

BALLER HERBST STOKES & LIDE

A PROFESSIONAL CORPORATION

www.Baller.com

WASHINGTON OFFICE

2014 P Street, NW
Suite 200
Washington, DC 20036
(202) 833-5300
(202) 833-1180 (FAX)

MINNEAPOLIS OFFICE

280N Grain Exchange Building
301 Fourth Avenue South
Minneapolis, MN 55415
(612) 339-2026
(612) 339-4789 (FAX)

To: Clients and Colleagues

From: Baller Herbst Stokes & Lide

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Re: E-Rate Program Overview

The federal Universal Service Schools and Libraries Program, commonly known as the “E-Rate Program” or simply “E-Rate,” is administered by the Universal Service Administrative Company (USAC), as agent for the Federal Communications Commission (FCC). The program enables schools and libraries to obtain substantial discounts, ranging from 20% to 90%, off the cost of telecommunications service, broadband Internet access, internal connections, and related services and facilities. Through two “modernization” orders issued in 2014, the FCC began to shift the nature of federal support for communications services at schools and libraries, ultimately to replace subsidies of voice telephony with significantly increased support for robust broadband connectivity. To this end, the FCC substantially increased the funds available for E-Rate subsidies, expanded the options available to schools and libraries, and overhauled and streamlined its procedural requirements in numerous ways.

This memorandum focuses on the process by which applicants and service providers receive E-Rate funding. We begin with an overview of the E-Rate program, including a brief summary of the major changes that the FCC effected through its two modernization orders. We then review the type of applicants and service providers that are eligible for E-Rate funding, as well as the services and products for which funding is now available under the program. Next, we turn to the specifics of the application process, detailing each step for applicants and service providers. We follow this with a discussion of ways to respond to rejected applications and to avoid pitfalls that can lead to serious problems for applicants and service providers. Finally, we address some common application questions.

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I. E-RATE OVERVIEW

The E-Rate Program partially subsidizes the costs that schools and libraries incur in acquiring telecommunications services, broadband connectivity, and related services and facilities. The amount of the subsidy is based primarily on the percentage of students that are eligible for free or reduced-price lunches under the National School Lunch Program in the geographic area served by the school or library in question. Generally, the E-Rate discount will be between 20% - 90% of the cost of the eligible services. E-Rate subsidies are distributed from July 1 of one year to June 30 of the next, known as the “funding year.”

In the extensive E-Rate Modernization Orders that the FCC released on July 23 and December 19, 2014,¹ the Commission updated and substantially expanded the E-Rate

¹ *In the Matter of Modernizing the E-Rate Program for Schools and Libraries; Connect America Fund, Report and Order and Further Notice of Proposed Rulemaking*, WC Dkt. Nos. 13-184 and 10-90, (rel. July 23, 2014), (“*First E-Rate Modernization Order*”), https://apps.fcc.gov/edocs_public/attachmatch/FCC-14-

program to phase out traditional support for certain voice telephony services and to encourage and accelerate investment and use of advanced broadband capabilities at schools and libraries across the United States. As revised, the E-Rate program now has the following major features, among others:

- The FCC annually distributes \$3.9 billion (up from \$2.5 billion) to subsidize acquisition of eligible services by schools and libraries. In addition, for funding years 2015 and 2016, the FCC decided to make a total of \$2 billion in unused USAC funds available to subsidize internal connections, including Wi-Fi connections, within schools and libraries.
- For schools, the FCC established an Internet access target of at least 100 Mbps per 1,000 users in the “short term” and at least 1 Gbps per 1,000 users in the “longer term,” scalable to 10 Gbps per 1,000 users. For libraries, the FCC adopted an Internet access target of 100 Mbps for libraries that serve fewer than 50,000 people and 1 Gbps for libraries that serve 50,000 people or more.
- Beginning in funding year 2016, schools and libraries can continue to receive subsidies on the recurring costs of leasing lit or dark fiber, but they will also have various other options. Subject to certain conditions, they can receive subsidies on “special construction” costs of either lit fiber or dark fiber, both within and beyond the school’s or library’s property line. If seeking dark fiber, they can also include the modulating equipment necessary to light the fiber. They can also self-construct, but only if they solicit bids for both services and construction and determine that self-construction is the most cost-effective option over the useful life of the facilities under consideration.
- For funding years 2015-18, applicants can recover special construction costs immediately and need no longer amortize over three years their upfront or recurring costs of \$500,000 or more.
- For funding year 2016, schools and libraries can pay down the non-discounted portion of special construction costs over four years and need not pay them upfront, as previously required.
- The FCC will match state funds for special construction costs on a dollar-for-dollar basis, for up to 10% of the costs.

As these revisions to the E-Rate program make clear, the FCC has restructured the program to emphasize access to and support for robust broadband connections for schools and libraries, including internal wireless connections and construction of on-premise and off-

[99A1.pdf](#); *In the Matter of Modernizing the E-Rate Program for Schools and Libraries; Connect America Fund, Report and Order*, WC Dkt. Nos. 13-184 and 10-90, (rel. December 19, 2014), (“*Second E-Rate Modernization Order*”), https://apps.fcc.gov/edocs_public/attachmatch/FCC-14-189A1.pdf.

premise (laterals) fiber connections. These changes make the program an increasingly important source of support for vital broadband connections; however, participation in the program still requires much advanced planning. An application for funding must be submitted months before the funding year, and several steps must occur before the application is submitted. In fact, many applicants begin soliciting bids between nine months and one year prior to the funding year.

