E-rate Modernization by the Federal Communications Commission (FCC)

In July 2013 the FCC initiated the most comprehensive review of the E-rate program since its inception in 1997. This process took a year to complete, and on July 11, 2014, the FCC adopted a Report and Order that makes significant changes to the program. The FCC indicated that its E-rate modernization effort is a multi-step process. To that end, the Commission also issued a *Further Notice of Proposed Rulemaking (FNPRM)* addressing five main issues. A brief summary of the *FNRPM* is included at the end of this document.

The modernization effort restructures the program to ensure that it addresses the 21st century broadband and internet connectivity needs of our nation's libraries and schools. The Commission framed its restructuring process around three E-rate goals:

1. (SPEED) Ensuring that all schools and libraries have affordable access to sufficient high-speed broadband.
2. (SPENDING) Maximizing the cost-effectiveness of E-rate spending—focusing on broadband and related services.
3. (SIMPLIFIFICATION) Making the E-rate application and follow-up processes faster, simpler and more efficient.

Summary of the E-rate Program Modernization Order
The following is a summary and high-level overview of the major changes to the E-rate program.
To download the whole Report & Order, visit:
http://transition.fcc.gov/Daily_Releases/Daily_Business/2014/db0723/FCC-14-99A1.pdf (176 pgs)

Goal 1: Ensuring schools and libraries have affordable access to sufficient high-speed broadband.
1. To help measure and set benchmarks for this goal the FCC proposes the following.
    a. For schools: The FCC adopts the State Education Technology Directors Association's (SETDA) bandwidth target of 100 Mbps per 1,000 students and staff by 2014-2015 and 1,000Mbps per 1,000 students and staff by the 2017-18 school year for external connections.
    b. For libraries: The FCC adopts ALA's bandwidth target that all libraries serving fewer than 50,000 people have broadband speeds of at least 100 Mbps and all libraries serving over 50,000 people have speeds of at least 1 Gbps.
2. The FCC will more aggressively enforce its own "Lowest Corresponding Price" (LCP) rule. This rule ensures that the price for an E-rate supported service is no more than the market price for that service offered to other, non-residential customers. The Commission will direct the FCC's Enforcement Bureau to allocate additional resources to investigate, and if needed, undertake actions against service providers who violate the LCP rule.
3. In a major program change, there is a funding target of $1 billion in 2015 and $1 billion in 2016 focused on Category 2 (C2, formerly Priority 2) requests for Wi-Fi connectivity and internal connections. The FCC also set a $1 billion funding target for each of the three years beyond 2016 for a five-year cycle.
4. The maximum discount for C2 will be reduced from 90% to 85%. All other discount bands remain the same.
5. In another major program change, C2 funding will be capped at $150 per student for schools and $2.30 per square foot for libraries with a minimum of $9,200 per building for both libraries and schools (pre-discount amounts). The minimum will ensure that the smallest libraries and schools still receive sufficient funding over a five-year period. C2 funding will go first to applicants with the highest discounts.
6. For example: A 10,000 square foot library with an 80% discount is eligible to receive a total of $18,400 over a five-year period beginning in 2015 (10,000 x $2.30 x 0.8 = $18,400). The library's local match would be $4,600.
7. For example: A 1,000 student school district with a 60% discount is eligible to receive a total of $90,000 over a five-year period beginning in 2015 (1,000 x $150 x 0.6 = $90,000). The school district's local match would be $60,000.

8. C2 E-rate support will focus on broadband services and the equipment needed to deliver broadband inside libraries and schools. This includes: **Routers, switches, wireless access points, internal cabling, racks, wireless controller systems, firewall services, uninterruptable power supplies, and the software supporting each of these components.** For 2015 and 2016 Wi-Fi managed by an outside provider, basic maintenance and caching servers are also eligible. At a later date the FCC will determine if these services should remain eligible beyond 2016.

9. Starting in 2015, E-rate funding support for the following services, which are not directly Wi-Fi or broadband-related, will be eliminated: **Circuit cards/components, interfaces, gateways, servers, storage devices, telephone and video components, voice over IP (VoIP), voicemail, email, and webhosting.** The FCC will update the Eligible Services List (ESL) to reflect the changes and cautions applicants to review the 2015 ESL carefully because of all the various changes.

