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November 10, 2014

VIE ECFS

Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: *Modernizing the E-rate Program For Schools and Libraries*
WC Docket No. 13-184

Dear Ms. Dortch:

On Thursday, November 6, 2014, Garland McCoy, Founder & President of the Technology Education Institute (TEI), along with the undersigned counsel, met with Commissioner Clyburn and her wireline legal advisor Rebekah Goodheart to discuss TEI's proposal to allow public-private consortia partnerships for purchase of E-rate broadband equipment and services, as set forth for public comment in the pending Further Notice of Proposed Rulemaking (at page 116 and ¶¶ 296-97) in the captioned docket.

TEI emphasized that schools, libraries and their private partners would all benefit from joint buying arrangements by (a) aggregating demand to qualify for lower, bulk-discount pricing of broadband facilities and services, (b) the provision of desperately needed IT support to budget-strapped school districts, (c) installation or "lighting" of high-capacity fiber facilities closer to school and library buildings, and (d) reducing fiscal pressures on the USF fund. In response to questions, we emphasized that a consortium would be unable to cross-subsidize competitive services so long as the volume-discounted rate paid for broadband transport services and equipment, allocated pro rata, did not include extension of E-rate discounts to private members. Mr. McCoy added that the addition of private companies would also provide needed revenue opportunities for schools districts where, when permitted by local law, the schools lease space in their utility closets for collocation of edge caching servers and other Internet equipment needed by CDNs, content providers and similar private Internet firms.

During the meeting, a copy of the attached *Wall Street Journal* article, titled "Malls Fill Vacant Stores With Server Rooms" (Nov. 3, 2014, available at *http://on.wsj.com/1DTSsQy*), was provided, and after the meeting Mr. McCoy followed up with an email message, also attached for the record, explaining that the risk of cross-subsidization is minimal because "in most cases the discounted E-rate you are, correctly, focused on protecting is HIGHER then what these big national companies have negotiated with the national carriers. Because of the huge volume these companies generate."

This notice of *ex parte* contact is filed in compliance with section 1.1206 of the Commission's rules, 47 C.F.R. § 1.1206. Should you have any questions regarding the foregoing, please do not hesitate to contact me.

Sincerely,

/s/ Glenn Manishin
Glenn B. Manishin

Enclosures
cc: Commr. Mignon Clyburn
Rebekah Goodheart
Philip Verveer
Jon Wilkins
Patrick Halley

THE WALL STREET JOURNAL.

http://online.wsj.com/articles/malls-fill-vacant-stores-with-server-rooms-1415042980

TECHNOLOGY

Malls Fill Vacant Stores With Server Rooms

Empty Department Stores Are Converted Into Data Centers; 'Who Else Wants Them?'

Zayo Group runs a data center and interconnection hub from part of Phoenix's Park Central mall, which is now mostly used by office tenants. *MARK PETERMAN FOR THE WALL STREET JOURNAL*

By **DREW FITZGERALD** and **PAUL ZIOBRO**
Updated Nov. 3, 2014 4:33 p.m. ET

The Internet is moving to a shopping center near you.

In Fort Wayne, Ind., a vacated Target store is about to be home to rows of computer servers, network routers and Ethernet cables courtesy of a local data-center operator. In Jackson, Miss., a former McRae's department store will get the same treatment next year. And one quadrant of the Marley Station Mall south of Baltimore is already occupied by a data-center company that last year offered to buy out the rest of the building.

