

E-Rate Update

October 2004

Presented by:

Dan Riordan

President

On-Tech Consulting, Inc.

www.on-tech.com

732-530-5435

Table of Contents

Introduction.....	3
E-Rate Overview.....	3
What Services are Eligible?.....	3
Priority 1 vs. Priority 2.....	4
Common Misconceptions	4
Application Process	5
Funding Suspension.....	6
Avoiding Application Pitfalls.....	6
Application Tips	7
Changes for 2004-2005.....	9
Eligible Services	9
Educational Purpose (Phones for Secretaries and Bus Drivers).....	9
Voice Mail	9
Firewalls.....	9
Web hosting	9
Alarm lines.....	9
Ineligible in 2004 onward.....	9
VoIP	9
Dark Fiber	10
30% rule.....	10
Choice of Payment Method	10
Changes in Practice.....	11
Bids from the 470.....	11
Changes for 2005-2006.....	11
FCC Registration Numbers.....	11
Technology Plans.....	11
The “2 in 5” Rule	12
Online Eligible Products Database	12
Possible Changes	12
Discount Matrix	12
Bidding Process	12
“Priority One On-Premise Equipment”	12
Wide Area Networks.....	12
Registration of Outside Experts.....	12
FCC Orders at a Glance	13
More Resources	15
On-Tech	15
Schools & Libraries Division (SLD)	15
E-Rate Central.....	15
NJDOE.....	15

Introduction

On-Tech is a technology consulting firm focused on managing the E-Rate process for schools and libraries. We provide a full range of E-Rate services for applicants, including: handling the entire application process; consulting on construction projects to ensure maximum E-Rate funding; and reviewing proposals to ensure E-Rate compliance. In addition, On-Tech obtains E-Rate funding for school construction projects.

On-Tech is not associated with any service provider.

Dan Riordan has been involved with the E-Rate since 1997, when he was trained by the New Jersey Department of Education to offer assistance to districts in completing the application. Since then, he has worked on the E-Rate as a trainer, a district technology coordinator, and now a consultant.

E-Rate Overview

The Universal Service Fund was created by the Telecommunications Act of 1996, and began distributing funding in 1998. Telecommunications carriers pay into a fund which is then used to subsidize telecommunications and data communications for districts. The program has provided almost \$13 billion to schools and libraries since 1998.

Subsidies (called “discounts”) are a percentage of a district’s expenditures on telecommunications and Internet access. The level of discount ranges from 20% to 90%, and is calculated based on the percentage of students eligible for the National School Lunch Program. For districts with multiple schools, the discounts for individual schools can be combined, or schools can apply individually.

NSLP free or reduced	Discount	Percentage of schools in NJ
Less than 1%	20%	9.2%
1% to 19.5%	40%	45.6%
19.5% to 34.5%	50%	12.4%
34.5% to 49.5%	60%	8.8%
49.5% to 74.5%	80%	10.3%
Over 74.5%	90%	13.7%

The last column in this chart shows what percentage of schools in New Jersey are at each discount level, based on NJDOE data from October 2001.

For a quick idea of your district’s discount level, see the NJDOE Web site in the Resources section of this handout. Note, however, that we have in some cases been able to get better discounts for our clients.

What Services are Eligible?

The program is intended to reduce the cost of voice, video and data transmission for schools and libraries. The complete list of eligible services is available on the SLD Web

site (see Resources below). Almost all telephone services (local service, toll calls and long distance), Internet access, and digital lines (ISDN, T-1, frame relay, ATM) are eligible. For some districts, networking equipment is also eligible.

Priority 1 vs. Priority 2

There has been some confusion about whether districts with a lower discount can expect funding. In order to ensure that all districts receive some money, eligible services were broken into two categories: Priority 1 and Priority 2. Priority 1 includes all telecommunications services (phone lines, long distance, leased lines, etc.) and Internet access. Priority 2 included "internal connections," which includes items like Web servers, network cabling, and PBXes. More detailed information is available on the SLD Web site.

If the demand for funding is greater than the available funds — as it always is — first all Priority 1 requests will be funded. This means that every district, even those with no students receiving free or reduced lunches, will receive a discount on telephone service, Internet access and any digital lines (T-1, ATM, ISDN, frame relay) between locations. After Priority 1 requests have been funded, the remaining funds are used for Priority 2 requests, starting with the neediest districts. Over the last 4 years of the program, districts with a 90% discount have always received Priority 2 funding, while districts with a discount of 80% or less have never received Priority 2 funding. The FCC has been taking steps to distribute Priority 2 funding more equitably, so it seems likely that for 2005-2006, Priority 2 funding will be available to more districts.