Once an applicant begins soliciting bids, it may select a service provider as early as 28 days after the bidding process begins. Once the service provider is selected, the applicant and service provider will apply for USAC funding during a defined “application window.” The application window varies from year to year, but normally opens early in the calendar year of the relevant funding year and lasts until mid to late March. For example, during the 2015 funding year, the application filing window opened on January 14, 2015 and closed on March 26, 2015. As of now, the filing window for 2016 has not been established, but USAC has stated it will open no earlier than January 20, 2016 and close no earlier than March 31, 2016. Even after a funding application is submitted, it can take USAC months to make a funding determination.

The FCC has recognized that the application process can be cumbersome, and recently took several steps to streamline the process.² While participation in the E-Rate program can be relatively complex, with a firm understanding of the process and good planning a school, library, or service provider should be able to do so with minimal administrative overhead.

II. ELIGIBLE ENTITIES

A. Applicants

The E-Rate program was created to support schools and libraries, and they remain the only entities eligible to receive E-Rate funds for eligible services. Although schools and libraries may apply for E-Rate support directly, the FCC also allows them to form or join a consortium to represent them. The following subsections explain how each group can determine if it is eligible to apply for E-Rate funding.

1. Schools

In order to receive E-Rate funding, schools must meet the definition of elementary and secondary schools set forth in the No Child Left Behind Act of 2001 (20 U.S.C. § 7801(18) and (38)). They may be public or private institutional schools, or public charter schools, but they must operate as a non-profit and must not have an endowment exceeding \$50 million.

² Some steps include simplifying the application process for multi-year contracts, easing the signed contract requirement, removing the technology plan requirement, and requiring electronic filings. See *First E-Rate Modernization Order, First Report and Order*, ¶ 6.

2. Libraries

Libraries must meet the definition of “library” or “library consortium” in the 1996 Library Services and Technology Act (Pub. L. 104-208) in order to receive E-Rate funding. They must be eligible for assistance from a state library administrative agency under that Act. They must have budgets separate from any schools, including elementary, secondary, and colleges and universities. They must operate as a non-profit.

3. Consortia

A consortium is a group of entities that come together to undertake a project or achieve a goal that is beyond the resources of the entities acting as individuals. For purposes of the E-Rate program a consortium is broadly defined, and may be made up of a group of schools or libraries, a school district, several school districts, etc. Each consortium must designate a consortium lead to ensure all necessary certifications are made on behalf of the consortium members during the pre and post-commitment processes.

In the First E-Rate Modernization Report and Order, the FCC recognized the potential cost savings presented by a consortium’s purchasing power.³ Consequently, the Order amended the FCC’s rules to allow a consortium lead to seek bids on behalf of all of its identified members, even if the consortium lead does not have authority to purchase services for the consortium members.

B. Service Providers

Almost any entity capable of providing eligible telecommunications, Internet access, internal connections services, and equipment for eligible schools and libraries can elect to participate in the E-Rate program. Until 2011, schools and libraries could only obtain such discounted services from regulated “telecommunications carriers,” which had the effect of excluding many public service providers (such as community broadband networks) and entities operating on a private-carriage basis. In late 2010, the FCC adopted changes to the E-Rate program allowing schools and libraries to obtain subsidized telecommunications and Internet access from any entity, including municipalities, state governments, and other non-traditional service providers. More recently, as noted above, the FCC updated its E-Rate rules again to allow applicants to construct their own, or portions of their own, networks when self-construction is the most cost-effective solution. In such circumstances, a school or library may act as both an applicant and a service provider.

All service providers must apply for a Service Provider Identification Number (SPIN), a unique nine-digit number assigned by USAC, before they can begin providing services. Some service providers apply for more than one SPIN, if their business units are separated by state, type of service, etc. (We turn again to the SPIN and other service provider requirements in Section V.)

³ *First E-Rate Modernization Order*, ¶ 168.

C. State Master Contracts

The FCC also permits states to create a master contract, which schools and libraries in the state may participate to receive E-Rate support. A state master contract is a one that is competitively bid and put in place by a state government entity for use by other eligible entities in the state. Depending on how the state structures the master contract, applicants (schools, libraries, or consortia) may use the state master contract in lieu of filing their own Form 470 and cite to the contract in its Form 471. Alternatively, applicants can file a Form 470 and consider the state master contract as one of its bids.

III. SERVICES ELIGIBLE FOR E-RATE SUPPORT

A. Eligible Services List

The Eligible Services List (ESL) informs applicants of the types of services that are eligible for E-Rate Support and the conditions under which those services are eligible.⁴ The FCC used amendments to the ESL to carry out several of the reforms that it adopted in its E-Rate Modernization Orders.

Previously, the ESL was organized into two main groups, “Priority One” and “Priority Two” Services. Priority One Services included telecommunications, telecommunications services, and Internet access services. Priority Two Services included internal connections, including wireless services, various other services, and basic maintenance associated with of the various eligible services. Now, the FCC has replaced the terms “Priority One” and “Priority Two” with “Category One” and “Categories Two” services, respectively. More important, the FCC has eliminated or reduced funding for some Category One and Category Two services, while increasing funding for others.

