

FLORIDA DEPARTMENT OF REVENUE

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PUBLIC MEETING

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VOLUME I: Pages 1 - 94

DATE: Wednesday, July 25, 2012

TIME: Commenced at 9:00 a.m.  
Concluded at 4:23 p.m.

LOCATION: 2450 Shumard Oak Blvd.  
Tallahassee, FL

REPORTED BY: Tracy L. Brown  
Certified Registered Reporter  
tbrown567@comcast.net

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ACCURATE STENOGRAPHY REPORTERS, INC.  
2894-A REMINGTON GREEN LANE  
TALLAHASSEE, FLORIDA 32308  
asreporters@nettally.com  
(850) 878-2221

MEMBERS :

Marshall Stranburg, Chair

Brian Smith

Gary Resnick

Sharon R. Fox

Alan Rosenzweig

Gary S. Lindsey

Kathleen Kittrick

Charlie Dudley

Davin Suggs

Also Present :

Andrea Moreland

PROCEEDINGS

1  
2           **MR. STRANBURG:** Good morning, everyone. I'd  
3 like to convene the second meeting of the  
4 Communications Services Tax working group. My name  
5 is Marshall Stranburg and I'm the interim executive  
6 director for the Department of Revenue. And I will  
7 be chairing the meeting today. At this time, I'd  
8 like Andrea Moreland to call roll, please.

9           **MS. MORELAND:** Marshall Stranburg?

10          **MR. STRANBURG:** Here.

11          **MS. MORELAND:** Charlie Dudley?

12          **MR. DUDLEY:** Here.

13          **MS. MORELAND:** Sharon Fox?

14          **MS. FOX:** Here.

15          **MS. MORELAND:** Kathleen Kittrick?

16          **MS. KITTRICK:** Here.

17          **MS. MORELAND:** Gary Lindsey?

18          **MR. LINDSEY:** Here.

19          **MS. MORELAND:** Mayor Resnick?

20          **MR. RESNICK:** Here.

21          **MS. MORELAND:** Alan Rosenzweig?

22          **MR. ROSENZWEIG:** Here.

23          **MS. MORELAND:** Brian Smith?

24          **MR. SMITH:** Here.

25          **MS. MORELAND:** Davin Suggs?

1           **MR. SUGGS:** Here.

2           **MS. MORELAND:** All members are present.

3           **MR. STRANBURG:** Thanks, Andrea.

4           Before we get started, there are a couple or  
5 administrative or housekeeping details I'd like to  
6 go over with you-all. This is a nonrule public  
7 meeting. It is held under Section 120.525, Florida  
8 Statutes. A notice of the meeting was published in  
9 the Florida Administrative Weekly on July 6<sup>th</sup>,  
10 2012, Volume 38, Number 7. The meeting agenda and  
11 meeting materials are posted on the Department's  
12 website. We have a court reporter who is creating  
13 a transcript of the meeting today. The transcript  
14 will be posted on the working group's web page.

15           If you wish to speak today, and you are  
16 present in the room, please provide a completed  
17 speaker card to Lynne Moeller. Lynne, identify  
18 yourself over in the corner of the room. The  
19 speaker cards are in the back left table on the  
20 counter. Before speaking, please state your name  
21 and the organization you represent.

22           As I previously mentioned, we have created a  
23 web page on the Department of Revenue's website for  
24 the working group. Agendas, meeting materials,  
25 transcripts, and other information relative to the

1 working group will be posted to the website. We do  
2 have some hard copies of today's meeting materials  
3 available on that same side counter. If you would  
4 like to receive updates about the working group by  
5 e-mail, please provide us with your e-mail address.  
6 A sign-up sheet is located on the side counter.  
7 Please be aware that your e-mail address will be  
8 considered public records and subject to  
9 disclosure, if requested.

10 If you are participating in today's session  
11 using WebEx, please do not mute or unmute your  
12 phone using the instructions given by WebEx's  
13 automated system. To ensure today's session goes  
14 as smoothly as possible, our staff is managing the  
15 WebEx mute and unmute feature. For those using  
16 WebEx, you should see a telephone icon next to your  
17 name on the computer screen. If you wish to make a  
18 public comment, please click on the hand icon  
19 located below the participant panel list. Our  
20 staff will let the facilitator know you have your  
21 hand raised so that you can be called on to  
22 comment.

23 Those that are not using WebEx can make a  
24 public comment by sending an e-mail to  
25 CSTworkinggroup@dor.state.fl.us. Again, that's one

1 word, CSTworkinggroup@dor.state.fl.us. In the  
2 subject line, please use CST working group. Please  
3 keep your comments brief, your e-mail will be  
4 printed and read into the record.

5 For those of you here in the room, we please  
6 ask that you turn off your cell phones or place  
7 them on vibrate. Our meeting is scheduled for all  
8 day. We hope to wrap up around 4 o'clock this  
9 afternoon. We will be taking breaks throughout the  
10 day and a lunch break sometime around 11:30.

11 For those of you that may not remember or are  
12 new here to the meeting, the restrooms are located  
13 in the hallway that runs directly behind this room.  
14 The men's room is located on the west end of the  
15 hallway and the lady's room is at the east end  
16 almost directly behind us. There are vending  
17 machines at the west end hallway, right after the  
18 double doors. Please remember that we have areas  
19 that are closed off to the public and are  
20 designated as such. This is a secure facility, so  
21 we please ask that you remain in the main areas  
22 here outside the meeting room and down those  
23 hallways.

24 Does anybody have any questions before we get  
25 started?

1           Okay. Seeing none, let's go to agenda item  
2           number two. Under tab two of your materials,  
3           agenda item two covers the draft meeting minutes  
4           from the last meeting. Does anyone have any  
5           changes that they recommend be made to those draft  
6           minutes? Having received no comments, we'll --  
7           Charlie, do you have something?

8           **MR. DUDLEY:** Yeah, I was here on the 11<sup>th</sup>.  
9           I don't see my name up top.

10          **MR. STRANBURG:** We'll correct that. With that  
11          one correction, any other changes? If not, we'll  
12          consider the draft meeting minutes approved.

13          Our agenda item number three is follow-up on  
14          some questions and request for information that the  
15          members made at the last meeting. That information  
16          is contained in the backup materials under tab  
17          three in the meeting materials. In addition, Mayor  
18          Resnick had gathered some materials that he wanted  
19          to share with the rest of the working group. That  
20          information is also contained in the materials  
21          under agenda item number three.

22          Does anyone have a specific question about the  
23          materials -- follow-up materials from the previous  
24          meeting?

25          Since we don't have any questions, we'll go on

1 to the next agenda item.

2 The next agenda item is a discussion I'd like  
3 for us to have before we start today, concerning  
4 the formulation of recommendations. I wanted to  
5 get your thoughts, ideas and have a little  
6 discussion about the process that you would like to  
7 use for us to develop a recommendation and options  
8 that are to be contained in the report that the  
9 working group is to prepare. For example, there's  
10 one option, we can wait until all the presentations  
11 have been made to the working group and then we can  
12 begin to formulate recommendations. Another option  
13 is to formulate some recommendations and have some  
14 discussion after each of the presentations on a  
15 particular topic that have been completed.

16 So, like to see -- does anybody have any  
17 preference which way we can go about doing that?  
18 Anybody have any other suggestions or any other  
19 options that they'd like for the group to consider?  
20 Sharon?

21 **MS. FOX:** It seems to me that first, we need  
22 to clearly identify all of the issues that the  
23 different working group members have with the CST.  
24 Because it's going to be very difficult to work on  
25 recommendations to improve if we don't have -- we



1 don't know what we're working on and working  
2 towards. So, I think that that's the number one  
3 priority.

4 Additionally, I think that we're going to need  
5 to get the body of knowledge together before we can  
6 finalize any recommendations. Because as we  
7 discuss things, I can see that we're going to need  
8 to go back and maybe look up additional information  
9 or get responses to questions that come up that  
10 aren't conveniently at hand. So it seems to me  
11 also that it might be best to at least get the  
12 issues covered before we start making  
13 recommendations, because things can't necessarily  
14 be taken one -- in piecemeal fashion.

15 **MR. STRANBURG:** Gary?

16 **MR. LINDSEY:** Yes, I agree. I think those are  
17 good points. And we may want to look at the  
18 remaining meetings that we have. Let's see, we  
19 have a meeting in August, October -- two more  
20 meetings. If we set a target and say as part of  
21 our August meeting on the agenda, to discuss the  
22 issues, that may lead into some discussions about  
23 recommendations just in and of itself. But if we  
24 set a target to do that and then maybe formally  
25 look at recommendations at our October meeting,

1 that might just give us a good target deadline that  
2 we work towards.

3 **MR. STRANBURG:** And one other thing, too,  
4 Gary, I believe Lisa discussed this a little bit at  
5 the last meeting, even though we've set an  
6 August 14<sup>th</sup> meeting and an October 31<sup>st</sup>  
7 meeting, you know, there was a possibility that the  
8 group felt we needed to schedule some more  
9 meetings. We can do that. They didn't necessarily  
10 have to be in-person meetings. They could be  
11 telephone conference meetings if it would be easier  
12 for people to participate that way rather than  
13 coming to Tallahassee or other locations. So, you  
14 know, again, if the option is -- maybe we might  
15 want to, after the August meeting, set up a  
16 conference call or set up another meeting at some  
17 point in time to discuss formulating  
18 recommendations and options; that's something else  
19 that can be considered by the group, too.

20 **MR. LINDSEY:** That's a good idea. That would  
21 give us time, also, if we determined on that  
22 conference call, if we get an idea that we need an  
23 additional meeting in person, that would give us  
24 time to set that up, too. That makes sense.

25 **MR. ROSENZWEIG:** I also think, maybe -- it's a

1 pretty diverse work group and, obviously, we want  
2 to get as much consensus as we can. But as we move  
3 towards recommendations -- I worked in a community  
4 before -- where we may want to consider what voting  
5 thresholds we need to be to actually move forward  
6 specific recommendations as part of the report.

7 And I'm thinking something more than a simple  
8 majority might be appropriate with the makeup of  
9 the committee. So I'm thinking that we may want to  
10 consider that, you know, you need six members or  
11 something to move forward on a formal  
12 recommendation as we get through the end of this  
13 process. Given the makeup of the committee, I  
14 think it's real important that we send a strong  
15 message to the legislature and the governor that we  
16 all -- all representatives agree moving forward.  
17 So I'm thinking, you know, six members might be a  
18 nice minimum threshold to move forward.

19 **MR. STRANBURG:** And there's another option,  
20 too, that we can consider even if there is a --  
21 whether it's majority, a supermajority, however you  
22 do the recommendations forward, there's also an  
23 option that those who may not be in agreement with  
24 a particular option as being put forward, we could  
25 include sort of a -- I don't know if you want to

1 call a semiopinion or a contrary opinion or another  
2 viewpoint. I mean, that's always an option that  
3 could be considered, too, by the group to advance  
4 as many ideas as possible and indicating here are  
5 the ideas or the options that the group recommends,  
6 but here's some other things that we discussed that  
7 might be things that the legislature could consider  
8 as options as well.

9 So again, I think we can indicate a structure,  
10 how we want to put the report together, a number of  
11 different ways to reflect how the group thinks it's  
12 an appropriate way to get those ideas to the  
13 legislature.

14 Davin?

15 **MR. SUGGS:** Let me first ask a question: Do  
16 you have the authority or is it possible if we can  
17 split the big committee into subcommittees?

18 **MS. MORELAND:** We can look into that. If we  
19 do subcommittees, we still -- my understanding is  
20 those meetings need to be subject to the sunshine  
21 laws. So when the subcommittees meet, we need to  
22 notice them just like we do with this meeting.

23 **MR. SUGGS:** At the August 14<sup>th</sup> meeting, if  
24 part of -- whatever the -- part of that day is  
25 split or sectioned off into subcommittee work,

1           because this is to Sharon's point, clearly there  
2           are two large groups of individuals here on the  
3           side of the issue. But things, I think, will go  
4           more efficiently if we know exactly what -- there's  
5           a certain group, the industry started during  
6           session, industry seeking change, asking for  
7           change. But I think it will give us all a better  
8           picture if we know exactly, as an industry, what  
9           collective changes would they want, they're very  
10          clear and concise. That's a good starting point  
11          for everybody to take all the information and do  
12          someone else's and provide further input to see  
13          where we can go from here. Because I think our  
14          existence was part of a compromise this past  
15          legislative session. They got some minimal  
16          changes, but not everything that they asked for.  
17          And then this committee, this work group, was a  
18          part of that legislation as sort a comprise or a  
19          bridge until we get -- they're still seeking  
20          further change.

