

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554**

**Schools and Libraries Fund
Program Size Projections for First Quarter 1999
and Expenses for Second Quarter 1998
CC Docket Nos. 96-45, 97-21**

Introduction

The Schools and Libraries Corporation (SLC or Corporation) hereby submits this filing in accordance with section 54.709(a)(3) of the Federal Communications Commission's (FCC or Commission) rules.¹ This filing details program size projections for First Quarter 1999 for the Schools and Libraries Fund. The Corporation is also submitting as part of this filing the program expenses incurred during Second Quarter 1998 for the Schools and Libraries Universal Service Fund.

I. Schools and Libraries Fund

The Commission's May 7, 1997, Universal Service Order² outlined a plan to ensure that all eligible schools, libraries, and rural health care providers have affordable connections to the global telecommunications network. The plan created a fund to provide telecommunications services and to wire schools and libraries for access to the

¹ 47 C.F.R. § 54.709(a)(3).

² Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Third Report and Order*, 62 Fed. Reg. 56118 (October 29, 1997).

Internet. Pursuant to the Commission's rules,³ the first program year will extend eighteen months from January 1, 1998, through June 30, 1999. For the first program year, collections were limited to \$625 million for the period January 1, 1998, through June 30, 1998, and to \$325 million for each of the three-month periods from July 1, 1998 to September 30, 1998, from October 1, 1998, through December 31, 1998, from January 1, 1999, through March 31, 1999, and from April 1, 1999, through June 30, 1999. No more than \$1.925 billion is to be collected or committed to applicants for disbursement during the eighteen-month period from January 1, 1998, through June 30, 1999.

III. Estimates of SLC Expenses for First Quarter 1999

In the First Quarter of 1999, the SLC expects to see a significant increase in expenses compared to the Fourth Quarter 1998. As the result of complying with recommendations from GAO and implementing the FCC's Fifth Order, costs which would have been incurred in 1998 have shifted to the First Quarter 1999. Contract costs in the First Quarter 1999 will cover activities related to *two* program years. One major factor in this expected increase is Client Service Bureau operations to support applications for the second program year -- both Forms 470 and 471 on-line -- as well as post-commitment forms from the first program year. We estimate that in the second program year, over 40,000 Forms 470 will be filed, and that 50,000 Forms 471 will be filed within the window period, an increase of about 20,000 forms as the SLC reaches a broader base of applicants. We expect to process 270,000 post-commitment forms during 1999, with a

³ Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Fifth Order on Reconsideration and Fourth Report and Order in CC Docket No. 96-45*, FCC 98-120, Released June 22, 1998.

disproportionately high share in the first quarter. These forms include: notifications from applicants of the commencement of services; reimbursement forms from applicants, invoices from service providers, and annual certifications from service providers, attesting to their commitment to following program rules. These FCC forms are critical to the implementation of program rules and have been approved by OMB. They have also been reviewed by SLC's independent auditors as well as by GAO auditors in the context of verifying that SLC is collecting the information necessary to provide for solid internal controls and monitoring of the program.

In addition, this budget provides for the expansion of SLC's Program Integrity Assurance (PIA) operations, reflecting the requirement for a level of scrutiny exceeding that which had been originally planned in the first year, consistent with our follow-through on GAO recommendations and the advice of our independent auditors. This staff expansion also addresses a new workload requirement in 1999: PIA review of invoices to provide for consistency between funds committed for particular entities and services and the authorization of payment of invoices to service providers for such services to such entities.

In short, the volume of work exceeds the level of the fourth quarter of 1998 and most certainly exceeds the first quarter of 1998, when, on January 30, the SLC website first opened.

We also plan to undertake an operational audit to evaluate the implementation of

the internal controls designed and established in 1998. SLC regards this audit as important follow-up to the work of PricewaterhouseCoopers and the General Accounting Office. A portion of this expense is projected to occur in the First Quarter.

While these components - deemed essential for administration of program rules - generate increased expense, the SLC is undertaking measures to generate cost-efficiencies. We have made provision to accept invoices electronically. We also are developing systems to generate electronic notifications to service providers of actions on applications where such providers are named. And, in 1999, applicants will be able to file electronically their Form 471 as well as the Form 470 application.

Based on these activities, expenses and interest income for the First Quarter 1999 are estimated as follows (amounts in millions):

1Q 1999 Expenses	\$10.0
Expenses from USAC	.2
Interest Income	<u>(5.1)</u>
Total	\$ 5.1

Details of this estimate are shown in Enclosure 1. Since disbursements from the Fund will not begin until late in the Fourth Quarter, we estimate that unused funds from 1998 will total about \$969 million. Together with estimated collections of \$325 million for the First Quarter less the First Quarter expense estimate above, \$1,289 million is estimated to be available for program disbursements in the First Quarter.

IV. SLC Actual Expenses for Second Quarter 1998

Actual expenses and interest income for the Second Quarter 1998 are as follows

(amounts in thousands):

2Q 1998 Expenses	\$6,932
1998 Expenses from USAC	330
Interest Income	<u>(4,935)</u>
Total	<u>\$2,327</u>

Additional details are provided in Enclosure 2. At the end of January 1998, we had estimated 2Q expenses at \$4.16 million and USAC expenses of \$231 thousand. SLC actual direct expenses for the second quarter were lower than our January estimate because we did not reach the staffing level we then assumed. Non-recurring start-up costs, however, increased above our estimates by about \$1.7 million because of higher costs for system development and for the independent audit of our program controls undertaken at the direction of the FCC. The ongoing operating costs of our major contractor, the National Exchange Carrier Association, and its subcontractors have risen by nearly \$1.2 million over our estimates because of costs to provide client service and for our program integrity assurance unit to help protect against waste, fraud, and abuse. Because of an increase in interest earned over our January estimate, there is a net increase in funds available for commitments to applicants from the Second Quarter of \$268 thousand compared to our January estimate.

I. Next Filing

Pursuant to the Commission's rules, the next filing will be on or before
January 29, 1999.

Respectfully submitted,

Kate L. Moore
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November 2, 1998

Schools and Libraries Corporation
First Quarter 1999 Budget Estimate
(Amounts in Millions)

SLC Operating		
Labor Costs	\$	0.4
Travel, Supplies, Other		0.3
Contingency		<u>0.1</u>
Total	\$	0.8
Non-Recurring (Outside Contractors)	\$	1.3
NECA Contract – Operations Component	\$	<u>7.9</u>
SLC Expenses	\$	10.0
Expenses from USAC		0.2
SLC Interest Income		<u>(5.1)</u>
Total	\$	5.1

Schools and Libraries Corporation
Second Quarter 1998 Actual Expenses
(Amounts in Thousands)

SLC Operating		
Labor Costs	\$	411
Travel, Supplies, Other		<u>176</u>
Total	\$	587
Non-Recurring Start-up (Outside Contractors)	\$	2,437
NECA Contract – Operations Component	\$	<u>3,908</u>
SLC Expenses	\$	6,932
Expenses from USAC		330
SLC Interest Income		<u>(4,935)</u>
Total	\$	2,327