

USF for Schools and Libraries FY 2013 and Beyond

Growing to Meet the
Needs of Students and Library Patrons

Proposal Overview



- Increase cap to \$4.5 billion/year
 - › Bring funding closer to true need (>\$5 billion)
 - › Help schools prepare for Common Core tests, etc.
- Implement budget system
 - › Keep discount payment system
 - › Limit grand total of annual discounts per applicant
- Allow applicants to set their priorities
 - › Discounts used for any service category, any site
 - › Provide all applicants access to some support

E-rate Program Today



- E-rate is succeeding in its mission
 - › 95% of U.S. students listed on E-rate applications
 - › Perfectly positioned for today's EdTech needs
- But, program is straining under:
 - › Increasing demand for E-rate supported services
 - › Shifts in technology, education system, society
- Inadequate funding and 15-years of tweaks have shifted program's direction and impact

Drifting from Original Intent



- No internal connections for 94% of students (currently)
 - › Est. 6% of students at 90%-discount schools
 - › Most “90% applicants” have 80% disc school sites
- FY2013: no internal connections support (estimated)
 - › National Broadband Plan (rec 11.16)
“The FCC should provide E-rate support for internal connections to more schools and libraries.”
- Priority system falling short
 - › Encourages gamesmanship (P1 vs P2 services)
 - › Creates addt'l complexities (e.g. 2-out-of-5 rule)
 - › Shortfall for telecomm and Internet by 2014

Schools Respond to Survey

Summer 2012 Survey of Applicants Receiving E-rate Funding



- E-rate “critical” to their success (92%)
 - › BYOD/e-books will increase need for E-rate \$ (89%)
 - › Telecomm & Internet spending climbing (58%)
 - › Tech infrastructure not future-ready (85%+)
- Their most important tech initiatives:
 - › Wireless access points (42%)
 - › Wide Area Network/Internet (39%)
- Most important areas for FCC to focus:
 - › Increase E-rate funding cap (58%)
 - › Set annual funding window dates (23%)

Full results: <http://www.fundsforlearning.com/docs/2012/10/FY2012%20FFL%20E-rate%20Survey%202012-10-08.pdf>

“Increase E-rate Funding”

