FUNDS FOR LEARNING
YOUR E-RATE GUIDES
2575 Kelley Pointe Parkway, Suite 200
Edmond, OK 73013
phone 405-341-4140
fax 866-552-8110
www.FundsForLearning.com

June 17, 2014

VIA ELECTRONIC FILING

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th St. SW
Washington, DC 20554

Re: **Ex Parte Communication (WC Docket No. 13-184)**
Modernizing the E-rate Program for Schools and Libraries

Dear Ms. Dortch:

On June 16, 2014, I shared the attached presentation and survey results with Trent Harkrader, Partick Halley, Lisa Hone, Michael Steffen, Mark Nadel, Regina Brown and Jon Wilkins.

Subsequently, on June 17, 2014, via a web conference, I provided a detailed explanation of the slide deck to Patrick Halley, Mark Walker, Jonathan Chambers, and Mark Nadel. I explained that the information in the presentation was based on further analysis of a FY2014 funding request report submitted to the FCC[1], as well as a nationwide survey of E-rate applicants that Funds For Learning recently completed. In our conversation, I shared the following major conclusions.

- **The average out-of-pocket expense paid for telecommunications and Internet access does not vary significantly among most E-rate applicants, regardless of their location or E-rate discount rate.** This analysis coincides with the well-known fact that school and library budgets function primarily on a fixed-income basis. Applicants with a higher E-rate discount rate have more purchasing power, but their out-of-pocket expenditures are not remarkably different than lower discount rate applicants. <u>This fact suggests that a lowering of E-rate discount rates will not enhance the deployment of broadband connectivity, especially within economically disadvantaged communities</u>. Instead, lower E-rate discount rates are likely to simply decrease the purchasing power of impoverished applicants, slowing down the deployment of broadband networks within their schools and communities.

- **Telecommunications and Internet access expenses in remote rural Alaska defy comparison to other locations.** E-rate applicants in these remote areas pay 30 times more per student for broadband access than the average E-rate applicant; consequently, I encouraged the FCC staff to give special consideration to remote rural Alaska in their rule-making.

[1] http://apps.fcc.gov/ecfs/document/view?id=7521139031

- **A small portion of E-rate applicants consume a disproportionate amount of the fund each year.** In FY2014, 13% of demand from schools for Priority One services came from a small percentage of schools that spend more than $400 per student each year for these services. I reminded the FCC staff that most applicants, regardless of discount rate, size or location, seek out cost-effective solutions to meet their technology needs.

  Many E-rate reform proposals "throw the baby out with the bathwater" to curb the demand of big spenders. They do so by eliminating services from the eligible services list, lowering discount rates for all applicants, or rationing funding support via an arbitrary timeline. Unfortunately, most of these changes will only hurt the neediest schools and libraries and are unlikely to significantly deter big-spending applicants.

  Instead of adding more complexity or substantially changing the nature of the E-rate program, Funds For Learning continues to advocate for one simple change: eliminating the technology-based Priority system and replacing it with a budget cap system that puts a limit on the total E-rate discount amount an applicant can request each year. Unlike the current priority system, this approach incentivizes cost-effective decision-making, cuts off big spenders, encourages planning, increases predictability, does not impose a specific timeline for technology integration and allows for local technology planning decisions.

- **In survey after survey, applicants report frustration with the current form preparation and application process.** I expressed Funds For Learning's continued advocacy for an e-filing standard that will allow electronic submission of E-rate forms and paperwork[2]. I also emphasized that the adoption of a predictable filing window schedule would improve the application process for each applicant.

- **E-rate applicants continue to express a strong desire for multi-year funding commitments.** I shared that multi-year funding commitments would be particularly useful in speeding up the deployment of on-campus broadband connectivity. If schools and libraries can amortize the cost of a project over 3-to-5 years, it would allow them to immediately benefit from the use of faster connections, without having to wait 4 or 5 years to install them. Schools and libraries would likely be willing to cover the finance charges associated with these multi-year payouts. Plus, vendors and manufacturers may be willing to provide zero-cost or lost-cost financing.

- **Funds For Learning estimates that the current nationwide total demand for Internal Connections is roughly $5.93 billion plus an additional $0.59 billion in annual ongoing basic maintenance expenses.** This estimate is based on (A) actual per building expenses from FY2014 Priority Two funding requests and (B) the results of the Funds For Learning survey of E-rate applicants which indicate that a significant portion of school buildings require network facility upgrades.

[2] http://apps.fcc.gov/ecfs/document/view?id=7521099998

Funds For Learning suggests that the FCC amortize this $5.93 expense over four years, adding a minimum of $2.08 billion per year to the E-rate funding cap for the foreseeable future. Combined with multiyear funding commitments, the increased cap would allow all applicants to deploy much-needed on-campus internal connections beginning in FY2015, while having the opportunity to pay for those connections over multiple years. This would dramatically accelerate the installation of on-campus broadband, in effect increasing the purchasing power of the entire E-rate program.

- **In our survey, there was no clear consensus amongst respondents as to the deployment of VoIP and the replacement of plain old telephone service.** 51% of survey respondents indicated that their telephony infrastructure was lagging. I explained that many applicants wished to convert to VoIP-based systems, but they lacked the financial support to purchase the necessary internal connections. I expressed my concern that recent trade industry cost estimates submitted to the FCC did not include costs for VoIP systems. This is particularly troublesome because schools and libraries may be required to move to VoIP solutions to maintain their E-rate discounts. I encouraged the FCC staff to allow E-rate applicants to purchase VoIP-type networking equipment.

I concluded by summarizing Funds For Learning's position on E-rate Reform. We believe that the program could be remarkably improved without changes to the eligible services list or discount matrix and that all applicants could receive funding commitments every year for the goods or services that they need the most. These improvements could be brought about with relative ease by increasing the funding cap and replacing the Priority System with a new system of pre-defined limits on large funding requests. Combined with multi-year funding commitments, additional support for remote rural applicants, special consideration for remote rural Alaska applicants, and an e-filing standard, the new and improved E-rate program would be poised to radically enhance broadband connectivity in America's schools and libraries.

Pursuant to Section 1.1206 of the Commission's Rules, this letter is being filed electronically.

Sincerely yours,

/s/ John D. Harrington

John D. Harrington

Chief Executive Officer
Funds For Learning, LLC
2575 Kelley Pointe Parkway, Suite 200
Edmond, OK 73013

Jharrington@fundsforlearning.com
405-341-4140

cc: Regina Brown
Jonathan Chambers
Patrick Halley
Trent Harkrader
Lisa Hone
Mark Nadel
Michael Steffen
Mark Walker
Jon Wilkins

E-rate Data Analysis and Survey Results

June 17, 2014

John Harrington
Chief Executive Officer
Funds For Learning, LLC

Email jharrington@fundsforlearning.com
Twitter @jdharrington

FUNDS FOR LEARNING
YOUR E-RATE GUIDES

© 2014 Funds For Learning, LLC

Conclusions based on data

- P1 Expenditures increasing across the board
  - Out of pocket varies little by discount rate
  - Out of pocket varies most by applicant size
  - Rural Alaska is very different from all others
  - Big spenders request disproportionate share
- Applicants want improved application process
- $2.08 billion/year required for on-campus
  - Telephony infrastructure lagging in 51% bldgs
  - Applicants not sure what to do about VoIP

© 2014 Funds For Learning, LLC

Applicant View of Reform

Survey Response Highlights

- Somewhat skeptical of improvements
- TOP items on Reform wish list
  - Increase funding
  - Allow multiyear funding commitments
  - Improve form preparation
- BOTTOM items on Reform wish list
  - Remove items from ESL
  - Lower discount rates and create one discount rate
  - Create rotating eligibility system for P2

