

**Appendix C -- PARTIES FILING COMMENTS ON PROPOSED REVISION OF 1998  
COLLECTION AMOUNTS FOR SCHOOLS AND LIBRARIES AND RURAL  
HEALTH CARE PROVIDERS  
(COLLECTION PUBLIC NOTICE)  
CC Docket 96-45  
DA 98-872  
05/22/98**

**Commenter****Abbreviation**

North Carolina Department of Public Instruction and the State Telecommunications Services Division of the Department of Commerce	NC DPI
North Carolina Office of the Governor	NC Governor
Personal Communications Industry Association	PCIA
Rural Policy Research Institute	RUPRI
San Diego Unified School District	
Santa Maria-Bonita School District	
Southwestern Bell Telephone, Pacific Bell, & Nevada Bell	SBC
Sprint Corporation	Sprint
Sprint PCS	
Time Warner Communications Holdings Inc.	Time Warner
United States Cellular Corporation	USCC
United States Department of Education	
United States Telephone Association	USTA
United States Telephone Association (Corrected Filing)	USTA
Wisconsin Department of Public Instruction	Wisconsin DPI
Winstar Communications, Inc.	WinStar

**Appendix D -- SCHOOLS AND LIBRARIES DISCOUNT MATRIX**  
**47 C.F.R. § 54.505(c)**

<b>SCHOOLS &amp; LIBRARIES DISCOUNT MATRIX</b>	<b>DISCOUNT LEVEL</b>	
	<b>urban discount</b>	<b>rural discount</b>
<b>HOW DISADVANTAGED?</b>		
<b>% of students eligible for national school lunch program</b>		
<b>&lt; 1</b>	<b>20</b>	<b>25</b>
<b>1-19</b>	<b>40</b>	<b>50</b>
<b>20-34</b>	<b>50</b>	<b>60</b>
<b>35-49</b>	<b>60</b>	<b>70</b>
<b>50-74</b>	<b>80</b>	<b>80</b>
<b>75-100</b>	<b>90</b>	<b>90</b>

June 22, 1998

**Separate Statement  
of  
Commissioner Susan Ness**

*Re: Fifth Order on Reconsideration and Fourth Report and Order Regarding the  
Federal-State Joint Board on Universal Service (CC Docket No. 96-45)*

Today's decision is a difficult one. I regret the circumstances that compel the Commission to pare back universal service support for schools and libraries, but I believe these reductions hold some potential for lessening the intense controversy that has swirled about the issue for the past several weeks.

I am respectful of the sentiments that have been expressed by several of the leading Members of the United States Congress regarding the FCC's plans to provide universal service support for schools, libraries, and rural health care. We have taken their concerns to heart. In response, we are (1) addressing the organizational issues by moving to consolidate administrative structures, (2) capping executive salaries, (3) stretching out the initial funding year, and (4) limiting collections for each of the next four quarters.

These funding cutbacks will translate directly to reduced benefits for students, teachers, and library patrons. The inevitable result will be to postpone the day when a teacher can report a life-threatening situation from his classroom telephone, to defer the dream of a rural principal that her students can use distance learning to learn a foreign language, and to slow the connection of classrooms to the most extraordinary web of informational resources that has ever existed. I do not lightly or happily vote for these sacrifices, but current circumstances allow us no alternative.

I am keenly aware that numerous Senators and Representatives strongly believe in promoting telecommunications and information access for classrooms, libraries, and rural health care facilities and endorse the implementation plans devised by the Joint Board and the FCC. Scores of them have written to urge us not to jeopardize the interests of the thousands of institutions that are prepared to move forward. So have four Cabinet Secretaries and hundreds if not thousands of teachers, parents, and students. I share their commitment to the vision embodied in the Snowe-Rockefeller-Exon-Kerrey provisions of the Telecommunications Act of 1996.

Unfortunately, that vision is jeopardized by the intentions of certain carriers to establish "line-item" charges on consumers' bills. The FCC does not regulate the prices charged by interexchange carriers, nor the number of lines on their bills. But it is an understandable concern for the Congress when a law that was intended to benefit consumers is perceived to be causing rates to rise.

Let me be clear: I am committed to bringing about the consumer benefits intended by Congress. In the long distance market, which was already substantially competitive, we have sought to drive down prices by reducing excessive access charges. These charges were reduced by \$1.7 billion last year, and they will decline by another \$800 million next month. These lowered costs should lead directly to lower rates for both business and residential users of these services.

The political problem results less from rate increases than from the *perception* of rate increases. Certain companies apparently plan to tell their customers about new costs resulting from government action -- such as universal service contributions and increases in flat-rated recovery of loop costs -- but not to be equally forthcoming in telling them about cost *reductions* resulting from those same government actions (reducing per-minute access charges by the amount of the flat-rated charges and backing out the previously embedded high-cost and low-income support) and others (e.g., price cap productivity factor-based reductions).

Our decisions today reduce the risk that consumers will be misled, since it is unlikely that carriers will try to raise rates at a time when their costs are declining. But it is clear that consumers are confused by all the changes that are underway. We need to ensure that consumers receive complete, accurate, and understandable information, and to this end I strongly support Chairman Kennard's "truth in billing" initiative. I have heard no good excuse for telling consumers less than half the story. If government reduces a carrier's costs by significantly more than it raises them, how can anyone defend telling the consumer only about the cost increases? I hope the Commission will promptly complete action on its pending Notice of Proposed Rulemaking on this subject, develop a record as quickly as possible, and then adopt whatever corrective measures are needed.

I embrace the universal service provisions of the Communications Act. For over two years, the FCC has worked diligently with our partners, the state commissions, to promote *all* of the universal service provisions of the law. Consumers in high-cost areas are continuing to receive subsidized service. Low-income consumers are likewise receiving support. Schools, libraries, and rural health care providers are poised to avail themselves of the opportunities contemplated by Section 254(h) of the Communications Act. We do not have to choose between meeting the traditional universal service responsibilities (for low-income and high-cost consumers) and the newer ones (for schools, libraries, and rural health care); *all* of these needs can and must be met, even as the total cost of service continues to decline.

Much as I regret the cutbacks we adopt today, I hope they will help create a political environment that permits these vital programs to proceed. I am determined to do everything in my power to safeguard Snowe-Rockefeller, while squarely addressing the legitimate concerns of our critics. I pledge to continue to work with supporters and critics alike to ensure a solid funding base and proper disbursement system for universal service support to schools, libraries, and rural health care -- as well as to work with equal diligence on other universal service issues.