21                 And so I think, as Sharon said, all of those  
22                 issues need to be collectively, concisely put on  
23                 the table. And then we can use that as a starting  
24                 point and address -- because I don't -- I mean,  
25                 with my guys, and I can speak for county -- two

1 representatives from the cities, but in terms of  
2 standard quo and the law right now, I don't know if  
3 the counties would have brought forth any  
4 recommendations or sought changes in the  
5 legislature on their own. So this has been  
6 initiated by the industry. And so I think we need  
7 to start -- we need to be in a point where we can  
8 start and know collectively what they want, as  
9 Sharon said. And we can try to address that in a  
10 manner that serves everybody's interests.

11 **MR. STRANBURG:** I would only -- can give you  
12 my concern, Davin, about maybe having us broke up  
13 into smaller groups -- and this is a fairly small  
14 group to begin with. I think the fear I would have  
15 is if you break up into smaller groups, because of  
16 the size of this group everyone is not then going  
17 to be able to know what the group -- small working  
18 groups are discussing. I think part of what was  
19 intended to be here was to keep that dialogue going  
20 between all of the relevant parties that are  
21 involved with this task and not have one party  
22 going off and doing something without the other  
23 relevant participants in the -- whether it's the  
24 administration tax, whether it's things that are  
25 receiving the revenues, those that are going to

1 have to comply with it, getting people going their  
2 own separate ways without understanding that there  
3 are concerns and the reasons and things that need  
4 to be looked at by all the individuals.

5 So it's something the group can consider, but  
6 as a part of what this group is intended to do was  
7 to bring everybody to the table and talk together  
8 and not have people break apart and conduct their  
9 own discussions and then come back and then we get  
10 into a situation, as you kind of made reference in  
11 your discussion, Davin, of what happened during the  
12 legislative session where one side goes forward  
13 with a proposal, but then the other side does not  
14 have any opportunity to participate in formulating  
15 that proposal. I think we want to try to keep that  
16 spirit together that we're trying to work together  
17 to come forward with some things that everybody can  
18 get together and recommend it be done with this  
19 task. And I just worry that if we're breaking up  
20 into groups, industry groups and local government  
21 groups, that we're defeating that purpose.

22 Again, the group can decide what they want to  
23 do, but I want to be careful that we don't end up  
24 having another situation like that legislative  
25 process where one group is going one way and

1 another group is going another way.

2 **MR. ROSENZWEIG:** To that end -- and to pick up  
3 again on the voting threshold concepts, the early  
4 endorsement -- one group going one way and one  
5 group going the other way, are we at the point now  
6 where we should be, as a group, before we get to  
7 those recommendations -- start seeing where some of  
8 the issues might be going, decide now that, you  
9 know, to move forward -- as you said, we have  
10 additional information for a formal recommendation  
11 of the committee, should we maybe set some rules  
12 now that going forward, we're going to have at  
13 least six members -- if we need a formal motion,  
14 I'll be happy to, but should we say at least six  
15 members of the committee would be needed to move  
16 forward a recommendation to -- exactly what you  
17 said, to show that we are collectively in  
18 agreement. That would at least -- we would need  
19 consensus of some form if we had six members on any  
20 issue. So are we at the point where we're making  
21 motions, Mr. Chairman, to kind of move that  
22 forward?

23 So when we get to that point later -- I want  
24 to be as comfortable deciding rules once we see  
25 what all the recommendations are. I think that



1 would -- people's opinions might start going a  
2 little differently at that point. But we know now,  
3 before we see what they are, we all agree that  
4 we're looking for consensus. Six members would at  
5 least articulate consensus to agree. So if you're  
6 entertaining motions, I'd put in the form of a  
7 motion that any formal recommendation require at  
8 least six member of the committee.

9 **MR. STRANBURG:** I wasn't necessarily looking  
10 for us to entertain motions. I just wanted to  
11 start the dialogue that --

12 **MR. ROSENZWEIG:** Your call, sir.

13 **MR. STRANBURG:** Yeah, I'd like people to think  
14 about that. I would like for us to start having  
15 some discussion about that. I'd like to propose  
16 to -- whether it's the next meeting or maybe later  
17 today, maybe after we had some time to think about  
18 it and have some, again, group discussion about  
19 where we think we would like to go, then we can put  
20 something together, so --

21 Mayor?

22 **MR. RESNICK:** Since you seem to be guiding the  
23 process, what's the recommendation of DOR for the  
24 process?

25 **MR. STRANBURG:** I think our feeling has been,

1 since the beginning of this, that we believe the  
2 more information we provide to the legislature, the  
3 better they're able to decide what they believe is  
4 the appropriate thing to do with respect to  
5 communications services tax. So to the extent the  
6 group is able to consensus on some recommendations,  
7 but there are other members of the group believe  
8 there are some contrary forms to do that, the  
9 legislature ought to take into account in examining  
10 a particular issue, we believe that would be an  
11 appropriate thing to do to give them.

12 And again, I don't necessarily want to call it  
13 a minority point of view, but maybe you could  
14 characterize it as a minority point of view. If  
15 the majority of the group felt this way, but there  
16 were others of the group that felt differently  
17 about an issue, here are the reasons that support  
18 why the group proposed this, but why others in the  
19 group thought another approach ought to be  
20 considered.

21 Sharon?

22 **MS. FOX:** To that point, my concern is that  
23 things could break down very easily because it  
24 would not then be the working group's  
25 recommendation, it would be each individual

1 fashion's recommendations, which really doesn't  
2 serve a useful purpose in my mind, to providing  
3 guidance to the legislature. If we discuss all of  
4 these things in open forum and keep minutes, we  
5 will see -- based on all the information that's  
6 provided to the working group members and the  
7 summaries that result, we'll see what everybody's  
8 positions are. But as a working group, we are  
9 charged to provide recommendations as a working  
10 group to the legislature. And knowing that, well,  
11 we don't really have to agree or work this out,  
12 because we can always put in our own opinion is  
13 not, to me, as efficient and effective of -- and  
14 doesn't really fulfill the charge that I think  
15 we've been given.

16 **MR. RESNICK:** I'm also concerned about just  
17 raw data being sent to the legislature as the  
18 report of this committee or as part of the  
19 legislative function of this committee as opposed  
20 to perform. Because I don't think that is the role  
21 of this committee. If the legislature wanted DOR  
22 to just give them information, they could have just  
23 said that. But they didn't ask for that. Because  
24 I'm concerned, for example, with this study that  
25 was presented to us at the last meeting about other

1 state's taxes. We pointed out in response to that  
2 study, that it wasn't accurate. That it wasn't an  
3 apples-to-apples comparison with Florida's taxes.  
4 And so I really -- I don't think DOR should provide  
5 any information to the legislature as part of its  
6 report that this committee doesn't vote on and  
7 approve.

8 **MR. STRANBURG:** And remember, DOR does not  
9 have a vote on this. So, we're not going to be  
10 advocating one way or the other.

11 Gary?

12 **MR. LINDSEY:** Yeah, another way to look at  
13 this as -- and I agree that we should deliberate on  
14 this as a group as a whole in total and come up  
15 with recommendations. And, you know, to your point  
16 about we may not want a minority report or a  
17 dissenting report, but we may end up with  
18 recommendations that can be agreed upon by the  
19 group as a whole -- maybe not -- as far as how we  
20 vote, but we would come up with agreed upon  
21 recommendations. We then might have some issues  
22 that we could not agree upon -- we could still  
23 provide some information on that. In other words,  
24 the group could -- we cannot agree on this  
25 recommendation, you know, on this issue, however,

1 here are the facts about it to provide information  
2 to the legislature. But I think a good outcome  
3 would be a number of things that we can agree on as  
4 a whole.

5 And to that point, one of the things we might  
6 want to consider doing -- if it's appropriate to  
7 mention now, I had looked for some good tax policy  
8 principles. And one of the things we might want to  
9 do as a group is look at those and see if we agree  
10 that those would be good principles to operate from  
11 as we conduct these discussions. So I'll just put  
12 that out for --

13 **MR. STRANBURG:** No, we were going to  
14 transition into that as part of this discussion, so  
15 you're reading our minds as far as where we would  
16 like to go. Does anybody else want to say anything  
17 more about how we want to handle this and then we  
18 can get into looking at what Gary mentioned some of  
19 the principles?

20 Davin?

21 **MR. SUGGS:** Question, I know you're not taking  
22 motions now, but this is to everybody, as a board,  
23 I know we're charged to present a report to the  
24 speaker and the president, can we think about it  
25 being a goal that we, also, as part of that report,

1 if we can get that -- produce a model legislation  
2 and knock out a lot of work? So here's our ideas,  
3 recommendations, but here is -- this group has  
4 produced suggested model legislation to be  
5 considered? Because it's a big difference between  
6 bullet points and line number pages for legislation  
7 or legislators to consider. Because that's where  
8 the devil is in the details. So as we get in that  
9 square, it's important that the agreement or the  
10 compromise gets to that level.

11 And then to receive model legislation from  
12 this working group by a show of consensus would go  
13 a long way in turning whatever our recommended  
14 solutions are into a reality. I think we need to  
15 put more than bullet points and paragraphs. We can  
16 get the model legislation from this group as a  
17 compromise, that would be -- I just want the group  
18 to consider that and maybe bring it back up later  
19 in the form of a motion. A motion, later we --

20 **MR. STRANBURG:** I certainly do believe that is  
21 something that I would want the working group to  
22 do. So -- if that be the direction the group wants  
23 to go, I think that would be entirely appropriate  
24 for us to have model legislation or proposed  
25 legislation as part of the recommendation.

1           **MR. SUGGS:** Do you need a motion or --

2           **MR. RESNICK:** (Inaudible comment.)

3           **MR. STRANBURG:** Yeah, we don't necessarily --  
4 we haven't been operating under strict rules. I  
5 think we've been looking for consensus and  
6 agreement. Is there general agreement among the  
7 group, first of all, as I'm hearing a few folks  
8 say, I think everyone would like to have  
9 recommendations be formulated at that point in time  
10 where we had all the issues identified, had  
11 presentations made, and had knowledge and  
12 information given to the group, and at that point,  
13 after that's been completed, that's when the group  
14 would like to sit down and start formulating  
15 recommendations. Is that agreeable to everyone?

16           All right. Then the second thing is then in  
17 trying to decide what recommendations would be  
18 included in a report. We've had some discussion of  
19 wanting to either have a supermajority of some type  
20 of -- majority in order for a recommendation to go  
21 forward as the recommendation of the working group,  
22 because -- is that how the group would like to  
23 proceed? Would you like to have something else be  
24 done?

25           **MR. DUDLEY:** I guess to me, some of that's a

1 little presumptuous. I mean, the legislature is, I  
2 think, looking for us to provide just some  
3 information to them and some ideas. My attitude is  
4 you're going to end up potentially -- I know I  
5 still have a lot of interest in items five through  
6 six today, I don't understand enough about prepaid,  
7 I don't understand enough about local government  
8 bonding. And I think some of us may have  
9 recommendations or ideas that we're willing to put  
10 out there for the group to discuss at a future  
11 meeting, and maybe some of those recommendations  
12 equal consensus and maybe they don't.

13 And maybe there's some advantages and  
14 disadvantages that we can develop for different  
15 recommendations and then give the legislature some  
16 sort of document that they can understand that  
17 there's different ways to make this tax more  
18 efficient or make it better. But there's pluses  
19 and minuses to doing some of those ideas. That's  
20 kind of my thoughts, Marshall. To me, it's a  
21 little early on to be talking about  
22 recommendations. I don't have enough input yet for  
23 some of the issues that we need to be educated on.  
24 I thought that was one of the main purposes.

25 Because I know a lot of legislators were



1 frustrated about the boogie man that everyone  
2 couldn't seem to identify that they thought was out  
3 there. And so they wanted us to at least spend  
4 some time talking about technology and changes and  
5 what's going on and helping, you know, educate  
6 ourselves and then eventually them on some of the  
7 pluses and minuses of change. So that's kind of  
8 where my perspective is.

