

CONNECTING AMERICA: STIMULATING INVESTMENT AND ECONOMIC DEVELOPMENT

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WHY IS BROADBAND IMPORTANT FOR SOCIAL AND ECONOMIC DEVELOPMENT?

THE ISSUES ADDRESSED BY POLICY MAKERS

- While the US GDP per capita is \$ 62,273, the average for the ten less developed states is \$44,970 (Bureau of Economic Analysis, 1Q19)
- While the national growth for 1Q19 was 3.2%, eight of ten had lower growth rates

- 5,013,242 children under 18 reside in a household with a computer but no broadband subscription, while 2,036,753 children live in a household without a computer (Census Bureau, American Community Survey 2018)
- High school dropout rate: 6.1% (or 690,000 teenagers (Center for Education Statistics)

- Of the 3,142 counties in the US, 1,076 counties are totally unserved or partially covered by broadband, affecting over 21 million people (FCC, 2019 Broadband Deployment Report)
- 14.7% of rural population is under the poverty level (Census Bureau, Income and Poverty 2018)

BROADBAND

Stimulates economic growth

Supports educational needs

Addresses rural needs

EVIDENCE OF BROADBAND IMPACT

- Growth of 1% in fixed broadband penetration yields an increase of 0.14% in Gross Domestic Product

- Teenagers with broadband home access are 6 to 8 percentage points more likely to graduate from high school than teenagers that do not have access
- Access to broadband among junior high school students increases their SAT scores, range of college applications and admissibility

- Increasing broadband in rural counties by 1% raises median income by 0.08% and reduces unemployment by 0.19%
- Primary consumer benefit of broadband in rural population is social inclusion

AREAS TO FOCUS ON

Service coverage /affordability

- Fixed broadband penetration is 87.5% of households (ITU) while wireless broadband is 76.5 % of individuals (GSMA Intelligence)
- 24% of non adopting population is caused by limited affordability, the rest is due to lack of coverage and other factors (Pew Research)

Bandwidth

- Average fixed broadband download speed is 112 Mbps, having grown 3.5 times in the last five years (Ookla)
- A family of five with 2 TVs, 1 game console, five smartphones and 5 PCs or tablets needs 150 Mbps of bandwidth

Quality

- Cable and fiber networks provide low latency (FCC)
- New applications require lower latency and “ping”

TAX POLICY IS A CRITICAL LEVER TO STIMULATE BROADBAND DEPLOYMENT

FINDINGS OF 2012 STUDY

- A decrease of 1 percentage point in the average weighted states and local sales tax rate affecting initial equipment purchasing would increase cable TV investment by 0.84% and wireline/wireless by 1.33%
- A total elimination of the sales tax affecting the purchase of equipment for reduction both telecommunications and cable TV companies would generate an increase in investment by \$1.48 billion

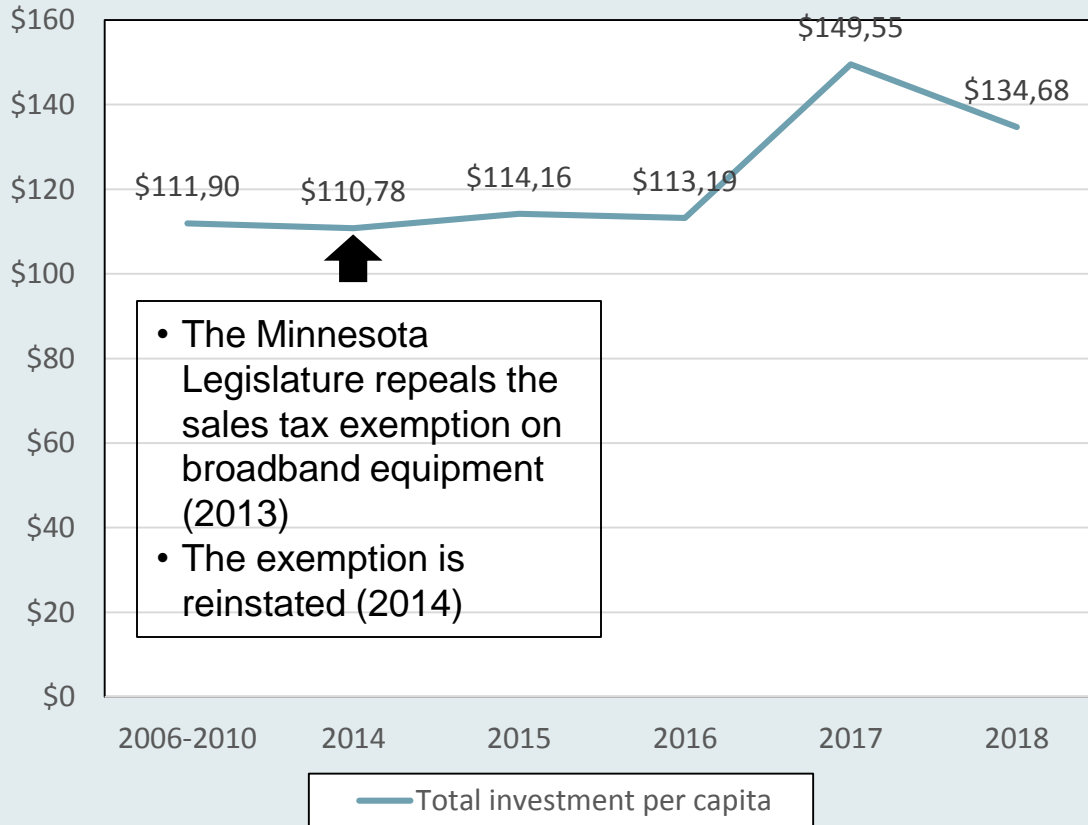
FINDINGS OF 2019 STUDY (in progress)

