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Also Present:

Andrea Moreland

PROCEEDINGS

MADAM CHAIR: It's 1:30. And it looks like we do have video capability back, so the camera is on us. It wasn't earlier today, so those -- will see the screen shots and they can see live video of the meeting. And I think everybody's back from lunch break, and we're going to continue with Bob McKee's presentation.

MR. McKEE: Good afternoon. I hope everyone had a good hunch. I am still Bob McKee with the Department of Revenue. At this point, and I'll have to get over seeing myself on the screen up there every time I look up, I'll try not -- see what happens if I flash myself in my eye once on screen.

But at this point, we're going to talk about a number of things, revenues and a number of different things that perhaps provide some information that hopefully will be of some value to you as you go forward. The next slide provides the history on the tax collections. And it provides a history for the gross receipts, the state portion. And in this next slide, we present the way the Revenue Estimating Conference presents the collections in the gross receipts and the communication services tax estimating conference. This sheet identifies these as essentially those components. So the first column in the gross receipts tax, it will be that 2.37. The state -- but excludes the direct-to-home satellite portion. The state portion is the 6.65 percent after the change in law 2010. Before that, the 6.8 portion. But also excludes the direct-to-home satellite. I provided the direct-to-home satellite numbers here for you in the third column. And then the local communication services tax.

When you look at the rates of growth, and I apologize, I didn't put them on a slide, but I calculated them and I have them here. Just starting with the gross receipts tax, it actually showed negative growth in the early periods in '03, '04 of negative 2.3 percent. But then grew 5.4, 2.6, 4.4, 3.2, 3.8, up until '9-10. In the '9-10 it saw a 9 percent drop off in collection, and then a slight .1 percent drop off from the '9-10, to '10-11. And I think right now current collections, current forecasts, we expect to see some drop off in '11-12.

From the state portion, it grew 2.9 percent, 9 percent, 4.9, 3.7, 4.3. And in '08-09, a negative 1.8. A positive 1.1 in '9-10 and a negative 8.3 in '10-11. And the state portion of the growth rates, you have to think about this for a minute. It's a little bit counter-intuitive. But as folks give up landlines that were subject to the residential exemption, had the residential exemption available to them, if they switch to something to replace it that's a taxable service, that actually results in some gain to the state portion because they no longer have the residential exemption available to them on that service.

So, you see a little bit different growth rates in the state portion because of this sort of abandonment of landlines that has happened in the last ten years. And we'll talk about the types of phone services and data that we have from the Public Service Commission a little bit later in the presentation. But because of that, you see some different growth rates. In the Estimating Conference for gross receipts tax and communications services tax, the conference actually adopts a ratio of the two between the gross receipts tax and the state sales tax. And that number, that ratio, has grown over the last ten years meaning the percentage of the state sales tax compared to the gross receipts base. In the earlier periods I think it was below 80 percent, and it's grown to about 87 percent of the tax base as folks have given up landlines.

Now we you look at direct-to-home satellite, that's the piece that had rapid growth early in the period growing in '03-04 at 66.7 percent, then 14 percent, then just below 30 percent in '05-06. And then moderated to much more normal growth rates, 2.9 percent, 5.4 percent, 3.4. It did drop 5 percent in '9-10 and then grew at 2.4 percent in '10-11. So you see a similar pattern after that early rapid growth period in the early OTTS with the direct-to-home satellite piece.

And then finally for the local piece, the local piece dropped -- and this was in total collection, so it doesn't speak to capacity -- had a 4 percent drop in '03-04. Then grew by 12.7 percent, 5.1 percent, 3.8, 1.5, 3.1. And then in '9-10, dropped just under 6 percent, negative 5.8. And then in '10-11, negative 5.4. So the growth rates -- now, of course, being local, there's rate changes that factor into the growth and the local collections as well.

Next slide, please.

MR. DUDLEY: Hey, Bob, question. So the 2010-11, that would have been when the .15 shift happened, right? So the fact that you were negative .9 in gross receipts -- excuse me, negative .9 and then negative .1, basically would you say that that off set the loss that was occurring? I mean, is that what happened?

MR. McKEE: I think what's fair to say is that the gross receipts, negative is less than it would have otherwise been and the state portion is larger than it otherwise would have been. But on collections at 22.3 was about two and a half percent of collections, so it's -- you know, it certainly affects the growth rate. And that's of the state sales tax portion. It's a bigger percentage of the gross receipts, of course. But yes, it would have resulted -- if we corrected for that law change, those numbers would have been different and probably more similar to the local CST.

MR. DUDLEY: In general, putting your economist hat on, this '08-09, that was kind of the Florida economic -- I mean, we've been in a slump since then, right? That was kind of the peak. I mean, overall sales tax, everything else has been down since then?

MR. McKEE: Going back, I'll do another presentation about sort of what the state tax collection shows about the great recession. It really looks like we went into the recession about a year earlier than the nation. But was primarily on construction-related activity. And, you know, the real related purchases for consumer -- other consumer nondurables, other long-term items that usually go along with a home purchase, we saw that happen in like 12 of '07 when we started seeing that activity drop. But generally in our general overall economy, we were with the rest of the nation and was after -- if everyone remembers when the stock market dropped 700 points, it sort of signaled the financial meltdown. That's really September of '08 when we started seeing that. That expanded beyond the construction related areas in Florida. August was also down very early. But again, those were sort of large purchases. We stopped in autos and construction and other durables earlier. But things like communication services, it would have been sort of in that second wave of the great recession when it hit Florida, yeah in the '08-09, '9-10 period.

MR. DUDLEY: It just gets frustrating. You see all these articles that talk about problems with PECO. And it keeps pointing, saying that distinctly the wireless phone is not included. And yet for the last 20 years, you find out they have been included. So as this -- if the substitution occurred, it hasn't hurt; it's only helped. Because as you point out, the residential exemption is lost when the person goes from a landline phone to a wireless phone because the users are under presumption that they're all commercial. So actually it's been helped. So it's actually been propped up by the substitution.

MR. McKEE: And that part for the gross receipts has only happened with that .15 since the rate swap. PECO's had other issues as well, particularly because with some rate charges that went away, some add-on charges on the other utilities, on the electric utilities in particular, and then also just whether normalization has resulted in gross receipt collections dropping on the utility side.

MS. KITTRICK: That was going to be my question. I wondered what you saw in terms of trends for the other utilities as well? Are they -- because I know we're looking at locations here, but, you know, energy efficiency and some of the other things that we see in the electricity markets, has that affected the GRT?

MR. McKEE: Yes. And the gross receipts collections total probably whether normalization would be argued, the -- I would argue it would be the most significant explainer of drops in gross receipts tax in recent years. Along with some things that have now happened with rate structure, where charges have gone down or other things have gone down with the electric rates. So you look at those two components and you see some significant drops in the gross receipts utilities tax collections on the other side.

A lot of folks think about the real hot periods we've had, you know, in recent time periods. State-wide, we had an extremely cold winter in 2010, was it, so we're still seeing -- as we return to a more mild winter period, some real drop offs in some of those other gross receipt collections.

MADAM CHAIR: Alan --

MR. ROSENZWEIG: Bob, can you just explain again, I think you said but I didn't pick up on it, looking at the state decline in just the CST from '07-08 to '11-12, April, it's down about 10.6 percent. When you look at the local, it's down about 28 percent. And I don't -- I'm trying to understand. And I'm looking at what's taxed state, what's taxed local. And I'm not assuming rates adjustments really accounted for that much of a decline. I'm trying to understand the difference in the transaction base that's causing the local number to go down so far so fast.

MR. McKEE: '07-08 is a little bit of an odd year to look at the state piece because there were some particular audits that went to the favor of -- no, excuse me, I think they went away from state sales tax and towards some of the other sources, that may have been in '08 -- '08 and '09. The -- it's hard to compare the state portion to the local CST in particular because of the rate change pieces and then -- on the local side, because you have potential for rate increases or rate decreases.

And when you think about rate decreases, think about the discretionary portion, that if a local option sales tax expires, then there's going to be some reduction in the local collections. And we had that happen in some significant areas, I think

Alachua had one expire in recent periods. I think there were a couple other counties where they had the local option sales tax expire. And so to the extent that those were 1 percent or a .6 percent collection in a county -- a significant population, because, of course, that's imposed both in the city and the unincorporated area, that can have a significant impact.

If we were comparing just bases, that would probably be a more pure comparison of what's happening just specifically because of the underlying activity.

Does that get there, Alan or --

MR. ROSENZWEIG: Yeah. You haven't delved deeper then in terms of trying to ferret out those rate adjustments? It's just too many moving parts to try to pick that out and see what's really going on if it's just transaction --

MR. McKEE: I mean, we can get to the underlying basis and compare the bases and that would give you an even more purer growth rate on what's happening in the underlying activity.

MR. DUDLEY: My understanding, your '11-12 numbers are a partial year?

MR. McKEE: '11-12 numbers are a partial year compared to full year for the other years. These are not all years compared through April. So the '11-12 numbers do not include two months worth of state fiscal year collections.

MADAM CHAIR: Probably keep that on the chart --

MR. McKEE: It does at the bottom, but the asterisk may gotten not picked up in the actual chart.

MR. RESNICK: When the emergency tax rate, when that legislation was adopted, that actually eliminated those emergency rates. Did that actually have the effect of lowering emergency rates that were set by those local governments back to the conversion rate or --

MR. McKEE: No. No. When they passed that bill in '07, it took away authority. But if the local government had exercised the authority, it did not take away anything that they had already put in place. And that's part of the reason, emergency rates and also the initial year rates, that's why when I gave you those growth rates, I didn't compare the first two years.

The first couple of years are hard to look at growth rates because the first year was only a partial year from the state's fiscal year perspective. And also because of the switch in the collection distribution method, there was an additional, essentially, they collected 12 months worth of revenues over an 11-month period in order to not have local governments lose that month lag. And so rates automatically went down after the first year. And then the emergency rate conversion period. And this can speak to some of the revenue differences in the early period. There was that part, as I talked about earlier, that was designed to capture the catch up. So you'd have -- and then you have the permanent piece going into effect as well at the same time. So you have the rate go up by these two components and then one part of it peel back off.

So we'd have to do some more analysis to get sort of a pure -- and I think looking at the basis would be the best way to do it -- a pure growth rate compared between the different sources. I don't know if that's something the work group would like to see.

MADAM CHAIR: Do you have data prior to the CST that would be comparable or is that too difficult to pull out of the aggravated sales tax data?

MR. McKEE: There was a series of required reporting by local governments to calculate the conversion rates. I just have to go back and see how much of that's still available from the reported amounts that were used for the calculated conversion rates. So they would have, you know, different components within the -- that were converted over to CST that we would have some historic data on. But we would have to see how available that information on the different conversion rates is today.

MR. DUDLEY: Yeah, I'm still -- I'm just struggling with the '01-02 and '02-03 local CST. I understand the CST went into effect October 1, '01 which was to coincide with the local government's fiscal year, but there's a -- this jumps 313 million. It almost doubles in revenue. I'm struggling with how that happened. I'm struggling with those two numbers, 426 and 739.

MR. McKEE: I think part of it's because these are distribution numbers. So where it started October 1, the first distributions to the locals wouldn't happen until under the CST. There would be the October 1, when it was imposed. It would be collected in November. It wouldn't be distributed out until December. So you have really 712 from the local government's fiscal year perspective which I think explains much of that jump. You also had all the things taking place with the emergency rates and other things in that period of time which again, make it -- would make those growth rates jump around a bit more than if we were looking at the underlying basis.

MR. DUDLEY: At the least, it's -- you know, earlier I think French gave us the seven replacement taxes and fees. Is there bankers reports that Christian created back then created enough that you could aggregate a 2000-2001 number for that column?

