Category Two Budgets

2023 Applicant and Service Provider Training

October 17, 2023

Universal Service
Administrative Co.

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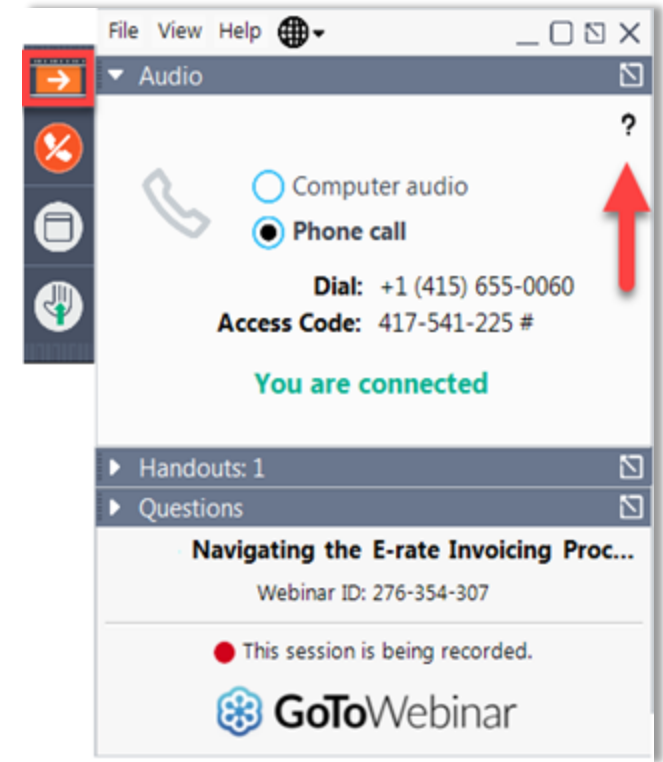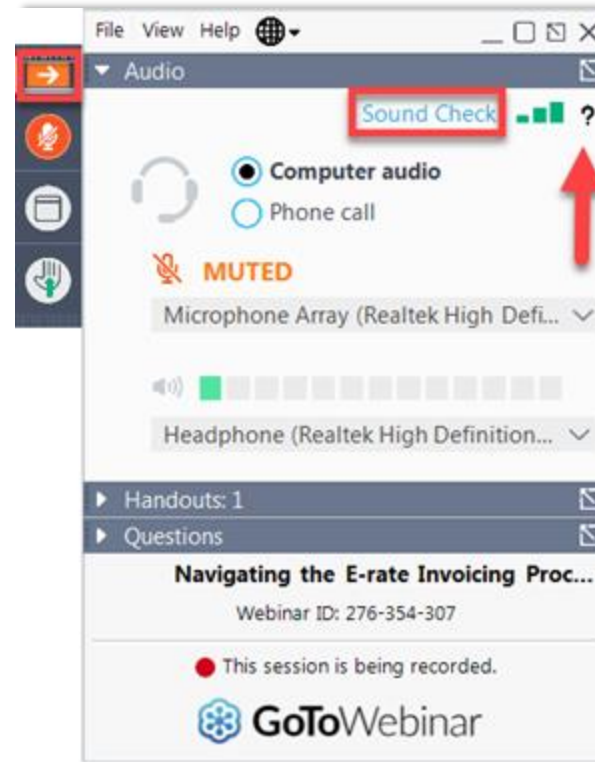
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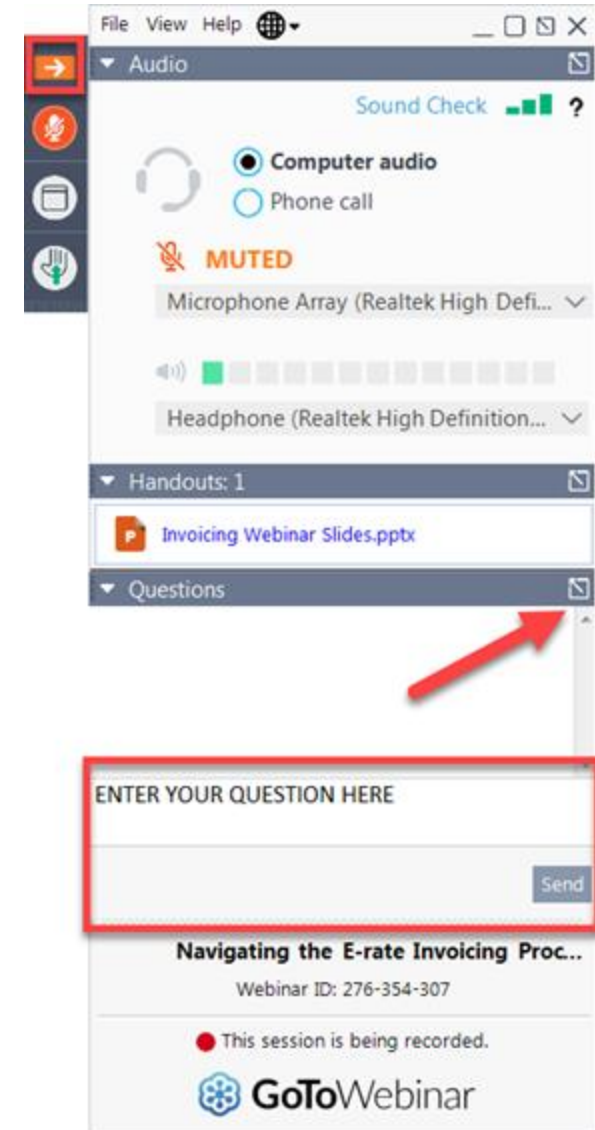
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MEET THE TEAM