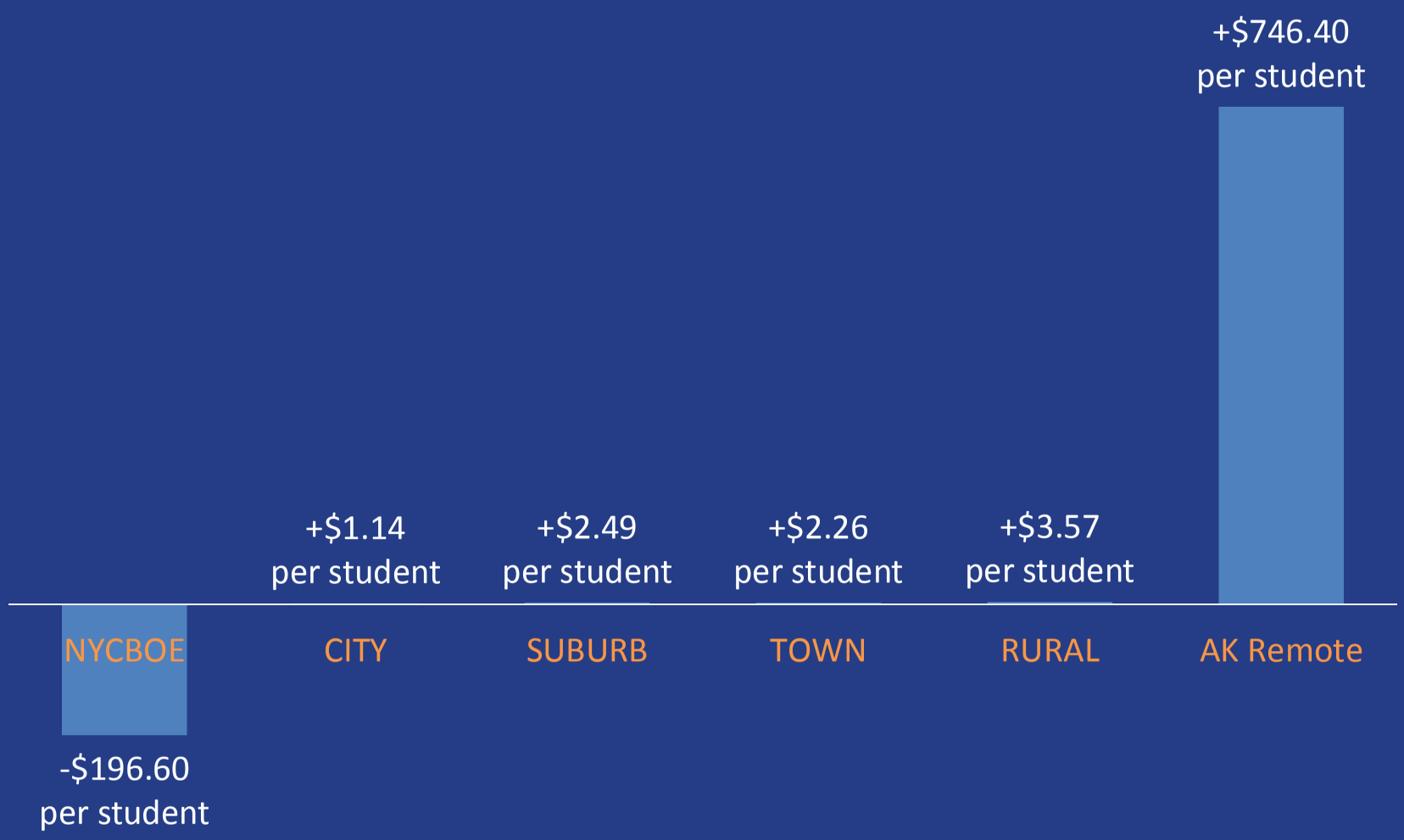
© 2014 Funds For Learning, LLC

Comparing Monthly Out-of-Pocket Expenses

© 2014 Funds For Learning, LLC

Per Student P1 Increasing

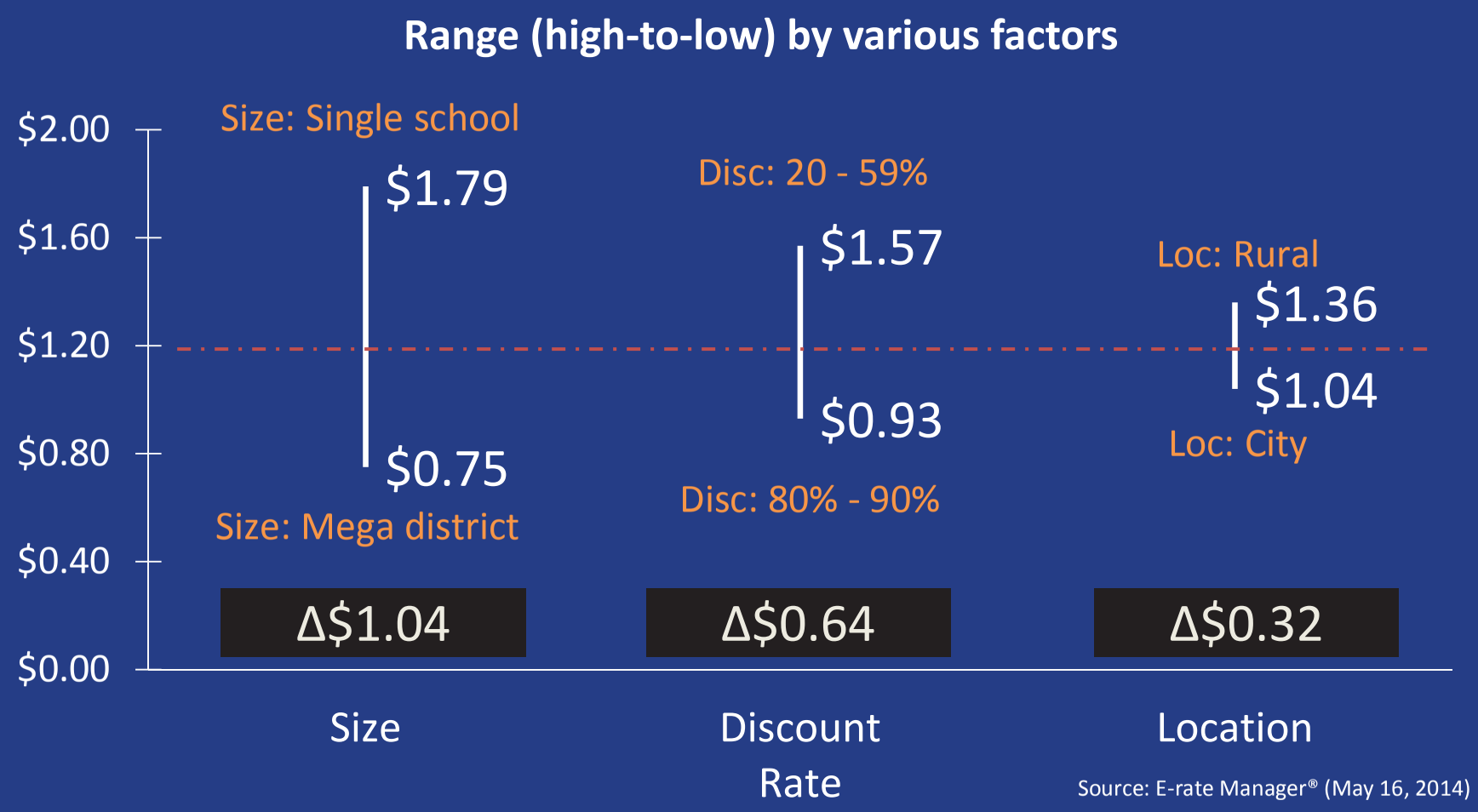
Comparing FY2013 to FY2014 by location



© 2014 Funds For Learning, LLC

Monthly Out-of-Pocket P1 Per Student

Varies most by applicant size



Source: E-rate Manager® (May 16, 2014)

Per student out-of-pocket varies by $1.04 between smallest and largest school applicants

© 2014 Funds For Learning, LLC

Monthly P1 Out-of-Pocket Expense

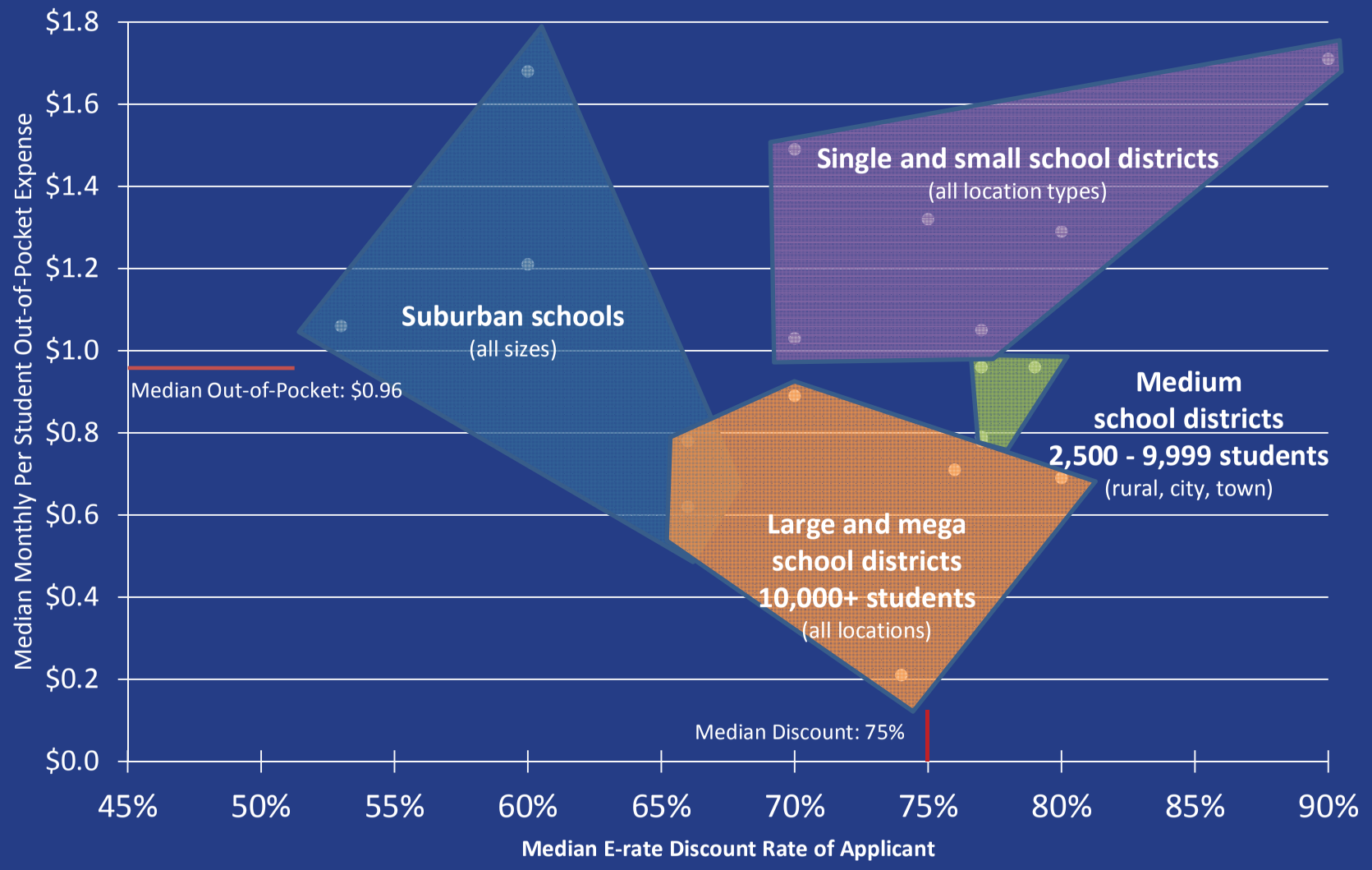
Applicant Size	Location Type	Median Disc. Rate	Median Applicant Out-of-Pocket Per Student Monthly P1 Expense
Single Site School	City	80%	$1.29
	Suburb	60%	$1.21
	Town	70%	$1.03
	Rural	70%	$1.49
Small District <2,500 students	City	90%	$1.71
	Suburb	60%	$1.68
	Town	77%	$1.05
	Rural	75%	$1.32
Medium District 2,500 to 9,999 students	City	79%	$0.96
	Suburb	53%	$1.06
	Town	77%	$0.79
	Rural	77%	$0.96

Applicant Size	Location Type	Median Disc. Rate	Median Applicant Out-of-Pocket Per Student Monthly P1 Expense
Large District 10,000 to 49,999 students	City	76%	$0.71
	Suburb	66%	$0.78
	Town	77%	$0.78
	Rural	70%	$0.89
Mega District 50,000+ students	City	80%	$0.69
	Suburb	66%	$0.62
	Rural	74%	$0.21

