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Category Two Budgets

2022 Applicant and Service Provider Training

October 25, 2022

Universal Service Administrative Co.

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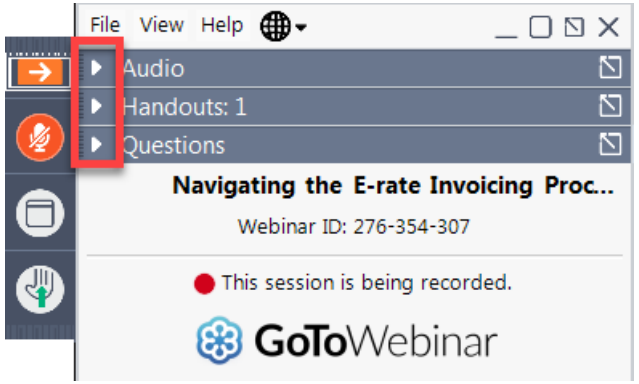

Housekeeping – Webinar Panel

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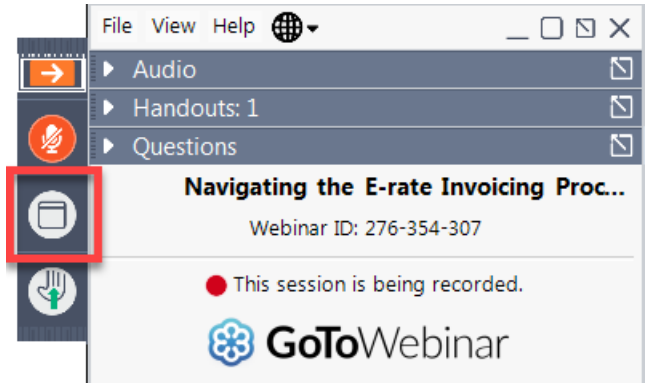

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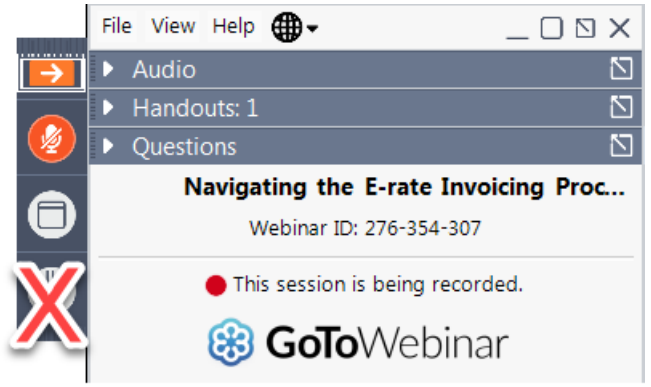

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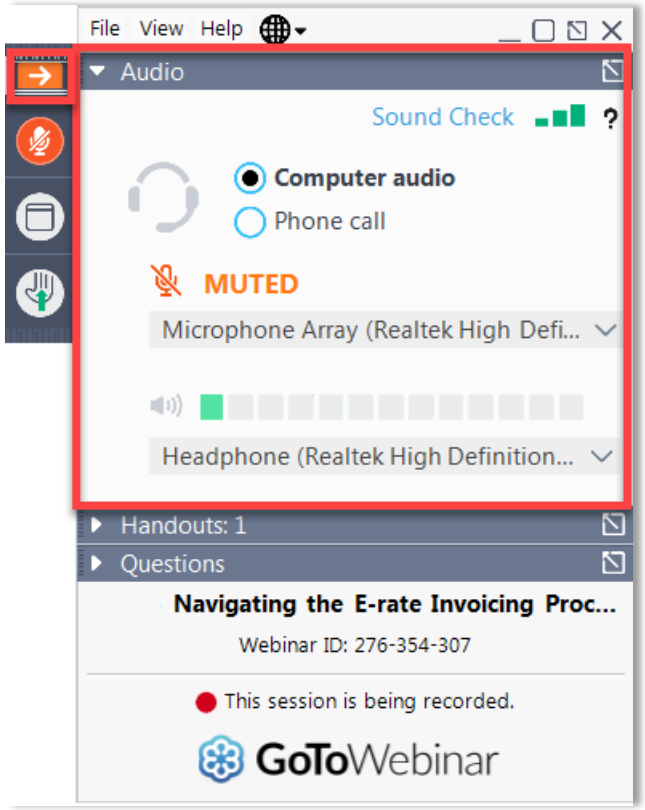