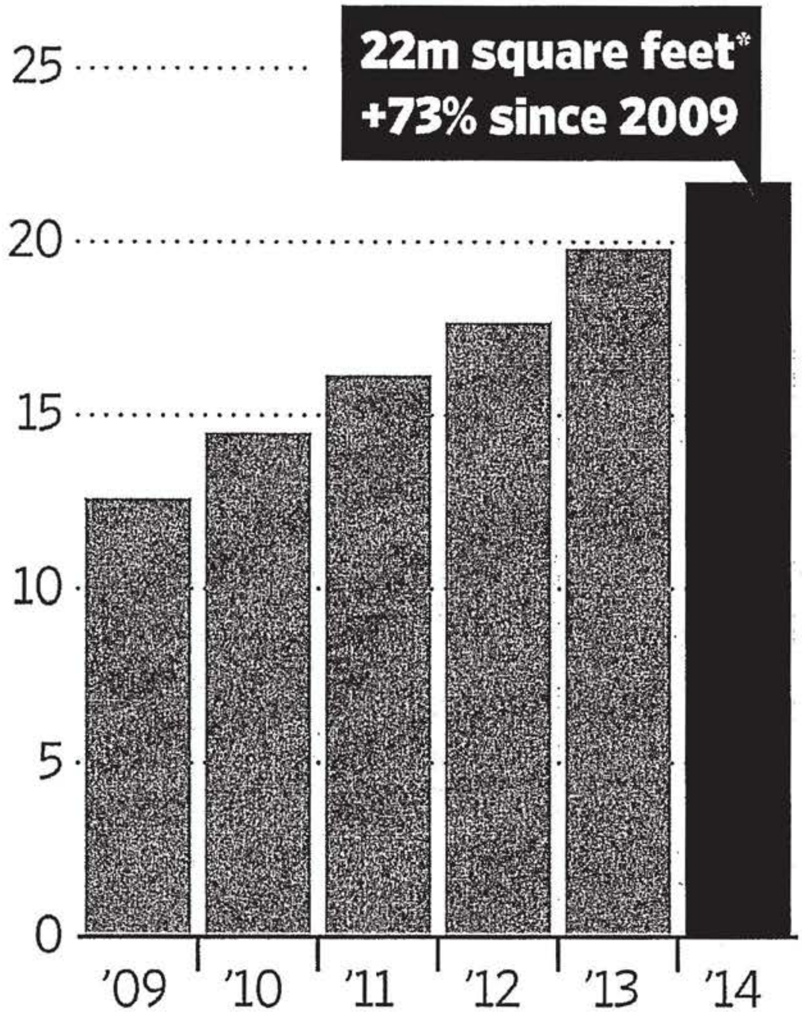
As America's retailers struggle to keep up with online shopping, the Internet is starting to settle into some of the very spaces where brick-and-mortar customers used to shop. The shift brings welcome tenants to some abandoned stretches of the suburban landscape, though it doesn't replace all the jobs and sales-tax revenue that local communities lost when stores left the building.

Venyu Solutions LLC, a data-center operator that is renovating the former department store in Jackson, sees more opportunity for conversion because of sheer amount of distressed retail properties. "Who else wants them?" said Brian Vandegrift, the company's executive vice president of sales. "You're not competing with people in substantial businesses who want those spaces."

Many malls and neighborhood shopping centers are still grappling with vacancies five years after the recession. The average mall vacancy rate hovers around 5.8%, according to market researcher CoStar Group, the same level as in the third quarter of 2009. Strip-mall vacancy sits at 10.1%, down from 11.5% five years ago. Rents are down too. Asking rents at malls have fallen 16% over the past five years, while strip mall rents declined 12%, according to CoStar.

Keeping Count

Operational multitenant data center space in top 10 U.S. markets, in millions of square feet



