TACIR INSIGHT
TENNESSEE ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS
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CORD CUTTING AND LOCAL GOVERNMENT REVENUE IN TENNESSEE

Background

The ongoing shift away from both cable and satellite television has garnered much comment from the media and industry analysts—so much so that the term "cord cutting" is now a common descriptor for the practice of forgoing cable or satellite in favor of internet-based streaming video subscription services. In light of this change in the video industry, TACIR's then-Chairman, Mark Norris, at the January 26, 2018, commission meeting, requested a study of the effects of cord cutting on the market for subscription-based video services and local government revenue in Tennessee, including whether changes to the state's tax and fee structure and its cable television franchising laws are warranted. The trend toward cord cutting will likely continue, but industry analysts expect that the shift away from cable and satellite will be gradual.

Although cable, satellite, and streaming each offer access to video for personal consumption, they are not always subject to the same taxes and fees in Tennessee. Because of these differences, one concern for policymakers is whether cord cutting will have any effect on government revenue, in particular local revenue. And representatives for some video service providers question whether the existing tax and fee structure should be adjusted given the industry's evolution. Currently, cable and satellite receive partial sales tax exemptions in Tennessee, but both are subject to higher rates than streaming for at least a portion of each customer's bill. Cable providers also pay franchise fees—capped at 5% of gross revenue—to local governments through franchise agreements granting them authority to build their wireline communications networks in public rights-of-way.

Findings and Recommendations

A review of other states' laws identified several alternatives to Tennessee's tax and franchise fee structure. But because each of them would either impose costs on state or local government or increase taxes on cable's competitors that don't deploy infrastructure in public rights-of-way, because franchise fees originated as a means to compensate local governments for cable providers' use of public rights-of-way, because recent federal rule changes could reduce local compensation from cable franchises, and because the sales tax rates that currently apply to cable, satellite, and streaming are similar to each other, **the report finds that changes to the state's tax and fee structure or its cable franchising laws are unnecessary at this time.**

However, because it is likely that cable franchise fee revenue will decrease if industry trends continue, **the report recommends that local governments consider no longer using this revenue to fund government services that have maintenance of effort requirements.**

See TACIR's full report at the following link for additional information: https://www.tn.gov/tacir/tacir-publications.html.