VERMONT LEGISLATIVE
Joint Fiscal Office
1 Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • https://ljfo.vermont.gov

Fiscal Note

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Ted Barnett, Fiscal Analyst

H.657 – An act relating to modernization of Vermont's communications taxes and fees

As recommended by the House Committee on Ways and Means, Draft 1.4

Bill Summary

This bill proposes to update and change taxes and fees assessed on telecommunications and cable providers, and certain types of digital services. Provisions of the bill include:

- Repealing the 2.4% Universal Service Charge (USC) for landline, postpaid wireless, and interconnected VoIP consumers and replacing it with a $0.72 monthly charge per access line
- Adding the 988 Suicide and Crisis Hotline to the list of programs funded through the Vermont Universal Service Fund (VUSF)
- Repealing the telephone personal property tax and telephone gross receipts tax
- Placing "communications property" on the grand list as real property
- Establishing a fee structure for communications service providers using the State right of way and requiring the Agency of Transportation (AOT) to start assessing the fee by October 1, 2024

Fiscal Impact

The bill would have various revenue impacts summarized below:

Item	Bill Section	Estimated Annual Revenue Impact	Fund
$0.72 monthly per line charge	Sections 1-6	$7.96 million in total, $3.01 million in additional annual revenue	Vermont Universal Service Fund
Repeal of telephone personal property tax and transition	Section 7-9	$2.00 million annual revenue loss	General Fund
Inclusion of communications property on the Grand List	Section 10-12	$2.50-$5.00 million annual revenue starting in FY 2026	Education Fund
Right of way (ROW) fees	Section 14	Indeterminate Positive Revenue	Transportation Fund

In addition to the revenue impacts, Section 13 would provide a one-time appropriation of $150,000 in fiscal year 2025 from the General Fund to the Division of Property Valuation and Review of the Department of Taxes to support the development of a property valuation model for communications property.

Overall, the revenue impacts are spread across the three major funds and two special funds:

Fund	Estimated Annual Revenue	Fiscal Year Effective Date	Sources
Education Fund	$2.5-$5.0 million	2026	Inclusion of communications property on the Grand List
General Fund	($2.0 million)	2026	Repeal of the telephone personal property tax
Transportation Fund	Indeterminate Positive Revenue	2025	Right of way (ROW) fees
Vermont Universal Service Fund[1]	$7.96 million total, $3.01 million additional	2026	$0.72 monthly per line charge

Background and Details

The following sections provide context for the fiscal components of the bill:

Sections 1-6: Vermont Universal Service Fund (VUSF)

VUSF was created in 1994 to provide equal access to affordable telecommunications and services, including Enhanced 911 (E-911) call-taking and routing. Currently, services in VUSF are funded by a 2.4% Universal Service Charge (USC) on retail telecommunications service, including landline, wireless, and interconnected VoIP services. Statute requires that 1/6th of revenue from the charge goes to the Vermont Community Broadband Fund and that the remaining revenue goes to five services in the priority order outlined in 30 V.S.A. § 7511(a)(1).

Section 3 would repeal the current percentage charge on retail landline, postpaid wireless, and interconnected VoIP service and replace it with a monthly $0.72 per line fee. Prepaid wireless services would continue to be assessed the 2.4% USC.

Section 5 would add the 988 Suicide and Crisis Lifeline to the statutory VUSF funding order, between E-911 and the Connectivity Fund. The proposed new statutory funding order is shown below:

1. Costs of the fiscal agent that manages the Fund
2. Telecommunications Relay Services (TRS): Allows those with hearing or speech disabilities to place or receive telephone calls[2]
3. The Vermont Lifeline Program: Offers a monthly discount on telephone service for low-income consumers[3]
4. E-911 Services: The E-911 system reports phone number and location information to certified call-takers to allow for more efficient routing to the appropriate public safety dispatchers[4]
5. 988 Suicide and Crisis Lifeline: The 988 national call center network provides free and confidential support to people in crisis over the phone or through text.
6. Connectivity Fund: The Connectivity Fund supports both Connectivity Initiative grants and the High-Cost Program[5]

The number of lines in Vermont determines the amount of revenue generated by the $0.72 per line fee. According to Federal Communications Commission (FCC) data, as of June 2022 Vermont had 542,000 wireless subscriptions and 297,000 landline and interconnected VoIP subscriptions.[6] These 839,000

[1] VUSF is not a special fund pursuant to 32 V.S.A. § 585, though money collected by the Department of Taxes from sellers of prepaid wireless plans is deposited in a "Universal Service Charges" special fund before being remitted to the fiscal agent.
[2] https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs.
[3] https://publicservice.vermont.gov/lifeline-telecommunications-program.
[4] https://www.fcc.gov/general/9-1-1-and-e9-1-1-services.
[5] Per 30 V.S.A. § 7515, the High-Cost program offers support for capital network improvements in "high-cost" areas.
[6] https://www.fcc.gov/voice-telephone-services-report

subscriptions would be assessed the proposed $0.72 monthly per line charge. The 80,000 prepaid subscriptions in Vermont would continue to be assessed the 2.4% USC. In fiscal year 2026, the first year of the new charge, the per line fee would generate $7.96 million, which is $3.01 million more than is currently raised by the USC.

The table below shows the estimated allocation of these funds to different programs that would be included in the statutory funding order compared to actual fiscal year 2023 revenues and allocations. (Note: due to the uncertain 988 funding need in fiscal year 2026, the table shows the estimated revenue the program could use before expenses would outpace revenues. The figure presented for 988 below does not represent the forecasted budget for 988 in fiscal year 2026).