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AGENDA

- Service Category Refresher
- Category Two Budgets
- Category Two Budget Foundations
- Hybrid Calculation Option
- Special Cases: Equipment Transfers and Budget Resets
- Q&A

Updates for Funding Year 2024

The FCC made the following program rule changes to encourage greater Tribal participation and to simplify the E-Rate program process for all participants.

- Cost allocation to remove the costs associated with a Non-Instructional Facility's (NIF's) use of the shared equipment in NIFs and related-library administrative buildings is no longer required.

- Tribal College and University (TCU) libraries may now apply for and receive E-Rate support, provided they are also serving as a public library in their community.

- Maximum discount rate for category two services increased to 90% and the funding floor increased to $55,000 for Tribal libraries.

Service Category Refresher

Service Category Refresher

- Category One (C1) Services
    - Provide data transmission and/or internet service **to the building.**
    - There is no budget limit for Category 1 services.

- Category Two (C2) Services
    - Are specific equipment and services that provide connectivity **inside the building.**
    - Funding for Category Two services is limited by the **Category Two Budget.**

For more information on Service Categories, visit the Eligible Services Overview page on the E-Rate website

Service Category Refresher

- Category Two (C2) includes equipment and services necessary to transport information to classrooms or publicly accessible areas of a library.

- Category 2 services are subdivided into three groups:

  - **Internal Connections** (IC) – Equipment needed to utilize a broadband connection within a school or library. This includes, for example, routers, switches, cabling.

  - **Basic Maintenance of Eligible Broadband Internal Connections** (BMIC) – Covers the repair and upkeep of the eligible equipment needed to use a broadband connection within a school or library.

  - **Managed Internal Broadband Services** (MIBS) – Services provided by a vendor related to the operation, management, and monitoring of eligible internal connections (owned or leased equipment) necessary for the broadband connectivity within schools and libraries.

End-user equipment, such as laptops , computers, headsets, speakers, are **not eligible** for E-Rate funding.

