

Statement of

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Before the

**SUBCOMMITTEE ON COMMERCE, JUSTICE, STATE, AND THE JUDICIARY
COMMITTEE ON APPROPRIATIONS
UNITED STATES HOUSE OF REPRESENTATIVES**

on the

**FEDERAL COMMUNICATIONS COMMISSION'S
FISCAL YEAR 2001 BUDGET ESTIMATES
MARCH 29, 2000**

Mr. Chairman, Ranking Member, and members of the CJSJ Subcommittee, I appreciate this opportunity to appear before you today to discuss the Federal Communications Commission's (FCC) Fiscal Year 2001 Budget. Today I will provide you with a summary of our FY 2001 Budget Estimates, discuss the ongoing changes initiated by the Telecommunications Act of 1996, and present you with a clear picture of our accomplishments during the past year, our agenda for the current year, and outline our plans for the future. I also will discuss the release last week of my Report Card on Implementation of our Draft Strategic Plan – "A New FCC for the 21st Century."

Forging a Partnership for the Future

Before I begin discussing our budget request for FY 2001, I would like to thank this Subcommittee for its attention to the FCC's budgetary needs during my tenure as Chairman. I recognize that all agencies that come before you have important programs and sometimes competing financial requirements that must be resolved by you during a very compressed time period. Your work is critical to the operation of this government and provides us with a yearly forum for discussing both our achievements and planned improvements. Although we do not always agree on budget matters related to the FCC, I believe that we share a common desire to improve the Commission and to finance programs essential to the development of an even better telecommunications marketplace.

I am committed to working with this Subcommittee to achieve our mutual goals for the FCC. We stand together on the front step of the third millennium -- ready to venture up and swing open the door to our future. If the past is prologue, this next century will see accelerating and phenomenal change. Just as our ancestors living at the turn of the last century could never have imagined zooming along a vast array of super concrete byways and computer highways, we have not yet begun to imagine the achievements of our descendants.

We all play a critical role in determining what new goals will benefit our children and our children's children. Communications technology is the engine of their century. It is the basis for fueling the economy, encouraging invention and bringing the world closer together. We all want our legacy to be one of investment in this future. We all want to be remembered for giving the next generation an edge in the future.

The Federal Communications Commission is poised to assume its role as market facilitator in building the infrastructure of the future. Our primary mission is to promote competition in communications, protect consumers, and support access for every American to existing and advanced communications services.

In five years, we expect the U.S. telecommunications markets to be characterized predominately by vigorous competition that will greatly reduce the need for direct regulation. The advent of Internet-based and other new technology driven communications services will continue to erode the traditional regulatory distinctions between different sectors of the telecommunications industry.

Congress gave us the Telecommunications Act of 1996, and in doing so, cemented a partnership for establishing a new pro-competitive, deregulatory model for communications policy. Now it is time to reassess our core policy functions, structure and processes, and fund the changes that will shape our future. New competitors and technological innovation currently are transforming telecommunications markets. History has shown that markets that have been highly monopolistic often do not naturally become fully competitive. History also has shown that domestic markets that have been protected from foreign competition do not naturally become open to global competition.

As I said, the past is prologue. Nevertheless, we can always alter the remainder of any story and create our own future. We must work together to promote competition, open markets, and increase technological innovation. We must continue to protect and empower consumers as they navigate the new world of telecommunications. Together we can achieve the twin goals of the 1996 Act: a fully competitive marketplace and access for every American to current and future advanced communications services.

Pursuing these strategic objectives will require the identification of clear goals and the continued execution of my Draft Strategic Plan, "A New FCC for the 21st Century." As we accomplish our transition goals, we will set the stage for a competitive environment in which communications markets look and function like other competitive industries. We turn to you for your support this year to help us continue to transform our agency, adapt to new and emerging technologies, and ensure that future generations will benefit equally from these changes.

An Affordable Future: The FY 2001 Budget Request

The FCC as we know it today will be very different both in structure and mission as we evolve to meet the challenges of the future. Increased automation and efficiency will enable the FCC to streamline its licensing activities, accelerate the decision making process, and allow the public faster and easier access to information. The FCC will be a "one-stop, digital shop" where form filing and document-location are easy and instantaneous. The FCC will continue consolidation along functional lines so that its structure is more consistent with convergence.

