



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2023 Biennium

Bill # SB0051

Title: Exempting certain fiber optic, coaxial cable from property taxation

Primary Sponsor: Ellsworth, Jason W

Status: As Amended in Senate Committee

- 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

	<u>FY 2022</u> <u>Difference</u>	<u>FY 2023</u> <u>Difference</u>	<u>FY 2024</u> <u>Difference</u>	<u>FY 2025</u> <u>Difference</u>
Expenditures:				
General Fund	\$49,627	\$50,181	\$50,745	\$51,316
State Special Revenue	\$0	\$0	\$0	\$0
Revenue:				
General Fund	\$0	(\$57,311)	(\$114,622)	(\$171,933)
State Special Revenue	\$0	(\$3,620)	(\$7,240)	(\$10,860)
Net Impact-General Fund Balance:	<u>(\$49,627)</u>	<u>(\$107,492)</u>	<u>(\$165,367)</u>	<u>(\$223,249)</u>

Description of fiscal impact: SB 51, as amended, exempts certain new fiber optic and coaxial cable from property tax. A 100% exemption applies for the first five years then the property's value is added to the tax rolls at 20% a year for the subsequent five years until assessed its full value in the tenth year. For the property to qualify a company must reinvest the tax savings from the exemption into the installation of new fiber optic or coaxial cable within two years and cannot pass the cost of the installation on to consumers. Companies claiming the exemption would have to report such property annually to the department. The amendments add the requirement of a DOR web page for posting proposed cable projects and local government comments. Property tax recapture provisions have been added as well.

FISCAL ANALYSIS

Assumptions:

Department of Revenue

- To estimate the impact of SB 51, the installed miles of fiber optic and coaxial cable, by county, were analyzed for class 5 and class 13 property between TY 2016 and TY 2020.

2. Any positive annual change in the value of fiber optic or coaxial cable was assumed to be new property. This analysis is presented in the following table.

Estimated New Miles of Fiber Optic and Coaxial Cable and Average Value per Mile								
Tax Year	Fiber Optic Class 13				Coaxial Cable Class 13			
	Miles	New Miles	Value	Value Per Mile	Miles	New Miles	Value	Value Per Mile
2016	208,478	NA	\$64,856,606	\$311.096	5,836,145	NA	\$117,308,204	\$20.100
2017	211,843	4,815	\$73,051,183	\$344.836	5,836,143	0	\$92,934,475	\$15.924
2018	211,927	406	\$60,475,011	\$285.357	5,836,144	1	\$73,749,986	\$12.637
2019	215,273	3,352	\$61,408,334	\$285.258	5,836,144	0	\$67,146,034	\$11.505
2020	216,616	1,792	\$70,441,541	\$325.191	5,836,144	0	\$80,121,211	\$13.728
Avg.		2,591		\$310.161		0		\$13.449

Tax Year	Fiber Optic Class 5				Coaxial Cable Class 5			
	Miles	New Miles	Value	Value Per Mile	Miles	New Miles	Value	Value Per Mile
2016	790,881	NA	\$198,054,487	\$250.423	737,873	NA	\$139,367,193	\$188.877
2017	736,682	60,286	\$203,561,438	\$276.322	655,524	4,960	\$133,260,003	\$203.288
2018	723,035	27,388	\$182,773,671	\$252.787	373,475	149	\$104,582,023	\$280.024
2019	819,025	96,217	\$236,034,017	\$288.189	362,931	9,961	\$96,283,227	\$265.294
2020	874,827	57,182	\$300,525,383	\$343.526	311,447	113	\$98,847,761	\$317.383
Avg.		60,268		\$290.206		3,796		\$266.497

3. The average new mileage is assumed to continue into the forecast period. Further, the average value per mile is assumed to remain constant for the forecast period.
 4. This results in statewide market value of new fiber and coaxial cable valued at \$19.305 million per year. If exempted, this property would subtract \$0.603 million of taxable value from the tax base each year starting in FY 2023. Each subsequent year would be a multiple of that amount until FY 2028 when the first year property begins to be added back to the tax rolls.
 5. Applying the statewide mills to this value yields an accumulating annual reduction of \$0.061 million per year.
- Department of Revenue Administrative Costs*
6. It is estimated that SB 51 will require 0.50 additional FTE to track the property and verify qualifying reinvestments in additional fiber optic and coaxial cable. General fund administrative costs for the department are estimated at \$65,494 in FY 2022; \$58,190 in FY 2023; \$58,905 in FY 2024; and \$59,630 in FY 2025.