MR. McKEE: I think I just have to see what data's available. Absent what reporting was done at this period in time, the information that's available is the information collected for comprehensive annual financial reports which are helpful but may not always get down to the level of this aggregation that you need to specifically be able to identify the 1 percent telecommunications franchise fee or the public service tax specifically. I'm just not comfortable that I could say right now I could go back to the -- data and use that to recreate the numbers at a growth rate sort of transcending the CST.

MR. DUDLEY: So you'd use the annual reports that, I think, the old comptroller required, not the CFO required?

MR. McKEE: I mean, that's the other source of any information. I'll get it directly from local governments. We did not require, the Department of Revenue did not have any requirement for public services tax collections, for example, be reported to the Department or the 1 percent franchise fee or the 5 percent cable franchise fee be reported to the Department. Those would have only been reported by local governments through that CFO reporting.

MR. DUDLEY: My memory was in the -- maybe Sharon or someone can help me -- there was two CST bills and the one that passed in 2000, there was a series of reports required to the REC to begin to develop the replacement development pots so that the REC could then assign jurisdictional tax rates if I remember right. So that's some of -- so that when you say reports, some of the reports that were there --

MR. McKEE: Those would be the reports I would look for to see if we could calculate that. I'm just not sure whether they've been retained or in what fashion without having researched it at this point.

MR. DUDLEY: Thank you.

MADAM CHAIR: One thing that might be helpful is I know sometimes we'll do graphs that show these lines over time and then put points on the graph that show things that may have been affecting those collections. I think visually that might be easier for us to look at.

MR. McKEE: The next slide really presents just the same information but the way the REC does. And the primary difference here is that the Revenue Estimating Conference goes ahead and presents the numbers with the distribution that comes out of the direct-to-home satellite component of the tax, presented in the gross receipt tax column, the state portion of the communications service tax presented in the state portion, and then the remaining portion they show is the additional direct-to-home satellite, the portion that's shared back to the local governments through the local government half-set revenue sharing program.

Next slide, please.

This is where I sort of start going through some things to help you understand some of the economics behind the tax a little bit better and what's been taking place. This talks about sort of the structure of the industry for CST providers. It's a heavily concentrated industry. And well, there's 3500 dealers approximately that are registered for the communications services tax. The ten largest providers remit almost 70 percent of the tax. When you go to the 25 largest providers, they remit 90 percent of the tax. And the 75 largest providers remit 97 and a half percent of the tax. So then you have almost 3400 providers or over 3400 providers that collectively remit less than 2 percent of the communications services tax. So it's an extremely concentrated industry.

Next slide, please.

MR. SUGGS: Can I ask a question? Like the 3400, can you give me an example? I know you can't -- this does not include somebody that would like -- this is not somebody that sells a prepaid card at a gas station? This is someone like a small -- I'm trying to get an idea. The big phone and cable folks --

MR. McKEE: I think the Department would say that someone selling a prepaid phone at a gas station, perhaps they should be registered for the CST. But when you look at the folks who are registered for the CST, they'll probably fall in a number of groups of that 3500. One that would -- one group that would account for many of them would be hotels or motels that resell telecommunications services. So that would account for many numbers. If you provide full paid fax services, say a copying place or something else of that nature, you would need to be registered for the CST for those collections. So I would expect that those two business entity types would make up many of those -- that 3500.

Sort of in giving you some of the many facts and figures, French mentioned earlier about the communication services tax, dealer collection allowance. I provided a little bit of information about the collection allowance there and also the law, that statutory provision on the collection allowance. And then provided the numbers. And these are taken on returns. So this is the amount of collection allowance that CST dealers have taken on returns. Since 2001, it's just over $160 million that have been taken in collection allowance over the entire period of time.

MR. ROSENZWEIG: Bob, one quick question, so is it fair to assume that the rate declined here, from like '07-08 to '11, is much less than the rate of decline in the overall collection? So more high-end providers are shifting from .25 to .75? I mean, the rate -- if you look at '07 to like '11, it's only dropped about 6 percent in total collections, but all the revenues have declined substantially more than that in total. So I -- my assumption is more providers have gone to the .75?

MR. McKEE: I think when you look at the early period of the tax, there may have been issues with providers getting -- meeting the certification requirement to get the higher collection allowance. So I think when you look at the early periods and you see that step up in '03, '04, '05 to sort of that 16 million level, which seems to be sort of the stable range they stayed in that period of time, I would expect that that to have been the case in the early period of the tax as that sort of growing pains of the industry getting -- getting a database to where it could be certified by the

Department to get the higher collection allowance.

MR. ROSENZWEIG: But then in more recent years, why not a corresponding -- if that's the case, that everybody by '07-08 was at the .75, why wouldn't this number be coming down proportionate to the overall collections you showed us in the first slide?

MR. McKEE: I mean, you see it coming down in -- it came down in back to back '09, '10, '11, I think I'd have to do sort of the same sort of base analysis --

MR. ROSENZWEIG: It's down 6 percent from like '07 to '11, it's down like 6 percent but the revenues were down I think much more in total. Just seemed odd to me.

MR. McKEE: Yeah, I'd have to look more into it.

MR. ROSENZWEIG: Okay. Be curious if there's something there.

MR. SUGGS: For the .75, you have to be certified, correct? That means --

MR. McKEE: If you have a local situsing requirement, for example, direct-to-home satellite does not have a local situsing requirement and gets the .75 collection allowance.

MR. SUGGS: Just straight. Now to be certified, they have their own database, but they're certified by DOR -- standards?

MR. McKEE: There's several options, I believe, under the statute for what can be done to get the enhanced collection allowance. I believe, and I may -- I look to French to assess me or let me know when I go to the wrong place. I think if you use the Department's -- do you receive if you use the Department's --

Sorry, these are practical real world questions, so I need to let somebody else that lives in the theoretical world answer them.

MR. BROWN: There are a number of methods. You can -- you or your vendor can employ the electronic database provided by the Department. You can employ a database developed by the dealer or the vendor which has been certified by the Department, certified by the Department. You send it in to the Department, the Department checks it against theirs and determines if it meets certain thresholds. You can employ enhanced ZIP codes, that's a certified method. And then essentially the last certified method is if you are found during audit to essentially meet one of those other methods, then you're essentially held harmless. But the three main ones are the Department's database, a database that is certified that matches up close enough to the Department's database or enhanced database.

MR. SUGGS: Okay. Of those 75 largest -- the 75 largest providers, the majority of those are certified and --

MR. McKEE: I'm sorry?

MR. SUGGS: Go back to the slide before. The 75 largest remitters remit about 96, 97 percent?

MR. McKEE: I think the way I'm most comfortable answering that, Davin, is when we calculate an effective rate for the collection allowance, it was about a .68 percent. So I think that would tell you that by weighted average, the majority of the collections would be coming in at the higher collection allowance. Again, this is as was taken on the return. So if it was ultimately later determined that what was necessary to earn a collection allowance had not been achieved, then that would not be reflected on these numbers. These were as taken on the return for collection allowance.

MR. RESNICK: Could I just go back to the collection allowance? Is it --

MR. McKEE: I'm sorry, Mayor. Could we go to the next slide? I guess I forgot to tell you next slide when we were talking about the collection allowance. Okay. Sorry about that.

MR. RESNICK: So that's off of the total communications services tax?

MR. McKEE: Yeah. Yes.

MR. RESNICK: Is that reported somewhere as to the collection allowance that might be attributable to any particular portion?

MR. McKEE: I believe on the return, it's a deduct, so it's a one line. It's a straight deduct. It's not separated out. But it should be generally allocated across the various taxes. So it should work out essentially proportional to the revenues.

MR. RESNICK: Thanks.

MR. McKEE: All right. On this one, we tried to give you some numbers on sort of the history of Florida's underlying phone services. There's been a lot of change in the phone industry in recent years, wireless, landline, VoIP. And what we tried to do here is provide some stats using a report that we got from the Public Service Commission but that was ultimately the FCC, Federal Communications Commission data. And you can see in particular what's happened with landlines over the period of time, 2001 starting out with 12 million landlines for Florida, reducing to 6.4 million landlines in 2010. Whereas wireless went absolutely the opposite direction, 8.9 million lines in 2001 to 60.9 million in 2010. For voice-over-internet protocol, there are only national numbers available up through 2005, so we started providing 2006 numbers. So if you think of the VoIP as sort of a substitute for landline but not necessarily for wireless, you sort of get a better sense that that drop off in landline may not be as steep as it looks like just using the landline numbers, but even with the VoIP numbers still a significant drop off over that period of time.

We've also provided sort of -- assessed the total including all of them together and you'll see that it sort of peaked right around or during the great recession and then has dropped off slightly since then in the number of total lines all inclusive. And it's also significantly -- if you look at the number of total lines, significantly larger than the population of the state. When you're looking at it as sort of a phone per person indicator, you see that we peaked again in around '06. Of course, that was the first we had the VoIP numbers. So you -- if you assume that '04 to '06, about the same level if you had VoIP in there, giving the ramp up of VoIP, we would have peaked around that period of time and start dropping off in the number of lines per person. I did finally give up my landline about a year ago.

On the next slide --

Next slide, please.

-- we actually give you a chart, a graph showing the growth rates. Of all of these, the VoIP. Of course, you see the top line is the total number of lines and you see the way that that has grown over the period of time, peaking again around that '06 period and then dropping off since. Wireless growing throughout, slight dip there in '05, but otherwise growing dramatically. Population growing throughout, although tapering off towards the end of the period after the great recession. And then landlines dropping pretty dramatically over the period of time.

Next slide, please.

These are the actual growth rates that you see over that period of time. Again, I think on wireless, there may be a data issue with '05 as it shows a 5 percent down and an 18 percent growth rate the following year. But if you sort of look over that period of time, you see accelerating negative growth rates in landlines, very large double digit growth rates in the early periods, but dropping off dramatically in the recent periods with wireless lines, VoIP making up some of it with some double digit growth in those periods of time. Total lines actually dropping or staying stable from '06 forward as population went from growing at 2, two and a half percent to below 1 percent after the great recession. And then the phone per person pretty much dropping after the peak in '06 right before the recession.

Next slide, please.

This table sort of compares in each period the growth rates. And you see that in the early periods, it was sort of all growing together, landlines a little bit negative, but everything else growing with wireless growing at the fastest rate. And then beginning '04 really landlines starting to go negative and grow at substantially negative rates or reduced at those negative rates from '07 forward pretty much throughout the great recession dropping at those double digit rates.

Next slide, please.

Now we tried in this to do a bit of an analysis using the wireless handset numbers that came from the PSC, and then the 9-1-1 50 cent wireless receipts from 2010 to try and do a simulation of how many prepaid wireless handsets might be out there. And so we looked at the number. There was a 60.9 million reported wireless handsets from the PSC. We compared that to the E 9-1-1 collections from wireless, so 77.1 million assumed that it was 50 percent per handset per month, so we used that to get an implied number of landlines of 12.8 million that were paying the 50 cent wireless -- the 50 cent fee to the 9-1-1 board. There's a provision that treats prepaid phones differently for the E 9-1-1 50 cent services. And so out of that, you get a -- it gives an implied rate of just over 4 million prepaid wireless handsets in the state. And implies that market penetration of that with respect to wireless handsets period is about a 24 percent market penetration.

And then going out and doing some research from industry data, we found a reference in the cellular telecommunication industry association documents that about a 21.8 percent nationwide penetration of prepay, pay-as-you go plans in 2010.

MR. SUGGS: Is this -- this specific slide here, is this -- the issue of prepaid and 9-1-1 --

MADAM CHAIR: 9-1-1 receipts is not -- they were using the 9-1-1 data to try and isolate, as I understand it, the number of prepaid handsets. Prepaid issue is definitely within the scope of the working group and something that the legislature wanted us to look at. And I think it goes back to the comment Charlie made earlier, that some of the blame attributable for the declining gross receipt tax is related to wireless. I think more specifically the argument that we've heard recently is that the declining gross receipt tax is attributable to prepaid wireless because possibly the sale of a prepaid wireless phone is not being -- that CST is not being collected directly on that when it's sold through retailers. And so I think the purpose of this slide was trying to isolate the number of prepaid wireless units. Is that correct, Bob?

