

June 17, 2014

VIA ELECTRONIC FILING

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th St. SW
Washington, DC 20554

Re: Ex Parte Communication (WC Docket No. 13-184)
Modernizing the E-rate Program for Schools and Libraries

Dear Ms. Dortch:

On June 16, 2014, I shared the attached presentation and survey results with Trent Harkrader, Partick Halley, Lisa Hone, Michael Steffen, Mark Nadel, Regina Brown and Jon Wilkins.

Subsequently, on June 17, 2014, via a web conference, I provided a detailed explanation of the slide deck to Patrick Halley, Mark Walker, Jonathan Chambers, and Mark Nadel. I explained that the information in the presentation was based on further analysis of a FY2014 funding request report submitted to the FCC¹, as well as a nationwide survey of E-rate applicants that Funds For Learning recently completed. In our conversation, I shared the following major conclusions.

- **The average out-of-pocket expense paid for telecommunications and Internet access does not vary significantly among most E-rate applicants, regardless of their location or E-rate discount rate.** This analysis coincides with the well-known fact that school and library budgets function primarily on a fixed-income basis. Applicants with a higher E-rate discount rate have more purchasing power, but their out-of-pocket expenditures are not remarkably different than lower discount rate applicants. This fact suggests that a lowering of E-rate discount rates will not enhance the deployment of broadband connectivity, especially within economically disadvantaged communities. Instead, lower E-rate discount rates are likely to simply decrease the purchasing power of impoverished applicants, slowing down the deployment of broadband networks within their schools and communities.
- **Telecommunications and Internet access expenses in remote rural Alaska defy comparison to other locations.** E-rate applicants in these remote areas pay 30 times more per student for broadband access than the average E-rate applicant; consequently, I encouraged the FCC staff to give special consideration to remote rural Alaska in their rule-making.

¹ <http://apps.fcc.gov/ecfs/document/view?id=7521139031>

- **A small portion of E-rate applicants consume a disproportionate amount of the fund each year.** In FY2014, 13% of demand from schools for Priority One services came from a small percentage of schools that spend more than \$400 per student each year for these services. I reminded the FCC staff that most applicants, regardless of discount rate, size or location, seek out cost-effective solutions to meet their technology needs.

Many E-rate reform proposals “throw the baby out with the bathwater” to curb the demand of big spenders. They do so by eliminating services from the eligible services list, lowering discount rates for all applicants, or rationing funding support via an arbitrary timeline. Unfortunately, most of these changes will only hurt the neediest schools and libraries and are unlikely to significantly deter big-spending applicants.

Instead of adding more complexity or substantially changing the nature of the E-rate program, Funds For Learning continues to advocate for one simple change: eliminating the technology-based Priority system and replacing it with a budget cap system that puts a limit on the total E-rate discount amount an applicant can request each year. Unlike the current priority system, this approach incentivizes cost-effective decision-making, cuts off big spenders, encourages planning, increases predictability, does not impose a specific timeline for technology integration and allows for local technology planning decisions.

- **In survey after survey, applicants report frustration with the current form preparation and application process.** I expressed Funds For Learning’s continued advocacy for an e-filing standard that will allow electronic submission of E-rate forms and paperwork². I also emphasized that the adoption of a predictable filing window schedule would improve the application process for each applicant.
- **E-rate applicants continue to express a strong desire for multi-year funding commitments.** I shared that multi-year funding commitments would be particularly useful in speeding up the deployment of on-campus broadband connectivity. If schools and libraries can amortize the cost of a project over 3-to-5 years, it would allow them to immediately benefit from the use of faster connections, without having to wait 4 or 5 years to install them. Schools and libraries would likely be willing to cover the finance charges associated with these multi-year payouts. Plus, vendors and manufacturers may be willing to provide zero-cost or lost-cost financing.
- **Funds For Learning estimates that the current nationwide total demand for Internal Connections is roughly \$5.93 billion plus an additional \$0.59 billion in annual ongoing basic maintenance expenses.** This estimate is based on (A) actual per building expenses from FY2014 Priority Two funding requests and (B) the results of the Funds For Learning survey of E-rate applicants which indicate that a significant portion of school buildings require network facility upgrades.

² <http://apps.fcc.gov/ecfs/document/view?id=7521099998>

Funds For Learning suggests that the FCC amortize this \$5.93 expense over four years, adding a minimum of \$2.08 billion per year to the E-rate funding cap for the foreseeable future. Combined with multiyear funding commitments, the increased cap would allow all applicants to deploy much-needed on-campus internal connections beginning in FY2015, while having the opportunity to pay for those connections over multiple years. This would dramatically accelerate the installation of on-campus broadband, in effect increasing the purchasing power of the entire E-rate program.

- **In our survey, there was no clear consensus amongst respondents as to the deployment of VoIP and the replacement of plain old telephone service.** 51% of survey respondents indicated that their telephony infrastructure was lagging. I explained that many applicants wished to convert to VoIP-based systems, but they lacked the financial support to purchase the necessary internal connections. I expressed my concern that recent trade industry cost estimates submitted to the FCC did not include costs for VoIP systems. This is particularly troublesome because schools and libraries may be required to move to VoIP solutions to maintain their E-rate discounts. I encouraged the FCC staff to allow E-rate applicants to purchase VoIP-type networking equipment.

I concluded by summarizing Funds For Learning's position on E-rate Reform. We believe that the program could be remarkably improved without changes to the eligible services list or discount matrix and that all applicants could receive funding commitments every year for the goods or services that they need the most. These improvements could be brought about with relative ease by increasing the funding cap and replacing the Priority System with a new system of pre-defined limits on large funding requests. Combined with multi-year funding commitments, additional support for remote rural applicants, special consideration for remote rural Alaska applicants, and an e-filing standard, the new and improved E-rate program would be poised to radically enhance broadband connectivity in America's schools and libraries.

Pursuant to Section 1.1206 of the Commission's Rules, this letter is being filed electronically.

Sincerely yours,

/s/ John D. Harrington

John D. Harrington

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E-rate Data Analysis and Survey Results

June 17, 2014

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Conclusions based on data



- P1 Expenditures increasing across the board
 - › Out of pocket varies little by discount rate
 - › Out of pocket varies most by applicant size
 - › Rural Alaska is very different from all others
 - › Big spenders request disproportionate share
- Applicants want improved application process
- \$2.08 billion/year required for on-campus
 - › Telephony infrastructure lagging in 51% bldgs
 - › Applicants not sure what to do about VoIP

Applicant View of Reform

Survey Response Highlights

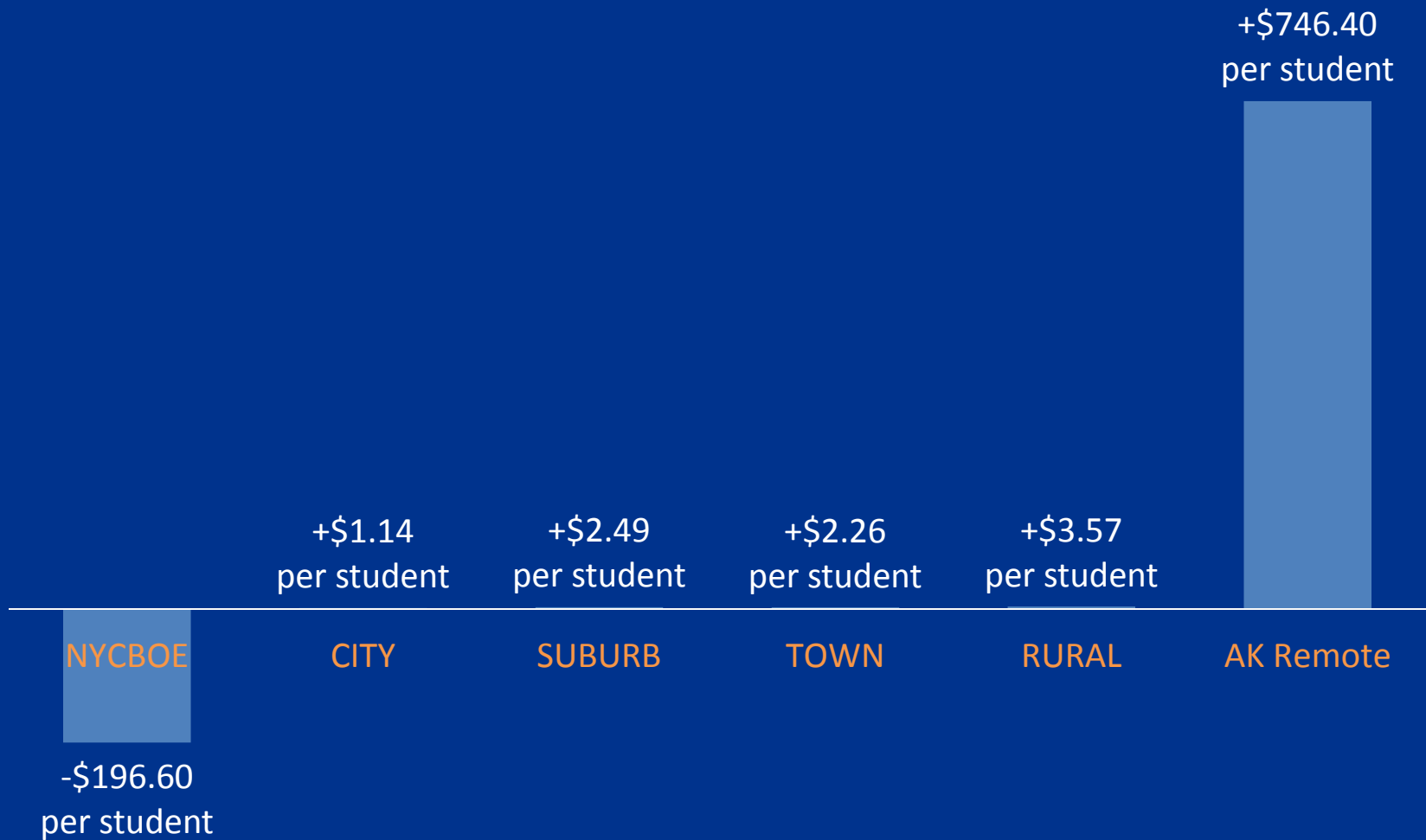


- Somewhat skeptical of improvements
- TOP items on Reform wish list
 - › Increase funding
 - › Allow multiyear funding commitments
 - › Improve form preparation
- BOTTOM items on Reform wish list
 - › Remove items from ESL
 - › Lower discount rates and create one discount rate
 - › Create rotating eligibility system for P2

