

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0526S.01I
Bill No.: SB 163
Subject: Fees; Political Subdivisions; Telecommunications
Type: Original
Date: February 8, 2021

Bill Summary: Modifies provisions relating to communications services offered in political subdivisions.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2029)
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2029)
Total Estimated Net Effect on <u>Other State</u> Funds	\$0	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2029)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2029)
Total Estimated Net Effect on FTE	0	0	0	\$0

☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	Fully Implemented (FY 2029)
Local Political Subdivisions	\$0	\$0	Could exceed (\$2,203,376)	Could exceed (\$11,016,881)
Local Government	\$0	\$0	Could exceed (\$2,203,376)	Could exceed (\$11,016,881)

FISCAL ANALYSIS

ASSUMPTION

Section 67.2677 – Video Service Providers - Definitions

Oversight notes this section modifies the definition of “Gross Revenues” so that amounts received by video service providers from advertisers for: rental of set top boxes and other video service equipment, service charges, administrative charges, and a pro rata portion of all revenue derived for advertising are no longer included within a video service provider’s gross revenues.

Section 67.2689 – Video Service Provider Fee

Oversight notes this section modifies the calculation of the video service provider fee.

Current law states a franchise entity, which is a political subdivision that was entitled to franchises and imposed fees on cable operators on the date before the effective date of Section(s) 67.2675 to 67.2714, may collect a video service provider fee equal to not more than five percent (5%) of the gross revenues from each video service provider that provides video service within the geographic area of such franchise entity.

This section modifies the fee to state that a franchise entity may collect a service provider fee equal to not more than five percent (5%) of the gross revenues charged to each customer of a video service provider that provides video service in a geographic area of such franchise entity.

This section further states that:

- Beginning August 28, 2023 (Fiscal Year 2024), franchise entities are prohibited from collecting a video service provider fee in excess of four and one-half percent (4.5%) of such gross revenues.
- Beginning August 28, 2024 (Fiscal Year 2025), franchise entities are prohibited from collecting a video service provider fee in excess of four percent (4%) of such gross revenues.
- Beginning August 28, 2025 (Fiscal Year 2026), franchise entities are prohibited from collecting a video service provider fee in excess of three and one-half percent (3.5%) of such gross revenues.
- Beginning August 28, 2026 (Fiscal Year 2027), franchise entities are prohibited from collecting a video service provider fee in excess of three percent (3%) of such gross revenues.
- Beginning August 28, 2027 (Fiscal Year 2028) and each year thereafter, franchise entities are prohibited from collecting a video service provider fee in excess of two and one-half percent (2.5%) of such gross revenues.

This section would require video service providers to identify and collect the fee and other specified fees as separate line items on a subscriber's bill.

Oversight notes, per information received from the Missouri Municipal League during the interim, of responding municipalities, municipalities collected \$20,451,246 in cable/franchise/video service provider fee(s) in 2016.

Oversight notes, per information received from responding municipalities during the interim, municipalities collected \$22,311,372 in video service provider fee(s) in 2018 and \$22,033,761 in video service provider fee(s) in 2019.

Using the amount reported for 2019, Oversight estimates the total gross receipts reported by video service providers totaled \$440,675,220 (\$22,033,761 / 5%).

Using the estimated total gross receipts reported in 2019, Oversight estimates local revenues could decrease each fiscal year by an amount in excess of (accounting for the municipalities who did not respond and the modification(s) to the definition of "Gross Receipts"):

Fiscal Year	Video Service Provider Fee (%)	Loss to Local Municipalities
2024	4.5%	(\$2,203,376)
2025	4%	(\$4,406,752)
2026	3.5%	(\$6,610,128)
2027	3%	(\$8,813,504)
2028	2.5%	(\$11,016,881)
2029	2.5%	(\$11,016,881)

For purposes of this fiscal note, Oversight will report the loss to local political subdivisions equal to an amount that "Could exceed" the amount(s) reported above. The "Could exceed" is the result of municipalities that did not respond to Oversight's inquiry during the interim as well as the changes made to the definition of "Gross Receipts" which reduces the applicable items that are to be included in a video service provider's gross receipts.

