

Basic Maintenance of Internal Connections Tips

In September 2010, the FCC *Sixth Report and Order* made a fundamental change to the way that funding requests in the Basic Maintenance of Internal Connections (BMIC) are administered. At a high level, program rules have been shifted to favor “per-incident” maintenance contracts (where charges are incurred only when maintenance work is actually performed) over “coverage” contracts (where a fixed price is charged for maintenance, regardless of how much work is performed during the coverage period.) This change has significant implications for many types of commercially available maintenance contracts, and may require changes to the way applicants plan and budget for maintenance work:

Hardware Repair and Replacement

E-rate rules now stipulate that the repair or replacement of defective hardware components may only be discounted if an applicant can prove that repair or replacement work occurred. This has implications for two common types of hardware coverage agreements:

- **Extended warranties and “advance hardware replacement”** functionality is now considered fully ineligible for E-rate discounts. Maintenance contracts which charge a fixed price to “cover” equipment, where the fee is incurred regardless of the frequency of repairs and replacements made during the coverage period, are classified as “unbundled warranties” by the FCC and will be denied. Many **manufacturer service agreements** include advance hardware replacement (such as 8x5xNBD part replacement coverage) and will subsequently require a cost-allocation for E-rate purposes.
- **Hardware repair and replacement estimates.** FCC guidelines stipulate that applicants may estimate the amount of hardware repair work that they will need over the course of the funding year. Funding requests may be submitted (and approved) for the amount of the estimate, but funds will not be *disbursed* until the applicant can provide proof that repair and replacement activity occurred.
- **Fixed-price hardware repair contracts.** Fixed-price hardware repair and replacement contracts can still be utilized; however, funding will only be disbursed **as repair and replacement work occurs**. This will require vendors to provide per-incident pricing or invoices, or other documentation that will substantiate a valuation of the work done so that reimbursement may be requested.

Professional Services Contracts

Professional services contracts generally include charges for skilled labor services. These contracts include connectivity troubleshooting, configuration (or reconfiguration) of existing equipment, adds/moves/changes (MAC) work, and other routine maintenance activity. For professional services, there are a few things to keep in mind:

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- **Number of hours.** Like hardware maintenance contracts, FCC rules stipulate that “reimbursements for BMIC will be paid only for actual work performed or for hours of labor actually used.” For professional services contracts, applicants (and their vendors) should prepare to supply a “number of hours” calculation for maintenance work done via professional services contracts.
- **Funds will be limited to “actual work performed.”** Funding for most professional services contracts will only be disbursed if an applicant can prove that maintenance work was performed. This will require applicants to supply documentation to substantiate a reimbursement request, such as work logs, invoices which track hours of work performed, or similar documentation that can be used to calculate charges for specific work.

Software Maintenance and Basic Technical Support

While hardware maintenance must generally be performed on a per-incident basis, the FCC has indicated that **software maintenance**, such as bug fixes, security patches, and minor updates, as well as contracts which provide **telephone-based technical support** and access to intellectual property (such as documentation and support resources on a manufacturer’s website) may be funded as a one-time (or recurring) charge. For software maintenance contracts, funds may be disbursed “without an applicant having to demonstrate that work was performed.”

Manufacturer maintenance contracts which include **both** software maintenance/tech support and advance hardware replacement will require a cost-allocation. Further, it is suggested that applicants request funding for software maintenance and technical support contracts on separate funding requests (FRNs) from hardware maintenance and other professional services contracts.