



FCC Chairman Proposes Permanent \$1.5 Billion Increase in Annual E-rate Funding

A Connected Nation Policy Brief

November 17, 2014

Today, in order to address the growing broadband connectivity needs of the nation's schools and libraries, Federal Communications Commission Chairman Tom Wheeler proposed that the FCC increase the permanent size of its E-rate universal service program by 62%, from the current \$2.4 billion per year to \$3.9 billion per year.

The FCC released a [fact sheet](#) that describes the proposal and a [detailed Staff study](#) of school and library connectivity needs in conjunction with Chairman Wheeler's announcement today. The FCC will vote on the Chairman's proposal at its upcoming December 11, 2014, meeting.

The E-rate program was established in 1997 as required by the Telecommunications Act of 1996, and has since provided approximately \$2.2-2.4 billion per year in discounts to K-12 schools and public libraries for their telephone, Internet, broadband, and internal network needs. E-rate discounts are larger for schools and libraries in low-income and rural areas, and schools and libraries apply to receive those discounts annually. Total E-rate spending has been subject to a hard annual cap of \$2.25 billion established early in the program's history in 1999 and adjusted for inflation in 2010. In recent years, requests for E-rate funding from schools and libraries have far exceeded the cap, and, as a result, many funding requests from libraries and schools have been gone unfilled.

As noted in our prior [Policy Briefs](#), the FCC began to modernize the E-rate program in 2013, and earlier this year [the FCC adopted](#) a series of reforms designed to:

- Direct an additional \$1 billion per year beyond the cap that is dedicated for school and library internal Wi-Fi networks,
- Begin to phase out E-rate subsidies for legacy services such as dialtone telephone service,
- Encourage and facilitate cost-saving consortia purchases of broadband connections, and
- Increase data transparency in the program to facilitate cost-effective purchase decisions.

The FCC also established school and library broadband capacity targets, in line with targets set under the [White House ConnectED Initiative](#), and asked for public comment regarding the future size of the E-rate program necessary to meet those targets. Many commenters provided information and data (summarized and analyzed in the [Staff Report](#)), which demonstrated that meeting those high-speed broadband capacity targets would require significantly more funding, even beyond the additional incremental funding the FCC had identified for internal Wi-Fi networks.

For example, with regard to public libraries, FCC staff states that less than 1% of public libraries meet the FCC's long-term E-rate target connectivity level. The FCC Staff Report also details that 2 in 3 school districts state that not a single school in their district currently meets the FCC's target of 100 Mbps of connectivity for every 1000 students and staff. In addition, 58% of districts state that the monthly expense of connectivity is the most significant barrier they face. Importantly, while 39% of schools in affluent areas meet the FCC's high-speed broadband targets, only 14% of schools in low-income rural and urban areas meet those targets.



Chairman Wheeler's Proposal

Chairman Wheeler's proposal today includes:

- Permanently increasing the E-rate cap to \$3.9 billion per year, beginning in 2015, and
- Instituting a "series of targeted policy changes" that the Chairman claims would result in more "affordable" purchases of bandwidth. Chief among these proposals are changes to FCC E-rate rules that would allow schools and libraries to apply for an E-rate subsidy for a one-time capital construction project of high-speed connectivity. Current E-rate rules require that such purchases be annualized.

The E-rate program is funded through the FCC's Universal Service Fund (USF), which is financed through a percentage assessment of consumer and business purchases of interstate and international telecommunications services, both fixed and mobile. The current size of the USF is approximately \$9 billion per year. FCC staff claim that increasing the fund by \$1.5 billion per year would cost each purchaser of telephone service about \$1.90 per year, or 16 cents per month for each telephone or mobile line.

The Chairman has proposed that the cap increase apply beginning in the 2015/2016 funding year and would be in addition to the additional \$1 billion per year in funding already allocated by the FCC in its July 2014 order to support on-campus wireless networks at schools and libraries. As prior [Policy Briefs](#) have discussed, that additional \$1 billion per year dedicated to on-campus networks is contingent upon there being adequate E-rate funds to support school and library requests for high-speed broadband connections directly to campus. Increasing the cap to \$3.9 billion would make it more likely that the FCC would be able to devote the full additional \$1 billion per year to upgrade on-campus wireless networks.

Reactions and Next Steps

The FCC's first July 2014 E-rate modernization order passed on a partisan 3-2 vote, and it is expected that consideration and debate on the Chairman's proposal will take on a similar pattern. Commissioner Ajit Pai today released a [statement](#), describing the proposal a "massive post-election tax increase." Dozens of library and education groups have vocally supported the Chairman's proposal, including the [American Library Association](#), the [National Education Association](#), and the [International Society for Technology in Education](#). A group of 16 national education and library associations released a [joint statement](#) endorsing the Chairman's proposal.

[Education Secretary Arne Duncan](#) said that the FCC's proposal will advance President Obama's goal of connecting 99% of America's students to high-speed broadband. Secretary Duncan stated that the proposal will help ensure that "all students have the opportunities that accompany high-speed wireless in their classrooms, learning devices to access the internet and high-quality digital learning resources." Doing so would "help level the playing field so that all students have access to fast broadband, giving them the best chance to succeed in the global economy."

The FCC will consider the Chairman's proposal at its December 11, 2014, meeting. If adopted, the increase in the cap would take effect for the 2015/2016 E-rate funding year. Applications by schools and libraries for the 2015/2016 funding year will start to be accepted in January 2015. If approved, the increase in the E-rate fund could have an immediate and substantial impact upon school and library broadband purchasing opportunities and decisions.

For more information about E-rate modernization, please contact Connected Nation at policy@connectednation.org.