Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
E-Rate Program Amortization Requirement	)	WC Docket No. 19-2
	)	
Modernizing the E-Rate Program for Schools and Libraries	)	WC Docket No. 13-184
	)	

COMMENTS ON NOTICE OF PROPOSED RULEMAKING
REGARDING THE E-RATE PROGRAM AMORTIZATION REQUIREMENT
(WC Dockets 19-2 and 13-184; FCC 19-5)

The State E-Rate Coordinators' Alliance ("SECA") submits these Comments in response to the FCC's Notice of Public Rulemaking ("NPRM") released January 31, 2019 (WC Dockets 19-2 and 13-184; FCC 19-5) seeking comment on the Commission's proposal to permanently eliminate the requirement, which had been in effect prior to its suspension in FY 2015, to amortize upfront, non-recurring charges of $500,000 or more on Category 1 network installations, including special construction charges.[1]

[1] See 84 Fed. Reg. 31 (February 14, 2019) at p. 4035, which established March 18, 2019 as the due date for Comments and April 1, 2019 as the due date for Reply Comments.

At the outset, SECA acknowledges and applauds the Commission's decision to continue the suspension of the amortization requirement at least through FY 2019 and to propose a permanent elimination of the requirement. We agree with the Commission's assessment that the four-year suspension of amortization has had a positive effect on broadband investment, has decreased applicant uncertainty and administrative burden, and has not created a drain on E-rate funding. In short, the suspension has accomplished exactly what the Commission had hoped and expected.

Amortization vs. Non-Amortization: FY 2015 – FY 2017

Suspension of the amortization requirement has not led to a surge in E-rate demand to fund non-recurring network costs, as indicated in Footnote 17 of the NPRM which states "USAC committed a total of $411.6 million for funding requests that would have required amortization, or 4.9% of the total $8.41 billion committed from funding years 2015 through 2017." In total, as well as on a year-by-year basis as shown in Table 1(a), **committed funding** for Category 1 charges which would otherwise have had to be amortized has not represented a significant proportion of annual E-rate funding.

Table 1(a)

	E-Rate Funding ($ millions)		
	FY 2015	FY 2016	FY 2017
Committed Funding Total	3,250.0	2,850.0	2,310.0
Committed Funding ≥ $500K	123.6	153.8	134.1
Percent Not Amortized	3.8%	5.4%	5.8%

Compared to the total amount of **available funding** in those three years shown in Table 1(b), the non-amortized funding is even less significant.

Table 1(b)

	E-Rate Funding ($ millions)		
	FY 2015	FY 2016	FY 2017
Funding Cap	3,900.0	3,939.0	3,990.0
Roll-over	1,575.0	1,900.0	1,200.0
Available Funding	5,475.0	5,839.0	5,190.0
Committed Funding ≥ $500K	123.6	153.8	134.1
Percent Not Amortized	2.3%	2.6%	2.6%

Still more interesting is the funding comparison between amortized and non-amortized requirements. It is important to remember that amortization does not diminish funding permanently; it merely spreads it over multiple years. If, for example, the $123.6 million of charges in FY 2015 had been amortized over three years, thereby reducing the funding requirement in that year by a factor of three, it would have added a comparable amount of funding demand to each of the next two funding years. Similarly, a reduction in new funding requests in FY 2016 via an amortization requirement would have added more demand in FY 2017 and FY 2018. Ignoring for simplicity any additional costs of capital that may arise from amortization, here's how the amortization vs. non-amortization comparison would have looked over the three-year period in the FCC's analysis:

Table 1(c)

	E-Rate Funding ($ millions)		
	FY 2015	FY 2016	FY 2017
Committed Funding ≥ $500K	123.6	153.8	134.1
Required with Amortization	41.2	41.2	41.2
		51.3	51.3
			44.7
	41.2	92.5	137.2
Savings with Amortization	82.4	61.3	-3.1

Note that by the third year, there would have been no savings — indeed a small loss — had amortization been required. All things being equal (assuming there is not an unusually large spike in demand in one year, which could skew the pattern temporarily), amortization does not reduce demand. It merely evens it out a bit. As a practical matter, as the NPRM recognizes, amortization actually increases everyone's — applicants' and service providers' — costs alike.

In the current environment, with total demand well under the current funding cap and with roll-over funding available to meet demand, there is no countervailing financial concern that the permanent elimination of amortization would pose.

Special Construction without Amortization: FY 2016 – FY 2018

Suspension of the amortization requirement in the Second E-Rate Modernization Order was just one of the Commission's changes designed to promote faster deployment of broadband networks.

The Second Order also modified the Commission's eligible service list to (a) equalize the treatment of lit vs. dark fiber, (b) permit self-construction of high-speed broadband networks, and (c) provide additional discounts on special construction tied to state matching funds. All three modifications could reasonably have been expected to increase the front-end costs of network construction. To determine whether those changes have been problematic, particularly in the absence of amortization, it is useful to focus specifically on commitments for special construction approved by USAC in funding years 2016 through 2018.[2] Our analysis of special construction funding benefiting from the suspension of the amortization requirement (i.e., with pre-discount non-recurring costs of at least $500,000) is shown in Table 2.