9 I'm not ready to get into the recommendations  
10 or whether it's a majority vote or supermajority  
11 vote. Because I just don't have enough information  
12 yet. That's just my position, so --

13 **MR. ROSENZWEIG:** And I agree completely, we  
14 should wait for recommendations. But exactly -- we  
15 said the exact reason we should decide now what  
16 those thresholds need to be, because you don't want  
17 to have a cloak of the specific item in front of  
18 you just like figuring out process. Because that's  
19 what I liked when I saw the agenda today, we're  
20 identifying process now before we're down to the  
21 nitty-gritty and things are going to start getting  
22 a little more heated. Right now is the time to --  
23 you don't have all the heat in the room. And we  
24 can figure out, we all agree what the process will  
25 be.

1           So I agree completely, let's wait on the  
2           specifics of the recommendation but let's lay out  
3           what this agenda item called for, our process,  
4           formulate our process now so we don't have to have  
5           two discussions later. One, how we're going to  
6           move forward as a committee. And, two, what are  
7           the specifics as we move forward. So I would  
8           rather us kind of start formulating those concepts  
9           now of is it going to be a super majority vote. I  
10          mean, I can't imagine we're sending anything  
11          forward on a four-four vote out of this committee.  
12          I mean, I would be very disheartened if we send  
13          anything to the legislature on a four-four vote.  
14          So I thought six-four vote would show what you've  
15          been saying repeatedly, Mr. Chairman, that  
16          consensus is what's important for the legislature  
17          to see.

18                 So I think it's important we deal with that  
19                 issue now and not when we get down to the  
20                 specifics. We're going to have enough issues  
21                 hashing out the details. So, just my observation.

22                 **MR. DUDLEY:** I appreciate that. I've just  
23                 seen a task force that rejected something eight to  
24                 two and the legislature put it into law. So --

25                 **MR. ROSENZWEIG:** They'll still have the

1 prerogative to --

2 **MR. RESNICK:** There's no telling for the  
3 policy, but --

4 **MR. ROSENZWEIG:** Exactly.

5 **MR. RESNICK:** The point is, though, I think if  
6 this small group can't have good debate and try to  
7 get consensus on these issues, you know, what hope  
8 is there for a legislature try to come up with good  
9 policy. So I think it's really incumbent upon us  
10 to do that hard work and to explain to each other  
11 our pluses and minuses of our positions and try to  
12 get consensus on things.

13 You know, just because I'm here representing  
14 cities, I may not always agree with the city's  
15 position on a particular point. And I'm sure  
16 certain industry members as well may say, yes, this  
17 is good policy even though it's not necessarily in  
18 the best interest of a particular company or  
19 something. So if we can't explain that to each  
20 other, then I don't think we -- then it's really  
21 kind of a waste of time if what we're going to do  
22 is just do everything, have a lot of presentations  
23 and give that to the legislature and say, here's  
24 what the committee did, here's the presentations we  
25 had. We didn't have consensus on anything, good

1 luck creating policy on tax issues. There's no  
2 point in us even coming together to have meetings  
3 if that's what we're going to wind up doing.

4 **MR. STRANBURG:** And, please, I go back to the  
5 law that created this group. And two of the  
6 specific things that this group was supposed to do  
7 are stating identifying options. One is  
8 identifying options for streamlining the  
9 administrative system. Another one is to identify  
10 options that remove competitive advantages to the  
11 industry. So, you could read that to say the  
12 legislature isn't necessarily looking for a  
13 recommendation, they're looking for options and one  
14 way of presenting options are to present both  
15 sides. You can say here's one option, here is  
16 another option.

17 So I think there is an argument to be made  
18 that the legislature did not necessarily want this  
19 group to provide majority recommendations, though I  
20 think it would send a very strong signal if this  
21 group was coming forward and saying the group as a  
22 whole recommends that the legislature consider this  
23 option or this is the option that as a group we put  
24 forward to them. But I don't think, again, it is  
25 outside the language that authorizes and

1 established this group to say we can provide as  
2 many different options, many different positions as  
3 we feel is appropriate without having to say this  
4 is a recommendation of the group or this is how the  
5 group feels you ought to proceed.

6 So I think this is something that we've gotten  
7 a little bit of feedback on that we need -- we  
8 don't want to be starting that formulation right  
9 now. What I'd like to suggest is maybe we have  
10 everyone think about this a little bit more, go  
11 back, take a look, think about how you feel as  
12 though we ought to operate, should it be as Al has  
13 pointed out, we ought to go forward with some  
14 strong recommendations or do we want to just -- I  
15 think as Charlie really was indicating, maybe we  
16 ought to present all sorts of options to the  
17 legislature, give them a range of things that they  
18 understand. And maybe we do, and don't take votes  
19 on that.

20 But let's, at the next meeting on the 14<sup>th</sup>,  
21 let's have that be our first thing. Let's come to  
22 some decision on how you want to proceed there with  
23 the understanding that we're going to formulate  
24 options some time after we have all the information  
25 in front of us and then get a good feel for where

1 we want to go. Because, again, I know I'm hitting  
2 some of you cold with this discussion. You might  
3 not have had much of a chance to think about where  
4 we ought to go, but I do agree, to me, I think it's  
5 a good idea before we get into that process of  
6 formulating it, we ought to know how we are going  
7 to proceed formulating those options and whether we  
8 want to just have all options put on the table or  
9 whether we want to vote on options or how we're  
10 going to proceed.

11 So if that's okay with everyone, I think --

12 **MR. RESNICK:** I'm not comfortable with that,  
13 to be honest. I just want to be on the record. I  
14 think we at least should establish by the end of  
15 today we'll have parameters for how this group  
16 moves forward with making -- with finalizing a  
17 report that's presented to the legislature. I  
18 don't think it can be -- you know, I agree with Al  
19 and with respect to that, that once we start  
20 getting into specifics, it's going to become too  
21 difficult, I think, to start talking about process.

22 So I think by -- at least the end of today's  
23 meeting, we should define more specifically the  
24 process by which this group will move forward with  
25 even presenting options to the legislature. I

1 don't know if a DOR can present an option that this  
2 group totally rejects unanimously, but DOR says  
3 it's an option. So I have no idea what's going to  
4 be formulated, that's the final report presented to  
5 the legislature. So I would like that process to  
6 be finalized before the end of today.

7 **MR. STRANBURG:** I can't put forth -- our  
8 position as DOR can put forth an option that this  
9 group has not discussed and this the group has said  
10 they want to present as an option.

11 **MR. RESNICK:** Unless we have that voted on  
12 somehow by this committee, then there's nothing  
13 preventing that. So I would like something voted  
14 on by this committee with respect to the procedure.

15 **MR. STRANBURG:** Well, let's move -- Gary?

16 **MR. LINDSEY:** There may be a process where we  
17 call it recommendations or things we want to  
18 include in the report, but there may be a process,  
19 like you said, where we need to have some  
20 consensus. Maybe we do need to do that. But I  
21 also wanted to -- and I don't want to sound too  
22 idealistic about this, but I don't think there are  
23 necessarily two sides here. I mean, we are looking  
24 at ways to recommend administering a tax that's  
25 ultimately paid by taxpayers. And the function

1 that the industry serves is largely that of being  
2 kind of the tax collector. And we're going to have  
3 input on policy and things that can be  
4 administrable, et cetera. And so I just wanted to  
5 make sure that -- you know, I think that we all  
6 have a lot of opportunity to learn about the  
7 different ways that the tax is operating with --  
8 administered in the needs of the jurisdictions, so  
9 you know, I don't think we're really working  
10 necessarily towards a compromise. I think we are  
11 trying to get information and look at ways to  
12 improve the process for everybody. And especially  
13 for the people that ultimately pay the tax.

14 **MR. RESNICK:** I would agree with that  
15 actually. That we're trying to come up with the  
16 best policy, it's not just the -- it's not  
17 necessarily something -- self interest. So is  
18 there a consensus to formalize a process by which  
19 this committee will move forward with some type of  
20 report to the legislature or is it still we're  
21 going to talk about that later today or --

22 **MR. ROSENZWEIG:** I agree before we leave here  
23 today, there needs to be some ground rules how  
24 we're going to proceed. We don't want to wait. So  
25 it doesn't need to happen at this moment, but



1 before we leave here today, I think -- I'd  
2 recommend some formal motions are made about some  
3 specific rules on how we're going to operate will  
4 be very helpful for all of us to --

5 **MR. STRANBURG:** Do people want to wrap it up  
6 now or do you want to come back to it later today  
7 to give you a chance to think a little bit about  
8 that?

9 Brian?

10 **MR. SMITH:** I think we should come back to it  
11 at the end of the day. That way it will cause  
12 people to focus. Otherwise we're going to sit here  
13 and ruminate about it all day.

14 **MS. KITTRICK:** I agree.

15 **MR. SMITH:** You put a deadline at the end of  
16 the day and, you know, focus a little bit more on  
17 what they really want to do. I say we move forward  
18 through the materials and spend some time at the  
19 end of the day.

20 **MR. STRANBURG:** Materials. We finish up today  
21 until we come to an agreement on -- okay.

22 Going along with what Gary mentioned a little  
23 bit earlier, we do have some guiding principles  
24 that we'd like to put in front of the group to  
25 consider. At the last meeting, there were some

1 that we would like to adopt, as I said. We put  
2 together a list that are in your material and we've  
3 got them up on the screen as well that are some  
4 things to consider, draft principles, on what a tax  
5 structure should be and those that we put together  
6 should be reliable; it provides a sufficient stable  
7 and predictable source of revenue to fulfill the  
8 needs of government. It's simple, easy to  
9 understand, comply with and administer. It's  
10 neutral, should not influence economic decision  
11 making. Transparent. The imposition and impact of  
12 taxes, who ultimately pays the tax, that should be  
13 clear. It's fair. Provides a local playing field  
14 allowing healthy free market competition. And is  
15 modern, perplex and able to adapt to realities of a  
16 rapidly evolving economy.

17 We put these together from a number of  
18 different sources we looked at. Principles of a  
19 number of different groups put out there, with some  
20 other states used as guiding principles when they  
21 were looking at tax reform work. What some folks  
22 who write in the tax fields put forth as things  
23 that should be guiding principles for looking at  
24 evaluating the tax.

25 There's another resource that we wanted to

1 also bring to your attention that Gary brought to  
2 us. And this wasn't one of the resources we looked  
3 at in putting these principles together, and that  
4 is a tax policy concepts data that been put  
5 together by the ICPA, the Institute of Certified  
6 Public Accountants.

7 They've got ten principles of looking at good  
8 tax policy. The first is equity and fairness that  
9 similarly situated taxpayers should be taxed  
10 similarly. Certainly, the rule should clearly  
11 specify when the tax is to be paid, how to be paid,  
12 how the amount of tax to be paid is determined. A  
13 convenience of payment, it should be due any time  
14 or in a manner that is most likely to be convenient  
15 for the taxpayer. The economy of collection, the  
16 cost of collection to be minimum for both  
17 government and taxpayers. Simplicity, it should be  
18 simple so that the taxpayers understand the rules  
19 and comply with them correctly and in a  
20 cost-efficient manner.

21 Neutrality, the effect of the tax law on the  
22 taxpayer's decisions on how to carry out a  
23 particular transaction or whether to engage in a  
24 transaction should be kept at a minimum. Economic  
25 growth and efficiency, should not impede or reduce

1 the productive capacity of the economy.

2 Transparency, visibility. Taxpayers should know  
3 that the tax exists and how and when it is it to be  
4 imposed upon them and others. A minimum tax gap  
5 which should be structured to minimize  
6 noncompliance; and appropriate government revenues,  
7 it should enable the government to determine how  
8 much tax revenue likely will be collected and when.

9 So given these, is there a set of principles  
10 that you feel comfortable with? Do you like one or  
11 the other? If you have some things you would like  
12 to propose as guiding principles, any  
13 recommendations you would like to make on how this  
14 group is going to be guided and how they're looking  
15 at how to determine what would be best for the  
16 communication services tax.

