

Fiscal Estimate Narratives

DOR 6/2/2017

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|--|-----------|---------------------|--------|---------------|---------|
| LRB Number | 17-2482/1 | Introduction Number | SB-167 | Estimate Type | Updated |
| Description the sales and use tax exemption for commercial radio and television station property | | | | | |

Assumptions Used in Arriving at Fiscal Estimate

Current law provides an exemption for the sale of tangible personal property to a person with a license to operate a commercial television or radio station in Wisconsin, if the tangible personal property, including fuel and electricity, is used in the origination or integration of various sources of program material for commercial radio or television transmissions that are free to receive.

This bill expands the current law sales and use tax exemption for commercial radio and television stations to include property used primarily for transmitting or receiving commercial radio or television program material, including communication towers and the material to build the towers. The bill also extends the exemption to fuel and electricity used primarily for transmitting and receiving program material.

Radio Broadcast Equipment:

Based on industry information from the National Telecommunications and Information Administration (NTIA), radio towers are separated by classes: A, B and C. For each classification the NTIA provides cost data for radio transmission systems, including transmitters, towers, antennas, and other broadcast equipment.

Using data from the Federal Communications Commission (FCC) and excluding non-profit organizations and public institutions, the department estimates that commercial radio stations operate 77 Class A towers, 116 Class B towers, and 109 Class C towers in Wisconsin. Based on data previously provided by Wisconsin Broadcasters Association (WBA), stations generally depreciate towers over 30 years and transmitters over 20 years. The department assumes remaining equipment depreciates over 20 years.

Using the cost data provided by the NTIA and the depreciation schedule from the WBA, the department estimates annualized expenditures of \$10 million (Class A \$1.8 million, Class B \$3.3 million, and Class C \$4.9 million) for commercial radio towers and related equipment.

TV Broadcast Equipment:

According to the FCC there are 37 TV towers registered in Wisconsin with an average height of 1,093 feet. Based on data from the WBA, a TV station depreciates towers over 30 years, transmitters over 10 years, antennas over 15 years, and all other equipment over 20 years. Using cost data from the NTIA, the department estimates a depreciated cost per foot of \$118. Under these assumptions, the annual cost for all towers totals \$4.8 million ($\$118 \text{ per foot} \times 1,093 \text{ feet} \times 37 \text{ towers}$).

Electricity:

Based on data from the Census Service Annual Survey, US electricity expenditures for radio and television broadcasting totaled \$376 million in 2015. Assuming the Wisconsin share of US electricity expenditures is the same as the state's share of radio and TV towers (2%), and 50% of electricity is used in the transmission of programming, the department estimates electricity expenditures to be about \$3.76 million.

Fiscal Effect:

The department estimates that state sales and use tax collections will decrease under the bill by \$928,400 annually ($(\$10 \text{ million} + \$4.8 \text{ million} + \$3.76 \text{ million}) \times .05$). Local sales taxes were 7.7% of state sales tax revenues in FY16. Assuming this percentage does not change, local sales taxes will decrease by approximately \$71,500.

The estimate is sensitive to the actual level of expenditures on broadcast towers and transmission

equipment in a given year and the depreciation schedule of equipment. Based on survey information provided by the Wisconsin Broadcasters Association, radio and television stations expect sales taxes on planned capital expenditures to be approximately \$140,000 on an annual basis through 2021. This information would suggest an overall revenue decrease of \$328,000 (\$140,000 for capital expenditures + \$188,000 for electricity).

Long-Range Fiscal Implications

Fiscal Estimate Worksheet - 2017 Session

Detailed Estimate of Annual Fiscal Effect

Original
 Updated
 Corrected
 Supplemental

| | | | |
|--|--|--|-----------------|
| LRB Number 17-2482/1 | | Introduction Number SB-167 | |
| Description the sales and use tax exemption for commercial radio and television station property | | | |
| 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, etc.) | | | |
| | | Increased Rev | Decreased Rev |
| GPR Taxes | | \$ | \$ |
| GPR Earned | | | |
| FED | | | |
| PRO/PRS | | | |
| SEG/SEG-S | | | |
| TOTAL State Revenues | | \$ | \$ |
| NET ANNUALIZED FISCAL IMPACT | | | |
| | | <u>State</u> | <u>Local</u> |
| NET CHANGE IN COSTS | | \$ | \$ |
| NET CHANGE IN REVENUE | | \$see text | \$see text |
| Agency/Prepared By | | Authorized Signature | |
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| | | Date | |
| | | 6/2/2017 | |