

March 8, 2019

VIA ELECTRONIC FILING

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

Re: **Ex Parte Communication**
Modernizing the E-rate Program for Schools and Libraries -- WC Docket No. 13-184
Schools and Libraries Universal Service Support Mechanism -- CC Docket No. 02-6

Dear Ms. Dortch:

On March 6, 2019, representatives of Funds For Learning, LLC, met with FCC staff to discuss two important E-rate related topics: maintaining support for on-campus broadband (“Category 2 discounts”) and eliminating the Form 470 drop-down menu requirement. We met with the following individuals from the Wireline Competition Bureau (WCB):

- Kris Monteith, WCB Bureau Chief
- D’wana Terry, WCB Associate Bureau Chief
- Gabriella Gross, Telecommunications Access Policy Division (TAPD) Deputy Division Chief
- Katherine Dumouchel, TAPD Special Counsel
- Joseph Schlingbaum, TAPD Attorney Advisor

In a separate appointment, we met with Mark Stephens, the FCC’s Managing Director. The Funds For Learning (FFL) representatives in attendance at both meetings were Peter Kaplan and John Harrington. In these meetings, we shared the results of recent FFL analysis and offered our recommendations concerning Category 2 discounts and the Form 470 drop-down menus.

Supporting On-Campus Broadband

We shared the presentation “E-rate Category 2 Funding Year 2020 and Beyond.” See Attachment A.

In our discussions, we shared that schools and libraries rely on the E-rate program to deliver high-speed Internet connections to students and library patrons. According to our most recent survey, 64% of applicants plan to upgrade their Wi-Fi networks within the next three years to accommodate surging demand for broadband on their campuses.

We stated that 93% of applicants have applied for Category 2 discounts, benefiting an estimated 99,132 school and library sites. Of those sites who have not received Category 2 support, 17% are schools and 52% are libraries. The sites most likely not to have received Category 2 support are small schools with an enrollment of 99 or fewer students, or single-site applicants. We believe this phenomenon is related to Category 2 budget floors being set too low and to the cumbersome Category 2 application process, particularly the denial of funding requests because they exceed the budget cap. FFL estimates that 29% of Category 2 denials in funding year 2018 were related to funding requests that exceeded a budget cap. Rather than being reduced, these requests are denied.

We explained that there is a 9.8% difference in the utilization of Category 2 budgets between applicants who utilize a consultant versus those who do not. With third-party assistance, the average utilization rate of site budgets from FY2015 to FY2018 is 53.0%. Without assistance, the average drops to 43.2%. When looking specifically at single-site applicants, those who use third-party help have used an average of 49.8% of their budgets. The average for those not using a consultant is 33.4%. We believe that the significant difference in budget utilization rates between those who use a consultant and those who do not is an indicator that the Category 2 budget system can be improved.

We urged the FCC to amend the Category Two budget system beginning in funding year 2020 and offered an improvement framework we refer to as "0-1-2-3."

- **0:** there should be zero ineligible network infrastructure. Cost allocations are confusing and are no longer necessary because of Category 2 budgets. Furthermore, items such as I.T. security and monitoring functions are required elements for reliable Internet connections. Applicants should not be penalized for managing their network effectively.
- **1:** each applicant should have a single Category Two budget governing all their sites. Allowing applicants to allocate dollars according to their specific needs will reduce the digital inequity that can exist between sites, particularly between older and newer buildings.
- **2:** the per-student budget factor should be doubled. In our most recent survey, 44.9% of school respondents indicated that the budget should be set at \$250 per student. Another 24.3% indicated it should be set at \$350 per student. We noted that increasing the budget factor would only impact the sites that have currently maxed out their existing budget. We estimate that there are 24,330, sites that have used at least 95% of their budget.
- **3:** triple the budget floor. Nationwide, the average Category 2 budget is \$75,857. This is nearly eight times greater than the budget floor. Because of the fixed costs associated with many I.T. projects, the budget floor needs to be raised to a more reasonable amount.

Had these changes been in place for FY2018, FFL estimates that overall demand for Category 2 discounts would have increased by \$381 million, for a grand total of \$915.5 million. Combined with the Category 1 requests, we estimate that the total revised demand in funding year 2018 using this updated Category 2 system would have been \$3.14 billion, far below the \$4.06 billion Universal Service Funding Cap set by the FCC.

Form 470 Drop-Down Menus

Both meetings also included a discussion about the on-going challenges that applicants face when using the mandatory drop-down menus on the FCC Form 470. On March 1, 2019, Funds For Learning published an analysis in which we estimated that as many as 8.5% of applicants in FY2019 had incorrectly selected “Internet Only – No Transport” as their Category 1 service¹. See Attachment B.

In our experience, nearly every applicant needs data transport services to connect to their Internet service provider. For funding year 2019, individual schools and libraries represent the highest percentage of applicants seeking “ISP – No Transport Only” proposals. These two groups would typically be considered the least likely to use this type of service.