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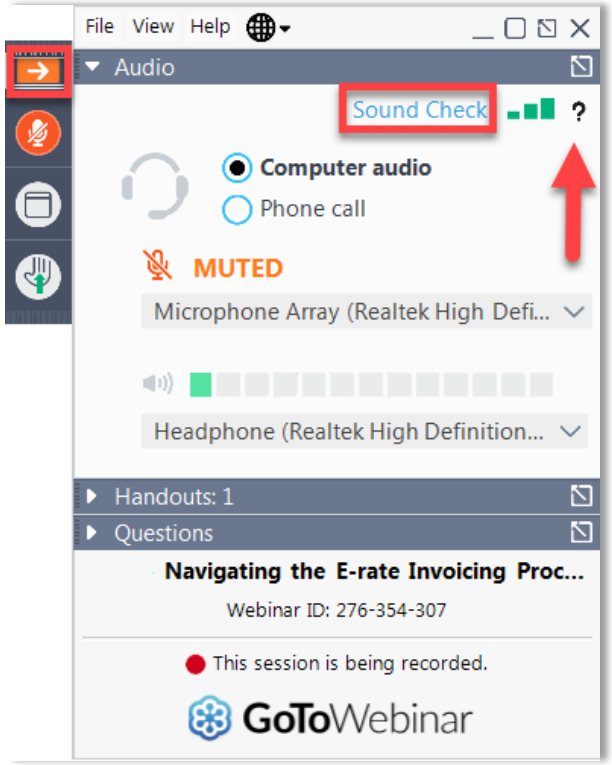
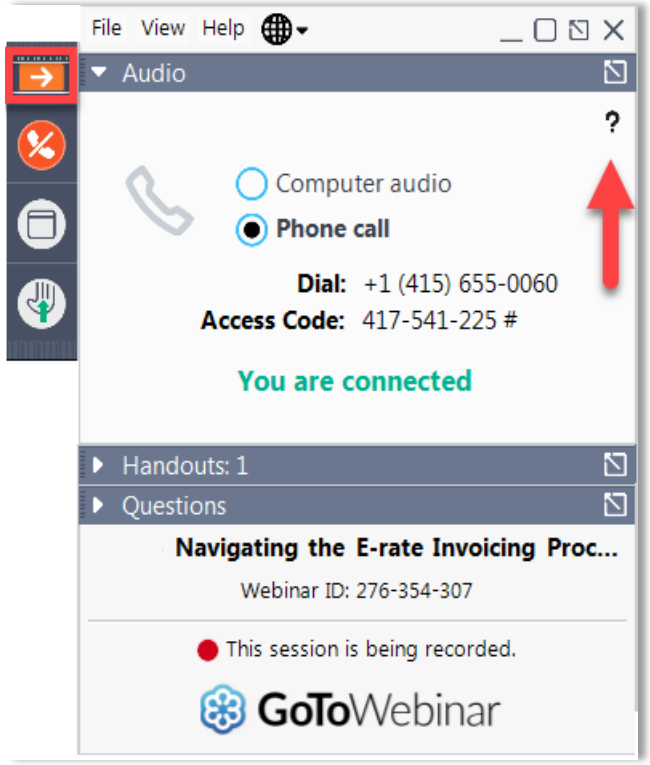
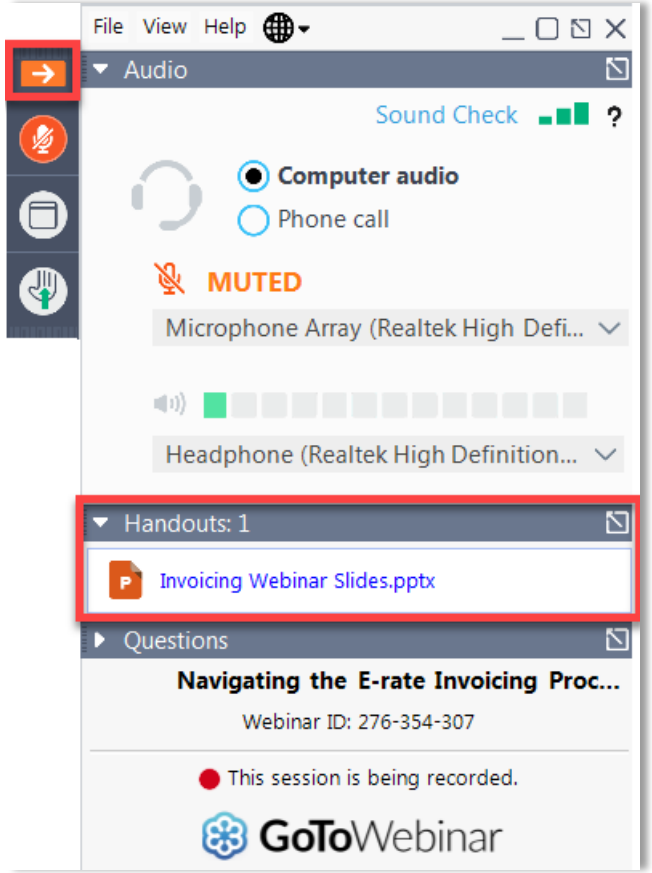




