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DEFINING SUCCESS TOGETHER

The FCC's E-rate Modernization Proceeding: New Rules and New Opportunities

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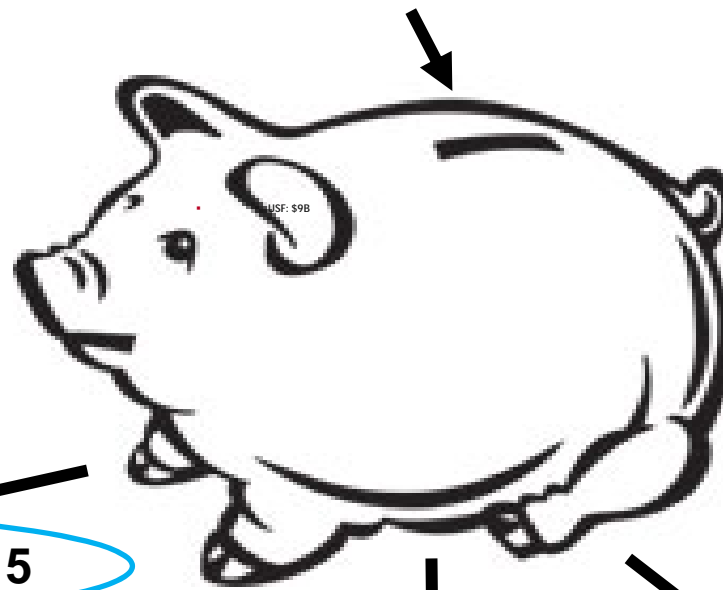
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The Federal Universal Service System

USF FEES
(2Q 2015: 17.4%)



E-rate Program: \$3.9B 2015

CAF Program: \$4.5B

Lifeline Program: \$1.6B
(2015 projected)

Rural Healthcare Program: \$250M (2015 projected)

E-rate in a Nutshell

- Telecommunications and Internet access services, and some equipment, provided to schools and libraries subsidized at varying levels, depending on how poor the school district is.
 - Creation of the 1996 Telecommunications Act, implemented by FCC in 1997
 - ✓ Era of dial-up Internet access
 - ✓ Concept was to provide service to the school but not within the building
 - Largely untouched until 2014
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FCC Modernization of the Program

- Began with ConnectED initiative announced by White House in June 2013
 - Goal of connecting:
 - ✓ 99% of schools
 - ✓ 5 years
 - ✓ at least 100 Mbps, but goal of 1 Gbps
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Overview of July + Dec. 2014 FCC Orders

- First order adopted July 11, 2014, available at https://apps.fcc.gov/edocs_public/attachmatch/FC-C-14-99A1.pdf
 - Second order adopted Dec. 11, 2014, available at https://apps.fcc.gov/edocs_public/attachmatch/FC-C-14-189A1.pdf
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Overview of July + Dec. 2014 FCC Orders

- Biggest changes:
 1. Total program cap raised to \$3.9B starting in 2015
 2. \$1B annually for Wi-Fi for next 5 years (Dec. order expanded from 2 to 3 years)
 3. Funding for non-broadband services phased out
 4. New Categories 1 and 2
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Overview of July + Dec. 2014 FCC Orders

- Biggest changes:
 5. Self-provisioning
 - ✓ Where most cost-effective
 - ✓ Treatment of lit/dark fiber “equalized”
 6. Emphasis on cost effectiveness
 7. 10 year document retention
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Overview of July + Dec. 2014 FCC Orders

- Biggest changes:
 8. Emphasis on cost effectiveness
 9. Up to 10% bonus where state provides matching funding
 10. High Cost recipients must offer broadband to schools/libraries
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Examining the Changes

- Category 1
 - ✓ \$2.35B per year
 - ✓ broadband
 - Category 2
 - ✓ \$1B per year (first 5 years)
 - ✓ Mainly for Wi-Fi
 - ✓ Two-in-five rule eliminated for FY 2015 and 2016
 - ✓ No more tech plans
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Examining the Changes

- Wi-Fi equipment and managed Wi-Fi eligible under newly-created “category 2”
 - Category 2 has a per-student cap of \$150 per student (pre-discount) over a five year period for schools (\$9,200 min. if < 62 students/4,000 sq. ft.)
 - \$2.30 per sq.ft rural libraries/\$5 urban libraries
 - ✓ Increase for urban in Dec. order
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Category 2 Discounts

