

Frequently ask Questions regarding E-Rate Transformation in Arizona

What is E-Rate?

E-Rate is part of the Universal Service Fund (USF) program set up by Congress in 1996 and administered by the FCC through the Universal Service Administrative Company (USAC). Every phone bill in the U.S. (land line and cellular) is assessed a fee, with the proceeds pooled into a common fund. Of the \$7 Billion in annual collections, about \$2.3Billion is dedicated to E-Rate, and allocated to Schools and Libraries to help pay their costs for telephone and Broadband connectivity, and also to pay for the hardware that makes that connectivity happen.

About how many dollars are collected in Arizona and sent to the USF?

Though actual numbers are hard to identify, it is estimated that from \$130Million - \$160Million per year is forwarded to the USF, via fees collected by Telecom providers from Arizona rate payers. (This estimate is based on the number of phones susceptible for billing, the average base phone rates, and the USF % for those base charges set by the FCC.)

How much of this is returned to Arizona?

Arizona is traditionally a “donor” State (More is sent into USF than is returned back to Arizona). Over the last 10 years an average of \$120 to \$125Million is returned to Arizona (respectively about \$12M for Rural Health and Telemedicine, \$75 - \$80M for “High Cost” subsidies directly to eligible telecom Providers, and \$35 Million for E-Rate).

How can we stop being a “donor” State, and optimize our total returns from the USF fund?

Increasing the USF dollars received for “High Cost” or “Rural Health” is outside the scope of this discussion. However, improving the flow of E-Rate dollars into the State is very possible, even though it is a precise and arduous process.

How does Arizona rank with regards to actual reimbursements from E-Rate?

Arizona schools have actually done quite well, ranking in the top twenty states for volume of E-Rate reimbursements. It should be noted that nationally, three times as many E-Rate dollars are applied for than are actually available.

How much more could be returned to Arizona with the recommended changes?

Analysis shows that as much as \$50M-\$60M more could be returned to Arizona via E-Rate through consolidation of efforts and better administration at a State level.

Why haven’t we tried such “improvements” before now.?

Over the years, improvements and initiatives have been tried, including better communication, better training, State provided automation of the application process, mandates regarding participation, and cycling of State Contracts to include E-Rate. But all efforts have been piecemeal and separately coordinated. New budget realities and a recent change in Arizona’s Excess Utilities law, eliminating an irksome disincentive for some schools, along with increased national competition for E-Rate subsidies, both create new opportunities for improvement and raise the stakes for Arizona.

Can efforts be mounted to improve E-Rate take rates which don’t involve a State level effort?

Yes, but without the level of impact anticipated from a coordinated State effort. Previous program changes, by their nature, have been temporary. The new changes are carefully constructed permanent changes, answering long recognized systemic problems. It should also be

noted that other States are aggressively moving to shore up their own efforts. Their successful efforts will diminish the results of less, given the Zero-sum nature of the E-Rate, nationally.

What States have initiated State administered programs?

Within the last two years Pennsylvania and Maine have made statute changes. Kansas, Utah, Idaho, Washington and North Carolina have migrated their E-Rate programs toward more centralized State control, though program is exactly the same. The State of New York has increasingly adopted a consultant model inside their program. Kansas has a single statewide consultant contract which provides all the services recommended in the prospective Arizona plan.

Funding the Process.

How much do school districts spend for E-Rate processing now?

About 400 school and library entities in Arizona now apply for E-Rate and an average of 350-400 entities do not apply for E-Rate. Of those that do apply, about 50 entities hire consultants for a percentage of the return, or for a flat fee. Gross expenditure for these combined consultant efforts, statewide, is about \$1Million. For those 350 entities that do their own applications, aggregated costs for E-Rate processing (1/4 FTE minimum per entity, at \$10K per year) is about \$3.5Million. Combined Costs including consulting and internal processing is around \$4.5Million per year.

How much has been returned to Arizona over the last 10 years.

Combined E-Rate efforts in the State have produced an average subsidy of \$35Million per year over the last 9 years (FY2007 totals not yet available). The last three complete years (2004-2006) show take rates have declined to an average of \$31Million. But it is expected that FY2007 take rates will be higher than FY2006, based on higher application and approved amounts. Final numbers for FY2007 won't be available till mid-2009.

How much will the new plan cost to run at a State level?

The estimated combined costs of a State E-Rate Office and the associated application processing work by a cadre of outsourced consultants are \$4Million per year. The E-Rate Office would include four full-time employees. A cadre of 25-30 consultants would work year around, providing services to 100% of the eligible E-Rate entities in the State.

How will the State fund the recommended changes to the process, creating a State E-Rate Office.

In the first year, a legislative appropriation of \$4Million would seed the process. Thereafter, a gain-share model will be utilized using 15%-20% of the increases in final take rates. Analysis shows that by just improving the take from approved USAC amounts, significant new dollars will be added.

Currently, Arizona applicants only receive an average of 50% of the dollars they get approved and allocated by USAC. Reasons for giving up these "approved" dollars include administrative errors, lack of documentation, paperwork mistakes, and budgeting problems. Improving this to 80% will add an additional \$18 to \$20 Million to the State's overall E-Rate receipts.

Some 350 eligible entities in Arizona don't even apply for E-Rate. Expanding that base of applicants to near 100%, from the current 60% will add another estimated \$20 Million to the total received. In the first year of operation, improvements in just these two areas will bring the Total received to \$70 to \$75 Million, or an increase of \$35M to \$40M, with 15% to 20% of these

gains (current base is not touched) providing from \$5M to \$8M for the work of E-Rate office, and for other necessary Broadband initiatives outlined in the plan.

It should be noted that some \$4.5 Million, which is now budgeted by schools for E-Rate processing (either to outside consulting or internal personnel) won't have to be budgeted in the future. These dollars can be redirected for other necessary tasks at the district level. (School districts and libraries see E-Rate efforts as complicated, arduous, and costly. The process is also risky, especially Priority2 applications, because funding is never a sure thing. For these reasons, many schools choose not to do E-Rate at all).