



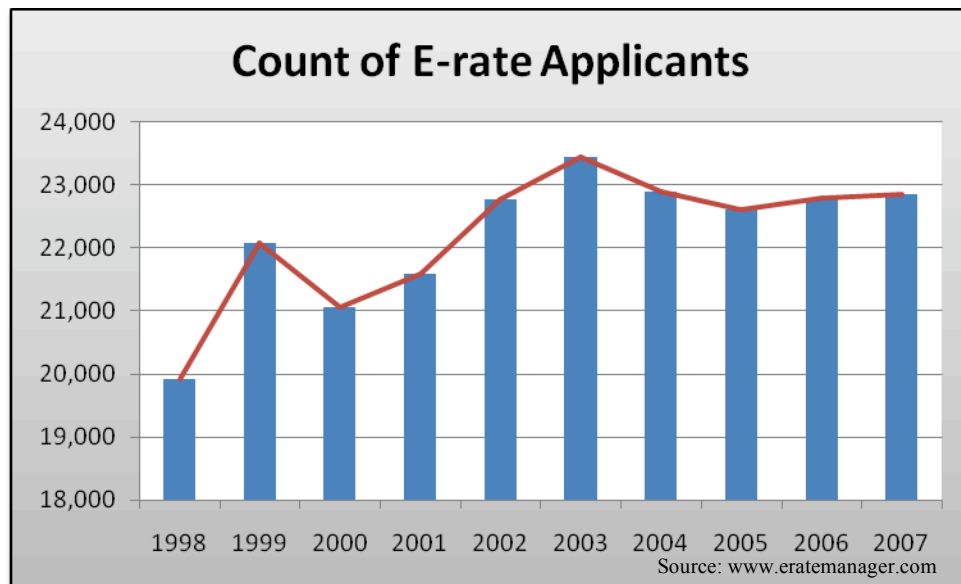
E-rate Review 10 Years and Counting

June 2007

Introduction

The E-rate program (Education-rate) was approved by Congress as part of the passage of the Telecommunications Act of 1996. The Federal Communications Commission (FCC) created the program to expand the universal service provisions of the 1934 Communications Act to help schools and libraries connect to the Internet, especially those in economically disadvantaged and rural areas. A quasi-governmental agency, the Schools and Libraries Division (SLD) of the Universal Service Administrative Company (USAC), administers the program's day-to-day operations.

This year the program celebrates its 10th anniversary. Over the past decade, \$20 billion has been committed to schools and libraries. As schools and districts expand their electronic curriculum through streaming video and web-based applications, the demand for E-rate dollars remains strong. For FY2007, nearly 23,000 applicants submitted \$3.8 billion in funding requests. While there has been some fraud and abuse during the first 10 years, increasing layers of accountability through federal audits and site visits has had a sobering effect on intentional fraud. Some funding has also been wasted – not necessarily through malfeasance, but more often through poorly executed good intentions.



Program Requirements and Benefits

The E-rate program provides discounts on eligible services and products, not grants. The discounts range from 20-90 percent, depending on economic need (based on the percentage of students eligible for free or reduced-price lunch) and whether the school or library applicant is located in an urban or rural area. Funding dollars are earmarked for educational content delivery and cannot be used for other technology requirements of a school site. The program is intended, in part, to address the “digital divide” that blocks disadvantaged communities from equal access to the benefits of technology.

Although it is a complex application process, every school that completes an application according to program rules can qualify for support so long as funds are available. Private and religious schools are also eligible for E-rate funding discounts, even when they do not qualify for any other government subsidies.

Each year the FCC sets the total amount of funding dollars. Funding requests that fall into the following general categories are likely to be eligible for E-rate discounts:

1. Priority One Services: telecommunication services and Internet access
2. Priority Two Services: networking and network maintenance services

Priority One status is given to funding requests for telecommunication services and Internet access regardless of the applicant's discount rate (a higher discount equals a higher percentage of economically disadvantaged students). Only the neediest schools qualify to receive support on Priority Two, networking expenses. In FY2007, \$1.8 billion and \$2.0 billion in funding requests were submitted for Priority One and Priority Two services, respectively.

E-rate funding does not cover all the technology costs for schools and districts. Districts must cover 10 to 80 percent of eligible costs, and 100 percent of the cost of non-eligible items such as laptops, printers and software applications. Districts with a comprehensive technology plan are most likely to use their E-rate dollars efficiently. E-rate funding is a resource to help districts achieve their technology goals rather than an end goal itself.

