7.2 CABLE TELEVISION SYSTEMS

This section includes an introduction to CATV systems, a review of the description of a system, governmental regulation and the classification of the property for ad valorem taxation.

Be advised that taxpayers may contest the classification as real property or tangible personal property, as well as the valuation and such appeals will be handled in the same manner as other local assessment appeals.

1. Cable Television Systems

Cable television (also called CATV or Community Antenna Television) was first put into commercial operation in the late 1940's. The early systems developed in communities that were unable to receive TV signals because of their distant location from the TV stations. Cable systems began constructing antennas in places that could receive television broadcast signals, and then distributing the signal by copper cable to subscribers for a fee. The CATV systems soon began developing in large metropolitan areas because good reception was being obstructed by building growth. By 1975, satellite communication was implemented, which enabled cable companies to broadcast multiple channels that were being received via satellite. The first program of this type was Time Inc.'s Home Box Office (HBO) which offered uninterrupted first run movies.

The channel capacity of the cable system makes both radio and television broadcast possible. Additionally, many systems offer wire services such as news, weather and stock market reports, and network programming that offers movies, sports and special features. Some cable operators also have studio facilities that enable the system to originate local programming which can provide access channels for public use. The State of Missouri has several hundred cable systems operating in the state serving hundreds of thousands of subscribers.

A. Definition of System

A cable television system receives signals from local broadcast stations, or can receive distant signals via microwave or satellite relay. Once these signals are received, they are amplified and distributed through the cable network, which is ultimately connected to the subscribers' television sets. A CATV system can be classified into three major asset categories: (1) Headend, (2) Distribution, and (3)Subscriber connection.

Cable companies will typically own or lease the land on which the headend equipment is located. However, they generally do not own the land on which the distribution system is placed. The companies will install trunk and distribution cable either overhead or underground depending on how the existing utility lines are installed.

(1) Headend

The term headend typically refers to two types of equipment. The first, which actually receives the broadcast signal, is known as the antenna. The signal is received by either an off-air antenna, microwave receiver or satellite receiver. Many systems have one or more of these receivers strategically located so as to ensure good reception and relay of the broadcast signal. The second type of equipment (generally referred to as headend) is the electronic processing equipment. This equipment is located inside a building and is the electronic control center of the system. The broadcast signals are passed from the antenna to decoders, modulators and amplifiers which separate the audio and video signals and filter out any interfering signals. Electronic monitors are used to ensure that proper signal reception is maintained. Amplifiers are then used to reassemble the picture and sound and adjust the signal to the correct levels; the signal is then transmitted to the subscriber via the distribution system.

(2) Distribution

The distribution system is made up of cable and amplifiers that carry the signals from the headend to the subscriber. The largest cable, approximately one-inch in diameter, comes directly from the headend and is called a trunk line. Branching off the trunk lines are feeder lines. Each feeder line is connected to the trunk line via a bridger amplifier. The bridger amplifier draws a signal from the trunk line for distribution to the subscribers.

This amplifier will also provide protection against electronic surges in the feeder lines.

Both trunk and feeder lines have electronic amplifiers installed along the cable. This is necessary because as the signal travels long distances the signal quality will diminish, which results in "snowy" pictures. To provide constant signal strength, amplifiers are installed along the distribution system. Trunk amplifiers are located approximately every 1,800 feet along the trunk line. Feeder cable amplifiers (also called line extenders) are necessary depending upon the number of subscribers on the feeder line. As each subscriber taps onto the feeder line, the signal strength is decreased. If the signal strength drops below an acceptable tap port level, then a new line extender amplifier is necessary to increase the signal strength to a proper level.

In addition to amplifiers, it is necessary to locate a power supply every three to four miles along the cable system. This power supply maintains either 30 or 60 volts throughout the cable, and provides power to the trunk and line extender amplifiers. In overhead systems these units are typically mounted on utility poles and are completely weatherproof.

(3) Subscriber Connection

The final connection from the feeder line to the subscriber is called a subscriber drop. This consists of a device that is installed on the feeder line called a tap. The tap is then connected to a flexible drop that runs to the subscriber's home. A device called a trap may also be installed at this point. The trap will filter out pay channels that the subscriber does not wish to receive. The coaxial cable is then connected to an inside wall plate connector.

B. Regulation

The Federal Communications Commission (FCC) has regulatory authority over CATV systems to assure that franchise procedures and standards are used to encourage an equitable distribution of broadcast services around the country.

C. Classification of Property for Ad Valorem Taxation

The cable TV system is made up of tangible personal property and real property.

Tangible personal property is defined to include every tangible thing being the subject of ownership or part ownership whether animate or inanimate, other than money, and not forming part or parcel of real property. Section 137.010(4).

Real property is defined to include land itself, whether laid out in town lots or otherwise, and all growing crops, buildings, structures, improvements and fixtures of whatever kind thereon, and all rights and privileges belonging or appertaining thereto. Section 137.010(3).