	Category one schools and libraries discount matrix		Category two schools and libraries discount matrix	
	Discount level		Discount level	
% of students eligible for National School Lunch Program	Urban discount	Rural discount	Urban discount	Rural discount
< 1.....	20	25	20	25
1-19.....	40	50	40	50
20-34.....	50	60	50	60
35-49.....	60	70	60	70
50-74.....	80	80	80	80
75-100.....	90	90	85	85

Category 2 Budgets

- Discounts
 - \$150 per student, pre-discount
 - ✓ Can go up or down if student count/square footage changes
 - Can spend entire budget in 2015, or spread it out over 3 years, etc. (max. 5 years)
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Category 2 Budgets

- “Shared” services in school district has 3 schools:
 - ✓ School A has 25 students, school B has 50 students and school C with 75 students. How do I correctly allocate a shared service?
 - ✓ Pre-discount budget of \$300
 - ✓ Three ways to share among schools A, B and C

Straight line

$$A = \$100$$

$$B = \$100$$

$$C = \underline{\$100}$$

$$\$300$$

Proportional by students

$$A = 25/150 \times \$300 = \$50$$

$$B = 50/150 \times \$300 = \$100$$

$$C = 75/150 \times \$300 = \underline{\$150}$$

$$\$300$$

Specific (e.g., usage)

$$A \text{ uses } 30\% = \$90$$

$$B \text{ uses } 15\% = \$45$$

$$C \text{ uses } 55\% = \underline{\$165}$$

$$\$300$$

Category 2 Budgets

- The district will need to keep track of how much each school used of its 5 year budget
 - Can go up or down in subsequent years if student count changes at school, or square footage at library changes
 - ✓ Example: school has 100 students and Category 2 budget of \$15K. It used all \$15K in FY2015. In FY 2016, got 20 additional students. $120 \text{ students} \times \$150 \text{ per student} = \18K . Subtract \$15K already spent. \$3K left in budget, which may be spent in FY 2016.
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Examining the Changes in More Detail

- Preferred Master Contracts
 - ✓ FCC will designate certain master contracts as “preferred” (probably in 2016)
 - ✓ These contracts must provide nationwide pricing for Category 2 services
 - ✓ Will be exempt from requirement to post 470
 - ✓ Applicants will not be required to include contract in bid evaluations
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Examining the Changes in More Detail

- Encouraging consortium buying through prioritized review of those applications, while clarifying that consortiums can seek multiple providers
 - District-wide discounts
 - No 470 if speed at least 100 Mbps down/Mbps up, and price is \$3,600 per year or less per school, pre-discount
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Examining the Changes in More Detail

- Transparency
 - ✓ Item 21 information no longer a separate attachment; now, part of 471 form itself
 - ✓ Pricing will be publicly available (exact format not yet known)
 - Lowest corresponding price rule clarified somewhat
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Closer Look at LCP Rule

- Lowest Corresponding Price = the lowest price that a service provider charges to **non-residential** customers who are **similarly situated** to a particular school or library. Applies to what is bid *or* paid.
 - FCC was asked in 2010 whether requirement to continuously update pricing in existing contracts
 - ✓ Serious commenters thought no such requirement
 - ✓ New order silent on this point
 - ✓ Would be unworkable
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Eligible Services List for 2015

- ESL available at https://apps.fcc.gov/edocs_public/attachmatch/DA-14-1556A1.pdf
 - Extreme streamlining
 - ✓ 48→7 pages!
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Eligible Services List for 2015

- Eliminated:
 - ✓ Discussion of what is *not* eligible (e.g., various internal connections items, including voice custom calling features)
 - ✓ Special Eligibility Conditions section and
 - ✓ Glossary (to be posted on USAC website)
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Eligible Services List for 2015

- Implementation of the FCC Orders
 - ✓ List now divided between Categories 1 and 2
 - ✓ Eligible voice services has its own subsection in Category 1.
 - Phase down by 20% per year
 - Must apply for voice services under separate FRNs on Form
 - ✓ Caching added in Category 2
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Voice Phase Down

- 20% reduction each year
 - ✓ FY 2015 = regular discount -20%
 - ✓ FY 2016 = regular discount -40%
 - ✓ FCC will evaluate whether to continue for subsequent years
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Thank you!
