

To: The Budget and Taxation Committee

Regarding: Senate Bill 547 - The Broadband Expansion Incentive Act

Submitted By: Quantum Internet and Telephone
Kevin W. Brown, CEO

Quantum Internet and Telephone is a local Maryland small business that has been providing service to Carroll County and the Baltimore area since 1995. For many years we have wanted to be able to provide service to rural areas, but the costs to do so were extremely high, and the very low return on investment was too challenging to overcome.

We were recently awarded significant grants by the State and Carroll County to help fix the rural digital divide in Carroll County. Current tax law requires that these grants be recognized as income and therefore subject to income tax, even though these funds will be immediately expended to build rural broadband Internet. Paying these taxes will be a great hardship for us, as it will take many years to earn enough money from the subscribers to the network we are building to pay these taxes. These taxes will cause us to use funds that could otherwise be used to build more rural broadband. We may also need to go deep into debt to pay these taxes, or possibly even sell part (or all) of our company. We shouldn't have to take such extraordinary measures to utilize these grants.

Quantum fully supports Senate Bill 547, and it will do a lot to help small businesses like Quantum to be able to use grants to provide services to rural areas. There is one problem that should be addressed, and a couple of additions that could improve the Bill. First and foremost, the Bill defines a "Qualified Broadband Grant" as a Federal grant, and while the grants in question are sourced from Federal grant funds, they are awarded to broadband providers as State, County, or local grants. The text of the bill could be interpreted as referring only to grants awarded directly to broadband providers from the Federal government, which we don't think is the intention. Additionally, both the State and some County governments have awarded grants out of their own funds. Changing the definition to include State, County, and local grants will clean up these potential issues.

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Relief from sales tax on network equipment is a great idea, but if the intention is to help stretch grant funds to build as much broadband as possible, there are some additional big-ticket items that should be considered. Conduit, handholes, fiber splice enclosures, and distribution cabinets are just some examples of materials used in broadband deployments and probably represent a larger portion of the build cost than the equipment defined in the Bill. Our suggestion would be to empower the Office of Statewide Broadband to maintain a comprehensive list of items that would qualify for the sales tax exemption.

Finally, there should be some consideration given to property taxes. Building broadband to unserved areas is extremely costly, which is why they are unserved. The assets in these areas can cost 4-5x (or more) what it would cost to build in a more densely populated suburban area. Because of the much higher asset value, much higher property tax will have to be paid, which ultimately gets passed down to the subscriber in the form of higher prices for service. Our suggestion would be to exclude any assets built or purchased with grant funds to be excluded from property tax assessments.

I would like to personally thank Governor Moore and all of the Senators who are sponsoring this Bill. I would also like to thank this committee for its consideration of this Bill and allowing me to speak today.

Thank you for what you do for Maryland,



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