In order to follow through on this agenda, the FCC will require a FY 2001 budget of \$237,188,000 and a staff ceiling of 1,975 full-time equivalent (FTEs). This includes FTEs to be funded from appropriations and auctions resources. These numbers reflect a total increase of \$27,188,000 or approximately 13 percent over the FY 2000 Appropriation. Uncontrollable cost increases to fund proposed government-wide pay

raises, rent increases and other inflationary increases constitute 47 percent of the total requested increase in funds. Specifically, our request includes \$6.8 million for mandatory salary and benefit increases, \$5.1 million for increases Rent and Operating Fees, and \$.9 million for Consumer Price Index adjustments in contract services.

Programmatic increases to accomplish the Commission's comprehensive information technology strategic plan initiatives comprise the remaining portion of the requested funds for FY 2001. This amounts to \$14.4 million for information technology (IT) enhancements. Since the automation enhancements will directly benefit the industry served by the Commission, this increase should be paid for by an increase in regulatory fees. Approximately 80 percent of the requested IT funding increase will be used for maintenance and life cycle replacement of our existing systems. The remaining 20 percent or \$3 million dollars will be used to promote competition through better tracking of consumer issues and complaints and better manage the use of the nation's airwaves in the public interest. Without adequate automation funding, the Commission will be unable to carry out its basic functions of awarding licenses to applicants for communications services, overseeing the implementation of new services for the public, and reviewing and updating existing rules and regulations. In view of the importance of these services to the economy of the United States, this investment in technology is critical.

The total amount to be collected from regulatory fees would increase from \$185,754,000 in FY 2000 to \$200,146,000 in FY 2001.

As you are aware, the FCC also has requested authorization to use \$5.8 million in excess regulatory fees from previous years to support our FY2000 IT needs. I recognize that you did not approve this authorization, but I would like to take this opportunity to re-emphasize our need for these funds. I do not believe that our request is frivolous or extravagant. The FCC has done everything within its power to satisfy this Subcommittee's directive that we make do with less than we need to pay our rent, while simultaneously carrying out much-needed improvements to the Commission. We want to begin FY2001 with a fresh fiscal outlook -- without feeling the effects of insufficient resources. I have previously written to you to discuss the effects of your denial of the use of our excess regulatory fees. As you know, I have had to implement drastic measures to fund our IT programs. I hope that you will take a second look at our situation and permit us to utilize our funds to continue the FCC's efforts to improve as an agency and better serve you and the public.

Past Accomplishments Build a Successful Future

The telecommunications industry in the United States is, to date, a great success story. We have worked hard to implement the 1996 Act and effectuate the changes necessitated by a continually evolving marketplace. We have promoted competition across converging technologies and throughout the telecommunications marketplace.

When I began my tenure as Chairman, we had to finish writing new rules to comply with the 1996 Act and the Supreme Court still had to pass on major sections of the law. Reports of the 1996 Act's premature death were rampant. Persistence paid off. We worked together to properly implement the 1996 Act, and with Congress' support, we managed to make the telecommunications marketplace more viable and better equipped to face the future.

As a result, the world is not the same as it was in 1996. The telecommunications industry has grown since then, creating 230,000 new jobs and generating \$57 billion more revenues. Revenues in communications services, which include all telephone services, radio, cable and broadcast television, and certain other services, have grown by \$7 billion from 1996-1998, a growth of 17 percent in real terms. That figure does not include the rapid growth in sales of communications equipment – telephone headsets, central office switching equipment, etc. – where revenues have grown \$26 billion, 24 percent, between 1997 and 1999. With the growth in output, employment in the communications equipment and services industries has grown by \$.2 million during the past four years.

During the past year, the FCC's staff has strived to implement common sense rules and programs to enhance the industry's growth, and defend those rules already in place. From wireless auctions to broadcasting and international, our staff has handled more applications and more public participation in telecommunications issues than ever before. Our aggressive implementation of the 1996 Act is generating new classes of competitors, new industries and lower prices.

Making a More Competitive Environment

Our most important work has been in realizing the goals of the 1996 Act to achieve competition and universal access to new services. To that end, we adopted rules and initiated rulemakings to eliminate barriers to entry in domestic telecommunications markets. The FCC implemented the local competition provisions of the 1996 Act, including: (1) revised unbundling rules in response to the Supreme Court remand in Iowa Utilities Board; (2) strengthened collocation rules; and (3) pricing flexibility which also included a Notice of Proposed Rulemaking on whether competitive local exchange carrier access rates should be regulated. We also expect to complete action on two Access Reform Proceedings during the second quarter of this year.