17 Sharon?

18 **MS. FOX:** Well, during the conversation of the  
19 formulation of the CST, the local governments,  
20 because they were giving up several different  
21 revenue sources, insisted on being held harmless  
22 with regard to any changes that were made. Local  
23 governments have very few revenue streams. And  
24 like individuals, when their paychecks are  
25 threatened and their financial security is

1           threatened, you get a little bit nervous when  
2           people want to change our revenue streams,  
3           particularly since we have in essence bonded or  
4           mortgaged or used those funds for loans or whatever  
5           method. So when we were talking about issues a  
6           little bit earlier, I think that that is, from a  
7           local government perspective, maybe one of the  
8           highest priority issues is protecting our revenue  
9           stream. Because we don't have any other option.  
10          It's not like we can just go out and find money  
11          from some other resource. And because so much of  
12          our revenues are mortgaged, so to speak, using this  
13          revenue stream, I think that that hold-harmless  
14          issue is still as relevant now as it was back in  
15          the formation of the CST.

16                 Also, because some of the revenue streams that  
17          were incorporated into the CST were not taxes.  
18          They only became a tax with the simplification act  
19          itself. I think that we need to be cognizant, as  
20          we're talking about this, that when we're comparing  
21          them to other tax rates and those types of things,  
22          that those other revenues that we had incorporated  
23          into here when we're comparing them to other states  
24          or other cities or whatnot, be taken into  
25          consideration.

1           **MR. STRANBURG:** Anybody else have any other  
2           comments? Any other suggestions? Any other  
3           concerns or recommendations for -- any guiding  
4           principles?

5           Gary, go ahead.

6           **MR. LINDSEY:** Probably have a little longer to  
7           look at these than others since I found this, but I  
8           think I like both sets. As far as guidelines to  
9           look at when we're discussing and deliberating on  
10          ways to look at this tax and streamline it,  
11          whatever we end up recommending, I think the issue  
12          about revenue neutrality, that could be a -- I  
13          mean, that's certainly a consideration and  
14          something to be pointed out in any recommendation  
15          as something that the legislature would want to  
16          consider. And I know in -- from past history when  
17          there has been a tax reform and we can point to  
18          Virginia, for example, there have been ways to  
19          provide for a safe harbor. So I don't know that  
20          that's exactly a tax principle, but that's  
21          certainly something that this group can consider  
22          recommending, you know, to the extent that some  
23          change might be recommended that the legislature  
24          would need to consider some kind of safe harbor  
25          provision, you know, whenever there's any kind

1 of -- should there be any transition to another tax  
2 structure. But I think these principles in and of  
3 themselves don't necessarily suggest that, but  
4 that's something that we can consider, I think.

5 **MR. ROSENZWEIG:** Mr. Chairman, I'm trying to  
6 be clear on this, what we're looking at here versus  
7 what you just read and I went back and reviewed  
8 myself. There's two things we were charged with  
9 looking at, it was streamlining the administrative,  
10 and then you started with the last statement that  
11 said identified options or review competitive  
12 advantages within the industry as relates to tax  
13 structure. And then here's where Sharon was going  
14 on, without unduly -- local governments.

15 So the first four in here are review, review,  
16 review. The only things that we were really asked  
17 to look at was the administrative system and  
18 options that remove competitive advantage in the  
19 industry. And I think, as Davin was saying, I'd  
20 love to hear from the industry what their specific  
21 issues are. I don't -- these principles, I think,  
22 you're speaking about, I guess I didn't realize  
23 we're rewriting the -- I don't think it was our  
24 intent here to rewrite the CST tax law or rewrite  
25 tax law, it was to -- options to streamlining. So

1 we want to make sure when we streamline, we make  
2 sure we take the principle that's good.

3 I'd really love to hear from industry what  
4 their concerns are about the competitive advantages  
5 acknowledging what the last half of the sentence  
6 says. It's not a safe harbor to any of those  
7 things. The legislature made it very clear to us  
8 that they wanted us to make sure that we didn't  
9 unduly burden the reduction in revenues to local  
10 governments. So it's not something we need to  
11 think about. They've written that in the law for  
12 us.

13 So, if the intent is that we want guidelines  
14 as we're making recommendations regarding these two  
15 very specific tax, absolutely. I don't -- this  
16 sounded much broader than I thought it, for sure,  
17 was in terms of the entire legislation.

18 **MR. STRANBURG:** And it was not the intent to  
19 do that.

20 **MR. ROSENZWEIG:** Okay.

21 **MR. STRANBURG:** It was in response to the  
22 suggestion that we put out that we have some  
23 guiding principles and formulating whatever the  
24 options are, whatever the -- things that the group  
25 wanted to put forward. These would be some guiding



1 principles in evaluating what the tax structure  
2 should look like and how the group should evaluate  
3 those recommendations going forward.

4 And again, it's not necessary that we adopt  
5 these. It's just that we have these things  
6 available as a resource for the group to utilize.  
7 Whether it's one from the AICPA, whether it's the  
8 ones that we put together, you know, we could use  
9 them in conjunction with each other. But again,  
10 just to overlay, again, some guiding principles to  
11 look at in trying to evaluate the options coming  
12 forward in addition to the things that we would  
13 specifically designate. But keeping in mind, these  
14 are some additional points to look at as those  
15 guiding points for us to keep in the back of our  
16 mind.

17 **MR. ROSENZWEIG:** Thank you.

18 **MR. RESNICK:** I can't see the last item on  
19 that. The way to --

20 **MR. STRANBURG:** Here's the sheet.

21 **MR. RESNICK:** Thanks. And all we're looking  
22 for is just if anybody has any other consideration  
23 that we think the group ought to keep in their  
24 minds as we're working through as ways in which we  
25 can evaluate, in addition to what we legislatively

1 have been told to do, ways to evaluate some of the  
2 options.

3 **MS. FOX:** We have yet to hear what the issues  
4 are from the other side of the table with regard to  
5 what brought this legislation up to begin with.

6 **MR. STRANBURG:** And I think those are some of  
7 the things we'll be getting into as we start  
8 looking at some of the issues today, later today,  
9 and at the next meeting. So maybe that's a good  
10 segue to get into some of the presentations that  
11 we've got scheduled for today that will start  
12 bringing some of those points out and start  
13 focusing some of the discussions.

14 So why don't we move on then to the next item  
15 in our agenda. We'll keep both of these sets of  
16 guidelines in mind as we go forward. And we'll ask  
17 Amber Hughes to come on up and give us a  
18 presentation on bonding of communication services  
19 tax by government. Amber is a legislative advocate  
20 with the Florida League of Cities. And thanks,  
21 Amber, for being here today.

22 **MS. HUGHES:** Thank you very much. I hope  
23 it's -- there's no clock in the room. You guys  
24 should really put a clock up, so make sure I stay  
25 within my allotted time frame.

1 I am Amber Hughes. I work with the Florida  
2 League of Cities. For those of you who don't know,  
3 the Florida League of Cities represents the 410  
4 municipalities in the State of Florida. At the  
5 last meeting, we were asked to kind of help out  
6 with one of your charges, so that's what I'm here  
7 to do today. Just for those of you who don't know  
8 me professionally, I do handle the finance and tax  
9 issues. I am the Davin Suggs of the cities. So  
10 I'm nicer, I think, but we'll see about that.

11 You can go to the next slide.

12 So first of all, I just wanted to go through  
13 why I'm here today. Obviously, at the last  
14 meeting, there was conversation from Ms. Moreland  
15 about the difficulty that we have had in trying to  
16 get a comprehensive list of all cities and all  
17 counties, that being 410 cities and 67 counties,  
18 and to what extent they have utilized the  
19 communications services tax.

20 Your specific charge or task, per the  
21 legislature, was review the extent to which this  
22 revenue has been relied upon to secure bonded  
23 indebtedness. That being said, I want to talk a  
24 little bit just very basically about the CST. From  
25 cities' and counties' perspective, this is a

1 revenue source that may be used for any public  
2 purpose. And that includes for any current pledge  
3 of indebtedness or any future pledge of  
4 indebtedness. So we don't have very many revenue  
5 sources that offer any public purpose. And I think  
6 that that's very important to point out at the very  
7 beginning of this presentation.

8 Next slide.

9 So I was going to start a little bit more  
10 granular, but since Mr. Dudley pointed out that he  
11 doesn't know anything, I'm going to back up even a  
12 step than what's on the screen and -- no offense to  
13 you, you're a lawyer dealing with cable, so -- but  
14 just generally what a bond is, is it is a debt  
15 instrument in which a investor gives money to an  
16 issuer for specific length of time. And usually  
17 either at a fixed rate or at a rate that's stated  
18 by some sort of formula.

19 Bonds can be classified in a whole host of  
20 ways. They can classify maturity, they can  
21 classify the source of the revenues, they can  
22 classify the type of rate, whether it's a fixed or  
23 a variable. So there's a whole host. There's a  
24 lot of different words that are used, whether it's  
25 a lease/purchase agreement, promissory note,

1 revenue bonds, all of these are treated under  
2 Florida law as the same when it comes to what the  
3 bond lawyers look at. And I think that's important  
4 when you look at the different types of financial  
5 instruments that local governments use as they move  
6 forward. So if it's a promissory note or a  
7 lease/purchase agreement to buy a backhoe, it's all  
8 treated the same.

9 To get into the more specific types of debt,  
10 the general obligations bonds, this is what  
11 everyone refers to as the geo bonds. This is a  
12 bond that's secured by the full faith and credit of  
13 the issuer based on their taxing power. So whether  
14 it's the State of Florida and their ability to levy  
15 sales tax or the City of Tampa and their ability to  
16 levy the communications services tax and every  
17 other tax that they do. That is what a geo bond  
18 is. But they do not specifically pledge one of the  
19 taxes, they just say, hey, we have this authority,  
20 and we promise that we will repay this debt based  
21 on that authority. This is obviously the strongest  
22 type of bond. This is the most highly rated, for  
23 the most part, because it does take in the entire  
24 power and the entire faith and credit of that  
25 government.

1           The next one on there is a revenue bond. And  
2 a revenue bond is payable from a very specific  
3 source of revenue that is pledged. And sometimes  
4 there's a primary source of revenue and then a  
5 secondary pledge and so on and so forth. These are  
6 the ones that you think of most like if you have a  
7 communications services revenue bond, that would be  
8 a revenue bond, obviously. They can have different  
9 names. The names can be a little confusing. But  
10 any time you go into the offer and statement and  
11 they pledge a specific source of revenue saying --  
12 that are names, so local business tax,  
13 communications services tax, half-cent sales tax,  
14 those are revenue bonds.

15           The other one that doesn't get talked about a  
16 lot, that I want to respond a little more time on  
17 today, is what is called covenant to budget and  
18 appropriate. We'll call it CBA for short. What  
19 CBA is, is an issuer's promise to budget and  
20 thereby have appropriated funds to make the lease  
21 payments of the bond payments. This is something  
22 that I don't know if it's become more of a trend to  
23 local governments to utilize or if it's just a  
24 slightly easier fashion to do because most cities,  
25 unless you're a very large city, do not have the

1 resource from just one or two revenue sources to  
2 leverage up and to issue back debt. So what they  
3 do is they say, we have all non-ad valorem revenues  
4 and we promise that if you give us the money and  
5 invest in our bonds, that we will budget and  
6 appropriate the payments for these bonds over the  
7 term of the debt from these sources. So they put  
8 all these sources in one buckets and say we promise  
9 to do that. So while -- and this is something --  
10 the reason I bring this up is because I deal a lot  
11 with legislature and they go to specifically pledge  
12 revenues. Well, specifically pledged revenues are  
13 great, but most cities don't have the local  
14 business tax that exists to actually go out and do  
15 local business tax revenue bonds. They therefore  
16 might put the local business tax, which is also an  
17 additional source of GR into their covenant, into  
18 their pot of money that they use for the CBA bond.  
19 I think that's about it on that.

20 Any questions on the CBA? Does everyone  
21 understand the concept behind it?

22 The one other piece, most bond documents have  
23 what's called an additional bond test to make sure  
24 that you have the appropriate coverage. With the  
25 covenant to budget and appropriate, you have what's

1 called the anti-dilution test. So if you've gone  
2 out and done CBA bonds, you have promised those  
3 issuers that if you're going to go out and do  
4 another set of CBA bonds, that you will have to  
5 meet the anti-dilution test so that your bond  
6 payments are not going to exceed a certain  
7 percentage that you sat with within those bond  
8 documents. So that's also, I think, a very valid  
9 point as we move forward talking about that.

