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PROCEEDINGS

**MR. STRANBURG:** Welcome back, everyone. Our next presentation is going to be by AT&T on developments in technology. I want to thank Gart for coordinating with us and getting this presentation set up. I've seen an earlier version of this and I thought it was very useful and we're looking forward to it.

We have here with today us Joy Spahr. Joy is the director of AT&T's innovation center. So, Joy, I'll turn it over to you.

**MS. SPAHR:** Thank you. Where will the revenue streams of the future be generated? Predicting this is a big dilemma that the private industry faces every day and now governments are facing it at all levels. And it's not certainly not getting easier to try and figure this out at the pace that technology has been increasing.

Thank you for inviting me here today to talk about the changing face of communications. My intern, Morgan Evans, and I created the presentation as a special project for the Federal Streamline Tax Session that was held at the AT&T innovation center in 2010. I will let you know right now that I'm a jack of all trades but a master of none. I have no background in tax at all. We typically have a variety of subject matter experts that are able to go into the AT&T services and products that we represent at the AT&T innovation center, however spending more than 20 years in the communications industry, I've certainly been exposed to a wide variety of changes and we had a great time working on more of the industry perspective -- which we've updated for you today.

Next slide.

And there are some trends and predictions obviously in this presentation, so I thought it would be best to always start with our legal disclaimer.

Let me go to the next slide.

Today I want to focus on three areas and share several examples of current communication services. So the first area that I want to talk about is the changing face of the Internet. Then the Internet as a value added platform that drives economic development. And then the power of convergence with some examples of some communications services.

Next slide. Next one.

How consumers see the Internet. It's the lovely amorphous cloud. Somehow they connect out there and they go off to Amazon or Google or Disney or whatever their favorite site is and they do some shopping, they download movies, games, they do a variety of e-mail, photos, you name it, but basically it's something that's out there. And the industry really hasn't helped with that perception now with all the talk about Cloud technology that just seems to reiterate that perception.

But if we talk about what the Internet really is, we go to the next slide. We'll see if you click on it that you have all the hubs and then they're connected into local access networks. And these local access providers are companies such as telephone companies, cable companies, satellite companies, even electric companies that provide access into the home.

Then these different networks connect into, if you click again, the regional backbone network. The regional backbone networks then connect into the global backbone networks. So it's a variety of interconnected networks by hundreds of thousands of providers out in the marketplace that all interconnect. And they have peering points which are what are those blue circles there that you see, where they trade traffic. And they use a common protocol.

So if we click to the next slide. And click again.

You'll see that it's part of 200,000 plus private and what I call semiprivate, your educational type of networks that are all interconnected using the the Internet protocol. So really think of it as a network of networks.

We go to the next slide. This is actually a portrayal of the major endpoints on the Internet. It was generated by AT&T labs through a data visualization tool. And AT&T's presence on the Internet is the blue. So you can see we're one of the larger players in the infrastructure that underlies the Internet.

Okay. If you go to the next slide.

I thought it would be instructional to play a video, the first part of this. It was made in 2007. If you are on the WebEx, the audio will play through your computer speakers or your headphones, so make sure they are on.

(Video played.)

**MS. SPAHR:** If we go to the next slide.

So where are we today for when that was made in 2007? If we look at the exhibits that are being generated, we noticed around -- in 2007, it was somewhere around 38, we're now up to 309, which is a 713 percent increase just in the data alone. We look at the number of Internet users, we've gone from one billion in 2007, we've more than doubled it to 2.26. We have gone from YouTube download, you saw there were 100 million in 2007. We're now up to 4 billion. I mean, just staggering numbers. If you look at Facebook, which started at 50 million, and now we're up to 800 million. And even in the tweets per day, just phenomenal because, of course, that's a new technology as well. So are there any guesses as to the percentage of increase of wireless data traffic on the AT&T network? Anyone who wants to hazard a guess? It's actually a 20,000 percent increase over the last five years since 2007. So phenomenal amount of data traffic that we see from a variety of different sources.

Click to the next slide.

This was just recently updated for an international audience, but it just shows you globally where we are with the variety. If you look at the e-mails, look at again blogs, Internet users, phenomenal growth.

We go to the next slide.

So what are some of the implications? Well, one of these is wireless substitution, something I know you guys are very familiar with. And if we look at the households without land lines. so the percentage of US adults and children living in homes that use cell phones for their primary home phone, this was also in 2010 for Florida, we see that 34 percent under the age of 18, 27 percent age 18 and older. So not even a lot of difference in the demographics as far as those who are cutting the cord.

This is the trend line over on the right that you see which is the wireless substitution for land lines. And as of 2010, there'll be 30 percent of the United States households have disconnected. It's been averaging about one increase per quarter. So as of June of 2012, we should be at approximately 38 percent of households that have disconnected.

If we look at the next chart, this is just the mobile subscribers world-wide. You can see there are 6 billion in 2010. Strategy analysts predicted that we would be at 5.8 billion by 2013. We're already at 6 billion fourth quarter 2011, so we've exceeded that. There are now more wireless devices being used in the United States than there are people, according to CTIA. That happened in October 2011. Mobile devices at that point were 327 million, population 315 million. In some countries in Africa, there's a higher percentage of the population that has a cell phone than has a toilet. Pretty phenomenal.

If we look at next slide.

Here Cisco has been producing a lot of reports. You can get them free on their website regarding different trends. This is one on mobile traffic estimates. And as you can see, the big increase is 64 percent there is video.

If we go to next slide.

This is one the labs put together. We call it the Internet of things machine to machine or invisible computing. So it's all those other things besides people which might be, you know, pallets and cases, consumer items, home appliances, machinery, vehicles and handhelds, these will far outnumber the number of cell phone users in the future. It's a huge amount of traffic that will be generated by machine to machine.

And that's something I even -- when I was at the airport this morning on CNN they talked about a safety pilot and it's for your car and it would actually be able to pass information from cars up ahead to tell you what was happening with traffic very localized to where you are. But also if you got too close to another car, it would actually set an alarm. So -- and that's something that's being trialed right now. So a lot of different things that are heading our way.

If we go to the next slide.

This is something you're going to be hearing about more in the future. How do you create a value added platform to stimulate economic growth? From an industry perspective, we're always looking about how do you monetize this platform? So think about a platform that enables the sale of Apple devices. Anything come to mind? ITunes. If you think about iTunes, what are you doing? You're actually taking a whole bunch of application developers and then connecting them to a variety of consumers that have your devices and it's what's enabling that phenomenon and that sale of devices. So it's the way to look -- in the future, you're going to see this. Companies are going to be trying to create these two-sided or value added platforms in order to generate economic development. And the Internet acts in the very same way.

If we go to the next slide.

We have no surprise here; you click again, you see distributed text. If you click again, you see how the Internet distributes content and the industries that it's created there. Again, in voice, which we will spend a little more time on. And then in distributed video.

Are there any questions to this point?

So let's dive a little deeper into the power of convergence and what's going on here. So we click to the next slide here.

There are five major discontinuities that are enabling convergence. If we click again. We have the common protocol, just really think of IP as a common language. Number two is broadband everywhere, number three ubiquitous wireless, number four, multiaccess interactive devices, and number five -- which we're going to spend a little time on -- the delayered and open network IT platforms. And this slide used to say will enable, now it says are enabling. That's how much it's changed.

Go to the next slide.

Network convergence. This is with AT&T what we did. In the past, we had a different type of network for every different type of application that we had. Today, we use what's called an IP/MPLS, multi protocol label switching technology. And we're able to take any type of content encapsulate it and send it over to our network, take the wrapper back off and then recreate it on the other end. It makes it very efficient for us to run it as one network instead of five separate networks.

If you click again, what this also means, though, is that an application like voice just becomes another data application. On your IP network. So what Internet protocol does is enable the application to no longer be dependent on the underlying infrastructure. So -- and this will probably date myself a little bit -- back in the day, IBM, when they used to write their software, they would program it with subroutines that would do a machine call. They would actually go in and have to go into the machine and activate a certain function. And what that meant was the software could only run on that machine. Very nice proprietary system. But they kind of then started to alienate their customers because what happened is if you moved up to a larger mainframe, you had to rewrite all of your applications because again, it was written just for that machine.

There was something else that happened, too. AT&T labs came out with something called Unix and it could run -- it was machine independent. And you also had a gentleman who left IBM and who was the inventor of DOS and started Microsoft. That was Mr. Gates. So you had a variety of things happening. And, of course, that -- when that whole platform opened up, you saw what happened to the growth in that area. So IP is doing the same thing. What it is is enabling voice to become another data application.

If you click to the next slide.

Video as well. But the other thing, if you focus up on the top, you see the voice, e-mail, domain name service, world-wide web. What it also means is that you can integrate all of those now. They're using these standard base protocols. You can now integrate them and create new and neat applications.

So we click to the next slide.

What you see is this service convergence. So you start out on the left where you have some of the traditional services that start to move to IP, then you start to see them kind of get combined and you might have click-to-dial on your website or instant messaging or chat. You've got video conferencing, then you start to see document collaboration. And then as you keep moving on, you go into more of the grid computing and online gaming and then start to get even up into sensor and ad-hock networks. So this is what's enabled a great growth here is the ability then for all of these different applications to be able to work together and look seamlessly to the consumer as one application.

If we go to the next slide.

This is the delayering, the fifth discontinuity, and this one's pretty important. What happens here is by opening up this into layers, it's going to allow or does allow actually a variety of different players to enter the market.

So if we click to next slide, I have several examples.

Okay. And just to give you a little code to the chart here, the color, the color matches the block on the left. So, for example, the red matches the content layer. It shows who owns that layer in a shared or contractual arrangement. Purple indicates sole ownership which means they -- I'm sorry, they have sole ownership. White means they use someone else's investment without a contractual arrangement. And this -- I put this together based on a variety of different things I had read. So I can't tell you for sure it's 100 percent accurate, but based on what I know, this is how different companies are providing these services.

So if we start at the left with AT&T's IPTV, known as U-verse. What we do, if you start at the device layer, we have an arrangement with a set top box manufacture for a specific box that works with our television service. We own the physical layer. We have partners in the logical layer to help us with the addressing and the handoffs, that sort of thing. In the application, we also have some partners. So in the logical layer, some of our partners are like Alcatel (phonetic) and Microsoft. In the application layer, we have partners like Yahoo to help with some of the applications that we provide besides just television on our IPTV. And then we also have to go out in the content layer and go to the content providers and contract with them in order to have something to show on our television service. So that's an example there.

If we go to Ooma which is a VoIP provider, what you have there is they also have someone that's manufactured their VoIP box. They are independent on the broadband, so it will run on anyone's cable or DSL service. And they have their own software that they've written for the application layer. They do have to go out to the phone number administration to go get a telephone number. And that's, I guess, you would call their content there. So that's an example here.

If you look at Garmin, who does the GPS, they actually, again, have a -- what they're selling is a device. They use frequency, they use satellite, and then they also use FM radio, they use that frequency. And on that frequency, what they're getting is the traffic. So that's why there's a special little receiver on your cord that comes out of your charger in your car, and that's to receive the traffic reports over an FM signal. Then they have their application obviously that they own.

And then they have some sort of contractual arrangements with whoever does the mapping for them as well as provides the traffic.

If we look at the Amazon Kindle, it will run on a variety of different devices besides just the Kindle itself. But they contract -- they have contractural arrangements with 3G providers around the globe. So they actually pay those providers for the consumer to be able to download the books. So the consumer doesn't see a fee there. And then they, again, own the application layer but they also then go contract out with whoever the book providers are for the content.

So I just wanted to show you a couple examples of how this works. You can see there's a variety of different types of market arrangements here. Whether they contract with one another or have some sort of sharing arrangement or they just use the infrastructure, it varies from application to application. If we look at Skype, for example, they're really -- it's just a web application. So it's independent of the device. It really doesn't have any content. It uses anybody's broadband. But the interesting thing is someone just bought Skype, and that was Microsoft. Now if you look at this model, what is Microsoft going to sell? Well, they obviously want to sell their operating system and their software so that they can bundle Skype in as one of the applications, that makes it a little more attractive. So that's -- so you'll see, of course that changing because of that relationship. So, again, I just wanted to share with you that because you delayer this stack, you now allow a lot of entrance, create a lot of jobs, stimulate a lot of different applications because of Internet protocol.

And if you click again, this is really part of a bigger vision where you're going to be able to -- really from any application, you can have it from any device to any device over any type of network.

Any questions here?

Okay. I wanted to just go into a few what I call service comparisons. The first one we'll start out on the next slide is VoIP. Voiceover Internet Protocol. We can go to the next slide.

Want to look at two, Google voice and Ooma VoIP. So these are two major players in the consumer VoIP space. Google is known as a web-based provider. And Ooma is a device provider that was just rated number one in consumer reports.

So, if we click to the next slide, we'll talk a little bit about Google voice first.

So, what happens here is that the consumer goes to Google and they get a Google number. Now this is a made-up number. I mean, it's something that Google controls. Doesn't have anything to do with the phone number administration. They get the number for free, and then they give it to all their friends and say call this number. So a caller will call the number, it will go to the Google gateway. It will then, based on how the consumer has set up their profile, it will then call forward to a variety of different devices. So it's basically a fancy call forwarding service. That's how I would really look at it.

And based on your profile that you set up through the web, you can have it so that whoever's calling you can call one device, it can call multiple devices, it can call them in some sequence that you want or ring them all simultaneously. So you have a variety of different options. And they have an excellent demo of this service on their website. So if you would want to look at it in a little more detail, they've done a very good job.

For Ooma, there's a little bit of difference here. In this case, Ooma has a box that you go and buy. So, I went and bought my box at Costco, and it was $199. And it gives you unlimited local and long-distance calling. Okay. Now, they actually have to go and get a -- well, you can port your phone number that you already have, if you would like. Or if you want a new phone number, they actually have to go get the bank of phone numbers just like another telephone provider would have to. And then they can assign you a number. So, you can do it that way.

You have an option of having a premium service. And the premium service, you can have virtual numbers. So you can have a variety of different numbers that all point to your home number. So if you've got family in other areas of the country, for some reason you'd like them, you know, Grandma to be able to call locally and maybe not make an in-state call, then you can do -- get one that's in her calling area, a phone number in her calling area, and it will point then to your home. And I can show you this after this talk so you can see what it looks like on the web page. So those are called virtual numbers. You pay like about $10 a month to have this premium service.

You can have these virtual numbers. They also have a call forwarding capability. So at any time, you can call forward the numbers to another number if you would like to. And you can set it up so that if the power goes out in your house, then the calls will also forward automatically to, for example, your cell phone if you'd like them to do that. So, that's how Ooma has set it up.

**MR. RESNICK:** Doesn't the device need power?

**MS. SPAHR:** The device needs power, yes, it does. So if it loses power, then what they'll do is back here in the Ooma gateway, it will detect that there's no power to the box and then it will call forward it automatically based on the profile that you built on a web page to another number. You also have to set up 911 service. You have to tell them, you know, where the physical box is located because you can take this box if you wanted to. You could travel with it. You could actually take it to the beach. We did this one time. Packed our little box up and took it to the beach because we had an important real estate transaction and needed to be able to fax something. Brought our little fax machine and Ooma line, plugged it into the broadband there, and we're able to conduct our business while we were down on vacation.

**MR. RESNICK:** Going to say, kind of be careful --

**MS. SPAHR:** That was a personal business. Any questions on the VoIP? I want to show you a chart then of where this is heading.

**MR. DUDLEY:** Question on that. So you bought the device at Costco for $199 and that's all they charge you to enable it forever?

**MS. SPAHR:** Right. Forever. And then if I only get basic local and long-distance calling, I don't pay a monthly fee. I do have to pay tax once a year. They do collect tax on it once a year based on where you're at.

**MR. DUDLEY:** Do you register it to a zip code or to a --

**MS. SPAHR:** Yeah. Because for 911 purposes, remember, you have to say where that box is and that's what they'll base the tax on. So I think last year it was a little under $12 for the whole year.

**MS. KITTRICK:** So they actually bill you for the tax?

**MS. SPAHR:** You must put in a credit card now. That's a recent development in the last couple of years, probably after we showed it to the federal streamline tax group.

**MR. RESNICK:** It has to have Internet access to function?

**MS. SPAHR:** Yes, it does.

**MR. RESNICK:** So when you're on the beach, you have --

**MS. SPAHR:** Broadband, uh-huh.

**MR. RESNICK:** -- card or whatever.

**MS. SPAHR:** We just have broadband in the place where they -- or wifi. It will work on wifi.

Any other questions on the Ooma?

Actually I don't think it works on wifi, I take that back. It's Ethernet connection into the back of the cable modem or the DSL modem. You just bring an Ethernet cord.

**MR. DUDLEY:** So it doesn't work on a wireless network?

**MS. SPAHR:** No. Not yet.

Next slide.

And we'll look at the trends. Now the left axis is the number of voice lines for circuit switch in a facilities base or active users for web or device-based providers. And I created this graph from data from a purchased IDC report. So if you wanted to see the actual numbers, you actually have to pay for the report. But I wanted you -- it was important enough I thought for you, you know, to see what the trends were even if I couldn't share what the actual numbers are.

Because if you look at it, and I don't -- looking at some of the notes in your first minute -- the minutes that you had from your first meeting, I noticed that you talked somewhat about the drop in circuit switch lines and land lines which is the orange -- kind of orange-looking line on here and how some of that was being made up by VoIP that's being offered by the cable companies and the telephone companies, so what we call facility based VoIP. And you do see that in this particular chart. What you see is it actually crossing where the facilities base will exceed the number of land lines somewhere between 2014, 2015. You see companies like Ooma being relatively flat in the market. But what you see taking off are the web-based providers. So companies like Skype or Google that are really taking off the chart as far as number of subscribers, active users.

And on another chart that I looked at from another one of the paid reports that we had, it was interesting because the circuit switch and the VoIP facility space, they cross like that and then they both start to decline, and some of that is again from wireless substitution. So different analysts have different views on what the predictions are, but it's definitely a picture where land lines are certainly on the decrease and VoIP and wireless substitutions are the ones -- or wireless that are taking over. Certainly something that we had to look at at our company where we were looking, where do we generate new revenue, that's why we looked at television, wireless, and these other places and VoIP because our base line business is in decline.

If we look at the next slide.

Okay. Video calling. So we have -- if we click again, there's two things we'll look at here, Skype and then AT&T Connect which is really a business version of -- like WebEx. How many of you have used Skype before? Yeah, it's pretty popular, especially if you have someone who's overseas. That tends to be a big application for it.

If we click to the next slide, we'll look at Skype in a little more detail. So basically you're going computer to computer. So, you're -- the consumer's paying for a broadband connection.

Whoever they're talking to also has some sort of broadband connection on the other end. And then they set up a user name and ID and they can then initiate a call basically computer to computer using their microphones. And then they can do video and also have a phone conversation. And that's how it works.