The Last Ten Years

In 1996, when the E-rate program was inaugurated, only 28 percent of public library systems offered public Internet access. Today, thanks to an increase in resources and E-rate funding, nearly all library buildings offer public access, and more than 18 million Americans use these computers at no cost. As of 2003, 93 percent of instructional classrooms were wired to the Internet. The E-rate has had a direct impact on decreasing the digital disparities between urban, rural and suburban schools, a net plus for American education.

There are still libraries and classrooms that remain unconnected to the Internet, and for many of those that are connected, E-rate discounts are a primary source of funds in maintaining that connectivity. The transition to an information economy means that high-speed access to the Internet is an important factor in educating students to participate in the 21st century global marketplace. As schools and libraries race to stay abreast of lightning changes in technology, demand for E-rate funds will continue into the foreseeable future.

No Child Left Behind

E-rate technology funding has been integral to the implementation of *No Child Left Behind* (NCLB), the landmark federal legislation that sets out specific student achievement goals. Most schools rely on technology to assess student abilities, identify areas of concern, and direct resources to improve student learning. The ability to deliver differentiated instruction and achieve NCLB goals has been possible in large part because of E-rate funded technology.

Both NCLB and E-rate address systemic issues in our educational system. Some education critics assert that while the E-rate program has accomplished its immediate goal of wiring all schools and libraries to the Internet, it has disappointed those who thought that technology would be the sea change needed to re-energize the public school system.

Kosmo Kalliarekos, a founding member and senior partner with The Parthenon Group, where he heads the firm's Education Industry Center of Excellence, sums up the situation this way:

“E-Rate built the equivalent of the ‘interstate highway system,’ linking our education system to the Web. We certainly have plenty of ready ‘drivers,’ as increasingly teachers and kids are prepared to enter the information highway, while the content companies certainly have the wherewithal to provide all with the ‘fuel’ of content. We have all of the elements in place except the ‘cars.’ Currently the U.S. ratio of computers to kids stands at 1:5, a ratio considered to be one of the best in the world. But imagine a 1:5 ratio of textbooks to kids. At that ratio I am not sure the textbook would have been a very effective educational tool either.”

Unfortunately, the problem Kalliarekos identifies is beyond the scope of E-rate funding, but he makes a compelling case for a third component to the federal landscape of education reform – connectivity (E-rate), student achievement (NCLB) and personal access (hardware).

Defining Success

There are thousands of E-rate success stories in school districts and libraries across the country. High-speed Internet connections have transformed education in rural districts, where they are now able to deliver Advanced Placement courses that were once impossible to offer. School and public libraries now offer users access to state, regional and national library resources, and to databases that were difficult or impossible to access before E-rate funding. Public libraries offer patrons opportunities for continued education and professional development through resources available via high-speed Internet access.

Both large and small school districts have benefited from E-rate. The most successful districts have developed long-term, comprehensive technology implementation plans that view E-rate discounts as integral, but as only one of many funding sources supporting their infrastructure and curriculum development. Many schools and districts owe their success in achieving NCLB goals to the technology infrastructure that gives them access to a greater array of curriculum choices to aid struggling students. Approximately \$20 billion has been committed to schools and libraries since the E-rate program began. Progressing in 10 years from virtually no high-speed school connections to virtually all schools having at least one high-speed Internet connection is a successful track record by anyone’s measure.

Unfortunately, there are some cases where E-rate funds are awarded and not used. Reasons vary, but often they are the result of a district not being prepared or willing to pay its share of the costs to qualify for the funds. As discounts vary according to the district’s eligibility, whatever is not covered by E-rate funds must be paid for by the district. One year, the superintendent of San Francisco Unified School District decided to forego \$50 million worth of E-rate discounts because the district did not want to spend \$18 million of its own money to make up the shortfall.

After 10 years, there are a variety of resources that districts can turn to for help in planning and implementing E-rate discounts. Most districts already have some experience and can learn from the experiences of others. There are also professional groups that assist schools and libraries in completing the forms, meeting deadlines, and following policies and regulations for E-rate discounts.

E-rate Regulations and Compliance

Each year, millions of committed E-rate dollars are lost due to submission deadline oversights. According to the SLD, in 2004 alone, E-rate applicants lost a total of nearly \$25 million because their Form 486 was not filed on time. This is funding that a school or library worked to receive, but forfeited due to its failure to comply with program deadlines.