Specifically, the FCC is phasing out some of the legacy services enumerated in the ESL, including, for example, voice telephony services. Meanwhile, the FCC will now support more infrastructure and dark fiber projects that enhance connectivity. Schools or libraries will still be largely responsible for providing additional resources such as end-user equipment (computers, telephones, etc.), software, professional development and other elements necessary to realize the objective of that connectivity.

B. Category One Services: Connectivity

Focusing on connectivity to the school and library, Category One services include telecommunications services, telecommunications, and Internet access services. The

⁴ Eligible Services Lists from the last several years are available on the USAC website: <http://usac.org/sl/applicants/beforeyoubegin/eligible-services-list.aspx>.

following lists further describe Category One services (based on the Eligible Service List for the 2016 Funding Year).⁵

1. Digital Transmission Services and Internet Access Services

In general, digital transmission and broadband Internet access services are eligible for E-Rate support as Category One services. Examples of Digital Transmission and Internet Access Services include: Asynchronous Transfer Mode (ATM), Broadband over Power Lines (BPL), cable modem, DSL, DS-x and fractional T-1 or T-3, Ethernet, leased lit Fiber, dark fiber, self-provisioned broadband networks, frame relay, Integrated Services Digital Network (ISDN), Multi-Protocol Label Switching (MPLS), OC-x, satellite service, Switched Multimegabit Data Service (SMDS), telephone dial-up, and wireless services.

a. Dark and Lit Fiber

The FCC has equalized the treatment of lit and dark fiber for Funding Year 2016 and beyond. As a result, dark fiber, provided by any entity, will be eligible for the same level of E-Rate support as lit fiber.

Prior to Funding Year 2016, the FCC required that dark fiber be lit immediately in order to qualify for funding, and it did not subsidize construction costs for dark fiber. Now, leased dark fiber is eligible for support if it is lit in the same funding year. Under certain conditions, applicants can be reimbursed for infrastructure costs incurred six months prior to that funding year. Should an entity elect to light the dark fiber, the necessary modulating equipment is also covered. Furthermore, the FCC now provides E-Rate support for all “special construction” costs of dark fiber, including construction that extends beyond the property line of the school or library. Special construction costs include construction of the network facilities, design and engineering, and project management.

The FCC requires that applicants that seek bids for special construction of dark fiber (or self-provisioned broadband networks) must also seek bids for lit fiber services for a period of time comparable to that of the dark fiber lease or IRU. Applicants must fully consider all responsive bids and choose the most cost-effective option.

b. Internet Access

Eligible Internet access may include basic firewall protection, domain name service, and dynamic host configuration when those features are provided as a standard component of a vendor’s Internet access service. Firewall protection must be provided by the Internet access provider in order to be eligible for E-Rate support, and it cannot be priced out separately.

⁵ The 2016 Eligible Service List was issued in September 2015 and is available here: http://usac.org/res/documents/sl/pdf/ESL_archive/EligibleServicesList-2016.pdf.

2. Voice Services

The FCC began phasing out support of voice service in funding year 2015. Some voice services are no longer eligible for E-Rate funding at all, while other are being phased down. For services being phased down, the FCC will subtract the discount rate applicants receive by 20 percentage points every funding year. The reduced discounted rate will apply to all applicants and all costs for telephone services and circuit capacity dedicated to providing voice services, including Centrex, VoIP, local, long distance, and 800 phone service, POTS, radio loop, satellite telephone service, shared telephone service, and wireless telephone service including cellular voice but excluding data and text messaging.

3. Services No Longer Eligible for Category One Support

Services that are no longer eligible for Category One E-Rate Support include 900/976 call blocking, custom calling services, direct inward dialing, directory assistance charges, email, inside wire maintenance plans, paging, text messaging, voice mail, and web hosting.

C. Category Two Services: Internal Connectivity

Category Two services focus on the connections inside schools and libraries buildings, including internal connections such as wireless connections. Category Two services also include the necessary components of these connections and the management and maintenance of them.

Because only limited funds were previously available for Priority Two (now Category Two) services, the FCC only allowed applicants to receive funding for Priority Two service two out of every five funding years. This was known as the “Two-in-Five” rule. Because the E-Rate Modernization Order increased funding for Category Two services by a total of \$2 Billion during 2015 and 2016, the Two-in-Five rule does not apply in either funding year. As a result, applicants may request funding for Category Two services over a five-year period.

1. Internal Connections Components

Category One services include support for components needed for broadband connectivity within schools and libraries. This includes most components located at the applicant site that are necessary to transport information to classrooms, to publicly accessible rooms of a library, and to eligible administrative areas or buildings. In some cases, on-premise equipment can be funded under Category One – e.g., if the on-premise equipment is an integral part of an end-to-end Category One telecommunications service or Internet access service. In the majority of cases, however, equipment that is located at the applicant site is considered for funding under the eligibility requirements for Internal Connections under Category Two.

Eligible Broadband Internal Connections Components include access points used in a wireline local area network (LAN) or a wireless local area network (WLAN) environment – i.e., wireless access points, antennas, cabling, connectors, conduit and raceway, firewall

services and components, switches, routers, racks, Uninterruptible Power Supply (UPS)/Battery Backup, and network operating system software.

2. Managed Internal Broadband Services

The E-Rate program provides Category Two support for services provided by a third party for the operation, management, and monitoring of eligible broadband internal connections components, such as the management and operation of a LAN/WLAN, and may include installation, activation, and initial configuration.