© 2014 Funds For Learning, LLC

Monthly P1 Out-of-Pocket Expense

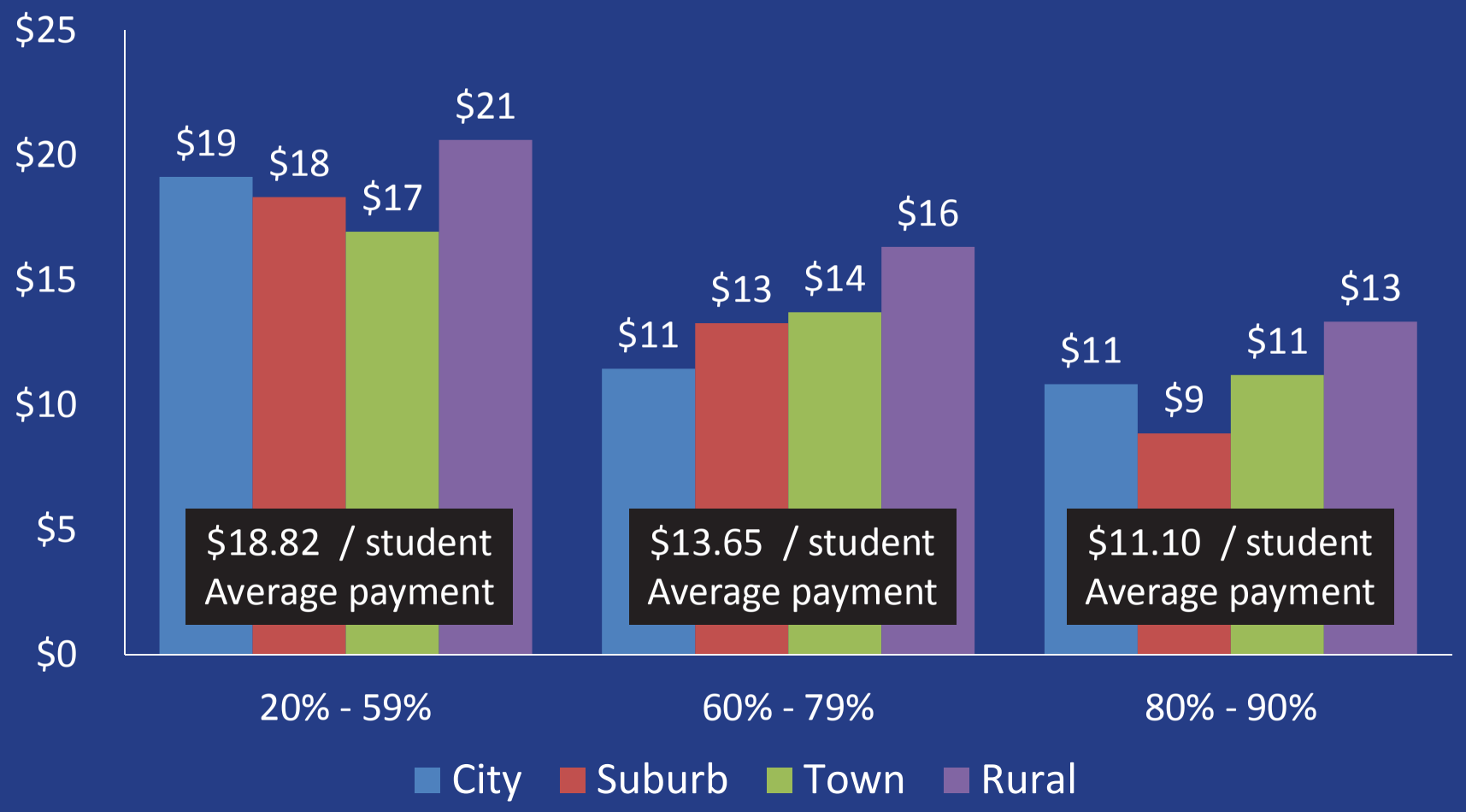
Expenses group by size more than disc. rate, locale