- A decrease of 1 percentage point in the average states and local sales tax rate affecting initial equipment purchasing in telecommunications and cable would increase investment by 1.82% over the current level of \$42,932 billion
- Thirty-four states levy taxes against the acquisition of cable equipment. The amounts can be as high as 10.02% for Louisiana, 9.41% for Arkansas, and 9.46% for Tennessee, and 9.18% for Washington

THE EXPERIENCE OF CERTAIN STATES VALIDATES THE ROLE OF TAX REGIMES ACTING AS AN INVESTMENT INCENTIVE

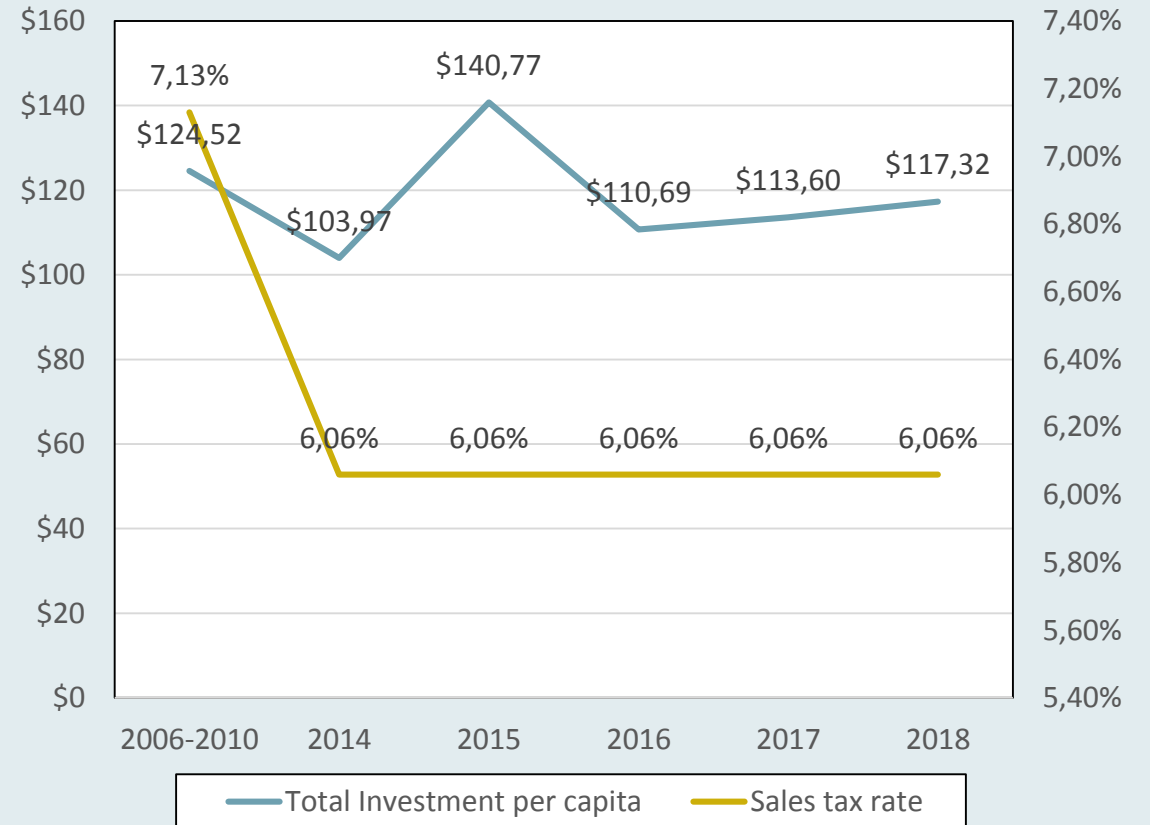
Minnesota

State has enacted a sales and use tax exemption for communications equipment since 2001



Texas

State enacted in 2014 a refund provision of sales taxes paid for communications equipment



Source: Telecom Advisory Services analysis

IN SUM, STATE POLICY MAKERS HAVE TO CONDUCT AN IN-DEPTH ASSESSMENT OF THE SHORT-TERM AND LONG-TERM IMPACT OF ANY TAX FRAMEWORK AFFECTING THE BROADBAND SECTOR

- Do sales taxes in the state have an impact on the amount of investment in broadband?
- If so, by how much?
- What is the potential impact of a decrease in telecommunications investment on the State's GDP, and its overall economic impact (enterprise formation, relocation of companies, job creation)?
- Are taxes affecting the number of direct and indirect jobs created by the telecommunications industry investment in the State?
- What could be the long term impact in the deployment of world class broadband infrastructure?
- What is the impact of taxes (for or against) rural broadband deployment?
- What is the ROI trade-off between taxation of broadband equipment acquisition and broadband's socio-economic benefit?



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