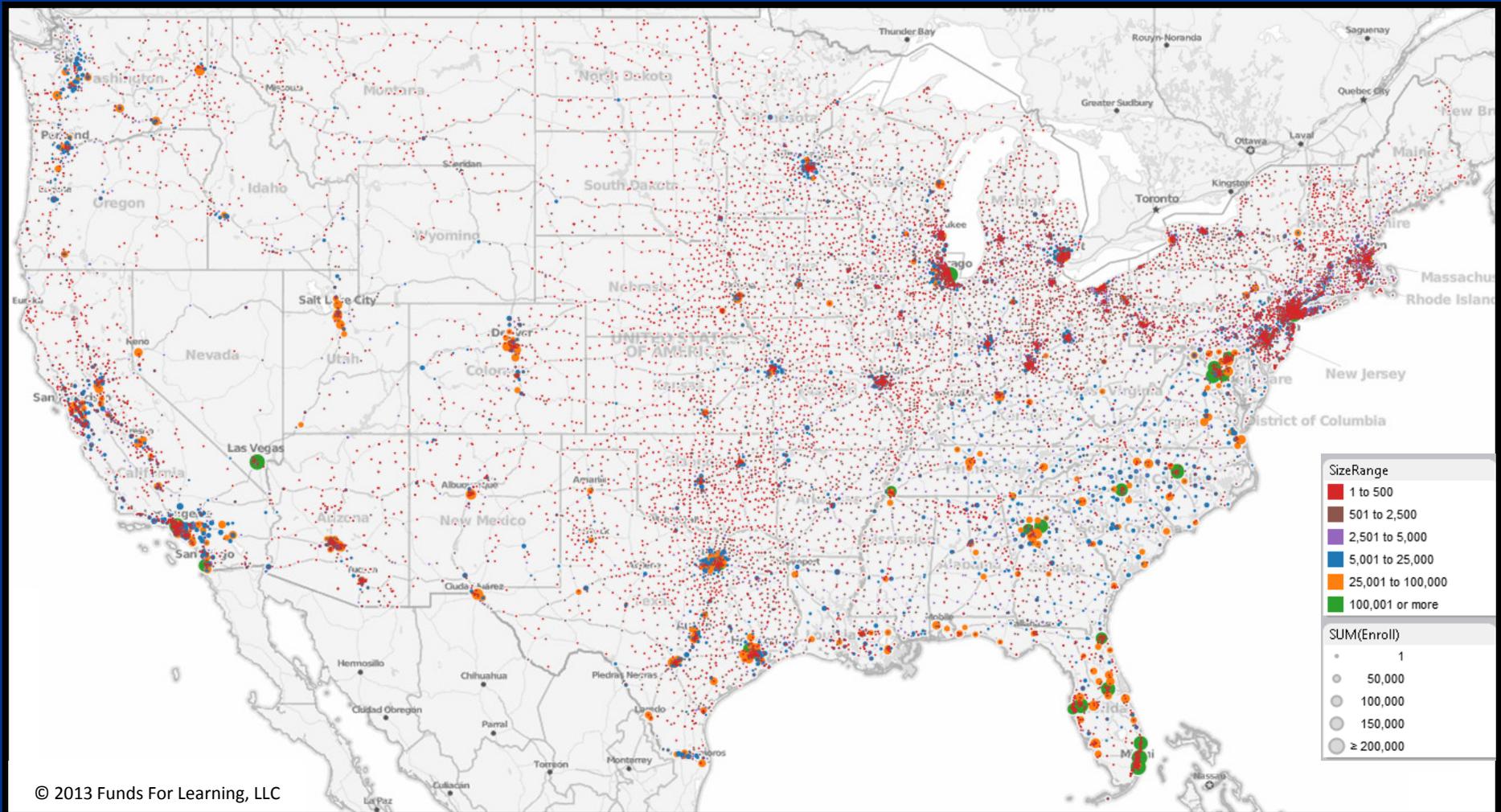


- Petition submitted Nov. 15, 2012
- Over 1,700 signatures from all 50 states
- Signed by parents, community members, and E-rate stakeholders

<http://www.fundsforlearning.com/docs/2012/11/Petition%20Cvr%20Ltr-v3%20REV%20ENL.pdf>

E-rate Supports 52.2 Million Students

Applicants by Enrollment and Location



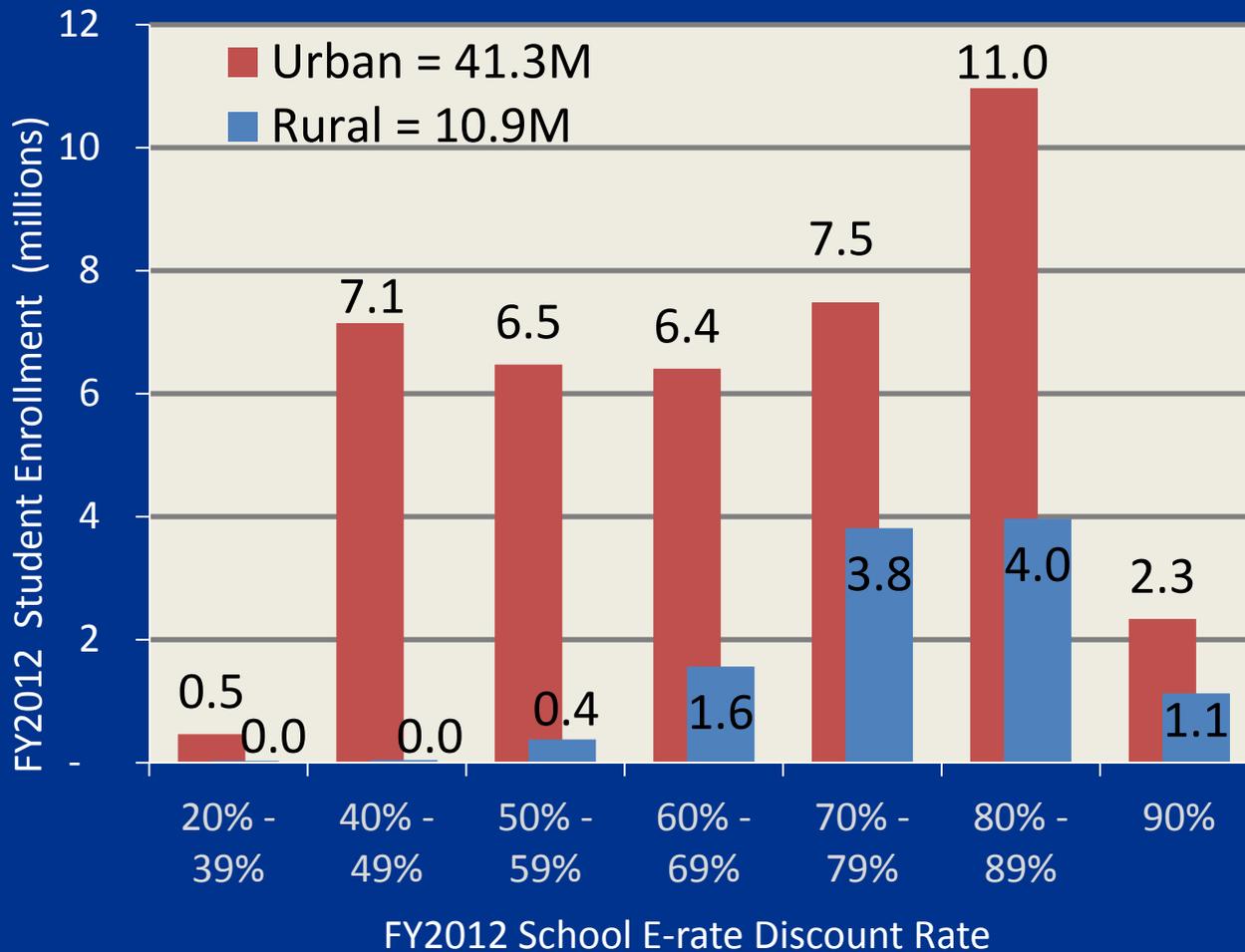
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Urban and Rural Count of Students



