



Federal Communications Commission
Washington, D.C. 20554

CC DKT. 96-45

FEB 1 1999

RECEIVED

MAR - 1 1999

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

The Honorable Dirk Kempthorne
United States Senator
111 Main Street
Room 140
Lewiston, ID 83501

Dear Senator Kempthorne:

Thank you for your letter expressing the concerns of your constituent, Mr. Michael S. Fischer regarding the implementation of the schools and libraries universal service support mechanism of the Telecommunications Act of 1996 (1996 Act). The White House has asked me to respond to your message.

On May 7, 1997, the Commission adopted the Joint Board's recommendation to provide discounts for telecommunications services for schools and libraries ranging from 20 to 90 percent, with economically disadvantaged schools and libraries receiving the greatest discounts. The Commission adopted the Joint Board's recommendation to give schools and libraries maximum flexibility to apply their universal service discount to whatever package of telecommunications services they believe will meet their needs most effectively and efficiently. In addition to all telecommunications services, discounts may be applied to Internet access and internal connections.

The annual cap for the schools and libraries program is \$2.25 billion. During the first half of 1998, the Universal Service Administrative Company (USAC) was directed to collect \$625 million for the school and libraries mechanism. Schools and libraries that filed applications during the 75-day filing window (January 30 - April 15) will receive funding commitment letters in several "waves", which began on November 21, 1998 and likely extending into the month of January 1999.

On June 12, 1998, the Commission revised the funding year for the schools and libraries support mechanism and adjusted the amount of funding available for schools and libraries for the first funding cycle. The Commission concluded that it was in the public interest to change the funding year for schools and libraries from a calendar year cycle (January 1 - December 31) to a fiscal year cycle (July 1 - June 30). Because the Commission concluded that the transition to a fiscal year cycle should be implemented immediately, the first funding cycle will encompass the 18-month period from January 1, 1998 through June 30, 1999. In addition, the Commission directed USAC to collect and disburse no more than \$1.925 billion for that 18-month period. The Commission will begin funding collections for the schools and libraries mechanism at this level and allow for the possibility of increased collections in the future. The annual cap of \$2.25 billion remains unchanged.

No. of Copies rec'd 2
List ABCDE

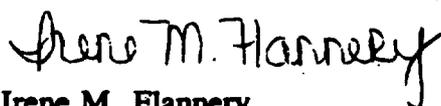
The Commission's decision to revise collections for the schools and libraries support mechanisms is consistent with anticipated reductions in access charges. A gradual phase-in of the schools and libraries that takes advantage, and reflects the timing, of access charge reductions will provide substantive support for eligible services ordered by eligible schools and libraries. If these support mechanisms were funded to the full amount of the caps adopted in the Universal Service Order, there would be negative consequences for consumers.

Based on the estimated demand for support by schools and libraries that filed applications during the initial 75-day filing window, the collection rate of \$1.925 billion will be sufficient to fully fund all requests for telecommunications services and Internet access, and to fully fund requests by the neediest schools and libraries for internal connections. Because the rules of priority adopted in the *Universal Service Order* were premised on the assumption that support would be distributed on a first come, first served basis, the Commission adopted additional new rules of priority to address applications filed when a filing window period is in effect. The new rules of priority ensure that support will be directed toward the most economically disadvantaged schools and libraries as well as those located in rural areas. The new rules of priority will equitably provide the greatest assurance of support to the schools and libraries with the greatest levels of economic disadvantage while ensuring that all applicants filing during a window receive at least some support in the event that the amounts requested for support submitted during the filing window exceed the total support available in a funding year. Because these rules of priority utilize the discount matrix, which provides higher discounts for schools and libraries in rural areas, they also provide greater support to schools and libraries in rural areas.

The Commission concluded that this revised method of prioritization is the best way to provide substantial and predictable support for schools and libraries in light of the decision to adjust the collection levels. The best approach is to provide full support for recurring services, and to direct support for internal connections to the neediest schools and libraries. The Commission is troubled by the disruption imposed on schools and libraries and hopes to avoid this situation in the future. The Commission remains committed, pursuant to section 254, to implementing all parts of universal service, and remains dedicated to providing support to the most economically disadvantaged schools and libraries.

The Commission appreciates your interest in this important issue. Your letter will be entered into the public record of the universal service proceeding (CC Docket 96-45).

Sincerely,



Irene M. Flannery
Acting Chief, Accounting Policy Division
Common Carrier Bureau