Service Category Refresher

Category Two (C2) service examples:

- **Internal Connections**
    - For example, cabling, routers, switches, modems, and wireless access points.
    - Necessary software or licenses to use the equipment.
- **Basic maintenance of Internal Connections** (BMIC)
    - The repair and upkeep of eligible internal connections (bug fixes or patches).
    - Multi-year maintenance service subscriptions (software updates).
    - Must divide multi-year requests by each funding year (i.e., a three-year subscription should be requested annually for one third of the price over three years).
- **Managed internal broadband services** (MIBS)
    - Managed Wi-Fi Agreement

Category Two Budgets

Category Two Budgets - A Fixed, Five-Year Cycle

- E-Rate funding for Category Two equipment and services is calculated on a fixed, five-year cycle.

  - The first five-year cycle began in FY2021 and continues through FY2025.

- **C2 budget:** The maximum amount of E-Rate funding available for C2 equipment and services over the five-year period.

- **Funding floor:** The minimum C2 budget for each child entity is $55,000 for Tribal libraries and $25,000 for all other entities.

Calculated at School District or Library System level

- School districts and library systems **allocate funding among their sites (or child entities)** as they see fit. USAC does not dictate how the budgeted entity allocates funding.

- C2 calculations are pre-discounted, meaning the full price of a C2 equipment or service is subtracted from your budget when you purchase it.

- C2 budgets are set at the beginning of the five-year cycle and apply to the entire cycle.

  - A district that joins E-Rate in 2023 receives a five-year budget (FYs 2021-2025).

  - If that same district had joined E-Rate in 2024, they would receive the same amount to use from FY 2024 through FY 2025.

Three Methods of Calculating Category Two Budgets

1. C2 Multipliers

    - A **school district** multiplies the number of students at each site by the **school multiplier** provided by USAC **($167 per student)**

    - A **library system** multiplies the square feet at each site by the **library multiplier ($4.50 per square foot)**

2. C2 Funding Floor

    - A flat **$25,000 per site** is allocated to the school district or library system, $55,000 for Tribal library sites.

    - If your Multiplier calculation is less than the Funding Floor, **USAC provides the higher amount** as your budget.

3. Hybrid Method: the option to calculate your C2 budgets on a per-site basis and then combine the results.

    - *Only available as an option if your school district or library system has ten or fewer sites.

Calculate a Category 2 Budget for a School District

- Each system or district receives an aggregated Category Two (C2) budget.

- The Category 2 budget is the **greater** of the following:

  - Method 1: The district total **full-time student count** multiplied by the **school multiplier.**

  - Method 2: The **number of individual schools** multiplied by the **$25,000 funding floor** (Aggregate funding floor).

- Calculating an independent school budget works the same way, using their site(s) for the calculation.

Hybrid Calculation – School System

	# Students	Multiplier	Total	Funding Floor
School 1	200	$167	$33,400	$25,000
School 2	300	$167	$50,100	$25,000
School 3	140	$167	$23,380	$25,000
School 4	125	$167	$20,875	$25,000
School 5	130	$167	$21,710	$25,000
			$149,465	$125,000

Hybrid Budget Total = $158,500

Calculate a Category 2 Budget for a Library System

The Category 2 budget is the **greater** of the following:

- Add the **square footage** of each of the library branches and then multiply this total by the **library multiplier**, or

- Multiply the **number of library branches** in the system by the **$25,000 funding floor** (aggregate funding floor). Multiply by $55,000 for Tribal Library Systems.

Calculating an independent library's budget works the same way, using only their site for the calculation.

Hybrid Calculation – Library System

	Sq Footage	Multiplier	Total	Funding Floor
Library 1	7,000	$4.50	$31,500	$25,000
Library 2 (Tribal)	2,000	$4.50	$9,000	$55,000
Library 3	9,500	$4.50	$42,750	$25,000
Library 4	13,400	$4.50	$60,300	$25,000
Library 5	10,840	$4.50	$48,780	$25,000
			$192,330	$155,000

Hybrid Budget Total = $238,330

Schools - How To Report Student Counts

School districts report student counts separately for the purposes of calculating Category 1 discounts and Category 2 budgets.

