

SENATE BILL REPORT

SB 5425

As of February 4, 2015

Title: An act relating to providing a sales and use tax exemption for qualified broadband equipment.

Brief Description: Providing a sales and use tax exemption for qualified broadband equipment.

Sponsors: Senators Ericksen and Dansel.

Brief History:

Committee Activity: Energy, Environment & Telecommunications: 2/03/15.

SENATE COMMITTEE ON ENERGY, ENVIRONMENT & TELECOMMUNICATIONS

Staff: William Bridges (786-7416)

Background: Sales and Use Tax. Sales tax is imposed on retail sales of most items of tangible personal property and some services, including construction and repair services. The use tax is imposed on items used in the state, the acquisition of which was not subject to the sales tax. Sales and use taxes are imposed by the state, counties, and cities. There are a number of sales and use tax exemptions, including machinery and equipment directly used in manufacturing.

Connect America Fund. In 2011 the Federal Communication Commission (FCC) created the Connect America Fund to support the expansion of broadband internet capability to underserved areas of the nation. Underserved areas will be identified at the census-block level.

The FCC is prepared to initially disburse up to \$1.8 billion annually to a class of large telecommunications carriers known as price cap carriers. There are two price cap carriers in Washington: CenturyLink and Frontier. A second phase of disbursements may follow for other telecommunications carriers.

FCC Definition of Broadband. The FCC requires companies receiving Connect America funding for fixed broadband to offer speeds of at least 10 megabits per second (Mbps) for downloads and 1 Mbps for uploads.

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Incumbent Local Exchange Carriers (ILECs). The Washington Utilities and Transportation Commission (UTC) classifies telephone companies into two groups: those companies that have held historic monopolies over local markets, called ILECs, and those companies offering services that are subject to effective competition, called competitive carriers. There are currently 17 ILECs in Washington.

Summary of Bill: Creating a Sales and Use Tax Exemption for Telecommunications Equipment and Machinery. Sales and use taxes do not apply to sales or use of qualified broadband equipment used to provide retail broadband service to underserved areas of the state, if the equipment is purchased by an ILEC that is identified by the UTC as receiving assistance under the federal Connect America Fund for high-cost areas in the state.

Defining Terms. Qualified broadband equipment means telecommunications network transmission equipment located in the state that is necessary for the provision of retail communications service by wire or radio with the capability to transmit data to and receive data from substantially all internet endpoints with minimum speeds of 10 Mbps downstream and 1 Mbps upstream.

Underserved area means United States census blocks designated by the UTC as having either no broadband access or limited broadband access based on data utilized by the FCC in determining high-cost areas for assistance under the federal Connect America Fund.

Stating the Intent and Purpose of the Exemption. A tax preference statement is included which states that the purpose of the exemption is to expand broadband telecommunications service in underserved areas of Washington. If a review by the Joint Legislative Audit and Review Committee finds that the number of consumers receiving broadband telecommunications service in underserved areas of Washington has increased by 10 percent in ten years compared to the number of consumers receiving such service at the time of enactment, then the Legislature intends to extend the expiration date of the tax preference.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: This bill was sparked by an interim work session on broadband. The purpose of the bill is to leverage federal dollars to encourage private investment in deploying broadband to underserved areas of the state. This is an excellent bill which recognizes that the private sector has a role in deploying broadband. Past efforts in using public utility districts to deploy broadband had mixed results, with many overbuilding urban areas.

CON: Internet access is a right and it should not be controlled by corporate conglomerates. The Internet should be controlled by local governments.

Persons Testifying: PRO: Senator Ericksen, prime sponsor; Ron Main, Telecommunications Industry Coalition.

CON: Spencer Baldwin, The People's Lobby.