MR. McKEE: It's really a -- of some

indication of what may be out there as the wireless handsets that are the prepaid fashion.

MADAM CHAIR: The purpose is not to determine whether there's a correct 9-1-1 fee compliance or --

MR. McKEE: No.

MR. SUGGS: The only reason I'm asking, the current secretary -- has suspended the 50 cents on the 9-1-1 collection until the end of this -- I think it's up for discussion again next year.

MR. McKEE: I know at one point there was a moratorium.

MR. SUGGS: Yeah, two-year moratorium till '12-13.

MR. McKEE: The purpose for this is that we have -- in looking at the analysis, we have one set of numbers from FCC that are total handsets in Florida. We've got another number that's an attributable number that you can get an implied number based upon wireless 9-1-1 receipts from those people -- from those entities that are remitting the 50 cent fee on wireless handsets.

My understanding that there's certain exemptions on the landline side where you have more than 25 lines, but from the wireless 9-1-1 or the

50 cent E 9-1-1 fee, my understanding, the only phones that would not be required to pay that under Florida law today would be the prepaid phones. And so that was the purpose was trying to isolate a prepaid number trying to give the working group some idea of at least from the number of handsets, we don't know what the plans are, we don't know if these are all Go phones, they just -- that sit in somebody's purse until they use it and there's no charge until they use it or if it's $5 a month or if these are, you know, $55 a month, $60 a month or unlimited plans, we don't know. But it just gives some idea at least of the number of handsets that may be out there and the market penetration that may be on the table as far as -- or at least part of the analysis as far as looking at competing products.

MADAM CHAIR: Again, if I could just remind the folks of the working group to speak a little louder; I think they're having trouble hearing us on the WebEx.

MR. ROSENZWEIG: So, Bob, based on a comment, this slide you say there's, based on your analysis, 4 million prepaid handsets, but then on -- for comparing that to page 16 where you have the individual lines, it's not a good comparison to what the handsets really are? I mean, if we're -- because could you do the analysis you did on page 20 and go back two or three years and see that growth using the same underlying data and then put it on the same chart? Because we're seeing a decline obviously on page 16, but if you -- this prepaid analysis would show that overall we're probably still having some growth. And page 20 was your underlying -- all your lines.

MR. McKEE: Our understanding of the numbers from the PSC/FCC report are that those wireless numbers are -- and really, we'd just be comparing that first column that's a wireless which essentially has grown throughout the period with the exception of the blip in 2005. Those numbers aren't -- encompass all wireless handsets, whether they're prepaid, whether they're post paid.

MR. ROSENZWEIG: So on page 16, these include prepaid?

MR. McKEE: Those include prepaid.

MR. ROSENZWEIG: So this 4 million estimate is within that number?

MR. McKEE: Within that number of the 16.5.

MADAM CHAIR: If you look at the chart, you want to walk through again --

MR. McKEE: Yeah. The way you get to the 4 million is you take the 16.9 that was reported which the PSC/FCC, and you subtract from that the implied number of handsets that you get to by taking the 77 million E 9-1-1 wireless receipts, even though they're now one E 9-1-1 board, they still report their receipts separately, whether it's from wireless, whether it's from wire line, they reported about 77 million. If you take that 77 million and then divide that by essentially six because it's 50 cents per 12 months, so you divide it by six and that comes out to the 12.8 million lines.

And so for the 12.8 million lines, then the gap is then assumed to be the prepaid, pay in advance, whatever else -- again based upon those FCC numbers. Now those FCC numbers are clearly round. It's 16.9. We don't know if it's 16. -- we'll assume that they used the rounding rule that we avoid talking about in critical details earlier, but it's somewhere probably between -- you know, below 16.5. 16.95, excuse me. So, you know, there's some leeway there, but it's probably within a few hundred thousand of that. Again, that's assuming that it's a fair analysis to make those assumptions and do the analysis in that fashion. But it's designed to give you some indication of what might be the penetration of the prepaid wireless service in Florida.

MADAM CHAIR: And again, that issue is something that we're looking at because there's some question as to whether there's some leakage in the system in terms of communication services tax because of the sale of prepaid products that may not have had the CST collected on them.

MR. SUGGS: Right now, there's just sales tax?

MADAM CHAIR: Well, the prepaid arrangement statute applies to very narrow product. And the question is whether products are being sold under -- thought they qualified for that definition even though they may be broader than that definition.

MR. McKEE: Next slide, please.

The rest of the conversations of my presentation this morning is going to look at CST local rates. And it's going to provide you some information on the local rates, and then I'm going to provide some maps to look that look at the array of rates around the state.

Just talking for a minute about local CST rates, this is the point where I pull out an old line that I've used many times which they call it the simplified communication services tax because they had to put simple in its name because it was nowhere else in the tax. So when we talk about local rates, they are very complex. First you have maximum rates. For municipalities and chartered counties, those maximum rates are 5.1 percent. For non-chartered counties, they're 1.6 percent. Right away, that gets relaxed because there are add-on rates from the permit fee election. For municipalities and charter counties, that created a swing in the rates of .24 percent. If they chose to forego permit fees, the local government could impose an additional .12, increasing that maximum rate up to 5.22. If they chose to keep permit fees instead and continue to charge permit fees, then their rate got reduced by .12, resulting in a maximum rate of 4.98. For non-chartered counties, it was also a swing of .24, but their rate if they chose to forego permit fees, their maximum rate was increased to 1.84. If they chose to keep permit fees, they got the 1.6 percent rate.

There's also local option sales tax surcharge add-on rates. Because the -- one of the replacement sources was the local option sales tax because the local option sales tax also applied to telecommunication services and cable services. There's a wider rate essentially that takes place. But this rate operates a little bit differently because the way the local option sales tax works is different than the communication services tax. The communications services tax is one that's imposed strictly on an incorporated, unincorporated basis. The city has jurisdiction to tax within the incorporated area. The county has authority to tax but only in the unincorporated area of the county.

The local option sales tax, however, is imposed county wide both within incorporated areas and unincorporated areas at a unform rate and goes back for specific purposes sometimes to the county. Sometimes it's shared with cities, sometimes it's shared with cities and school districts, sometimes it's shared with just school districts. So it had to be treated separately -- kept separate on the collection and then distributed separately. So as such, there's this wide array that goes in place on all jurisdictions within a county any time that the county has imposed a local option sales tax. And that conversion rate can be either zero, if there's no local option adopted, or as high as .9 percent.

Now, there's a conversion for each local government rate. If they have a half percent rate, it was generally around .3 percent. At a 1 percent rate, it was about a .6 percent conversion rate. If there was a penny and half like Leon County has, it was generally .9. But each of these conversion rates was separately calculated for each county depending upon the reported information at the time of calculating these rates. So even a half percent rate may be .3 percent in one county and .4 percent in another county. They go on and off as the local option sales tax gets imposed or expires. And again, it's imposed on top of whatever local rate a local jurisdiction has adopted.

In addition to that, there were the conversion rates and the emergency rates that we talked about earlier. And each of those, the conversion rate, which was the rate that was calculated and put in statute when the CST was enacted so that the local government wouldn't have to take any action to continue to receive revenues, the legislature imposed those rates. But those rates could be in excess of the maximum because the bases were changing from the old bases for the various seven different sources that you heard about earlier, to the new uniform base. Some jurisdictions had bigger bases, which result in lower rates; some have smaller bases. And so as such, the conversion rates could supercede the maximum rate. And in a number of instances, they did.

And finally, the emergency rates could also be imposed by local governments irrespective of the maximum rate. So if it took more for the jurisdiction than the maximum rate allowed to hold them harmless from the change in the revenue streams, those local governments could do that within the emergency rate authority.

So as a consequence, including the discretionary surcharge rates for 400, I believe it's -- we reported 481 rates, but there's actually I think four jurisdictions that cross county boundaries, so I think it's really 477 different jurisdictions that levy 112 different rates. So we have just about, you know, one rate for every four jurisdictions in the state.

Next slide, please.

Looking at the demographics, what I tried to do on this chart was to show you how many jurisdictions and what percent of the state population is within a given range of their local rates. And these include the discretionary surcharge and surtax rates. So between 0 and 1 percent rate, there's about 116,000 people that live in jurisdictions that have rates between 0 and 1 percent, and it's 12 jurisdictions. Between 1 and 2 percent, there's almost 3 million people that live between -- that live in the 34 jurisdictions that have between the 1 and the 2 percent rate. And within that, you'll recognize that that would include a lot of the jurisdictions that are non-chartered counties.

MR. RESNICK: Sorry, just so I understand, this is the total local communication services tax rate.

Do you know if these jurisdictions charge for permit fees?

MR. McKEE: On these, no. We'd have to go back and look at those that charge for permit fees. Some charge for permit fees, some do not. But generally, it's going to be around -- I tried to make the breaks so that if it was just -- probably the 5 percent is a bad break because it would be 4.98 if they were otherwise at a 5.1 and chose to do permit fees. But I think for the 1 to 2 percent, if they didn't have an emergency rate or a conversion rate, you'd expect a non-chartered county to fall between that 1 and 2 percent even if they chose permit fees, because they do 1.84.

MR. RESNICK: Right.

MR. McKEE: So some of the 2 to 3 might be in there because they were a non-chartered county and they had a local option sales tax. So it's very likely that folks that are in the 2 to 3 might be someone who's at a 1.84 rate and has a .6 percent discretionary surcharge conversion rate.

You see between 2 and 3 percent, there's another 560,000 people in 51 jurisdictions that are between 2 and 3 percent. Three to 4, there's about 1.2 million people in 11 jurisdictions that levy in that 3 to 4 percent range. Greater than 4, less than 5, there's another million people in that group in 14 jurisdictions. But by far and away, the biggest group is the 5 to 6 percent, 297 jurisdictions and 12 million people or 65 percent of the population are in that 5 to 6 percent -- greater than 5, less than 6 percent or up to 6 percent grouping. And then the last grouping are those that are greater than 6 percent. That's

700,000 people and that's 62 jurisdictions that are between 6 and the top rate of 7.12.

Now, I've put together a group of graphs for you. This is where if you have it in black and white. Don't even try to make any sense of any of the graphs. But try to color code to give a sense of the array of rates around the state. And you'll see, you know, area wise, most of the state is in unincorporated areas; that's just a reality. And so the map will be dominated by the unincorporated area rate in terms of the color. You'll see the brown areas tend to be the non-chartered counties where they have the rate of two or less. And I think this is on the brown, the tan -- I'm not sure, I'm a typical man, I'm bad with colors. So I couldn't tell you other than brown and the other brown. And the light yellow which I think is only Hamilton as far as the counties in being less than 1 percent.

If you go to the next slide, please.

This slide shows just the municipal rates. And you see with the municipality rates, and we'll have a couple slides in a minute to look at each of the state, you'll see that most of the municipal, there are some that are, you know, of the variant colors, some that are in the brown or the green. But for the most part, it's the five or higher, the royal blue, the purplish color and the orange, reddish color that -- for the state.

Go to the next slide, please.

This shows you the discretionary surcharge. This is just looking at the county surcharge rates. And so you see the variation there. You see that there's a substantial amount of the state that has no local option sales tax. And then you've got other areas of the state that have a sales tax rate that ranges from up to .3 up to .6 or up to .9 in those areas of the state.

Next slide, please.

Now we start focusing on the various areas of the state by region. And I'll apologize to any of the regions of the state if I included things like in the Treasure Coast, if I included a couple more areas than would argue should be in or out. I just tried to break it in six regions which seemed to fit well in the map.

