



Senate Fiscal Agency  
P.O. Box 30036  
Lansing, Michigan 48909-7536



Telephone: (517) 373-5383  
Fax: (517) 373-1986

Senate Bill 46 (as introduced 1-26-21)  
Sponsor: Senator Aric Nesbitt  
Committee: Energy and Technology

Date Completed: 2-1-21

### **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, beginning December 31, 2020.

"Eligible broadband equipment" would mean any equipment acquired by a qualified business that is used for or is substantially related to providing broadband service in at least one direction, or was first installed or used by the qualified business after December 31, 2020, and has been used by the qualified business for not more than 10 years.

The bill specifies that "eligible broadband equipment" would include the following:

- Asynchronous transfer mode switches, digital subscriber line access multiplexers, antennas, routers, servers, multiplexer, fiber optic cable, and related equipment technology.
- For a qualified business that was a telecommunications carrier, equipment that was necessary to provide broadband service and was an integral part of a broadband network.
- For a qualified business that was a commercial mobile service carrier, equipment extending from the subscriber side of the mobile telecommunications switch to a transmitting or receiving antenna, including the antenna, on the outside of the structure in which the subscriber was located.
- For a qualified business that was a cable or open video system operator or video service provider, equipment extending from within the headend to the outside of the structure in which the subscriber was located.

Under the bill, "broadband service" would mean a service capable of delivering high-speed internet access at speeds of at least 10 megabits per second downstream and one megabit per second upstream.

"Qualified business" would mean a person who provides terrestrial broadband services, including terrestrial wireless broadband service. "Person" would mean an individual, sole proprietorship, partnership, corporation, association, limited liability company, or any other legal entity.

Proposed MCL 211.9p

Legislative Analyst: Tyler VanHuyse

### **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 by 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 would 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. The bill does not define what constitutes a "lack of broadband service" nor what conditions would have to be met for equipment to "resolve" a lack of service. Given that broadband services can be delivered through various mediums, including satellite services, fiber-optic cable, DSL connections, wireless connections (including through cell phones), and broadband over powerlines, it may be difficult for both taxpayers and assessors to know if an area lacks broadband service or if the area simply lacks 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 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.

While the Federal Communication Commission definition of broadband requires a minimum download speed of 25 megabits per second (Mbps), the bill would require eligible equipment to have a minimum speed of only 10 Mbps. Data indicate that as of September 2020, 98.6% of Michigan households are served by services that offer at least 10 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, only three counties exhibit service rates that cover less than 87% of households, while 62 counties exhibit coverage rates of more than 96%. These figures include both households without access and 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 does 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.

Fiscal Analyst: Ryan Bergan  
David Zin

SAS\S2122\s46sa

This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.