

ACF Administration for Children and Families	U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES	
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**INFORMATION MEMORANDUM**

**TO:** All Head Start and Early Head Start Grantees and Delegate Agencies

**FROM:** The Office of Head Start

**SUBJECT:** E-Rate Discount Options

**INFORMATION:**

The E-Rate program is intended to ensure that all eligible schools and libraries have affordable access to telecommunications and information services. Some Head Start and Early Head Start grantees are eligible for E-Rate program participation. Service discounts range from 20 percent to 90 percent depending upon local income and urban or rural location. The E-Rate program was implemented in 1997 by the Federal Communications Commission and is administered by the Schools and Libraries Division of the Universal Service Administrative Company. Detailed information about eligibility and participation in the E-Rate program can be found in the Resources section below.

E-Rate participants (also referred to as users) have two payment options (exercisable at the participant's discretion) for their covered telecommunications and information services:

1. The user pays their telecommunications and information services bill in full and seeks reimbursement payments for the amount of the discount from the E-Rate Program Administrator via the service or equipment provider.

OR

2. The user pays only the non-discount portion of the telecommunications and information services cost to the service or equipment provider, who, in turn, seeks reimbursement from the E-Rate Program Administrator for the discounted amount.

For example, assume that a grantee uses \$1,000 in undiscounted services and is entitled to a 60 percent E-Rate discount. The grantee could opt to pay the full \$1,000 to the provider and later receive a discount payment of \$600 (No. 1 above). Alternatively, the grantee could opt to pay the non-discount portion of the services to the provider in the amount of \$400 and the provider would seek reimbursement of the discount from the E-Rate Program Administrator (No. 2 above).

Cost principles (see Citations below) for all grantees classify discount payments as applicable credits. Applicable credits must be credited to the federal government as a cost reduction (if received during the same grant period as charges were made) or cash refund (if received after the grant period in which charges were incurred has ended). Applicable credits are not program income and may not be used as non-federal share. Further, since grantees have the option of choosing to pay only the non-discount portion of their E-Rate services (No. 2 above), the additional amount required for payment in full with a discount reimbursement payment at a later date (No. 1 above) would not be a reasonable,

necessary, or allowable expense of program operations, unless one or both of the exceptions noted below apply.

**PROCESS:**

Services through the E-Rate program are initiated by filing Form 470 – Description of Services Requested and Certification Form (available online). Item 13 of Form 470 allows the user to identify any funding restrictions, which apply to the bidding process. Grantees should note in Item 13 of Form 470 and in their accompanying request for proposal (if utilized) that bidders willing to bill for and accept payment only of the non-discount portion of services provided will receive preference in the selection of providers.

Once bids are received, preference should generally be given to provider(s) willing to accept payment of only the non-discount portion of services. In the event a grantee receives no bids from providers willing to accept payment of only the non-discount portion of services (No. 2 above) or the lowest bid received from a provider willing to accept payment option No. 2 above exceeds the cost of comparable services from a provider bidding on the basis of billing in full (No. 1 above) by 10 percent or more, the grantee may accept a bid which requires billing in full (No. 1 above).

When the billing in full (No. 1 above) option is chosen, discount reimbursement payments retain their character as applicable credits and must be accounted for as noted above.

Grantees are instructed to include the bidding preference noted above on their Form 470 and accompanying request for proposal (if utilized) and implement the preference for the non-discount payment option (No. 2 above) in their next annual submission of Form 470.

**RESOURCES:**

E-Rate Toolkit for Head Start and Early Head Start Grantees and Delegate Agencies:  
<http://eclkc.ohs.acf.hhs.gov/hslc/tta-system/operations/Fiscal/erate-toolkit>.

Universal Service Administrative Company: Schools and Libraries (includes online application, forms, and instructions): <http://sl.universalservice.org/menu.asp>

Universal Service Administrative Company Client Service Bureau: 1-888-203-8100

**CITATIONS:**

E-Rate Program Regulations: 45 CFR Subpart F

Cost Principles and Applicable Credits: 2 CFR Part 220, 2 CFR Part 225, 2 CFR Part 230 (all Appendix A.A.5)

Please direct any questions on this Information Memorandum to your Office of Head Start Regional Office.

/ Yvette Sanchez Fuentes /

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