



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:** Second Reading, Second House

- |  |   |  |
|--|---|--|
| <input checked="" type="checkbox"/> Significant Local Gov Impact     | <input checked="" type="checkbox"/> Needs to be included in HB 2  | <input checked="" type="checkbox"/> Technical Concerns   |
| <input checked="" type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> 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	(\$29,000)	(\$58,000)	(\$87,000)
State Special Revenue	\$0	(\$2,000)	(\$4,000)	(\$6,000)
<b>Net Impact-General Fund Balance:</b>	<b>(\$65,494)</b>	<b>(\$87,191)</b>	<b>(\$116,904)</b>	<b>(\$146,630)</b>

**Description of fiscal impact:** SB 51, after amendments in House Appropriations, 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 at 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. The amendments in the House appropriation Committee makes projects receiving federal American Rescue Plan Act (ARPA) grant funding ineligible for the exemption provided in SB 51.

### FISCAL ANALYSIS

**Assumptions:**

**Department of Revenue**

1. 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.
2. 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. The exclusion of otherwise eligible projects using ARPA funds is assumed to reduce by 50% the new property eligible to receive the abatements through FY 2025,
5. Based on these assumptions, statewide market value for new fiber and coaxial cable is estimated to be \$9.652 million per year. This property would have a non-exempt taxable value of \$0.302 million per year beginning in FY 2023, and every subsequent year will be a multiple of that amount until after FY 2025 when the annual new property reduction would increase to \$0.605 annually with the expiration of ARPA funding.
6. Applying the 95 mills to this value yields an annual decrease in state revenue of \$ 29,000 and the 6 mill university state special revenue reduction would be \$2,000 per year.

**Administrative Costs**

7. 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><u>Department of Revenue</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></b>	<b><u>Difference</u></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	(\$29,000)	(\$58,000)	(\$87,000)
State Special Revenue (02)	\$0	(\$2,000)	(\$4,000)	(\$6,000)
<b>TOTAL Revenues</b>	<b>\$0</b>	<b>(\$31,000)</b>	<b>(\$62,000)</b>	<b>(\$93,000)</b>

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

General Fund (01)	(\$65,494)	(\$87,191)	(\$116,904)	(\$146,630)
State Special Revenue (02)	\$0	(\$2,000)	(\$4,000)	(\$6,000)

**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 9<sup>th</sup> year. Local mills would increase proportionally to offset the reduction in jurisdictions with this property. The revenue shifts would be between three and five times the state impacts.

**Long-Term Impacts:**

2. The reduction in taxable value due to the SB 51 exemption will accumulate rapidly in the first five years and stabilize in the 9<sup>th</sup> year as new exemptions and expiring exemptions roughly begin to balance.

**Technical Notes:**

1. The bill 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.

 \_\_\_\_\_ *Sponsor's Initials*     
 \_\_\_\_\_ *Date*     
  \_\_\_\_\_ *Budget Director's Initials*     
 4-22-21 \_\_\_\_\_ *Date*