



# Is USF Priority 2 Funding At Risk?

Summer 2011

## Priorities Compete For USF Funding



For many schools, school districts and libraries, the Universal Service Fund (USF) is an important funding source for basic telecommunications and Internet services. The program, originally introduced in 1997<sup>1</sup>, provides subsidies for the Priority 1 services of telecommunications and Internet connectivity.<sup>2</sup>

Less well known is that the same program currently provides funding for internal connections and basic maintenance, known as Priority 2 services.<sup>3</sup> Priority 2 services receive funding only after the program administrator approves requests for all eligible Priority 1 services.<sup>4</sup> Since Priority 1 costs absorb most of the USF funds in any given year, only the most economically disadvantaged schools receive funding for Priority 2 services. In practical terms, only schools where at least 75% of the students are classified as low-income receive any Priority 2 funding.<sup>5</sup>

Priority 2 services enable e-Rate eligible entities to acquire wiring and components that expand data access within the building. Internal connections could include wiring to individual classrooms or the addition of wireless networking within a building or across a school campus.

Basic maintenance enables e-Rate eligible entities to make needed repairs or maintain eligible hardware, wire, and cable systems; receive basic technical support; and pay for engineering services required to keep the network running.<sup>6</sup>

A fee, which is levied on companies that provide interstate and international telecommunications services, provides the funding basis for the USF program.<sup>7</sup> In turn, providers apportion the USF fee to each landline telephone subscriber.

## Priority 1 Funding Requests Rose By 10% in FY 2011

More than 2/3 of the e-Rate eligible entities do not currently participate in the program,<sup>8,9</sup> but the sharp rise in Priority 1 funding requests in the past four program years indicates that this is changing. In FY 2007, the USF program fielded almost 23,000 applications from eligible entities for Priority 1 services, representing approximately \$3.8 billion in funding requests.<sup>10</sup> In FY 2011, the number of Priority 1 applications swelled to 44,000

and sought more than \$4.3 billion in subsidies. The increase in applications between FY 2010 and FY 2011 alone was about 10%.<sup>11</sup>

Because program funding is limited, more Priority 1 applications mean that fewer Priority 2 applications receive consideration in the same funding cycle. The FY 2010 threshold for Priority 2 funding was 81%,<sup>12</sup> meaning that entities whose USF discount is 80% were not

considered for Priority 2 funding requests. Historically, the following Priority 2 funding thresholds applied:

FY 2009	77%
FY 2008	87%
FY 2007	81%
FY 2006	86%
FY 2005	80%
FY 2004	81% <sup>13</sup>

Not all applications for Priority 2 funding from entities within the threshold range receive consideration or funding. The program ad-

ministrator approves Priority 2 requests in a "top-down" fashion until all available funds are gone.<sup>14</sup> Entities whose discount level falls within the threshold may still be turned down for Priority 2 funding requests if no funds are available. For the FY 2011, experts estimate that Priority 2 requests in only a very narrow discount range – between 90% and 88% – may receive partial or full funding for Priority 2 requests.<sup>15</sup>

# Budget Cuts, Changing Needs Drive Funding Requests

How high are the numbers of new Priority 1 funding requests likely to rise? It's hard to say, but nationally, K-12 funding at the state and local levels are experiencing significant budget cuts. The American Association of School Administrators predicted that 30% of public school districts in the United States would see budget cuts of between 11% and 25% in the 2010-11 school year. The same group predicts that 75% of public school districts in the US will eliminate personnel in the 2011-12 school year to offset budget cuts.<sup>16</sup>

At the same time school districts implement these cuts, more than \$100 billion in federal stimulus funding for primary and secondary education will expire.<sup>17</sup> Declines in property tax revenues, state-level budget cuts and millage failures are reducing public school district funding further.

To offset these losses, the USF expects to receive many first-time applications for program subsidies from eligible entities.