© 2014 Funds For Learning, LLC

School Payment Per Student

Average out-of-pocket varies from $11 to $19

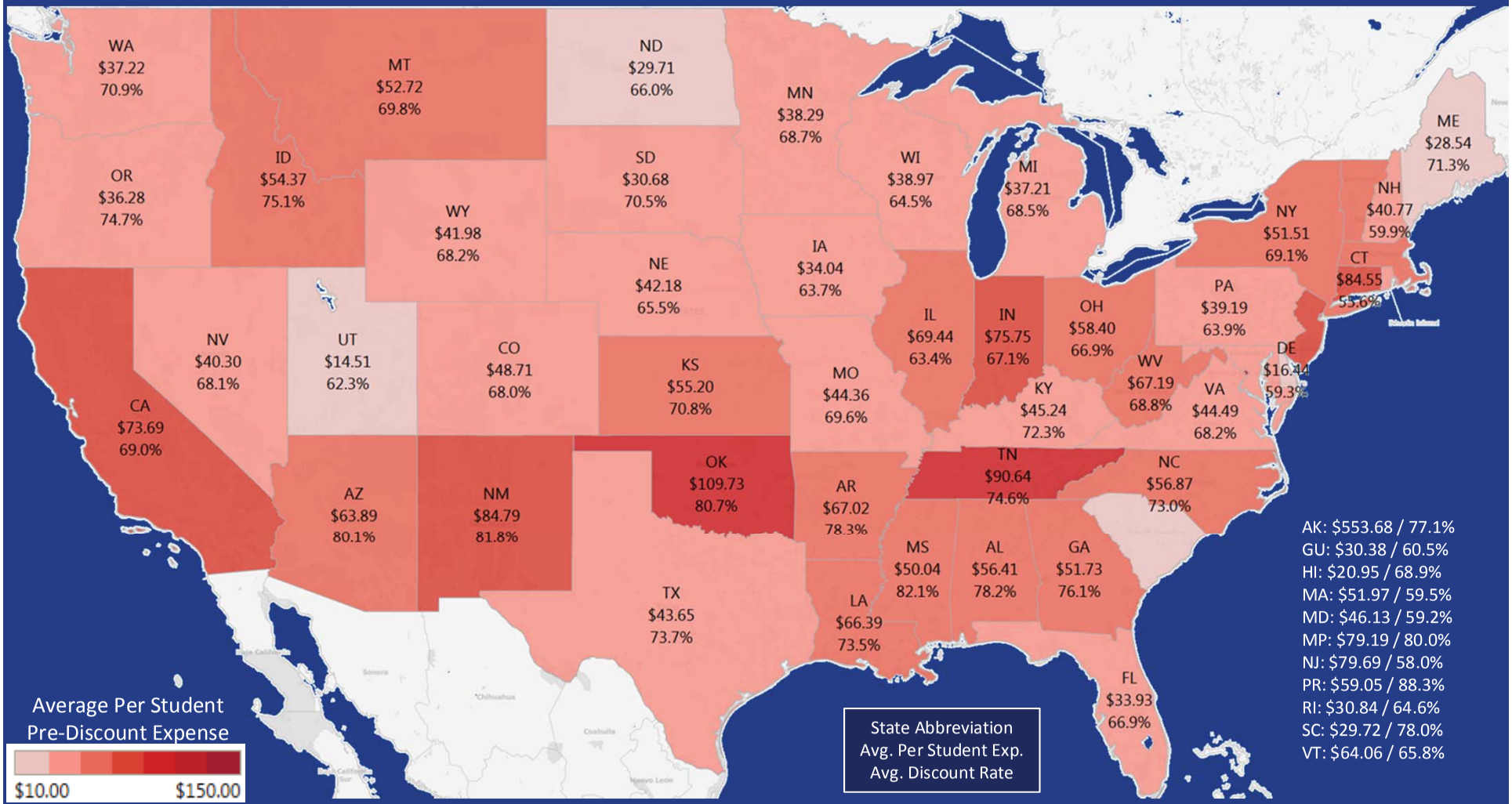


© 2014 Funds For Learning, LLC

P1 Expenses Compared by State

© 2014 Funds For Learning, LLC

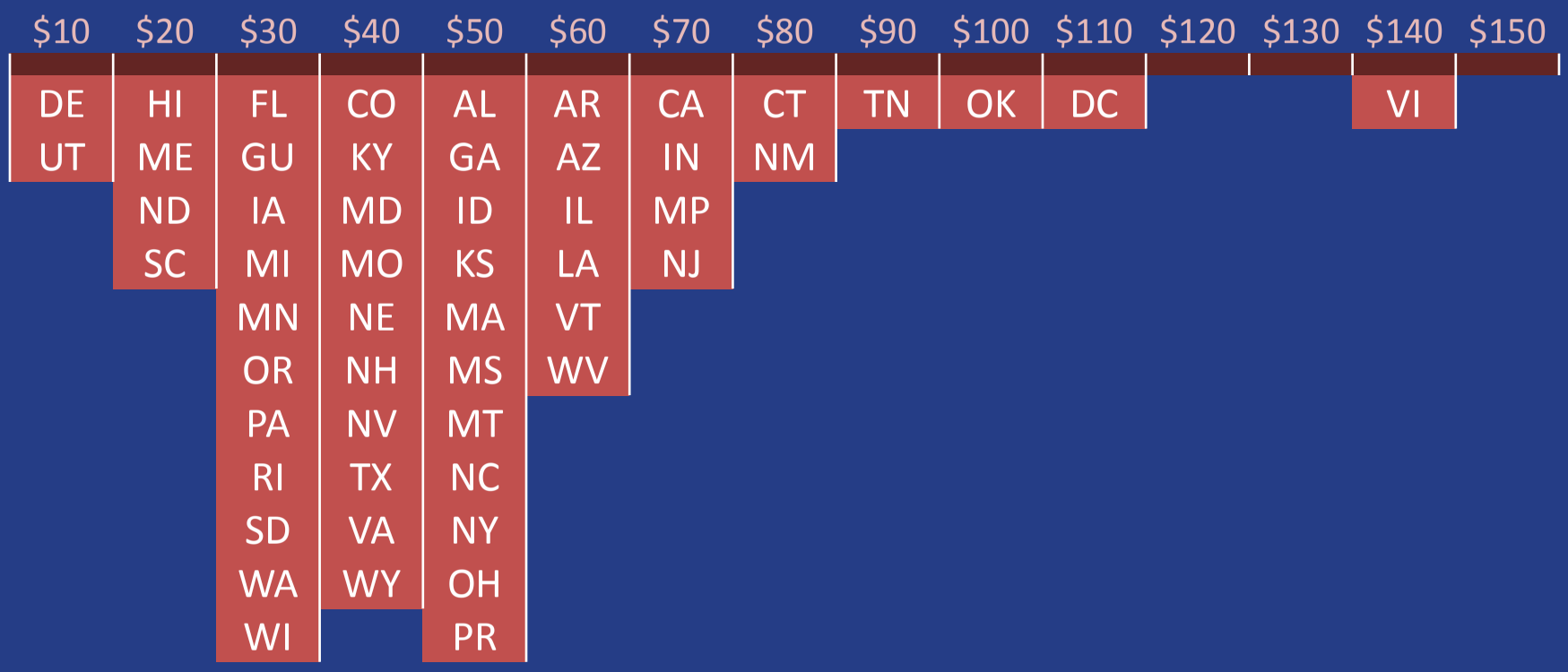
Per Student Expense by State



© 2014 Funds For Learning, LLC

Average Per Student P1 Spending

by school applicants based on their state

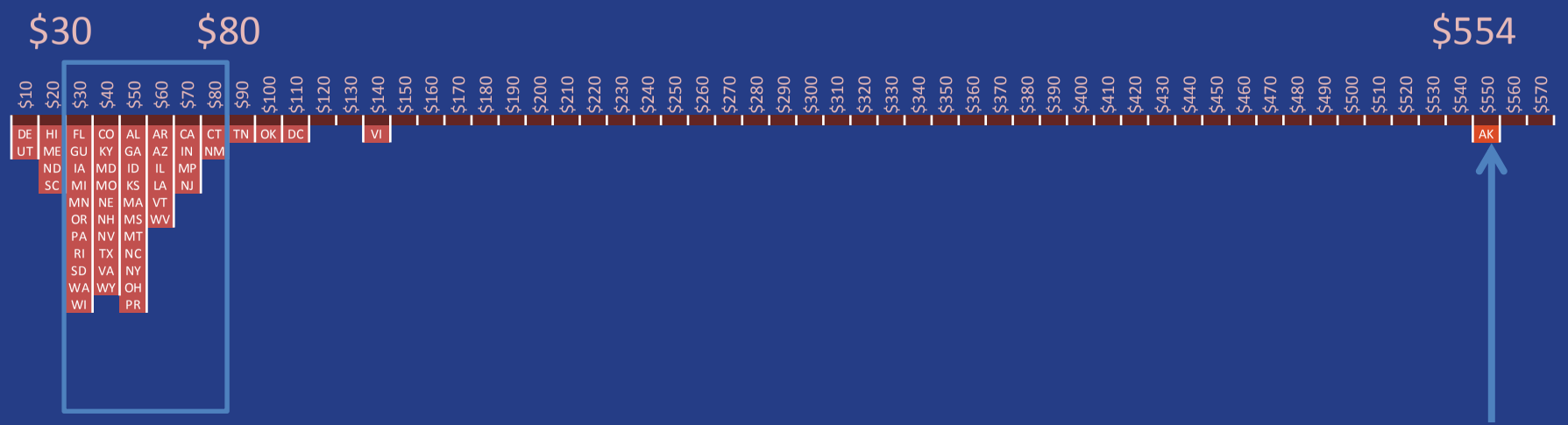


Overall average: $55.55 per student

© 2014 Funds For Learning, LLC

Alaska: $554 per student

Average per student P1 spending



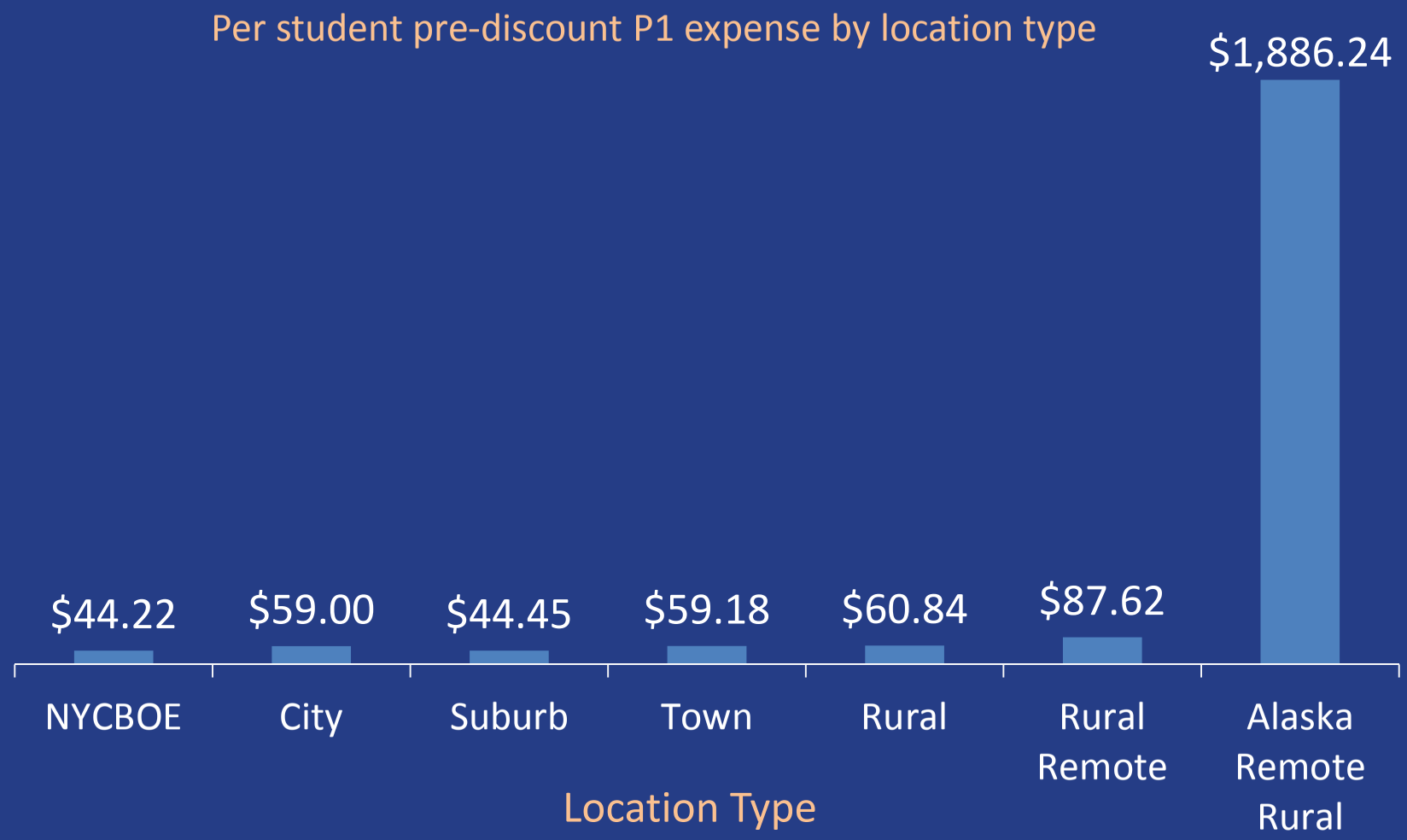
In most states, the average school spends $30 - $80 per student

In Alaska, the average is $554 per student

© 2014 Funds For Learning, LLC

Alaska Rural Remote Per Student

Remarkably higher than all other locations



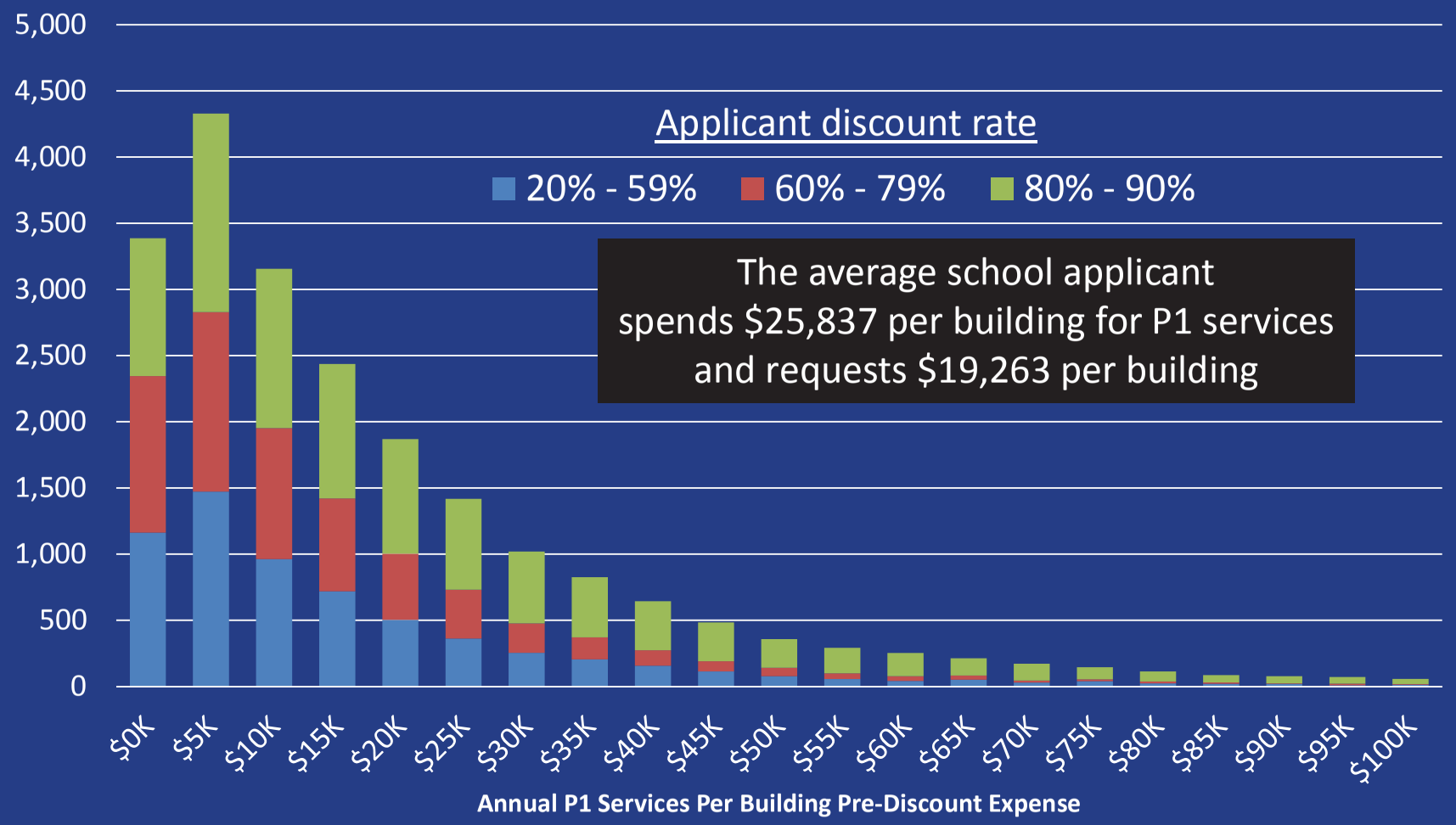
© 2014 Funds For Learning, LLC

P1 Expenses

Big Spenders Request Disproportionate Share

© 2014 Funds For Learning, LLC

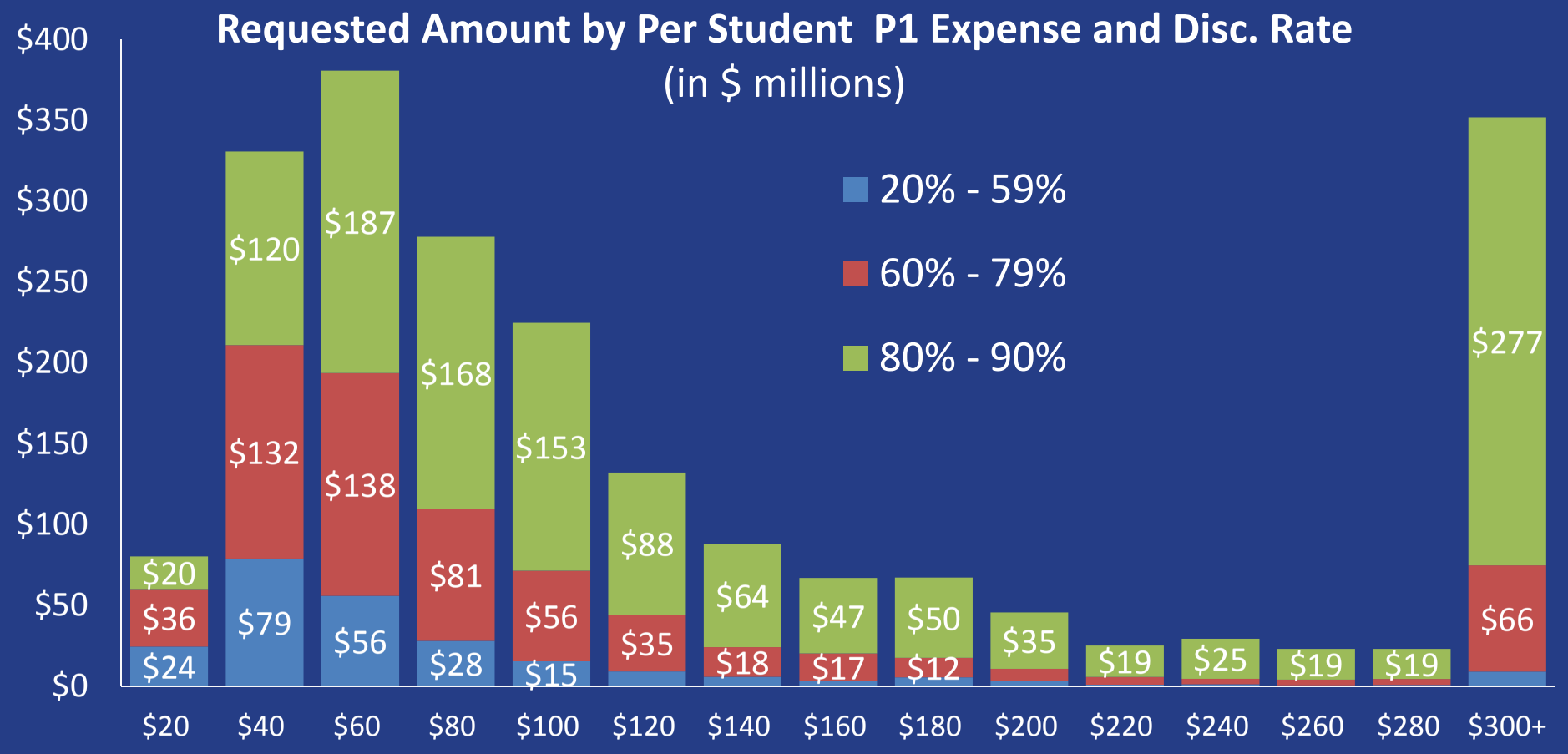
Count of E-rate Applicants by Annual Per Building P1 Expense



© 2014 Funds For Learning, LLC

Requests by Per Student Spending

13% of requests from 6% of schools w/$400+ per student



© 2014 Funds For Learning, LLC

Survey Responses

2014 Survey of E-rate Applicants

© 2014 Funds For Learning, LLC

Who Responded? How well do they represent all applicants?