Two options:

- Report both student counts in each individual school profile.
- Report the total student count for the school district.

Schools - How to Count Students

- Schools can only count **full-time students** for their Category 2 budget calculations.

- Large school districts (those with more than 10 schools) **may not estimate** the number of students for buildings **under construction**.

- Independent schools **can** estimate student counts for a new school while construction is underway.

  - If the independent school overestimates, it must return to USAC any funding in excess of that it was entitled to by the end of the next funding year by filing an FCC Form 500.

After Your Budget Calculation

- Student counts and library square footage are validated during the **Program Integrity Assurance** (PIA) Review phase.

- Information that you should retain:

  - Category Two budget calculation records, including information on your school student counts and library square footage.

  - E-Rate's [document retention](#) policy.

Category Two Budget Foundations

Child Entity Counts

- The **child entity count** is the number of the individual schools in a school district or the number of library branches in a library system.
  - School District/Library System = parent entity
  - Individual School/Library = child entity

- The number of child entities in the EPC profile affects how you calculate the C2 budget.

Category Two Cost Allocations

- **Budgeted entity:** An entity with a C2 budget
  - i.e., school district, library system, or independent school or library.

- A budgeted entity does not need to provide USAC with a cost allocation of its C2 budget among its child entities.

- A consortium must allocate the costs of C2 funding requests among its budgeted entity members, but not to those members' **individual child entities**

- The consortium members' C2 budgets will be visible during the FCC Form 471 filing process.

- Cost allocation to remove the costs associated with a NIF's use of the shared equipment in NIFs and related-library administrative buildings is no longer required.

Category Two Student Count in EPC

Here is a screenshot of a school district's organization profile page, where the school district chose **Manage Organization** in the top right corner to change its status to reporting one number for the school district:

Category Two (C2) Budget Information

We calculate your Category Two budget and your discount rate separately, and so we collect separate numbers for each. You are allowed to re-use your Category Two student count from year to year within a Category Two budget cycle, so this number needs to be updated less frequently than the student count for your discount rate.

How does the district report its student count for Category Two budget? ❓ *

🔘 One number for my whole district

⭕ A number for each school in the district

District Student Count *

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In the event an applicant chooses to enter **one number for the whole school district**, their C2 budget is calculated by multiplying that number by $167 per student (or the funding floor if that is greater). This can be decided on a per-child-entity basis.

Hybrid Calculation Option

Hybrid Option For School Districts With 10 Or Fewer Sites

- **School districts with 10 or fewer sites** are allowed to use a hybrid approach, choosing the multiplier method OR the funding floor method on a per-site basis, to optimize their total funding.

    - **Schools with fewer than 150 students** can use funding floor method. The $25,000 funding floor applies if an individual school has fewer than 150 students (149 students x $167/student = $24,883).

    - **Schools with 150 or more students** can use the multiplier method

- The school district allocates this calculated C2 budget among its individual schools (or child entities) as it deems appropriate.

Hybrid Option for Library Systems With 10 Or Fewer Branches

- **Library systems with 10 or fewer sites** are allowed to use a hybrid approach, choosing the multiplier method OR the funding floor method on a site-by-site basis, to optimize their funding.

  - **Library branches with less than 5,556 square feet (or 12,223 feet for Tribal libraries)** can use the funding floor method. The $25,000 funding floor applies if library branch has less than 5,556 square feet (5,555 square feet x $4.50/square foot = $24,997.50).

  - **Library branches with 5,556 square feet or more** should use the multiplier method.

- The library system allocates this calculated C2 budget among its libraries (or child entities) as it deems appropriate.

Special Cases: Equipment Transfers & Budget Resets

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Category Two Equipment Transfers

- School districts and library systems can transfer equipment between their associated child entities.

