E-Rate Update

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DEFINING SUCCESS TOGETHER

I. E-Rate Basics

- One of four USF programs under Section 254 of the Telecommunications Act of 1996: subsidizes telecom and Internet services to schools and libraries nationwide
- $2.25 billion funding cap ($2.38B after inflation index)
- ESL: Priority 1 (services) and 2 (internal connections)
- In current FY, $4.9B in requests; no P2 funding
- Currently serves 97% of US schools
  - But: little change in program or funding cap since 1997
  - 77-80% of S&Ls have inadequate broadband service to support digital learning; half at <3Mbps

II. This Year's E-Rate Reform Initiatives

- **The Goal:** Transforming E-rate into a high speed broadband fund to support digital learning
- **June 6: President Obama's "ConnectEd" Initiative**
  - **Connect 99% of students at 100 Mbps by 2015, plus Wi-Fi within schools; target 1 Gbps by 2020** ("We are living in a digital age, and to help our students get ahead, we must make sure they have access to cutting-edge technology")
  - Vehicle: FCC must "modernize and leverage its existing E-Rate program." Embraced by (Democratic) majority of FCC– so . . .
- **July 19: E-Rate Reform NPRM (WC Dkt. 13-184)**
  - 175 pages, <u>hundreds</u> of questions but very few firm proposals.
  - 750+ Comments filed in September, Reply Comments in November
  - Final Order (and FNPRM?) projected bsometime in 2014

III. Highlights of the E-Rate NPRM

- Goal: "To ensure that our nation's students and communities have access to high-capacity broadband connections that support digital learning while making sure that the program remains fiscally responsible."
  - (1) affordable access to 21st Century broadband
  - (2) maximize cost-effectiveness of E-rate funds
  - (3) Streamline administration of the E-rate program [but many NPRM proposals would *add* complexity]

III. Highlights of the E-Rate NPRM (cont'd)

- Major Proposals/Ideas:
  - Increase funded BB speeds per ConnectEd
  - Pay for it– how? "Efficiencies," "cost savings," "streamlining," eliminate support for "obsolete services;" "temporary" increase in cap? [Barely mentioned: contribution reform]
  - Phase out subsidies for arguably outdated services [paging, DA, stand-alone voice service, email, web hosting mentioned]
  - Alter discount matrix/ increase S&L funding match? [flat 25-30%]– Commr. Pai
  - Simplify ESL/eliminate P1-P2 distinctions, service categories

III. Highlights of the E-Rate NPRM (cont'd)

- Major Proposals/Ideas (cont'd):
  - Technology-neutral? Or preference for fiber?
    - Fund dark fiber with modulating electronics to light it?
  - District-wide funding?
  - Preference for consortia?
  - Per-Mbps pricing benchmarks/maximums?
  - Overall cap? Per-student or per-building cap? [Pai]
  - Greater rural support?
  - One-time application for multi-year contracts?
  - Competitive bidding reforms? MSAs?
  - "Increase transparency" (post pricing info and bid docs, officer certifications, lengthen document retention, audits, LCP reforms, etc., etc.

IV. The Politics

- Between the lines: FCC majority (D) wants to increase funding to implement ConnectEd; Minority (R) is skeptical of "another big-government program."

- Senate Democrats support: Senate Commerce Committee Chairman Jay Rockefeller (D-WV), Sen. Ed Markey (D-MA) (architects of original E-rate law)

- Education Secy. Duncan: "slight increase in [USF] fees for the short term" might be necessary

- Wash. Post: $4-6 billion expanded program funded by increasing USF fees to cellphone users by $12 over 3 years. WH deputy: ConnectEd has "a lot of the characteristics of big-vision policy that you really don't get through legislation anymore;" "We are here to do big things — and we can do this without Congress."

- Republicans disagree, may fight : "Most consumers would balk at higher costs, higher phone bills, and I sure hope that this is not part of the equation that ultimately comes out" (House E&C Committee Chairman Fred Upton (R-MI).

- Education Community: Just Do It.

V. The Story So Far (Themes of FCC Comments)

- Billion$ in potential new funding: feeding frenzy?
  - S&L community supports doubling or tripling of cap ($5-6 billion); *strongly* opposes higher funding matches.
- Telecom Provider Positions
  - NCTA: If E-rate cap raised, fund by imposing overall USF cap.
  - NTCA: Don't cannibalize other USF programs.
  - AT&T: Eliminate POTs support.
  - ITTA: Keep POTS support for now, allow market to dictate pace of IP transition.
- More Broadband Infrastructure v. Anti-Overbuilding
- Lit Fiber v. Dark Fiber
- Wireless (including offsite) v. Wireline (oppose WiFi hotspots)
- Webhosting, paging, email, etc.

V. The Story So Far: Major Issues in Comments

- National Capacity Goals v. Flexibility: many say local conditions/school needs should dictate
  - "Turbo-Tax" template to allow schools to assess bandwidth needs
  - NTCA/WTA: "Availability – Affordability"
- "Transparency": Opposition to proposals that would *increase* burdens, *add* complexity
  - 10-year doc retention, officer certifications, bid docs/pricing disclosures, audits (*a la* Lifeline ETCs), price benchmarks, more USAC reviews
- Streamlining: Most favor multiyear contracts, direct disbursements to applicants (BEAR), faster USAC funding decisions

VI. The Elephants in the Room

- Election Year 2014/Budgetary/Debt Ceiling Politics
  – ConnectEd as signature Obama agenda item
  – Republican/Conservative Opposition to higher-cost program, "big government," anti-Obama
- Robbing Peter to Pay Paul (aka raiding HCF/Lifeline)
- Caps? (program, per-student/building): Commr. Pai
- Contribution Reform!
  – Broadband Internet Access Service as Telecom
  – Pre-Wheeler FCC has refused to tackle. Will the Wheeler FCC?