

**Department of Legislative Services**  
Maryland General Assembly  
2016 Session

**FISCAL AND POLICY NOTE**  
**First Reader**

House Bill 502  
Economic Matters

(Delegate Cluster, *et al.*)

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**Cable Television - Equipment Rentals**

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This bill prohibits a cable television system franchise from charging a customer a rental fee for cable television receiving equipment once the subscriber has paid the cost of the equipment. Once a subscriber has paid the cost of the equipment, the cable television system may only include a system charge of up to \$3 a month for providing service to the subscriber's equipment. The bill specifies that such limitations on charges may not be construed to limit the rates charged for program content that the subscriber purchases.

The bill may only be construed to apply to a cable television franchise agreement entered into or renewed on or after October 1, 2016, and may not impair any existing obligation or contract right.

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**Fiscal Summary**

**State Effect:** None.

**Local Effect:** Significant decrease in local government revenues under cable franchise agreements as a result of the reduction in gross revenues for cable television systems. Under one set of assumptions, local revenues may decrease by approximately \$867,000 in FY 2018 and by \$9.8 million in FY 2021. Local expenditures are not affected.

**Small Business Effect:** Minimal.

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**Analysis**

**Current Law:** The federal Cable Act (47 U.S.C. § 542) prohibits a cable television system from providing cable service without a franchise. Under State law, the governing body of

a county or municipality may grant a franchise for a cable television system that uses a public right-of-way. The county or municipality may (1) impose franchise fees; (2) establish rates applicable to a franchise; and (3) adopt rules and regulations for the operation of a franchise.

The Cable Act limits franchise fees to 5% of annual gross revenue received from the provision of cable service. Additional fees may be collected to support public, educational, and government channels (PEG) or the use of such channels, as negotiated in the franchise agreement.

**Background:** The topic of cable television receiving equipment, also referred to as set-top boxes, has recently been a topic of discussion at the national level. In January 2016, the Federal Communications Commission (FCC) announced a proposal that would allow cable and satellite subscribers to choose the devices they use to watch programming. The FCC indicated in a statement that nearly all customers are currently required to lease their set-top boxes from their cable providers and that the average household pays \$231 a year for the devices. The Notice of Proposed Rule Making would seek to reduce anticompetitive barriers and enable consumers to shop for their receiving equipment.

**Local Fiscal Effect:** As shown in **Exhibit 1**, county governments collected approximately \$79.2 million in local revenues from cable television franchise fees in fiscal 2016. In addition, many county governments impose a separate fee to support PEG activities. For example, Montgomery County will collect an additional \$10.4 million in fiscal 2016 to support PEG activities due to a separate 3% fee on the gross revenues of cable television systems.

Local governments that collect franchise fees and other fees based on a percentage of franchisee's gross revenue may realize a significant decrease in revenues as a result of the reduction in gross revenues collected by cable television system franchisees. This revenue reduction will grow as customers pay off the cost of their cable television receiving equipment. Equipment rental fees are frequently included in the gross revenues of franchisees. Additionally, any reduction in the service fees currently charged by cable television system franchisees necessary to meet the \$3 maximum included in the bill may further reduce revenues.

**Exhibit 1**  
**Cable Television Franchise Fees, Yields, and Franchises**  
**Fiscal 2015-2016**

<b>Subdivision</b>	<b>Franchise Fee</b>	<b>FY 2015 Yield</b>	<b>FY 2016 Yield</b>	<b>Number of Companies</b>	<b>County Franchise</b>
Allegany	5%	\$410,000	\$420,000	2	Y
Anne Arundel	5%	10,450,000	10,450,000	3	Y
Baltimore City	5%	6,500,000	6,617,000	1	Y
Baltimore	5%	16,000,000	16,900,000	2	Y
Calvert	0%	0	0	1	Y
Caroline	5%	158,650	164,000	2	Y
Carroll	5%	1,547,709	1,500,910	1	Y
Cecil	5%	861,968	834,000	3	Y
Charles	5%	2,441,000	2,732,000	2	Y
Dorchester	0%	-	-	0	N
Frederick	N/A	N/A	N/A	N/A	N
Garrett	N/A	N/A	N/A	N/A	N
Harford	3%	2,030,000	2,541,000	3	Y
Howard	5%	5,100,000	5,100,000	3	Y
Kent	3% & 5%	25,000	27,000	2	Y
Montgomery	5%	17,106,891	17,281,070	3	Y
Prince George's	5%	12,329,000	12,256,000	2	Y
Queen Anne's	5%	365,000	400,000	1	Y
St. Mary's	5%	950,000	975,000	2	y
Somerset	3%	106,934	95,000	2	Y
Talbot	5%	80,000	115,000	2	Y
Washington	N/A	N/A	N/A	N/A	N
Wicomico	5%	830,000	808,658	2	Y
Worcester	N/A	N/A	N/A	N/A	N
<b>Total Yield</b>		<b>\$77,292,152</b>	<b>\$79,216,638</b>		

Source: Maryland Association of Counties; Department of Legislative Services, Budget and Tax Rate Survey, August 2015

Based on information provided by Montgomery County and the FCC, the potential local revenue loss may be significant. Under one set of assumptions, local revenues may decrease statewide by approximately \$867,000 in fiscal 2018 and by \$9.8 million in fiscal 2021. In Montgomery County, local revenues may decrease by approximately \$312,800 in fiscal 2018 and by \$3.6 million in fiscal 2021. This estimate is based on the following facts and assumptions:

- households pay an average of \$231 per year in equipment rental fees;
- total equipment cost will be paid in two to four years;
- equipment fees may account for 15% to 25% of total local revenues collected from the cable television franchise fee; and
- all franchise contracts would immediately be impacted by the bill's limitations.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Baltimore City; Calvert, Montgomery, and Prince George's counties; Maryland Association of Counties; cities of Bowie and Takoma Park; Town of Thurmont; Maryland Municipal League; Federal Communications Commission; Department of Legislative Services

**Fiscal Note History:** First Reader - February 10, 2016  
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