

# Vermont Legislative Joint Fiscal Office

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## *FISCAL NOTE*

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### **H.360 An act relating to accelerated community broadband deployment – As Introduced and with House Appropriations proposal of amendment**

<https://legislature.vermont.gov/Documents/2022/Docs/BILLS/H-0360/H-0360%20As%20Introduced.pdf>

<https://legislature.vermont.gov/Documents/2022/WorkGroups/House%20Appropriations/Bills/H.360/W~H.360%20-%20Broadband~As%20Recommended%20by%20House%20Committee%20on%20Appropriations%20-%20Draft%20No.%201.2~3-18-2021.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 Authority, 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, and appropriations to support the policy goals of the bill.

#### **Fiscal Provisions**

1. Vermont Community Broadband Authority (sec. 1-9)

The bill would establish a new VT Community Broadband Authority (Authority) upon passage to “coordinate, facilitate, support and accelerate the development and implementation of universal community broadband” in VT. The bill would authorize the creation of a Board to oversee the Authority and would authorize the hiring of an executive director to serve as chief administrative officer for the Authority. The ED would be authorized to hire additional staff as needed, which would be likely given the scope of the Authority’s responsibilities.

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

Authority staff	\$250,000	(executive director and rural broadband specialist)
Authority operating	\$50,000	(space/equip./training/Board expenses – 15 mtgs.)
Authority 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 Authority and to support communications union districts (CUDs). 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 Public Service Dept. (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.

The Authority would be authorized to spend up to \$500,000 in FY22 against future proceeds from the 0.4% charge.

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 Authority: the Community Broadband Preconstruction Grant Program, and the Construction Grant and Subordinated Debt Program. The Authority would receive one-time FY21 appropriations of federal funds from the American Rescue Plan Act (ARPA) of 2021 in the bill to fund the programs (sec. 23). PSD would be authorized to allocate up to \$9,000,000 under the Preconstruction Grant Program prior to the organization of the Authority.

2. Broadband Infrastructure Property Tax Exemption (sec. 16-19)

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

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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>

range from \$39 to \$78 million. These cost estimates include labor costs as well as the cost of new 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. 20-22)

The Dept. of Labor (DOL) would be required to conduct an occupational needs survey to determine communications sector workforce needs. The VT Technical College (VTC), in consultation with DOL, would be required to establish an incumbent training program for communications installers and technicians. DOL would also be required to establish a federally recognized apprenticeship program for broadband installers. The bill would appropriate \$100,000 to DOL for the survey and for the apprenticeship program. The source of this appropriation would be from federal ARPA funds. VTC would be appropriated \$40,000 from DOL’s FY22 training fund to pay for the incumbent training program.

4. Appropriations and Fund Transfers (sec. 23)

The bill would create appropriations to cover the costs of the initiatives and programs described in prior sections. The bill uses federal funds from the American Rescue Plan Act (ARPA) of 2021 to make the one-time FY21 appropriations. The bill would direct the Authority would take over responsibility for managing a \$1,000,000 grant from the Northern Border Regional Commission upon bill passage.

**Appropriations totals:**

Community Broadband Preconstruction Grant Program	\$30,000,000
Construction Grant and Subordinated Debt Program	\$120,000,000
Dept. of Labor – apprenticeship and occupational survey	<u>\$100,000</u>
Total	\$150,100,000