FLORIDA DEPARTMENT OF REVENUE
COMMUNICATIONS SERVICES TAX WORKING GROUP

PROCEEDINGS:   Public Meeting
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               Boulevard, Bldg. 1
               Tallahassee, Florida

DATE:          December 7, 2012

TIME:          Commenced:  8:30 a.m.
               Concluded:  2:36 p.m.

REPORTED BY:   ANDREA KOMARIDIS
               Notary Public in and
               for the State of
               Florida at Large

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MERIT REPORTING - (850) 224-6262
APPEARANCES

Committee Members:

MARSHALL STRANBURG, Chair
GARY RESNICK
SHARON R. FOX
DAVIN SUGGS
ALAN ROSENZWEIG
KATHLEEN KITTRICK
CHARLIE DUDLEY
GARY S. LINDSEY
BRIAN D. SMITH

Also appearing:

ANDREA MORELAND

* * * * *

MERIT REPORTING - (850) 224-6262
MR. STRANBURG: Good morning, everyone. I would like to convene the sixth meeting of the Communication Services Tax Working Group. My name is Marshall Stranburg. I'm the interim executive director for the Department of Revenue. I will be chairing this meeting.

At this time, I would like Andrea to call the role.

MS. MORELAND: Marshall Stranburg.

MR. STRANBURG: Here.

MS. MORELAND: Charlie Dudley.

MR. DUDLEY: Here.

MS. MORELAND: Sharon Fox.

MS. FOX: Here.

MS. MORELAND: Kathleen Kittrick.

MS. KITTRICK: Here.

MS. MORELAND: Gary Lindsey.

MR. LINDSEY: Here.

MS. MORELAND: Mayor Resnick.

Alan Rosenzweig.

MR. ROSENZWEIG: Here.

MS. MORELAND: Brian Smith.

MR. SMITH: Here.

MS. MORELAND: Davin Suggs.
MR. SUGGS: I was here earlier.

(Technical difficulties.)

MR. SUGGS: Everybody can hear me, too.

But I was here early.

(Laughter.)

MR. STRANBURG: Before we get started, I would like to address some of the administrative and housekeeping details of the meeting.

This is a non-rule public meeting. It is held under Section 120.525 of the Florida statutes. A notice of the meeting was published in the Florida Administrative Weekly on November 16th, 2012, in Volume 38, No. 73. The meeting agenda and materials are posted on the Department's website.

We have a court reporter who is creating a transcript of the meeting today. The transcript will be posted on the working group's web page.

If you wish to speak today and you are present in this room, please provide a completed speaker card to Lynne Moeller and Jamie Peate. Lynne and Jamie have identified themselves. Speaker cards are located on the side counter. Before speaking, please state your name and the organization you represent.
We have created a web page on the Department of Revenue's website for the working group. Agendas, meeting materials, transcripts and other information relevant to the working group will be posted to the website. We do have hard copies of today's meeting materials available on the side counter.

If you would like to receive updates about the working group by e-mail, please provide us with your e-mail address. A sign-up sheet is located on the side counter. Please be aware that your e-mail will be considered a public record and subject to disclosure, if requested.

If you are participating in today's session using WebEx, please do not mute or unmute your phone using the instructions given by WebEx's automated system. To ensure today's session goes as smoothly as possible, our staff is managing the WebEx mute and unmute feature.

For those using WebEx, you should see a telephone icon next to your name on your computer screen. If you wish to make a public comment, please click on the hand icon located below the participant panel list. Our staff will let the facilitator know that you have your
hand raised so you can be called on to comment. Those not using WebEx can make a public comment by sending an e-mail to cstworkinggroup@dor.state.fl.us. Again, that's one word, cstworkinggroup@dor.state.fl.us. In the subject line use "CST working group." Please keep your comments brief. Your e-mail will be printed and read into the record.

We ask that you please turn off your cellphones or place them on vibrate.

The meeting is scheduled for all day. We'll be taking breaks throughout the day and a lunch break around noon.

Restrooms are located in the hallway that runs directly behind this room. The men's room is located at the west end of the hallway and the ladies' room is at the east end. Vending machines are located in the west end of the hallway right after the double doors.

Areas that are closed off to the public should be designated. This is a secure facility, so please stay in the main areas.

If you cannot stay for the entire meeting, please remember when you leave, we need to have you return your visitor's badge. You can either
leave them on the side counter or turn them in to the security desk.

Does anyone have any questions before we get started?

And welcome, Mayor Resnick.

MAYOR RESNICK:  Morning.

MR. STRANBURG:  Good morning.

Okay. Our next agenda item is approval of the minutes of the October 16th, 2012, meeting. Does anyone have questions or comments about those minutes?

MR. LINDSEY:  Move for adoption.

MR. STRANBURG:  Okay. We have a motion for adoption. And if no one has any objection, we'll consider the minutes approved.

MAYOR RESNICK:  Move to approve.

MR. STRANBURG:  Thank you.

Our next item is we have some follow-up materials from our previous meeting. In your notebook, you will find, first, there is information from Visit Florida regarding sales-tax collections that are related to tourism. There is an e-mail message with respect to that. There is information that was provided by Gary Lindsey regarding the State of Virginia's
law on public right-of-way user fees.

And we've also included the materials again, the information from the previous meeting. That was the data put together by our Office of Tax Research regarding the imposition of a flat 50-cent rate on prepaid transactions, an estimate of the rate of the discretionary sales surge tax necessary to replace local-communications tax amounts, and an estimate of the rate of sales tax necessary to replace communications services tax revenues.

We also received late yesterday a submission from MetroPCS, which has been added to your notebooks. And also, we have some copies available to the public at the side counter.

At the previous meeting, Mayor Resnick asked for some financial information about local governments. We noted at that time that there was some information available online from the Office of Economic and Demographic Research. We followed up with staff from EDR and we were able to obtain hard copies of the local government financial information handbook, which you've been provided today.
And we have also included in the meeting materials information submitted by Gary Lindsey on the holistic approach that we discussed at the last meeting and also information submitted by Sharon Fox on options, which takes us to our next agenda item, the discussion of options.

So, with that, let me ask Gary, is there something you would like to add with respect to the submission you made with regard to the holistic approach?

MR. LINDSEY: No, I -- well, I wanted to make sure that I was in complete understanding of what we had proposed after we left. I just had some questions. So, I just wanted to document to be sure I understood.

And then also, I wanted to add to the consideration for the options that, you know, as we're talking about having the State and local tax, that we need to also consider that the tax on DBS satellite would be the equivalent, similar to what we already have on the CST structure. So, I just wanted to point that out.

MR. STRANBURG: Sharon, is there anything that you would like to say regarding the information piece of it?
MS. FOX: There is. We seem to spend a lot of time on the sales-tax options. And there are some concerns that local governments have, particularly for sales-tax options because sales tax is traditionally not a city revenue source.

CST is a very major municipal revenue source. So, it's not our first option. And if such an option were to be an option, there would need to be some guarantees and criteria set in place.

Because of the nuances of local government and, in particular, because it's a bonded revenue stream, it's something that we really have to have. And it needs to be a stable source of revenue that's ours, not something that we have to fight with another jurisdiction or another agency in order to --

MR. ROSENZWEIG: We would never fight with you, Sharon.

MS. FOX: And as long as you're in office...

(Laughter.)

So, that's why I presented some of the elements that would need to be addressed in the body of the language.
The other thing that really concerns me is that we kind of skipped over all of the other options with regard to broadening the base. We don't have a lot of options as far as broadening the base because internet seems to be becoming the base.

But I think that we need to spend a little bit more time or focus a little bit more on what the intent was, which was to stabilize the revenue stream.

And broadening the base, to the extent that we can, means also not raising the rate and, perhaps, giving us the ability to lower the rate, which I have heard has been a concern for some people among the working group. So, I would like a little bit more attention focused on those items that might help broaden the base.

I think that's enough said for the moment. But I would like to weigh in on further discussion.

MR. STRANBURG: Do any of the other members have any comments they want to talk about with respect to the discussion of options?

MR. LINDSEY: Do we have the option of the white board that we had last time? Can we see
that? I just wanted to look back at what we did. I guess that's what we would be --

MR. STRANBURG: Right. That's what we anticipated doing. If you remember from the last time, the group had decided to focus in on one particular approach with respect to an option to put forward. And we've collected some information on that.

I guess what you're saying is you don't have that material that we sent out in front of you. You didn't bring it back with you?

MR. LINDSEY: No, that's fine. I just wanted to clarify. So, we're going to go back to the option that we all kind of reached consensus on and start talking about how that would meet -- how we might need to tweak it to ensure it addresses everyone's needs.

MR. STRANBURG: Correct. And if there are any of the other options that were discussed at previous meetings, too, that the group would like to have further discussion on those options, that's also something that we can do as well.

Okay. Do we need to recap where we were? Why don't we get you all a copy of the white-
board materials that you mentioned. That might help refresh everyone's memory as to where we were in case you didn't happen to bring those with you this time.

Just give us one second. We'll have those available.

MR. SUGGS: Marshall, can I ask or put a question out there? As we kind of move forward, sort of wrapping up, we've got viable options here. I'm just curious, in everybody's mindset, are we focused -- part of our mission in doing this -- is it what should happen or are we focused on, like, political reality? Where are we? I mean, just in everybody's opinion. Because I mean, two may be different.

I know what we're talking about with the holistic option, I think, is we put our minds together and get some consensus on it. If we really want the best for this arena, I think this is what should happen. I guess we can talk later about being committed to working towards that.

But does anybody have any concerns about reality or expectations for a timeframe? It's not that there is a cap at all, but if anybody
has any questions.

MS. KITTRICK: I think there is always a concern about what's good tax policy and what we think is the right thing to do versus what the options are.

You know, even in Virginia when we were working on the reform there, it didn't happen overnight. It took a very concerted effort to get it done.

You know, my feeling is that we keep pushing for what we think is right. And if we work together to address the concerns that the local governments have, then I think, you know, standing together, we're a lot better off. I think we push for what's right, not just what's expedient in the past that we might not like.

That's just my opinion.

MR. ROSENZWEIG: And I'm thinking -- if it's not sales tax -- even if the message is sent that ultimately a replacement revenue is probably what's needed, I'm just concerned that this revenue, as we talked before, as much as the work we're putting in now, we continue to refine it, refine it, refine it, four or five years from now, the sands are going to shift, or
two years from now. We don't know. It's not a reliable, stable revenue stream.

As much as we want to make it that, we can't predict the future. You all are over there making things bigger and better and ways to get the things kids all want for the holidays now. It's making it very challenging to figure out how to properly tax that.

So, if sales tax ultimately isn't it, we'll at least send a message, potentially, that a replacement revenue in the long run is appropriate. I'm very supportive of that.

MR. LINDSEY: I agree, Alan. And I think the point that we're -- I think we're going to produce something that represents good policy and is a well-thought-out consensus proposal or option. Then a lot of it -- we'll have a lot of merits that will stand on their own.

So, I think we'll produce something that can be looked at and there can be discussions in the Legislature about what might be done. But I think the product that will come out of here is something that will deserve to be looked at and seriously considered.

Again, to Alan's point, it needs to -- we
need to have something that will be a stable revenue base going forward that doesn't need to be constantly looked at and tweaked over and over, something that's really forward-looking. I think we've come about as close as we can with this holistic approach, at least the concept of it.

MR. SUGGS: I guess to add, we had our final policy conference last week. And we had a hundred newly-elected officials out of our body of 400. We adopted our statement that was presented from last time. The five basic principals would, then, support moving forward with this holistic option.

But my guys were concerned that people be committed to the right thing. You know, a lot of stuff might not be a one-year issue, but staying on that track and being committed -- like Alan said, sending the right message and then eventually working between staying committed and working at it.

And I think technology would prove our point. I mean, the further we go, it will become clearer and clearer, I think, what we recognized over the past couple of months.
And Sharon, I agree, even going forward, there are a lot of little details when we get down to implementing that have to be covered because I think everybody wants everybody to be whole. They want us to be whole. And we want them to have a competitive and equitable environment for them to conduct business.

At the end -- I think what we said last week is that we think this is a win for consumers, too. I think we've got all three bases covered. It's just how long will it take us to convince the people down there in the big white building.

But the counties are officially -- our final position adopted the same ones that I read into the record, I think, two weeks ago, the support. That will be mailed to all of the legislators and everything. So, we're officially where we've been sort of represented.

