MR. DAWSON: Hi, everybody. My name is Doug Dawson, and I'm with Competitive Communications Group, and along with my partner, Bill Tucker. The topic we picked today is becoming a competitive local exchange carrier, how does it really work?

We picked this topic, and it really defines who we are as a firm. This is what CCG does for a living. What we do for companies is we come in and pretty much handle everything it takes to get the telephone business, except two things: We really are not engineers. We always recommend that companies get engineers. And when it comes down to filing actually legal papers, we're not lawyers, but we've put together a team that helps people do everything else.

As Madonna mentioned, one of the things that we do for companies in the very first beginning of looking at their business is look at financial analyses, and really decide whether it makes any sense to even get in the business.

We've helped a ton of different type of competitive local companies of all types, and we have a lot of experience in different ways that we can make things work.

Along with that, we do strategic analysis, just to help people decide exactly how you want to go about doing it. I never met any two competitive local companies who are alike. And so, everybody has their own ways of getting into the business. And we can help you with our experience of knowing what other companies have done, and find a model that will work in your community.

We also have a team of people who do all the regulatory work. There's all sorts of papers you got to fill out to get in this business, coming up with the price sheets, going to the FCC and getting the authority to sell long distance, just all sorts of regulatory pieces of paper.

The one thing that we do that we are most proud of, we think we're the only consultant company in this field that does what we call in-line orientation. Once RUS or somebody else gives you the money, we go in there and actually help you get the phone business up and running. We help hire employees, help find people with the expertise. We help just do all the little nitty gritty things that it takes to get into business.

The companies we've been helping the last year, we've seen that we actually help people get in the business anywhere from six months to a year faster than if they went on their own.

We've just learned all these little tricks. We know what to do first and what the priorities are, and how to get things going.

Also, we do marketing work. We can help you design literature so you go out to the people in the community and tell them that you're in the business now, so they know what you have to offer.

And finally, we do training. We can come to your new employees, when you get in the business, and teach them how to be phone employees.

This presentation covers four key issues: 1) What products to sell. 2) What are your network options. 3) What are your operational considerations, for such billing, and back office support and 4) What is your potential profit.

On products to offer, before we really talk about products with anyone that wants to get into the business, we really step back a little bit, and we ask them two questions: The first question is, who are you? By that we mean is, Why are you getting into the business? What are your motivations?

And the second question we ask: Who are your customers? Who are you trying to sell to?

If we can answer those two questions, you've almost defined the products list out of that. Once we really understand what it is we're trying to do, we pretty much know what we want to sell and what we don't want to sell.

Interestingly, on the question of who are you, as I said before, there really are no two CLECs, at this point in time -- in the last year, I think we've helped about 100 CLECs, and we haven't duplicated one. So if any of you decide to get in the business, I'm sure you'll come up with your own solution that meets your community.

Our focus in helping you look at getting into business. The two main products are the local service and the toll products. Obviously, that's where all the money is, and we're going to talk here in some of the further slides more about the local service. Other possibilities for products are endless. But four main ones Internet and voice mail, data services, either high-speed lines that go to businesses for long distance transmission. Once you decide to do this, you can get in the paging business.

Some other really interesting things that we see people getting into are the paging business. A lot of people are coming back and they're getting into the equipment business and selling sets.

In your area there may not be any good outlets for people to buy good business telephones or residential telephones. We see a lot of people, while they're getting into the telephone business, they decide to get into the cable TV business. There's a really synergy to doing both at the same time.

And also, we have a lot of people on the business plans that are really looking at future possibilities. Half the people I'm working plan to get into in the next three to four years is electric resale.

Once you've set up this infrastructure, you know how to set it up, on the way to get the customers, when electric competition finally comes to your area, there's no reason for you not to get into the same business there.

So once you've set up the shell, we want to look at all the other possible revenues.

We emphasizing the local service, because that's the real reason you're going to get into business, the FCC and the Telecommunications Act is really giving you three different options on how to set up your network.

There's really three basic business plans for getting into this business. Which of those three plans you choose really is dependent on the geography in your area, the capital that you might have available to you, and then your willingness to take risks.

Obviously, putting a lot of capital in the ground means you're going to have to have a long-term obligation. Since two of these three are really engineering and plan-specific, we very, very strongly recommend that you get engineers into the process very early on.

Let me start talking in detail about these three possible ways of getting into the business.

The first way, which the FCC set up, and very specifically have thought out the rules, is called bundled resale. Bundled resale, you can come in immediately, once you're certified, and you can take all the current services that are currently sold to anyone in your territory, or anything in the tariff of the company, even if no one is using it there, and you're allowed to purchase it at a wholesale discount, and then resell that to people in your area.

The wholesale discounts have been mandated by the FCC and the states, and so, we've seen the ranging anywhere from 14 to 24 percent. Most states are around 20 percent. There's probably 30 or 40 of them in that range.

When you get bundled resale, what happens is you go to the company, which is GTE or Sprint or United, you buy something like one-party residential line service, you get the 20 percent service, and then your roll as a telephone company is to provide billing, customer service, and the sales and marketing.

The phone company still does everything else. They have the switch and loops. If there's trouble, they still show up and fix it. What you've really done is allowed yourself to keep some of the profit for selling that product.

In the long run, this approach does not ensure that service will improve. All this really does is allow you to keep some of the profits that formerly went out to the Bell company.

This is a really easy business to get in. We say here there's no major barriers filling out all the paperwork, and you're in the business. The paperwork and the training.

It also has a very low margin, a 20 percent discount. By the time you get around to providing those three things, the customer service, you've pretty much eaten up the 20 percent discount. So you don't make a whole lot of money at it. There is a little bit to be made, but not a ton.

What's attractive about it is it's got an easy exit strategy. You can just close up shop and run. You can turn all the services back to the company if it just doesn't work.

Of much more interest is the next network consideration, and that is the process of buying and operating your own switch, and then using the loops that are currently in your territory. You can take those loops and bridge them over, hook them up to the switch you're on. The FCC and the Telecommunications Act refer to this as unbundled network elements.

This involves a few things. One thing it involves is you've got to find a way to provide electronics and things in there, so that you can takeover. There's a lot of options here. You can actually go to the Bell company and have them build a room for you that you can put equipment in, some you can get. That's called physical telecommunications. And of course, there's a bunch of other, you know, variations of that theme. What's attractive about this one is it's got a much greater operating margin than bundled resale, because at this point you've cut out a lot of their costs.

The really key consideration to whether this business works is what the cost is in the loop that you can buy from the Bell companies. So if you're in the one-party residential business and your current rates are $15, and they're going to sell you a loop for $20, then this all of a sudden becomes a totally unworkable way to get into that business. But there are many situations where this works out quite well.

This takes a little bit more capital because you have to get into the switching business, so at this point, now you've got to have the capital to build a switch.

And on top of the billing and the customer service functions we talked about before, to get into business this way you now need some technical people to run that sort of equipment.

If you really don't have adequate service in your area and the loops are really old anyhow and they're really not worth going out to use those to hook up to your switch, the really sensible way to get the business, if the money turns out to work out right for you, is to not only put in the right switch, but go ahead and build facilities out to end users.

Now, you can build facilities out in such a way you make sure everybody is served. We put brand new facilities, so all those old problems of really lousy lines, lots of static on them, go away.

In this business, you can pretty much have complete flexibility how you want to do it. You can come in and you can build facilities on fiber, you can build facilities out of Coaxial, you can build copper facilities.

Now, there's a lot of new existing wireless facilities, so there's lots of ways to get out to customers nowadays. o, what you want to do there is look at financial feasibility of these various things and find one that works best in your area.

One thing that -- I don't want to make it sound like each of these three possibilities are just the only thing you can do, because lots of CLECs actually let you do all three of these.

What you very typically might do in your service territory is put a switch in, which is the second of the two opportunities here. Go to selected places right off the bat and build some loops.

For some customers it might make economic sense if they wanted to build some of the loops. Maybe some customers are so replete that really the best option might be to continue to resale them.

We see most CLECs taking each customer in their area and really picking each of these three options so that they maximize the service to the customer, and they also maximize their bottom line revenue streams. So you don't necessarily ever have to do all these things. That way you're not forced from day one to put all the money in to build every customer. You can have a five-year plan. Let's build 20 percent of the customers each of the five years. You can still serve everybody with that service strategy.

