

**STATEMENT OF  
COMMISSIONER AJIT PAI**

Re: *Modernizing the E-rate Program for Schools and Libraries*, CC Docket No. 13-184.

Sixteen years ago, the FCC established the Schools and Libraries Universal Support Mechanism, or E-Rate program, to bring advanced services to schools and libraries across America.<sup>1</sup> In many ways, the program has been a success. Internet access in public schools has almost tripled since E-Rate's creation, and speeds have grown alongside availability.<sup>2</sup> Today, schools across the country depend on E-Rate for connectivity.

But like all federal programs, E-Rate has had its share of difficulties. Most of those problems stem from the program's complexity and lack of transparency. The application process is too complicated for schools and libraries. Some give up and don't bother to apply; others apply but get tangled in red tape and don't receive their money until years later. The complicated scheme for distributing funds causes many other challenges. Money isn't distributed fairly among schools. Schools with higher discounts stand at the front of the funding line and have an incentive to overspend, leaving less for everyone else. And funds for long-distance telephone calls and bandwidth to bus garages are given priority over funds for connecting classrooms. Meanwhile, we at the FCC can't get enough information to oversee the program. Three years ago, the National Broadband Plan observed that the Commission doesn't have the means to identify "the different types or capacities of broadband services that are supported through the E-Rate program."<sup>3</sup> We can see the forest—say, whether funds were spent on telecommunications services or basic maintenance—but we can't see the trees when it comes to specific schools and particular spending practices. In short, as the E-Rate program has evolved over the years, we have lost sight of what's important. A program meant to help kids has instead become too heavily focused on bureaucracy.

But that's not how it has to be. This morning, we begin the process of reinvigorating, revitalizing, and revamping E-Rate. I'm pleased to support today's Notice for Proposed Rulemaking because it seeks comment on a wide variety of ideas that hold the potential to transform the program. Earlier this week, I shared my vision for a student-centered E-Rate program at the American Enterprise Institute.<sup>4</sup> I'm grateful that my colleagues agreed to seek comment in this item on the plan I outlined.

What is that plan? Here's an abridged version. In order to create a student-centered E-Rate program, I think that we need to do four things. *First*, we need to simplify the application process. Let's make it easy for all schools (and libraries) to apply for the program. Under my plan, they would only need to fill out two forms, and the initial application form would only be one page. Less red tape means fewer delays and more predictability. Schools also wouldn't need to rely so heavily on outside help, which would mean more money to spend on kids.

*Second*, we need to focus funding on next-generation technologies for kids. Connecting classrooms should no longer be the program's lowest priority. Let's get rid of the current priority one/priority two system. Place all eligible services on one consolidated menu and let local schools pick the services that best meet their local needs.

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<sup>1</sup> *Federal-State Joint Board on Universal Service*, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776 (1997).

<sup>2</sup> See U.S. Department of Education, Institute of Education Sciences, *Internet Access in U.S. Public Schools and Classrooms: 1994–2005*, at 4–5 (2006), available at <http://go.usa.gov/jWpH>.

<sup>3</sup> FCC, *National Broadband Plan at 256* (2010), available at <http://go.usa.gov/jWpV>.

<sup>4</sup> See Remarks of Commissioner Ajit Pai, "Connecting the American Classroom: A Student-Centered E-Rate Program," American Enterprise Institute (July 16, 2013), available at <http://go.usa.gov/jbD3>.

That also means no more funding for stand-alone telephone service. In the last few years, the program has committed about \$600 million annually to voice telephony services—more than a quarter of its annual budget. But in 2013, E-Rate should be about funding next-generation infrastructure that will facilitate digital learning, not subsidizing long-distance phone calls. States and localities are of course free to spend their own money on that. But federal funds should be focused on connecting kids in the classroom. Congress itself demanded as much when it instructed that the E-Rate program be focused on providing “advanced . . . services” to schools and libraries.<sup>5</sup>

*Third*, we need to distribute E-Rate funding more fairly. As the current program stands, the savviest of schools walk away with the lion’s share of funding while students attending other schools that need funding are deprived year after year. We need to retire the complicated discount matrix that distributes money in a haphazard manner and replace it with a simple student-centered system. Each school should get funding based on its number of students. Rural students should receive more money than urban students, and low-income students should receive more money than their wealthier counterparts. And when kids change schools, they should take their funding allocation with them. The money should follow the child.

In line with recent reforms to the rural Healthcare Connect Fund, we should also institute a three-to-one matching requirement for local schools. For every three dollars provided by E-Rate, the local school should be required to spend one. With real skin in the game and a school-by-school budget, we will end the “more you spend, more you get” phenomenon that has led to waste, fraud, and abuse. And we will encourage more prudent spending.

