



DEPARTMENT OF AUDITS AND ACCOUNTS

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Honorable Don Parsons
Chairman, Energy, Utilities & Telecommunications
401 Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 36 3242)

Dear Chairman Parsons:

The bill requires the Department of Economic Development (DEcD) to establish a process for political subdivisions to apply for certification as a broadband ready community. The bill exempts qualified broadband equipment from sales and use tax in certain eligible counties. The bill also requires the Georgia Technology Authority to develop an annual report providing guidance for achieving enhanced broadband deployment throughout the state. The bill is effective on July 1, 2017.

DEcD will be responsible for establishing rules and regulations governing broadband ready communities, including the application process, model ordinance, public comment period, and review process. Certification as a broadband ready community will allow political subdivisions to issue permits for broadband network projects. To qualify for certification, political subdivisions must have enacted an ordinance for reviewing applications and issuing permits for these projects. Broadband equipment purchased for use in the deployment of broadband technology projects in eligible counties will be exempted from sales tax. The Department of Community Affairs will be responsible for publishing a listing of eligible counties on its website annually.

Impact on State Revenue

The University of Georgia's Carl Vinson Institute of Government (CVIoG) estimated that the bill would result in an annual state sales tax revenue reduction of \$13.9 million and an annual local sales tax reduction of \$10.4 million (Table 1). Estimates are based on the state's four percent tax rate and an average three percent local rate. CVIoG projected the reductions to remain at these amounts through FY 2022, assuming that equipment expenditures will remain at about the same level over the period.

Table 1. Estimated Revenue Loss from LC 36 3242

	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022	TOTAL
State Loss	\$13,929,934	\$13,929,934	\$13,929,934	\$13,929,934	\$13,929,934	\$69,649,669
Local Loss	\$10,447,450	\$10,447,450	\$10,447,450	\$10,447,450	\$10,447,450	\$52,237,252

Impact on Agency Costs

The bill would also result in increased costs for the Department of Economic Development (DEcD), the Georgia Technology Authority (GTA) and the Department of Revenue (DOR). The Department of Community Affairs does not anticipate any increased costs related to this bill.

- DEcD estimated additional one-time costs of \$40,000 for website redevelopment and marketing. It also anticipated the need for \$126,500 for 1.5 employees during the first year and \$61,000 annually in subsequent years for 0.5 employee.
- GTA provides two costs, with the amount dependent on the amount of information shared by the telecommunications companies and the level of analysis performed by GTA. The agency anticipates the need for \$580,000 annually to assess the status of broadband deployment and utilization if the private providers divulge proprietary information about broadband deployment. Approximately \$405,000 of this amount is to contract for data collection, verification and mapping. Personnel and associated costs are \$125,000, and \$50,000 is to conduct consumer surveys of utilization. The provider data and these funds would allow GTA to produce broadband deployment maps like those funded by American Recovery and Reinvestment Act funds between 2010 and 2014.

If providers do not share proprietary information about broadband deployment, GTA would not be able to produce a deployment status map. GTA estimated the need for \$125,000 annually to assess utilization. This estimate includes \$75,000 for staff needed to gather, monitor and report data and \$50,000 to conduct consumer surveys of utilization.

- DOR estimated additional one-time costs of \$34,000 for IT system changes, development of required documents, and training. DOR also estimated that the need for one auditor at a cost of \$100,000 annually (salary and benefits) to conduct audits of broadband sales tax exemptions.

Sincerely,



Greg S. Griffin
State Auditor



Teresa A. MacCartney, Director
Office of Planning and Budget

Analysis by the Carl Vinson Institute of Government

This legislation is known as the “Broadband Strategy for All Georgia Act.” It amends Title 36 by adding a new chapter, O.C.G.A. § 36-66C-1 through O.C.G.A. § 36-66C-6, which establishes rules and regulations under which a political subdivision may become certified as a Broadband Ready Community, including the development of an application process, development of ordinance provisions and a model ordinance, and provisions for a public comment period and review process.

It amends O.C.G.A. § 48-8-3 related to revenue and taxation, by adding a sales and use tax exemption for equipment purchased for use in the deployment of broadband technology projects in certified broadband ready communities when purchased by the owner, contractor, or a subcontractor. It also requires that a Broadband Ready Community be located in Tier 1 or Tier 2 counties, as defined by the Georgia Department of Community Affairs, or in a county where at least 10 percent of the population lacks access to fixed broadband service.

It also amends O.C.G.A. § 50-25-17 by requiring that the Georgia Technology Authority report annually on the progress of the “Broadband Strategy for All Georgia” program.

Data were obtained from the Federal Communications Commission’s December 2015 Fixed Broadband Deployment Data report, which lists by state and county, the population with access to 10-1 broadband service (i.e. at least 10 megabytes per second downstream and one megabyte per second upstream). Georgia has 71 Tier 1 counties, 35 Tier 2 counties and an additional 26 Tier 3 and 4 counties where at least 10 percent of the population lacks access to 10-1 broadband service. These 132 counties, accounting for 42% of the state’s population, would be eligible to become certified broadband ready communities.

A study by KSE Partners, LLP, a communications and government relations firm specializing in the telecommunications industry, estimated that \$68.3 million in sales and use taxes were paid to Georgia state and local governments in 2013 for equipment purchases by firms delivering telecommunications services including fixed broadband service. Telecommunications industry experts suggest that 85 percent of purchases in 2013 were for telecommunications and cable equipment for broadband capable systems; the remaining 15 percent was for equipment to maintain existing voice-only telephone systems and other purposes. This suggests that an estimated \$58.0 million in sales and use tax in 2013 was paid on purchases of equipment used for broadband service delivery. Prorating the adjusted \$58.0 million figure based on population indicates that \$24.4 million would have been paid on telecommunications equipment deployed in areas that would meet the eligibility requirements in the legislation. The Producer Price Index for internet access services, which includes the cost of equipment used in providing these services, was determined to be the price inflation index that most closely mirrors broadband equipment costs. This index has remained relatively flat since 2013. Consequently, it was assumed that equipment expenditures will remain at about the same level through 2022. The total estimated sales and use tax reduction is for both state and local governments representing a combined seven percent tax rate. The allocation to the state and local levels uses the state’s four percent tax rate and an average three percent local rate. The estimated state, local, and total revenue impacts are shown in Table 1.

