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E-Rate Funding—Guaranteed

The E-Rate

What Board Members Should Know

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Introduction

On-Tech is an E-Rate consulting firm providing management of 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.

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 schools and libraries. The program has provided roughly $2.25 billion to schools and libraries annually since 1998.

Subsidies (called "discounts") are a percentage of an applicant'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.

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 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 you 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, Internal Connections, or Basic Maintenance of Internal Connections.

The E-Rate program will cease to exist.

This rumor has existed since year one, and 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.

Seven E-Rate Myths

Myth #1: 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 properly completed the application process has received the full funding** 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 article.

Myth #2: 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 content on the Internet. 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.

Myth #3: 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 $25 per month for each of you phone lines, you will save $120 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 save $3,840 per year.

Myth #4: 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 for you district's personnel, consider hiring an E-Rate services company to handle your application.

Myth #5: I'm already in the Access NJ program, so I'm 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 Verizon's Access NJ program, it is worth considering. If you hire an outside company to handle the E-Rate for your district, make sure that company is familiar with Access NJ.

Myth #6: The program is suspended.
The approval of funding requests was suspended for the later part of 2004 due to new rules subjecting the fund to the Anti-Deficiency Act. This suspension did not affect payment of funding already approved, and the approvals made after the suspension are retroactive. At the end of 2004, Congress specifically exempted the E-Rate from the Anti-Deficiency Act for one year. A long-term resolution should be worked out by then.

Myth #7: 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. However, the program is popular and successful, and has survived every attempt to discontinue it.

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.

The dates of the Funding Year 2013-2014 filing window will not be set until the Fall, but based on past years, here is a good timeline:

July - December 2012	File the Form 470. There is no real advantage to filing before December, but since the Form 470 is an RFP, an earlier filing may fit better into the procurement process.
Early January 2013	The first day on which the Form 471 can be filed. The exact date shifts every year, but for the past several years, it has been in early January. Applicants must wait at least 28 days after the 470 is filed before filing the Form 471.

Mid-February 2013	Last possible time to file the Form 470. The Form 470 must be completed 28 days before the close of the filing window. **Caution**: if you wait until the last possible day, you will have to select vendors, complete any necessary contracts, and file the 471 all in one day. Better to file the Form 470 months earlier.
Mid-March, 2013	The deadline to file the Form 471. Again, filing early is advised, as the online systems tend to slow down on the last day of the window.
April – June 2013 and beyond	Funding commitment decision received.
July 1, 2013	Discounted services begin. File Form 486 within 120 days. Funding can be received any time after Form 486 is filed.
June 30, 2014	Last day to receive recurring services.
September 30, 2014	Last day to receive Internal Connections services (equipment installations).
October 28, 2014	Last day to file the Form 472 (BEAR) in order to receive reimbursements for recurring services.

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 easiest way for a district to determine their discount is to calculate the percentage of students eligible for the National School Lunch Program. Find where the percentage fits in the left-hand column, and find the discount.

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 "Urban" vs. "Rural" distinction is made at the county level. To learn whether your county is Urban or Rural, go to www.universalservice.org/sl/applicants/step05/urban-rural/

Calculating your discount if you have more than one school

If your district has more than one school, you can file separate applications for each school, but in most cases, will file one application for the whole district. 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

Here is a brief introduction to the forms you will have to fill out, so that you can see what kind of workload you are facing in order to apply for E-Rate funding.

Technology Plan

OK, it's not really a form, but it is the necessary first step. Starting with Funding Year 2012-2013, you only need to have a technology plan if you plan to apply for Priority Two services.

Form 470: Request for Bids

The purpose of the first form in the application process, the Form 470, is to provide an opportunity for service providers to see what services you will be requesting E-Rate funding for, so that competition will bring you lower prices. It fails utterly in that purpose, 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. File it as soon as you can. File it online.

Form 471: Description of Contract

This is the most difficult part of the process. The Form 471 reminds me of a tax form: there aren't that many blanks to fill in, but it takes time to collect the information needed to fill in each blank, and if you make a small mistake, it can cost you a lot of money. The deadline for this form varies from year to year, but will probably be in early February. File this form online.

Form 486: Start of Service

This is the simplest form, but it often forgotten. All the information you need for this form is on the Funding Commitment Decision Letter. This form should generally be filed within 120 days of July 1st. File this form online.

Form 472 (BEAR): Request for Reimbursement

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. This form requires that you collect bills and, if you don't file online, that you exchange faxes with your service provider, so it does take some time, but it is fairly straightforward. This form should generally be filed within 120 days of the last day to receive service. So for the 20012-2013 funding year, the deadline for most funding requests will be October 28, 2013.

Ideally, you should file this form online. But first check with your service providers to be sure that they are set up to certify online, and then inform them after you have submitted a BEAR online.

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.

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 **Error! Bookmark not defined.**.

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. Even though the FCC is being more forgiving of applicant failures, it pays to be prepared if a business administrator unexpectedly quits the week before a deadline, or a technology coordinator goes into the hospital the day before a form is due. Plan the E-Rate process for your district with a contingency plan in case the unthinkable happens. If you do not plan to outsource management of the E-Rate process, at least two people should be aware of the E-Rate deadlines and be able to file the forms.

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.

Conduct an open bidding process

The first part of the E-Rate application process is competitive bidding. The Form 470 acts as an RFP. Be sure that all vendors are treated equally in creation of the Form 470 and during the bidding process.

Make price the primary factor in selection

In evaluating vendors, applicants do not have to choose the lowest-cost vendor. Applicants can use as many criteria as they want in the selection process. However, price must be more important than any other single factor. And, of course, the criteria and the scoring must be documented.