Having reviewed the list of 1,073 specific applicants who did not request ISP transport services, we are convinced that a high percentage of applicants are at-risk of being denied support for their Internet service in funding year 2019. Furthermore, a disproportionate number of them may lack the resources and experience to submit a waiver request. For these reasons, we ask the FCC to take the following two actions related to the Form 470:

Action #1: For funding year 2019 and beyond, instruct the E-rate administrator to not issue any funding denials where applicants attempted to comply in good faith with the Form 470 posting requirements. This echoes the request submitted by SECA in 2018 for similar Form 470 confusion².

Action #2: For funding year 2020 and beyond, make the Form 470 drop-down menus optional, allowing applicants the opportunity to describe their needs using only their own words and descriptions. This format worked very well for the first seventeen years of the E-rate program.

Respectfully submitted,

/s/ John D. Harrington

John D. Harrington

Chief Executive Officer
Funds For Learning, LLC

Attachment: A: E-rate Category 2 Funding Year 2020 and Beyond
B: Internet Only – No Transport Analysis

cc: Kris Monteith
Mark Stephens
Gabriella Gross

¹ <https://www.fundsforlearning.com/blog/2019/03/470s-foreshadow-potentials-and-pitfalls>

² <https://ecfsapi.fcc.gov/file/1031987457367/SECA%20Ex%20Parte%203-19-18.pdf>

Attachment A

E-rate Category 2 Funding Year 2020 and Beyond

E-rate Category 2 Funding Year 2020 and Beyond

March 6, 2019

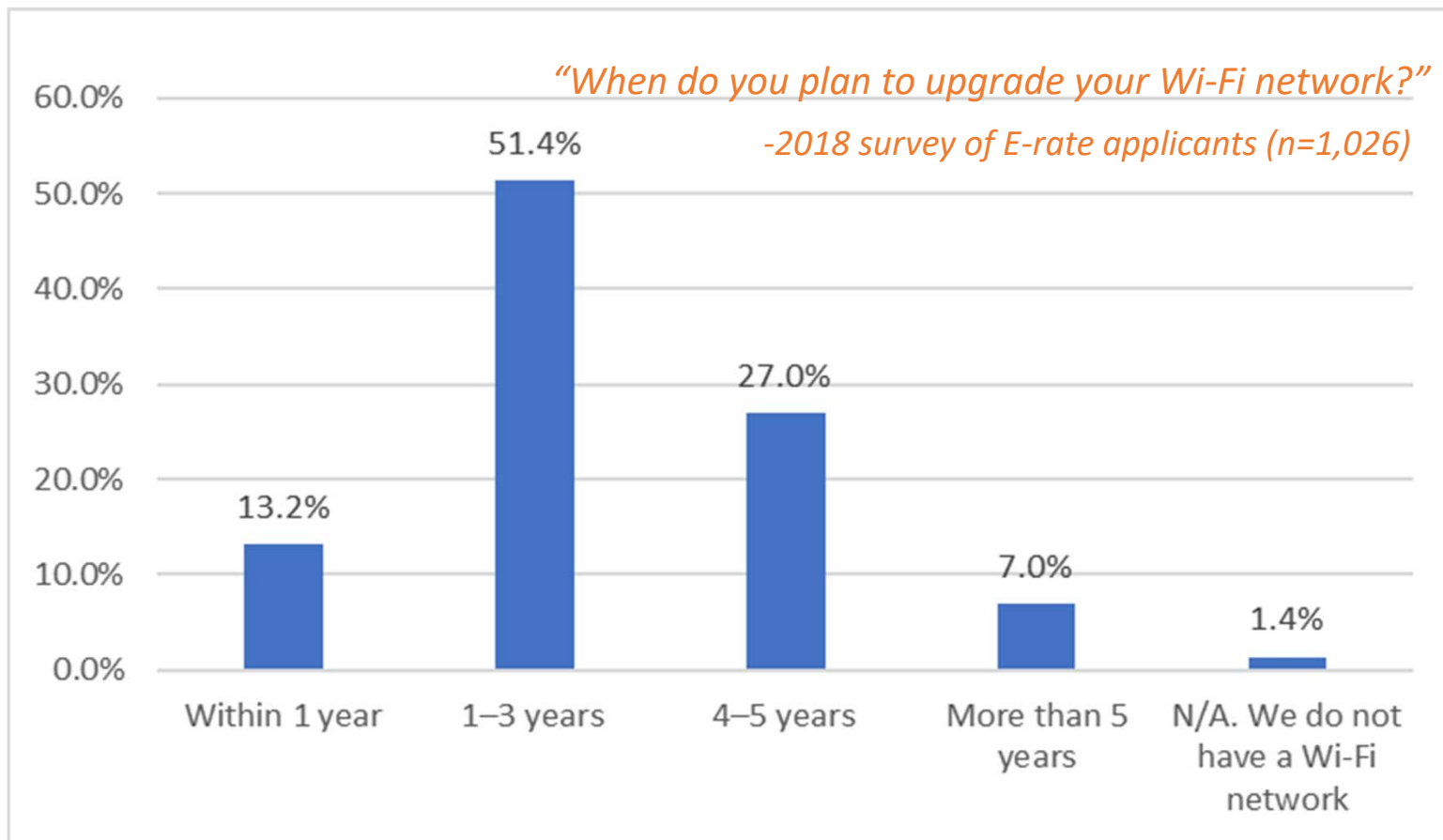
Funds For Learning

*“{E-rate} is the only way we can afford to provide reliable
Internet to our students.”*