Common Misconceptions

Only low-income districts receive funding.

Many districts are confused about this. The fact is that in every year of the E-Rate program, for telecommunications and Internet-access funding, **every district that has applied properly has received the full amount** for which it was eligible. Only funding for "internal connections" has been unavailable to some districts. See the *Priority 1 vs. Priority 2* section of this handout.

Our district is too small to bother with the E-Rate.

Any district can benefit from the E-Rate. As an example, with a discount of 40%, if you pay \$20 per month for each of your phone lines, you will receive \$96 per year on each phone line your district uses. If you pay \$800 per month for your T-1 Internet connection, with a 40% discount you will receive \$3,840 per year.

The paperwork is overwhelming.

The administrative burden to complete the application is considerable. If the burden of learning the rules and filling out all the forms is too much, consider hiring an E-Rate consultant to handle your application.

We use the Access NJ, so we're not eligible for E-Rate discounts.

This rule has changed. You can now receive E-Rate discounts in addition to Access NJ discounts. By the way, if you have never heard of Access NJ, look into this Verizon program.

Without a Web filter, our district is not eligible.

The Children's Internet Protection Act (CIPA) restricts federal funding for districts which do not have a filter to protect students from inappropriate Web sites. Compliance with CIPA is **not required** for E-Rate funding for Telecommunications Services. Compliance is required to receive funding for Internet Access or Internal Connections.

The E-Rate program will cease to exist.

This rumor has existed since year one, and in past years there have been attempts in Congress to kill the program, but none have come close to succeeding. Currently, congressional action is focused on reforming the program rather than ending it.

Application Process

Schools, districts and libraries must apply for the funding. The application process includes at least three separate forms, and begins 10 months before the start of the school year. Once funding is approved, districts can choose to receive the funding as a discount on bills, or pay the full amounts, then receive reimbursement.

July 2004	SLD began accepting Form 470.
Early November 2004	The "80-day window" for submitting the Form 471 opens. The exact date has not yet been set. The 471 must be filed at least 28 days after the 470 is filed.
Early January 2005	Form 470 must be completed 28 days before the close of the "80-day window." Note, however, that if you wait until the last possible day, you will have to complete any necessary contracts, complete and file the 471 all in one day.
Early February 2005	The deadline for the Form 471 has been in the first week in February for the last two years.
April – June 30, 2005	Funding commitment decision received. (80% of districts should receive funding commitments before June 30.)
July 1, 2005	File Form 486 (within 120 days). Discounted services begin.
October 2005	File first BEAR Form for reimbursement. (Note that this step and all the following steps are only required if you opt to use the BEAR form rather than receiving discounted bills.)
December 2005	Receive first set of reimbursement checks.
January 2006	File second BEAR Form for reimbursement.
March 2006	Receive second set of reimbursement checks.

April 2006	File third BEAR Form for reimbursement.
June 2006	Receive third set of reimbursement checks.
July 2006	File fourth BEAR Form for reimbursement.
September 2006	Receive fourth set of reimbursement checks.

Funding Suspension

As you may have heard, funding has been suspended for the 2004 – 2005 funding year. As USAC converts from a business accounting system to a government accounting system (as mandated by the FCC), they have run into problems. In short, they can no longer issue funding commitments based on projected income; commitments can only be made using cash on hand. Since E-Rate contributions come in over the course of the year, USAC has run out of money.

The suspension affects about half of the applicants in NJ. The suspension should not affect the amount of funding or change any eligibility rules. It will only affect the timing of the funding.

Word has it that the situation will be resolved in late November. At that point, most of the remaining applicants should receive some funding advisory, though it may no longer be called a “commitment.”

Avoiding Application Pitfalls

Districts have learned that the SLD and FCC are merciless when districts don’t follow program rules. Here are a few issues that have tripped up many districts when applying for the E-Rate.

Plan for the worst

If you peruse the archive of appeals to the FCC, one common theme is applicants’ lack of a backup person in the E-Rate filing process. Missing a deadline will not be excused if business administrator unexpectedly quits the week before a deadline, or a technology coordinator goes into the hospital just before a form is due. The FCC’s standard response is: 1) it could have been filed earlier, and 2) someone else should have taken over the application process. Plan the E-Rate process for your district with a contingency plan in case the unthinkable happens. At least two people should be aware of the E-Rate deadlines, and should be able to file the forms or be ready to outsource it.

Have a Technology Plan First

Before you can post a Form 470 requesting bids on a service or piece of equipment, you must have a technology plan that supports the purchase of that item. While the particular item apparently does not have to be included in the plan, it must be supported in the budget and must support the educational goals of the plan. For more information, see the Tech Plans section on page 11.