  - They are not required to notify USAC of these equipment transfers.

  - Transferor and recipient must maintain **detailed records** documenting the transfer and the reason for the transfer for at least **five years**.

  - Schools, libraries, and consortia must maintain asset and inventory records of equipment purchased and the actual locations of such equipment for at least 10 years after purchase.

- School districts and library systems no longer have to file an FCC Form 500 for equipment transfers within or after three years of purchase. However, an applicant must maintain documentation.

Charter Schools

If a state law considers a charter school to be part of a school district, the charter school will be presumed to be part of the school district unless it **demonstrates financial and administrative independence** from the district, in which case it will have its own C2 budget and discount rate.

Equipment Transfers – Recent Scenarios

- Recently, budgeting entities have been experiencing increased site closures and cancellations of expected new site openings after the receipt of a funding commitment.
  - A closure/cancellation may happen **before ordering and installing equipment.**
  - A closure/cancellation may happen **after equipment is ordered, but prior to installation.**
- If the equipment has not been installed, it needs to be returned. Alternatively, you may file an appeal (if within 60 days of the Funding Commitment Decision Letter) or an FCC Waiver (more 60 days after the Funding Commitment Decision Letter).
  - A closure/cancellation happens **after equipment is ordered and installed.**
    - [Equipment Transfer](#) rules apply. The equipment may be transferred, with no need to file an FCC Form 500.
    - The applicant and the entity must maintain detailed records documenting the transfer (and the reason) for five years.

Independent Part-Time Only Schools

- School districts must count each full-time student **one time** when calculating their district-wide C2 budget.
  - **Only independent schools** that are attended by students from **multiple districts** on a part-time basis **can** count these students as full-time students.

Information Changes During the Cycle

- A district's or system's C2 budget is determined when the **first C2 FCC Form 471 in the budget cycle is certified**.

    - This also applies to a certified consortium FCC Form 471 that includes your organization.

        - Use the [Category Two Budget Tool](#) within Open Data to see associated consortia and other vital information.

- You may request a C2 budget **recalculation** in any subsequent year of the budget cycle. This is referred to as a "**replacement C2 budget**" request.

- A replacement C2 budget applies to the year it was requested and for future years within the cycle, but does not apply retroactively.

Information Changes During the Cycle (Continued)

- Replacement C2 budgets can be requested during the **EPC administrative window** and during the **FCC Form 471 filing window.**

  - The EPC Administrative Window occurs each from October to December (The current EPC Administrative Window will open on October 24, 2023)

  - The FCC Form 471 Filing Window occurs each year from January to March (actual dates TBA)

- Once the budgeted entity's first FCC Form 471 containing a C2 funding request for a funding year is certified, **no more adjustments** can be requested for that year.

  - If your information changes during the funding year, you may request a replacement C2 budget during the next EPC administrative window.

    - The updated budget applies to the funding years remaining in the five-year cycle

Additional Notes

- With a few exceptions, an individual school must have a student count **greater than zero** in the entity profile to be included in the child entity count.

- If a library branch's square footage entry is zero or blank, it will not be included in the child entity count. Bookmobiles and kiosks with a square footage entry of zero or blank will not be included.

- Non-instructional facilities (NIFs) and annexes are not considered child entities.

- In FY 2024, Category Two services are allowed for NIFs when they are for essential shared equipment located at a NIF and used for eligible E-Rate purposes as long as the most cost-effective solution is chosen. The NIF's usage of the shared equipment will no longer be required to be cost allocated in these instances.