Officials from the **Office of Administration – Budget & Planning Division (B&P)** state this section changes the definition of "gross revenue." The gross revenues are limited to amounts billed to video service subscribers for recurring charges to video services and to event-based charges for video service. Gross revenues will no longer include in the total: rental of set top boxes, modems or other equipment used to provide video services; service charges related to the provision of video services; administrative charges related to the provision of services; and a pro rata portion of all revenues derived from advertising.

B&P states this section changes the amount a franchise entity may collect. Before August 28, 2023, the gross revenues cannot exceed five percent (5%) of the gross revenues of a video service provider providing services in the geographic area. This amount decreases half of a percent (0.5%) per year. Beginning August 28, 2023, the gross revenues cannot exceed four and half percent (4.5%) of gross revenues. Beginning August 28, 2024, the gross revenues cannot exceed four percent (4%) of gross revenues. Beginning August 28, 2025, the gross revenues cannot exceed three and half percent (3.5%) of gross revenues. Beginning August 28, 2026, the gross revenues cannot exceed three percent (3%) of gross revenues. Finally, beginning August 28, 2027, the gross revenues cannot exceed two and half percent (2.5%) of gross revenues.

B&P assumes this proposed legislation has no impact on state revenues. To the extent this impacts local revenues, this proposed legislation could impact the calculation pursuant to Article X, Section 18(e). B&P does not have data to calculate the impact at the local level.

Officials from the **City of Kansas City (Kansas City)** state this proposed legislation decreases the amount franchise entities (such as Kansas City) can collect from video service providers. Franchise entities can currently collect a fee of 5% of the gross revenues of a video service provider providing service within the boundaries of the franchise entity.

Under this proposed legislation, the 5% is reduced gradually to 2.5% by 2027. This proposed legislation narrows the definition of gross revenue to no longer include: rental set top boxes, modems or other equipment used to provide video services, service charges related to the provision of video services, administrative charges related to the provision of services, and a pro rate portion of all revenues derived from advertising.

Kansas City assumes this proposed legislation will result in a negative fiscal impact of an indeterminate amount on Kansas City.

Officials from the **City of Liberty (Liberty)** state this proposed legislation will cause for a reduction in the amount of cable fee revenues Liberty currently collects. Liberty states, for every one-half percent (0.5%) reduction to the video service provider fee, Liberty will experience a loss of revenue equal to \$22,000. When fully implemented, Liberty anticipates a reduction in video service provider fee(s) equal to \$110,000.

Officials from the **City of Springfield (Springfield)** anticipate this proposed legislation would result in a negative impact of around \$550,000 per year due to the reduction of franchise video revenue.

Officials from the **City of St. Louis (St. Louis)** state the phased reduction in franchise fees currently paid by cable operators and video service providers will have a negative impact on St. Louis. Furthermore, the reduction in the specific calculation(s) used to calculate the reduced franchise fee will have a negative impact on St. Louis.

St. Louis assumes any reduction in the percentage St. Louis is allowed to collect will reduce annual revenues. In Fiscal Year 2020, St. Louis collected \$2,557,294 in revenue from gross revenues of approximately \$51,145,880.

St. Louis anticipates the loss per year would be:

Date	Loss to St. Louis Revenues
Beginning 08/28/2023	(\$255,730)
Beginning 08/28/2024	(\$511,459)
Beginning 08/28/2025	(\$767,188)
Beginning 08/28/2026	(\$1,022,918)
Beginning 08/28/2027	(\$1,278,647)

Officials from the **Lexington Water/Wastewater Department** state the City of Lexington would lose approximately half (1/2) of the cable revenue it currently collects.

Section 67.2720 – Task Force on the Future of Right-Of-Way Management and Taxation

Oversight notes this section establishes the Task Force on the Future of Right-Of-Way Management and Taxation.

The task force shall study best methods for right-of-way management, taxation of video service providers, and the future revenue needs of municipalities and political subdivisions as such revenue relates to video services.

The task force must compile and submit a report of its activities to the General Assembly no later than December 31, 2023 which shall include any recommendations which the task force may have for legislative action(s).

