**E-Rate Modernization – The New E-Rate 2.1 Order**

At an open Commission meeting last Thursday, the FCC adopted a second E-rate modernization Order.

Here are the key points of the Order:

1. Added flexibility to support new broadband connections, particularly with regard to funding of upfront installation charges (with the aim of reducing ongoing recurring costs).
   1. As of FY 2015:
      1. Elimination of the current requirement to amortize installation payments of $500,000 or more over at least three years. This will allow immediate E-rate discounts on installation charges of any magnitude.
      2. Permission for applicants to pay their non-discounted share of installation costs on an installment basis (probably up to 5 years).
   2. As of FY 2016:
      1. Elimination of the current eligibility distinction between lit and dark fiber leases by making dark fiber special construction charges eligible. Special construction charges refer to the cost of installing fiber connections between an applicant’s property line and a carrier’s existing distribution plant.
      2. E-rate support for “self-constructed” (i.e., purchased) fiber systems, assuming that such systems are deemed cost-effective versus leased fiber services.
      3. Additional E-rate support of installation charges of up to 10% if matched by state funding.
      4. A requirement to be placed on carriers receiving high-cost Connect America funds in rural areas to provide service to schools and libraries in those areas at prices reasonably comparable to urban broadband prices.
2. Increased funding.
   1. Most importantly, an increase in the annual E-rate funding cap to $3.9 billion (roughly a $1.5 billion increase) as of FY 2015, with continued inflationary adjustments thereafter.
   2. An extension of the Category 2 budget funding (currently limited to FY 2015 and FY 2016) through FY 2019.
   3. An increase in the five-year Category 2 budget for large urban libraries (believed to be defined as those serving populations of 250,000 or more) from $2.30 to $5.00 per square foot.
3. A change in the urban/rural definition, as proposed in certain petitions for reconsideration, to make urban clusters with populations under 25,000 “rural.” An estimated 92% of all urban clusters, previously considered “urban,” meet the new rural definition.
4. Direction to USAC to establish a Performance Management System to assess program effectiveness.