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Proponent Testimony of House Bill 2106

***Providing A Sales Tax Exemption for Sales of Property and Services
Used In the Provision of Communications Services.***

**Testimony by Brightspeed
John Idoux, Kansas Governmental Affairs Director
Before the House Energy, Utilities and Telecommunications Committee
January 31, 2023**

Thank you Chairman Smith and members of the Committee. My name is John Idoux, and I am Brightspeed's Director of Governmental Affairs for Kansas. I appreciate this opportunity to express Brightspeed's strong support of House Bill 2106.

Brightspeed Introduction

While you may recognize my name and face, I suspect most of you have never heard of the company Brightspeed. In simple terms, CenturyLink is now Brightspeed in Kansas. In October 2022, Apollo-managed funds (NYSE: APO) completed its acquisition of incumbent local exchange carrier (ILEC) assets and associated operations across 20 states, including Kansas, from CenturyLink/Lumen (NYSE: LUMN).

Brightspeed is now the nation's fifth largest ILEC, with a service territory encompassing more than 6.5 million locations in mainly rural and suburban communities across the Midwest, Southeast, and parts of Pennsylvania and New Jersey. Through its local fiber and copper networks, Brightspeed provides internet and voice offerings to residential and small business customers. For enterprise and wholesale customers, Brightspeed offers high-speed connectivity, voice, networking, and managed services to support more complex working environments.

Specific to Kansas, Brightspeed has provided communications services in Kansas under various names since 1909 and today serves rural Kansans in 119 communities including Junction City, Fort Riley, Gardner, and 111 communities with fewer than 1000 residents.

Brightspeed Fiber Investment Plans

The company has also officially commenced the buildout of its state-of-the-art fiber optics network. Brightspeed plans to complete over 1 million new fiber passings across 17 states during the initial phase of construction through the end of 2023. Brightspeed's planned investment of at least \$2 billion in its fiber network transformation will bring faster and more reliable internet service to more

than 3 million homes and businesses over the next five years, primarily targeting locations where fiber and advanced technology have not historically been deployed.

In Kansas, Brightspeed recently shared that by the end of 2023 we expect to finish the first phase of construction and deliver over 10,000 fiber passings in Gardener, Osawatomie and Hiawatha. This is in addition to the existing fiber customers that will transition to the Brightspeed fiber platform. In subsequent years, Brightspeed will add additional fiber-enabled locations for the communities it serves.

HB 2106 Overview

HB 2106 will provide a sales tax exemption for equipment, machinery, software, ancillary components, appurtenances, accessories, or other infrastructure purchased for use in the provision of internet access service, telecommunications service, and video services. HB 2106 provides a similar sales tax exemption for qualified communications equipment similar to the current machinery and equipment sales tax exemption for most other Kansas industries.

HB 2106 Will Expand Fiber and Broadband in Kansas

Brightspeed strongly supports HB 2106 as it will significantly impact broadband and communication companies' abilities to expand its services and serve its customers. Every dollar not spent on city, county and state sales taxes will be invested in Kansas broadband and communications infrastructure. More fiber projects will be viable to serve the unserved and underserved areas of the state.

- ***More Funding for Kansas Broadband Investment:*** Companies set annual construction and investment budgets at the macro level, exclusive of sales tax. For states like Kansas that currently impose sales tax on broadband and communications infrastructure, a portion of those annual budgets is diverted to pay sales tax. However, for states that do not impose sales tax on broadband infrastructure, every dollar not spent on city, county and state sales taxes will be invested in broadband and communications infrastructure.
- ***Improve Broadband Project Viability:*** HB 2106 will directly benefit Kansas consumers in how potential broadband infrastructure projects advance from planning and engineering, to construction and operational reality. It is no secret that not all broadband projects are financially and economically viable. Every broadband infrastructure project must be able to pass financial muster. Many areas of the state remain unserved or underserved because the economics of new fiber investments are not favorable. HB 2016 will lower the cost parameters associated

with future fiber build projects as companies will not factor into the business model the sales tax on purchased equipment. Improving the project financial viability will allow more projects to move forward, especially in the unserved and underserved areas in Kansas.

HB 2016 is Good Public Tax Policy for Kansas

In addition to expanding broadband in Kansas, HB 2106 is good tax policy as it will eliminate an unintended windfall to local and state jurisdictions from state and federal broadband grant funding. Additionally, Kansas telecommunication customers already pay substantial sales and other taxes.

- ***Eliminate Perverse Unintended Consequences of Broadband Funding:*** The Kansas Broadband Office recently announced \$83 million in broadband grants from federal ARPA/Capital Projects funds. This is in addition to the \$5 million in annual state broadband funding from the Eisenhower Transportation Plan, which will increase to \$10 million a year for the next seven years. The federal Infrastructure and Jobs Act will direct approximately \$250 million to the state for additional broadband projects. This is addition to the nearly \$100 million in Connect America Funding from the FCC and the replacement RDOF initiatives. Most of these funding initiatives require providers to provide at least a 50% match using its own funding. Taxing these infrastructure investments provides local and state coffers with an unintended and substantial windfall while further exacerbating the rural digital divide. There is no public policy rationale to provide state and federal support for underserved and unserved areas and then tax the same funding. These funds are intended to serve unserved and underserved areas in Kansas and KB 2106 will allow more state and federal funding to go towards fiber and not diverted to city, county, and state coffers in the form of sales taxes.
- ***Telecom Customers Currently Pay Substantial Sales Tax:*** Most communication services in Kansas already have local, county and state sales taxes imposed. Traditional voice landline services, wireless voice services and cable services, for example, are not included in the utility sales tax exemption and impose sales tax. In many cases, these same services are also subject to local franchise fees of five percent as well as 911 fees and KUSF assessments.

Conclusion

Brightspeed urges your support of HB 2016 as it will expand broadband infrastructure to unserved and underserved areas of the state while also maintaining a fair tax structure for Kansas consumers.