

4. Schools and Libraries Support

Eligible schools, school districts, libraries, and consortia that include schools and libraries may receive discounts for eligible telecommunications services, Internet access, and internal connections under the schools and libraries universal service support mechanism, also known as the E-rate program. The discounts range from 20 percent to 90 percent. The level of the discount is based on the percentage of students in the school or school district that are eligible for the national school lunch program (or a federally approved alternative mechanism), and location in a rural area. By Commission rule, the E-rate program is capped at \$2.25 billion annually.¹

In order to receive discounts on eligible services, the Commission's rules require that the applicant submit to the universal service fund administrator (Administrator or USAC) a completed FCC Form 470, which sets forth the technological needs and the services for which the applicant seeks discounts. This submission initiates the required competitive bidding process. Generally, the FCC Forms 470 are posted on the USAC Schools and Libraries Division (SLD) website for at least 28 days so that providers have an opportunity to submit competing bids to perform the services.² After the eligible applicant has complied with the Commission's competitive bidding requirements and contracted for eligible services, it must file an FCC Form 471 to request discounts for services that have been ordered.

The Administrator reviews the FCC Forms 471 that it receives and issues funding commitment decisions indicating discounts that the applicant may receive in accordance with the Commission's rules. Subsequently, the applicant either: (1) pays the after-discount portion of the service cost to the service provider, which, in turn, seeks payment from the Administrator for the discounted amount (using the FCC Form 472), or (2) pays the entire bill (the pre-discounted amount) to the service provider, and seeks reimbursement from the Administrator for the discounted amount (using the FCC Form 474). In the latter instance, the Administrator disburses the money to the service provider who, in turn, reimburses the applicant.

The Administrator acts on these requests in accordance with Commission rules and decisions. If the Administrator denies a request for funding, the applicant may either appeal directly to the Commission or appeal to the Administrator. If rejected on appeal by the Administrator, the applicant may appeal to the Commission. Since inception, the program has experienced a tremendous expansion of both the number of applicants and recipients, and the number of appeals regarding decisions.

Frequently, the total amount of funding requested exceeds the \$2.25 billion cap. Under

1 47 C.F.R. §54.507(a).

2 The posted forms can be viewed at <http://www.usac.org/sl/tools/search-tools/form470-search-posted.aspx> .

the Commission's rules of priority, when the filing window closes, the Administrator will calculate total requests for support submitted during the filing window. If the total amount requested exceeds the total support available in that funding year, the Administrator will: (1) calculate the requests for telecommunications services and Internet access for all discount categories (these services receive first priority for funding), (2) allocate the remaining funds to the requests for support for internal connections, beginning with the most disadvantaged schools and libraries (those eligible for a 90 percent discount), and (3) commit remaining funds for internal connections to the applicants at each descending discount level until there are no funds remaining (i.e. 89%, 88%, etc).

If the remaining funds are not sufficient to support all of the eligible discount requests within a particular discount level, the Administrator will divide the total amount of remaining support available by the amount of support requested within that discount level to produce a pro-rata factor. That is, each of the schools and libraries within that discount level will receive the same proportion of the support they requested.

In 2002, the Commission concluded that, beginning with the second quarter of 2003, any unused funds from the schools and libraries support mechanism would, consistent with the public interest, be carried forward for disbursement in subsequent funding years.³ The Commission determined that the Administrator shall report to the Commission, on a quarterly basis, funding that is unused from prior years of the schools and libraries support mechanism. On an annual basis, in the second quarter of each calendar year, all funds that are collected and that are unused from prior years shall be available for use in the next full funding year in accordance with the public interest and notwithstanding the annual cap. In the *Schools and Libraries Third Report and Order*, the Commission directed USAC to carry forward \$420 million of unused prior year funds to increase the amount of funds available for pending Funding Year 2003 requests.⁴ On June 11, 2007, the Wireline Competition Bureau announced that \$650 million in unused funds will be carried forward from Funding Years

3 See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, First Report and Order, 17 FCC Rcd 11521, para. 3 (2002) (*Schools and Libraries Order*). In the *Schools and Libraries Order*, the Commission decided that it was in the public interest to take immediate action to stabilize the contribution factor while the Commission considered whether and how to reform the way in which contributions to the universal service mechanism were assessed. The Commission determined that unused funds periodically would be applied to reduce the contribution factors.