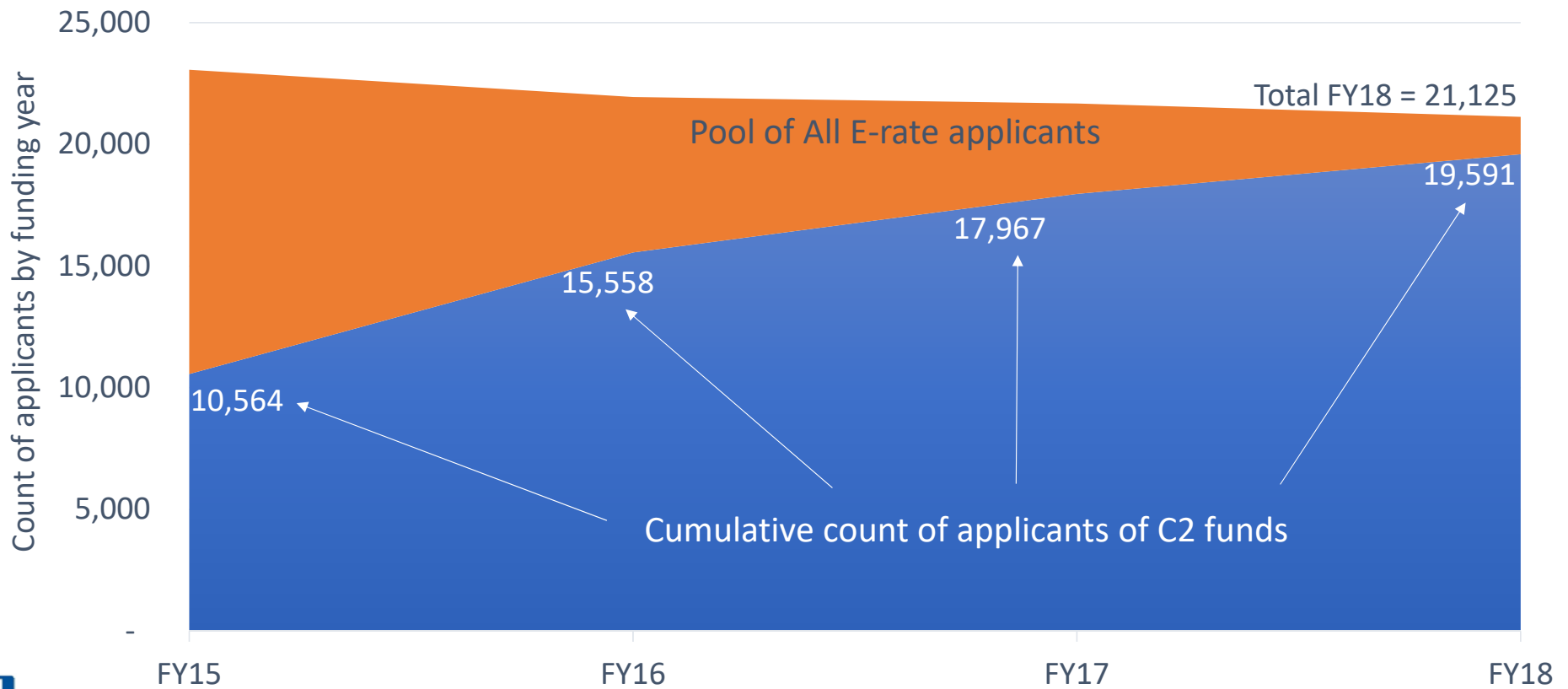
-2018 survey of E-rate applicants



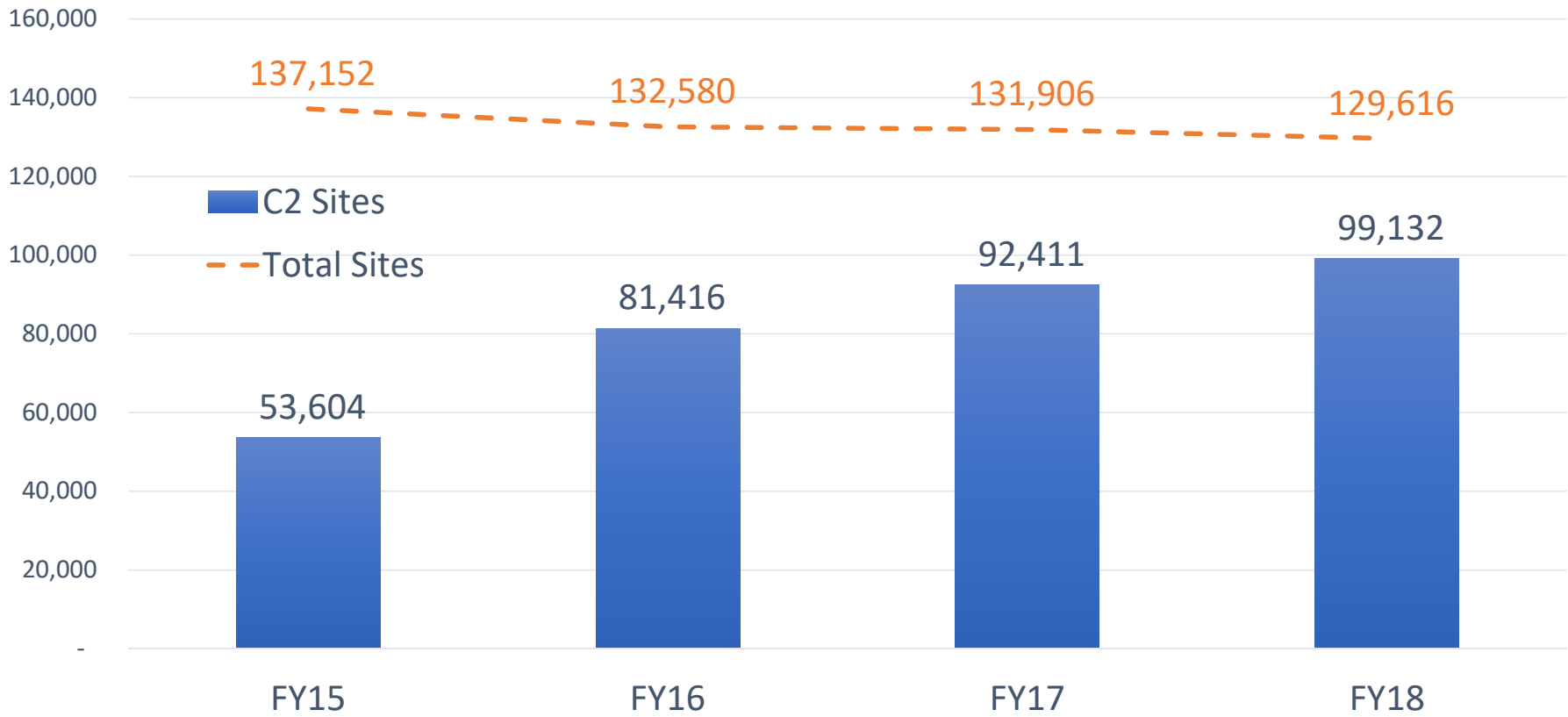
