E-Rate Funding—Guaranteed

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E-Rate Funding for Construction Projects

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.

Why Bother?

As you seek funding for your district's construction or renovation project, consider the possibility of pursuing E-Rate funding. Don't count on the E-Rate to solve all your funding woes: it will only provide only partial funding for certain components of any construction project, some districts are unlikely to receive any funding, and there are several difficulties in obtaining E-Rate funding for construction projects. However, the E-Rate can provide tens of thousands, or even hundreds of thousands, of dollars in funding, so it is worth considering.

What is the E-Rate?

The E-Rate is a federal funding program created by the Telecommunications Act of 1996. The program provides over $2 billion in subsidies to schools and libraries each year in the form of discounts on expenditures related to telecommunications and Internet access.

The level of discount ranges from 20% to 90%, depending on the percentage of students which are low-income.

Likelihood of Funding for Construction Costs

As stated above, the likelihood of funding for any construction costs depends on the discount level for the school or library.

Discount Level Overview

The table at right shows what the discount levels are, the level of low-income students necessary to obtain that discount, and the likelihood of obtaining funding for construction costs. A "low income" student is a student living in a household with an income of 185% of the poverty level or less.

Discount	Low-income students: Urban	Low-income students: Rural	Likelihood of Priority Two funding
20%	< 1 %		Extremely Unlikely
25%		< 1 %	Extremely Unlikely
40%	1% - 19%		Very unlikely
50%	20% - 34%	1% - 19%	Unlikely
60%	35% - 49%	20% - 34%	Possible
70%		35% - 49%	Likely
80%	50% - 74%	50% - 74%	Very likely
90%	> 75 %	> 75 %	Certain

The E-Rate is most often associated with discounts on telecommunications and Internet access costs, and for many districts, this is the only type of funding available. For districts with more low-income students, funding is available for "internal connections." This is also called "Priority Two" funding, and is generally for equipment and services for data, voice and video systems which are inside of school buildings. Construction costs are generally Priority Two "internal connections" items.

No one is certain what the cutoff will be for internal connections funding. In past years, only those entities with a discount greater than 80% received funding for internal connections. However, recent changes seem likely to make such funding available to districts with lower discount levels. The last column shows On-Tech's speculation on the likelihood of funding in future years, based on experience from past years and the likely effect of recent and expected future changes. However, the factors affecting the likelihood of funding change, and the likelihood of future funding cannot accurately be predicted.

Discount Calculation for New Buildings

Construction costs are generally specific to a single building, so the discount for that building should be used to calculate funding. In the case of a new building, there are two options. Generally, the discount for the district, which is a weighted average of all the buildings in the district, should be used. If the new building is a replacement of an existing building, the discount for the existing building can be used.

Finding your District's Discount Level

The easiest way to determine the percentage of low-income students is to use data from the USDA's National School Lunch Program (NSLP). Students eligible for free or reduced lunch are low-income. You may be able to find NSLP numbers for your state in the following lists:

`www.ala.org/Template.cfm?Section=erate&Template=/ContentManagement/ContentDisplay.cfm&ContentID=82946`

`http://www.e-ratecentral.com/us/nationalSites.asp?cat=nslp`

Note that On-Tech has been successful in increasing the discount percentage for some school districts through close analysis of NSLP numbers and alternate methods for determining income.

You can learn whether your district is considered Urban or Rural using the SLD Rural/Urban Classification page:

`www.sl.universalservice.org/reference/msa/RuralUrbanClassYr4.asp`

Which Construction Costs Are Eligible for Funding?

As mentioned above, construction costs are eligible for funding as Priority Two internal connections. The concept behind "internal connections" funding is to provide the infrastructure necessary to distribute voice, video and data to instructional areas (for schools) or public areas (for libraries).

The question of what exactly is eligible for E-Rate funding has not been completely answered, and the answer changes slightly every year. In order to help determine which components of a particular project are eligible for discount, the first place to look is the Eligible Services List, which is available at:

`www.sl.universalservice.org/reference/eligible.asp`

Note that the Eligible Services List is modified each year, so the list which is now posted is valid only for the 2005-2006 school year, although the list does not generally change significantly. The list for 2006-2007 should be available by October 2005.

Design versus Installation

One significant difference to remember that while installation of systems is eligible, system design is generally not eligible. Also, the E-Rate program does not allow companies which perform funded work prepare the district technology plan, the RFP or evaluation of bidders. On most construction projects this is not an issue; an architecture firm does the design, and contractors perform the work. If, however, you will be relying on a general contractor to prepare scopes of work, that contractor cannot bid on the work.

Examples of School Construction Costs Eligible for Funding

Some examples of common elements of construction projects which are eligible for E-Rate funding follow.