3. Basic Maintenance of Internal Connections

E-Rate support is available for basic maintenance and technical support necessary to ensure reliable operation of the internal connections. The following are types of maintenance that is eligible for E-Rate support: repair and upkeep of eligible hardware, wire and cable maintenance, basic technical support, and configuration changes, and software upgrades and patches including bug fixes and security patches.

4. Services Ineligible for Category Two Funding

The following services are ineligible for Category Two funding: circuit cards/components, data protection (except for firewall and uninterruptible power supply), interfaces, gateways, antennas (with exceptions), servers (other than necessary for caching), software (other than the software that supports eligible broadband internal connections), storage devices, telephone components, video components, and voice/video over IP components.

D. Partial Eligibility

If a service or product includes both eligible and ineligible uses or components, the eligible portion may still qualify for E-Rate discounts. The applicant requesting discounts will be required to do a cost allocation to determine the cost of the eligible service or product. If a Form 471 contains a request for discounts and more than 30% of the services or products are ineligible for E-Rate funding, the entire request will be denied.

IV. E-RATE APPLICATION PROCESS FOR APPLICANTS

A. Process Overview

The following outline provides a high-level overview of the application process for school and library applicants, noting the forms that must be filed at each step and the applicable timeframe. (In the next section, we delve into these requirements in greater detail.)

- Identify needed services and open competitive bidding process to allow service providers to bid
 - **Form 470** / RFP
 - Fall prior to funding year – as early as 12 months before the funding year, but often between 8-9 months before the funding year

- Review all bids received, select provider(s), enter contract or legally binding agreement
 - Late Fall/Winter prior to funding year
- Seek E-Rate discounts on eligible services from selected providers
 - **Form 471**
 - During USAC's filing window – normally between January and March of the funding year
- Receive Funding Decision Commitment Letter from USAC
- Confirm that service provider(s) have begun providing services
 - **Form 486**
 - Start of the funding year
- Invoice USAC for services
 - **Form 472** or **Form 474**
 - During the funding year

B. Steps

1. Identify Services and Open Bidding Process (Form 470)

The FCC Form 470 is the vehicle through which applicants initiate the competitive bidding process. Each Form 470 provides specific information about the applicant and identifies the services for which the applicant wishes to receive bids. Once an applicant posts a Form 470 to the USAC website, the competitive bidding process begins and service providers may begin to review the information provided and make responsive bids.

a. FCC Form 470 – Identifying Services

The FCC no longer requires applicants to submit technology plans for review before they seek bids through the Form 470.⁶ Applicants must nevertheless understand their connectivity needs and plan their requests accordingly. On the Form 470, an applicant

⁶ Before 2011, all E-Rate applicants were required to produce a detailed technology plan to be eligible for funding. The 2010 E-Rate Order removed this requirement insofar as it related to Category One services. The *First E-Rate Modernization Order* removed the requirement for applicants seeking Category Two services, finding that the burden of getting formal approval and certification for the technology plans outweighed the plan's benefit to the program. Accordingly, the program no longer requires an applicant to prepare a technology plan for either Category One or Category Two services.

must describe the specific products and services requested and must identify the category of services for each product and service (e.g., telecommunications, Internet access, internal connections, or basic maintenance of internal connections).

In *addition* to participating in the Form 470 process, an applicant *may* issue a separate Request for Proposal (RFP) with more detailed information about the services that it wishes to receive. In practice, an RFP process is often used for significant requests for services. Moreover, while an RFP is optional for the E-Rate Program, state or local procurement laws may require the issuance an RFP and dictate the way it is performed. If an RFP exists, an applicant must indicate on Form 470 where the RFP is available.

If multiple products or services are requested, an applicant may file one Form 470 for all services, and separate Forms 470 for each type of service. USAC suggests that applicants requesting both special construction and recurring services should file a separate Form 470 for each.

b. FCC Form 470 – Filing Requirements

An applicant must file a Form 470 if applying for discounts for one of the following types of services: (1) tariffed or month-to-month services for which it does not have a signed, written contract or (2) services for which a new written contract is sought for the Funding Year. Form 470 must be submitted each funding year for requests for tariffed or month-to-month services and for new contractual services. A Form 470 can be filed with USAC as much as 12 months before the start of a funding year, depending on when USAC's timeline.

c. Competitive Bidding Requirements

The FCC requires that the competitive bidding process be “fair and open.” According to the FCC, “‘Fair’ means that all bidders are treated the same and that no bidder has advance knowledge of the project information. ‘Open’ means there are no secrets in the process – such as information shared with one bidder but not with others – and that all bidders know what is required of them.”⁷ ***Both applicants and service providers should take the competitive bidding requirement very seriously, as it can lead to rejection or retroactive invalidation of an application, with onerous refunds, interest, and penalties.***⁸ We discuss this further in Section VI.

⁷ USAC, “Conducting an Open and Fair Bidding Process” available at: <http://www.usac.org/sl/applicants/step01/competitive-bidding.aspx>.

