Executive Summary:
Guide to the E-rate 2.0

Prepared by
Acknowledgements

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Funds For Learning, LLC

Established in 1997, Funds For Learning is committed to the long term success of the E-rate program. We aim to help all E-rate stakeholders understand and effectively utilize the funding program and comply with all of its rules. Today, FFL is by far the largest regulatory consulting firm in the country dedicated exclusively to the E-rate program and the only one that specializes in developing and providing online E-rate management and sales lead services.

FFL offers compliance-consulting services and E-rate Manager® (online sales leads and compliance tools) to public and private schools, public libraries and technology and telecommunications companies. Through a variety of Web-based tools and compliance services, we provide training, answer questions concerning E-rate policies, and support applicants with funding requests, discount reimbursement, service substitutions, eligibility questions and other E-rate related issues.

You can find further information about FFL and E-rate Manager® as well as sign up for the Funds For Learning newsletter to receive updates on the E-rate program at www.fundsforlearning.com.

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Software & Information Industry Association

The Software & Information Industry Association (SIIA) is the leading association representing the software and digital content industries. SIIA represents approximately 800 member companies worldwide that develop software and digital information content. Many SIIA member companies provide education software tools and digital curricula, while all depend on the nation's schools for a skilled high-tech workforce.

Through a myriad of programs and services, SIIA provides a neutral, global business forum for its members to understand business models, technological advancements, industry trends and best practices. SIIA provides global services in government relations, business development, corporate education and intellectual property protection to the leading companies that are setting the pace for the digital age. Additional information about SIIA is available at http://www.siia.net.

The Education Technology Industry Network (ETIN) of SIIA serves and represents more than 200 member companies that provide educational software applications, digital content, online learning services and related technologies across the K-20 sector. The Division shapes and supports the industry by providing leadership, advocacy, business development opportunities and critical market information. For more information on ETIN of SIIA, visit siia.net/etin.

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INTRODUCTION

Having allocated some $30 billion over nearly two decades, the federal E-rate program remains the nation’s most significant education technology program. Coming upon its 18th year, the E-Rate program remained largely unchanged since its inception, but recently underwent a major modernization and expansion that takes effect in 2015. This “E-rate 2.0” is nearly 50% larger, with those funds increasingly targeted to high-speed broadband access to the classroom. This guide is designed to help software, digital content and online learning providers gain an understanding of the new E-rate program and how its changes affect school technology purchases. While most of those products are not E-rate eligible, the connectivity provided by E-rate funding has been critical to enabling their online access by schools and libraries.

Since its inception, cash-strapped schools and libraries in virtually every Congressional district have been receiving E-rate discounts. This gives it a strong measure of political security and makes it, in turn, an extremely reliable and predictable source of funds every year. What’s more, the E-rate program actually requires schools and libraries to secure funds to purchase, among other things, whatever hardware and software they will reasonably need to use their E-rate supported purchases effectively.

Knowledge of the E-rate program can provide an entrée into conversations and discussions with school district CIOs and Technology Directors about their technology needs. It is extremely important to them and, for that reason alone, it should be extremely important to you.

The information in this booklet is current as of April 2015 and, as with all aspects of the E-rate program, is subject to change.

Introduction to the E-rate 2.0 Program

The Telecommunications Act of 1996 created the legal skeleton for the E-rate (short for “education rate”) program, and the Federal Communications Commission (FCC) fleshed it out with a broad range of rules and regulations updated over the years.

Since its inception, the E-rate program has provided substantial discounts to public and private schools and public libraries off their purchase of telecommunications services, Internet access, and networking equipment, and related software and services, such as installation and technical support. In 2014, the FCC significantly changed the technological focus of the program, shifting away from telecommunications toward high-speed broadband access to the classroom. This marked the most significant policy change in the program’s history with impacts for vendors of both E-Rate eligible and non-eligible products.

In conjunction with the new program rules, the FCC has increased the annual allocation from $2.4 to $3.9 billion worth of discounts beginning in Funding Year 2015 (July 2015 – June 2016), as well as providing up to $2 billion more in one-time and reallocated funding toward broadband connectivity.

Statistically, E-rate applicants have long been requesting approximately $4 billion annually, routinely outrunning what the FCC has had available annually to distribute. In order to address this issue, as well
as bring the E-rate program more squarely into the digital age, the FCC’s E-Rate 2.0 focused the program on three main initiatives:

1. Closing the Wi-Fi gap in schools and libraries by ensuring they have access to affordable high-speed broadband;
2. Maximizing the cost effectiveness of E-rate spending; and
3. Streamlining the administration and application processes.

These goals ushered in new spending categories—Category One and Category Two (roughly equivalent to the former Priority One and Priority Two categories, respectively). This shift included an increased focus on high-speed broadband access and eliminated support for non-broadband and “legacy” services, such as e-mail, paging and web hosting. Additionally, voice services, including plain old telephone service, cellular, and VoIP, will be phased down by 20 discount percentage points each funding year until voice services are no longer eligible for E-rate support.

In the past two funding years, requests for network equipment purchases and maintenance services (i.e., Priority Two) have not been funded at any discount level due to the lack of available funds in the program. By focusing the program on broadband connectivity and capacity, the FCC is attempting to address this issue of funding shortfalls. The funds that would have gone to these newly eliminated or phased out services are now being allocated back into the program to be used for supporting broadband connectivity (i.e. Category One high-speed internet and telecom to buildings) and capacity (i.e. Category Two on-campus connections).

The new Category Two (C2) is also accompanied by several changes:

First, the highest discount level is now 85%, down from 90%.

Second, while previously a school site could only receive discounts for the purchase of equipment or software for two out of every five years, schools are instead now subject to a five-year per-pupil funding cap as follows:

- For schools, the C2 five-year funding cap is $150 (pre-discount) per student
- For large urban libraries, the C2 budget is calculated at $5.00 (pre-discount) per square-foot
- For rural libraries, the C2 budget is calculated at $2.30 (pre-discount) per square-foot
- To protect smaller applicants the minimum pre-discount budget amount is $9,200

Additionally, in order to reduce administrative burdens and to provide for a more simplified invoicing process, the FCC revised the Billed Entity Applicant Reimbursement (BEAR) invoicing process to allow schools who pay the full, pre-discount cost of E-Rate services up front to receive direct reimbursement. Previously, reimbursement flowed through the service provider. School districts often budget for the full cost of an E-Rate service and use the reimbursement to purchase other technology, such as digital content and software. The new process will speed up the time it takes for schools to receive their reimbursement and be able to purchase other products.

In a second E-rate Modernization Order following the E-Rate 2.0 changes, the overall cap of the E-rate program was increased by $1.5 billion, which will go a long way toward realizing the FCC’s goal to make Category Two funding available for all E-rate eligible applicants. The FCC also made changes which will go into effect over the next few years, to enable applicants to receive discounts for building or purchasing fiber networks.

The full report is available here: bit.ly/1dfn7BT