- 626 responses
  - 440 (70%) provided identifying information
  - 186 anonymous
- From 44 states
- Applicant type
  - Schools: 71%
  - Libraries: 29%
- Student count range from 50 to 100,000s

© 2014 Funds For Learning, LLC

School Respondents vs. Nat'l Stats

	National*	Survey
Count of Students (Median)	591	1,420
Discount Rate (Avg FY2014)	69%	75%
P1-only funding requests (FY2014)	81%	65%
P1 per student (FY2014 pre-discount)	$55.55/year	$52.16/year
Received *some* P2 (FY2010-FY2012)	23%	46%
Use Consultant (FY2014)	52%	62%

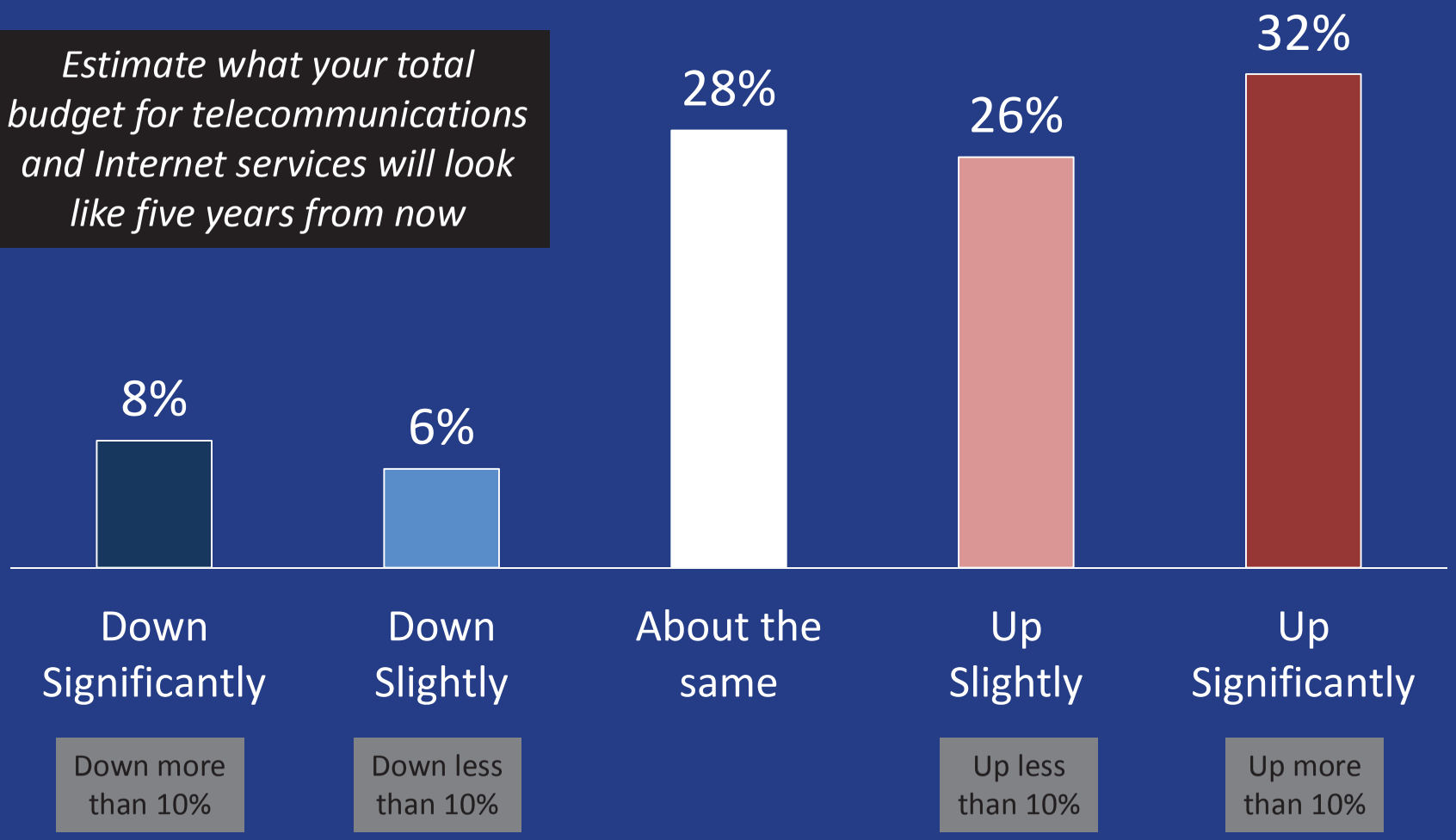
* Estimated FY2014 student enrollment of individual school site and school district E-rate participants.

© 2014 Funds For Learning, LLC

Question 1

5 yr telco/Internet budget forecast

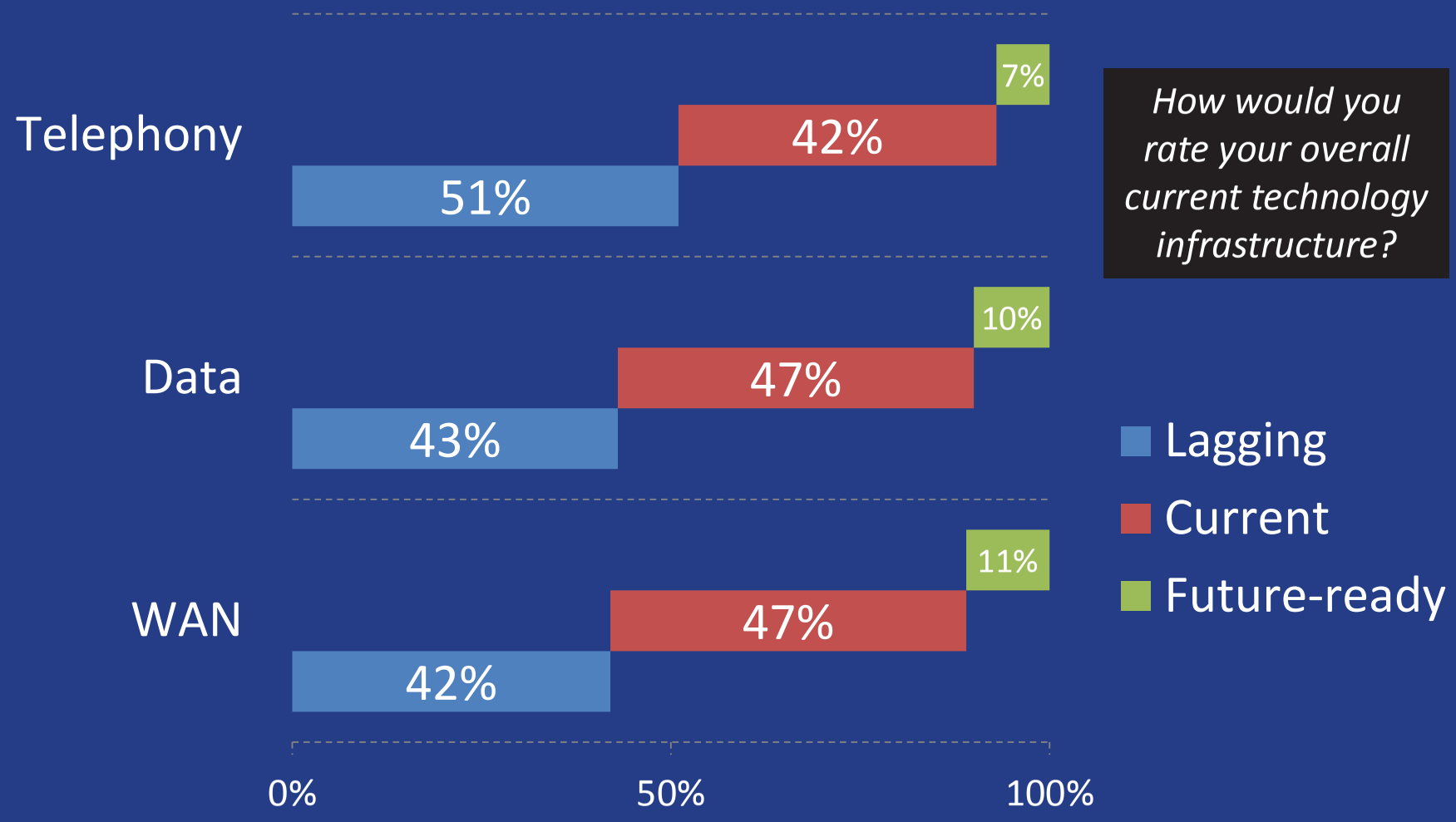
Estimate what your total budget for telecommunications and Internet services will look like five years from now



