Research Plan: Cord Cutting and Local Government Revenue

Research Manager:		Leah Eldridge	
Lead Research Associate:		Matthew Owen	
Due: None	Support:	Michael Mount	
Deputy Executive Director Approval:		Initial: MMB	Date: 4-27-18
Executive Director Approval:		Initial: [illegible]	Date: 4/27/18

Purpose

Study the factors affecting the market for cable television services in Tennessee, including alternatives available to consumers, and study the extent to which local government revenues are affected by changes in this market, including those resulting from the practice of "cord cutting" in which consumers cancel or forgo traditional cable television subscriptions.

Background

At the January 26, 2018, commission meeting, Chairman Mark Norris requested a study of the effects of cord cutting on the market for cable television services and local government revenues in Tennessee. Cord cutting commonly refers to the practice of canceling or forgoing a traditional cable or satellite television subscription sometimes, though not always, in favor of subscribing to video or television entertainment options provided over the internet. These internet-based alternatives include but are not limited to subscription packages offered by companies such as Netflix, Amazon, and Hulu, which allow customers to watch a variety of movies, television shows, and other programming. Subscription packages that include access to bundles of television channels—similar to traditional cable and satellite packages but provided over the internet—have also become available.

The number of cord cutters nationwide has steadily increased in recent years and is predicted to continue increasing, according to industry analysts. The resulting decrease in the number of cable and satellite television subscribers has been only partially offset by new customers. Subscriber counts for cable and satellite peaked in 2012, and the research firm MoffetNathanson reported that cable and satellite providers, which lost approximately 1.7 million subscribers in 2016, had already lost more than 2.6 million subscribers in the first nine months of 2017, though they still had almost 94 million customers.

Although traditional cable and satellite television service and their internet-based alternatives each offer access to video entertainment for home consumption, they are not always subject to the same taxes and fees. For example, cable television providers are typically required to pay fees to local governments under the franchise agreements that the companies enter as preconditions for providing service under state law, but providers of satellite television or internet-based alternatives aren't subject to these fees because they aren't required to enter franchise agreements. Franchise agreements authorize cable television providers—which have historically built their own wired networks for providing service unlike providers of satellite television or internet-based alternatives—to place their infrastructure in public rights of way. The resulting franchise fees are calculated as a percentage of a provider's gross revenue from cable television service and are distinct from the state's franchise tax on businesses.

In some communities around the country, decreases in cable television subscribers have reduced revenue for providers and, therefore, reduced the franchise fees received by local governments. Some communities in other states have responded by either enacting new or increasing existing taxes on the internet-based alternatives to cable television, and several others have considered doing the same. Moreover, Tennessee is among several states where these internet-based alternatives, though not subject to franchise fees, are already subject to state and local sales and use taxes, similar to cable television service.

Step 1. Define the Problem

Whether changes in the market for cable television services are affecting local government revenues in Tennessee and whether changes to the state's tax laws and cable franchising laws are warranted.

Step 2. Assemble Some Evidence

- Review past and present legislation, statutes, and regulations affecting the taxation of internet-based alternatives to cable television services and other goods and services.
    - Review committee hearings on related legislation and summarize comments and concerns of committee members, bill sponsors, and others.

    - Interview bill sponsors, proponents, and other stakeholders to determine what is driving this issue.
    - Review fiscal notes. Consult with Fiscal Review Committee staff and follow up with agencies submitting support forms to determine estimated costs and the methods and rationale for the estimates.
- Review relevant federal statutes and regulations.
- Review similar laws or regulations in other states.
- Interview legislators, state officials, local officials, industry experts and other stakeholders. These include but are not limited to representatives of
    - Department of Revenue,
    - Tennessee Public Utility Commission,
    - Tennessee Comptroller of the Treasury,
    - Tennessee Municipal League,
    - Tennessee County Services Association,
    - Municipal Technical Advisory Service,
    - County Technical Assistance Service,
    - Tennessee Cable Telecommunications Association,
    - Tennessee Telecommunications Association,
    - cable television providers,
    - satellite television providers,
    - providers of internet-based alternatives to cable and satellite television,
    - Tennessee Municipal Electric Power Association,
    - Tennessee Electric Cooperative Association,
    - local officials, including
        - county mayors in rural areas,
        - county mayors in urban areas,
        - city mayors in rural areas, and
        - city mayors in urban areas, and the
    - Federal Communications Commission.

- Review relevant literature and data and seek out subject matter experts.
- Convene a panel of stakeholders to speak with the Commission at its January 2019 meeting.

Step 3. Construct Alternatives

Alternatives will be based on

- current law,
- proposed changes in the current law, and
- any additional alternatives drawn from the research and analysis in Step 2.

Each alternative will be described specifically enough to project outcomes in Step 5.

Step 4. Select Criteria

- Cost, direct and indirect, to
    - state government,
    - local governments,
    - taxpayers,
    - providers,
    - businesses, and
    - individuals.
- Effectiveness at solving problem
- Estimate receptiveness of
    - state government,
    - local governments,
    - general public,
    - taxpayers,
    - providers,
    - businesses, and
    - other stakeholders.

Step 5. Project Outcomes

- Estimate cost.
- Estimate the effectiveness.
- Estimate the acceptability to the state and local governments, the general public, taxpayers, providers, businesses and other affected stakeholders.

Step 6. Confront Trade-offs

- How will the alternatives, including any changes to current law, affect stakeholders?
- What are the pros and cons of the potential alternatives?

Step 7. Decide which alternatives to present to the Commission

Based on the results of Step 6, choose the alternatives that most practically and realistically resolve the problem.

Step 8. Produce the Draft Report

Develop and present a draft for review and comment to the Commission.

Revisit Steps 5 through 8.

- Respond to feedback from Commission regarding outcome projections, trade-offs, and selection of alternatives.
- Revise and edit the draft to reflect comments of the Commission.
- Submit final report to the Commission for approval.

- **Problem Statement and Research Plan**
  - April 2018
- **Research**
  - Step 2 (April 2018 through November 2018)
  - Steps 3-4 (November 2018 through December 2018)
  - Steps 5-7 (December 2018 though January 2019)
- **Storyboard, Outline, and Write the Report**
  - Step 8 (January 2019 through April 2019)
- **Draft Report to the Commission for Comments**
  - May 2019 Commission Meeting
- **Final Report to Commission for Approval**
  - August 2019 Commission Meeting