite the development of competition."

ENFORCEMENT PROVISIONS

Public Act 92-0022 increases the penalty amount to $30,000 or .00825 percent of a carrier's gross intrastate annual revenues, whichever is greater, per day per violation unless the telecommunications carrier has fewer than 35,000 subscriber access lines, in which case the civil penalty may not exceed $2,000 per violation. It is important to keep in mind that every violation is a separate offense. Penalties accrue from the date notice is sent to the carrier. A penalty is not enforced if the dispute is resolved through voluntary mediation. The Act also prohibits a carrier from being fined for the same offense under the law as they are fined for under merger conditions.

LEGAL ISSUES

In 2002, SBC filed with the ICC to increase the rates, which SBC was imposing on the CLECs to utilize its infrastructure. While this hearing between SBC and ICC proceeded, Public Act 93-0005 (SB 0885) was passed and signed into law, which impacted the way rates were calculated. As a result of affected UNE loop rates, UNE-P rates also increased since the UNE loop makes up approximately 80 percent of the UNE-P rate. Unbundled Network Elements Platform (UNE-P) is comprised of the UNE loop, port, switch, and transport. The Federal Court issued a stay, which prevented P.A. 93-005 from taking effect, which reactivated the ICC docket. The ICC eventually ruled to increase rates slightly.

At the federal level, the Federal Court tossed out FCC's public policy regarding UNE-P. The stance of the FCC was that the "incumbent local exchange carriers' obligations [was] to make elements of their network available to other carriers seeking to enter the local telecommunications market. The new framework builds on actions by the Commission to limit unbundling to provide incentives for both incumbent carriers and new entrants to invest in the telecommunications market in a way that best allows for innovation and sustainable competition." However, some may argue carriers were required to sell lines at a price below market and cost price. Consequently, a portion of this public policy has been litigated everyday since 1996.

Another major legal issue within the telecommunications industry involves VoIP. The FCC ruled States are prohibited from regulating VoIP. To date, California, Minnesota and Ohio are in litigation over this issue.

THE IMPACT OF THE 1996 ACT AND PUBLIC ACT 92-0022

LOCAL TELEPHONE SERVICE

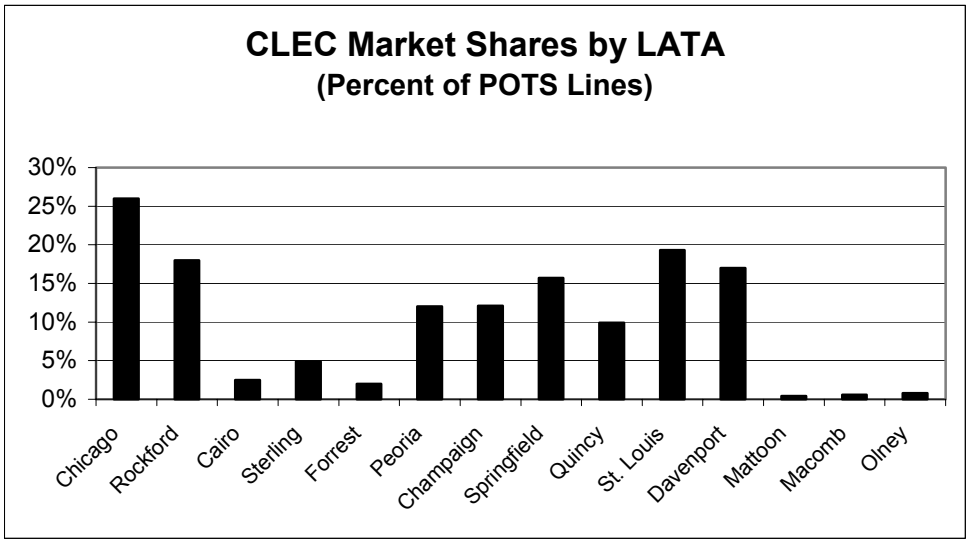
Public Act 92-0022 could not of happened without the 1996 Act. The 1996 Act rendered monopoly franchises illegal for local exchange carriers, thereby "opening-up" local telephone service for the first time in 80 years. This change was designed to reduce consumer prices by encouraging competition into local telephone service. While progress has been slow, it now appears that the goal of having competition in the local telephone service industry has begun to materialize.

Although deregulation has been difficult, the 1996 Act introduced competition into local telephone service by allowing numerous competitive local exchange carriers (CLECs) to compete with the Regional Bell Operating Companies (RBOCs). According to the FCC, in November of 1998, the CLECs serviced one percent of the 180 million local telephone lines in the U.S. By June of 2000, this percentage increased to 6.7 percent of the 192 million nationwide local telephone lines and by June 2002, this percentage increased to 11.4%. However, the number of telephone lines decreased to approximately 189 million nationwide. These statistics reveal that the 1996 Act has made some progress in moving the U.S. toward a more competitive marketplace.

