

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based only on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/SB 1564

SPONSOR: Commerce and Economic Opportunities Committee and Senator Kirkpatrick

SUBJECT: Digital Communications and High-Definition Television

DATE: March 31, 1999 REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Olafson</u>	<u>Maclure</u>	<u>CM</u>	<u>Favorable/CS</u>
2.	_____	_____	<u>FP</u>	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

I. Summary:

The committee substitute provides for the formation of a 10-member task force to be called the "21st Century Digital Television and Education Task Force." The task force is directed to: devise a plan to recruit digital industries to locate in Florida; recommend economic incentives to assist in the recruitment of certain digital industries to Florida; devise a plan to create and maintain higher education opportunities for students interested in the digital television field; recommend methods to hasten the conversion of existing commercial television studios and sound stages from analog to digital technology; investigate means of assisting public broadcast stations in their conversion from analog to digital technology; and issue a report to the Legislature prior to February 1, 2000.

The committee substitute also creates a tax exemption from Florida sales tax which inures in the form of a refund of taxes already paid for property which produces, transmits, receives, or redistributes digital television signals. The committee substitute exempts from sales tax machinery or equipment purchased or leased in Florida for use by a television studio, television network, television production company, or federally licensed television station or cable television company in the production, origination, broadcast, transmission, receipt, or redistribution of television signals. The committee substitute provides a definition of "machinery and equipment" to be used pursuant to this exemption.

The committee substitute amends section 212.08, Florida Statutes, and creates a yet unnumbered section of the Florida Statutes.

II. Present Situation:

Digital Broadcasting

Digital broadcasting transmits the information used to make a TV picture and sound as "data bits" (as does a computer). A digital broadcaster can carry more information than is currently possible with analog broadcast technology, allowing for the transmission of pictures with higher

resolution, resulting in dramatically better picture and sound quality. ("Standard definition" digital TV pictures would be similar in clarity and detail to the best TV pictures being received and displayed today using the current (analog NTSC) broadcast system and TV receivers.) Digital television technology can also be used to transmit large amounts of other data that consumers may be able to access using computers or television sets. This means that broadcasters will be able to offer customers an entire edition of a newspaper, sports information, computer software, telephone directories, or stock market updates if they choose to do so. Not only will broadcasters be able to broadcast at least one high definition TV program, they may also simultaneously transmit several standard definition TV programs. Another possibility is broadcasts in multiple languages with picture and information inserts, and in some cases viewers will have the opportunity to select camera angles. An important additional benefit of digital television is that it will free up parts of the broadcast spectrum for other uses due to the fact that modern technology of digital television is more efficient than analog TV technology.

Pursuant to Congressional authorization, the Federal Communications Commission (FCC) has established rules for the transition to digital broadcasting. In order to ensure the successful introduction of digital television and to make it available to as many Americans as quickly as possible, the FCC established an accelerated schedule for its introduction. Because of this FCC rule, most Americans are scheduled to have access to digital television by 1999 and everyone in this country is scheduled to have digital television access by the year 2002. The FCC requires that affiliates of the top four networks in the top ten markets (none in Florida) must be on the air with a digital signal by May 1, 1999. Markets 11 through 30, which include the Miami-Ft. Lauderdale, Tampa-St. Petersburg, and Orlando-Daytona Beach markets, have been mandated to provide digital television by November 1, 1999.

It will take a number of years to convert fully to digital television because today's television sets are not designed to receive digital transmissions. In order to provide a smooth transition to digital television service with as little disruption to the public as possible, and as provided in the Telecommunications Act of 1996, the FCC granted each existing broadcaster an additional 6MHz channel to be used for digital transmissions. Broadcasters will send out both analog and digital signals at least until 2006, and will not be required to return their analog spectrum stations until 85 percent of households have access to digital television.

Broadcasters will be required to spend millions of dollars toward the creation of a digital infrastructure, including the need to purchase digital antennas and camera equipment.

Sales Tax

The state of Florida levies a 6 percent sales tax on most sales of tangible personal property in the state and on some services. The statutes currently provide more than 150 exemptions from the sales tax. Exemptions generally take the form of identifying specifically exempt items, exempting items when used for particular purposes, and exempting certain types of organizations, such as the government, churches, and charitable organizations. Currently, s. 212.08(5)(f), F.S., 1998 Supp., grants a sales tax exemption for motion picture or video equipment used in motion picture or television production activities and sound recording equipment used in the production of master tapes and master records. Section 212.08(5)(f), F.S., 1998 Supp., states that the sales tax exemption does not apply to equipment purchased or leased by television or radio broadcasting or

cable companies licensed by the FCC. The exemptions inure in the form of a refund of taxes once they are paid.

III. Effect of Proposed Changes:

The committee substitute provides for the formation of a 10-member task force to be called the "21st Century Digital Television and Education Task Force." The task force is to be created within the Office of Tourism, Trade, and Economic Development and will consist of two members of both the House and Senate, two members appointed by the governor, the Commissioner of Education, the Chancellor of the State University System, the Executive Director of State Community College System, and the President of the Independent Colleges and Universities of Florida. The task force is directed to devise a plan to recruit the following digital industries to locate in Florida: digital programmers and producers; companies involved in the transmission of digital media; digital television equipment manufacturers; and companies involved in the research and development of certain digital technologies and electronics. The task force is required to: research and recommend economic incentives for the digital industries described above; assist in creation of higher educational opportunities for students wishing to enter the digital television field; recommend methods to hasten the conversion of existing commercial television studios and sound stages from analog to digital technology; and investigate means of assisting public broadcast stations in their conversion from analog to digital technology. The task force must also issue a report summarizing its findings to the Legislature prior to February 1, 2000.

The committee substitute amends s. 212.08(5)(f), F.S., 1998 Supp., creating a sales tax exemption, which will inure in the form of a refund, for machinery or equipment purchased or leased in Florida for use by a television studio, television network, television production company, or federally licensed television station or cable television company in the production, origination, broadcast, transmission, receipt, or redistribution of television signals. The committee substitute provides that for the purposes of this section, "machinery and equipment" means machinery and equipment as described in 47 C.F.R., part 73 or "section 38 property" as defined in s. 48(a)(1)(A) and (B)(i) of the Internal Revenue Code and used for certain endeavors regarding digital television.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

The committee substitute initially falls under subsection (b) of section 18 of Article VII, Florida Constitution. Subsection (b) requires a two-thirds vote of the membership of each house in order to enact a general law reducing the authority that municipalities and counties had on February 1, 1989, to raise revenues in the aggregate. By adding an exemption to the state sales tax, the bill has the effect of adding an exemption to the local option county sales surtax. Because the annual local revenue loss has not been estimated by the Revenue Estimating Conference, it is not known whether the committee substitute is exempt from the requirements of subsection (b) due to the insignificant negative fiscal impact as permitted under subsection (d) of section 18 of Article VII. (See subsection (d) of s. 18, Art. VII,

Florida Constitution, for various types of general laws, including those with insignificant fiscal impact.)

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

The committee substitute creates a sales tax exemption which inures in the form of a refund of taxes paid for certain machinery and equipment related to digital television. The committee substitute has not been reviewed by the Revenue Estimating Conference.

B. Private Sector Impact:

The committee substitute may place digital technology industries based in Florida in a more competitive position in relation to out-of-state industries. The committee substitute may also encourage larger investment in and development of digital industries in Florida.

C. Government Sector Impact:

The committee substitute creates a task force within the Office of Tourism, Trade, and Economic Development, and specifies that the office shall provide staff support for the task force. The precise impact of the committee substitute on the government sector is not known.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

None