Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: S.B. 255 of the 129th G.A.

Date: January 17, 2012

Status: As Introduced

Sponsor: Sen. LaRose

Local Impact Statement Procedure Required: Yes

Contents: To change the method of collection and the amount of the wireless 9-1-1 charge for prepaid wireless calling services

State Fiscal Highlights

STATE FUND	FY 2012	FY 2013	FUTURE YEARS
Wireless 9-1-1 Administrative Fund (Fund 5BP0)			
Revenues	Potential revenue gain or loss	Potential revenue gain or loss for the first six months of the fiscal year	- 0 -
Expenditures	Potential increase or decrease commensurate with revenue changes	Potential increase or decrease commensurate with revenue changes	- 0 -
Tax Department			
Revenues	Gain up to $25,000 over the final three months of the fiscal year	Gain up to $50,000 over the first six months of the fiscal year	- 0 -
Expenditures	Potential increase up to an amount equal to revenue received	Potential increase up to an amount equal to revenue received	- 0 -

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- Changing the method of collection and the amount of the wireless 9-1-1 charge for prepaid wireless calling services may increase or decrease revenues to the Wireless 9-1-1 Administrative Fund (Fund 5BP0).
- The bill maintains the existing sunset date for all wireless 9-1-1 charges, including the modified charge applicable to prepaid wireless services. The Revised Code stipulates that the charges must end on December 31, 2012.
- Although the bill provides the Department of Taxation with new administrative duties and compensation for those duties, the bill does not create a fund into which to deposit these revenues nor does it create an appropriation for the expenditures. The Department would have a role in the retailers' remittance of wireless 9-1-1 charges that are collected at the point of sale.

Local Fiscal Highlights

LOCAL GOVERNMENT		FY 2012	FY 2013	FUTURE YEARS
Counties				
Revenues		Potential revenue gain or loss	- 0 -	- 0 -
Expenditures		Potential increase or decrease commensurate with revenue changes	- 0 -	- 0 -

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- Approximately 99.8% of the fund balance in Fund 5BP0 was transferred to counties in FY 2011. Counties are authorized to use these funds for the acquisition and implementation of enhanced wireless 9-1-1 technology. Once a county has implemented enhanced wireless 9-1-1 service, it may use the funds to pay any of its personnel costs of one or more public safety answering points providing countywide wireless enhanced 9-1-1.

Detailed Fiscal Analysis

S.B. 255 changes the amount and method of collection of the prepaid wireless 9-1-1 charge. This charge is imposed under current law on all wireless subscribers with Ohio billing addresses, until December 31, 2012.

Presently, wireless service providers remit 28 cents per $50 of monthly prepaid wireless telephone revenues. The bill replaces this method with a new 16-cent charge per line transaction, which is collected directly from the prepaid wireless customer by sellers at the point of sale, and it is remitted to the Department of Taxation by the retailer.

Approximately 99.8% of the $26.9 million fund balance in Fund 5BP0 was transferred to counties in FY 2011. Counties are authorized to use these funds for the acquisition and implementation of enhanced wireless 9-1-1 technology. Once a county has implemented enhanced wireless 9-1-1 service, it may use the funds to pay any of its personnel costs of one or more public safety answering points providing countywide service.

The bill requires that sellers remit the prepaid wireless 9-1-1 charges to the Department of Taxation. A seller may retain a collection fee of 3% before remitting the amount of charges due. The Department of Taxation is to transfer the total amount of remitted charges to the Ohio 9-1-1 Coordinator, minus a 2% administrative fee. The bill does not create a fund into which the Department may deposit these administrative fees, and the bill does not establish an appropriation to spend these revenues. The Ohio 9-1-1 Coordinator deposits the money he receives into Fund 5BP0 and eventually transfers the funds to counties in proportionate manner.

Fiscal effect

Revenue collections for the Wireless 9-1-1 Administrative Fund (Fund 5BP0) in FY 2011 were $26.9 million. National statistics compiled by the Federal Communications Commission (FCC) state that prepaid users comprise 19% of all wireless subscribers, which suggests a 10% change in fee revenues from the prepaid wireless subscribers would change the total fund revenues by approximately $511,000. LSC staff cannot determine whether this bill would increase or decrease fund revenues.

Presently, the 28-cent per month wireless 9-1-1 fee is collected from wireless service companies on behalf of all customers, regardless of whether the customer is on a contract basis or a prepaid basis. The prepaid wireless 9-1-1 fee equates to 28 cents for every $50 in monthly revenue. S.B. 255 would replace the revenue-based fee on prepaid wireless customers with a transaction-based fee. The bill administers the fee at each "line transaction," which LSC assumes to be those transactions where a prepaid wireless consumer either activates a new telephone line or adds money to an existing line.

To estimate the fiscal impact of the changes proposed in S.B. 255, LSC requires additional information about the average expenditure for each line transaction. Without proprietary information from the largest prepaid wireless companies (Sprint, AT&T, Verizon, and T-Mobile), LSC cannot determine whether the changes in S.B. 255 are revenue neutral. Though the 16-cent per line transaction provision may prove to be approximately revenue neutral, the available public information does not allow LSC to confirm or reject this proposition. However, it is possible to illustrate the breakeven point where consumers' patterns of prepaid wireless consumption would be revenue neutral.

Revenue neutral illustration

The current 28-cent charge per $50 of monthly prepaid wireless revenues equates to a $3.36 annual fee for every $600 in prepaid customer revenues. This charge is equal to a 0.56% assessment rate ($3.36 ÷ $600 = 0.0056) on prepaid customer revenues. In order for the prepaid wireless consumer to pay the same amount over a comparable time frame, a consumer spending $600 annually on prepaid wireless services would need to pay the 16-cent fee 21 times per year (21 transactions X $0.16 = $3.36), and these 21 transactions would be for an average amount of $28.57 ($600 ÷ 21 transactions = $28.57).

These calculations show that, if the average customer incurs two line transactions per month, the customer needs to spend (on average) $28.57 per line transaction for Fund 5BP0 to receive the same amount of revenue under the bill. To spend more or less than $28.57 per line transaction would create a revenue loss or gain for Fund 5BP0. For example, if the average customer spends only $25.00 per line transaction two times per month during the year, then Fund 5BP0 gains 14.3% more[1] revenues from the average prepaid wireless customer under the bill. On the other hand, if the average customer spends $30.00 per line transaction two times per month during the year, Fund 5BP0 loses[2] 4.7% of its revenues from the average prepaid wireless customer.

The lack of publicly available information prevents LSC from evaluating whether this $28.57 average transaction amount is reflective of the average prepaid wireless customer. Additionally, the illustrative example demonstrates that a 5% to 15% change in prepaid wireless charges is not out of the question. Accordingly, it would not be unreasonable for the fund to gain or lose several hundred thousand dollars, perhaps

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[1] Under the bill, 24 yearly transactions X $0.16 charge = $3.84 in annual wireless 9-1-1 charges from $600 of prepaid revenue (24 transactions X $25.00 per transaction = $600), and $3.84 per $600 in prepaid customer revenue is 14.3% greater than the $3.36 per $600 in prepaid customer revenue under current law.

[2] In the case of this customer, revenue to Fund 5BP0 would also be $3.84 per year under the bill, but would be $4.03 (= $0.28 X 2 X 12 months X $30 ÷ $50) under existing law. Therefore, the outcome would impose a loss on state revenues, and $3.84 is 4.7% less than $4.03.

even a million dollars, if actual consumer patterns differ from those necessary to ensure a revenue neutral outcome.

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