© 2014 Funds For Learning, LLC

Question 2

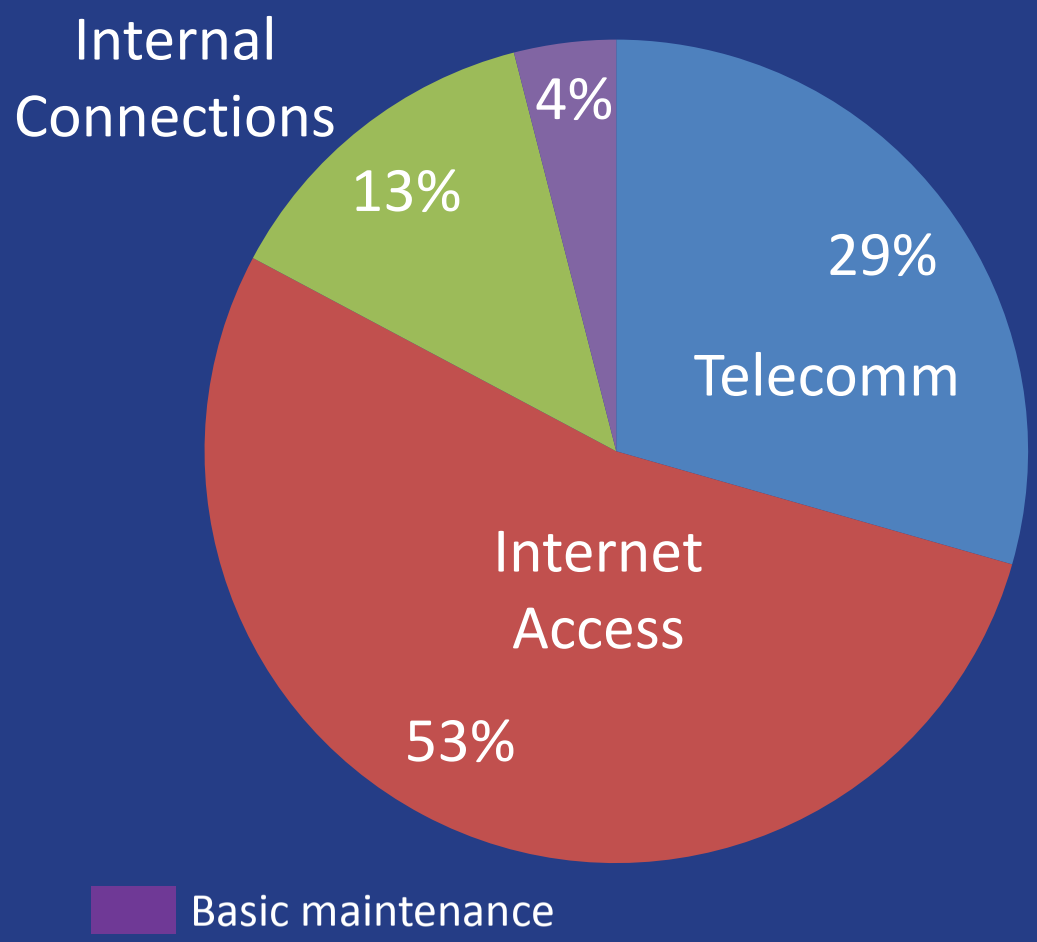
Tech infrastructure readiness



© 2014 Funds For Learning, LLC

Question 3

Top category

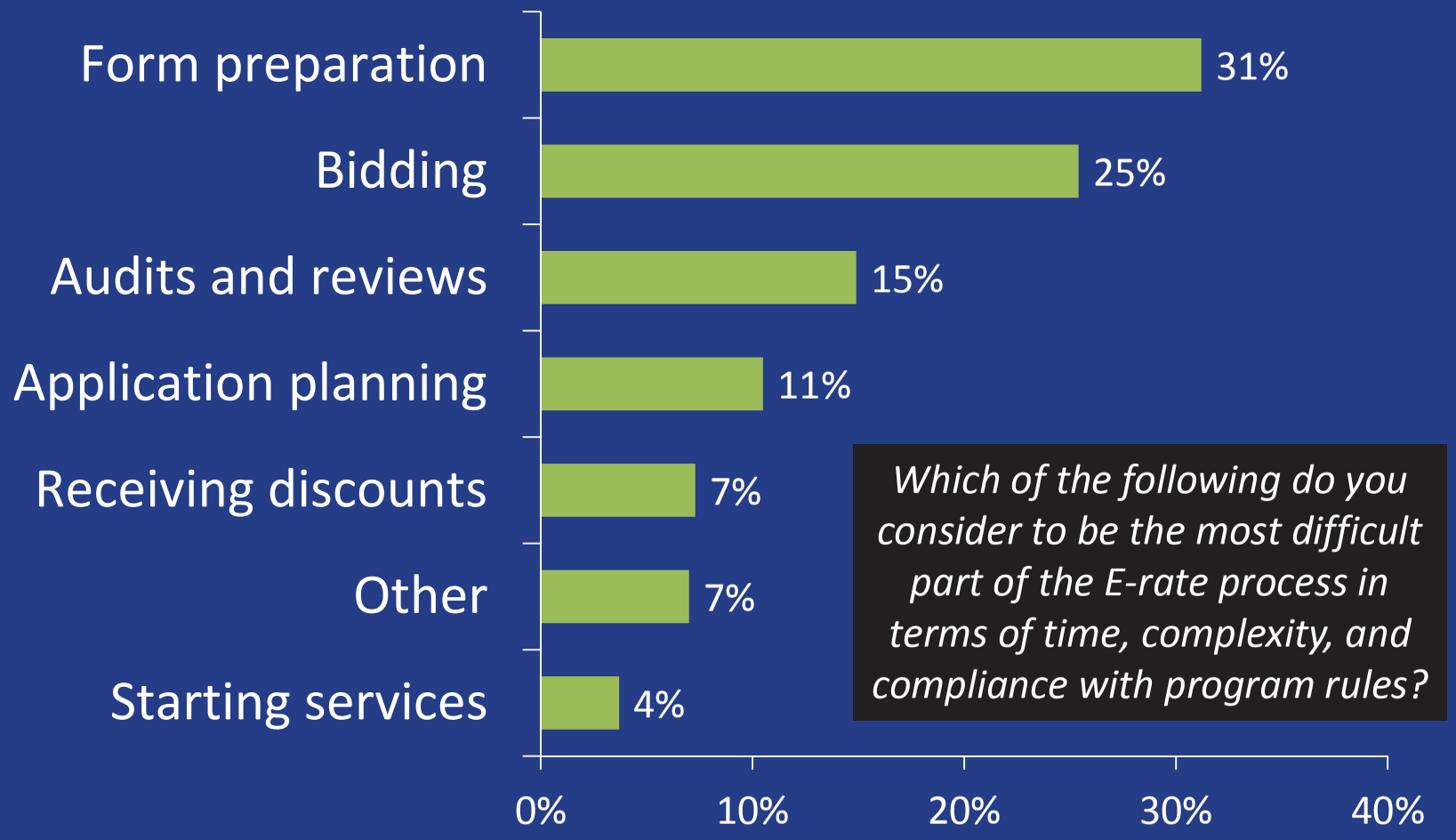


If you could only receive E-rate funding in one category of service, which would you choose?

© 2014 Funds For Learning, LLC

Question 4

Most difficult part of process

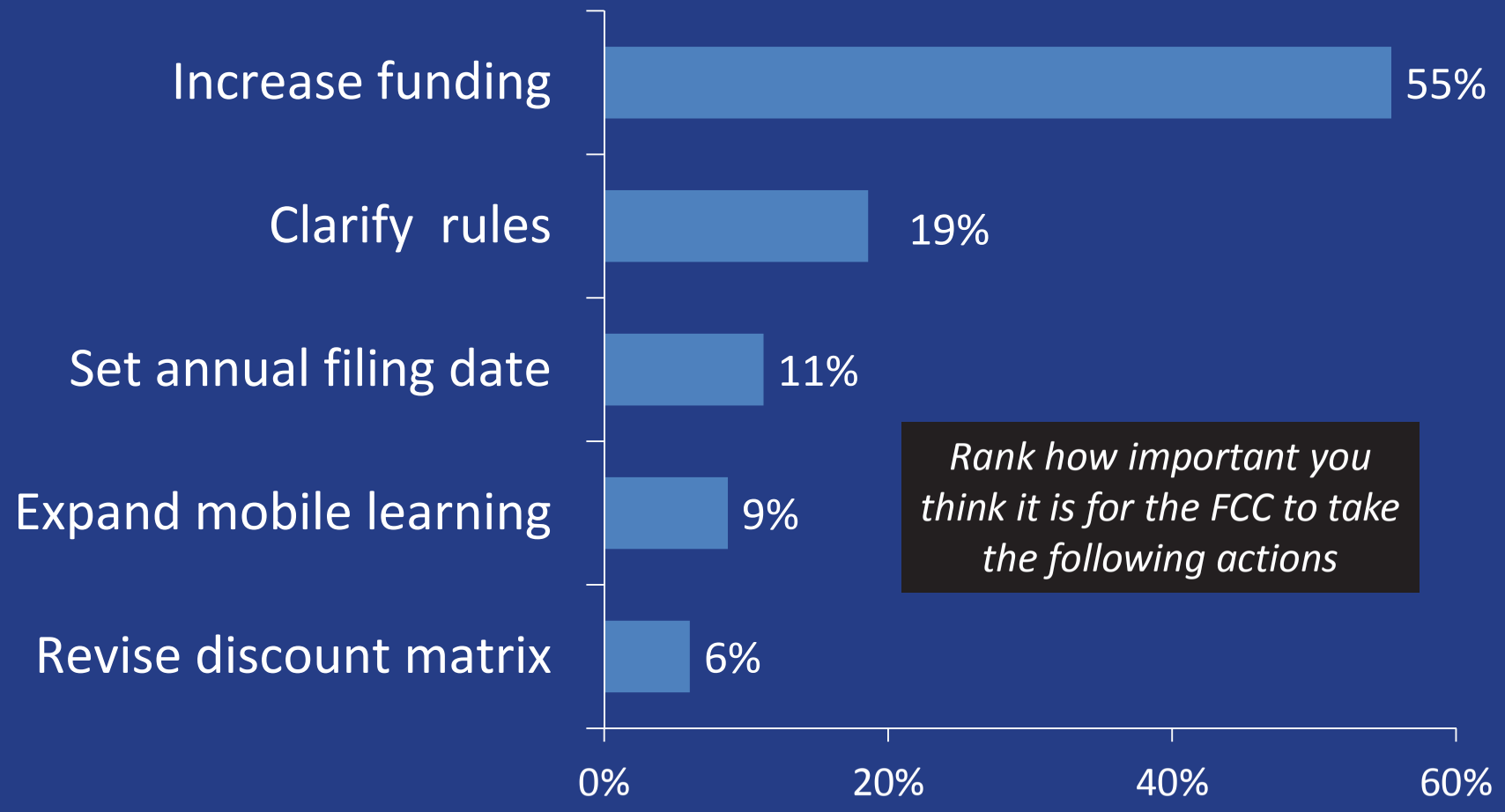


Which of the following do you consider to be the most difficult part of the E-rate process in terms of time, complexity, and compliance with program rules?

