



**E-Rate Funding—Guaranteed**

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# What is Eligible for the E-Rate?

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## 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.

## What is the E-Rate?

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 roughly \$2.25 billion to schools and libraries annually 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.

<b>NSLP free or reduced</b>	<b>Urban Discount</b>	<b>% of NJ Schools</b>
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 final column shows the percentage of New Jersey schools at each discount level, according to NJDOE data from October 2003.

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## The 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 amount of invoices, then receive reimbursement.

July 2005	SLD began accepting Form 470.
November 2005	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.
January 2006	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.
February 2006	The deadline for the Form 471 has been in the first week in February for the last two years.
April – June 2006	Funding commitment decision received. (80% of funding should be committed before June 30.)
July 1, 2006	File Form 486 (within 120 days). Discounted services begin.
July 2006 – October 2007	Receive funding, either as a discount on bills or by applying for reimbursement through the Form 472 (BEAR).

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## Eligible Services Overview

The program is intended to reduce the cost of voice and data communications for schools and libraries. As a general rule, 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, equipment necessary to transmit voice, video and data is also eligible.

The Eligible Services Framework is available at:

[www.sl.universalservice.org/reference/eligserv\\_framework.asp](http://www.sl.universalservice.org/reference/eligserv_framework.asp)

Here are a few concepts to keep in mind when trying to decide if something is eligible.

### Transport is Eligible, Creation and Storage are Not

Anything necessary to transport data, voice or video to instructional areas is eligible. This includes, for example, cabling, switches, routers, PBXes, video modulators, Web hosting and Internet access. Devices required to create or store information are not eligible. Examples of ineligible equipment and services include PCs, video cameras, file servers, VCRs, content caching and Web page creation. Two exceptions are equipment necessary to store email and voicemail.

### If It Crosses the Street, You Can't Own It

Any link that stays within an applicant's "campus" like a wireless bridge between two buildings on a single piece of property, is eligible for funding as an Internal Connection. However, a wireless bridge which connects two buildings on opposite sides of the street is no longer eligible as an Internal Connection. If you could find an "eligible telecommunications provider" to lease that wireless link to you, it might be eligible as a Priority One service. See the Wide Area Networks section on page 6 for more information.

### Web Filtering Is Required, but Not Eligible

If your district does not filter Web content, you can receive funding only for basic telephone service. However, Web filters have been deemed not necessary to transport information, and so are not eligible for discount.

### End-User Equipment and End-User Training Are Required, but Not Eligible

Equipment and training for end users is ineligible. However, you must certify that you have enough end user training and equipment to make use of the services and equipment for which you are requesting funding. If, for example, you want funding for an email server, you must be able to show that your users have been trained in using email, and that they have access to a PC with the software necessary to check their email. The training and PCs are not eligible for E-Rate funding.

### 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 are funded. This means that every district, even those with no low-income students, receive discounts 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. In the past, districts with a 90% discount have always received Priority 2 funding, while districts with a discount of 80% or less have not 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.

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## Eligible Services List

The Eligible Services List is an attempt by the SLD to provide specific guidelines on the eligibility of services and equipment. The list evolves each year, and is getting more specific and less contradictory every year. Each summer, the list is published for comment, reviewed by the FCC and finally published in the fall.

The latest final Eligible Services List is available at:  
[www.sl.universalservice.org/reference/eligible.asp](http://www.sl.universalservice.org/reference/eligible.asp)

### ***Clarifications***

A few areas of the Eligible Services List are misleading or confusing. The following comments may help clarify those areas.

#### **Voice over IP**

The list says that VoIP is ineligible. However, “voice over IP” means a service that uses the Internet to transport voice calls. Within a district, voice calls can be transported in any way. VoIP systems that replace PBXes are eligible, as long as outgoing calls go over telephone lines.

#### **Video Equipment**

Equipment and cabling necessary to transport video within or among eligible locations is eligible. Equipment and cabling for the transport of broadcast or cable TV is not. If you want to create a system that does both, make sure that any components which are used only for broadcast and cable TV are separate. See the section on Ancillary Use vs. Cost Allocation on page 6.