4 See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Third Report and Order and Second Further Notice of Proposed Rulemaking, 18 FCC Rcd 26912, para. 52 (2003) (*Schools and Libraries Third Report and Order*), and *Carryover of Unused Funds for Funding Year 2004*, CC Docket No. 02-6, Public Notice, 19 FCC Rcd 20420 (Wireline Comp. Bur. 2004).

2001, 2002, 2003 and 2004 to increase disbursements to schools and libraries in Funding Year 2007 in excess of the annual cap.⁵ On June 23, 2008, the Wireline Competition Bureau announced that \$600 million in unused funds would be carried forward from Funding Years 2002, 2003 and 2004 to increase disbursements to schools and libraries in Funding Year 2008 in excess of the annual cap.⁶

As of June 30, 2009, USAC had committed more than \$1.97 billion and disbursed nearly \$1.52 billion of Funding Year 2006 funds. USAC had also committed nearly \$2.44 billion, and disbursed nearly \$1.73 billion of Funding Year 2007 funds. As of the same date, USAC had committed nearly \$2.33 billion, and disbursed nearly \$1.07 billion of Funding Year 2008 funds.⁷

USAC supplies the Commission with funding commitments and disbursements information for the E-rate program for all active funding years. USAC provided the Commission with data as of June 30, 2009. Table 4.1 summarizes commitments and disbursements by applicant type and by service type for each funding year. Because of the appeals process, funding commitments and disbursements can be made after the end of the program year. Also, disbursements may continue beyond the end of the program year in the event of delayed internal connections installation. Thus, disbursements for the two most recent funding years will rise substantially.

Table 4.2 summarizes commitments and disbursements by state and by type of applicant for Funding Years 2006, 2007 and 2008. Table 4.3 is based on the same data as Table 4.2 and shows, on a state-by-state basis, funding commitments and disbursements for the three major types of services: internal connections, Internet access, and telecommunications. The lists of individual funding commitments and disbursements are too lengthy to include in this report, but are available online from USAC's website.⁸ Information for earlier funding years can be found in earlier editions of the *Universal Service Monitoring Report*.⁹

Table 4.4 summarizes, for Funding Years 2006 through 2008, fund disbursements by type of service provider entity that provides the underlying service to the school or library, and

5 See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Public Notice, 22 FCC Rcd 10795 (Wireline Competition Bureau 2007).

6 *Carryover of Unused Federal Universal Service Funds for Funding Year 2008*, CC Docket No. 02-6, Public Notice, 23 FCC Rcd 9960 (Wireline Comp. Bur. 2008) (*2008 Carryover Public Notice*).

7 See Table 4.1

8 See *Data Retrieval Tool* at www.sl.universalservice.org/funding/OpenDataSearch.

9 Earlier editions of the Monitoring Reports are available at www.fcc.gov/wcb/iatd/monitor.html.

by the way USAC was billed (whether from the school/library using the FCC Form 472, or by the service provider directly using the FCC Form 474).¹⁰ Unlike the other tables in this section, this table is based on information in USAC's *Federal Universal Service Support Mechanism Fund Size Projections for the Fourth Quarter 2009*, and reflects disbursements as of June 30, 2009.

Table 4.5 shows, for Funding Years 2006 and 2007, commitments and disbursements on a per-student basis. Although both public and private schools are eligible for schools and libraries support, only public school enrollment data were available on a state-by-state basis from the Department of Education, so the amounts per student may be slightly inflated. Unused funding commitments have been used to offset collections for later years.

Tables 4.6 and 4.7 show, on an aggregated national level, commitments and disbursements per student for each category of eligible service: 1) internal connections, 2) Internet access, 3) telecommunications, and 4) total funding, for Funding Years 2005 through 2008. The figures for Funding Year 2008, particularly disbursements, should be viewed as preliminary and likely subject to adjustment in the future.

10 In both cases, the service provider receives the money. Where the applicant paid the entire bill up front, the service provider then reimburses the applicant.