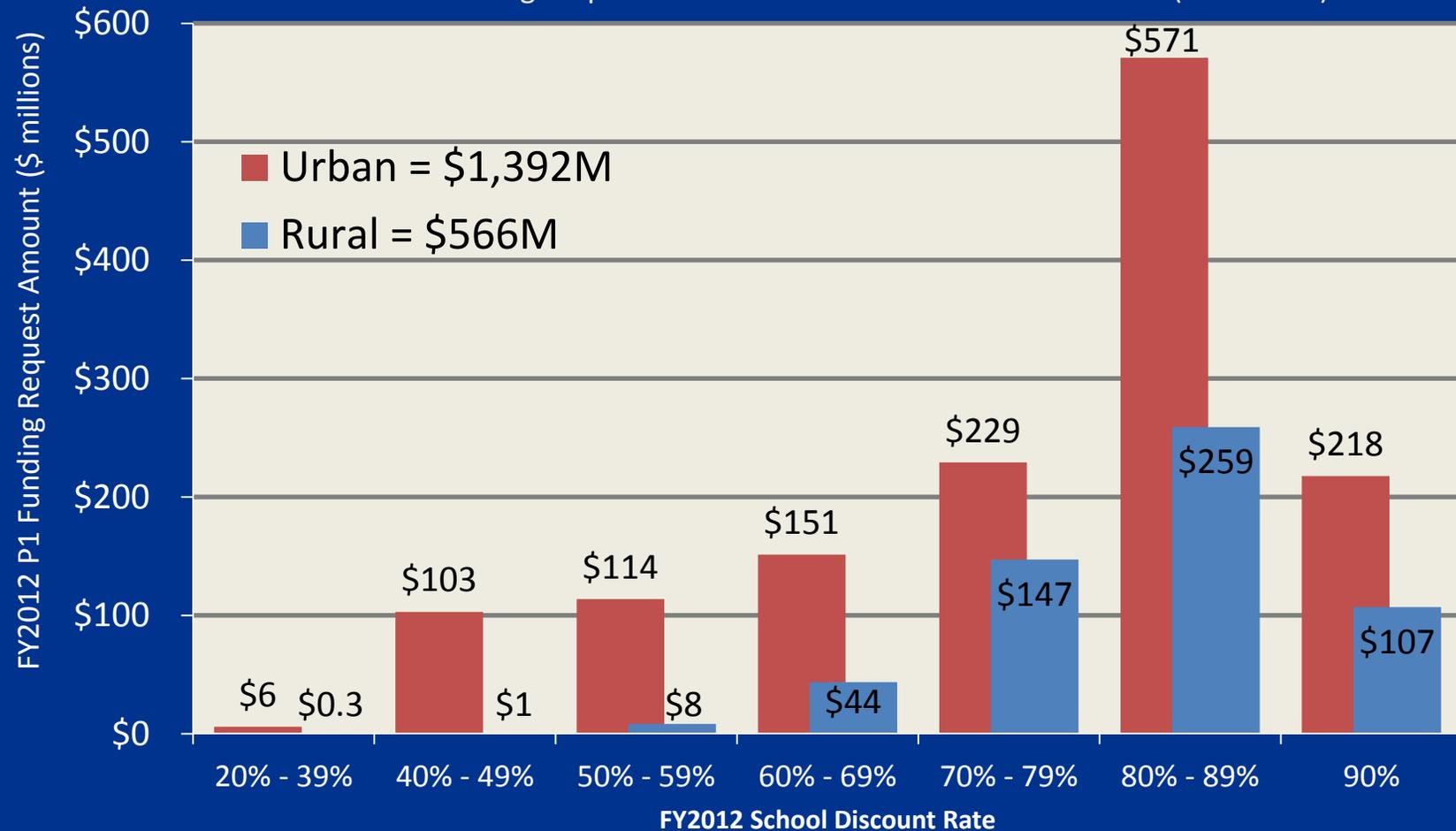
- 90%-disc schools
 - › 6.5% of all students
- 80%-89% disc
 - › 27% of urban enroll
 - › 37% of rural enroll
 - › In these schools, majority of students on NSLP

Internet/Telecomm E-rate Requests

\$ millions (by Urban/Rural and Disc. Rate)