Housekeeping – Resources

- The **slide deck** is available when you click the arrow to expand the "**Handouts**" tab.
- A recording of this webinar will be available after the event via the registration link.



Housekeeping – Q&A

- **There will be a live Q&A session focused on today's topics.**
- Tips for submitting questions:
  - Use the "Questions" box in your webinar control panel anytime during the presentation.
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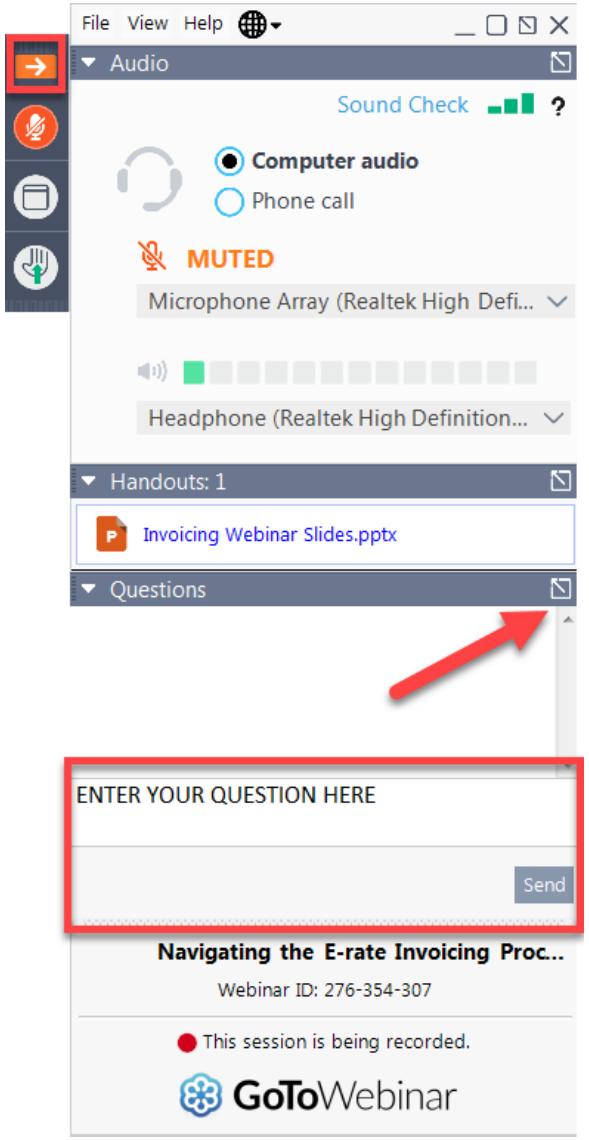
  - Write in full sentences.
  - Ask one question at a time.
  - Ask questions related to webinar content.



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MEET THE TEAM

Lisette LaForge

Program Analyst | E-Rate program

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Communication Specialist | E-Rate

AGENDA

- Service Category Refresher
- Category Two Budget Foundations
- Category Two Budgets
- Hybrid Calculation Option
- Special Cases
- Category Two Budgets Guidance
- Q&A

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Service Category Refresher

Service Category Refresher

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

- Category Two (C2) Services
  - Are specific products and services **inside the building** that are funded by E-Rate
  - Funding for Category 2 services is limited by the **Category 2 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 services or equipment necessary to transport information to classrooms or publicly accessible areas of a library.
- There are three service types:
  - **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.

Note: End User equipment, such as laptops , computers, headsets, speakers, are not eligible for E-Rate funding.