⁸ The FCC reached a \$3 million settlement with the New York City Department of Education resolving an FCC investigation into the violations of the competitive bidding rules. NYC DOE also withdrew funding requests for 2011-2013, and withdrew any claims for further E-Rate funding for services purchased between 2002 and 2010. The FCC News Release announcing the settlement is available at:

To promote open and fair competition, the FCC requires that a Form 470 be completed by the entity (the applying school, library or consortium) that will negotiate with potential service providers. *Potential service providers cannot be involved in preparing the Form 470, nor can they exercise undue influence over its preparation by the applicant.* An applicant cannot select a service provider until at least 28 days after Form 470 is posted, and at least 28 days after an RFP is publicly available, and it must consider all bids received before making a decision and executing a contract. Even after a service provider is selected, the applicant must be able to demonstrate that price was the primary factor in selecting the winning bidder.

d. Exceptions to Filing Form 470

In some circumstances, applicants need not submit a Form 470. First, filing a Form 470 is not required for multi-year contracts previously awarded via a prior Form 470.

Second, applicants are exempt from the competitive bidding rules when ordering business-class Internet access services if the service meets the following three conditions.

1. The pre-discount cost is \$3,600 or less annually.
2. The bandwidth provided is at least 100 Mbps downstream and 10 Mbps upstream.
3. The service and price are commercially available. This means that the service must be publicly available to non-residential customers, such as small businesses or other government customers, in the same form and at the same rates that it is offered to schools and libraries.

Finally, applicants may also be exempted from filing if they receive internal connection equipment under a preferred master contract (PMC). The FCC announced its recognition of PMCs in its First *E-Rate Modernization Order*. PMCs are nationwide master contracts designated by the FCC as offering eligible entities opportunities to obtain low prices for Category Two equipment. Although the FCC has not yet recognized any PMCs, it has indicated it will designate one to two in the future. Entities that purchase Category Two equipment from a PMC will not have to file a Form 470 but will have to indicate on their Form 471 that they purchased from a PMC.

2. Select Service Provider(s)

After the applicant has selected one or more service providers, the applicant and the selected service provider(s) must enter into legally binding agreements. This must be done before the applicant submits its FCC Form 471 to USAC. Previously, the FCC required a signed contract before an applicant could submit its Form 471, but the FCC would often

http://transition.fcc.gov/Daily_Releases/Daily_Business/2015/db1223/DOC-336-948A1.pdf?mc_cid=dcb98d91d4&mc_eid=ac5d5060c3.

waive the signature requirement for parties that could demonstrate that an agreement was made. The FCC now accepts “legally binding agreements” that reflect the parties’ intent to contract, even if it does not include all of the elements of a formal contract signed by both parties. The FCC has provided the following example of such a “legally binding agreement”:

“For example, a bid for the services that includes all material terms and conditions provided in response to an FCC Form 470 would be sufficient evidence of an offer and an email from the applicant telling the service provider the bid was selected would suffice as evidence of acceptance.”⁹

Although the FCC has made strides in allowing more flexibility regarding agreements between the parties, several important requirements remain in effect. First, the applicant may not award the contract to a service provider (“the Contract Award date”) until at least 29 days after posting the Form 470. Applicants must retain relevant documents (including emails) that indicate no prior agreement was made. Second, the FCC and USAC encourage applicants and service providers to include provisions in contracts specifying whether USAC payment is to be made on a discounted invoice or reimbursement basis (Form 474 – SPI, or Form 472 – BEAR, as described in greater detail below). Third, the applicant must commit to paying the non-discounted portion of the service.

3. Request Funding (Form 471)

a. General Information about Form 471

Form 471, the Services Ordered and Certification Form, functions as a request for E-Rate discounts from USAC for eligible services that were competitively bid pursuant to Form 470.¹⁰ Form 471 can consist of one or more individual funding requests, separated by service category and selected service provider.

Applicants must submit the following information on their Form 471:

- Information identifying the entities (schools/libraries) receiving service, including Billed Entity Numbers and NCES and/or FSCS codes.
- Specific information relating to the service provider, including the service provider’s name and SPIN number, cost of the services, contract or description of the contract, and the start and end dates of service.
- A detailed description of products and services to be provided (Item 21 Attachment).

⁹ *First E-Rate Modernization Order*, ¶ 204.

¹⁰ Form 471 must be completed and filed electronically. A sample Form 471 is available here: <http://www.usac.org/res/documents/sl/pdf/forms/471.pdf>.

- The discount level of the school district, primarily according to the percentage of students eligible for free and reduced lunches under the NSLP. If the applicant is a multi-district consortium, the discount is averaged across the districts in the consortium. Additional discounts may be available for applicants located in rural areas. Form 471 includes a discount matrix for this purpose.¹¹

An applicant must also certify on its Form 471 that it has “secured access” to all resources and funding required to procure and utilize the services requested, including the non-discounted portion. (This is in addition to the certification it made on its Form 470 attesting to the same).

b. Filing Details

Form 471 must be submitted during a designated filing window. The filing window varies, but in recent years, the window has been from early January to late March preceding the start of the funding year. The exact dates are posted on USAC Schools and Libraries Program (SLP) website.¹²

Each billed entity (i.e., responsible for making payments to the service provider, which may or may not itself qualify for discounts) must file a Form 471 application, even if several billed entities together filed a single Form 470. Services requested on one or more Forms 470 may be combined into a single Form 471, or a Form 471 may be filed for each Form 470 filed. Applicants applying for both Category One and Category Two services are “strongly encouraged” by USAC to file separate Forms 471 for Category One and Category Two services, respectively.