Comparing Monthly Out-of-Pocket Expenses

Per Student P1 Increasing

Comparing FY2013 to FY2014 by location

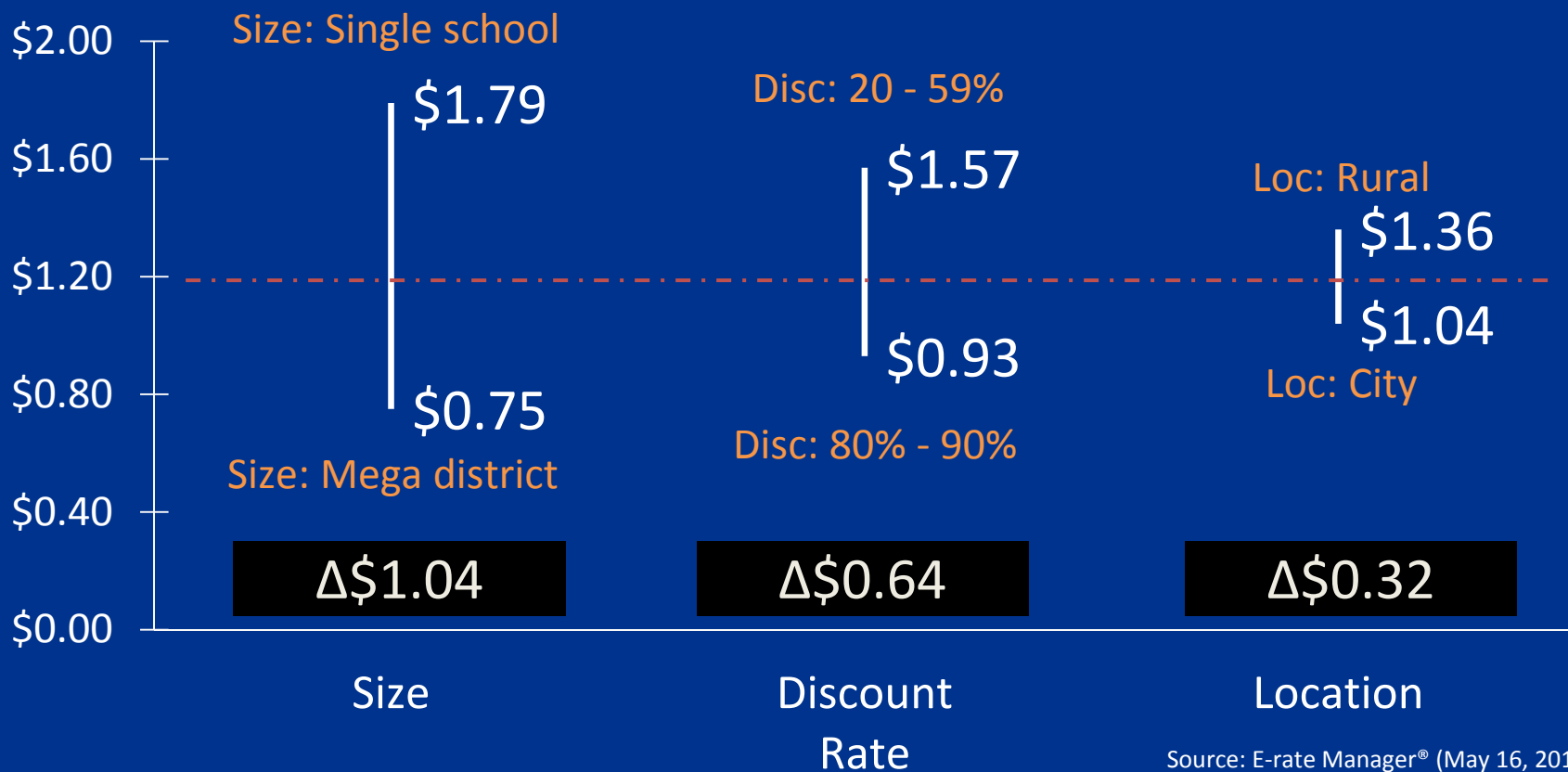


Monthly Out-of-Pocket P1 Per Student

Varies most by applicant size



Range (high-to-low) by various factors



Source: E-rate Manager® (May 16, 2014)

Per student out-of-pocket varies by \$1.04 between smallest and largest school applicants

Monthly P1 Out-of-Pocket Expense



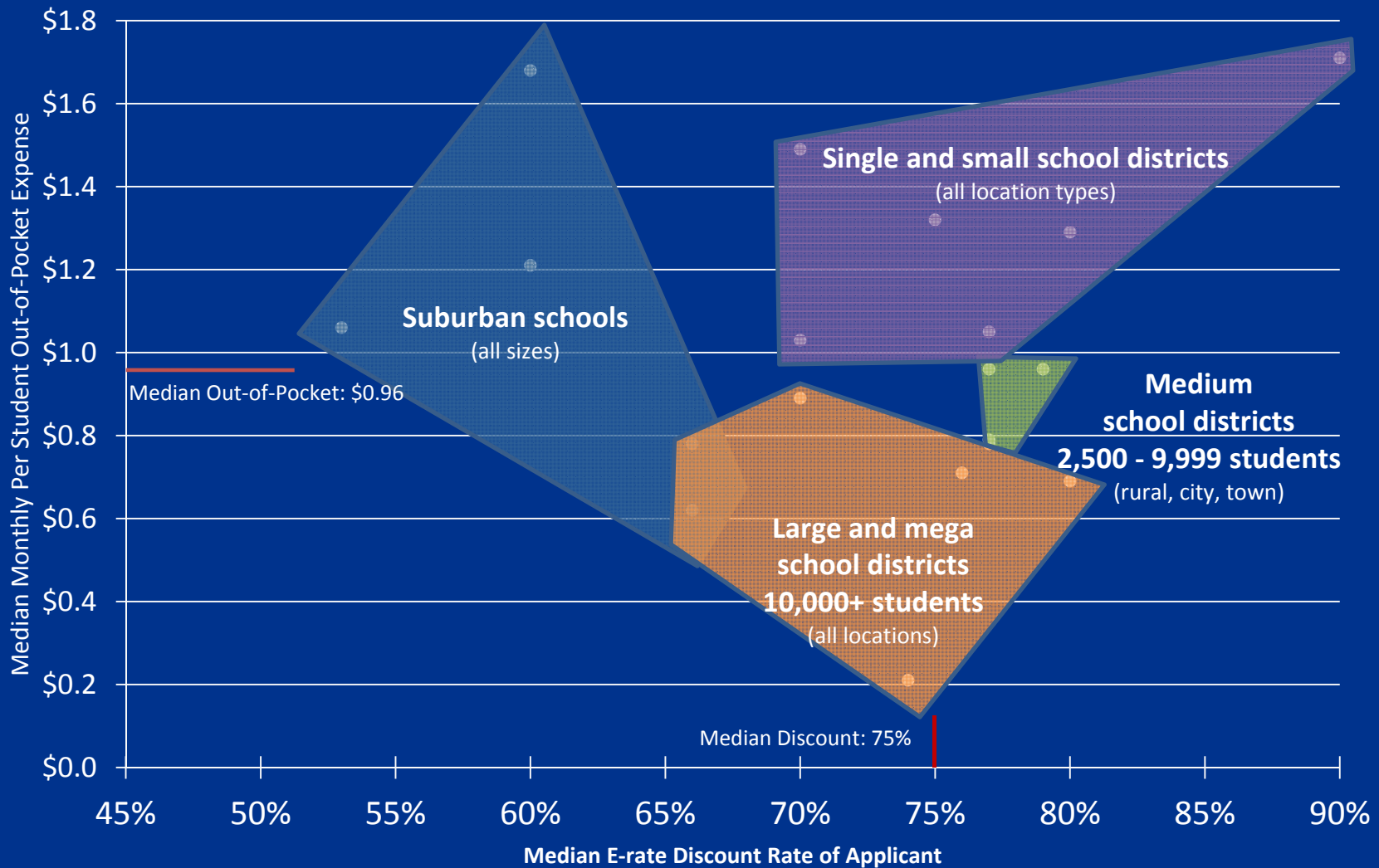
| Applicant Size | Location Type | Median Disc. Rate | Median Applicant Out-of-Pocket Per Student Monthly P1 Expense |
|---|---------------|-------------------|---|
| Single Site School | City | 80% | \$1.29 |
| | Suburb | 60% | \$1.21 |
| | Town | 70% | \$1.03 |
| | Rural | 70% | \$1.49 |
| Small District <2,500 students | City | 90% | \$1.71 |
| | Suburb | 60% | \$1.68 |
| | Town | 77% | \$1.05 |
| | Rural | 75% | \$1.32 |
| Medium District 2,500 to 9,999 students | City | 79% | \$0.96 |
| | Suburb | 53% | \$1.06 |
| | Town | 77% | \$0.79 |
| | Rural | 77% | \$0.96 |

| Applicant Size | Location Type | Median Disc. Rate | Median Applicant Out-of-Pocket Per Student Monthly P1 Expense |
|--|---------------|-------------------|---|
| Large District 10,000 to 49,999 students | City | 76% | \$0.71 |
| | Suburb | 66% | \$0.78 |
| | Town | 77% | \$0.78 |
| | Rural | 70% | \$0.89 |
| Mega District 50,000+ students | City | 80% | \$0.69 |
| | Suburb | 66% | \$0.62 |
| | Rural | 74% | \$0.21 |

