

**Developing Telecommunications Infrastructure:  
State and Local Policy Collisions  
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**Introduction**

As the 1996 Telecom Act sets the stage for national deregulation of telecommunications services, state and local governments are striving to implement and adapt to the pro-competitive thrust of the Act. Most of the research addressing the near-term outcomes of the 1996 Act focuses on issues of unbundling or the RBOCs' entrance into long distance services or on reformulating universal service requirements. Very little work has addressed the role of the states and localities in fulfilling the promises of the 1996 Act.

While attempting to promote telecommunications competition, the Act makes clear that states have a substantial role in preserving the longstanding aims of universal service. Many states have laboriously overhauled their universal service programs even as they grapple with the array of demands and conflicts among the vendors moving into new competitive positions. Attempts to "level the playing field" for new entrants challenging incumbents have sometimes faced state or local obstacles. The newest wave of CLECs and broadband connectivity/advanced services providers are challenging the abilities of cities and state utility commissions to treat all vendors equitably while at the same time guaranteeing comparable services for urban and rural populations as well as all corners of towns and cities.

Multiple systems of regulatory authority have created dilemmas for cities in particular. In some states, cities are encouraged to develop their telecommunications infrastructures. In others, they are expressly forbidden to own or manage telecommunications facilities or services. On the front lines of vendors clamoring for more access to rights of way and lower fees to use those resources, cities often are not well equipped to evaluate and adjudicate the competing claims of telecommunications service providers. The political structure of cities generally demands equal treatment throughout all parts of a city region when it comes to the city sanctioning services, while service providers' business demands typically focus on just a subset of a city's constituencies - mirroring the situation faced by state regulators balancing businesses desiring to serve only the most lucrative areas of a state with the need to uphold universal service obligations.

Several state and local governments have launched public and private-public projects that foster advanced telecommunications infrastructure as a strategic investment, their arguments being that such initiatives will encourage economic development, strengthen education, enhance governmental services and information, revitalize the role of libraries, advance telemedicine, and bolster universal service. Incumbent industries, whether telephone companies or cable operators, have objected strenuously to those projects and in a few cases have successfully derailed them. Many economists argue that public investment in infrastructure distorts normal marketplace operations and therefore destroys the positive effects of competition. Nevertheless, those projects do exist, some of them directly extending or embedded in the spirit of universal service.

Our essential research questions are: (1) Under what circumstances are state and local investments in telecommunications infrastructure undertaken? (2) What are the economic and political factors that explain the outcome of such investments? (3) How

are universal service goals articulated by state and local governments and (4) How do their universal service policies intersect the dynamics of telecommunications competition?

## **Research Procedures and Findings**

This study inventories and examines the five-year history of states' and local municipalities' initiatives to promote the development of advanced telecommunications infrastructure for citizens, businesses, and institutions. In particular, those initiatives that could have the potential for influencing competition for telephone-based voice and data services are investigated in order to understand the processes of their success or failure. The study relies on a secondary analysis of existing data documenting the efforts of all 50 states and numerous localities in promoting the development of telecommunications infrastructure. Information was gathered from a variety of existing research reports, telecommunications trade publications, and state and municipal web sites, and review of state and local legislation and hearings. Follow-up email and phone interviews with selected individuals were conducted to clarify and expand on collected data. A preliminary paper that presents simple inventories of state and local initiatives and programs can be found at [www.utexas.edu/research/tipi/reports/full.htm](http://www.utexas.edu/research/tipi/reports/full.htm) at the title Telecommunications Infrastructure Development: The State and Local Role.

This paper highlights three of our important findings. First, we find that the localities that initiate telecommunications or advanced infrastructure programs fall into two categories: those that are dissatisfied with their current telecommunications providers, particularly cable operators and (2) those that desire to improve their communities' attractiveness to high technology businesses by enhancing their infrastructure. The former group is composed of generally smaller towns or cities and the latter group are generally medium to large cities. The smaller cities appear to "manage" the politics of undertaking costly infrastructure initiatives more easily than do the larger cities, and they face comparatively fewer threats by incumbents. Competition from other private sector businesses was absent for the smaller cities, while it figured into the developments in larger cities.

Second, some state policies contradict the intentions of the 1996 Telecommunications Act with respect to competition. At this writing, ten states explicitly prohibit or limit the ability of localities to own or manage telecommunications services or facilities, and we trace these limitations to incumbents' persuasive arguments against competition from public government entities. Other states affirmatively encourage cities to develop telecommunications infrastructure (often through utility services). The rationale and explanations for these contradictions elude economic arguments concerning efficiency and reside within the political realm. We argue that simply calling civic endeavors with telecommunications a "subsidy" as opposed to an "investment" invokes radically different interpretations.

Finally, state programs investing in telecommunications programs generally echo universal service ideas and intentions in their justification. Although they are typically narrowly targeted to educational, library and medical institutions, in some locations they have generated controversy from private sector vendors. The way in which publicly funded initiatives undercut opportunities for the private sector presents more policy paradoxes that are detailed in the full paper. Incentive approaches to this problem are still relatively few.