I'm going to break the presentation here and hand it over to Bill to talk about the rest of the issues.

MR. TUCKER: Thank you, Doug. One of the things that we do as a company, the types of companies that we work with, the types of clients that we work with are typically or exclusively third and fourth tier market organizations.

We don't do any work for AT&T. We don't do any work for US West, Southwest, actually, or any of the RBOCs. We don't do work for Teleport or MFS or AOL or any of the big, you know, cable companies, like Time Warner, or ECI, or any of those groups. The clients that we work with are all small, generally rural. We've helped companies with overbuilds into communities as small as 400 households, with, you know, 95 to 100 businesses, up as large as probably a market of maybe 200,000.

But mostly, our clients are in the 10,000 to 15,000 customer and below market size. And like Doug said, we've worked with an awful lot of companies that have gone out into newer, smaller markets, and things like that.

So when we talk about these network issues, it's not how to overbuild New York City or Dallas or Houston. It's how to go to a smaller, very geographically-defined, very market-specific customer base, and provide those customers with the best possible services.

Doug talked about some of the network choices and issues and options that you have. I want to talk a little bit about the operational stuff because really, that's where we find most of our clients sort of fall down, if you will.

Everybody understands the issue of network and fiber and coax and twisted pair, and switching, and all the enhanced services. Those are well-understood concepts.

Less consideration is given to the fact that we really have to bill this. We have to put a billing system in place that can offer all the different kinds of services that we want.

If we're talking about local service and it's flat rate only, that's not too tough. If you're only going to do local and maybe long distance, that's not too difficult, either. But when you start offering sophisticated products and services out to your customers, then it gets kind of tough to put together a good billing system that's easy to understand by your customer.

You really have to start thinking, about billing systems, in our view, almost as soon as you start thinking about getting into the business. And once you've made some concrete decisions that, yeah, we're going to do this, we strongly suggest looking at billing really that early on in the process.

We kind of jumped around there, I guess to item number 1, 2, 3, 4, because I think it's the second most important of all these different points. I guess, really, the most important, I think, is -- and this seems kind of strange, maybe, but the most important is to have someone within your group managing the project.

If you got a group of different people responsible for different components of making this move forward - engineering, accounting, management - it gets difficult to really move the process forward as fast as you want. We suggest putting somebody in charge, who is excited about the opportunity and sees maybe has a vision. So when you start running into some road blocks, the person will just continue to push it forward, and -- and stay excited about -- about the opportunity, in the face of some of these difficult things.

Another important component is working with the RBOCs or GTE, whether that be US West or Southwestern Bell or GTE. You probably read in the paper this morning that Bell Atlantic is going to acquire GTE. I don't know how that necessarily impacts anybody in this room on a direct basis, but I can tell you on a general basis that it's going to mean that GTE is less interested in supporting you. They're going to be less interested in providing you with better customer service, and they're going to be less interested in helping you get into the business and interconnect with them.

Because even if you overbuild completely, you still have to interconnect with the existing telephone company, so that all calls can be originated and completed.

If there's only one member on the reservation who continues to use US West or GTE, this one customer or that person, that household, has to be able to make calls to all of their friends and associates, and everybody has got to be able to make calls back.

And so, that issue becomes a little bit more important if GTE is focused on you their employees will keep their jobs while they're being taken over by Bell Atlantic. So you may see some real impact, 12 to 18 months down the road, in terms of trying to get better service and better interface with the company that is currently the carrier.

Customer service is important, obviously. You guys all experience some level of customer service today when you call US West, or whoever takes care of your lines today, and you may be happy with that, you may be unhappy with that.

But you've got to define, you know, what kind of customer service do you want and how good do you want it, and do you want to hire ten people for 100 lines, or one person for 100 lines, or 1000 lines. It truly is an important consideration, because certainly, want your members to know that when they call in to the telephone company, they're getting folks who are interested in their situation.

And then, finally, network management, which is making sure that 911 works, and making sure that things like -- whenever one of your customers makes 10-321 call, it's called casual calling, they make those kind of calls, you as a telephone company have to capable to get that information back to you from wherever it comes from, so that you can bill it on the bill and get your revenues for it.

Because as a telephone company, you're going to pay Sprint or MCI, or AT&T for that call, so you have to make sure those revenues come back in to you. Those are all network management type of issues.

Numbers-wise, I just want to spend a couple minutes on the financials. As was mentioned, we do a lot of business plans, as well as some of the truly detailed implementation. And your revenue streams are residential local and long distance, small and medium business customer local and long distance.

Data is just an exploding arena of revenues. Historically been very little data services, particularly in the rural areas, because customers tend to be smaller and less sophisticated, but as data prices come down, you can offer things like frame relay, DS1s and other data type services for far lower prices than what's out there on the market today.

And if you can cut those prices by 50 or 60 or 70 percent, you're going to do a great service to your business customers and residential customers that want higher speed Internet access, for personal or home based businesses. So you'll see a real -- you may see a huge explosion in data services.

Access revenues, are the revenues that you get as a telephone company when you own a switch. Now, the Bell companies typically charge about two pennies a minute. We've got clients charging anywhere from two pennies a minute up to 10 or 12 cents a minute, depending on how rural you are, what your costs are.

And in fact, it was mentioned about Tohono O'Odham. Doug worked with those folks back 10, 12 years ago when they first got started, and their access revenues are quite substantial, and is a huge driver of their total revenue stream. And it's because their customer base is so spread out that the cost needed to provide affordable local service has to be made up somewhere, and those come from access revenues.

What we see is, on average, a business line, our business customer spends in the range of $60 per line. A residential customer spends in the range of $23, and that would tie in with the 19.54 that the prior gentleman mentioned, plus some money for calling features, caller ID, call waiting, call forwarding, things like that. It averages to be about $23.

Access revenues can generate $20 to $40 per line in revenue, and once you've made the investment in the switch, there are very little incremental expenses associated with that. And that is virtually all profit.

It provides a huge amount of your revenue, as was shown in that bar graph, of 51 percent. And of that 51 percent of revenue, I would venture to say it drives probably 70 or so, 75 percent of the profits that many of our rural clients see.

So it's a huge issue, and one that you just have to be willing to understand and address. And if you understand it, there's ways that you can take advantage of it and make it work in your favor.

With respect to the $62 and $23, I just throw that up there as some averages. It doesn't mean you have to match those rates. Some of the planning that you want -- that you're going to want to do is say, gosh, we know our business is spending $60 a line, they've got five lines, they're spending $300 a month for local service. How can we help them bring that down to $200 a month or $150 a month? What kind of benefits can we bring to our business members to help them out?

It's not that you have to continue to price it at $62. And you may choose to. Those become issues that really are strategic, and they have nothing to do with the technology that you use and everything to do with what benefits you want to bring to your members, and how you want to position yourself in the business.

Doug talked about the three options. Profit margins on bundled resale where you don't have to make any investment at all, are very thin, anywhere from 0 to 10 percent.

When you buy a switch and you lease the loops from the incumbent telephone company, again, whether it's US West or Southwestern Bell or GTE, your margins, your profit margins run up into the 15 to 30 percent range, and that's because now you're getting access revenues.

The other thing that you are eligible for when you start investing in switching, you're now eligible for universal service funding. And while those rules haven't been totally defined, I think by the beginning of next year, universal service funding is supposed to be straightened out and available to CLECs. And I'm not going to swear to that, but the universal service rules are being worked on, and there's probably folks who are going to speak a little bit more in depth about that.

But those will come, and they will be available, if you either invest in switching and lease loops, or if you do a complete facilities overbuild.

Bundled resale only will not qualify you for the universal service funds.

If you do a facilities overbuild, the margin goes now into 35 to 50 percent, and we've occasionally seen that be a little bit higher, but I don't want to start talking about 75 percent margins, every dollar that you bring it you keep 75 cents of.

It's more likely to be in the 35 to 50 percent range. That's where you overbuild and your capital investments are the highest. So there's a real relationship here between lowest amount of capital and the financial return; the money you have to put down and the amount of returns that you get. Those pretty well correlate with most of the clients that we have worked with.

UNIDENTIFIED ATTENDEE: Percentage wise, for the clients that you're working with, which category do they fall in, out of the three?