Now they also have something called Skype Out which is where you can actually initiate it from your computer but then have it call a phone. And that's where you're going to pay some couple cents per minute for that type of a service. And the international rates are extremely good if you look at their tables. I think, last time I looked, calls to Europe were four or five cents a minute. So very reasonable and something that's used. It requires obviously a microphone and a web cam or you can use the computer speakers with your PC or your laptop.

Any questions on that one?

Okay. Next is the connect service. So in this case, this is a business service. So thinking of a teleworker, they would have their broadband at home. The teleworker's company would, in this case is AT&T Connect, they pay AT&T or WebEx, some sort of monthly invoice based on some sort of contracted rates. And there's an option at least with the AT&T Connect that they could do the audio portion separate to have better call quality if they'd like. And then the -- whoever joins, all they need is a broadband connection and then a laptop on the other end. If they want to do video, they need a web cam. If they -- you know, then again, the microphone. So very similar in the technology and how it works.

If we look on the next slide, we'll see some of the Skype statistics. So, pretty amazing when you look at the total number of users. I've highlighted a couple that I thought were interesting. The average amount of time that they spend on Skype per month is 100 minutes. Actually the one below it I should have highlighted, too, the total percentage of small businesses that use Skype as a primary communication service is 35 percent. Then the total percentage of Skype calls that end up being video to video are 40 percent. And the number of monthly paying Skype users is 8.1 million. So pretty significant.

If we go to the next slide, this is TeleGeography estimates on Skype-to-Skype calling and it's effect on international calling. So they're attributing that -- they said that international calling would have been following that dashed line except for Skype. Because Skype is that big differential that you see a big drop in the carrier traffic for international calling due to Skype's ability to do video-to-video calling. And then growth rate is pretty phenomenal since Skype added 47 billion minutes of international traffic in 2011 which was more than twice all the telephone companies combined.

Any questions on the video calling?

Next slide then. We'll look at IP television.

Here we have two examples, Hulu and AT&T U-verse. So the top one -- or if you notice the difference, AT&T is not using any public Internet facilities. And that's to maintain a higher quality user experience so we can compete with cable. So Hulu uses the Internet, AT&T U-verse uses Internet protocol, but our own network facilities so we can control the environment.

If we go to the next one.

Here's Hulu. So consumer has a broadband connection. They can get the basic service of Hulu for free if they're willing to put up with ads. Or they can pay for a premium service called Hulu Plus that was actually announced in 2010. So basically Hulu's gone out and gotten with content providers and advertising providers and put together this service and they offer it over the Internet independent of the broadband provider and it comes right into the home and then can be put right on to the television. Okay. And it's primarily TV shows and movies.

Click on the next one.

AT&T is -- we're using fiber to the node primarily and then a copper into the home. And they're paying us for a monthly TV. And broadband service and VoIP is optional. And again, we have the same type, you know, contractural arrangements with content providers and advertising providers.

So let's look at where Hulu's gone in the last -- okay. In August 2009, Hulu had more viewers than Time Warner cable. They now have, as of October 2011, one million paying subscribers on their Hulu Plus. And they just did -- had an announcement recently to be on Apple TV. They also just announced that they're going to work with the cable companies to develop an authentication system to verify the subscribers have an active account.

So -- and you can think about that, where does Hulu get its content. You know, content providers are very concerned about -- and the cable companies as well. And so Hulu has decided they will do some sort of authentication.

If you look at NetFlix for comparison -- so Hulu was somewhere in the mid to upper 30 million. You have NetFlix ending the first quarter in 2012 with 22.7 million. Here in the US and 3 million internationally. AT&T with our service was at the -- end of the same quarter, it was 4 million. And Verizon with it's FiOS was 4.4 million. So just a comparison on number of viewers to see how popular some of these consumer services are.

If you click to the next slide, this is something that I came home one day and I was stunned because my teenaged daughter had set up a NetFlix account and she had done it through her Wii. So, you don't even need a computer anymore. So you literally click on it, it's -- Hulu's also another one of the ones you can click on on their little menu on the Wii and you can -- if you have an account, then you can actually just stream it right through into your television set. And the same thing with PlayStation as well. So several of these game consoles now have the ability to do the streaming video as an add-on feature.

If we look at the next one, this is another option of mobile TV via a Slingbox. Anyone heard of this or use this? Yeah. So that's where you actually buy a box. And it operates between your broadband modem and your set top box. So you have to have a subscription to a television provider. But what Slingbox allows you to do is it will then transmit over your broadband connection back and allow you to pick up your television service then on a tablet, on your phone, any type of mobile device. So you're able to watch then your FiOS TV or your U-verse TV or your Time Warner TV, or whatever it is, you're able to watch it remotely while you're traveling and take it with you, basically in your pocket. So, that's just another variation on the Internet television.

So if we look at the next slide, we're kind of where things are going here. We're seeing some, a trend that's just starting, for the cutting the TV cord. So, even though it's a 4.5 percent of the TV households that have a broadband connection but no subscription, they have free broadcast TV. So they're not subscribing to any cable or telephone company's television service. They are growing at -- last year they grew at 22.8 percent. And that is expected to continue. So it's kind of interesting. If you look at their characteristics, they stream twice as much as the general population and watch half as much TV. So they're doing a lot of the movies and television shows, those sorts of things that they're watching. But this is a growing trend that I want to just bring to your attention because this is also something that's happening on the television side that we see on the land line side.

Are there any questions?

Because I do have a couple demos if you wanted to see just a couple things.

**MR. RESNICK:** I mean, it's not really related to the taxing issues, but the wireless capacity that you all are going to need to do this type of -- I mean, is that capacity out there now or is that something that still needs to be built or --

**MS. SPAHR:** We're building like crazy with our LTE, our long-term evolution. That's what they call 4G, the next generation of wireless that starts to get you up into some significant speeds thinking somewhere not quite at 100 -- close to where FiOS is at. You know, fiber speed. You're talking significant upload, download speeds with that type of capability. So we're building that out. Verizon's building that out. They're building it out around the world. Sprint's looking at how they're going to be building that out. I think they're going to move their WiMax to an LTE strategy.

**MR. RESNICK:** Is there an issue if there's too many users of these service in any given area; does the service degrade that?

**MS. SPAHR:** Yes. Any time you talk about spectrum, you always have the issue of congestion. And so you always have to look at, you know, your radios -- do I have enough of them and do I have enough towers that are scattered in a certain area? I may have different strategies of offering wifi hot spots so I can offload some of that traffic to help with connection. But I do -- as a wireless provider, you run into zoning issues. So sometimes you can't always put a cell tower where you'd like to.

**MR. RESNICK:** We'd put one next to your house, but you don't like that.

**MS. SPAHR:** Right. Nobody wants it to be in their back yard, but they want the service and they complain when they don't. So you have those types of issues. So, yes --

**MR. RESNICK:** Give me your address and I'll tell them that you're okay with that.

**MS. SPAHR:** The other thing you have to look at is the back hall. So it gets it to the tower, but then what do you do with it after that? You -- we've been doing a massive upgrade for Ethernet fiber on the back end of the tower to get it back to the central hubs, you know, so then it can be distributed from there because you can have connection at any point along the network.

**MR. RESNICK:** The other thing that was totally absent from your presentation and I was kind of surprised is that there's no mention of public safety communication in there at all. So the -- I mean, are people still going to just use their land lines to call when they have a heart attack or fire or something? Or is that going to translate to a wireless device, and how is that going to be hooked up and who's paying for that? Is there going to be a 911 fee on the Internet service to pay for that or how is that going to work?

**MS. SPAHR:** I have to tell you I don't deal anywhere in the public safety. Is there --

**MR. DUDLEY:** There's been a 911 fee on every wireless phone forever. VoIP is per line service which pays for the line.

**MR. RESNICK:** So for --

**MR. DUDLEY:** The only thing out there is prepaid and that's --

**MR. RESNICK:** What about like the texting? Because that's the big thing. So AT&T charges every consumer an Internet service or 911 fee.

**MS. KITTRICK:** Typically you don't have an Internet service phone that doesn't have voice, right?

**MR. RESNICK:** Well, no, but you can text. I mean, that's the whole idea. They want to go so that public service -- public safety access points can send text messages.

**MS. KITTRICK:** I don't think you have a separate fee for texting and for calling on the same line.

**MR. DUDLEY:** I think they have a plan for next gen which includes iny and outy location with texting as well.

**MS. KITTRICK:** Just when you pay for the device, not for the way of texting going on per device.

**MS. SPAHR:** I will tell you from a technological point of view, things have gotten far better in being able to locate and pinpoint where a phone is. I mean, that was a huge issue even just a few years ago. They could do some sort of triangulation. It's very difficult to even -- especially in buildings and things like that, where is it coming from? So, there's been some technological improvements as well.

**MR. SUGGS:** Question, this is for the industry or for you. How gray right now is -- like can I ask Kathleen -- just want to separate voice from Internet access -- how gray is that area? Like I guess when we say 3G, 4G that's the phone network voice which we're still taxing under the current federal law. But Internet access itself, correct, is not taxed. But how gray is that area before you can't tell the difference anymore? Does that make sense? Or is everything --

**MR. LINDSEY:** Well, I think the examples that we saw are things that you call over-the-top type services. So you're able to have some voice conversations, voice communication purely through your Internet connection. So it's not the traditional -- technologically it's not a traditional land line, wireless-type service. It's not VoIP necessarily. I don't know what you call Skype. I guess that's VoIP.

**MS. SPAHR:** Web based is what they called it.

**MR. SUGGS:** But how long before we start -- before it's a mobile IP device?

**MR. LINDSEY:** I think that's kind of -- I don't know. I think that's the --

**MS. SPAHR:** Directionally where things are going.

**MR. SUGGS:** Am I reading right, like under federal law, you can't tax for Internet access?

**MR. LINDSEY:** Right.

**MS. KITTRICK:** Right.

**MR. SUGGS:** You got a new commericial, go buy your mobile IP device. I mean, are we screwed at the state at all levels of government under our current --

**MS. KITTRICK:** We talked a little bit about this. If the company stops monetizing voice and just monetizing Internet, then --

**MR. SUGGS:** Voice is just --

**MS. KITTRICK:** There is an issue.

**MR. SUGGS:** Buy Internet access device and, by the way, you can make a phone call if you want to but I'm just selling you the device, the -- whether it's post-paid, prepaid --

**MR. RESNICK:** I don't think there's any -- I guess over-the-top service, but there's no tax on what -- sorry, Marshall. But there's no tax on NetFlix. I'm not sure if there is or not.

**MS. KITTRICK:** Well, I think French had said that there was an opinion by the Department of Revenue that said that streaming video should be taxable, but --

**MR. SUGGS:** French, is this your last meeting? Come back up here.

**MR. STRANBURG:** All of us up here, we need to be sure to speak up. People are having a difficult time hearing questions. When you respond, please try to project out a little bit.

**MR. BROWN:** Again, obviously because of confidentiality laws and things like that, the Department can't talk about what specific taxpayers are and aren't doing.

**MR. RESNICK:** Just between us.

**MR. BROWN:** But like I did say, we do have an advisement out there that talks generally about streaming services and if they would be communication services. That being said, I think maybe the best way to know about any specific service, I don't know if any of you have those types of services or anything, but you may want to look at your bill and see if they're charging you the communication services tax because we can't talk specifically about who's collecting what and that kind of stuff, so --

**MR. SUGGS:** Stay here. So am I reading this right, there's no sales tax or anything on Internet access, right?

**MR. BROWN:** Digital content is not subject to sales tax because it's not tangible. You can't put your hands on it. And if it's not a communication service, if it's just information service, then it wouldn't be subject to CST.

**MR. ROSENZWEIG:** Where's Skype fit into all of that?

**MR. BROWN:** Again, can't talk about specific taxpayers, but --

**MR. ROSENZWEIG:** Well, company A that does Internet --

**MR. BROWN:** I think one of them that is clear with communication services is voice over Internet protocol is taxed, is a communications service.

You know, whether or not they specifically fall into the information versus voice over Internet protocol, that's -- I can't really talk about that.

**MR. SUGGS:** So VoIP is taxable. Is that because of our specific law, we pulled it out and said even though you're on the Internet, VoIP, we can --

**MR. BROWN:** Uh-huh.

**MR. RESNICK:** Well, but you're saying there's nothing in federal law that makes Florida's tax on that illegal basically?

**MR. BROWN:** On VoIP? No, no, not to my knowledge, no.

**MR. RESNICK:** So would federal law preclude taxing an IP based video programming service?

**MR. BROWN:** The way that I understand the Federal Tax Freedom Act is that it prohibits states from taxing Internet access. So again, like that -- I think your question is, you know, when -- what is content, what is Internet access, and how do those two kind of inner play?

**MR. SUGGS:** So hold on, let me -- not taxable, access to the Internet. Once I get to the Internet, depending on what -- we somehow, Florida law is able to discern a service and tax that service or deliver that service over the Internet, even though we're not taxing access to it.

**MR. BROWN:** Well, in agreement remember the Florida definition of communication services -- transmission, routing, conveyance of data and ways -- those types of things, so -- I mean, but again, that is probably the overall question is how do those -- where does one stop and one begin?

**MR. SUGGS:** I mean, this goes back to what we're trying to say earlier -- everything IP based, whether it's TV, voice, so, I don't know.

**MR. DUDLEY:** Hey, French, is the list of who's a registered dealer of CST, is that confidential as well?

**MR. BROWN:** I don't -- I think that the full list is. But I do believe that the Department can release information on -- they can tell you if a specific person is registered for tax, so --

**MR. DUDLEY:** So do we know if Ooma or Google are registered dealers of CST?

**MR. BROWN:** I don't know off the top of my head. But also remember that you could have as many businesses and you could have numerous names and structures and different entities registered for things that may not be apparent that everyone know.

**MR. RESNICK:** I guess a question more for AT&T, I'm sorry. With respect to the network that you're constructing and need to expand to provide all these services, the wired network -- network, are you paying any rights-of-way fees for that?

**MS. SPAHR:** Gary, do you know anything about that?

**MR. LINDSEY:** Paying rights-of-way fees for -- I'm not sure specifically. I think if we're building it out something in an area that's subject to a franchise fee --

**MR. RESNICK:** The issue, I guess, we're going to is that services are going to be -- or could be potentially considered Internet access service and not subject to state or local tax. And under Florida law, we can't charge any fees for use of our rights of way to communication services providers. But you're not a communication services provider if you're using the network for Internet access which is sort of maybe we can charge you use for the rights of way as an Internet access provider.

**MS. KITTRICK:** But we do pay property taxes, significant property taxes.

**MR. RESNICK:** Well, so do I, but that's neither here or there. I mean, you're using the services just like every other user of municipal or county services for that or school services or whatever.

**MS. KITTRICK:** We get to build the fiber that creates the service that people ride on top of. And we pay the property taxes and communication services taxes. It's not us. I mean, we're paying the taxes. It's just --

**MR. RESNICK:** Maybe that's something that we need to explore --

**MR. DUDLEY:** We're the only one paying the taxes.

**MR. BROWN:** Charlie, can I just mention one thing? Grace just corrected me, the whole provision about asking about a specific provider, that's only for sales tax under 213.053, not under Chapter 202, communication services. Sorry, we can't tell you.

**MR. DUDLEY:** Okay.

**MR. SUGGS:** I guess last -- most of this, all of this stuff backbone still is primarily is anything newer than fiber, like heavy-duty stuff is all fiber? Does wireless -- this is all heavy-duty fiber?

**MS. KITTRICK:** Wireless is getting there.

**MS. SPAHR:** Wireless is getting there with the LTE.

**MR. SUGGS:** The LTE stuff is all wireless and you have, I guess, hubs and then everything in between the hubs is wireless?

**MS. KITTRICK:** We use a fiber backbone.

**MS. SPAHR:** Fiber backbone. Your transport's fiber, but your access is wireless.

**MR. DUDLEY:** That's a data-all fiber agreement. Electric company's fiber. It would be telephone company fiber. It could be a third-party's fiber.

**MR. SUGGS:** I imagine a lot of people use -- access to the fiber. It depends --

**MR. RESNICK:** Well, the companies that are providing the internet based services like Hulu or Skype, they don't own their own networks.

**MR. SUGGS:** That goes back to your chart.

**MS. SPAHR:** Correct. They do own servers where they have to host all their content. That is so they have some building with a bunch of servers and that sort of stuff. And at redundancy, but --

**MR. SUGGS:** Yeah, if I got broadband from

Charlie, then I can get Hulu or whatever else?

**MS. SPAHR:** Exactly.

**MR. RESNICK:** If Hulu wanted to come in and say build its own network and just provide in-service or its network --

**MS. SPAHR:** More power to them.

**MR. RESNICK:** They can do so?

**MS. SPAHR:** Yes, they could.

**MR. RESNICK:** I mean, they'd have to get a franchise, they would have to pay for the use of rights of way, all those things that y'all had to do until the law changed here. And you do in every other state.

**MS. SPAHR:** Just to keep our network trying to keep it up with everything that's happening on it, we're spending almost $20 billion a year in investment capital alone. Huge.

**MS. KITTRICK:** There's a study that was released like a year ago by the Progress Freedom Foundation -- Progress -- anyway, I can find it, but it talked about the fact that Verizon and AT&T were the biggest capital investment companies in the entire nation in the US for the last period of the five years during the recession. AT&T and Verizon both spent in excess of 16 to $20 billion over those years -- each year to keep up -- keep investing in the networks to keep the networks growing, you know, to manage the capacity issues that we have with all of this exposition of data.

And, you know, from our perspective, I mean, I can tell you what our property taxes are across the nation. Florida's not as bad as some other states, but we are still -- we're competing with companies that offer these services over our networks and, you know, we're the ones that are making the investment and we're getting killed in property taxes across --

**MR. SUGGS:** We're cutting you a little bit of a break this year. We supported that.

**MS. KITTRICK:** It's insane.

**MR. RESNICK:** We can get rid of schools and save a lot. Just don't cut cities or counties, just schools.

**MR. SUGGS:** Question. This goes back to -- we established other tax -- new services, I mean, still we're collecting taxes for us, you still offer a product that winds up at a higher price than maybe somebody who's avoiding paying for -- we have not captured in our law like we captured -- so competition-wise, I guess some of these other gray-area services, which --

**MS. KITTRICK:** How do we feel about taxing them?

**MR. SUGGS:** Yeah. Or suggestions or --

**MS. KITTRICK:** Well, I mean, I think, you know, what we haven't talked about around the edges, too, is the nexus issue and can we capture everybody? I mean, I think if we could lower the rate by broadening the base to some of these services, you know, we support that. But I don't know how feasible that is. I just don't know. I don't know the answer to that question --

**MR. SUGGS:** Did French leave?

**MS. KITTRICK:** -- without knowing if they're remitting now. There's a lot we don't know. So --

**MR. BROWN:** You're asking a nexus question? I mean, it's a very real issue just like with sales tax and the whole online retailer issue.