The list says that “head-end equipment” is ineligible. However, this is not really the case. The components that make up a head end are eligible. Just be sure the term “head end” does not appear in any documents. Instead use a term like “video distribution center.”

#### **File server**

The list uses “file server” to refer to any server. So the list says that some “file servers” are eligible. In fact, a server which is used to store user files is not eligible.

### ***Beyond the Eligible Services List***

There are several areas of the Eligible Services List which can be used to make eligible projects which might otherwise not be eligible.

## On-Premise Priority One Equipment

This loophole continues to tighten, but as it now stands, if you purchase a service, and the service provider installs equipment on your site and charges you the cost of that equipment, but retains ownership of the equipment, it can be eligible as part of a Priority 1 service. Be sure to read and fully understand the SLD web document “On-premise Priority 1 Equipment” before you try this, but here are some ideas for such equipment:

- Internet router: Have your ISP supply the router that connects your LAN to the Internet.
- Firewall: Have your ISP provide a “firewall service” by installing a firewall in your building.

## Wide Area Networks

If you plan to create a wide area network, use an “eligible telecommunications provider.” You cannot own the fiber optic cable connecting your buildings, but you can lease it from an “eligible telecommunications provider.” To learn if a service provider is an “eligible telecommunications provider,” go to [www.sl.universalservice.org/Forms/SPIN\\_Contact\\_Search.asp](http://www.sl.universalservice.org/Forms/SPIN_Contact_Search.asp) and find the service provider. The search results have a column showing if the company is an eligible telecommunications provider.

There are many other guidelines to learn when trying to fund a WAN. See those guidelines at: [www.sl.universalservice.org/reference/wan.asp](http://www.sl.universalservice.org/reference/wan.asp)

## Ancillary Use versus Cost Allocation

If you have a device or service that includes both eligible and ineligible components, it is fully ineligible unless: 1) you can remove the cost of the ineligible components through “cost allocation” or 2) the ineligible components meet the criteria for “ancillary use.” Here are three examples.

- 1) A PBX with 100 phone sets. The PBX is eligible for discount, the phone sets are not. In this case, when you request bids, require vendors to separately identify the cost of the phones. Then apply for funding based only on the cost of the PBX.
- 2) Microsoft ISA Server is a caching firewall. Firewalls are eligible, caching devices are not. In this case, it is not possible to separately identify the cost of the ineligible component, since it cannot be sold separately. The server is eligible only if you can show that the caching is “ancillary.” Read the rules for “Ancillary Use,” which are part of the Eligible Services List.
- 3) Paging equipment is not eligible for E-Rate funding, but paging is a standard feature of many PBXes. As long as your RFP for a PBX does not specify a requirement for paging, the PBX would be fully eligible. Read the rules for “Ancillary Use,” which are part of the Eligible Services List.

## Maintenance

Maintenance of eligible equipment is eligible for Priority Two funding. If you have a technician come in to maintain or repair an eligible piece of equipment, her/his services are eligible for discount. For most clients, we set up a purchase order based on an hourly rate and an estimated number of hours.

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## **Recent Eligibility Changes for 2004-2005**

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

### ***Eligible in 2004 onward***

#### **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, even if the drivers are actually employees of an outside contractor.

#### **Voice Mail**

Voice mail services and equipment are eligible for discount.

#### **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.

#### **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. Alarm services are not 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 ineligible 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).

### ***Eligible in 2005 onward***

#### **Proxy Servers**

Proxy servers were made eligible in the 2005-2006 Eligible Services List.

### ***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. A pilot database with products from approximately 25 vendors is now available at:

<https://slpin.universalservice.org/mfpin/EPDPublic/PublicInterface/Search.aspx>



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## **More Resources**

### **On-Tech**

[www.on-tech.com/erate](http://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](mailto:info@on-tech.com)

Phone: 732-530-5435

### **Schools & Libraries Division (SLD)**

[www.sl.universalservice.org](http://www.sl.universalservice.org)

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

### **E-Rate Central**

[www.eratecentral.com](http://www.eratecentral.com)

This Web site is less official than the SLD site above, but is more user-friendly. The New York State Department of Education contracts with E-Rate Central to provide information and assistance to New York public schools.