



## DEPARTMENT OF AUDITS AND ACCOUNTS

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March 1, 2018

Honorable Frank Ginn  
Chairman, Regulated Industries and Utilities  
121-I State Capitol  
Atlanta, Georgia 30334

SUBJECT: Fiscal Note  
Senate Bill 402 (LC 36 3589S)

Dear Chairman Ginn:

This bill, titled the "ACE Act," amends the responsibilities of several state agencies to provide for broadband services planning, deployment, and incentives. The Department of Community Affairs (DCA) would develop and administer programs to promote broadband deployment throughout Georgia, and the Georgia Technology Authority (GTA) would coordinate statewide broadband promotion efforts and conduct analyses to aid broadband development. The Georgia Department of Transportation (GDOT) would develop policies for use of state right of way for broadband development. These parts of the bill would be effective July 1, 2018.

In addition to state agency duties, the bill would exempt the purchase of broadband equipment purchased within an eligible county from the state and local sales tax. An eligible county must have been approved by the DCA as a "broadband ready community." It must also have either a population of less than 50,000 as of the 2010 decennial census or have been designated as a county in which less than 40 percent of the population does not have fixed broadband services. The exemption would be effective upon signature of the governor, but for the purposes of the fiscal note, July 1, 2018 is assumed.

### **Impact on State Revenue**

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would reduce state revenues by \$11.6 million to \$23.7 million in FY 2019 (Table 1). The losses are expected to increase to \$14.5 million to \$29.6 million by FY 2023. Local revenue losses are \$9.5 million to \$19.3 million in FY 2019 and \$11.9 million to \$24.2 million in FY 2023. Details of the analysis are included in the appendix.

**Table 1. Estimated State and Local Revenue Loss, LC 36 3589S**

(\$ millions)	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
<b>State</b>					
High Estimate	\$23.7	\$25.0	\$26.5	\$28.0	\$29.6
Low Estimate	\$11.6	\$12.3	\$13.0	\$13.7	\$14.5
<b>Local</b>					
High Estimate	\$19.3	\$20.5	\$21.6	\$22.9	\$24.2
Low Estimate	\$9.5	\$10.0	\$10.6	\$11.2	\$11.9

**Impact on State Costs**

This bill would require additional annual spending of approximately \$1.3 million by DCA and GTA (Table 1). One-time costs for the two agencies, as well as the Department of Revenue (DOR), would equal \$166,600. GDOT does not anticipate the need for additional funding.

**Table 1. Anticipated Additional Expenditures Under Proposed Bill**

	DCA	GTA	DOR	Total
<b>Annual Costs</b>				
Personal Services	\$293,400	\$434,485	\$0	\$727,885
Other Operating Expenses	\$41,500	\$51,219	\$0	\$92,719
Contracts	\$0	\$500,000	\$0	\$500,000
<b>Annual Cost Total</b>	<b>\$334,900</b>	<b>\$985,704</b>	<b>\$0</b>	<b>\$1,320,604</b>
<b>One-time Costs</b>				
Logo Development/Branding	\$7,500	\$0	\$0	\$7,500
Mapping Data	\$0	\$120,000	\$0	\$120,000
Taxpayer Services Changes	\$0	\$0	\$39,100	\$39,100
<b>One-time Cost Total</b>	<b>\$7,500</b>	<b>\$120,000</b>	<b>\$39,100</b>	<b>\$166,600</b>

*Cost to the Department of Community Affairs*

DCA anticipates additional annual spending of \$334,900 to support three new staff positions in the areas of planning, research, and economic development. The planning position would assist communities in updating their comprehensive plans as required under the bill to address the promotion of broadband deployment. The research position would develop and administer new programs for designating communities and facilities/sites as ready for broadband installation or use. The economic development position would administer a new rural grant program that provides funding to underserved areas to promote broadband deployment. DCA estimates approximately \$7,500 in one-time costs would be required for logo development and branding; however, additional marketing and outreach funding may be required depending on need and consultation with Georgia's Department of Economic Development.