Don't wait to file the Form 470

The 470 must be posted at least 28 days before a vendor is chosen, so there must be at least a 28-day delay between filing the Form 470 and filing the Form 471. File the Form 470 early, to give yourself flexibility in filing the Form 471.

The filing deadline for the Form 471 depends on the post office

The filing instructions for the Form 471 says that you can file up to 11:59 p.m. on the day of the application deadline. But unless you have already applied for a special PIN, you must file the certification pages on paper, and they must be postmarked on that day. So the deadline for the application is really the closing time of your post office (or express mail service).

Put the Form 486 on your calendar

If you don't file the Form 486 by October 29 for services that started on July 1, you will begin slowly losing funding. Make sure to give yourself a reminder to file the Form 486 in July.

Put the Form 472 on your calendar

You cannot file a Form 472 (BEAR) after October 28 for services that ended on June 30. Make sure to give yourself a reminder to file the Form 472 in August.

Application Tips

This presentation does not include complete instructions for filing E-Rate forms, but here are a few tips to help you with your applications.

File online

The Forms 470, 471 and 486 can be filed online. Several common errors are caught by the online application system as you complete the form, so the chance of losing funding due to clerical errors is reduced. For the Form 470, the 28-day waiting period starts when online filers click the "Submit" button, while paper filers have to wait for the SLD to do data entry before the 28 days start.

Plan to complete the forms in several sittings.

Just as you wouldn't submit the first draft of a major report, don't try to complete and submit the forms in one sitting. Complete the form, then come back another day to review and submit it.

Have others review your Forms 470 and 471

Once you have completed the form, but before you submit it, have it reviewed by your technology and accounts payable personnel, to see that nothing has been left out, and that the amounts are correct.

Do the Item 21 Attachments before submitting the Form 471

At the heart of the Form 471 are the "Item 21 Attachments," which are detailed descriptions of the services requested and the costs. If you get these attachments in order before you file, you will be less likely to make mistakes on the Form 471.

Make your FRNs big

If you get several Verizon bills each month, consider combining them into one funding request. This will simplify your bookkeeping when you file the BEAR. More importantly, it makes the funding more flexible. If your costs decline on one bill, but increase on another, they will offset each other.

“When in doubt, break it out”

The exception to the previous rule is a service of uncertain eligibility. The “30% Rule” described on page 10 means that an ineligible service can cause funding for eligible services in the same request to be denied. One strategy to reduce the risk is to break that service out into its own FRN.

For example, suppose your district has four cell phones: two for principals, and two for your bus drivers, who are employees of the bus company, not district employees. The rules are not clear on the eligibility of phones used by contractors’ employees. Rather than risk losing the funding for all cell phones, put the bus drivers’ phones into a separate funding request, even though they are on the same phone bill.

Opt for the discount, not the BEAR

If you opt to use the BEAR, it is more paperwork for you, and you are fronting money to the USAC. There are, however two cases where you might want to do the BEAR:

1. You want to keep your telecommunications costs at pre-discount levels, and use the reimbursements for purposes outside telecommunications.
2. If you pay the full cost, then file one BEAR for the year, in the beginning of the next fiscal year, you can move this year’s E-Rate funding into next year’s budget.

Changes for 2004-2005

The FCC has made several rule changes for the 2004-2005 funding year. If you would like to see the FCC ruling, you can download it from www.on-tech.com/erate. The SLD is still in the process of implementing those changes, but some have been made.

Please note that these changes do not affect the current year, but take effect for services starting July 2004.

Eligible Services

The FCC made several changes to the eligibility of services and equipment for 2004-2005. The most important of those changes are listed below.

Educational Purpose (Phones for Secretaries and Bus Drivers)

The FCC has loosened the rule concerning “educational purpose.” The new rule states “reasonable requests for any supported service – over any technology platform – to be used by any school or library staff while in a library, classroom, or on school or library property, shall be eligible for discounts”. So, for example, phone service to administrative buildings and cell phones used by bus drivers are now eligible.

Voice Mail

Voice mail services will now be eligible for discount. The order does not mention voice mail equipment, but it seems clear that the cost of that equipment can be discounted by those high-discount districts able to get “internal connections” (Priority Two) funding.

Firewalls

All districts can receive funding for firewall service as part of Internet access. Districts eligible for Priority 2 (“internal connections”) funding can receive funding for the purchase of firewall equipment and software. Note, however, that proxy servers are not eligible, so the eligibility of application proxy and hybrid firewalls is not clear.