10 Next slide, please.

11 Okay. So we're going to talk about the  
12 different types of revenue sources that are  
13 available to local governments to bond. And this  
14 is not a wholly comprehensive list, this is just  
15 the flavor of the ones that they most likely go to.  
16 Obviously, communications services tax. And you  
17 guys can read them.

18 The one thing I do want to point out here is  
19 that majority of these revenue sources are  
20 restricted on what we can use them for. For  
21 example, tourist development tax, we can't use that  
22 to go build a fire station. The gas tax, we can't  
23 use that go build a water sewage treatment plant.  
24 So I think the important thing here is to realize  
25 of all of these revenue sources that are the most



1 frequently used to pledge for debt, the ones that  
2 are actually not restricted, are the communications  
3 services tax, the local business tax. The revenue  
4 sharing, to some extent, although there are some  
5 parameters on tax reduction and city or countywide  
6 benefit. And then the public service tax, which is  
7 kind of in my mind, the counterpart to the CST on  
8 the other side of the utilities.

9 So when we talk about general revenue, we talk  
10 about the unrestricted revenues. This is why I  
11 think as Sharon's pointed out, we get a little bit  
12 in a tizzy, we have very few sources of this  
13 revenue that we can just pledge for public purpose  
14 and for the good of the local government. And so I  
15 just think that that gets lost a lot in the  
16 argument.

17 Next slide.

18 **MR. DUDLEY:** Amber, ad valorem taxes should be  
19 on here, too?

20 **MS. HUGHES:** Well, ad valorem tax take a  
21 referendum. So we -- and it's only on for capital  
22 outlay. So per the constitution, ad valorem taxes  
23 can only be pledged by a vote of the citizenry and  
24 it can only be used for capital outlay. So it is  
25 additionally restricted. And I would tell you that

1 if you look at -- from what I've seen in the past  
2 year and a half of my term at the League, not as  
3 many people pledge ad valorem as you would think  
4 because it has additional requirements.

5 Yes, Davin.

6 **MR. SUGGS:** And I just wanted to add to that.  
7 I think that was Charlie who asked that question.

8 **MR. DUDLEY:** Uh-huh.

9 **MR. SUGGS:** Ad valorem, cities and counties,  
10 we only get 2 million as devoted. And then,  
11 recently, in part of what Amber's talking about  
12 with the latest trend because of the drop in values  
13 because of the past legislation. And quickest  
14 example that comes to mind is Sarasota County.  
15 Because what's been going on with property tax and  
16 additional legislation, their ad valorem has been  
17 downgraded in the past 12 months.

18 **MS. HUGHES:** They got downgraded like four  
19 different notches, wasn't it, in one fell swoop.  
20 And so --

21 **MR. SUGGS:** So a lot of our guys right now,  
22 because of the unstableness in the legislature and  
23 with property values during recession, ad valorem,  
24 any voted ad valorem is really not an issue. And  
25 they got downgraded because as the proceeds did not

1 meet the threshold of not only paying their debt,  
2 but having a -- as Amber said, you have to pay the  
3 debt, but you have to have the appropriate reserve  
4 to generate enough revenue to meet the threshold.  
5 I think their bonds was like 130 percent revenue --  
6 they were below 100 percent. They couldn't -- I  
7 mean, they couldn't pay bonds. So it is an option,  
8 but it's a very difficult option for local  
9 governments at this time.

10 **MS. HUGHES:** And just one thing to add to  
11 Mr. Suggs' comments, I would say based on the  
12 history of Sarasota and kind of the recent -- most  
13 cities are down 20 percent when it comes to ad  
14 valorem over the past five years. Counties are  
15 down slightly more, I do believe. It's not as  
16 strong a revenue source. So when you go to the  
17 rating agencies for ratings, it's -- and given the  
18 political pressure that has gone on over the last  
19 few years with amendment one and amendment four and  
20 amendment -- every other amendment on the ballot  
21 this year it seems like, it's not necessarily seen  
22 as a strong -- as strong a revenue source. So is  
23 that good?

24 **MR. DUDLEY:** Uh-huh. Thank you.

25 **MR. RESNICK:** Amber?

1           **MS. HUGHES:** Yes.

2           **MR. RESNICK:** -- have specifically just sales  
3 taxes, but I know it's not a city source of  
4 revenue, but can you -- you want to cover it?  
5 Don't counties just get, generally, sales tax?

6           **MS. HUGHES:** Well, there's a whole host that  
7 kind of goes between the level local option sales  
8 surtax which are multiple. They're discretionary  
9 taxes. And then, obviously, the revenue sharing.  
10 And briefly, there's the half cent county tax,  
11 which is given to them in the constitution. They  
12 did share this with cities if they so want, but  
13 they don't to have. And Bob McKee can correct me  
14 on any of these if I mess up here. Two-thirds of  
15 that has to be used for countywide tax relief.  
16 Therefore, the local options, most of those are  
17 restricted. There's the charter county and  
18 regional transportation systems surtax, which is,  
19 obviously, restricted to transportation  
20 expenditures.

21           There's the local government infrastructure  
22 surtax which similarly is restricted to  
23 infrastructure and transportation. There's the  
24 small county surtax which is restricted to fixed  
25 capital outlay, and counties that are, I think, a

1 population of 50,000 or less. There's the indigent  
2 care and trauma center, these are all -- there's  
3 the county public hospital, voter approved indigent  
4 care, emergency fire and rescue services. And then  
5 there's a school one that I don't have on my list  
6 because I don't -- and there's a couple of others.  
7 But they're also specifically restricted based on  
8 those.

9 So really the half cent. And then that's  
10 pretty -- the biggest one. And then, obviously,  
11 the revenue sharing. But the revenue sharing is  
12 restricted based on countywide or citywide usage.  
13 And that's a percentage of the total sales tax  
14 collected. I think it's about 8 percent collected  
15 from the state. But it's restricted to either  
16 countywide or citywide purposes or to tax relief.  
17 So they're there as well. That's the revenue  
18 sharing that is the largest -- probably one of the  
19 largest sources of pledged revenues from what I  
20 have seen.

21 Yes, ma'am.

22 **MS. FOX:** I'd like to point out that some of  
23 these taxes can be referred to with other names.

24 **MS. HUGHES:** Uh-huh.

25 **MS. FOX:** As for Tampa, the public service tax

1 has typically been referred to utilities tax  
2 because it was tax on the electric and gas and  
3 telecommunications companies in addition to water  
4 and sewer. And I know that, at least in our  
5 particular situation, bonds that had used --  
6 utility taxes for the pledge prior to the CST,  
7 automatically incorporated the CST after it became  
8 an active tax, even though -- because it was one of  
9 those things that had been bonded prior. So the  
10 bonding companies just supplanted the word "utility  
11 tax" with utility tax and CST because CST had been  
12 a utility tax on -- well, public service tax on  
13 telecommunication services prior to the development  
14 of CST. Does that make sense?

15 **MS. HUGHES:** Uh-huh. And I think that's a  
16 great point, not just with the communication  
17 services tax, but with all revenue sources, as the  
18 legislature changes the name, cities don't  
19 necessarily go back and change the bond documents.  
20 That's why we still have local business --  
21 occupational licensing tax. Or what was one of the  
22 ones I found? They still keep the old names in  
23 there. And I think, though, with the public  
24 service tax that there are quite a few cities that  
25 still call it the utility tax. I know Clearwater

1 does, for example. So it just kind of depends  
2 on -- it makes it more difficult for the  
3 accountants to track it down, I'm sure, but that is  
4 definitely an issue.

5 Any other questions on the different types of  
6 revenue?

7 All right. Next slide, please.

8 So this is the sources that we turn to when we  
9 were trying to get a comprehensive list. And I  
10 think that Ms. Moreland talked about this. And I  
11 don't know if Davin talked about this, as well, at  
12 the last meeting. There is no single comprehensive  
13 list of all municipal set that's out there. And  
14 this has been a struggle for me in the past year  
15 and a half. And I know it sounds ludicrous. So,  
16 as we have gone over -- the past six months, I've  
17 been trying to put together as comprehensive a list  
18 as I can get my hands on. These are the different  
19 resources that we used.

20 So the municipal security rule-making board  
21 has what we call MO, which is the database of all  
22 municipal bonds. EMMA is great if you actually  
23 have what's called a CUSIP number, and you can find  
24 anything you want about a specific bond issuance.  
25 But if you want to do more general type of

1 searches, such as all communication services tax,  
2 number one, you have to understand that not every  
3 bond is going to be called the communication  
4 services tax revenue bond.

5 And second of all, it's just not a  
6 comprehensive way to search. For example, with  
7 City of Tampa there are about 20 different ways in  
8 which the City of Tampa is inputted into the  
9 system, believe it or not. It can be just Tampa or  
10 City of Tampa or City of Tampa Aquarium. And so it  
11 doesn't -- it's not a search-friendly type of  
12 website. That being said, part of the -- if you go  
13 to -- you have this very legal-sized spreadsheet  
14 which is on the bond issuance that I did -- managed  
15 to come across in the last six months. So part of  
16 those did come from EMMA. So if I knew of a  
17 specific city that had issued debt, I can go in,  
18 pull the actual offering statement and see what  
19 they had specifically pledged. So primarily the  
20 ones -- the revenue bonds are the ones that came  
21 out of EMMA. Because when you open the offering  
22 statement, it says we pledge the communication  
23 services tax.

24 So the second resource that we used is the  
25 Florida Division of Bond Finance. They are



1 required -- any local government bond issuance that  
2 occurs is required to fill out a form, you can now  
3 either do it electrically or actually send in the  
4 hard copy and they keep a database of the local  
5 bond monitoring section. That being said, once  
6 again, this was not a comprehensive list. It  
7 relies on the local government to fill out the form  
8 and for everyone to fill out the form appropriately  
9 and for everyone to call the revenue sources the  
10 same thing and so on and so forth. And so it was  
11 very interesting in working with them, when I had  
12 specific bond documents that I knew were issuances  
13 that were pledged to CST and then they had it in  
14 their system as something else. And so even with  
15 the state system, which local governments are  
16 required to do, it doesn't seem to be as uniform  
17 when they put in the information so, therefore, it  
18 makes it very difficult to pull out data. But that  
19 being said, some of these issuance -- some of the  
20 specific issuance did come from that.

21 So lastly, and this is what came up at the  
22 last meeting. We did two different surveys.  
23 Mr. Suggs did a survey of his 67 counties. And  
24 then myself, with the help of the Florida  
25 Government Finance Officers Association, did a

1 survey as well. The Florida Government Finance  
2 Officers Association is not just cities. It's the  
3 budget guys and the financial directors or cities,  
4 counties, special districts, state -- so it does  
5 have a whole host of pretty much anyone that's in  
6 government and even some private public  
7 accountants. So maybe some contract accountants  
8 are in this survey. So that's going to be  
9 important when we get to the results.

10 Next slide, please.

11 So first we're going to do the fact survey  
12 results, the Florida Association of Counties. So,  
13 Davin has a little easier time when he reaches out  
14 to his folks because he only has 67. I have 410.  
15 So sometimes that make me a little jealous,  
16 honestly. But he surveyed them with a very simple  
17 question: Does your county currently pledge or  
18 utilize communication service tax revenues to  
19 secure any form of debt? And of the 67 counties,  
20 he got 50 responses, so about 75 percent response  
21 rate. And you can see the breakdown.

22 So eight said yes, seven said maybe. The  
23 nonspecific pledge gets to that covenant to budget  
24 and appropriate that we talked about earlier. Why  
25 it's not specifically pledged, it is definitely in

1 that pot of revenues that are utilized to repay  
2 that debt. 35 said no and 17 said were not  
3 responsive. So of the respondents that he got,  
4 about 30 percent of them do pledge it either  
5 specifically or nonspecifically. And you can see  
6 the breakdown of the county on the other side.

7 And, Davin, do you know why the smaller ones  
8 didn't respond? Because they do seem -- Sarasota  
9 didn't respond, for example?

10 **MR. SUGGS:** Sometimes it could just be -- I  
11 mean --

12 **MS. HUGHES:** On vacation.