Service Category Refresher

Examples of Category Two (C2) services include:

- **Internal Connections**
  - Cabling, routers, switches, modems, and wireless access points
  - If a device **needs software or a license to make it work**, this is also eligible (Right-to-Use and Client Access Licenses)
- **Basic maintenance of Internal Connections** (BMIC)
  - The repair and upkeep of eligible internal connections (services to deploy bugs, fixes, patches)
  - Multi-year maintenance service subscriptions (updates to existing software)
  - Only maintenance services **provided for the current funding** year are eligible. (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

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Category Two Budget Foundations

Child Entity Counts

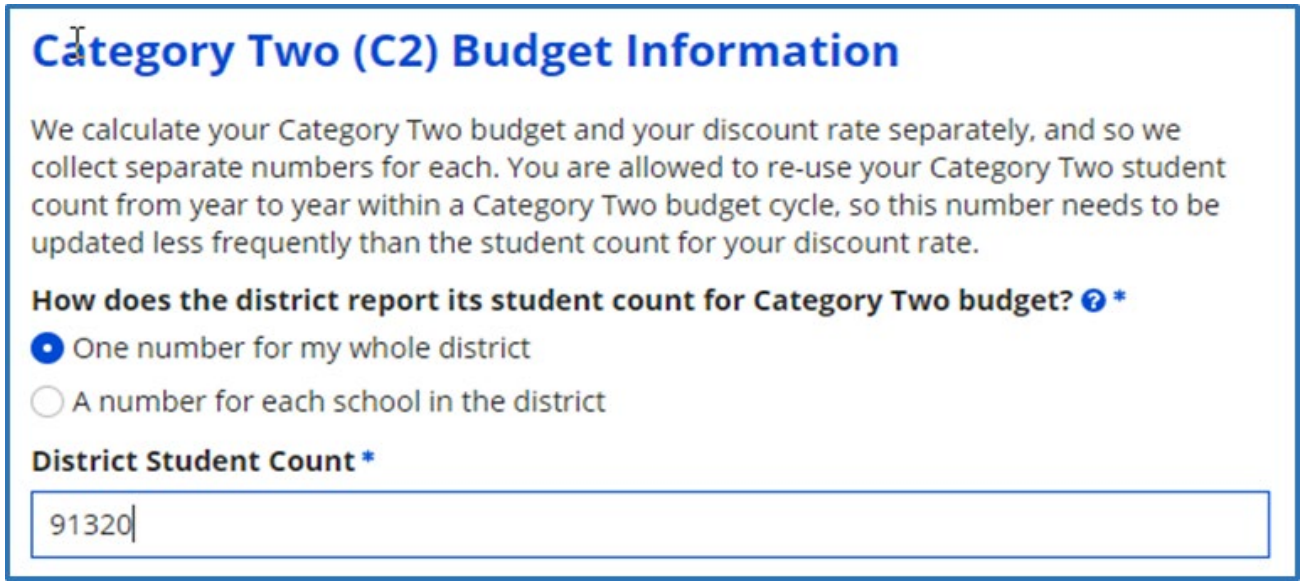
- A **school district** and a **library system** are said to be **parent entities**.
- The individual school or library is said to be a **child entity**.
- The **child entity count** is the number of the individual schools in a school district or the number of library branches in a library system.
- The number of child entities in the EPC profile affects the C2 budget calculation.

Category Two Cost Allocations

- A **budgeted entity** is an entity with a C2 budget – a school district, a library system, or an 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 that are receiving C2 services.
- A consortium must allocate the costs of C2 funding requests among its budgeted entity members according to the calculations – but not to those members' **individual child entities** – when completing the FCC Form 471 for FY2023.
- The consortium members' C2 budgets will be visible to the consortium during the FCC Form 471 filing process.

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:



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).

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Category Two Budgets

Category Two Budgets - A Fixed, Five-Year Cycle

- E-Rate funding for Category Two products and services is granted on a fixed, five-year cycle.
  - The first five-year cycle began in FY2021 and continues through FY2025.
  - The second cycle begins in FY2026 and goes through FY2030, and so on.
- The maximum amount of E-Rate funding available for C2 services over the five-year period is known as the **budget**.
- The minimum C2 budget (known as the **funding floor**) for each entity is $25,000 over the five-year cycle