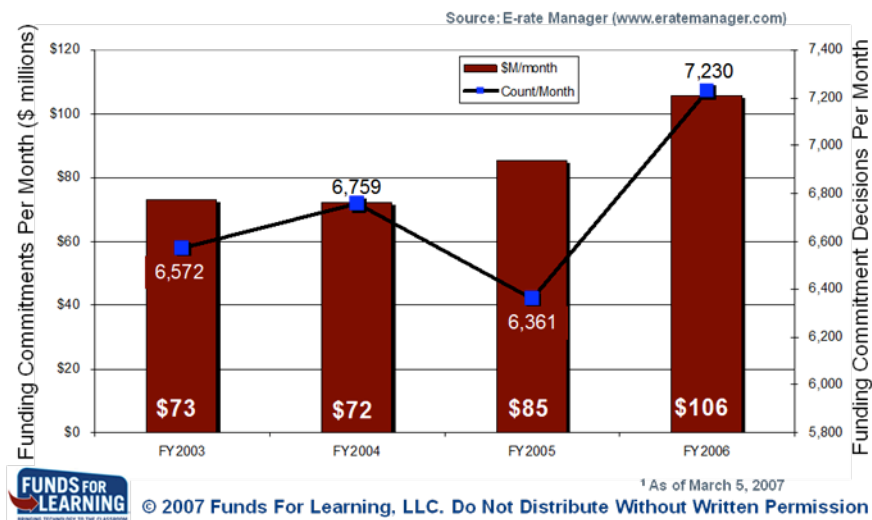
The FCC and the USAC have spent increasingly more resources auditing E-rate applicants to ensure compliance with the ever-changing rules. There have been many instances where schools have been asked to return their E-rate dollars due to rule violations even though the money has long been spent.

The Pace of Commitment Funding

In recent years, audits and compliance concerns slowed the pace of application review and funding commitment decisions. However, the pace of funding decisions has improved. The graphs below demonstrate the average pace of funding commitments for the first 12 months after the close of the filing window for FY2003, FY2004, FY2005 and FY2006. Each graph shows the pace in both dollars and number of funding requests approved. Two major trends are illustrated in these graphs. The FY2006 data shows that the Priority One (telecomm and Internet service) funding pace of \$106 million per month was a record pace, and that the FY2006 Priority Two (networking) funding of \$41 million per month was a significant improvement over FY2005. It is currently too preliminary to comment on the pace of FY2007 funding decisions.

