



E-Rate Funding—Guaranteed

On-Tech Consulting, Inc.
53 Elm Place
Red Bank, NJ 07701
Voice: (732) 530-5435
Fax: (732) 530-0606
www.on-tech.com
info@on-tech.com

What is Eligible for the E-Rate?

Presented by:

Dan Riordan

President

On-Tech Consulting, Inc.

dan@on-tech.com

Introduction.....	2
The Eligibility Matrix	3
Eligible Service or Equipment	3
Eligible Users	3
Eligible Locations	3
Eligible Services Overview.....	3
Transport is Eligible, Creation and Storage are Not	3
If It Crosses the Street, You Can't Own It.....	3
Web Filtering Is Required, but Not Eligible	4
End-User Equipment and End-User Training Are Required, but Not Eligible	4
Priority 1 vs. Priority 2.....	4
Eligible Services List	4
Clarifications.....	4
Voice over IP	5
Video Equipment	5
File server.....	5
Beyond the Eligible Services List.....	5
On-Premise Priority One Equipment	5
Wide Area Networks.....	5
Ancillary Use versus Cost Allocation.....	6
Maintenance	6
Eligibility Changes for 2004-2005.....	7
Eligible in 2004 onward.....	7
Educational Purpose (Phones for Secretaries and Bus Drivers)	7

- Voice Mail 7
- Firewalls..... 7
- Web hosting 7
- Alarm lines..... 7
- Ineligible in 2004 onward..... 7
 - VoIP 7
 - Dark Fiber 7
- 30% rule..... 8
- Eligibility Changes for 2005-2006..... 8
 - Eligible in 2005 onward..... 8
 - Proxy Servers 8
 - Basic Maintenance 8
 - Online Eligible Products Database 8
- Proposed Eligibility Changes for 2006-2007..... 9
 - Basic Maintenance Gets Its Own Category 9
 - Ancillary Use Gets Easier 9
- Eligible in 2006 onward..... 9
 - VPNs Eligible 9
- Ineligible in 2006 onward..... 9
 - Blackberry Eligibility Complicated 9
 - Redundancy..... 9
 - Terminal Servers 9
- More Resources 10
 - On-Tech 10
 - Schools & Libraries Division (SLD) 10
 - E-Rate Central..... 10

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.

The Eligibility Matrix

In order to be eligible for funding, a service or piece of equipment must meet three eligibility criteria: 1) a service or equipment type eligible for funding, 2) used by an eligible user, 3) at an eligible location.

Eligible Service or Equipment

In order to be approved, a funding request must be only for services and equipment that have been deemed eligible by the FCC. We will focus on this area of eligibility, as it is the most difficult for applicants.

Eligible Users

In order to be approved for funding, the service or equipment must be used by eligible users. For schools, eligible users are students and school employees. For libraries, eligible users are library patrons and staff. So, for example, a computer lab set up by a school to allow Internet access to the community after school hours would not be eligible for E-Rate funding.

Eligible Locations

In general, only services and equipment used within school or library locations are eligible for E-Rate funding. The FCC has recently expanded eligibility to include cell phones used by staff while on field trips or school buses. For digital lines or other dedicated links from a school building, only those to another eligible location are eligible for funding. For remote access, only access from eligible locations is eligible.

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

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 5 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 are 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. For example, if 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 generally have not received Priority 2 funding. The FCC has been taking steps to distribute Priority 2 funding more equitably, so it is possible that Priority 2 funding will be available to more districts in the future.

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

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, 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. "IP-enabled telecommunications services" are not eligible for funding. Exactly what "IP-enabled" means is not spelled out. Perhaps the best rule of thumb is that if your voice traffic leaves your premises in an IP packet, it is not eligible. Inside your network, you can use whatever transport you want. It also seems that the SLD is not interested in the transport used within telecommunications carriers' networks. The only sticking point seems to be the connection between the applicant network and the service provider network.

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.

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. Wherever you see the term "file server," cross out the word "file."

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.

Note that in both cases, your ISP must also provide the circuit from your location to their location. That is, their service must extend uninterrupted to your premises. If the digital line between you and your ISP is billed by a separate telecommunications provider, your ISP can not install on-premise Priority One Equipment.

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 locations, 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 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

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 contract based on an hourly rate and an estimated number of hours.

Note, however, that all invoices under such agreements must make clear that the service was performed only on eligible equipment. So if the same company provides support to both PCs and the network, or to both phone sets and the PBX, only invoices on the network or PBX are eligible for funding. Invoices should make clear which equipment was serviced.

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 “IP-enabled services” 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 data networks 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 “Eligible Telecom Provider,” which shows whether a vendor is eligible.

30% rule

This new rule is really just codification of existing 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).

Eligibility Changes for 2005-2006

Eligible in 2005 onward

Proxy Servers

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

Basic Maintenance

Basic maintenance of eligible internal connections was eligible in the past under “technical services,” but the definition and limits on eligibility were changed to match the FCC’s Third Report and Order.

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 is available at:

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

Proposed Eligibility Changes for 2006-2007

The Eligible Services List for 2006-2007 has not been finalized, but the following changes were part of the SLD's suggested list, and are likely to be part of the final list.

Basic Maintenance Gets Its Own Category

Basic Maintenance of Internal Connections now has its own category, since it is under Priority Two, but does not fall under the "2-in-5" rule.

Ancillary Use Gets Easier

The criteria for "ancillary use" (described on page 6) are looser: applicants will no longer have to show that the ineligible components are "minimal."

Eligible in 2006 onward

VPNs Eligible

The new proposed list would make VPN equipment and services eligible for funding under the Internet Access category. It is unclear what use of a VPN would be eligible. The SLD Web site (www.sl.universalservice.org/whatsnew/2005/022005.asp#021505) says, "Funding in [the Internet Access] category will not be provided for transport of point-to-point connectivity of data, video, or voice applications that are to be provided only by eligible telecommunications carriers," so point-to-point VPNs over the Internet seem to be ineligible. Remote access from ineligible locations is not eligible. Allowing users at eligible locations to access the network using VPN client software would be eligible, though the applicant would have to ensure that those clients could not use the VPN clients from ineligible locations. Applicants could probably also set up VPNs in order to protect data on their own WAN.

Ineligible in 2006 onward

Blackberry / Treo Eligibility Complicated

The list states that cell phone use at ineligible locations is still eligible in some cases (bus drivers, teachers on field trips), but that Internet access using mobile devices is not eligible unless the applicant can show that the access is only from within eligible locations. So the Blackberry email service is not eligible, and browsing the Web with your Treo or cell phone is not eligible. If you can separate the cost of data/email service from the cost of voice service, you can still receive funding on the voice portion.

Redundancy

The new Eligible Services List further clarifies the prohibition against duplicative services and redundant equipment. No redundancy is allowed (except redundant power supplies), even where necessary to ensure reliable operation. Think "load balancing."

Terminal Servers

The meaning of the phrase "terminal server" has been clarified, and the clarification removes almost every use of a terminal server. The only use allowed is a terminal server whose only purpose is to allow workstations to access the Internet.

More Resources

On-Tech

www.on-tech.com/erate

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

e-rate.blogspot.com

A less formal look at the E-Rate.

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.

<http://www.sl.universalservice.org/reference/eligible.asp>

The current approved Eligible Services List is available as a PDF or through a searchable interface.

E-Rate Central

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.