

School District E-rate Report

Report to the Legislature



December 2008

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EXECUTIVE SUMMARY

The E-rate (or “education rate”) is a discount on telecommunication services that all public schools and libraries in Washington State are eligible to receive. Typically, annual E-rate discounts total \$17-25 million across approximately 250 school districts. Due to a variety of circumstances, 40-50 districts in our state do not receive these discounts each year.

In the 2008 session, the Legislature enacted ESHB 2687 in which the Office of Superintendent of Public Instruction (OSPI) was directed to “issue a report to the fiscal committees of the legislature identifying school districts that were eligible but did not apply for E-rate funding for the last two years, and an estimate of the amounts for which they were eligible in those years. The report shall also include recommendations for following-up on the findings relative to the E-rate program contained in the state auditor's performance audit of Educational Service Districts completed September, 2007.”

This report identifies 32 school districts that did not apply for E-rate funding over the last two years. We estimated the discount amounts for which they were eligible by comparing them to districts of similar size and demographic make-up that received reimbursement.

The OSPI staff analysis differs considerably from the recent performance audit, which used a different methodology, and pointed to a “potential reimbursement of \$10.7 million over five years” (which would indicate an average loss of over \$2 million per year). Estimated reimbursement losses total \$241,000 from 2006 to 2008 for these 32 school districts. Additionally, there are 11 school districts that applied during each of those years but did not receive the discount. If these sites are included, the estimated total reimbursement loss totals \$437,551 from 2006 to 2008 (see Appendix A).

To address the issue, a team of OSPI and Educational Technology Support Center (ETSC) program staff at the nine Educational Service Districts (ESDs) developed recommendations that will help all districts maximize the discount potential of the E-rate program. These recommendations include the following:

- Provide and expand regional training on the E-rate application process.
- Target communications to districts that, historically, do not apply and emphasize potential savings on basic telecommunications services.
- Identify ESD-based consultants to help interested districts with the E-rate paperwork.
- Promote E-rate technical assistance regionally through the ETSC program.
- Develop an E-rate analysis rubric for small districts that answers the question of whether the discount is worth the time and effort involved.

The OSPI/ETSC team is implementing these recommendations now and can report encouraging results. Twelve districts that did not receive an E-rate reimbursement in 2007-2008 have discount commitments for 2008-2009, and OSPI staff are working with the ETSC directors to ensure that any other districts who could benefit from the discount apply for 2009-2010.

I. BACKGROUND

About E-rate

The E-rate program was created by the Telecommunications Act of 1996 to provide discounted telecommunications connections and services to the nation's schools and libraries as part of the universal service framework. The Schools and Libraries program of the Universal Service Fund, commonly known as the E-rate (or "education rate") is administered by the Universal Service Administrative Company (USAC) under the direction of the Federal Communications Commission (FCC). The program makes it possible to discount telecommunications and Internet access for most schools and libraries across the United States.

The Schools and Libraries program supports connectivity (the conduit or pipeline for communications using telecommunications services) and Internet access. Districts request the discount within four categories of service:

- Telecommunications services.
- Internet access.
- Internal connections.
- Basic maintenance of internal connections.

All public schools, public libraries, and most private schools in Washington State are eligible to receive E-rate discounts, provided they have a technology plan approved by OSPI or the State Library. Over the past 10 years, the E-rate discount for school districts has totaled between \$17-25 million annually.

The level of E-rate discount for which schools or libraries are eligible depends on the level of poverty and the urban/rural status of the population served. Amounts range from 20 to 90 percent of the costs of eligible services. School districts and libraries are able to apply individually or as part of a consortium.

Applicants must provide additional resources including end-user equipment (e.g., computers, telephones, etc.), software, professional development, and the other components necessary to optimize the connectivity funded by USAC's Schools and Libraries program.

