On-Tech

E-Rate Funding—Guaranteed

E-Rate Overview

Dan Riordan

President

On-Tech Consulting, Inc.

dan@on-tech.com

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 assist districts with the E-Rate process. 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 is a federal funding program for schools and libraries, 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 schools and libraries. The program has provided approximately $2.25 billion to schools and libraries annually since 1998.

Subsidies (called "discounts") are a percentage of expenditures on telecommunications and Internet access. The level of discount ranges from 20% to 90%, and is calculated based on the percentage of low-income students.

E-Rate Myths

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 One vs. Priority Two* 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.

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 eliminate the program, but none have come close to succeeding. Currently, congressional action is focused on reforming the program rather than ending it.

The Application Process

Schools, districts and libraries must apply for the funding. The application process includes at least three separate forms, and begins at least six 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.

The Application Timetable for the 2006-2007 School Year

June 2005 – January 2006	File the Form 470. There is no deadline for filing the Form 470, but the Form 470 must be submitted at least 28 days before filing the Form 471. If you wait until the last minute to file the 470, you will have to select vendors, sign contracts, and complete and file the 471 all in one day.
November 2005 – February 2006	File the Form 471. There is a window for submitting the Form 471. The start and end dates for the window for 2006-2007 have not yet been set. Keep in mind that the 470 must be filed at least 28 days before the 471 is filed. Contracts must be signed before the Form 471 is filed.
February ??, 2006	Deadline to file Form 471. The deadline for the Form 471 changes every year, but is likely to be some time in the first half of February.
April – June 2006 (and beyond)	Funding Commitment Decision Letter (FCDL) received. Before funding, the Form 471 and Item 21 Attachments will be scrutinized by Program Integrity Assurance (PIA).
July 1, 2006	If funding commitment has been received, file Form 486 (within 120 days). Discounted services begin.
October 2006 January 2007 April 2007 July 2007	File BEAR Forms (Form 472) for reimbursement. (Note that the BEAR is only required if you opt to receive reimbursement rather than receiving discounted bills.) Checks should be received 45-60 days after filing.

Calculating Your Discount

The level of discount ranges from 20% to 90%, and is based on the percentage of total enrollment which is "low-income." Low-income is defined as a student whose family's income is 185% of the poverty level or less. The easies way for a district to determine their discount is to calculate the percentage of students eligible for free or reduced lunch under the National School Lunch Program (NSLP). Find where the percentage fits in the left-hand column, and look in the appropriate column to find the discount. Libraries should use the lunch numbers for the district(s) in which they are located.

NSLP free or reduced	Urban Discount	Rural Discount
Less than 1%	20%	25%
1% to 19.5%	40%	50%
19.5% to 34.5%	50%	60%
34.5% to 49.5%	60%	70%
49.5% to 74.5%	80%	80%
Over 74.5%	90%	90%

Calculating your discount if you have more than one school

Districts with more than one school can file separate requests for each school, but they more often file requests for the district as a whole. If you file for the district, you must use a weighted average to determine your district's discount. If you file the Form 471 online, these calculations are done automatically.

The Forms

As we saw earlier in the application timeline, there are several forms to be completed in order to receive funding. All forms are available on the SLD Web site. The first three forms can be completed online or on paper. Whenever possible, file the forms online. If you file on paper, there are certain minuscule errors that will cause you to fail the "minimum processing standards," and your application will be returned to you. Since it can take weeks before the form is returned, there is a good chance you will miss a deadline. If you file online, it is impossible to fail the minimum processing standards.

Technology Plan

OK, it's not really a form, but it is the necessary first step in the E-Rate application process. If you plan to request anything beyond basic telephone service, you will need to have a technology plan of some sort. In the Fifth Report & Order, the FCC codified rules for technology plans.
1. The Technology Plan 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." An actual budget with dollar figures is not required, but some discussion of resources is.
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."

Form 470: Request for Bids

The form that starts it all. The purpose of the Form 470 is to provide an opportunity for service providers to see the services for which you will be requesting E-Rate funding, so that they can provide competing bids, bringing you lower prices. If you want a robust competition, you cannot rely on the Form 470, but you still have to fill it out. It's not a difficult form, since it usually just describes the service you are already receiving. There is no deadline for this form, but it must be submitted at least 28 days before the Form 471. Submit it as soon as you can. File this form online.