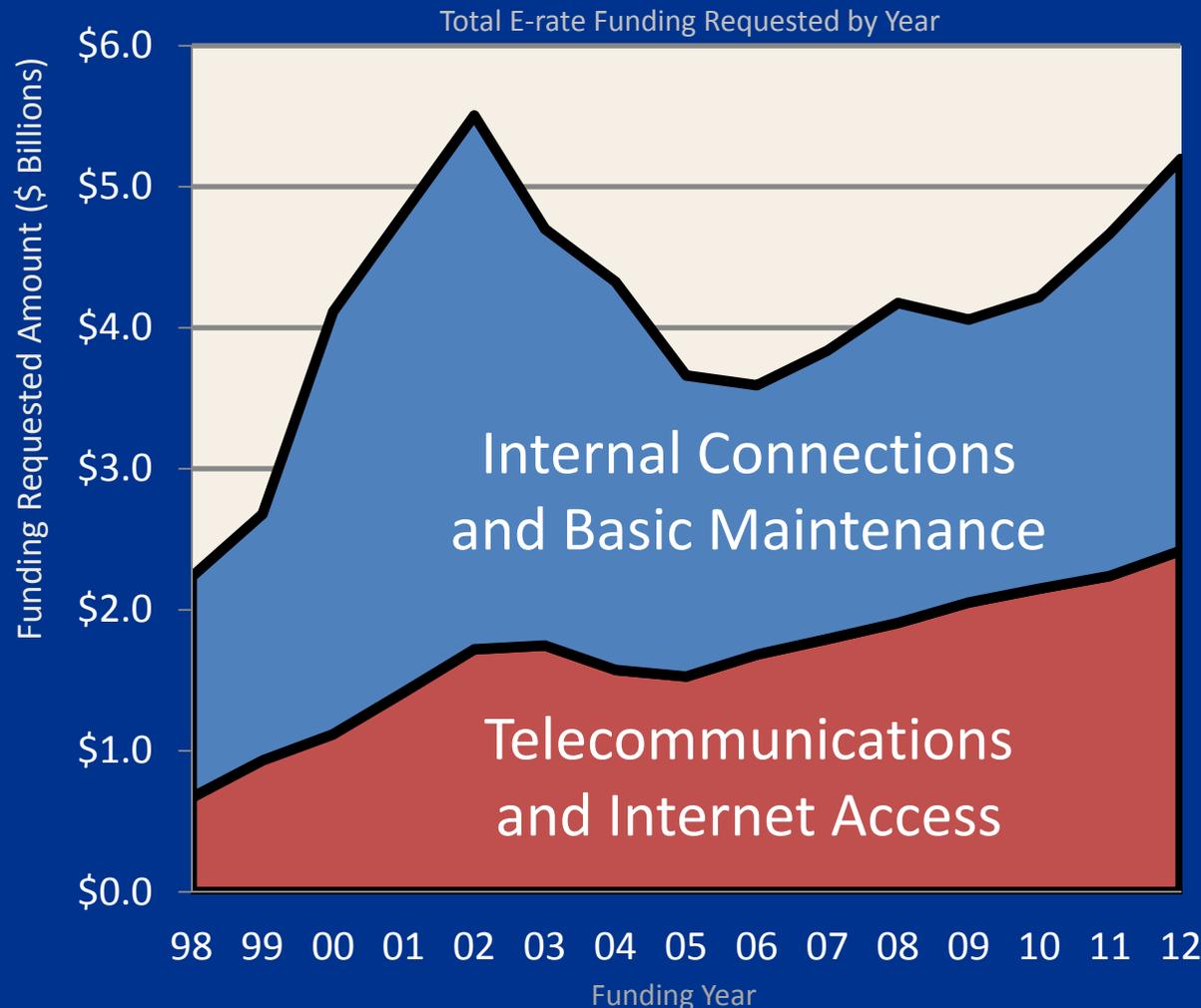


FY2012 Funding Requests for Internet and Telecommunications (all schools)



