

GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2011

Legislative Fiscal Note

BILL NUMBER: House Bill 129 (Fourth Edition)

SHORT TITLE: Level Playing Field/Local Gov't Competition.

SPONSOR(S): Representatives Avila, Howard, Carney, and Wainwright

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>	<u>FY 2015-16</u>
REVENUES					
Current Municipal Broadband Systems Estimate Adverse Financial Implications					
Payment in Lieu of Taxes Estimated at \$18.98 per Subscriber for Future Systems					
EXPENDITURES					
POSITIONS (cumulative):					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Department of Revenue; North Carolina Department of State Treasurer, Local Government Commission					
EFFECTIVE DATE: When the bill becomes law.					

BILL SUMMARY: House Bill (HB) 129 implements new regulatory, public information, and financial requirements for cities and joint agencies providing communication services to the public for a fee. Four cities/joint agencies, Morganton (CoMPAS Cable TV), Salisbury (Fibrant), Wilson (Greenlight), and Mooresville-Davidson (MI Connection), currently offer municipal broadband services that could fall within the purview of HB 129. The bill specifically exempts these groups by exempting entities providing telecom services prior to January 1, 2011 from a majority of the provisions set forth in the bill. The main limitation of existing municipal broadband companies applies to their service areas.

Cities offering communications service as of January 1, 2011 are exempt from all of the provisions in the bill provided that the city limits services to any one or more of the following:

- Persons within the corporate limits of the city providing the service.
- Existing customers of the service as of April 1, 2011, provided that contracts outside the service area is subject to public bidding upon expiration.

- For MI-Connection – the PCS expands the service area to the combined areas of the city of Cornelius; the town of Troutman; the town of Huntersville; the unincorporated areas of Mecklenburg County north of a line beginning at Highway 16 along the west boundary of the county, extending eastward along Highway 16, continuing east along Interstate 485, and continuing eastward to the eastern boundary of the county along Eastfield Road; and the unincorporated areas of Iredell County south of Interstate 40, excluding Statesville and the extraterritorial jurisdiction of Statesville.
- For the city of Salisbury – the cities of Salisbury, Spencer, East Spencer, Rockwell, Granite Quarry, and the corridors between those cities to the extent necessary to serve those cities.
- For all other cities and joint agencies – the area designated in the map filed with the notice of franchise.

The new regulations set forth in HB 129 require that future municipal broadband systems:

- Comply with all State, local and federal laws and regulations adhered to by private communication companies.
- Establish separate enterprise funds for the communications service, and conduct annual audits.
- Limit the communication services to the jurisdictional boundaries of the city.
- Eliminate the practice of requiring individuals or developments subscribe to municipal broadband services.
- Provide other service providers with access to the city’s rights-of-way, conduits, and other distribution facilities.
- Prohibit advertisements for municipal broadband on the public, education, and government (PEG) channels of competing providers.
- Limit the revenue used to finance communication services to the income generated from the service.
- Price municipal communication services a rate equal to the cost of providing the service. The price should include adjustments for capital costs and taxes incurred in the private sector.

The new public information standards set forth in HB 129 require that municipal broadband companies:

- Hold two public hearings prior to offering services.
- Provide notice for the public hearings in local newspaper and with the Utilities Commission.
- Provide the public with all feasibility studies, business plans, and surveys prior to the hearings.
- Allow private communications providers to participate in the hearing.



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The new financial standards set forth in HB 129 require that municipal broadband companies:

- Eliminate the practice of using certificates of participation to finance the construction of a system.
- Make payments in lieu of property taxes to the county/counties in which the services are contained.
- Remit to the State payments in lieu of taxes (PiLoTs), an amount set by the Department of Revenue equivalent to the income, franchise, vehicle, motor fuel, and other taxes due if operating as a private enterprise.

ASSUMPTIONS AND METHODOLOGY: Should HB 129 be enacted, future municipal broadband companies operating in North Carolina will be required to make payments in lieu of taxes (PiLoTs) of approximately \$202,000 annually. The \$202,000 estimate represents the average state taxes paid per customer (\$18.98) as calculated by North Carolina’s private telecommunication companies multiplied by the average number of subscribers currently served by municipal broadband projects, 10,694 subscribers. The estimate utilizes information provided by the North Carolina Department of State Treasurer Local Government Commission and North Carolina Cable Telecommunications Association. According to the Association, private telecommunication providers pay \$18.84 per subscriber in state and local taxes. Table 1 provides a breakdown of the estimated taxes paid by revenue type.