This is the southeast Florida area, looking at the three counties, Palm Beach, Broward, and Miami-Dade. And in these three counties, there's 107 jurisdictions that impose the CST. And you can see from the color coding that for the most part, they're all between the five and six, with a couple a little bit higher and a couple it looks like in the 4 or -- 3 to 4 or 4 to 5 range. But for the most part, these 107 jurisdictions, they're all within a tight range of 5 to 6 percent.

Next slide, please.

This is the southwest area of the state. And in this area of the state, you have much fewer -- many fewer chartered counties. So as a consequence, you see only Sarasota, Charlotte, and Lee County with the rates higher than the 2 to 3 percent range, with most of the area of these counties in 2 to 3 percent. I expect many of the smaller counties actually to have the discretionary surcharge in place. Small counties use a small county surcharge. Many of them 1 percent to help meet their operating needs due to the lack of ad valorem. So I'd expect many of those are in the 2 to 3 are there because of the discretionary surcharge rate.

Next slide, please.

As you get to the Tampa Bay region, you see that there's an array of rates there as well. Pasco being the only non-chartered county in that area. So they're in that 2 to 3 percent range. And then an array of rates for Pinellas with, I think 28 or 30 jurisdictions. Hillsborough which has the three municipalities in the unincorporated area. And then Polk County which has a larger number, I think 12 or 14 cities in Polk.

Next slide, please.

This is where I probably don't have the Treasure Coast right, but as you look at this, you see Osceola and Brevard are both chartered counties. Osceola only has a couple cities, I think Kissimmee and St. Cloud are the only cities in Osceola County. But Brevard does have a number of cities within Brevard County. You see again very tight range of rates in Brevard. But then the non-chartered counties -- Indian River, St. Lucie, Okeechobee, and Martin -- have lower rates than the unincorporated area than most of the city areas having rates that are in that 5 to 6 percent range.

Next slide.

This is the central Florida region. And here you'll see again that charter, non-chartered discrepancy that Orange, Seminole, and Volusia County are all chartered counties and tend to all have the rates five or above with the exception of, I believe, Apopka, which had a rate in the 3 to 4 percent range. And then Lake which has a substantial number of cities, I think again about 14 or 16 cities in Lake County. Sumptner County, Hernando, Citrus, Mary, and Levy all having rates 5 and above within most of the incorporated areas.

Next slide, please.

Looking at the northeast region. Again, sort of this charter, non-charter effect. Alachua County having the rates generally five and above. I'd have to guess what city that was, Hawthorne, would be my guess, but I'm not sure, that's in the three to four range. Clay County, Duval County also both being chartered counties, having the higher rates. And then the lower rates in the unincorporated area. And the higher rates in that, generally again, 5 percent and above in the municipalities. And I think when you look at the maps, one of the things Lisa tells me is it's very irregular. I mean, the municipal boundaries tend to be very irregular. And so from a citizen perspective, whether you're just on one side of the board or the other to face this, you know, fairly substantial rate differences of, you know -- in looking at Putnam County, 5 to 6 percent if you're living in the city of Palatka. And 2 to 3 percent if it were in one of the unincorporated areas. One of the things we're trying to show with the maps.

Next slide, please.

This is our home area in Leon County looing at the big bend region, Leon and Wakulla being the only chartered counties in this region. And then the unincorporated areas, the large unincorporated areas in the non-chartered counties shown by the predominance of the brown and the yellow in those areas. And then the last slide will be the panhandle, all of which are non-chartered counties. And so you see much more of that range in the non-chartered county rate with most of the municipalities looking at the -- at again the five or above rate.

Next slide, please.

And that's the end of my presentation.

MADAM CHAIR: Charlie, you have a question?

MR. DUDLEY: I can't find it, somewhere I thought you said the weighted average was just over 5 percent?

MR. McKEE: No, I think the weighted average, was it just over five or four? Five? Yeah, the weighted average is just over five.

MR. DUDLEY: It just seems counterintuitive when you look at the local rate that's on page -- weighted average adjusted for population or how is it weighted or how is it adjusted?

MR. McKEE: When you take total collections -- total collections divided by total base. So it's aggregate collections divided by the aggregate tax base. And really the page that would be most fair to look at from that is the table back on page 22.

MR. DUDLEY: Right.

MR. McKEE: Yeah. So --

MR. DUDLEY: 22, I'm seeing that 65 -- 64 percent of the population has rates between 5 and 6 percent.

MR. McKEE: And you've got 3 percent, 4 percent that has rates between 6 and 7.12. So you've got, you know, 60 -- 68 percent of the population have a rate above five. Within those, a lot of that's going to depend whether they're at 5.0 or 5.9. I think the maximum -- the weighted is 5.03? 5.04.

MR. BROWN: Charlie, what you may be thinking about for the 5.04, what we did is we looked at the actual amounts, the local amounts that were reported for year 2011 calendar year, and we applied those times the rate and then weighted rates that way and averaged them. So it's actually based on collection that was 5.04.

MR. DUDLEY: And then I think, Gary, you may have asked about permit fees. The Department's local rate chart on their web page, I didn't see four jurisdictions that charge permit fees. If this chart's up-to-date -- unincorporated Collier, unincorporated Hernando, unincorporated Orange -- in the city. So that chart's up to speed; there's only four jurisdictions charging permit fees outside the rate.

MR. McKEE: Yeah.

MR. DUDLEY: Which amazed me because there's 482 jurisdictions and only four for charging permit fees. Just FYI, if that web page is accurate.

MR. McKEE: Yeah. That's one of the things I have in my notes, in order to do the capacity analysis that was requested earlier, we need to find out who made that permit fee election versus who has not. But I don't have that information. My recollection is it was very few jurisdictions that chose to keep permit fees --

MR. DUDLEY: I think there's an annual election on that. I can't remember if it's every year or --

MR. McKEE: The way I recall, and I'd have to go back, Charlie, but I think there was -- it didn't require an annual election, but you could reverse it at some point in time, I think. So you could annually change it, but I don't think you had to annually confirm it if you had already made the choice. But I think just looking at the rates over lunch, it appears that at least one significant jurisdiction, Orange County, may have chosen to keep permit fees. But that's just based upon the rate, their 4.98 rate, so I just have to verify that.

MADAM CHAIR: Other questions on these charts?

MR. RESNICK: Sorry, just the direct-to-home satellite service is just the state rate; there's no local tax on that at all. So the -- would you have -- but that money -- isn't some of that money distributed back to local governments?

MR. McKEE: The direct-to-home satellite, yes. It's a state rate that's imposed of 13.17 percent. It's imposed state-wide. There's a federal preemption on local direct-to-home satellite tax. The state imposes that 13.17. Then as they do with some revenue sources, they share a part of that back with locals. I believe it's 4 percent of the 13.17 percent is shared back with locals and distributed, not as, but by the half cent revenue sharing formula. So, it's not a part -- it's still direct-to-home satellite distribution. And then part of that also goes in funds to fiscally constrained county's program.

MR. RESNICK: Right.

MR. McKEE: So part of it gets distributed back to all cities and counties. A part of it gets distributed into fiscally constrained revenue sharing program and specifically goes to certain eligible small counties.

MR. RESNICK: Because my understanding is that on the 4 percent or whatever that's distributed back to locals, it's not -- counties in south Florida are not getting anything from that. And other -- the revenue -- the fiscally constrained counties are getting more than 4 percent.

MR. McKEE: I think the way it's split is once it's in the -- it's either 66/33 or 60/40, I think, of the total receipts get shared between the -- all local governments and the fiscally constrained counties. I'd have to go back and look at that.

MR. RESNICK: Could you get us information? I mean, maybe you could put one of the maps together that shows which counties get what percentage of that. I don't know if that's too burdensome to do or not, but somebody should have that information because it's distributed at some point, so --

MR. McKEE: We certainly have the distribution information for the fiscally constrained. We should have the information for all jurisdictions, what they receive out of the direct-to-home.

MR. RESNICK: And then just a question earlier with respect to your population numbers of people paying what percentage of communications services tax and -- it doesn't add up to the population of Florida, so do you know how many people are not paying any communication services tax either because they're getting services that are exempt from the tax or, for example, you could get direct-to-home satellite service, internet, and VoIP and not pay any local tax?

MR. McKEE: The population figures were based upon the populations within those jurisdictions. So it should add up to the state. If it didn't, it was an error in composition. So I'd just have to go back and look at that. So this is not from return information. This is from looking at the jurisdictions that charge those rates, what's the state reported population in those jurisdictions. So it should add up to the total state-wide population, if it didn't --

MR. RESNICK: But we wouldn't have any information as to people that are just not paying any tax just because they're not taking taxable services?

MR. McKEE: We wouldn't have -- again, sort of as I talked about this morning, we get indirect information. Tax information comes through those who collect it. So we know information about what's remitted by those folks. And it's a very aggregate level. Because the local component of the CST, we get it for local jurisdiction. So we get something on a local basis with respect to the local distribution. But we don't get any information about how many customers there are actually underlying that return. We get an aggregate number by jurisdiction for the local, by county for the state sales tax portion, by state for the gross receipts.

MADAM CHAIR: Well, Bob, we'll go back and look at that chart and see if we can --

MR. DUDLEY: I'm just thinking about Gary's point, and he makes a good one. That is, I don't know how you would figure out how many households either, A, just don't get anything which is probably very small; B, maybe get just an internet access piece that's exempt. And then over that internet access, they get some sort of over-the-top video or voice service that we don't have jurisdiction over and it doesn't pay anything. Again, probably a small number, but it could be a growing number especially based on certain demographics.

But just to clarify, someone getting VoIP service pays the CST, they just -- exemption for the piece just like you do on any other landline service --

MADAM CHAIR: Well, we wouldn't know who is just using internet access to use Skype or --

MR. DUDLEY: Right.

MS. KITTRICK: Exactly.

MR. McKEE: I think right now when you look at sort of the line charts, it's really because folks can't -- you know, wireless, there's not the same option that there is with landline. Or there is -- table, in your industry it's growing today for folks that have options to go internet only where they may not have had that option, you know, three, four, five years ago. And so when you look long term of the tax bases, wireless right now where there's not that same ability to become internet only because there's still the tower communication, that communication is taking place. Now as they talk about more ubiquitous wifi and phones that swap over automatically if you're in a wifi area to offload the -- you know, the system capacity problem on a local wifi, you know, we start seeing those things -- these issues become much more complex in a tax world where something that otherwise looks identical to the communication service is not a taxable service. So that will continue to be a challenge, both for those in the industry where you're competing with other products for the Department as collectors or, you know, anyone depending upon the revenue as that migration takes place going forward.

MADAM CHAIR: Our next speaker is here --

MR. RESNICK: Sorry. Just to go back and Charlie was getting to this to some extent, but going back to the satellite service, if 20 to 25 or 30 percent of Florida's population is getting satellite service as opposed to cable, I mean, that's a significant percentage of people that are not paying local communication services tax. And if that state tax is not being distributed in an equitable fashion based on where those people live, I'd like to get some information as to that. If there's a way of determining where the people live that are paying the state tax on satellite service versus where it's being distributed to, because that's a significant -- I mean, we're talking 20 to probably 30 percent of the population at this point.

MR. McKEE: Well, satellite's sort of an interesting -- you know, there's sort of -- from an economics standpoint, the market penetration standpoint, one thing is important to remember about satellite is that it doesn't have the last mile issue that cable has with being able to -- having to make that investment for the last mile. And so at least back when the CST was being put in place, there was some expectation that it was going to be those non-chartered counties, those smaller rural areas where you may have a higher penetration of satellite because there it's not just a price competition issue. It's their only access if they don't want to use rabbit ears. So there's -- now that may have changed as we move to, you know -- as everything else has changed in the communication services tax where it's now getting service and you see the ramp up that you saw in the collection numbers for satellite as it became more available and it became more of a competition, the traditional cable, land based -- landline based co-axle system. But I think at least in the early part, there was a lot of expectation that it was those rural areas that would have --

MR. RESNICK: I agree. I mean, it's -- the FCC has data out there that shows what areas are subject to effective competition, and basically all of Florida is subject to effective competition meaning that at least 20 percent of the households in any given jurisdiction in Florida have satellite. So I think it would be useful to know either from a chart perspective or however you could do it, you know, where the people are paying to show what percentages of a county or what population numbers in a given area are paying the tax on satellite service and then where the state is distributing that money back to from the satellite service.