MR. STRANBURG: One thing I do want to bring up, too, for the consideration of the group is even if we consense that the option we want -- the preferred option we want to move forward is this holistic approach, might there be some other issues that we also want to put
some options out there separate and apart from that holistic solution for the reasons that Davin points out? It might not be something that's adopted immediately by the Legislature.

Are there some other things, such as the prepaid issue, that the group feels there ought to be some options for consideration, that, if this holistic approach is not enacted right away, that the Legislature ought to consider as areas that need attention immediately rather than somewhere down the line?

MR. SUGGS: Here is the thing, Marshall. I think we all agree, whether it's for PECO or whatever, we know the prepaid is the missing piece, whether we look at a flat fee or apply a percentage to it.

But we learned from property taxes -- and how many painful bandaids have we tried to put on that we can't pull off now. You know, they were suggested as bandaids and now they are sort of permanent bandaids.

The property tax system now compared to ten years ago before four or five bandaids is a complete -- you know, how complex -- I mean, you guys have the oversight and implementation of
all of it.

So, I'm cautious of a bandaid that moves us further away or makes getting to the holistic approach more complex. I think that's sort of why we're talking about it.

That could be the piecemeal approach or bandaid approach. But I think if it makes getting to the end game more complex, I think, my guys -- whether we spend our time speaking the same message of where we need to be and continue to work that message, then a bandaid making everything complex and moving us further away from our goal -- you know, the unintended consequences of the bandaid.

And what little capital we have -- I think we would prefer to spend it on a solution that has -- or a more long-term solution that you have with technology.

MR. STRANBURG: Sharon?

MS. FOX: I have a little bit different position than Mr. Suggs only because I don't think that the alternate revenue source or the holistic approach is likely to occur immediately. I think there are so many details about how something like that can work that I
I don't think that that's going to plug the hole in the dike.

I do believe there are some things we can do in the interim to stem the hemorrhage. And I put those in my paper, one of them being adding the surcharge to the prepaid just for the interim until the alternate revenue source can be identified and until the whole program can be fleshed out because that is a hole in the dike that's getting larger by the day.

The other thing is broadening the base, to the extent that we can. My interpretation of the unbundling provision that was passed last year made that hole in the dike a little bit bigger. In fact, I think it's going to become painfully obvious that it's getting larger again by the day. And to reverse that in the interim until we're able to come up with a holistic source, a holistic plan, I think will help.

Any time that we can eliminate disparate treatment between services and service providers, I think that stabilizes the revenue source. So, I'm all for anything that gets rid of the loopholes and broadens the base a little bit so that we have stopped some of the erosion.
until we can fix this on a bigger level.

MS. KITTRICK: So, from my perspective, I would have to sort of agree with Davin. In terms of the prepaid issue, I do think we probably need to get that cleaned up this year. If we can't get the holistic approach moving in the right direction as quickly as we like, from our perspective, we need to get that definition cleaned up. We need to get rid of the uncertainty of it.

And in my mind, it's not trying to fit the prepaid, you know, product into the square peg of the CST. That doesn't get us down the road where we want to be in a year with the holistic approach either. That just creates a bigger revenue score.

I would like to just clean it up to make sure -- make it very clear that the prepaid is under the sales tax; that the definition is clear; that we get rid of that argument. And I think it sets us up better for moving towards a holistic approach.

I mean, that is something that is a priority of my company. And I think it's a priority of the wireless industry, as you've
seen in MetroPCS's submission. We need that clarification.

The reality of the situation -- if we have a hard time -- and I'm not just saying that we will. But if we do have a hard time with eliminating the CST and moving to a sales tax and, you know, increasing the sales tax a small amount, I think we're going to have just a hard time moving the prepaid product to the CST. If you're looking at political realities of increasing a tax on someone like a prepaid customer, I think you're going to have the same reality.

So, I think we just really need to focus on the holistic approach and making it as beneficial to local governments and to the industry as possible. But in the meantime, if we can't get that ball down the road, we have to clarify the CST definition.

MR. STRANBURG: Gary?

MR. LINDSEY: What I would like to suggest is that we spend time today focusing on the holistic option that we had all reached a consensus on looking at, looking at things that we need to add to it to be sure that we've
addressed all of the concerns like the local-government distribution and all of that.

The other issues that will -- that I know we said would be included as either addendum or as, you know, other options -- I think we can outline those. I mean, there is an option that was put forth for adding the surcharge to prepaid. That's an option.

I think we look at those as saying, you know, these are other options. We've already pretty much outlined those. So, I don't see that being an issue to really, you know, debate whether or not that should be in there. Those are things that have been presented.

So, I think -- I'm thinking the end product that we produce will be, here is this holistic option, which there was, you know, support of all members that thought that it had very good attributes and presents a very good story for the revenue side, for the retail -- I mean, the provider side and the taxpayer's side. Here this is.

Here are the other options that were looked at that. And that can include all of the others, I think, without any real controversy
for the legislators to have as information.

So, I would think we could maybe revisit
and say, okay, this is one of the options that
we looked at. That will be included in the
report, et cetera, et cetera. We might have --
of all of the options that were submitted, those
would be additional options that are there for
information.

MR. STRANBURG: In going along with that,
I think maybe that might be a good approach. If
you would like to spend some time further
discussing the holistic approach, then once
we've wrapped that up, we can move on to some of
the other things that, again, we want to
identify what the working group had considered
as other possible options. There may be some
things that they wish to highlight.

But I think everyone seems to have
consense-ed earlier on the holistic approach
being the one that everyone is interested in
moving forward on collectively.

So, again, I think we ought to spend a
little more time making sure everybody is
comfortable with that approach, bring forth any
issues they see, any things they believe need to
be dealt -- issues that need to be dealt with, which we attempted to identify some of those in a previous meeting on the white-board discussion.

If there are some additional items or any other discussion on the things that we've identified, let's start working through that.

MR. ROSENZWEIG: I think one thing -- it's more high level. I raised it last time and Bob kind of -- I don't think Bob is here today -- kind of bristled a little about DOR doing that. But I think it's really important that we convey to the Legislature that we didn't do this in a vacuum; that we acknowledge -- and I think Gary just said it -- that the fiscal impact to their constituents and our constituents -- ultimately, the deal will be better.

You have data in there that says 23 percent of the sales tax is collected from the tourists. Obviously, I think, the tourism industry doesn't want to be marking, necessarily, a higher sales tax.

But overall to the State of Florida and the residents who live here, this solution, hopefully, on a monthly basis will reduce their
overall bill, presumably in cable or satellite or whatever.

I just think that that acknowledgment needs to be in the report somehow for the Legislature that we didn't just say, oh, this is what we want to do and there is some recognition of that fact.

And Bob kind of bristled that I was requesting examples and illustrative things. I think he said DOR doesn't do those types of things.

MR. STRANBURG: Well, we don't have that kind of data to be able to say that whatever an average household might be --

MR. ROSENZWEIG: Correct.

MR. STRANBURG: -- pays this much in sales tax in given a year versus this much in a communication services tax. Again, that information just isn't available to us.

MR. ROSENZWEIG: Right.

MR. STRANBURG: And Bob was trying to reflect that back to you.

MR. ROSENZWEIG: Right. But it's broader statements we can make, at least in terms of the total amount of sales tax that's paid outside of
the State. We can probably make some pretty
good leaps that most of the CST is paid by the
residents of the State.

If we can make those types of statements,
at least if we're balanced, more money -- less
money will be paid by the residents under this
scenario than they are paying now.

MR. STRANBURG: I understand. You're
talking about the replacement revenue; where is
the replacement revenue.

MR. ROSENZWEIG: That's all I would like
acknowledged in the report.

MR. STRANBURG: I understand.

MS. FOX: Mr. Chairman, I would like to go
on record that while the holistic approach, I
think, is a viable option, I don't want that to
be assumed that the holistic approach
automatically equals sales tax because there are
alternate -- there are alternate revenue streams
that, I think, can be studied or created.

We created the CST. So, I just don't want
the assumption to be sales tax. Because you say
sales tax and it automatically goes in one
direction. And I think that's not necessarily a
good direction for the cities.
But an alternate revenue source, whatever it may be, I don't have an objection to.

MR. LINDSEY: It seems to me that as we discuss the holistic approach, an integral part of it was the fact that we were looking at the trend that more and more telecom services are kind of ubiquitous and may not be as easy to grab hold of as a pure telecom service.

And we were really acknowledging that, by increasing the sales-tax rate slightly, we were going to expand the basis for that means so that whatever is out there in the future could be captured in a more general sense and would follow -- I think we had talked about borrowing definitions from the streamline sales-tax language that would do that.

So, I think an integral part of the holistic replacement option we all looked at last time did include the sales tax. However, I do think, to the points that were made, we can say in here that, as an alternative in considering this holistic option, that some other tax vehicle could be looked at. However, this does kind of focus on broadening the base by the use of the sales tax.
We're talking about expanding already-expanding telecom communication services to the extent possible so that any and all future types of products that might be out there that can be taxable would be subject to the sales tax.

But again, I agree. We can add something in there that some other vehicle could also be considered.

MR. SUGGS: And I think to help you all understand, like with sharing -- and Sharon, correct me if I'm wrong -- in our revenue sharing -- some of our revenue-sharing vehicles right now that share the half-cent or sales tax from the State to the locals -- I think historically, that's been a little bit of a better program or stronger in terms of revenue production towards the counties, presently.

And what Sharon is saying, that CST -- if you look at the CST, the majority of the local-government revenue is stronger for the cities.

And like in our notes, however we do it -- and we asked Bob about this -- but guaranteeing that everybody -- revenue neutrality, but also taking into account the cities annex on incorporated lands all the time. And the
current CST, the way it works is that the revenue would move to the appropriate jurisdiction.

But I think we need to take heed to moving forward on the holistic approach. I think Sharon laid out some stuff very clear in her document as to what the concerns with the statewide sales tax would lead to, just like we need to discuss satellite, too, and make sure that everything is equal.

But as we go through -- and then, I mean, we have Sharon and we have the Mayor here. If we're going to discuss it, let's make sure we pay heed to them.

Everybody needs to be -- I mean, everybody needs to be comfortable even -- I know we can't get into the weeds here, but at a certain level, make sure that that stuff is addressed so there is a comfort level.

MR. LINDSEY: And Davin, the last time we talked, you seemed to know -- is there anything constitutional that you can recommend? Or is this something that can be done in statute as far as local distribution?

MR. SUGGS: Right now, it's sort of
statutory in the stuff. Like in our current revenue-sharing streams, it's statutory. The last CST -- you've got to remember -- I mean, I wasn't here. Sharon was here. She can tell you.

But when looking in the statutes, when they went in 2000 -- I mean, they pretty much put a spreadsheet and said here is what is happening for every jurisdiction. It's in the general laws. It's in the statutes.

So, right now, I think everything -- in terms of even getting to details, to try to guarantee or ensure in the beginning -- let's say everybody said, okay, let's do this. What does everybody get tomorrow. I think we can get as detailed as we would want to get by statute by putting it in a piece of legislation.

MR. STRANBURG: I do have to say, Gary, while I agree with Davin about the local issue, there is a potential constitutional issue with respect to the public education capital outlook funding. There was some reference made to Chapter 203.

I believe Bob McKee talked about this a little bit at our last meeting that would have
to be considered and looked at and how to handle that specific reference to the Chapter 203 levy.

And if we are consolidating the CST into sales tax and eliminating the proportions of the communications services tax that we have now, there has to be some way of potentially dealing with that issue.

But again, that's something that can be put as an issue that needs to be handled as part of any holistic approach as an option.

Mayor Resnick.

MAYOR RESNICK: Not directly relevant, but our bond counsel advised that if the State eliminated the CST and adopted something else that impaired local government's ability to meets its debt obligations, that would be an impairment of our rights under the constitution.

The State, constitutionally, would be prohibited from removing the CST and not replacing it with something that allowed us to meet our debt obligations.

MR. STRANBURG: Why don't we just start with --

MR. ROSENZWEIG: Can I just --

MR. STRANBURG: Sure.
MR. ROSENZWEIG: So, the concern, if we replace it --

MAYOR RESNICK: It has to be --

MR. ROSENZWEIG: -- equal to --

MAYOR RESNICK: -- equal or greater.

MR. ROSENZWEIG: That's what Davin was saying, that if the spreadsheet got adopted into law or something comparable, then we could all swap out our coverages and our bonds, ultimately.