13 **MR. SUGGS:** -- timing. And some people  
14 just -- I mean, we have literally I know with a lot  
15 of these people with other issues going on, so,  
16 i.e., Medicaid.

17 **MS. HUGHES:** And that's something I was going  
18 to bring -- you know, it's very interesting as we  
19 were doing this, especially in the summer,  
20 especially over the July 4<sup>th</sup> holiday, especially  
21 over budget season, I know that my guys are all in  
22 the middle of their budget, public meetings and  
23 everything else. So all the finance guys who are  
24 the ones who have this information aren't  
25 necessarily the most responsive at this time. So

1 this is the county responses. So this is just  
2 counties.

3 Next slide, please.

4 **MR. RESNICK:** Amber?

5 **MS. HUGHES:** Oh, sorry.

6 **MR. RESNICK:** Going back to just the general  
7 pledge to budget and appropriate -- indebtedness,  
8 and I think it's fair that every government,  
9 special district, whatever, in Florida has some  
10 debt. From -- it's a technical term. And from the  
11 bank's standpoint, if you do a pledge to budget and  
12 appropriate, would that include the taxes that you  
13 might receive under the communications services  
14 tax?

15 **MS. HUGHES:** Yeah. And usually it is kind  
16 of -- it is spelled out in the bond document. So  
17 it will say all non-ad valorem revenues, and then  
18 it will list -- and when they do the math, kind of  
19 to show their coverage, usually it will  
20 specifically list the bonds, but not always.  
21 Because if all they're saying is we have these  
22 potential revenue sources -- and you have to  
23 realize, especially for the smaller cities, they  
24 don't get a large enough chunk of change from one  
25 specific revenue source, that's why they pull them

1 together. It's one of the reasons they pull them  
2 together.

3 **MR. RESNICK:** Well, I'm wondering if we  
4 should -- do you think we should have a  
5 presentation from the financial institution or an  
6 association representing financial institutions  
7 since they're the once issuing these -- this debt  
8 for the most part?

9 **MS. HUGHES:** I mean, I think -- obviously,  
10 that's the will of the working group. I don't  
11 think it's a bad idea. I know that I personally  
12 talk very frequently to the rating agencies,  
13 especially John -- so I know that they watch this.  
14 I do think that maybe having a bond lawyer or  
15 having an underwriter come in and kind of say how  
16 they determine what are the strengths of a bond,  
17 especially if it's a specifically pledged revenue  
18 versus covenant to budget and appropriate and how  
19 they watch what happens with additional  
20 restrictions on specific revenue source, could be  
21 very good.

22 I mean, I think that when you look at the  
23 financial overall of the local government, you  
24 can't look at it in, you know, silos by revenue  
25 sources, because in the end, they are -- the

1           entirety of them makes up the financial health of  
2           the local government. And especially when you look  
3           at the fact that ad valorem is down 20 percent,  
4           public service tax is actually down quite a bit for  
5           underestimates this year for quite a few cities.  
6           CST, I know, has been slightly down over the last  
7           few years.

8           So when you look at the fact when you have  
9           downturn in the economy, downturn in the revenues,  
10          and then on top of that have additional  
11          restrictions, that's what they look at. They look  
12          at the whole. They don't look and say -- I mean,  
13          they do look at each individual revenue source,  
14          because they're analysts, but they don't say,  
15          oh, well, this is just -- ad valorem's here, so  
16          let's just look at that one. And, oh, CST's here,  
17          let's just look at that one. The overall financial  
18          health of the local government is definitely the  
19          combination of all the revenue sources.

20          **MR. SUGGS:** Especially like with my seven  
21          maybes which we know are in the covenant category,  
22          can you go back -- you can stay here on the screen,  
23          but I'm talking about the importance CST is from a  
24          general discretionary revenue source versus -- with  
25          no statutory restrictions on use, how that's

1 important for people using that in the covenant.

2 **MS. HUGHES:** And, you know, that goes back to  
3 kind of what we talked about, about that general  
4 purpose revenue sources. There are very few of  
5 those. So if you have -- depending on, you know --  
6 well, if you want to build a convention center or  
7 something or some sort of capital outlay project,  
8 there are going to be a limited number of resources  
9 unless it's transportation which seems to have most  
10 options for funding, in my opinion, there are going  
11 to be very few revenue sources.

12 So in your non-ad valorem covenant to budget,  
13 you would only be able to put CST, local business  
14 tax, revenue sharing, and public service tax.  
15 Unless it was some sort of project that would --  
16 that those restricted revenues would be allowed to  
17 be used for that purpose. If that makes sense.

18 Okay. Any other questions on the fact  
19 results? And thank you very much, Davin, for doing  
20 this. I truly appreciate it.

21 Next slide, please.

22 So this is the FGFOA results. And I'm going  
23 to point out here that financial officers don't  
24 write as succinct questions as Davin does. So this  
25 question is done in two parts. The first part is:

1 Do you issue any debt for the most -- or do you  
2 issue any debt outstanding for the most part? And  
3 the second part of the question is: If so, is the  
4 CST a portion of those revenues that are budgeted?  
5 So, we only had 99 respondents. And I am going to  
6 point out here, since FGFOA is not just cities and  
7 counties, we could very well have some no responses  
8 in here that are special districts or schools or,  
9 you know, private accountant that works at XYZ  
10 accounting firm in Tallahassee.

11 So that being said, the results are a  
12 little -- could be skewed. I don't know if they  
13 are. I thought about this last night. That being  
14 said, we got about quarter of the respondents. I'm  
15 just going off if it was city numbers, you know, 99  
16 respondents from 410 cities. Of the response of  
17 whether or not they have outstanding debt, 46 said  
18 yes, six said maybe, 47 said no. And then of  
19 the -- the more important part is the question 1A  
20 which is, 39 yeses of specifically pledged. So  
21 it's the six maybe and the 39 yeses which gets you  
22 to about 45 percent of respondents have pledged the  
23 CST. So that actually is a higher number than the  
24 county average. And you have to realize that some  
25 counties could be in here. I know Collier and a



1 couple others were in here as well. So that being  
2 said, I don't know how useful that information is,  
3 but it's the best information we could get at the  
4 time. And we had continued -- let me back up, we  
5 continued to have a couple more responses this  
6 morning even, so those will get factored into these  
7 and resubmitted to the working group in the next  
8 few days.

9 Any questions?

10 Okay. Next slide, please.

11 We actually asked a couple of other questions  
12 just because we figured if people were taking the  
13 time to answer a survey, it would be nice to get  
14 some additional information. Because we like to --  
15 we are trying to -- from the League of Cities'  
16 perspective, trying to be new source of information  
17 for city data. We're having to start from scratch  
18 here. When you look at what the state does with  
19 the economic demographic research, or even DOR, you  
20 guys do go down to the city level in some revenue  
21 sources, but for the most part, usually people look  
22 at things from a county-level perspective.

23 So we said, what percentage of your general  
24 fund are revenues from the CST? We had 95  
25 respondents on this, and as you can see, the

1 majority of them, 43, are in the 4 to 6.99 percent  
2 of their general fund. I just thought that was  
3 actually pretty interesting. I did think it was  
4 interesting that there were quite few over the  
5 10 percent number as well. I will couch this  
6 saying that I would say that if that's the case,  
7 they most likely don't put their CST into the  
8 general fund. I would have to look at each  
9 individual city or county budget, but, obviously,  
10 you don't necessarily have to put your CST into  
11 your general fund, you can put it into a utility  
12 fund or --

13 **MR. DUDLEY:** That was my question.

14 **MS. HUGHES:** The rainbow and sunshine fund. I  
15 mean, you can -- depending on where it goes. I  
16 would have to look at those 14 respondents. And  
17 I'd be happy to dig into a couple of them. But I  
18 had the same kind of -- when I saw the -- because  
19 it was just raw data, I was like -- because some of  
20 them were like 30 percent. But if it's in a  
21 utility fund, that would make sense that it would  
22 be a smaller number -- I mean, a larger percentage  
23 because a smaller denominator.

24 Yes?

25 **MR. SUGGS:** I know some finance people,

1 especially when you say that they have specifically  
2 pledged CST, they may book that revenue to debt  
3 service to show that that revenue was pledged.  
4 Because some bond companies want to see that  
5 revenue that's pledged locked away, and it's going  
6 into that debt service. I know some people do that  
7 practice. So that way there's -- the underwriters,  
8 everybody can see that this revenue's taken off --  
9 this first permanent goal is to satisfy that bond  
10 and then may see it transcribed in excess or  
11 surplus to --

12 **MS. HUGHES:** And I would be happy to dig  
13 further into those few. I thought it was  
14 interesting. I think that the four to six or the  
15 six to 9.99 is probably more realistic. I will say  
16 that with all percentage of revenues of the  
17 specific fund, you have to look at the fact that as  
18 your amount of total revenues has decreased, as  
19 your denominator has decreased, the percentage is,  
20 of course, going to increase just based on basic  
21 math. But I just thought it was kind of  
22 interesting.

23 **MR. DUDLEY:** Amber, my question is, when you  
24 say general fund, is that all revenues coming into  
25 the local government?

1           **MS. HUGHES:** No, it's their general fund.

2           It's similar to the general revenue fund for the  
3           state. I guess that's the best comparison.  
4           Obviously, they have trust funds and things like  
5           that. When you look at local government  
6           accounting, and Davin can probably speak more  
7           eloquently to this than I can. But the general  
8           fund usually is public services and a couple other  
9           things. But it depends on -- and general services  
10          and things like that, but it depends on -- each  
11          city is going to be different. Each county, you  
12          guys might be a little more uniform. But you want  
13          to comment on that?

14          **MR. SUGGS:** Just in general, you have a  
15          general fund. Especially in counties. Cities are  
16          not too much different. We have a general fund and  
17          we have special revenue funds. For local  
18          governments, our special revenue funds are similar  
19          to what the state will call it, trust fund. And  
20          the state is -- like we use special revenue funds.  
21          And then we have debt service funds. And then your  
22          larger -- medium to larger counties and cities will  
23          have specific capital funds for all their --  
24          separate out their capital projects and capital  
25          funds. Just so you have an idea, in general fund,

1 most of the time ad valorem -- other jurisdiction's  
2 general fund -- adds up after the ad valorem.

3 **MR. RESNICK:** I don't like to characterize  
4 these things as little, but -- in small cities, for  
5 example, relatively small cities -- 12,000 people,  
6 our general fund is about a third of our overall  
7 budget. Our water and sewer fund is about equal to  
8 the general fund. Because those are the fees that  
9 we get from water and sewer services have to go  
10 into that fund. And then the expenses -- fund as  
11 well. So that's not part of that fund. But CST  
12 is, in our city, is the third largest revenue  
13 source. I think for small cities it's about -- the  
14 lowest we're going now, so it's hard to tell.

15 **MS. HUGHES:** Everything's been going down.

16 **MR. RESNICK:** Ad valorem went up in our city.

17 **MS. HUGHES:** Shh, don't tell anyone that.

18 You're the only one.

19 Any other -- so this is -- and the other two  
20 questions that we asked -- I'll be honest -- that  
21 we found were not going to be useful in any sort of  
22 matter. I learned a lot about doing surveys during  
23 this. Give them multiple choice, don't let them  
24 fill in the blank. You'll get essays. It's  
25 unbelievable.

1           But with that being said, I do think -- and we  
2 talked about this, and I think that the Mayor  
3 raises a good point, I mean, the third largest  
4 revenue source for general purpose. It's a pretty  
5 big deal when it comes to us.

6           So, next slide.

7           And it's a pretty big deal when it comes to  
8 our ability to bond and to finance capital projects  
9 and construction projects, things of that nature.

10          So just wanted to give you a flavor of what of  
11 the ones that we found, what the uses were. So  
12 capital improvements, equipment acquisition. I  
13 think the most interesting one on the equipment  
14 acquisition was literally a \$32,000 bond for a  
15 backhoe from a very small town. Water and sewer,  
16 convention center, the Miami-Dade Convention Center  
17 was actually built using a predecessor of the CST.  
18 Land acquisition.