MR. McKEE: We can certainly get numbers on the distribution side, to where it's being distributed to. We can see where we can find from available data on the actual service --

MR. RESNICK: When the direct to satellite providers pay, do they indicate what jurisdiction it's being paid from?

MR. McKEE: No. It's one state-wide return.

MR. RESNICK: It's one state-wide return, so it obviously doesn't show where their customers are located.

MR. McKEE: There may be -- no, there's no local sales tax; it's one rate.

MR. SMITH: We might be able to supply some data.

MR. RESNICK: Right. Yeah. I mean --

MR. McKEE: And there is a distinction. I mean, it's sort of like the Internet Tax Freedom Act. It's important to remember that Florida doesn't have a blank pallet with respect to direct-to-home satellite. There is a federal preemption on local tax --

MR. RESNICK: Right, right, right. I'm not saying that we have discretion of tax and it's just information.

MR. McKEE: I mean, it's important to remember that that is a state tax and then with any state tax, the legislature has discretion in what they choose to do with those state tax dollars.

MADAM CHAIR: So, Bob, if you could maybe get together with Brian, maybe you could work on something that looks at the information that you have on where the customers may be located and what we have on the distributions.

MR. McKEE: Absolutely.

MADAM CHAIR: All right. Our next speaker is here, Amy Baker, who's going to talk to us about communication services tax and --

MS. BAKER: Okay. Good afternoon. We're going to take a slightly different direction with what we're doing here because we're focusing actually in on not communication services as a whole but one particular element of it. If we go to the first slide, what we're showing you here is trying to lead in to the discussion we're going to have. We're showing you on the left-hand side -- I know you all got some of this discussion this morning, the gross receipts tax base. And on the right-hand side, we're showing you the sales tax communications services base. And what we're going to focus on here is just gross receipts because the piece of what we can bond, which is the discussion point for right now with the state, is the gross receipts portion, not the regular sales tax portion.

And you can see, again, probably continuing the discussion you had this morning, we do have a difference in the tax base. Residential is included under gross receipts; it's not included under sales tax. And we're picking up electricity and gas fuels as well. And just to kind of give you an idea of the scale that we're looking at between the two pieces, when we talk about gross receipts as a whole, we're talking about slightly over a billion dollars in collections every year, at least in our '11-12 estimate. And of that, about 40 percent of it is related to the communications services component. So about 418 million. Compare that with the side that's on the sales tax side which is about 974 million roughly, about 2.33 times the size of the gross receipts share.

But if you go to the next slide, we'll start to zero in on why this is the case. This is showing you the gross receipts tax revenues historically in the green, the current year in the yellow, and what our projections are in the orange component. And this is our most current projection, but we will be meeting again this summer to revise it, probably in July.

And what we know so far is that in gross receipts, we're running slightly below estimates since our last forecast. That -- because it does have those extra features, in particularly the electric piece is not necessarily attributable. In this case, it isn't attributable to the fact that we have the communications services supporting it. We've actually been running behind on the electric piece every month until the last month. And we haven't released that data yet. But for May, it looks like we're going to be in better shape. So even though May's on track, we're running below overall. And I expect we would continue to do that.

The growth rates going forward for the current year is negative 3.1 percent. And then we pick up 1.4 percent, 2.8 precent. And then the last year we're showing you there is 3.4 percent. The reason it's picking up is that we anticipate from the economic recovery, which we're already in, that we're going to start to gain some as we go forward.

Mostly that's going to be coming from the electric side of gross receipts, not from the communication services side.

The other thing I would mention to you is we -- we're fortunate to have some new survey results, new data that's come out just in the last week. And we know for the first time now that 69 percent of adults age 65 plus report that they have a cell phone. That's the first time that we've gone over 50 percent for adult cell phone usage. So that big gap that used to exist between gross receipts and sales tax communication services is going to be starting to narrow a little bit as we go forward, as people get rid of landlines. But you're also going to see an older population picking up more and more communication services. Now, just for your information, they're -- mostly for the senior population, particularly 76 plus, they're really using just a very, very basic cell phone. They're not getting the smart phones with all the other pieces.

But overall, because of these features, we think things are going to improve as the economy recovers. But there is a component of this that won't. We do think there's some systemic changes going on, not only from the conversion from landlines to cell phone and other smart technology, but also because even passively, people are becoming more and more energy efficient. So even if they don't make a conscious decision to become very energy efficient in their life style, just by the light bulbs they buy, by the fact that they're buying appliances that are efficient, technology, computers are more efficient in terms of their energy usage. On the energy side, I think we're going to continue to seek downward pressure on that piece.

If we go to the next slide, we're starting to look at some of the bonding attributes that come from gross receipts. Generally -- broader than gross receipts, but generally speaking, Section 11 of Article VII of the Florida Constitution authorizes the state to issue general obligation bonds or revenue bonds to finance or refinance fixed capital outlay projects authorized by law, usually through an appropriation. The general obligation bonds are secured by the full faith and credit to the state and pay -- passes. The revenue bonds are payable solely from the specified revenues. There is a big difference in terms of the costs of the state on whether you have a general obligation bond or a revenue bond. Full faith and credit is considered to be less risky because basically it's saying the state will pay it no matter what. Whatever we have to do, we will pay it and therefore it's less costly to the state. You're not paying for that extra element of risk.

The Florida Constitution requires that the legislature appropriate monies sufficient to pay debt service on all bonds pledging the full faith and credit to the state. All state tax revenues, other than trust funds that are constitutionally set aside, would be available for such appropriation if it's required.

Now there is a feature, PECO is an education related bond. There is a special feature of education related bonds that we don't have in a lot of other areas. And that's because the state is responsible for the liability. We've undertaken the debt, but we do not have the asset on our books. So when we do state accounting, the buildings that we purchased, the different outfitted laboratories, things like that, are not included as an assert of the state. It's attributed back to the local school district, the state college, the state university, and they get the credit for owning that asset. But we show in our state financial statements the financial cost of it is we pick up the requirement to meet the debt payment. So that's kind of an unusual feature that you don't see in a lot of state bonding.

But bringing it home, the public education bonds are used to finance capital outlay projects. As we said, local school districts, community colleges, which we now call state colleges, vocational technical schools and state university. The bonds serial and term are pledged -- are secured by a pledge of the full faith and credit of the state.

So if we move to the next slide.

Zeroing in on those PECO bonds, we have specific authorization to bond gross receipts in our state constitution. And it specifically says all of the proceeds of the revenues derived from the gross receipts taxes collected from every person shall, as collected, be placed in the trust fund to be known as the Public Educational Capital Outlay and Debt Service trust fund which you would more commonly know as PECO. And PECO is administered by the state board of education, but it's mostly, in terms of the bond issuance, handled by the Division of Bond Finance. So it's really a cooperative relationship, although, the state board has to give the final say. And the state bonds pledging the full faith and credit of the state may be issued without a vote of the electors. So every year it's a decision that the legislature makes on how much they intend to be bonded, if the capacity is available to do that.

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Relative to some other areas of the constitution, there's a great deal of detail in the constitution regarding these PECO bonds. It first says that all such bonds shall mature not later than 30 years after the date of issuance. It also creates a capacity test that says no such bonds shall ever be issued in the amount exceeding 90 percent of the amount which the state board determines can be serviced by the revenues. So that's a constraint on how much we can actually issue that's in the constitution. And then it goes on for direct payment of the costs or any part of the costs of any capital outlay project of the state system therefore authorized by the legislature or the purchase or redemption of outstanding bonds in accordance with the provisions of the proceedings which authorize issuance of such bonds. This is refinancing. And it can be used for the purpose of maintaining, restoring, or repairing existing public education facilities.

And if we go on to the next slide.

Here we're starting to look at what is the costs when we issue these bonds. And in terms of the appropriation, we refer to it as a debt service payment that we have. So what we're showing in the graph across the bottom is annual debt service payments that we face every year from all the outstanding bonds that we have. And the red bar -- the red line across the top is showing you in reality what did that end up as a percent of the collections that we had in gross receipts. And remember, we just said the constitution said that you couldn't issue it in more than 90 percent in terms of all payments for bonds and new bonds, that it couldn't be more than 90 percent of the revenue stream. And those were in the current year, '11-12, we're at 94.6 percent. That occurred because that is an analysis made prior to the sale of the bonds. And reality is that we have continued to drop the gross receipts forecast all along over the last couple of periods that we've looked at this. And so that's put us in a place where we're actually paying 94.6 percent of the revenue stream on debt service.

Each PECO bond sale obligates a portion of the gross receipts tax collection stream into the future. So you're pledging your future gross receipt collections against this liability that you have. That means for us to continue to issue these bonds, you have to have growth in the gross receipt stream or you cannot do it. And that's the situation we're in now. Our growth -- we've actually been declining, and we have fairly low growth in the immediate future; so we're at a position where we're not really able to issue any PECO bonds at this point in time because that growth is not there to sustain it. The legislature typically -- and this is not always true, we're actually kind of in a different period now, but typically the legislature would -- everything that's available that could be bonded, they would appropriate for bonding. They fully go right up to that level. The governor, Governor Scott, has had some different thoughts about that and wants to kind of slow down bonding in general. So we've been a little bit slower but really dovetailed with the fact that we're bumped up against the capacity level.

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I'll tell you what this is. It looks kind of complicated out there. This is trying to make two points. The line that you see that's smooth is actually the revenue stream, but it's put through the capacity test. So it's not -- it's 24-month average times 90 percent. But that's our revenue stream. And then the bar that's kind of real jagged that's going up and down is showing you what our existing debt service is. And if you look at that, you can see in 1-12 and also in '12-13, our revenue stream that is available for us to bond has actually dipped below what our debt service requirements could be. And that means that we can't issue any more bonds. That's making the same point we were just talking about.

But you can see as we move ahead to '13-14, '14-15 that capacity is starting to open up again. And that's largely because we do have a little bit of growth in the gross receipts forecast. But more importantly, we have several different bond series for '12-13 that are going to be paid off. And so as they're paid off, you're freeing capacity as well.

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This is showing you the different uses of the gross receipts tax. And the purple or reddish color, it's showing you we're calling old debt that's already been issued or bonds that have already been let. Then the bigger, the second bar that's kind of a blue color is showing you what's available in cash each year. And that cash can come from a couple different sources. And then the yellow bar that you see in kind of the middle of that graph is related to new debt, how much new debt was available in that particular year. And you can see in the '11-12, '12-13, new debt is not even on the table. So it's all paying for old debt and a little bit of cash that's available to us.

So the total PECO estimate, when we estimate the result of the gross receipts forecast, lets us know two kinds of funds -- bond proceeds, what we can bond, and cash proceeds, what would be available as cash. And in the past, most of the new funding for PECO has come from bonding. At this point, it's really only cash.

And if we go to the next slide.

This is showing you the mechanism that we go through to turn a gross receipts tax into a PECO appropriations. And this all starts with the gross receipts collections, but then it's pretty much on two tracks after that. The first part of our calculation is down the left-hand side, those yellow boxes. And that's working with the bond process first. The residual, after you deal with that calculation, becomes cash. So that's why we do this piece first.

We take the average of the prior two years in collections and gross receipts, we apply the coverage test of 90 percent to establish the maximum debt service that we can undertake and sustain. We subtract everything that has already been issued, the debt services on the old bonds, and then whatever is left becomes the unpledged annual debt service that's available for new bonds. That's a piece we've been missing recently. And then we calculate how much you get from those new bonds.

