E-RATE MODERNIZATION: CATEGORY TWO BUDGETS

The Federal Communications Commission (FCC) adopted the [E-rate Modernization Order](#) on July 11, 2014. The Order takes major steps to modernize and streamline the E-rate program and focuses on expanding funding for Wi-Fi networks in eligible elementary and secondary schools and libraries across the nation.

What are Category Two budgets? Each school receiving Category Two support in FY2015 or FY2016 will have a five-year, pre-discount budget for those products and services. (NOTE: FY means E-rate Funding Year. Funding years are referenced by their start dates, i.e., July 1. Therefore, FY2015 refers to School Year 2015-2016.)

Category Two products and services include eligible internal connections, managed internal broadband services, and basic maintenance of internal connections. Eligible products and services will be included on the final FY2015 Eligible Services List.

Each school could receive E-rate discounts on eligible products and services up to the pre-discount budget amount.

Which entities have Category Two budgets? Each individual school has a Category Two budget. School districts may not average costs across multiple school budgets.

Non-instructional facilities (NIFs) do not have Category Two budgets. If a NIF is essential for the effective transport of information to or within a school, the applicant must allocate the cost of the eligible product or service associated with the NIF to one or more of the entities benefiting from the service.

School NIF's are school buildings or buildings on school property that generally don't contain classrooms, e.g., administrative buildings, school bus barns and garages, cafeteria offices, and facilities associated with athletic activities. However, even school NIFs that contain classrooms do not have Category Two budgets.

How do I calculate the Category Two budget for a school? To calculate the budget for a school, multiply the number of students who attend the school by $150. Because there is a funding floor, if fewer than 62 students attend the school, the budget is set at $9,200.

Note: If a student attends more than one school (e.g., if the student from one school attends a vocational training school one afternoon a week), both schools can count that student for the purpose of calculating their respective budgets.

What time period does my Category Two budget cover? Category Two budgets are subject to a five-year cycle beginning with the first funding year in which you receive Category Two support. However, the budgets can be used as needed, and schools are not required to use one-fifth of the budget each year.

For example, if your student population does not change and you use some or all of your budget in FY2015, your available budget for FY2016 would be your original budget for FY2015 less any of that

budget you used in FY2015, and so on for the remainder of the five-year period that started with FY2015.

If you receive funding in FY2015 and/or FY2016, the former Two-in-Five rule will not apply. Rather, you can continue to use your Category Two budget for the five-year period that started with FY2015 (or FY2016, if you did not receive a commitment for FY2015).

Can my Category Two budget change from year to year? Your budget is impacted by commitments featuring your school, which could be on an application you file or an application filed on your behalf, such as a consortium application.

Your budget could increase for FY2016 if your student count increases, or it could decrease if your student count decreases.

Please note that for existing schools, if you have used your entire budget for FY2015 and your student count for FY2016 decreases, you do not have to repay the Fund for money disbursed in excess of the budget.

For new schools or new construction, however, if you overestimate your student count and exceed the five-year pre-discount budget the next funding year, you must return any funds in excess of the allowable budget.

How is the cost of services counted against my Category Two budget? Each applicant will allocate the cost of the Category Two products and services to the entities sharing them. Each amount allocated to a particular school will count against the budget for that school.

Remember that your Category Two budget is based on the **PRE-DISCOUNT** cost of the products and services allocated to your school. A change in your E-rate discount from year to year does not affect the amount of your Category Two budget, only the amount of the cost that USAC will reimburse.

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Category 2 in a nutshell...

Changes to Eligible Services/Equipment

Eligible: Broadband distribution services and equipment needed to deliver broadband to students, e.g., routers, switches, WAP's, internal cabling

Ineligible: Components that do not support broadband distribution, e.g., servers, voice/VoIP components, circuit cards, video components

— The budget method for calculating the pre-discount cap is in place for the next two years. The FCC must either act to continue this method, enact a new process, or default back to the pre-existing process.

— Without an increase to the funding cap (currently on the table), Category 2 will only be available for highest discount (85%) applicants, and perhaps even for 80% applicants.

— If 80% funding has to be allocated, applicants with highest percentage of student eligibility will be funded first (e.g., 74%, 73%, 72%, ...). The situation could improve somewhat for the following year, but probably not enough to fund all applicants.

— Category 2 funding, like Priority 2 funding, is difficult to project

— Includes Non-Instructional Facilities only if essential to effective transport of information to/within schools

— Maximum Five Year Funding/Reimbursement = Category 2 Five-Year Budget (Based on Annual Enrollment) x Application Year's E-rate Discount (Based on Free/Reduced Lunch Eligibility)

Maximizing Cost-Effectiveness (Pending for 2016-2017)

— Category Two Preferred Master Contracts (PMC)

— Master contracts designated by the FCC as Preferred Master Contracts to offer nationwide opportunities to obtain excellent pricing for Category Two equipment

— No PMC's designated at this time