The application process is time-intensive and burdened with complexity, numerous steps, and substantial paperwork. To be approved for reimbursement during 2009-2010, districts must complete at least two multi-page online forms and conduct a Request For Proposal (RFP), in most cases, before February 12, 2009. Then, districts wait for notification from USAC, which might not happen until after the school funding year begins on July 1, 2009. Many districts must file two additional forms to take advantage of the discounts. In all, some districts will spend 40-80 hours or more on the E-rate forms for one fiscal year.

About This Report

In the 2008 legislative session, ESHB 2687 was passed, which stated:

The Office of the Superintendent of Public Instruction shall coordinate, in collaboration with Educational Service Districts, a system of outreach to school districts not currently maximizing their eligibility for federal E-rate funding through the schools and libraries program administered by the federal communications commission. By December 15, 2008, the Office of the Superintendent of Public Instruction shall issue a report to the fiscal committees of the legislature identifying school districts that were eligible but did not apply for E-rate funding for the last two years, and an estimate of the amounts for which they were eligible in those years. The report shall also include recommendations for following-up on the findings relative to the E-rate program contained in the state auditor's performance audit of Educational Service Districts completed September, 2007.

This Performance Audit of Washington State Educational Service Districts was released by the State Auditor's Office in 2007, and addressed a number of issues, including the E-rate program. The Performance Audit stated the following:

- *Eligible ESDs and many of their member school districts are not taking advantage of a federal telecommunications rebate program, resulting in a potential reimbursement of \$10.7 million over five years.*
- *Washington is in the lower 25 percent of all states when comparing E-rate dollars per student. In 2005, at the top of the list for most dollars per student is Alaska with about \$130 per student and Wisconsin with about \$93 per student. The national average was approximately \$30 per student and Washington received less than \$20 per student.*
- *Increasing the state's E-rate reimbursement per student to the national average would represent an approximate \$15 million savings for Washington's schools and ESDs.*

II. ACTIONS TAKEN

OSPI staff conducted a thorough and historical analysis of E-rate reports since 2000 to determine which districts have not applied, as well as those who applied but were not approved to receive discounts. The analysis led to a close estimate of the amount of discount dollars that were not received by these districts. A short summary of these findings is included in Section III; additional information is detailed in the Appendices.

In those districts that have not applied to the E-rate program, OSPI staff and ETSC directors interviewed key individuals to identify why they chose not to apply. Based on this information, the team developed a system of outreach, along with recommendations that will help all districts maximize their potential for the E-rate discount.

Recommendations:

1. Deliver consistent and expanded regional training on the E-rate application process. (Implemented during the fall of 2008, these training sessions included a statewide videoconference, held November 12, led by national trainers with the Schools and Libraries program.)
2. Target communications that emphasize the savings potential of the E-rate discount structure to those districts that, historically, do not apply, particularly those that did not apply during 2006-08. (Recently, several districts that have never applied expressed their intention to do so this year.)
3. Identify consultants across the state who will help interested districts complete the E-rate paperwork. Typically, it is the complexity of the process and the time it takes that deters some small districts from the E-rate program. (The availability of a consultant has convinced several to apply for the first time this year.)
4. Promote E-rate assistance through the ETSC program. Most ETSC directors attended an intensive two-day E-rate training in September 2008. (This expanded source of regional support has encouraged many districts to get the help they need from their ESD as they navigate the E-rate program.)
5. Develop an E-rate analysis rubric for small districts that answers the question of whether the discount is worth the time and effort involved. (The rubric targets districts with 100 or fewer students to do a quick inventory of their expenditures for basic telephone costs, long distance and cellular, to calculate the E-rate discount they could receive.)

III. FINDINGS

Between 2006 and 2008, OSPI staff identified 32 school districts that were eligible, but did not apply, for E-rate discounts. Eleven of these 32 districts have fewer than 100 students, and 23 out of 32 have fewer than 250 students. To calculate the discount loss, their analysis compared these 32 districts to districts of similar size and demographic make-up that received reimbursement. While it is not possible to provide an exact figure for the total loss of E-rate reimbursement for that period, the best possible estimate averages \$120,500 each year (see Appendix A).