64% plan to upgrade Wi-Fi within 3 years



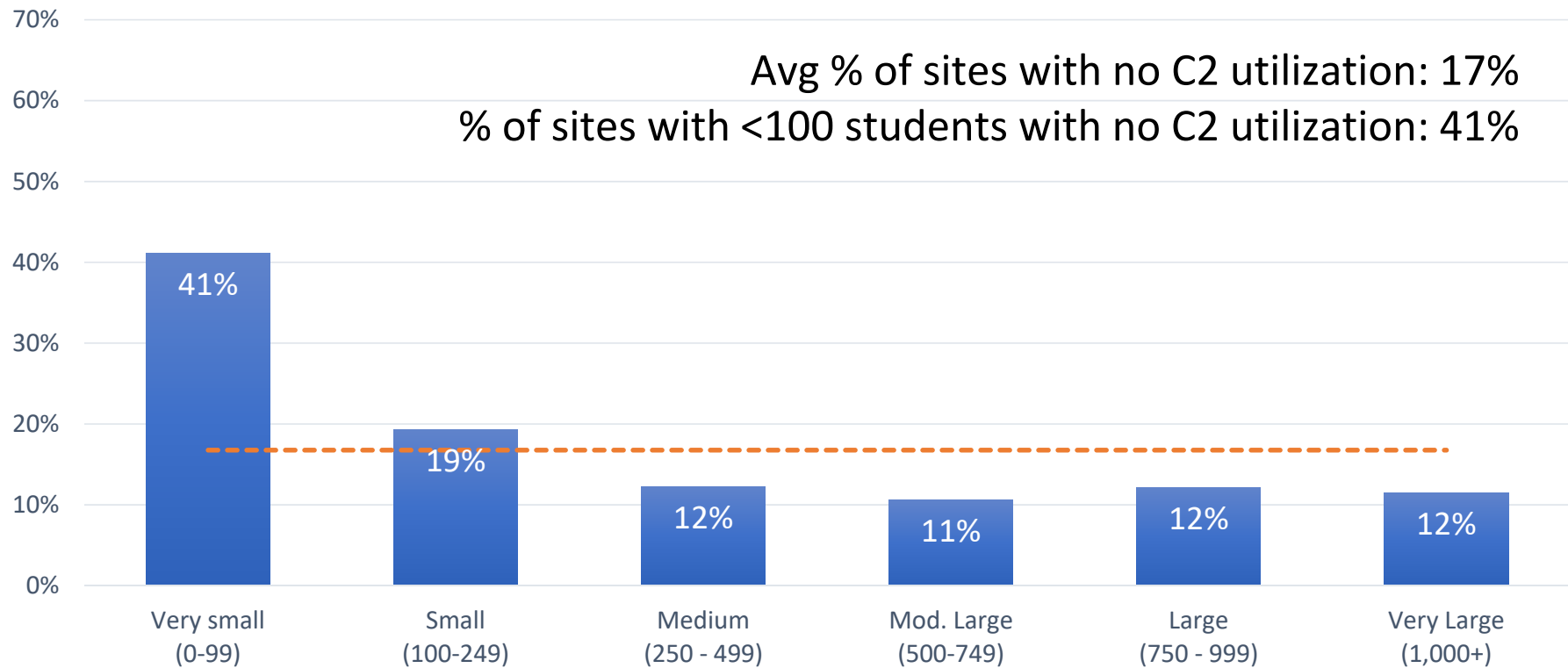
93% of Applicants Have Requested C2 Funds