I recognize that there may be other ways to fulfill the demonstrated needs of schools, libraries, and rural health care providers. Some in Congress are exploring the notion of funding these needs with the funds currently raised through the federal excise tax on telephone service. This appears to be a constructive suggestion. I for one would be delighted to see this idea succeed, as it would provide a reliable and enduring source of funding, while reducing the overall burden on consumers. In the interim, however, we cannot properly put our implementation of Section 254(h) of the Communications Act on hold; the *possibility* of future legislative action does not permit us to defer implementing the provisions that are *already* in the law.

June 22, 1998

**Separate Statement of Commissioner Gloria Tristani**

Re: *Federal-State Joint Board on Universal Service, CC Docket No. 96-45*

I strongly support the goals of the schools and libraries program. It is with reluctance that I support today's decision to scale back funding for the program. I do so because I believe it fairly reflects the competing concerns that face us at this point.

It has become all too common in Washington to substitute the word "investment" for "spending." With respect to some types of expenditures, the word "investment" is truly misplaced, but I believe "investment" elegantly captures the nature of the schools and libraries program. The nation's economy is increasingly dependent on the technological competence of its workforce. A fully functioning program is a golden opportunity to help prepare our children for the global, information technology economy. When we make a decision to slow funding for schools and libraries program, as we do today, we decide that fewer children will experience the world of the Internet for the first time. We also decide that, in the near future, fewer young adults entering the workforce will be capable of performing jobs that American companies are desperate to fill. The schools and libraries program is competition policy, and while it will not singlehandedly create a workforce capable of growing our economy in the face of foreign competitors, it is an important step in that direction.

I recognize and respect Congress's wishes with regard to the universal service provisions. Congress speaks for the American people, who are the ultimate source of the FCC's authority. Many members of Congress have told the Commission that they intended high cost support to be the centerpiece of the universal service provisions of the Telecommunications Act of 1996. I do not disagree with that point. I take this opportunity to personally reaffirm my commitment to a high cost mechanism that complies with the letter and spirit of the universal service provisions of the 1996 Act. Coming from New Mexico, I have seen first hand the need for high cost support for rural areas. A new high cost mechanism that failed to "preserve and advance universal service" would be flatly at odds with both the Act and the unambiguous will of Congress. Thus, as a matter of both personal belief, as well as professional duty, I am firmly committed to creating a new system of high cost support that keeps local telephone service affordable in rural areas.

Some have argued that the FCC should freeze the schools and libraries program until we complete our work on a new mechanism for supporting local telephone rates in high cost areas. The argument is that the FCC has simply misunderstood Congress's relative priorities as between schools and libraries support and high cost support. I understand why some would feel that way. However, I do not believe we should postpone resolution of the schools and libraries program simply because we have not completed our work on the far more complex high cost plan. Thus, I would reiterate that my support for implementing the schools and

libraries program does not in any way affect my commitment to creating a high cost support system that fully complies with section 254 of the Act.

Implementing the schools and libraries portion of the 1996 Act was a very challenging task for the previous Commission, and it continues to present this Commission with difficult choices. But replacing the old system of high cost subsidies with explicit support flows is proving to be a far more difficult task. For one thing, any new mechanism is bound to affect the amounts currently paid and received by individual carriers and individual states. Many carriers and state commissions have devoted enormous resources to devising proposals that seek to accommodate the competing concerns. While some of these proposals are quite different, each has components that satisfy important objectives.

In addition, the new high cost mechanism is particularly important because it will directly affect Congress's goal of bringing consumers competitive choices in telecommunications markets. A system of explicit support that results in underfunding of high cost areas would, as a practical matter, restrict consumers in those areas to a single choice of provider -- the incumbent. Preserving universal service and promoting competition are the hallmarks of the 1996 Act. They are also two sides of the same coin. Thus, in addition to achieving the critical objective of preserving affordable telephone service, the new system of high cost support adopted by this Commission will go far in determining whether Congress's goal of competition is ever realized for millions of Americans. I view the ongoing struggle to implement the new high cost mechanism not as a lack of commitment on our part but as a sign of our commitment to getting it right with respect to high cost funding for rural areas.

I am also concerned that today's action will cause disruption to the education community. The public is not entitled to assume government policies will never change. The government is constantly adding to, modifying, or eliminating rules and regulations. It does so either because the conditions have changed, or because attitudes have changed even as the underlying conditions remain the same. I see no evidence that the conditions justifying the creation of the schools and libraries program have changed. Today, just as on May 8, 1997, there is no question that children will receive better educations if the immense resources of the Internet are made available to them and their teachers. What has changed is the attitude toward the program because of the realization that achieving this worthy goal will cost money. I welcome a thorough discussion of the extent to which consumers are willing to sacrifice to achieve this goal. I have little doubt that consumers are willing to pay for the schools and libraries program. I only regret that it has taken so long for this fundamental dialogue to occur.

Funding of internal connections has become a key focus of the program because it represents approximately 65 percent of the support requested for 1998. I believe the benefits of the schools and libraries program are critically dependent on funding internal connections. Section 254(h)(1)(B) is about bringing the Internet to students. Students are located in classrooms. Therefore, the Internet connection must be brought to the classrooms. Funding basic telephone service and Internet access service for phone lines in principals' offices will not improve education for students. In the past few months, this point was made clear to me

when I visited schools in New Mexico and Puerto Rico. Although a few of the classrooms had computers, none had Internet access. Those visits crystallized for me the importance of inside wiring to the success of the schools and libraries program.

It is regrettable that we are funding internal connections for only the schools eligible for 80 and 90 percent discounts. This means the majority of schools that were eligible for discounts on inside wiring will get nothing. Many of the schools I visited did not fall into the 80 or 90 percent discount range, yet their facilities were quite modest and would not be considered wealthy by any measure. Under our decision today, they will receive no funding to connect their classrooms to the Internet. This is a true loss for those students and teachers.

In the end, I hope today's slowdown of the Schools and Libraries Program will prove to be only a detour for this vital program. I note with optimism that some in Congress are exploring the idea of using money collected through the current excise tax on phone bills to fund the Schools and Libraries Program. I hope this idea receives serious consideration.