*Estimate

Source: 451 Research

The Wall Street Journal

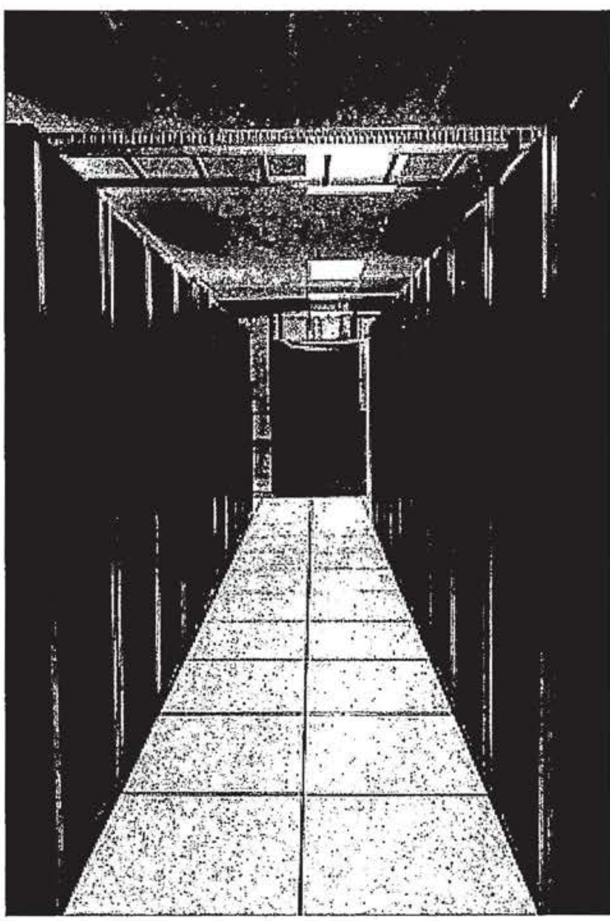
For companies that house the equipment that makes online shopping possible, however, business is booming, helped by surging volumes of Internet traffic. Revenue from the biggest data-center operators is expected to increase 15% this year, according to tech consultancy 451 Research.

Deepak Jain, the chief executive of data-center operator AiNET, bought a former Boscov's department store in 2012 at Marley Station Mall, a shopping center south of Baltimore where Macy's , Sears, and J.C. Penney still operate as anchor tenants. Last year, Mr. Jain offered to buy out the rest of the mall but said he was rebuffed.

In scouting properties, Mr. Jain said the most attractive real-estate prices are often in middle-class neighborhoods where many consumers have turned to online shopping. "The Internet helps serve that dislocation, and there's no trend in sight that seems to change that," Mr. Jain said.

Operators like AiNET and Venyu aren't the first landlords to pack server stacks where clothing racks once stood. Midwestern data-center operator Cosentry Inc. turned a half of a vacant J.C. Penney store in Omaha, Neb., into a data center more than a decade ago. A PayPal office moved into the other side.

Zayo Group Holdings Inc. runs a hub for Internet providers' connections from part of Phoenix's Park Central mall, which is now largely an office park.



Zayo Group runs a data center from part of Phoenix's Park Central mall. *MARK PETERMAN FOR THE WALL STREET JOURNAL*

Converting retail properties isn't simple, however. Data-center operators have specific needs for their properties including access to heavy-duty fiber optic communications cables and reliable and affordable power access. The buildings need to be able to withstand tumultuous weather, from hurricanes to tornadoes. Windows are a negative.

For those reasons, the former big-box real estate locations are appealing though they are used by the less-demanding "retail" end of the data-center market that serves clients like local hospitals and law firms, which only need a few square feet of space to back up critical documents.

Venyu is in talks with a company that "mines" virtual currencies like Bitcoin by performing massive calculations around the clock for space in its converted mall in Baton Rouge, La. "We're wanting to make sure he's going to pay us with U.S. currency," Mr. Vandegrift said.

Many websites aren't likely to move into the shopping center down the street. Big brands like Amazon.com Inc. and Google Inc. are more likely to use custom-built server farms.

Equinix Inc., the country's biggest independent data-center operator by revenue, avoids active malls because they don't offer the kind of built-in security its customers need. Tenants like restaurants that use fire would represent a liability, said Charles Meyers, the company's chief operating officer.

Phoenix's Park Central mall, which was built in 1956, is now mostly used as office space. Shown, an undated postcard a few years after it opened. *BOB PETLEY STUDIOS / THE JOAN DE ARC CRUSADER*

Sears Holdings Corp. set up a new unit last year to try to sell excess space from its auto centers to telecom companies but has yet to find a customer.

And while data centers bring much needed occupants to often deserted locations, they aren't restoring employment levels. Venyu plans to hire about 30 people for its new location in Jackson, Miss. The local department store employed twice as many.

In Fort Wayne, Lifeline Data Centers LLC said it would hire about 10 people to work in the 110,000 square foot space. That compares with roughly 90 when it was a Target store.

Lifeline's investment will create months of construction work as it seeks to upgrade the property it bought in September that Target vacated nine years ago.