Public Act 92-0022 aided in the continuation of competition in Illinois. Since the introduction of the Public Act, the number of local telephone lines serviced by CLECs has increased. According to the ICC, of the roughly 8.4 million Illinois Plain-Old-Telephone Service (POTS) lines, approximately 22 percent were provided by CLECs. During this same time, the CLECs market share increased by 2.8 percent. While the number of CLECs has increased, there is a large variance of where these CLECs are providing service throughout the State.

Illinois mirrors the national trend, in that geography and population appear to play a significant role in deciding where CLECs decide to provide service. Responding to economic and market conditions, Chicago Local Access and Transport Area (LATA) has a higher CLEC market share than other Illinois LATA. At year-end 2003, the CLECs market share by Chicago LATA was 26 percent compared to all other LATAs of 12 percent, with a total of all LATAs of 22 percent. Consequently, in most of the least densely populated Illinois LATAs, (Cairo, Forrest, Macomb, Mattoon, Olney, and Sterling), CLECs provide less than 5 percent market share, (ICC). A map of Illinois LATAS is provided in the Appendix.

In response to this variance in service, the ICC states "high-volume, low-cost customers in urban business districts generally are considered more attractive to new entrants than either rural or residential customers. The CLECs market share by LATA is provided in the chart on the following page.



Source: Annual Report on Telecommunications Markets in Illinois, ICC, 2004

According to the ICC, in Illinois, there were 49 ILECs and 53 CLECs providing POTS to Illinois customers as of December 31, 2003. The four largest ILECs include; Citizens Communications; Consolidated Communications; SBC Communications; and Verizon Communications. While the market share of CLECs has increased, there was a decrease of approximately 300,000 POTS lines in Illinois between 2002 and 2003. The reasons for this decline in POTS lines may include wireless service, voice-over Internet protocol, and high-speed telecommunications services. These reasons will be discussed in further detail later in the report.

It can be argued that increased competition can result in reduced costs for the consumers. "Residential consumers are experiencing the price benefits. Many are paying 30 percent less for the same or similar telecommunication services-saving $15 per month on average, and saving $10 billion per year because of local telecommunication competition. As in other markets, competitors are spurring the incumbents to provide better services, at low prices, in more attractive (service bundles)." (FCC Commissioner Kevin J. Martin)

LONG DISTANCE TELEPHONE SERVICE

The 1996 Act enabled the RBOCs to initiate long-distance telephone service only after their local telephone markets were opened to "meaningful competition." The Act further stipulated that the FCC was responsible for certifying that state regulators and the RBOC met a series a specified requirements. These requirements included the satisfaction of a 14-point checklist regarding interconnection with competitors and a public interest ruling.

The fact that RBOCs have entered long-distance service markets is ironic, especially in light of the provisions of the 1984 AT&T divestiture. At that time, the federal

government sought to end AT&T's natural monopoly by separating the local and long-distance components. The government reasoned that this separation was necessary so as to maintain the natural monopoly where it appeared necessary (the local exchanges) and introduces competition into those parts where it was deemed appropriate (long-distance). Having successfully completed this goal, the federal government appeared to be using the former Bell Companies as a means of creating additional competition in long-distance service markets, thereby placing "Ma Bell" in direct competition with the "Baby Bells."

Illinois mirrors the national trend in relation to the 1996 Act's impact on long distance telephone service. The Act allowed incumbent local carriers to enter the long distance market, thus increasing more competition. As with the intent of governmental change, the hope was that this competition would reduce rates for the consumer. While the cost of long-distance has not necessarily decreased significantly, the emergence of bundling has allowed for some cost savings. Bundling typically refers to the combination of various phone services on a single bill including Internet, local, long distance, and wireless service. By bundling services, telecommunications carriers typically offer services at a reduced cost. Therefore, consumers experience cost-saving benefits in areas where bundling is readily available.

According to numerous industry players, bundling appears to play the largest role in cost savings for the consumer. According to the Phoenix Center, the number of United States households in 2003 who purchased combinations of local and long distance services at a flat monthly fee saved an average of $429 per year. On the other hand, these cost savings were not universal since bundling is still not available in every area of the nation, or specifically, every area of Illinois. Until it does, there will continue to be a difference in the amount of competition in certain areas, and therefore, the amount of savings for the consumer.

CABLE TELEVISION SERVICE

Although "token" competition existed prior to the Telecommunications Act of 1996, most cable operators enjoyed a virtual monopoly in their specified service areas. In response, the Act included numerous provisions intended to facilitate the entry of telephone companies into cable television markets. Furthermore, the Act prohibited state and local governments from regulating telecommunications services provided by cable systems.

The 1996 Act increased cable television competition by eliminating the ban that prohibited telephone companies from providing video service. This resulted in the emergence of numerous cable television rivals. Although the 1996 Act successfully introduced competition into the cable television market, it has not been successful in decreasing cable television rates. In areas where decreasing rates are present, evidence indicates that the price constraint is based less on the competition between competing cable service operators and more on the competition from direct broadcast satellite

providers. This is an important distinction because the satellite television industry was largely bypassed by the 1996 Act.