Calculated at School District or Library System level

- School Districts, Library Systems and Independent schools and libraries are considered "**Budgeted Entities**" for the purpose of Category 2 funding. The **budget** is determined **at the budgeted entity level**.
  - School districts and library systems **allocate funding among their 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 product or service is subtracted from your budget when you purchase it.
- C2 budgets are set at the beginning of the cycle and they apply to the entire cycle.
  - A district that initially joined E-Rate in 2021 received a five-year budget (2021-2025)
  - If that same district initially joins E-Rate in 2023, they will receive the same amount to use from 2023 to 2025

Three Methods of Calculating Category Two Budgets

1. **C2 Multipliers**
   - A **school district** multiplies the number of students at each site by a factor (provided by USAC) that we call the **school multiplier ($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
   - If your Multiplier calculation equates to less than a Funding Floor aggregation would, **USAC gives the higher amount** as your budget.
3. **Hybrid Method** (ten or fewer sites only)

Calculate a C2 Budget for a School District

- Each system or district receives an aggregated system- or district-wide Category Two (C2) budget
- The C2 budget for most school districts is the **greater** of the following:
  - The district total **full-time student count** multiplied by the **school multiplier** (method 1), or
  - The **number of individual schools** multiplied by the **$25,000 funding floor** (method 2) (This calculates the "aggregate funding floor").
- An independent school budget works the same way, using their site(s) for the calculation.

Calculate a C2 Budget for a Library System

The C2 budget for most library systems 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** (to calculate the "aggregate funding floor").

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

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Category Two Budget – Funding Floor

	Example 1	Example 2	Example 3	Example 4
Entity Type	School	School	Library	Library
Multiplier	$167	$167	$4.50	$4.50
Student Count	200	100	--	--
Square Footage	--	--	8000 sf	1000 sf
Calculation	$33,400	$16,700 ✖	$36,000	$4,500 ✖
C2 Budget	$33,400	$25,000	$36,000	$25,000
Funding Floor = $25,000				

Note – If the calculation amounts to less than the funding floor, your budget is increased to the Funding Floor

Schools - How To Report Student Counts

School districts report student counts separately for the purposes of calculating C1 discounts and for calculating C2 budgets.

You have two options:

- Report both student counts in each individual school profile.
- Report the student count for C1 discount purposes in the **individual school profile**, and report a total student count for the school district in the **school district profile** for purpose of calculating C2 budgets.

Schools - How to Count Students

- Schools can only count **full-time students** for their C2 budget calculations.
- Large school districts (those with more than 10 schools) **cannot 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 based on the actual enrollment by the end of the next funding year.

After Your Budget Calculation

- Student counts and library square footage are validated during the **Program Integrity Assurance** (PIA) Review phase.
- Category Two budget calculation records, including school student counts and library square footage are among the information that you should retain, per E-Rate's document retention policy

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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, in the way that optimizes 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
- This third option allows the district to aggregate the optimized budget for each of its sites.
- The school district allocates this calculated C2 budget among its individual schools as it sees fit

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, in the way that optimizes their funding.
  - **Library branches with fewer than 5,556 square feet** 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** can use the multiplier method
- This third option allows the library system to optimize the aggregated budget for each of its sites.
- The library system allocates this calculated C2 budget among its libraries as it sees fit

Hybrid Calculation – School District A

	# 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

Special Cases

Category Two Equipment Transfers

- School districts and library systems can transfer equipment between schools within a school district and libraries within a library system.
  - It is 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 must wait until July 1, 2023 to transfer equipment that is less than three years old if they do not want to be subject to the requirement to notify USAC of the transfer.

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

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.

Independent Part-Time Only Schools

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

Full or Partial School Closure Due to COVID-19

- Students enrolled at brick-and-mortar schools **can be counted as full-time students** regardless of whether they receive some or all instruction via remote learning during the impact of the COVID-19 pandemic.
- During COVID, schools were given flexibility to serve all kids free meals by USDA. Because of these options, schools were not collecting NSLP applications and E-Rate applicants were permitted to use existing enrollment numbers.
  - Many of those options expired, so schools are now using applications to qualify kids for free meals and should prepare to update their enrollment and NSLP numbers when the administrative window opens in October.
- Schools are required to validate their enrollment numbers **once** during the five-year funding cycle, and they may update the enrollment numbers in future funding years during the five-year cycle if they choose to do so.

If Your 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 future years within the cycle, but does not apply retroactively.

If Your 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 opened on October 25, 2022)
  - 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.