The FCC approved Bell Atlantic's application under section 271 of the 1996 Act to provide long distance service in New York after determining that New York's local service markets are open to competition. During the past month, the FCC negotiated a consent decree to address Bell Atlantic's problems processing its competitors' orders. This enforcement action promotes local competition by ensuring that consumers will have additional choices and lower rates through expanded local competition.

We also initiated proceedings to gather information on (1) the status of deployment of advanced telecommunications capabilities; and (2) the deployment of

broadband facilities and the development of local competition. The FCC's staff forged ahead with determined speed to complete rulemakings on advanced services in the areas of loops, LATAs, DSL resale, and line sharing.

Benefits to consumers in the long distance and local phone markets are an important achievement and priority. Domestic long-distance rates dropped nearly 56 percent in real terms since 1984, saving consumers about \$200 billion. Some companies are offering services for as low as five cents per minute.

On the international front, we are less than two years into the implementation of the WTO Agreement and the FCC's August 1997 Benchmarks Order and we have already started to see dramatic results. These policies have increased liberalization, privatization, and competition, which have led to significantly lower international accounting rates. In turn, that has led to lower international calling rates. In 1996, the year just prior to Benchmarks and the WTO, the average price of an international long distance call originating from the United States was 74 cents per minute. By 1998, it fell by 25 percent to 55 cents per minute, and finally to the current average of less than 55 cents per minute. By the time that Benchmarks is fully implemented in 2003, we expect to see much deeper reductions in international calling rates. Moreover, prices on competitive routes have fallen even more dramatically. For example, rates on the U.S.-U.K. route are as low as 10 cents per minute.

Sometimes success is measured not so much by what we do, as what we decide not to do. The FCC's "hands-off" policy toward the Internet has helped fuel tremendous growth in this industry. Over 40 percent of American households have Internet access. In 1998, the U.S. Internet economy was a \$633 billion market, accounting for nearly 8 percent of the nation's economy and 4.8 million jobs. Electronic commerce, which will be 90 percent business-to-business, is projected to be a trillion-dollar activity in the next three to five years.

Accessible Services for All Americans

We want everyone to have a piece of the Internet's potential, which is why we have established a framework and funding mechanism for ensuring that all of our country's schools and libraries are connected and that rural health care has access to information technology. We also have worked to ensure that those individuals living on Native American lands will likewise reap the benefits of this new technology.

When the FCC's staff was not busy passing and implementing rules that would enhance the delivery of telecommunications services to the public or upgrading our systems and eliminating backlogs, we were working with Congress to study cutting edge issues like rural broadband rollout. We participated with rural Senators in two special hearings, here in Washington and in North Dakota, to study rural broadband rollout technologies and encourage their implementation throughout the United States.

We also convened the Federal-State Joint Conference on Advanced

Telecommunications Services (Joint Conference) on October 8, 1999, to further the vision of section 706 of the Telecommunications Act of 1996. Patterned on a resolution by the National Association of Regulatory Utility Commissioners (NARUC), the Joint Conference joins federal and state forces to encourage the deployment of advanced telecommunications services to all Americans.

Safeguarding the Integrity of the Auctions Process

One of our most important accomplishments during the past year is the judicial recognition of the integrity of the auctions process in the NextWave case. The Second Circuit has demonstrated that the application of common sense ensures that the auctions process will be a workable method for licensing the spectrum in the future.

I cannot emphasize enough the importance of the Second Circuit's holding in this case. Auctions will play an especially critical role in ensuring that sufficient spectrum is available to meet the needs of the growing digital economy. We have witnessed an explosion of telecommunications services since auctions began. In 1993, there were 15 million wireless phones in America. Today, there are 80 million. We have seen subscribership increase four-fold and the average wireless bill drop by 40 percent during this period. Moreover, wireless is taking over parts of the Internet. Already we are able to use portable devices like laptops and Palm Pilots to accomplish tasks that once required us to remain hooked to a hard line tether. Wireless represents mobility and access for new groups of people.

Over the past six years we have completed 24 auctions with over 1,800 qualified bidders participating. Most of these bidders were qualified and worked hard to bring service to the public. Unfortunately, there are those who tried to obtain the spectrum and then not pay a fair price for it. If we want to build upon our past auctions successes, we have to ensure that the system is fair and predictable. That is why I support using the legislative process to prevent future abuses of the auctions system. I recognize that this Subcommittee has not supported the use of language in past CJSJ Appropriations bills to protect the auctions process. I hope that you will reconsider this position.