Wiring for data, voice and video

All costs associated with providing wiring for transmission of data, voice and video to classrooms is eligible. This includes the cost of cables, conduits, raceways, racks/cabinets, jacks, punchdown blocks, and the labor necessary to install them. Note that wiring design is generally not eligible. Electrical wiring is not eligible. Security systems, including video security systems, are not eligible.

Telephone systems

The eligibility of telephone systems is somewhat complicated. The first complication is that phone sets are end user equipment, and thus ineligible. In addition, intercoms are not eligible, though many applicants purchase PBXes with intercom as an "ancillary" feature (see above for more information on ancillary use). Voicemail systems are eligible.

Data Network Equipment

In general, network components which transport data, like routers and switches, are eligible. Systems which store data, like file servers, are not eligible. Systems for remote access are not eligible.

Video Distribution

Systems that distribute video to instructional areas are eligible. Note, however, that distribution of cable and broadcast signals is not eligible. Systems should be designed to distribute video signals internally. Video distribution systems for security purposes are not eligible.

Cabinets/Backups/Power Protection

The auxiliary equipment needed to run eligible components is eligible. This includes racks and cabinets for cabling, switches, etc. Data backup systems and uninterruptible power supplies for eligible equipment are also eligible. Surge suppression without battery backup is not eligible.

Maintenance/Warranties

The cost of maintenance and warranties of eligible equipment are eligible. However, funding is only one year at a time, so for multi-year contracts, applicants must apply for funding each year.

Ineligible Components of Eligible Systems

In many cases, an otherwise eligible system includes some ineligible components. Categories of ineligible components along with common examples follow.

Category	Example(s)
End-user equipment	Computers, phone sets, televisions
Content creation	Video cameras
Storage (except for email and voicemail)	File servers, VCRs

Phone systems and data networks commonly have components that are ineligible. Please refer to the Eligible Services List mentioned above for details.

How to Handle Ineligible Components

Systems which include both eligible and ineligible components are fully ineligible unless you can allocate costs or show ancillary use. In cost allocation, the applicant identifies the cost of ineligible components in contracts and invoices, and requests funding only on the eligible portion. To prove ancillary use, an applicant must show that: 1) the system cannot be purchased without ineligible components, and no separate price is available for ineligible components; 2) the system must be the most cost-effective, without considering the ineligible components; and 3) the added value of the ineligible components must be minimal.

Cost Allocation Example
A district purchases a phone system as part of a building renovation. The PBX is eligible, but the phone sets are not. The total cost of the system is $100,000, of which $70,000 is for the PBX and $30,000 is for phone sets. The district should request funding based on the $70,000 cost of the PBX.

Ancillary Use Example
In the above example, the PBX includes an intercom feature. This feature is standard, the PBX cannot be bought without it, and the cost of the feature cannot be separately identified. As long as the district did not specifically request the intercom feature in its RFP, the intercom feature can be considered ancillary, and the entire cost of the PBX can be discounted.

Obstacles to Funding

There are three major problem areas in trying to obtain E-Rate funding for construction projects: 1) timing, 2) eligibility of equipment and services, and 3) payment.

Timing Issues

The E-Rate application process has a specific timeline, which may not coincide with the contracting and construction schedule for a given project. There are often three challenges in fitting a project into the E-Rate program: fitting the work into a single program year, requesting and awarding bids at the right time, and receiving timely funding approval.

The timeline for the E-Rate process for the 2006-2007 program year is at right. Note the contract must be signed at least 6 months before work is to start, but typically not more than one year before work is to start. Work must be completed within a 15-month period, and invoices must be submitted within 120 days of project completion.

June 2005 – January 2006	Submit Form 470, release RFP; wait 28 days to allow bidding.
November 2005 – February 2006	Sign contracts; submit Form 471.
July 1, 2006	Work can begin; submit Form 486.
September 30, 2007	Work must be completed.
January 28, 2008	Last day to invoice.

Work Schedule

The E-Rate program year runs July to June. Most services for which E-Rate funding is sought must start after July 1 and finish before June 30. For many internal connections contracts, the

end date can be extended to September 30. Thus there is a 15-month window during which the portions of the project for which E-Rate funding is sought must be started and completed. A contract spanning two program years is possible under E-Rate rules, but has unpleasant consequences for the school or library.

The "2 in 5" Rule

The "2 in 5" Rule is not an obstacle, but it should be considered in planning for E-Rate funding for construction. The rule is that a school can only receive internal connections funding twice every five years. If E-Rate funding is sought for a construction project, one of the school's two years will be used. If the construction project stretches over two school years, both years will be used. Districts must therefore consider whether the potential funding merits the use of one or both of the years. In addition, districts should plan to make technology purchases not related to the construction in the same year, in order to take full advantage of the year.

