MINNESOTA CENTER for Fiscal Excellence

Testimony Concerning HF 4182: Equal Access to Broadband Act

Members of the House State and Local Government Finance and Policy Committee:

We are writing to express our concerns regarding HF 4182, specifically the proposed of the franchise fee to broadband service providers. While we believe the concerns raised by others concerning cost and harm to consumers, conflicts with existing state broadband expansion efforts and policies, and various state and federal regulatory questions merit serious attention, we direct our comments to the tax policy and public finance concerns presented by this proposal.

The term "franchise fee" notwithstanding, these fees function like taxes. The objective of a tax is to raise general revenue (as opposed to a fee which covers the cost of a provided government service). HF4182 identifies "raise revenue" as the first justification for its authorization. A second justification is to "defray increases municipal costs that accrue as a result of right of way occupation" From testimony in the Commerce Committee there is clear interest in also using these revenues to support public information and education on community affairs in light of declining Public-Education-Governmental fees or "PEG" fees associated with cable services. An "intent-to-dedicate tax" may be the most accurate way to describe this proposal.

The important policy question that arises is whether these broadband fee revenues would be dedicated to such purposes or simply be used to support general government operations, much like an unrestricted sales tax.

A study published in the *Journal of Information Policy* entitled "Exploring the Policy Value of Cable Franchise and PEG fees" examined the 20 largest cities in the United States to study the collection and use of these fees. Researchers examined each city's municipal budget and various secondary sources to determine how much franchise and PEG fee revenue actually went to cable-related administrative, infrastructure and PEG-related expenses. Conservatively, they identified $188 million in "unaccounted revenue" in these 20 cities – cable franchise and PEG revenue that could not be linked to PEG-related, cable infrastructure, or administrative expenditures. While acknowledging the importance of access to local information and its role in facilitating greater civic engagement and political participation, the researchers concluded "there is scant evidence that this revenue is used to defray costs associated with cable-related allocations with any regularity," and "the bulk of the proceeds are absorbed by general operating budgets."

These fees as currently constituted in this proposal would simply provide large amounts of fungible revenue to political jurisdictions, exacerbating equalization concerns on which objections to other revenue diversification efforts like (much smaller) local sales tax authority is based and hundreds of millions in local government aid appropriations each year attempt to address.

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