MAYOR RESNICK: Well, ultimately, it's really up to the financial institutions that have --

MR. ROSENZWEIG: They like sales tax, generally, the bondholders.

MAYOR RESNICK: They like CST, also.

MR. ROSENZWEIG: Yeah, they used to.

MR. STRANBURG: Okay. Why don't we turn our attention to what we got from the white board from the previous meeting, go through that and see if there is any additional discussion that needs to be had from the items that were identified, and if there are some additional issues or considerations that we want to include as part of the option that goes forward under
this holistic approach.

Y'all are going to have to help me remember what some of these may have referred to. So, the first one was an end-user policy analysis.

MR. SUGGS: I think that piece is what Alan was talking about; that if I've got to spend so much in general money versus how much I'm saving or not paying in CST when you convert it to a sales tax, then the end user wins in terms of saving somebody's personal --

MR. STRANBURG: I think we've covered that, talked about that. We understand.

Anything else about that item?

MR. SUGGS: And Marshall, just -- I think Charlie is around enough -- one of the major concerns is a big umbrella -- even if we're doing -- we call this a swap. To the guys and ladies that we have to convince -- they are in fear of being tagged as a tax increase on the citizens; whether they've taken the Norquist pledge or whatever, everybody who just got elected. It makes clear sense to us. You've just got to translate it.

Even though -- because a lot of them --
the initial shock and awe is the State sales tax is going up. They've got to make sense that CST is going away.

And part of the problem -- I had conversations with some of the folks -- is that part of our challenge is they believe CST is a hidden tax. People don't really see it, don't understand what they are paying. They look at the front of the phone bill or they rip it off at the perforated part or it's deducted automatically, however their payment is made. CST is more of a hidden tax than regular State sales tax.

So, if you get past the first minute of we're going to raise the State sales tax and get rid of -- I mean, I got that one. Nobody knows what they pay in CST. They're just going to know the sales tax is going up. But that's just part of the -- I don't know how we do it in DOR.

Marshall, I know you guys don't want to produce it. But at some point, there has got to be the analysis that shows our point that this is better for all parties -- this has the potential to benefit all parties including the end user, which is the citizen, the voter, the
customer.

At some point, I think we all have technical assets, whether the industry -- we have technical assets. And we have access to technical assets, too.

MS. KITTRICK: Charlie said he can get me some information on the average cable bill. And I can work with the wireless industry to get the information on the wireless bill. And Verizon can get information on our average bill.

We can work with an economist who has done work for the telecom industry, Scott Mackey, and see if he can run some things. Scott, if you're listening, we're putting you to work.

(Laughter.)

MR. STRANBURG: So, we will look for all of you to give us some information on that.

MS. KITTRICK: Yeah, maybe, an average telecom consumer who has four wireless lines and a land line and cable bill.

MR. ROSENZWEIG: And you can do samples.

MS. KITTRICK: Right. Right.

MR. ROSENZWEIG: One, two, three, four -- you have different packages of the cable.
Here's your total. Here is a range. And if your income is "X" to "Y," this is how much sales tax you generally spend, taxable transactions you have.

The Federal Government has it for income tax purposes. So, the tables are out there.

MAYOR RESNICK: We should add to that, too, I'm sure the Legislature and other interest groups are going to want to be comfortable that whatever increase in sales tax is proposed, that it's not going to have a negative impact on tourism and economic development from outside entities entering the State.

That's wireless's biggest industry. And that's why the legislature is very committed to economic development and encouraging other businesses to enter the State. So, that analysis has to be done as well.

I have no idea whether this would put us in the higher realm with respect to the taxation, generally, compared to others. Those are kind of competitive disadvantages.

MR. SUGGS: I think there are reports out there. I think the senate FNT last year, summer before last year, did an internal report,
especially, like, on sales-tax rates. I know they looked at the southeast region. They prepared a State rate, local rates. What does that do in terms of competition between Georgia, Alabama so that other --

MAYOR RESNICK: Well, Texas is up for economic development. We're always competing with Texas, it seems like. I don't know what their sales tax is, but apparently, it's considered a very low-tax state.

MR. STRANBURG: The next item is neutral fiscal impact for all parties. We've been talking a little bit about that already. Is there anything more that --

MAYOR RESNICK: It cannot be just a neutral impact. The revenue each jurisdiction receives must be equal to or greater than the revenue they are currently receiving. It has to be very specific. Otherwise, we're in violation of our debt covenants.

MS. FOX: I think that it also needs to take into consideration the taxes that we're currently not getting on prepaid that we should be getting.

And it has to have some type of
recognition that growth needs to be incorporated because if you don't have some kind of growth incorporated, then you're automatically headed down the other direction.

MAYOR RESNICK: There is only one way to go.

MS. FOX: Then we're in the same position that we're in now. So, it's not a long-term solution. It's just more work for the current time.

MR. STRANBURG: Anything else on that item? Davin?

MR. SUGGS: Just a couple of things. The growth part, I agree. And right now, I think the State -- Bob knows that the REC is going to do the general revenue, if not next week, very, very soon. I don't know if they are going to do it in the month of December. But one thing to think about -- when I told my guys, if you look at the future, the previous-established future growth rate for CST is relatively flat or negative.

Right now, I think general statewide sales tax -- we're looking at about 5 percent per year in terms of growth. And if you look, I think,
over the last 20, 30 years -- we had a couple of years -- that was the first time, like, in 20 or 30 years where sales tax actually went flat or negative.

But right now, everybody I talked to at the Capitol that's involved in REC -- sales tax looks pretty good -- good and robust and healthy again in terms of the State of Florida.

That's one of the things that my commissioners looked at is without raising my rate or anything, making this source healthy again so that it grows naturally.

So, right now -- I mean, with this option -- I mean if this option is statewide sales tax, I would take 5 percent a year in terms of growth. And looking over the last 30-year period of the statewide sales tax -- that's looking like a better option than what we currently have on that one.

The only thing I caution us on our side is part of our statement is revenue neutrality, which includes what we're already getting, and consideration for capacity, which to me, also -- the absence of prepaid or what we should have been getting will be the tricky part because for
us as a group, we have to be careful of anything
that smells like we're trying to increase our
pockets or increase -- I think it's different --
conversation for unused capacity is real.

More money to the people we're trying to
convince -- this will sort of make things a
little bit more difficult. So, we need to work
on defining that because I think the unused
capacity -- because we're moving from sort of a
local option discretionary thing to where it's
sort of general. We have to work on that one
because it's important for us because we don't
want to put an anchor on this boat and have it
stuck in the sand, too.

We circle that unused capacity -- I think
growth -- we look at what we've got versus
general sales-tax growth. And as long as we
structure this for city and county relationships
as populations shift between unincorporated and
incorporated as sort of -- the money moves how
it should move. Just we've got to circle
absence of prepaid and capacity. We have to do
that the right way so we don't weigh this thing
down.

MS. FOX: I think that's real easy for the
counties to say because they have unused capacity. There are a lot of cities that don't have any unused capacity because we started out at the beginning at max because it was a swap of several taxes in cities that we already had. The counties did not have that option. So, they have the entire tax, for the most part, to tap into. So, I disagree.

I think as the market is shifting more volume to prepaid, the complexity that the disparate services has created has shown a decline in the revenues. And DOR has presented how prepaid is not being administered as the law -- as was written.

So, I respectfully disagree with Davin on that one.

MR. LINDSEY: A couple of things I would like to add. I believe that -- I think Bob McKee -- we can probably look at the transcript or we may recall. I think he observed that the sales tax is a more stable source of revenue than the CST. I think he said something to that effect. Might want to look at that and make use of that in our commentary.

With regard to the prepaid issue -- I know
we've had a lot of discussion about that. And there are those who think that, due to the fact that the State never updated the definition, that there is kind of found money out there. There are those that think it should have been taxed all along.

I think we can address that by saying that part of looking at fiscal impact, that there could be a determination. You know, it could be considered whether -- you know, look at the impact of what the tax rate would be.

There are those of us who don't agree with that. We think it always has been subject to sales tax and that's the way it was intended. And there was no intent to subject it to the CST. So, I think we can put that out there as a sidebar and say, you know, that that is something that can be considered, that the Legislature could look at.

But there is still a lot of conversation going on that even might be legal conversation, for all I know.

MAYOR RESNICK: But this is a bigger issue than what's existing now. Technology is always ahead of the law. So, prepaid may be the issue
that's causing the problem now, but in three years, it will be -- you know, whatever. Call it something else. And it won't be something that is defined easily under the current definitions of communications services.

So, we need a general policy statement that all communication services should or should not be subject to whatever replacement or alternative revenue we're going to come up with. We can't be doing this every two years to deal with the next technology that comes forward that's unclear as to how it's treated.

And it needs to be consistent treatment. If something is going to be subject to some kind of special regulatory treatment because of the determination that it's a communication service, then it needs to be subject to the same tax treatment as other communication services.

MR. LINDSEY: I agree. And I think -- I don't know if we're done with two. That sounded like a good segue to three because we're talking about how we're going to use as-broad-as-possible definitions.

MS. FOX: And along those lines, I think exemptions, which I think is really another way
of saying it, need to be kept at a minimum
because, in order to keep a stable base, we have
to eliminate as many exemptions as possible
because exemptions create disparities.

And like services being taxed the same
take a hit every time there is an exemption; or
whether it's an administrative-ease issue or
whether it's for one particular segment of the
industry issue. Every time that there is a
special carve out, it diminishes the base. If
you diminish the base, you increase the
necessary recapture rate.

So, someone else has to pay for it if
you're not going to or your industry or your
reason, then somebody else has to take the
burden of that. So, I think keeping exemptions
at a minimum is an item that needs to be stated.

MR. STRANBURG: I believe we had talked a
little bit in the group about what are the
options out there for some definitions. I think
references were made to the streamline-sales-
tax-project definitions. Are there other
examples of definitions or other sources or
resources that could be looked at to come up
with a good, broad definitional structure?
MR. SUGGS: Well, I thought we agreed -- like, with prepaid and the definition -- the reason why the streamlining came up was because we know that the internet sales tax is going to be the issue. The State is trying to move in that direction anyway.

Instead of changing that definition twice in the next five years, we know that, I mean, we're trying to move in that direction with Main Street Fairness and visibility as to go ahead and sort of get in that slot already.

And I think in that same nature and just going back -- I know we discussed this before, especially when the auditor was here. I think we really have to circle this one. I think my guys -- we're looking forward. Okay.

And it's an issue of unused capacity. And it's important because if we redo this, you're setting a base for everybody from which it can grow. And naturally, you want that base to be healthy and want your needs to be in there.

I know I've said this before. We dealt with sort of this issue last year. There is a hanging chad out there for some of you because of ambiguity in the definition. It's not
like -- at least I'm speaking for myself. I mean, I'm not looking at it saying, hey, you owe me "X" amount, whatever. I want my piece of that.

Clearing up ambiguity moving forward to something -- so, there is the discussion of unused capacity and what's in there and what's not -- I'm trying to say two different things versus I know there is stuff that needs to be cleared up so everybody can move forward and not have to continue to look over your shoulder on some issues. It's just they are looking for -- they want everything to be properly considered as we move forward.

So, to me, I understand the issue hanging out there for some of you, but just -- I mean, before we get done, at some point -- I don't want it to stop. We need to talk about a whole bunch of other issues. But I understand your guys' point. Just if we circle that one and get it clear so that everybody is comfortable -- it may not be able to be done.

We may have to satisfy the hanging-chad thing for you guys and clearing up the definition. But we have to see how that affects
us as unused -- as what should have been happening with prepaid, how that affects unused capacity. That one might be a give-or-take at the end. I don't know how big it is. But I definitely understand your guys' issues.

If we need to talk about that at the end of the day and leave that at the bottom and hash it out later, I'm willing to do that because, I think, again, Sharon has legitimate issues in terms of local government. But I understand your issues.

I don't think that part needs to stop us from going forward. I think it can be worked out.

MS. KITTRICK: Yeah, I don't know that anybody has any strong disagreements to the definitions. They certainly aren't clear. They've been vetted. They've been debated for a number of years. I know when a communications definition -- it's very, very broad. It's very, very broad. So, more all-encompassing, I think, than anything else and forward-thinking. So, hopefully, we won't have to, you know, come back and clarify anything after a few years.

