Department of Planning and Budget
2018 Fiscal Impact Statement

1. **Bill Number:** SB297

House of Origin	☒ Introduced	☐ Substitute	☐ Engrossed
Second House	☐ In Committee	☐ Substitute	☐ Enrolled

2. **Patron:** Edwards

3. **Committee:** Commerce and Labor

4. **Title:** Incentives for communications companies; provision of wireless broadband services.

5. **Summary:** Directs the Tobacco Region Revitalization Commission (TRRC) to award at least $10 million per year in grants to cover a portion of expenditures for the purchase and installation of wireless and broadband equipment to rural areas in the Southwest and Southside regions of the Commonwealth. The bill also establishes a sales tax exemption, which would be phased in over four years, for property sold or leased to a telecommunications company and used directly in the rendition of its public service.

6. **Budget Amendment Necessary**: Yes. Front Page of HB30/SB30. See item 8, below.

7. **Fiscal Impact Estimates:** Preliminary. See item 8, below.

8. **Fiscal Implications:** This bill requires the Tobacco Region Revitalization Commission (TRRC) to award at least $10 million per year in grants to cover a portion of expenditures for the purchase and installation of wireless and broadband equipment to rural areas in the Southwest and Southside regions of the Commonwealth. TRRC is funded from moneys received from the securitization of funds received by the Commonwealth pursuant to the Master Settlement Agreement. The proceeds from securitized funds were deposited to the Tobacco Indemnification and Community Revitalization Endowment. The Commission is authorized to transfer a portion of the Endowment's corpus to the Tobacco Indemnification and Community Revitalization Fund annually. This Fund, consisting of moneys transferred from the Endowment and interest earnings, supports the Commission's operations.

   The current unobligated balance in the Tobacco Indemnification and Community Revitalization Fund is $73.6 million; $4.6 million of this sum is allocated to support education programs, $18.4 million is allocated to support incentive programs, $3.6 million is allocated to support Virginia Resources Authority loans, $26.9 million is allocated to support economic development programs, $10 million is allocated to support a newly established Last Mile Broadband Program, and $10 million is allocated to support research and development projects funded by the Small Business Innovation Research (SBIR) program. Although the Code allows the withdrawal of up to 15 percent annually, TRRC's strategic plan limits the transfer to 4.5 percent. Establishing a new ongoing program may affect TRRC's existing economic development, incentive and education programs.

This bill would establish an exemption from the Retail Sales and Use Tax for property sold or leased to a telecommunications company and used directly in the rendition of its public service. Such exemption would be phased in over a four-year period. From January 1, 2019, through June 30, 2019, the bill would exempt 25 percent of the purchase price. From July 1, 2019, through June 30, 2020, the bill would exempt 50 percent of the purchase price. From July 1, 2020, through June 30, 2021, the bill would exempt 75 percent of the purchase price. From July 1, 2021, and thereafter, the bill would exempt 100 percent of the purchase price.

According to the Department of Taxation (TAX), this bill would result in a loss of state and local revenues of $6.8 million in FY 2019, $31.8 million in FY 2020, $49.5 million in FY 2021, $67.9 million in FY 2022, $70.8 million in FY 2023, and $72.4 million in FY 2024. The revenue loss by fund for FY 2019 through FY 2021, is shown in the chart below.

Fund	FY 2019	FY 2020	FY 2021
State Sales and Use Tax (5.3%)	**($6,333,000)**	**($29,743,000)**	**($46,245,000)**
GF - Unrestricted	($2,717,000)	($12,759,000)	($19,838,000)
GF-Restricted	($1,337,000)	($6,281,000)	($9,766,000)
Transportation*	($960,000)	($4,507,000)	($7,007,000)
Local Option	($1,199,000)	($5,633,000)	($8,758,000)
HMOF (GF transfer)	($120,000)	($563,000)	($876,000)
Regional Trans. Funds (0.7%)	**($440,000)**	**($2,067,000)**	**($3,214,000)**
Hampton Roads (TPO)	($152,000)	($715,000)	($1,112,000)
Northern Virginia (NVTA)	($288,000)	($1,352,000)	($2,102,000)
Total Sales and Use Tax	**($6,773,000)**	**($31,810,000)**	**($49,459,000)**

*Includes 0.5% TTF, 0.175% HMOF, 0.050% IPROCF, and 0.075% Mass Transit Fund

TAX considers the implementation of this bill to be routine and does not require additional funding.

9. **Specific Agency or Political Subdivisions Affected:** Tobacco Region Revitalization Commission; Departments of Taxation and Transportation; localities.

10. **Technical Amendment Necessary:** No.

11. **Other Comments:** Prior to legislation enacted in 2004, public service corporations had an exemption for the purchase of all tangible personal property used directly in the rendition of their public service. This exemption was applied to: i) public service corporations subject to state franchise or license tax on gross receipts, ii) telecommunications companies and certain telephone companies, and iii) common carriers of property or passengers by motor vehicle or railway.

    With the exception of common carriers by railway, Chapter 3. 2004 Acts of Assembly, Special Session I, repealed all the exemptions for public service corporations. These included all public service corporations subject to the state franchise and license tax on gross receipts, telecommunications and certain telephone companies, and motor vehicle common carriers. The law that repealed these exemptions also allowed entities that lost the exemption, with the exception of motor vehicle common carriers, to impose a separate line item surcharge on customers' bills to recoup the taxes paid resulting from the repeal of the exemption.