Addressing the Influx of Transactions

The increasing number of licensees and changing market forces have dramatically increased the number of transfer/assignment applications processed at the Commission. Some bureaus have experienced *extreme* growth in the number of applications processed during the past four years and most of the bureaus saw a significant increase in the number of applications processed. The Wireless Telecommunications Bureau approved 23,889 license transfers in 1996. In 1999, this number jumped to 40,879. The Mass Media Bureau's Audio Division processed 3,869 license transfer applications in 1996 and 4,951 in 1999. In the last year prior to passage of the 1996 Act, Audio Services only processed 1,866 transfer and assignments.

Most of these transfers have been processed quickly and efficiently, with little fanfare. Recently, the FCC has been faced with the challenge of how to facilitate the review of major transactions while ensuring that the public interest is met in an era of increasing consolidation and convergence. Some have been more complex and deserving of a hard look to protect the interests of the American consumer -- SBC/Ameritech, MCI/Worldcom, Airtouch/Vodafone, Direct TV/Primestar -- all of these mergers consumed Commission resources, but were worth the careful study. In the end, our job is to protect the consumer and under the 1996 Act that you passed, promote competition. We would be remiss in our duty to you and the American public if we did not expend the time and effort that it takes to ensure that these mergers comply with our statutes and rules.

Responding to congressional calls for improving the system for handling mergers, I directed FCC General Counsel Christopher Wright to assess the Commission's merger review process, and hire appropriate staff for addressing concerns raised by the crush of applications and their growing complexity. The result is a Transactions Team, which has already initiated the process for improving the way that we handle mergers. The Transaction Team has moved fast to address the concerns of the public, licensees and Members of the House and Senate. Already, the Transactions Team has identified areas of concern and moved to find workable policy solutions. They are working to ensure that our merger review process is transparent, efficient and predictable. They have established a web page and held a public forum on March 1, 2000.

Improving licensing processing -- whether for transfers and assignments or applications for service -- has been a key ingredient of our work during the past year. We are nearing completion on the implementation of a Universal Licensing System that provides streamlined electronic filing capabilities for most wireless services. Now potential licensees can obtain their applications and a wide range of other forms over the Internet, and file them back within minutes.

Electronic filing capabilities also are available in the other bureaus as well: Common Carrier, International, and Mass Media. All routine common carrier Local Access Transport Area modifications are now immediately placed on public notice and are accessible electronically through the Commission's Digital Index. We also implemented an electronic tariff filing system that permits incumbent ILECs to submit federal tariffs and associated documents via the Internet.

Meeting Daily Challenges with Innovative Solutions

The need for a fast response to increased use of telecommunications services means that the FCC must find new and innovative solutions to a broad range of problems. For instance, just two weeks ago, the Commission released new rules to confront the issue of the rapid telephone number consumption by allocating telephone numbers in a more efficient, predictable and orderly fashion. Competition in telecommunications markets is partially dependent upon fair and impartial access by all telecommunications carriers to telephone numbers. After careful study, we adopted new policies to reduce the

need for new area codes, avoiding the inconvenience, costs and confusion associated with changes in area codes for consumers and businesses.

While our work during the past year is too voluminous to print here in detail, I would like to highlight a few special projects. In the past year, the FCC has:

- Technology Advisory Council. Established as a means by which a diverse array of recognized technical experts selected from a variety of interests such as industry, academia, government, citizens groups, etc. can provide advice to the FCC on innovation in the communications industry.
- Public Safety. National Coordinating Committee, CALEA, and E911: ensured that our public safety and law enforcement bodies had the tools necessary to ensure our safety throughout the country.
- Assistance to other Nations. Set out in great detail the way our country's telecommunications system is regulated and made this available to other countries that are in the process of establishing independent telecommunications systems.
- Helped Disabled Americans. Adopted rules to ensure access for persons with disabilities under Section 255, and increased access to the communications network by the 54 million Americans with disabilities.
- Restructuring of FCC. Redesigned the Commission to establish two new "one-stop-shopping" bureaus – Enforcement and Consumer Information Bureaus -- rather than having their responsibilities spread throughout the Commission.
- Y2K. With the determined coordination of Commissioner Michael K. Powell, the FCC assisted the rest of the country in ringing in the new millennium free of computer glitches and ready to correct any that did occur.