Web hosting

Districts can now receive funding for external hosting of their Web sites. Note that charges for content creation and management are still ineligible.

Alarm lines

Telephone lines used to connect alarm systems are now eligible.

Ineligible in 2004 onward

VoIP

The status of Voice over IP is now up in the air, and until the status is clarified, it has been declared ineligible as a telecommunications service. However, VoIP equipment continues to be eligible for districts which receive Priority 2 funding. The FCC is

apparently using “Voice over IP” to refer only to the use of the Internet to avoid routing calls over the public switched telephone network.

Dark Fiber

Districts cannot receive discounts on the lease of “dark fiber,” which is fiber optic cable without modulating electronics. If the district also leases the devices to “light” the fiber, it is eligible for discount. However, only lit fiber provided by “eligible telecommunications providers” is eligible for discount. To determine if your vendor is an eligible telecommunications provider, use the SPIN Search tool on the SLD Web site to locate the information on your vendor. In the table that appears, there is a column for “Elig Telecom Provider,” which shows whether a vendor is eligible.

30% rule

This new rule is really just codification of current practice. I include it here because this rule is a “gotcha” that most applicants find out about too late. The rule is: “If 30 percent or more of the request seeks discounts for ineligible services, the Administrator will deny the funding request in its entirety.”

Here’s an example. Let’s say your district is paying for three T-1 lines: one between two school buildings, one to the Internet, and one to the municipal building. You put them all in the same funding request. The T-1 lines between buildings and to the Internet are eligible, but the T-1 line to the municipal building is not eligible, since the municipal building is not an eligible entity. When reviewing the application, the SLD will remove the ineligible service from the FRN.

Now the 30% rule rears its ugly head. Since more than 30% of the funding request is ineligible, the entire funding request is ineligible. That means you lose the discount for all three T-1 lines, both eligible and ineligible.

The moral of the story: “When in doubt, break it out.” If you aren’t sure a particular service is eligible, put it in its own funding request (FRN).

Choice of Payment Method

The final change likely to affect most districts is a requirement that service providers offer districts a choice of reimbursement method. When the E-Rate program was established, it was envisioned that districts would receive a bill for the undiscounted portion of the costs, and the service provider would bill the E-Rate program for the discounted portion. However, service providers complained that they would need time to convert their billing systems to this new regime, and the “BEAR” (Billed Entity Applicant Reimbursement) payment method was created, in which a district pays the full amount, then submits a form and gets reimbursement.

Since the BEAR method was easier for service providers (although more difficult for districts), most service providers refused to discount bills automatically and required districts to use the BEAR form. The new order requires that service providers offer districts a choice of payment method in the 2004 - 2005 funding year.

Changes in Practice

The changes listed below are not mentioned in any SLD documents, but based on comments made by SLD personnel, they appear to be changes in the unwritten rules of the program.

Bids from the 470

It appears from the workshop that the SLD will be paying more attention to the competition used in selecting a vendor. The most significant statement is that, in the case of master contracts, districts should solicit bids from vendors on the list of contractors. This means that districts selecting a vendor off the “state contract” are expected to request bids from more than one vendor on the contract before making a selection.

Changes for 2005-2006

The rules for 2005-2006 have been changed by the FCC, and more changes are likely.

FCC Registration Numbers

All entities involved with the E-Rate program, including schools, libraries, service providers and consultants, are required to obtain an FCC Registration Number (which the FCC unfortunately calls an “FRN,” but which some of the E-Rate community has started calling an “FCCRN”). The formal deadline to apply for the FCCRN is November 11, but the number will not be required until the PIA process. To get your FCCRN, go to: <https://svartifoss2.fcc.gov/cores/CoresHome.html>

Technology Plans

In the Fifth Report & Order, the FCC made several changes to its rules concerning technology planning. In general, these changes are really just codification of previous practice.

1. The Form 470 must be written, though not necessarily approved, before submission of the Form 470, and applicants must certify that it will be approved before the start of service.
2. Applicants must certify on the Form 486 that a technology plan was approved before the start of service.
3. “In addition to the requirements of the EETT, technology plans [must] be supplemented by an analysis that indicates that the applicant is aware of and will be able to secure the financial resources it will need to achieve its technology aims, including technology training, software, and other elements outside the coverage of the Commission’s support program.”
4. Applicants are free to make “changes in the services they order as long as those services are designed to deliver the educational applications they have prepared to provide.”

The “2 in 5” Rule

The FCC has recognized that applicants with high discounts have been consuming Priority 2 funding disproportionately. In order to “spread the wealth,” the FCC has declared that, with the exception of maintenance, applicants can only apply for Priority 2 funding twice in a five year period.