*Cost to the Georgia Technology Authority*

GTA anticipates additional annual spending of up to \$985,704. Approximately one-half of the funds would support three new staff positions, including a project manager, database administrator, and analyst. These positions would carry out the new technical assistance and analytical duties. Under the bill, GTA would create a statewide broadband deployment plan and provide annual progress updates to the Governor and General Assembly. GTA estimates an additional annual cost of \$500,000 to hire contractors who would assist with a periodic analysis of statewide properties

and the creation of a broadband map. Broadband mapping duties may require the purchase of datasets, which GTA estimated would be a one-time cost of \$120,000.

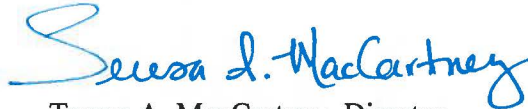
*Cost to the Department of Revenue*

DOR estimated additional one-time costs of \$39,100 for changes related to the bill's new sales tax exemption. The funds would be used for form creation, training and education, and IT system testing.

Sincerely,



Greg S. Griffin  
State Auditor



Teresa A. MacCartney, Director  
Office of Planning and Budget

GSG/TAM/mg

### Analysis by Fiscal Research Center

For a county to be ACE eligible, it must be included in a list of approved counties issued by July 1 of each year, for the following year, by the DCA\*. The estimates assume that DCA will publish the first list of ACE-qualifying counties by July 1, 2018 such that otherwise-eligible broadband equipment purchases on or after that date are exempted.

*\* Note that the bill language in lines 323-329 is vague as whether a list published by July 1 of a given year applies as to eligibility for the fiscal year beginning on that date or for the following calendar year. Lines 323-324 may imply calendar year, but this is not entirely clear. Eligibility for listed counties is assumed to begin on the July 1 following publication of the list. Note also that there is an apparent typographical error in line 327, referring to "division (iv) of subparagraph (B) of this paragraph." There is no division (iv) in the referenced subparagraph in this bill, so it is assumed that the reference should be to division (iii)(II) or all of (iii).*

The high and low revenue estimates are based on the following:

- County population data from the U.S. Census, and data on available wireline telecommunication and download speeds from the National Telecommunications and Information Administration (NITA) together suggest 118 counties are likely ACE-eligible counties as of 2016 and 2014, respectively.
- According to the Annual Capital Expenditure Survey by the U.S. Census, companies classified as wired and wireless (except satellite) telecommunications carriers (2017 North American Industry Classification System (NAICS) code 5173; 2012 NAICS codes 5171 and 5172), satellite telecommunications (NAICS code 5174), and telecommunications resellers (NAICS code 5179) spent \$70.7 billion on equipment nationally in calendar year 2016.
- Between 2009 and 2016, these equipment expenditures grew annually by 4.78 percent. The estimates assume a high growth rate of 5.78 percent and a low growth rate of 3.78 percent after 2016.
- Equipment expenditures in Georgia are estimated based on Georgia's share of the national population, 3.20 percent as of 2017. Similarly, equipment expenditures in ACE-eligible counties are estimated based on these counties' share of the state population, though the actual share, 22.7 percent, is used only for the high case estimates. The low case assumes significant underinvestment (relative to the per capita average across all counties) in these counties under current law, roughly half the statewide average per capita or equivalent to an 11.4 percent share of statewide equipment expenditure estimates.
- The population-weighted average local sales tax rate, used to estimate the local tax revenue effects in table one, across the 118 likely ACE-eligible counties is 3.27 percent.

**Table 2. Broadband Equipment Purchases**

<i>(\$ millions)</i>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>
US Broadband Equipment Expenditures*					
High	\$81,350.3	\$86,055.2	\$91,032.2	\$96,297.0	\$101,866.3
Low	\$79,812.2	\$84,428.2	\$89,311.1	\$94,476.4	\$99,940.4
ACE Eligible County's Equipment Expenditures					
High	\$591.5	\$625.7	\$661.9	\$700.2	\$740.7
Low	\$290.2	\$306.9	\$324.7	\$343.5	\$363.3