Eligible entities that already participate in the program

have indicated their need for more e-Rate eligible services. The results of a recent survey released by the FCC<sup>18</sup> show that 80% of e-Rate eligible entities do not believe that their current Priority 1 Internet connections are sufficient to meet their needs.<sup>19</sup> Moreover, nearly 40% of respondents say that the cost of service is a barrier to getting appropriate Internet connectivity,<sup>20</sup> and more than one-quarter say the cost of installation of new service is a barrier to meeting their Internet needs.<sup>21</sup>



## Do Current Services Meet Applicants' Needs?

One issue that the Universal Service Administrative Company (USAC) has identified could produce additional funding requests by current program participants. Results from the USAC survey indicated that 15% of survey respondents did not know what their Internet connection speed currently is,<sup>22</sup> and 18% of respondents could not identify the minimum Internet connection speed required to meet their educational objectives.<sup>23</sup>

Among respondents whose organizations had dedicated IT professionals, however, this lack of information was almost nonexistent.<sup>24</sup>

This suggests that a significant number of organizations without dedicated IT members may be suffering because they do not know what to request from the program. As they begin to make a more coherent assessment of their educational needs, their funding requests could rise substantially.

One other concern is that the connectivity needs of USF participants are becoming more sophisticated. As this occurs, their existing Internet connections are less able to meet users' educational objectives.

For example, 95% of survey respondents said that their USF-funded Internet connectivity provided adequate service for email,<sup>25</sup> but the percentages dropped sharply when respondents were asked about student- and classroom-oriented applications.

Eighty-eight percent of respondents said that their connections were sufficient for Web browsing,<sup>26</sup> 73% said their connections were sufficient to support online databases and library resources,<sup>27</sup> 72% said their connections were sufficient to support online learning applications,<sup>28</sup> and 66% said their connections were sufficient to support online testing and assessment applications.<sup>29</sup>

On the other hand, only 48% percent of respondents said their connection was sufficient to support online learning management systems,<sup>30</sup> 43% said that their Internet connections were adequate to support streaming video;<sup>31</sup> 35% said their connections could adequately support video conferencing,<sup>32</sup> and 28% said their connections could support Voice over IP.<sup>33</sup>

To address these concerns, Congress authorized some important changes to the e-Rate program. Among other things, a FY 2011 pilot program will allow 20 e-Rate eligible entities to use USF funds for mobile learning initiatives.<sup>34</sup> Prior to the pilot program, schools were only permitted to purchase mobile devices using USF dollars if the devices remained on campus. With the changes, the selected entities may use USF funds to provide mobile devices for after-hours and off-campus use if they can tie the devices generate improvements in student achievement.



# What To Expect From USF In FY 2012

What should e-Rate eligible entities draw from this? Most schools and libraries say their Internet connectivity is insufficient. Three-fourths of public schools will experience staff cuts as the result of budget shortfalls in the 2011-12 school year.

Nearly 40% cite cost as a factor in their inability to obtain an appropriate connection to the Internet. A significant number of program participants do not know what they have or need in terms of Internet connectivity, and a growing number of program participants say that their Internet connectivity cannot support applications that drive or enhance learning.

Further, the program rules are being changed to fund previously prohibited acquisitions and functions, like mobile learning devices, certain types of infrastructure and expanded, after-hours use.

All of these factors point to

a single conclusion: the number of USF Priority 1 requests will likely rise above current levels in the upcoming FY 2012 funding cycle as e-Rate eligible entities attempt to cope with growing technology needs and shrinking budgets.

Given the slim availability of Priority 2 funding in the current year, Priority 1 funding requests in FY 2012 may completely eliminate Priority 2 funding opportunities for the first time in program history.

Further, the anticipated increase in applications for USF funds indicates strong pressure on program participants to complete their USF applications as early as possible to ensure themselves the best chance to secure USF dollars.