10. Discounts for basic phone service will be phased out by 20% each year starting in 2015 (e.g., a library at a 70% discount will have a 50% discount in 2015, a 30% discount in 2016, a 10% discount in 2017, and then a 0% discount in 2018). Basic phone service includes: local and long distance, plain old telephone service (POTS), satellite telephone, Centrex, cellular service and interconnected VOIP.

Goal 2: Maximizing the cost-effectiveness of E-rate spending, focusing on broadband and related services.

1. To help evaluate progress towards accomplishing this goal the FCC—in cooperation with USAC—will develop processes to measure, track, and report on the prices paid for E-rate services. This includes costs for broadband at various bandwidth levels and the various components of Wi-Fi connectivity.

2. The FCC will increase price transparency by making costs for E-rate services used by libraries and schools publicly available on USAC's website starting in 2015. This includes pricing that is part of an applicant's Item 21 information. In some circumstances state law or existing contract language may prohibit the public release of cost information. The FCC allows for some exceptions for these situations but does state that contracts signed after this Order takes effect may not contain such restrictions.

3. To further encourage consortium and bulk buying of E-rate services the FCC can designate a contract to be a "preferred master contract." Such a contract is defined as one that is national in scope and offers libraries and schools nationwide the opportunity to obtain pricing for C2 services. Applicants purchasing off a preferred master contract do not need to file an initial Form 470.

Goal 3: Making the E-rate application and follow-up processes fast, simple and efficient

1. To evaluate progress towards accomplishing this goal the FCC will measure the timely processing of funding commitments to applicants by establishing a target funding (or denial) deadline of September 1st of each funding year for all "workable" applications.

2. USAC will also survey applicants and service providers about their experiences with the program and its application process to evaluate this goal.

3. The FCC has renamed Priority 2 as Category 2 (C2). (Telecommunications and Internet access are now "Category 1" instead of Priority 1). Category 1 requests will still be funded before C2.

4. In recognizing that consortium purchasing can reduce prices for E-rate supported services and to encourage consortium applications, the FCC will work with USAC to prioritize review of consortium applications.

5. There will be a streamlined application process and expedited review process in the second and subsequent years of a multi-year contract. Five years will be the maximum length of contracts using this streamlined application process.

6. The technology plan requirement for C2 services is eliminated.

7. Starting in funding year 2017, all forms and notifications must be submitted electronically, but a very limited exception will be made to this requirement.

8. Rural libraries and schools will be able to establish direct broadband connections between their buildings for the purpose of accessing high-speed broadband services. The FCC requests that applicants file waiver requests if they want to pursue such connections.

9. Starting in 2015 school districts will use a single, district-wide discount percentage rather than calculating a discount using building-by-building discount rates.
10. The definition of "rural" will be updated using data from the Census Bureau to denote Urban Areas and Urban Clusters.
11. In a major program change starting in 2016 applicants who now pay the full cost of their E-rate services (i.e., the BEAR form process) will be able to get direct reimbursement from USAC, rather than their service provider.
12. The Commission will undertake several actions to raise the profile of the E-rate program to tribal libraries and schools. This includes enhancing consultation, training, and outreach.
13. USAC is directed to publish electronically all non-confidential E-rate data.
14. The document retention period now has been extended from five to ten years. This is being done partly to help address possible issues of program waste, fraud and abuse.

Further Notice of Proposed Rulemaking (FNPRM)
Throughout the E-rate modernization proceeding, the Commission has shown a commitment to a multi-step process to address the full range of issues necessary to achieve its goals for the future of the E-rate program. The Commission released a targeted FNPRM with initial comments due September 15 and reply comments due September 30 related to five specific issues:
1. Meeting future funding needs
2. Ensuring that multi-year contracts are efficient
3. Standardizing the collection of National School Lunch Program data
4. Encouraging consortia participation
5. Ensuring support for libraries is sufficient

Regarding *meeting future funding needs*, the Commission will address the lack of broadband capacity coming to the building (Re: libraries and schools). Specifically, the Commission asks for data that shows the gap between current connectivity levels in libraries and schools and the capacity goals adopted in the Order. USAC has developed a separate page on its website for information and resources related to the E-rate Modernization Order that will be updated as needed. http://www.usac.org/sl/tools/modernization-order/default.aspx

Credit for the basis of this summary goes to Bob Bocher, Wisconsin Dept of Public Instruction and Fellow at the American Library Association.