Cumulative Count of Sites w/C2 Requests



Comparing Avg. School C2 Usage by Site Enrollment FY2015 - FY2018

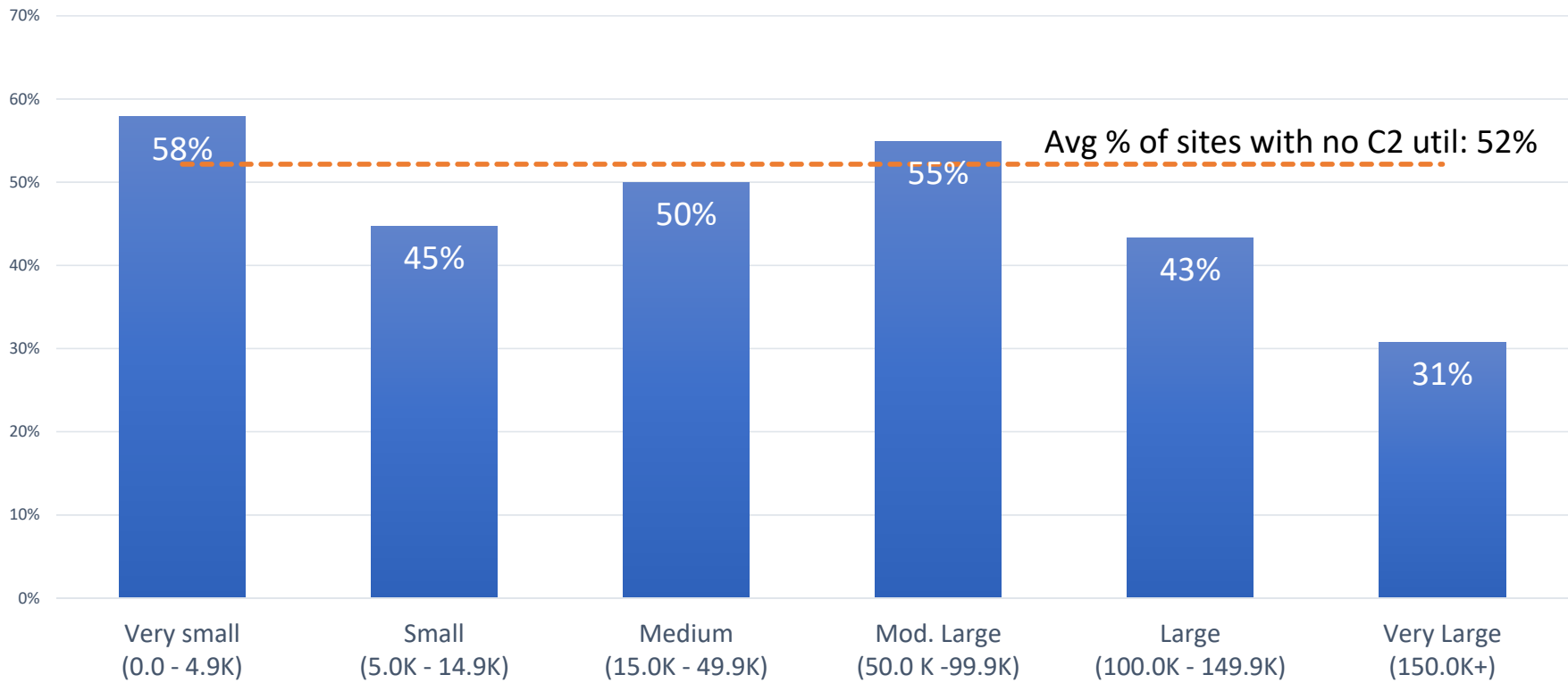


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Student Enrollment at School site