Eleven other school districts in 2006-2007 and 11 in 2007-2008 applied unsuccessfully for the E-rate discount. There are a variety of reasons why they were not approved, including a failure to complete required paperwork or missed deadlines. Staff also estimated the amounts for which they were eligible by comparing these districts to districts of similar size and demographic make-up that did receive funding during those years. Total lost reimbursement – including non-applying districts plus non-approved districts – comes to \$206,100 in 2006-07 and \$231,451 in 2007-08 (see Appendix A).

This number differs dramatically from the performance audit estimate of a “potential reimbursement of \$10.7 million over five years,” an average of over \$2 million per year. While it is true that encouraging additional school districts to apply for the E-rate discount will increase the federal reimbursement, it is likely that the savings will not be as substantial as those estimated by the State Auditor.

There are two primary factors that must be understood:

1. The economies of scale driven by the K-20 Network means the cost of telecommunications per student is dramatically less in Washington than most other states. Because the E-rate is a *discount* program, lower costs equal fewer *total* E-rate dollars.
2. The overall discount percentage for shared services is 67 percent on the K-20 Network. Since the discount percentage is calculated based on poverty level and urban/rural status, the urban-weighted makeup of the state, combined with a comparably low poverty level, means a lower discount percentage for state districts. Again, because E-rate is a *discount*, this leads to fewer total dollars for applicants, and a lower per-student savings. (See Appendix B for an excerpt from OSPI’s response to the 2007 State Auditor’s Office Performance Audit.)

IV. CONCLUSIONS

Considerable cost savings can be recaptured by helping more Washington State districts apply each year to the E-rate program. OSPI and ETSC program staff should continue to implement the five recommendations detailed in this report, and look for additional ways to support all districts as they apply for the E-rate discount.

Appendix A: School Districts - No E-rate Reimbursement 2006-08

<u>District name</u>	<u>Student Count</u>	<u>Did Not Apply 06-08</u>	<u>Funded 2006-07</u>	<u>Not Funded 2006-07</u>	<u>Estimated discount 2006-07</u>	<u>Funded 2007-08</u>	<u>Not Funded 2007-08</u>	<u>Estimated discount 2007-08</u>
Benge School District	7	X		X	\$2,400		X	\$2,400
Blaine School District	2,245	X		X	\$7,200		X	\$7,200
Brinnon School District	53	X		X	\$2,400		X	\$2,400
Carbonado School District	176	X		X	\$2,400		X	\$2,400
Coulee-Hartline School District	177	X		X	\$2,400		X	\$2,400
Creston School District	116	X		X	\$2,400		X	\$2,400
East Valley School District (Yakima)	2,754	X		X	\$8,600		X	\$8,600
Enumclaw School District	4,523	X		X	\$12,000		X	\$12,000
Evaline School District	51	X		X	\$2,400		X	\$2,400
Evergreen School District (Stevens)	18	X		X	\$2,400		X	\$2,400
Grapeview School District	204	X		X	\$2,400		X	\$2,400
Green Mountain School District	103	X		X	\$2,400		X	\$2,400
Loon Lake School District	173	X		X	\$2,400		X	\$2,400
Lopez School District	244	X		X	\$2,400		X	\$2,400
Mary M Knight School District	198	X		X	\$2,400		X	\$2,400
Mill A School District	70	X		X	\$2,400		X	\$2,400
Nespelem School District	178	X		X	\$2,400		X	\$2,400
North Beach School District	695	X		X	\$3,600		X	\$3,600
North River School District	59	X		X	\$2,400		X	\$2,400
Orcas Island School District	483	X		X	\$3,600		X	\$3,600
Pioneer School District	746	X		X	\$3,600		X	\$3,600
Pullman School District	2,290	X		X	\$7,200		X	\$7,200
Roosevelt School District	26	X		X	\$2,400		X	\$2,400
Shaw Island School District	20	X		X	\$2,400		X	\$2,400
Skamania School District	70	X		X	\$2,400		X	\$2,400
Skykomish School District	57	X		X	\$2,400		X	\$2,400
Steptoe School District	39	X		X	\$2,400		X	\$2,400
Thorp School District	175	X		X	\$2,400		X	\$2,400
Trout Lake School District	153	X		X	\$2,400		X	\$2,400
Vashon Island School District	1,590	X		X	\$6,000		X	\$6,000
West Valley School District (Yakima)	4,836	X		X	\$13,500		X	\$13,500
Wilbur School District	239	X		X	\$2,400		X	\$2,400
Subtotal (from districts that did not apply 2006-08):					\$120,500			\$120,500