Monthly P1 Out-of-Pocket Expense

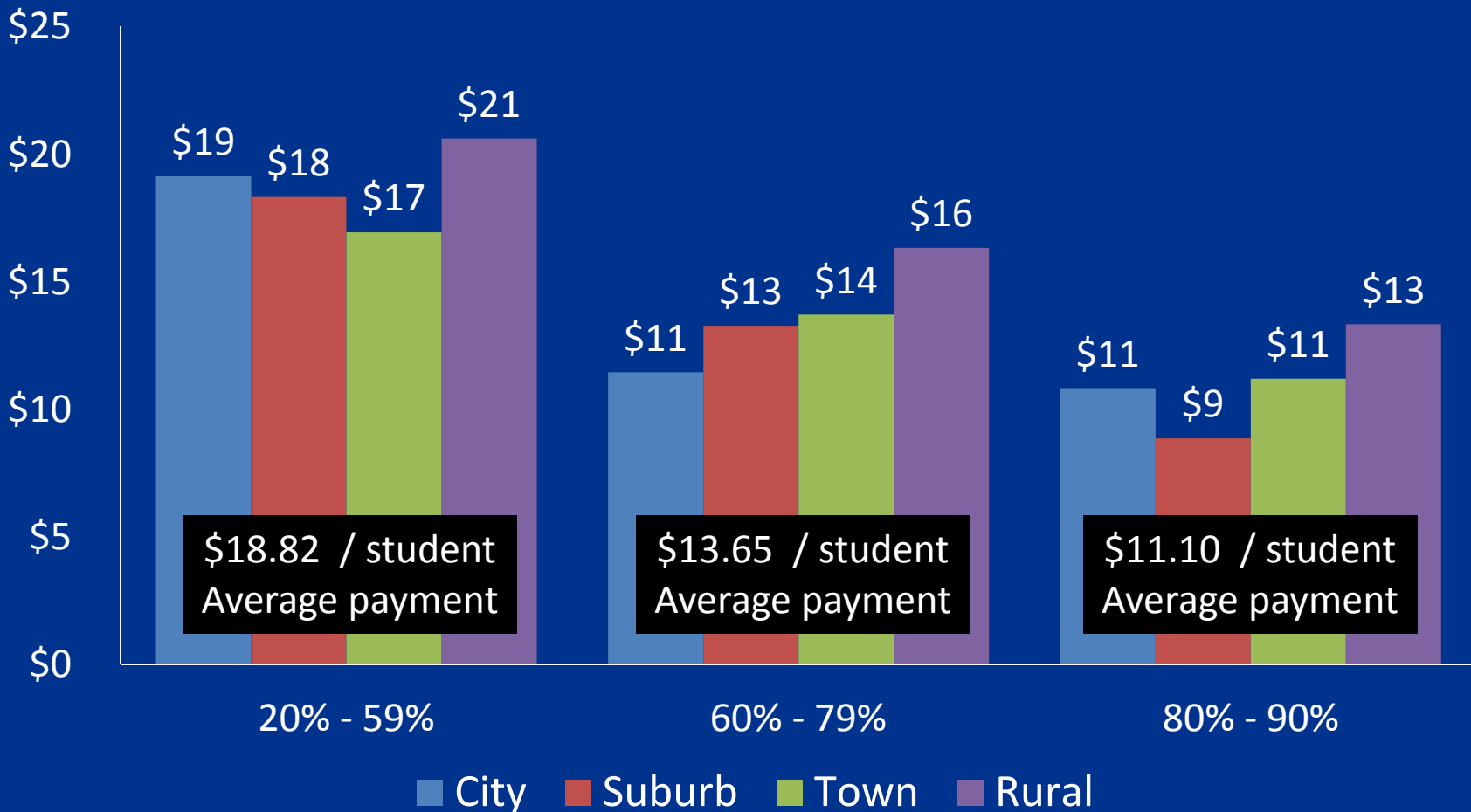


Expenses group by size more than disc. rate, locale



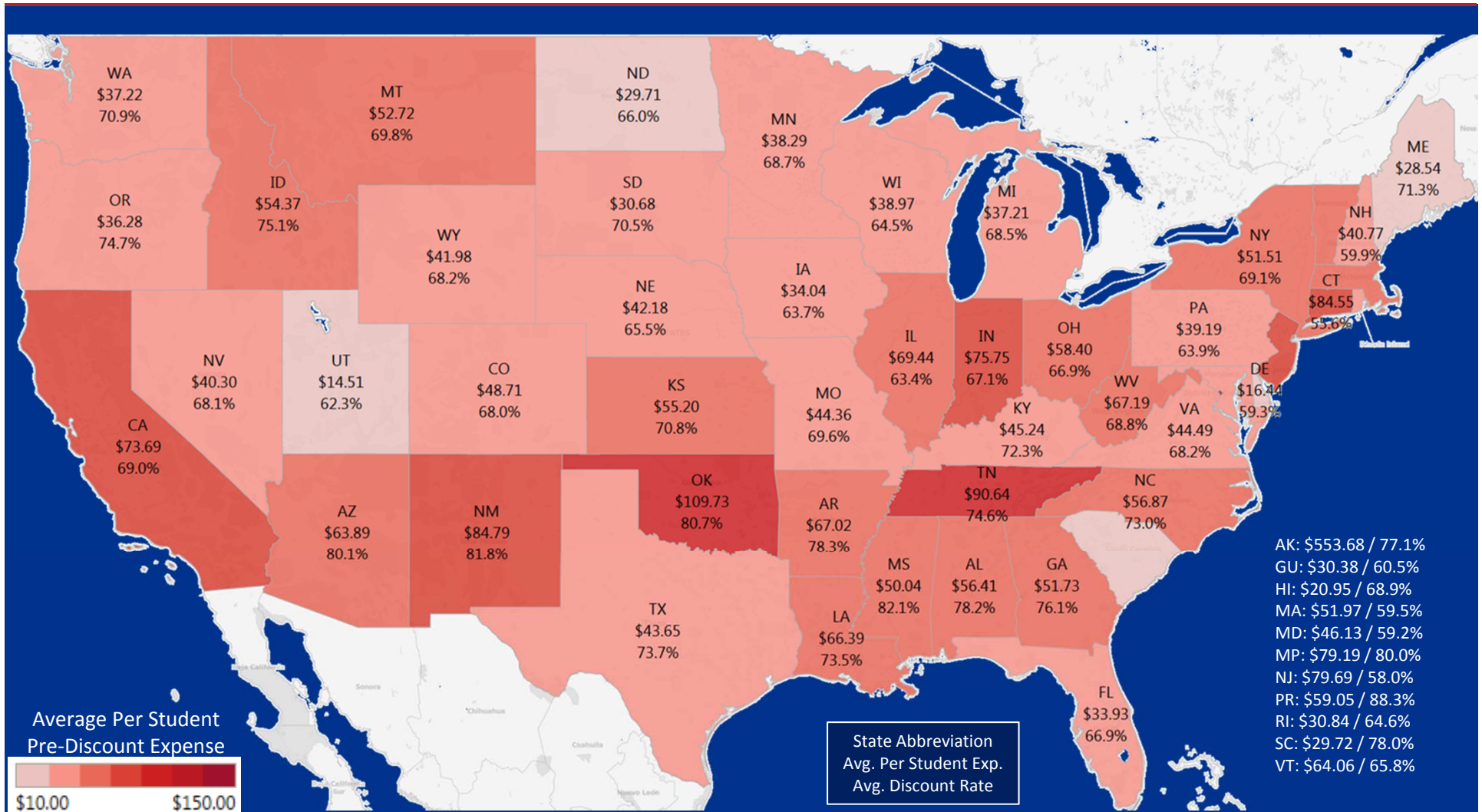
School Payment Per Student

Average out-of-pocket varies from \$11 to \$19



P1 Expenses Compared by State

Per Student Expense by State



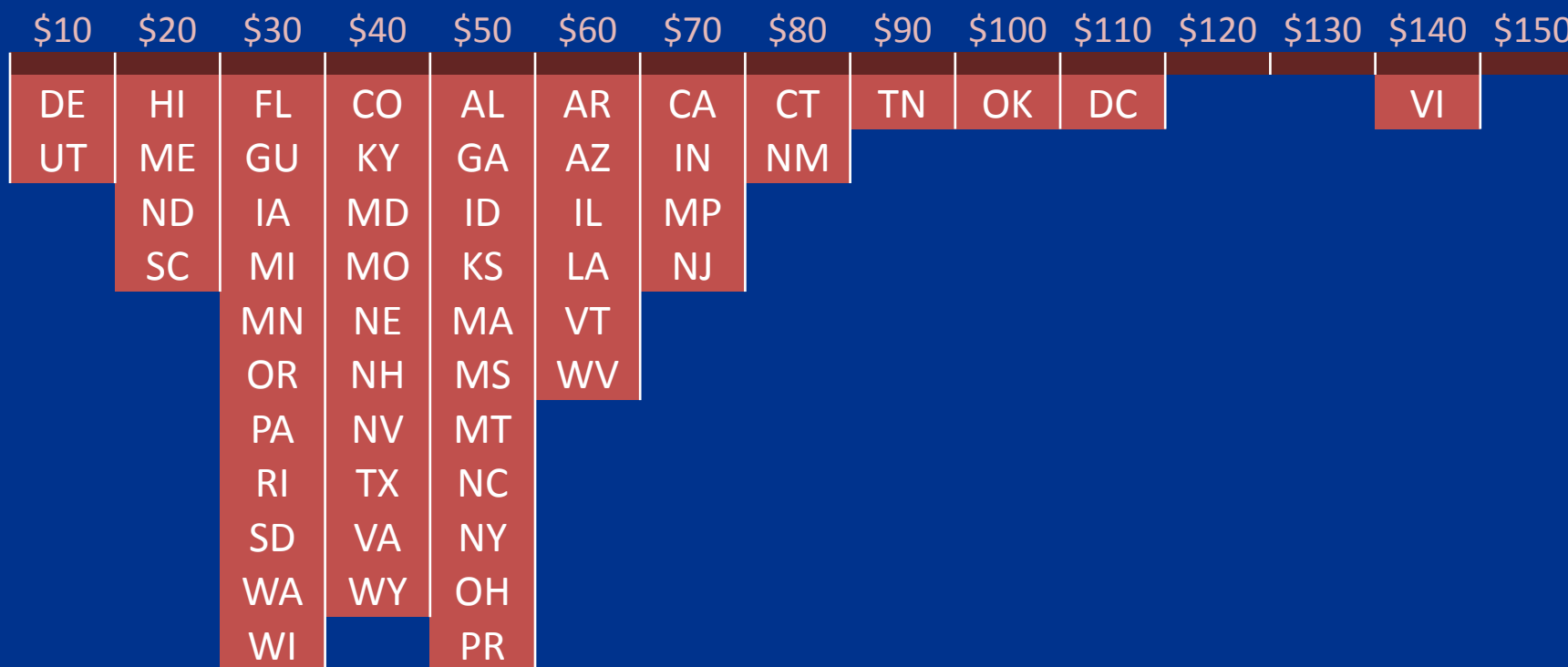
June 17, 2014

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Average Per Student P1 Spending

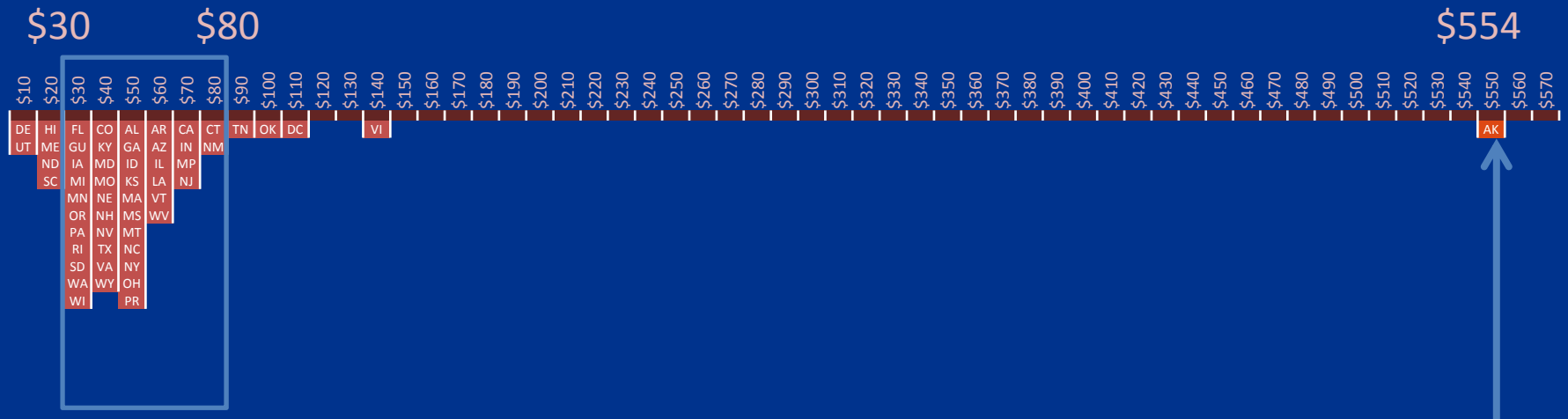
by school applicants based on their state