According to the FCC, between year end 1993 and 2003, there was a 15.2 percent increase in cable subscribership from 57.2 million to 65.9 million." Although some specific cable operators experienced a decline in subscribership, the industry on a whole experienced annual increases of approximately 2 percent.

While competition has increased, there has been an upward pressure on cable rates. This upward pressure is primarily due to programming costs and infrastructure investments. Consequently this upward pressure has resulted in higher costs for the consumer.

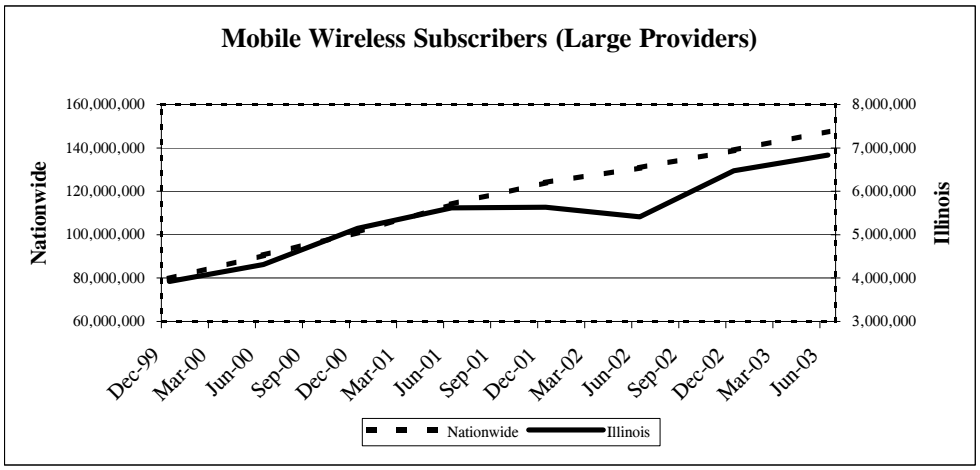
Digital broadcast satellites have become the most significant national competitor to cable, according to the FCC. The cost difference between cable and digital broadcasting systems narrowed. Between 1998 and 2003, average monthly expenditures for satellite service fell below cable for the first time, while cable spending increased by 41 percent.

MOBILE WIRELESS TELECOMMUNICATIONS

The growth rate of mobile wireless subscribership increased between mid-year 2002 and mid-year 2003, from 130.8 million subscribers to 147.6 million subscribers. According to the FCC, almost 6.5 million consumers report their wireless phone as their only phone. Although there is not an updated State figure, one may assume Illinois mirrors the national increase in mobile subscribers. As a result of high-speed telecommunication service being readily available in certain areas, these affected consumers may not view landline phones as a necessity.

Illinois follows the national trend of consumers beginning to move away from landlines and relying solely on mobile wireless telecommunications. According to ICC, between mid-year 2003 and mid-year 2004, more than 1.4 million additional Illinois consumers subscribed to mobile wireless telecommunications. At mid-year 2003, mobile-wireless providers served over 6.8 million Illinois subscribers.

The following chart illustrates the continuous percentage growth in mobile wireless telecommunications, nationwide and in Illinois.



Source: Annual Report on Telecommunications Markets in Illinois, ICC, 2004

HIGH SPEED TELECOMMUNICATIONS SERVICE

Former Chairperson of the FCC, Michael Powell, claims, "broadband deployment is the central communications policy objective in America. If the United States is to: (1) empower consumers to enjoy the full panoply of benefits of the information age; (2) provide a source for long-term, sustainable economic growth for our country; and (3) continue to be the global leader in information and network technologies then, …the development and deployment of broadband infrastructure will play a vital role (Competition Issues in the Telecommunications Industry, 2003)." The FCC has established the following proceeding to address the aforementioned broadband challenge:

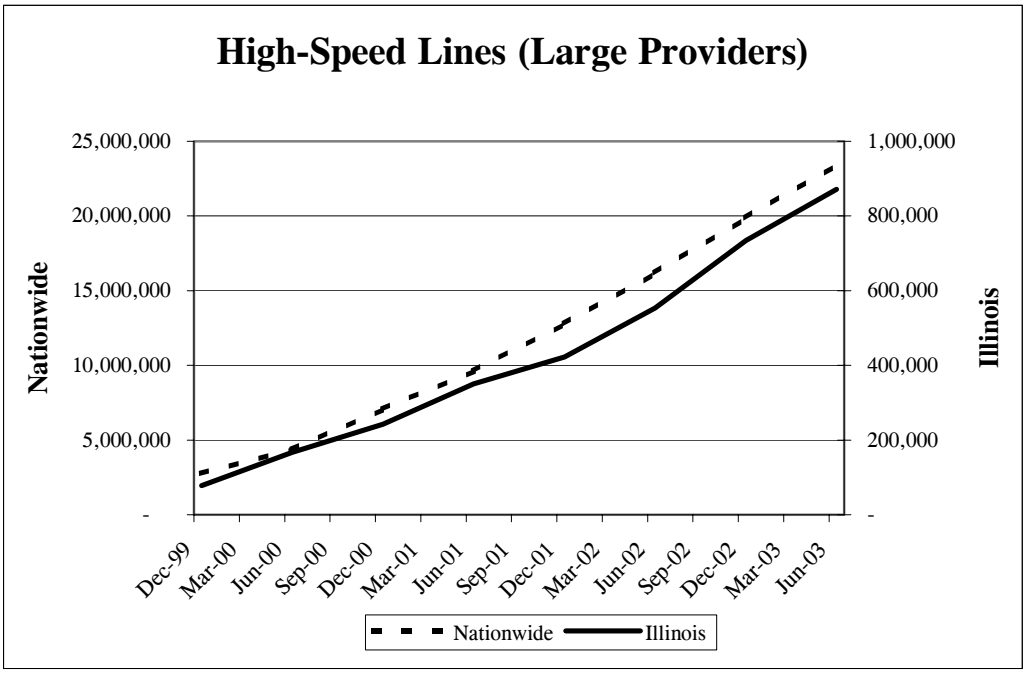
1. "get it built –everywhere";
2. promote it through minimally regulated environment;
3. promote various platforms for delivery;
4. and "unleash the innovation that has been characteristic of the computer and software industries."

According to the FCC, the number of high-speed lines connecting businesses and homes to the Internet increased by 15 percent during the first half of 2004 from 28.2 million to 32.5 million lines. High-speed lines increased by 38 percent during the full twelve-month period ending June 30, 2004. Connections over ADSL increased by 49 percent for the full twelve-month period ending June 30, 2004, whereas cable modem connections increased by 36 percent.

According to the ICC, Illinois providers served approximately 750,000 Illinois broadband customers, ADSL and cable-modem subscribers, as of June 30, 2003. This was a 70 percent increase since June 30, 2002. Additionally, "the overall market share of cable-modem providers in Illinois slipped to 44 percent at mid-year 2003. Meanwhile ADSL providers increased their market share to 42 percent at mid-year 2003. Thus, the lead in broadband provisioning maintained by cable-modem providers in Illinois in past periods was nearly eliminated." It can be suggested that bundling has greatly contributed to the increase in ADSL subscribers. Again, density and location may play a role in the availability of the types of high-speed telecommunication service.

As deregulation occurred and competition grew, phone companies began to enter into the Internet market and offered Internet service as part of their bundling service. Bundling allowed consumers to receive Internet service at reduced costs. Consumers who utilized Internet service the most frequently seemed to experience the greatest cost reduction. The significant savings was due to unlimited minutes of Internet usage, which is generally offered with Internet service

The chart below illustrates the continuous percentage growth in high-speed telecommunication lines, nationwide and in Illinois.



Source: Annual Report on Telecommunications Markets in Illinois, ICC, 2004

VOICE over INTERNET POTOCOL

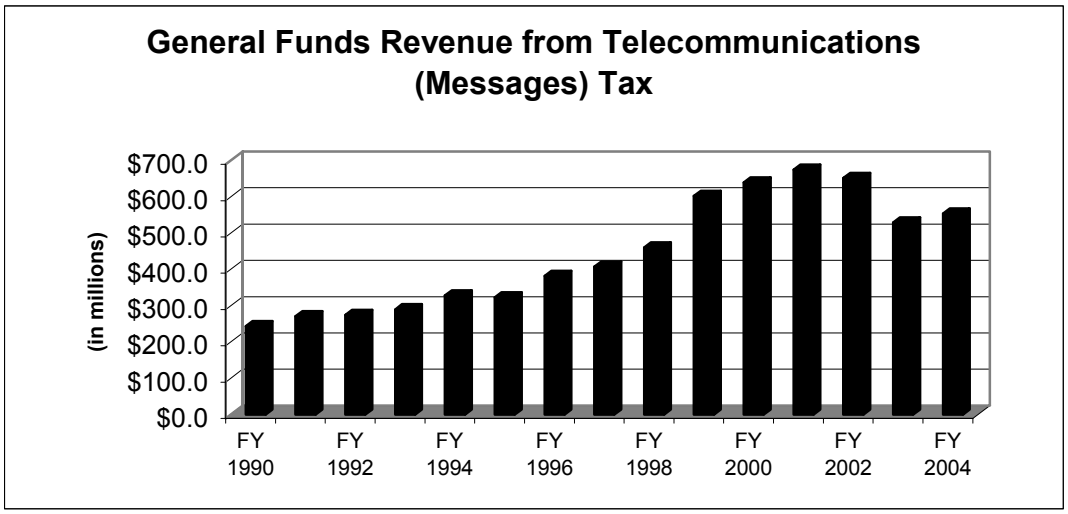
Technology is moving towards VoIP. However, due to high costs, cable operators have not been eager to compete against local exchange carriers. VoIP allows consumers to make telephone calls using a broadband Internet connection instead of a regular phone line. By choosing VoIP, consumers may experience cost reductions due to three reasons. First, with a broadband Internet connection there is no need for a line just to make telephone calls. Second, as long as both individuals have an Internet connection, various Internet Voice plans allow individuals to talk as long as they wish, anywhere in the world. Third, one can talk with numerous individuals at the same time without incurring additional costs. VoIP seems to be more beneficial for corporations than consumers because corporations tend to own their own lines, whereas consumers must utilize a carrier, thus adding additional costs.