MR. SMITH: Well, along the line of
definitions, I think, as I listen to what people are saying, where we have problems are where definitions stray away from what the person is purchasing and start to focus on how they are purchasing it.

So, you know, if they are buying it in prepaid mode, now we have an issue, you know, that developed -- I mean, I'm not even sure what we sold prepaid back in 2000 -- if it was anything beyond this phone.

MR. DUDLEY: It was the card.

MR. SMITH: Right. Right. It was a card, but the technology that you're buying, you know -- let's not talk about how you market the product, but the rule of taxation based on how the transaction happens with the customer. Let's stick with the definition as far as what subject happens.

Because we start getting into how you market it -- I mean, great, I'll switch my boxes to prepaid cards and we'll be off to the races.

I'm just joking.

(Laughter.)

MR. SUGGS: Sort of.

MR. LINDSEY: I agree with what Mayor
Resnick said that we want -- as we look through -- I think the recommendation would be that we certainly look to the streamline-sales-tax definitions, but that we want to include in there that we want language that, you know, covers communications as broadly as possible, that anticipates whatever -- to the extent we can anticipate whatever is out there, that it would be covered so we don't need to do this in the future.

MR. STRANBURG: Okay.

MAYOR RESNICK: In terms of neutrality, too, how would you deal with, you know, getting to the total capacity with audits and outstanding issues that DOR still has on the table?

I mean, if there is still a lot of CST that's not been obtained yet by DOR because of the outstanding industries that haven't been audited or outstanding providers that haven't been audited, whatever -- how do you come up with the idea of total capacity?

MR. STRANBURG: I'm not sure I've got an answer for that, Mayor. I understand what you're saying. That's always part of the
I think if you look at the way in which revenues are estimated, we're trying to determine what is the actual revenue stream versus what is an uncollected portion of that revenue stream, for whatever that would be.

MAYOR RESNICK: I think we have to identify that as part of the revenue-neutrality challenge as well -- not neutrality, but equality, I would say --

MR. STRANBURG: And that's something that I think the folks that do the revenue estimates for the State of Florida have a method of dealing with. I'm just not that familiar with how that works to be able to tell you and give you an answer.

MR. LINDSEY: So, if there is some material amount out there that -- we could just acknowledge there is some material amount that the Revenue Estimating Committee should be taking into consideration.

MR. STRANBURG: You know, you can look at the Federal level. You see tax-gap studies done at the Federal level. And they attempt to break down in those studies the level of uncollected
revenues that are either due to taxpayers not wanting to pay, the so-called underground economy.

I think there is also a chunk of that that you see is based upon things in controversy, differing points of view about whether something is subject to tax, not subject to tax. I think if you look at those Federal studies, you will see they have some type of breakdown there, how they come to it.

Again, I just don't know how -- I've never seen anything done in Florida to roll that down to the Florida level to be able to say we know there should be this amount of tax being collected. We have this amount that is collected -- that the gap, that difference, is due to this reason or whatever reason it might be.

MAYOR RESNICK: I think we just have to identify that so that we're sure that we're -- you know, whenever they take that snapshot, that it's as accurate as possible.

MR. STRANBURG: Right. And again, I think that the professionals that do this for a living in the Economic and Demographic Research Unit
and then the Revenue Estimating Conference that ropes in principals from the Legislature as well as from the Governor's office -- I think they are well aware of how you have to do that and what they can do in order to capture that.

Anything else on the definition issue?

The next one is simplify audit-administration issues. Anybody have any additional comment? I think that one is rather self-explanatory.

MAYOR RESNICK: What was the -- I mean, we had talked about a lot of things with respect to that. One is increase audits, allow external contractors to audit, things of that nature. I didn't know where we were going with that.

MR. DUDLEY: I think this is a reference to the fact that sales tax is a much simpler tax to administer. People are more familiar with it. It's not a specialized tax like CST. There is no situsing involved because we're dealing with one rate. There is distribution involved, but there is nothing about the administrative situsing.

Plus, if you improve the definitions in order to streamline, you should have more
clarity in the tax code. You don't have the legal dispute that's sitting out there with prepaid, for example, and other things like that.

MR. STRANBURG: I think what you're talking about, Mayor, is something separate from the holistic option. That is the whole issue of is there a better way to ensure there is compliance with the communication-services-tax laws, or if you move to the holistic approach, the sales-tax laws.

Or if you're looking at another revenue stream, that revenue stream is going to be committed to local governments; that there is the level of compliance there that should be there to ensure that that revenue stream is sufficient enough to cover those needs.

Again, I would think that's something that we can discuss as another option to put forth as something that doesn't have to necessarily go into this particular option.

Local-government distributions. I think we're also hearing what you've said, Mayor, and others, that there needs to be the assurance that there is at least the current level of
revenue to cover your obligations. If not, you know, I think -- as you seem to be indicating, give your bondholders some level of comfort to go beyond that. But we understand their needs.

There would need to be some way to determine how those revenue streams are allocated to the local jurisdictions, whether it's by formula -- whatever methodology that comes up -- to be sure that we know that you're receiving what you need so we don't put you in a bad situation.

MS. FOX: And I think that I've enumerated several issues. And just to keep from having to read them all, I think that they should be incorporated.

MR. SUGGS: I'm looking at six issues here -- I mean, I don't care if we go through them. I'm glad -- I've been trying to go through them. I think, for the most part, we've covered them or I think they are doable.

In terms of -- I agree with Sharon. This goes a long way because, I mean, we sort of have to get this part right for us. But I think she's outlined them very well, at least to categorize the buckets of detail that we need to
get to for the comfort level for the 470 local jurisdictions that will receive something from this.

MR. STRANBURG: Just to be sure, Davin, what you're talking about are Points 1 through 6 that are --

MR. SUGGS: Yeah, on Page 4.

MR. STRANBURG: -- at the top of Page 4 of Sharon's submission, which is Page 34.

MS. KITTRICK: From my perspective, I mean, I think -- I think that they are fine. I agree that No. 5 -- as long as we're not talking about -- unused capacity, yes. But going back and saying whatever they should have been calculated was prepaid -- that's the only issue I have.

But as this is stated one through six, I'm okay.

MR. STRANBURG: Anything else on the distribution issue?

MR. ROSENZWEIG: Can you give us a second to look at it?

MR. STRANBURG: Certainly.

MR. SUGGS: Marshall, if we can just -- the time is not -- I don't think anybody would
have a problem if we just take them one by one and talk about them and just talk about --

    MR. STRANBURG: Yeah, because some of these -- we've already talked about some today.

    MR. SUGGS: Right.

    MR. STRANBURG: Do you want to go through them real quickly, then, please, Sharon?

    MS. FOX: The first one is the initial rate for each -- and I had initially put this under the State-imposed local-option sales-tax proposal that was discussed.

    So, I said that each individual county -- because that's the way the system is set up. It would have to be a composite calculated from the amounts all jurisdictions received within the county plus the percentage to cover lost revenues from prepaid services to date.

    In order to produce sufficient revenue to hold each local jurisdiction in the county harmless, each jurisdiction must be guaranteed what it was getting prior to the date of the swap in order to accommodate any bond stipulations for currently-pledged CST funds.

    That's, in essence, what has already been discussed.
MR. STRANBURG: Just to clarify, you're talking about -- I think what I understand your heading to be about -- if there was going to be a local option versus a State replacement, correct? That's on Page 3 of your submission. Page 4 was the statewide replacement?

MS. FOX: Right. And I did that because of the way that the State option is handled versus the way the State sales tax is handled. Frankly, I would rather see the local jurisdictions get their own check, as it were.

But as an example of incorporating this into current structure, that's what I suggested only because we don't want to be in a position where we're having to fight with anyone else to get our funding.

Our funding needs to be readily identifiable. It needs to be ours. The CST money is ours. That might sound like a playground argument, but because we're held accountable to our bondholders, it's critical to us. And I think on the bigger-picture perspective, we have to go back to the original sources of revenue that went into the CST.

I know that everyone talks about going
forward, but we're talking about our livelihood. We're talking about the way that the structure was set up back in the 1940s with regard to utility taxes and franchise fees. Those were provided to support local government way back then.

So, we have to understand that there is a support issue that was incorporated into those taxes, which, then, morphed into the CST.

So, we're not wanting to be at the mercy of some other entity or agency for our livelihood. And I think that that's an important concept that needs to be incorporated into this.

MR. SUGGS: And Sharon, on behalf of counties -- and the green book --

MR. ROSENZWEIG: Are you paid to speak?

MR. SUGGS: No -- well, yeah, actually, I'm paid to speak -- but today, on behalf of me, Sharon, and the example -- if you go through this green book -- and there are some revenue-sharing streams, whatever formulas, that govern the basis of distribution, whether it be sales and unincorporated and incorporated or weighted by popular -- the formula or the basis for
distribution, I understand. I hear what you're saying, Sharon.

So, there is not -- there are also other ways we may share gas taxes or something where that may be dictated by local agreement, dictated by previous expenditures where that might favor county versus city or the two are tied together based on cities may be getting what we've agreed to let them have or something.

Right now, CST -- the city CST is independent regardless of -- it's based on users and their jurisdiction and the generators, not based on an agreement between the counties.

So, in terms of that distribution formula, I think retaining some of that independence and autonomy and making sure that you get what is yours -- I hear that.

I think that comes down to whatever distribution formula -- at a higher level, what you guys are concerned about is total local-government revenue. If it's still 749, 800 million of what is coming out now, whatever we do, if we go to statewide sales tax, 800 million still needs to be set aside. Whatever the number is that represents total local-
government -- distribution of local-government revenue.

I understand that that distribution formula needs to be -- we both have to have agreement on that where there is comfort level that reiterates and captures everything that you just said is your concern in terms of cities.

So, because there is more than one formula, we need to come to that formula of how that 800 is split up between us. So, me at the association level -- I understand that. I don't think that's something that cannot be worked out.

I think that's doable to represent -- I mean, not only the amount of money folks have been getting between the city and county, but in the autonomy and that yours is yours is not dependent on action or future agreement or whatever of the counties like a gas tax or something else like that. So, I get that.

But I think they are concerned -- their concern is when you structure this thing, that 800 gets over here for Sharon and me to split up appropriately.

But if you go through this book, there are
several different formulas of how -- different revenue-sharing distribution formulas that come from the statutes. We just have to get that right to where everybody is open.

MAYOR RESNICK: I think what we're saying is -- we don't have to have a whole debate about this now. We don't want our share of that $800 million to flow through the counties.

MR. SUGGS: No, I think that's --

MAYOR RESNICK: It's not a distribution formula where the counties obtain the bulk sum and then distribute it to the municipalities rather than county. It goes directly to the municipalities.

And I think it actually needs to be that way under our covenants, under our debts.

MR. SUGGS: But I think the half-cent is like that now where it comes --

MAYOR RESNICK: Some of it does, some of it doesn't. I mean, it just depends on which -- right. We would have to look at if there is an existing State formula that allows for that, other than CST, which does -- our funds, I'm assuming, would still come from DOR. Maybe not. I don't know.
MR. SUGGS: Right. Not only half-cent, but municipal revenue sharing -- there is a municipal revenue sharing and the county revenue-sharing stream set up where that money flows from DOR directly to you guys.

MAYOR RESNICK: But there has to be also, with respect to that distribution -- maybe this was covered in your auditing section. Local governments have to have the ability to go back into whoever is distributing that to us, whether it's DOR or whoever, to audit that amount and have some way of being comfortable that that's an accurate amount.

MR. SUGGS: I think that stuff is set up through current sales tax. I mean, that's one of the things, going back to -- we're going into a system that already exists. There is already a collected sales tax. You already distribute the half-cent county-municipal revenue sharing. You already account for whether it's county only or shared local-option taxes, but the State already accounts for what's owed.

A lot of things -- and Sharon, I know you probably -- you guys get stuff wired directly from DOR regardless of what's coming to the
counties already.

So, there is no way that we want to get all the money and say -- I don't Hillsborough to get everything and then say, you have to have an agreement with Hillsborough that, here is your share. No, I want everyone to get their share directly from DOR --

MAYOR RESNICK: They recorded that, right?

MR. SUGGS: I don't --

MR. ROSENZWEIG: He was just speaking for us.

(Simultaneous speakers.)

(Laughter.)

MAYOR RESNICK: The City of Tallahassee -- I think you're, like, the distributor for Tallahassee, right? They get it first and then they distribute --

MR. ROSENZWEIG: We actually get Tampa's, too.

