

New Funding Commitments

The SLD has indicated that small funding commitments associated with FY 1999 and FY 2000 appeals were issued last week, and that a larger set of commitments for FY 2001, FY 2002, and FY 2003 will be released this week. This is the first crack in the funding freeze that has been in effect since August 3rd.

We hope funding for FY 2004 will resume within the next couple of weeks.

Planning for the New "2 in 5" Internal Connections Rule

Beginning next year (2005-2006), funding for new Internal Connections ("IC") services will be available, on an entity-by-entity basis, in only two out of any five sequential years. The new "2 in 5" rule was designed by the FCC to discourage higher discount applicants from requesting and receiving Internal Connections discounts year after year, while other lower discount applicants were being denied any Priority 2 funding. Although the new rule is simple in concept, careful planning will be important. Here are some key points and potential pitfalls:

1. Only IC equipment funded in FY 2005 and subsequent years is covered by the rule. Funding for any previous year does not count. For example: Year 1 – 7 do not apply.
2. The amount of money or use of the IC funding does not matter. A year of funding is a year of funding. A school that is funded for an inexpensive router in FY 2005 and an expensive PBX in FY 2006, for example, will be ineligible for IC equipment funding for the next three years. Spreading out work over more than two years, therefore, is not practical. As such, we expect to see a jump in the demand for Priority 2 services next year, further limiting the availability of IC funding to the higher discount applicants.
3. Basic IC maintenance (the new category for Priority 2) is **exempt** from the rule and may be funded every year. The new Form 471 (which is still in Draft mode) includes a separate category check box for basic maintenance. If a service is just for maintenance, it must be marked as such to avoid having it count as one of the two years of allowable funding.
4. Leasing of IC equipment is **NOT exempt**. Some believe that failure to exempt leases may have been an oversight and, as such, may yet be corrected. At the moment, however, only two years of a lease starting in, or continuing into and through, FY 2005 would be funded.
5. The rule applies on a site-by-site basis, not on an application basis. If funding is provided on a site-specific basis, it counts as one year for that site alone.
6. If, however, funding is provided under one FRN for all or a portion of an applicant's entities (i.e., if the FRN references a Block 4 Discount Calculation Worksheet with multiple entities), all of those entities will be deemed to have been funded in that year. This is true even if IC equipment is NOT actually purchased for some of the sites! There are several implications.
 - a. In the past, some applicants have grouped multiple entities (perhaps those with similar discount rates) into a single funding request even if work was not planned for some. This simplified the application process and provided some flexibility by delaying a decision as to which sites actually needed the work. This is no longer a viable strategy.
 - b. If a district purchases a new WAN switch serving all of its schools, for example, which is funded at the district's aggregate discount rate, it will count as one year of funding for every one of the district's entities.
 - c. The multi-entity funding problem extends to consortium applications. If a consortium is funded for IC equipment on behalf of a number of districts, it will count as one year of funding for all the entities in all the associated districts. As a result, district and consortium IC applications must be carefully coordinated.
7. Although not explicitly stated in the FCC rules, it appears that funding for an individual FRN, which is subsequently canceled via a Form 500, will not be counted for that year once the Form 500 has been filed and processed by the SLD.
8. The new "2 in 5" rule places a premium on site-specific installation planning, particularly for high-discount applicants. Please do not wait until the closing days of the Form 471 application window to try to develop an optimal filing strategy.

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