



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>
<b>Expenditures:</b>				
General Fund	\$65,494	\$58,191	\$58,904	\$59,630
State Special Revenue	\$0	\$0	\$0	\$0
<b>Revenue:</b>				
General Fund	\$0	(\$57,311)	(\$114,622)	(\$171,933)
State Special Revenue	\$0	(\$3,620)	(\$7,240)	(\$10,860)
<b>Net Impact-General Fund Balance:</b>	<u>(\$65,494)</u>	<u>(\$115,502)</u>	<u>(\$173,526)</u>	<u>(\$231,563)</u>

**Description of fiscal impact:** SB 51, as amended in the Senate Finance and Claims Committee, exempts certain fiber optic and coaxial cable that is placed in service after the effective date of this bill for the first five years and then phases-in value at 20% a year for the next five years until taxed full value in the tenth year. To receive and maintain the exemption, the company must reinvest the tax savings from the exemption into the installation of new fiber optic or coaxial cable within two years. Companies claiming the exemption would have annual reporting requirements. SB 51 contains a requirement that the Department of Revenue create a web page presenting proposed cable projects and soliciting comments from local government bodies. SB 51 now also adds property tax recapture language in the event that the exemption is granted, but the maintenance requirement is not met.

### FISCAL ANALYSIS

#### Assumptions:

#### **Department of Revenue**

- To estimate the impact of SB 51, the annual totals miles of fiber optic and coaxial cable by county were analyzed for class 5 and Class 13 property between tax years 2016 and 2020.
- Any positive annual change in the county values were assumed to be new fiber optic or coaxial cable. The values from this analysis are 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 annual number of new miles of cable laid during this period is assumed to continue into the forecast period. Further, the average value per mile is assumed to remain constant.
4. Based on these assumptions, statewide market value for new fiber and coaxial cable is estimated to be \$19.305 million per year. This property would have a non-exempt taxable value of \$0.603 million per year beginning in FY 2023, and every subsequent year will be a multiple of that amount until FY 2028 when the property first exempt will begin to phase-out.
5. Applying the 95 mills to this value yields an annual decrease in state revenue of \$ 7,300 and the 6 mill university state special revenue reduction would be \$3,620 per year.

*Administrative Costs*

6. It is anticipated that the implementation of this legislation will cost \$65,494 in FY 2022; \$58,191 in FY 2023; \$58,904 in FY 2024; and \$59,630 in FY 2025. It is also estimated SB 51 will require an additional 0.50 FTE. These costs are primarily as a result of the requirement to track and verify that tax savings are reinvested in additional fiber/coax.

<b><u>Fiscal Impact:</u></b>	<b><u>FY 2022</u></b>	<b><u>FY 2023</u></b>	<b><u>FY 2024</u></b>	<b><u>FY 2025</u></b>
<b>Department of Revenue</b>	<b>Difference</b>	<b>Difference</b>	<b>Difference</b>	<b>Difference</b>
<b>FTE</b>	0.50	0.50	0.50	0.50
<b><u>Expenditures:</u></b>				
Personal Services	\$49,627	\$50,182	\$50,744	\$51,316
Operating Expenses	\$15,867	\$8,009	\$8,160	\$8,314
<b>TOTAL Expenditures</b>	<b>\$65,494</b>	<b>\$58,191</b>	<b>\$58,904</b>	<b>\$59,630</b>
<b><u>Funding of Expenditures:</u></b>				
General Fund (01)	\$65,494	\$58,191	\$58,904	\$59,630
State Special Revenue (02)	\$0	\$0	\$0	\$0
<b>TOTAL Funding of Exp.</b>	<b>\$65,494</b>	<b>\$58,191</b>	<b>\$58,904</b>	<b>\$59,630</b>
<b><u>Revenues:</u></b>				
General Fund (01)	\$0	(\$57,311)	(\$114,622)	(\$171,933)
State Special Revenue (02)	\$0	(\$3,620)	(\$7,240)	(\$10,860)
<b>TOTAL Revenues</b>	<b>\$0</b>	<b>(\$60,931)</b>	<b>(\$121,862)</b>	<b>(\$182,793)</b>
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>				
General Fund (01)	(\$65,494)	(\$115,502)	(\$173,526)	(\$231,563)
State Special Revenue (02)	\$0	(\$3,620)	(\$7,240)	(\$10,860)

**Technical Notes:**

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 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.

**NO SPONSOR SIGNATURE**

Sponsor’s Initials

2/25  
Date

KA  
Budget Director’s Initials

2/24/21  
Date