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## BILL ANALYSIS



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House Bill 4210 (Substitute H-1 as reported without amendment)

Sponsor: Representative Beth Griffin

House Committee: Communications and Technology

Senate Committee: Energy and Technology

### **CONTENT**

The bill would amend Public Act 282 of 1905, which provides for the assessment of property owned, operated, or conducted by certain companies, to exempt from taxation under the Act eligible broadband equipment that was exempt from the collection of general ad valorem property taxes under the General Property Tax Act.

The bill is tie-barred to Senate Bill 46, which would amend the General Property Tax Act to exempt from the collection of taxes under the Act certain eligible broadband equipment.

Proposed MCL 207.5c

Legislative Analyst: Tyler VanHuyse

### **FISCAL IMPACT**

The bill would reduce property tax revenue to the State by an unknown magnitude that would depend on the specific characteristics of equipment exempted by the bill and the businesses that owned the equipment. The exemption would apply only to eligible broadband equipment first installed or used after December 31, 2020, so while any revenue loss could be foregone revenue, over time exempted property could include property that replaced existing personal property currently being taxed. The exemption would reduce State-assessed property tax revenue, which is deposited into the General Fund.

The bill uses definitions and an exemption provided under Section 9p of the General Property Tax Act; that section would be added by Senate Bill 46, to which the bill is tie-barred. However, Senate Bill 46 contains language that could result in administrative issues that ultimately could affect the amount of revenue loss. As identified in the analysis for Senate Bill 46, while "lack of broadband service" is defined, it does not define the conditions to be met for equipment to have been considered to "resolve" a lack of service. Given that broadband services can be delivered through various media, including satellite services, fiber-optic cable, DSL connections, wireless connections (including through cell phones), and broadband over powerlines, it may be difficult for taxpayers and assessors to know if an area lacks broadband service or if the area simply lacks any service of a particular medium. Furthermore, it is unclear if the definition would consider a location that did have broadband access under one medium to "lack" broadband service if broadband service were available through a different medium. Finally, to the extent that broadband access involves networked equipment, the definitions would appear to allow new equipment placed in areas that currently have broadband service as long as the equipment was part of a network that expanded to offer service in an area that lacked service.

Certain market demographics could limit the revenue reduction comprised of forgone revenue (i.e. taxes that otherwise would have been levied on equipment that would not have been

placed into service absent the bill). Over the last 20 years, Michigan has pursued a variety of options to create an incentive for or subsidize broadband deployment into underserved areas of the State. Additionally, multiple Federal programs seek to expand broadband access into underserved areas. One factor that hampers these efforts is the lack of a significant market for broadband services in certain locations. In some locations, connectivity has existed at various times but was terminated because it was not commercially viable.

To be eligible for an exemption, eligible equipment must have a minimum download speed of 25 Mbps and upload speeds of at least three Mbps. Data indicate that as of September 2020, 94.5% of Michigan households are served by services that offer at least 25 Mbps connectivity. Furthermore, approximately one-third of households that do not subscribe to internet access service indicate the service is too expensive. On a county basis, 54 counties exhibit service rates that cover more than 80% of households, while only four counties exhibit coverage rates below 50% (eight counties are below 60%). These figures include both households without access as well as households that elect not to subscribe to broadband access.

Given these demographics, there is limited market potential for firms seeking to expand access and a significant chance that providing access would not result in a sufficient number of additional subscribers. Assuming any tax savings were passed on to consumers, the property tax exemption under the bill would be unlikely to lower prices sufficiently to entice those who do not subscribe for cost reasons to join, given that broadband in Michigan is more affordable than the national average and compared to the cost of the acquisition, maintenance and operational costs of the equipment. The limited number of potential additional subscribers also limits the growth opportunities for firms seeking to reach those households. As a result, while the bill's forgone revenue could be minimal, as equipment is replaced or upgraded, there is a substantial chance that equipment that is part of the existing tax base could be subject to the exemption, which would reduce revenue to the State.

While the millage rate on all commercial, industrial, and utility property averages 53.3 mills, inclusive of a variety of existing exemptions, commercial personal property that would be affected by the bill already is exempt from 12 mills of property taxes levied for school operating purposes. Similarly, most areas with lower levels of broadband coverage are located in rural areas that exhibit lower millage rates. The four counties with the lowest rates of broadband coverage exhibit an average millage rate on commercial personal property of approximately 39.7 mills. While the number of miles of eligible broadband equipment that would be affected by the bill is unknown, and because State-assessed property covered by the bill is taxed at the statewide average rate, under an estimated cost of \$30,000 to \$40,000 per mile for such equipment, the bill would affect property taxes at a cost of between \$780 and \$1,066 per mile. How the bill would be applied, and the associated revenue impact of providing broadband access via satellite or wireless, is unknown, although a taxpayer could not claim the exemption for any equipment associated with satellite broadband services unless it also offered terrestrial broadband services.

Date Completed: 3-24-21

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