

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/CS/SB 1334

SPONSOR: Governmental Oversight & Productivity Committee and Commerce & Economic Opportunities Committee and Senator Klein

SUBJECT: Information Technology

DATE: April 21, 2000

REVISED: 04/26/00

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Schmeling</u>	<u>Maclure</u>	<u>CM</u>	<u>Favorable/CS</u>
2.	<u>Rhea</u>	<u>Wilson</u>	<u>GO</u>	<u>Favorable/CS</u>
3.	<u>Hendon</u>	<u>Hadi</u>	<u>FP</u>	<u>Fav/1 amendment</u>
4.	<u> </u>	<u> </u>	<u> </u>	<u> </u>
5.	<u> </u>	<u> </u>	<u> </u>	<u> </u>

I. Summary:

The Committee Substitute for Committee Substitute for Senate Bill 1690, the "itflorida.com Act of 2000," contains several principal elements:

- Requires the State Technology Office to facilitate the development of a Network Access Point (NAP) in Florida as needed.
- Requires Enterprise Florida, Inc., to create a marketing campaign to help attract, retain, and grow information technology business in Florida.
- Requires the Department of Labor and Employment Security to ensure the development and maintenance of a website that informs the public about the information technology industry in Florida.
- Requires Enterprise Florida to establish a study group to explore the feasibility of using state employee pension funds to support venture capital funds that are either domiciled in Florida or do regular investing in technology companies that are headquartered in this state.
- Provides for a 5-year sales tax exemption, in the form of a refund, for equipment purchased by a telecommunications service provider that is necessary for use in the deployment of broadband technologies in the state as part of the direct participation by the provider in the NAP.
- Requires the Legislature to conduct a study to identify obstacles related to the ability of Internet service providers to have affordable access to consumers, including, when appropriate, the identification of solutions that potentially eliminate such obstacles.

- Charges Enterprise Florida with looking at existing incubators to determine if they are meeting the needs of information technology businesses, and, if necessary, to develop a plan for establishment of additional incubators.

The CS/CS for SB 1334 amends section 212.08, Florida Statutes, and creates yet unnumbered sections of the Florida Statutes.

II. Present Situation:

Information Service Technology Development Task Force

Chapter 99-354, L.O.F., created the Information Service Technology Development Task Force for the purpose of developing policies that will benefit residents of this state by fostering the free market development and beneficial use of advanced communications networks and information technologies within this state. The task force, which dissolves July 1, 2001, must:

- Develop overarching principles to guide state policy decisions with respect to the free market development and beneficial use of advanced communications networks and information technologies, identify factors that will affect whether these technologies will flourish in Florida, and develop policy recommendations for each factor.
- By February 14 of the calendar years 2000 and 2001, submit a report to the Governor, the President of the Senate, and the Speaker of the House of Representatives outlining principles, policy recommendations, and any suggested legislation.

Privatization of itflorida.com

The Information Service Technology Development Task Force, in its *1999 Annual Report to the Legislature*, proposes the establishment of a private-public partnership to further advance the efforts of the task force. This partnership would be tasked with representing, recruiting, and enhancing the expanding information technology business sector in Florida. (*1999 Annual Report to the Legislature*, Information Service Technology Development Task Force, page 10.)

Currently, members of the eBusiness Development, Retention, and Recruitment Subcommittee are examining models of privately driven, industry-sector advocate organizations within the state and across the country to identify an appropriate organizational framework for the privatization of itflorida.com initiative. The subcommittee will be developing a business plan and corporate structure recommendation for privatization in the near future.

Creation of an IT Marketing and Image Campaign for Florida

The eBusiness Development, Retention, and Recruitment Subcommittee of the Information Service Technology Development Task Force, in its *1999 Annual Report to the Legislature*, recommends that Enterprise Florida, Inc., be tasked with the creation and implementation of a marketing and image campaign to build a positive recognition of Florida as a leader in information technology. (*1999 Annual Report to the Legislature*, Information Service Technology

Development Task Force, page 11.) The Subcommittee further recommends that this campaign be funded with public funds that are leveraged with private sector funds.

Jobseeker Websites

The Information Service Technology Development Task Force has developed a website (www.itflorida.com) to promote the work of the task force, as well as to promote the information technology industry in Florida. This website provides profiles on Florida information technology companies, information technology venture capitalists, public Internet access sites, and information technology events. The itflorida.com website also provides a link (www.floridahightechjobs.com) to a website that provides information on high-tech jobs in Florida. This jobs website is an initiative by the task force, and is maintained and supported by the Florida Department of Labor and Employment Security. The website allows job seekers to locate Florida's high-tech jobs, post an online resume, and find Florida high-tech employers by searching an online directory, and allows employers to list available jobs and receive potential job seekers online, search online resumes, and list their companies in a high-tech directory.