MAYOR RESNICK: Oh, okay.

MR. STRANBURG: I think we we're getting a little into the weeds now.

MR. ROSENZWEIG: We're way into the weeds.

MAYOR RESNICK: Regarding the distribution, though, too, obviously there are a
lot of other entities that get a percentage of sales-tax revenue other than just the local governments and the State.

So, we just have to be cautious that this not get put in the pie that's distributed to other entities that don't currently get CST revenue.

MR. STRANBURG: I understand. I think we hear what you're saying. And I think, again, Sharon's points are pretty self-explanatory emphasizing that.

MR. SUGGS: And again, maybe the only piece -- I'll say this again. I really want to move -- like, when you're talking about unused capacity -- but I know in here, she has lost prepaid revenues. I want to move that to the end because, No. 1, we're a technical group, but I know this has come out of legislation. And that's more political, I think.

But I don't want to hamper anything because -- again, I'm speaking for me only. Looking in the past where it's three, four, five years -- that's not No. 1, 2 or 3 on the list.

I'm really trying to make sure that it's health and stability going forward. And so, I
just want to make that -- in terms of me talking to my county commissioners.

    MR. STRANBURG: We understand. We understand that.

    MS. FOX: The next one was the Legislature must enact replacement revenue stream as a direct substitute for the CST without any required action by a local-government entity.

That is necessary in order to make sure that our funding levels stay the same before and after the switch, the transition. And that way, it is recognized as a transition or a substitution versus a new tax because it's not a new tax. It's just a replacement source or another revenue stream.

    And it's not -- because this is something that has to be done on the State level, it's not something that we want laid at every city counsel member's or county commission member's feet to take responsibility for and, in the process, potentially harm our bond.

    And the third one is there has to be a plan about how to distribute growth. I suggest that it's based on the proportion of the guaranteed portion to each jurisdiction. And
there must be a guaranteed portion to each
jurisdiction in order to hold our bondholders
harmless.

The fourth one has to do with the replaced
revenue must hold current bondholders -- do you
see a theme here? The replaced revenue must
hold current bondholders of CST pledges secure.
And there must be clear authority and express
authorization for local governments to pledge
the revenues.

The revenue stream must be 100 percent
accessible for local-government bond pledging,
if that's the will of the local government.
That's the way the CST is now.

There tends to be a pension for favorite
issues, maybe community development or business
development, that local governments have their
revenues tied to, some favorite project of some
current officeholder. And when we have those
bonds pledged, we cannot convert revenues to
another issue.

Currently, CSTs are used to cover pledges
on utilities' tax bonds because this was once --
a portion of this was utility taxes,
communication-service tax bonds because those
have come into play through the CST.

Other people have used -- or other agencies have used it to pledge for loan payments, covenants to bond and appropriate -- I mean, budget and appropriate, otherwise known as, "CB" and "A" bond issues.

As I mentioned before, CST is allowed to be used by local governments as each local government sees fit. And the replacement revenue stream is to be the same.

MAYOR RESNICK: Can I just say one thing? In addition to the bond ability of the revenue -- whatever it is -- it also has to just go in to the general fund. It's used for general operations of local governments and can't be restricted to any particular type of utility fund.

MS. FOX: Question on your face, Charlie?

MR. DUDLEY: Well, I guess the question for the Mayor is: What are y'all doing currently with your bond-default hearings? Because in some jurisdictions, CST is down 8 to 10 percent in the last couple of years because it's not growing. It's actually going in the reverse. The State has seen -- it's under
So, if what your advisers are telling you is that, oh, if you don't get dollar for dollar, or we don't get a dollar plus a penny, we're going to have to bond default -- what are you doing now? Right now --

MAYOR RESNICK: We're not defaulting on the bonds. CST is pledged as the collateral. We're not in default. That doesn't mean we have to pay those debts solely out of CST.

MR. DUDLEY: Right. So, I'm not sure I understand --

MAYOR RESNICK: Our CST -- well, it's gone up or down, particularly in our city. We did specifically pledge CST as collateral for our debt. Next year, I understand it's going up. So, we'll see.

But we're paying our debt. It's just CST is the pledged collateral.

MR. DUDLEY: I don't have a lot of issues with what Sharon is raising. I don't quite understand how you include a growth factor. I don't know how you guarantee that consumption patterns and pricing in a free market -- that the Legislature is going to guarantee or can
guarantee or that anyone can guarantee that someone is going to get a hundred dollars this year and a hundred dollars next year.

If there is a price war in the marketplace and/or the consumption drops off, you may only get $80. The Legislature sees this every year. That's why they do revenue estimating to figure out sales taxes and what they are going to generate.

My view of this holistic approach was we're going to have a sales-tax rate that is going to be enough -- increased enough to replace CST. And then within that world, you're going to have really three pieces of the pie that are subsets of that.

You're going to have a guaranteed PECO piece and some magic language that we have in the current CST that sends some sliver of the money or some segment of the money into the PECO fund for gross receipts, but that's to service those bonds or to issue those bonds.

You're going to have some slice of it that goes into the State general-revenue fund like we currently have with a portion of the State CST, which obviously, the Legislature has probably
the most flexibility with that, in my opinion. Then you've got to have some final slice of the pie that's going to be put into, like, the current half-cent sales-tax distribution for the sake of a mechanism that's going to, then, go in to replace that 800 million State and local piece that's going to go in to some trust fund or trust funds, as Sharon suggested, or separate trust funds for distribution.

And I guess my point is: If the Legislature went down this road of setting a new sales-tax rate, it's not like you could have a city call up and say, oh, well, our distribution is down 10 percent this month because everyone's distributions are down 10 percent because the sales-tax consumption is down that month or that quarter for 10 percent. So, the State has to raise it from 6.34 to 6.4 to make up for it because we're going to default on bonds.

And I understand that CST is not what you necessarily pledge for the bond. It is part of a basket of revenues that may include revenue or may not. I know it's tricky. And I want this to be fully pledged, fully flexible just like you have now. I think those are points that we
all agree with.

So, I just want to make sure that I'm understanding. I don't know how you guarantee a growth. We thought the CST would produce predictable end growth for State and local governments over time. It hasn't.

Maybe it hasn't because of the services that have been exempt, whether it's prepaid or whether it's internet or something else. And I think we also talked about maybe it's also because prices are down and/or consumption patterns may be varying.

So, I just want to be clear. I think the holistic approach has those three subsets to it. I don't know how you guarantee anyone -- I don't know how the Legislature or anyone can guarantee growth. It's just we go to the most predictable stable tax that we have knowledge of. And that's sales tax.

So, that's just a thought. I don't disagree with anything here. I just don't know how you would include the growth factor.

MS. FOX: Well, I think one way is to not always consider it that the cities get the money last after everybody else has their piece of the
pie. And the way that you described it is exactly what happens a lot of times. Everybody gets their piece and then the cities gets what's left over. If you take the cities' guarantee out first, then that doesn't happen.

MR. DUDLEY: Well, I think the way you have to approach this is you actually have to start with probably the PECO portion for a lot of legal and political and policy reasons. And then I think you do the local-government portion. And then what's left over is the State's GR.

I think that's why stuff like eliminating the residential exemptions is important because I think you will stabilize the base a little more by doing that.

You'll be able to figure out what the rate needs to be to make all of those buckets at least revenue-neutral from the snapshot in time that you take and the Revenue Estimating Conference would take in January or February or March of 2013.

When you take that snapshot, you say, okay, we need 2.- "X" billion dollars to replace the revenues that are going into these three
main segments, these three subsets. And that's about the best you can do.

MS. FOX: That's the answer to the question that you pose.

MAYOR RESNICK: I mean, actually, I don't know what happens if tomorrow everyone stops buying cable or purchasing a telephone line and just does everything via the internet. I have no idea what happens with respect to local governments in the State in terms of the revenue.

It's obviously going to be either the State is going to have to look at increasing other sources of revenue because, obviously, they spend money on something, apparently, because they have, what, a 60, $70 billion -- I don't know what the State's budget is anymore.

We're going to have to look at alternative revenue sources, either increasing property taxes or increasing other fees because we spend money as well.

So, yes, if all of the revenue we're getting as a result of taxability on these services goes away, we'll look at other revenue resources. But hopefully that's not happening
tomorrow.

MS. FOX: Well, and the whole point of the holistic approach is that.

The next item -- I don't think we need to talk more about capacity because it's already been stated several times. But also accommodation should be made for when annexations occur.

MAYOR RESNICK: Or not just annexations, but also just changes in boundary.

MS. FOX: Right.

MAYOR RESNICK: It could be one city to another or whatever.

MS. FOX: And as Charlie mentions, separate trust funds for local-government entities between cities and counties.

And No. 6, the holistic option is intended to include the State-imposed DBS rate. And based on Federal law, I think that that still needs to be a stated position.

I think that we won't necessarily need something like a prepaid surcharge under the holistic approach because the holistic approach applies to everything.

So, it's the same tax rate no matter
what's being -- no matter what service, no
matter what provider. That's really the
intent -- that was the intent of the CST when it
was first started. And I think it's the intent
of the holistic approach that it eliminates
distinctions between providers and services so
that we don't have disparate treatment.

MR. STRANBURG: Okay. All right. Thank
you, Sharon.

Why don't we take a morning break now and
come back in 15 minutes.

(Brief recess from 10:06 a.m. to
10:30 a.m.)

MR. STRANBURG: The next item we have on
our list is, I think, one that we, again,
touched on briefly a little bit this morning,
the technical legal issue and, in particular,
identifying the PECO situation with the
constitutional reference to Chapter 203.

Are there any other issues of that anyone
wants to bring up or wants to be sure that we've
not missed as part of the discussion?

MR. SUGGS: Marshall, how big an obstacle
do you think that is?

MR. STRANBURG: I can't say for sure,
Davin. We haven't had anyone look at it from a legal perspective. I'm sure if we put our great thinkers together, they could come up with a way of dealing with that.

MR. SUGGS: I think we would agree that PECO has to be taken care of. We would sort of get everybody on board or whoever we're pitching to. Regardless of the plans, to do more bonding or whatever, existing PECO -- that issue is going to be at the forefront. We need to get that part taken care of.

And I think we asked earlier -- I think Gary asked earlier, not only does it have to be taken care of, but I think we have to be able to do it statutorily.

We have to figure out what's statutory and what's constitutional. And we've got to wait until '14? That will determine if some of this stuff has to wait until '14 or if we can start addressing it in the upcoming session.

MS. FOX: Is it possible to incorporate a provision that once the -- if the moratorium on internet goes away, that internet is included in the base? Because that moratorium might be around forever, but then again, might not.
We're not the only ones that are seeing a diminution of revenues that are being caused by more and more services being placed or provided over the internet.

So, it seems to me that if we included some language that indicated that, based on applicability of Federal law, that we're able to include that in the base, then it should be included in the base.

MR. STRANBURG: The only thing I can say about that, Sharon -- because I think we've talked a little bit about it in previous meetings; that is, charges for internet access are a current exemption in the communication services tax.

That would seem to be, again, one of those policy decisions that the Legislature would have to weigh in on and decide. Obviously, that is something that we could put forth for as an option for them to consider, that if, as you're pointing out, the Federal moratorium is not renewed -- I believe it expires sometime in the next couple of years. I don't remember the exact date.

Again, that is a possibility for
consideration. But just understand there is a second step that would have to take place after the Federal action -- or inaction I guess you would say, Federally.

MAYOR RESNICK: Well, the whole idea of scrapping the CST and replacing it with the sales tax and raising the sales tax is a policy issue. So, if that's going to be an option that's put forth by this committee, I think we can also raise, as you just indicated, the option of ensuring that Florida taxes internet-access transactions to the extent that the Federal law allows.

I would also -- there are going to be other changes with respect to Federal law and taxation of these services. There are bills all the time that are introduced in Congress.

If Florida currently taxes a service that is eventually prohibited from taxation by Federal law -- do you know how that works in terms of -- for example, I think there is a bill, I think, the cell-tower industry is pushing to ban taxes on cell service. I'm not sure if CTA's bill --

MS. KITTRICK: It's not to ban taxes.
It's to ban increases in discriminatory taxes, the newer increase in taxes. So, to the extent that you have a CST, if you will, that is higher than the sales tax, that would be preempted by Federal law.

MAYOR RESNICK: So, CST would be preempted.

MR. LINDSEY: It would be frozen.