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June 22, 1998

**SEPARATE STATEMENT OF COMMISSIONER MICHAEL K. POWELL,  
DISSENTING IN PART**

*Re: Fifth Order on Reconsideration and Fourth Report and Order, Federal-State Joint Board on Universal Service, CC Docket No. 96-45.*

I write separately to explain why I am dissenting in part from this Order. In short, while I support the general direction of the changes made in this Order regarding funding for the Schools and Libraries program, I would prefer that the Commission take more significant steps toward resolving the funding questions that loom over all aspects of universal service simultaneously in an integrated proceeding.

I agree with the majority that this Order takes some important steps in response to growing criticism of the scope and timing of the Schools and Libraries program, as well as mounting concern regarding how some carriers have chosen to recover their universal service contributions from end user customers. The Order reduces funding below current estimated demand and essentially freezes the quarterly collection rate at the existing level. The Order gives priority to funding the neediest schools and will also concentrate funding on services, rather than internal connections and other equipment.

Nevertheless, I fear that the changes instituted in this Order do not go far enough in addressing the concerns that I and others inside and outside the Commission have raised over the past several months. In particular, as I have stated on multiple occasions since my confirmation last October, I am concerned that the Commission continues to implement and manage the Schools and Libraries program independently of its implementation of other universal service programs. It is my strong belief that a more comprehensive approach to implementing universal service would better reflect the fact that all of these programs are interrelated and would better comport with the intent of Congress.

Given the importance of *all* of our universal service statutory mandates, the complexity of the programs being spawned by these mandates and growing public criticism,<sup>1</sup> I am disappointed that the Commission has not fully utilized its discretion to revise the timing of implementation of the various universal service programs to ensure that universal service as a *whole* is preserved and advanced in keeping with the statutory mandate. Instead, following a rough timetable that was set before the current Commission was even constituted, we have proceeded with what amounts to a two-track implementation of the Act's universal service mandate: the Schools and Libraries and Rural Health Care programs chug along on the first track, while the program to provide support for high cost areas based on forward-looking economic cost idles in the station, awaiting much-needed servicing and critical

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<sup>1</sup> In particular, I note growing criticism of the Commission resulting from carriers' addition of universal service line items to their customers' long distance bills.

moving parts that have been requested but have not yet been delivered.<sup>2</sup>

The fact that the Commission's implementation of certain universal service programs remains largely incomplete becomes clear if we examine the previous Commission's stated intention in adopting the *Universal Service Order* last May:

We set in place rules that will identify and convert existing federal universal service support in the interstate high cost fund, the dial equipment minutes (DEM) weighting program, Long Term Support (LTS), Lifeline, Link Up and interstate access charges to explicit competitively neutral federal universal service support mechanisms. We will provide universal service support to [non-rural] carriers serving rural, insular, and high cost areas through a mechanism based on forward-looking economic cost beginning on January 1, 1999 . . .<sup>3</sup>

Subsequently, the current Commission has stated that aspects of the high cost support program adopted last May are mere "place holders" that we will continue to evaluate prior to implementation.<sup>4</sup> In addition, as has become clear in recent days, the Commission may yet refer certain, complex issues critical to our implementation of the high cost support program to the Federal-State Joint Board for resolution, thereby making it less likely that we will be able to complete implementation of this aspect of universal service by the deadline the previous Commission imposed.

Let me be clear: I do *not* argue that the Commission's failure to implement the new high cost support program by this time evidences any lack of commitment to this aspect of universal service, *nor* do I suggest that there are not reasons why we are not further along in our implementation of high cost support. Indeed, the task of converting the existing scheme of implicit universal service subsidies to explicit mechanisms is no doubt one of the most challenging tasks that Congress delegated to the Commission. But I believe a more comprehensive approach to implementing universal service -- one in which we do not allow the implementation of certain programs to out-pace the implementation of other programs --

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<sup>2</sup> In this statement, I use the term "high cost support program" to refer to the Commission's plan, announced in the May 1997 *Universal Service Order*, to calculate federal universal service support based on the difference between forward-looking economic cost and a nationwide revenue benchmark. *Federal-State Joint Board on Universal Service*, Report and Order, 12 FCC Rcd 8776 (1997) (*Universal Service Order*), ¶ 223. I do *not* refer to the *existing* mechanisms for supporting high cost and small telephone companies (*i.e.*, the high cost assistance fund, the dial equipment minutes (DEM) weighting program, and LTS), which were scheduled to continue in use until the Commission established a forward-looking cost methodology for providing support to non-rural carriers (*i.e.*, through December 31, 1998). *Id.* ¶ 273.

<sup>3</sup> *Universal Service Order*, 12 FCC Rcd 8776, ¶ 6.

<sup>4</sup> *Federal-State Joint Board on Universal Service*, Report to Congress, CC Docket No. 96-45 (rel. April 10, 1998), ¶ 18.

is more in keeping with the statutory mandate.

I believe, furthermore, that a more comprehensive implementation of universal service need not be fatal to implementation of the Schools and Libraries program. I fully recognize that it is our duty to implement *all* of the universal service mandates of the 1996 Act, including the provisions of section 254 that pertain to enhancing access to telecommunications and advanced services by eligible schools and libraries. I consequently reject any suggestion that the Commission can, without further legislative action by Congress, halt *indefinitely* the implementation of the Schools and Libraries program or any other universal service provision of the statute. The Commission, however, has a statutory duty not just to implement the program, but to do so in a way that maximizes administrative efficiency and balances the beneficiaries' desire for funding against the need to ensure that we do not collect so much that we bankrupt our larger universal service efforts or derail our other efforts to implement the Act, such as promoting competition. I submit that the Commission must do more to balance the needs of *all* beneficiaries of our universal service programs, lest we allow critical support for these programs to wither or further eat away at itself through needless in-fighting.

Moreover, even if I were not duty-bound to implement all aspects of the universal service mandate, I would find that the goals of these programs are laudable, the Schools and Libraries program included. It is beyond question that access to advanced services, in particular, will be critical to training the workforce of the new millennium, and I, like my colleagues, believe it is imperative to the functioning of our democracy that our society make special effort to spread knowledge of and proficiency with advanced communications and computing technologies to populations that otherwise might lack access to such technologies.

As in any policy debate, however, the fact that we agree on the ends of the policy does not necessarily mean that we agree on the means of achieving those ends. For my part in the debate surrounding universal service implementation, I would prefer that the Commission place implementation of the Schools and Libraries, Rural Health Care and high cost support programs all squarely on the same track. Specifically, I believe the Commission, at a minimum, should temporarily suspend collections for the Schools and Libraries program until significant questions regarding the administration of the program, as well as the manner in which carriers recover their contributions to the program, can be fully resolved. Thereafter, I believe ultimate resolution of the questions surrounding the program's size and method of collection should be resolved at the same time as, and in coordination with, the resolution of the same questions with respect to the new high cost support program.