IMPACT OF TELECOMMUNICATIONS DEREGULATION ON STATE REVENUES

From a fiscal perspective, the actual impact that telecommunication deregulation legislation has on State revenue receipts varies depending on the specific changes made. However, if the goal of such legislation is to promote competition, thus, lowering rates, some assumptions can be made. In order to understand these potential impacts, an understanding of the affected taxes is needed.

The State telecommunications tax is one of Illinois's oldest taxes. Beginning in 1937, the Public Utilities Revenue Act imposed a 3 percent tax on businesses transmitting messages in Illinois. In 1945, a separate Messages Tax Act was established. The tax rate fluctuated during the 1960s, moving from 4 percent in 1965 to 3.92 percent in 1966 and to 5 percent in 1967. In 1985 the Telecommunications Tax Act was established, replacing the Messages Tax Act. Under the new State Act, the tax rate remained at 5 percent and expanded the tax base to include not only intrastate, but also interstate activity. Finally, in 1998, the telecommunications excise tax rate was increased to its current rate of 7 percent.

Under the old law, the telecommunications tax was imposed on businesses transmitting "messages." The new act, however, imposes the tax on the privilege of transmitting or receiving telecommunications. The distinction between "messages" and "telecommunications" is important because of the broader implication of telecommunications. During the rewrite, definitions were created to include emerging technologies. The word, “telecommunications” was defined in such a way as to capture a broad array of both "messages" and "information" transmitted over a wide variety of mediums. The methods of communication that are now subject to the telecommunication tax include any form of mobile or stationary communication such as computer exchange services, paging services and cellular services. Mediums now include cable, wire, fiber optics, microwave, laser, radio, satellite or similar facilities.



Revenues from the tax are distributed in the following manner:

Of the original 5 percent tax: (a) $12 million/year to the Common School Fund
(b) remainder to the General Revenue Fund

Of the additional 2 percent: (a) 50 percent to the School Infrastructure Fund
(b) 50 percent to the Common School Fund

In addition to the State's telecommunication excise tax, there is also a federal tax equal to 3 percent of the amount billed. Also, municipalities can impose an occupation tax based on gross receipts of businesses transmitting messages, at a rate up to 5 percent. A municipality that does not impose such an occupation tax may levy a 5 percent municipal telecommunications tax. Municipalities may exempt other local governments, school districts, and persons 65 or older, or may offer persons 65 or older reduced rates.

In FY 1990, $243.6 million in general funds were collected from the telecommunications tax. In FY 1998 this amount increased to $460.3 million. After the inception of the increased tax rate, revenues increased to $602.5 million in FY 1999 and $639.4 million in FY 2000.

Throughout the 1990's, telecommunications became a vital part of our society. This occurrence led to significant increases in telecommunications tax revenue. However, recent changes in the telecommunications industry have caused the upward trend in tax receipts to reverse course. In fiscal year 2002, receipts fell 3.5 percent and another 18.8 percent drop in FY 2003. Revenues bounced back in FY 2004 with a percentage increase of 4.6 in part due to $10 million in tax amnesty. The IEFC estimates that approximately $561.0 million will be collected from the telecommunications tax in FY 2005, an increase of 1.4%.

Some believe the stagnation in receipts is the result of more people using the Internet to communicate with other people across the country through the use of email, "instant messages" and other similar formats. As the Internet industry continues to grow and becomes more easily accessible, more people are choosing this tax-free means of communication, as opposed to the telephone. In fact, a recently released Verizon study concluded that the Internet is responsible for millions of dollars of lost revenue every year. It is important to note, an increase in VoIP usage by corporations may also have a negative impact on tax revenues because VoIP is non-taxable since the corporation owns the lines.

Another possible reason for this slow down in receipts is the popularity of calling cards. Instead of utilizing a long-distance provider, some consumers are selecting to use the calling card to save money. The calling card allows the consumer to provide long-distance services without incurring a monthly fee. From a State revenue perspective, there is no telecommunications tax imposed on the calling card. However, a sales tax

is collected. Therefore, the growth in calling card usage has an immediate negative effect on telecommunications receipts, although it will be made up on higher sales tax collections.