MS. KITTRICK: It would be frozen. You could never increase it. If it was already in place, you could keep it.

MAYOR RESNICK: It's grandfathered.

MS. KITTRICK: It's grandfathered. But State or local governments couldn't have a discriminatory tax that was higher than a general tax, sales tax.

MAYOR RESNICK: So, if Florida eliminated the CST and adopted something else, like a surcharge on certain wireless services, would that be allowed?

MS. KITTRICK: If it's for 911 purposes, it's allowed. But if it's just a discriminatory tax that doesn't apply to any other general business, then, no, it wouldn't be.

MAYOR RESNICK: Even if they did it before
the Federal bill was enacted, would it be grandfathered?

MR. LINDSEY: It would be. It would just freeze whatever rate, whatever was in place.

MAYOR RESNICK: So, we should note that in our discussion of options that we urge Florida to move forward with is something that they're going to consider with respect to wireless services sooner rather than later because there is Federal discussion about prohibiting that down the road.

MS. KITTRICK: But putting --

MR. LINDSEY: One of those --

MS. KITTRICK: I was just going to say, the reform that we're trying to do that we're talking about wouldn't be preempted because it would be moving it into the general sales-tax base.

MAYOR RESNICK: Well, that's one option. There is another option that Sharon and the others talked about extensively. And for some reason, it's not getting a lot of focus.

The surcharge on prepaid services, I actually think, is a better option than switching everything to a sales tax. And I
would like for the Legislature to consider that as an option. If they do, I think it would have to be enacted this coming session because, who knows -- well, Congress isn't doing much of anything, but you never know when that might stop.

MS. FOX: And that goes to the point of making sure that all like services are kind of the same or similar so that we don't carve out different pieces and make disparate treatment based on who is providing a like service.

MAYOR RESNICK: Right.

MS. FOX: It preserves the viability of the base and it -- we shouldn't have, just from a good tax-policy perspective, two different services that, because of the way they are marketed, one is taxed and one is not because then it's the tax that's driving up the sales.

MS. KITTRICK: But you have to remember, prepaid has always been taxed under the sales tax. It's not that it's not taxed. It's taxed under the sales tax.

MS. FOX: Just because it's called prepaid doesn't mean that those services were always taxed that way. Those services, before they
became prepaid, because of the nature of the
technology and the type of services being sold
as prepaid, is different now than it was in

In 2001, prepaid meant one of those little
cards that you bought at Sam's Club or at Kmart.
That is not what prepaid means now. So, you
cannot say that prepaid has always been exempt
because it has not. Those two things do not
mean the same thing now as they meant in 2001.
I think that's what DOR acknowledges in their
definition now.

MAYOR RESNICK: My understanding -- and I
thought that Marshall already explained that.
While the industry may not be -- some of the
industry may not be charging and collecting and
paying the CST, DOR, I thought, has issued an
opinion that it's supposed to. Maybe I'm
misstating that.

MR. STRANBURG: We had issued an
information publication earlier this year
indicating what we believe was plain language of
the statute, what it meant.

MAYOR RESNICK: Okay.

MR. STRANBURG: And then we knew, given
that, that we would have some discussion of that issue as part of this working group. I think that was another impetus for putting together this working group. That is the apparent --

MAYOR RESNICK: -- the difficulty in collecting the CST with respect to prepaid, which I get.

You know, there was a compelling presentation earlier by you and T-Mobile -- which I guess is being bought by Crown. But we get how difficult it is -- or Crown is buying the towers. I'm not sure.

We get how difficult it is to administer the CST with respect to prepaid services because of the situsing issues. But there are other alternatives as opposed to just scrapping CST for all communication services because of one product's difficulty in administering it.

MS. KITTRICK: But I think, again, the question -- and what we've been debating over and over and over again -- is you're never going to be able to capture all of the new technology under the CST and all of the new products and all of the new services and all of the new competitors. So, you're always going to have
like services being taxed under a sales tax or
not taxed at all and then the CST.

MAYOR RESNICK: Right.

MS. KITTRICK: That was the whole focus
and the whole reason why we talked about moving
to the sales tax because, you know, with the
data, voice and video becoming an application on
the internet, there are different providers who
will never be under the CST, so...

MR. DUDLEY: I thought where we were kind
of headed here, big picture, was that we were
going to have some findings like CST is broken.
It needs to be updated. We need to treat like
services the same way.

We can't allow technology to interrupt
predictable base and the revenues that State and
local governments depend on that are, you
know -- and then we need to have a transparent
tax system for customers that's easy for them to
understand and be straightforward with them as
to what is taxable and not taxable.

But I thought we had developed consensus
that, of all of the options, the one that had
the most support or almost all of the support
was moving to a sales-tax replacement holistic
approach with these caveats that we've been
going through; Sharon's five or six caveats and
some of the other issues that we've raised.
You've got to have magic PECO language -- you
know, some of this stuff we've sat here and gone
through.

And then I guess I envisioned after that,
that we would have either other options, which
are not necessarily going to be consensus items;
whether it's to move back to a franchise fee or
whether it's to move to a single rate like in
the satellite system with distribution, which
would not be a sales tax, it would stay CST.
But it would be moving to that perspective.

And we would, then, have issue areas like
prepaid where we might say, well, if you
adopt -- Legislature, if you adopt the holistic
approach, the one that has the most consensus,
you solve prepaid. It becomes part of the
sales-tax base, which is how it is currently
administered. Whether that administration is
illegal or not, I guess, is an issue that people
don't necessarily agree on.

There are some advantages because you
maintain prepaid at a similar tax rate. You're
not going to double -- MetroPCS says you'll be
doubling it if you put it in the CST as it is
today.

Then you would have different issues under
prepaid that would, you know, have to be
outlined. Whether they are positions that all
of us support or whether it's positions that two
or four of us support, you want to just bullet-
point those as issues that have been raised.

I don't agree with Sharon's position that
while we're doing this or that next year,
immediately, the Legislature should wipe out the
bundling provision. But that's Sharon's
position and some people may agree with Sharon
on this and some people are going to disagree
with Sharon on that.

So, I think we've created a little bit of
a catalog. And that's kind of how I anticipated
the report looking. I can't speak to other
conversations that people up here have had with
legislative staff and the Governor's office.
But that's what I've been told they expect out
of this group.

They expect that if we think the sales-tax
replacement is the best policy and we want to
lay out the reasons that we think it is and some of the issues involved in it, whether that's politically feasible or not to raise the general sales tax to replace CST, which some people have voiced some concern about, so be it. That's their job to work through that.

We're trying to present to them what we think is the most stable system going forward. If they don't want to do that, they can look at the report and look at other options for CST, some of which are consensus items, some of which are contentious items. I guess that's kind of how I anticipated that.

MAYOR RESNICK: I don't disagree with that, but I think there are short- or immediate-term, basically, options that can be considered and then there are the longer-term options.

I think the elimination of the CST and replacing it with a sales-tax increase is something that can't get accomplished in a two-month session that's about to start in two months. I don't think that's doable for this coming session.

I don't think it would be prudent for this
committee to recommend that as an option because I think there is further study that needs to be done. The distribution mechanism is not as simple as we have sort of made it seem to be. And that's a huge portion of it.

And it has to be done right. Otherwise, we're just going to create more problems for the State than exist currently. So, I don't think that's an option that we can recommend for this coming session.

I think the prepaid surcharge and eliminating CST on prepaid might be a solution that the industry said would work and retail industry said would work and could be something that could be implemented sooner rather than later.

And if that is ultimately transitioned down the road, if everything is moved to a different tax form, then that's something that the Legislature could consider as well. But it ultimately comes up with a new tax structure for all of those services.

MR. SMITH: Marshall, one thing that Mayor Resnick brought up is, when you have, as we have, the Federal preemption -- right now, if
our Federal preemption went away, if they
revisit the Telecom Act, which is not unfeasible
in the next five years, and our Federal
preemption went away, there is nothing in the
current statute that would lower our rate. So,
we would be stuck at a differentiated rate,
which we don't necessarily agree with.

So, as far as technical issues, we would
like to see something that says, as long as this
Federal matter exists and this rate is, in
effect, that way, should that go away, we're not
just kind of hanging in the wind, collecting a
higher rate than Redbox in front of a local
convenience store.

MAYOR RESNICK: So, the idea would be if
the Federal law allowed Florida's taxation of
services that are not currently allowed to be
taxed, that they would all be taxed at the same
rate, regardless of the service.

MR. SMITH: Right. So, if all of a
sudden, there is no preemption of local
taxation, Federal law goes away, we would be
subject to collect the local tax. And then we
would also have the onus of collecting the
higher State rate as it's currently written,
where some states have been codified that, as long as this exists, you know, this is the way our law runs.

MAYOR RESNICK: So, if we talk a little hypothetical, if CST goes away, it's replaced with an increase of the sales tax, which would apply to DBS service as well -- is that part of the bucket that's contributed to local governments? Because now, it's somewhat distributed to local governments, but not really. And how is that distribution handled?

MR. DUDLEY: Currently 4 percent of it is distributed to local governments. Now, I --

MAYOR RESNICK: But not equally.

MR. DUDLEY: Right. I think it was originally designed around the half-cent formula and then the Legislature came in and took a chunk of it to certain counties critical -- I apologize. There is a term.

MAYOR RESNICK: Fiscally constrained.

MR. DUDLEY: They took a portion of that 4 percent, right?

MAYOR RESNICK: The ones that don't pay Davin's --

(Laughter.)
MR. SUGGS: They all pay that. I represent all of them -- all 67 counties; large, small, rich, poor.

MR. DUDLEY: But there is nothing that would prevent the Legislature right now from going in to the formula for that and saying instead of transferring 4 percent to that trust fund, we're going to transfer 5.5 percent. And we're going to take the loss on the GR side of the State -- back to my point of there being three buckets. There is nothing that says they can't do that.

There is nothing that says they couldn't adopt a 13.17 across the board, take the current DBS rate and say we're going to take 6 percent of that and put it in the local-government-distribution pot -- however that's going to be distributed. We're going to continue the gross-receipts allocation portion at this percent. And we're going to take away the residents' exemption, which creates 80, $90 million in revenue, and we're going to backfill the State GR side of the bucket with that money.

MAYOR RESNICK: When DOR did the analysis to come up with the 6.34 and the total pie being
the same and then how that would be distributed, how did it figure the DBS portion of that? Do you know how that was --

MR. STRANBURG: I don't, but maybe Matt might be able to explain -- Matt Moore with our Tax Research office.

MR. MOORE: My name is Matthew Moore. I work for the Office of Tax Research.

The analysis that was done to find the corrected State rate took the dollars that were collected under the DBS and made it part of the total CST. So, the monies are replaced with that rate. And it's assumed that that rate would be the rate that DBS would be subject to.

MAYOR RESNICK: Was there a portion that was attributable to local government in that?

MR. MOORE: We didn't take into account the specific satellite distribution piece as it's distributed through the three pieces as is done now. We just took the dollar value as it was and made it part of the total CST that we were trying to create the replacement.

MAYOR RESNICK: Just another issue to raise that needs to be figured out.

MR. SUGGS: So, if I heard correct, you
took into account total money. And we have to make sure -- we're trying to recreate neutral impact, recreate all of the distributions, including the piece shaved off for fiscal restraint.

MR. MOORE: (Nodding head affirmatively.)

MR. SUGGS: Okay.

MS. FOX: And just to comment on Brian's recommendation, I think that it's critical, no matter what service, that there is no disparate treatment. So, I think that's something that is a valid point that needs to be included.

MR. LINDSEY: If I could make one more comment, kind of back to where we are, as far as the holistic approach. My understanding is -- and kind of mirroring what Charlie said, and I think, Mayor Resnick -- we will finish our writeup of comments on the holistic approach and report that as something which the group determined was something that would work.

I don't think we're going to put a timeframe on it. We're not going to say, we don't think you're going to do it in the next session, therefore, choose Plan B.

I think the report is to reflect this is
the consensus and here are the other options so
that the legislators -- when this report is
issued -- in their wisdom, they can look at it
and say, yeah, you know what, this is something
that was probably a two-year or a multi-year
effort.

They may look and say, you know what, the
surcharge on prepaid looks great. Or they may
see another issue that they may like and want to
look at legislation there. I'm thinking the
report would look kind of like that.

It's just going to lay out this holistic
approach as one of particular interest that
we've delved into. And then we'll list all of
the other options that can be considered.