MR. TUCKER: That's a good question. Most of our clients, I would say, fall into one of two camps. And that is, they start with bundled resale, and then, as they get a base of customers, they invest in a switch, because now they've seen that, gosh, we can do this, and it works.

Then they invest in a switch, and then they start leasing loops from the RBOC, and get to --generate the access revenues associated with owning a switch. And as they get a core group of customers onto their network platform, at that point, they start overbuilding to those particular customers. So it's sort of a phase-in approach. That's -- that's one of the things that we're seeing.

And the other as a starting point is we've got a number of clients, rural, local exchange carriers who already own a switch. And so, they're -- they're not fussing around so much with bundled resale, because they don't want to lease the loops from Bell. They think the loops are lousy, they're 30-year old Air Corps cable, and statically and pretty poor, and they don't want to risk their reputation by -- by relying on somebody else out there for loops.

You know, if a squirrel eats through a loop, you still, at that point, you have to rely on GTE or Bell to go out in their bucket truck and fix that plant. They don't have control over the plant.

UNIDENTIFIED ATTENDEE: Over the long-term, do your clients continue to offer the low-cost service, or do they just become competitive with whoever is out there?

MR. TUCKER: That's a really good question, but to make a generalization on. It depends on the market, and that's why I say -- and I don't want to -- I like to give people good answers.

But if you're in a small market, generally underserved, where let's say any RBOC, it's doesn't matter, I'm not trying to pick on any of those big companies, but any RBOC, where the only features available are call waiting, call forwarding, there's no voice mail, there's no caller ID, there's no Internet service.

When a company comes in and they start offering these other services, with low customer service, a nice bill, the fact that they're local they're involved in the community, you don't have to offer a big price discount in order to get all of those customers excited about the fact that, gee, you know, now we've got an alternative to one of these big guys, and they're going to give us voice mail, they're going to give us the better services that we've always wanted, they're involved with our community. You don't have to drop your prices from $23 or $20 down to 10 in order to make those customers truly satisfied.

You can offer the whole view of other value-added types of solutions that we've seen and get, you know, 80, 90 percent of the customers.

The bigger the market that you go into, the more you end up selling on price. But we really try to work with our clients to have them think about what other benefits do you bring, besides price.

If you can sell on all those other benefits, then your customers end up saying' you mean I can get this service, this service, this service, better local service, I can come to your shop, you got a retail store front that I can visit all the time. I can get all that stuff for the same money?

It's a great time to get into the CLEC business. It's not for everybody, and we certainly don't make any blanket recommendations that everybody should get into it, but obviously everybody in this group has at least some interest in this kind of an opportunity, and really we're very bullish on the small market opportunities for companies and organizations.

We've worked with clients taking 95 percent of the customers, they've changed their phone number, and just in rural America. It's a great feeling for us to be able to help people move forward and give customers better service, better choices.

We think you need a business plan. It's just very important to kind of gauge where you want to be and how much you have to spend in order to get there.

And finally, you can make money at it if you want to make money at it, or offer lower prices, if that's where the direction of your firm wants to be.

But again, you have to simply start at the highest level and ask, what do we want to do? What benefits do we want to provide? Do we want to bring in more money for ourselves, or provide lower prices for our members? And either of those options, or anything in between, is really workable, once you think it through.

Let me just add that at the back of our presentation, we've got a little article on some of the details about what it really takes to get into the business. And we've also got some brochures on that back table with the red skirt on it, that you're welcome to -- welcome to take with you, and look at your leisure.

UNIDENTIFIED ATTENDEE: I have a question for you. Do you see a window of opportunity, at this point, and is it closing?

MR. TUCKER: We see the window of opportunity being as wide open as it's ever going to get. It will close at some point in time. I think the further out you are, the more rural you are, the longer you have before that window closes.

It is important, though, that if you're large enough that you've got some larger business customers, you want to be the first competitor into the market. Especially if you get another competitor that puts in some facilities, a switch and some fiber, and they truly overbuild to some margin customers, it takes a lot of your profit potential away.

So the bigger your base of operations is, the more time is of the essence, and the quicker that window of opportunity will close. The further you are out and the more rural you are and the smaller your average customers are, the longer that window of opportunity will stay open. That's how we see it. Yes, sir?

UNIDENTIFIED ATTENDEE: Any thoughts on how taxation fits into this picture? I was looking for somebody that might be talking about taxes, but I didn't see it in here anywhere, so what's the situation?

MR. TUCKER: Do you want to talk to that? I'm going to let Doug talk to that.

MR. DAWSON: Taxation for a Tribe may have some advantages. There's a number of things you don't have to do. For instance, the RBOCs have to do the subscriber line rate that of $3.50. You're exempt -- all CLECs have to charge those sort of things. That's one competitive advantage. If you're saying local rates is $20, it may be $20 plus $3.50 a month, for tax.

On top of that, you may be exempt for the local surcharges and state. If the state has a 50 cents per subscriber line charge, because you're not regulated, in many cases you're not going to be charged that.

On top of that, as you set up a structure as a co-op, or your entity is already taxable for other purposes, then that the profit margin goes up, because of this, because the part of that profit margin is going to Federal income taxes, and in a lot of cases you guys don't have to do Federal income taxes.

So all of a sudden those exemptions just make the picture better.

UNIDENTIFIED ATTENDEE: We're in a situation in a lot of Tribes customers are paying taxes right now, and they have been for years and years and years, and maybe that's an issue.

MR. DAWSON: If you have an opportunity by regulating yourself and then making yourself add taxes in there, that's an opportunity to lower prices. So you have to work with the local tax situation. Many people, just by forming a co-op, may be able for this to get out of taxes. Yes, sir?

UNIDENTIFIED ATTENDEE: Give me just a brief statement on business risk associated in a rapid changing technology/business world, where Indian Tribes are just becoming educated about technology, and not even discussing the fact that they're considering being becoming involved as a business entity.

MR. DAWSON: I see risks in mainly two forms: One is technological risk and the other is just plain business risk. And you always take the risk. If you jump in today, even if you buy a PC, whatever technology you invest in, five years from now there may be something better.

So what you want to do is to really look for the most modular, newest, easy to use equipment, so that you can sort of keep up with those kind of changes and not get yourself fixed into a technology that it's really going to be hard to change the structure of.

From a business risk, I think that the earlier presentation did it well. We don't see secondary competitors coming out to try to compete with you once you've got the infrastructure in the rural areas. The first guy in town is going to be the only guy in town. So I think in the long-term, once you're there, you're going to be the one who is there.

Rural small areas just cannot support any additional competitors, so -- in larger towns they do. But definitely, you got to keep an eye on the technology risk, and make sure that you don't buy any old technology as your starting point. I think that is the main thing.

MS. PICKETT: Our program is easily confused, because the Telecommunications Development Fund is actually is authorized by the Telecom Act of 1996 but is a nongovernmental entity.

Before I really talk exclusively about TDF, let me step back for a moment and give you a framework for looking at the Telecommunications Development Fund, the equity investment or venture fund. Many of you are familiar with grant programs, loan programs, loan guarantee programs. TDF does not do loans. TDF does not do grants. TDF does not guarantee loans.

What we do or are starting to do, is make equity investments or equity financing in emerging communications businesses. When an investor puts money, also called equity, into a business, in return for part of the ownership of that business, that is an equity investment. Ownership is represented by stock in the company that the investor holds until he or she is repaid the initial investment, plus an amount of money that covers the use of the investment for a period of several years.

hen the equity investment is made, there's some plan put in place to end that relationship. We call it, at the end of the investment period, there is an exit strategy. That's agreed to when the equity investment is made.

In most cases, and certainly with Telecommunications Development Fund, the investor works very closely with the companies where we have invested. We put in a specified amount of money. We're looking at investments ranging from $250,000 to a million dollars per investment, in return for some of the stock in that company, somewhere around, let's say, 25 percent.

Often, we'll ask for a seat on the board of directors, to watch the company and participate in the management of that company. How much direct involvement? How much day-to-day management input? That's going to vary with every company in the TDF investment portfolio. That's going depend. Over a number of years that may change as the company grows and developments.