Overall average: \$55.55 per student

Alaska: \$554 per student

Average per student P1 spending



In most states, the average school spends \$30 - \$80 per student

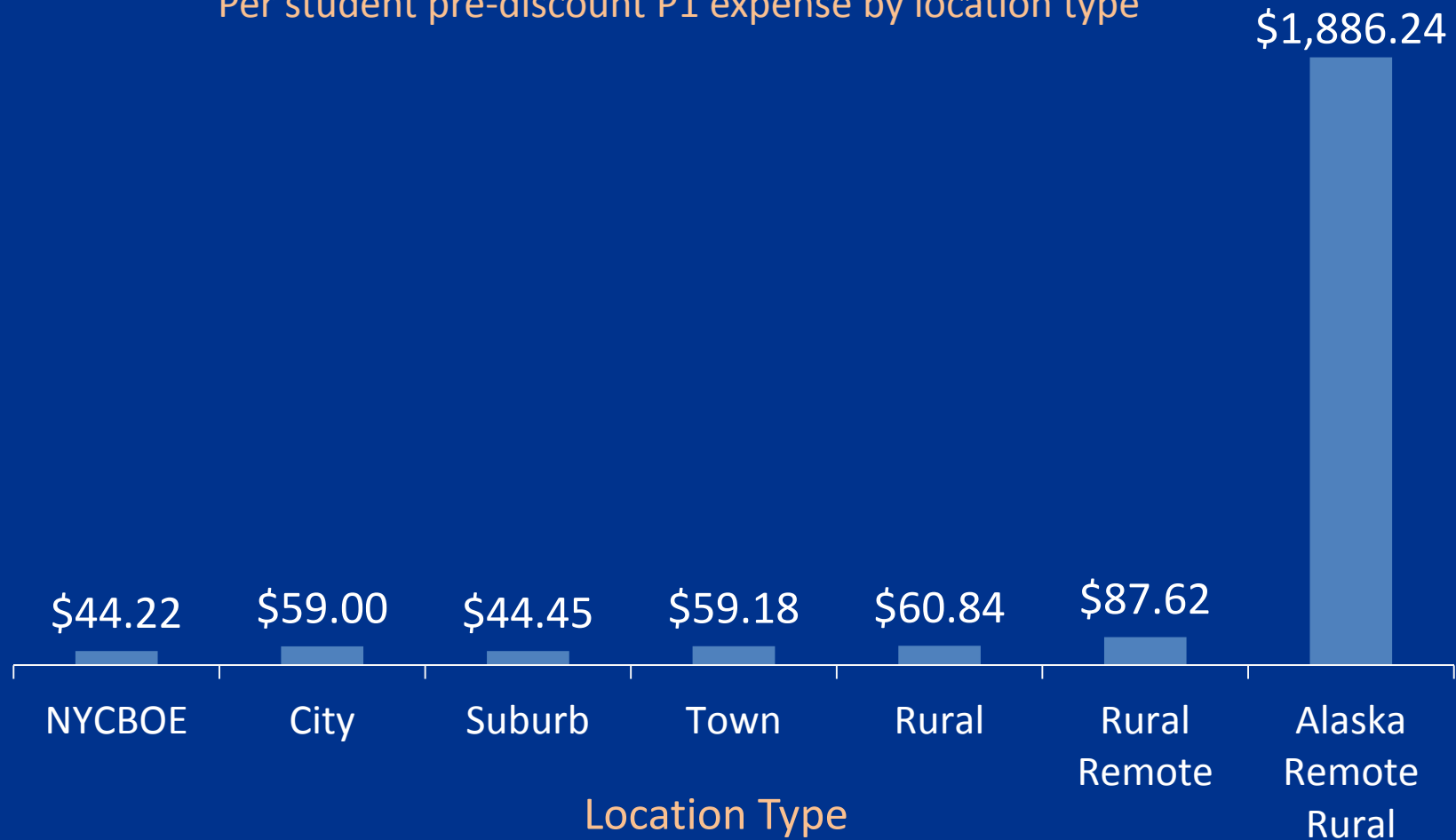
In Alaska, the average is \$554 per student

Alaska Rural Remote Per Student

Remarkably higher than all other locations



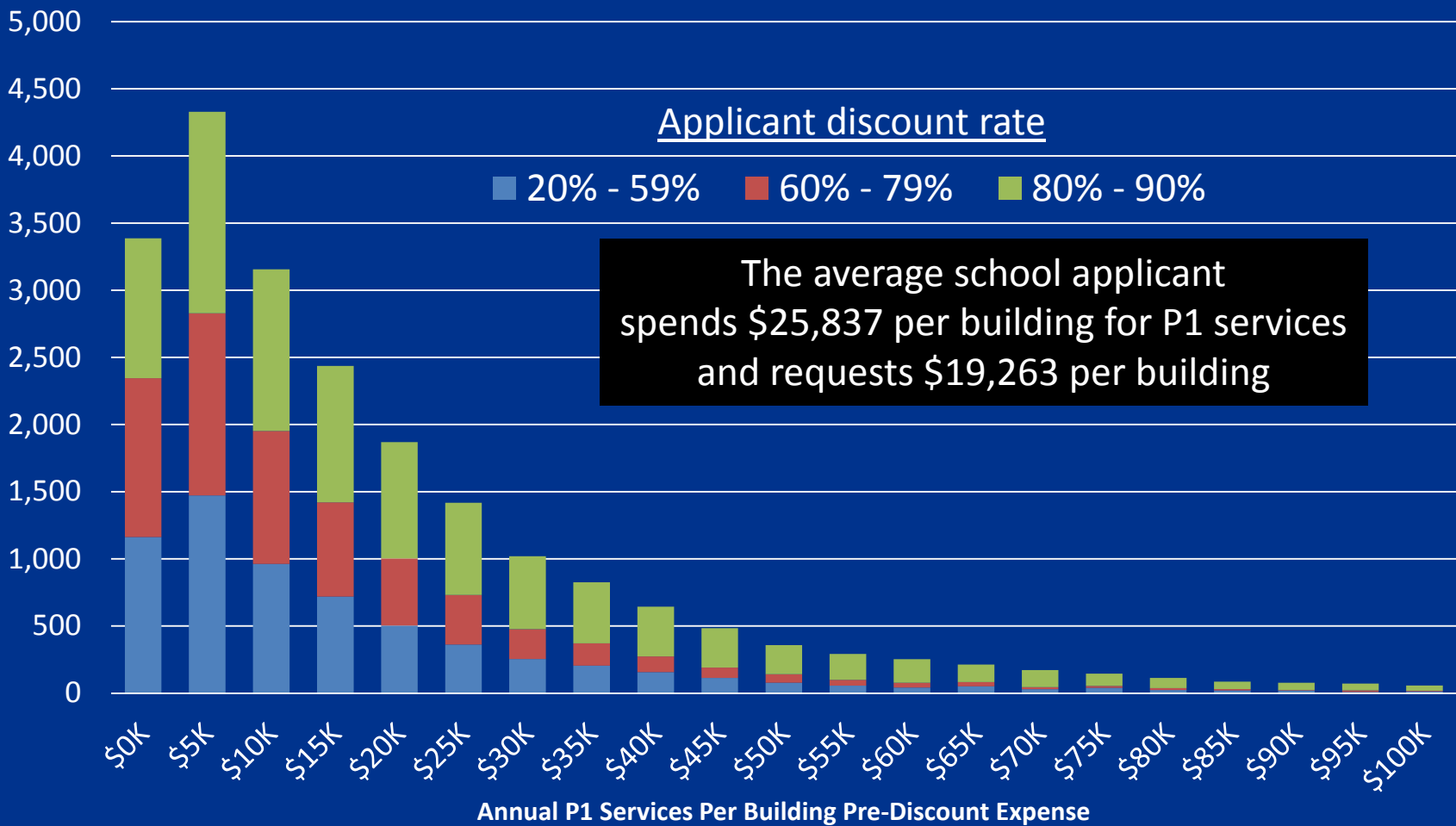
Per student pre-discount P1 expense by location type



P1 Expenses

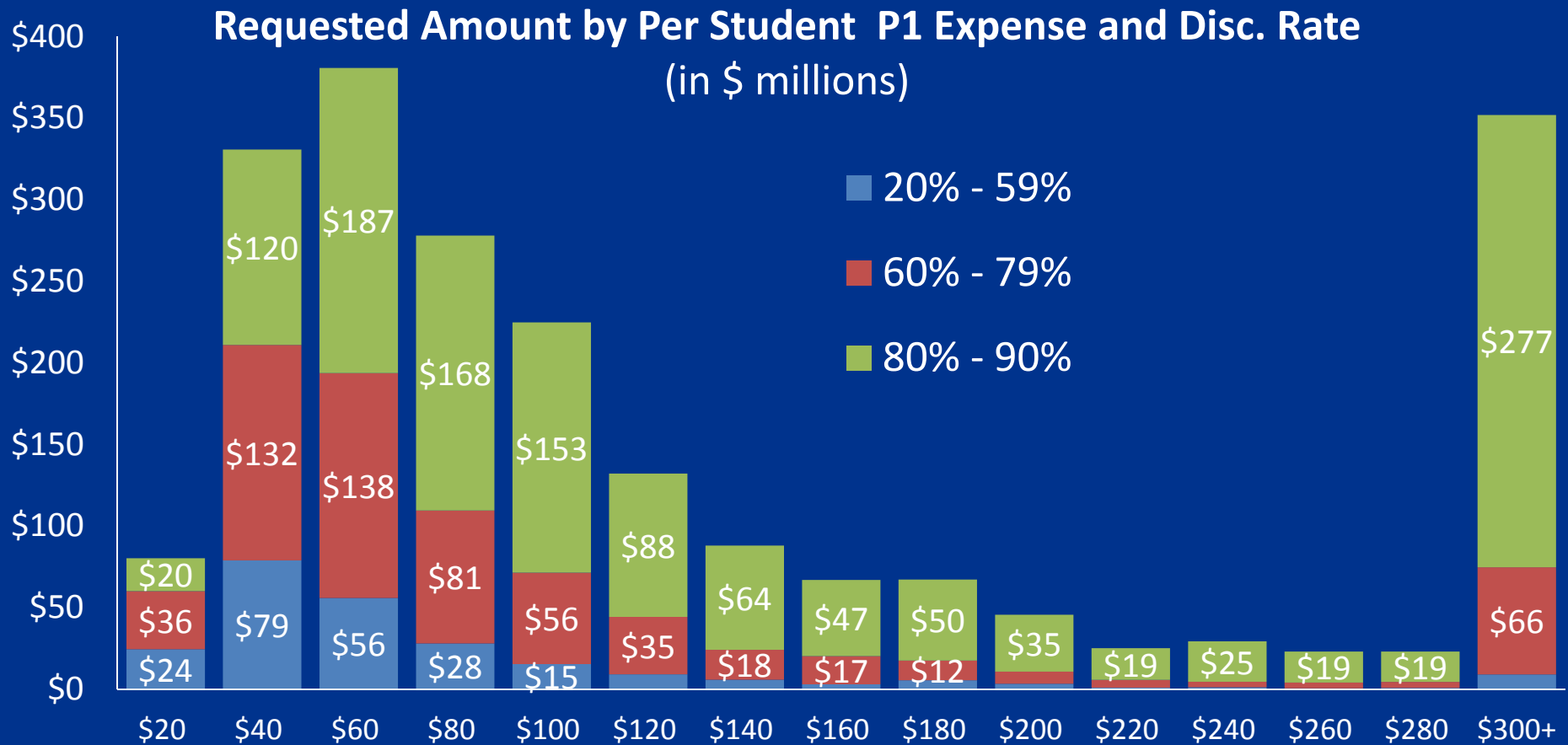
Big Spenders Request Disproportionate Share

Count of E-rate Applicants by Annual Per Building P1 Expense



Requests by Per Student Spending

13% of requests from 6% of schools w/\$400+ per student



Survey Responses 2014 Survey of E-rate Applicants

Who Responded? How well do they represent all applicants?