© 2014 Funds For Learning, LLC

Question 5

Rank 5 changes / top choice

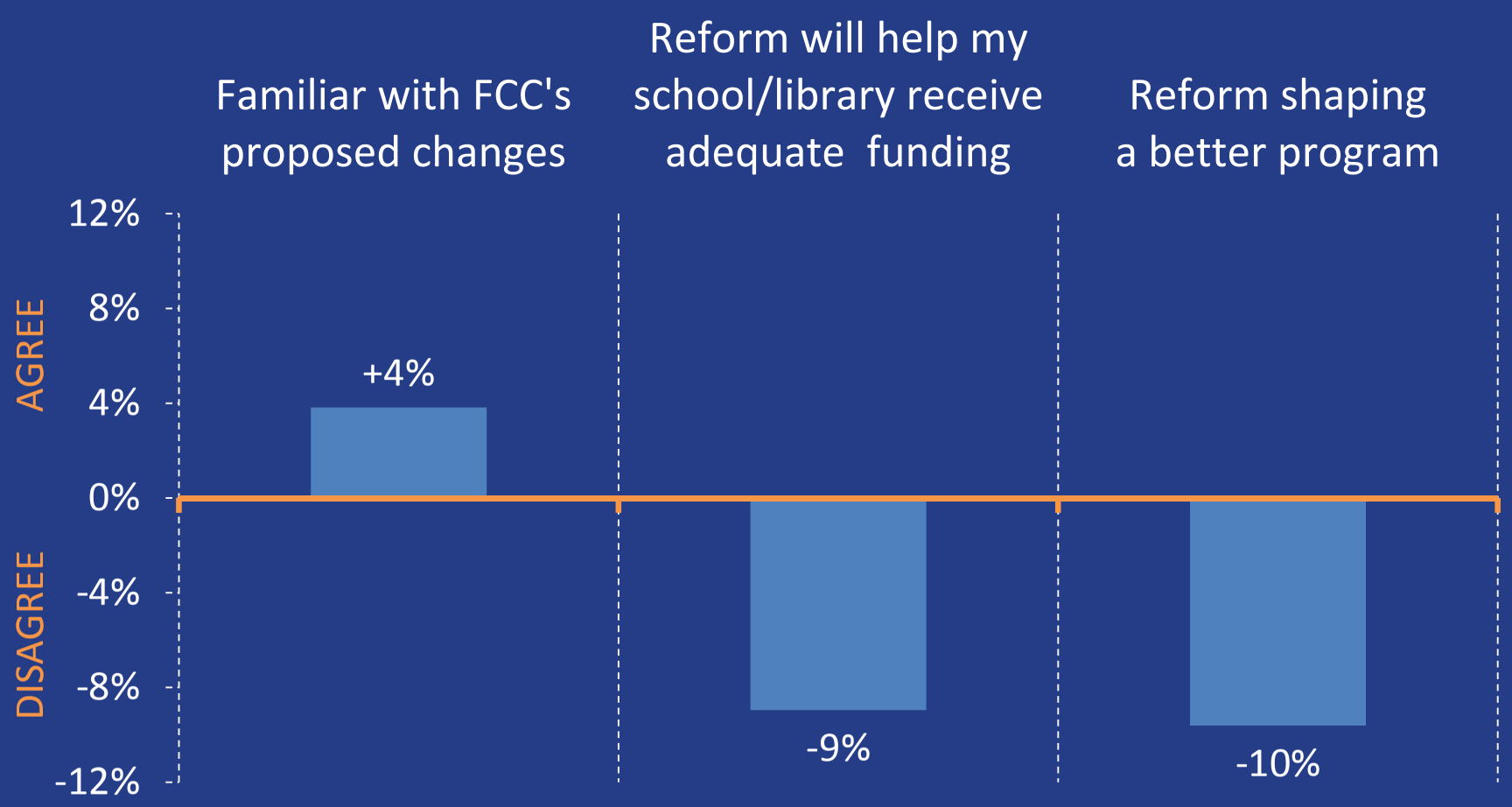


© 2014 Funds For Learning, LLC

Question 6

View of E-rate Reform

Difference among applicants who agree and disagree with statements



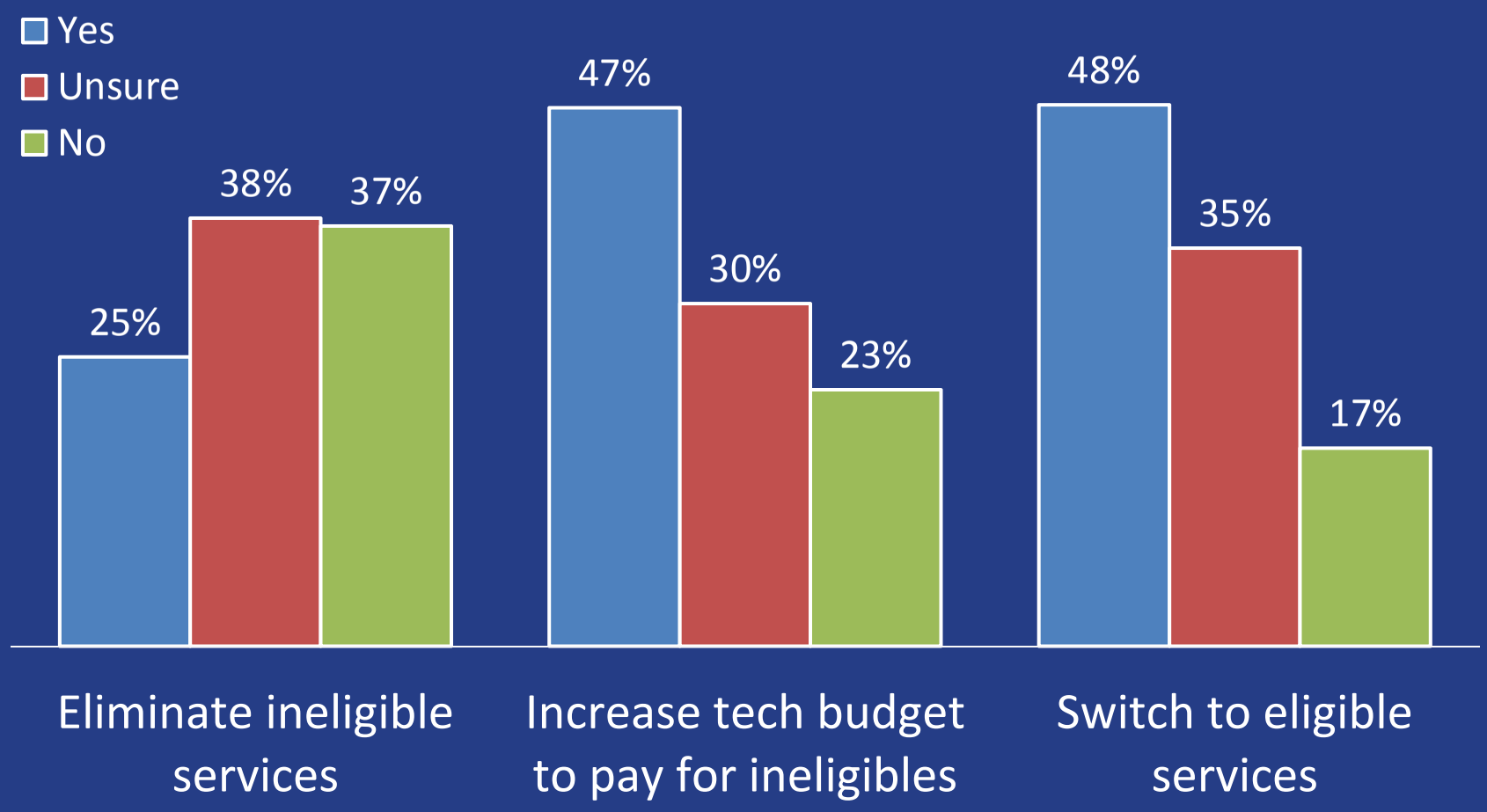
Indicate your responses toward E-rate reform efforts

© 2014 Funds For Learning, LLC

Question 7

What if P1 = broadband and VoIP?

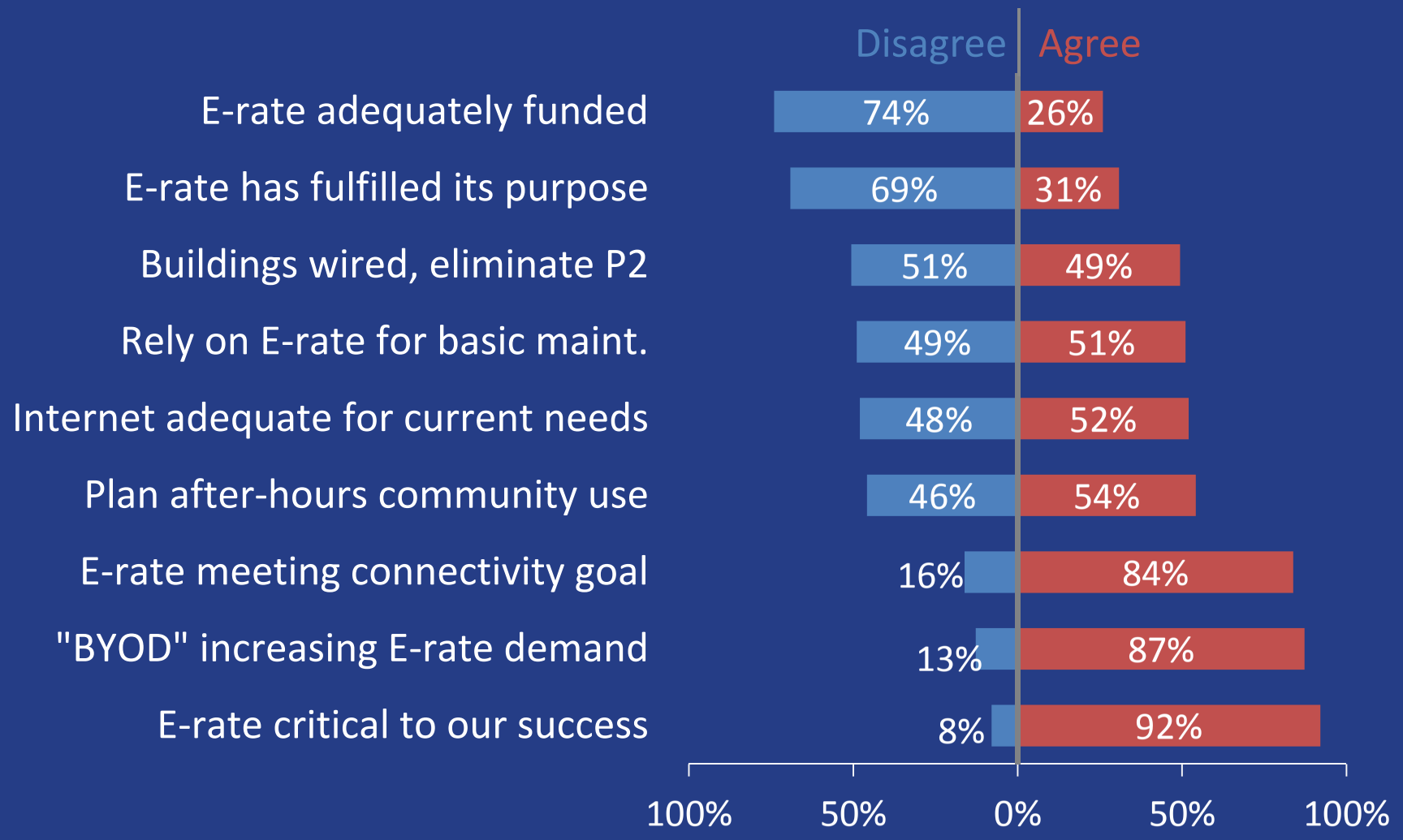
If P1 service category were limited to broadband and Voice Over IP (VoIP), how would you respond?