Knowing that, then we're able to figure how much is left over in cash, if anything. We look at how much there was subtracting out all the costs for the bonds and any new bonds that could be issued. And then what's available -- if there's a remainder, what's available is the remainder that can be used as a cash payment. So that's effectively how we get to this forecast.

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We're focusing here on the expenditure portion. We're showing you how much is coming from new bonds versus cash that comes out of that calculation we just talked about. But we're also showing you cash from other sources. If for some reason, from time to time, the legislature has decided either for the stimulus reasons or for a particular need, if they don't feel that the PECO appropriation coming from gross receipts is significant enough to take care of the needs they've identified, they will clunk in cash from other sources. So general revenue is frequently turned to supplement it. Occasionally we've turned to other sources altogether. One point we used doc stamps for a couple years to supplement it. So the appropriation at the end of the day is typically a little bit more than what you would see just coming out of the gross receipts portion of it.

Today, the PECO program, just from the bonding side of it, is the state's largest bond program.

We have about 11.3 billion in outstanding debt, which is 40.8 percent of total direct debt of the state that's outstanding. So it's grown quite a bit over the last ten years or so, but we are kind of of at the natural path right now.

And if we go to the next slide.

I think you all had a presentation on this earlier in what Bob ended up talking to you about. But I just wanted to bring this back home. Because the gross receipt tax has been under so much stress, one of the things the legislature did during the 2010 session was actually move part of the tax base from the sales portion of the communications services into the gross receipts portion so we could take advantage of that constitutional ability to bond. So we plunked some money into gross receipts by pulling it out of the sales tax side. For the current year, it's about just slightly under 20 million in terms of the effect of what we did. We shifted about 19.8 million out of the state sales tax on communications services and moved it over into gross receipts.

This was an option that was on the table again this year and discussed further about whether to do that again with another component of this. So that's a common solution to try to open up a little bit more money to bonding. At the end of the day, we did not do that, we actually turned to another revenue source, the lottery and authorized a little bit of lottery bonding. But this is just kind of a snapshot of the gross receipts portion of your discussion and what it means to PECO. But you can see it's under a lot of stress right now in terms of what's available as we move forward.

MADAM CHAIR: Thank you. Any questions for Amy?

MS. KITTRICK: Maybe you mentioned this, but you said that PECO has grown -- bonding has grown tremendously in the last ten years.

Can you give me some -- about how much? How much did it increase?

MS. BAKER: I would have to get you the numbers. It's pretty dramatic when you compare it to the state's other bonding programs.

MS. KITTRICK: Is that as a result of the CST, you know, going towards --

MS. BAKER: We did really well with gross receipts during the housing boom. You know, as population grew, as more homes, more need for electricity, again, was really communication services side, but that was a piece of it, too. And as it grew, it opened up more and more bond capacity and they, for a variety of reasons -- classroom, group size reduction, and other things like that -- they maximized everything that was available to them under the new bonding. But we can get you the number by year.

MS. KITTRICK: That would be great. Thank you.

MADAM CHAIR: Amy, a couple of your charts look like they indicate that we have exceeded our capacity at least by the 90 percent requirement.

Is that constitutional requirement just of the time that we're looking at the bond issuance? And so even if it fluctuates over time, it may not be meeting that 90 percent on a year-to-year basis based on bonds that have already been issues, that's okay, the state doesn't have to do anything to refuse the gross receipts fund, the PECO fund to match that?

MS. BAKER: Yes, that's exactly right. The test is applied at the point of issuance. And as long as you make it at that point, then you're fine. You don't have any obligation under -- then it's full faith and credit, so if it got too out of whack over hundred percent, you'd have to address it. But I would -- it does have an effect over time. And bond houses are very, very aware of what's happening with the gross receipts forecasts. They watch that. You know, it would be a factor in their rating if they thought it was uncertain going forward. So it does have an effect. It's not necessarily on the bonds test itself but in how it colors their view of the state as we go forward.

MADAM CHAIR: The charts -- a lot of your charts go out to like fiscal '16-17, the population growth rates are pretty -- level's not right word, but they don't really take off again until much past that point; is that correct? And then a lot of the estimate in terms of gross receipt taxes is population based?

MS. BAKER: We actually -- and maybe because we were influenced a lot by what happened during the housing boom. We actually have, overall gross receipts, growing more quickly than population. And that has to do with, you know, people are buying more and more technology for their houses. We had a lot of housing being formed, big houses being formed and issues like that.

The communications services side of it is flatter. If you compare the overall gross receipts rate and communication services, it's about -- as you get out there, about a point different. Our population growth, we think, is going to return to about 1.1 percent and then stabilize. And I think a very good question in future forecast is, you know, whether we really believe that you're going to have a gross receipts forecast that can hit 3 percent, 4 percent when you have a population forecast that's going to be about 1.1 percent. And as you said, we're not even back to that.

Climbing out of the hole, you know, if you think about people during the Great Recession made the decision to be as cautious in their purchases. They gave up cell phones, gave up services, cut down on their electric usage, that piece of it can return fairly quickly as the economy improves and that will boost your growth rates temporarily because you're coming from a very low point. So because you're so low, just to return to normal -- good growth rates. But over the very long term five years, ten years from now, it's probably a real question on whether you -- how much you can outpace population growth.

MADAM CHAIR: Any more questions? Davin?

MR. SUGGS: In the recent past, have there been any other legislative -- other than the rate swap between the state CST and the gross receipts, any other legislative manipulation of the components of gross receipts? Like other rates on, I guess, electricity or --

MS. BAKER: In terms of resolving this particular problem, really the only two solutions put on the table this year -- well, I guess you could say three in one respect. The only two main legislative solutions were the rate swap, to do that again. The second one was we still have a lot of room under the lottery, you know, how much you turn to the lottery. Now those aren't full faith in credit general obligation bonds. They're revenue bonds. So they're not as good financially for the state as issuing gross receipts tax based bonds. But there has been also some discussion of using general revenue or some other resource that the state can kind of just backfill temporarily until things -- till capacity opens back up again which would be not legislation but just a straight appropriation on that side. But, I mean, as you know, things are pretty tight. So using that as a solution is difficult.

MR. DUDLEY: So that was going to be my question. So the legislation does have the ability to go in to a certain service or good that's paying sales tax and assign a percentage of those revenues to the PECO fund in order to increase capacity?

MS. BAKER: On the communication services side, yeah. We can do more of that swapping that we did --

MR. DUDLEY: I'm not talking about a swap. I'm talking about if you had another service that's paying sales tax and you steal half of the sales tax revenue from there under 212 and apply it, or does the Constitution prohibit that?

MS. BAKER: It doesn't -- I mean, revenue bonds are allowable under certain circumstances. But how you can do that is a more painful process in terms of the steps you have to go through. And it's a more costly process to the state, so -- and frankly, you know, the big revenue bond we have as a state is doc stamp. And obviously if you do anything with doc stamp, you're reducing what's going in the general revenue in most cases.

MR. DUDLEY: But if they're willing to make the GR ahead, could they supplement the PECO fund with others for sales tax for certain services and dedicate it to PECO or --

MS. BAKER: You cannot turn it into gross receipts.

MR. DUDLEY: Right. You can turn it --

MS. BAKER: So you don't have the full faith in credit.

MR. DUDLEY: So you -- bonds and expenses because they're not -- I got you. Okay. Thanks.

MADAM CHAIR: Davin.

MR. SUGGS: On that same line, like if we go back to like your first chart, the taxable items, the CST is about 40 percent of the gross receipts. If you do -- I mean, not you. The legislators have the ability to say, listen, I'm going to increase the rate of electricity and decrease the GR rate, gross receipts rate on the CST portion.

MS. BAKER: Uh-huh.

MR. SUGGS: They don't have to go -- they can do that statutorily.

MS. BAKER: As long as you're staying in pure gross receipts, things that are being collected under the gross receipts umbrella, you have a lot of flexibility within that. I mean, you could increase collections by changing the rate, changing the tax base, you know, a number of things. They have to take an extra step. This isn't a killer. We actually had to do that when we looked at doing the rate swap because our portion of the test is backwards looking on the revenue stream. They have to address that issue that whatever change they make proactively going forward, that the test also has to be applied backwards as though it had happened in the prior two years.

We did that when we did the rate swap. And the bond houses were fine with that. They didn't raise any objections. We've also done that issue, we had a refund issue where we basically said refunds -- significant refunds aren't a part of -- should be treated as though they're not a part of the revenue stream. And they were fine with that. But you would always worry about how far you could carry that that they would be okay with.

MR. SUGGS: On that same line, you use the term underneath the gross receipts umbrella.

Statutorily would they have the power to say -- say you have four -- four items, they just take one off the table or take gross receipts, CST off the table and replace it with something else or applied gross receipts somewhere else and take CST outside of that? If it met the test, I mean, do they have the power statutorily to look at that to say, relieve pressure off of CST and just not apply gross receipts?

MS. BAKER: You could as long as you overall, you were --

MR. SUGGS: Replace the --

MS. BAKER: Yeah. Because we're so close. We were approaching 95 percent in reality. And if we cut, for example, gross receipts forecast, again, we're getting real close to not having any capacity of -- at all for a long time rather. Right now we're looking for a couple of years. But you wouldn't want to change the stream so much that you're raising the issue of whether you've harmed your ability to make debt service payments in the future.

Any other questions for Amy? Okay. Thank you.

All right. Take a break? Yeah, it's almost 20 after. Let's go ahead and take a break till 3:30. About a 15-minute break if that's okay with everybody.

(Brief recess.)

MADAM CHAIR: It's 3:30, so we can get back started.

Similar to the topic that we had before the break, looking at the state's bonding capacity with respect to the communication services tax and as Amy pointed out, more generally the gross receipts tax. But for our purposes looking at the communication services tax, we're also charged with looking at local government bonding of communication services tax revenue. We did reach out and conducted some preliminary research on this issue. But our staff was not available to locate any central source of information that tells us what the local government bonding of the CST revenues at the local government might be.

Andrea, do you have any information on that you want to talk a little bit about? Davin?

MR. SUGGS: At the counties in terms of what the counties do, we're probably a week and a half away. We're going through our second cycle -- but -- every county -- and we got to -- we're pretty close in our second one to get that --

MADAM CHAIR: Okay. Would that just be for county purposes?

MR. SUGGS: Yeah. We just reach out to counties.

MADAM CHAIR: And so we still wouldn't have information municipalities. Sharon?

MS. FOX: I've been in touch with Florida League and with their help, we'd like to contact the finance offices through the FTFOA and see if we can compile some information for you. I've not yet made that outreach. We wanted to make sure that was an appropriate avenue in your mind.

MADAM CHAIR: Okay. Does anybody else have any other thoughts on how we might gather that information? I mean, I think that's probably a good avenue.

MR. RESNICK: Just a question. I agree with what Sharon said, that we can ask through the League of Cities to reach out to the city finance officers. But is there a state association of banks or banking institutions? I mean, my city, for example, went out for -- pledged our communication services tax for a loan. You know, we had bids by several banks. I'm sure the banks would have knowledge as to which local governments are pledging communication services tax as support for loans.

MADAM CHAIR: We reached out to the SBA, I guess, thinking that they might have some information.

MS. MORELAND: We reached out to the bond -- they do have some information about -- they do have some information on pledging the communication services tax, but they weren't -- we weren't sure that it was comprehensive of all the information that was in that database. So there is some information that's available, but we felt that probably we wanted to make sure that we captured everything we might need to do something where we send a letter to the appropriate contact people and municipalities to make sure we got the data directly from the cities and municipalities so we could ask them for the specific information that we're looking for.

MADAM CHAIR: So it sounds like Davin, from your standpoint, from the counties, we'll have fairly good information on 67 counties. And Sharon, if we can help you follow up, we're happy to do the administrative side of preparing letters or however you think we should reach out to try to gather that additional information. I think that's probably what's going to be necessary in order to collect as much data as we can.

Any other thoughts on that issue?