TDF, and all equity investors, or sometimes they're referred to by that bad word "venture capitalists," want the companies in which they have invested to succeed, and they want them to succeed very well. The rate of return is what a business pays for using the investor's money. You don't pay interest, and you don't pay, as with a loan, back, so we need to get a rate of return for using that money.

There's a big risk in investing large amounts of money in new and emerging businesses. Many of those businesses, unfortunately, will fail. And very, very few are highly successful. So, that's why the rate of return has to be there, to cover those investments.

The Telecommunications Act was authorized by Congress, and in great detail, but it has been incorporated as a private company, a C corp. There's been some confusion. TDF is not a Federal agency. It's not part of the Federal government in any way. It's not part of the FCC, the chairman of the FCC sits on our board of directors. The money TDF invests comes only from private sources. We don't get Congressionally-appropriated funds. We don't get any other kind of government funding.

It's a hybrid. It's a very unusual creation. We're not part of government, as I said. We're not an organization that was once performed a government function like Sallie Mae or Freddy Mac before it was privatized. Our website is <http://www.tdfund.com> or by E-mail at inquires.tdfund.com. It's brand new. I hope all the bugs have been worked out.

The only example I've been able to find of any organization that was set up the way TDF has been is the American Red Cross. That was chartered by Congress, but it's set up as a private organization and funded strictly from private sources.

We must earn, on our initial funding, enough money to support the next background of businesses, so that's what we're looking for. Typically, we're looking for communications businesses that are putting together strong and experienced management teams. The team doesn't have to be complete. The fund, and our people, will help bring in managers. But there has to be a strong recognition of good, solid management.

We're looking for companies that have a product or a service that is valuable and innovative, or unique enough to maintain high growth and above-average profits.

Our companies that we invest in must have an application in the communications business, industry. Somewhere it has to apply to telecommunications, and we must meet public policy goals that reflect the charter given to us by Congress. TDF cannot provide equity investments in not-for-profit organizations, nor in cooperative organizations. We invest in businesses only. Those businesses must meet at least the average rate of return typical for the venture capital industry.

We've developed an application, so that all businesses are reviewed on the same basis, --the S7R score form. The application, information, and the investment criteria are available from our brand new home page.

We've just gone on line. With every application, you must have a business plan. This is the blueprint, this is the direction your business will go. That part is required to apply. Whether you get your application from the web site or you call us and ask for it directly, the investment criteria will give you all the information of how we're going to evaluate those business plans and those applications.

Please look very closely at those criteria. Those include management criteria, how your business is going to grow. We need very realistic information. We've also found, part of what we want to do, some businesses are ready for investment capital, but they may need help in refining or defining the business plans and some of the key operations.

We are working with resource providers who are available to help in any stage of a business. Some people may need help in understanding and evaluating what kind of financing, or how do you determine par value? Are you going to issue preferred stock or common stock? How are you going to divide that stock? Those are probably some things that you have not done thoroughly, because you've been working on setting up your business. Resource providers can help you with that. Particularly, we are working with the Angle Capital Network, or ACNA, which was started by SBA, the office of advocacy. It's an on-line service.

They've set up a system of network operators throughout the country. There are 20 sites. They're very, very familiar with some of the more advanced equity questions. They're listed on our web site. If you write us or get an application from us, you'll get a copy of where those 20 sites are.

Some businesses may really not be looking for equity financing. They may be looking for debt financing. They may need loans, they may need guaranteed loans, they may need grants.

We are working, again, with the Small Business Administration, small business development centers, because there are nearly 1000 of them throughout the country. They are usually at university or college campuses, the SBA sites, also the business information centers and the reservation-based Tribal Business Information Centers (TBICS).

These centers good, because if you don't currently have Internet access, if you don't have software that you can use to write your business plan, all of those are available at these business information centers. You can go in and use their Internet services, their computers, their software, their packages, to put some of these things together.

Support counselors in some sites can work with people. They are available. And as we heard just with the previous presenters, there are private concerns that help businesses put these together. We can't endorse any particular private group, but they are there.

I also recommend that the Internet has some information that is absolutely invaluable, and more and more is coming on line every day. There is one site that I highly recommend, that's called the Virtual Women's Business Center. As far as I can tell, the Internet is gender-neutral. It doesn't care who is using these sites. It just happens to be a very good site. That is at <http://www.onlinewbc>. It walks you through everything from doing a financial statement to doing a business plan to evaluating your technology. It's a good source.

We will have our TDF database on all of these resources on our web site, hopefully by the end of August. We're working very hard so that we can either hot link you, or if you need information on where to go on some of these things.

Another site that helps you understand venture capital is <http://www.capitalventure.com>. It takes you into this whole world of equity investment, venture capital. There's lots of funds working at different levels. TDF just has its own charter.

I will be glad to take questions. I do want to remind you, we do have a web site <http://www.tdfund.com>. We're looking for companies that are ready for investment capital, but we'll be happy to talk with you during this process of getting to that point of where you do need investment capital.

We do referrals, resources, whatever. It's been a pleasure talking to people here. We're now accepting applications, and we'd love to hear from any of you who are prepared to do that.

UNIDENTIFIED ATTENDEE: I think you made one comment about risk. I think Indian Tribes need to realize that as they become involved in the venture, that it's all too easy to get carried away with technology, business glamour, doing what other Tribes are perhaps doing, or trying to be in the forefront, but there's a lot of risk attached to that whole environment.

MS. PICKETT: There's a tremendous amount of risk. If two companies out of ten make it, that's not very good odds. When we looked at the paper, how many of us looked and said, look, I wish I got that stock that day, or how many of us look at amazon.com, and say, boy, I could be the next one. But I don't know how many failed.

Many of our businesses, rather than going for an initial public offering or an IPO, which splashier companies have done. They will either go for a second or third round of equity financing, and mergers and acquisitions seem to be much more common these days than the big IPOs.

But it is very, very risky, and part of that is the way this country is built. Everybody is taking a chance. But you do have to keep in mind that it's sometimes -- it's not the easiest thing in the world to start the next new Unet or Yahoo, or any of those.

UNIDENTIFIED ATTENDEE: Yes. Is part of your exit strategy based on the IPO? And how many years before your exit>

MS. PICKETT: At this point, we're looking at patient capital - 4 to 8 years.

MS. PICKETT: Now, if an opportunity came up that was very good for the company to be acquired by another firm, we would certainly not stand in the way of that company doing well. But we're thinking in terms of four to eight years on our investment.

UNIDENTIFIED ATTENDEE: What if your investment return is much earlier? Is it still based on four to eight years?

MS. PICKETT: They could be ready for the next round of financing at two years, in which case there are several ways we could do our exit strategy. Another round of financing, where we would be paid from that new higher rate. An IPO is one version, merger/acquisition. These are all options. One of the reasons why we would participate in the management, is that if opportunities come, we would be there to know and do what's best for the company.

UNIDENTIFIED ATTENDEE: Do you fund start-ups?

MS. PICKETT: We're going to look at things. It depends. Some people, at their start-up stage, they would already have their prototype and done testing and it's a matter of putting together their management team, so that's a little different than somebody who is still in product development.

MS. PICKETT: The chances are we're probably looking for something that already ongoing. But if you have a small business and you're pretty structured, it's worth talking with us. We do want to try and reach areas that have not traditionally gotten much venture capital, which means most areas outside of Silicon Valley and Boston. We're looking geographically.

UNIDENTIFIED ATTENDEE: What is the difference between the SBA programs, versus your program? Because they have similar guidelines.

MS. PICKETT: SBA has the SBIC program. The SBIC simply guarantees that portion of the investment money. The SBA, of course, does the loans. The SBIC program, we may look at that down the road, although you have to have two years of experience and a portfolio to even apply for that program. So, it's similar, but SBA does not select the companies that they're invested in.

Universal Service Programs

This panel covers the universal service subsidy programs that exist to support telecommunication providers and consumers in rural and high cost areas. All three of our panelists provide subsidies that support telecommunication services to hospitals, clinics, schools, libraries, and consumers in rural America.

- **Greg Waddell,** Director of Public Policy and Client Outreach for the Schools and Libraries Corporation.

- **Bill England,** Attorney, Rural Healthcare Corporation.

