

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 89TH LEGISLATIVE REGULAR SESSION

May 7, 2025

TO: Honorable Ken King, Chair, House Committee on State Affairs

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: SB1405 by Nichols (Relating to increasing access to and reducing taxation of Internet services.), **As Engrossed**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1405, As Engrossed: a negative impact of (\$1,384,000) through the biennium ending August 31, 2027.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five- Year Impact:

<i>Fiscal Year</i>	Probable Net Positive/(Negative) Impact to <i>General Revenue Related Funds</i>
2026	(\$854,000)
2027	(\$530,000)
2028	(\$530,000)
2029	(\$530,000)
2030	(\$530,000)

All Funds, Five-Year Impact:

<i>Fiscal Year</i>	Probable Savings/(Cost) from <i>General Revenue Fund</i> 1	<i>Change in Number of State Employees from FY 2025</i>
2026	(\$854,000)	2.0
2027	(\$530,000)	2.0
2028	(\$530,000)	2.0
2029	(\$530,000)	2.0
2030	(\$530,000)	2.0

Fiscal Analysis

This bill would amend several provisions in the Government Code and the Tax Code related to broadband development and funding, and taxation of internet service and broadband grants.

The bill would change the deadline for the Comptroller to publish statistics related to the pole replacement program from the 60th day after receiving funds to November 1 of each year.

The bill would increase the minimum broadband service speed requirements, defining “broadband service” as having a download speed of at least 100 megabits per second (versus the current 25 megabits per second) and

an upload speed of at least 20 megabits per second (versus the current three megabits per second). For provisions concerning underserved locations, the bill would also increase the download speed of at least 250 megabits per second (versus the current 100 megabits per second) and an upload speed of at least 25 megabits per second (versus the current 20 megabits per second).

The bill would require the broadband development office to classify broadband serviceable locations and establish a program for grants and financial incentives to expand broadband access to unserved and underserved locations. The broadband development office would be required to establish certain criteria and requirements for recipients. The Comptroller would establish certain processes for determining whether financial incentives are subject to withdrawal, providing for the submission of a notarized affidavit.

The bill would amend exclude “Internet access service” from being classified as a taxable service under the sales tax. The first \$25 of monthly internet access charges from sales tax would be repealed.

The bill would repeal certain franchise tax provisions related to broadband funding and clarify that grants received under specific federal programs would be considered qualifying broadband grants. The bill's provisions amending the franchise tax would apply only to a report originally due on or after January 1, 2026.

The bill would repeal the Governor's Broadband Development Council) and Sections 490I.0105(g)-(l), (n)-(p) of the Government Code.

The bill would take effect July 1, 2025, assuming it received the requisite two-thirds majority votes in both houses of the Legislature. Otherwise, it would take effect September 1, 2025.

Methodology

It is assumed the Comptroller would require two additional full-time equivalent (2.0 FTEs) positions to implement the bill. The 2.0 FTEs include 1.0 Program Specialist IV to administrate and monitor the process for accepting affidavits and conduct reviews, and 1.0 Attorney V to draft rules to create the fact-finding, decision and appeal process and review complaints that would come in to adjudicate. Additionally, the estimated cost of \$10,000 in professional fees and services would be needed to hire potential outside counsel specializing in arbitration. Personnel costs for the 2.0 FTEs is estimated to be \$270,000 in each fiscal year.

According to the Comptroller, state and local sales taxation of internet access ceased after June 30, 2020, as required by federal law, and this bill amends statute to accord with that fact. Consequently, the sales tax amendments would have no fiscal implications. Further, the franchise tax provisions of the bill are a clarification regarding exclusion of broadband grants from revenue for purposes of franchise tax and will also have no fiscal implications.

Technology

It is assumed that the Comptroller would incur a one-time IT cost of \$324,000 in fiscal year 2026 for 2,160 contractor programming hours to assist current staff in updates to the grant websites and reporting revisions. Additionally, the cost of \$250,000 annually would be needed to purchase licensing software and contractor resources.

Local Government Impact

No fiscal implication to units of local government is anticipated.

Source Agencies: 304 Comptroller of Public Accounts

LBB Staff: JMc, WP, LCO, CSmi, NV, RStu, KK, SD