**MS. KITTRICK:** Right.

**MR. BROWN:** It's the same type of thing. Does first -- physical presence can we subject them to Florida taxes?

**MS. KITTRICK:** If their service is in Ohio, do they have a physical presence here? I mean, you know, it's a big question. I mean, I'd love to sell that and lower the tax rate. I mean, I would.

**MS. FOX:** But that's assuming that they're not paying taxes and they could very easily be paying taxes.

**MS. KITTRICK:** Right. You don't know the answer to that.

**MR. SUGGS:** Does the Department proactively look at questionable stuff and whether people should be --

**MR. BROWN:** I think Peter can better answer that during audit. But, I mean, I think that is part of your overall mission and goal --

**MR. SUGGS:** I'm not talking about these existing guys, I'm talking about these other fringe type companies.

**MR. BROWN:** I mean, I think that is one of the missions of the Department is to make sure people are in compliance and go out and try to get ahead of things as much as we can, if possible.

**MR. RESNICK:** I would love to see the demo and maybe that will put some -- sort of see how the rubber meets the road. Assuming -- this is all assuming everything works.

**MS. SPAHR:** Yeah. So this is what my screen dashboard looks like for Ooma. You can see that --

and that's my main number or phone number. And it just says enable call forwarding. And then on a network outage, it would go to actually my husband's cell phone. But I can change that at will. So, if I want, I can -- now I have two numbers here that you can see. You can see there's a 703 number and a 540. That's the virtual number that I actually subscribe to you. And what I can say is I want all numbers and I want to forward them, call forward all, I could have use -- and then I'm going to put in my cell phone right over here. Let's make sure it's on. Going to save that change. So it's been saved. So would someone like to dial one of those numbers?

So getting a call from 850-510 -- that just shows you what you can do with your Ooma. Okay. Then another one I'll show you real quickly. This is a sling player. So this is what -- they have a newer version of that that's high definition, but you have to pay a monthly subscription. So this is the free version. Okay. Now it says press okay to watch TV, so I can. Okay. And I can go to my keypad so I have a remote control that's built in and now my television is coming up. If I want to, I can go back to my favorites -- I happen to have bookmarked the history channel, A&E. So I can go to any one of those, change it, and it will pop right to that particular channel. And then if I turn up the volume, you could hear it.

**MR. RESNICK:** So that provider that you're on is Slingbox?

**MS. SPAHR:** Slingbox, uh-huh.

**MR. RESNICK:** They make a deal directly with the content provider to be able to show their content?

**MS. SPAHR:** No. It's call forwarding for TV. That's it.

**MR. RESNICK:** So they're getting the content from --

**MS. SPAHR:** They're just rebroadcasting it over the Internet.

**MR. SUGGS:** Whatever service you have at your house --

**MS. SPAHR:** Yeah, that's what you get.

**MR. RESNICK:** And that's not a copyright infringement?

**MS. SPAHR:** No. And I can't tell you why, but --

**MS. FOX:** She's already paying for it.

**MS. SPAHR:** I'm already paying for it.

**MR. RESNICK:** Right. But specifically for your subscription or you might be a violation of --

**MR. DUDLEY:** We've done a similar announcement. Like if you're a Comcast Tallahassee customer and you happen to be in Orlando on a trip and you have your iPad, you can get that Bright House provided content because you're a Comcast -- so you've already paid a provider for the content and that provider, of course, has a deal where they pay the content providers for that so you're covered your copyright and all your --

**MS. SPAHR:** So those are just two quick ones for you.

**MS. FOX:** And you're riding on the wifi in this building?

**MS. SPAHR:** In this particular place, I was riding on the AT&T 4G network. I could do it over wifi.

**MS. FOX:** That's a card or something?

**MS. SPAHR:** Yeah, it's got a sim card in it just like you've got on your phone. So you'll see 4G. Any other questions?

**MR. RESNICK:** Is the -- is the face time application, is that similar to -- I mean, where would you put that or --

**MS. SPAHR:** Video to video.

**MR. RESNICK:** So similar to --

**MS. SPAHR:** I used the proprietary one because it only works on -- it's Apple's.

**MR. RESNICK:** It only works on Apple devices?

**MS. SPAHR:** On Apple devices, right. But it does use any type of -- you know, it could be wifi or it could be the cellular network. I don't know if you notice that AT&T did say that we are going to charge for that service to run on our data plans. It was going to go against your data minutes.

**MR. RESNICK:** How are you going to know if the service is -- I mean, if someone has DSL service in their home, I mean, there's a way to track it, you would track --

**MS. SPAHR:** But it's phone to phone or tablet to tablet, so it's only using -- if you're doing it on wifi over a DSL then, no, that --

**MR. RESNICK:** You're saying if you're doing it on a cell phone.

**MS. SPAHR:** Right.

**MR. RESNICK:** It's charging on the minutes, not the --

**MS. SPAHR:** Right. Against the data plan.

Right.

**MR. LINDSEY:** More of an observation than a question. If we go back to slide 26 which is the application service convergence, we had a discussion earlier today that I think this speaks to -- we were talking about everyone, you know, people -- different companies selling one another's, what's traditionally their own service. When you look at this slide, it's actually one that says application service convergence with the circle going around it, that one. That kind of shows the idea of the bundling and the -- so many services can be offered in a package and they're becoming more and more seamless. And so I just wanted to make that point. Another -- this is a question, Skype situation compared to Ooma. I mean, Ooma is VoIP. And I see in minutes -- like you had mentioned, Ooma is apparently billing annually for tax now. Skype situation, that's just strictly one -- you know, it's based on the fact that you're paying your broadband monthly service. That's just from one computer to another.

**MS. SPAHR:** That is if you're doing the video to video. You can do something called Skype Out where you can go from a computer to a phone. And in that case, you do pay -- Skype has to collect for that because they're acting as a provider then, a VoIP provider.

**MR. LINDSEY:** And to a question we had earlier about who is collecting tax or not, I don't know where this person is located and we don't know -- I don't know if they have servers or whatever. So I think -- we had a conversation in earlier meeting about whether or not people might pay a communication use tax, you know, on the fact that they're consuming some service in the state but the provider is not in the state to be able to collect it. So other than that, you know, instance where somebody is voluntarily paying there may not be any means -- because the nexus issue, there may not be any means to collect tax on that kind of a situation.

**MR. STRANBURG:** Any other questions or comments?

Joy, I want to thank you for coming here today and giving us this fascinating information on where technology is going and where services are going. We appreciate you coming down and doing that.

**MS. SPAHR:** You're welcome.

**MR. STRANBURG:** Why don't we go ahead and take about a 15-minute break and then we'll come back and start another presentation on the Department's audit.

(Brief recess.)

**MR. STRANBURG:** All right. Next on our agenda, we have a presentation on audits. Peter Steffens with the Department's general tax administration program will be here to give us some information on the audit work that -- communication services tax. Peter.

**MR. STEFFENS:** Hi. I guess I didn't attend the first meeting of the working group. But in the first meeting of the working group, there was a request for information on what's going on in our audit program in terms of what are the issues and the problems that we're encountering along with what are the results related to the audit. I'd like to put a disclaimer, I think several people put disclaimers out here, just because I have a lot of issues that we have uncovered in audits doesn't mean that I am portraying all of those people who are attempting to be taxpayers as horrible; it's more an issue of it's a very complicated tax to administer and there's a lot of complication between -- as you've seen, between the different kinds of service and what's subject to tax and what's not, so I imagine that it is at fault for people to keep records that would make me happy.

Okay. If we go to the next slide.

So the first slide is the results of our audits up through the end of last fiscal year which just ended. And what you -- as you can see early on, we only have had a small number of audits naturally in the first year or so of the tax; there wasn't much to audit. We did have people who complained that with certain taxpayers doing things wrong or they were leaving out jurisdictions. And I usually pointed out to those cities and counties that getting their money in the audit wasn't an efficient way to deal with the problem; we typically just dealt directly with that provider. So there was a lot of corrections and adjustments that providers made on their own to their returns, so forth, early in the process. It still happens some today because an audit takes a period of time to get resolved and that's not really the happiest solution if suddenly some city's not getting any money from their large provider.

Anyway, so far, we have conducted -- we have closed 1374 audits. That does not include all the audits that are ongoing in progress at this moment.

And we've -- expended, and I think some people were interested in this, 121,000 hours. Which the average auditor expends between 1300 to 1400 hours on audit per year. So you can see that we've expended somewhere in the neighborhood of 90 FTEs conducting audits which could have been auditing something else, I guess, is the point. And probably -- based on some research I did, probably almost half of those hours were spent working on situsing issues which we'll get to in a minute. And so far we have collected $129 million from those audits. And again, that doesn't include any money that's in progress or in protest.

Yes, sir.

**MR. SUGGS:** Okay. Column collected, I guess from those, the majority of them are situsing; is the more proper term like --

**MR. STEFFENS:** No, the money's not necessarily from situsing. The hours, we're trying to figure out where the situsing goes. But the money could have come from many sources; situsing would probably not be the majority of the --

**MR. SUGGS:** Is the term collection correct or maybe redistribution?

**MR. STEFFENS:** No, this is not the redistribution. This is new money. The redistribution would be a much larger number. A much larger number. We might have a situation where a taxpayer received an assessment maybe for a couple million dollars but the redistribution called for 30 or $40 million to be redistributed.

**MR. SUGGS:** So this, what you've collected, is money that should have been collected the first time?

**MR. STEFFENS:** This is new money. New money. Yes, sir.

**MR. DUDLEY:** Sort of the confusion. So the 129 million is the result of all settlements and all audits from any interpretation issues, uncollected tax, anything out there? That's the 129?

**MR. STEFFENS:** Today, right.

**MR. DUDLEY:** And then of the 121,000 hours, you're saying at least half of that is just in trying to figure out situsing?

**MR. STEFFENS:** Yes.

**MR. DUDLEY:** Nowhere near 50 percent -- came from situsing?

**MR. STEFFENS:** I would say it would be substantially less. It might be, you know, 30 million or something or 40 million, but it's certainly not 65 million of the 129. I mean, I didn't actually pull that number out separately. Somebody wanted to know how much time are we spending just working on situsing, so I did run through our records and try to figure that out.

**MR. DUDLEY:** Okay. Thanks.

**MR. STEFFENS:** Yes, sir.

**MR. RESNICK:** Since you compared this to other audits that DOR could be doing, you've been generating about $1,000 an hour, how does that compare to other audits?

**MR. STEFFENS:** Well, in the last three years, we've been averaging around $208 million in collections, and that would be across --

**MR. RESNICK:** That's per year?

**MR. STEFFENS:** -- about 500 audits. Yeah, per year. And, you know, so it would be comparable with a lot of sales tax audits, but it would not be comparable with most of our CIT audits. The majority of the money probably is true. And a lot of times in tax auditing, the majority of the money probably came from a small number of the taxpayers. A lot of those taxpayers would have been relatively small recoveries because they may have been somebody like a hotel who wasn't taxing long-distance service or something or -- or one of these office places that charges to fax. So some of them are very small and they're just add-ons to the sales tax audits that somebody's conducting.

**MR. RESNICK:** These amounts, you audit for the state as well as the local --

**MR. STEFFENS:** Yes, absolutely. That amount includes state, gross receipts, and local tax. We consider ourselves to be auditors on behalf of the local governments. And we do try to make every effort we can to represent your interests. And to that end, we desperately try to get situsing correct.

**MR. RESNICK:** Representing Florida as well, obviously, so you're representing all of our interests?

**MR. STEFFENS:** Yes.

**MR. RESNICK:** Do you know how it breaks down? Like, for example, the 31 million in 2011, any rough ideas as to how much --

**MR. STEFFENS:** The average CST rate's somewhere between 14 and 15 percent, and 9.17 of it is a combination of the state and gross receipts and the balance about 6 percent is the local, so that would be probably roughly 40 percent. So about 40 percent of it would be local money.

**MR. RESNICK:** Do you contract out auditors or is it all in house?

**MR. STEFFENS:** No, it's all in-house.

**MR. RESNICK:** Is that per statute or is that just a local practice?

**MR. STEFFENS:** I don't think we have any funding for contracted auditors anymore. We do have certified audit program which is where the taxpayer hires a CPA firm to conduct an audit. It still has to be done to our specifications, and they have to train for us. We don't have any of those for CST; we have a lot of those for sales tax, but --

**MR. RESNICK:** The cost of the audits are born by DOR?

**MR. STEFFENS:** Yeah. We're pretty inexpensive.

**MR. RESNICK:** I mean, it's never passed on to anything that's audited?

**MR. STEFFENS:** No.

**MR. RESNICK:** Is that by statute?

**MR. STEFFENS:** I don't think there's any provision in the statute. We did have a provision in the statute, and I believe it's still there, that we could require somebody to pay our expenses to go audit them if they've located outside the State of Florida, but years ago we determined that it was far less expensive for us to actually locate people in offices across the country than to travel constantly from Florida --

**MR. RESNICK:** No, I guess prior to CST, you know, cities and counties used to audit all the time. And our contract's always provided that if audit disclosed a discrepancy over a certain percentage, 2 percent, 3 percent, whatever, that the auditee had to pay the cost of the audit and they did. So you don't have any ability to charge --

**MR. STEFFENS:** We do not charge. I don't know of any ability to charge at this time.

**MR. STRANBURG:** Just to clarify one or two things. I think Peter mentioned the certified auditor and I think that, by statute, is explicitly only for sales tax. And then secondly, there's also prohibition by statute that we are not to compensate our employees, and arguably that applies to other, based upon any type of audit recovery, audit assessments, things of that nature -- value -- so I think it's pretty clear in Florida law that there is no basis, as you mentioned -- contingency audits --

**MR. RESNICK:** I didn't mention contingency audit, I just asked if we can contract out for --

**MR. STRANBURG:** No, contracting out, no. As Peter said, there was a program a number of years ago where we could do that. The legislature defunded that program and instead went to the certified audit program that was mentioned.

**MR. RESNICK:** Okay. Thanks.

**MR. DUDLEY:** A couple other questions. The 129 million that Gary just questioned, that would be monies owed, penalties, interest, everything, or just principal --

**MR. STEFFENS:** I think I pulled tax out by itself. I believe so. We don't collect a lot of penalty actually.

**MR. DUDLEY:** Right. And then maybe for later, Marshall, I just was curious as to how the 129 million compared to total local CST collections to date so we can see a percentage of --

**MR. STEFFENS:** That's pretty small. The collections are over 2 billion a year.

**MR. DUDLEY:** A year for --

**MR. STEFFENS:** For state and local.

**MR. DUDLEY:** So you're talking well over 20 billion and from that, 129 million --

**MR. STEFFENS:** We only have so much of an audit presence.

**MR. DUDLEY:** No, no. I'm just trying to -- okay.

**MR. STEFFENS:** And it doesn't count those that are currently in protest.

**MR. DUDLEY:** Right.

**MR. STEFFENS:** Those are only amounts that have been collected, case is closed, and it's been collected.

**MR. DUDLEY:** Got it.

**MR. STEFFENS:** Let's go to the next slide, please.

So some of the major issues that we have been faced with in conducting these audits are issues related to situsing or resitusing, surcharges and fees are a difficult issue in a lot of audits, improperly exempted sales comes up as an issue, unsupported bad debts and credits come up as a problem, filing and accounting period, billing cycles, accounting periods, et cetera, contribute to problems with administering this tax. And then there's some other issues that I'll mention as we go forward.

The next two slides, I think, are both about situsing. Situsing is a particularly difficult problem because, you know, the goal in theory for this tax -- it's kind of a strange tax from the standpoint of everywhere there's a customer, the business has a business location. So if you have 300,000 phone customers or 300,000 cable customers getting your service, you have 300,000 business locations. And you're required to tax at the rate for that location, to keep track of that separately from everything else. Okay. Which I understand is very hard -- not you in the satellite, I understand, but everybody else.

**MR. SMITH:** But my question is this is if you went to a uniform local rate on the CST, would the situsing activity diminish greatly?

**MR. STEFFENS:** It would be -- if we had a formula? I mean, how are we going to distribute it? We're using some kind of formula, I guess, if there's a --

**MR. SMITH:** You distribute my tax somehow and I collect a uniform rate.

**MR. STEFFENS:** Well, we actually create a formula from all the other taxes to get your -- to distribute yours.

**MR. SMITH:** So there's a method already in place --

**MR. STEFFENS:** No, that method would disappear if we didn't gather that information.

**MR. SMITH:** That --

**MR. STEFFENS:** If there was a formula which I'm not --

**MR. SMITH:** If there was a formula --

**MR. STEFFENS:** Then this would be a relatively simple issue. But, you know, that -- I mean, that's just a fact. Just an answer to the question.

**MR. SMITH:** Okay.

**MR. STEFFENS:** So anyway, in situsing, we have a number of issues. Number one, most people do not maintain sufficient records to determine how they situs transactions historically. Typically, and this will come up a couple times -- there's some overlap in some of my presentation because the issues hit different places. But typically people have a database. We have at Revenue, we have a database, we call it master data and it contains everybody. Okay. And then how you send somebody returns and information is you have to tie the two together.

Well, the same thing happens with you guys. You have to take your customer database and tie it together. Well, the problem is that nobody takes and stores their customer database. If somebody drops off, they drop them. And if a new person comes in, they add them. And if somebody moves to another address, they add that. And if their service changes -- and it all gets written over. So that at any point in time, all you can get is what it looks like today. And you're trying to use that information to decide how they should have filed their returns three years ago. And often it took so long to actually get that information, you're trying to determine how they should have done it four or five years ago or whatever because it took a long time to get that information.

So that's a big problem is that the historical records really aren't maintained, the system wasn't designed to maintain them and had no business purpose. Its only purpose is to comply with Florida tax. I mean, basically. And I've heard that from a number of taxpayers that say, well, we didn't design our system that way because it -- you know, it -- we designed it long before you came along.

And then access to complete billings. Well, we have that whole situation of if -- I can have your address database, but if I can't get bills and information to go with it, again, it's very hard to resitus because I actually need to know what you're charging the customer. Because if you charged them the wrong amount of tax, I need to know where it goes. And even if you charged them the right amount of tax, if it's in the wrong place, I need to know what money to move from one place to another. So that's a real problem in the audits is trying to get bills to go with those customers.

You have the whole issue of can I get a complete billing cycle, okay. And if somebody leaves out a billing cycle -- I know Sharon can tell you that she called and told me one time that it looked like one of the audits was going to take a lot of money out of Tampa and it turned out that the taxpayer had not actually given us their entire billing cycle, they left off a week of the billing cycle and the auditor was new and young and did the work and originally was proposing to use what they found, which would have actually said, okay, all these customers don't exist, so they're not entitled -- that jurisdiction is not entitled to any money.

