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TO: AASA Members  
FROM: Noelle Ellerson, Associate Executive Director, Policy & Advocacy  
DATE: August 11, 2014  
RE: *Summary: FCC E-Rate Modernization Plan*

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*Last month, the Federal Communications Commission (FCC) voted to adopt a set of changes to modernize the E-Rate program. Created as part of the 1996 reauthorization of the Telecommunications Act, the E-Rate program helps the nation's schools and libraries afford teleconnectivity (including phone and internet). The program is currently funded at roughly \$2.4 billion, barely above its initial funding level of \$2.25 billion in 1998. The modernization vote comes after more than a year of deliberate advocacy, conversation, and work among advocates, FCC staff, the administration and education stakeholders. This memo is designed as a summary of what the changes mean to the E-Rate program, and is one piece of a more comprehensive AASA effort, which will include a series of webinars to educate school administrators on how to best utilize their E-Rate discounts in the context of the modernizations.*

The order is focused on three goals for the E-Rate program: ensuring affordable access to high-speed broadband sufficient to support digital learning in schools and robust connectivity for all libraries; maximizing the cost-effectiveness of spending for E-Rate supported purchases; and making the E-Rate application processes fast, simple and efficient.

Related Information:

- [FCC E-Rate Modernization Order](#)
- [FCC E-Rate Modernization Fact Sheet](#)

Quick Changes of Note:

- **Funding:** The funding cap is unchanged except for a modest inflationary adjustment. While there is additional funding available for each of the next two years, it is realized by freeing up existing funds, rather than permanently raising the E-Rate funding cap.
- **Poverty Rate:** The E-Rate discount rate will be calculated at the district level. The program has historically calculated poverty at the school level; this vote moves the poverty indicator to the district level.
- **Rural and Urban:** Rural and urban status for E-Rate applicants will be determined by Census Bureau definitions. The specific tool is still being finalized by USAC. In the meantime, applicants are urged to NOT use the Rural Health Care tool to determine their respective rural/urban classification.
- **Priority One Services (basic connectivity):** Renamed Category One. All voice services (including VoIP, PRI and SIP Trunking) will be phased out over five years, while legacy services (like webhosting and pagers) will no longer receive support effecting 2015-16.
- **Priority Two Services (internal connections):** Renamed Category Two. Will be subject to a per-pupil cap of \$150 over five years, for Wi-Fi products and services including maintenance.

**Funding:** The FCC passed on the opportunity to use this order to permanently raise the E-Rate funding cap. The program will receive its annual inflationary adjustment, as required by the 2010 order. The program will receive an infusion of \$2 billion over two years, though this is not new money. The FCC worked to free up existing funds—and identify savings through programmatic changes detailed below—to make the funding available. While the funds are a welcome infusion, they are not permanent and fail to address the very real need for a permanent increase in the funding cap. Beyond the \$2 billion identified for the first two years, the FCC set a target of having \$1 billion available for new Category 2 services. This is merely a target, and not guaranteed funding stream. For any of the funding identified for the target (whether in the already identified \$2 billion or the additional three years), not a single penny can be directed to the Category 2 internal connections (WiFi) until all Category 1 applications have been fulfilled.

**Poverty Rate, Discount Level, Poverty Indicator (Free Lunch Eligibility):** Starting in FY2015, applicants will calculate their poverty using a district-wide rate, replacing the old school-by-school approach. Consortia will continue to use a simple average of members' discount rates. The top discount level (within Category 2 ONLY) is reduced from 90% to 85%. Schools participating in the Community Eligibility Pilot (for school nutrition) can use the Cep rate/multiplier. For schools collecting surveys to determine free/reduced lunch eligibility for the school nutrition program, they can no longer project the eligibility to the full student body if their response rate exceeds 50%. Rather, they need to report direct from the received survey data.

**Rural and Urban Classification:** Rural and urban status for E-Rate applicants will be determined by Census Bureau definitions. USAC will post a tool on their website that applicants can use to determine their rural/urban status. The specific tool is still being finalized. In the meantime, applicants are urged to NOT use the Rural Healthy Care tool to determine their respective rural/urban classification.

**Priority One Services:** Priority One is replaced with 'Category One'. Category 1 will remain primarily broadband services, and must be fully funded before any E-Rate dollars can be made available to Category 2 services (internal connections). Within Category One, some of the biggest changes relate to the elimination of legacy services:

- Voice services will be phased out. Starting in 2015, the discount for voice services (including VoIP) will decrease 20% each year until it reaches zero.
  - Components of voice services (things like text messaging, call blocking, web hosting, etc...) will be ineligible starting in 2015.
- Cellular data is ineligible starting in 2015, except for those applicants who can demonstrate it is the most cost effective way of providing services.

**Priority Two Services:** Like Priority One Services, Priority Two services are renamed 'Category 2'. Category Two will, like Priority Two before, remain focused on internal connections, though some formerly eligible services are no longer eligible. Category 2 services will continue to include switches, routers, internal wiring, wireless access points, firewall services, software and more. No longer eligible? Servers, voice and video IP systems, tape backups, telephone PBXs and related software.

- Funding for Category Two: As mentioned above, Category 2 services will be funded at a targeted level of \$1 billion per year. The funding for the first two years has been identified; funding for years 3-5 has yet to come to fruition. It is clear the FCC expects to realize savings through the elimination of legacy services, as well as marginal savings associated with funding caps (more on that in a moment). Eligible entities will be capped at a Category 2 pre-discount level of \$150 per

student over five years. Especially small entities (both schools and libraries) will have a budget floor of \$9,200 over five years. These caps are at the per-facility level and cannot be aggregated across a district or system. This budget approach replaces the previous '2 in 5' rule, which limited applicants to pursuing Priority Two funding no more than twice in any five year span.

**Applications:**

- The order expedites the application process.
- The order allows for multi-year contracts. These contracts will go through an abbreviated process and have a quicker pre-commitment review process. After the first year of a multi-year application (which must be five years or less in duration), applicants will only have to provide basic information. Applicants will not receive multi-year commitments; they will need to complete the expedited application process each year.
- The order allows for preferred master contracts within Category 2. Applicants will be able to acquire Category 2 services off of these master contracts without filing a 470.
- The FCC will now require all applicants to retain all documentation related to their E-Rate application for 10 years after the last date to receive service. This doubles the previous requirement of five years.
- The order eliminates the requirements for technology plans

**Consortia Applications:** USAC will prioritize review of E-Rate applications from state and regional consortia applications. Also, the order allows for consortium leads to seek bids on behalf of all its identified members, even if the lead doesn't have authority to purchase services for the consortium members.

**Questions?** Email Noelle Ellerson ([nellerson@aasa.org](mailto:nellerson@aasa.org))