This section shall expire on December 31, 2023.

Officials from **B&P** state this section establishes the “Task Force of the Future Right-Of-Way Management and Taxation.” This taskforce sunsets on December 31, 2023.

Officials from the **Missouri Senate (Senate)** anticipate a negative fiscal impact to the Joint Contingent Appropriation to reimburse travel expenses for task force meetings. The Senate anticipates a cost of approximately \$588 per meeting of the task force.

For purposes of this fiscal note, **Oversight** assumes the impact to the Joint Contingent Appropriation would be minimal and not material enough to include in this fiscal note.

Officials from the **Missouri Department of Commerce and Insurance**, the **Missouri Department of Revenue**, the **Missouri Department of Transportation**, the **Missouri State Treasurer's Office**, the **Missouri House of Representatives**, the **City of Bland**, the **City of Claycomo**, the **City of Corder**, the **City of Hughesville**, the **City of Southwest City**, the **Bland Water Department**, the **Cass County Public Water Supply District #2**, the **Corder Water/Wastewater Department**, the **Glasgow Village Sld**, the **Hancock Street Light District**, the **Howard County C-Public Water Supply District #1**, the **Hughesville Water/Wastewater Department**, the **Little Blue Valley Sewer District**, the **Metropolitan St. Louis Sewer District**, the **Puxico Water/Wastewater Department**, the **Schell City Water Department**, the **South River Drainage District**, the **Southwest City Water/Wastewater Department**, the **St. Louis-Jefferson SWMD**, the **Tri-County Water Authority**, and the **Wayne County Public Water Supply District #2** do not anticipate that this proposed legislation will have a fiscal impact on their organizations. Oversight does not have any information to the contrary. Therefore, for purposes of this fiscal note, Oversight will not report a fiscal impact for these organizations.

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2029)
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	Fully Implemented (FY 2029)
LOCAL POLITICAL SUBDIVISIONS				
<u>Revenue Reduction –</u> Section(s) 67.2677 & 67.2689 – Modification of Definition of “Gross Receipts” and Reduction Percentage Used To Calculate Video Service Provider Fee(s)	<u>\$0</u>	<u>\$0</u>	<u>Could exceed</u> <u>(\$2,203,376)</u>	<u>Could exceed</u> <u>(\$11,016,881)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0</u>	<u>Could exceed</u> <u>(\$2,203,376)</u>	<u>Could exceed</u> <u>(\$11,016,881)</u>

FISCAL IMPACT – Small Business

This proposed legislation could impact any small business operating as a video service provider as such small business would collect and remit less fee(s) over a period of years. Oversight assumes, since the fee(s) are passed on to the customer, the video service providers would not recognize a change in revenue(s).

FISCAL DESCRIPTION

The proposed legislation would modify provisions relating to communication services offered in political subdivisions.

It would reduce the video service fee a franchise entity may collect from a video service provider.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration – Budget & Planning Division

Missouri Department of Commerce and Insurance

Missouri Department of Revenue

Missouri Department of Transportation

City of Bland

City of Claycomo

City of Corder

City of Hughesville

City of Kansas City

City of Liberty

City of Southwest City

City of Springfield

City of St. Louis

Bland Water Department

Cass County PWSD #2

Corder Water/Wastewater Department

Glasgow Village Sld

Hancock Street Light District

Houstonia Water/Wastewater Department

Howard County C-PWSD #1

Hughesville Water/Wastewater Department

Lexington Water/Wastewater Department

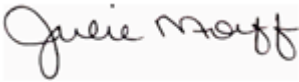
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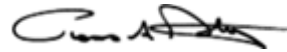
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Little Blue Valley Sewer District
Metropolitan St. Louis Sewer District
Puxico Water/Wastewater Department
Schell City Water Department
South River Drainage District
Southwest City Water/Wastewater Department
St. Louis-Jefferson SWMD
Tri-County Water Authority
Wayne County PWSD #2



Julie Morff
Director
February 8, 2021



Ross Strobe
Assistant Director
February 8, 2021