For purposes of this guideline, the value of a cable system would not include any buildings or motor vehicles. Their value should be determined in the same manner as other similar properties.

(1) Real Property

Items that would be considered as forming part or parcel of real property include:

(a) Towers, antennas, satellite receiver stations, and down leads - are structures which are affixed to either the ground or buildings with the intent that they remain in place for the useful life of the property.

(b) Distribution equipment - includes aerial or underground cable, trunk and feeder amplifiers, power supply equipment and any other equipment that is attached to the distribution system. This property is either affixed to utility poles, which are structures, or buried in the ground, with the intent that it remain in place for the useful life of the property. Pursuant to Chapter 137.010, this aerial equipment is considered real only when it is attached to installed poles owned by the CATV company. Otherwise, such items are considered personal property.

(c) Subscriber drops - consists of coaxial cable and taps. This property is also affixed to utility poles or buried in the ground. A subscriber drop is the final connection between the distribution system, or feeder line, and the subscriber.

Even though the FCC has issued rules defining cable home wiring, the rulings appear to deal specifically within the subscriber's home and not the wiring outside the house

beyond 12" of the exterior wall or in common areas of multiple dwelling unit buildings. Therefore, the State Tax Commission guidelines hold that these subscriber drops are appurtenant to the distribution system and are, therefore, the property of the cable company.

As stated above, pursuant to Chapter 137.010, this equipment is considered real only when it is attached to installed poles owned by the CATV company. Otherwise, such items are considered personal property.

(d) Leasehold improvements - includes any improvements made to real estate owned by others.

(2) Tangible Personal Property

Items that would not be considered as fixtures, structures, or improvements to land and should be classified as personal property include:

(a) Distribution equipment - consisting of aerial cable, trunk and feeder amplifiers, power supply equipment and any other equipment that is considered part of the distribution system. Pursuant to Chapter 137.010, this aerial equipment is considered personal only when it is attached to installed poles not owned by the CATV company. Otherwise, such items are considered real property.

(b) Subscriber drops - includes coaxial cable and taps. This aerial equipment is considered personal only when the distribution system is attached to installed poles not owned by the CATV company.

(c) Converters and subscriber traps

(d) Headend equipment - electronic processing equipment

(e) Origination equipment

(f) Test tools and equipment

(g) Any other property not classified as real

Cable TV personal property purchased after January 1, 2006 would be subject to taxation under the business personal property statues. In 2005, §137.122, RSMo was enacted into law to provide for uniform assessment of business personal property beginning in 2007 for property put into service after January 1, 2006. To establish the assessment under that section, the following process must be followed:

1. The original cost paid by the current owner, less freight, installation, and sales or use taxes and date of purchase is reported by the owner. Assessors may access sample forms at www.moassessorsassn.org/ in the "Assessor Use Only" section.
2. The Class Life and Recovery period is determined by using IRS Publication 946, Appendix B, Table B-1 & B-2 – Table of Class Lives and Recovery Periods (see cite to IRS internet source below).
3. The assessor applies the proper depreciation schedule found in §137.122.3, RSMo, by applying the years since acquisition and the appropriate recovery period to determine the appraised value.
4. The appraised value is multiplied by the statutory assessment level for personal property, 33 1/3% to establish the assessed value.

To assess business personal property (BPP) pursuant to §137.122, RSMo, an assessing officer must determine the recovery period for each item. The Class Lives and Recovery Periods found in IRS Publication 946, Appendix B, Table B-1 & B-2 – Table of Class Lives and Recovery Periods provide the information necessary to establish these recovery periods. They are identified as GDS (MACRS) in Publication 946, where a detailed description of each of the asset classes can be found. To determine exactly how BPP should be depreciated, it is necessary to read the exact description from Publication 946, pages 98 through 107. An Adobe-Acrobat Reader is required to view, download, or print the publication. To access Publication 946, go to www.irs.gov/pub/irs-pdf/p946.pdf.

The State Tax Commission, utilizing IRS Publication 946, has provided a quick reference in two formats:

1. List of BPP Groups by Recovery Period The recovery periods established by §137.122, RSMo are 3, 5, 7, 10, 15 and 20 years. Accordingly, the first listing covers various groups of BPP organized by the length of the recovery periods applicable under MACRS. The depreciation factors (percent good of price paid by

current owner for the item without freight, installation, or sales or use tax) established by §137.122, RSMo applicable to each group are also provided. The percent good factor is simply determined by matching the recovery period with the years since placed in service.

2. Alphabetical Listing of BPP Groups The second listing provides each type of property alphabetically followed by the Asset Class numbers and recovery period for that type of asset.

NOTE: The listings are abbreviated versions of the more detailed descriptions found in Publication 946. That publication must be consulted to accurately determine recovery periods.

The assessor should take into consideration any additional information that may be supplied by the cable operator.

For older property that was put into service prior to January 1, 2006, the State Tax Commission previously made available economic lives and a percent good table. That information is still available by request, but will no longer be maintained due to the new business personal property methodology being implemented into the future.