© 2014 Funds For Learning, LLC

Question 8

Response to E-rate Statements

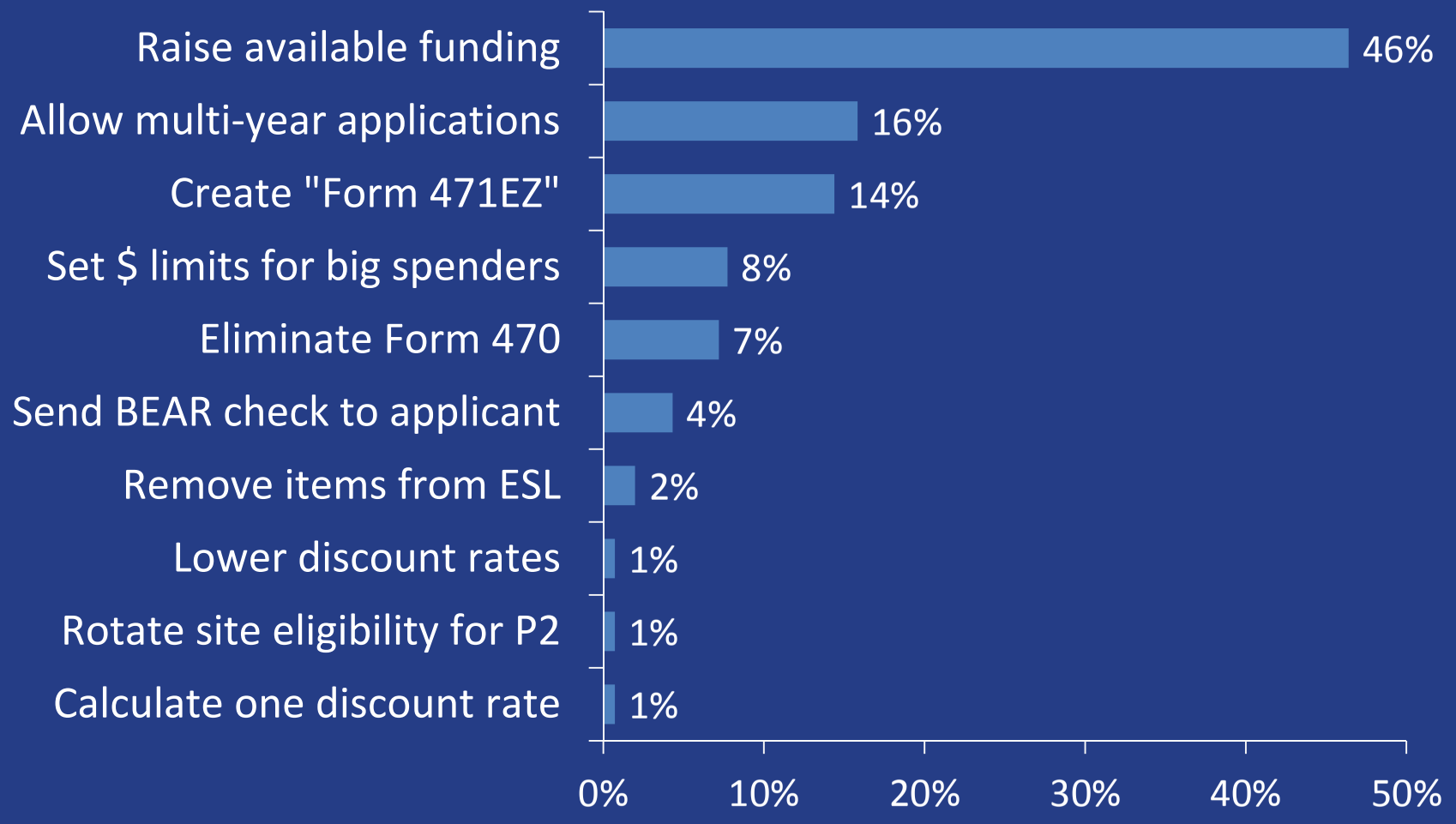


© 2014 Funds For Learning, LLC

Question 9

Ranking 10 Potential Changes

Which Change Received the Most Top Votes?



© 2014 Funds For Learning, LLC

On-campus expense estimate based on FY2014 P2 471s

© 2014 Funds For Learning, LLC

FY2014 Building Count

Building Type	E-rate Discount					Total
	20% to 39%	40% to 59%	60% to 79%	80% to 89%	90%	
School <50 students	54	743	1,887	1,756	2,456	**6,896**
School 50 to 249 students	194	3,234	7,625	5,771	4,643	**21,467**
School 250 to 499 students	331	7,608	12,097	10,038	3,189	**33,263**
School 500 to 749 students	208	5,861	8,404	6,921	1,657	**23,051**
School 750 to 999 students	55	2,474	3,323	2,785	661	**9,298**
School 1,000 to 1,999 students	66	2,197	2,718	1,995	338	**7,314**
School 2,000+ students	7	459	590	360	60	**1,476**
School New construction		24	60	83	98	**265**
School Non-Instructional Bldg	283	3,165	5,832	5,280	1,968	**16,528**
Library	7	1,001	1,209	2,441	1,460	**6,118**
Grand Total	**1,205**	**26,766**	**43,745**	**37,430**	**16,530**	**125,676**

© 2014 Funds For Learning, LLC

P2 Per Building Costs
(from Form 471s)

FUNDS FOR LEARNING
YOUR E-RATE GUIDES

Internal Connections on a Per Building Basis

Site Disc Rate	Site Count	Pre-Discount	Funding Request	School Out-of-pocket
80%	959	$100,549	$80,439	$20,110
90%	7,227	$153,682	$138,314	$15,368

Basic Maintenance on a Per Building Basis

Site Disc Rate	Site Count	Pre-Discount	Funding Request	School Out-of-pocket
80%	1,237	$8,638	$6,910	$1,728
90%	12,013	$11,460	$10,314	$1,146

© 2014 Funds For Learning, LLC

On-campus Cost Estimate

- Internal connections need: $5.93 billion
  - Using $125,000 per building expense (pre-disc)
  - Assumes 61.25% of buildings require investment
    - 50% buildings currently lagging
    - One-fourth of buildings current as of today (45%) will require upgrade by 2015/2016 = 11.25%
- Basic Maintenance need: $0.59 billion/yr
  - Assumes $10,050 per building per year (pre-disc)
  - Assumes 76.25% of buildings each year req. BM

© 2014 Funds For Learning, LLC

Internal Connections Cost Est.

Internal connections		Basic maintenance		
$5.93 billion / 4 years	+	$0.59 billion / each year	=	$2.08 billion / each year

© 2014 Funds For Learning, LLC

2014 Survey of E-rate Applicants: Results Summary Page

Please estimate what your total budget for telecommunications and Internet services will look like five years from now:

Responses	
Down Significantly (10% or more)	8% (50)
Down Slightly (less than 10%)	6% (39)
About the same	28% (173)
Up Slightly (less than 10%)	26% (162)
Up Significantly (10% or more)	32% (195)
answered question	619
skipped question	4

How would you rate your overall current technology infrastructure?

Responses	Lagging	Current	Ready for Tomorrow
Data Infrastructure (i.e. network switches, etc.) and cabling	43% (265)	47% (289)	10% (60)
Telephony Infrastructure (i.e. PBX or VoIP system, etc.)	51% (309)	42% (254)	7% (45)
Wide Area Network	42% (253)	47% (284)	11% (66)
answered question			621
skipped question			2

Please rank how important you think it is for the FCC to take the following actions.

(1 is most important, 5 is least important)

Responses	Average Rank
Reallocate USF funds to increase funding	1.8
Clarify program rules	2.8
Set an annual date for the Form 471 filing deadline	3.4
Expand mobile learning projects	3.5
Revise the E-rate discount matrix	3.6
answered question	597
skipped question	26

Which of the following do you consider to be the most difficult part of the E-rate process in terms of time, complexity, and compliance with program rules?

Responses	
Application planning	11% (63)
Competitive bidding	25% (152)
Form preparation	31% (187)
Starting or implementing services/goods	4% (22)
Receiving discounts or reimbursements	7% (44)
Audits and reviews	15% (89)
Other (please specify)	7% (42)
answered question	599
skipped question	24

Please indicate your responses toward E-rate reform efforts

Responses	Strongly Agree	Agree	Disagree	Strongly Disagree
I am familiar with the FCC's proposed changes to the E-rate program	8% (46)	44% (253)	37% (211)	11% (66)
I feel that E-rate reform efforts will help my school/ district/ library receive adequate E-rate funding	5% (27)	40% (217)	43% (228)	12% (64)
The E-rate reform efforts present a clear direction to shaping a better program	4% (22)	41% (218)	45% (241)	9% (50)
answered question				577
skipped question				46

If you could only receive E-rate funding in one category of service, which would you choose?

Responses	
Telecommunications	29% (182)
Internet Access	53% (330)
Internal Connections	13% (82)
Basic Maintenance	4% (25)
answered question	619
skipped question	4

FUNDS FOR LEARNING
YOUR E-RATE GUIDES

2014 Survey of E-rate Applicants: Results Summary Page

Please respond to each statement:

Responses	Strongly Agree	Agree	Disagree	Strongly Disagree
The E-rate program is meeting its goal of connecting schools and libraries to the Internet.	16% (91)	68% (391)	13% (77)	3% (16)
The E-rate program is critical to our success.	64% (371)	28% (162)	8% (46)	0% (0)
Job done. The E-rate has fulfilled its purpose.	5% (31)	25% (146)	43% (247)	26% (150)
The E-rate program is adequately funded.	4% (20)	22% (128)	46% (261)	28% (162)
Our buildings are wired. Eliminate Priority 2 and focus on Priority 1.	17% (99)	32% (185)	28% (159)	23% (132)
Our Internet connectivity is adequate for our current needs.	7% (43)	45% (257)	33% (193)	15% (84)
We currently allow, or plan to allow, after-hours community use of tech resources.	11% (62)	43% (250)	37% (212)	9% (52)
E-textbooks & "BYOD" will increase our demand for E-rate funded goods and services.	48% (277)	39% (222)	11% (62)	2% (11)
We rely on E-rate funding for basic maintenance support of our technology infrastructure.	29% (165)	22% (126)	35% (197)	14% (82)
			answered question	580
			skipped question	43

Please rank each of the following potential changes to the E-rate program.

(1 is most positive impact, 10 is least positive impact)

Responses	Avg. Rank
Allow three year Form 471 applications	3.4
Raise the amount of available funding	3.4
Create "Form 471EZ"	3.6
Eliminate Form 470 requirement	4.5
Send Billed Entity Applicant Reimbursement (BEAR) directly to applicant	5.5
Calculate one discount rate per applicant	6.0
Set funding limits against excessive applications	6.7
Remove some services/goods from the eligible services list (e.g. paging, web hosting, etc.)	6.8
Rotate site eligibility for Internal Connections (2-in-5, 1-in-5 rule, etc.)	7.2
Lower discount rates	8.0
answered question	556
skipped question	67

If the Priority One service category were limited to broadband Internet connectivity and Voice Over IP (VoIP) phone service only, how would your school/district/library deal with the elimination of funding for legacy Priority One services (switched voice, cellular paging, hosted services)?

Responses	Yes	No	Unsure
Eliminate services that are no longer eligible	25% (148)	37% (215)	38% (219)
Request to increase the technology budget to pay for ineligible services	47% (275)	23% (131)	30% (175)
Switch from ineligible voice services to eligible voice services	48% (276)	17% (101)	35% (203)
		answered question	585
		skipped question	38

FUNDS FOR LEARNING
YOUR E-RATE GUIDES