So by not getting every billing cycle -- and then there are those of you out there that don't bill everybody every month. Maybe the customer doesn't have a very big bill, so maybe you only bill them once a quarter. Well, if you only bill them once a quarter, then you need three months worth of records just to have one billing cycle for every customer to appear. And if you don't have every customer in there, you can't really use that information to try to figure out how to resitus because anybody who didn't appear, wherever they were, won't get any money. You know, because basically we're piggy backing on the certification process which means we will take your information and we'll run it through that system that we use to certify addresses and so forth to try to determine which ones have been sitused correctly and which ones have not. And if somebody doesn't appear in it, then whatever money you had allocated to some jurisdiction because of that person, there's no address associated with it, you know, related to the return, that money will just end up being sitused to the other places. So that obviously is a problem that we had to deal with and change our approach because that didn't work.

Let's see, customer data not readily associated with billing system, I kind of already mentioned that. But a lot of times there's no walk over between the two. The billing system is about billing addresses. And the customer data is about service address. And I found that a lot of people don't take enough of that service address information over to their billing system. So when I'm looking at their billing system, I really can't tie out to the actual location of the customer so that causes issues with situsing because then you're really situsing to the billing address and not the service address which, again, of course, is not correct.

Okay. Let's see, multiple billing systems and third-party billers. Well, a lot of people have four or five people billing for them. And each one of them has a different system which just complicates the audit. And they'll have different problems in the different systems, so it's -- you know, each one has to essentially be audited separately and then put back together which just -- that's where the hours really build up. And there may not be any revenue because they may have collected close to the right amount of money for everybody, it's just in the wrong place. And so that's where the hours really start building.

And then you have a single billing system but multiple entities. And there's a lot of people do this. They build one address database. They've got nine subsidiaries and they're all using the same address database and they commingled all the records and they can't even tell you which ones go with which company. And it's a Ouigi board theory of how they decided what to put on which return. I mean, it's -- that's probably not quite true, but a lot of people have difficulty trying to figure out what belongs on which return. And they probably don't have trouble doing it with live data on the day they filed their return, but if you come back six months later and say recreate for me, you know, January's return from this year, they really can't do it because it was a snapshot in time of that live data. And so consequently a lot of times we end up just auditing all the companies together and then trying to allocate it back ourselves which, of course, is again, not really correct and adds a lot of time to the effort.

And we have to be careful when we're having to make estimates and samples related to these things. Because, you know, if you're actually going to resitus, you're not assessing the taxpayer, you're assessing the local government. And really, you know, we don't want to assess the local government for problems that came up in how someone else maintained their records and situs because it's kind of beyond their control.

Matching the accounts records to the returns filed, almost nobody can go back and take their accounting records for a month and show us how they made their return. They could probably do it the day that they did it, but the problem is they take credits and bad debts and some other information from other places and combine that in with the return. And again, it's one of those snapshots in a moment in time and trying to recreate that is very difficult. And so consequently, we're forever looking at a return that doesn't look like their records. We will quite often audit a month of records and maybe it said that $10,000 went to the City of Tallahassee in the records, but on the return, they reported only eight or 12. And trying to figure out why it wasn't ten, well, almost -- and I'm not talking about situsing, I'm talking about where the records say they were.

You know, after situsing, we might say the number was something else -- or after we looked at the addresses, but just where the records say -- we can almost never tie it to a return. Out of all the audits, very few people can actually tie it to their return. And again, I understand why, it's a very complicated process and there's a lot of credits and bad debts and other adjustments that are going on constantly and trying to figure out exactly where in time they all fit -- hit that one return.

And then you combine that with, let's see, ability to isolate exempt customers. This is a separate issue, but let me just cover it right now because the next page will have some other things that relate back to this. But a lot of times people will pass us a database they can't pull out the customers they didn't tax. In other words, maybe they had customers that were exempt from tax for one reason or another and they can't -- they don't have a way to exclude them from that address database. So we can't really use that address database for situsing because that would be taking the money that came from all the taxable people and distributing it based on a combination of the exempt and the taxable people. And so that really, you know, can't be done either. If we can't isolate the exempt customers from the database, the database really can't be used for situsing, at least for our purposes, because, you know, we would be doing it incorrectly.

Can we go to the next page?

A lot of times we'll have situations, and it's been coming up quite a bit, related to prepaid. You know, the statute has an exemption in CST for prepaid calling arrangements for voice service only based in declining units, such as minutes. The vast majority of prepaid service includes text and other services and therefore does not qualify for that exemption. And as a result of that, as we're going through audits and finding people who provide this type of prepaid service, we are taxing them. They are subject to CST under the law because the law has a very specific exemption from CST and it's voice only.

And so we have a situation of we have a

customer who came into a location, bought a prepaid cell phone, whatever, and they have -- we have no idea where they're using it, no service address, no nothing. So at the moment, those people who are taxing it are situsing it at their sales location and essentially at the moment, that's all that we could do which is, of course, not correct, but we have no idea. Now maybe when they re-up service, we can do something different. But when they come in and they acquire or they go to these kiosks and they recharge it, the only thing we know about that person is the phone was there at that moment when the money was spent. Okay. So that's a big situsing problem. That's a big situsing problem.

A lot of the databases have bad addresses or incomplete addresses. Some people's database are so large they truncate and kind of use their own abbreviation system. We use a postal soft thing to try to standardize the addresses and will sometimes get thousands that even that can't work with. So that creates a lot of work for the taxpayer and us because the two of us together are trying to figure out those addresses. And again, if we ultimately can't fix most of them and there's a big percentage, 5, 6, 7 percent, which doesn't sound big, but -- that you can't situs, then you really can't resitus or use that data to draw conclusions about situsing because maybe all the bad addresses were in one jurisdiction. Maybe there was something wrong with one jurisdiction and if we tried to use that database that was missing those addresses, we'd take all the money away from that jurisdiction because it would look to us like they never got any service. So we really can't do that either. That's a problem.

A lot of times their database doesn't have a useable way to identify or some type of a key that we can use to be able to crosswalk what they use for situsing to the other. Sometimes people, because they can't talk between their actual customer database that contains the service address and again that billing system, they just don't have a way to actually tell us what jurisdiction they used. They -- all they know is that -- some people actually all they know particularly when they use third party billing is I owe this much tax to these jurisdictions, I don't really know why because I didn't actually get back the detail. And again, they didn't need the detail for purposes of billing but we need it for purposes of auditing.

**MR. ROSENZWEIG:** Can I ask you to back up to one thing you said? I'm trying to reconcile what you just said about the CST on the prepaid versus what the gentleman from Wal-Mart was saying this morning that, don't make me a utility provider.

**MR. STEFFENS:** Yeah, but he is.

**MR. ROSENZWEIG:** That's what I'm trying to reconcile.

**MR. MILLER:** No, he's not.

**MR. STEFFENS:** He's selling a product that's subject to the tax.

**MR. ROSENZWEIG:** But he's claiming he's not.

**MR. STEFFENS:** I understand that.

**MR. ROSENZWEIG:** He just said this morning that he's not collecting --

**MR. STEFFENS:** Yeah, I know. I heard that.

**MR. ROSENZWEIG:** I heard it, too. So I'm trying to reconcile was DOR does about the fact that Wal-Mart just said they're not collecting CST.

**MR. STEFFENS:** I'm not here trying to gather audit leads.

**MR. ROSENZWEIG:** I am. It's money out of my pocket from the county's perspective.

**MR. STEFFENS:** I'm just telling you that we have a tip out there that was sent out to all the taxpayers that we have -- we've looked at the statute and the statute says prepaid calling arrangement that are exempt from communication services tax are voice only. And they must follow a declining minute or declining unit for how they are measured. And that's the only thing the statute exempts from CST. Everything else is taxable.

**MR. ROSENZWEIG:** So let me ask DOR then, Marshall, I mean, Wal-Mart just said this morning on the phone that he's not collecting CST. And I'm hearing -- on prepaid services at the store -- and I'm hearing DOR saying no, that's not right, there are many circumstances which they should be. So, what's DOR -- how does DOR address that? That's a lot of money I'm assuming. I assume my friends at the other end of the table would like -- the whole competitive disadvantage discussion that we're supposed to be looking, I mean, this seems to be some issue there.

**MR. STRANBURG:** I have to be very careful what I talk about so I'm not talking about confidential taxpayer information. But I think as you're hearing from Peter's presentation there are a number of issues we look at in auditing service providers, a number of issues we take into account in auditing retailers. So, yes, we are aware of this issue. As Peter indicates, we put out a tax information publication earlier this year setting forth what we believe was the interpretation of the law. And so, yes, we're aware of these issues. We're aware of what the definition is. And yes, we do look for these types of issues when we audit.

**MR. ROSENZWEIG:** Okay. Just trying to reconcile what the guy told me. He blatantly told you he's not collecting it.

**MR. STEFFENS:** Okay.

**MR. STRANBURG:** We heard the same thing, too. But again, I cannot get into say, well, yeah, we're auditing Wal-Mart or we're not auditing Wal-Mart. We're assessing Wal-Mart, we're not assessing Wal-mart. We're collecting from Wal-Mart, we're not collecting from Wal-Mart. I can't get into that level of discussion with you, but you're hearing we're out looking at these issues. We're out auditing. You can see the numbers of hours that we spend, so I think you can draw your own conclusion.

**MR. ROSENZWEIG:** Okay.

**MR. RESNICK:** Peter, when you say the voice-only prepaid --

**MR. STEFFENS:** That's what the statute says.

**MR. RESNICK:** -- is exempt. So I mean, from the administrative standpoint, is that a lot? Are there a lot of transactions that are just voice only --

**MR. STEFFENS:** No. I'm sorry.

**MS. KITTRICK:** I'm not really comfortable talking about this. I mean, with an auditor. I'm not going to go there.

**MR. STEFFENS:** It's kind of like this -- when that law passed, that was a common practice. People bought calling cards, et cetera, for voice only. Life has changed. You know, you can't --

**MR. RESNICK:** On the return, would it identify the service and the revenue or something and then say exempt? I mean, how --

**MR. STEFFENS:** No.

**MR. RESNICK:** -- do you know that they've --

**MR. STEFFENS:** The return only requires them to report the tax they collected.

**MR. RESNICK:** Say that again.

**MR. STEFFENS:** The return only requires them to report the tax they collected and the taxable sale associated with that tax.

**MR. RESNICK:** So how do you know -- I guess what I'm -- how do you know as the auditor when -- or as DOR, if somebody didn't file a return because they think the service is exempt other than --

**MR. STEFFENS:** We audit.

**MR. RESNICK:** Just the audit. Okay.

**MR. STEFFENS:** We watch TV commercial, we read the newspaper, we see ads in brochures. I mean, we have employees who come in and say I just bought this, shouldn't it have been taxed? I mean, that's -- but we audit.

**MR. SUGGS:** The root of the problem is it's not getting reported, in this case, what we're talking about, taxable sales are not being reported?

**MS. KITTRICK:** I mean, I just.

**MR. STEFFENS:** I don't think they agree that it's taxable, but I'm just telling you the interpretation of the statute, the word voice is in the middle of the exemption. It says it has to be voice only.

**MR. RESNICK:** I'm not questioning your interpretation.

**MS. KITTRICK:** There's really no sourcing language in the statute for how do you source this.

**MR. STEFFENS:** I understand that there is no -- that's what I said, there is no easy way to source it. That's -- we're talking about situsing issues at the moment. Situsing is very hard because we have no idea where it was used.

**MS. KITTRICK:** Right. And it's not billed.

**MR. STEFFENS:** If we were to conduct an audit, we would most likely situs it where it was sold.

**MS. KITTRICK:** But it -- I mean, I think the problem is it's not billed to the customer.

**MR. RESNICK:** Isn't that where the customer paid for it, though?

**MR. STEFFENS:** Yeah, but that's not necessarily where the customer used it.

**MR. RESNICK:** I thought the statues is where the customer pays for it.

**MR. STEFFENS:** It's where the service is provided.

**MS. KITTRICK:** It's the --

**MR. RESNICK:** But it's the billing --

**MS. KITTRICK:** (Inaudible comment.)

(Speakers speaking over one another.)

**MR. STEFFENS:** No, it's the service address. Principle place of use. Principle place of use is where it's supposed to be taxed according to the statute which is very complicated for both the taxpayer and the Department to determine.

**MR. MILLER:** Could I clarify one thing? Wal-Mart and all your retailers collecting sales tax on every one of those transactions, we are collecting sales tax on every one of those transactions. So we are not -- again, going back to Wal-Mart's point, we are not dealers in communications. We're not providers of the communication service. We are a retailer. We collect the sales tax that is due on the -- whether or not you determine that's not a prepaid service or not, if it's exempt, we're still collecting sales tax on it. It comes out of our store, tax is collected because we do not file those returns because we're not a registered dealer. We are a registered sales tax dealer, not communications provider.

**MR. RESNICK:** Going back to your point about the situsing, I didn't really realize it's under the statute which is helpful. But if you're a multi-jurisdictional business, you know, large law firm with 30 offices throughout the state and you've got communication services throughout your enterprise but you get one bill from your provider that goes to one city --

**MR. STEFFENS:** The phone company --

**MR. RESNICK:** -- the situsing is where --

**MR. STEFFENS:** -- going crazy trying to figure out which lines were assigned to which location. And they'll attempt to situs it in all those different places, at least most of the ones I've looked at will. Which adds to the complexity of the bill because you've got numbers and so forth and -- a lot of time the billing address is in Timbuktu. You know, it could be at an out-of-state location. But what they're doing is they're attempting to situs all the places they're providing service because that's what the statute provides. And --

**MR. RESNICK:** And the one bill that's sent out to that provider, would it break that down? Would it -- theoretically, would it say --

**MR. STEFFENS:** Yeah, it would break it down, but you and I would have -- would struggle to interpret it because there would probably be one giant --

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

**MR. STEFFENS:** There might be one number for tax, but they would have probably broken out some of the local by components. It would be difficult. Different companies do it differently. Some people tax each section of the bill separate and then roll it together. Some --

**MR. RESNICK:** DOR doesn't have rules on that?

**MR. STEFFENS:** No, you just have records to support what you did which gets us back to that same issue of no historical records.

All right. Let's see. So just moving down this list. No customer service address, this happens for pagers, this happens for the prepaid. That doesn't qualify for the exemption in the CST law. It happens a lot of times when you're using a third-party biller because the actual proprietary company that's providing the service doesn't actually maintain the location they use. They pass it on to the third-party biller who's responsible for it.

When you're dealing with third-party billers, we have the whole issue of, you know, you audit a phone company or a cable company or somebody who's using a third-party biller and they'll say, well, I don't actually have the information about the actual billing, it was done by the third-party billing company. And then, you know, so really --

technically we can't go after the third-party billing company for it because that would be a breach of confidentiality. So then we have to get the taxpayer to go -- the provider to go ask for the information. And usually what they get back is, well, we can't really tell you the breakdown either but we'll work it out somehow.

A lot of times we can't really ever get information that we would be comfortable taking any money away from a jurisdiction. It's insufficient information in order to be able to actually move money from one place to another because it's not supported by sufficient documentation in order to be -- for me to be able to say to one, you owe a million dollars because you were overpaid. Sometimes we actually have the documentation, but that's -- that would be less than half the time.

All right. Let see, jurisdictions excluded from returns. For some reason, some people just decide to not report in some jurisdictions even though their records say they have people in those jurisdictions. I really can't tell you why. I don't know what it was. I've had people tell me, well, we've pulled the file wrong, you know, other things have happened. I've had people go back and repull the file and then put money back in those jurisdictions. So I'm not really sure how that was possible. But when those jurisdictions are excluded from the return, they get no money. Then we try to give them money. But then we have the problem of who are we going to get the money from because we can't -- we don't have sufficient information to say we need to take it from somebody else. Pretty much everybody -- this is a positive thing I'm going to say here -- remits what they collect. Okay. Pretty much they remit what they collect. There's not a lot of tax collected not remitted out there. People are remitting what they collect. So that means that if they left some jurisdiction off, they gave the money to somebody else. And I don't know who to take it back from because I don't have sufficient details to figure out where to take it back from so that this other jurisdiction can get some money. So that's kind of a problem. You know, it would almost been easier if they hadn't remitted it, but, of course, that would be a crime so we don't want them to do that. But if you're the jurisdiction who didn't get any money, as far as you're concerned you didn't remit any, right? Okay.

Let's see, default jurisdiction assignment. This is a problem that can be quite annoying. It was real annoying for one of the cities because the city we're in -- we're not actually in the city limits probably, but this City of Tallahassee, a number of companies thought, well, if I don't know where to situs it, I should put it in the capital. And so they would just situs all their new customers to the City of Tallahassee for two or three months until they figured out where the person really was. But they didn't go back and amend their returns and fix this, so when we conducted an audit, we had all this money that really didn't belong to the City of Tallahassee, reported to the City of Tallahassee that needed to be resitused because it never belonged there, it was just a mistake. Just a mistake. You don't have to call anybody and tell them because trust me, they know.

**MR. DUDLEY:** The city should have shared that with Leon County.

**MR. ROSENZWEIG:** I'm with you.

**MR. STEFFENS:** It was not -- it's the City of Tampa, Miami, it was money from all over the state. They just got to the end of the month. If they didn't know where to put it, they thought, well, let's put it in the capital.

**MR. RESNICK:** It's not -- never mind.

**MR. STEFFENS:** There's no generic placeholder that they could report it to while they figured out where it belonged. Maybe they -- it was a new customer and they hadn't set the system up sufficient that it got into the system so it didn't pull it for the return. And that was just another situsing problem because -- and people have that to a lesser or greater degree. Some people will arbitrarily assign everything to a city. They think because the city's name is in the address that it should be assigned to the city which, of course, is not true. I mean, I don't live in the city, but I have a city address. And so my mine should be sitused to the county. And -- but it was being sitused to the city for a while by one of my providers.

**MR. RESNICK:** That happened all the time in the beginning, but there's a process for cities and the counties to work out among themselves situsing issues.

**MR. STEFFENS:** Yes. Oh, absolutely. But I'm not talking about an address that was in the wrong place; I'm saying the provider just thinks that all the addresses are in the city because they're not from Florida. They don't understand that we have unincorporated county.

**MR. RESNICK:** But my question to you related to that is when you're doing your audits and you're spending all this time on situsing, do you ever go to the cities involved or the city and county involved and say, we're auditing, I mean, they have the right to get information because they have the access to the confidential information, can you work out this situsing issue with respect to these returns or something instead of just trying to figure it out on your own?