- 626 responses
 - › 440 (70%) provided identifying information
 - › 186 anonymous
- From 44 states
- Applicant type
 - › Schools: 71%
 - › Libraries: 29%
- Student count range from 50 to 100,000s

School Respondents vs. Nat'l Stats



| | National* | Survey |
|---|--------------|--------------|
| Count of Students (Median) | 591 | 1,420 |
| Discount Rate (Avg FY2014) | 69% | 75% |
| P1-only funding requests (FY2014) | 81% | 65% |
| P1 per student (FY2014 pre-discount) | \$55.55/year | \$52.16/year |
| Received <i>some</i> P2 (FY2010-FY2012) | 23% | 46% |
| Use Consultant (FY2014) | 52% | 62% |

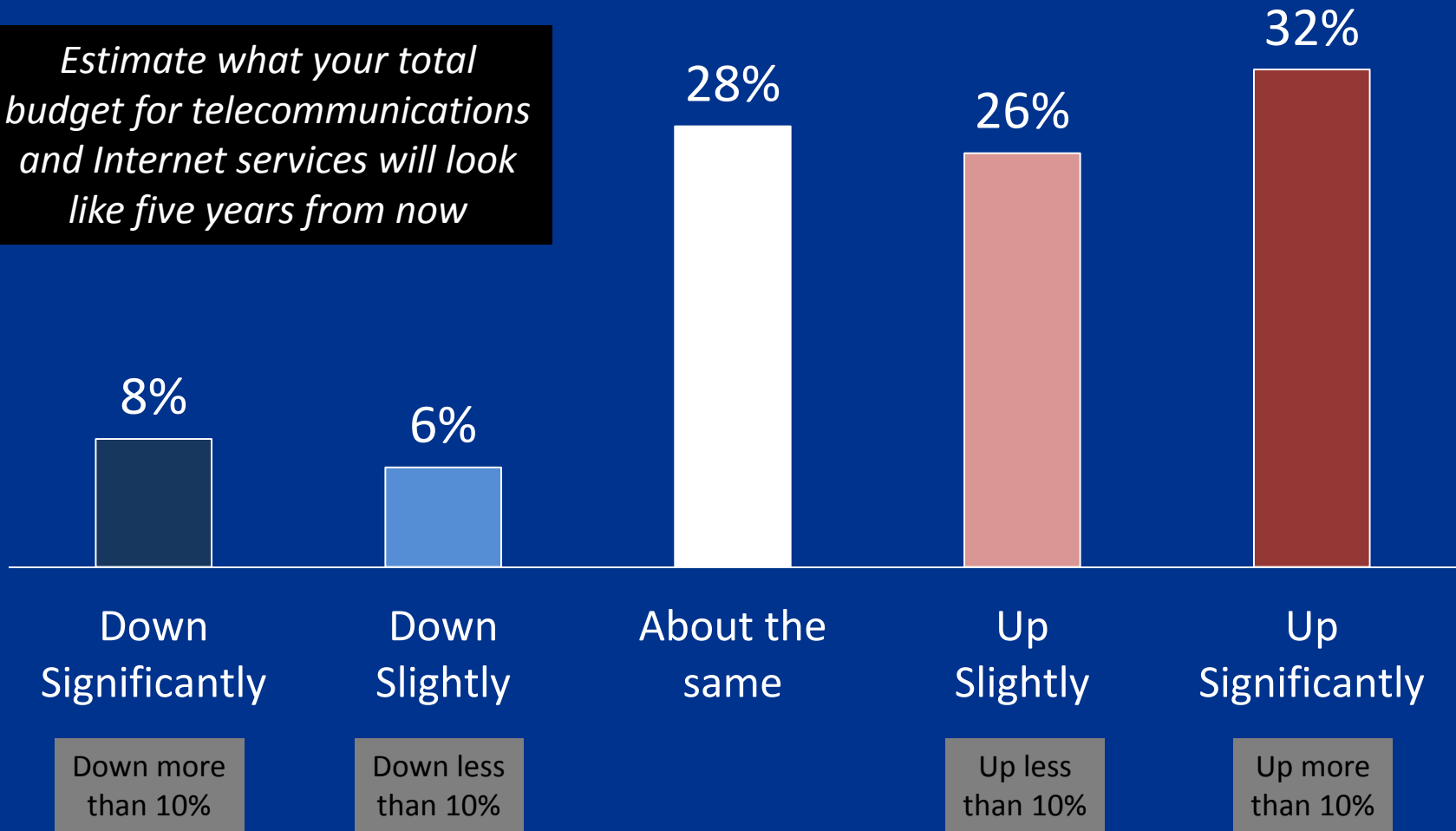
* Estimated FY2014 student enrollment of individual school site and school district E-rate participants.

Question 1

5 yr telco/Internet budget forecast

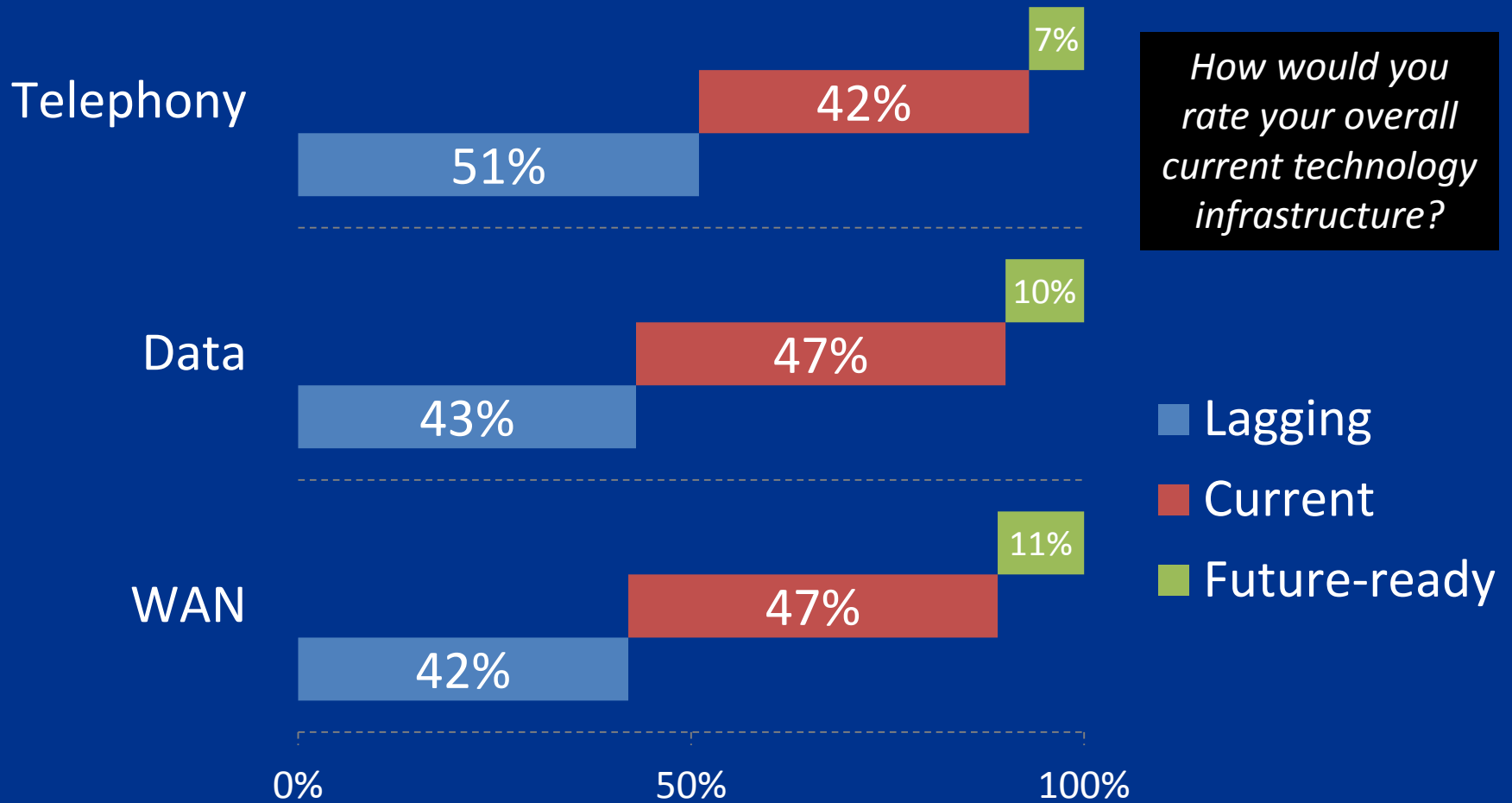


Estimate what your total budget for telecommunications and Internet services will look like five years from now