Back to the Future

We have worked hard in the past year to bring the Commission into the present and move toward a better future, and our pace will not slacken during the current year. Last week, I released a Report on the Implementation of the Draft Strategic Plan that was submitted to Congress in August 1999. Our goals were to create a model agency for the digital age, promote competition in all communications markets, promote opportunities for all Americans to benefit from the communications revolution, and manage the electromagnetic spectrum in the public interest. Since introducing the plan, we have met with a wide range of interested parties to effectively gauge the response to our goals. We spoke with experts from academia, consumers, industry representatives, state and local government representatives and many of your staffs to discuss the future and our mutual goals. My first priority in the coming year is to continue keeping the promises outlined in the Strategic Plan.

Be assured that we will continue to move toward a digital agency – a user-friendly and electronic environment where consumers and licensees alike feel comfortable communicating directly with the agency via online services or old-fashioned phone calls. This goal is our first one in our Implementation Report Card, and I know that success in this area is a certain sign that we are using our funding wisely and appropriately.

Our aspirations for the future do not end there, because we are, after all, an agency dedicated to serving the public in a variety of ways. We have a wide range of futuristic goals in our Report Card, and I intend to work hard to follow through on the report's promises. Let me plot out what I call the ABC's of our current goals for the year.

First, "**access.**" The E-Rate program is bringing its second successful year to a close, and now provides connectivity for one million public school classrooms. This program is a down payment on our children's futures, and on the skills needed to keep our high-tech economy going. One of my highest priorities is to fund the E-rate program to wire the nation's rural and urban schools and libraries to the Internet. I want to continue promoting access to the digital tools and services for the 54 million Americans with disabilities [video description, TTY Access, TRS]. This year, the Commission adopted EO rules to help shatter glass ceilings and pave the way for the employment of more women and minorities at radio and television stations. The Commission also has issued a Notice of Inquiry on the public interest obligations of digital television licensees. We hope that this Notice will initiate a national dialogue on how America's broadcasters can best serve the public in the transition to digital television.

Second, "**broadband rollout.**" The Commission will continue its active role in speeding the delivery of high-speed Internet access to every business and home in America. We will take all necessary steps to keep the nation's broadband infrastructure open to competition. We will track the deployment of broadband in the marketplace to maximize the use of this new technology. We will auction new spectrum to bring innovative services to the marketplace and the wireless web to consumers.

As part of the broadband rollout, The 706 Joint Conference is holding six field hearings in coming months to gather information on the status of deployment of advanced telecommunications capability to all Americans. These field hearings will focus on two goals in particular. First, the Joint Conference will seek information on to what extent data is available at the state level on the status of deployment of advanced services. Second, the Joint Conference will seek examples of "best practices" of successful deployment in communities. Some communities have found creative ways to bring high speed Internet access to areas that were previously underserved. For example, a community may speed deployment by bringing many potential users of advanced services together, thereby aggregating demand to increase their buying power. A compilation of creative efforts, or best practices, will provide guidance to communities in other states to speed deployment of advanced services.

We have set up Federal-State Joint Conference field hearings in a variety of locations: Anchorage Alaska on April 12, 2000; South Sioux City, Nebraska on April 19, 2000; Lowell, Massachusetts on May 22, 2000; Miami, Florida on June 9, 2000; and Cheyenne, Wyoming on June 23, 2000. When I think about these locations, I cannot but wonder about the convergence of the past, present and future in our country. It is somehow fitting that Lowell, Massachusetts, which saw the advent of the industrial revolution, will host a field hearing to discuss the future of telecommunications technology in the new millennium.

Finally, let me address the “C” in my ABC’s, “**competition.**” This Subcommittee has my commitment to continue working toward full and open competition. I will encourage the protection of consumers by giving them the information they need to navigate an increasingly complex telecommunications marketplace. I personally will review the findings of the Transaction Team to ensure that all mergers now pending and filed in the future will receive fast, efficient and flexible handling. We will make DTV compatible with the nation’s cable networks. We will reform access charges to make more equitable phone billing and pricing practices. We will promote competition in local and long-distance markets that will give consumers lower rates, better services, and more choices.

Conclusion

Together, and with full funding of our request, we will work toward implementing the Strategic Plan -- “A New FCC for the 21st Century” to create a faster, flatter, more functional agency in an era of convergence. I appreciate your support for making this plan a reality. Again, I hope that you reconsider our request to use excess regulatory fees from past years to meet this year’s IT needs. It is time to transform the FCC into a paperless, electronic agency. More importantly, it is time to ensure that the future includes providing access to communications services to all Americans. I believe that we share the same concerns and goals about the future. Together, we can ensure that our third millennium telecommunications infrastructure is a proud legacy.