Source: E-rate Manager® (2018-07-05)

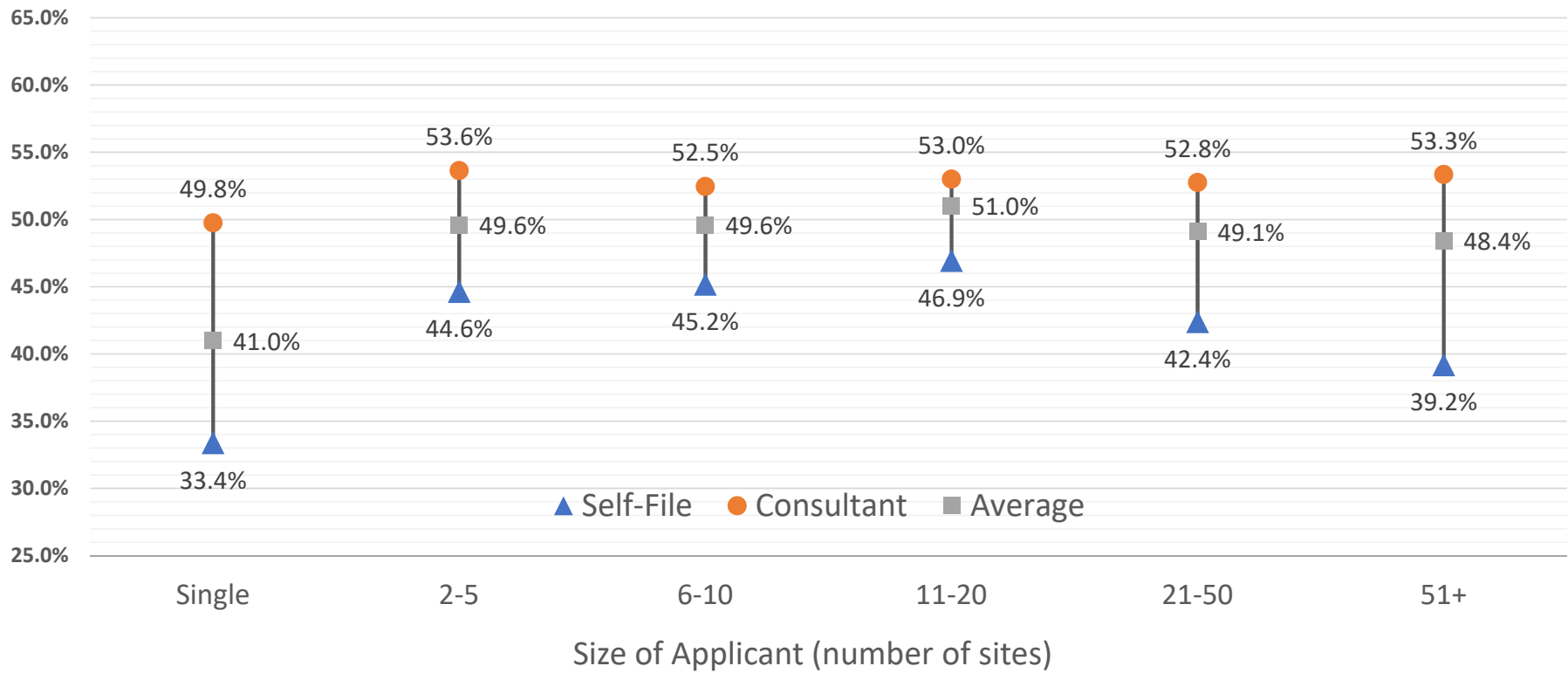
Comparing Avg. Library C2 Usage by Library Size FY2015 - FY2018



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Source: E-rate Manager® (2018-07-05)

Average C2 Utilization Based on Size of Applicant and Use of Consultant



Average C2 Utilization Factors

Significant factors: school size and 3rd party help

	Library	School	Overall
Self-file	15.6%	49.2%	43.2%
Consultant	24.3%	54.6%	53.0%
Overall	18.3%	52.7%	49.3%

	Library	School	Overall
Rural	18.8%	54.5%	50.1%
Urban	18.0%	51.7%	48.8%
Overall	18.3%	52.7%	49.3%

Applicant	Self-File	Consultant	Overall
Site Count			
Single	33.4%	49.8%	41.0%
2-5	44.6%	53.6%	49.6%
6-10	45.2%	52.5%	49.6%
11-20	46.9%	53.0%	51.0%
21-50	42.4%	52.8%	49.1%
51+	39.2%	53.3%	48.4%
Overall	43.2%	53.0%	49.3%



“0-1-2-3” Framework to Enhance C2

- Zero: no ineligible infrastructure
- One: single budget per applicant
- Two: double the person student budget factor
- Three: triple the budget floor