- **Richard Askoff,** Deputy General Counsel/ Executive Director Regulatory for the Universal Service Administration Company, (Representing the National Exchange Carrier Association)

MR. WADDELL: I'm the director for client outreach with the Schools and Libraries Corporation. One of the three guiding principles of the Schools and Libraries Corporation is open communications with both the schools and library communities, as well as the service providers and vendors for communities.

Like the Rural Healthcare Corporation, we're a start-up company, and some of you who have been through that may well understand start-up. There are a lot of bugs to work out, a lot of processes to figure out, and those kinds of things. We're not the experts. We'd like to hear from you all, especially with your unique circumstances on Tribal lands, so that we can make the process and the program work for you and your schools.

I know the Bureau of Indian Affairs (BIA) has been very involved in the program. I don't know how many of you may have been working with them. The BIA has submitted an application for all their schools. I hope you all have been in touch with them, to learn about the program.

Just to start, I'd like you to take a look at the little brochure under universal service of your notebooks. On its back, it talks about E-rate contacts. It tells you information about the program, what kinds of telecom and Internet services are eligible for E-rate discounts, and the schools and libraries that are eligible to participate.

Need more information? There's a toll free number. If you lack access to the Internet, we have a fax-on-demand service to order documents. We also have an E-mail address set up specifically for questions about the program. The address is pretty simple - <question@slcfund.org>.

I'd add to this another E-mail address for technical questions that you may have about products and services that you might want to offer or contract with to provide to a school or library, whether it's a service or a product that you may not find exactly described on our fairly extensive eligibility list that is on the web site. <serviceprovider@slcfund.org>

Our address is maintained by our technical client service bureau at NECA, which has a lot more expertise than I ever will about services and products, and whether they meet the FCC rules of eligibility.

The second thing I'd like you to do is open up to the middle brochure panel. That's just a simple step-by-step description of the process of how a school or library applies to the E-rate program for their discounts for telecom and Internet services.

Now, service providers and vendors don't do all of those steps. You fill-out form 470, which is the first step, the form 471, then the 486. The providers and vendors, however, will need your help and your willingness to work closely with them to make sure those forms are filled out correctly, with the description of the right kinds of services and the right kinds of products that they need for their situation, as determined by their technology plan, which many of you may also be involved with.

Because again, you are the ones that have the expertise about what's available out there for use, and how it works, and how it can be configured, and your expertise, I know, is looked for from the schools and libraries.

Those are just some quick pointers in our short time that we have. I'm used to doing two or three-hour workshops, and walking people through the process, but we don't have that time today, so that's why I just wanted to touch on those key things.

There's some more information in the brochure about some specific documents and sources of information available about the program. If you have any questions, don't hesitate to use the toll free phone number, or consult our web site, which is <http://www.slcfund.org>

I had an interesting time listening to the previous two panels about some of the new opportunities that the technology revolution is bringing about, not only for business opportunities for you all, but also, for schools, especially in rural areas. And I read somewhere through my notebook last night that some of the Tribal schools are in the most rural areas in this country.

I'm no expert on Tribal lands and how the schools are situated on them, but I can imagine you've got some -- some pretty tough issues to deal with, in trying to link them up to the telecommunications when technology is changing so rapidly in this country.

While I was flying down on the airplane last night, I just happened to read an interesting thing that immediately made me think here would be a great opportunity for companies just like yours.

This is out of the Guilder Technology Report. I don't know if anybody here reads George Guilder, but he is a big hero of mine, and helps me understand the computer and telecommunications revolution.

He wrote a little section about a guy named Dave Hughes, who he described as a cowboy-hatted former infantry colonel with combat service in Korea and Vietnam. He is a rough-and-ready champion of using unlicensed subwatt spread spectrum radios to bring Internet access to rural schools and buildings. I don't know if Commissioner Tristani, who will be speaking to you on Thursday, will appreciate this as much as I did, but this system doesn't require FCC approval because of the low power use.

It uses spread spectrum in ways that new CDMA technology can make a low-power transmission work even better than the old-fashioned high-power channels that you may use to provide your telecom services.

I'm no expert on the technology, and I certainly don't pretend to be an expert on your business, but this guy seems to have done fairly well with his small Internet Service Provider business in Colorado Springs with no outside wires or FCC licenses.

Apparently Dave Hughes, has done the same kind of setup in countries all around the world, Mongolia, that's listed here -- it says from Mongolia to Denver. I can't imagine two more different places than Mongolia and Denver. But it just goes to show you the opportunities that this technology is providing, even for small companies, even for companies trying to serve the most rural of rural areas.

And this new technology is just - is bringing opportunities, both business opportunities for companies like yours, as well as opportunities for schools and libraries, to help our children and all our citizens be connected to the information age. And I don't think anybody would doubt, at this point, that's where the global economy is going to be dominated over the next couple of decades.

I would think that any opportunity you have to move into that market in a way that right now is very open and untapped, with these low-power kinds of transmissions that you don't have competitors in yet, that that might be a great opportunity, and perhaps the TDF Fund might be a good place to go for some start-up funding to do something like that.

UNIDENTIFIED ATTENDEE: We're starting a distance learning center on our reservation -- a satellite site for a college. Do we qualify for the E-rate?

MR. WADDELL: No only through K through 12, schools and libraries that are either public or accessible to the public qualify. Yes, sir?

UNIDENTIFIED ATTENDEE: With libraries, do you mean libraries in the traditional sense? We will provide public access to medical network libraries.

MR. WADDELL: Well, maybe our rural healthcare person can answer about how the medical stuff would be used. All libraries that are public, and not affiliated with an academic institution, are eligible.

In other words, the library has to have its own independent budget. It can't be a college library, it can't be a high school library, and get separate consideration for E-rate discounts. A high school library or a middle school library can be part of a school or school district or consortium application. You are eligible if you are a private library, or research library, as long as you allow the public to come in and use your research facilities. Yes?

UNIDENTIFIED ATTENDEE: Yes, on the Tribally-owned schools or Tribally-controlled under PL 100-297, they're different than BIA-funded schools. But I don't see this identified as an ineligible E-rate applicant. Because they are not public school, and they are not non-profit, parochial or private. Do they qualify?

MR. WADDELL: Well, I'll have to find out, because I don't want to give you bad information. My semi-educated guess is yes, because in general, almost every school is eligible, with only a couple of exceptions. So, I would say that they're most likely eligible. Are they a school, as defined by the Elementary and Secondary Education Act? Because that's the definition we use to qualify as school.

UNIDENTIFIED ATTENDEE: I believe so.

MR. WADDELL: Well, if they are, then they would be eligible. Charter schools are eligible, parochial schools, those kinds of things. So if they're eligible under that Act, then they'll eligible for the E-rate.

UNIDENTIFIED ATTENDEE: In Alaska they have started a new type of school. With the students there are doing homebound learning.

UNIDENTIFIED ATTENDEE: And so, they have an Internet school, and they reach all regions of Alaska, the second largest school district in Alaska, and do they qualify for an E-rate?

MR. WADDELL: Well, that's another good question, and that's actually one that I've been meaning to bring up with my bosses. Because one of the first questions that I had when I came to the program back in February was whether home schooling was eligible. I'm considering home schooling my two-year-old little boy in a few years, and so, I wanted to know if I could get E-rate discounts.

But obviously, the home schooling movement is something that's really booming right now, and yours sounds like a new kind of situation where it's not the old traditional home schooling, where the parents just happen to keep their kids at home and out of the local public school, but they've actually set up a school system. It's a virtual school system, in essence, but you do it from home.

Again, I don't want to give you bad information, and this is even a little more dicey than the first question, about school eligibility. If you are eligible under the schools -- Elementary and Secondary Schools Act of 1965, you would be eligible.

I don't know if the State of Alaska has made an effort to qualify that system under that Act. If they have, they would be eligible. If not, that's something you may want to look into, having the State or the local government get that system qualified under the Act as a public school.

I can take that question back again, and make sure I'm giving you as accurate information as I can. But that would be a good question to call the toll free number and follow up on. And I'll try to do the same thing, and if you want to call me -- I'll give you my number in Washington, if you'd like to call me. Give me a couple of days to track it down. My number is (202) 289-2663.

Those are two good questions. I think those are the kinds of questions that are going to crop up even more over the next couple of years, as the technology really changes the way we're able to do learning in the country. It won't just be in the schoolhouse anymore, obviously.