MiCTA, a national, non-profit group purchasing organization, is dedicated to helping its members acquire telecommunications and technology services at the

lowest possible prices. In addition, MiCTA has developed a line of products and services that are designed to help MiCTA members make the most of their e-Rate eligibility.

MiCTA has voice and data contracts with national telecommunications and Internet service providers. Our providers not only offer exceptionally low rates on voice and data services to our members, they also provide exciting new mobile learning options that have been shown to increase student achievement. The USF has approved the use of these contracts by our program-eligible members, and MiCTA now offers e-Rate consulting services to support our e-Rate eligible members throughout the application process.

For more information about MiCTA, MiCTA vendors and USF-eligible services, please visit:

<http://www.mictatech.org/>



## Endnotes

- 1: [http://www.universalservice.org/\\_res/documents/about/pdf/fcc-orders/1997-fcc-orders/FCC-97-157.pdf](http://www.universalservice.org/_res/documents/about/pdf/fcc-orders/1997-fcc-orders/FCC-97-157.pdf)
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- 6: <http://newsletters.fundsforlearning.com/FFL%20White%20Paper%20-%20E-rate%20Review%20-%2010%20Years%20and%20Counting.pdf>
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- 34: [http://hraunfoss.fcc.gov/edocs\\_public/attachmatch/DA-11-439A1.pdf](http://hraunfoss.fcc.gov/edocs_public/attachmatch/DA-11-439A1.pdf)

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## About MiCTA

MiCTA is a national, non-profit organization dedicated to meeting the technology needs of its membership. Our membership is comprised of higher education institutions, K-12 schools and school districts, local and state governmental entities, libraries, charitable organizations, health care providers and organizations, and religious organizations.

We serve our membership in several important ways. By aggregating demand for telecommunications and technology services, and negotiating favorable pricing with a number of vendors, MiCTA helps its membership take advantage of the latest technologies at highly affordable rates.

Currently we offer our members substantial discounts from well-known vendors on services like:

- Telecommunications
- Voice over IP
- IP Networking
- Cellular and Wireless
- Fixed Wireless
- Specialty Technology Services
- Equipment Purchases
- Learning Management Systems
- Emergency Notification Systems
- Video Integration Services

Our contract pricing on certain services is available for use by all of our E-Rate eligible members.

We are also working to bring a number of new services of special interest to our members under contract.

Beside negotiating substantial discounts on technology and telecommunications services, MiCTA also works closely with its membership on governmental, regulatory and technology issues to ensure that the needs of our members are heard and addressed.

MiCTA works to resolve common voice, video and data problems that negatively impact our members. We do this by bringing vendors and members together to identify issues and develop meaningful solutions.

MiCTA is a clearinghouse for information on new technologies, products and services that may be useful to our members. Our members look to us as a technology leader and resource.

MiCTA also offers opportunities to enhance the competence and professional status of member administrators. By providing unique learning opportunities, conferences, workshops, seminars, RFP development and evaluation opportunities, and discussion forums, we enable our members to share processes, methods and solutions that provide our members with a common benefit.

MiCTA was established in 1982 and has worked since that time to satisfy the

needs of its membership. Initially, MiCTA served its members by providing an information-sharing forum for telecommunications directors.

In 1988, MiCTA adopted a new mission—to aggregate the demand for telecommunications services among its 15 members and negotiate discounts of as much as 85% on long-distance telecommunications services.

From that point, MiCTA's membership expanded to include a wide variety of members from the non-profit, educational, governmental, library and health care sectors. Today, MiCTA's membership numbers in the thousands and we continuously look for ways to improve the delivery of technology services to our members at the best possible pricing from the best-known technology providers in the marketplace.

If your organization is not currently a MiCTA member, we invite you to see what we have to offer, and learn how we can save your organization money on the latest telecommunications and technology services and products.

For more information about MiCTA, please visit us on the Web at

<http://www.mictatech.org>

or call us toll-free at

**(888)-964-2227**