The language of the statute supports a more comprehensive approach to resolving questions regarding universal funding and collection. Section 254(a)(2) of the statute clearly contemplates "a single proceeding" by which the Commission implements the universal

service provisions of section 254.<sup>5</sup> Conversely, I find nothing in the statute that evidences any Congressional favoritism for certain aspects of universal service that would justify implementation of certain programs, such as Schools and Libraries, prior to implementation of others.<sup>6</sup>

More importantly, our experience in collecting funds for the first half of 1998 should have taught us that a piece-meal approach to funding the various universal service programs is likely to engender consumer ire and confusion. The simple truth is that universal service costs money. And as we follow the Act's instruction to move to a more competitive market paradigm in which universal service subsidies are converted from implicit to explicit, we should not be surprised that carriers will seek to recover such subsidies from their customers. Unless we are prepared to return to unenlightened days of strict price regulation in telecommunications, we should not be naive enough to presume that profit-maximizing firms will deduct their universal service contributions from their bottom lines, either out of the goodness of their hearts or because we somehow believe that they gave their word not to pass on these costs to their customers.<sup>7</sup>

Under these circumstances, I believe the Commission does consumers, the carriers we regulate, the Congress and itself a disservice by continuing to dribble out aspects of the new universal service regime mandated by the Act in piece-meal fashion. While some of the universal service programs mandated by the Act are "new," they are all the same in the sense that they are explicit supports that will be paid for by carriers who will then seek to recover these costs, all at the same time the Commission seeks to remove existing implicit subsidies from access charges and the like. Implementing some programs independently, prior to implementation of other programs, will likely doom all of us to round after round of semiannual or quarterly "crises," in which carriers will announce new charges to recover their universal service obligations, Commission staff will scramble to determine whether the

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<sup>5</sup> 47 U.S.C. § 254(a)(2).

<sup>6</sup> *Federal-State Joint Board on Universal Service*, Fourth Order on Reconsideration, 1997 WL 795376, CC Docket No. 96-45, FCC 97-420 (rel. Dec. 30, 1997) ("[B]ecause section 254 provides no basis for the Commission to favor certain classes of recipients over others with respect to the level or timing of universal service support flows, *see generally* 47 U.S.C. § 254, I believe that the various recipients of universal service support are all equally entitled to benefit from such support. I think it is imperative that we not allow some universal service programs to take priority over others.") (statement of Commissioner Powell).

<sup>7</sup> With respect to the notion that long distance carriers agreed to some deal that they would not pass on the costs of their universal service obligations in exchange for access charge reductions, I would point out that there is no mention of access charge reform or reductions in the statute and any such deal does nothing to address how carriers that generally do not pay large access charges, such as wireless providers, will pass on or otherwise recover the costs of their universal service obligations.

new charges violate any applicable rule,<sup>8</sup> and consumers and the politicians representing them will get more and more confused and angry about what the Act has wrought. And each time this needless drill is repeated, I, for one, will feel a bit like comedian Bill Murray's character in the movie "Groundhog Day," hopelessly destined to live the same events over and over again.

If we acknowledge, then, that carriers' universal service obligations are likely to be reflected on consumers' bills, we must take steps to ensure that the imposition of these obligations does not inadvertently thwart achievement of the Act's goal of making quality telecommunications services available at "just, reasonable and affordable rates."<sup>9</sup> In particular, we have an obligation to make some effort to assess and manage how universal service programs, taken together, will impact consumers' bills. This obligation, I submit, will be very difficult, if not impossible, to satisfy if we continue to collect for certain universal service programs before we have a good sense of what we will need to collect for later programs, such as high cost support.

In short, I doubt seriously that the Commission will be able to manage effectively consumer expectations regarding how carriers recover their universal service contributions and effect a smooth transition to explicit support mechanisms if we continue to make collection and funding decisions regarding different universal service programs in isolation, without assessing the effect of those decisions on other programs and on consumers. I firmly believe that resolving the funding decisions for all universal service programs simultaneously in an integrated proceeding would better comport with the intent of Congress and more fully exploit what we have learned about the pitfalls of assessing the more explicit universal service obligations contemplated by the Act.

I reject the suggestion that, by continuing to collect for certain programs pending implementation of the high cost support program, we do no harm to consumers or the public interest simply because we allow existing high cost support levels to continue. First, as I have suggested, continuing to collect for some programs while others await implementation raises fears that problems in implementing the earlier programs will undermine support for

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<sup>8</sup> In this regard, I have serious doubts about efforts to address consumer confusion and anger over the addition of universal service line items to their bills by requiring carriers to describe the line items in certain ways or in conjunction with other information about recent regulatory efforts that have lowered carriers' costs. While these efforts may have other merits, they amount to a mere "band-aid" rather than a solution to the fundamental problem of engineering a smooth transition to the new explicit support mechanisms. In particular, it seems likely that carriers will dispute whatever characterization of line items we seek to impose (if not our authority to do so), and I doubt seriously that consumer frustration will be alleviated by billing inserts that describe offsetting regulatory savings to their carriers. Further, as the proposed billing reforms focus primarily on whether long distance companies identify access charge reductions in conjunction with descriptions of universal service line items on consumers' bills, I note that such reductions do not benefit other carriers that also must recover the costs of their universal service obligations, such as wireless providers.

<sup>9</sup> 47 U.S.C. § 254(b)(1).

later programs. Such undermining of support could imperil our overall efforts to carry out the Act's universal service provisions.

Second, there are clear costs associated with delays in implementation of the new high cost support program. In passing the Act, Congress wisely recognized that reform of high cost universal service support is one of the linchpins for achieving some of the other procompetitive, deregulatory goals of the Act. As the previous Commission so eloquently stated, our implementation of universal service:

is part of a trilogy of actions [including the local competition and access charge reform proceedings] that are focused on achieving Congress' goal of establishing a "pro-competitive, deregulatory national policy framework designed to accelerate rapidly private sector deployment of advanced telecommunications and information technologies and services to all Americans by opening up all telecommunications markets to competition."<sup>10</sup>

Identifying and converting existing high cost support to explicit, competitively neutral support mechanisms will play a crucial role in this trilogy. Until we reform high cost support, we will not be able to remove the large implicit subsidies embedded in interstate access charges that distort competition in telephone markets and inhibit new entry into those markets.