After a Form 471 has been filed, USAC issues a Form 471 Receipt Acknowledgement Letter (RAL) to both the applicant and the service provider(s), providing details of information the applicant submitted on its Form 471. It is sent before USAC reviews the substance of Form 471 for purposes of evaluating eligibility and funding commitment levels. Information in the RAL can be corrected by the applicant within 15 days of the date of the RAL.

Discounts are not awarded on a rolling basis. All Forms 471 received during the filing window are treated as if simultaneously received.

4. Receive Funding Decision from USAC

After a Form 471 is filed, USAC’s Program Integrity Assurance (PIA) reviewers check the information on the form for completeness and accuracy and may have additional questions.

¹¹ http://www.usac.org/_res/documents/sl/pdf/samples/Discount-Matrix.pdf

¹² USAC SLP Website available at: <http://www.usac.org/sl/>.

Applicants must respond within 15 days to any PIA question. After the PIA completes its review of a Form 471, USAC issues a Funding Commitment Decision Letter (FCDL) to both the applicant and the service provider, stating its decision for each funding request. The application review process can take months, although USAC has stated that it prioritizes application review for state and regional consortia applicants. If an application is rejected, applicants can appeal the decision to USAC and, ultimately, the FCC. (See Section VI).

5. Confirmation of Initiation of Services (Form 486)

After receiving a funding commitment and initiating service, applicants must submit a Form 486 to USAC. This form indicates that services have started, that the service provider is in compliance with the Children's Internet Protection Act (CIPA), and that invoicing may begin. Applicants should separately list each service for which funding was approved and service has begun. Funding may be reduced if Form 486 is received more than 120 days after date of the Funding Commitment Decision Letter, or 120 days after the Service Start Date, whichever is later.

Applicants may choose to file a Form 486 before services have started if:

- The applicant has received an FCDL,
- Services will start in the month of July,
- The applicant can certify compliance with CIPA requirements, and
- The form is filed on or before July 31.

6. Receive the Discount

Under FCC rules, USAC will pay universal service support *to service providers*, and not directly to applicants. There are two methods to invoice USAC for the discount. First, a service provider can bill the applicant at the discounted rate and then submit an invoice to USAC for the remaining costs by filing a Form 474.

Alternatively, an applicant can pay the service provider in full and file a Form 472 (Billed Entity Applicant Reimbursement Form). The service provider must approve the form before it is submitted. USAC will then provide a reimbursement payment to the service provider, who will pass the payment on to the applicant.

USAC bases the billing mode for each funding request (discounting or reimbursement) on the first type of invoice it processes for payment. (See V.B.8.a-b for more information).

V. E-RATE APPLICATION PROCESS FOR SERVICE PROVIDERS

A. Process Overview

The following outline summarizes the application process for service providers. Each step is discussed in greater detail in the following sections.

- Obtain Service Provider Identification Number (SPIN) and Form 499 Filer ID
- Respond to RFP and/or Form 470
 - Fall/Winter prior to funding year
- Once selected by applicant, contract or make legally binding agreement for service
 - Fall/Winter prior to funding year
- Assist with Form 471, as appropriate
 - During the filing window established by USAC – normally between January and March of the funding year
- Commence service
 - In most cases service cannot begin prior to July 1st – the start of the funding year
- Process discount (either reimbursement or discounted invoice). In either case, USAC only pays the service provider.
 - Form 472 or Form 474
 - During the funding year

B. Steps

1. Obtain a Service Provider Identification Number (SPIN)

In order to obtain a SPIN, service providers must file a Form 498. Form 498 registers the service provider with USAC, and USAC will issue a SPIN to the service provider upon receipt. Form 498 collects contact, remittance, and payment information for service providers receiving support from any of the federal USF programs, including the E-Rate. (A provider which has already participated in another USF program will already have a SPIN.)

Note that Form 498 includes a space for the provider to provide its “Form 499 Filer ID.” A Form 499 Filer ID is issued by USAC upon the initial filing of Form 499-A, which is the primary reporting mechanism for the federal Universal Service Program by providers of interstate telecommunications, telecommunications service, or interconnected Voice over Internet Protocol. While the Form 498 Instructions clearly state that a Form 499 Filer ID is *not* required to obtain a SPIN,¹³ it has been our experience that USAC does not apply

¹³ “You do not need an FCC Form 499 Filer ID number to be issued a [SPIN].” *Instructions for Completing the Service Provider and Billed Entity Identification Number and Contact Information Form*, OMB3060-0824, at 14, http://www.usac.org/res/documents/cont/pdf/forms/2013/FCC_498_FormInstructions.pdf.

that principle consistently. That is to say, USAC may take the position that a provider must obtain a Form 499 Filer ID, whether or not the provider has an independent obligation to file Form 499-A. We recommend that service providers proceed with caution on this point.

2. Respond to Applicant's Form 470 and/or RFP With Bid

Service provider must submit a bid to applicant, consistent with state and local bidding process guidelines.

3. Execute Contract or Legally Binding Agreement with Applicant

If selected by the applicant, the service provider and applicant must sign a contract (unless for tariffed or month-to-month services) or have another legally binding agreement in place prior to filing a Form 471. (See IV.B.2). This rule represents a slight departure from the previous rule, which required a signed contract to be in place before an applicant could submit a Form 471. The new rule ensures the applicant and service provider have negotiated and agreed to contractual terms before filing a Form 471, but is more flexible as to what constitutes an agreement. For example, the FCC stated that a service provider's bid may be considered an offer if it contains all the material terms and conditions.