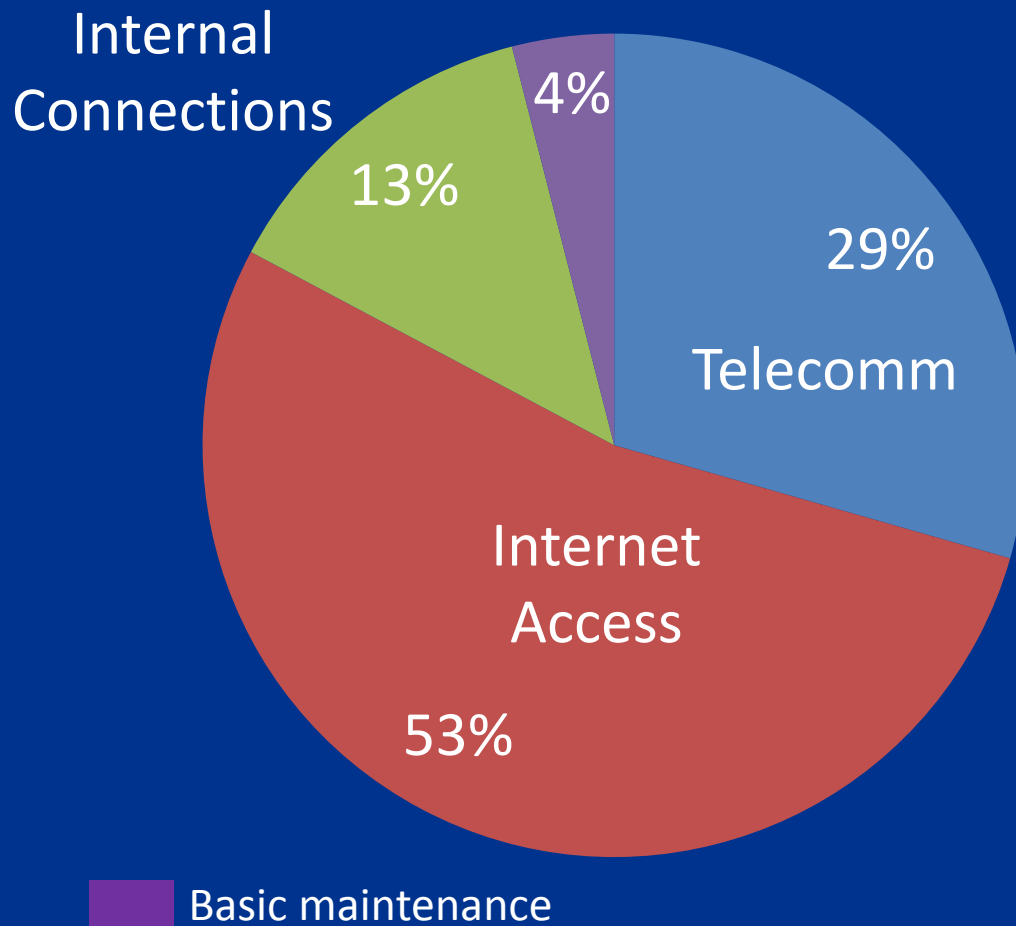
Question 2

Tech infrastructure readiness



Question 3

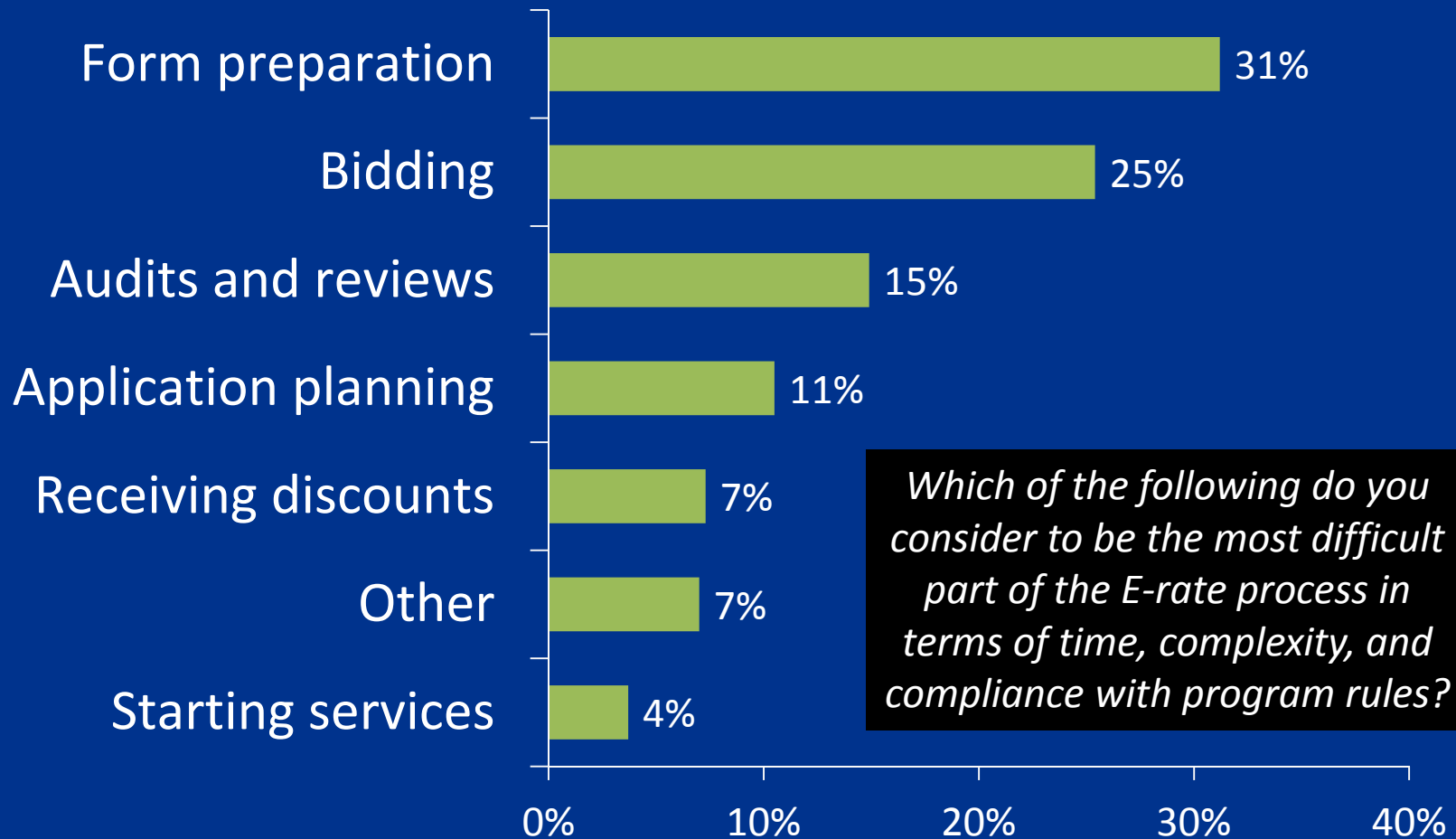
Top category



If you could only receive E-rate funding in one category of service, which would you choose?

