GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

# Fiscal Note 2021 Biennium

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| **Bill #** | SB0239 |
| **Title:** | Provide for moratorium on property taxes for broadband fiber |
| **Primary Sponsor:** | Ellsworth, Jason W |
| **Status:** | As Introduced |

☒Significant Local Gov Impact ☐Needs to be included in HB 2 ☒Technical Concerns

☐Included in the Executive Budget ☒Significant Long-Term Impacts ☐Dedicated Revenue Form Attached

## FISCAL SUMMARY

| | FY 2020 Difference | FY 2021 Difference | FY 2022 Difference | FY 2023 Difference |
|---|---|---|---|---|
| **Expenditures:** | | | | |
| General Fund | $0 | $0 | $0 | $0 |
| State Special Revenue | $0 | $0 | $0 | $0 |
| **Revenue:** | | | | |
| General Fund | $0 | ($1,285,000) | ($2,570,000) | ($3,855,000) |
| State Special Revenue | $0 | ($81,000) | ($162,000) | ($243,000) |
| **Net Impact-General Fund Balance:** | $0 | ($1,285,000) | ($2,570,000) | ($3,855,000) |

**Description of fiscal impact:** SB 239 provides a five-year property tax exemption for fiber optic facilities installed and placed in service on or after the effective date of this bill. After five years, the value is phased in at a rate of 20% per year until after year 10, when the property would become fully taxable.

## FISCAL ANALYSIS

**Assumptions:**

**Department of Revenue**

1. The department estimates that between TY 2015 and TY 2018 there was an average of $590.621 million in new class 13 telecommunication property meeting the definition of property eligible for this exemption.
2. In TY 2018, the weighted average intangible personal property exemption for telecommunication property was equal to 61.83%. This is applied to the previous assumption, yielding an updated market value of $225.417 million.
3. Applying the class 13 rate (6%) results in $13,525,00 in taxable value for the first year of the exemption. The amount of exempt property accumulates rapidly over the first five years. Property then begins to phase-out over the next five. In the eleventh year expiring exemptions begin to fully offset new property.

4. SB 239 has an effective date of July 1, 2019. This means that the first year the state would see an impact would be TY 2020 (FY 2021) as the first assessment date would be January 1, 2020. In FY 2022 the exempt property from FY 2021 would still be exempt, along with newly exempt property. Therefore, in the first five years, the impact in each subsequent year will be a multiple of the first year.

| SB 239 Broadband Fiber Optic Property Moratorium | | | | |
|---|---|---|---|---|
| | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
| SB 239 Exempt Market Value | | **(225,417,000)** | **(450,834,000)** | **(676,251,000)** |
| Taxable Value | | (13,525,020) | (27,050,040) | (40,575,060) |
| **Revenue** | | | | |
| State General Fund | | ($1,285,000) | ($2,570,000) | ($3,855,000) |
| State Special Revenue | | ($81,200) | ($162,300) | ($243,500) |

5. The department anticipates any costs associated with implementation will be minimal.

| **Fiscal Impact:** **Department of Revenue** | **FY 2020 Difference** | **FY 2021 Difference** | **FY 2022 Difference** | **FY 2023 Difference** |
|---|---|---|---|---|
| **FTE** | 0.00 | 0.00 | 0.00 | 0.00 |
| **Expenditures:** | | | | |
| **TOTAL Expenditures** | $0 | $0 | $0 | $0 |
| **Funding of Expenditures:** | | | | |
| General Fund (01) | $0 | $0 | $0 | $0 |
| State Special Revenue (02) | $0 | $0 | $0 | $0 |
| **TOTAL Funding of Exp.** | $0 | $0 | $0 | $0 |
| **Revenues:** | | | | |
| General Fund (01) | $0 | ($1,285,000) | $2,570,000 | $3,855,000 |
| State Special Revenue (02) | $0 | ($81,200) | $162,300 | $243,500 |
| **TOTAL Revenues** | $0 | ($1,366,200) | $2,732,300 | $4,098,500 |
| **Net Impact to Fund Balance (Revenue minus Funding of Expenditures):** | | | | |
| General Fund (01) | $0 | ($1,285,000) | $2,570,000 | $3,855,000 |
| State Special Revenue (02) | $0 | ($81,200) | $162,300 | $243,500 |

**Effect on County or Other Local Revenues or Expenditures:**
**Department of Revenue**

1. The five-year exemption will decrease local taxable value, however local mills will adjust upward to offset the effects of the accumulating exempt property, thereby offsetting the exemption. Taxes effectively will be shifted to other property in each respective jurisdiction. It is estimated that if this bill had been in effect in FY 2019, local government jurisdictions statewide would have shared a decrease in taxable value that would have generated $3,090,300 in tax revenue. Local schools (and county wide school levies) would have shared $3,299,900. These properties accumulate rapidly for five years and then phase-out over the subsequent five years.

| SB 239 Broadband Fiber Optic Property Moratorium | FY 2020 | FY 2021 | FY 2022 | FY 2023 |
|---|---|---|---|---|
| SB 239 Exempt Market Value | | **(225,417,000)** | **(450,834,000)** | **(676,251,000)** |
| Taxable Value | | (13,525,000) | (27,050,040) | (40,575,060) |
| **Revenue** | | | | |
| Local Governments | | ($3,090,500) | ($6,181,000) | ($9,271,500) |
| County-wide and Local Schools | | ($3,201,100) | ($6,402,300) | ($9,603,400) |
| **Total** | | **($6,291,600)** | **($12,583,300)** | **($18,874,900)** |

**Long-Term Impacts:**

1. The cumulative effect of the exempt property peaks in FY 2031 at around minus $6,682,000 in state general fund revenue and minus $422,000 in university state special revenue. After FY 2031 property rolling off exemption begins to offset new exempt property.

**Technical Notes:**

1. SB 239 leaves considerable room for interpretation of what property would (and would not be) included in the exemption. The interpretation for this fiscal note was to treat all property associated with providing telecommunications over fiber optic cable as exempt. A narrower definition would reduce the amount of property subject to the exemption.

NO SPONSOR SIGNATURE

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|---|---|---|---|
| | | TL | 2/15/19 |
| *Sponsor's Initials* | *Date* | *Budget Director's Initials* | *Date* |

SB0239.01
2/14/2019