MS. YAWAKIE: Does it matter what kind of technology is used for the schools and libraries? I heard something about wireless not being an option with the healthcare subsidies, and I'm wondering if that also applies to schools and libraries.

MR. WADDELL: Wireless services are most definitely eligible for the schools and libraries program. There's some exceptions to that rule, but by and large, wireless is eligible. Yes?

UNIDENTIFIED ATTENDEE: (inaudible) a lot of reservation libraries contain cultural art and related things. Would you need to allow the public, if they want to do some research on the Tribe?

MR. WADDELL: Because it's affiliated with a separate institution, that's not eligible, I don't think it would be eligible for discounts.

UNIDENTIFIED ATTENDEE: Well, how could it become eligible as a museum on its own?

MR. WADDELL: Well, it's similar to the school situation. If your state designates you as a library eligible under the Library Sciences and Technology Act, then you're eligible.

MR. WADDELL: I mean that's the general rule, with a couple of exceptions. So if you can determine that, that will help you answer that question.

UNIDENTIFIED ATTENDEE: What's the present status of E-rating? Because there are some schools in our area that qualify for it, but have yet to receive funding, and there was some talk about problems with who is going to fund it, you know, the surcharge.

MR. WADDELL: Right. Let me give you some of the information about the way the program has been changed over the last couple of months. The first funding year that originally was going to be January through December of 1998 was extended six months, so in effect, the first funding year will be 18 months long.

The applications that we're considering now will be considered for that entire 18-month period. Then the new funding year will start July 1, 1999, next summer. We did that to try to get on the same budget cycles that most public schools use.

We'll be taking applications for that second funding year beginning October 1. So then, of course, some of the other changes were that the program funding was reduced down to about $1.3 billion.

The internal connections part of the program, all of the telecom and all of the Internet services that are proof for discounts for those schools who applied in the first application window, before April 15th, will be funded. And whatever funds are left over from that will go to pay for the internal connections, and will start with priority of the schools that qualify for the highest level of discounts, which are 90 percent. And then, I think we'll just work down the discount scale until that money runs out.

Right now, it doesn't look like we'll get much below 80 percent discount level. So, if you have a school or an application in with a discount level is only 60 percent, they'll get their telecom and Internet services funded, but they probably won't get their internal wiring application funded.

MR. ENGLAND: I'm Bill England, and as Madonna said, I'm attorney. I'm essentially the troubleshooter for Rural Healthcare Corporation, somewhat similar to Greg. Questions that come to my desk to determine policy, are difficult. The FCC views our job as implementation of the program, not to interpret policy or make policy.

If it's just a small interpretation, I go ahead and make those calls and just tell the FCC what we're doing. But many of the questions that come into our 800 number are very difficult. One came in today affecting Tribes. I think I have an understanding of the question, so let me just answer it real quickly here, before I even start.

Are Tribal healthcare facilities eligible for our program?

Yes, if they are non-profit. Now, what I understand is a lot of Tribes are non-profit from a State perspective. As a sovereign Tribe, you're not dealing with the State directly, but you do not have a Federal tax exemption letter.

I don't have an answer for it. I believe the answer is probably going to be you must be tax-exempt. Unfortunately, the Congress, in writing the law, muddied the water by using the word "non-profit" and "tax-exempt." The IRS does not use "non-profit." They use "tax-exempt." So it's a little unclear what Congress intended. You can call our 800 number if this effects you; eventually we will have the answer.

Let me just jump ahead a little bit. In the interest of time, I'm going to run through real quickly the presentation I was going to make. You have in your handout four pages from our web site. It gives our 800 number, and web site address.

Everything that I would want to say is available on that web site. In particular, how to apply to the program, a brief summary here of the functions of RHCC, and the history of the Telecom Act.

Our website address is <http://www.Rhccfund.org>. We had a 75-day window from May 1 to July 14th for open applications. The Schools and Libraries Corporation also had a 75-day window. The difference is, during their 75-day window, they got over $2 billion worth of requests for what is now about $1.3 billion dollars of program funds. As was just explained, they're not going to be able to fund all of them to the extent that was requested.

We, on the other hand, during our initial 75-day window -- and the 75-day window was simply to say if you apply during those 75 days, you will receive equal priority in terms of funding.

We do not believe that the 75-day window generated enough applications for us to run out of our $100 million funding, so we are still accepting applications. We are prioritizing by date, in the event that we do run out of funds, but we don't think that we are yet out of funds. Unfortunately, we will not know, because of the way our process works, until you complete the process of filing -- four different forms have to be filed. The initial form is 465, but until we get the final 467 form in, we don't really know how many dollars we've committed.

Not being able to tell, if we have any money left, is a real problem for us. We can't tell Congress whether we have spent our entire budget yet or not, but we're fairly sure we have not, and we're definitely still accepting applications. So don't be dissuaded if you hear this July 14 ended the 75-day window. It didn't end for us. We're still taking applications.

Your hand-out includes a list of who is eligible. If you don't appear to be one of these, call our 800 number and ask, and we'll attempt to resolve the question.

Some entities are not eligible -- nursing homes, home care and hospices. Although we're sort of dickering with the FCC to change its mind on eligibility for hospices and nursing homes.

Our job is to serve as advocates on behalf of healthcare to the FCC, a field that they're relatively noviced in. So occasionally we try to say, well, you didn't quite interpret the law right, could you relook at it? And sometimes they agree, and sometimes they don't.

This is not an Internet program. Subsidy is available for, up to a T1, 1.54 megabits per second. What we support is the delivery of healthcare services through telecommunications - for example the ability of a physician to look at a patient 200 miles away.

Essentially, the program is supposed to make the rural telecommunications available at the same cost as urban. So if you can get a high band T1 line in downtown Albuquerque it's $800 a month. That means anywhere in New Mexico you should be able to get that service for $800 a month.

However, a remote area may cost $4000 a month or it may not even be available. We can't make it available if it's not. But if it's available and it costs $4000, you would pay $800 a month, and we would pay $3200 a month.

We assume that you will connect to the nearest major city of 50,000 or more. Probably Albuquerque. I'm not sure how many 50,000 cities there are in New Mexico, but if you want to go someplace else like Los Angeles you can. We will only pay the subsidized rate up to the nearest city.

Once we calculate what that would have been, in the example I just gave, say $3200, you can use that $3200 to connect anywhere you want, to any medical center, any medical facility you'd like. But we will not pay for more than $3200. [See web site gives eight calculation examples.]

The application process -- form 465 -- tell us who you are, what services you're looking for, what contract you currently have, if you have one. In many cases, we may be able to support an existing setup by subsidizing that contract. However, the FCC said we can only support existing contracts, not existing tariffs. Legally tariffs, especially multi-year function like a contract. We're arguing that makes no sense. So, a lot of our people with existing setups can't proceed on the program until we get this issue resolved with the FCC.

Again, these are just sort of inside the beltway issues. Of our 2000 applications, about 800 are sort of in limbo right now, trying to resolve some of these kind of details.

Another major program detail is that AT&T, Sprint, MCI, GTE are not eligible because they're not local exchange carriers (LECs) but interexchange carriers. We disagree with the FCC because they have misinterpreted the Telecom Act -- we think that we're making some headway. A lot of rural healthcare providers are also arguing the same point. I would encourage you to make the same argument to the FCC by virtue of your letters and comments to the commissioner. Gloria Tristani I understand she is a strong advocate of this program, but some of commissioners are not.
At any rate, many Tribes in Alaska use AT&T, and they cannot get into this program nobody else in Alaska, in many cases, that can provide this service. It doesn't make sense to have a program where there are no eligible carriers.

Be that as it may, we're trying to move ahead without being able to answer that question. But if you fill out the 465 and you say AT&T, it's simply will sit in our queue. We'll send you a letter saying we really cannot proceed on this.

Let me just quickly run into current status of the program. Almost 2000 applications to date. 1000 -- 1095 we have qualified. No one is getting services paid for yet, but almost 1100 meet the definitions.

And for most of them, that means they either have a contract, tariff issue, or they have an ETC, ineligible carrier issue, and we can't really proceed.