Connectivity Demands are Increasing

2012 E-rate Demand \$5.2 billion



Straining E-rate

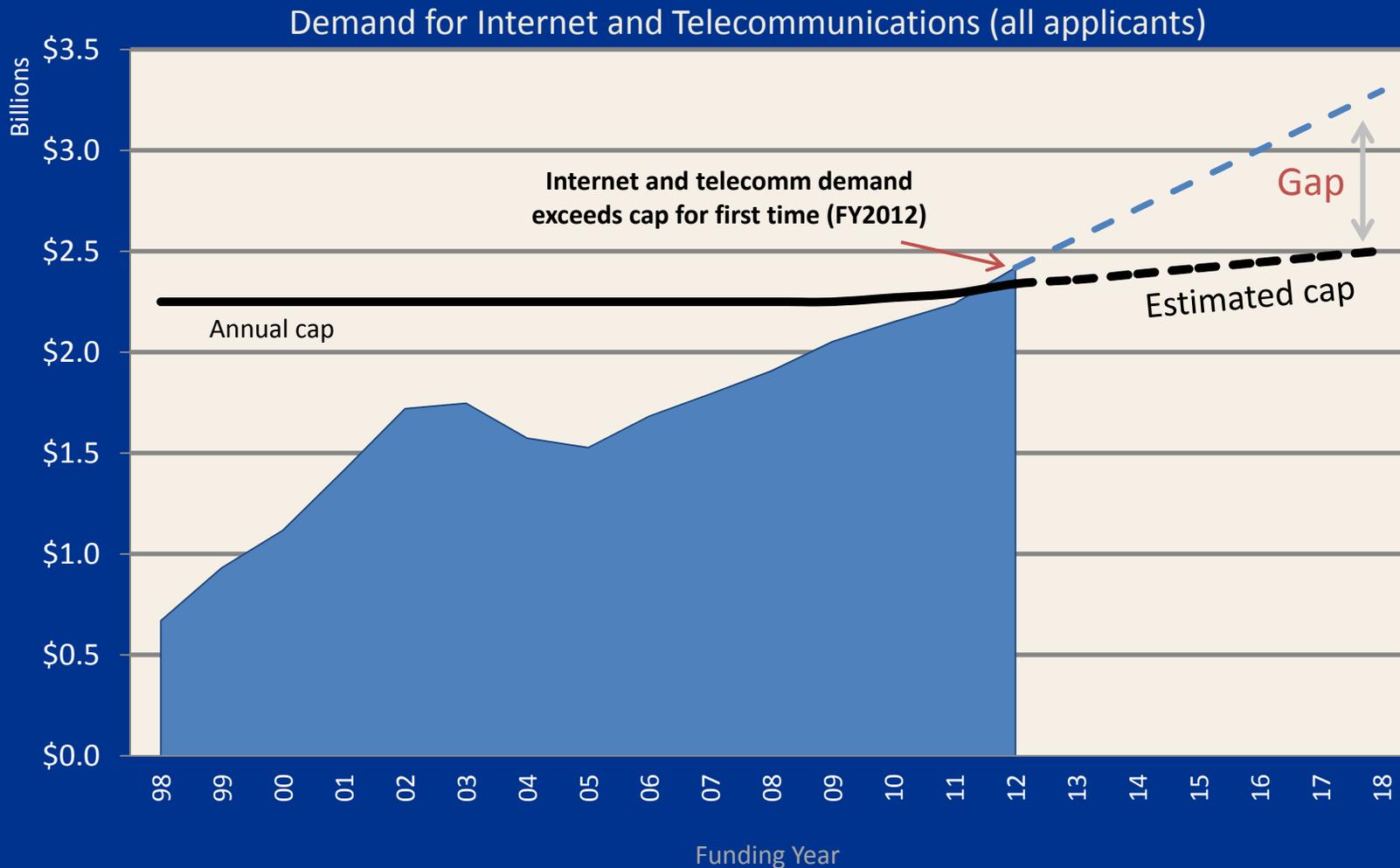
- FY2012: applicants requested \$5.2 billion
 - › \$2.4B Internet/Telco
 - › \$2.7B Int. conn/maint

Looking forward

- FY2013
 - › Limited funding for internal connections
- FY2014
 - › Telecomm and Internet funding reductions or discount thresholds

Internet/Telco Demand Alone Exceeds Cap

Gap estimated at least \$750M+ by 2018



Telecomm and Internet Requests FY2012 by Discount Rate and Location



FY2012

Applicant Disc. Rate	CGCS	Other Urban	Rural excl. remote	Remote Rural*	Total
20% - 39%		\$5,736,707	\$554,529	\$18,302	\$6,309,538
40% - 49%		\$84,083,483	\$19,301,364	\$131,692	\$103,516,539
50% - 59%		\$94,815,337	\$26,689,805	\$509,601	\$122,014,743
60% - 69%	\$10,383,212	\$137,127,785	\$41,280,065	\$6,212,628	\$195,003,690
70% - 79%	\$43,704,818	\$224,268,424	\$87,230,829	\$21,090,177	\$376,294,248
80% - 89%	\$252,709,976	\$365,425,691	\$150,434,834	\$61,479,288	\$830,049,789
90%		\$240,928,603	\$63,401,256	\$20,283,795	\$324,613,654
Grand Total	\$306,798,006	\$1,152,386,030	\$388,892,682	\$109,725,483	\$1,957,802,201

* Remote rural based on Department of Education locale designation "43"