**MR. STEFFENS:** Well, if there's a dispute over where an address should be located, we don't make the decision at the Department of Revenue. We do turn it over immediately to the two local governments involved. Yeah, we go by our address database. We don't change addresses in our address database, the local governments do. We -- all we do is we use that database technically is legally correct every six months and it's good for that six-month period of time. So we're in -- right now we're in database that was finished as of March of this year and started from July 1st and will run to December.

Now if somebody comes in and says this is wrong and it gets uncovered in an audit, we will go to the two jurisdictions and request that they come to agreement. We don't actually decide where it belongs. What we have is the taxpayer thought for whatever reason the address was in the city, but it's not. I mean, there's no dispute. It really is in the county. I mean, I live way out of town. I lived in the county, but I was getting billed city tax for first year or two that I had a plan with one of the companies. So it's just a mistake. Just a mistake. It's not a dispute as to where the address actually is. We do have those. And we have procedures for that. And the companies sometimes will actually say that they believe their database is more accurate than ours. And if that's, we will take those addresses and submit them back to the local governments. And if they agree, we will make the change.

Next slide, please.

This relates to our favorite area of every bill. It really should say taxes, fees, and surchargers, or taxes, surcharges, and fees which is an area on the bill where all of those items can be found together. You'll see that on a lot of wireless and line phone bills and some other people who do that as well. And I know people have talked about 911 fee, that's an example of a fee that we have an issue with because it -- there are two 911 fees that can appear on a bill. Okay. There's one 911 fee which is actually the tax that everybody's been talking about that goes to government to fund the 911 service. But the FCC authorizes providers to collect a charge to recover a cost because, you know, there's a cost associated with making 911 service available because they have to have lines that never are busy and so forth. And so the providers have a cost. And the FCC allows them to separately itemize and collect that cost. So you'll have an FCC 911 and then you'll maybe have like a state or city or county, like a Leon County 911. The Leon County 911 is a tax. It's not subject to CST. It's a tax -- exempt from the tax. The FCC 911 is just additional sales, and it's subject to tax. And there is all kinds of fees like that.

We have a list on our website of -- it's probably 15 pages long of different fees, things like universal service fund. Everybody know what the universal service fund is? It's an FCC-approved cost recovery for providing service to people in rural locations or people who can't afford phones, you know, and so forth. And that's actually additional sales prices subject to tax. But it typically appears on the bill in with the taxes and so forth. So trying to figure out the tax base for any customer and for an auditor is very difficult. Actually you can sit down with people from the company and they can't either because there are so many different fees and they change all the time. It's very hard to keep track of and it's just an issue that comes up in audits. And a lot of times, they'll miss a fee they should have taxed because there are so many and they'll just miss it and we'll end up taxing the entire fee, which is one of the things that contributed to the 129 million because they didn't actually tax it.

And we'll see it on a use tax side where a provider has sold to someone and there are fees that they didn't tax and the person, you know, is purchasing these services and there actually can be a use tax liability for this as well. And, yes, we do chase use tax for those people that don't think they have nexus in Florida and they're located outside of Florida but they're providing service to in-state companies and so forth. If we come across them purchasing that virtual private network, we do charge use tax on that.

Let's see, customer issue. If Grace was up here talking, she would tell you that she takes phone calls every day from people who can't interpret their bill. And we have that same problem. The bundling and unbundling is just going to add to that problem because when we go to conduct an audit, no one can figure out what they pay tax on. We don't know if -- if the tax is certainly not equal to the bill and we don't know what was excluded from the tax and, you know, trying to back into a number doesn't tie up to anything, so typically you'll find that providers are getting calls from customers saying I need a breakdown of how you tax this bill, what you tax and didn't tax because, you know, they're stuck in a situation where they have a bill for $100 and they only paid tax on 60 and, you know, the Department of Revenue is looking at it and the statute says that your liability for this tax as a user is not extinguished -- they like to use that word for some reason -- is not extinguished until you show that you paid it to a Florida service provider or a registered out-of-state service provider. I'm not sure how you're supposed to figure out if the out-of-state person was registered. But if it's a Florida provider, even if they weren't registered and you paid them the tax, I guess we would give you the credit. But if you only pay tax on $60 and you can't get a breakdown from your vender of how that works, you really owe tax on 100. And that's a problem that nobody likes. And I'm sure your customers probably don't like it either.

Access to historical records. That's almost every slide because people don't have a breakdown. They change their fees, the fees change the name, so they had a fee from two years ago that they were charging and they're not sure what it is anymore either because that fee kind of went away and they went on to something else. And so as a result of that, when we can't figure out what the fee is, we're stuck in that position of if we can identify that it's a government fee that needs to be turned over to a government agency, we'll exempt it from

CST. If we can't prove that, then we'll tax it, whatever it is.

Insufficient supporting records. That probably goes, without saying, that they can't back up how they actually -- really ties into my last statement, they can't back up whether or not they -- this fee was something they had to turn over to a governmental unit and they really can't support it especially going back.

Customer bill analysis, tax base, and rates. And again, that's what I was just talking about. Those are all kind of lumped together. You have the whole problem of I'm looking at a bill -- if I'm a customer and I want to know if I paid the right tax, I probably can't figure it out without calling the vender and saying, what did you tax and what didn't you tax and so forth. And so it just -- it's very complicated because there are multiple services. Some of them are bundled, some of them are not bundled. Some of the fees are taxable, some of them aren't. Trying to figure out exactly what I paid tax on is difficult. I can usually figure out how much tax I was charged, but exactly what was included and what wasn't is very difficult for a customer to determine.

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Improperly exempted sales. It's probably more like collecting. Should be collecting, not accepting. But a lot of people think that they owe sales tax and not CST, so they collected sales tax and not CST. And so what happens in an audit is they owe CST, but they've paid sales tax. So typically what we end up having to do in an audit is assess them CST. And then if they agree to pay, which a number of people do, some do not, but if they agree to pay, we will then give them a refund or credit for the sales tax that they paid, okay. We have to give it to them in the sales tax audit because the distribution related to sales tax is completely different than the distribution related to CST. And so we have to calculate it, you know, two different ways. So typically, if there's not an ongoing sales tax audit, we would give them an actual refund of the sales tax. If there is an ongoing sales tax audit and they agree to CST and they're willing to pay it, then we can actually give them a credit in the sales tax audit, which is, of course, to a taxpayer's advantage because it would probably save them some interest.

Okay. Let's see, the residential exemption.

There's a lot of people who apply that incorrectly. Residential exemption applies to individuals at their residences. It doesn't apply to, for instance, people who stay at a hotel for more than six months. Even though that's no longer subject to the transient rental tax, it's still not a residence. It doesn't apply to time-sharing units, those are not residences. It does not apply if the provider is selling the service which qualifies, which is typically land line phone service and apparently some video services. But the land line phone service, if they sell it to the condo association and not to the individual owners of the condos, there's no residential exemption. If they sell it to the apartment building owner, which happens a lot in college towns and so forth, there's no residential exemption. So that's an error that comes up in audits a lot where people have not actually applied the entire rate. They've given them the residential exemption, and they didn't qualify.

Resale has two pieces to it. The resale is a problem because people sold for resale to people who weren't even registered. They just assumed that the person was registered. And CST, like sales tax, is an annual resale certificate that a licensed dealer would get and can extend. And if you don't have a resale certificate, you can't buy back tax free. And so consequently, that's an issue that comes up in audit.

If you are the buyer for resale, you're only allowed to buy the portion that you resold tax-free. So if you consume part of it yourself, you end up owing use tax on that portion if you do extend your resale certificate. And that's issue in a lot of audits, both ways, where they didn't claim any and we actually give them a credit or -- on the part they resold -- or they didn't pay any tax but they actually consumed half of it themselves and we have to tax it. And again, we have difficulty with access to historical records. If we're trying to figure out whether or not they paid tax to the provider when they bought it for resale, we need those records because we won't know if they don't have those orders. If we can't find an invoice where they paid tax, we can't give them credit. And so that becomes a problem.

Situsing improperly exempted sales. Well, that's an issue because a lot of times we'll pick up exempted sales, but it's difficult to situs because we don't have sufficient address information to know where to situs those and it doesn't really seem appropriate to situs them based on how everything else was sitused because that doesn't necessarily correlate that the actual people that you did collect the tax from are evenly distributed with the exempt customer.

In general, we have exempt sales that people think are exempt that are not. And that is where people think that the sales tax exemptions and the CST exemptions are the same, and they are not. There are a lot of charities and organizations that are exempt from sales tax that are not exempt from CST. I would imagine most businesses in Florida that do a lot of business know that now because they learned it from us early on. But there are a lot of people making sales to charities and so forth that are not exempt from CST and they are not collected tax from them because they had them flagged in their system under the old sales tax law as exempt which they were exempt from sales tax but they are subject CST.

Let's see. Isolating. Again, exempt transactions can be very difficult. A lot of times, you know, we'll have their taxable sales.

We have this glut of other gross receipts that we don't know what it is. Some of it could be tangible personal property, some of it could be sales. And putting a dollar amount with the exempt customers could be very difficult and require a lot of work to isolate. Again, usually most of these things that require a lot of work require a lot of work for the taxpayer and the Department. We're not doing it by ourselves. They're having to provide the records and work with us.

Determining untaxed portions of a transaction. That comes back again to trying to figure out these bills and what part shouldn't be taxed and what part was taxed. And then, of course, the support records that go with exempt sales. A lot of people will make exempt sales, but they didn't keep any information to document why they made it exempt. And that can be a real problem later on because if you don't have good historical records and you didn't keep records about your exempt transactions, then you're liable to be taxed on sales that maybe could have been exempt if we could have gotten the right information.

Let's go to the next page.

The statutory requirement for bad debt and credit. The law was changed for bad debt. And -- because most of the taxpayers had a very difficult time complying with the original law because the original law required you to write off the bad debt exactly the way you remitted it which meant you needed to be able to figure out what month you had remitted it in so that could you get the right rate for that jurisdiction. So you had to do it by customer, by jurisdiction based on where you originally reported at the original rate. And that was really hard for people to do. Almost no one did that. Most people just tried to net it and reallocate it across their return. Okay. So the law was changed so that that would be a correct procedure. So the statute now allows for bad debts or bad debts to be allocated across a return for purposes of writeoff. If you've written them off for federal tax purposes in your records, then you have 12 months to write them off on your CST return. And you can allocate it across the return, you know, basically on a percentage basis. Or, you know, if you have a better method, you can use it. But you can use a percentage and just say, you know, I had to write off 1 percent of my -- of my sales or whatever. And it's this amount, I'm going to spread it across all jurisdictions based on the remittance in each jurisdiction.

The law was not changed for credits. Credits cannot be done that way. Credits still need to be put on a Schedule 4 as a separate item. Almost no one does that. So most credits are not being accounted for correctly. The statute only addressed bad debts, it didn't address the statute change. It didn't address credits. Credits are not supposed to be buried in Schedule 1, but a lot of times they are. They really cause a problem for local governments trying to interpret what they're getting because all of a sudden somebody decides to write off their bad debts and process a bunch of credits in one month and so the money for that local jurisdiction drops in half. And then that jurisdiction is calling Grace again and saying we only got half as much money as we normally get. And then Grace finds out, well, they wrote off their bad debts and they did their credits that month. And so consequently, that's why these people didn't get any money. It really calls for those credits to be put separately on a Schedule 4. I don't know that that's economically feasible for a taxpayer to do. Maybe they would rather have us penalize them. A lot of times what happens is when we go in to question those discrepancies and those credits and bad debts, they can't really bring up the historical records in order to be able to support bad debt that they took.

Almost no one seems to have a good system for recapturing. And again, this is just -- recapturing when they do collect a bad debt. In other words, you wrote off the bed debt but later on the person wanted service again, so they had to pay you. So that becomes now taxable again. And there's a number of people that do that, and we've had that issue coming up quite a bit where they actually never put that money back in as a sale a second time when they captured that bad debt. They probably just weren't thinking of it at the time. But it becomes an issue, and it has been an issue in a number of audits.

The ability to -- same thing, we can't really isolate the credits and bad debts, and then that makes it -- because neither one of us, neither the providers or the state can find an easy way to isolate it and it makes it very hard to get the supporting documentation for those bad debts. A lot of times it's only stored in hard copy which adds to the problem.

Reconciling revenue and credits to accounting records and returns. I kind of covered that earlier, but again, it's that issue of because all those things are being buried into Schedule 1 what we have is the accounting records say one thing for the sales for the month and the tax for the month and the return says something else. And the crosswalk between the two is very difficult to recreate historically. I'm sure that they knew what they were doing and they had an appropriate procedure when they were doing it, but trying to recreate that historically for purposes of an audit is very difficult.

Let's go to the next slide.

Filing and accounting period. We touched on this a little bit much. A lot of people use something different than a calendar month. The statute requires a calendar month as the filing period. A lot of people find it very difficult to file a return by the 20th of the next month if they close their books after the 30th. As a consequence, a lot of people cut off their books on the 20th for CST. You know, not their regular accounting records, but for CST purposes, they decide to end on the 20th, which just again adds to the ability to try to match to the return because now you're -- you've picked a moment in time that doesn't appear anywhere in their records. You know, you have to go back through and go through the sales journal and try to figure out which sales occurred before the 20th and which ones occurred afterwards. What that means is that ten days of every month is late. And essentially that adds an extra issue which isn't up there on the screen, but when one-third of your return is late, it's not subject to collection allowance. So consequently in an audit if we have a taxpayer who's routinely filing a portion of their return late, we disallow their collection allowance because the return wasn't on time.

Let's see, late report of all of part of each month. Some people -- in the beginning, some people were actually filing all a month late. A lot of people have gotten away from that. They've managed to get to where they're maybe only five or ten days of the month that are actually late. But there were some people who actually they were -- they were having so much difficulty because of gathering information from third-party billers that they actually -- they're filing -- a September return is due on October 20th, but they're taking and filing a September return on November 20th because they just don't have the information and time to file a return. Okay. And again, when you cut off like that, it has effects on the billing cycles and it makes it really difficult when we're trying to go get billing information and tie it to address information. And we have billing information for a month, but the return was billing information based on some other time period rather than a calendar month. So trying to tie that together and use that information in order to be able to do any type of reasonable situsing is very difficult. Very difficult.

Next page.

You'll be happy to know we're down to the last real page.

In general, most of the historical records are not available electronically. As you can imagine when people have hundreds of thousands if not millions of customers, there's really no manual audit approach that makes any sense. We need the records electronically, and most people do not store historical records online. It's very expensive for them to retrieve historical records. So if I wanted to go back and look at a transaction in 2010, you know, in order to get some month in 2010 electronically, it might take six months to be able to get those records reloaded or put into a form that they could deliver to the Department. And it still would have all those issues that we talked about in terms of tying it to an address and maybe it was a billing cycle that was off and cut off on the wrong day of the month. There is no real feasible way to conduct the audit without the electronic records, to speak of.

No history for products and services offered in bundled. And what I mean by that is people are constantly coming up with new products. I think even industry would agree with that. They come up with new marketing products and so forth. And what can happen is when you come out with a new one, the old one doesn't really matter anymore. And so now we're auditing historical and we're looking at bundles that somebody's not exactly sure what the components were anymore. And the records related to it are difficult to recover. So a lot of times you're going to find that when we attempt to unbundle, because it's been happening as we were unbundling Internet, that we can't actually come up with sufficient records to figure out what portion was Internet. And in the future would be, I guess, other items. And so then according to the law, it doesn't get unbundled. So there has to be sufficient records maintained in order to be able to show the breakdown of the costs of the different components so that you can figure out, you know, what part needs to be unbundled, and those historic records are necessary. And I guess my warning to an industry would be if you're not going to keep those historical records, you probably shouldn't have unbundled because you're going to need them.

Let's see, insufficient records to support the reallocation of past amounts reported. Well, that's just straight up, it's very -- a lot of taxpayers will correct their return or they'll make changes or they knew they pulled something wrong and so they will try to make an effort to collect it and they didn't really keep a record of how they made that correction. So now we have the original return which apparently was wrong and then we have this revised version that they filed and they really can't tell us exactly how they created the revised version, so it becomes very difficult to audit that.

And again, it's an extremely complicated tax. I know it sounds like I'm like beating on you, but I'm really not. I really don't mean for it to sound that way. It's a very complicated tax to try to administer. There's a lot of complicated requirements. And there's an awful lot of records necessary in order to be able to support all these transactions.

Multiple entities commingled, that's -- we had that earlier when we were talking about situsing. But in general, it's a big problem where multiple entities are lumped together and their records are lumped together. And, again, historically, it's very difficult to go back and pull out which ones belong to which company in terms of trying to audit the different pieces of the company. There's a lot of changes in entity -- I bought this company, I bought that company. I threw them right into mine. So now today, everybody's in here. But a year ago, it was on this. So all we have is today's database and we can't really tell you which ones we got from the new company and which ones we didn't. So again, how can I resitus with that because it looks like they've all been customers for the entire three, four, five years and they really weren't.

Same thing happens when I sell off something. I sold off a location so maybe I was reporting a lot of tax in -- again, Leon County, just because we're here. But I sold off my Leon County location to somebody else. Now we're in there conducting an audit. Well, you don't have any customers in Leon County, but over the period of the audit period, you gave them a lot of money. So really, I can't resitus that because I don't have any records to deal with because the address database for Leon County went with the sale; it's gone.

Okay. Change in service area. Same effect as selling off. I was conducting business, you know, in Alachua and I decided that wasn't really a cost effective market for me, so I stopped conducting business there. So if I come in today, you know, looks like you never had a customer in Alachua but really you did, so really what can I do with the periods of time that you reported money for Alachua?

Vice versa, I decided to expand. Some of us have businesses that are expanding out there and I keep adding new areas. So the current database appears like I'm doing business everywhere, but two years ago I was maybe only in ten jurisdictions. So again, I can't draw conclusions from the current database about the history at all.

Okay. And believe it or not, that is most of my issues. I will say this: We didn't really cover it very much, but there is a use tax provision and I mentioned it earlier. And that use tax provision is going to cause a lot of problems for a lot of people because they have bills they can't figure out if they paid any tax. But it does help us deal with the people who are penetrating the market from outside Florida and are not collecting tax.

Yes, sir.

**MR. SUGGS:** Okay. Question: Me and Charlie talked about this in the first session, but in order to help the industry, and I guess for local governments to get past, you know, fear, not fear, concern about bundling and unbundling, but I think it was '05 you were allowed to unbundle Internet, correct? Since then, anything major finding incidents --

**MR. STEFFENS:** I'm going to say that probably half the time there aren't sufficient records to allow us to unbundle it.