School Districts - No E-rate Reimbursement 2006-08 (continued)

<u>District name</u>	<u>Student Count</u>	<u>Did Not Apply 06-08</u>	<u>Funded 2006-07</u>	<u>Not Funded 2006-07</u>	<u>Estimated discount 2006-07</u>	<u>Funded 2007-08</u>	<u>Not Funded 2007-08</u>	<u>Estimated discount 2007-08</u>	
Clover Park School District	12,122			X	\$30,000	X			
Granger School District	1,501			X	\$6,000	X			
Index School District	19			X	\$2,400	X			
Klickitat School District	131			X	\$2,400	X			
North Kitsap School District	6,778			X	\$20,000	X			
Orchard Prairie School District	61			X	\$2,400	X			
Rainier School District	952			X	\$3,600	X			
Steilacoom Hist. School District	2,574			X	\$8,000	X			
Tenino School District	1,377			X	\$4,800	X			
Union Gap School District	612			X	\$3,600	X			
Wilson Creek School District	128			X	\$2,400	X			
Almira School District	100		X				X	\$2,400	
Burlington-Edison School District	3,995		X				X	\$10,000	
Centerville School District	89		X				X	\$2,400	
Cheney School District	3,758		X				X	\$9,600	
McCleary School District	269		X				X	\$3,600	
Methow Valley School District	568		X				X	\$3,600	
Satsop School District	55		X				X	\$2,400	
Tacoma School District	29,677		X				X	\$57,151	
Washougal School District	3,054		X				X	\$9,000	
Waterville School District	303		X				X	\$3,600	
Woodland School District	2,261		X				X	\$7,200	
Total from Districts Not Funded 06-07					\$206,100	Total from Districts Not Funded 07-08			\$231,451

Appendix B

Extract from OSPI's Response to State Auditor's Office Performance Audit (September, 2007)

The Schools and Libraries Program of the Universal Service Fund, commonly known as "E-rate," is administered by the Universal Service Administrative Company (USAC) under the direction of the Federal Communications Commission (FCC), and provides discounts to assist most schools and libraries in the United States to obtain affordable telecommunications and Internet access.

The Schools and Libraries Program supports connectivity – the conduit or pipeline for communications using telecommunications services and/or the Internet. In most cases this funding provides discounts on telecommunications infrastructure such as telephone lines, cellular service, data connections (T1s, fiber), and Internet access.

The E-rate program is a *discount program*, and the level of discounts is based on calculating the level of poverty and the urban/rural status of the population served. The resultant discounts range from 20 to 90 percent of the costs of eligible services. Eligible schools, school districts, and libraries may apply individually or as part of a consortium.

In Washington State, applications are made by individual schools, school districts, Educational Service Districts, libraries, and statewide consortia (OSPI, K-20, DIS, WSL).

Recently, the State Auditor's Office released the *Performance Audit of Washington State Educational Service Districts*, in which the E-rate program was discussed. The following is provided as a response to Section 8.7: E-rate.

The Performance Audit states:

- *Eligible ESDs and many of their member school districts are not taking advantage of a federal telecommunications rebate program, resulting in a potential reimbursement of \$10.7 million over five years.*
- *Washington is in the lower 25 percent of all states when comparing E-rate dollars per student. In 2005, at the top of the list for most dollars per student is Alaska with about \$130 per student and Wisconsin with about \$93 per student. The national average was approximately \$30 per student and Washington received less than \$20 per student.*
- *Increasing the state's E-rate reimbursement per student to the national average would represent an approximate \$15 million savings for Washington's schools and ESDs.*

While it is true that encouraging additional school districts to apply for E-rate funding will increase federal funding, the savings will not be nearly as large as those estimated by the State Auditor. There are two primary factors that must be understood:

1. The economies of scale driven by the K-20 Network mean the cost of telecommunications per student is dramatically less in Washington than most other states. Because E-rate is a *discount* program, lower costs equal fewer *total* E-rate dollars.