Fiscal Impact:	FY 2022	FY 2023	FY 2024	FY 2025
Department of Revenue	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>	<u>Difference</u>
FTE	0.50	0.50	0.50	0.50
<u>Expenditures:</u>				
Personal Services	\$49,627	\$50,181	\$50,745	\$51,316
Operating Expenses	\$15,867	\$8,009	\$8,160	\$8,314
TOTAL Expenditures	\$65,494	\$58,190	\$58,905	\$59,630
<u>Funding of Expenditures:</u>				
General Fund (01)	\$65,494	\$58,190	\$58,905	\$59,630
State Special Revenue (02)	\$0	\$0	\$0	\$0
TOTAL Funding of Exp.	\$65,494	\$58,190	\$58,905	\$59,630
<u>Revenues:</u>				
General Fund (01)	\$0	(\$57,311)	(\$114,622)	(\$171,933)
State Special Revenue (02)	\$0	(\$3,620)	(\$7,240)	(\$10,860)
TOTAL Revenues	\$0	(\$60,931)	(\$121,862)	(\$182,793)

Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	(\$65,494)	(\$115,501)	(\$173,527)	(\$231,563)
State Special Revenue (02)	\$0	(\$3,620)	(\$7,240)	(\$10,860)

Effect on County or Other Local Revenues or Expenditures:

1. The reduction in taxable value due to the SB 51 exemption will lead to a shift in local taxes paid peaking in the 9th year at a taxable value reduction of \$3,618,000. Local mills would increase proportionally to offset growth in authorized local revenue in jurisdictions with this property.

Long-Term Impacts:

1. The reduction in taxable value due to the SB 51 exemption will accumulate rapidly in the first five years and stabilize in the 9th year as new exemptions and expiring exemptions balance. The general fund revenue reduction would stabilize at approximately \$345,00 per year.

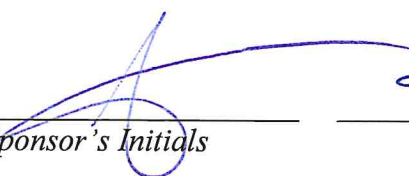
Technical Notes:

Department of Revenue

1. The definition of “fiber optic or coaxial cable” includes all capitalized costs associated with construction and deployment, and “other property normally operated in the installation and deployment of fiber optic and coaxial cable...”. While the definition of fiber optic or coaxial cable does expressly exclude certain items (e.g., routers and central office equipment), it also excludes hardware and software “not directly” associated with installation and deployment. The use of the phrase “not directly” presumably means hardware and software directly involved in installation and deployment would be exempt. This appears to be a subjective standard open for interpretation and possible dispute. The definition includes “other property that is normally operated in the installation and deployment...”. This is a somewhat broad definition, and without additional clarification, the department would be left to determine ‘other property’ in the rules process.
2. The amended language no longer indicates how the reinvestment is to be determined. The original language indicated the owner of the fiber or coax cable would be required to reinvest the tax savings from the exemption

in the installation of new fiber optic or coax cable in Montana within two years. The new language states the owner of the fiber optic or coax cable will have to install and place in service new fiber optic or coax cable; however, it does not state a quantity or how it is to be determined.

3. The amended language requires the Department of Revenue to create a page on their website so that local governments can comment, but it does not indicate local governing bodies will have any approval or denial authority of the exemption nor does it indicate any response will be necessary from the owner of the exempt property.

 _____ <i>Sponsor's Initials</i>	<i>2/5</i> _____ <i>Date</i>	<i>KA</i> _____ <i>Budget Director's Initials</i>	<i>2/4/21</i> _____ <i>Date</i>
---	------------------------------------	---	---------------------------------------