Also there is some confusion like over the medical library issue. It wouldn't surprise me if we've sent it back and fourth and we've both said your need fits into the other program (Schools and Libraries) please give me a call again, and tell us -- there are a number of applications, with similar things like that which are just obvious on its face.

Our process is similar to Schools and Libraries. Once you apply, you go out for bids for 28 days. Any telco can bid on providing the services you requested. And it's posted on our web site. It's public access. Anyone can look who's applied to the program and whether they have been approved.

And the idea is all telecom companies can go in and choose who they'd like to make application to. They will contact you directly and say we'd like to provide your T1 service, and we'll do it for X dollars, and then you pick the best one, and then notify us who you picked.

The telcos really need to know more than the applicants do, but you may be curious who else in your state is in the program, and you can find out on our web site.

I quickly did a search, and that I found only 51 Tribal or IHS or BIA-related applications, but there's no check box that tells me that. The only way I found those is through a word search on the computer, a name or something in a text file that simply says Tribal, BIA, IHS, or something similar to tell me it was a Native American application.

536 applicants have asked for T1 line -- the highest level of support you can get. You can get support up to one T1 line, or you can apply that level of support to a variety of lower-level, slower services such as multiple ISDN lines, fractional T1 and ISDN, or some combination. Our customer call center answers up to 120 calls a day. Price Waterhouse manages the phone bank.

The hard questions to solve eventually come to my desk. However, if you call the 800 number at Price Waterhouse they are unable to connect you directly to me.

One thing I want to mention is that I just started to work for Rural Healthcare Corporation. Prior to that I worked on a Medicare program. They have published a document for public comment until August on new Medicare payment policies for telemedicine.

You can get the document from the HCFA web site. It says this program will pay for services delivered --so you get the lines and the healthcare providers paid - if you are in health professional shortage areas, which I would guess many Tribal lands may qualify. This starts January 1, 1999. [You need to check on whether this applies to federally managed facilities such as Indian Health Service or Bureau of Indian Affairs.]

UNIDENTIFIED ATTENDEE: There was a list of services that you had?

MR. ENGLAND: There was a list of services, and the FCC has taken a pretty narrow view to say if it's not on that list, it doesn't qualify. Now, there are a few things that they have made exception to.

UNIDENTIFIED ATTENDEE: There are a lot of those technologies that were identified that don't exist in Tribal areas, so we have vendors offer proprietary solutions, which really creates issues such as a lack of equipment interoperability between locations that want to work together.

MR. ENGLAND: We will fund anything less than T1 or less, except a standard phone line. This is true even if it's dedicated line for a fax machine that is only used for sending healthcare records back and forth. Anything above that, we can fund. We do not fund for equipment, period, under any circumstances. We do not pay for any -- any internal connectivity, unlike Schools and Libraries, which does pay the backbone system. We simply pay the line charges.

I'm not sure it's a problem to work with equipment vendors to help you find what you need. This list was for healthcare providers, you qualify if it's an eligible non-profit rural healthcare provider, and that was a list of clinics, health facilities, hospitals.

A mobile clinic which operates out of urban area qualifies if it is parked in a rural area. We haven't figured out how to do it yet, because the computer will reject it if they submit an urban address. So they probably will have to set up a PO box out in the rural area in order to get around our audit system.

MR. ASKOFF: Getting into the telecommunications business, you're probably will attend a lot of conferences like this. This is a very good one. I'm very impressed to see the depth and the breadth of the program here.

One thing that I noticed was missing, though, right off the bat, as I listened this morning, is that usually in telecom conferences you get a lot of lawyer jokes. I'm a lawyer. When lawyers get together, we tell economist jokes, so -- I'll give you one of them while my able assistant is setting up my slides there.

Man comes up to a shepherd, and says, I'll bet you that I can tell you exactly how many sheep you have out there. And the shepherd says, "what are we betting?" He says, I'll bet you a sheep. He says, Okay. You're on. So he looks out there and says 257. The shepherd says, That's amazing. That's exactly right. How did you know that? He says, Well, I want my animal first. He goes over, he picks up an animal, and he's about to explain how he knows this, and the shepherd says, Wait a minute. I'll bet you double or nothing that I can tell what your job is. And the guy says, Okay. You're on. He says, You are a government economist. The guy says, That's amazing. How did you know that? And he said, I'll be glad to tell you, but first, put down my dog.

MR. ASKOFF: My name is Rick Askoff. I came here from New Jersey. I'm delighted to get out of New Jersey every once in a while and come out and visit some of rural telephone companies. I'm filling in for Cheryl Parino, who is the chief executive offer of USAC. USAC is the Universal Service Administration Company.

A little while ago, Madonna introduced me as the deputy general counsel of USAC. I'm not. Both of those titles are with the National Exchange Carrier Association.

I could easily use up my time here explaining what the difference is between those two things, and not make any progress at all, so I won't try. But it is worth clarification, and we'll kind of get to some of that later. USAC only has one employee, that's Cheryl, and unfortunately, she couldn't make it today, so I'm happy to fill in for her.

Here is what I wanted to do today. I'm not sure I'm going to get it all done. I'm here to talk about the high costs universal service programs. These are the programs that provide support to companies that are serving high-cost areas, or low-income subscribers. They're vitally important, if you're considering setting up a telephone company in rural areas or in high cost areas.

To understand this, you need to understand carrier eligibility requirements, some issues about rural versus non-rural.

You need to know a little bit about the high cost program, as distinct from the low-income programs, how those programs are funded, and a little bit about the administration, which may or may not clear up some of the stuff I was talking about with NECA and USAC and SLC and RHCC, and -- that's the Schools and Library Corporation and the Rural Health Corporation.

Let's start out, though, with the standard disclaimer here. This is very complicated stuff, and there is simply no way that somebody would be able to explain it all to you even in a day.

So just be aware of that. You're going to need help in understanding all of this stuff. I know. I live it, and still need help.

It's even more complicated these days, because Congress passed the 1996 Telecommunications Act a couple of years ago that produced many changes. There's many more on the way. The FCC is currently reconsidering a lot of changes to universal service support. A good chunk of it is up in the air, and you know, a lot of things that I tell you today will be inoperable in another six months, or sooner or later.

So, the bottom line there is that you're going to need more information to really understand this stuff, and probably the best way to do that is to talk to some of the vendors out there, the consultants, the specialists in the area.

High-cost program -- provides for additional interstate cost recovery. I put it that way because people commonly refer to this as a subsidy, Madonna did earlier. Most economists would probably refer it to as a subsidy.

A subsidy has a connotation of something like a handout. It's not that. Universal service high cost funding grew out of some issues or some decisions that regulators had made over many, many years. This is nothing new, about how telephone companies recover their cost of doing business.

Telephone companies, traditionally, get some of their revenues from local subscribers. Some of them come from these things that you referred to earlier as access charges. Some of it comes in the form of universal service support, which traditionally – or high cost support was traditionally part of access charges.

What the high cost program is, in its historical basis, is a way of saying that some areas of the country are expensive to serve. There's no way that their local subscribers are going to be able to pay all that they need to pay to get a telephone network up and running, so we're going to allow for a greater percentage of their costs to come from the interstate jurisdiction than from the state jurisdiction, from the AT&Ts and the MCIs of the world, instead of getting them from local rate payers.

And that's what the interstate high cost program is all about, is getting more of your costs allocated to, and therefore, revenues from the interstate jurisdiction, access charges, universal service funding.

Right now, high cost program funding is at about $1.5 billion. That includes the traditional universal service fund, a program known as DEM weighting, which is a switching support mechanism, and it's applicable to companies that have less than 50,000 loops.

And long-term support, which is another fairly complex program that is involved with the NECA carrier common line, or the common line pool.

Does everybody know what NECA pooling is here? Is that familiar to everybody? Anybody - raise your hand if you've heard of the NECA carrier common line pool. Okay.

I have a bonus slide for you at the end of this presentation. Low-income programs are also part of the universal service program. You heard the term, I think Madonna mentioned earlier, lifeline. There is a Federal Lifeline Assistance Program that provides assistance to low-income subscribers.

It got started when the FCC decide about 15 years ago that it was going to make everybody in the country pay a subscriber line charge. At the time, it was very little, I think 50 cents, when it started out. And now it's up to $3.50, higher if you're a multi-line business subscriber. You'll see it on your bill, it says $3.50.