In short, delay in completing the high cost support piece of universal service (no matter how understandable) will inhibit our efforts to promote competition in telecommunications. Consumers are not held harmless by this failure; rather, they are subjected to numerous *opportunity costs* resulting from having to wait for us to erect the new competitive regime mandated by Congress. Again, I do not mean to suggest that the Commission's failure to implement the new high cost support program by this time evidences any lack of commitment to this aspect of universal service. But the notion that there is no harm associated with that failure is, to my mind, implausible.

If we cannot bring ourselves to suspend collections for the Schools and Libraries program pending simultaneous resolution of the high cost support issues, I would prefer that the funding levels for the Schools and Libraries program be capped at an even lower quarterly rate than proposed in this Order until we are prepared to establish the new high cost support mechanism. First, reducing the collection rate further is supported by the language of the statute, which with respect to "advanced services" requires only that the Commission "enhance" not *guarantee* access to such services, and that we enhance access only "to the extent . . . economically reasonable."<sup>11</sup> In light of the growing concern over the manner in which carriers are recovering their universal service contributions from end users,

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<sup>10</sup> *Universal Service Order*, 12 FCC Rcd 8776, ¶ 4.

<sup>11</sup> 47 U.S.C. § 254(h)(2)(A).

I would submit that the more "economically reasonable" course at this time would be to reduce collections significantly until we can better assess the potential impact of other universal service programs on consumers' bills.

Second, given the legal controversy surrounding whether the Commission did or did not exceed its legal authority by designating internal connections for Schools and Libraries support, I think the prudent course would be to suspend temporarily collections for internal connections, at least until the Fifth Circuit has an opportunity to decide this question in response to appeals pending before it. Again, I do not believe that such temporary suspension need weaken or destroy the Schools and Libraries program. Indeed, I believe that such strategic retrenchment would, in the long run, better preserve and strengthen support for this important program.

Having lodged these criticisms, I would like again to voice my support for the Commission taking, in this Order, some important steps to modify our implementation of universal service, particularly with respect to the Schools and Libraries program. I fully recognize that school and library officials have devoted substantial time and effort to applying for funding and that delay in funding may force some institutions to postpone plans to provide access to advanced services for a few months. But other parties likewise have devoted substantial resources to other aspects of universal service implementation, such as development of the high cost support models. Simply put, the beneficiaries of the Schools and Libraries program do not comprise the Commission's only universal service constituency. Rather, the Act requires that we balance the interests of *all* constituencies that will benefit from our implementation of universal service, just as the Act requires that we balance the goals of universal service against the other procompetitive, deregulatory provisions of the Act.

In this statement, I have begun to sketch how I would strike a different balance than that struck by the majority. I reiterate, however, that I support the general direction of the changes made in this Order regarding the scope and timing for funding the Schools and Libraries program, in particular, and I commend the majority for having the courage to institute these changes.

June 22, 1998

**DISSENTING STATEMENT OF  
COMMISSIONER HAROLD FURCHTGOTT-ROTH**

*Re: Fifth Order on Reconsideration and Fourth Report and Order Regarding the Federal-State Joint Board on Universal Service, (CC Docket No 96-45 ).*

**Introduction and Summary**

If love could conquer all, if good intentions always led to good consequences, if hard work were always rewarded with good results, then this Order would be an impeccable work of art. It is the embodiment of immeasurable hard work, good intentions, and, dare I say, love. It embodies hope: hope for a better world in which more funding for new technologies is hoped to lead to better school facilities which are hoped to lead to better education which in turn is hoped to lead to a brighter future for the next generation of America.

Good intentions and hard work are not enough for this Order. It is the third in a series of Orders to impose new taxes to support schools and libraries and other partial implementations of Section 254. I have dissented from these earlier Orders,<sup>1</sup> and I unfortunately must dissent from this Order. In my view, the current Order does not accurately or even approximately reflect either the letter or the spirit of the law.

I dissent with the utmost respect for the efforts and hopes of my colleagues. But, I dissent also because of my utmost respect for the language of the Telecommunications Act of 1996 and Section 254 in particular.

The Telecommunications Act of 1996 embodies the hopes of many Americans: more innovation, more services, more consumer choices, lower consumer prices, less regulation, and universal service. I believe the Act can and will meet these hopes of the American people. But I believe that these hopes will only be met if the Commission is faithful to the language of the Act. I fear the current Order is not.

Neither are the Commission's actions today faithful to the original intent of Congress -- or the current demands of Congressional leaders -- because as I stated only a month ago in

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<sup>1</sup> Dissenting Statement of Commissioner Harold Furchtgott-Roth Regarding Federal State Joint Board on Universal Service, CC Docket 96-45, *Third Order on Reconsideration*, 12 FCC Rcd 22801 (1997); Statement of Commissioner Harold Furchtgott-Roth Regarding the Second Quarter 1998 Universal Service Contribution Factors, rel. March 20, 1998.

this Commission's last report to Congress: priorities matter.<sup>2</sup> I remain convinced that rural, high-cost universal service is not just one of many objectives of Section 254; it should be the *highest* priority. The federal government has had universal service programs for rural, high-cost areas and for low-income Americans for many years. Section 254 embodied these ideals and set forth goals that emphasize rural, high-cost support as well as low-income support and other objectives.

But, despite repeated Congressional demands that the FCC "suspend further collection of funding for its schools and libraries program, and proceed with a rulemaking that implements all universal service programs in a manner that reflects the priorities established by Congress in the Telecommunications Act of 1996,"<sup>3</sup> the Commission continues to proceed with selected universal service programs while at the same time delaying these higher priority issues. Rural, high-cost universal service issues should not be resolved and implemented in some dim and distant future after all other universal service issues have been resolved; rural, high-cost universal service issues should be resolved and implemented *first*. Rural, high-cost universal service should not be viewed as the residual after enormous amounts for other federal universal service obligations have been promised; rural, high-cost universal service should receive the *lion's share* of any increase in the federal universal service fund.

To understand fully my other concerns about this Order, one need only read one of my several statements related to universal service.<sup>4</sup> My view of universal service is not

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<sup>2</sup> Dissenting Statement of Commissioner Harold Furchtgott-Roth Regarding the Report to Congress in Response to Senate Bill 1768 and Conference Report on H.R. 3579, rel. May 8, 1998.