Additionally, if competition continues to cause telecom rates to decline, this too will have an impact on telecommunication revenues. A reduction in rates equates to a reduction in the tax base and subsequent tax revenues. However, that potential loss in revenue may be partially or fully offset by increased usage as a result of lower rates. As a result, the impact on telecommunications tax revenue due to competitively lower prices cannot be precisely determined.

Another important issue is the effect of the telecommunications tax on the School Infrastructure Fund. Debt service on School Construction bonds is paid for by transfers from the School Infrastructure Fund. This fund receives transfers from the General Revenue Fund in the amount of $60 million a year (approximately 75% of the additional liquor tax increase from IL FIRST), $60 million a year from the cigarette tax ($5 million a month from the cigarette tax increase enacted in FY 2002 which began April 1, 2003), and 1/7th of the 7% Telecommunications Excise tax from the School Reform Act. The telecommunications portion going to the School Infrastructure Fund fell to under $100 million in FY 2003 and still have not totally recovered. Whenever this amount falls under the 1999 level of $101 million, GRF backfills the shortage amount, which it did in FY 2004 by an additional GRF transfer of $11.8 million. As the annual liquor and cigarette tax revenues deposited into the School Infrastructure Fund are set amounts, the telecommunications tax revenues become the main factor in determining if revenues will cover School Construction debt service. If telecommunications tax does not improve, the GRF will have to pay the shortages in school construction debt service. The underperformance of telecommunications tax puts future school construction bond issuances in jeopardy.

School Infrastructure Fund ($ in Millions)	1998	1999	2000	2001	2002	2003	2004	Est. 2005
Telecom. Excise Tax	$35.2	$101.5	$108.5	$114.9	$110.4	$89.7	$79.1	$80.1
Liquor Tax*/GRF	----	----	$30.0	$60.0	$0.0*	$0.0*	$71.8	$60.0
Cigarette Tax	----	----	----	----	----	$15.0	$60.0	$60.0
TOTAL	**$35.2**	**$101.5**	**$138.5**	**$174.9**	**$110.4**	**$104.7**	**$199.1**	**$200.1**

The liquor tax transfer was suspended for FY 2002 and FY 2003 as part of the budget agreement.

Source: Commission on Government Accountability and Forecasting estimates

IS ANOTHER REWRITE NECESSARY?

As a result of Public Act 92-0022, for the most part, it appears as though cost reduction and an increase in competition have occurred in the telecommunications industry. Yet, there are numerous geographical locations where this has not been the case, especially in low-density areas. Therefore, the industry must continue to strive to narrow the gap between those that benefit and those that do not benefit. Thus, State legislators need to decide whether or not to update the current Telecommunications Law or simply extend the sunset to a later date.

In contemplating a rewrite, the Illinois General Assembly must take into account the recent trends in the telecommunications industry. The emergence of VoIP, trend of going solely wireless, popularity of calling cards, and bundling issues need to be looked at in depth before a possible rewrite can occur.

As before, key players in the telecommunications industry need to be involved in the rewrite process. During the research of this report, numerous key players voiced concerns and suggestions involving a rewrite. These concerns and suggestions are provided below.

- "[Update] service quality standards and customer compensation to reflect inflation."
- "Have DSL available on a stand-alone basis." Currently, SBC and Verizon offer DSL only as a package with local telephone service.
- Set in place "protections for cell phone consumers, such as "adequate disclosure of coverage, service quality, contract terms and reasonable rights to cancel contracts."
- "The State should not regulate the wireless industry. A soft regulatory position by the FCC has lead to uniformity in regulatory compliance and spurred network investment and technological innovation."
- "Revisit alternative regulation and require the establishment of actual effective local competition before SBC Ameritech can be allowed to enjoy any more deregulated monopoly profits."
- Allow "interconnection agreements be required to be filed as tariffs. This enables new entrants to order services from them, as entitled, without having to endure a request for a hearing of 6 months or more simply to receive their approval of what has already been authorized for others. This is actually required by the amendments of 1997, but has not been fully implemented."
- "Help to stimulate the development of advanced services such as VoIP by limiting regulation of such services [as local/toll, state/interstate, etc]."

- "Reduce burdens on consumers by eliminating unnecessary mandates on carriers where the marketplace competition is a much more effective regulator and by (i.e. service quality standards on CLECs) and eliminating discriminatory taxes and fees on telephone service providers."

- "Preserve the ability of units of local government to both build the needed infrastructure to offer advanced telecommunications services and, given the reluctance of some for-profit entities to offer those services, to offer such services themselves."

- "Recognition of intermodal competition. Beyond the short term protection of rates for R-1 and B-1 services, there should not be any economic regulation of telecommunications services by the Illinois Commerce Commission."

- "Governments should not be involved in the supply side provisioning of telecommunications services. Tax policy incentives for capital expenditures should be pursued as well as other financial incentives to invest in the network."

- "Governments role in the telecommunications industry should be limited to forming partnerships with existing private providers, aggregating demand for services and being a catalyst for the innovation and adoption of new technologies."