**MR. SUGGS:** See, I don't know, is that major, minor?

**MR. STEFFENS:** Probably major to them, I'm sure. You know, but, I mean, the people who couldn't unbundle the Internet, they know who they are. I mean, you know, most of the -- a lot of the larger providers have sufficient records to be able to break the Internet out. That wasn't as complicated as some of these other pieces are going to be. They're a little more complicated. But, you know, it requires you maintain a reasonable amount of records about what were the components of that bundle and what are the costs associated with those components so you can figure out how to unbundle and allocate it. And it comes up in audits.

In a lot of the smaller audits, you know, it's almost like how much money is it going to cost if we don't unbundle it, and it's not worth my time to try to produce those records. And even if some of the larger audits that can sometimes be the decision is it would cost me X amount of money, a million dollars, for instance, to actually go back and pull the data necessary to unbundle these transactions? And if the liability is only one and a half million or something, they might say, you know what, we're not rolling the dice on spending a million to try to save 500,000. So, I mean, it's been an issue. But, you know, we deal with it by just requesting the records for the various bundles that have not been fully taxed. And if we can get behind those records, no problem. And if the records don't exist, then it becomes taxable. Because again, the statute says they have to be able to support it in their records. We just mostly try to enforce the statute or apply the statute.

**MR. LINDSEY:** Relating to the bundling, did I understand correctly -- earlier you were talking about the customer viewing their bill and if their bundling has taken place, were you saying that that was -- you said that was a problem for the customer?

**MR. STEFFENS:** It is a problem for the customer because the customer -- I mean, I'm sure you're familiar with the concept of use tax. I bought something, it's taxable and I -- if I bought it -- for instance, for sales tax, if I bought a piece of equipment from out of state and had it shipped into Florida, they didn't charge me tax, I owe the tax. I bought a communications service and they either didn't tax me or they charged me some tax amount that's less than the amount I paid, they charge me tax on part of it. And so as a result of that under the law, I owe tax on all of it. So I need -- I need some way to know why I didn't have to pay tax on -- I mean, under the law, if I can unbundle it, I don't owe tax on it. But I owe tax on all the communication services I brought to the extent they weren't taxed by my provider, I owe it. And so for me to be able to exempt it, I need to know what the components were and what part I didn't need to pay tax on.

So -- I would imagine that providers often get calls from taxpayers that we might be auditing to get a breakdown. In fact, I've talked to some of the people on the other side to say I get calls from people that I assume you're auditing. If we don't -- but I get calls from customers all the time wanting a breakdown of their bill.

**MR. LINDSEY:** So the provider is permitted under the new law to do the unbundling, you're just saying it presents a question to the customer when they see --

**MR. STEFFENS:** Right. The customer needs to -- you know, I guess the word everybody likes is transparency. But the customer needs to be able to get something for their records if they need it to show -- if I was the customer, I'd probably want to know up front. But they need something to show why only part of it was taxed in order for them not to have an obligation to pay tax on the entire amount.

**MR. LINDSEY:** Well, the -- and I appreciate your presentation because it shows -- you know, one of the things this working group is to look at is how to streamline things. And it does seem like there are a lot of complexities to this. And as far as the amount of time that's spent on the situsing work, for example, that suggests there could be opportunities to streamline that. I know Brian kind of alluded to that earlier. How much -- if you were to compare the audits of the communication industry to other types of audits, what things that you list on here are pretty much in common with other types of audits?

**MR. STEFFENS:** Well, you know, it's most comparable to a sales tax audit. And you know -- and typically we do have situsing issues in sales tax audits. It's by county. And we will have situations where a vender opened a new location in a new county and didn't get a license in that county so they never reported any money to that county. And we resitus to that county. So we do have that come up quite a bit. The surcharge and fee thing isn't usually an issue in a sales tax audit. There -- so once you've eliminated -- situsing much simpler in sales tax because you're looking at 67 counties. And the way the surtax works is it's sitused to the sellers. You charge it at the rate of where you're going to deliver it to the customer, but you report it to the county where the seller is. You don't report it to the county where the purchaser is. So whereas with CST, I will situs it to where the customer is and report it to the jurisdiction where the customer is which is a much more complicated issue. So there is situsing in sales tax, but it's much simpler. We certainly have improperly exempted sales, partially exempted sales, transactions where they didn't charge tax on the entire invoice, and we don't know why. We don't know what they excluded. We have people who try to unbundle. There is no -- French mentioned it earlier, but there is no unbundling provision in sales tax. You know, so you could have a transaction that had six or seven components and it might have been unbundled for CST and Internet. The Internet, no tax. Say there was a phone charge in there that got CST. Everything else is a bundled transaction for sales tax. So we -- but bundling is an issue in sales tax. It's been an issue for decades. I mean, there's been a lot of court cases, not necessarily in Florida, but all over the country and it's been an issue for a long time.

We certainly have, you know, resale issues where people didn't actually document and get the right resale information. We did have issues with use tax in sales tax. We have issues with use tax in this tax. We have issues with nexus related to these out-of-state dealers and whether or not they have nexus. For some of these dealers that we were talking about where they're providing some type of a phone service, if they maintain proprietary software on a modem that they are selling you or whatever, then technically if -- that proprietary software is typically canned software and therefore under the law it is tangible personal property and it probably gives them nexus in Florida. And that's why probably some of the VoIP providers that voluntarily register to Florida that may have thought they didn't have nexus --

We do have -- we have records issues in other taxes where people didn't keep sufficient records to document what they did. I mean, that's just a general problem they didn't realize. We would love for everybody to always provide us electronic records because, you know, it's much cleaner, it's -- we can build a system and audit all their transactions. When we have electronic records, we don't have to do sampling. If we can analyze somebody's sales using their electronic records, we can actually tell them, these are the ones that we don't think that you paid tax on. And for the most part, we don't have to sample. Now that might not apply to purchases because then they don't necessarily capture enough information in their purchases to make that decision.

But, you know, some of the records -- some of the issues are typical. The exempt sales, the resale. I didn't tax this. I didn't charge the right rate or I -- you know, we'll get -- some of those issues are kind of the same. Somebody from out of state charged me tax and they shouldn't have; that applies in sales tax and CST. And I still owe the money because it wasn't lawfully imposed. That's an issue that exists. Situsing is the biggest different issues than, for instance, sales tax. But I mean, there are other -- there are certainly other issues that are unique. And then, of course, we have that whole issue of if it isn't subject to CST, it probably is subject to sales tax. Most transactions that we look at are subject to one or the other.

Yes, ma'am.

**MS. FOX:** It sounded to me that records was the biggest issue, jurisdiction is just maybe more time consuming. But it didn't sound to me that jurisdiction was -- or situsing to jurisdiction was the biggest problem but that records and the availability of records.

**MR. STEFFENS:** The -- yeah --

**MS. FOX:** Without that, you can't do anything.

**MR. STEFFENS:** Yeah, the availability of records to verify correct situsing in historical times is probably the biggest problem. And, of course, it's apparent to me that most systems were not designed to capture the records that we need for this tax. They were designed, you know, to facilitate billing and to track sales dollars and so forth. And they really weren't -- I guess there was -- you know, they may have been designed before the tax was passed and it really wasn't anticipated that I'm going to need to be able to provide a service address for every customer.

**MS. FOX:** So if --

**MR. STRANBURG:** Sharon, could you speak up? People are having trouble hearing.

**MS. FOX:** If situsing to jurisdictions went away tomorrow, you would still have a big list of issues that are related to records?

**MR. STEFFENS:** I'd still have all those other issues of they can't support, sometimes bad debts, which happens in sales tax. They can't support the credits and they don't have the historical information for the credits, which happens in sales tax. That they exempted sales they shouldn't have. The rate doesn't seem to be correct. I'd still have all those issues. There would still be records problems. They just -- there wouldn't ever be the problem -- not I'm trying to get into the way. But I wouldn't have the problem of I can't make this correction because I'd be billing you, not them for the error because it was money that was given to you that maybe should have been given to the county or to Temple Terrace or to Plant City or something.

Yes, sir.

**MR. SUGGS:** Yeah, on that first chart, I understand that was new money. And not a whole lot of that was due to situsing. But I asked -- I think you might have said -- can we get an estimate in terms of the redirection of money?

**MR. STEFFENS:** I really don't have that number. I don't know if we can get that number or not. Do you think -- how much money has been resitused? Not a lot in the last few years because we have insufficient records to justify resitusing. So a lot of times we leave the money where it was. We try to work to at least see if we can get it to be better in the future. But a lot of times we leave it where it was because we have -- to me, if I'm just going on what I would require to situs is if I'm going to take money from one jurisdiction to another, I'd like to see X number of customers and bills and so forth that are associated that I say absolutely, this entire neighborhood or whatever it is over here, not here. And it's very clear that so that when I go to both parties and I say, well, the reason that you lost $20,000 is because of all of these addresses were listed as being in your jurisdiction and they're not and this money shouldn't have gone to you. And then, you know, you're looking at the person going, okay, that -- when we used to do audits, that's exactly what we would have done, too. But if I -- if the information doesn't support that because the return was filed some other way and there were other adjustments in the return -- I mean, I've been involved in audits where we added addresses to a jurisdiction and when you took the records plus the new addresses, it still wasn't enough to get up to what was on the return. So in theory, the audit was saying we need to take money from these jurisdictions because for some reason, extra money was given to them that belonged somewhere else. And -- but I don't really have a basis for knowing why. And it's really hard to tell that jurisdiction, you know, we took money from you. Well, was there a lot of people reported to us that shouldn't have been? Not according to their records. Not according to our audit. Then why did you take money? Well, they just gave you extra. We don't know why. And so I kind of operate under the theory of you gave them extra, so who am I to say they don't get to keep it at the moment? I am not the entire Department of Revenue, but we're in that situation of if I don't have a basis of taking money from a jurisdiction, then I think the Department's position is we shouldn't take money from that jurisdiction. We need a basis to show why that jurisdiction was over-paid before we tell them they owe money back.

Yes, sir.

**MR. RESNICK:** How far back do you go in your audits? For example, if you audited a provider for the first time in 2010 --

**MR. STEFFENS:** We go back to 2007. We have a three-year statute of limitation.

**MR. RESNICK:** So you would audit all three years?

**MR. STEFFENS:** We would audit all three years.

**MR. RESNICK:** You have about -- you're up to 206 cases for this year --

**MR. STEFFENS:** Well, that was the fiscal year. So it was over June $30^{th}$.

**MR. RESNICK:** What percentage of cases results in some recovery?

**MR. STEFFENS:** Probably about 80 to 85 percent, maybe a little higher. But, you know, a number of those cases again could be small cases that were --

**MR. SUGGS:** Like hotels.

**MR. STEFFENS:** -- hotels and office supply. They were a very small contribution to the collections. And those 206 cases may be very little of the 37 million. The 37 million may be coming from cases two years earlier because people don't usually write us a check the day we hand them the audit results. They'll protest, they'll review the information, they'll come up with additional information. Maybe they can prove some of the bad debts or credits. Maybe they can come up with different exemption certificates to show that the person was exempt. So there'll?they'll be adjustments to an original audit.

**MR. RESNICK:** Have bankruptcies been a big problem in terms of --

**MR. STEFFENS:** Not too much. We haven't had a lot of bankruptcies. I don't think so. I mean, not nearly as big a problem as they are in sales tax. There haven't been a lot of bankruptcies for these companies.

**MR. SUGGS:** Question: I think we cleared up the impact of situsing -- is bundling, unbundling a big part of this issue --

**MR. STEFFENS:** Well, bundling, that law just passed. Okay. So now it may be helping us to settle some of those currently open cases because maybe bundling was a big issue in one of those open cases, and if the taxpayer has sufficient records on unbundling it may make them happy because they may have been already taxing as if it was unbundled. And so we might have taxed the whole bundle and so -- but the only unbundling that would have been in any of these numbers would have been related to Internet. Yeah, would have been related to Internet.

That's a brand new issue in theory for us, although it's retroactive in how it's applied.

**MR. SUGGS:** I should have -- I was talking about the Internet.

**MR. STEFFENS:** Okay. The Internet, okay.

**MR. RESNICK:** Local jurisdictions can still audit a provider that's only in one county, right?

**MR. STEFFENS:** Yeah. Which would probably be a hotel.

**MR. RESNICK:** Are you aware of any --

**MR. STEFFENS:** No one has taken us up on that opportunity. I don't know that they -- either they don't want to or they don't think it's worth the time or they're trusting us to do it or -- they know that it would be kind of complicated because they would have to go through our system, use our forms, follow our protest rights and so forth because the taxpayer's entitled to the same rights and treatment no matter who conducts the audit. So as far as I know to date, no local government has requested to conduct an audit.

**MR. SUGGS:** Last question from me: Are you on some like -- with the CST, are on some sort of cycle with providers or is it sort of people on a lead or you get a lead information or is it random or like I said --

**MR. STEFFENS:** Well, let's divide the providers into two categories. We do that internally for purposes of conducting audit, even for training our auditors, okay. The multi-jurisdictional provider that provides service all over the place is one type of audit. The hotel, we call those fixed-site providers. And the difference between them and the other providers is they are providing service where they're located. So situsing, not much of an issue for them. I mean, they might do it wrong, but it's still not an issue in terms of figuring out where they are. You can go to the property tax records, et cetera, figure out where they are. So those cases, you know, we're just -- that's just a random thing.

Some of the other cases, you know, we follow leads, we look at complaints provided, we -- I don't know that we have a cycle that we follow where you're going to get one X number of years. You know, we do have a habit of if your stuff was really bad, we might audit you again to see if you improved. That just kind of stands to reason. If we had a lot of problems the first time, we'd probably like to make sure the things are better in the future. Most of these audits take so long that by the time we get done with them, another audit period, maybe even two are available. So sometimes the taxpayer would just assume let's go -- while we've got it in motion and we figured out what the issues are, let's go ahead and take care of the next three years with it because then we can say good-bye to you for a period of time. So we do get a lot of that going on these days.

No other questions?

**MS. KITTRICK:** I have a hypothetical.

**MR. STEFFENS:** All righty.

**MS. KITTRICK:** Completely hypothetical.

**MR. STEFFENS:** I love hypothetical.

**MS. KITTRICK:** So what if tomorrow all the retailers of prepaid wireless service and all of the providers turned on the CST, not -- assuming there's absolutely no --

**MR. STEFFENS:** They decided they agreed that they were subject to tax?

**MS. KITTRICK:** Right.

**MR. STEFFENS:** Okay.

**MS. KITTRICK:** Okay. So without -- absent any change in the statute that addresses the situsing issue, the companies, the retailers remit the CST based on where they sold the product. How does that skew -- I mean, I would think because you're not looking at where the customer is and you're focusing on where the retail location is, I would assume, you know, the City of Miami, City of Tampa, bigger cities, more retail locations probably do -- transactions in those couple of stores, I mean, how does that -- enough satellite and everything else? I mean, would that really --

**MR. STEFFENS:** I mean, I don't know how much the dollar amount is. You know, our first goal would be to try to teach them to gather information when they made those sales. Some people could, some people can't.

**MS. KITTRICK:** Do you really want a clerk from Wal-Mart taking a copy of your license and --

**MR. STEFFENS:** I'm not saying that. I'm saying that not all prepaid phone arrangements are sold at Wal-Mart. A lot of them are sold at these little phone kiosk places. And then you go out and you activate online. There might be some possible situsing that can be done from the activation of the phone; I'm not sure. There might be something that can be done with every time you buy a new service, you know, when you're recharging, situsing could maybe be related to where it's being recharged. Maybe related to the credit card information associated with it.

**MS. KITTRICK:** (Inaudible comment.)

(Speakers talking over one another.)

**MR. STRANBURG:** But assuming -- very complicated. But if we didn't have anything and we were just hypothetically deciding we were situsing it where we're selling it, if it's a significant number, maybe it could because if you're a jurisdiction who doesn't have a location, maybe it could affect maybe the satellite formula. Although if you're a jurisdiction who doesn't have a location selling prepaid phone service, you're probably not getting much satellite money to begin with because it -- you would be a --

**MR. RESNICK:** You don't have a sales tax.

Satellite money doesn't distribute based on sales rate, it's based on --

**MR. STEFFENS:** Satellite money distributes based on where all the other sales --

**MS. KITTRICK:** Right.

**MR. RESNICK:** -- sales tax.

**MR. STEFFENS:** We create a satellite formula from all of the CST local information provided for the other rates. And so if your jurisdiction is getting 2 percent of the entire state's local tax, you're going to get 2 percent of the 4 percent buried in the 10.8 state rate.

**MR. RESNICK:** I thought there was a specific state statute, though, that actually reallocated some of the satellite money specifically to distressed counties from wealthier counties.

**MR. STEFFENS:** Well, and I think that's true. That's a different distribution.

**MR. RESNICK:** -- satellite services -- Miami-Dade and Broward, the money's going north.

**MR. McKEE:** I'm Bob McKee with the Office of

Tax Research. It was -- some of the supplemental information was provided after the first meeting. I believe, Mayor, you had a specific request about the distribution for the satellite. The satellite is actually based on two parts. There's a larger piece, I believe it's 70 percent of the receipts of a portion of the satellite with the state tax on satellite that is distributed back based upon the prior year's non local CST, but that half cent of sales tax distribution. And then there's another smaller part that is distributed. The remaining 30 percent that's distributed to fiscally constrained counties programs is based upon its own fiscal constrained county formula.

**MR. RESNICK:** Based upon a powerful legislator --

**MR. STEFFENS:** Based on that, it wouldn't affect it at all.

**MR. STRANBURG:** Seeing no more questions, thank you, Peter. We appreciate your time and the information you've given us. That covers our agenda except for the other business part of it.

As I mentioned to you early today, I wanted y'all to start thinking about what your calendars look like. Andrea had circulated out to you all some proposed dates to set another meeting which unfortunately did not seem to be working out for a number of you. It wasn't just one person that had issues with some of the proposed dates, we had multiple people on those dates. So it wasn't a matter of being able to maybe ask one person if they could adjust their calendar, it was going to be multiple people and just didn't look like it was going to be workable.

As you know, we do have a meeting scheduled for October 31st. What we could do, what I'd like to throw out is an option since we're having a difficult time trying to find some dates to meet some more because I think we're getting close to the point in time where we're going to need to start formulating what's going to be going into the report. We've got a number of the review portions of the tasks we've been given completed, reviewing national and state policies, you know, reviewing the revenue that is being used to cover bond indebtedness, some of the other things to the point where we need to start putting together some of the options. And I think we've had some discussions today as part of our presentations, people starting to throw out some ideas of what might be some options for either the streamlining of the administrative system or to eliminate competitive advantages without putting undue burdens upon local government revenue streams.

So since -- having a bit of difficulty trying to find some dates to sit down and start doing some of that. As an option instead of trying to come up with another meeting date before October 31st, I'll put this on the table, get some people's reaction to it. You know, what we could do is we could start the process of formulating some of these options by having all the members put -- start putting together their list of options that they believe would be issues to be included in the report, options to be included in the report. You could submit them to our staff, we would start compiling those. We would have those compiled. We would ask you to have them into us by a date certain. We would compile those submissions to us. We would then, after compiling them, send them back out to you all by a date certain so that we could then get back together on October 31st and start discussing some of those options.