Form 471: Description of Contracts

This is the most time-consuming form in the process. The form requires you to list all your buildings and calculate their discounts, then describe all the services for which you are requesting funding. The form itself collects only basic information on each request: the service provider, the costs, and the start and end dates. The "Item 21 Attachments" contain the rest of the information about the request: the type and quantity of service sought. The deadline for this form varies from year to year, but will probably be in the first half of February. File this form online.

Form 486: Start of Service

This is the simplest form, but it is often forgotten. All the information you need for this form is on the Funding Commitment Decision Letter. This form must be filed within 120 days of either: 1) the start of service (July 1st for ongoing services), or 2) the date of funding commitment, whichever is later. File this form online.

Form 472 (BEAR): Request for Reimbursement

This form requires that you collect bills and exchange faxes with your service provider, so it does take some time, but it is fairly straightforward. This form can be filed as often as you like; the SLD recommends quarterly submissions. The final BEAR must be filed within 120 days of the end of service (June 30th for ongoing services). You can avoid this form by having your service provider discount bills. On-Tech recommends avoiding the BEAR for most applicants; make the service provider do the work, and get your funding instantly. Note that the FCC has declared that service providers must allow applicants make the choice to receive discounts or reimbursements. This form cannot be filed online.

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. Equipment necessary to transmit voice, video and data within buildings is also eligible, but is not available to most districts.

The Eligible Services Framework is available at: http://www.sl.universalservice.org/reference/eligserv_framework.asp

There you will find the following general description of what is eligible:

> An overarching goal of the Schools and Libraries Support Mechanism is that eligible schools and libraries should have access to advanced telecommunications services. These services provide a conduit for the flow of information-voice, video, and data. Following is a general outline of eligibility:

Telecommunications Services, such as phone lines, data lines:	Eligible
Internet Access:	Eligible
Infrastructure serving multiple users, such as cabling and file servers:	Eligible as Internal Connections
End user equipment:	Not eligible
Software:	Not eligible, except core network operating systems and e-mail software
Content:	Not eligible

Eligible Services List

The Eligible Services List provides specific guidelines on the eligibility of services and equipment. It is created by the SLD and approved by the FCC. The list evolves each year, and is getting more specific and less contradictory every year. The eligible services list for 2006-2007 will not be available until the fall. The latest Eligible Services List (currently for 2005-2006) is available at: http://www.sl.universalservice.org/reference/eligible.asp

Eligible Services Rules

The following rules are often misunderstood by applicants.

Priority One vs. Priority Two

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 One and Priority Two. Priority One includes all telecommunications services (phone lines, long distance, leased lines, etc.) and Internet access. Priority Two includes

"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 One 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 One requests have been funded, the remaining funds are used for Priority Two requests, starting with the neediest districts. In the past, districts with a 90% discount have always received Priority Two funding, while districts with a discount of 80% or less have generally not received Priority Two funding. The FCC has been taking steps to distribute Priority Two funding more equitably, so it is possible that Priority Two funding will be available to more districts in the future.

Cost Allocation vs. Ancillary Use

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."

Cost allocation is the simpler of the two. If you can separate the cost of the ineligible components, you can then request funding only on the components which are eligible.

Ancillary use is trickier. Read the rules on the SLD Web site before you try to use this method. In a nutshell, the ineligible component must be an inseparable and minor part of a standard product, and you cannot have sought the ineligible component.

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 if 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 the need 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 contract under which a technician comes in to maintain or repair an eligible piece of equipment, that contract is eligible for discount. Manufacturers' service contracts and warranties on eligible equipment are also eligible.

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.

30% rule

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 connecting 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 reduce the funding request to remove the cost of the ineligible T-1.

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 funding 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).

The "2 in 5" Rule

The FCC has recognized that applicants with high discounts have been consuming Priority Two funding disproportionately. In order to "spread the wealth," the FCC has declared that, with the exception of maintenance, applicants can be approved for Priority Two funding only twice in a five year period. Note that the restriction is applied on a building-by-building basis. So, for example, a school district with six schools could apply for Priority Two funding for two schools each year, creating a cycle in which the district always received some funding.

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

This blog has informal observations on the E-Rate program, including a first-hand account of a Selective Review and an Extended Outreach Initiative site visit.

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, though it is not always easy to find.

Your State E-Rate Coordinator

www.e-ratecentral.com/us/stateCoord.asp

Each state has at least one E-Rate Coordinator. This page lists the coordinators for each state.