

**SEPARATE STATEMENT OF
COMMISSIONER JONATHAN S. ADELSTEIN**

*Re: Schools and Libraries Universal Service Support Mechanism (CC Docket No. 02-6),
Third Report and Order and Second Further Notice of Proposed Rulemaking*

In 1996, prior to the implementation of the E-rate program, only 14 percent of public classrooms were connected to the Internet. According to the most recently available data, in 2002, 92 percent of public school classrooms were connected to the Internet. In addition, 85 percent of the public schools that are connected to the Internet reported in 2001 that they had a broadband connection.

In 1997, only 60 percent of library systems provided public access in one of their outlets. While in 2002, 95 percent of public library outlets provided public access. The E-rate program has become a necessary tool to facilitate access to the myriad of opportunities that the Internet offers to students and library patrons alike.

Clearly, this has been a very successful program. But even successful programs can be improved.

Today we adopt an item which is just one in a series of steps we are taking to improve the Schools and Libraries Program. Over the years, this Commission has addressed matters related to the administration of this program to make it more user-friendly and help prevent waste, fraud and abuse. In this last year, this Commission has made a more concerted effort to address these issues.

In April, we issued a Second Order and Further Notice which adopted a debarment rule and other measures to ensure that this program is utilized in the best manner possible. We also sought comment on other issues, some of which we address in this item. In May of this year, we held a Forum on "Improving Administration of the Schools and Libraries Support Mechanisms" and had the opportunity to learn more about the use of this program from a number of different sources.

In addition, we have benefited from the recommendations of USAC's Waste, Fraud and Abuse Task Force and have had the opportunity to review beneficiary audit reports and the Office of Inspector General's semi-annual report. Today's decision draws upon a great deal of information from a number of knowledgeable sources. As I had anticipated in my Separate Statement in April, we have taken more steps forward with this latest addition in our efforts to reform the program and ensure that it inures to the benefit of those schools and libraries across the nation that participate

When private companies make decisions about their telecommunications investments, particularly when it comes to investments in equipment, they generally do not expect to replace their equipment year after year. Our rules in the Schools and Libraries program have permitted schools and libraries to do just that. But today we change that. And I support that change.

In April, I said that perhaps we should apply a service life to the equipment. USAC's Waste Fraud and Abuse Task Force recommended the same. This program-specific service life would require program participants to keep the equipment for a particular period of time rather than applying annually for discounts for duplicative equipment.

Although we did not adopt such a "service life" for equipment, we may have addressed my concern about ensuring the fair and even distribution among requesting users by adoption of two different measures. As a caution, however, we may need to address the issue of service specific lives in the event that the rule we adopt today does not go far enough to prevent waste, fraud and abuse.

We have addressed my concerns by limiting the frequency of requests from entities for Priority Two discounts, and restricting the transfer of equipment purchased with discounts from the schools and libraries support mechanism. Implementation of the "twice-every-five-years" rule will facilitate the availability of funds to more eligible schools and libraries on a regular basis. The fact that we include in that the opportunity to have those two years be consecutive addresses concerns that some schools may need two successive years to complete their projects by spreading the costs over that time. I am also pleased that we exempt maintenance costs from the twice-every-five-years restriction. We clearly define what basic maintenance services are in order to avoid future confusion about what is, and what is not exempt from the basic rule. Clarity is imperative to making this program more user-friendly, as requested by so many of the Forum participants.

Today we extend the Act's prohibition on sale or transfer of equipment purchased with discounts from the universal service program in consideration of money or anything else of value. In order to help prevent waste, fraud and abuse, we prohibit transfer of equipment, without regard to whether money or anything else of value has been received in return, for a period of three years after purchase. We do recognize, however, that applicants may have legitimate reasons to transfer internal connections equipment due to the closing of a school or other eligible entity. I believe that this provides the necessary flexibility to our new rule.

The Waste Fraud and Abuse Task Force has recommended a reconfiguration of our discount matrix. In April, I stated that it was important for us to address the possibility of changing the discount levels for this program. Many have suggested that the 90% discount level is too high because it does not require enough of an investment by the school or library. Reducing the discount levels can introduce more accountability, and better control the costs of the program. At the same time, I realize that there may very well be some schools and libraries that could not afford the benefits of this program if we reduced the discounts. Today, we ask those questions, and others, in order to explore the efficacy of these changes.

I support this item as another continuing opportunity to improve an already outstanding program. We cannot afford to let any abusive practices overshadow the enormous success of this program. I look forward to working with my colleagues, USAC, the service providers, and the schools and libraries as we undertake this endeavor.