Again, we're throwing this out as a way of doing it since we're seeming to have a difficult time getting people back together before that October 31st date.

**MR. ROSENZWEIG:** Can I ask you a question, Marshall? At the last meeting we had some -- because we had some extensive discussion at the last meeting that didn't lead to any fruition of a decision on how we're going to decide what's going in this report, and my recollection was there was some discussion that the staff was going to come back with some suggestions on how we might do that. So, again, I'm very leery of a process by which we start putting all these options forward to the point where we're compiling a report when we don't know how we're going to actually make a decision of what goes back to the legislature and governor. So, again, if the suggestion is we all just throw ideas on the table, you compile a report, we come back look at it, everything that everybody says is going to go in that report? I still don't understand how we're getting to that decision-making process as a committee. And I'm really looking for that was something you all I thought was going to come back with some suggestions how that might happen.

So again, before we move to that point of starting to put those concepts on the table, I'd really like to know as a Board how we're going to make that decision when that report comes back. And I'm very anxious about getting all the information in the room and then it just goes forward to the legislation and the governor? That's it? I just don't know.

**MR. STRANBURG:** We went back and as we talked about at the last meeting, we took a look at the legislation. And Charlie had mentioned -- well, I guess he hadn't mentioned to the group -- Charlie, if you want to say -- went back and looked at some of the --

**MR. DUDLEY:** I went back and watched the tapes. There's just not any real legislative history around anybody's intent other than the words that are in the bill that passed.

**MR. ROSENZWEIG:** Okay.

**MR. DUDLEY:** My view of what's there is for us to, you know, do a lot of -- take a lot of testimony here. Gather information about technology, competitive issues. We've heard a lot about the prepaid issue, so I think we're well into our charge as a group because we were asked to -- I feel that we -- learn as much as we could about all this. Then the way I read it is for us to put out options. There could be an option that says don't do anything with the communication services tax. There could be an option that talks about beefing up record retention requirements. You know, people may have comments on that option. That option's the right option because it's good because one, two, three. And that option is bad because of one, two, and three. And so I didn't get any legislative -- looking at the legislative history which is something I do for a living, I just want to offer to the group that there wasn't any more direction than the words that are in the statute which we -- and so that's why I think it's time --

I like Marshall's approach myself just because I like the concept of us starting to submit in a public transparent process different options and ideas and then get all this on the table so that we can go through because I may throw out an option, an idea that you like or that you dislike. And it may be an option that we decide to put in the report and everyone be able to put out there pros and cons for that particular option.

**MR. ROSENZWEIG:** Pick up what you just said, though. We may decide to put in the report. How is that going to happen? Just what you said, does every option go in the report? Do some go in the report? If I don't like an option, but you like it, does it go in?

**MR. DUDLEY:** I don't know.

**MR. ROSENZWEIG:** That's the conundrum I have.

**MR. DUDLEY:** I understand. I don't know if there's going to be 40 options submitted or ten options submitted.

**MR. ROSENZWEIG:** But does every option go in?

**MR. DUDLEY:** I don't know. I think as a group, we're adults and we can go sit down and go through it.

**MR. ROSENZWEIG:** I've never served on a committee like that where you don't have some formal structure in which some voting must take place to move ideas forward.

**MR. DUDLEY:** See, the way I view it, though, is that the legislature didn't -- this legislature can take our report and say that's really nice, lay it down in dust.

**MR. ROSENZWEIG:** Absolutely.

**MR. DUDLEY:** And I think they're liable to do that if we say, well, six of us have to agree on something for it to go in the report or five of us have to. I think you're driving them to that rather than saying, you asked us to go and sit for these hours that you were not available to because you're a part-time legislator.

**MR. ROSENZWEIG:** Right.

**MR. DUDLEY:** So all of us with our backgrounds and our resumes and the reason we were selected to be on here have put in all this time and are going to try to produce a report with a lot of information in it and outline to them different things that we saw and different directions that Florida law could be changed. Some of the industry and/or locals may agree on or disagree on, but they're different options. And to give the legislature really some raw data and research in some sort of format for them to take a look at and their staff, many of whom are on the phone -- to take a look at that and say, we sat and listened to an hour from the audit chief about problems with tax. From that, two or three options emerged as to which way to go with the CST. Some people find it had -- this option had these advantages and these disadvantages. And that's just how I see it. I see this report as a resource for the legislature.

**MR. ROSENZWEIG:** -- model legislation coming out of our group in terms of really getting them to a point where they could do something.

**MR. DUDLEY:** I don't disagree with -- I kind of view model legislation as coming out of subsequent meetings that are conducted after their report is done. Just being honest.

**MR. SMITH:** I think that -- ideally I think that you would like to have model legislation, but I know just internally at my company I work with the same company as all these other people -- mark up legislation, it takes months. So for this diverse a group with the limited number of meetings we have to come up with marked-up model legislation, that's pretty, you know -- I mean that's setting the bar pretty high. Which I understand we might have these battles again in the hallway, but at least there will be a record that we sat down and talked about some of these issues and put forward maybe a punch list of ideas for them to move forward with.

**MR. STRANBURG:** I only get back, Alan, to what we talked about at the last meeting which was my fear is being tasked with presenting options that we have some type of either super majority vote, anything of that nature. Are we limiting the options that we present to the legislature for them to consider simply because you couldn't get three people or two people or however many people from one side of the table saying I don't want that option to go forward? I would prefer -- my preference as the person who's put in charge of running this is that we put as many ideas on the table as possible. I trust the people at this table to come up with good ideas, to come up with workable ideas, to come up with ideas that while it may come from your particular perspective that you feel strongly are workable or doable. You're just not going to put out -- I don't think the people here are going to put ideas forth to create an idea blizzard and try to snow the legislature under with so many different options that they're not going to be able to decide what to do.

I think we're all committed in trying to come up with options, things that are workable, things that are doable, things that we feel based upon your background, your knowledge, your information that you got from this are solutions to some of the problems that we've been talking about. So I want to trust the process. I'm going to trust the people. I want to give us an opportunity to say I think, as Davin said at the previous meeting, we're all here committed to working to come up with a good work product. I think if we let ourselves get tied up with, well, it's got to be a majority, not a minority or however we want to vote things out, we're going to preclude ourselves from putting some things on the table that might have some value to the legislature in looking at the problems that this tax is facing.

**MR. ROSENZWEIG:** So when the options come forward one of my main concerns, as I said at the very beginning, was without unduly reducing the revenue to local governments. So if the industry comes up with some options and ideas, is DOR going to then do an analysis on that option to say what the fiscal impact may be to the local governments so that we have that knowledge that that option doesn't undue item F? I mean, I'm all for hearing all the options, but if there's an option to put forward and I'm not that close to what the industry -- they may have an option that costs us $20 million. Is DOR going to analyze all the options so we know item F is being protected correctly?

I mean, I don't know how we can -- that's one of our main charges was to remove competitive advantages within the industry without unduly reducing the revenue. I don't know how I look at an option if DOR doesn't do an analysis on the option for me.

**MR. STRANBURG:** And I don't know without knowing what those options are if it's possible to do that type of analysis, what that analysis might show. Some of that is probably also going to be driven -- even if we do do model legislation, model legislation is going to be vetted by the process that we have here in Florida for looking at those things. It's not something that the Department puts a number on it. There is a group that does that.

So, I don't -- and I'm just speaking for myself -- I don't envision any problem with as you come forward with an option that I think it is well within your right as a committee member of this working group to say we have -- I have or we have, however many people, significant concerns that this might cause a revenue impact. We feel that before this option needs to be considered by the legislature, they need to do an analysis to be sure that that doesn't unduly jeopardize local government revenues.

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

**MR. ROSENZWEIG:** So we don't do it at our level, the fiscal analysis necessarily. The DOR won't do it for this committee, it will wait till it gets up to the legislature?

**MR. STRANBURG:** I'm not sure how we could do that.

**MR. ROSENZWEIG:** And I'm not sure how I would be able to with my knowledge and expertise, be able to evaluate, you know, if somebody from industry comes up with a proposed streamline process improvement, I have no idea how I'm going to say that impacts revenue or doesn't impact revenue for local government. So I don't know how I look at item F, then going to the legislature that says with our options we identified are not supposed to unduly reduce revenue to local governments.

So, I disagree that we can just put forward whatever option without being able to identify if it significantly reduced the revenue or not. I mean, it doesn't say wait for the legislature to do the analysis, it says that's our charge. So, I would respectfully suggest that if there's options put forward, DOR should make a statement that they don't think -- you don't even have to come up with a number. You can at least from the Department's perspective say we don't think this will unduly reduce the revenue. You don't have to do the numbers. You can just simply say, yeah, we generally think that option won't unduly -- however you interpret that. At least now I have some confidence I'm not going to lose money when this goes forward to legislature.

So I really ask the Department to consider at least doing that level of analysis. Not -- maybe not down to the number level, but say, yeah, this is okay, you're not going to get hurt, guys.

**MR. STRANBURG:** We'd also make a statement based upon our administration of the tax, we make a -- it's really not any kind of recommendation but it's more an observation.

**MR. ROSENZWEIG:** Correct. Just some way that I have some expertise on item F that -- I won't have the level of expertise to analyze the options that the industry puts forward.

**MR. STRANBURG:** Well, and I would like to think folks from industry, if they put something forward, they're probably going to be able to give us some --

**MR. ROSENZWEIG:** I would hope so.

**MR. STRANBURG:** -- how they think impacts. So I think the process is going to drive us to get --

**MR. ROSENZWEIG:** Okay.

**MR. RESNICK:** Can I ask a question?

**MR. STRANBURG:** Sure.

**MR. RESNICK:** Everyone is just going to submit in writing their ideas? Why do we need to have a meeting?

**MR. STRANBURG:** Well, I think we need to have a meeting to come together to again try to work through those and see if there are some that maybe we can combine into options, maybe we want to fine tune them, maybe the group might consider an option that's been put up by one of the members and say we really don't think this is a good option. And collectively as a group, you might want to decide we don't want to put that option forward. I think we want to have, again, some idea of a consensus of the group of what we're going to go forward with an option. If there are things, as Alan points out, where we feel as though there needs to be a -- whether you want to call it a caveat attached to that, a descending point of view, a contrary point of view attached to that, I think it gives you, as members of the group, that option to express that you would like to have that included in the report that is done in discussing that particular option. So I think it would be beneficial for us to get back together as a group in order to do that, in order to have that kind of discussion so that we could make sure we're trying to get the -- again, a good product that's going to be a meaningful product going forward to the legislature that could express that whether they are in complete agreement or consensus agreement or maybe there's a contrary point of view to an option that some of the group ought to be able -- forward as part of the report.

**MR. DUDLEY:** Marshall, one thing to consider -- for the Department because, I mean, obviously your staff's been wonderful and they've got other jobs to do besides staffing this group, but I know that we've all worked with a lot of your staff -- REC process and, of course, a lot of those numbers come from there, the REC has -- decision that they make on it. But I know in previous CST task force, the one Sharon and I served on before this task was adopted, you know, that -- Bob McKee -- was available to help price ideas and options to be able to say, you know, not with a --

you know, not down to the penny, but just generically in terms of an idea or a concept, you know, this would result in this, result in that. And I think when you get to the point of looking at some different options now, and the Department has some resources. We can't abuse their time or that -- but I think there's probably some ways to work through that to get some at least sketches of what fiscal impact may or may not be on something. I'm very comfortable with that informally happening so that we can have -- because how else would you be able to evaluate the option? You can evaluate an option that says, well, this is an interesting option, however, I have concerns that one of the disadvantages of this option could be that it could have a significant negative impact in the short term, long term, et cetera, on local government or state government.

**MR. ROSENZWEIG:** Or between industries it causes a problem.

**MR. DUDLEY:** Absolutely. Absolutely. I learned a lot -- one thing I was going to comment today, I thanked Gary, I appreciate AT&T giving the presentation they gave us, especially the delayering. I had never seen that before and I thought that was very helpful to try and look at the over-the-top provision of services through the lens of a delayered approach. I found that extremely helpful today. And I think that when you look at that, you can almost sit back and say, well, if you were going to put forth an option of don't do anything on the communications service tax, it's working, it's generated 20-something billion over its lifetime, it's too integral to state, local government revenues and there's bonds and really just should do nothing, I think that presentation maybe shows you, well, if you do nothing with the Internet Tax Freedom Act at the federal level and what may or may not happen with nexus and everything else in the -- all of which has been talked about for 20 years, you could find that this tax begins to disappear very significantly over the next five to seven years as some of these applications that she -- that was in the presentation materialized assuming, you know, take the use tax thing out, assuming that there's not a way to economically go after those revenues. I mean, I felt like I was listening to the legislature talk about Internet sales today for a little bit and the issue that confronts them on the sale -- online sales issue.

You know, the industry that's essentially here that's collecting and remitting from our customers a lot of CST revenue is also some of the largest employers in Florida and also some of the largest payers in property tax. And that's a very similar parallel to what's going on with online sales when you take a look at those. So I'm very comfortable with the Department staff to the extent that they have -- to the extent that, you know, it can be -- their work can be done holistically -- work group, to be able to give us some guidance on hey, that option's a real -- it's going to result in this type of negative number within parameters.

**MR. ROSENZWEIG:** Do you think it -- and this may be -- I know you questioned, I don't understand completely, so can the Department, from your opinion, bring forward options to address some of these issues? Because you guys have the in-depth expertise and knowledge. Can you all bring forward suggestions on things that you see in terms of streamlining, in terms of addressing obviously all the concerns of the legislature? We obviously all come with a small band of what we see. You see it all. I mean, I would really appreciate the

Department bringing forward options, if you think it's appropriate, that we should be considering. I mean, from all your expertise y'all have, there might be something there that we're not seeing and you can be very specific to them, too. So I ask that.

**MR. STRANBURG:** As a member of the group, I think that we do have a commitment to bring forward some options, too, that we think would be beneficial to --

**MR. ROSENZWEIG:** I appreciate that a lot.

**MR. STRANBURG:** What we were thinking about doing is if we wanted to do this idea of submitting and then getting back out to you what -- we were looking at calendars and what Andrea and I came up with is if you could submit any options to us by September 10th. Is that too short? Is that too long?

**MR. RESNICK:** Well, I think part of what I'm struggling with is we haven't had much in the way of discussion of competitive advantages. I don't know if satellite has a competitive advantage because it pays one rate across the board even though it may be higher than what cable pays. Or cable has a competitive advantage because it pays different rates that are lower. I have no idea. So, I don't know what option I would suggest to deal with that.

**MR. STRANBURG:** Are there other areas that you would think you would need to get more input before being able to start --

**MR. SUGGS:** Marshall, it's not -- Sharon was asking this question at the last meeting, and before you send everybody back and everybody come back with ideas, I really think what Alan's talking about driving us towards this group delivering a solution, I mean, I don't think -- we define what E and F are, we -- everybody can pretty much guess -- we'll get pretty close to the three or four issues. One is situsing in a number of jurisdictions that drive the industry. Prepaid is an issue. But if there's the other competitive advantage issues that we need to address, if they're properly identified we may say, hey, I mean -- I think you ought to listen to what Alan's saying in driving -- I mean, getting to a solution where we can offer up to the legislature something -- I don't think we're that far apart.

**MR. DUDLEY:** You need to understand the options, though, that people have, ideas they have in order to develop how to -- what works and what may be part of a solution. I'm not sure an option is going to give you a solution.

**MR. SUGGS:** Right. But what I'm saying is what the Mayor asked for now and what Sharon asked for last meeting is sort of define -- it's not -- like another data report but hey, Charlie, what's F mean to the industry? What's E mean to the industry?

**MR. DUDLEY:** Well, it's interesting because E doesn't include without unduly revenue, only F does.

**MR. SUGGS:** So, I mean --

**MR. DUDLEY:** I'm not saying I'm looking to put forward an option that streamlines and significantly reduces revenue. That would have some pretty significant disadvantages to it. My only request, Marshall, is maybe we go to the end of that week to the 14th of September. I think until we start flushing out what people think in terms of what they've heard and listened to and what ideas they have or don't have, we're going to just be sitting here spinning out on our top. I may have three or four ideas and you may not like any of them. I'm going to have to go solicit some ideas and options from the people I represent that deal with the tax.

**MR. SUGGS:** We're going to have to do the same. But, I mean, it's sort of -- unless we know what you all, representatives of the industry think, I mean, we can --

**MR. DUDLEY:** I think I want to look like Bryan.

**MR. SMITH:** I want to go to the retail sales --

**MR. DUDLEY:** I mean, that's where I want to get to. I'll be happy to sketch that out what I think it looks like and submit it and people can take a look at that and --

**MR. LINDSEY:** And I agree that we go ahead and set this time, September 14th, if that's the date, that we all provide options and then we come back and look at them. I think we might even need another meeting before October 31st to talk about once we've seen them and see where that goes. We may end up having five common options. You know, whatever it ends up being. But I think that would be the process for what we'd want to talk through them and exchange ideas about them. And if we seem to be moving towards a -- some common solution, then we can go that route. But I think we'll end up having some very competent well thought-out options, you know, to be looking at right in the middle of September. And then we may need to get back together and talk face to face some more. Not volunteering to drive too many more times back down from Atlanta, but should we need to, I think it would be a very worthwhile thing to do.

**MR. SMITH:** So, Marshall, you talked about submissions, make --

**MR. STRANBURG:** We talked about the September 10th date. We can push it out to September 14th. Then we could turn around -- we were thinking about turning it around by the 1st of October, kind of compile a list of that because again, we asked that you just send those options to us, not to the other members of the task force, so we don't run into any problems. Then we send those out to all the members of the task force, also posting that to the working group website. Then we were thinking of trying to get back together to have that discussion you mentioned, Gary, on the 31st rather than trying to set another meeting. We were having some difficulty doing that. And then the thought process was we would schedule, kind of a final meeting once we've had the discussion on the 31st, seeing if we can, as you say, kind of cull things down as we talked about. And then try to do something either the week of November 26th or December 3rd. November just becomes -- any time before that. Whether we would do that as an in-person meeting or want to do it as a telephone meeting, I think we could be flexible about that. But that was what we were looking at in trying to get things moving.

I think that would give us the opportunity also that if there were some things that came up and we wanted to try to have another meeting at some point in October, we could see about doing that. I know it was problematic about some people -- early October. That was one of the other meeting dates we had floated out there. So I think that might get us going. At least get us a framework to start putting some things together if we identify some additional issues that we think we need to have some more presentations done on.