Significantly reduces immaterial C2 denials

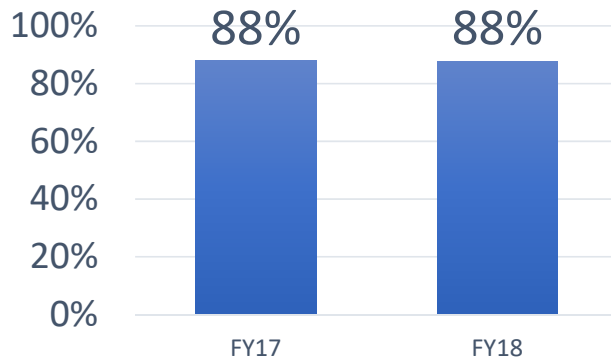
50% of 2018 denials were due to budget caps or ineligible items

Percentage of FY2018 C2 Denials (excluding canceled FRNs)



Single Budget per Applicant

- Broadly supported
- Eases administrative burden
- Promotes equity between sites



“Would you support applicant-level C2 budgets?”

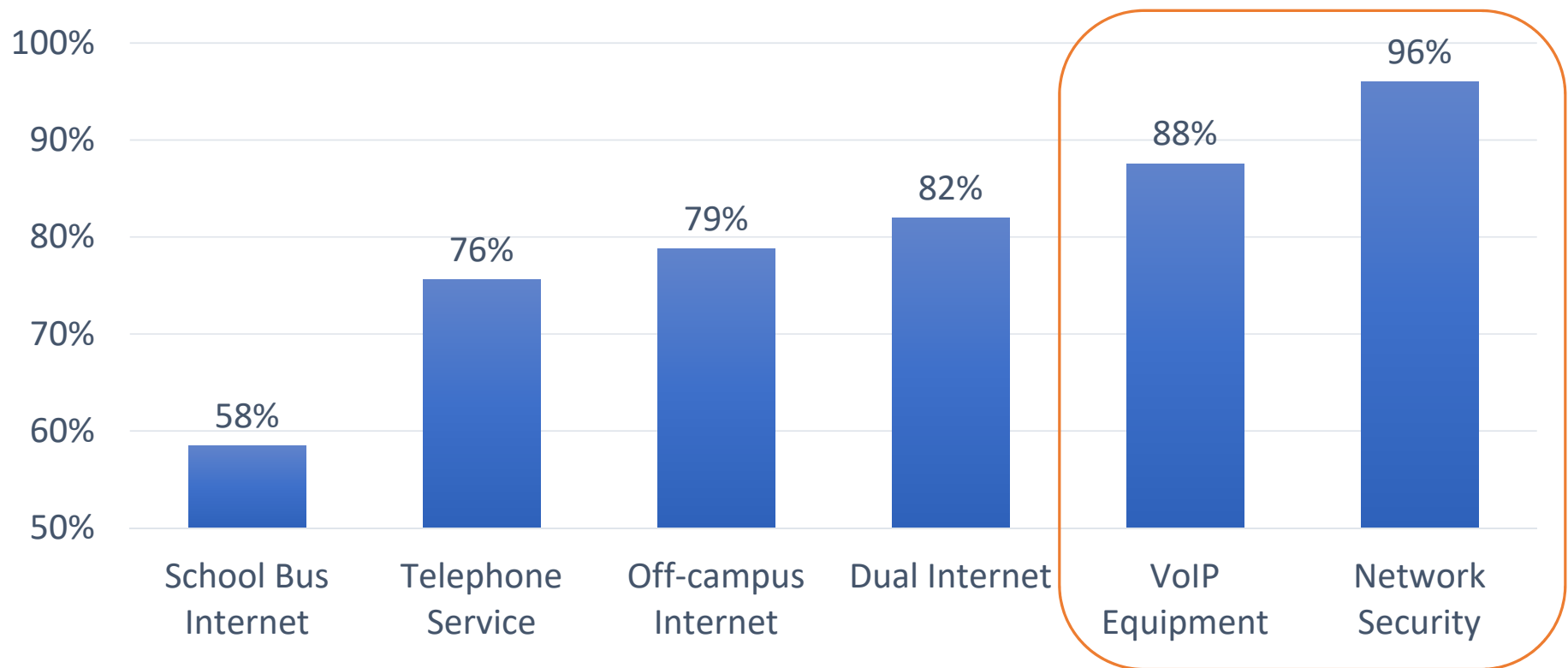
88% say “yes”

