



E-Rate Funding—Guaranteed

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What will the E-Rate fund?

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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.

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%

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 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 funding should be committed 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.

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:

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 7 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.

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.

The latest final Eligible Services List is available at:
<http://www.sl.universalservice.org/reference/eligible.asp>

Check the date on the list to see that it has the year 2004 on it. If not, you do not have the Eligible Services List for Program Year 2005-2006.

The Eligible Services List for 2005-2006 is now overdue. The FCC created a new rule that a draft Eligible Services List must be posted for public comment, and a final version available 60 days before the start of the application cycle. The draft was published and the comment period is closed. If the FCC follows its rules, the 80-day application window will be pushed back. If, for instance, the list is released on October 15th, the end of the application window would be March 4, 2005, a month later than usual.

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 7.

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.

“Firewall Server” versus “Proxy Server”

“Firewall servers” are eligible; “proxy servers” are not. If you request funding for a product like Microsoft’s ISA Server, make sure you refer to it as a “firewall server” and not a “proxy server.” Also, make clear that you are purchasing it because of its firewall features, and not as a caching device.

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 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: <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 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 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.

Pitfalls and Tips

Districts have learned that the SLD and FCC are merciless when districts don't follow program rules. Here are some tips to avoid common pitfalls and give yourself more flexibility in requesting funding.

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.

Make your FRNs big

In general, larger FRNs provide more flexibility. If, for instance, you intend to purchase network switches and UPSes from the same vendor, put them in the same FRN. That way when it is finally time to purchase the items, if you decide to purchase more switches and fewer UPSes, you need only do a minor revision.

“When in doubt, break it out”

The exception to the previous rule is a service of uncertain eligibility. The “30% Rule” described on page 11 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 (funding request number).

For example, suppose your district decides to buy two servers, one for use as a Web server, one for use as a terminal server. The Web server is eligible (as long as it will serve Web pages to the Internet), but the eligibility of the terminal server is not clear. Put each server in its own FRN so that if the terminal server is ruled ineligible, it does not affect funding for the Web server.

Changes are Allowed

After approval of the funding, it is possible to change everything about a contract except the maximum amount of funding. It is quite common to change the equipment ordered, as the lag between bid and installation can be almost two years. As long as the functionality remains the same, quantities and model numbers can be changed using a “service substitution.” It is also possible to change vendors through a “SPIN” change, though the requirements to do so are a bit more rigorous.

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).

Changes for 2005-2006

The first three items in this section are recent rule changes. The other four items are proposed rule changes which may or may not be enacted. This is not a complete list of the changes that the FCC is considering, only those that seem most significant for districts.

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

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

Tech 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."

Possible Changes

The FCC has sought comment on the following items, which means that a change may be made for the 2005-2006 program year.

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.

"Priority One On-Premise Equipment"

The FCC seems to be seeking ways to tighten this loophole, which allows service providers to install equipment at an applicant's location, 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.

Bids from the 470

The SLD has been 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. In future, applicants may be required to obtain more than one bid.

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.