Online Eligible Products Database

The SLD is working with manufacturers to create a database of internal connections products and their eligibility. Applicants (and resellers) will be able to see the eligibility of the particular piece of equipment they are considering. The database should be available by October.

Possible Changes

The FCC has indicated an interest in

Discount Matrix

In another attempt to distribute Priority 2 funding more equitably and reduce waste, fraud and abuse, the FCC is considering reducing the maximum discount for Priority 2 funding. It seems likely that the FCC will reduce the maximum discount to 80%, or even 70%, for Priority 2 equipment and services

Bidding Process

The FCC has sought comment on whether the current bidding process is successful and how the process might be made more successful. Many commenters have suggested simplifying the process, but given the current concern about cost-effectiveness, it seems more likely that the bidding process will become more stringent.

“Priority One On-Premise Equipment”

The FCC seems to be seeking ways to tighten this loophole, which allows service providers to provide equipment for an applicant’s use, and classify it as a Priority 1 service.

Wide Area Networks

The FCC will probably tighten regulations around wide area networks (WANs), especially leased fiber optic WANs. Some of the proposed changes are limiting the amount of upfront capital recovery in WAN contracts.

Dark Fiber: It appears likely that the FCC will reverse itself and once again make dark fiber eligible for discount as a telecommunications service.

Registration of Outside Experts

The FCC is considering expanding disclosure requirements for applicants which use outside experts in any phase of the application process, including technology planning.

FCC Orders at a Glance

The full text of these orders is available at www.on-tech.com/erate/fcc

Order Name	FCC ID	Date	Significant Changes
Fifth Report and Order	FCC 04-190	8/13/04	<p>Recovery of Funds:</p> <ul style="list-style-type: none"> Guidelines for recovery of improperly disbursed funds Funds can be recovered for up to 5 years “Red light rule”: no new funding until recovery complete FCC Registration Number required <p>Document retention:</p> <ul style="list-style-type: none"> A long, but not complete, list of documents to be retained Documents to be retained for 5 years <p>Technology Plans:</p> <ul style="list-style-type: none"> Requirements for timing of tech plans codified Content requirements of tech plans clarified <p>Certification requirements:</p> <ul style="list-style-type: none"> New certifications required for forms
Fourth Report and Order	FCC 04-181	7/30/04	<p>Recovery of Funds:</p> <ul style="list-style-type: none"> Funds can be recovered from applicants or service providers
Third Report and Order	FCC 03-323	12/23/03	<p>Internal Connections:</p> <ul style="list-style-type: none"> “2 in 5” rule: internal connections funding only twice every five years (except maintenance) Equipment cannot be moved for 3 years <p>Eligible Services:</p> <ul style="list-style-type: none"> Cost allocation rules codified Eligible services list published for comment, approved by FCC No free services from service providers Codification of procedure for service substations Clarification of “On-Premise Priority One Equipment” <p>Funding Carryover:</p> <ul style="list-style-type: none"> Unused funds from past years rolled into current year

<p>Second Report and Order</p>	<p>FCC 03-101</p>	<p>4/29/03</p>	<p>Eligible Services:</p> <ul style="list-style-type: none"> • “Bus driver” rule: “educational purpose” standard expanded (“Any supported service ... to be used by any school or library staff ... on school or library property, shall be eligible for discounts.”) • Duplicative services not allowed • Voice mail eligible • Eligible products database for internal connections required <p>30% Rule:</p> <ul style="list-style-type: none"> • “30% Rule” codified <p>Choice and Timing of Payment Method:</p> <ul style="list-style-type: none"> • Service providers required to give applicants choice of discount or reimbursement <p>Appeals:</p> <ul style="list-style-type: none"> • Expands appeal deadline to 60 days after decision • Funding of appeals codified <p>Suspension and Debarment:</p> <ul style="list-style-type: none"> • Rules for throwing people out of the program <p>Unused Funds:</p> <ul style="list-style-type: none"> • Unused funds to be rolled over into subsequent years
--------------------------------	-------------------	----------------	---

More Resources

On-Tech

www.on-tech.com/erate

This handout and other E-Rate information and links are available at our Web site.

If you have specific questions, contact us.

Email: info@on-tech.com

Phone: 732-530-5435

Schools & Libraries Division (SLD)

www.sl.universalservice.org

This Web site is a wealth of information, and the information is official.

E-Rate Central

www.eratecentral.com

This Web site is less official than the SLD site above, but is more user-friendly.

NJDOE

General E-Rate Information: www.nj.gov/njded/techno/teleact/index.html

Find your school's discount: www.nj.gov/njded/techno/teleact/discount.htm