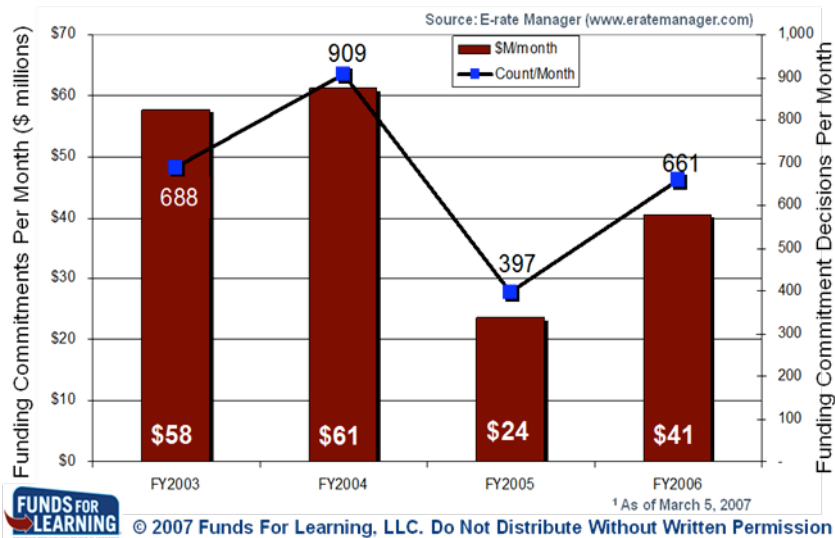
P1 Funding Commitment Pace¹

Comparing Monthly Pace of Commitments in Year after Filing Window



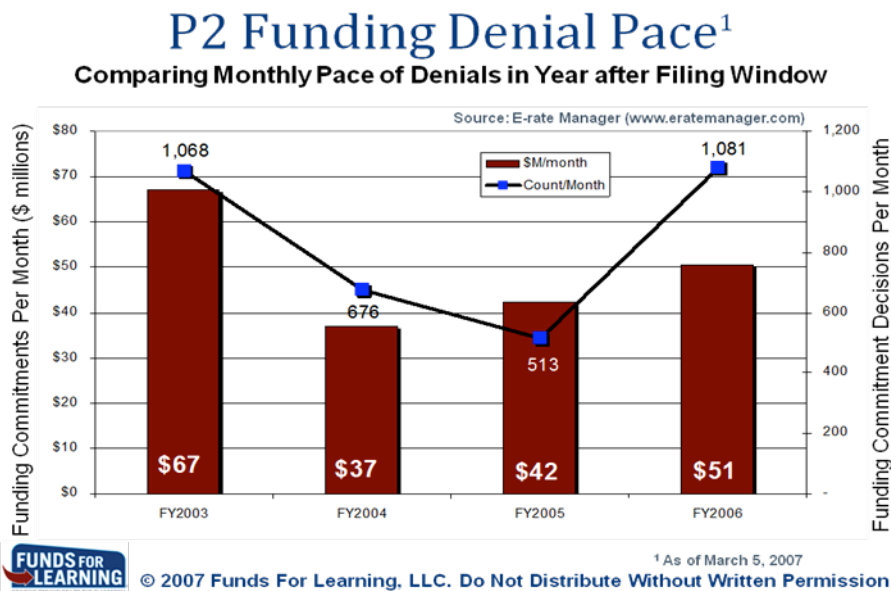
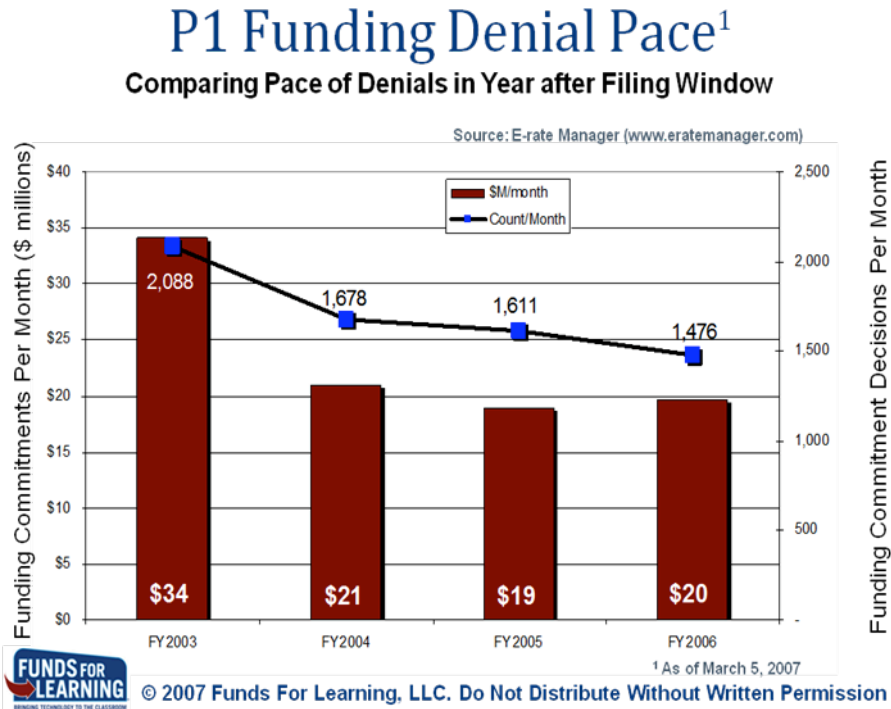
P2 Funding Commitment Pace¹

Comparing Monthly Pace of Commitments in Year after Filing Window



The Pace of Funding Denial

The graphs below demonstrate the average pace of funding denials for the first 12 months after the close of the filing window for FY2003, FY2004, FY2005 and FY2006. Each graph shows the pace in both dollars and count of funding requests denied. These graphs illustrate two trends. First, the funding denial rate for Priority One Services (telecomm and Internet service) is steady at \$20 million per month. Second, the pace of FY2006 Priority Two (networking) Funding Denials has more than doubled from FY2005.



Audits and Accountability

Although sensationalized by the national media; the cost of documented waste, fraud and abuse in the distribution of E-rate discounts is a fraction of the total dollars disbursed since the beginning of the program. More than 200 FCC audits determined that less than one percent (0.67 percent) of E-rate funds was subject to recovery for program violations. A well-founded perception that service providers and the USAC were too cozy (many service providers were members of USAC) has been addressed over the last several years with stringently enforced FCC oversight.

