

Fiscal Estimate - 2007 Session

Original
 Updated
 Corrected
 Supplemental

LRB Number 07-1914/3	Introduction Number AB-0207
Description Regulation of cable television and video service providers	
Fiscal Effect	
State: <input type="checkbox"/> No State Fiscal Effect <input type="checkbox"/> Indeterminate <input type="checkbox"/> Increase Existing Appropriations <input type="checkbox"/> Increase Existing Revenues <input checked="" type="checkbox"/> Increase Costs - May be possible to absorb within agency's budget <input type="checkbox"/> Decrease Existing Appropriations <input checked="" type="checkbox"/> Decrease Existing Revenues <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Create New Appropriations <input type="checkbox"/> Decrease Costs	
Local: <input type="checkbox"/> No Local Government Costs <input type="checkbox"/> Indeterminate 1. <input type="checkbox"/> Increase Costs 3. <input type="checkbox"/> Increase Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory 2. <input type="checkbox"/> Decrease Costs 4. <input checked="" type="checkbox"/> Decrease Revenue <input type="checkbox"/> Permissive <input type="checkbox"/> Mandatory <input type="checkbox"/> Permissive <input checked="" type="checkbox"/> Mandatory	
5. Types of Local Government Units Affected <input checked="" type="checkbox"/> Towns <input checked="" type="checkbox"/> Village <input checked="" type="checkbox"/> Cities <input checked="" type="checkbox"/> Counties <input checked="" type="checkbox"/> Others <u>Stadium districts</u> <input type="checkbox"/> School Districts <input type="checkbox"/> WTCS Districts	
Fund Sources Affected Affected Ch. 20 Appropriations <input type="checkbox"/> GPR <input type="checkbox"/> FED <input type="checkbox"/> PRO <input type="checkbox"/> PRS <input type="checkbox"/> SEG <input type="checkbox"/> SEGS	
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Date 3/27/2007	

Fiscal Estimate Narratives

DOR 3/27/2007

LRB Number	07-1914/3	Introduction Number	AB-0207	Estimate Type	Original
Description Regulation of cable television and video service providers					

Assumptions Used in Arriving at Fiscal Estimate

Under current law, a cable company negotiates a franchise with each municipality in which it provides service. Also under current law, cable television services are subject to municipal franchise fees, typically 5% of gross receipts, general property taxes, and state and local sales and use taxes. Under current law, telephone companies are subject to state and local sales and use taxes and state telephone company property taxes.

The bill repeals current law regarding municipal cable franchises and franchise fees. In addition, the bill defines "video services" as any video programming service, cable TV service, or certain open video systems, without regard to the technology used to deliver the services so long as the service is provided through facilities located at least in part in public rights-of-way. Under the bill, video services would be subject to sales and use taxes. In addition, the bill creates a video service franchise fee -- a percentage of the video service provider's gross receipts which would be paid to the municipality in which the provider has a franchise. The video service franchise fee would be the same rate as is currently paid by the existing cable company. However, the tax base of the video service franchise fee would be narrower than under current law in that it would exclude from gross receipts amounts billed to recover taxes, fees, surcharges or assessments of general applicability for pass through to a government agency; certain charges related to telecommunications services, information services, and advertising bundled with video services; late payment charges; and maintenance charges.

The bill allows telephone companies to provide video services and compete with cable TV companies. Prices of video services may decrease due to the additional competition in the market. According to the Federal Communications Commission, as of January 1, 2005, the average price for basic-plus-expanded basic programming in noncompetitive communities was \$43.33 per month while the average price in communities with a second cable company was \$35.94. Thus, cable prices were \$7.39 (\$43.33 - 35.94) per month higher in communities without competition. According to the National Cable and Telecommunications Industry, cable penetration is 58.8% of households with television. According to the US Census, there are 2,084,544 households in Wisconsin. Assuming 99% of households have TV, an estimated 1,213,000 Wisconsin households subscribe to cable. Assuming cable prices decrease by \$7.39 per month under the bill, with 1,213,000 subscribers, cable franchise fees would decrease by \$5.4 million ($\$7.39 \times 12 \times 1,213,000 \times 5\%$). If cable prices do not decrease by \$7.39 per month, or if the number of subscribers increases due to the lower prices, municipal revenues would decrease by less than \$5.4 million under the bill.

Based on the above assumptions, estimated cable franchise fees would have been \$31.5 million ($\$43.33 \times 12 \times 1,213,000 \times 5\%$) in 2004. This is consistent with data reported by Wisconsin municipalities in their annual reports to the department: Municipalities report cable franchise fees as revenues from "Business and Occupational Licenses" (BOL) which totaled \$45.3 million in 2004. According to DOR staff familiar with municipal finances, cable franchise fees are the majority of BOL revenue, ranging from about 66-75% of the total. The estimated franchise fees of \$31.5 million are 70% of BOL revenue and consistent with the reported BOLs.

Since cable TV services are subject to the state 5% sales tax, state sales taxes may also decrease by up to \$5.4 million per year. County and stadium district sales and use taxes were 7.58% of state sales and use taxes in 2006. Assuming this percentage does not change, local sales taxes may decrease by up to \$400,000 per year under the bill.

As indicated above, the estimated revenue decreases in municipal franchise fees and state and local sales and use taxes assume a statewide average price decrease of \$7.39 per month. To the extent the number of subscribers increases due to lower prices, the revenue reduction would be reduced. On the other hand, the narrower tax base under the bill would increase the fiscal effect.

State telephone company property taxes are levied on the assessed value of real and tangible personal property used to provide telecommunications services. Telecommunications services excludes cable television under current law; under the bill, telecommunications services would exclude video service. Since a single fiber optic cable, for example, can be used to transmit voice and data communications, Internet access, and video services, to the extent a portion of the telephone property tax base is allocated to the provision of video services, telephone property taxes would decrease. A reliable estimate of the state telephone property tax reduction is not feasible.

The bill is not expected to affect general property taxes paid by cable companies.

Administrative costs would be absorbed.

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2007 Session

Detailed Estimate of Annual Fiscal Effect

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Description Regulation of cable television and video service providers			
I. One-time Costs or Revenue Impacts for State and/or Local Government (do not include in annualized fiscal effect):			
II. Annualized Costs:		Annualized Fiscal Impact on funds from:	
		Increased Costs	Decreased Costs
A. State Costs by Category			
	State Operations - Salaries and Fringes	\$	\$
	(FTE Position Changes)		
	State Operations - Other Costs		
	Local Assistance		
	Aids to Individuals or Organizations		
	TOTAL State Costs by Category	\$	\$
B. State Costs by Source of Funds			
	GPR		
	FED		
	PRO/PRS		
	SEG/SEG-S		
III. State Revenues - Complete this only when proposal will increase or decrease state revenues (e.g., tax increase, decrease in license fee, ets.)			
		Increased Rev	Decreased Rev
	GPR Taxes	\$	\$
	GPR Earned		
	FED		
	PRO/PRS		
	SEG/SEG-S		
	TOTAL State Revenues	\$	\$
NET ANNUALIZED FISCAL IMPACT			
		State	Local
	NET CHANGE IN COSTS	\$	\$
	NET CHANGE IN REVENUE	\$See text.	\$See text.
Agency/Prepared By		Authorized Signature	Date
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