

Category 2 Budgets

Beginning in Funding Year 2015, products and services eligible for E-rate Program discounts will be divided into Category 1 and Category 2. Category 1 services do not have E-rate budgets; however, for Category 2, each school building has a 5-year pre-discount budget per student, or per square foot for library buildings. Each of these budget numbers is annually adjusted for inflation and the current per pupil amounts are as follows:

Entity Type	FY 2015 Pre-discount C2 Budget Calculation	FY 2016 Pre-discount C2 Budget Calculation	FY 2017 Pre-discount C2 Budget Calculation
Schools	(Total number of students) x \$150.00	(Total number of students) x \$151.50	(Total number of students) x \$153.47
Libraries with IMLS Locale Codes 11, 12, or 21 (Urban libraries)	(Total square feet) x \$5.00	(Total square feet) x \$5.05	(Total square feet) x \$5.12
All Other Libraries	(Total square feet) x \$2.30	(Total square feet) x \$2.32	(Total square feet) x \$2.35
Budget Floor	\$9,200.00	\$9,292.00	\$9,412.80

The new inflation-adjusted numbers for FY 2018 likely will not be announced until very close to the Form 471 filing deadline or even later. It is advisable, therefore, to rely on the FY 2017 numbers for preparing FY 2018 Form 471 applications unless and until the new FY 2018 budget numbers are announced.

The highest discount level for Category 2 services is 85%. Applicants eligible for a 90% discount for Category 1 services are eligible for an 85% discount for Category 2 services. Other discount levels do not change from Category 1 to Category 2.

Which entities have Category 2 budgets?

Each individual school and each library outlet/branch has a Category 2 budget. School districts and library systems may not average their costs across multiple school or library budgets.

Non-instructional facilities (NIFs) do not have Category 2 budgets. If a NIF is essential for the effective transport of information to or within a school or library, the applicant must allocate the cost of the eligible product or service associated with the NIF to one or more of the entities benefiting from the service.

School NIFs are school buildings or buildings on school property that generally don't contain classrooms – e.g., administrative buildings, school bus barns and garages, cafeteria offices, and facilities associated with athletic activities. However, even school NIFs that contain classrooms do not have Category 2 budgets.

Library NIFs are library buildings or buildings on library property without public areas – e.g., administrative buildings, bookmobile garages, interlibrary loan facilities, and library technology centers.

How do I calculate the Category 2 budget for a school?

Multiply the number of students who attend the school by \$153.47. There is a funding floor for schools with fewer than 62 students. These schools have a minimum budget set to \$9,412.80.

If a student attends more than one school (e.g., if the student from one school attends a vocational training school one afternoon a week), both schools may count that student for the purpose of calculating their respective budgets.

How do I calculate the Category 2 budget for a library?

To calculate the budget for a library, multiply the total area of the library in square feet, including all areas enclosed by the outer walls of the library and occupied by the library, by \$2.35. Because there is a funding floor, if the library's total area is less than 4,000 square feet, the budget is set at \$9,412.80.

Libraries that serve populations of 250,000 or more are eligible for a \$5.12 per square foot budget. If such a library's total area is less than 1,840 square feet, that library's budget is also set at \$9,412.80.

What time period does my Category 2 budget cover?

Category 2 budgets are subject to a five-year cycle beginning with the first funding year in which you receive Category 2 support for any school or library building. However, the budgets can be used as needed any time within that five-year period; schools and libraries are not required to use one-fifth of the budget each year or even in consecutive years. For example, a school may use some Category 2 funding in FY 2015, not apply for Category 2 funding in FY 2016 and apply for Category 2 funding in FY 2017. If a school applies for Category 2 funding in FY 2015, their last year for their budget would be in FY 2019.

Can my Category 2 budget change from year to year?