Is that kind of the -- that seems to be
kind of the way we're presented.

MS. FOX: The only problem that I see with
that is that if you don't do something with
regard to prepaid or if you decide that
prepaid -- no matter what is being offered,
prepaid is only subject to sales tax, that means
that current CST is going to be diminished
further. That has negative impact on local
government. So, I have a big concern with that.
We already are seeing erosion caused by unbundling. And we know that we've got erosion based on prepaid. So, that does not -- if those things are not addressed, then we continue to lose money and we continue to lose money at an increased rate.

MR. DUDLEY: Sharon, I would propose we think about laying out this holistic approach and then say that, while the Legislature reviews that, there are some items that we just don't think can wait. There are policy decisions that need to be made. And I think No. 1 is prepaid.

The Legislature needs to understand there is a dispute. And I think you have to call it a dispute as to whether or not prepaid should be in CST. There are people who feel like it has to be or you significantly continue to erode the base and you have disparate treatment.

And there will be others who say it was always intended to be sales tax. Nothing has changed and it should be sales tax. You need to just point out, I think, for the Legislature that there are different opinions and that there are different issues involved in how you categorize prepaid.
But in the end, I think everyone around this table agrees that the Legislature needs to understand the prepaid issue more than just a 30-second sound bite, with all due respect. They need to understand the numbers involved in that. They need to understand the impact on the consumers. They need to understand the impact on State and local governments.

MS. KITTRICK: Impact on retailers.

MR. DUDLEY: Yeah, retailers are going to -- there should be something in here that retailers have indicated that collecting anything but sales tax is problematic.

Yes, we had Wal-Mart, I think it was, saying they might be able to do a surcharge or something. And then we had, I think, the Retail Federation say, hey, that may be Wal-Mart, but that's not the convenience store down the street that sells those phones. I think I heard Randy Miller say that.

So, I think you just have to have one of those balanced reports to the Legislature, whether it's a majority or minority opinion, that lays out some of the issues that the Legislature and the staff of Legislature needs
to be aware of when it comes to how are you going to address the prepaid issue.

Are you going to do nothing and allow the erosion to continue and to allow certain litigation for the next 12 months before the Legislature comes back? Or are you going to clarify it's sales tax? Well, if you do that, there is this. Are you going to put any of this in CST? Well, if you do that, there is this.

MS. FOX: I agree with that. My recollection of what Randy Miller said is different from what your recollection is.

MR. DUDLEY: Okay.

MS. FOX: My recollection was he said that a surcharge was doable whereas a sales-tax rate change was not.

MR. DUDLEY: Okay.

MS. KITTRICK: Well, I don't --

MR. LINDSEY: I think each of us reported our options. And those were compiled and kind of consolidated. I think those are out there. So, we've got the holistic that we'll report on. All the others are laid out. I think there are options that say, continue as before. There are options that say subject to the
prepaid CST. There is another one that says use a surcharge. So, I think all of those are out there. We probably just need to go back and look at them to refresh our memory. But I think that's all there.

I don't really think -- I mean, we can talk further about it. But I think those options have already been laid out and will be included in the report. So, I think we're there.

MAYOR RESNICK: Not to lose sight of it -- this is something we have to discuss at some point today -- and Charlie referenced it a little bit. But the fees for the use of the rights-of-way and permit fees are still an outstanding issue, especially if you wind up migrating some of these services through a surcharge and not charging a CST, which was the replacement source for those fees.

You know, my perspective would be that the condition on that would have to be -- and those carriers that are using the rights-of-way but not paying a CST have to pay for use of the rights-of-way.

MetroPCS -- I noticed in their comments --
I just sort of glanced at it because I haven't had a chance to read it in full. But they use the rights-of-way. They have back-call. But because they are a communications provider and they are supposed to pay the CST, they do not pay for use of the rights-of-way. So, that would have to change.

MR. DUDLEY: But if their back-call is handled by AT&T, Verizon, Comcast -- those companies do pay. That's part of --

MAYOR RESNICK: Not -- I don't know if they actually pay for the use of the rights-of-way for that.

MR. DUDLEY: I think something that maybe I'm just not understanding that's been a theme on this issue is the franchise fees were part of the replaced local CST. I understand the growth has not been what people projected it to be. A lot of it is maybe due to the internet and that sort of thing.

But there was a snapshot taken in '99 and then again in 2000 and in between when the REC was gathering data from the local governments. I think we were allowed to project what 2001 was going to be, if I remember the submission
process right.

All of that was taken into account when replacement rights were set. And all of the franchise and right-of-way fees are listed in the statute, in 202 and 204, as replacement revenue sources.

So, I'm really struggling with the concept that there needs to be an additional right-of-way or permit fee paid --

MAYOR RESNICK: It's actually not additional because, even now, local governments are allowed to charge rights-of-way fees for companies that don't pay the CST.

MR. DUDLEY: Right.

MAYOR RESNICK: So, you're basically including that and changing some of the statutory language -- or giving them the option of looking at changing that statutory language.

MR. DUDLEY: I think you're asking to charge twice for the same --

MAYOR RESNICK: For example, I think you can -- like, if a company is using the rights-of-way to provide internet service, you can charge that company the rights-of-way fee.

There is nothing prohibiting that. You can't
tax them for the service. But then they should pay for the rights-of-way.

We keep forgetting about the point that it's a public resource that private for-profit companies are using for their own purposes. They should have to pay for that. That's the general concept. It costs money to maintain it. So, they should have to pay their fair share to maintain it.

MR. DUDLEY: I think when you look at Chapter 337, it says, unless you're a communications-service provider paying the local CST --

MAYOR RESNICK: Right, so --

MR. DUDLEY: -- then you may or may not owe a franchise fee depending on that particular local government's ordinance. There is a whole rule on it.

MAYOR RESNICK: Right. So, if we're talking about getting rid of the local CST portion for some companies to be exempt from that because it's too hard to implement -- for services being used because it's too much to implement, not companies -- then we have to go back to charging companies for their share of
using the rights-of-way.

MR. DUDLEY: Well, I think the dealers, though, that are collecting the CST -- my point is: The dealers collecting CST from their customers -- the franchise fee is embedded in there already. It was replaced.

MAYOR RESNICK: I think we're having a discussion now -- I think it's listed on the items that we still have to discuss.

But my sign-off on any type of holistic approach is conditioned -- I'm not supporting a wholesale -- first of all, I don't even know, from a policy standpoint, whether I could support getting rid of the CST, shifting to a higher sales tax. I don't know what that does for Florida.

I don't know if that hurts tourism. I don't know if it hurts economic development. I don't know if it really, really will have a detrimental effect on things that Florida and local governments and counties have been trying to accomplish.

But aside from that, any type of conditions related to getting rid of the CST and what it was supposed to replace would have to,
in my mind, include compensation for the use of rights-of-way by private for-profit companies that are using it for their own purposes.

MR. DUDLEY: That are not dealers of communications? Or are you going to charge a second franchise fee? That's my question.

MAYOR RESNICK: Well, it's not going to be a franchise fee if you're paying sales tax -- or charging your customers a sales tax.

MR. DUDLEY: So, then we should go into the new sales-tax rate and reduce it and take back out all the franchise revenue that you were given as a replaced source, right? Because otherwise you're paying it twice.

MAYOR RESNICK: Well, you can --

MR. DUDLEY: That's what I'm trying to --

MAYOR RESNICK: -- go back to the snapshot.

MR. LINDSEY: The part that confuses me is, if we're talking about Item 2, neutral fiscal impact for all parties determines that current revenues that are currently being received are going to be preserved and it's going to be local-government distribution. It sounds to me like the current revenues being
received are -- we've already addressed that.

So, it sounds to me like under this holistic option, we've said those will be replaced. They will be made whole for any revenues that are out there including the current ones.

So, I'm not following the concern about the right-of-way being carved out, unless we're talking about just purely carving that out and saying that's no longer -- it would almost be like, let's take that out of the CST right now and carve it out and make that something that's only in the right-of-way.

MAYOR RESNICK: It would be similar --

MR. LINDSEY: It's a part --

MAYOR RESNICK: It's similar to Virginia's model, which, you know, from what the fees for the rights-of-way are supposed to accomplish, from a policy standpoint, it actually does seem like it's a better way of doing it. You know, I mean, we're going back over ancient history. We're looking at what the CST was supposed to accomplish.

But I can't explain to a legislator why it makes sense to charge Mr. and Mrs. Jones from
New York when they are vacationing down in Florida for use of the rights-of-way for these companies that are making a profit for services they are not taking any advantage of.

You know, if that's what we're talking about doing is shifting the burden of maintenance of the rights-of-way to tourists and to businesses out of state, that doesn't make any sense to me.

MR. STRANBURG: I think we're probably not going to come to agreement on this at this point in time, but I think we've got enough information that we will work on setting this issue out in --

MAYOR RESNICK: It has to be --

(Simultaneous speakers.)

MR. STRANBURG: -- part of the draft. So, again, it becomes a policy issue for the Legislature to weigh in on, how it would like to deal with this issue.

I understand both sides' points of view. And we'll do our best to try to capture both of those, to leave that out there as a decision point for those policymakers to weigh in on.

Okay. The next item on the list was
create a sales-tax working group for technical issues. I'm not sure that that's something that there is much detail we would get into discussing on that.

I think we all realize when we discussed the option -- this holistic option -- at our last meeting, that there would be technical issues that would need to be worked through. However, we would like to propose they consider putting together a group to do that. I think that would be probably a good idea for the Legislature to get advised on some of those issues.

Again, I don't know that we want to try to invest and go through all of those, nor that we would necessarily do a good job in the time that we've got, putting that list together. But again, giving them, as part of the options, suggesting that they need to probably have a group to do that.

MS. FOX: Along those lines, Mr. Chairman, I think it's really critical that when we're talking about a working group, we talk about that with regard to the holistic approach.

You know, the CST was developed by a
working group that included the State and the counties and the cities and the industry. And having all of those members made sure that everybody remembered the little nuances that maybe one group remembered, but another didn't. And it worked quite well. I think that we created something that lasted for a good, long time. And everybody was happy, at least initially.

Now, we've done it once. Maybe we can do it a little bit better the next time so it doesn't fall out quite so quickly. But I do think that a working group to help craft the language and vet the issues is important.

MR. STRANBURG: Okay.

MR. LINDSEY: So, that would really be -- the record or the item would be to create a work group for technical issues and really, effectively, a draft that would actually create details, nuts and bolts.

MS. FOX: (Nodding head affirmatively.)

MR. STRANBURG: Okay. The next item is, I think, one we've discussed pretty comprehensively so far; maintain the ability to ensure future and current bonding ability.
policy, which is kind of the crux of the whole purpose of this effort, is to recommend some ideas for tax-policy decisions on the part of the Legislature.

MAYOR RESNICK: Just to go back to the bonding ability, though, I think part of our options should include a weigh-in on that issue by financial institutions. They haven't been participating, at least publicly, in this process. And they are vital because they watch that issue on the bond and the debt. I think they need to be brought in to the process at some point.

MR. STRANBURG: Okay. The bundling issue. Again, that's something that we touched on a little bit this morning. I don't know if anyone wants to have any further discussion of that portion. Again, that's an issue for consideration as part of the options that would go forward and the movement of the CST with the sales-tax-based levy.

MS. FOX: From my perspective, if a holistic approach is adopted, that issue goes away because everything is taxed the same. If we're trying to carve out things, then I think
that that's a big issue as well.

The current State unbundling language is really overly broad. There are a lot of ways to manipulate the sales price that aren't necessarily good accounting practice or good for anyone that's trying to administer the current tax.

Virginia has some better language with regard to bundling that, I think, there will be more internal controls so that it's not overly broad.

I think that our current language, even if it's to be kept, is not well-crafted from an administrative standpoint. And I don't think it's well-crafted from an internal control standpoint. I think manipulation for those entities that were interested in such things could easily adapt sales price according to them.

So, if it's not intended that a holistic approach apply to everything -- because I thought that the holistic approach applied to everything -- then I think that it's definitely an issue.

MS. KITTRICK: I think you're still going
to have issues of internet access.

MAYOR RESNICK: Federal law --

MS. FOX: Well --

(Simultaneous speakers.)

MAYOR RESNICK: -- would be exempt under Federal law.