2. The overall discount percentage for shared services in Washington State is 67%. Since the discount percentage is calculated based on poverty level and urban/rural status, the relatively urban makeup of the state, combined with a comparably low poverty level, means a lower discount percentage for applicants in Washington. Again, because of the nature of the *discount*, this leads to fewer total dollars for applicants.

It is important to realize that receiving more E-rate dollars per student is not necessarily better for the students or for the state. Often, more per student awards are simply an indication of high costs for goods and services in an economically depressed community.

The State of Mississippi, for example, requests \$38/student, well above the national average. This substantial per student request, however, is largely the result the high discount rate for which they qualify, the comparably low number of students, and the higher costs to provide services to applicants.

Due to the rural nature of the state, and the relatively high poverty level, Mississippi qualifies for an 85% discount on shared services. This, combined with their more costly Internet access solution, provided the State of Mississippi with over \$1.78 million in funding for Internet access alone last year (with 495,029 students, that's \$3.61/student).

Conversely, as a result of statewide leveraging of purchasing power, and a much lower discount rate of 67%, OSPI will receive only \$226,403 in discounts to provide Internet access to over 1 million K-12 students throughout the state – less than \$0.25 per student! While the E-rate dollars received by OSPI are much lower, the overall expenditure is dramatically lower, leading to savings for both the state and the federal E-rate program.

As this example illustrates, determining E-rate funding success by dollars per student is a gross oversimplification of a very complex process, and as such can lead to inaccurate conclusions.

By leveraging the technology needs of all education sectors, K-20 and OSPI are able to provide data connectivity, video connectivity, and Internet access to nearly all of the districts in the state for a fraction of the cost of serving sites individually. The E-rate impact of that cost savings is that the state *appears* to receive rather minimal funding, but only as a result of spending less on the services themselves.

The entire K-20 Network receives approximately \$3 million in E-rate funding each year, and is able to provide connectivity to every corner of the state for that amount. States without comprehensive, statewide education networks receive more funding in E-rate dollars, but it is as a result of spending far more money on far less efficient networks.

In addition to the faulty assumptions regarding dollars per student, the Performance Audit also asserts:

- *About 24 percent of Washington school districts did not receive E-rate funding commitments in 2005.*

While there may have been a time when many sites were either not applying for E-rate, or not receiving funding commitments as a result of the complexity of the program, there has been quite a turnaround since then.

The efforts of OSPI and the ESDs to work directly with districts who have not had E-rate success in the past have had a positive impact on the number of districts who apply for funding. In addition, the FCC and USAC have put quite a lot of effort into increasing the likelihood that applications are funded, by making the program more user friendly, increasing communication with applicants, relaxing deadlines, and providing better information both on-line and in trainings.

As a result, there has been a rather dramatic increase in sites with funded applications. For funding year 2006, over 85% of the school districts in the state applied for and received funding commitments from the E-rate program.

Recommendations:

1. Focus on *wiser funding*; not *more funding* per student
 - Make sure that the goal of the trainers and the applicants is to find the *most cost-effective solutions* for sites, not necessarily the solutions that will lead to the most E-rate dollars.
 - As outlined above, wise technology choices save money at the district level, state level, and federal level – while not necessarily leading to more E-rate dollars.
2. E-rate coordinators at the ESD level
 - It is agreed that having E-rate trained specialists at each ESD would be beneficial to all applicants.
 - These nine individuals could work directly with the State E-rate Coordinator, allowing information to get to the field quickly, and to allow for personalized interaction with applicants.
3. Make use of the State E-rate Coordinator
 - OSPI has made a resource available to districts and ESDs with questions about E-rate:
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erate@k12.wa.us
360.725.5103