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In the Matter of	)
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Modernizing the E-rate Program	) WC Docket No. 13-184
for Schools and Libraries	)
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REPLY COMMENTS ON THE CATEGORY TWO FUNDING MECHANISM FOR THE SCHOOLS AND LIBRARIES UNIVERSAL SERVICE SUPPORT PROGRAM
(DA 17-921)

E-Rate Central submits these Reply Comments in response to the FCC's Public Notice released September 22, 2017 (designated DA 17-921) seeking comment on the sufficiency and administration of Category 2 E-rate budgets.

E-Rate Central is an independent firm providing E-rate application and consulting services to schools and libraries nationwide. It also provides E-rate support services for several states and is an active member of the State E-Rate Coordinators' Alliance ("SECA"), the E-Rate Management Professionals Association ("EMPA"), and the Schools, Health & Libraries Broadband Coalition ("SHLB").

Overall Support for Category 2 Funding

As befits a key component of a Universal Service Funding program, initial comments to the FCC's Public Notice on Category 2 budgets universally noted and supported the importance of continued funding for internal connections equipment and services. For too many years prior to FY 2015, funding for internal networks, previously classified as Priority 2, was limited in amount and, as a result, to only a subset of applicants.

Although there may have been some controversy surrounding the adoption of the two E-rate Modernization Orders in 2014, there is broad agreement that broadband connectivity to schools and libraries, covered by Category 1 funding, is effective only if matched by broadband

connectivity <u>within</u> those same schools and libraries. Support for continued Category 2 funding, at or above the current level, is not surprising.

In additional to general support for Category 2 funding, two specific issues addressed in multiple comments were:

- Is the current level of funding sufficient and, if not, how and to what level should it be increased?
- How can the administration of Category 2 budgets be improved and simplified?

Category 2 Funding Measures

The current Category 2 budget rules set limits based on student counts for schools and square-footage for libraries, both designed to provide a simple measure of a network's robustness and coverage.

Given that building size is a key determinant of internal networking costs, square-footage provides a clear and appropriate budgeting measure for libraries. It is especially practical because library data is readily available in the IMLS database. Besides building size, another important determinant of network cost is the expected density and bandwidth needs of the users. This is partially addressed in the current budgeting mechanism for libraries by the higher budget factor attributable to the urban IMLS codes.[1]

Per-student budgets for schools provide useful measures of bandwidth need — albeit a growing need — but serve only as proxies for building size and corresponding network expenses. Several commenters noted that fixed per-student budgets for schools do not adequately reflect the capital expenditure requirements of certain small, rural, and/or special need schools. The easiest approach to address one limitation of a linear[2] per-student budget would be to increase the minimum budget amount to a higher breakeven point, perhaps from 61+ to 100 students.

Category 2 Funding Levels

The most important issue regarding the Category 2 budget level is the adequacy of the inflation-adjusted $150 per student limit (and the equivalent square-foot library limits). Data available from the comments do not — or do not yet — support a broad-based analysis of current budget limits versus needs. In part, this is due to the short comment period afforded by the Public Notice, as well as the disincentive in the application submission and review process for

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[1] In this regard, E-Rate Central understands and supports the recommendation of the American Library Association to include code #22 in the higher budget category.

[2] E-Rate Central appreciates the thrust of the non-linear approach suggested by the Friday Institute, but believes that the linear per-student approach, although perhaps less precise, is justified on the basis of simplicity.

applicants to report network costs exceeding their E-rate budgets. The comments do, however, provide substantial anecdotal evidence that the current budget levels are too low.[3]

E-Rate Central's immediate recommendation, based on currently available data, is for the Commission to seek additional data and to <u>not</u> announce an increase in budget levels. What is most needed now is the FCC's commitment to a continuation of Category 2 funding, at least at the current level, and an indication of a transition plan (see further discussion below) to a budgeting mechanism for FY 2020 and beyond.

Simplified District-Wide Budgets

Numerous comments[4] suggested the use of school district-wide budgets as opposed to school-by-school budgets (or the library equivalent of system-wide budgets). We agree. Not only would this give school districts and library systems more internal flexibility, but it would simplify application submission, PIA review, and post-commitment changes and budget management. Everybody wins, except…

One factor to consider is the calculation of the district-wide budget. The simplest way would be to use the total student count. This would correspond to the same student count used for district discount rate purposes. No longer would PIA have to deal with validating separate enrollment numbers for each school, including part-time students. The downside, at least for some districts, is that use of a single total student count could reduce the total Category 2 budgets. This could occur in either of two situations.