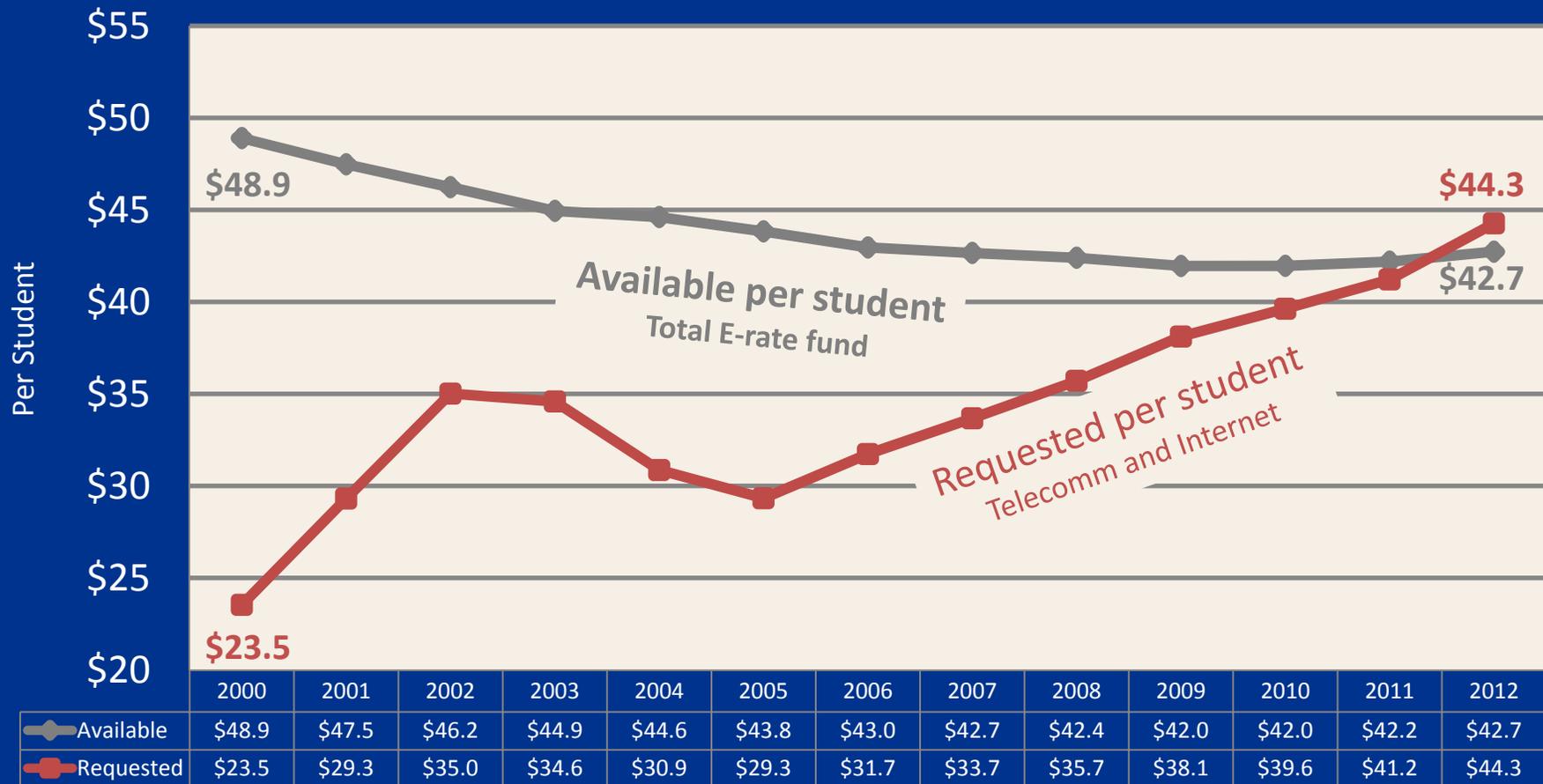
“Per Student” Analysis

Per Student E-rate Funding

Available vs Requested (Telecomm and Internet)



Includes consortia demand; Available amount calculated after subtracting library demand



Per Student Funding Request FY2012 School Telecomm and Internet



By Enrollment

Applicant Disc. Rate	Applicant Enrollment					Overall
	1 to 500	501 to 2,500	2,501 to 5,000	5,001 to 25,000	25,001 or more	
20% - 39%	\$15.28	\$13.37	\$12.38	\$11.66	\$12.13	\$12.72
40% - 49%	\$18.84	\$19.68	\$13.79	\$12.41	\$11.96	\$14.39
50% - 59%	\$29.69	\$22.42	\$17.63	\$17.72	\$14.81	\$17.80
60% - 69%	\$40.87	\$29.13	\$27.30	\$24.14	\$20.74	\$24.46
70% - 79%	\$69.94	\$41.80	\$39.82	\$35.66	\$24.07	\$33.30
80% - 89%	\$98.60	\$64.59	\$67.44	\$50.62	\$49.89	\$55.58
90%	\$168.70	\$118.45	\$85.52	\$60.51	\$39.72	\$93.69
Overall	\$85.61	\$47.13	\$38.56	\$32.28	\$31.45	\$37.50

Excludes libraries and most consortia

Per Student Funding Request

FY2012 School Telecomm and Internet



By Location

Applicant Disc. Rate	CGCS	Other Urban	Rural excl. remote	Remote Rural*	Overall
20% - 39%		\$12.88	\$11.25	\$14.07	\$12.72
40% - 49%		\$14.41	\$14.24	\$44.51	\$14.39
50% - 59%		\$17.25	\$19.86	\$34.48	\$17.80
60% - 69%	\$24.59	\$23.49	\$26.05	\$49.04	\$24.46
70% - 79%	\$26.38	\$32.75	\$37.74	\$43.49	\$33.30
80% - 89%	\$55.77	\$49.64	\$59.10	\$124.01	\$55.58
90%		\$87.83	\$104.87	\$173.51	\$93.69
Overall	\$46.41	\$33.34	\$39.71	\$88.25	\$37.50