Nowadays your telephone bill has like 15 items on it with all separate charges. Anybody ever wonder about that is? When I get my electric bill, it just says electric service, you know, $75, or whatever. The phone system doesn't work that way.

The additional charge was very controversial. The FCC decided to come up with a program that would allow telephone companies to waive that charge for low-income subscribers.

Following the 1996 Act, they expanded that program quite a bit, and now it provides for up to $7 per low income subscriber, per month, for interstate recovery of those costs. There's more money available if your state provides similar funding.

Link Up is a separate low income program that provides assistance to people in getting telephone service hooked up. Again, the idea was that, you know, some people really have trouble affording getting the phone and paying the $60 or $70 or, you know, $100 hookup charge. So there is a program that is part of the universal service program that provides assistance in two ways.

First there is a reduction in the service charge. The telephone company can get some of the money from the fund and some of the money from the subscriber. Secondly, you have a deferred payment plan, and there's interest expense as a result of that, you can get the interest expense from the program rather than from the subscriber.

Eligibility -- this is a very interesting topic for Indian Tribes, because when Congress wrote the Act, it assumed that State commissions would handle the designation requirement because every telephone company was subject to State jurisdiction. You know that's not true. So an issue has come up fairly recently about what do we do when a Tribe or another entity is not subject to State commission jurisdiction. As result, the FCC has recognized that it has to take responsibility for designating carriers as eligible. It did so recently for several Arizona companies. See the Fort Mojave order. It makes for interesting reading.

What you need to offer "universal service", and I put that in quotes because almost every word up here is hotly debated. What is universal service? What is offer? What is throughout? What is a service area? What does owned facilities mean? All of that stuff is loaded with significance if I were a law school professor, I could spend at least a class on each word.

I won't do that. I can just tell you, though, that there's a lot of issues behind it. But you know the answer -- job security for lawyers. There you go. Lawyer joke right off the bat.

Pure resellers don't qualify. Basically you have to offer basic telephone service throughout your area, and it has to be with your own facilities.

Examples of universal service issues are: single-party service, toll blocking, toll limitation, and enhanced 911service although a lot of places can't do 911 at all, let alone enhanced 911.

A key concept under universal service for rural communities is that you have to advertise the availability of those services throughout the service area. Several speakers earlier spoke about how -- cherry picking, the idea that somebody could come in and just target that business customer and just go after the high-volume business. Congress wanted to do here is to make sure that you were talking about a telephone company that really provides service to everybody and advertises to everybody, and doesn't just look at the highest volume customers.

Rural vs. non-rural is significant. The FCC has split rural and urban apart, and what it's doing is it's trying to develop these proxy models for purposes of determining universal service funding support.

Right now, it doesn't work that way. Universal service funding is based on an examination of your costs -- you set up business accounts. If it's a telephone company, those accounts are done according to FCC rules. You take information on those accounts, you ship it off to NECA, and there's an examination of how those costs compare to the national average.

If you're high-cost, it's going to be higher. If it's more than 115 percent of the national average, then you qualify for high-cost support.

The FCC wants to do away with that for rural companies, though it recognizes that it's going to take a long time, and it's going to take a lot of study to get there. The truth is, it's going to take a long time and a lot of study to get there for non-rural companies, as well.

They expected to implement proxies for non-rural companies on January 1, 1999. They just recently announced that they were delaying that until July, and I think it will get delayed further.

The FCC has a certification requirement related to your rural status which is due by April 30th of every year, and that's kind of one of the squirrelly requirements that it's easy to deal with if you're up and running, but if you're a new company, it's just one more thing you have to think of.

Who pays universal service support? Who contributes to this? It used to be, under the old system, that only the biggest long distance companies had to pay, ATT, MCI, Sprint, those guys. Now everybody has to pay into the universal service fund systems.

There is a $10,000 diminimus threshold. If your contribution is going to be less than that, you don't have to pay.

The contributions are based on looking at your end-user revenues, different systems apply, depending on whether you're talking about the high cost and low income programs.

Basically, this is the way it works: You look at your end-user revenues, what you get from subscribers, and you take a FCC factor, whatever it is, and you apply that to your end revenues and you get the result. A little more complicated than that, but that's the basic idea.

Program administration. This is the part where I try to clarify all the stuff about Who's on first and What's on second, and I Don't Know who is on third.

Before this year, the National Exchange Carrier Association was responsible for administering universal service funding. With the Telecom Act, and with the FCC's implementation, the FCC set up three new companies to administer universal service funding. Those are the Universal Service Administration Company (USAC), the Schools and Libraries Corporation, and the Rural Healthcare Corporation.

Congress went nuts when they found out because of their concern about redundant administrative procedures and bureaucracies. So they put a lot of pressure on the FCC. Recently, the FCC came out with a proposal to combine those three new entities into one. This is likely to occur by end of the year and you will just deal with the USAC.

However, USAC will maintain separate divisions for each one of these programs, so I'm not quite sure what the effect will be. I think Schools and Libraries has done a very good job, for example, of getting out and meeting people and getting their name out there, and they'll probably want to maintain something like that.

NECA is involved because it actually provide contract services to the USAC and Schools and Libraries for setting up the sites; running the programs and handling the applications, etc.

UNIDENTIFIED ATTENDEE: Clear as mud.

MR. ASKOFF: Clear as mud. And I gave you the shorter version of it. More information. can't recommend highly enough the FCC's web site. It's just excellent for getting all kinds of useful information about this stuff. They've got great search engines, recent events, hot topics.

For example, you'll find universal service one of their hot topics, and you can get all kind of good stuff and it's just <http://www.fcc.gov> Go to it. Read it. It will really help you out a lot. I hate to admit it, but it's better than the NECA web site. It's very good.

But we do have things that they don't have. It will give you various things about the National Exchange Carrier Association and research library. See <http://www.neca.org>.

NECA also puts out various kinds of publications. We have a daily Washington Watch publication that you can get by E-mail. We have a publication on the FCC rules that you can get in one binder all of the relevant FCC rules about telecommunications.

And last but not least, we conduct training around the country, but for economy reasons, we have consolidated most of the training into two expos every year. One of them is coming up in Las Vegas in September. If you're interested in these, I have a few brochures up here, or fliers on those things. It's not too late to register for either program, and I highly recommend it.

Let's see. Have I got everything? Oh, the bonus. Do we have time for the bonus?

MS. YAWAKIE: Five minutes.

MR. ASKOFF: Five minutes. One thing that I was kind of surprised to see was not on the program, is NECA membership and pooling operations.

That's vital to know. Earlier somebody earlier put up a slide that showed a huge percentage of revenues coming from access. NECA generally is what produces those access revenues. It's a little complicated, but you can file your own tariffs to get access revenues, but in general, most companies participate in the NECA tariffs.

We file tariffs on behalf of about 1200 or so local exchange carrier study areas, mostly the small telephone companies. In 1983, NECA was established at the direction of the FCC and every telephone company participated in at least one of the NECA pools.

Since 1989, it's been voluntary. NECA is really kind of at the core of providing access services, access tariff, and revenue pooling services to small telephone companies. So it's something that you need to know about.

Some complications. All telephone companies are deemed to be members of NECA. Under FCC rules, it doesn't real apply very well to new telephone companies. They really are talking about incumbent LECs which either could be a company like US West or a small phone company, but it's some company that has the carrier of last resort obligation.

There's a bunch of circularities in the definition, because to be an incumbent you have to be a member of NECA, and to be a member of NECA, you need to be an incumbent LEC. It's confusing.

The bottom line is that the telephone companies that are setting up this new organizations to provide service in a whole area are typically going to the FCC and getting a waiver of that definition so they can be counted as an incumbent LEC, as a telephone company and as a member of NECA. That's why it says here "FCC waiver of definition required for new LECs."

There is a lot of things that go on about NECA membership and about participation in the tariffs. For example, you know, there's all kinds of special rules about which pools you can belong to, and when you need to give us notice to get into the access charge pools.

There's a method of getting settlements called average schedules, where, instead of paying a consultant to develop cost studies for you, you get a formula that we file at the FCC.

Actually fairly complicated. But is simpler than doing the accounting studies involved. If you have questions specifically about NECA pooling and NECA membership type issues. If you have questions, call Mike McGrath in our Denver office.