

Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 613

(Delegate Fisher, *et al.*)

Economic Matters

Public Utilities - Telephone Companies - Wired Broadband (Wired Broadband
Act of 2016)

This bill requires a telephone company that provides intrastate local or long-distance exchange services to (1) provide and maintain “wired broadband” service through its network; (2) provide and maintain wired broadband service through a service agreement with a third-party contractor; or (3) pay the cost of providing wired broadband service to the Rural Broadband Assistance Fund (RBAF), an existing special fund. The Public Service Commission (PSC), to the extent authorized under federal law, must cooperate with the Federal Communications Commission (FCC) on efforts to promote universal wired broadband access in the State. PSC must also submit an annual report.

Fiscal Summary

State Effect: Special fund revenues for RBAF increase, potentially significantly, from payments made by telephone companies from as early as FY 2017 through 2020; special fund expenditures increase correspondingly for the uses authorized under current law. General fund expenditures for the Department of Commerce (DOC) increase as early as FY 2017 through 2020 to the extent that DOC administers the provision of broadband service through RBAF. Special fund expenditures from the Public Utility Regulation Fund (PURF) increase by \$78,500 in FY 2017 for PSC staff; future year expenditures reflect annualization and the elimination of one-time costs. Special fund revenues to PURF increase correspondingly from assessments imposed on public service companies.

Local Effect: Local government finances and operations are not materially affected.

Small Business Effect: Potential meaningful. Small businesses in areas not served or underserved by broadband service benefit from the option to purchase broadband service.

Analysis

Bill Summary: “Wired broadband” means a high-capacity transmission technique that uses a cable to transmit a wide range of frequencies to a home or business. It includes wired broadband service provided by digital subscriber line, cable modem, or fiber optics. It does not include service provided by a satellite or wireless technology.

By January 31 each year, PSC must report and make recommendations to the General Assembly on progress made in promoting universal wired broadband access in the State.

Current Law/Background:

Rural Broadband Assistance Fund

Chapter 269 of 2009 established the Rural Broadband Assistance Fund in DOC. The purpose of the fund is to assist in the establishment of broadband communication services in rural and underserved areas of the State. DOC must administer the fund, which consists of (1) money appropriated in the State budget to the fund; (2) money appropriated in the State budget to the Maryland Economic Development Assistance Fund for the purpose of assisting in the establishment of broadband communication services in rural and underserved areas of the State; (3) federal money allocated or granted to the fund; and (4) any other money from any source accepted for the benefit of the fund. The fund may be used only for planning, construction, and maintenance of broadband communication services and equipment in rural and underserved areas and related activities. Pursuant to Chapter 269, the fund and related provisions terminate June 30, 2020.

RBAF received \$5.8 million in State and federal funding in 2007, \$13.4 million in fiscal 2008, and \$7.0 million in fiscal 2009.

Rural Broadband Implementation

Chapters 261 and 262 of 2012 established the Communications Tax Reform Commission. Among other things, the commission was required to assess the efficacy of tax and other incentives to encourage investment in broadband networks and emerging technologies. The commission’s final report offered no recommendations, but did examine three proposals for communications tax reform. In addition, the report stated various findings, including the difficulties implicit in building out broadband capacity in rural areas.

The report found that, largely due to the costs associated with building out broadband networks, expansion into rural areas where populations, and potential customers, are less dense has not occurred in certain areas of Maryland. The report indicated that, although

many members of the commission expressed belief that further broadband expansion would positively benefit the State, implicit difficulties exist in government funding to encourage such activity. One such difficulty is that not all communications companies offer services through broadband networks; thus, government funding of broadband expansion may be conceived as industry favoritism.

State Fiscal Effect: A telephone company that provides intrastate local or long-distance exchange services in the State must (1) provide and maintain wired broadband service through its network; (2) provide and maintain wired broadband service through a service agreement with a third-party contractor; or (3) pay the cost of providing wired broadband service to RBAF. RBAF terminates June 30, 2020.

Therefore, special fund revenues for RBAF increase, potentially significantly, from payments made by telephone companies from as early as fiscal 2017 through 2020. Special fund expenditures increase correspondingly for the uses authorized under current law. The amount cannot be reliably estimated at this time.

Because statute does not explicitly authorize RBAF to be used to cover administrative costs, it is assumed that any administrative costs for DOC must be borne by the general fund. Thus, general fund expenditures for DOC increase as early as fiscal 2017 through 2020 to the extent that DOC administers the provision of broadband service through RBAF. Any increase in administrative costs for DOC cannot be reliably estimated at this time.

PSC advises that the bill requires the commission to cooperate with FCC on a topic for which it currently has no authority, allocated resources, or expertise. Therefore, PSC special fund expenditures from PURF increase by \$78,484 in fiscal 2017, which accounts for the bill's October 1, 2016, effective date. This estimate reflects the cost of hiring one regulatory economist to work with FCC on efforts to promote universal wired broadband access in the State. It includes a salary, fringe benefits, one-time start-up costs, and ongoing operating expenses.

Position	1
Salary and Fringe Benefits	\$73,669
Other Operating Expenses	<u>4,815</u>
Total FY 2017 PSC Expenditures	\$78,484

Future year expenditures, which increase to \$111,000 by fiscal 2021, reflect a full salary with annual increases and employee turnover as well as annual increases in ongoing operating expenses. Special fund revenues to PURF increase correspondingly from assessments imposed on public service companies.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Commerce, Office of People's Counsel, Public Service Commission, Department of Legislative Services

Fiscal Note History: First Reader - February 17, 2016
md/lgc

Analysis by: Stephen M. Ross

Direct Inquiries to:
(410) 946-5510
(301) 970-5510