Excludes libraries and most consortia

Proposed Solution Framework

Updating the E-rate Program

Revised structure to help applicants budget their needs



- Maintain discount system
- Restore funding for all service categories
- Allow flexibility for local funding priorities
- Calculate budget ceilings for applicant discounts
- Insure all eligible requests receive *some* support
- Create long-term funding structure
 - › Anticipates changes in USF funding levels (including increase)
 - › Easily adjusts for other changes, such as disc. matrix

Proposal Objectives



- Build on successful aspects of current E-rate
- Offer systemic improvements
 - › Minimize delays while increasing predictability
 - › Encourage technology planning and prioritizing
- Allow applicants to set their own priorities
- Provide all applicants access to some support
- Encourage accurate funding requests
- Reduce waste and abuse

Existing E-rate System + Budgets



- Maintain (no change)
 - › Graduated discount rate system
 - › Current ESL/470/471/PIA/payment process
- Eliminate unlimited budgets (current system)
- Establish flexible budget ceiling system for applicants
 - › Per student limits for schools; per patron for libraries
 - › Tied to available USF funding
 - › Per capita rates published before filing window
- Tie applicant budget amount to their discount rate
 - › Highest per capita budgets to highest disc rate applicants
 - › Budget floors set for small schools and libraries

FCC Sets Target Pre-Disc Amount



- FCC publishes pre-discount amount
- School district calculates discount rate
- Multiply disc. rate by target to get max disc.
- Example: \$160 pre-discount target by FCC
 - › 80% school district
 - › Multiplied by \$160 = \$128 / student max discount

Per Student Budget Calculation



- FCC sets per student pre-discount amount
- School district calculates discount rate (as before)
- Ceiling calculated by multiplying per student factor by discount rate by enrollment

$$\text{Discount Ceiling} = \text{Pre-Discount Per Student Rate (Set by FCC)} \times \text{Discount Rate} \times \text{Enroll}$$

Budget Floor for Small Schools



- FCC sets pre-discount budget floor
 - › Min. amount before budget ceiling is activated
 - › Protects small schools
- School district calculates discount rate (as before)
- Floor calculated by multiplying pre-discount budget floor by discount rate of applicant
- Doubled for sites classified as “rural remote”

Proposal Details



- Eliminates need for 2-in-5 rule
- Eligible services list can stay as-is
- Schools set their local priorities
 - › An applicant's requests can total no more than the calculated budget ceiling
 - › Applicants may allocate some or all of their budget to support consortia applications
- Library budgets based on per patron measure
- Remote rural locations have higher minimum

Other Benefits of Budget Ceiling



- Allows FCDLs to be issued more quickly
- Reduces excessive and/or frivolous \$ requests
- Reduces or removes incentives to
 - › Replace equipment before end of life
 - › Gold plate networks
 - › Game the P1/P2 system
- Protects against “mega” requests
- Limits waste/fraud/abuse potential per entity

Works in Conjunction with Other Potential Program Changes



- Accommodates future increase(s) to fund without retooling the program
- Works with other changes being discussed
 - › Augments other changes, but...
 - › Also reduces need for some changes
- Could facilitate:
 - › Individual applicant “rollover” one year to next
 - › Multi-year funding commitments

2003 Waste, Fraud & Abuse Task Force



- *“the Commission should consider imposing some ceiling on the amount of funding which applicants can request.”*
- *“...would help ensure that applicants are submitting the most cost-effective funding requests by eliminating what some may perceive as a “blank check.”*

Frequently Discussed Alternative Solutions

Limited Potential Discount Matrix Changes



- Most commonly discussed “solution”
- Does not address fundamental issues
 - › Insufficient E-rate funding
 - › Inadequate priority system
 - › No protection against mega funding requests
- -10% in rate impacts poorest students most
 - › 90% => 80% : payment +200%
 - › 20% => 10% : payment +12%
- At best provides a *few* sites w/P2 a *few* years

Limited Potential Eligible Services Changes



- Other “solution” frequently mentioned
- Requires detailed technical definitions
- Adds complexity to application review
- Requires constant tweaking (chasing technology)
- Offers incentives to game system
- For example, eliminating POTS
 - › Hurts less tech-savvy schools most
 - › Counterproductive to Universal Service
 - › Adds complexity to process

Sample Results

Increased E-rate Funding and Budget System

Annual program cap of \$4.5 billion/year
Applicant budget calculation system

Sample Budget Calculation #1

Urban School District



- Pre-Discount Student Rate Ceiling: \$160
- Pre-Discount Per Applicant Floor: \$36,000
- Applicant: Enrollment = 4,000; Discount = 80%

$$\text{Ceiling} = \begin{array}{c} \text{Pre-Discount} \\ \text{Per Student Rate} \end{array} \$160 \times \begin{array}{c} \text{Applicant} \\ \text{Discount Rate} \end{array} 80\% \times \begin{array}{c} \text{Applicant} \\ \text{Enrollment} \end{array} 4,000 = \$512,000$$

$$\text{Floor} = \begin{array}{c} \text{Pre-Discount} \\ \text{Applicant Floor} \end{array} \$36,000 \times \begin{array}{c} \text{Applicant} \\ \text{Discount Rate} \end{array} 80\% \times \begin{array}{c} \text{Rural Remote} \\ \text{Multiplier} \end{array} 1 = \$28,800$$

