

ALA Summary of the E-rate Category 2 Order

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On December 3, 2019, the Federal Communications Commission (FCC) released its long-awaited Order on updating the rules for the E-rate's Category 2 (C2) application processes. C2 supports discounts on in-building networking infrastructure. Below is a high-level summary of the 25 page Order. It assumes the reader has some familiarity with the E-rate program. For more information readers should review the actual Order at: <https://www.fcc.gov/document/fcc-acts-speed-deployment-wi-fi-schools-and-libraries>. While reasonable efforts have been made to ensure the accuracy of this summary, only information from the FCC or the Universal Service Administrative Company (USAC) should be considered official.

Background

The reforms undertaken as part of the 2014 E-rate Modernization process made major changes to Category 2 (known as "Priority 2" previous to Modernization). The changes were in effect for a five-year period, from 2015–2019. In July 2019 the FCC released a Notice seeking public comment on any changes to Category 2 for funding year 2020 and beyond. In the weeks after the Notice was released ALA and over one-hundred other organizations filed comments on the future of C2. After a lengthy review of the comments the FCC released its Order updating the C2 application rules and procedures on December 3.

In general, the changes made to C2 as part of the 2014 Modernization were very beneficial and resulted in many more libraries and schools being able to receive C2 funds. In comments ALA submitted to the FCC in August 2019¹ it acknowledged the success of the C2 changes by stating:

For the first time in over fifteen years our libraries are assured of receiving C2 funding. The result is that all libraries, whether in rural remote areas or urban centers, have access to much needed funding for their in-building network requirements.

At a high level, the key action taken by the FCC in this Order was to make permanent—with some important changes—the constructive changes made to Category 2 as part of the 2014 Modernization.

Implementing the Category 2 Order

The FCC acknowledges that it will not be able to make needed changes to the application forms, the E-Rate Productivity Center (EPC), and undertake other changes mandated by the Order in time for the upcoming July 1, 2020, funding year. Thus, the 2020 funding year will be what the FCC calls a "bridge" year with the more substantive C2 changes becoming effective July 1, 2021 (§14, 54).²

The Order's Impact on Funding Year 2020 (§152-60)

- Applicants can continue to request C2 funding under the existing processes used for 2015–2019. As the FCC's Order states: "We largely make no changes to how applicants should apply for support for category two services in funding year 2020." (§156). This means each library branch or school building has its own C2 budget for 2020, just like they have had for the 2015–2019 application years.
- An applicant's 2015–2019 fund allocation will increase by 20% to cover a library or school's C2 funding requests for 2020 (§158). (The 20% represents one year's funding based on the total five year allocation.) In a simple example, an applicant with a \$50,000 C2 budget for 2015–2019 will receive an additional \$10,000 (20% of \$50,000) for 2020. (Figures not inflation adjusted.)

¹ Initial ALA comments were filed August 16, 2019, and are at:

<https://ecfsapi.fcc.gov/file/10816028233870/ALA%20Category%20Two%20comments%2008162019.pdf>. ALA reply comments were filed September 3, 2019, and are at:

<https://ecfsapi.fcc.gov/file/1090340163387/ALA%20Category%202%20Reply%20Comments%2009032019.pdf>.

² Numbers in parentheses refer to paragraphs in the Order.

- Any funds remaining from an applicant’s initial 2015–2019 allocation can be rolled-over for use in 2020. In using the above example, if \$5,000 remains of the initial \$50,000 allocation a library or school will have a total of \$15,000 (\$5,000 + \$10,000) for use in 2020. Any funds not spent in 2020 will be lost. They cannot be rolled-over into the next, 2021–2025, five year funding cycle. (See also the funding example in the Order’s footnote #143.) (Figures not inflation adjusted.)
- On a square footage basis large, urban libraries are *estimated* to get \$6.52 and rural libraries \$2.99. Schools are *estimated* to get \$195.63 per student. Within 15 days of the Order’s publication in the Federal Register the FCC will release the final, inflation adjustments to the C2 budget amounts for Funding Year 2020 (§158).
- The FCC declined to make filtering or more robust network security tools eligible for C2 funding (§146).³

The Order’s Impact on Funding Years 2021–2025 (§18-44)

- All applicants will start with a new C2 funding allocation for the five year funding cycle covering 2021–2025 (§18). Applications can be submitted in any year(s) during this five year cycle. Any funds not spent by 2025 will be lost. They cannot be rolled-over into the next, 2026–2030, five year funding cycle.
- In a major change *the C2 funding allocation will be made at the library system and school district levels, not to individual buildings* (§18). In addition to this funding change, systems and districts will have the authority to use their C2 funds in the library branches or school buildings that need it most. There is no requirement that any specific amount of C2 funds be spent in a particular branch or school. As the FCC states: “By affording applicants the flexibility to determine how best to allocate funding within their districts and library systems, we ensure a more effective use of E-Rate funds.” (§22). Having a single C2 library system or school district budget also simplifies the program by eliminating the need to administer and track separate budgets for each library branch or school building.
- The C2 funding floor will increase from \$9,200, set in the 2014 Modernization process, to \$25,000. The FCC says this increase will “make it attractive and beneficial for small schools and libraries.” (§29-30).
- Libraries: The square foot amount set in 2014 for rural libraries was \$2.30; and for larger urban libraries it was \$5.00. (Inflationary amounts for 2019 are \$2.45 and \$5.32 respectively.) The C2 funding for all libraries as set in the Order will be \$4.50 per square foot over the five-year funding cycle. The increase for rural libraries to \$4.50 will be very beneficial. One rationale the FCC uses for reducing the urban library allocation from \$5.00 is that there is often little difference with in-building network costs between rural and urban libraries (§34-39).
- Library systems and school districts with fewer than 10 buildings have the option to calculate their budgets on a per-building basis by adding together the funding floor allocation of each building. (Most libraries have fewer than 10 branches.) See paragraphs 40, 41 and footnote 105 in the Order for more information on this option which will be advantageous for some smaller libraries.
- The funding set by the Order will remain the same for all five years of the funding cycle (2021–2025). Thus, the next inflation adjustment will be made in 2026 as part of the 2026–2030 funding cycle (§18, 42).
- Applicants need to provide library square footage and student count numbers only once during the five-year funding cycle. This one-time reporting is done when the library or school first applies for C2 funds during the cycle. Optionally, applicants can update their numbers in subsequent years of the cycle (§44).
- Effective in funding year 2021 and beyond, library systems and districts can transfer equipment between branches or schools without notifying USAC of the transfer. But any transfer(s) must be documented and the documentation retained for five years (§48).

Applicants are encouraged to periodically check the USAC E-rate website for updates on the Order (<https://www.usac.org/e-rate/>). Also, the E-rate Central Newsletter of December 9, 2019, has a good summary of the Order. It is available at: <https://e-ratecentral.com/Resources/Newsletters/News-of-the-Week/ArticleID/1974/December-9-2019>.

³ In comments to the FCC ALA requested that both filtering and security tools be eligible for C2 discounts.