Note that maintenance is exempted from the 2-in-5 rule.

Contracting Timeline

In discussing the E-Rate contracting timeline, it is easier to work backwards. Each year, a deadline is set for the execution of contracts. In the past few years, this deadline has been set in February. By that deadline, the contract must be signed by both parties. For the program year July 2005 to June 2006, the deadline was February 18, 2005. So it is now too late to apply for funding for any contracts for work that begins before July 2006.

The E-Rate program also has a particular timeline for RFPs. The E-Rate program expects the RFP to be released not more than one year before the start of the program year. In the past, a special process has been available for RFPs which are released more than one year before the start of the program year, but there is no established process. The RFP must be released in time to allow a 28 day bidding process before vendor selection and award of the contract. As noted above, the deadline for contract signature falls in February, so the deadline for release of RFPs is in January. Note that he 28-day waiting period is between release of bid and selection of contractor; more time should be allowed in order to finalize contracts.

Funding Approval

The timing of funding approval is another issue. While the SLD does its best to approve funding requests before the beginning of the program year, it is not unusual for approval to take nine months, and longer delays do occur. This means that it can happen that the school will not receive approval until well into the program year. So districts are often forced to start work without knowing whether the work will be funded.

Partial Eligibility of Equipment and Services

Many systems contain some elements that are eligible for funding and other elements that are not eligible. The application for funding for those systems is complicated. Two examples follow.

For construction project, wiring for voice, video and data is eligible. All the costs for the wiring are eligible, including conduits, raceways and racks. However, electrical wiring is not eligible. As a result, any conduit or raceway containing both electrical and data/voice/video wiring is only partially eligible. If a single contractor is hired for electrical and data/voice/video cabling,

contracts and invoices from that contractor must separate the costs for the ineligible and eligible wiring.

If a construction project includes the building telephone system, the PBX and wiring are eligible, but the phone sets are not. The cost of the sets must be separated in the contract and invoices.

Vendor Selection Issues

Selection of a vendor is also complicated by the partial eligibility of some systems. The E-Rate process requires that the vendor for services to be funded by E-Rate be selected *without considering the cost of items not eligible for E-Rate funding*. This means that bidders must be required to provide separate pricing for those items eligible for funding.

There is a more serious possible problem. Consider the following hypothetical situation. The RFP calls for a single contractor to provide both electrical and data/voice/video wiring. One vendor submits a bid of $500,000, of which $200,000 is for data/voice/video, and another bids $475,000, of which $225,000 is for data/voice/video. Assuming both vendors are equal on other selection criteria, the E-Rate program would require that the vendor that higher total bid be selected, since the cost of services eligible for E-Rate is lower in that bid.

The most common solution for vendor selection issues is to create a separate RFP and contract for those items that are eligible for E-Rate funding. If the case of a phone system, however, it does not make sense to have one vendor supply the PBX (eligible) while a different vendor supplies phone sets (ineligible). In that case, districts can only hope that a single vendor will have to lowest total bid and the lowest price for items eligible for E-Rate funding.

Payment Issues

There are two potential issues with payment: delay of payment and invoicing deadlines.

Payment Delays

The first possible payment issue with E-Rate funding for construction projects is the issue of payment. There are two possible methods for payment. First, the school can pay the full cost to the contractor, and then invoice the E-Rate program for reimbursement of the funded portion. Second, the vendor can invoice the school for its share of the cost, and invoice the E-Rate program directly for its share. Regardless of the invoicing method chosen, there is almost always a delay of two months before payment is received, and delays of six months are not unknown.

Invoicing Deadlines

The other possible issue is the invoicing deadline. The E-Rate programs require that all invoices to the program be submitted to within 120 days of completion of service. The applicant is also expected to pay invoices within 90 days. Normally, this should not be a problem. However, if acceptance of completed work is delayed, payment of invoices may be delayed past the deadline.

Separate Contract for E-Rate

One solution to many of the problems above is to have a separate RFP and separate contract for those items for which E-Rate funding will be sought. After the design of the project is complete, the items eligible in the design can be identified, and bid in a separate package.

More Resources

On-Tech

On-Tech's Web site has information on the E-Rate process, including a copy of this presentation. Feel free to contact us with questions on the E-Rate.

`www.on-tech.com/erate`

732-530-5435

info@on-tech.com

Schools & Libraries Division (SLD)

The SLD Web site is a wealth of information, all of it official, though not always easy to find. The telephone number listed below is for the Help Line, which will answer questions.

`www.sl.universalservice.org`

888-203-8100

If you would like to email a question, you must use their submission system at:

`www.slforms.universalservice.org/EMailResponse/EMail_Intro.aspx`

