

Department of Legislative Services
Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 753

(Senator Pipkin, *et al.*)

Finance

Economic Matters

Rural Broadband Communication Services

This bill establishes a Rural Broadband Coordination Board (RBCB) dedicated to deploying broadband in rural and underserved areas of the State. It also establishes the Rural Broadband Assistance Fund (RBAF) as a nonlapsing special fund in the Department of Business and Economic Development (DBED).

The Governor must include in the fiscal 2008 and 2009 budgets at least \$4 million annually from the general fund for the RBAF, including \$2 million each year from the Maryland Economic Development Assistance Authority Fund (MEDAAF). If the RBAF receives more than \$2 million from MEDAAF in fiscal 2007, the amount of the appropriation for fiscal 2009 must be reduced by the amount in excess of \$2 million in fiscal 2007.

The bill takes effect July 1, 2006 and terminates June 30, 2020.

Fiscal Summary

State Effect: General fund expenditures would increase by \$4 million annually in FY 2008 and 2009 for the RBAF. To the extent FY 2007 expenditures from MEDAAF exceed \$2 million, the required general fund appropriation in FY 2009 would decrease by a commensurate amount. Transportation Trust Fund (TTF) expenditures could increase by an indeterminate but potentially significant amount if nonprofit providers install infrastructure on highway rights-of-way. Special fund revenues could potentially increase due to an increase in property assessments on broadband infrastructure; however the magnitude of this revenue increase cannot be reliably estimated at this time.

(in dollars)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	-	-	-	-	-
GF Expenditure	0	4,000,000	4,000,000	0	0
Net Effect	\$0	(\$4,000,000)	(\$4,000,000)	\$0	\$0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local property tax revenues could increase; however, the exact magnitude of this impact cannot be reliably estimated at this time.

Small Business Effect: Rural small businesses could potentially benefit significantly from increased access to broadband services.

Analysis

Bill Summary: The RBCB consists of nine members, including the Secretary of Business and Economic Development, the Secretary of Transportation, either the chief of the State Office of Information Technology or the Director of Network Maryland, and members representing six regional councils. The RBCB is to be staffed by the Rural Maryland Council, which must report on the RBCB's activities in its annual report to the General Assembly.

The RBCB must:

- cooperate and act with public and private entities to obtain, coordinate, and disseminate resources for the establishment of rural broadband services; and
- review and approve the disbursement of funds from the RBAF.

The RBAF consists of money transferred to the fund, money appropriated in the State budget for MEDAAF for establishing broadband in rural and underserved areas of the State, money appropriated to the fund in the State budget, federal money allocated or granted to the fund, and any money accepted for the benefit of the fund. The RBAF is to be used only for planning, construction, and maintenance of broadband services and infrastructure in rural and underserved areas. DBED must make disbursements from the RBAF within 30 days of receiving notice of a decision by the RBCB. The State Highway Administration (SHA) must allow the use of any right-of-way by a nonprofit telecommunications services provider for the installation of rural broadband infrastructure without charging a fee.

Current Law: Chapter 320 of 2003 established the Task Force on Broadband Communications Deployment in Underserved Rural Areas. The task force was charged

with: (1) considering developments in regions of the country where broadband communications are being deployed for rural communities; (2) evaluating the resources and infrastructure available in Maryland's rural areas; (3) encouraging the development of goals to deploy broadband communications in those areas; (4) developing proposals and recommendations for the establishment and enhancement of broadband communications in rural areas; and (5) overseeing the implementation of the recommendations. The task force's final report is due on June 30, 2006.

Background: Broadband Internet access is a high-data-transmission rate Internet connection. The Federal Communications Commission (FCC) definition of broadband is 200 kilobits in one direction, and advanced broadband is at least 200 kilobits in both directions.

In rural areas, the cost of connecting each rural customer to broadband infrastructure may be several thousands of dollars. This has led to a reduced penetration of broadband into rural areas, including areas in Maryland. As late as 2005, more than 30% of homes and businesses on the Eastern Shore were not served by high-speed cable modems or digital subscriber lines, the two most common methods of residential high-speed Internet. Many rural areas have found it preferable to create their own broadband access networks, as opposed to working with telecommunications companies.

The Maryland Technology Development Corporation (TEDCO) contracted with TLA Associates, a telecommunications and network design firm, to conduct two studies of broadband access in both the Eastern Shore and Western Maryland. One recommendation from the studies was to create a Maryland broadband authority to support public and private partnerships in infrastructure development, especially to underserved areas.

A project is in the planning stages to create a 525.2 mile fiber-optic cable network that connects the National Aeronautics and Space Administration facility on Wallops Island, Virginia, through the Eastern Shore, to the Patuxent River Naval Air Station in Maryland. Project costs are expected to total \$29 million, and \$2 million has been secured from the federal government for the project in fiscal 2006. In addition, there is a possibility of an additional \$6 million in federal funding over the next three fiscal years.

State Fiscal Effect: The approved fiscal 2007 budget includes language providing \$2 million for broadband infrastructure from MEDAAF. DBED advises that it could administer the RBAF with existing resources. The Rural Maryland Council advises that it could handle staffing requirements for the board with existing resources.

Assuming that no other funds were appropriated for the RBAF in fiscal 2007, the bill requires the Governor to include a \$4 million general fund appropriation in the State budget in each of fiscal 2008 and 2009 of which \$2 million each year is from MEDAAF.

The bill does not specify to whom funds from the RBAF are to be distributed; however, to the extent that funds are used by telecommunications utilities to purchase capital equipment and make improvements, revenues could increase due to investment in property. The exact size and magnitude of this increase would depend on the property invested in, which cannot be reliably estimated at this time.

SHA advises that there are significant costs associated with using a right-of-way for infrastructure purposes. An SHA consultant in 2001 estimated costs of \$8,200 to SHA for each mile of fiber optic cable installed on an SHA right-of-way. In addition, if SHA were to commence work on the right-of-way, it incurs costs of approximately \$86 to locate the cable and mark it so it is not disrupted. The exact magnitude of the costs would depend on the amount of infrastructure placed on SHA rights-of-way, but could be significant. Legislative Services advises that there are several broadband technologies in development such as using power lines to transmit broadband and WiMax which could potentially limit the need for SHA rights-of-way.

Additional Information

Prior Introductions: None.

Cross File: HB 1156 (Delegate Jameson, *et al.*) – Economic Matters.

Information Source(s): TLA Associates, Federal Communications Commission, Wikipedia, Maryland Technology Development Corporation, State Department of Assessments and Taxation, Department of Business and Economic Development, Maryland Transportation Authority, Maryland Department of Transportation, Department of Legislative Services

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