

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 5311-01  
Bill No.: SB 1092  
Subject: Political Subdivisions: Broadband Regulation  
Type: Original  
Date: March 22, 2006

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**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 6 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>
<b>Local Government</b>	<b>\$0 to (Unknown)</b>	<b>\$0 to (Unknown)</b>	<b>\$0 to (Unknown)</b>

**FISCAL ANALYSIS**

**ASSUMPTION**

Officials of the **Department of Economic Development - Public Service Commission** and **Office of Public Counsel** assume no fiscal impact.

Officials of the **Office of the Secretary of State - State Librarian** issued a comment, however, assume no fiscal impact.

Officials of the **Department of Revenue** did not respond, however, **Oversight** assumes this proposal would only affect political subdivisions of the state. **Oversight** assumes no state fiscal impact.

Officials of the **City of Raytown** assume this proposal includes the regulation of franchise fees for cable television and possibly telecommunications. Officials assume this proposal would result in the loss of \$630,000 annually.

Officials of the **City of Springfield** assume the Broad definition of "Broadband Internet" using outdated download and upload speeds would have an effect beyond simply removing their ability to tax Internet service. Officials assume it would remove their authority to tax all telephone and cable services as well.

ASSUMPTION (continued)

Accordingly, the City of Springfield would lose \$4.7 million in gross receipts taxes in the first year. This does not take into account the value of our Government access channel, which is in the millions, in-kind transmission costs, in-kind cable service to government buildings throughout the city, including all levels of law enforcement, libraries, schools, hospitals, colleges and universities. These costs are incalculable, but would be enormous.

Officials of the **City of Excelsior Springs** assume this legislation would affect the agreement the city has with their cable television provider. Officials assume this legislation would result in an annual revenue loss of an estimated \$290,000.

Officials of the **City of Independence** stated that the potential minimum negative fiscal impact to the City would be as follows:

(1) Telephone - \$1,844,584; (2) and CATV - \$576,254:

Officials stated fiscal impact would be an annual loss of income of \$2,420,838.

Officials of the **City of Frontenac** estimates approximate annual loss of income in telecom receipts of \$59,712.

Officials of the **City of Grandview** assumes this proposal will prevent local governments from regulating, taxing, or collecting fees in any manner from broadband internet services. Officials estimate annual loss of revenue of up to \$470,215 in current telecom revenues.

Officials of the **City of Greendale** receives just under \$6000 annually from telecom taxes, and another \$5400 annually from cable TV taxes. This \$11.4 thousand represents about 4% of our city's operating revenue.

Officials of the **City of St. Louis** assume the broad language of this bill appears to eliminate the City of St. Louis' s current ability to require payment of telephone gross receipts taxes, payment of cable franchise fees and provision of community needs such as "cable TV. in the classroom".

ASSUMPTION (continued)

As such, the potential loss in revenue to the City under the proposed legislation can be estimated as follows:

Annual Telephone Gross Receipts Taxes	\$10,100,000	(est. under new base)
Annual Cable Franchise Fees	\$ 1,620,000	
Annual Cable Franchise In-Kind Services (Govt. Facilities)	\$93,600	(Cable Service to School and Govt. Facilities)
Access Channel Operating Support	\$280,000	
Annual Equipment Grants for Access Channels	\$26,666	
Cash Value of Institutional Network links at Govt. Buildings, Police and Fire Stations	<u>\$270,000</u>	
Annual Estimated Revenue Loss:	\$12,390,000	

Officials of the **City of Gladstone** assume with the continuing migration of all telecommunications technologies to broadband and Internet based networks, the impact of SB 1092 would be to completely eliminate these industries as a source of tax revenue to support the cost of City services. For the fiscal year ending June 30, 2005, The City of Gladstone collected \$407,848 in gross receipts taxes from land line telephone companies and \$287,372 from Cable Television Franchisees. It is anticipated that the application of the Municipal Telecommunications Business License Tax Simplification Act, which would subject wireless, voice over Internet protocol (VOIP), and other technologies utilized for the transmission of two-way voice and data, this revenue amount will exceed \$1 million annually within the next few years, and would continue to grow in the future.

Officials of **Platte City** stated this proposal would decrease annual revenues to the City's General Revenue Fund. Officials estimate a reduction in revenues of \$527,900 over the next five years.

**Oversight** sent response request to Kansas City, Manchester, Maryland Heights, Cape Girardeau and many other cities, and to St. Louis County, Cass County, Clay County and many other counties and none have responded.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Local Government

FY 2007  
(10 Mo.)

FY 2008

FY 2009

**CITIES and COUNTIES GENERAL  
REVENUE FUND**

**Loss of Income** to Cities and Counties  
From prohibition of regulating or taxing  
in any form broadband internet  
connections or providers.

\$0 to  
(Unknown)

\$0 to  
(Unknown)

\$0 to  
(Unknown)

**ESTIMATED NET EFFECT TO  
LOCAL GOVERNMENT \***

\$0 to  
(Unknown)

\$0 to  
(Unknown)

\$0 to  
(Unknown)

**\* Oversight assumes that on a statewide basis, loss of income to local governments would exceed \$100,000 annually. Oversight assumes some local governments do not regulate or tax broadband internet connections or providers, therefore, Oversight will show fiscal impact as \$0 to Unknown.**

FISCAL IMPACT - Small Business

Small businesses that are internet providers or who disseminate information either audio or video, or information of any kind over a broadband internet service would be expected as a result of this proposal to realize a savings from not being taxed, or having to pay any type of fee, license, or franchise requirement as a condition of doing business.

DESCRIPTION

The act prohibits any political subdivision from regulating the content, cost, or distribution of data, audio, video or other information over a broadband internet connection. Further, the act prohibits any political subdivision from imposing any fee, license, gross receipts tax or franchise requirement on any broadband internet provider as a condition of doing business.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

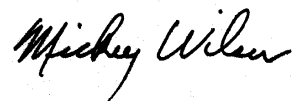
SOURCES OF INFORMATION

Department of Economic - Public Service Commission  
Office of Public Counsel

City of Raytown  
City of Excelsior Springs  
City of Springfield  
City of Independence  
City of Frontenac  
City of Grandview  
City of Greendale  
City of Gladstone  
City of St. Louis  
Platte City

NOT RESPONDING

**Oversight** sent response request to Kansas City, Manchester, Maryland Heights, Cape Girardeau and many other cities, and to St. Louis County, Cass County, Clay County and many other counties and none have responded.



Mickey Wilson, CPA  
Director  
March 22, 2006