MS. FOX: Apart from what is allowed by Federal law, I think that goes --

MR. DUDLEY: Yeah, my point on that is that there are some services that Florida doesn't charge a sales tax on. So, if you're a dealer of communication service and you happen to be -- this was the issue last year. We have dealers of the communication services bundling home-alarm services. Now, home alarm is a sales-tax item, not a CST item. You're also selling internet access, which is not allowed to be taxed under Federal law. So, that is a zero-tax part of the transaction.

Now, whether or not you get to the issue of how you handle bundling, Sharon -- I mean, I've read Virginia's -- I don't see that it's much different than Florida's. It's got examples of what types of books and records.

So, I don't really see anything in
Virginia -- at least the summary that we've been provided in this document. I don't really see much difference than what was passed last year by the Legislature.

But I think the reality is, even with a holistic approach, you're going to have the offering of the taxable and non-taxable goods and services. It's not fair to the customer who elects a bundled transaction from a dealer to pay a tax on a good or service that they get from a competitor, at least in that segment, and it's not taxable.

MAYOR RESNICK: How does the company distinguish the tax on the bundled service like that? Does it say, you know, if you have internet, phone, alarm and it's all bundled, one price --

MR. DUDLEY: Well, the first thing that you have to realize, Mayor, is that we have an incredible incentive to try to get it right. If we get it wrong at audit, then we owe the tax and we can't go back and get it from the customer.

So, we have price lists that are out there. People may have tariffs that are out
there. We have all kinds of examples, rates and offerings that are out there that are readily available for people to look at.

Again, the incentive is to get it right or you can't recover.

MS. FOX: And to your point, perhaps it's an accounting perspective because there are nuances that are in the Virginia definition that are not in ours.

MR. DUDLEY: Okay.

MS. FOX: But also, perhaps we need to evaluate taxable services versus non-taxable services.

As was mentioned earlier, things that become communication services based on the communication-services definition -- perhaps, home-alarm services, if they are provided in a certain way, definitely meet the communication-services definition because technology, again, has changed.

So, there is that to be considered as well. I just --

MR. DUDLEY: Another great reason to have a sales-tax approach.

MR. LINDSEY: I think, quite frankly, the bundling issue was listed here primarily as a positive attribute. To the point you made earlier, it would be much simpler under the sales-tax approach because it clearly --

MS. FOX: If it's bundled, it's taxed.

MR. LINDSEY: Right.

MAYOR RESNICK: Unless you're exempt.

(Simultaneous speakers.)

MR. LINDSEY: Well, it would distinguish between taxable and non-taxable items. We're not dealing with different rates. I think it's pretty straightforward.

MAYOR RESNICK: Well, except the issue becomes what is going to be required to basically verify that they're taxing the appropriate services because, otherwise, a company could attribute 99.9 percent of the fee charged, or whatever, to a non-taxable service.

MR. LINDSEY: It could. It could do lots of things.

MAYOR RESNICK: You say we're giving away the taxable services or whatever. And how does DOR -- or whatever entity is supposed to understand that -- know that? And how does the
customer know that?

So, I mean, in terms of the billing, would we propose that the bill sets forth very clearly, you're taxed this amount because this percent -- this portion of your bundled fee is non-taxable? Or you know, how would you make that very clear?

That was part of the charge to this committee, too, is recommend options to make sure that the customers understand clearly the nature of the tax. So, what would be the option that we would want to include with respect to that?

MR. LINDSEY: Well, there are provisions -- I think I had found an example of the public -- the mobile sourcing law that had bundling language just as one example to consider. There are lots of good examples out there. There are lots of audit methodologies out there across the U.S. for states that do bundling that are out there for review.

And I think the carriers can make appropriate disclosures on how -- there is a place that carriers can have language and provide customer-friendly -- and again,
Charlie's point, it's absolutely in the provider's interest to provide something very clear to the customers as to how we tax.

MR. STRANBURG: All right. Next item was revenue flexibility, something that we've talked about. Anything more anyone wants to add about revenue flexibility?

MAYOR RESNICK: I'm not sure what that means.

MS. FOX: It's because CST, you can use for anything.

MAYOR RESNICK: Oh --

MS. FOX: We have the ability --

(Simultaneous speakers.)

MR. STRANBURG: The utilization of the proceeds.

MAYOR RESNICK: All right.

MR. STRANBURG: And same thing, replacement revenue -- I think we've talked a significant amount about that today.

And the last item on the list is replicate exclusions or exemptions in CST into the sales tax. And I think we've had some discussion about that, too. That, to me, is another one of those technical issues of what do you move over,
what do you retain, tied up in some other issues
along with definitional issues as well.

Anything else anybody wants to talk about
with respect to that point?

MS. FOX: Mr. Chairman, the only thing I
would add -- and I think that Charlie has talked
about it already -- is the elimination of the
residential State exclusion only because it's a
simplification issue. And it's not the same
gravity that it once was from the volume
standpoint because so many people have given up
their landlines.

But any time we have the option of
broadening the base by eliminating some of the
exclusions, I think we add to the stability of
the revenue stream and we make it easier to
administer.

Every time there is a carve-out, that is
something that has to be vetted by the
auditors -- also, any time you can broaden your
base and keep the rate as low as possible, which
I think is also important.

MR. DUDLEY: And I think MetroPCS made an
argument on this as well that was compelling on
being competitive. A lot of people are using
wireless devices for their residential service. They are cord-cutters or whatever. And arguably, they are paying a higher rate than they should -- or at least some portion of it.

I would suggest that you make a revenue-neutral change; that we consider laying out for the Legislature that they ought to remove the exemption because it's outdated and it creates competitive issues and that it ought to let REC tell us what the number is. I would argue we produce the State rate accordingly.

MR. STRANBURG: Are there other issues that the members believe we ought to consider as part of the holistic option?

Gary?

MR. LINDSEY: There is one thing -- this might be more in the technical issues. I think at some point in one of our discussions, we talked about rounding. And I was thinking that it would be good -- maybe we talked about this. Maybe it's too deep in the weeds, but just to have pure mathematical rounding involved.

MS. KITTRICK: Yeah, we did talk about that. And it makes a lot of sense because if you want to position the sales tax as sort of
more streamlined and, you know, get us to where we need to be for Main Street Fairness or marketplace fairness or whatever passes, I think that's a really important point. If we can use the revenues to offset the cost for the rounding, that might be a good thing to do.

MR. STRANBURG: Again, I feel I have to put my administrator hat on here that if rounding does cost the State some money -- I don't believe there has been a current estimate of that.

The last estimate I remember seeing, as you mentioned, Kathleen, was part of the proposed streamline legislation. It's probably a good seven or eight years ago. My recollection was somewhere in the neighborhood of a $40-million or $45-million issue. I don't know where it would be today. Again, I'm talking sales-tax dollars.

MS. KITTRICK: Right.

MR. STRANBURG: You had CST.

MS. KITTRICK: Right.

MR. STRANBURG: And you already have that. You don't have the bracket system in CST.

Other issues related to the holistic
MR. SUGGS: We forgot one thing, Marshall. It's with holistic, but it was whatever we come away with. We talked about consideration of this issue, but it might -- very well, we could address this issue and the package issue with Main Street Fairness or something else like that. Or do we think this needs to be a stand-alone issue?

MAYOR RESNICK: Could the tax on sales --

MR. SUGGS: I mean...

MS. KITTRICK: Use the revenues so we don't have to raise the rate?

MR. SUGGS: It's been talked -- I mean, this we're sort of holding out as sort of a revenue-neutral package. But let's say an internet sales tax -- it might be something more for us --

MS. KITTRICK: That's more of the nexus issue. That's not internet sales tax. It's more the out-of-state sales-tax collection.

MR. STRANBURG: And again, the only cautionary note I would put on that, Davin -- which again, in the previous meeting, we talked a little bit about this. Until you've got
Federal legislation on the remote-commerce issue, you don't necessarily have that solution that states can bank on if we adopt a Main Street -- we have to have that Main Street Fairness Act adopted Federally or something similar.

Simply because we move to adopt streamline definitions, it's uncertain what your revenue bump is going to be. But those numbers you see out there, whether you agree with them or not agree with them on what you're losing from a remote-commerce issue, you're likely to see those coming in.

That would be part of the REC-DBR process to determine what's the right mix of all of those moving parts to try to determine we will meet everybody's needs from the local-government end, from the PECO end, as Charlie talked about, and then from what the State ends up releasing to the general-revenue portion of the proceeds that come in.

So, again, I understand your point. I mean, it's something that we can consider, but there are other things that may impact that.

MR. SUGGS: And to that end, I'm not
pushing that we say -- maybe it's more so that we, along with this, say that this needs to be a stand-alone issue handled by itself.

It's like either way -- because I understand what your point -- I mean, in dealing with this, is this for us or do we think the State needs to address this issue --

MS. KITTRICK: My opinion would be that we keep them separate only because it's going to have the weight of -- you know, I don't want to have any more weight to this issue than we already may have. And the Main Street Fairness -- that's really for all general-business retail. That's much more broad, as far as other -- you know, the mail-order companies and the brick-and-mortar retailers, et cetera.

MR. STRANBURG: But again, I think where Davin is talking -- and you heard, I believe, some members of the Legislature earlier this year talking in terms of, if we adopt something and start bringing those dollars in, we don't use it as new revenue. We use it to reduce levies in some other places.

Is that a way in which, if you plug that in, maybe instead of a six-and-three-quarters or
whatever it may be, it's something less than that? Just what that number would be -- again, I'm not sure you could necessarily count on anything until you have that Federal legislation in place to, then, give you an idea of who you're going to see collecting because some of that is going to go off of if they have some type of small-seller exception, where that small-seller exception fits, and who do you have in and who do you have out of being required to collect sales tax.

MR. SUGGS: All I'm saying, Marshall, the stuff you just said -- and most people probably want to keep this separate. If we put a cautionary note, say, hey, this issue is big enough, but the stuff you just said, be careful in trying to combine -- to somebody's mind, make this better because Part A might not be guaranteed. Offset revenues might not be guaranteed.

So, we need to look at fixing CST in just fixing CST. I mean, Marshall, I agree with you. I understand what you're saying. But if we need to put a cautionary note in anticipating that some people are trying to use one or trying
to -- there is some talk of combining stuff already out there. So, I mean, if we feel strongly that we need to look at this solely, then, we might need to go ahead and anticipate that, put that cautionary note in there.

I think most people agree with what you just said. You can't bank on the other stuff. So, to sort of make this package here, we need to put our best foot forward on this sole issue. They can choose to listen to us or not.

MR. STRANBURG: Other points of consideration for this option?

Okay. I think as we've discussed a little earlier as part of this -- and we may want to go back and spend a little time revisiting some of those other options that we had out there to make sure that we've accurately captured them, see if there is anything else to be included, as was pointed out as a method of consideration for the group to have in our report that we're going to put together.

I'm kind of at that breaking point of do we want to start looking at those? Or do you want to break for lunch now and come back and start working on them at one time after lunch
rather than working on some and breaking them up?

Is there a preferred way of doing that among members of your group?

MR. DUDLEY: What's your preference? I know you've got a lunch.

MR. STRANBURG: I've got to run downtown to do a dash-in at another meeting. I'm a little flexible about when I can go with that. So, again, I just want to be receptive of what y'all think would be the best way of doing that.

MR. LINDSEY: Do we have -- I should have brought it with me -- but where we have all of the other options laid out?

MR. DUDLEY: (Indicating.)

MR. LINDSEY: Oh, that's right.

MR. STRANBURG: This was the list we used at the October 31st meeting. It does not reflect maybe some of the things that we, at that meeting, decided either we could combine elsewhere or maybe a member thought this isn't an idea I want to pursue. But this does capture everything that was submitted by the members.

MR. LINDSEY: Okay.
MR. DUDLEY: Mr. Chairman, maybe it makes sense to stop and have a lunch break so people can look at this. You can do your speech. And we can come back at 1:00. Is that --

MR. STRANBURG: That would be fine, if it's okay with everyone else. Why don't we do that. We'll come back at one and work through this list.

And then we want to talk a little bit about next steps. We've got a tentative to schedule of some next steps to run over with you to see if that's convenient. We're not looking at trying to do another in-person meeting, if at all possible. We'll get some information to you. And then maybe we can do a phonecall or two, if need be, to do everything that we need to do after that.

With that, I'll see y'all back here at 1:00.

(Brief recess from 11:26 a.m. to 1:00 p.m.)

(Proceedings continued uninterrupted in Volume 2.)

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