<sup>3</sup> See, e.g., Letter from The Honorable John McCain, Chairman, Senate Committee on Commerce; The Honorable Ernest F. Hollings, Ranking Minority Member, Senate Committee on Commerce; The Honorable Tom Bliley, Chairman, House Committee on Commerce; The Honorable John D. Dingell, Ranking Minority Member, House Committee on Commerce; to The Honorable William Kennard, Chairman, Federal Communications Commission, June 4, 1998.

<sup>4</sup> See Dissenting Statement of Commissioner Harold Furchtgott-Roth Regarding Federal State Joint Board on Universal Service, CC Docket 96-45, *Third Order on Reconsideration*, 12 FCC Rcd 22801 (1997); Statement of Commissioner Harold Furchtgott-Roth Regarding the Second Quarter 1998 Universal Service Contribution Factors, rel. March 20, 1998; Dissenting Statement of Commissioner Harold Furchtgott-Roth Regarding the Federal-State Joint Board Report to Congress, rel. April 10, 1998; Dissenting Statement of Commissioner Harold Furchtgott-Roth Regarding the Report to Congress in Response to Senate Bill 1768 and Conference Report on H.R. 3579, rel. May 8, 1998; Statement of Commissioner Harold Furchtgott-Roth Regarding the Common Carrier Bureau's Proposed Revisions of 1998 Collection Amounts For Schools and Libraries and Rural Health Care

universally shared. Not everyone here at the Commission or in the public agrees that Congress' universal service priority was the rural and high cost program. Not everyone here at the Commission agrees that the Telecommunications Act clearly contemplates "a single proceeding" to implement all of the universal service provisions, including both the schools and libraries and the rural, high-cost programs.<sup>5</sup> Others have different views. I would call many of these other views "myths." Perhaps others might call my views "myths" as well, or worse.

I describe these views as myths not in a pejorative sense, but in the sense of evolved folklore that has not been scrutinized. For, as we shall see, even the slightest scrutiny reveals the fiction of these stories. Below I list 15 of what I consider to be the myths most relevant to this Order. Doubtlessly, there are many more.

**1. Long-distance rates have gone down; therefore, we need not worry about new taxes on long-distance services.**

The real issue is not whether rates have gone up or down, but whether they would have been lower absent the new tax. Long-distance rates have gone down in recent years, but they would have gone down further without unnecessary fees and taxes for the Schools and Libraries Corporation.

Under current rules, most support for the Schools and Libraries Corporation is borne by long-distance customers. Phone taxes in general, and long-distance taxes in particular, are some of the most inefficient and punishing taxes faced by the American consumer. Prof. Jerry Hausman of MIT has estimated that consumers lose more than \$2 for every dollar in long-distance taxes.<sup>6</sup>

Telephone services are already one of the more heavily taxed services based on usage -- through federal excise taxes, federal universal service taxes, state and local excise taxes -- far more heavily taxed than the typical 5 percent sales tax that consumers pay for typical goods and services. These heavy excise taxes discourage use, weaken demand, stifle investment, and retard innovation.

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Universal Service Support Mechanisms, rel. May 13, 1998; Statement of Commissioner Harold Furchtgott-Roth Regarding the Common Carrier Bureau's Clarification of "Services" Eligible for Discounts to Schools and Libraries, rel. June 11, 1998; Statement of Commissioner Harold Furchtgott-Roth Regarding the Common Carrier Bureau's Third Quarter 1998 Universal Service Contribution Factors, rel. June 12, 1998.

<sup>5</sup> 47 U.S.C. Section 254(a)(2).

<sup>6</sup> Jerry Hausman, "Taxation by Telecommunications Regulation," National Bureau for Economic Research, Working Paper Series 6260, November 1997.

Ironically, at a time when the federal government is contemplating stiff new taxes on tobacco products partly to reduce demand for what is perceived to be a harmful product, the federal government has also imposed new taxes on telecommunications services. Are telecommunications services perceived to be as harmful as tobacco?

**2. Access charge reductions offset any increase in universal service fund contributions.**

I remain concerned with recent attempts to tie reductions in access charges to the level of universal service contributions.<sup>7</sup> Even to the extent that federal-mandated access charges have been reduced to offset increases in universal service obligations, almost 20% of the schools and libraries contributors do not benefit from reduced access charges. Thus, for example, wireless carriers have paid proportionately higher fees, despite the fact that they have received no access charge reduction.

Moreover, there is no assurance that the consumers who benefit from access charge reductions will be the same consumers who will bear the new universal service burden. For example, business consumers could disproportionately benefit from the access charge reduction while residential consumers pay for new universal service fees. The issue should not be whether, despite massive tax increases that just offset decreases in federal access fee and charges, IXCs have no net differences in costs. The issue should be whether, absent massive new taxes, consumers would be better off.

**3. Line items for new taxes related to universal service are simply a means to develop a "hidden rate increase."**

This assertion defies economics and common sense. If long distance carriers could pad their profit margins by simply adding useless line items on their bills, companies would have already done it. But adding line items is not a means to higher profits.

In a competitive market, prices are determined by costs. If a business tries to raise prices above its actual costs, it will lose its customers to competitors that have not raised prices. Many economists believe that long-distance service is a relatively competitive market.

Simple economics and market realities dictate that competitive businesses must pass along new taxes to their customers. Competitive businesses take prices as given by costs not

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<sup>7</sup> Today's Order does not use access charge reductions to increase universal service obligations. But, the Common Carrier Bureau had proposed using all access charge reductions to fund universal service, and this concept has been referenced when justifying previous funding increases. See, e.g., footnote 73 accompanying para. 24 of the *Collection Public Notice*.

by the wishes of outside spectators. Those who claim that a business should not pass along a new tax to consumers are simply saying that the business is not competitive in the first place; only a non-competitive business has the luxury of not passing all of a tax along to consumers. In addition, a new tax and higher costs will likely reduce net market demand thereby reducing the number of firms that a competitive market can support.

Moreover, even if long-distance carriers were not competitive, they would still pass along part of a new tax to consumers. To the extent that taxes raise prices and thereby reduce market demand for a service, profits in an industry are likely to decrease as the result of a new tax. Consequently, a new tax cannot plausibly be a blessing to the long-distance industry, whether it is competitive or not.

Line items for new taxes are a means of letting customers understand why rates are not lower than they would be absent the new taxes. These line items are not a means of promoting "hidden rate increases." To the contrary, the only "hidden rate increases" would occur if rates were higher as the result of hidden and unexplained taxes.