- "The collection and distribution of universal service funds at the federal level is in need of reformation, but state funded support will need to be maintained."

As the above exemplifies, there are numerous issues involving the rewrite. It will be up to the General Assembly to decide which of these issues need to be addressed so that citizens of Illinois are benefited in the greatest manner.

CONCLUSION

In conclusion, various analyses discussed earlier in this report indicate that the 1996 Act was successful in increasing competition in the telecommunications industry. The 1996 Act achieved this goal by opening up local telephone service, allowing the Regional Bell Operating Companies to provide long-distance telephone service, and allowing local telephone companies to compete in cable television markets. The 1996 Act was also followed by a number of telecommunications mergers. Prior to the passage of the 1996 Act, proponents argued that increasing competition would simultaneously reduce consumer prices.

Public Act 92–0022 made numerous changes to the Telecommunications Article of the Public Utilities Act including the following: deployment of advanced telecommunications services; steps to increase competition and improve service quality; obligations of Incumbent Local Exchange Carriers (ILEC); establishment of two new funds, addition of four prohibited actions of telecommunication carriers; and enforcement provisions. It appears as though Public Act 92-0022 achieved its goal of increasing competition and improving quality service. However, it is debatable whether the Act succeeded in reducing costs for all consumers. Although numerous consumers experienced cost reductions, those in certain geographical areas were less likely to see cost reductions because of less options and the lack of bundling.

Since FY 2001, revenues from the telecommunications tax decreased. This could be a result of reduced costs, the trend of consumers going exclusively wireless, popularity of calling cards and/or the emergency of VoIP. Although consumers are taxed on cellular phones, the State loses revenues when consumers opt to switch from two phones, landline and wireless telecommunication, to exclusively the latter. Additionally, revenues may further decrease as VoIP gains popularity among corporations.

As this report exemplifies, regulating the telecommunications industry continues to be a work in progress. In a time of vast telecommunication change, there is additional work to be completed in order to achieve the goal of increased competition and improved services to all Illinois residents. It is up to the General Assembly to determine which issues need to be addressed in order to reach these very pressing goals.

APPENDIX I

The Radio Act of 1927

The U.S. Congress passed the Radio Act in response to the case of the *United States v. Zenith Radio Corporation, et al*. In that case, a federal district court ruled that the U.S. Commerce Department did not have the authority to regulate radio communication. In response, Congress passed the Radio Act of 1927. This act created the Federal Radio Commission, and authorized it to regulate the communications industry so as to prevent chaotic interference over the airwaves. Although the Act was Congress's first attempt at specifically regulating broadcast activities, federal regulation of communications remained divided between the Department of Commerce and the Interstate Commerce Commission.

The Communications Act of 1934

In 1934, President Franklin Roosevelt sought the consolidation of telecommunications regulation for both wired and wireless services. This effort prompted the passage of the Communications Act of 1934, which created the FCC. This reorganization shifted interstate telephone regulation from the Interstate Commerce Commission to the FCC, and moved the spectrum allocation regulation from the Federal Radio Commission to the FCC.