1. A district with one or more small schools, currently receiving the minimum budget for each school (equivalent to 61+ students each), would effectively have fewer total students.

2. More significantly, school districts with alternative school buildings serving part-time students, would no longer receive the benefit of having those students counted twice for Category 2 budgetary purposes. Most likely affected would be large county-wide districts running their own special schools. Districts operating in areas with special schools run by separate ESAs (treated as districts themselves) would not be negatively impacted.

Short of maintaining and adding up student counts for individual schools, one way to compensate for total budget reductions for certain districts would be to increase the per-student budget factor.

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[3] See, for example, the comments of <u>ESC 12</u> cataloging Category 2 costs not covered by the $150/student budget.

[4] As examples, see comments of <u>ALA</u>, <u>CoSN-ESH-FFL</u>, <u>E-MPA</u>, <u>Pennsylvania DOE</u>, <u>SECA</u>, and <u>SLHB</u>.

Transition to a New Budget Mechanism

Although the second E-rate Modernization Order extended the five-year budget cycle test from two to five years,[5] we are seeing confusion in the E-rate community as to the budgetary status of applicants first receiving Category 2 commitments in the four years following FY 2015. The questions being raised are:

- Is Category 2 funding "guaranteed" beyond FY 2019?

- Are the Category 2 budgets based on a rolling five-year basis such that the budget of an applicant first funded in FY 2017, for example, extends through FY 2021?

- Alternatively, must that same applicant utilize its "five-year" budget by FY 2019 to assure its full funding.

We encourage the FCC to clarify this issue as quickly as possible for the benefit of applicants (and USAC) — particularly those applicants who have not applied for Category 2 funding and are considering whether to do so for either FY 2018 or FY 2019.

Assuming the current Category 2 budget rules reflect rolling five-year budget cycles, any new rules adopted by the FCC should recognize that FY 2020 will be a mid-cycle year for many applicants. The FCC has several options in this regard, including:

1. Terminate additional funding under the current rules as of FY 2019, essentially resetting Category 2 budgets for all applicants to whatever new rules are adopted by the Commission. Such a change would be consistent with the "reset" recommendation made by the [Pennsylvania DOE](#) and the emergency hurricane order ([FCC 17-139](#)) recently issued by the FCC. E-Rate Central believes that a "terminate and reset" provision for otherwise mid-cycle applicants, would be fair only if the new Category 2 rules provide at least the same level of funding as the current budget rules.

2. Do nothing to affect mid-cycle applicants. This would hold these applicants to their existing five-year budgets. To the extent the new Category 2 rules are less generous than the current rules, this would correctly maintain discounts afforded by the original E-rate Modernization Orders. On the other hand, to the extent that the new Category 2 rules are more generous than the current rules, it would lock mid-cycle applicants into inferior funding. Should such a position be adopted prior to the start of the FY 2019 funding cycle, it would encourage applicants yet to begin their five-year budget cycle to defer Category 2 work while awaiting new rules for FY 2020.

3. E-Rate Central's recommendation: Give mid-cycle applicants the option to transition to the new budget rules either by (a) adopting new provisions for the remainder of their current five-year cycles, or (b) resetting their budgets. Such a transition option would be both fair and attractive if the new rules, as suggested in many initial comments, include higher and/or district-wide budgets.

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[5] See [FCC 14-189](#) at Para. 82.

Summary Recommendations

Given some of the confusion surrounding the current Category 2 budget rules and the uncertainty regarding the FCC's future plans as a result of the Public Notice, E-Rate Central believes it is important for the FCC to immediately clarify, if true, that:

1. The current Category 2 budget rules are based on rolling five-year budgets extending beyond FY 2019 for those applicants not receiving funding commitments in FY 2015; and

2. The FCC has no intention of terminating funding for Category 2 equipment and services.

Regarding the future of Category 2 funding, and in line with initial comments submitted in this proceeding, E-Rate Central recommends that the FCC:

1. Solicit additional data to determine the full requirements for Category 2 funding for schools and libraries of various sizes while, at the same time, assuring applicants that there are no plans to reduce budgetary funding levels currently in effect.

2. Simplify the Category 2 budgeting mechanism by adopting applicant-wide (i.e., district-wide or system-wide), rather than site-specific, budget limits.

3. Provide a transition mechanism to any new Category 2 rules allowing mid-cycle applicants the option of early adoption as of FY 2020.

Respectfully Submitted by:

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