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Senate Bill 46 (Substitute S-1 as reported)
Sponsor: Senator Aric Nesbitt
Committee: Energy and Technology

CONTENT

The bill would amend the General Property Tax Act to exempt from the collection of taxes under the Act eligible broadband equipment that resolved lack of broadband service by delivering high-speed internet access at speeds of at least 25 megabits per second (Mbps) downstream and three Mbps upstream, beginning December 31, 2020.

Proposed MCL 211.9p

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FISCAL IMPACT

The bill would reduce property tax revenue to State and local governments by an unknown magnitude that would depend on the value of equipment exempted under the bill and any applicable millage rates. The exemption would apply only to eligible broadband equipment purchased after December 31, 2020, so while any revenue loss could be foregone revenue, over time exempted property could include property that replaced existing personal property currently being taxed. The exemption would reduce local property tax revenue and State School Aid Fund (SAF) revenue from the State Education Tax and would increase the State cost of the foundation allowance, if the per pupil foundation allowance were maintained. The General Fund is required to reimburse the SAF for lost revenue and additional costs of personal property tax exemptions.

While the bill would affect primarily taxpayers taxed at the local level, the bill could affect some taxpayers taxed under the State's property tax on telecommunications companies. As a result, the bill also would reduce General Fund revenue by an unknown amount.

Several factors could result in administrative issues that ultimately could affect the amount of revenue loss. While the bill defines "lack of broadband service" it does not define the conditions broadband equipment would have to meet to "resolve" a lack of service. Given that broadband services can be delivered through various media, including satellite services, fiber-optic cable, DSL connections, wireless connections (including through cell phones), and broadband over powerlines, it could be difficult for both taxpayers and assessors to know if an area lacked broadband service or if the area simply lacked any service of a particular medium. Furthermore, it is unclear if the bill would consider a location that did have broadband access under one medium to "lack" broadband service if broadband service were available through a different medium. Finally, to the extent that broadband access involves networked equipment, the definitions of the bill would appear to allow new equipment placed in areas that currently have broadband service to be exempt from tax as long as the equipment was part of a network that expanded to offer service in an area that lacked service.

Certain market demographics could limit the revenue reduction comprised of forgone revenue (i.e. taxes that would have otherwise been levied on equipment that would not have been

placed into service absent the bill). Over the last 20 years, Michigan has pursued a variety of options to create an incentive for or subsidize broadband deployment into underserved areas of the State. Additionally, multiple Federal programs seek to expand broadband access into underserved areas. One factor that hampers these efforts is the lack of a significant market for broadband services in certain locations. In some locations, connectivity has existed at various times but was terminated because it was not commercially viable.

The bill requires eligible equipment to a minimum download speed of 25 Mbps and upload speeds of at least 3.0 Mbps. Data indicate that as of September 2020, 94.5% of Michigan households are served by services that offer at least 25 Mbps connectivity. Furthermore, approximately one-third of households that do not subscribe to internet access service indicate the service is too expensive. On a county basis, 54 counties exhibit service rates that cover more than 80% of households, while only four counties exhibit coverage rates of below than 50% (eight counties are below 60%). These figures include both households without access as well as households that elect not to subscribe to broadband access.

Given these demographics, there is limited market potential for firms seeking to expand access and a significant chance that providing access would not result in a sufficient number of additional subscribers. Assuming any tax savings were passed on to consumers, the property tax exemption under the bill would be unlikely to lower prices sufficiently to entice those who do not subscribe for cost reasons to join, given that broadband in Michigan is more affordable than the national average and compared to the cost of the acquisition, maintenance and operational costs of the equipment. The limited number of potential additional subscribers also limits the growth opportunities for firms seeking to reach those households. As a result, while the bill's forgone revenue could be minimal, as equipment is replaced or upgraded, there is a substantial chance that equipment that is part of the existing tax base could be subject to the exemption, which would reduce revenue to the State and local units of government.

While the millage rate on all commercial, industrial, and utility property averages 53.3 mills, inclusive of a variety of existing exemptions, commercial personal property that would be affected by the bill already is exempt from 12 mills of property taxes levied for school operating purposes. Similarly, most areas with lower levels of broadband coverage are located in rural areas that exhibit lower millage rates. The four counties with the lowest rates of broadband coverage exhibit an average millage rate on commercial personal property of approximately 39.7 mills. While the number of miles of eligible broadband equipment that would be affected by the bill is unknown, at an estimated cost of \$30,000 to \$40,000 per mile for this equipment, the bill would affect property taxes at a cost of between \$595 and \$793 per mile in those four counties. How the bill would be applied, and the associated revenue impact, of providing broadband access via satellite or wireless is unknown, although a taxpayer could not claim the exemption for any equipment associated with satellite broadband services unless they also offered terrestrial broadband services.

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Bill Analysis @ www.senate.michigan.gov/sfa

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