Table 2

2016-2018 Special Construction FRN Commitments with NRC ≥ $500K					
Funding year	Network Type	Pre-Discount Cost	E-rate Commitment	State/Tribal Match	Applicant Share
2016	Dark Fiber	16,127,964	10,264,226		5,863,738
2016	Lit Fiber	32,869,998	28,026,585	1,512,880	3,330,533
2016	Self-Provisioned	29,205,868	24,314,772	751,018	4,140,079
2016 Total		**$ 78,203,830**	**$ 62,605,582**	**$ 2,263,897**	**$ 13,334,350**
2017	Dark Fiber	49,998,490	40,835,268	3,853,083	5,310,140
2017	Lit Fiber	58,207,396	51,863,828	4,833,353	1,510,215
2017	Self-Provisioned	12,490,639	9,410,219	715,191	2,365,229
2017 Total		**$ 120,696,525**	**$ 102,109,315**	**$ 9,401,626**	**$ 9,185,584**
2018	Dark Fiber	70,207,280	56,439,265	4,143,268	9,624,747
2018	Lit Fiber	175,022,354	156,215,524	15,118,468	3,688,362
2018	Self-Provisioned	17,935,314	11,534,349	129,488	6,271,477
2018 Total		**$ 263,164,948**	**$ 224,189,137**	**$ 19,391,225**	**$ 19,584,587**
Grand Total		**$ 462,065,303**	**$ 388,904,034**	**$ 31,056,748**	**$ 42,104,521**

Special construction funding showed continued growth from FY 2016 to FY 2018. SECA would expect demand to remain at or above the FY 2018 level as schools and libraries seek new facilities to increase bandwidth and to dramatically lower megabit Internet costs. With most commitments already made for FY 2018, total funding for the year is currently lower than it was for FY 2017, which was lower than FY 2016, which was lower than FY 2015. Annual demand, even without

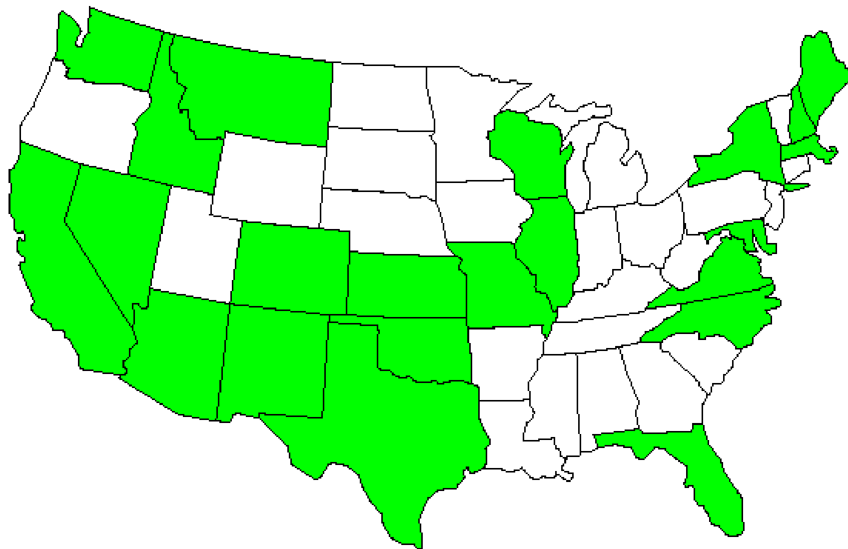
[2] The analysis of special construction funding for these three funding years is based on the availability of more detailed USAC data as to network type and state matching as of FY 2016. Funding data is as of Wave 77 for FY 2016, Wave 63 for FY 2017, and Wave 48 for FY 2018.

consideration of the coverage provided by roll-over funding, remains well below the annual cap set in the Second E-Rate Modernization Order. As discussed in the preceding section, amortization has not been needed. Nor is demand heading in a direction that it would be needed in any given year in the foreseeable future.

Importance of Non-Amortization and State Match Funding

One key trend evident in Table 2 is the increased impact of state and tribal matched contributions for the funding of large special construction projects from FY 2016 to FY 2018. USAC currently recognizes state broadband programs in 23 states (Figure 1) as qualifying as eligible sources for matching funds.

Figure 1



SECA believes that state matching programs are important, not only for the direct funding contributions they make, but to the leadership they represent to further encourage broadband deployment within their states and to serve as technology funding models for the 27 other states (and territories).

Freedom from a requirement to amortize large-dollar network projects has been a critical factor in the success of state matching programs from the beginning. State funding for these programs typically requires enabling legislation and budgeting over a limited timeframe, and a state-approval

process tied to the E-rate funding cycle. Amortized E-rate funding, combined with a requirement to obtain ongoing E-rate commitments, would have vastly complicated, if not eliminated, the FCC's state matching provision. SECA believes that reinstatement of amortization would cripple the FCC's state matching initiative.

Conclusions

SECA fully supports the Commission's continued suspension of amortization for FY 2019 and its proposal to permanently eliminate the amortization requirement for future years.

Respectfully Submitted by:

/s/ Debra M. Kriete

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