4. Assist with Form 471

Selected service providers can provide assistance to applicants in their completion of Form 471, in particular the completion of the Item 21 Attachment (the detailed description of products and services). After an applicant submits Form 471, USAC send a Form 471 Receipt Acknowledgement Letter (RAL) to both the applicant and the service provider. USAC may subsequently request additional information from the service provider and/or the applicant.

5. Receive Funding Commitment Decision Letter (FCDL)

After reviewing the Form 471, USAC will issue a funding eligibility decision in the form of Funding Commitment Decision Letters (FCDLs). Service providers and applicants should review for accuracy.

6. Commence Service

Service providers generally cannot provide services before the start of the funding year on July 1, except under a recently adopted exception involving advance installation: the FCC and USAC now allow a service provider to begin installing Category One infrastructure prior to the funding year where doing so is necessary to enable the service provider to commence Category One services during the same funding year. Four conditions must be met in order for USAC to provide support for infrastructure costs performed before the funding year:

- Installation cannot begin before selection of the service provider pursuant to a posted Form 470 and no more than six months before July 1st of the funding year;

- The Category one service must depend on the installation of the infrastructure;
- The underlying Category One service cannot have a service start date prior to July 1 of funding year; and
- No invoices can be dated prior to July 1 of the funding year. USAC will treat the infrastructure as delivered (and provide payment) when the service begins during the funding year.

Once the applicant files a Form 486 to indicate to USAC that the service provider has begun providing services (*see* IV.B.), the service provider may begin to invoice USAC for the discounted portion of the services.

7. Annual Certification (Form 473)

Each year, service providers must certify on Form 473 that they will comply with E-Rate program rules. USAC will not pay invoices unless USAC has a Form 473 on file for the funding year designated on the invoice.

8. Invoice USAC

Under the FCC rules, USAC will only pay universal service support to service providers, and not directly to applicants. As discussed in greater detail below, applicants may choose to receive the discount either on a reimbursement basis (Form 472) or on an invoice basis (Form 474).

a. Form 472

Form 472, the Billed Entity Applicant Reimbursement (BEAR) Certification, uses what is known as the “Reimbursement Method.” Under this approach, the applicant pays for the products and services in full and submits a Form 472 to USAC to receive reimbursement of the discounted portion. If the applicant chooses this method, the applicant must submit the BEAR form, which must be signed by the service provider. The service provider will receive the reimbursement payment and pass it on to the applicant.

The applicant can submit a Form 472 only after it has submitted a Form 486, and after it has paid the total amount to the service provider, including the non-discount share and the amount of USF support to be paid by USAC.

b. Form 474

Alternatively, service providers may submit Form 474, Service Provider Invoice, to receive payment from USAC for the discounted amount of the products and services provided. Under this approach, the service provider only bills the applicant for the non-discounted amount and receives the discounted portion directly from USAC.

The service provider may submit a Form 474 only after the applicant has submitted a Form 486 verifying the services start date, and after the service provider has provided a discounted bill to the applicant.

9. Concluding Services

A funding year ends on June 30. Recurring services must be delivered on or before the end of the funding year in order to receive the appropriate funding. Services that roll over from year to year under a multi-year contract are considered to start again in the new funding year, and they receive a new FRN each year.

Non-recurring services (i.e., infrastructure installation, equipment delivery, internal wiring) can occur through September 30 following the end of the funding year. A service provider or applicant can also request a service delivery extension if more time is needed to deliver services.

VI. REJECTED APPLICATIONS

A. Reasons for Rejection

The most common reasons for denial of an E-Rate funding request are failure to comply with the competitive bidding requirements, failure to meet deadlines, and insufficient documentation. Other reasons for denials include problems with the Form 470, ineligible products or services, contractual problems, and lack of cost-effectiveness. In the following sections, we review common pitfalls that can cause applications to be rejected.

1. Failure to Conduct a Fair and Open Competitive Bidding Process

As noted previously, the E-Rate program requires that applicants select service providers pursuant to a competitive bidding process that is fair and open. To have an open and fair competition, the applicant and service provider should not have a relationship that would (or would appear to) unfairly influence the outcome of the competition. The applicant and service provider must also avoid any relationship that would give the service provider access to “inside” information or other means to unfairly compete. For example, USAC has stated that “a conflict of interest exists when the applicant's consultant is associated with a service provider that is selected and is involved in determining the services sought by the applicant and the selection of the applicant's service provider(s).”¹⁴

It is not always clear what constitutes an improper relationship under these definitions, but examples can be illustrative. USAC does permit applicants and service providers to engage in “marketing discussions” but says that any conversations must be neutral. These conversations must take place prior to bidding. Permissible conversations may include

¹⁴ <http://www.usac.org/sl/applicants/step01/competitive-bidding.aspx>

discussion involving new product offerings, teaching applicants about new technologies, and presenting product demonstrations.¹⁵

While some marketing discussion are permissible, the rules are much more stringent once bidding begins. USAC does not allow service providers to serve as the Form 470 contact person, even in a consultant capacity. For example, an individual who is authorized by the applicant to make decisions on its behalf can never be associated with the service provider that submits bids in response to the applicant's Form 470 and, ultimately, appears on the Form 471.

