



E-Rate

WHAT IS E-RATE?

The E-Rate is part of the federal universal service program, a support mechanism created in 1934 to ensure that rural consumers had affordable phone service. Authorized under the Telecommunications Act of 1996, E-Rate provides public and private schools and public libraries with support, based on poverty measures, for:

- **Broadband / Internet access** (Category 1 Services) – applicants receive discounts for these services, ranging from 20% to 90%, with the lowest income applicants receiving the deepest discounts
- **Wi-Fi / Internal Connections** (Category 2 Services) – applicants receive 5 year formula distributions for these services, with schools receiving \$150 per student and libraries receiving \$2.40 per square foot of space

Since its implementation in 1998, E-rate has played a major role in increasing public school classroom Internet connections from 14% in 1998 to nearly 100% today. The program's current goal is to ensure that every classroom and library has ample Wi-Fi to meet the educational needs of students and library patrons.

E-rate funds are not appropriated, but are fees collected (along with other universal service programs) from consumer phone bills.

In 2014, the FCC approved numerous rule changes to the E-rate that effectively modernized the program. These changes included:

- eliminating support for services not central to Internet access, including voice services, web-hosting and e-mail;
- focusing Category 2 funding on Wi-Fi;
- creating new opportunities for rural and remote schools and libraries to gain access to high-speed fiber; and
- for the first time since the early years of the program, increasing its annual cap from \$2.4 billion to \$3.9 billion by an amount needed to meet demand.

CURRENT CHALLENGE

With the FCC under new leadership, rumors have circulated about potential changes to the program, which could include lowering the cap and establishing a per pupil distribution formula for the entire program.

E-rate works and has had a positive impact on schools and the students they serve. For this reason we oppose new changes to the program.

1. Per Pupil Formulas are Problematic

- Any formula-driven system is unlikely to account adequately for the needs of low income schools and libraries, pursuant to the establishing statute and the Commission's interpretations of the statute.
- Bandwidth is not sold on a per pupil basis and limiting E-rate support by a formula linked to per pupil allocations could very well lead to small rural and large urban schools and libraries receiving support that is inadequate to purchase higher bandwidth levels. While funding fairness may be achieved through a per pupil system, higher bandwidth levels may be compromised.
- A formula driven system would not provide more flexibility for applicants. Although on the surface it would allow them to buy whatever they want, in reality they would only have enough money to buy what they will be able to afford with the subsidy... and this might, fall far short of what they need.

2. E-rate Demand is Rapidly Approaching the New Annual Funding Cap of \$3.9 Billion

- Even with the phase-out of support for voice services and the imposition of a formula for the distribution of Category 2 Wi-Fi funding, E-rate demand has risen quickly over the past two-years: in 2015, applicant commitments were \$3.28 billion while in 2016 applicant requests totaled \$3.61 billion.
- According to Funds for Learning, public schools accounted for approximately \$3.2 billion of 2016 demand, private schools accounted for \$233.8 million of demand and public libraries accounted for \$179.8 million. In 2016, 48% of Catholic Schools received E-Rate support and even more have indicated that they will apply next year.
- Commitments to rural applicants rose significantly as a result of the 2014 E-rate Modernization Orders, growing from \$719.7 million in 2013 to \$1.04 billion in 2015.
- Requests for E-rate funding are expected to remain strong and will likely reach the program's annual cap in the near future.

3. E-rate Is Already Moving Quickly to Meet New Wi-Fi Goals

- The 2014 E-Rate Modernization Order focused E-rate funding on ensuring that all schools and libraries meet high benchmarks for robust Wi-Fi connectivity – 100 mbps/1000 students in the short term and 1 gbps/1000 students in the long term. Benchmarks for libraries are similar – 100 mbps for those serving populations of 50,000 or less and 1 gbps for those serving more than 50,000.
- Surveys show that nearly two years after the approval of the E-rate modernization order, schools and libraries are making great strides towards meeting these FCC targets.
- An Education Superhighway study showed that the percentage of classrooms meeting Wi-Fi connectivity targets grew from 30% in 2013 to 77% in early 2016.
- In a Consortium for School Networking survey, 68% of school districts reported that their classrooms met the initial Wi-Fi benchmark in 2016, up substantially from 2013 when only 19% of school districts indicated their classrooms had attained that level of Wi-Fi coverage.

- After receiving virtually no Category 2 funding since the beginning of the program, libraries received \$10 million for Wi-Fi in 2016.

4. E-Rate Efforts to Increase Broadband Connectivity are Ramping-Up

- The E-rate modernization order opened new opportunities for rural and remote schools and libraries to gain access to high-speed fiber by allowing them to receive support for special construction charges and modulating electronics associated with leasing dark fiber; to build and own their own high-speed networks when cost-effective to do so (.e., the most cost-effective bid); and to receive additional support from the E-rate program when states contribute more funding for their infrastructures.
- Although these portions of the program only commenced this year, schools and libraries are interested in pursuing these options: 113 applicants sought support for special construction of leased lit fiber; 236 applicants sought support for self-provisioned fiber networks; and 87 applicants requested state matching funds.

5. More changes to the E-Rate are Not Needed Now; E-rate Works

- The changes instituted by the Commission are only in their second year of implementation, with Category 1 changes only just rolling out in the past year.
- Schools and libraries are just getting used to some of the major changes that the 2014 E-rate Modernization Orders made, including reduced services, a Category 2 formula and the availability of additional connectivity support in Category 2. Pushing for new changes to the program now would create great confusion and uncertainty in the applicant community, potentially discouraging those applicants who benefit from the program the most (including rural and low-density applicants who are benefiting from the cap increase).
- The FCC's 2014 changes are bearing fruit and should be allowed ample time to operate. 2018, when the FCC is required to conduct a look-back at the E-rate's Category 2 formula, would be a more appropriate time to consider tweaks to the program.