Max of Ceiling and Floor calculations

$$\text{Discount Budget} = \$512,000$$

Sample Budget Calculation #2

Remote Rural School



- Pre-Discount Student Rate Ceiling: \$160
- Pre-Discount Per Applicant Floor: \$36,000
- Applicant: Enrollment = 125; Discount = 90%

$$\text{Ceiling} = \begin{array}{c} \text{Pre-Discount} \\ \text{Per Student Rate} \end{array} \$160 \times \begin{array}{c} \text{Applicant} \\ \text{Discount Rate} \end{array} 90\% \times \begin{array}{c} \text{Applicant} \\ \text{Enrollment} \end{array} 125 = \$18,000$$

$$\text{Floor} = \begin{array}{c} \text{Pre-Discount} \\ \text{Applicant Floor} \end{array} \$36,000 \times \begin{array}{c} \text{Applicant} \\ \text{Discount Rate} \end{array} 90\% \times \begin{array}{c} \text{Rural Remote} \\ \text{Multiplier} \end{array} 2 = \$64,800$$

Max of Ceiling and Floor calculations

$$\text{Discount Budget} = \$64,800$$

National Results

Based on \$160 per Student Ceiling / \$36,000 per Applicant Floor



Applicant Disc. Rate	CGCS	Other Urban	Rural excl. remote	Remote Rural*	Total
20% - 39%		\$7,346,867	\$325,764	\$40,970	\$7,713,601
40% - 49%		\$211,232,704	\$1,370,633	\$112,774	\$212,716,111
50% - 59%		\$304,407,698	\$17,783,350	\$1,069,607	\$323,260,655
60% - 69%	\$30,298,463	\$401,097,111	\$98,764,891	\$11,075,722	\$541,236,187
70% - 79%	\$144,215,900	\$515,525,343	\$299,606,606	\$50,711,399	\$1,010,059,248
80% - 89%	\$513,162,087	\$737,384,029	\$383,613,707	\$65,466,296	\$1,699,626,118
90%		\$314,143,437	\$137,023,323	\$23,052,341	\$474,219,101
Grand Total	\$687,676,450	\$2,491,137,188	\$938,488,275	\$151,529,108	\$4,268,831,020

NOTES/ASSUMPTIONS

- 1) Based on FY2012 enrollment data and discount rates
- 2) All applicants find sufficient matching funds to maximize their budgets.
- 3) Remote rural schools have a budget floor factor double the standard rate. $\$36,000 \times 2 = \$72,000$
- 4) Balance of funds used for library applicants, program administ

Council of Great City Schools Sample Results



School District	Enroll	(\$ millions)			School District	Enroll	(\$ millions)		
		FY2012	FY2014	Proposed			FY2012	FY2014	Proposed
		Telco & Internet	Telco & Int. (est)	Budget			Telco & Internet	Telco & Int. (est)	Budget
NYC Dpmt of Ed	970,052	\$62.94	\$67.98	\$ 104.36	Orange County	171,095	\$ 3.86	\$ 4.17	\$ 15.40
Los Angeles Unified	600,844	\$25.54	\$27.58	\$ 66.23	San Diego Unified	130,938	\$ 11.43	\$ 12.35	\$ 13.07
Chicago Schools	357,184	\$20.75	\$22.41	\$ 42.27	Palm Beach County	167,376	\$ 3.79	\$ 4.09	\$ 12.75
Miami-Dade County	308,057	\$11.29	\$12.20	\$ 33.96	Memphis City Schools	101,480	\$ 8.14	\$ 8.79	\$ 12.29
Clark County	297,913	\$ 4.68	\$ 5.05	\$ 24.71	Charlotte-Mecklenburg	141,714	\$ 2.17	\$ 2.34	\$ 11.43
Houston ISD	191,557	\$ 7.80	\$ 8.43	\$ 21.63	Albuquerque	92,746	\$ 5.25	\$ 5.67	\$ 10.72
Dallas ISD	158,486	\$13.41	\$14.48	\$ 19.64	Baltimore City	85,896	\$ 5.68	\$ 6.14	\$ 10.64
Broward County	225,664	\$ 5.00	\$ 5.40	\$ 18.72	Fort Worth ISD	83,442	\$ 1.65	\$ 1.78	\$ 10.11
Philadelphia	144,234	\$ 3.40	\$ 3.67	\$ 16.67	Duval County	118,257	\$ 3.13	\$ 3.38	\$ 9.81
Hillsborough County	190,768	\$ 2.25	\$ 2.43	\$ 15.82	Long Beach Unified	83,687	\$ 2.64	\$ 2.85	\$ 8.79

NOTES/ASSUMPTIONS

- 1) Based on FY2012 enrollment data and discount rates
- 2) All applicants find sufficient matching funds to maximize their budgets.
- 3) FY2014 telecomm and Internet estimate based on 8% increase over FY2012 requests