Table 1: Payment in Lieu of Taxes for Public Entities Providing Communication Services		
Tax	Description	Estimated Tax Revenue per Subscriber
Sales and Use Tax	Governmental entities would no longer be eligible to receive sales and use tax refunds under G.S. 105-164.14(c) for tangible personal property utilized in providing communication services.	\$2.07
Corporate Income Tax	Income generated from providing communication services would no longer be eligible for the income tax exemption for governmental units provided under G.S. 105-103.11, but subject to the 6.9% corporate income tax as described in G.S. 105-103.3.	\$2.91
Franchise Tax	G.S. 105-122 levies a franchise/privilege tax on corporations at a rate of \$1.50 per \$1,000 on one of three bases: 1) the profits apportioned to the State, 2) 55% of the value of real property owned in the state and subject to local property tax, 3) the book value of real and tangible personal property less any debt used to acquire real property in the state.	\$2.21
Property Tax	Government entities would be required to remit taxes on real property (buildings, land, etc.) used in conjunction with providing communication services.	\$11.79
Total Tax Due Per Subscriber		\$18.98
Source: North Carolina Cable Telecommunications Association; Time Warner Cable		

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The four municipal broadband enterprises operating as of January 1, 2011: 1) Morganton (CoMPAS Cable TV), 2) Salisbury (Fibrant), 3) Wilson (Greenlight), and 4) Mooresville-Davidson (MI Connection), collectively serve a region covering 42,761 households. Table 2 provides a snapshot of the regions in which these systems operate, years of operation, number of households served, as well as income and assets for the 2010 fiscal year.

According to representatives from the North Carolina Department of State Treasurer Local Government Commission and the Greenlight and Fibrant municipal broadband systems, the boundaries set forth in the PCS weaken the financial viability of both broadband systems. Greenlight and Fibrant's financial plan estimated service to a larger area than described in the HB 129 PCS. Data limitations hinder the quantification of how the newly described service boundaries will impact the financial viability of Greenlight and Fibrant.

As illustrated by Table 2, Morganton's municipal broadband system, CoMPAS, is the oldest municipal system. CoMPAS operated at a net profit during the 2010 fiscal year. CoMPAS began providing telecommunication services in 1992, financing construction through debt and revenue from other utility services. The city upgraded the system in 2004 using funding provided through low interest debt called certificates of participation (COPs). Morganton made its final COPs payment in December 2010 and expects to generate roughly one million dollars of annual net income in future years.

Table 2. Financial and Customer Data on Existing Municipal Broadband Providers, 2010

Provider	City Detail	Years in Operation	Certificates of Participation (\$ In Millions)	Households in Service Area, 2010	2010 Net Income/ (Loss) (\$ In Millions)	Assets (\$ In Millions)	
						Real Property (Buildings and Land)	Tangible Personal Property
Greenlight (1)	Wilson, Wilson County, NC	2.8 years	31.80	19,799	(1.37)	0.93	8.47
Fibrant (2)	Salisbury, Rowan County, NC	3 months	29.10	7,562	(0.45)	4.59	
MI Connection (3)	Mooresville-Davidson	3.1 years	79.65	9,000 (actual); 13,489 (projected)	(5.60)	0.65	0.701

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Table 2. Financial and Customer Data on Existing Municipal Broadband Providers, 2010							
Provider	City Detail	Years in Operation	Certificates of Participation (\$ In Millions)	Households in Service Area, 2010	2010 Net Income/ (Loss) (\$ In Millions)	Assets (\$ In Millions)	
						Real Property (Buildings and Land)	Tangible Personal Property
CoMPAS (4)	Morganton, Burke County, NC	Began in 1992 (financed through utility system revenue), system upgrade occurred in 2004	7.32	6,400	0.2	N/A	N/A
Total			\$147.87	42,761	\$ (7.22)		

SOURCES OF DATA:

(1) Numbers represent information gathered through the North Carolina Department of State Treasurer Local Government Commission, City of Wilson Certificates of Participation Application, and City of Wilson, “Comprehensive Annual Financial Report for Fiscal Year Ending June 30, 2010.” Details can be found in the Supplemental Statement of Net Assets for Enterprise Funds, Broadband section. Available at:

<http://www.wilsonnc.org/attachments/pages/556/CAFR%202010%20-%20Supplementary%20Financial%20Information-Proprietary.pdf>.

(2) Numbers represent information gathered through the North Carolina Department of State Treasurer Local Government Commission, City of Salisbury Certificates of Participation Application, and City of Salisbury, “Comprehensive Annual Financial Report for Fiscal Year Ending June 30, 2010.” Available at:

<http://www.ci.salisbury.nc.us/finance/audit/2010/Supplemental.pdf>

(3) Numbers represent information gathered from the City of Mooresville, Certificates of Participation Application, and MI Connection, “Comprehensive Annual Financial Report for Fiscal Year Ending June 30, 2010.” All documents provided by the North Carolina Department of State Treasurer Local Government Commission.

(4) Numbers represent data collected through conversations with Bill Harkins (CoMPAS General Manager) and through the North Carolina Department of State Treasurer Local Government Commission, City of Morganton Certificates of Participation Application, and City of Morganton, “Comprehensive Annual Financial Report for Fiscal Year Ending June 30, 2010.” All documents provided by the North Carolina Department of State Treasurer Local Government Commission.

TECHNICAL CONSIDERATIONS: None

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