Resources

- [Eligible Services Overview](#)

- [Document Retention](#)

- C2 Replacement Budgets:
  - "[Request a C2 Replacement Budget](#)" video
  - Upcoming Administrative Window Fall 2023 Webinar: October 19, 2023

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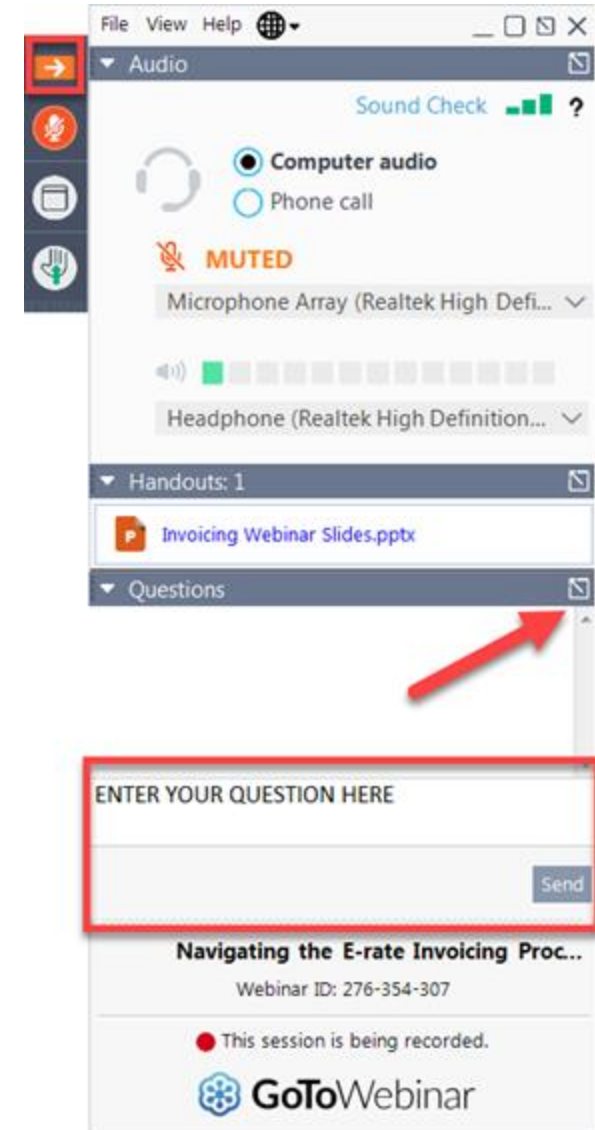
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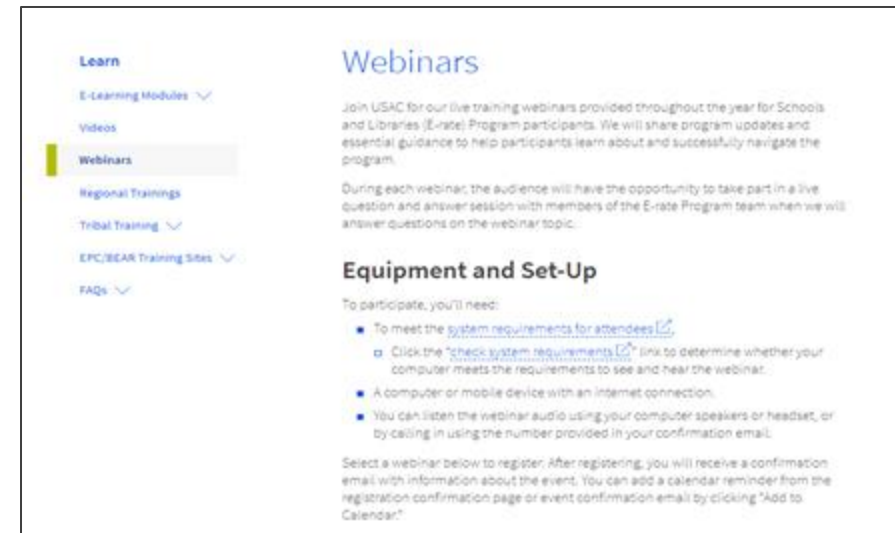
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Fall Training – EPC Admin Window

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