Only a stupid and foolish firm -- destined for failure in the American telecommunications market -- could fantasize about profiting from a new tax. I have yet to meet a viable firm in any market that appeared to be stupid or foolish. I have also never met a stupid or foolish consumer. And I have yet to meet an American consumer who doesn't want to be told about a new tax.

**4. The federal government should tell businesses to inform customers only about net new taxes, not about new taxes that are offset by decreases in existing taxes.**

It would be easy to dismiss this myth as a flagrant violation of the First Amendment. But even if government should interfere with truthful communication between a business and its customer -- an interference that should never happen -- customers should always know about new taxes, even if other taxes have decreased substantially more. The issue for consumers is not just whether prices have gone up or down, but also whether prices would be lower absent a new tax. Only in Washington could disclosure of such a new tax be considered deceptive.

Depriving businesses of the opportunity to converse freely with their customers is a flagrant violation of the First Amendment. Depriving consumers of information about new taxes demoralizes a democratic society.

If the British government had successfully hidden new taxes from American colonists in the middle 18th Century, we might today still be saluting the Union Jack. Doubtlessly, the British government of that time may well have tried to hide the series of new taxes and regulation of commerce from the American colonists. Efforts by governments to hide information from the public may work in the short term, but never in the long term.

**5. The new tax rates in this Order reflect a reduction in tax rates that would otherwise result.**

Technically, absent Commission action, a higher tax rate would result on July 1, 1998 because of the automatic increase for funding the schools and libraries program that would otherwise take place. However, that increase in the tax rate has only been delayed for one year. The Commission does nothing to adjust the annual \$2.25 billion cap, which will instead go into effect next July. Thus, on July 1, 1999 there will be another increase in the quarterly contribution to the schools and libraries fund of almost \$240 million, or another 75% increase.

It should also be noted that -- while the Schools and Libraries Corporation has estimated \$2.02 billion in demand for the first year of the program<sup>8</sup> -- the Commission's Order today authorizes \$1.925 billion to be disbursed over the next 12 months (July 1, 1998 to July 1, 1999). While this amount does not fully meet demand and it precludes funding additional applications, I am not sure how much of the initial demand will go unmet by this "cut." Moreover, even the proposed tax rate for the remainder of 1998 is higher than the most responsible tax rate -- zero. The Schools and Libraries Corporation has already raised enough revenue to fund practically all requests for telecommunications services in 1998, the only item eligible for discounts under the Act.

The real issue is not whether the rate is higher or lower than it would be if an arbitrary deadline is not met; the real issue is whether tax rates are as low as they could be and as low as they should. The answer is a resounding "no!" Rates can and should be zero for the remainder of 1998.

**6. There is great urgency to adopt this rule and proceed with wiring the schools immediately.**

Enormous efforts have been made, probably entirely well intentioned, to rush this item through the Commission by mid-June. The rationale given is that carriers need time to adjust their July bills. Last December, rates were changed and carriers somehow managed to change their January bills. Moreover, the rates changed last December did not legally go into effect until February,<sup>9</sup> yet billing disasters did not ensue.

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<sup>8</sup> Third Quarter 1998 Fund Size Requirements for the Schools and Libraries Universal Service Program, dated May 1, 1998.

<sup>9</sup> The Commission's *Third Universal Service Reconsideration Order*, adopted in December, 1997, explicitly waived the APA's 30-day requirement because it was deemed critical to implement the new schools and library program on January 1, 1998. Thus, the rules that were necessary to calculate the lower universal service contribution factors were to be effective upon publication in the Federal Register. These rules were not published in the

Further delays may yet occur. Most Senators at last week's hearing encouraged the Commission at least to freeze temporarily this program while the Commission revisits both the substance and the ramp-up period of these new universal service programs. Indeed, in response to Sen. Wyden's (D-Ore.) suggestion that FCC take 6-8 weeks to fix the universal service program, I stated that I would welcome the opportunity. I had hoped that the Commission would follow Sen. Wyden's counsel to suspend the program and make a public commitment to address the entire universal service dilemma -- including the rural, high-cost issues -- in the next 6-8 weeks. I have been disappointed.

I am not convinced that such a minor 6-8 week delay in a new program would cause great harm. Indeed, recent reports indicate that many schools will not even be able to spend the money allocated for inside wiring in 1998, even if the discounts were legal. Internal connections create substantial disruption to students, and schools typically have the work done during vacation periods. Because funding commitments cannot be made until sometime in June or July, many schools have realized that they cannot finish the installation of inside wiring before this summer ends. Thus, to minimize disruption, many schools would wait until the spring/summer of 1999 to provide internal connections in any event.

Finally, there is a reasonable question about whether this Order should be delayed as it is subject to the Congressional Review Act.<sup>10</sup> The Commission's response that it is acting under the 1996 Telecommunications Act exception seems insufficient, since this Order relies on several sections of the Communications Act of 1934 that were not amended by the Telecommunications Act of 1996.<sup>11</sup> Thus, I remain convinced that this Commission's actions regarding universal service contributions cannot take effect until 60 days after submission to Congress, providing it with an opportunity to express its disapproval of the agency determination through resolutions.

**7. Absent the FCC's Schools and Libraries Corporation, there is no federal support for infrastructure development in schools and libraries, and these institutions will not be connected to the Internet in a timely manner.**

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Federal Register until January 27, 1998. Moreover, as published, that Order clearly states that "[t]he rules adopted in this Order will become effective February 26, 1998." Thus, technically, the contribution rates were not legally in effect at least until January 27, if not until February 26.

<sup>10</sup> Current law requires that before any major agency rule -- defined as having an effect on the economy of \$100 million or more -- can take effect, the Federal agency promulgating the rule shall provide Congress with an opportunity to review the rule and express their disapproval. 5 U.S.C.A. section 801, et seq.

<sup>11</sup> Fifth Order on Reconsideration and Fourth Report and Order Regarding the Federal-State Joint Board on Universal Service, at footnote 101.

To the contrary, the General Accounting Office recently reported that federal programs supporting infrastructure for local schools and libraries exceed \$10 billion annually.<sup>12</sup> The federal support does not include countless tens of billions of dollars from state and local governments and from the private sector. The addition of a few billion dollars from the Schools and Libraries Corporation will not materially affect the diffusion of internet access to American schools; indeed, the Department of Education has reported that eighty percent of American schools were connected to the Internet before receiving any money from the Schools and Libraries Corporation.