Additionally, a service provider cannot provide funding for the applicant's non-discount portion, nor can it seek or assist in locating other resources (such as grants or foundations) to pay the non-discount portion, unless such funds are committed to the applicant prior to the filing of Form 471. Service providers are also not permitted to waive the applicant's non-discount portion.

For more on this issue, please refer to the competitive bidding guidance materials available on the USAC Schools and Libraries Program web page.¹⁶

2. Insufficient Documentation / Lack of Responsiveness

Filing complete documents in accordance with the established deadlines is a critical component of the E-Rate application process. USAC will not review a Form 471 that is received past the close of the filing window. Additionally, incomplete documentation may result in denial of an application. Generally, USAC will notify applicants if information is missing from their applications and will request additional or clarifying information. Requests for information and/or documentation may pertain to an applicant's FCC Form 471 or any other form. Applicants typically have 15 days to reply to USAC requests.

3. Ineligible Products or Services

If 30 percent or more of the products or services included on a funding request not eligible for E-Rate support, the funding request will be denied. This rule is known as the "30% Rule."

B. Appeal Process

Parties that may appeal a USAC decision include applicants, service providers, and entities that have filed an FCC Form 499. Parties wishing to appeal a USAC decision must begin by appealing the decision directly to USAC. After an appeal has been heard by USAC, the party may appeal a decision at the FCC.

¹⁵ E-Rate Program – Program Compliance, Fall 2014 Applicant Trainings (Power Point), <http://www.usac.org/res/documents/sl/training/2014/3-Program-Compliance-Constants.pdf>.

¹⁶ See *supra* note 13.

To initiate an appeal, a complete appeal must be received by USAC within sixty days after the USAC decision is issued. The appeal must include documentation of USAC's decision, details regarding the reasons for the appeal, and the relief sought. Failure to provide all required documentation for the appeal within sixty days will result in the appeal's dismissal.

VII. OTHER UPDATES FOLLOWING E-RATE MODERNIZATION

A. Measures to Ease Multi-Year Applications

If an applicant has signed a multi-year contract pursuant to a posted Form 470, it need not submit a new Form 470 to be eligible to apply for discounts on services provided under that contract for future funding years. Previous rules required an applicant to annually submit a Form 471 in order to receive discounts on eligible services for the coming year, even if provided under a multi-year contract awarded pursuant to Form 470. The E-Rate Modernization Order created a streamlined application process for multi-year contracts in situations where the contract for E-Rate supported services is no more than five years, the applicant has filed a complete Form 471, and any changes in the requested services are provided within the scope of the establishing Form 470 and applicable contract. Under these rules, an applicant is only required to submit a complete Form 471 for the first funding year in which it seeks E-Rate support for a multi-year contract. In subsequent years, the applicant can use a streamlined application process that will be shorter, will require less information from the applicant, and will be approved through an expedited review. Details of the streamlined application process are forthcoming.

B. Ownership of Wide Area Networks (WAN)

According to USAC, a wide area network or WAN "is a voice, data, or video network that provides connections from one or more computers or networks within an eligible school or library to one or more computers or networks that are external to such eligible school or library."¹⁷

USAC's treatment of WAN networks was recently modified. In the *First E-Rate Modernization Order*, the FCC adopted a long-term target for WAN connectivity of 10 Gbps per 1,000 students.¹⁸ In the *Second E-Rate Modernization Report and Order*, the FCC updated its E-Rate rules to allow applicants to construct their own networks, or portions of their own networks when self-construction is the most cost-effective solution. Applicants who choose to self-construct must be able to demonstrate that it is the most

¹⁷ <http://usac.org/sl/applicants/beforeyoubegin/eligible-services/default.aspx>

¹⁸ See *First E-Rate Modernization Order*, ¶¶ 39-44.

cost-effective option. The FCC effectively eliminated the previous rule prohibiting the E-Rate program from supporting the purchase of WANs.¹⁹

In practice, most applicants that need WAN service will probably obtain them via lease, as a Telecommunications Service. It can also be obtained as an Internet Access Service, if leasing the WAN is the most cost-effective means of obtaining Internet Access.

C. Retention of Records

The FCC recently extended its required document retention period from five years to ten years. As a result, applicants must maintain all records, including all bids received, for at least ten years after the last date of service delivered.²⁰ USAC and FCC periodically audit a sample of E-Rate applicants.

E. Additional Resources

There are a number of sources that provide additional guidance for E-Rate applicants and service providers. In particular, USAC has recently uploaded videos to its website to help applicants and service providers understand the form filing process. Those videos are available on the USAC website in its online learning page, which can be accessed here: <http://www.usac.org/sl/about/outreach/online-learning.aspx>.

VIII. FURTHER INFORMATION

For further information, please contact:

Jim Baller, Jim@baller.com, 202-833-1144
Sean Stokes, SStokes@baller.com, 410-458-1342
Casey Lide, Casey@baller.com, 202-277-6276
Ashley Stelfox, ASTelfox@baller.com, 410-703-7122

¹⁹ Previously, the FCC had maintained that leasing a WAN was eligible for E-Rate, but building or purchasing a WAN was not eligible. See *Second E-Rate Modernization Order*, at 18 n.8.

²⁰ See 47 C.F.R. § 516(a)(2).