- 2017-2018 Surveys of E-rate applicants



Allows applicants to spend C2 where needed most

Two top ESL requests: network security and VoIP systems

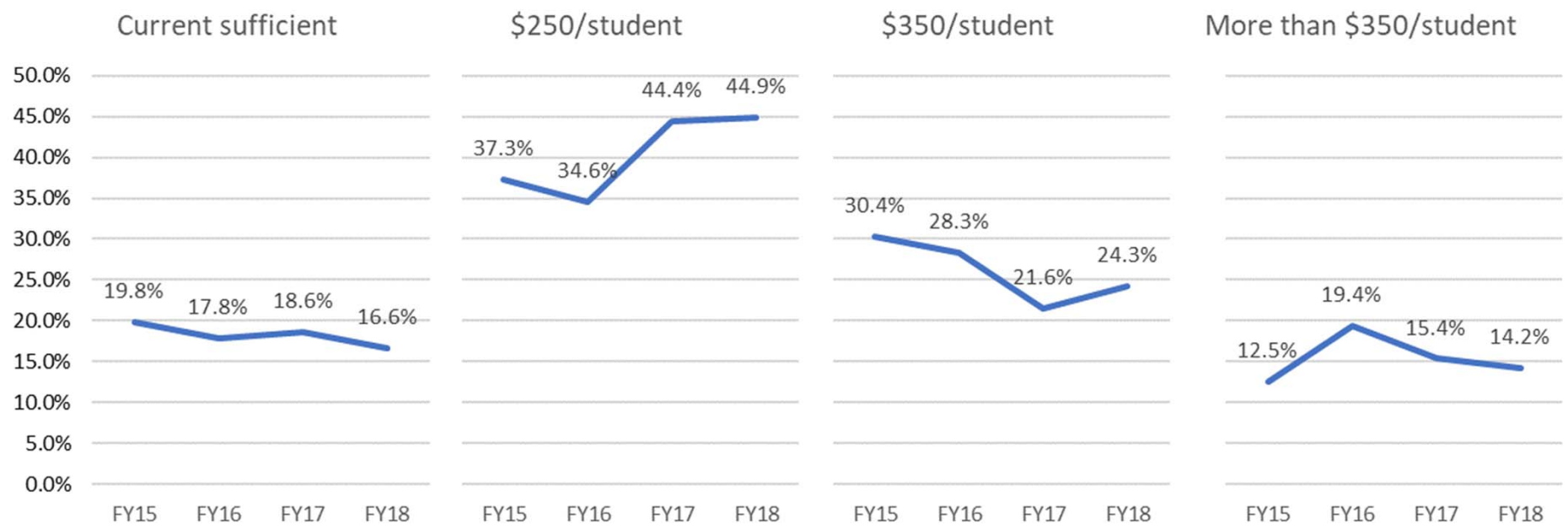


Source: 2018 survey of E-rate applicants (n=1,026)



2X Student Factor Better Meets Applicant Needs

68% of school respondents need \$250 to \$350 per student



“How much would you need to fully fund C2 needs?” -Surveys of E-rate applicants (2015-2018)



Estimated Impact on FY2018 (Preliminary)

Actual Committed	\$534,292,711
Revised Budget Floor	\$67,377,450
Increased Cap	\$260,364,996
Reduced Complexity	\$53,429,271
Total	\$915,464,428

- Assumes 75% of Maxed C2 budget school sites (24,330) max out new budget amount
- Higher budget floor results in 14,063 small sites fully using C2 budget
- Applicant-level budgets and simplified C2 budget administration increase utilization by 10%
- FCC could place ceiling of X% annual utilization of overall applicant budget for multi-site applicants



Attachment B

Internet Only – No Transport Analysis

INTERNET ONLY – NO TRANSPORT

From the beginning of the E-rate program, applicants have been required to notify potential vendors of their intent to purchase goods and services. For most of the program’s history, applicants could describe their needs using their own terms and descriptions. However, since the reform of the program, the FCC has required applicants to describe their technology needs using pre-defined “drop-down” menus – and then penalizing applicants who do not pick the correct menu item as defined by the FCC. This has led to many challenges for applicants, USAC, and the FCC.

Unfortunately, it appears that a significant percentage of applicants may once again be tagged for not using the FCC’s drop-down menus correctly. Reviewing the funding year 2019 Form 470s, a disproportionate number were filed for Internet service that does not include broadband connectivity.

Count of FY2019 Applicants Submitting Form 470s

	Total	C1	C2
School District	9,627	6,286	7,035
Individual School	5,072	4,326	2,744
Library	1,915	1,709	655
Consortium	362	325	156
Total	16,976	12,646	10,590

The vast majority of applicants who request Internet access require a related connection to the Internet from their school or library. Of the 2019 Form 470s, there were 12,646 applicants who posted forms for Category 1 services. An astounding 8.5% of them, 1,073 applicants, posted 470s only requesting Internet access without transport services and did not post any other type of C1 request. To put this in context, in 2018, only 1.7% of C1 applicants had funding commitments that did not include some type of transport service in addition to Internet access.

FY2019 Applicants Submitting ISP No Transport

	Total Count of C1 BENs	ISP - No Transport Only	
		Count	%
School District	6,286	449	7.1%
Individual School	4,326	397	9.2%
Library	1,709	200	11.7%
Consortium	325	27	8.3%
Total	12,646	1,073	8.5%

Either there has been a significant increase in the percentage of applicants who do not require transport services; or, a significant percentage of applicants have improperly described their broadband needs according to the FCC regulations.