Other websites, maintained by the private sector, exist which provide information about employment opportunities in the information technology industry. Some of these include: Monster Jobs (www.monster.com); Hot Jobs (www.hotjobs.com); and Jobs4IT (www.jobs4it.com).

Pension Fund Dollars and Venture Capital in Florida

In their *1999 Annual Report to the Legislature*, the Information Service Technology Development Task Force reports that a lack of capital availability in Florida is a major discussion item among information technology companies participating in the task force and its Subcommittees. To help address this situation, the task force recommends that a focus group should be established consisting of the task force's eBusiness Development, Retention, and Recruitment Subcommittee, the Florida State Board of Administration, and the venture capital community to further study and explore the feasibility of channeling state employee pension funds to venture capital funds that either are domiciled in Florida or do regular investing in state-headquartered technology companies. The task force further recommends that if feasibility of this concept is determined, a working proposal should be created by the focus group for further consideration. (*1999 Annual Report to the Legislature*, Information Service Technology Development Task Force, pages 21 and 33.)

Network Access Point

A Network Access Point (NAP) is an exchange point for Internet traffic, and the act of this information exchange is generally referred to as "peering." At a NAP, Internet Service Providers (ISPs) connect their networks for the purpose of exchanging traffic with other ISPs.

The *1999 Annual Report to the Legislature* of the Information Service Technology Development Task Force states that NAPs are "seen as the technological catalyst for sustained economic growth throughout the state, nationally, and in the continued effort to brand Florida as the gateway to Latin America," and have the capability to "attract huge investments in the latest and fastest technology from telecommunications carriers." (*1999 Annual Report to the Legislature*,

Information Service Technology Development Task Force, page 99.) Accordingly, the report recommends that the task force's eInfrastructure Subcommittee, in coordination with Enterprise Florida, Inc., investigate opportunities for placement of a NAP in Florida, as well as incentives and advantages for other companies to private peer in Florida.

Discussions on the development of a NAP in Florida are currently under way. Interested parties, including telecommunications providers, ISPs, and Internet solutions companies, have participated in meetings to determine benefits, feasibility, and costs of a NAP, as well as to determine appropriate roles for all interested parties.

A State Technology Office exists under s. 282.3093, F.S., in the Department of Management Services, and is charged with providing support to various workgroups, such as the State Technology Council and the Chief Information Officers Council, and with facilitating educational and training efforts with respect to the state's use and management of information technology resources.

Sales and Use 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. (*See* ch. 212, F.S.) The statutes currently provide more than 200 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.

Incubators

Sections 240.3341 and 240.540, F.S., authorize community colleges and research and development parks, respectively, to provide incubator facilities to a business that is independently owned and operated, incorporated in Florida, not an affiliate or a subsidiary of a business dominant in its field of operation, and employs 25 or fewer full-time employees. An "incubator facility" is a facility where small business concerns share common space, equipment, and support personnel, and through which such concerns have access to professional consultants for advice related to the technical and business aspects of conducting a commercial enterprise.

The *1999 Annual Report to the Legislature* of the Information Service Technology Development Task Force reports that input from many small companies indicates that assistance in the form of shared office space, communications facilities and infrastructure, as well as management expertise and low-interest loans would be very beneficial for the success of an early stage business. Through its Front Porch Initiative, the governor's office is already exploring the implementation of a "pilot" venture capital incubator within the next three months, and the idea of private sector companies creating privately run technology incubators has emerged recently. The task force has recommended that its eBusiness Development, Retention, and Recruitment Subcommittee continue to explore these initiatives and prepare a compilation of "best practices" and successful models, and, at the same time, watch incubator initiatives to determine their success and, more specifically, what aspects of their implementation actually work. (*1999 Annual Report to the Legislature*, Information Service Technology Development Task Force, pages 22 and 23.)

III. Effect of Proposed Changes:

This committee substitute, the “itflorida.com Act of 2000,” contains several principal elements:

- Requires the State Technology Office to facilitate the development of a Network Access Point (NAP) in Florida as needed.
- Requires Enterprise Florida, Inc., to create a marketing campaign to help attract, retain, and grow information technology business in Florida.
- Requires the Department of Labor and Employment Security to ensure the development and maintenance of a website that informs the public about the information technology industry in Florida.
- Requires Enterprise Florida to establish a study group to explore the feasibility of using state employee pension funds to support venture capital funds that are either domiciled in Florida or do regular investing in technology companies that are headquartered in this state.
- Provides for a 5-year sales tax exemption, in the form of a refund, for equipment purchased by a telecommunications service provider that is necessary for use in the deployment of broadband technologies in the state as part of the direct participation by the provider in the NAP.
- Requires the Legislature to conduct a study to identify obstacles related to the ability of Internet service providers to have affordable access to consumers, including, when appropriate, the identification of solutions that potentially eliminate such obstacles.
- Charges Enterprise Florida with looking at existing incubators to determine if they are meeting the needs of information technology businesses, and, if necessary, to develop a plan for establishment of additional incubators.