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

The filing instructions for the Form 471 say that you can file up to 11:59 p.m. on the day of the application deadline. But unless you have already received an E-Rate 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.

Put the Form 486 and Form 472 on someone else's calendar

In case you leave your district, or get promoted to another area, be sure that your back-up knows about the deadlines for these two forms.

Funding for 2012-2013

The application process for the 2012-2013 school year is over, and application review is now starting. If your district has not applied yet, it is too late. If your district has applied, a decision should be made on your funding request sometime between now and September.

Looking Ahead to 2013-2014

It's not too early to be thinking about filing for the 2013 – 2014. The SLD will begin accepting the Form 470 (the start of the application process) soon, and it is to your advantage to complete the 470 by the end of September. Why not complete it before the start of the school year? If you intend to use an outside company to handle your E-Rate application, the summer is a good time to decide on a company.

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.

Document Competitive Bidding

The first part of the E-Rate application process is competitive bidding. The Form 470 acts as an RFP. Applicants must keep copies of all bids, winning and losing. In addition, applicants should document the selection process, even in cases where no bids were received.

File online

All the forms can now 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.

Warning: If you plan to file the Form 472 online, be sure that your service provider is prepared to certify forms online. Not all service providers are up to speed with the online process.

Get the latest version of the form

If you insist on filing on paper, make sure you have the latest version of the form. Many of the forms changed in April 2007, and a recent FCC ruling will probably mean changes in the forms in the near future. You can find the latest version of the forms at:
www.universalservice.org/sl/tools/required-forms.aspx

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.

Keep Your Item 21 Attachments Simple

Supply the bare minimum of information with you Item 21 Attachments. For telecommunications, include only a sentence about the type of service and the quantity. Try the online Item 21 Attachment tool. Do not send actual bills. If the SLD needs more information, they will ask for it.

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 **Error! Bookmark not defined.** 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.

Your PIA reviewer is your friend

Almost every PIA reviewer I've worked with has been very helpful. Remember, her or his goal is the same as yours: to move your application out of review. Reviewers have a strange set of rules to follow, and they aren't supposed to tell you what all the rules are, but within the confines of those rules, they're generally very helpful.

Respond to requests for information quickly

Look back at the reasons for denial: not responding to PIA requests is a frequent cause for denial. If you don't have the information at your fingertips, say so, and ask for an extension if necessary.

Beware repetitive requests

If you send a piece of information, and your reviewer requests the same information again, or asks you to confirm your response, the probable reason is that the answer you gave the first time was wrong or insufficient, and you're about to lose funding. If a request seems repetitive, or you're asked to confirm your response, check your answer and check the rules again.

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.

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.

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 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 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, districts with a discount of 80% have rarely received funding, and districts with a discount below 80% have not received Priority Two funding.

How to tell if your request is Priority 1 or Priority 2

The easy answer is to find the service or equipment on the Eligible Services List. In general, the categories are broken down as follows:

- Priority 1 includes all telecommunications services (phone lines, long distance, leased lines, etc.) and Internet access.
- Priority 2 ("internal connections") includes items like Web servers, network cabling, and PBXes. More detailed information is available on the SLD Web site.

There are some rules of thumb that can give you a quick idea which category is appropriate.
Note that none of these rules is true for every case.

1. If it crosses a street, it is Priority 1.
2. If it is a service, it is Priority 1.
3. If it is inside your building, it is Priority 2.
4. If you own it, it is Priority 2.

Will my district get Priority 2 funding?

In years past, it was unrealistic for districts with a discount below 80% to expect Priority 2 funding. However, recent changes, as well as changes expected in the near future, will bring Priority 2 funding to a wider range of districts. Looking ahead to the 2006-2007 funding year, it seems like that districts with a 70% discount will receive funding and, depending on the changes made, it is even possible that 40% will receive some Priority 2 funding.

Eligibility Rules of Thumb

Here are a few rules of thumb that can help you decide which parts of a technology project are eligible for E-Rate funding.

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 13 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. In addition, you must provide education to students on the use of social media.

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 most recent Eligible Services List is available at:
www.universalservice.org/sl/tools/eligible-services-list.aspx

Clarifications

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

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 13.

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 and responsibility for maintenance, it can be eligible as part of a Priority One service. Be sure to read and fully understand the SLD document "On-premise Priority One 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.
- Fiber GBICs: If you are leasing a lit fiber Wide Area Network, the equipment which sits in your location and lights the fiber must be owned by the service provider, even if it is a GBIC in a district-owned switch.

Leased Fiber Wide Area Networks (WANs)

You cannot own the fiber optic cable connecting your buildings, but you can lease it. If the service provider lights the fiber, you can get E-Rate funding for the cost of creating the WAN. If you lease dark fiber, the cost of running the fiber is not eligible for E-Rate funding (except the cost of running fiber from the property line to your building).

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

Ancillary Use vs. 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 two examples.

Whenever possible, you should use cost allocation. In cost allocation, you remove the cost of ineligible components from the amount you are requesting. For example, let's say you purchase 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.

Ancillary use can be used when you cannot separate the cost of ineligible items, and the product purchased is the most cost-effective means of obtaining the eligible functionality. For example, 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" in the Eligible Services List.

More Resources

On-Tech

www.on-tech.com/erate

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

blog.on-tech.com

For a more informal discussion of the E-Rate, visit our blog. You can search for a topic of interest to you and get an insider's view.

If you have specific questions, contact us.
Email: info@on-tech.com
Phone: 732-530-5435

Schools & Libraries Division (SLD)

www.usac.org/sl

This Web site is a wealth of information, and the information is official. Start by pointing at the light blue "Schools and Library Applicants" button, and selecting the relevant step.