

LEGISLATIVE FISCAL OFFICE
Fiscal Note



Fiscal Note On: **HB 827** HLS 24RS 2070
 Bill Text Version: **ORIGINAL**
 Opp. Chamb. Action:
 Proposed Amd.: **w/ PROP HSE COMM AMD**
 Sub. Bill For.:

Date: April 19, 2024 4:54 PM **Author:** TURNER
Dept./Agy.: Department of Revenue & Uniform Local Sales Tax Board
Subject: Sales and Use Tax Rebate on Sale of Broadband Equip. **Analyst:** Noah O'Dell

TAX/TAX REBATES OR DECREASE GF RV See Note Page 1 of 2
 Provides relative to the sales and use tax rebate on the sale of certain fiber-optic cable equipment

Current law establishes a rebate of 50% of state and local sales and use tax paid by the winning bidders in the Federal Communications Commission's (FCC) Rural Digital Opportunity Fund Auction on fiber-optic cable equipment used to distribute broadband networks to eligible rural unserved areas. Purchases made with certain state or federal funds are excluded. Current law defines terms used in connection with the rebate.

Proposed law repeals the local rebate and increases the state rebate to 100% of state sales and use tax rebate paid by communications providers, expands the qualified equipment purchases, including those paid by any state or federal funds, and broadens entities eligible for the rebate. The state sales tax rebate has no sunset and no cost cap on amounts to be issued. Effective July 1, 2024

EXPENDITURES	2024-25	2025-26	2026-27	2027-28	2028-29	5 -YEAR TOTAL
State Gen. Fd.	SEE BELOW					
Agy. Self-Gen.	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0

Annual Total

REVENUES	2024-25	2025-26	2026-27	2027-28	2028-29	5 -YEAR TOTAL
State Gen. Fd.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Ded./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	INCREASE	INCREASE	INCREASE	INCREASE	INCREASE	

Annual Total

EXPENDITURE EXPLANATION

Proposed law is anticipated to increase SGR expenditures within the LA Department of Revenue (LDR) beginning in FY 25. LDR anticipates one additional Revenue Tax Specialist (salary and benefits of \$89,515) will be needed to administer the sales tax rebate program. However, the Legislative Fiscal Office (LFO) can envision a scenario in which additional personnel costing in excess of \$100,000 may be necessary to evaluate and administer the significant number of purchases with specified uses that are potentially eligible under the rebate program, particularly as the program ramps up within the first 3 years.

Note: Increases in SGR within LDR result in less SGF monies reverted to general fund at the end of the fiscal year.

REVENUE EXPLANATION

Proposed law is anticipated to decrease SGF revenues by tens of millions as rebates are issued on the state sales and use tax paid on equipment purchases related to broadband communications by providers throughout the state. Local revenue is expected to increase in future years to the extent current communications providers who were eligible for the existing rebate will no longer be eligible under the bill. To date, no rebates have been issued under the current program.

A more precise estimate of the SGF loss (and local increase) is not possible due to uncertainties regarding whether current exemptions or exclusions may already apply to some of the eligible items listed in the bill, or whether items that are currently taxable but used for similar services, such as telecommunications, may be eligible for a rebate under the bill.* In an effort to estimate a potential magnitude of the impact, LFO utilized several approaches:

The LA Office of Broadband Development and Connectivity reports 3 sources of federal funding for about \$1.3 B in capital investment in rural broadband throughout the state: GUMBO 1.0, GUMBO 2.0, and FCC's Rural Digital Opportunity Fund Auction. The office estimates roughly \$500 M will be expended in FY 25 and \$200 M in each of the following 4 years, which translates to a decrease in SGF revenue of \$22.3 M in FY 25, and \$8 M in each of FY 26-29, assuming these taxable expenditures take place in the year in which the funding is received.

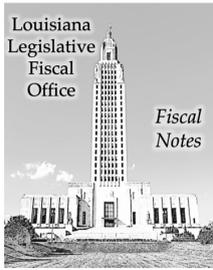
However, the sales tax rebate in proposed law has no funding or geographical limitations. Utilizing industry-level Intermediate Use data and industry-level state Gross Domestic Product data from the Bureau of Economic Analysis, approximately \$935 M (plus inflation) statewide may be spent annually on items that seem to be impacted by the bill. At a state sales tax rate of 4.45%, the state sales tax rebate would result in an annual revenue impact of approximately \$42 M in FY 25 with subsequent years at \$38 M due to a 4% state sales tax rate. Although the injection of the FCC's Rural Digital Opportunity Fund monies may already be incorporated into this estimate, the two upcoming GUMBO state programs could potentially increase an illustrative revenue loss of the bill to approximately \$58 M or more in FY 25 and \$43 M or more in each of the subsequent fiscal years. By comparison, a similar rebate in Tennessee is estimated to cost \$68M annually, and in Oklahoma, a similar rebate is capped at \$42M annually.

CONTINUED ON PAGE 2

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Deborah Vivien
Chief Economist



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 827** HLS 24RS 2070
Bill Text Version: **ORIGINAL**
Opp. Chamb. Action:
Proposed Amd.: **w/ PROP HSE COMM AMD**
Sub. Bill For.:

Date: April 19, 2024 4:54 PM **Author:** TURNER
Dept./Agy.: Department of Revenue & Uniform Local Sales Tax Board **Analyst:** Noah O'Dell
Subject: Sales and Use Tax Rebate on Sale of Broadband Equip.

CONTINUED EXPLANATION from page one:

List of purchases that qualify for the state sales tax rebate under current law:

Current law offers a 50% state sales tax rebate on purchases of telecommunications fiber, wires, poles, supports, lashing cable, conduit, communication handholes, and customer premise equipment made by recipients of the FCC's Rural Digital Opportunity Fund Auction.

List of purchases that qualify for the state sales tax rebate under proposed law:

Proposed law offers a 100 % state sales tax and use rebate to broadband provider purchases of cables (including fiber-optic and coaxial cables), antennas, towers, poles, supports, mounts, lashing wires, conduit, above-ground network equipment enclosures and storage devices, below-ground network equipment enclosures and storage devices, central control headend equipment, hub switching equipment, network monitoring and diagnostic equipment, networking and distribution equipment, radio communication equipment, routing and switching equipment, broadband network software, power regulator equipment, power failure backup equipment, network servers, communications multiplexers, and signal amplification equipment.

** According to LDR, industry specific data for broadcasting and telecommunications is aggregated in most statewide and federal expenditure reporting categories. Equipment purchased for one purpose may also be used for different features across the broadcasting and telecommunications industry. Features of this particular industry make estimates for revenue loss from the proposed bill speculative in nature. LDR notes that broadband can be provided over several different platforms, including Digital Subscriber Line (DSL), cable modem, fiber, wireless, and satellite.*

Senate Dual Referral Rules
 13.5.1 >= \$100,000 Annual Fiscal Cost {S & H}
 13.5.2 >= \$500,000 Annual Tax or Fee Change {S & H}

House
 6.8(F)(1) >= \$100,000 SGF Fiscal Cost {H & S}
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease {S}

Deborah Vivien
Chief Economist