Category 2 budgets may fluctuate yearly for schools due to changes in the number of students. For libraries, if there is an addition or reduction in your square footage, your budget will vary. School budgets for FY 2018 are computed based on the current year's total enrollment per school multiplied by the per-student amount of \$153.47. Library budgets are based on the current number of square feet multiplied by the applicable price per square foot. You would then subtract any of the funds committed in prior years, to arrive at the remaining available budget.

For existing schools, if enrollment increases, you receive benefit of extra students next year; however, if enrollment decreases, you are not required to pay back funds.

For new schools or new construction, however, if you overestimate your student count and exceed the five-year pre-discount budget the next funding year, you must return any funds disbursed in excess of the actual discount amount calculated from the allowable budget.

How is the cost of services counted against my Category 2 budget?

On the Form 471, each applicant will allocate the cost of the Category 2 products and services to the entities sharing them. Each amount allocated to a particular school or library will count against the budget for that school or library.

Remember that your Category 2 budget is based on the pre-discount cost of the products and services allocated to your school or library. A change in your E-rate Program discount from year to year does not affect the amount of your Category 2 budget, only the amount of the cost that USAC will reimburse.

Is there anything that needs to be done if a school or library does not use all of their committed Category 2 funding?

If you were committed for Category 2 funding in either FY 2015, FY 2016 or FY 2017 but did not use the entire amount, you must submit a Form 500 to return the unused commitment to the school or library's Category 2 budget. The Category 2 budget is depleted when the funding commitment is made — not when funds are disbursed through the invoicing process. In other words, if you are committed \$25,000 and then only use \$10,000, you have actually used \$25,000 of your Category 2 budget — not just \$10,000 — unless you submit a Form 500 to “decommit” the funds.

After FY 2019, will the Category 2 budget be reset for each school and library?

For FY 2020 moving forward, the FCC must take additional action to either extend or modify the Category 2 budget program. Absent such action, for any school/library that has either completely used their budget or did not start their five-year clock, the Category 2 funding allocations will return to the two-in-five-year approach where an applicant may request internal connections funding for each school/library no more than two in every five-years, and there does not appear to be any budget limitation on the amount of funds you may request. For applicants in the midst of their five-year cycle, the current regulations allow for the schools and libraries to continue to apply for Category 2 under the budget program.

At this time, it is not known what actions the FCC may take to either extend or modify the Category 2 budget program beyond FY 2019.

How do I track the amount of funding used by a school or library over multiple funding years?

For schools and libraries that use some but not all of their Category 2 budgets in one year, the applicant will need to compute how much of the prediscount budget is available in the remaining years of their five-year cycle. This calculation must also take into account that the annual budget could fluctuate based on the current number of enrolled students or the number of square feet per library building.

The E-rate website has a Category 2 budget tool that accumulates the funding commitments for each school from FY 2015 and FY 2016; however this tool does not currently include FY 2017 funding commitments.

To determine your remaining Category 2 budget, it is recommended that you follow these steps.

1. Schools should multiply the current number of enrolled students that will be listed on your FY 2018 Form 471 application for each school by \$153.47. This will be your Category 2 budget for FY 2018. If your calculation is less than \$9412.80, you are eligible for this floor amount.

Libraries should multiply the current number of square feet by either \$2.35 or \$5.12 for urbanized libraries. If your calculation is less than \$9412.80, you are eligible for this floor amount.

2. Use the SLD's Category 2 budget tool to look up the amount of committed funding by school or library (via their entity number) for FY 2015 and FY 2016. The amounts shown in the tool are **prediscount amounts**. The tool is available online at <https://sltools.universalservice.org/portal-external/budgetLookup/>. This hyperlink is also accessible via <http://universalservice.org/sl/> > Tools > FCC Form 471 Tools > Category Two Budget Tool. Skip this step if the school or library has not applied for Category 2 funding in FY 2015, FY 2016 and/or FY 2017.
3. Total amount of funding associated with each school or library for FY 2017. Skip this step if you did not apply for Category 2 in FY 2017.

