Wisconsin Department of Administration
Division of Executive Budget and Finance

Fiscal Estimate - 2007 Session

☒ Original ☐ Updated ☐ Corrected ☐ Supplemental

LRB Number **07-2192/1**	Introduction Number **SB-107**

Description
Regulation of cable television and video service providers

Fiscal Effect

State:

☐ No State Fiscal Effect
☐ Indeterminate
- ☐ Increase Existing Appropriations
- ☐ Decrease Existing Appropriations
- ☐ Create New Appropriations
- ☐ Increase Existing Revenues
- ☒ Decrease Existing Revenues
- ☒ Increase Costs - May be possible to absorb within agency's budget ☒ Yes ☐ No
- ☐ Decrease Costs

Local:

☐ No Local Government Costs
☐ Indeterminate
1. ☐ Increase Costs ☐ Permissive ☐ Mandatory
2. ☐ Decrease Costs ☐ Permissive ☐ Mandatory
3. ☐ Increase Revenue ☐ Permissive ☐ Mandatory
4. ☒ Decrease Revenue ☐ Permissive ☒ Mandatory
5. Types of Local Government Units Affected
   ☒ Towns ☒ Village ☒ Cities
   ☒ Counties ☒ Others Stadium districts
   ☐ School Districts ☐ WTCS Districts

Fund Sources Affected
☐ GPR ☐ FED ☐ PRO ☐ PRS ☐ SEG ☐ SEGS

Affected Ch. 20 Appropriations

Agency/Prepared By	Authorized Signature	Date
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Fiscal Estimate Narratives

DOR 3/27/2007

LRB Number **07-2192/1**	Introduction Number **SB-107**	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 telecommuniactions 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 commmnities with a second cable company was $35.94. Thus, cable prices were $7.39 ($43.33 - 35.94) per month higher in commmunities 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 x 12 x 1,213,000 x 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 x 12 x 1,213,000 x 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

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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.	

Agency/Prepared By	**Authorized Signature**	**Date**
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