



U.S. Federal Universal Service Fund – E-Rate/ConnectED Developments Summer 2014

On Friday, July 11, 2014, the Federal Communications Commission (FCC) [approved](#) Chairman Tom Wheeler’s proposal to modernize the \$2.4 billion per year E-rate program, which subsidizes telecommunications and Internet services for K-12 schools and public libraries. All three Democratic Commissioners voted in favor of the Chairman’s proposal, while Commissioners Ajit Pai and Michael O’Rielly opposed it. Commissioner statements regarding this reform are available at <http://www.fcc.gov/document/fcc-modernizes-e-rate-expand-robust-wi-fi-schools-libraries>, and a Fact Sheet summarizing the changes can be found at <http://www.fcc.gov/article/doc-328172a2>.

The highlight of the FCC action is to dedicate \$2 billion in new funding to support the construction of internal wireless networks (generally referred to as Wi-Fi) on school campuses and library buildings, which the FCC estimates will reach 10 million students annually over the next two years. The FCC also began the phase-out of E-rate support for legacy services, such as dialtone voice service.

Altogether, the changes approved on July 11th mark the most significant reform to the E-rate program since its inception in 1998. The vote also marks a key milestone in the FCC’s efforts to revamp and reorient all four of its universal service subsidy programs away from legacy services and toward broadband services that meet twenty first century connectivity needs. The E-rate modernization process commenced a year ago following President Obama’s announcement of the [ConnectED](#) initiative (<http://www.whitehouse.gov/issues/education/k-12/connected>), aiming to accelerate deployment of educational technology across the nation, of which reform of E-rate is a key component.

The centerpiece of the FCC’s action was to inject \$2 billion in additional funds to support on-campus wireless connectivity to enable 1:1 device digital learning platforms and enhance public wireless Internet access at libraries. As described in more detail below, the plan will allocate these funds on a per-pupil basis to schools and a per-square foot basis to public libraries.

Chairman Wheeler’s release of his [proposal](#) for reform several weeks ago sparked a large debate regarding its merits. As outlined in Connected Nation’s Policy Brief summarizing this proposal ([FCC Chairman Proposes Changes to E-rate Program, Places Focus on Wi-Fi Connections Within Schools and Libraries: A Connected Nation Policy Brief](#)), stakeholders representing schools, in particular, voiced strong concerns regarding the Chairman’s Plan. Congressional voices and many other stakeholders too voiced supportive and critical comments on the proposal over the last few weeks. The final Order, however, appears to be roughly in line with the Chairman’s proposal.

E-rate Reform

Many important details about the FCC’s action will only be known upon release of the full Order, which is expected in the coming weeks. The FCC has released a [Fact Sheet](#) outlining key aspects of the Order, including:

- Repurposing of previously collected funds under E-rate to inject \$1 billion annually in 2015 and 2016 (\$2 billion total) to support school and library on-campus Wi-Fi. An array of services and equipment supporting Wi-Fi connectivity across schools and libraries will be eligible for this funding opportunity, including IT equipment that enables Wi-Fi connectivity, managed Wi-Fi services and caching services. This key piece of the reform aims to address a significant gap in Wi-Fi connectivity across schools and libraries. According to FCC estimates, three in five schools in America do not have adequate on-campus Wi-Fi. The FCC estimates that this new funding will help connect 10 million students to better on-campus Wi-Fi in 2015 alone;
- For some applicants, the new Wi-Fi program will have a different discount rate than traditional E-rate. Today, schools and libraries serving the poorest communities across the country receive an E-rate discount of 90% over retail Internet and Wi-Fi connections prices. Moving forward, the discount rate for Wi-Fi services for these institutions will decrease to 85%. Discounts for other applicants in more affluent communities, ranging from 20% to 89%, will remain unchanged;
- The new rules will provide multi-year funding predictability for schools and libraries to tap into this separate Wi-Fi fund. While details are scant, it appears that applicant funding for Wi-Fi services will be capped using a formula based on a student basis, in the case of schools, and on a square footage basis, in the case of libraries. Libraries will be able to receive as much as \$2.3 per square foot annually to support Wi-Fi connectivity;
- There will be no change in the annual E-rate cap (currently \$2.4 billion) at this time, but a Further Notice of Proposed Rulemaking (FNPRM) will solicit comments on adjusting this cap. The FCC's decision to leave the current cap in place is perhaps the most controversial aspect of its action, and it has been criticized from multiple parties advocating for an increase in the overall E-rate fund in order to better meet increasing demand for funding at the nation's schools and libraries. Chairman Wheeler reiterated a position he voiced as early as February of this year that, while he does not oppose an increase in the program's cap, the first step has been to focus on a structural reform of the program, such as the one approved on July 11th, that would re-prioritize the goals of the program, and streamline its processes. Only then would the FCC be in a position to assess the overall need for E-rate funding. This assessment will likely be the core debate for continued E-rate reform moving forward;
- Commencement of a multi-year transition of all program funding to broadband by gradually phasing down support for non-broadband, legacy services, such as voice telephony and paging. Currently, the FCC estimates that E-rate invests \$1 billion annually in support of legacy services;

- The FCC officially adopted broadband goals for the program, including 100 Mbps per 1000 students in the short run, and 1 Gbps per 1000 students in the longer term. However, rules for funding of broadband services to the school and library remain roughly unchanged. As Connected Nation has [noted](#) previously, this is a significant departure in both substance and emphasis from several proposals debated earlier in the process. The E-rate will still prioritize services that connect schools and libraries to the Internet over Wi-Fi funding through a “safety valve” mechanism. In short, the bulk of the E-rate budget of \$2.4 billion will continue to support connections **to** school and library buildings;
- While broadband connections to schools and libraries will be prioritized, the FCC expects that it will continue to fund Wi-Fi connections **within** schools and libraries beyond the initial \$2 billion allocated for 2015 and 2016. Further funds are expected to fit within the current E-rate cap due to program cost savings stemming from the phase out of legacy services. FCC staff indicated that it expects the transition away from legacy services will free up approximately \$300 million in Funding Year 2015, \$600 million in 2016, \$800 million in 2017, \$900 million in 2018, and \$950 million in 2019;
- Other FCC actions include providing incentives consortia and bulk buying, streamlining the process for multi-year applications, and expediting the processing of small applications;
- E-rate rules now will allow E-rate applicants to purchase goods and services from federally-negotiated General Services Administration prices without having to go through a competitive bidding process;
- The FCC will also increase transparency on how E-rate dollars are spent and prices charged for E-rate services;
- Finally, the Order expands applicant document retention period to ten years and toughens rules for site inspection;

Additionally, the Further Notice will seek comment on the following issues:

- Long-term program funding needs necessary to meet goals and funding targets established in the Order;
- Further steps to facilitate the use of cost-effective consortium-based purchasing; and
- Alternative methodologies for allocating support for library Wi-Fi connectivity instead of the per-student and per-square foot approach that the FCC will use in 2015 and 2016.



Next Steps

The FCC is expected to release the Order and FNPRM over the next weeks. The Order will contain detailed information regarding E-rate rule changes that will apply as early as Fiscal Year 2015. These details will be crucial for E-rate applicants as they contemplate E-rate strategies next year. The application window is expected to remain unchanged and be opened from early January 2015 to late March 2015. The E-rate funding year will remain unchanged, ranging from July 1, 2015, to June 30, 2016.

The Further Notice will propose a series of additional issues for reform and commence a new Comment and Reply Comment cycle. No clear timeframe for completion of this new public consultation process exists at this time.

For more information about E-rate modernization, please contact Connected Nation at policy@connectednation.org.