The next item on our agenda is, you know, given that we've heard these presentations this morning and a number of you were selected because of your history with this tax and have been involved over the years with various issues, just kind of wanted to talk about what issues you would like to see us delve into and review other than those additional research items that we talked about today. What particular issues with respect to this tax would you like to see us plan for future meetings and discussions on. And probably the easiest way might just be to start down at the right end of the table with Brian. I'm sorry if I'm catching you by surprise.

MR. SMITH: No, that's okay.

MADAM CHAIR: But if we can just start down at the end and work our way this direction.

MR. SMITH: So I went through a lot of the data that was supplied to us in the packet from the various states and the rates and the different types of taxes that it applies to. And I think there's this general theme. This isn't any new cutting-edge thinking, but you're going to have a higher level of success if you simplify the administration process over the counties. And so we can probably discuss, you know, rates for a year and probably still end up with a rate that's maybe at a local level that's somewhere in the five to six range. So, I think the -- you know, we should be striving towards arriving at as many common rates, common administration, common procedures for the State of Florida because then you're going to end up with a higher level of compliance by the companies.

And as far as, you know, administration of it from a company's perspective, you know, it's just -- if you simplify it, you're going to get a higher level of compliance than fighting with the jurisdictional boundaries. You shouldn't -- we can all figure out where our customers are at, you know. It's just how accurate does it need to be. So, we have to have a threshold -- I think for success. There's got to be a threshold agreement on situsing customers. If you can get to a uniform rate or simplified rates, you're going to have a higher level of success.

And when you look kind of nation-wide, that's what streamline sales tax tried to do. But they got so bogged down in the details that it's not that streamlined anymore. And so the more we can streamline it, I think the more effective we can be.

MADAM CHAIR: Okay. So I think I hear from you that you would like us in future meetings to look at, you know, is there any opportunity to streamline or come up with common rates or somehow simplify the rate structure and look at any kind of administrative or procedural differences that we can streamline --

MR. SMITH: Yeah.

MADAM CHAIR: -- come up with more common procedures?

Okay. Mayor, your thoughts.

MR. RESNICK: There was a lot of discussion in some of the presentations about areas in which Florida is preempted by Florida law from imposing a tax or changing a tax structure. I think I'd like to get more information as to the specific federal preemptions that may apply as to what parameters the legislature could look at and what we could try and look at.

And then also with respect to technologies, I mean, there was a list of various services in the presentations that are taxed and what taxes are subject to various technologies. But I think we need -- what people understand is -- as a particular service, you know, in 2000 when this was first enacted versus now versus what it will mean in the future are different. So I think we need some definitions or understandings as to what these technologies actually mean. So if we can have some explanation as to what technologies fall within various services that are not subject to the tax.

Okay. I think if I captured this correctly, you're interested in looking at the federal preemptions and having a better understanding of how that may limit or not limit Florida's statutes in terms of --

MR. RESNICK: Right.

MADAM CHAIR: -- preemptions. And then also looking at how various technologies may be taxed differently under the communications services tax and really try and understand better what are those differences and why the variances in how they're taxed.

MR. RESNICK: Right. Because the idea now is looking at what taxes people pay for services that they're obtaining. If the services are ubiquitous to the consumer meaning that they don't care whether they're getting their video via cable or via direct-to-home satellite or via internet or whatever, it would be good to know -- and they are equivalent services for the most part, but some services are or are not subject to the tax based on the technology or federal definition or something. It would be good to know --

MADAM CHAIR: Okay.

MR. RESNICK: And there's been no discussion at all about satellite radio service. And I don't know if that's subject to the tax or not.

And then just something that I think -- I don't know if it's appropriate for presentations, but if there's any principles that we should adhere to as we're going about our work, you know, if the idea is that we cannot do anything to endanger cross receipts tax because that would endanger Florida's bonding capability or we cannot do anything to endanger local revenues from the communications services taxes, that would endanger local government's ability to go out and pay debts or it's already pledged for debts, I'd like to have a discussion as to the general principles that we would operate under.

MADAM CHAIR: Okay. Sharon.

MS. FOX: As most of you know, I was involved in the initial CST formulation. And part of the appeal for the simplified tax, as we see it now, was to broaden the base so that we could lower the rates and provide some stability as technology's changed. And we see now that technology continues to change. My concern is that the technology usage is going to be more focused towards maybe internet provision. I don't understand all of the technology, but when I read about it in the news articles, they talk about 4G and voice being transferred to internet in order to ease some traffic issues with regard to the transmission systems. And that concerns me because voice is a very large piece of our revenues based on what I see.

So in order to continue to stabilize those revenues, which are a very large piece of city revenues, I'd like to explore, as Gary said, what is taxable that we could perhaps broaden the base. I know that there are some that are very concerned about the rates. And if we can broaden the base, we can lower the rates as happened in the first iteration of the CST. And as that kind of flows to the bonding protection because in one way or another, I suspect that the most local governments use CST to back up their bonds. So those are my critical issues, I think.

MADAM CHAIR: Okay. I captured that as you want to explore how technology -- shifting these services between various technologies may affect future revenue streams as we may see things move from what traditionally we know is subject to communication services tax to maybe some more internet based services. And you also want to explore how we might broaden or how we might suggest that the taxable base be broadened in order to lower the rates and bring some additional stability like we did when we went through the first round of the simplification.

MS. FOX: That's correct. The language that was used in the original statutes was intended to be very broad. And we talked about no matter what methodology that these services were delivered or provided, that either now or into the future that they would be covered. And that isn't necessarily how it's panning out to be. So I want to look into that a little bit more in depth.

MADAM CHAIR: Alan, your thoughts.

MR. ROSENZWEIG: Yeah, the one thing I saw today, and I don't have enough knowledge of this whole discussion about prepaid. I mean, Bob had a whole separate slide on it that appears there's something there that we're missing. I don't have an understanding of that. I think -- discussion -- system, is that opportunity there that we're all missing. And if it's becoming a bigger part of it, that would be worth delving into.

But my other comment is on the agenda item three at item F, and that's where my focus is always going to be as all these options come back. The very last sentence there says without unduly reducing revenue for local governments. So I'm always going to be cautious when we talk about streamlining administrative processes and things of that nature, that a fiscal analysis comes with it that ensures overall that we're not hurting local governments with things that we do here.

MADAM CHAIR: So I have as a topic you want to delve into more directly is the prepaid issue, but then sort of with respect to all the issues we look at, making sure that we consider that fiscal analysis and how that may be affecting local government revenues.

MR. ROSENZWEIG: Absolutely.

MADAM CHAIR: Davin.

MR. SUGGS: I have three things. First, prepaid, we get a good, like Alan said, sort of a separate presentation of prepaid. For example, specifically when French provided survey results from other states that may collect something on prepaid, but the question for me is who -- the retail establishment or -- partner members who's backing the prepaid. Because in my conversations before in this state, that's where it's going to come down to, who's going to remit on a prepaid device or -- so as we continue to talk about prepaid, if we can include that in our discussion. Now that, I think, that's where it's going to fall down if we --

Two and three sort of dealing with F. But I think for the government, local government folks and dealing with F, letter F in our mission. And this is sort of what Sharon said, too, but it would -- where there's a -- by part, but sort of a presentation from the industry and different components in terms of current state of their economic competition within the State of Florida, national trends in terms of knowing how our current law applies and affects them but also future trends, especially technology-wise. Because I think we would miss the mark if we wrote a law or proposed policy that addressed technology today and not where technology is going. But I think that would be beneficial so we can get a -- and I'll give you an example. When you hear like cable industry and however it affects them in terms of the competition with say a pay per view or a movie service, I think those are all treated the same. So those are the types of things I think we need to hear as we consider recommendations. So, some type of presentation or update from the industry of what's going on in the industry in the State of Florida, how current law affects them and what technology trends are upcoming that we need to contemplate --

And then third, based on -- I know the data that DOR has and also that Amy's shop has over at -- if they can present to the board local government trends, especially like when you look at our major revenues, because this will come into play. As we look at this revenue source, I don't want us to look at it in a vacuum without knowledge of what else is going on with local government. At least six valid items affect other revenue sources. Trends in the past in this same time period if we had to -- major sources of local government revenue, whether it would be on local source or state shared, I would like the board to have that information because that will -- if we start talking about administrative -- I mean, it's clear to everybody we could use administrative burdens and also the goal of some of the purposes of local government respond to local needs. That's why there has been some need or you always hear from us desire for a local control -- so, as we consider changing that, I'd like everybody to have the same sort of base information of what's been happening --

MADAM CHAIR: So what I heard is you also want to look at the prepaid issue, but you want to include in that really looking at the administrative issues related to once we understand how that works or how it should work under the statues, what are some of those administrative burdens depending on who's responsible for the collection -- of that tax.

Your second issue is you would like us to reach out to the industry to try and get some presentation, one or more presentations, on how is our law on communications services tax affecting them in terms of the competition between types of -- you know, different types of providers. But how could we make it easier and what are some of the future trends that they see. Maybe add to that if other states they -- if they see that other states have done things in a way that they think is positive for the industry. And then the third issue is to expand our knowledge on whether or not government revenue sources, so that we're not just looking at communication services tax in isolation, that we are looking at what's happening with other trends in terms of local government revenue sources both local sources and shared sources from the state.

MR. SUGGS: And then on the last one if -- like you did today for CST, but I don't know if -- just if you can include legislative changes or statutory changes. Maybe there are changes that have affected -- when you do that -- legislation --

MADAM CHAIR: Okay. We may be reaching out to some of you or representatives of the government for some help on pulling that all together.

Okay. Gary.

MR. LINDSEY: Yes. I'll list mine -- I'll try to list them in relation to our mission statement.

With regard to the first one about reviewing policies, I think it would be good for us to have a presentation or get some information on what is now tax policy for administering a tax. There's some pretty good information out there about, you know, just kind of a refresher course, but I think that will give us a good baseline. And also what constitutes good tax base as far as being equitable. That kind of addresses the fairness issue, too. So there's a lot of good tax policy things that I think we might look at to use as kind of a reference as we talk through issues about the CST.

With regard to B, I think we have already put in some requests when the presentation was being made about the revenue impacts about getting some more information to maybe revisit or be sure that we fully understand some of the assumptions that were made. And I think that also relates to the federal preemption. Be sure that we understand the basis for how that might have been interpreted to come up with those revenue impacts.

With regard to C, I think we've talked -- this was addressed, I know we commented on this earlier about just revisiting or looking at any alternatives or other ways to help with PECO funding. I think that was mentioned, so I think we can bring that up.

I'll kind of jump over to E. As far as looking at options for streamlining, you know, we've already gotten or made mention of streamline definitions and I know Florida's not a streamline state. But some states actually borrow streamline language and incorporate it because it makes sense. It's been pretty well researched. And, for example, there are many things where some of the concepts and descriptions of technology are updated. I think one of the issues with the prepaid issue is that there's an antiquated definition out there that seems to provide an opportunity for revenue. But I think what we want to look at, is that the right definition of prepaid from the perspective of what is prepaid. So I think looking at streamline may be considering suggesting language or studying; that would be something else that I would like to do.

And then something else related to fairness and looking at competitive advantages in -- there's already been some discussion about the technological changes that have occurred, what might be out there in the future. You know, these taxes -- the tax made a lot of sense back when everybody had a -- telephone in the house that received a monthly bill. In year 2000, we thought we had made some -- and we did, made some significant steps to look at conversions and bringing things together.

And as Charlie mentioned earlier, it's good to look at it periodically. But I think there's going to be things out there that we can't even imagine are out there. You know, right now someone has a tablet, they're sitting with wifi. Maybe in the future, they'll be talking on that. Who knows. We don't know how that -- you know, how's that revenue stream work? So that kind of goes to might we also take a look at is CST still an appropriate base? Is that still an appropriate -- you know, we want to kind of revisit whether that's the right thing to be out there in fairness to taxpayers as well as to the technological changes that are occurring.