In October 2002, the FCC Inspector General's office to Congress released a report that uncovered everything from faulty bookkeeping to financial mismanagement of E-rate funds. The primary criticism was that the USAC had allowed financial abuse to go unchecked. After several investigations, the FCC incorporated a series of reforms to increase oversight and reduce fraud. These actions have restored integrity to the program. However, as the total funding dollars increase, so does the need for additional oversight.

The FCC and the USAC are directing more resources to the auditing of E-rate beneficiaries and to expanding their oversight activities. FCC Chairman Kevin Martin testified in front of the House Appropriations Subcommittee on Financial Services and General Government on April 17, 2007, regarding the FCC's FY2008 budget request to add \$1 million to combat waste, fraud and abuse within the Universal Service Program. The funds would be used to add personnel and to purchase software to process audits properly.

The FCC also is seeking an additional \$20 million to be transferred from the Universal Service Fund to be used to strengthen its oversight abilities. The additional resources will allow the FCC to contract with outside auditing firms to perform further audits of program beneficiaries. The FCC will not know the status of its FY2008 budget requests until later this year.

The USAC recently sent its Semi-Annual Audit Recovery Report to the FCC. The report outlines the process for seeking the recovery of funds, as well as detailing the audit findings that have been outstanding for more than six months. In the report, USAC noted that as of February 28, 2007, it has performed 330 audits over a period of eight funding years, reviewing over \$1.48 billion in disbursements. The resulting amount sought for recovery is \$66 million, with \$11.4 million recovered to date.

Where Do We Go From Here?

The federal government continues to send mixed messages to educators and administrators about the value it places on technology in education. The recent educational technology report issued by the Department of Education was a year late, and reached a number of negative conclusions about the efficacy of educational technology. Within the report itself, however, there were numerous instances of educational programs not being used as directed. Teachers did not have enough training to feel comfortable using the programs, or used them an insufficient amount of time to get the expected results. Under these conditions, it is not surprising that the results were less than desirable.

While there is wide agreement that our public schools and our students are losing traction in comparison to schools in other developed countries, there is a great deal of disagreement about the solutions. Left to its own devices, the educational community could take years to develop new models of education to prepare students for life in the 21st century. However, the business community is becoming increasingly involved because it cannot find enough workers trained to fill 21st century jobs. Technology is an integral part of business today and it is likely that partnerships among the federal government, school districts, educators, and the business community will be necessary to re-imagine, reconfigure, and reform our public schools.

The E-rate has fulfilled its promise to the country. It has provided the “pipes” through which schools and libraries can connect to the Internet’s abundant resources for lifetime learning. The FCC and USAC have responded in an appropriate manner to instances of fraud and abuse by initiating higher levels of oversight through timely audits and more thorough investigations. With its integrity restored, future funding secure, and a track record of success, it is clear that this program will continue for some time to come.

Perhaps because of its success in decreasing the digital divide and increasing access to resources, some expect more of the E-rate program than it is designed to deliver. But E-rate has always been about connectivity, which it has delivered, and will continue to deliver to more individual classrooms. The E-rate has fulfilled its initial promise and will continue to deliver on that promise into the future.

Funds For Learning

Funds For Learning is celebrating its 10th Anniversary of providing high-quality solutions to meet the needs of E-rate stakeholders. Funds For Learning is the industry’s preeminent E-rate Compliance Company, with more than 70 years of combined E-rate experience. Funds For Learning has completed 6,378 funding requests totaling \$586.8 million.

Resources

Education and Networks Coalition Library (EdLiNC). *E-Rate: The Facts about America’s Successful Educational Technology Program*. www.edlinc.org.

Education and Networks Coalition Library (EdLiNC). *E-Rate: A Vision of Opportunity and Innovation*.

Integrated Studies of Educational Technology (ISET) – a multi-year evaluation funded by the Department of Education’s Planning and Evaluation Service and Office of Elementary and Secondary Education as part of the continuing evaluation of Technology Literacy Challenge Fund. ISET is being conducted in collaboration with the Department’s Office of Educational Technology and the Schools and Libraries Division of the Universal Service Administrative Corporation, which, under the direction of the Federal Communications Commission, administers the E-rate program.

Funds for Learning. www.FundsForLearning.com.ys

Love, Paula. *Technology Funding – Meta-Analysis: Challenges and Opportunities*. T.H.E. Journal Online, March 2006.

Mayfield, Kendra. *E-Rate Fund Hit by Rampant Fraud*. WIRED, January 13, 2003.