Resources

- Eligible Services Overview
- Document Retention

Housekeeping – Q&A

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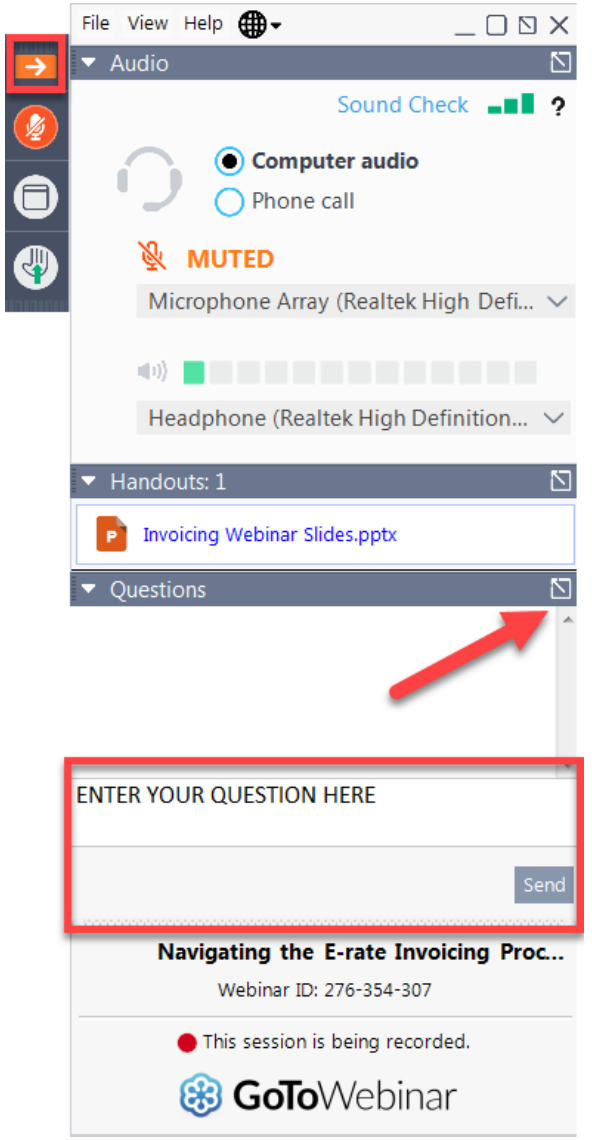

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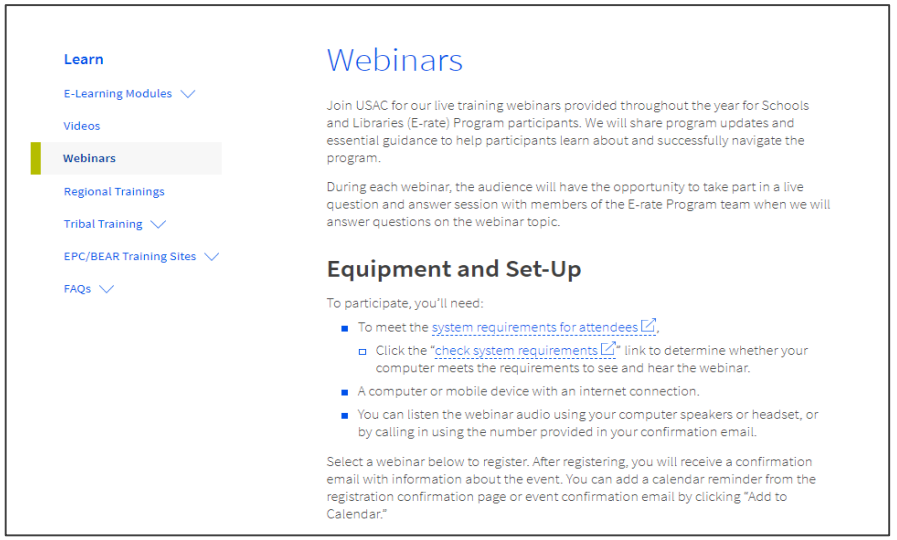
Recommended for: Applicants and service providers

E-Rate Experience Level: All



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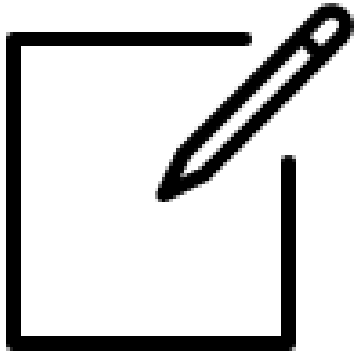

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