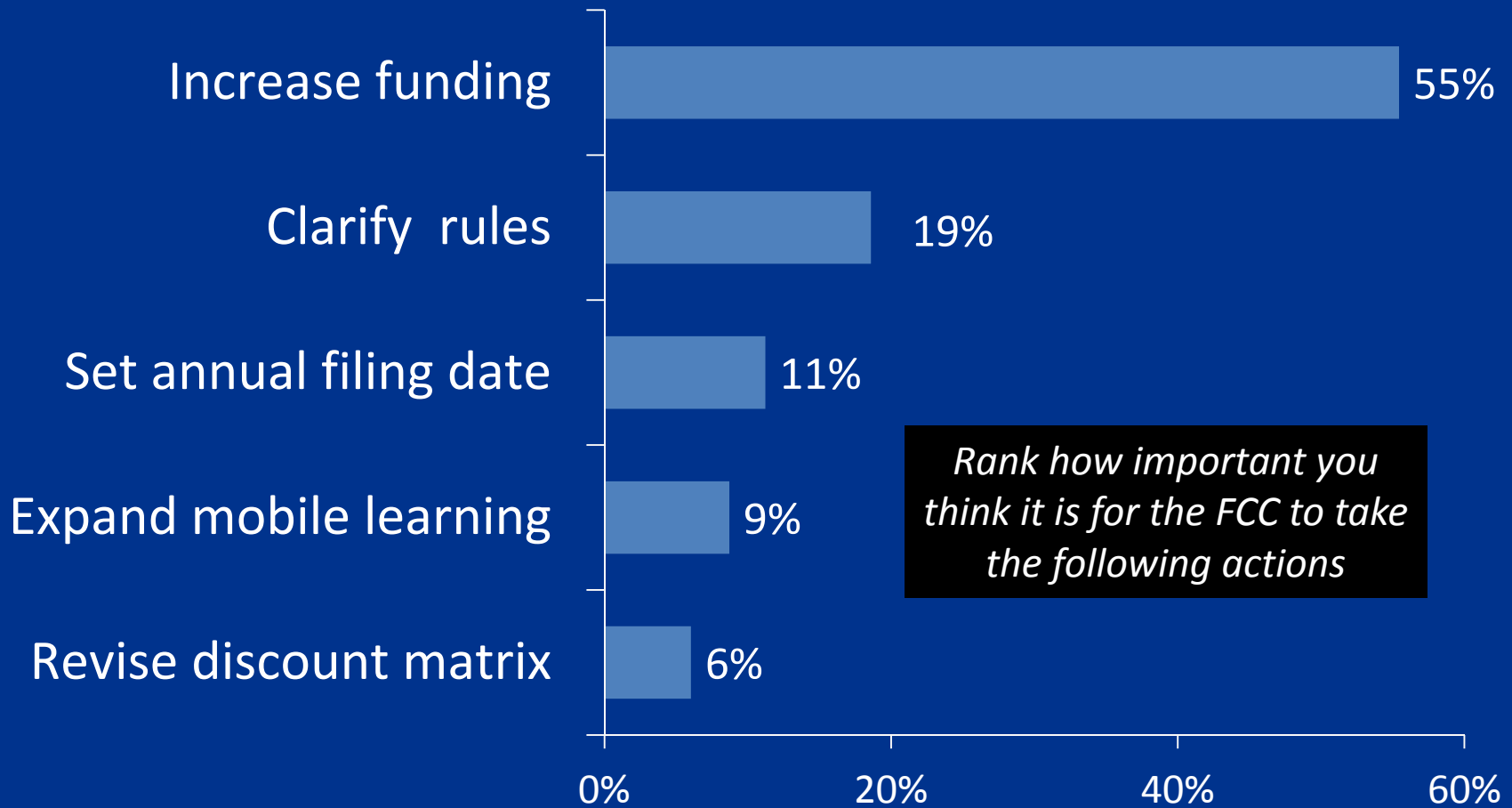
Question 4

Most difficult part of process



Question 5

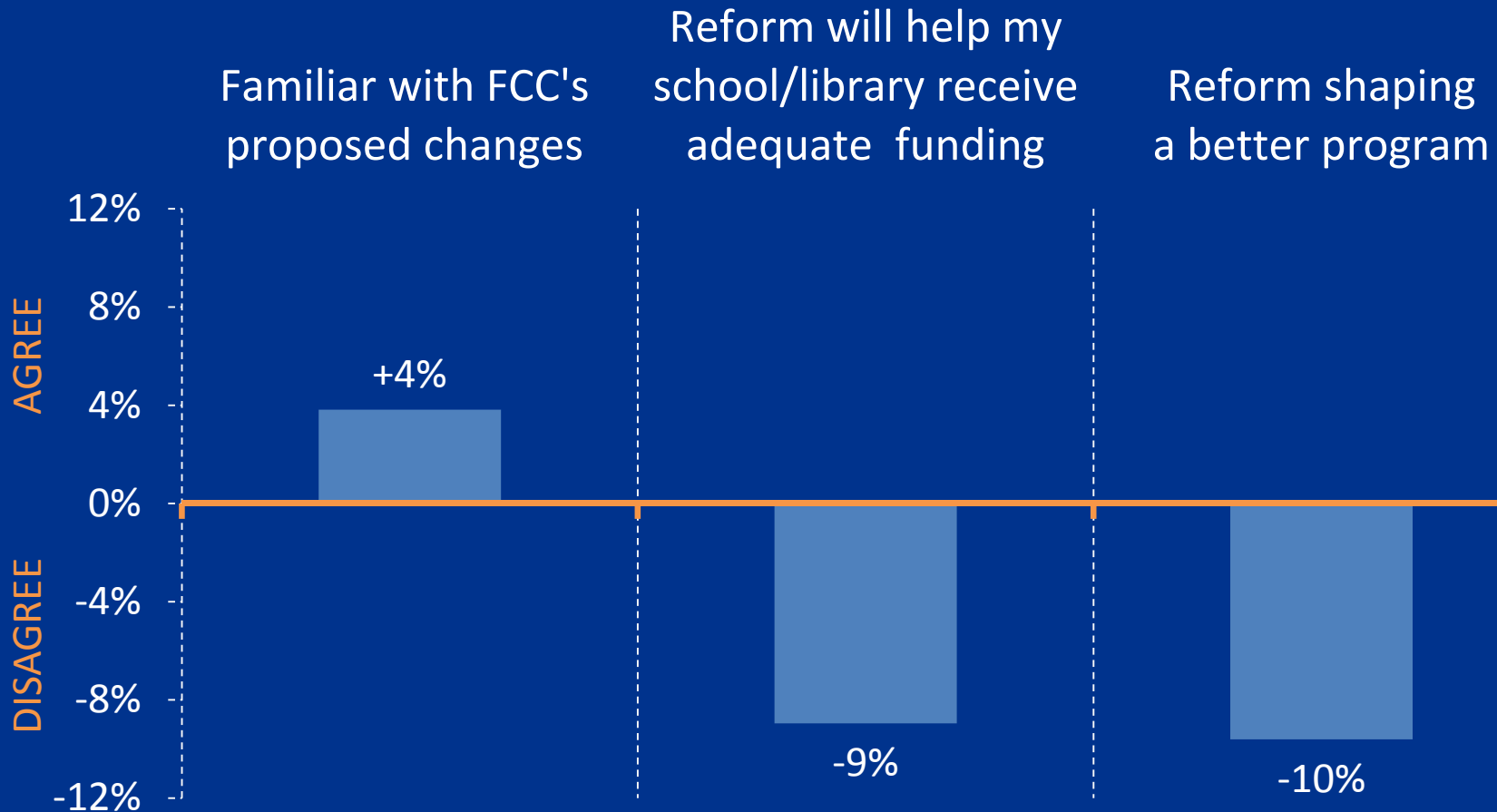
Rank 5 changes / top choice



Question 6

View of E-rate Reform

Difference among applicants who agree and disagree with statements



Indicate your responses toward E-rate reform efforts

Question 7

What if P1 = broadband and VoIP?

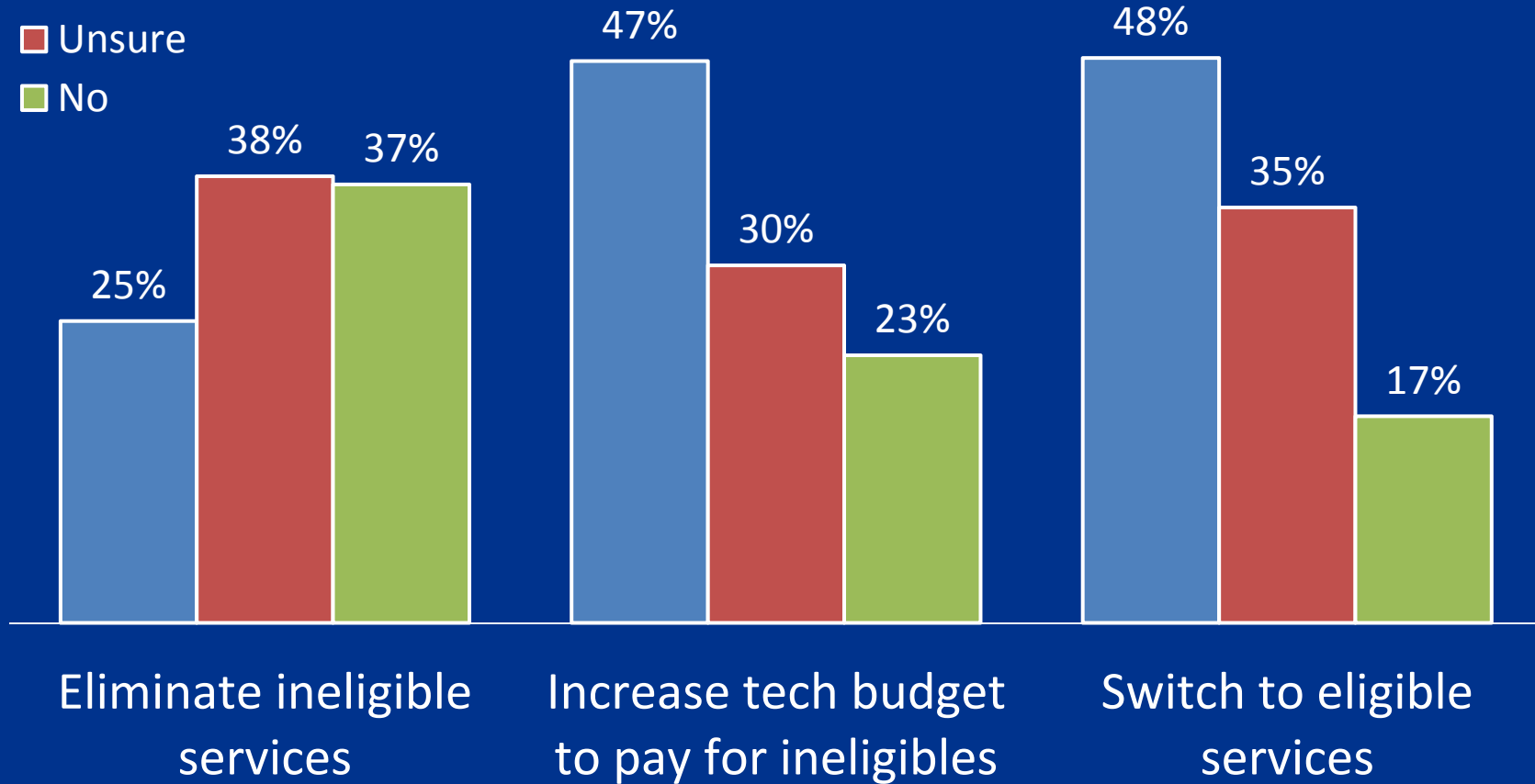


If P1 service category were limited to broadband and Voice Over IP (VoIP), how would you respond?