Rich Banta, a Lifeline co-founder, said Lifeline will spend $3.2 million, more than three times the price for the location, to fortify the walls with concrete and add steel girders to the roof to withstand tornado strength winds up to 130 miles an hour.

RELATED

- Google Renews Its Cloud Efforts (http://online.wsj.com/articles/google-renews-its-cloud-efforts-1415062792)

The company has done it before. In 2008, Lifeline bought an abandoned shopping mall in Indianapolis with the plan to level the building and build up the 41-acre site. But it turned out part of it was a fallout shelter in the 1950s, making that section suitable for servers.

Mr. Banta said the location of the Fort Wayne site—more than a half mile away from a highway, rail line or river, 5 miles from an airport and outside a flood zone—was what made it attractive. "By the time you've done all that vetting, most sites don't fit that criteria," he said.

The location happens to be across the street from a McDonald's and a recently closed Kmart.

Write to Drew FitzGerald at andrew.fitzgerald@wsj.com and Paul Ziobro at Paul.Ziobro@wsj.com

Corrections & Amplifications

Venyu is in talks with a company that "mines" virtual currency for space in its converted Baton Rouge, La., mall. An earlier version of the article misstated the city. (Nov. 4)

Manishin, Glenn B.

From:	Garland McCoy [gmccoy@technologyeducationinstitute.org]
Sent:	Friday, November 07, 2014 1:02 PM
To:	mignon.clyburn@fcc.gov; Rebekah Goodheart
Cc:	Manishin, Glenn B.; Philip Verveer; jon.wilkins@fcc.gov; Patrick Halley
Subject:	Follow up to our meeting.

Commissioner Clyburn and Rebekah Goodheart,

Glenn and I want to thank both of you for meeting with us yesterday and for being so generous with your time. I did want to focus in on one point that has come up in several meetings we have had with FCC staff.

FCC documents have hinted at the abuse of the E-rate system and a good deal of discussion has focused on the lack of transparency in the E-rate pricing structure. The facts seem to point to the exorbitant access pricing, which of course enriches the incumbent carriers at the expense of the school district and E-rate fund. But to be fair to some carriers, the **lack of volume** generated by the schools is a factor in pricing. The reason Verizon will bring fiber to a Walmart store in rural Loudoun Co. and resists bringing fiber to a school or local rural community has a lot more to do with **volume** than anything else.

I want to assure both of you that the following scenario is accurate (and should be easy for the FCC to validate).

So in the scenario we discussed in our meeting Walmart (or some other national franchise chain…Motel 8…HomeDepot…you get the picture) brings fiber to the schools it passes on the way to its new store and so a discussion begins about access pricing going forward. The school superintendent mentions how much they pay a month for access at a 20/80 split (school district covers the 20% while the carrier gets 80% covered by the E-rate fund being paid directly to the carrier). When the figure is mentioned to the Walmart official his response is, "well that figure is to rich for our blood". You see, in most cases the discounted E-rate you are, correctly, focused on protecting is HIGHER then what these big national companies have negotiated with the national carriers. Because of the huge volume these companies generate they get a rate that is so low that it will be competitive to most of the discounted E-rate access prices most school districts pay.

I am not saying the FCC should not be focused and concerned on this but I think you will find in the vast majority of cases the private sector will not be tempted to dip into the subsidized E-rate because, in addition to the damage it would do to their corporate name (which they pay PR and Ad firms millions or billions on each year to ensure we like/love them) it will turn out that they have already negotiated volume rates that are competitive to or lower than the E-rate monthly access the school pays for.

There is a reason so many of the carriers and cable folks filed against my comments. They enjoy a very nice monopoly position and want to keep it this way. If you want to see your E-rate fund go further doing good things for those who truly need it (not the monopoly carriers) my modest recommendation to remove the legacy regulation should be considered.

I hope this helps in your deliberation. And if you have any interest in exploring the opportunity of bringing the PEG into the 21st century (fully funded) so, for example, students are not disadvantaged when they get home and are unable to get broadband access to work on their studies, I would be happy to help. All the best.

Garland T. McCoy | Founder & President | Technology Education Institute | 202-906-0654
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