If your FY 2017 application was approved, use the **approved prediscount** amount; otherwise use the amount of requested prediscount amount.

This information is available from reviewing your Form 471 online at <https://data.usac.org/publicreports/Forms/Form471Detail/Index>. This hyperlink is accessible via <http://universalservice.org/sl/> > Tools > FCC Form 471 Tools > View/Download FCC Forms 471 for FY2016 and forward. Note that you must download all of the information from state and then sort by your entity number or name. Sort by your school or library entities in the tab "Recipients of Service" to quantify the amount of funding either requested or committed in FY 2017.

4. Add the FY 2017 prediscount amount for the school to the search results for the Category 2 budget tool.
5. Subtract the total prediscount funding for FY 2015 – FY 2017 from the FY 2018 budget. The remainder is the amount of prediscount funding available for FY 2018.

Note, if you submitted a Form 500 to return "committed" C2 funds, be sure to add those monies back to the C2 budget for a school.

C2 Budget Options for Shared Equipment

If a piece of Category 2 equipment is shared by two or more schools, the cost of the equipment must be allocated from the C2 budgets of the schools sharing the equipment (core switches and wireless controllers are good examples of shared equipment). Deciding which cost allocation method to choose - and making sure you do so correctly on your Form 471 -- is important.

After you enter the costs in the FRN Line Item and identify the schools sharing the equipment, the 471 will ask *"Are the costs shared equally among all of the entities?"*. If you answer "Yes," the system will split the costs of this line item equally among the recipients identified. For example, if the equipment costs \$25,000 and there are 4 schools sharing the equipment, the system will take \$6250 from each school's C2 budget. This is not the method that most applicants will want to choose, even though it is very tempting to click "Yes" and let the system do the math for you. Rather, you may need to perform offline math and develop a weighted allocation.

Weighted Allocation Options

For equipment that's being shared among multiple schools, you likely want to select "No" to the question *"Are the costs shared equally among all of the entities?"* and then do a weighted allocation. The Form 471 system will not do this math for you, unfortunately. Thus, applicants will have to do some quick, offline-math so you know what the weighted costs will be. Which method of weighting is up to you. The following examples show the necessary steps for each allocation method.

1) By Percentage of Enrolled Students

This is the weighted allocation option most commonly used by schools.

- Take total enrollment for all schools being served by the shared equipment
- Divide school enrollment by total enrollment to obtain % enrollment for that school
- Multiple school % enrollment by total cost of equipment

	Enrollment	% Enrollment	% Enrollment x Cost of Shared Component
Plainfield Elem	225	0.21	\$6,355.93
Jacksonville HS	256	0.24	\$7,231.64
Franklin HS	581	0.55	\$16,412.43
	1062		\$30,000.00

2) By Percentage of Devices Connected

This method calculates the cost per school based on the number of devices in each school that are connected to the shared equipment. For example, if the shared equipment is a wireless controller, you could count the number of WAPs at each school and do a weighted calculation by percentage of total WAPs.

	# of WAPs in School	% WAPs	% WAPs x Cost of Shared Component
Plainfield Elem	55	0.23	\$7,021.28
Jacksonville HS	65	0.28	\$8,297.87
Franklin HS	115	0.49	\$14,700.00
	235		\$30,000.00

3) Other

You are free to develop your own cost allocation based on a method that is rational and defensible.

Remember, after you answer No, to this question, the system will allow you to enter the costs manually for each school. Be sure to keep your off-line math calculations as part of your E-rate workpapers and documentation.

Are the costs shared equally among all of the entities?

Yes

No ✓

Edit Eligible Cost Allocated to the Recipient(s)

1. Plainfield Elementary School (BEN: 109)

\$6,355.93

2. Jacksonville Jr/Sr High School (BEN: 110)

\$7,231.64

3. Franklin High School (BEN: 10599)

\$16,412.43