Yes

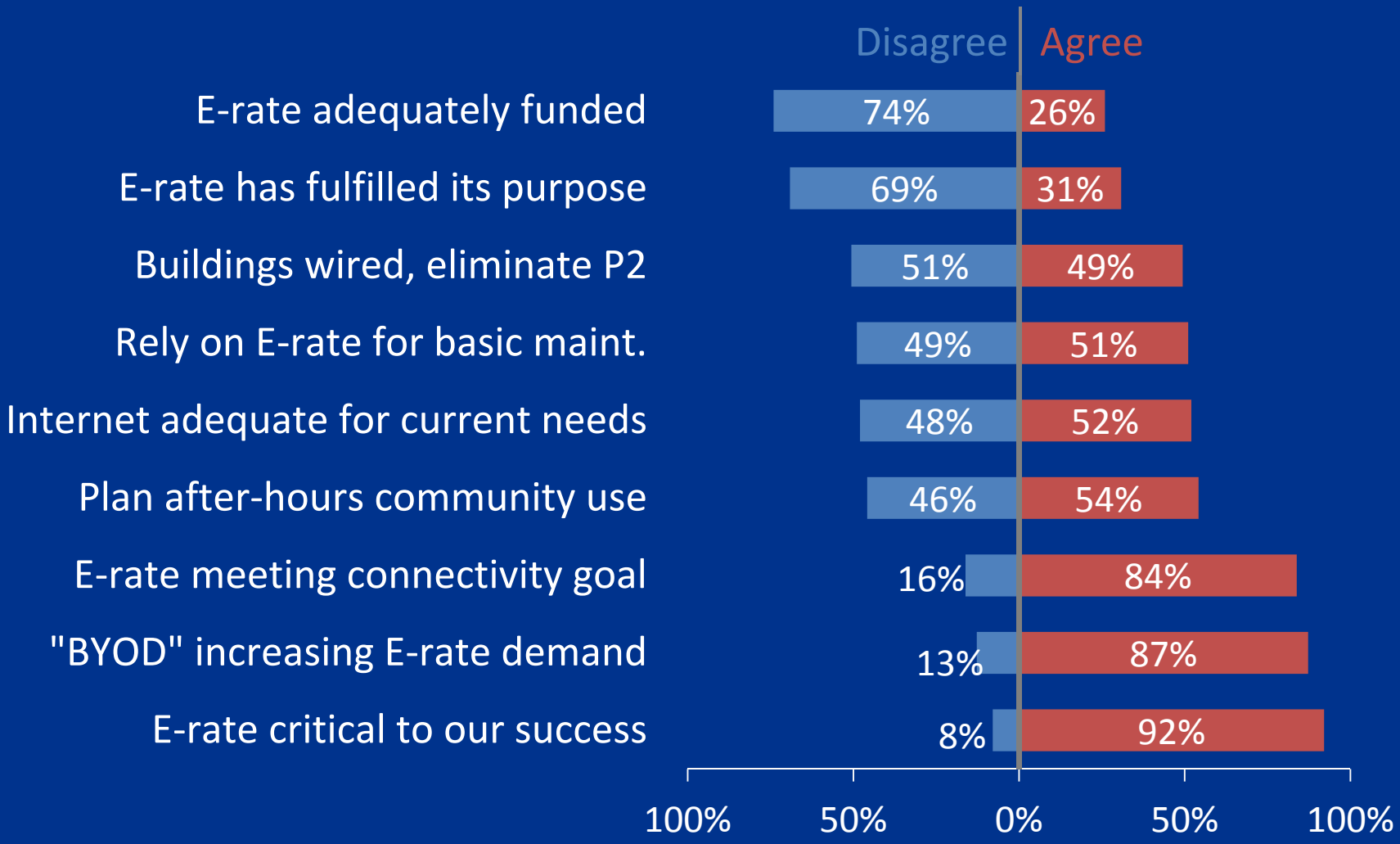
Unsure

No



Question 8

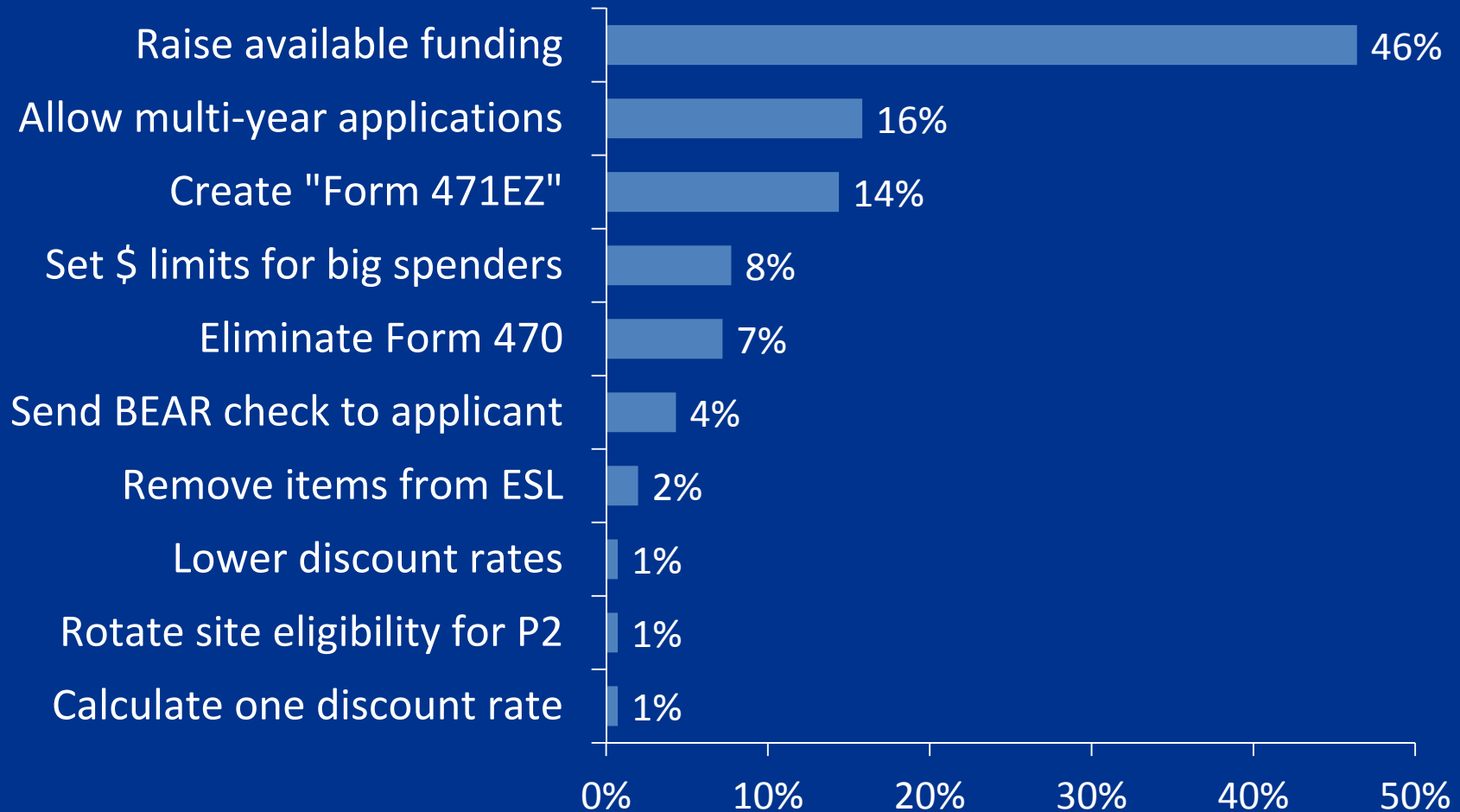
Response to E-rate Statements



Question 9

Ranking 10 Potential Changes

Which Change Received the Most Top Votes?



On-campus expense estimate based on FY2014 P2 471s

FY2014 Building Count



| Building Type | E-rate Discount | | | | | Total |
|--------------------------------|-----------------|---------------|---------------|---------------|---------------|----------------|
| | 20% to 39% | 40% to 59% | 60% to 79% | 80% to 89% | 90% | |
| School <50 students | 54 | 743 | 1,887 | 1,756 | 2,456 | 6,896 |
| School 50 to 249 students | 194 | 3,234 | 7,625 | 5,771 | 4,643 | 21,467 |
| School 250 to 499 students | 331 | 7,608 | 12,097 | 10,038 | 3,189 | 33,263 |
| School 500 to 749 students | 208 | 5,861 | 8,404 | 6,921 | 1,657 | 23,051 |
| School 750 to 999 students | 55 | 2,474 | 3,323 | 2,785 | 661 | 9,298 |
| School 1,000 to 1,999 students | 66 | 2,197 | 2,718 | 1,995 | 338 | 7,314 |
| School 2,000+ students | 7 | 459 | 590 | 360 | 60 | 1,476 |
| School New construction | | 24 | 60 | 83 | 98 | 265 |
| School Non-Instructional Bldg | 283 | 3,165 | 5,832 | 5,280 | 1,968 | 16,528 |
| Library | 7 | 1,001 | 1,209 | 2,441 | 1,460 | 6,118 |
| Grand Total | 1,205 | 26,766 | 43,745 | 37,430 | 16,530 | 125,676 |

P2 Per Building Costs (from Form 471s)



Internal Connections on a Per Building Basis

| Site Disc Rate | Site Count | Pre-Discount | Funding Request | School Out-of-pocket |
|----------------|------------|--------------|-----------------|----------------------|
| 80% | 959 | \$100,549 | \$80,439 | \$20,110 |
| 90% | 7,227 | \$153,682 | \$138,314 | \$15,368 |

Basic Maintenance on a Per Building Basis

| Site Disc Rate | Site Count | Pre-Discount | Funding Request | School Out-of-pocket |
|----------------|------------|--------------|-----------------|----------------------|
| 80% | 1,237 | \$8,638 | \$6,910 | \$1,728 |
| 90% | 12,013 | \$11,460 | \$10,314 | \$1,146 |

On-campus Cost Estimate



- Internal connections need: \$5.93 billion
 - › Using \$125,000 per building expense (pre-disc)
 - › Assumes 61.25% of buildings require investment
 - 50% buildings currently lagging
 - One-fourth of buildings current as of today (45%) will require upgrade by 2015/2016 = 11.25%
- Basic Maintenance need: \$0.59 billion/yr
 - › Assumes \$10,050 per building per year (pre-disc)
 - › Assumes 76.25% of buildings each year req. BM

Internal Connections Cost Est.



Internal connections

\$5.93 billion

4 years



Basic maintenance

\$0.59 billion

each year



\$2.08 billion

each year

2014 Survey of E-rate Applicants: Results Summary Page

Please estimate what your total budget for telecommunications and Internet services will look like five years from now:

Responses

| | |
|----------------------------------|------------------|
| Down Significantly (10% or more) | 8% (50) |
| Down Slightly (less than 10%) | 6% (39) |
| About the same | 28% (173) |
| Up Slightly (less than 10%) | 26% (162) |
| Up Significantly (10% or more) | 32% (195) |

answered question 619

skipped question 4

How would you rate your overall current technology infrastructure?

Responses

| Responses | Lagging | Current | Ready for Tomorrow |
|---|---------------------|---------------------|--------------------|
| Data Infrastructure (i.e. network switches, etc.) and cabling | 43% (265) | 47% (289) | 10% (60) |
| Telephony Infrastructure (i.e. PBX or VoIP system, etc.) | 51% (309) | 42% (254) | 7% (45) |
| Wide Area Network | 42% (253) | 47% (284) | 11% (66) |

answered question 621

skipped question 2

Please rank how important you think it is for the FCC to take the following actions. (1 is most important, 5 is least important)

Responses

| Responses | Average Rank |
|---|--------------|
| Reallocate USF funds to increase funding | 1.8 |
| Clarify program rules | 2.8 |
| Set an annual date for the Form 471 filing deadline | 3.4 |
| Expand mobile learning projects | 3.5 |
| Revise the E-rate discount matrix | 3.6 |

answered question 597

skipped question 26

Which of the following do you consider to be the most difficult part of the E-rate process in terms of time, complexity, and compliance with program rules?

Responses

| | |
|---|------------------|
| Application planning | 11% (63) |
| Competitive bidding | 25% (152) |
| Form preparation | 31% (187) |
| Starting or implementing services/goods | 4% (22) |
| Receiving discounts or reimbursements | 7% (44) |
| Audits and reviews | 15% (89) |
| Other (please specify) | 7% (42) |

answered question 599

skipped question 24

Please indicate your responses toward E-rate reform efforts

Responses

| Responses | Strongly Agree | Agree | Disagree | Strongly Disagree |
|--|-------------------|---------------------|---------------------|--------------------|
| I am familiar with the FCC's proposed changes to the E-rate program | 8% (46) | 44% (253) | 37% (211) | 11% (66) |
| I feel that E-rate reform efforts will help my school/ district/ library receive adequate E-rate funding | 5% (27) | 40% (217) | 43% (228) | 12% (64) |
| The E-rate reform efforts present a clear direction to shaping a better program | 4% (22) | 41% (218) | 45% (241) | 9% (50) |

answered question 577

skipped question 46

If you could only receive E-rate funding in one category of service, which would you choose?

Responses

| | |
|----------------------|------------------|
| Telecommunications | 29% (182) |
| Internet Access | 53% (330) |
| Internal Connections | 13% (82) |
| Basic Maintenance | 4% (25) |

answered question 619

skipped question 4

2014 Survey of E-rate Applicants: Results Summary Page

| Please respond to each statement: | | | | |
|---|---------------------|---------------------|---------------------|---------------------|
| Responses | Strongly Agree | Agree | Disagree | Strongly Disagree |
| The E-rate program is meeting its goal of connecting schools and libraries to the Internet. | 16% (91) | 68% (391) | 13% (77) | 3% (16) |
| The E-rate program is critical to our success. | 64% (371) | 28% (162) | 8% (46) | 0% (0) |
| Job done. The E-rate has fulfilled its purpose. | 5% (31) | 25% (146) | 43% (247) | 26% (150) |
| The E-rate program is adequately funded. | 4% (20) | 22% (128) | 46% (261) | 28% (162) |
| Our buildings are wired. Eliminate Priority 2 and focus on Priority 1. | 17% (99) | 32% (185) | 28% (159) | 23% (132) |
| Our Internet connectivity is adequate for our current needs. | 7% (43) | 45% (257) | 33% (193) | 15% (84) |
| We currently allow, or plan to allow, after-hours community use of tech resources. | 11% (62) | 43% (250) | 37% (212) | 9% (52) |
| E-textbooks & "BYOD" will increase our demand for E-rate funded goods and services. | 48% (277) | 39% (222) | 11% (62) | 2% (11) |
| We rely on E-rate funding for basic maintenance support of our technology infrastructure. | 29% (165) | 22% (126) | 35% (197) | 14% (82) |
| answered question | | | | 580 |
| skipped question | | | | 43 |

| Please rank each of the following potential changes to the E-rate program. <i>(1 is most positive impact, 10 is least positive impact)</i> | |
|---|------------|
| Responses | Avg. Rank |
| Allow three year Form 471 applications | 3.4 |
| Raise the amount of available funding | 3.4 |
| Create "Form 471EZ" | 3.6 |
| Eliminate Form 470 requirement | 4.5 |
| Send Billed Entity Applicant Reimbursement (BEAR) directly to applicant | 5.5 |
| Calculate one discount rate per applicant | 6.0 |
| Set funding limits against excessive applications | 6.7 |
| Remove some services/goods from the eligible services list (e.g. paging, web hosting, etc.) | 6.8 |
| Rotate site eligibility for Internal Connections (2-in-5, 1-in-5 rule, etc.) | 7.2 |
| Lower discount rates | 8.0 |
| answered question | |
| 556 | |
| skipped question | |
| 67 | |

| If the Priority One service category were limited to broadband Internet connectivity and Voice Over IP (VoIP) phone service only, how would your school/district/library deal with the elimination of funding for legacy Priority One services (switched voice, cellular paging, hosted services)? | | | |
|--|---------------------|---------------------|---------------------|
| Responses | Yes | No | Unsure |
| Eliminate services that are no longer eligible | 25% (148) | 37% (215) | 38% (219) |
| Request to increase the technology budget to pay for ineligible services | 47% (275) | 23% (131) | 30% (175) |
| Switch from ineligible voice services to eligible voice services | 48% (276) | 17% (101) | 35% (203) |
| answered question | | | 585 |
| skipped question | | | 38 |