Section 1. States that this committee substitute may be cited as the itflorida.com Act of 2000.

Section 2. Requires the State Technology Office to facilitate the development of a Network Access Point (NAP) in Florida, as needed.

Section 3. Enterprise Florida, Inc., is required to create a marketing campaign to help attract, retain, and grow information technology business in Florida. This campaign must be jointly funded using private and public resources.

Section 4. Requires the Department of Labor and Employment Security to facilitate efforts to ensure the development and maintenance of a website that informs the public about the information technology industry in Florida. The website must address the workforce needs of the industry and include, through links or actual content, information about information technology businesses in the state (including links to those businesses), employment available at those businesses, and means by which a job seeker may post a resume.

Section 5. Requires Enterprise Florida to establish a study group to explore the feasibility of using state employee pension funds to support venture capital funds that are either domiciled in Florida or do regular investing in technology companies that are headquartered in this state. If the study group determines that this concept is feasible, the group must prepare a working proposal governing the use of such funds, including any recommendations for action by the Legislature. The report must be submitted to the Governor, the President of the Senate, and the Speaker of the House of Representatives by October 1, 2000.

Section 6. Expresses the intent of the Legislature to actively support the development of a NAP in Florida.

Section 7. Amends s. 212.08(5), F.S., to provide for a five-year sales tax exemption, in the form of a refund, for equipment purchased by a telecommunications service provider that is necessary for use in the deployment of broadband technologies in the state as part of the direct participation by the provider in the NAP. In this section, a "NAP" is defined as a carrier-neutral, public-private Internet traffic exchange point; "broadband technology" is defined as packetized technology that has the capability of supporting transmission speeds of at least 1.544 megabits per second in both directions; "communications service provider" means a company that supports or provides individuals and other companies with access to the Internet and other related services; and "equipment" means Asynchronous Transfer Mode switches, Digital Subscriber Line Access Multiplexers, routers, servers, multiplexers, fiber optic connector equipment, database equipment, and other network equipment used to provide broadband technology and information services.

Section 8. Requires the Legislature to conduct a study to identify obstacles related to the ability of Internet service providers to have affordable access to consumers, including, when appropriate, the identification of solutions that potentially eliminate such obstacles.

Section 9. Requires Enterprise Florida to review the state's existing incubators to determine whether they are meeting industry's needs. A plan must be developed by the office if it finds that additional incubators are needed to fill an unmet industry need. The review, and the plan if developed, must be presented to the Legislature by December 1, 2000.

Section 10. Provides an effective date of upon becoming a law.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:**A. Tax/Fee Issues:**

The Estimating Impact Conference reviewed this committee substitute and estimated a fiscal impact of the tax exemption to be \$2.6 million for the Fiscal Year 2000-2001. The impact is primarily on state revenues (\$2.3 million) but also on local government revenues (\$300,000).

B. Private Sector Impact:

Telecommunication service providers would benefit from the equipment sales tax exemption provided for in this committee substitute.

C. Government Sector Impact:

Costs will be incurred by both Enterprise Florida, Inc., and the Department of Labor and Employment Security under the requirements of the act.

VI. Technical Deficiencies:

Section 5 of the bill requires Enterprise Florida to establish a study group “. . . to explore the feasibility of using *state* employee pension funds to support venture capital funds that are either domiciled in Florida or do regular investing in technology companies that are headquartered in this state.” The word *state* should be replaced by the word *public*.

VII. Related Issues:

Section 5. of the bill requires Enterprise Florida to establish a study group “. . . to explore the feasibility of using state employee pension funds to support venture capital funds that are either domiciled in Florida or do regular investing in technology companies that are headquartered in this state.” It may be appropriate to limit the study to the parameters in current law relating to investing of public funds. Specifically, when consistent with the total fund investment plan, to be fiducially sound, and consistent with ss. 215.44-215.53, F.S.

Section 8. of the bill requires the Legislature, through its committee structure, and using the resources of the Governor’s Chief Technology Officer and the Information Service Technology Task Force, to perform a study. One session of the Legislature cannot bind a future session of the Legislature and, as a result, this provision is unenforceable.

VIII. Amendments:

#1 by Fiscal Policy:

Appropriates \$700,000 from the General Revenue Fund to the State Technology Office for the 2000-2001 fiscal year. Of the appropriated funds, \$100,000 is to implement plans developed by

the act and \$600,000 is for sales tax credits provided in the act. The State Technology Office is to adopt rules to implement the sales tax credit.

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.
