

[Back](#) [header](#)

Basic Maintenance Clarification for FY2011 Applicants

January 27, 2011

SMARTnet Ineligible for FY2011 ... New Cisco Product CiscoBase Is Eligible

In the FCC's *Sixth Report and Order* ([FCC 10-175](#)), the FCC included the following information on unbundled warranties and Basic Maintenance of Internal Connections (BMIC):

- We find that an unbundled warranty is an ineligible BMIC service because it is purchased as a type of retainer and not as an actual maintenance service. That is, BMIC contracts that require an upfront payment and that payment is required regardless of whether any service is actually performed are not eligible.
- ...if applicants are able to estimate a certain number of hours per year for maintenance, based on the current life of their equipment and a history of needed repairs and upkeep, they may seek E-rate funds for upfront costs on service contracts designed to cover this estimate of repairs and upkeep. Reimbursements will be paid on the actual work performed and hours used only. For example, if a school determines it will need 30 service hours in a given year to maintain its internal connections but uses only 20 hours, the school will be reimbursed only for 20 hours even if they were approved for E-rate funds on 30 hours.

Please review the following information as you prepare your Forms 470 and 471 for FY2011. These rules apply to other service providers as well, but this information is tailored to Cisco equipment and products given the volume of questions specifically about them.

1. Beginning with FY2011, SMARTnet is not eligible for E-rate discounts. SMARTnet contains an unbundled warranty, and the *Sixth Report and Order* deems unbundled warranties ineligible for support beginning with FY2011. Applicants cannot simply cost-allocate out the ineligible portion of SMARTnet because the Commission's rules do not allow applicants to receive support for services in a basic maintenance contract that contains both eligible and ineligible services. See para. 24 of the *Third Report and Order*, CC Docket No. 02-6, [FCC 03-323](#) (2003).

2. Cisco has developed an alternate product, called CiscoBase, that excludes the ineligible unbundled warranty and therefore is eligible for support. CiscoBase allows software downloads, bug fixes, and access to a technical assistance center – all of which are eligible for FY2011. Note that one year of these services is included in the purchase price of Cisco equipment. As such, applicants should not request funding for CiscoBase for the first year after Cisco equipment is purchased.

3. Cisco has also developed a separate time and materials process for replacing defective parts and equipment. This process is eligible for discounts if applicants use an estimate of time and materials costs on their FY2011 applications for Basic Maintenance. We suggest that you contact Cisco if you have any questions about this process.

4. Cisco products purchased with a standard manufacturer's warranty for up to three years at no additional charge (i.e., included in the purchase price) are considered bundled warranties and can be eligible for E-rate discounts.

5. An applicant with an existing multiyear contract for SMARTnet that extends into FY2011 can negotiate a new contract for services that are eligible for FY2011 unless state or local procurement laws dictate otherwise. Note, however, that the applicant must post a new Form 470 that describes the desired functionality (rather than naming a specific product) and follow all program rules – and applicable state and local rules and regulations – for its competitive bidding process. Any new contract must be completed before the applicant files a Form 471.

6. For additional information on the changes to the eligibility of basic maintenance contracts and other changes to the E-rate program for FY2011, you can refer to the following documents:

- *Sixth Report and Order* ([FCC 10-175](#))
- Order [DA 10-2355](#), clarifying the eligibility of basic maintenance and the new E-rate gift rules adopted in the Sixth Report and Order
- Public Notice [DA 10-2356](#), providing further guidance to E-rate participants, listing effective dates of the proposals adopted in the Sixth Report and Order, and answering Frequently Asked Questions (FAQs).
- *Third Report and Order* ([FCC 03-323](#))

As more information becomes available, we will provide it in future SL News Briefs. For additional information about Cisco products, please contact Cisco directly.

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[Back](#)