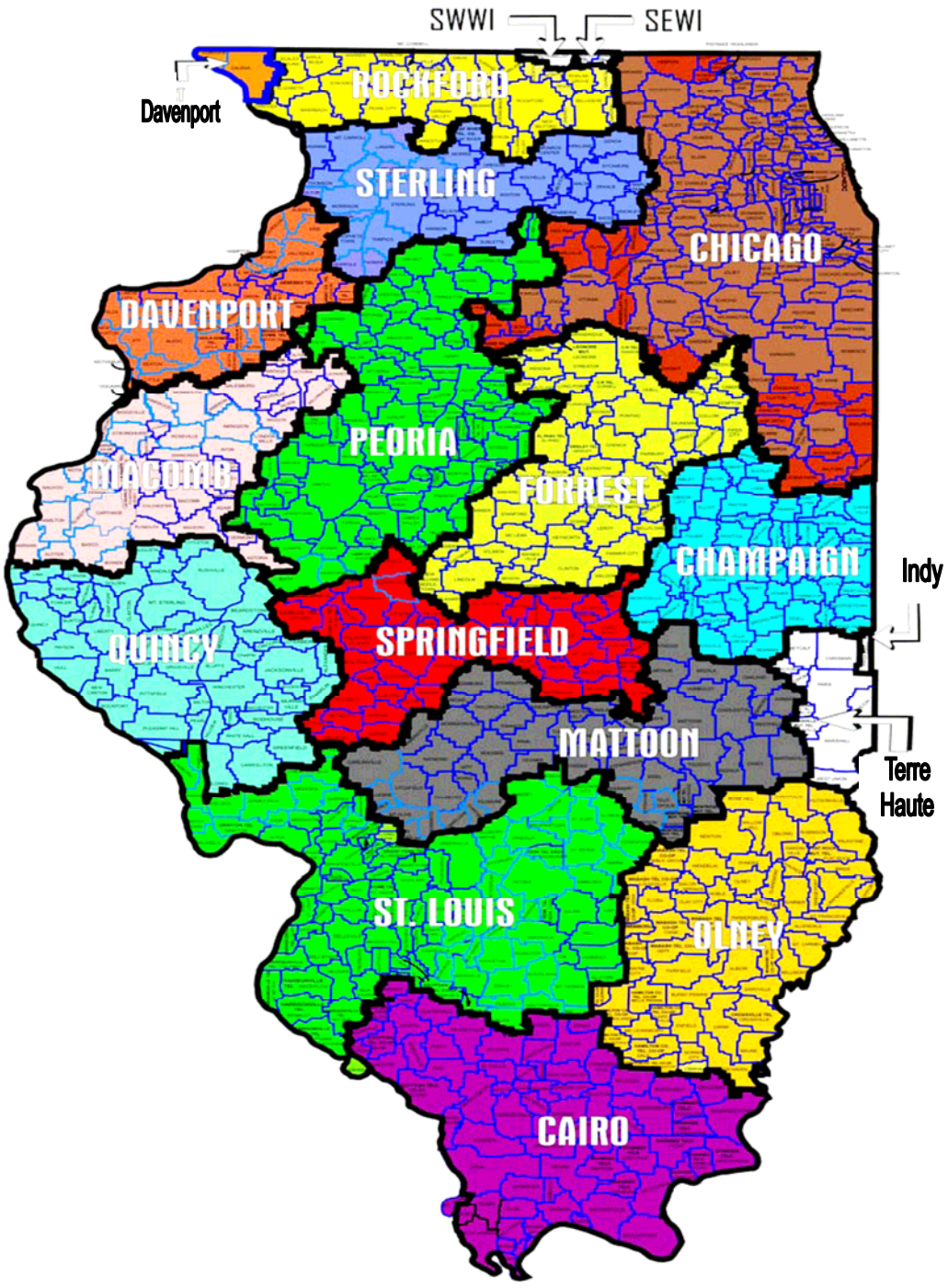
The Cable Communications Policy Act of 1984

The Cable Communications Policy Act of 1984 amended the Communications Act of 1934, and gave the FCC jurisdiction over cable television and preempted local regulation of cable television rates. This Act effectively deregulated television and noncommercial broadcasters and, therefore, allowed prices charged by cable operators to rise without constraint. The Act also established policies in the areas of ownership, channel usage, franchise provisions and renewals, subscriber rates and privacy, obscenity and lock-boxes, unauthorized reception of services, equal employment opportunity, and pole attachments. The new law also defined jurisdictional boundaries among federal, state and local authorities for regulating cable television systems.

The 1992 Cable Television Consumer Protection and Competition Act

Following the 1984 Cable Act, the number of households subscribing to cable television systems increased, as did the channel capacity of many cable systems. These increases were accompanied by a lack of competition among cable service providers and a subsequent increase in cable service rates. In response to these problems, Congress enacted the Cable Television Consumer Protection and Competition Act of 1992. Although it modestly enhanced the opportunities for competitive entrants in cable TV markets with rules allowing upstart rivals better access to video programming, the measure's primary thrust was rate regulation.

ILLINOIS LOCAL ACCESS AND TRANSPORT AREAS



Source: Annual Report on Telecommunications Markets in Illinois, ICC, 2004

BACKGROUND

The Commission on Government Forecasting and Accountability, a bipartisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State. The Commission's specific responsibilities include:

1) Preparation of annual revenue estimates with periodic updates;
2) Analysis of the fiscal impact of revenue bills;
3) Preparation of "State Debt Impact Notes" on legislation which would appropriate bond funds or increase bond authorization;
4) Periodic assessment of capital facility plans;
5) Annual estimates of public pension funding requirements and preparation of pension impact notes;
6) Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;
7) Administration of the State Facility Closure Act.

The Commission also has a mandate to report to the General Assembly ". . . on economic trends in relation to long-range planning and budgeting; and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as it may affect Illinois. . . ." This results in several reports on various economic issues throughout the year.

The Commission publishes several reports each year. In addition to a Monthly Briefing, the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The "Illinois Bond Watcher" report examines the State's debt position as well as other issues directly related to conditions in the financial markets. The "Financial Conditions of the Illinois Public Retirement Systems" provides an overview of the funding condition of the State's retirement systems. Also published are an Annual Fiscal Year Budget Summary; Report on the Liabilities of the State Employees' Group Insurance Program; and Report of the Cost and Savings of the State Employees' Early Retirement Incentive Program. The Commission also publishes each year special topic reports that have or could have an impact on the economic well-being of Illinois. All reports are available on the Commission's website.

These reports are available from:

Commission on Government Forecasting and Accountability
703 Stratton Office Building
Springfield, Illinois 62706
(217) 782-5320
(217) 782-3513 (FAX)

http://www.ilga.gov/commission/cgfa/cgfa_home.html