Goal 1.3

So, how far would $2 billion reach into Nebraska, based on FCC project caps and the ~66% average E-rate discount for Nebraska school districts and libraries?

$2 billion of one-time E-Rate funding that will be distributed during the 2015-2016 and 2016-2017 program years to every school district and public library in the country.
    a. **WiFi and networking equipment for Nebraska public/private schools (maximum possible)**
        i. **350,000 students x $150/student = $52.5 million project costs x 66% E-rate = $34.65 million of actual E-rate support + $17.85 million local matching funds**
    b. **WiFi and networking equipment for Nebraska public libraries (maximum possible)**
        i. **1.53 million ft^2 x $2.30/$ft^2$ = $3.52 million project costs x 66% E-rate = $2.32 million of actual E-rate support + $1.20 million local matching funds**

Effects of the E-rate Modernization Order on everyday Network Nebraska activities

<u>Change in the E-rate Program</u>   <u>Effect on Network Nebraska-Education</u>

Change in the E-rate Program	Effect on Network Nebraska-Education
1. 100Mbps/1000Mbps Targets to each school	1. More data gathering and FCC reports
2. Lowest Corresponding Price enforcement	2. Reporting possible infractions
3. $2 billion internal connections projects	3. Possible statewide bidding and coordination
4. Increase in internal connection speeds/equipment	4. Increase in statewide Internet demand
5. Eliminating support for voice, web hosting, etc..	5. No effect
6. Broadband data gathering as part of E-rate filing	6. Major increase in workload
7. Single, district-wide discount percentage	7. Consortium calculations much simpler
8. Redefinition of "rural" as non-urban area or cluster	8. More complex filing and % discount reduction
9. Differential discount benefit for each Participant	9. K12 Internet rate goes from 1 rate to 15 rates
10. Document retention rate doubled from 5 to 10 years	10. Increases the record keeping and archiving
11. Encouraging consortium participation	11. Could increase Nebraska funding by $500K
12. Electronic filing of all forms	12. No effect

NEBRASKA
E-rate Reimbursements, 1998-present

	NN Backbone	NN Internet	K12	Libraries	Annual Total
1998-99	$ -	$ -	$ 4,714,373	$ 214,649	$ 4,929,022
1999-00	$ -	$ -	$ 6,913,259	$ 189,336	$ 7,102,595
2000-01	$ -	$ -	$ 6,275,199	$ 202,914	$ 6,478,113
2001-02	$ -	$ -	$ 6,213,696	$ 220,533	$ 6,434,229
2002-03	$ -	$ -	$ 7,570,843	$ 228,015	$ 7,798,858
2003-04	$ -	$ -	$ 7,481,797	$ 299,132	$ 7,780,929
2004-05	$ -	$ -	$ 7,588,491	$ 261,452	$ 7,849,943
2005-06	$ -	$ -	$ 7,732,264	$ 224,360	$ 7,956,624
2006-07	$ -	$ -	$ 8,629,139	$ 216,007	$ 8,845,146
2007-08	$ -	$ -	$ 9,415,490	$ 226,596	$ 9,642,086
2008-09	$ 126,286	$ -	$ 9,974,702	$ 239,752	$ 10,340,740
2009-10	$ 161,473	$ -	$ 10,550,527	$ 160,822	$ 10,872,822
2010-11	$ 181,569	$ -	$ 10,719,925	$ 266,394	$ 11,167,888
2011-12	$ 174,567	$ -	$ 11,671,412	$ 168,160	$ 12,014,139
2012-13	$ 118,128	$ 88,141	$ 10,452,452	$ 296,516	$ 10,955,237
2013-14	$ 108,177	$ 165,600	$ 10,051,602	$ 308,333	$ 10,633,712
2014-15*	$ 122,896	$ 148,357	$ 9,702,241	$ 305,197	$ 10,278,691
Subtotal	$ 993,096	$ 402,098	$ 145,657,412	$ 4,028,168	**$ 151,080,774**
Ave. E-rate Discount	68%	69%	66%	70%	
* = Year to date					