19          Community redevelopment agency, this is an  
20 interesting one. For those of you that don't know  
21 what a community redevelopment agency is, it is an  
22 entity that uses TIPS financing, so they take a  
23 time and point, and any additional ad valorem over  
24 that, goes into the CRA for usage or redevelopment  
25 of a plotted area. Quite a few cities, and by

1 quite a few, I mean, more than two, use the CST as  
2 a secondary pledge on their revenues. I think the  
3 City of Tampa does. Pensacola. So there's quite a  
4 few. CRA, I thought that was just an interesting,  
5 just kind of stood out to me. But as you look and  
6 see that they have done redevelopment and try to  
7 improve the economy of a specific area. And it  
8 does have defined boundaries. The CST is the  
9 secondary pledge on some of those bonds. And  
10 transportation improvement. They kind of go all  
11 over.

12 And if you look at the giant spreadsheet, for  
13 the most part out of the names, you can get, I  
14 mean, what they are. Some of them. Some of them  
15 you can't. But I just think it does give you a  
16 flavor of what those bonds, land acquisition,  
17 capital improvement, equipment acquisition.  
18 Obviously, if you're going to issue -- I want to  
19 put this in because this goes back to the bonds  
20 101, if you're going to issue debt to purchase  
21 equipment or to build something, it needs to have a  
22 longer life span than what your debt is. So you're  
23 not going to buy a computer with a 30-year bond.  
24 So I just wanted to put that out there.

25 Yes, Davin.

1           **MR. SUGGS:** Yeah -- uses and proceeds, this is  
2           for the work group's benefit. I know you see  
3           transportation improvements, but you know, we get a  
4           lot of gas tax money. You see gas tax on our list  
5           of revenues. But if you look, I think, especially  
6           in your larger cities and a lot of your counties,  
7           we get restricted gas tax revenues, there's a  
8           number of cents. Constitutionally, you get the one  
9           to five, one to six, you get tax on diesel, nine  
10          cents. It's a lot. But there's a growing trend  
11          where dedicated or restricted gas tax revenues,  
12          which your jurisdiction use for transportation,  
13          operation and capital needs are not sufficient to  
14          meet all of the transportation, operation and  
15          capital needs. So you'll see even counties,  
16          especially your larger ones with larger projects, a  
17          larger inventory of transportation items, road,  
18          bridges, all of that, where they have to backfill  
19          with general discretionary revenue to meet their  
20          transportation needs.

21                 So that's -- when you see transportation  
22                 improvements, I don't want you to say, hey, why, I  
23                 thought you had gas tax for that. It's a trend  
24                 where a lot of jurisdictions have to backfill with  
25                 general revenue to meet -- transportation is not



1 just -- not talking about just meeting needs of  
2 just citizens, but certain things are dictated and  
3 we have to report in terms of our comprehensive  
4 plan -- and it gets into all of that. So there is  
5 a need for general discretionary revenue, even to  
6 meet general transportation needs.

7 **MS. HUGHES:** And I didn't go into any more  
8 depth, just to run through the different gas taxes,  
9 just so you guys know. And I thought this was  
10 really interesting. Within transportation  
11 expenditures, it's a very broad category, but every  
12 single one of these revenue sources is restricted  
13 even further than that.

14 And really quickly what they are, are the  
15 constitutional field tax which is the two cents  
16 which goes to the city for acquisition,  
17 maintenance, and construction. And I'm very much  
18 generalizing the usage here. The county field tax  
19 which is the one cent, and it's  
20 transportation-related expenses. The motor fuel  
21 and diesel fuel, which is the nine cents. And then  
22 the local options. And then you have the nine cent  
23 which is, obviously, just one cent.

24 And all -- the next three of these, the county  
25 can share with the cities and that is

1 transportation expenditures. The one through six  
2 is additional transportation expenditures.

3 So one through five is transportation  
4 expenditures needed for infrastructure to meet the  
5 comprehensive plan. And I should have taken better  
6 notes, but they are especially restricted. You  
7 just can't go build a bridge or build a road or fix  
8 a pothole, you have to make sure whichever revenue  
9 source you're using is directly correlated to what  
10 it's allowable to be used for.

11 Does that help? I learned a lot about gas tax  
12 over the past week. So any other question on the  
13 bond usage, the --

14 Okay. Next slide, please.

15 This is something that I found out about a  
16 year ago and I just thought it was incredibly  
17 interesting. And I -- we actually asked a  
18 question, what other entities have in similar  
19 situations. And the responses we got weren't  
20 useful. That doesn't mean that there aren't  
21 additional issues like this out there.

22 The City of Jacksonville actually has an  
23 interlocal agreement with the Jacksonville Port  
24 Authority and they gave them a sliver of the CST.  
25 And that CST is what Jacksonville Port Authority

1 used to secure debt, about an 80 or \$90 million  
2 issuance to build -- the new terminal they're  
3 building which is an economic development plan,  
4 that was paid for with CST pledged bonds.

5 So I think this is really important as --  
6 without having the ability to completely know what  
7 every single city is doing with their revenues,  
8 it's a little concerning to me. I don't like to  
9 not have as much information as humanly possible.  
10 But if one city has seen this as an option, that  
11 means there could be other cities or counties that  
12 have seen this as an option as well.

13 And then you get into kind of the ancillary  
14 entries outside of basic county and city, such as  
15 the Jacksonville Port Authority; we don't  
16 necessarily know what they've done with the  
17 revenues. And so I think that that's just one  
18 thing to keep in your head that through an  
19 interlocal agreement, cities and counties do give  
20 moneys to other entries and that money can be the  
21 CST and that CST could have been pledged for  
22 something, so that was an interesting point.

23 And with that, that's all I have. Are there  
24 any questions? Was this helpful? Is there any  
25 additional information that I could drum up?

1           **MR. STRANBURG:** Thank you very much. We  
2 appreciate it. And if we do have any other  
3 questions or any other issues, we will be in  
4 contact. Thank you.

5           Why don't we go ahead and take a ten-minute  
6 break.

7           **MR. RESNICK:** Before we do that, do we need a  
8 motion for the -- something to adopt the  
9 presentation? What are we doing with the  
10 presentation?

11           **MS. MORELAND:** The materials we have will  
12 become part of the record of the CST working group,  
13 so --

14           (Brief recess.)

15           **MR. STRANBURG:** Our next presentation is Bob  
16 McKee, who is the chief economist and head of our  
17 tax research unit here at the Department of  
18 Revenue. He is going to be talking about the  
19 residential exemption to the state portion of the  
20 communication services tax.

21           **MR. MCKEE:** Good morning. I am Bob McKee with  
22 the Department of Revenue. As Director Stranburg  
23 just mentioned, I'm going to be talking about the  
24 residential exemption for the communications  
25 services tax and specifically looking at what would

1 be the potential impact if it were repealed or  
2 eliminated from availability within the  
3 communications services tax.

4 Next slide, please.

5 The residential exemption applies only to a  
6 portion of the communication services tax. It only  
7 applies to the 6.65 percent state component of the  
8 communications services tax that is treated like  
9 and gets distributed through the state sales tax  
10 statutes, so Section 212.20 in Florida Statutes.  
11 And it also applies to a very small point of the  
12 2.52 percent gross receipt levies; it applies to  
13 .15 percent. If you remember from the first  
14 meeting, that's actually a rate that was moved over  
15 from the state sales tax portion in 2009  
16 legislation. All other exemptions apply to all  
17 components of the communications services tax.  
18 This is the only part that applies to only one  
19 component of the communications services tax.

20 Next slide, please.

21 This is the statutory provision. We'll talk  
22 about it more a little bit later in the  
23 presentation. But it lays out the exemption and  
24 specifies that it only applies to certain parts of  
25 it, that's 202.12, which is that state component of

1 the CST and the 203.01 which is the gross receipts  
2 I just talked about a minute ago. And then there's  
3 a provision that says what it does not apply to.  
4 And it says Exemption does not apply to any  
5 residents that constitute all or part of a  
6 transient public lodging establishment as defined  
7 in Chapter 509, any mobile communication service,  
8 any video service, or any direct-to-home satellite  
9 service.

10 Next slide, please.

11 Now, as we go forward, the -- what was  
12 requested was to estimate the impact of the  
13 residential exemption, what essentially is it  
14 exempting out of the base today, and then what  
15 would be the potential revenue implications or rate  
16 implications if that policy were changed. And so  
17 this morning's presentation and the one we do this  
18 afternoon on prepay is going to give you a little  
19 glimpse into what we have to do as part of the  
20 analysis that supports the revenue estimating  
21 conference when we impact conference process, so  
22 where we do analyses that we take to Revenue  
23 Estimating Conference and present them for  
24 consideration and developing impacts.

25 And I think it's important in that to

1 understand the roles as we go into this  
2 presentation, that my office does analyses. We  
3 don't develop official state impacts; the Revenue  
4 Estimating Conference does official statement  
5 impacts. So when you look at the analysis we've  
6 done today, this is really to be looked at for  
7 information for consideration. But until the  
8 Estimating Conference consensus upon an impact,  
9 there is no official state estimate.

10 Now, as you look at -- one of the things we  
11 look at is the recent history on the impact of the  
12 residential exemption. I'll talk about -- let me  
13 talk about a moment here and then I'll talk about  
14 it a little later in the presentation. One of the  
15 things that the Revenue Estimating Conference, when  
16 they have their communication services tax and  
17 gross receipts tax conference, which they're going  
18 to have next Tuesday, will be the next conference  
19 for communications services tax and gross receipts.  
20 One of the things they forecast is the relationship  
21 between the state sales tax of the state component  
22 base and the gross receipts base. And they measure  
23 those and compare them. They measure the state  
24 sales tax base as a percentage of the gross  
25 receipts tax base and forecast it going forward.

1           So, as we talked about a moment ago, since the  
2 residential exemption is the only exemption that  
3 applies just to one portion, just the state  
4 component of communications services tax, that  
5 ratio represents or can be used in deriving what  
6 that residential exemption is. And because there's  
7 a forecast for it going forward, using the official  
8 forecast, we can derive out of those relative bases  
9 a forecast for the residential exemption going  
10 forward.

11           Now, again as measured in terms of the ratio  
12 to state sales tax -- state component of the  
13 communications services tax base to the gross  
14 receipts tax base, you see that in the history, the  
15 impact of the residential exemption is shrinking.  
16 That it was -- the state sales tax base or the  
17 state component of the communications services tax  
18 base was 74 percent of the gross receipts base in  
19 2002, 2003. That's shrunk to 83 percent in 2005,  
20 2006 -- excuse me, grew to 83 percent. So the  
21 amount that the residential exemption represented  
22 shrank relative to the entire base. And '11-12,  
23 the measurement was 86 and a half percent. So the  
24 impact of that residential exemption continues to  
25 shrink over time.



1           Next slide, please.

2           Now again, sort of in the background before we  
3 get to the numbers, the residential exemption is --  
4 has been historically talked about as being the  
5 landline exemption. It's important to note that it  
6 is not specific to that in statute. It doesn't  
7 specifically say it only applies to the landline  
8 services. While the exemption can apply to  
9 landline services, it's not restricted to that.  
10 And it's not the only service to which the  
11 exemption might apply. Remember that the way the  
12 exemption reads in statutes, it provides that the  
13 exemption applies to communication services --  
14 essentially all communication services sold to  
15 residential households that are not a transient  
16 public lodging facility as defined in 509, a mobile  
17 telecommunications service, a video service, or a  
18 direct-to-home satellite service.

19           So while the current forecast of the -- of  
20 this percentage, which again, is symbolic of the  
21 residential exemption has it shrinking going  
22 forward, there's some reason -- we'll have some of  
23 this conversation at the conference next week, that  
24 as new services evolve that don't fall into one of  
25 these four groups, that there's potential for the

1 residential exemption impact to actually either  
2 diminish its rate of decline or increase. The  
3 current forecast doesn't have that. And for  
4 purpose of the estimates, we use the current  
5 forecast for the number that we present for you.  
6 But just as we get into discussions later today,  
7 our future meetings about changes in technology and  
8 the way communications services are delivered to  
9 look at it to see if it actually meets one of these  
10 criteria, if it doesn't meet one of these  
11 exceptions to receiving the residential exemption,  
12 there's a possibility the residential exemption  
13 could apply.