Current and Proposed Vermont Universal Service Fund Resources (in millions)

Program	FY 2023 Revenue – 2.4% Charge	Estimated FY 2026 Revenue – H.657
Total Revenue	**4.95**	**7.96**
Vermont Community Broadband Board	0.82	1.35
Fiscal Agent	0.11	0.13
TRS and Equipment	0.06	0.26
Lifeline	0.15	0.11
E-911	3.80	5.10
988 Suicide Prevention Line	N/A	Up to 1.00
Connectivity Fund	0	Balance of revenues available from uses above

Sections 7-9: Repeal of Telephone Personal Property Tax

Sections 7-9 would repeal the telephone personal property tax (TPPT) and the telephone gross receipts tax in 32 VSA § 8521 and § 8522. The TPPT assesses a 2.37% tax on the net book value of personal property used in whole or in part for conducting a telephone business, including materials and supplies. Real property is not subject to the tax. The telephone gross receipts tax allows companies with less than $50 million in revenue to pay an alternative tax based on gross receipts.

Together, these two taxes have generated between $2.3 and $2.5 million per year since fiscal year 2021. Of the total, the telephone gross receipts tax has averaged $220,000 per year. However, revenues have been in decline and the Emergency Board's adopted January consensus revenue forecast estimates telephone taxes will generate $2.0 million in General Fund revenue in fiscal year 2026. That annual revenue would be lost if the taxes are repealed.

The timing of the transition of the telephone gross receipts tax will determine if there is a revenue loss in fiscal year 2025 from section 7 of the bill. In the transition proposed in this section, companies would be able to start paying corporate income taxes instead of the telephone personal gross receipts tax for taxable years starting on or after January 1, 2025. If a portion or all the companies that pay the telephone gross receipts tax transition to the corporate income tax starting at the beginning of the calendar year, the State could see a negligible loss of General Fund revenue in fiscal year 2025. (Due to disclosure rules, the number of companies that pay the telephone gross receipts tax is unknown.) Alternatively, if companies have a taxable year that starts on July 1, the annual revenue loss starts in fiscal year 2026. In either scenario, the amount of corporate income tax paid by these companies would not offset the revenue loss from the repeal of the telephone gross receipts tax.

Sections 10-13: Tax Communications Property as Real Estate

These sections would define communications property and set communications property on the Grand List as real estate. Communications property includes wires, conduit, pipes, antennas, poles, and wireless towers that are part of a communications network. This definition also includes cable television system components. Providers would submit an inventory of such property to the Division of Property Valuation and Review (PVR) by March 31 of each year. PVR would then provide this information to municipalities by May 1. Under current law, communications property falls into one of four categories:

Telephone Personal Property: the personal property owned by a telephone business is assessed a tax equal to 2.37 percent of the property's net book value.

Real property: Qualities of a communications tower, such as whether it is on owned or leased land, fixed or movable, etc. determine whether it is taxed as real or personal property.[7] The current Education Fund value of towers on the Grand List is estimated to range between $2.5 and $4 million.

Cable Personal Property: Cable lines and fixtures are subject to the education property tax through 32 V.S.A. § 5401(10)(D)(i). According to the 2024 PVR Annual Report, cable personal property on the Grand List was valued at $127.9 million in 2023, which translates into approximately $1.8 million in Education Fund revenue.[8]

Business personal property: In 32 V.S.A. § 3618, business personal property refers to tangible personal property that is "held for use in any trade, business, professional practice, transaction, activity, or occupation conducted for profit." Forty-two towns currently tax machinery and equipment, and eight tax inventory. Business personal property is currently exempt from the statewide education tax.

Through the changes proposed in sections 10-12, some property that is currently categorized as business personal property will become communications property and thus subject to the non-homestead property tax. Estimating the value of property added is challenging and relies on other states that centrally assess the value of utility property. JFO estimates that these changes will increase Education Fund revenues by between $2.5 and $5 million annually starting in fiscal year 2026.

Section 13 would appropriate $150,000 in fiscal year 2025 from the General Fund to the Division of Property Valuation and Review to fund the creation of a property valuation model for communications property.

Section 14: Right of Way Fees

Section 14 would require the Agency of Transportation (AOT) to charge a tiered annual fee depending on county population for use of state highway right of way (ROW) by communications services providers. AOT would be required to assess this fee on or before October 1, 2024. Communications Union Districts (CUDs), small communications carriers, "eligible providers" under 30 V.S.A. § 8082(4), and cable television providers with a certificate of public good from PUC would be exempt from the fee. The proposed rate schedule for installations of fiber optic, coaxial cable, and digital subscriber lines is as follows:

	Charge per foot	Charge per mile	Number of Miles of State ROW
Counties with population >100,000	$0.13	$686.40	174.506
Counties with population >25,000 and <100,000	$0.07	$369.60	2367.594
Counties with population <25,000	$0.02	$105.60	166.291

Each wireless communications facility would be assessed a $270 annual fee. Section 14 would also require that AOT provide an itemized report on the charges and payments through this section. Estimating the revenues that the charge would generate is complicated because neither the percent of State ROW utilized by non-exempt providers nor the number of providers operating in each mile of State ROW is known.

[7] https://tax.vermont.gov/sites/tax/files/documents/Cell%20Tower%20Decision%20Tree%202017.pdf

[8] https://tax.vermont.gov/sites/tax/files/documents/RP-1295-2024.pdf

As such, JFO can only state that there would be an indeterminate positive impact on annual Transportation Fund revenues. It should be noted that federal law requires that revenues generated from ROW fees on federal-aid highways be dedicated to highway purposes, such as maintenance and upkeep of the ROW.