Mayor, you talked about the satellite industry. I mean, that might be something that we could look at in trying to put something together. And if we can't have an in-person meeting, maybe we can do a telephone WebEx meeting for those who can't make it to Tallahassee to get some more information. I would just ask if there are some additional topics that you think we need to get more information on to feel good about the options you're submitting or whether you think they're viable options, you let us know as part of this process so we can before we get back together at our next face-to-face meeting, try to put something together to give you some more information on those areas, on those topics.

Sharon.

**MS. FOX:** There's one piece of information that I feel is lacking, and I think that the Department identified that based on the difficulty of getting jurisdictional information, and that's on franchises fees, outside of Florida. And it occurred to me, Charlie, that the organizations that you represent might have very specific information about what local jurisdictions charge for franchise fees and how many jurisdictions charge for franchise fees outside of Florida.

**MR. DUDLEY:** I can try to find some national data. Probably NATOA and some other groups that Gary's on the Board of may have it. We've stopped it because we haven't collected a franchise fee in Florida since 2001. So the --

**MS. FOX:** Right.

**MR. DUDLEY:** -- the contacts I have and the state entity I actually represent don't have any data except for all the way back to October 31st, 2001.

**MR. RESNICK:** Actually I asked NATOA, and they do not. They actually thought that maybe the National Cable Television Association would. I don't know if you're a member of that or not, but --

**MR. DUDLEY:** I can check.

**MR. RESNICK:** They also said that -- well, not NATOA, but the National League of Cities said generally that if you use generally a 5 percent franchise fee figure across the rest of the country, that that would be accurate.

**MR. DUDLEY:** Yeah.

**MS. FOX:** If that's something that you agree with, then I'd like to see that as part of the background documentation. My concern being that right now when the legislators ask for what communication taxes are being charged in other states compared to the CST, it's not really apples to apples because the CST incorporated a component for franchise fees. It incorporated a component for local permitting fees and those types of things that are not typically considered taxes. So, I would not want them to have the impression or to be given the impression that other states only charge X percentage of tax when they're not also given the information but the local jurisdictions also charge a 5 percent franchise fee. And we don't have that here because we're a unique animal, so to speak.

**MR. DUDLEY:** NATOA didn't have any of that?

**MR. RESNICK:** NATOA doesn't possess that at all, but neither does the National League of Cities in terms of an actual database. To be honest, Comcast probably does because they operate virtually in every state. And so if you went to the big three cable operators, you'd probably get a pretty good accurate idea of what generally around the country the franchise fees are. But as I said, you know, the folks that deal with this on a national basis said that generally using a 5 percent figure would be pretty close to accurate.

**MR. DUDLEY:** I'll see what I can find out. Some states have a cable commission where the state peels off part of that 5 percent because they have a state regulatory side that they use that money for. I think New York does that, for example. They take X percent. Massachusetts does, too, yeah.

**MR. RESNICK:** Is there a way -- I don't know if DOR could get this information or not, but if we were to restore the 5 percent franchise fee on land line services in Florida, what would that amount to?

**MR. DUDLEY:** Restoring the tax on a service that's going --

**MR. RESNICK:** Not a tax. It's a fee for using the --

**MR. DUDLEY:** Yeah.

**MR. RESNICK:** That the tax was supposed to replace but obviously isn't, so -- because more and more services seem to be migrating to a platform that doesn't use the rights of way.

**MR. STRANBURG:** Mayor, just so I understand, when you say the 5 percent fee on land line services, what do you mean by land line services?

**MR. RESNICK:** Voice, video, data that use the rights of way. I mean, I guess cities could impose a franchise fee on data service since they're not communications providers under the statute. And so if they're using the rights of way to provide data services, local governments could now require a franchise and impose a fee. Someone would have to look at it.

**MR. DUDLEY:** 32.7401 --

**MR. RESNICK:** I think it only exempts communication service providers from franchises.

**MR. DUDLEY:** Marshall, I think --

**MR. STRANBURG:** Let me get Bob up here to see if he has any questions -- any concerns about trying to get that kind of data through -- in his opinion.

**MR. McKEE:** I'm still Bob McKee. The direct information that we have that we collect in return information is by entity. So, to the extent that the entity provides multiple services, wireless, land line, IP phone, other things we may not be able to get strictly to things, one, that were the base prior to the CST or specific to services. Now where we can't get things directly from return information, we try to use the indirect method where we may be able to look at nationally available data or other data where we might be able to get information out of it. Where we can't get direct information in that fashion, then we start moving to the assumption -- not to say that there's not assumptions in the other methods. But I think --

**MR. RESNICK:** But your information that you have that actually surprised me, you would have information then on total revenues of land line service providers based on at least what they reported.

**MR. McKEE:** We would have remitted tax to --

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

**MR. McKEE:** But to the extent that they have sort of ubiquitous services where it may not fall into one of those specific buckets --

**MR. RESNICK:** Well, if you look at just the state tax component. I mean, forget about the local situsing because that varies so much, but if you looked at Florida state taxes is the same for all services throughout the entire state, right, it's 6. something percent.

**MR. McKEE:** You can get back to base, absolutely. You can get back to a revenue base from it. I guess, Mr. Mayor, the challenge that we have is knowing which of those services are ones that utilize the rights of way which -- compare to which of those services that they may provide or not. And part of the world we're in today in 2012 compared to where we were in 2001 is that those lines are not as distinct. There's traditional land line services who are providing both land line and wireless services --

**MR. RESNICK:** That's combined on the same return?

**MR. McKEE:** They would be combined. I mean, we'll look to the return information.

**MR. RESNICK:** It would be easy on the cable side because they're not providing wireless services yet, I don't think, at least with respect to cable. Phone side would be more difficult.

**MR. McKEE:** There is certainly phone service provided and other services provided that may or may not be directly related to the rights of way or the provisions of the franchise fees.

**MR. RESNICK:** You could at least get a state-wide general revenue of cable?

**MR. McKEE:** We could certainly make efforts to get it. Again, things are not as pure as entities as they were ten or 15 years ago. So that's some of the challenge in identifying folks. But I think as was discussed in one of the earlier presentations, the industry is very concentrated.

So there's a limited number of providers that --

**MR. RESNICK:** Makes it easier for you. You only have to look at a handful of --

**MR. McKEE:** -- large percentage of revenues.

**MR. RESNICK:** I mean, I think it would be interesting to know, too, to provide the legislature with that kind of information as to the rural revenue of these service providers.

**MR. McKEE:** I'm not sure yet if I'm being charged with that, but I want to make sure if I am being charged with that, exactly what the charge is. Because my understanding of the franchise fees and the history of cable were that those were negotiated jurisdiction by jurisdiction. Some individual terms may have differed about what were included or not included. So if I were to try and replicate that, that pre-2001 history would be very challenging compared to what would a straight measure be off revenues, the strict percentage. I'd be much more comfortable trying to lay something in front of y'all from that perspective than I would trying to replicate a franchise fee world where they were negotiated instruments among thousands of entities.

**MR. RESNICK:** That's -- no, I'm not looking for that kind of detail. I think that would be too much to be asked. But I think it would -- from a general standpoint for our information, you know, if we're talking about replaced revenue sources to keep local governments whole, I think it would be useful to know just how the basic idea -- an estimate, even if you want to call it a rough estimate -- I know accountants in DOR probably hate using things like that like a rough estimate, but even a rough idea of what generally a 5 percent franchise fee would generate -- cable services.

**MR. McKEE:** -- called magnitude analysis. So potential magnitude.

**MR. RESNICK:** I don't have the accounting terminology down, so that would be helpful. And if you could, I mean, even though the returns you said combine wireless with wired services, if there is some way to create that as well from other communication services that use the rights of way, that would be helpful.

**MR. McKEE:** The information I'm looking back at -- the information we get on returns correspond with the way that the service through online statutes. So we get communication services, we get mobile, we get separately reported mobile telecommunication services or no? We get communication services, we get satellite services. And that's it.

**MR. RESNICK:** I mean, there's really only -- I was going to say there's only a handful of land line communication providers as well. For the most part. I mean, you know large part. So I don't know if there's a way for you to look at those handfuls and come up with something.

**MR. McKEE:** My understanding is throughout the industry that many of the folks that provide land line or traditional land line providers are also proving a wireless service today. So that's one of the challenges in coming up with that. But we certainly can make an effort.

**MR. RESNICK:** And it's reported by the same legal entity, too? It's the same --

**MR. McKEE:** May or may not be, depends upon the nature of the entity and how they're registered with us. I mean --

**MR. RESNICK:** -- do something in that regard without going into something that's too difficult to do.

**MR. DUDLEY:** Well, you will find the biggest challenge is the ubiquitous presence of resellers in the -- there's a lot of --

**MR. STRANBURG:** We'll do the best we can. Bob's got this.

**MR. McKEE:** Yes.

**MR. RESNICK:** The other question I asked about satellite cable before in terms of competitive advantages or disadvantages, I don't know if there are any. But we've heard a lot about prepaid but I don't know if the tax structure creates that many competitive advantages for a prepaid service versus a -- like a post-paid wireless service.

**MR. STRANBURG:** We've got then -- if it's okay with everyone, we have got a couple of those areas where we're going to do some follow up on on the analysis we just talked about. We can look at some of the other competitive advantages of areas and see if maybe there's some more information we can provide. If it's okay with everyone, we will ask if you could start submitting options to us by September 14th so we can start formulating those. If you have got some more things you need us to provide you some more information on as a group, let us know about those. We will do that. And then we will circle back with you all once we've gotten those submissions by September 14th on what our next steps are going to be. If we -- we'll be getting things back out to you. If we think we need to set up another meeting before we meet again on October 31st to go over things which is kind of sounding like it is. So if you all could take a look at your calendars for some time probably early to mid October. I think early October isn't workable to so many people, so --

**MR. SUGGS:** I think you might have said this. What people send to you by the 14th, are you going to send that out to everybody?

**MR. STRANBURG:** We will then, once we compile those, we will have those back out to you no later than October 1st. We'll turn those around just as quick as we can, but I don't want to commit staff to have those done in two days without seeing what we get. I think we'll be able to get them turned around fairily quickly, Davin, but I just don't want to build an expectation of we'll have things back to you on the 21st when -- that may not be realistic.

**MR. SUGGS:** I think the issue for both us and the city after the 14th, but I know mine is on the 19th through the 20th of September, is my policy meeting. I have all my constituents in one place. And, I mean, versus me having to craft a conference call or meeting, I'm going to a place where all the members have options on the table allows me to give you meaningful input.

**MR. RESNICK:** Marshall, from just a procedural standpoint for this committee, what -- I mean, if there's not really going to be an opportunity to vote and I have a conflict or something else I need to do, you know, Davin was talking about trying to get some input from his members. What are the procedures that are going to cover this committee, I guess is what I'm getting at so we can get a sense as to what we need to do going froward to be prepared for the upcoming meetings? Are you going to be calling on us to debate and then vote on something? Motions? Is there going to be quorum requirements of a meeting to vote on things? I mean, you seem to be working in the dark here --

**MR. STRANBURG:** And unfortunately, that's -- I think you've heard us indicate over the last couple of meetings, we're kind of in the dark on this because we were given no guidance as to the procedure to follow.

**MR. SUGGS:** Can we ask for guidance? Can we contact the speaker or the senate president or the governor?

**MR. STRANBURG:** Sure. We can reach out to them and see if they can -- they're willing to give us something.

**MR. RESNICK:** I mean, simple things like we're governed by Robert's Rules of Order, and quorum requires at least four people. I mean, something. Just to --

**MR. SUGGS:** Reach out and ask that I think a good number of the group is asking for the ability to offer a solution. If you could reach out to the governor and speaker and the senate president and request further guidance on that based on the -- and we can be cc'd on that.

**MR. RESNICK:** Statute, actually, the Sunshine -- we are subject to Sunshine, right?

**MR. STRANBURG:** Yes.

**MR. RESNICK:** Statute requires a quorum, whatever that is.

**MR. SUGGS:** But in terms of what Alan's asking for since we have no guidance, I think - I wouldn't want to -- but I'm asking do I make a motion that DOR is leading this committee and will seek further guidance.

**MR. STRANBURG:** And we will go ahead and see what we can find out on that.

**MR. RESNICK:** Even, you know, if there isn't any or you can't get any from the senate president, I would hope for you to just dictate it. We'll have Marshall's rules of order. I don't care. But as long we know how we're operating going forward.

**MR. STRANBURG:** As long as you're comfortable with my rules of order --

**MR. DUDLEY:** Marshall, the two things I would like to add is I want to see us have some time on the 31st agenda for non task force members to address options because we have got maybe some groups that aren't represented here. We've got, I think, 30 or 20 on the phone right now. And you've got some people in the audience. I don't know if they're all represented or feel like they're represented or not, but they ought to feel like they have an opportunity to look on the website to review the options that are submitted and make comments. I don't know how much time that will require. And I know as a member, I would welcome anyone who feels like they want -- they have an idea or an option. If they're not comfortable submitting it, I'm happy to receive anything via e-mail from people on the phone or who have been attending that have an idea or have a fresh idea. I've been very clear, I think, the last couple of meetings that I've been doing this a long time and I think there's a lot of times I can't see the forest through the trees. If people come up with a thought or a better mousetrap or ideas or ways, I'm happy to take input from people. And I may steal, and I may or may not give you credit. But I'm more than happy if people are uncomfortable submitting directly, submitting for people because I'm really interested in what ideas and options people have for making this thing work better.

**MR. STRANBURG:** And I think we're willing to take them, too, at the DOR through the working group website. E-mail DOR. We can incorporate those into some of the things we -- a member of the audience who would like to make a comment.

**MR. MANNHEIMER:** Marshall, my name's Doug Mannheimer here representing Sprint. I hear some consternation that I quite frankly don't understand in the sense. I've seen a lot of committees, I've been on some. I've seen committees, work groups where the legislature has said they have asked you to recommend such and such, you don't have that task. The legislature has only asked you to identify options. And I would pose to you to give you the example, if your task was to decide a new border between Georgia and Florida and one of you presented an option, a line somewhere in Grady County, that's an option. Send that to the legislature. And another said, let's put it somewhere a little further south in Leon County, that's an option.

**MR. RESNICK:** -- Broward, but that's okay.

**MR. MANNHEIMER:** But I sense and I've watched sitting there many times, I think there's a consternation that does not need to be there. I think you should send plausible options to the legislature. And if you need to put a vote on them, do it. If you have an option that as a two-to-six vote, send that up. And if you have an option that has a four-to-four vote, send that up. If you've got one that's eight to zero, bless you. That's wonderful. But I sense some consternation that I don't really think that you ought to have. I think if you've got a plausible option, you ought to bring it forth. And unless it's just in loony land, it's just --

**MR. RESNICK:** I guess what we're struggling with is whether the group was supposed to identify options of whether individual members of the group were supposed to --

**MR. MANNHEIMER:** Well, the legislature -- and I've seen this, too --

**MR. RESNICK:** That's what we don't have guidance on.

**MR. MANNHEIMER:** And if they wanted to recommend, they would have given you an odd number of voters. I'm just being frank with you. I've seen it before. They've given you an even number of voters. I think they kind of know what they're doing. But I think that if you have plausible options, put them forth and send them. And in the end, the legislature's going to -- they're going to choose and they're going to do what they want to do. So each of you has the freedom. You're all logical, thoughtful people. You got a logical thoughtful option. It ought to go to the legislature. Just my thoughts.

**MR. STRANBURG:** Thank you.

**MR. RESNICK:** Guess we do allow for public comment. That's Marshall's rules. All right.

**MR. STRANBURG:** Davin, I want to get back to you before we break up real quick. You said you -- you were saying you'd like a little more time to get your options to us? Would that be helpful?

**MR. SUGGS:** Here's what's sort of helpful, if you put September 14th. Almost in a perfect world if everybody from the industry is going to submit by the 14th, the perfect world would be for me to take as much information about everybody else's thoughts, opinions, requests, ideas to my policy meeting on the 20th.

**MR. DUDLEY:** It's on the 20th?

**MR. SUGGS:** Yeah, of September.

**MR. DUDLEY:** Well, maybe we should go back to the Department's recommendation for September 10th and just get as many as we can by September 10th. I don't know if you'll have time to turn them around to catalog by then or not. I'm just --

**MR. SUGGS:** I don't know what you're going to do with -- as people turn them in to you, were you just going to copy and you going to package it and put it together and --

**MR. STRANBURG:** I think primarily it was going to be copied, though there could be some -- again, if there's multiple submissions of the same idea, there's no need to keep repeating that over and over. We could just indicate this idea has been submitted --

**MR. RESNICK:** I think it would be helpful to --

**MR. STRANBURG:** Yeah, definitely.

**MR. RESNICK:** I have to run.

**MR. STRANBURG:** Go right ahead. I think, Davin, if it's okay with you all, we could just turn those around and put those on the website as soon as we get them.

**MR. SUGGS:** Even -- as long as I have access to them. Put them on the website.

**MR. STRANBURG:** Put them on the website. I think we can do that. That would probably be the easiest thing to do.

**MR. DUDLEY:** They're all public record anyway once we submit them.

**MR. STRANBURG:** As soon as we get them in, we would be posting them. We thought we could then take them and maybe try to distill them down to some grouping so that we wouldn't have to be necessarily going through everything one by one by one. As a group we could try to combine those. It seems logical to combine and have the discussion that way. But we will post them as soon as we get them in so they're available for all the working group members and the public.

**MR. SUGGS:** And then I can contact Andrea later to go through -- beforehand -- turn them in on the $14^{th}$, Andrea, I'm going to call -- I'm going to go through the process of -- so I just want guidance on doing that and --

**MR. STRANBURG:** We'll stick with the $14^{th}$ for submission. I think that will work. We can get them posted. Then you'll have them.

**MR. SUGGS:** And then is there a timeline in the next couple of days or next couple of weeks to reach out to get further guidance from the people -- from the legislature?

**MR. STRANBURG:** No, we will do that just as soon as we can.

**MR. SUGGS:** All right.

**MR. STRANBURG:** I can't promise you that we will have an opinion for you in a week or ten days. We'll just --

**MR. ROSENZWEIG:** And you all will be putting forth your suggestions as well by the 14th?

**MR. STRANBURG:** Yes. Any suggestions we have.

**MR. ROSENZWEIG:** That will be very helpful.

**MR. STRANBURG:** Any other business before we adjourn? I want to thank you all. Thank the presenters today. Thank DOR staff. We just ask to those of you that are here in the room, please either turn in your badges at the front desk or leave them on the corner of the table over by the doors as you leave and then we'll collect them and drop those off at the front desk for you.

Thank you.

(Meeting adjourned at 5:19 p.m.)

* * *

CERTIFICATE OF REPORTER

STATE OF FLORIDA:
COUNTY OF LEON:

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

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

DATED THIS day of , 2012.

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