14 Next --

15 **MR. DUDLEY:** I just didn't know if you'd come  
16 across any services that expanded? Or is this part  
17 of the next week's -- stay tuned still next  
18 Tuesday?

19 **MR. MCKEE:** I guess, let me try to answer the  
20 question this way. I just did my communications  
21 services tax use tax form because I purchased  
22 certain communications services that I -- to my  
23 understanding, the provider did not collect and  
24 remit communication services on that. And I have  
25 some questions about those, whether the residential

1 exemption would apply or would not apply. An  
2 example that I'll give you was major league  
3 baseball service. I'm a big baseball fan, and I  
4 bought the internet-based service. Sorry, not the  
5 cable one. But I bought the Internet base so I  
6 could get it on all my --

7 **MR. SMITH:** What about satellite?

8 **MR. McKEE:** I have a lot of trees.

9 **MR. SMITH:** Good answer.

10 **MR. McKEE:** But I like the ability to get it  
11 on my mobile devices. But I have some questions.  
12 If I don't watch any of the games live, if I only  
13 watch them on replay, am I getting a video service  
14 or am I getting something else? So should the  
15 residential exemption apply there or should it not?  
16 And so that's just a question that I have  
17 personally. You know, not a question the  
18 Department has. But as I filled out that use tax  
19 form like any taxpayer, I would like to pay what  
20 the law requires but no more. So, I'm just not  
21 sure what the situation is there. But that would  
22 just be an example where personally I have a  
23 question about what would take place, particularly  
24 given my consumption, if I consume it only in  
25 stored games versus live activity is that something

1 else.

2 **MR. DUDLEY:** Thanks.

3 **MR. RESNICK:** Bob, so does it apply to VoIP?

4 **MR. MCKEE:** The landline? The residential  
5 exemption? My understanding is that if it's -- if  
6 it otherwise meets the definition of residential  
7 service, that it would apply.

8 Next slide, please.

9 Now as you mentioned VoIP, I think as you look  
10 at this slide, which was also provided to you in  
11 the first presentation I did for you at the last  
12 meeting, when you look at the landline decline  
13 which is in the red line, and this is data that we  
14 got from the Public Service Commission, I think  
15 it's important to overlay that with the VoIP line.  
16 And so you can see that there's some combination  
17 there, that overall where VoIP may be replacing  
18 what's considered traditional landline service,  
19 that there's still an overall decline between the  
20 two together, sort of the wired end of the house  
21 versus wireless whether it be VoIP or whether it be  
22 traditional landline service. But, again, the same  
23 graph from last time, you can see that where  
24 historically it's been thought of as being a  
25 landline exemption, where I think the expectation

1 is in the history it's been predominantly  
2 associated with landline service we can see that  
3 landline actual service of number of landlines  
4 dropping throughout the history, throughout the  
5 odds that reflects the dropping -- or excuse me,  
6 that increasing percentage, the dropping share of  
7 the residential exemption.

8 Next slide, please.

9 This is the forecast of the CST base, the  
10 state component of the state communications  
11 services tax base or the percent of the gross  
12 receipts CST base. So you can see as I talked  
13 about, it's continuing to grow, meaning the impact  
14 of the residential exemption shrinking as we go  
15 forward throughout the forecast. Now gross  
16 receipts and CST conference, because of the public  
17 education capital outlay component, use bonding of  
18 that, we do forecast further -- the Revenue  
19 Estimating Conference does forecast further the  
20 gross receipts and CST after '20-21 under the  
21 current forecast, then some other revenue source  
22 are forecasted.

23 Next slide, please.

24 Now, this shows the history of the  
25 relationship and also the growth in the ratio. You

1 see that the growth in the ratio has been  
2 diminishing over times. There were some things  
3 in -- forecast that diminish over time. There were  
4 some things that took place in '08, '09, I think,  
5 that collections, when converted into base, because  
6 of audit activity and other things create those  
7 anomalies in what would otherwise be a smoother  
8 history line. But, you see the general upward  
9 trend in the percentage and then the sort of steady  
10 but slightly diminishing growth in the outward  
11 period.

12 Next slide, please.

13 This slide just compares the basis and then  
14 the difference. So you can see the difference  
15 shrinking as it goes forward in time.

16 Next slide.

17 All right. This is a simulation. And so I've  
18 done a couple simulations for you. One, the first  
19 column here says, okay, if taking that generated  
20 number for the base that comes from that forecast  
21 to the percentage that state sales tax base is of  
22 the gross receipts tax base, if all of that were  
23 made taxable at the current rate, what would the  
24 revenue implications be and this is throughout the  
25 historic period. And so you see throughout the

1 history, essentially the shrinking from what would  
2 have been in 2003-2004 about a \$235 million impact  
3 to the base, in '11-12, shrinking to about  
4 \$132 million. Excuse me, revenues. This is a  
5 revenue number. And so this would be, again, just  
6 a state sales tax because that's the only -- the  
7 state sales tax component of CST because that's the  
8 only component to which the residential exemption  
9 applies.

10 Now, the second column shows that in the  
11 history, if the exemption had not been in place  
12 what could the rate have been that would have  
13 generated the same amount of revenue as was  
14 actually generated off the base with the  
15 residential exemption in place. And you see, you  
16 know, the rate impact diminishing as it goes  
17 forward. In '03-04 because of the higher estimate,  
18 the revenue neutral rate would have been  
19 5.3 percent, whereas in '11-12, it's 5.8, rounding  
20 up to 5.9 percent compared to the 6.65 percent  
21 state sales tax rate.

22 Next slide, please.

23 And actually somewhere up here, I think it  
24 should be compared to 6.8, state sales tax.

25 Looking at the forecast period, if there were

1 that same analysis done looking over the forecast  
2 period -- this actually does that same analysis  
3 looking over the forecast period. So the first  
4 column is if the rate stayed at 6.65 percent and  
5 the base were expanded, what the additional  
6 revenues would be. And you see the '12-13, \$124  
7 million, shrinking in '20-21 to \$73 million. And  
8 then revenue neutral rate being 5.9 percent in  
9 '12-13 and growing to 6.27 in '20-21.

10 **MR. DUDLEY:** Bob, does -- I'm sorry, Marshall.

11 Do these numbers assume the projection  
12 continues in terms of the lower number of  
13 landlines, I assume?

14 **MR. McKEE:** It's whatever's driving the  
15 growing percentage that the state sales tax base is  
16 of the gross receipts tax base.

17 **MR. DUDLEY:** So what's unknown is the issue  
18 you raised earlier which is are there other  
19 services that may qualify for the exemption? And  
20 if there are, then these numbers aren't accurate  
21 because you'd have to factor in those --

22 **MR. McKEE:** There's --

23 **MR. DUDLEY:** Those values?

24 **MR. McKEE:** Yeah. It's based on the official  
25 forecast right now. So that is the official



1 forecast. That's a basis for what we do. One of  
2 the challenges in forecasting the future is that  
3 there's always unknowns in the future. So, you  
4 know, if technology changes in some other way, if  
5 for some reason there becomes something developed  
6 that gets people back to landlines for some reason,  
7 you know, then you'd see some different behavior.  
8 So, I mean, it's all based upon current projections  
9 for the trends.

10 **MR. DUDLEY:** So you're not forecasting that  
11 the VoIP growth will offset the landline loss?

12 **MR. MCKEE:** At this point, that does not seem  
13 to be in the conference estimates. So the  
14 combination -- I think when you look at the  
15 percentages and you look at the -- at that earlier  
16 chart that shows the decline in the landline and  
17 the growth from the VoIP, again, if there were  
18 continuous -- I think you would still see a drop  
19 overall in the combined lines of the VoIP and  
20 landlines, and that's I think symbolic of the -- or  
21 one of the driving factors between that growing  
22 percentage of -- that the state sales tax basis or  
23 the gross receipts tax base.

24 **MR. DUDLEY:** I think you'd probably find it's  
25 the loss of second-line revenues.

1           **MR. MCKEE:** I'm sure there's also second-line  
2           loss. There's other things driving -- certainly  
3           driving that provision.

4           Next slide, please.

5           And then this slide is just sort of to  
6           illustrate some of the challenges that can exist  
7           with revenue -- excuse me, achieving revenue  
8           neutrality when you look at rate reduction. And it  
9           all comes in the timing of the choice given that  
10          declining impact of the residential exemption  
11          that's in the current forecast. So again, using  
12          the current forecast numbers, the first column  
13          shows you, well, if there was a policy choice made  
14          today to reduce the rate to eliminate the  
15          exemption, residential exemption, and to reduce the  
16          rate to 6 percent, in '13-14, that 6 percent would  
17          generate a small amount of money, \$7.1 million and  
18          the current estimate. However, for each period  
19          going forward, it would generate less than the  
20          current forecast amount at that chosen rate of  
21          6 percent.

22          If instead, there was a chosen rate of  
23          6.3 percent, which is arguably the '20-21 revenue  
24          neutral rate, it would result in the generation of  
25          those additional amounts in each year on the

1 current forecasted basis for the years 2013 through  
2 2019-20.

3 And at this point, I'll take any questions.

4 **MR. STRANBURG:** Any questions about this?

5 Thank you, Bob. Appreciate that. We were  
6 tentatively planning on taking a lunch break at  
7 11:30. It's about 20 after 11:00 now. And our  
8 next presentations all are on topic to have the  
9 prepaid services, so if everyone is agreeable to, I  
10 think we might want to try to keep them together  
11 rather than breaking them up. So if you don't  
12 mind, maybe we'll take a little bit earlier lunch  
13 break and be back and convene again at 1 o'clock.

14 And a quick reminder, please, from the folks  
15 from the local governments remember this. Others  
16 of you remember, the government and the Sunshine  
17 requirements, you really should not be talking  
18 about the working group work in small groups when  
19 you're at lunch or when you're at breaks, so just a  
20 friendly reminder.

21 **MR. ROSENZWEIG:** Before we break, because I  
22 know we have a long agenda this afternoon, I'd  
23 request or suggest that we deal with the process  
24 issue right after lunch before we go to these  
25 presentations because I have a feeling this is

1 going to be pretty long and intense and probably  
2 want to be wrapping up when this finishes. So I  
3 suggest maybe the first order of business when we  
4 come back after lunch is to address that process  
5 discussion and get it out of the way so that when  
6 this is done, we can just all be ready to leave and  
7 not have another large discussion with this.

8 **MR. STRANBURG:** That's a good idea.

9 **MR. ROSENZWEIG:** I appreciate that.

10 **MR. STRANBURG:** We can do that. And we may  
11 want to -- set ourselves a little bit of a time  
12 frame within -- so that we don't drag it on.

13 **MR. ROSENZWEIG:** I would even suggest, I mean,  
14 1 o'clock, that's a long time for us, an hour and  
15 45 minutes. If it's not a problem to come back  
16 earlier, I wouldn't mind to come back here at 12:30  
17 if that's okay. I mean, I don't particularly --

18 **MR. STRANBURG:** We've got some things noticed,  
19 so 1 o'clock is probably what we need to stick to.  
20 We have some of the people who were on WebEx or  
21 were listening who missed whatever we discussed.

22 **MR. DUDLEY:** If we're going to do that after  
23 the prepaid, that's fine. Before. Okay. Do we  
24 have a slide or do you have the slide from last  
25 time that has the actual legislative charge to this

1 group? Because I know Marshall read it, but I  
2 don't have it with me. May be good to pull that up  
3 while we're having that discussion.

4 **MS. MORELAND:** Sure.

5 **MR. RESNICK:** Just before we break, I meant to  
6 do this earlier and I -- when we went over the  
7 minutes from the last meeting, with respect to  
8 French Brown's presentation on the -- survey, I  
9 think it does need to be pointed out in the minutes  
10 that members of the work group pointed out that the  
11 survey was not accurate because it didn't -- the  
12 other states surveyed did not look at -- did not  
13 mention that they had other fees that Florida  
14 incorporated in the communications services tax.  
15 So if you're looking at what the total rate is in  
16 Florida, it's actually less than most other states.  
17 And that was pointed out at the last meeting. So  
18 if we can just change the minutes to reflect that.

19 **MR. STRANBURG:** Okay. We can do that.

20 **MR. RESNICK:** Thank you.

21 **MR. STRANBURG:** Okay.

22 (Lunch recess.)

23 (End of Volume I.)

24 \* \* \*

25

