CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 7, 1998

S. 1618
A bill to amend the Communications Act of 1934 to improve the protection of consumers against "slamming" by telecommunications carriers, and for other purposes

As ordered reported by the Senate Committee on Commerce, Science, and Transportation on March 12, 1998

SUMMARY

S. 1618 would amend the Communications Act of 1934 to prohibit telecommunications carriers or service resellers from submitting or executing changes in a subscriber's selection of a provider of telephone exchange or toll service except in accordance with procedures prescribed by the Federal Communications Commission (FCC). Under this bill, consumers would have the right to file a complaint with the FCC if concerns regarding an unauthorized change in providers cannot be resolved by the carrier or service reseller within 120 days. The commission would be required to follow simplified procedures in reviewing these cases, and to issue an order resolving the complaint within 150 days. If violations are identified, the commission would be authorized to award damages to the customer of $500 or more and to impose additional penalties on carriers or service resellers. The bill also would direct the FCC to issue various rules and reports related to industry practices and implementation of the bill.

CBO estimates that the net budgetary impact of implementing this bill would not be significant. Because the bill would establish new penalties that could affect receipts, pay-as-you-go procedures would apply. S. 1618 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act of 1995 (UMRA) and would not affect the budgets of state, local, or tribal governments. S. 1618 would impose new private-sector mandates, but CBO estimates the costs would fall below the statutory threshold.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO estimates that the FCC would spend about $6 million annually to implement this bill, assuming appropriation of the necessary amounts. Because the commission is authorized under current law to collect fees from the telecommunications industry sufficient to offset the cost of its enforcement program, CBO assumes that these additional costs would be offset by an increase in collections credited to annual appropriations for the FCC. Hence, we estimate that the net effect on discretionary spending would be negligible.

The FCC's gross administrative costs would increase primarily because it would be required to issue a formal order for each complaint. In 1997, the agency received over 20,000 such complaints, most of which were resolved without issuing orders. CBO expects that the FCC's caseload would decline as a result of the bill's incentives for industry to resolve complaints voluntarily, but that its total workload would grow because of the time involved in issuing an order for each case. Based on information provided by the FCC, we estimate that issuing orders for 12,000 cases would cost an additional $6 million per year and that preparing the regulations and reports required by the bill would cost less than $500,000.

The bill also would amend the Communications Act of 1934 to impose penalties on those who make unauthorized changes in a subscriber's provider of telephone services. CBO estimates that this provision would have a negligible effect on revenues.

PAY-AS-YOU-GO CONSIDERATIONS

Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting direct spending and receipts. Enacting S. 1618 could affect receipts because the bill would authorize new civil penalties, but CBO estimates that this provision would have little or no budgetary impact.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

S. 1618 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

S. 1618 would impose new private-sector mandates, as defined by UMRA, on telephone carriers and resellers. The most significant burden would fall on those carriers and resellers when they process a customer's request to change providers. CBO estimates that the annual direct costs of complying with private-sector mandates in the bill would probably not exceed the statutory threshold ($100 million in 1996, adjusted annually for inflation).

Current regulations specify the verification process required for any change in a subscriber's choice of provider of telephone toll service (long-distance) generated by telemarketing. S. 1618 would expand the current verification procedures and extend those procedures to include providers of telephone exchange (local) service and customer-initiated changes. The bill would also require that the carrier or reseller respond in writing to unresolved complaints within a prescribed time. Although the verification process could lead to substantial aggregate costs because it would apply to providers of both local and long-distance service and to both telemarketing and customer-initiated changes, it is unlikely that the incremental costs attributable to the new mandate would reach the statutory threshold for private-sector mandates. In response to a FCC Notice of Proposed Rulemaking released on July 15, 1997, implementing provisions in the Telecommunications Act of 1996 concerning unauthorized changes of consumers' long-distance carriers, three major telephone carriers claimed that the cost of requiring verification of customer-initiated changes would total nearly $60 million annually. Information provided by the FCC, however, suggests that those costs represented total costs and not the incremental costs of the proposed rule. Similarly, CBO has concluded the incremental costs of other requirements relating to verification—responding to complaints and adding local service providers—would be relatively small.

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