**8. The universal service section of the 1996 Act was primarily intended to benefit the schools and libraries of America.**

That is not the plain language of Section 254. That is not the plain language of recent correspondence from Members of Congress to the Federal Communications Commission.<sup>13</sup> To the contrary, the universal service section of the Telecommunications Act of 1996 was primarily intended to aid rural America. Although the primary purpose of Section 254 is to provide support for high-cost, rural areas, "the potential pot of revenue that the FCC can collect for universal service from fees on interstate services is limited."<sup>14</sup> Thus, it is inconsistent with Congressional intent to promise some potential universal service beneficiaries enormous and unending benefits, while the primary universal service beneficiaries (rural, high-cost programs) have not even fully voiced all of their concerns.

**9. The Schools and Libraries Corporation will disproportionately aid rural America.**

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<sup>12</sup> Letter from Phyllis F. Scheinberg, Associate Director, transportation Issues, United States General Accounting Office (GAO), to The Honorable Ted Stevens, United States Senate, May 7, 1998.

<sup>13</sup> *See, e.g.*, Letter from The Honorable John McCain, Chairman, Senate Committee on Commerce; The Honorable Ernest F. Hollings, Ranking Minority Member, Senate Committee on Commerce; The Honorable Tom Bliley, Chairman, House Committee on Commerce; The Honorable John D. Dingell, Ranking Minority Member, House Committee on Commerce; to The Honorable William Kennard, Chairman, Federal Communications Commission, June 4, 1998; Letter from The Honorable John D. Dingell, Ranking Minority Member, House Committee on Commerce, to The Honorable William Kennard, Chairman, Federal Communications Commission, June 4, 1998.

<sup>14</sup> Dissenting Statement of Commissioner Harold Furchtgott-Roth Regarding the Federal-State Joint Board Report to Congress, rel. April 10, 1998.

This statement may or may not be true. I have asked the Schools and Libraries Corporation for information that will help determine the accuracy of this statement.<sup>15</sup> The Schools and Libraries Corporation responded in part on June 9, 1998, that they are "not able at this time to disaggregate those requests by urban and rural status because many requests are for services shared by a number of eligible entities, which may include any combination of schools and libraries in urban and rural areas." This inability is despite the fact that rural is a criterion for the level of support for which each school qualifies.

**10. The Schools and Libraries Corporation's program will only benefit education and the students of America.**

If this myth were true, presumably only education interests would be lobbying for the current Schools and Libraries Corporation program. In fact, however, the computer industry, which will provide much of the "inside wiring," has lobbied intensively for the program. They know a great deal when they see it: minimally constrained by budgetary considerations, schools and libraries can be expected to purchase the best and most expensive networking equipment. Some manufacturers have brazenly suggested to the FCC that internal networks for schools should run at 100 Mbits/sec. This capacity is not just for students to exchange e-mail with other students in far away lands or for quickly surfing the Web to research term papers. Rather, this is sufficient capacity for students to send several dozen simultaneous television-quality video programs to one another around the school. Is this capability really necessary for a well-rounded education?

**11. "Inside wiring" is fully required for inclusion under Section 254.**

Section 254 speaks of discounts for "services." It is difficult to rationalize inclusion of plant and equipment for discounts under this section. While I support the majority's decision to fund requests for telecommunications service discounts first, I remain concerned with the continued funding of non-telecommunications services by any non-telecommunications carriers. As I explained in the April 10th report to Congress, the Commission has no statutory basis to provide direct financial support for non-telecommunications services and to non-telecommunications carriers.<sup>16</sup> To the contrary, Section 254(h)(1)(B) unambiguously limits recipients to "telecommunications carrier[s] providing service under this paragraph."<sup>17</sup> Moreover, in the context of the rural health care program, the Commission has acknowledged that Section 254(e)'s explicit requirement that

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<sup>15</sup> See Letter from Commissioner Harold Furchtgott-Roth to Ira Fishman, June 1, 1998.

<sup>16</sup> Dissenting Statement of Commissioner Harold Furchtgott-Roth Regarding the Federal-State Joint Board Report to Congress, rel. April 10, 1998.

<sup>17</sup> 47 U.S.C. Section 254(h)(1)(B).

only "eligible telecommunications carriers" receive support applies to Section 254(h)(1)(A).<sup>18</sup> If that is so, and I think it is, then I do not see how one could conclude that this requirement does not also apply to Section 254(h)(2), as the Commission does when it relies upon that provision to justify allowing non-telecommunication carriers to receive support for inside wiring. Thus, the requirements for receiving funds in conjunction with section 254(h)(2) are actually stricter than under section 254(h)(1)(B) -- that is, a recipient must be an "eligible telecommunications carrier."

Moreover, much of "inside wiring" turns out not to be copper wire or coaxial cable; instead, "inside wiring" is predominantly computers to support sophisticated ethernet. For example, this Commission would allow universal service "taxes" to support installation and maintenance of high-speed computer networks -- including "routers, hubs, network file servers, and wireless LANS" -- inside schools and libraries.<sup>19</sup> Such internal networks would rival those of the largest corporations and universities; most small businesses cannot afford the luxury of installing and maintaining expensive equipment like this.

How many schools have asked for such extensive and sophisticated networks? How much of the demand is for routers? For web servers and new switches? For that matter, how much of the \$2 billion in demand is for equipment that is not covered? I wish I knew. It would help this commission and Congress determine how much money we really need to continue this program and achieve its worthy goals. More important, however, I think the consumers who are footing the bill have a right to know. But, unfortunately nobody knows the answer to these questions. I also asked these questions of the Schools and Libraries Corporation, but to no avail. The Schools and Libraries Corporation responded in part on June 9, 1998, that they are "currently processing the more than 30,000 applications that we received by the close of the 75-day window on April 15, 1998. Until that process is completed, we will not be able to produce an electronic database of the information you requested for all the applications we have received." A perfectly reasonable explanation: that they have not had enough time to finish processing all of these applications for this new program. The problem, however, is that in this Order the FCC pushes ahead with funding of the program before such vital issues are addressed.

Just last week the Common Carrier Bureau found it necessary to issue a "reiteration" as to what "services" are eligible for discounts to schools and libraries. Did all the schools really understand that "the costs of tearing down walls to install wiring" is not a part of the "installation" and therefore not covered? How many schools have made such an error in their applications and how much is demand overstated? If there were not widespread

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<sup>18</sup> See Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Report and Order*, 12 FCC Rcd 8776 (1997).

<sup>19</sup> The Frequently Asked Questions on Universal Service section of the FCC's Web-page indicates that all "necessary software" is also eligible for discounts.