That's my input.

MADAM CHAIR: Okay. So what I heard is you'd like us to maybe come back in with some refresher on what sort of all those basic -- and sound tax policy and the fair tax base. So maybe we might look at CST against that criteria to see if it's hitting all the right spots.

Throughout the conversation today, you had some questions about some of the revenue impacts that we saw and getting some information on that. Revisiting and looking at better alternatives, options for streamlining, maybe even some model legislation. I don't know if it exists in this area, but a lot of times there is legislation that is imposed on various tax issues.

And then finally digging a little deeper into the fairness and competitive advantages based on how technology is changing and might actually be growing, how -- the whole parameters of the communications services tax and whether that really is going to work going forward in terms of fairness. And the technology's changing so rapidly that it may be working itself out of that kind of definition.

Did I capture that?

MR. LINDSEY: Yes.

MADAM CHAIR: Kathleen.

MS. KITTRICK: I don't know if it's good or bad to be last on the list here because I think everybody's captured a lot of what I wanted to say.

You know, I think that one of the things that we haven't specifically addressed is the issue of nexus and how the issue of nexus may play into what is taxable under the CST or taxable under the sales tax going forward. And with changes in technology and the over-the-top providers, you know, offering a lot of content, they may or may not be operating in the state; they may or may not have nexus. So I think that may be something that we want to look a little bit at when we're talking about the broadening the base.

You know, I think a rate reduction, getting the rate disparity fixed so it's a little bit at least closer to the sales tax I think would be very helpful in creating, you know, some good policies that -- ideally I'd love to have the same rate; then we wouldn't have all the debate about what is CST and what is sales tax, but that's probably a little pie in the sky. But ideally, that's what I'd love to see.

I just really wanted to thank the staff. I've done a lot of these sort of tax study groups with a number of states, and I have never seen this kind of staff work prior to the first meeting that I've seen in Florida. This is just amazing. I'm very much in awe, so I just had to say that. Thank you very much.

MADAM CHAIR: Phenomenal staff department.

MS. KITTRICK: I know how much work has already gone into it. That's great.

MADAM CHAIR: At lunch break, they were already bringing things to me that we had requested earlier. I said, whoa, hold on. So after reviewing it, they wanted --

MS. KITTRICK: Excellent.

MADAM CHAIR: So I have -- looking at the nexus issue, especially as we broaden the base and the possibility other types of providers or services and how that issue might weigh into that especially given that things happen so much more globally now than locally. The rate disparity issue that you mentioned before was also the second issue.

MS. KITTRICK: Right.

MADAM CHAIR: Charlie.

MR. DUDLEY: By the way, I echo those comments. But this is great because really the last couple of points that Gary and Kathleen made are the same ones that Sharon was making, that is CST was designed to be -- to capture everything now and in the future. It was designed -- still in there, Sharon, the language you were looking for, it's still in the definition of communication services. It's still in the legislative intent that we're trying to not have tax be a differential when customers are making decision as to substitute products and services. I think that while it may be pie in the sky to talk the disparity, really, we need to help the legislature.

I think Gary or someone talked about the principles. I mean, I think that ought to be something to be considered and that is that, you know, when you look at the nexus issues that are out there, we're actually almost saying if you invest in Florida with technology and infrastructure and employ a lot of people, we're going to really tax you a lot higher than someone who's just coming in and riding your investment and using your employees in order to get to that customer. And there's some of that we just can't do anything about, but I think this interaction of this nexus issue that -- and the comparison is to the sales tax debate that's going on with the retailers and the legislature over online transactions.

I think we need to kind of take a look legally at what kind of nexus challenges do we face in CST to Sharon's point with the future technology services that we can't predict. All we can try and do is come in here every couple years and try and see where this tax is and where it needs to be in terms of fairness. So I just kind of build on those two.

The concept of what nexus do we have that the statute needs to be updated to take advantage of, some of which we are not going to be able to get to. And I think your staff may be going through the -- some of the opinions that have been issued over the last, you know, six or seven years, because you can go to the tax library. But we can maybe find some way of putting together a short document that just kind of bullet points the different things that have been asked of the Department and the Department's answer without -- you know, you can always reference back to the website if people want to actually read the full letter opinion or the advisor opinion. But taking a look at -- because some people that are work group members and others may not be even familiar with some of the many questions that have been asked and answers the Department's giving over the years. I think that may be helpful to have something on that or at least a link so people know how to get to it.

I guess in the area of prepaid, we've heard a lot about that today. I think that we're going to need a presentation from the experts in that area -- what is the right definition of prepaid? I think there's statutory definitions. There's a lot of marketing distinctions that I've seen out there between what one company calls prepaid versus what another calls prepaid. So I think it would be good to understand what's legal status and what are the plans that are being offered. And I think you need to have retailers in. We had that discussion. I know a previous version of the bill had a position on the work for retailers, but I think we're going to need them to participate in that discussion. Because at the end of the day, there's some practical issues about prepaid and how and why you should tax them and at what rate and at what level. So I think that's going to have to be on our prepaid list.

Two other things that have been kind of on my mind that I just don't know the answer to, I guess, one falls on Bob's plate and that is what is the -- what's the state or what are people losing with residential exemptions that's currently in the statute. I think we all agree it's a dinosaur. It's a relative Florida tax policy where residential utility services were exempt from sales tax. It was carried over in the CST when it was adopted. We know that a lot of the wireless phones, including all our children use wireless phones, they're not operating a business. They're not making a commercial phone call. And yet we're taxing those as commercial phones. So that's clearly something we need to point out to the legislature, I think, and also understand the economic impact of that residential exemption.

And the last thing on some of the local bonds, appreciate Mayor Resnick sharing the loan that, I guess -- collateralized with CST revenue. I had never heard of that before. But if he says it, I'm sure it's out there. So I guess the question I have on the local bonding is are there situations where local bonds have been issued that are solely payable from pledged CST revenues? It seems to be that would be an interesting answer. And then secondly, if not, if they're either revenue bonds or general obligation bonds, what percentage of that revenue stream is CST? And that may be different from city to city, county to county.

There may be a way to kind of say in an urban county in general, when they bond, you know, 10 percent of the CST revenue -- or in an urban city, when they go bond roughly X percent is guaranteed of the CST revenue. I think if you could just understand the magnitude of what we're talking about. Are we talking about 5 percent or 15 percent or 20 percent? And those are some of the things on my list. I think one of the biggest benefits of this work group is if we can have some open honest dialogue and get some input from others, some experts in the business and others, to help alleviate some of the ghosts and phantoms that we sometimes see around some of these issues and we can actually, you know, maybe provide the legislature some good direction in thinking about some opportunity for tax.

MADAM CHAIR: Okay. I think what I heard you say is you'd like to look at the nexus issue that Kathleen has raised. You would like us to provide maybe a bullet point of the types of questions that have been asked UTAs and LTAs -- on communication services tax and maybe some of our tips or bulletins so that you can see what issues people had that they've asked for us to answer.

On the prepaid issue, really trying to understand what is the right definition, so I think -- different opinions about what's captured in that prepaid especially if it's changing in terms of the market. On the residential exemption, I thought this was an important one that people have sort of worked themselves out with residential exceptions and how important is that now and what does it really mean in terms of revenue that the states see.

And finally understanding that local bonding issue and whether those CST funds are the soul source of revenue that's been pledged for some of the local bond issuances, which I think goes back to really making sure we're paying attention to those revenues and not comparing those revenues to the extent that local government is depending on those.

As I look at the issues that you've all sort of outlined here for our future meetings, I'm sort of struck by the fact that you're really taking this to more of a local level in terms of what you want to look at. I had sort of expected to see some interest in kind of getting down to, you know, situsing issues or auditing issues. But it sounds like you really want to look at this entire tax structure and the future of this technology and see whether there are some, you know, big policy issues that need to be looked at and addressed in terms of making sure that this is a sound tax structure moving forward and really whether it's -- you know, how the market and technology is changing that may impact the future of our CST.

What we will do is we will take the issues that you have identified today and we're going to group them together for some future presentations. And we'll send that back out to you as a group so that you can look at those. And then you can provide feedback to Andrea if you think we've captured them appropriately.

If you have other issues that you think of after we leave today, certainly send those to Andrea. And if the public has any issues that they didn't hear today that they would like us to consider, they can send those into us and we would get those back out to the members of the panel for our further consideration for possible future meetings.

That brings us to item number 11 which is future meetings. I think Andrea did send out some potential dates and was given some feedback. Andrea?

MS. MORELAND: When I had talked to you all individually, it looks like July 25th, August 14th, and October 31st seems to work for the majority of the members. So those are the dates that we have proposed for future meeting dates.

MADAM CHAIR: Okay. Well, I won't be joining you in this capacity for those future meetings but maybe in some other capacity. I'll be at least paying attention to and following your work. I did want to thank each of you for committing the time to this working group. I think we've spent a lot of time over the years since the communication services tax has been implemented giving our thoughts individually on whether it's working or not. And I think this is a great opportunity for -- you know, for people who are really interested in this tax and the technologies that are subject to this tax to come together and try and figure out what it needs to look at going forward and how he might be able to simplify it further. I really do appreciate the compliments of the staff. I will have to tell you that there is no staff better than the Department of Revenue's staff. And when they put together a meeting, you're going to get everything you wanted and more. And so I encourage you to take advantage of that so that you can really dive deep and to understand what you're looking at.

I saw a hand down here. Mayor, did you --

MR. RESNICK: I didn't want to interrupt your commendation of the staff. I appreciate that. But the -- because I know how important that is -- but the dates for future meetings, I just was wondering, we just identified a huge list of materials that we wanted to look at and we have three meetings.

Why aren't we meeting in September?

MADAM CHAIR: We didn't say we were not going to add more meetings. When we first looked at the charge of the statute, what we did was we tried to outline some big blocks and pick some meeting dates to fit those blocks into. And then as we figure out what it is that we want to explore and how much meeting time that's going to take, expand that out.

We picked the next date, I think, we were looking for some time in July figuring that after this meeting, it was probably going to take some time for our staff to pull together the information for our next meeting. But certainly we can throw out some additional meeting dates.

We have all the way to the report date, which is due February of 2013. So we were just trying to at least get some spots on everybody's calendar before things started filling up, and then we'll try and find some additional times in there. I think originally we wanted to have as many as possible of the meetings in person. But if we're going to add a lot of additional meeting times, we might do some of them by teleconference. And we might do some of them in much shorter little bursts instead of having -- you know, we have now these all-day meetings that we've kind of scheduled on our calendar. We might have some shorter meetings focusing on some specific topics, you know, for maybe a two-hour period to just knock out some issues. So I will make sure that the staff looks at that.

And do you have any recommendations on that or --

MR. RESNICK: Not for dates yet, no. I mean, not specific dates. Every single meeting on there currently conflicts with one of my city -- well, except for October 31st, conflicts with a city meeting, so I'm going to need to either reschedule the city commission meetings or participate by phone. We'll figure that out.

MADAM CHAIR: Okay. Maybe we can get staff to work with you and see if we can -- as we fill in the other dates, we can pick some dates that work better for you so that you can -- we certainly want your participation. But, yeah, it's really tough with this kind of group to get things to work for everybody. We wanted to just try and get some dates on the calendar to make sure that we had time for some of the big block issues.

Are there any other comments before we adjourn the meeting?

I'd like to remind everybody to make sure you turn back in your security badges before you leave and have safe travels. And I appreciate your time today. Thank you so much.

(Meeting concluded at 4:13 p.m.)

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CERTIFICATE OF REPORTER

STATE OF FLORIDA:
COUNTY OF LEON:

I, TRACY L. BROWN, court reporter and Notary Public do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated, and that the foregoing pages numbered 1 through are a true and correct record of the aforesaid proceedings.

I further certify that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the foregoing action.

DATED THIS day of , 2012.

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