

# Vermont Legislative Joint Fiscal Office

One Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • Fax: (802) 828-2483

## *FISCAL NOTE*

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Prepared by: Daniel Dickerson and Mark Perrault

### **H.360 An act relating to accelerated community broadband deployment – As passed by the General Assembly**

<https://legislature.vermont.gov/Documents/2022/Docs/ACTS/ACT071/ACT071%20As%20Enacted.pdf>

#### **Bill Summary**

The bill contains numerous provisions aimed at facilitating the expansion of quality broadband access throughout Vermont. These provisions include, but are not limited to, language creating a new Vermont Community Broadband Board, the establishment of a property tax exemption for broadband infrastructure constructed on or after July 1, 2021, the study and creation of new education and training opportunities within the communications sector.

The appropriations to support the programs in this bill are included in H.439, an act relating to making appropriations for the support of government.

#### **Fiscal Provisions**

1. Vermont Community Broadband Board (sec. 2-7d)

The bill would establish a new VT Community Broadband Board (Board) upon passage to “coordinate, facilitate, support and accelerate the development and implementation of universal community broadband” in VT. The Board would be housed within the Dept. of Public Service (PSD) and would have five members as well as an executive director to serve as chief administrative officer for the Board. The ED would be authorized to hire additional staff as needed, which would be likely given the scope of the Board’s responsibilities.

#### **Estimated FY22 Costs:**

Board staff	\$250,000	(executive director and rural broadband specialist)
Board operating	\$50,000	(space/equip./training/Board per diems – 15 mtgs.)
Board other	<u>\$200,000</u>	(potential additional staff/consultants)
Total	\$500,000	

A VT Community Broadband Fund would be established to support the operations of the Board and to support broadband build-out grant programs, workforce development, and engineering design. The fund would receive the proceeds from the existing 0.4% charge on retail telecommunications service that currently is allocated to the Connectivity Fund for use in supporting the Connectivity Initiative and the rural broadband specialist position within the PSD. The 0.4% charge raised approx. \$1,000,000 in revenue in FY20, but revenues from the charge have been in a steady decline over the past few years. Revenues in FY22 will likely be closer to

\$800,000 to \$900,000. This bill authorizes up to \$1.5 million annually from the fund towards the operations of the Board.

The Authority would take over management of the Connectivity Initiative from PSD starting on January 1, 2022. This bill would create two new funding programs under the Board: the Broadband Preconstruction Grant Program, and the Broadband Construction Grant Program. H.439, the annual appropriations bill, includes a \$150,000,000 appropriation of federal American Recovery Plan Act (ARPA) funds to the PSD for broadband expansion in Vermont. This funding may be used towards the broadband initiatives set forth in this bill.

2. Broadband Infrastructure Property Tax Exemption (sec. 12-15)

These sections provide an education and municipal property tax exemption for certain broadband infrastructure that is constructed by electric distribution utilities (EDUs) and internet service providers (ISPs) on or before July 1, 2021. The purpose of these tax exemptions is to make it more feasible for EDUs and ISPs to construct broadband infrastructure in unserved and underserved areas of Vermont by lowering their costs.

The property tax exemption proposed in this bill would be prospective, so property tax revenue on existing broadband infrastructure would not be affected; however, the State and municipalities rely on assumed growth in the property tax base. The proposed property tax exemption in this bill would freeze the taxable value of newly-constructed broadband infrastructure as of FY2022 and potentially constrain growth in property tax revenues in future years.

Providing an estimate of the statewide property tax revenue potentially foregone through this property tax exemption is problematic. First, the buildout of broadband infrastructure to all areas of the State will take an uncertain number of years, so annual property tax revenues foregone would start out small and increase over time. Washington Electric Cooperative (WEC) has indicated that this exemption would allow it to buildout to its service area within a five-year period, but the actual rate of buildout is unknown.

Second, some of the expansion of broadband will likely be undertaken by Communication Union Districts (CUD), an organization of two or more towns that join together as a municipal entity to build communication infrastructure together. As a municipal entity, CUDs are already exempt from the property tax. At this time, it is not possible to project which of the entities involved in broadband expansion to underserved areas of the State will actually undertake the work.

Finally, some of the tax revenue foregone if this property tax exemption is enacted may be offset by growth in the property tax base if the availability of broadband in currently unserved and underserved areas of the State spurs economic development. New construction and appreciation in existing residential and business property values has the potential to generate new property tax revenue, but any estimate at this point would be speculative.

A 2019 feasibility study<sup>1</sup> estimated the cost of broadband expansion to reach all areas of the state. Fixed capital costs were estimated to be \$284 million and variable capital costs were estimated to range from \$39 to \$78 million. These cost estimates include labor costs as well as the cost of new

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<sup>1</sup><https://publicservice.vermont.gov/sites/dps/files/documents/Feasibility%20Study%20of%20Electric%20Companies%20Offering%20Broadband%20in%20Vermont.pdf>

broadband infrastructure that would be exempt from the property tax; however, the underlying data used in the study, which would provide more specificity as to the assumed relationship between labor and capital costs, is not available.

WEC has estimated that providing universal broadband access to its members would require an additional investment of about \$22 million over a five-year period beginning in FY2022. WEC has also estimated that the its total State and municipal property tax liability on its newly-deployed broadband infrastructure would be roughly \$500,000 annually once universal access was achieved. According to WEC's financial analysis, the proposed property tax exemption would make this expansion feasible.

While it is possible to roughly estimate the statewide cost of this property tax exemption by extrapolating from the feasibility study and financial projections prepared by WEC, it's unlikely that WEC and the customers it serves are fully representative of the 17 other EDUs in the State. In addition, this estimate would reflect the total annual property tax revenue potentially foregone only after all areas of the State are fully served, something that may take years and may never be fully achieved.

3. Communications Workforce Development (sec. 16-18)

The Dept. of Labor (VDOL) would be required to conduct an occupational needs survey to determine communications sector workforce needs. The VT Technical College (VTC), in consultation with VDOL, would be required to establish an incumbent training program for communications installers and technicians. VDOL would also be required to establish a federally recognized apprenticeship program for broadband installers. VTC would be appropriated \$40,000 from DOL's FY22 training fund to pay for the incumbent training program. H.439 includes a \$2,000,000 appropriation of ARPA funds towards apprenticeship programs under VDOL.