Now, if we switch to a simplified-allocation approach, some might wonder how very small schools or schools in remote areas would fare. Well, I believe that universal service means what it says: service for everyone. Its promise extends from city schools with thousands of students to villages in northern Alaska with just a few. This is why my plan includes a funding floor for small schools and extra money for schools in remote areas. Indeed, a student-centered E-Rate program would treat rural America far better than the status quo. In 2011, for example, South Dakota received 30% less E-Rate funding per student than New Jersey, despite the fact that South Dakota is far more rural and has a higher poverty rate than New Jersey. That would change under my plan.

*Fourth*, we need to increase transparency. By publishing all funding and spending decisions on a centralized, easy-to-access website, we could allow anyone to check on how any school in America was spending its federal funds. That way, the whole community—parents, school board members, journalists, and government watchdogs—can be involved in effective oversight to make sure that money is being used to actually help kids.

This plan would fulfill E-Rate’s statutory mission of bringing advanced services to schools and libraries across this country. And it would do all of this without collecting an extra dime.

On that last point: I should say a word about the size of the E-Rate program. I don’t believe that expanding the program is the same as reform. Instead, what would make for a new E-Rate program is some old-fashioned fiscal responsibility. Each year, we have hundreds of millions of dollars available for the E-Rate program that we aren’t spending—over \$800 million last year alone. As a result of this “red-tape funding gap,” as I’ve called it, billions have been collected from the American people and have been sitting in the E-Rate account, for years in some cases. And we’re spending hundreds of millions of dollars on outdated services. If we simplify the program and focus on the right priorities, we can do a lot more with the money we are already collecting. Indeed, under the first year of my plan, we should be able to spend \$1 billion more on next-generation technologies for kids without collecting more money from the American people. And as we debate expanding the program’s budget, let’s also remember this: The Universal Service Fund contribution factor has already increased from 9.5% to 15.1% in just the last

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<sup>5</sup> 47 U.S.C. § 254(b)(6).

four-and-half years.<sup>6</sup> That's an increase of almost 60%. Over that same period, median household income has fallen each year. We cannot ask American consumers to bear an even heavier burden when they pay their monthly phone bills, especially when well-considered structural reforms would obviate the need for us to pose the question.

As I see it, we stand this morning at a crossroads with respect to the future of the E-Rate program, and this NPRM tees up some fundamental questions. Will we simplify the application process? Will we provide flexibility so that different communities can meet their different needs? Will we rectify the unfair distribution of E-Rate funding? Will we end the incentives for wasteful spending? Will we practice fiscal responsibility and use more wisely the funds that we are already collecting? Will we measure educational outcomes and performance in order to better manage the program? In short, will we be creative and bold?

My approach is to embrace the spirit of our 35<sup>th</sup> President. To borrow from President Kennedy, we should answer yes to each of these questions, "not because they are easy, but because they are hard," because the goal of linking technology and education "will serve to organize and measure the best of our energies and skills, because that challenge is one that we are willing to accept, one we are unwilling to postpone, and one which we intend to win."<sup>7</sup> When it comes to our children's education, we should not be afraid of the hard choices. We should not tinker around the edges. We should shoot for the moon. And we should aim to win.

If we receive the input we need from educators, librarians, parents, and service providers, and if we make the right choices, a student-centered E-Rate program is now within our grasp. I hope we can make it happen by the time our children return to school in the fall of 2014.

This proposed rulemaking is a major undertaking, and it would not have been possible without our excellent staff in the Wireless Competition Bureau. A special thanks to Julie Veach, James Bachtell, Rebekah Bina, Bryan Boyle, Dana Bradford, Katori Brown, Regina Brown, Soumitra Das, Chas Eberle, Trent Harkrader, Christopher Holliman, Lisa Hone, Mike Jacobs, Carol Matthey, Erica Myers, Mark Nadel, Anita Patankar-Stoll, Naomi Riley, Kim Scardino, Michael Steffen, Cara Voth, and Adrian Wright for all their hard work on administering the E-Rate program and especially for drafting this item.

I would like to conclude by sharing an e-mail that I received on Wednesday from an IT specialist for a rural California school district after I introduced my proposals. She expressed her support and told me: "minimizing the complexity of the process as well as increasing the flexibility of how the funds are spent will make a big difference to all students." That's exactly what our goal should be in this endeavor: to make a difference for our kids. And that's why I look forward to working together with my FCC colleagues and administrators, teachers and technologists, parents and others to put in place a student-centered E-Rate program.

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<sup>6</sup> Compare Proposed First Quarter 2009 Universal Service Contribution Factor, CC Docket No. 96-45, Public Notice, DA 08-2706, with Proposed Third Quarter 2013 Universal Service Contribution Factor, CC Docket No. 96-45, Public Notice, DA 13-1361 (OMD 2013).

<sup>7</sup> Remarks of President John F. Kennedy, "Moon Speech," Rice University (Sept. 12, 1962), available at <http://go.usa.gov/jWpj>.