WHIP'S POLICY BRIEF

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The House Proposal for Property Tax Relief & Reform

Introduction

Over the last several years, escalating property taxes have far outpaced Floridians' ability to pay. Between Fiscal Year 2000-2001 and 2006-2007, total property tax levies have increased by 99%. By comparison, personal income has increased by 44% and population plus inflation has grown 31%.

Certain elements of the property tax system like "Save Our Homes" and the "Homestead Exemption" – while created for valid purposes and to offer meaningful protections – have fostered inequities among taxpayers. It is common to find two similar properties in the same neighborhood with very different property tax bills. Also, local taxing authorities have increased the burden on non-homestead properties to compensate for savings enjoyed by homestead properties.

Property taxes have become an obstacle to home ownership and an impediment to job creation. Florida faces increasing competition for human and economic capital from neighboring states that offer taxpayer-friendly policies.

This policy brief explains the current property tax situation in Florida and presents the House proposal for immediate relief and long-term reform.

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Background: The Present Situation

The Florida Property Tax System

The Florida Constitution reserves all revenue from “ad valorem taxes” (taxes based on property value) for local governments. The state government derives no revenue from property taxes. The property tax is levied annually based on the value of real and tangible personal property on January 1 of each year. Property owners receive their tax bills in November and payment is due by the following March 31.

Local property appraisers annually assess each privately owned property in Florida, with certain exceptions like churches, based on market value. Local governments set the “millage rate,” which is the rate at which properties are taxed. After accounting for certain exemptions, differentials, and limitations (discussed below), the “taxable value” is multiplied by the millage rate to determine the dollar amount of the tax.

The Formula:
Just Value (market value) – **Assessment Limitations** (e.g. Save Our Homes) = “**Assessed Value**”

Assessed Value – **Applicable Exemptions** (e.g. Homestead) = “**Taxable Value**”

Taxable Value X **Millage Rate** = **Total Tax Liability**

Example 1:
Assume Homestead A has a market value of $400,000, an accumulated $100,000 in Save Our Homes protections, a Homestead Exemption of $25,000, and the millage is 20 mills:

$400,000 – $100,000	**=**	**$300,000**
$300,000 – $25,000	**=**	**$275,000**
$275,000 X .02	**=**	**$5,500 (Total Property Taxes)**

Local Entities with Tax Assessing Authority

The state constitution authorizes several types of local governments to levy property taxes up to a certain amount. Most notably **county, municipal (city), and school district governments** may levy taxes up to 10 mills each. A county that provides municipal services may levy an additional tax as set forth in statute. **Special districts**[1] (e.g., water management) may be authorized by the Constitution or by statute and operate with a variety of millage caps, usually under two mills.

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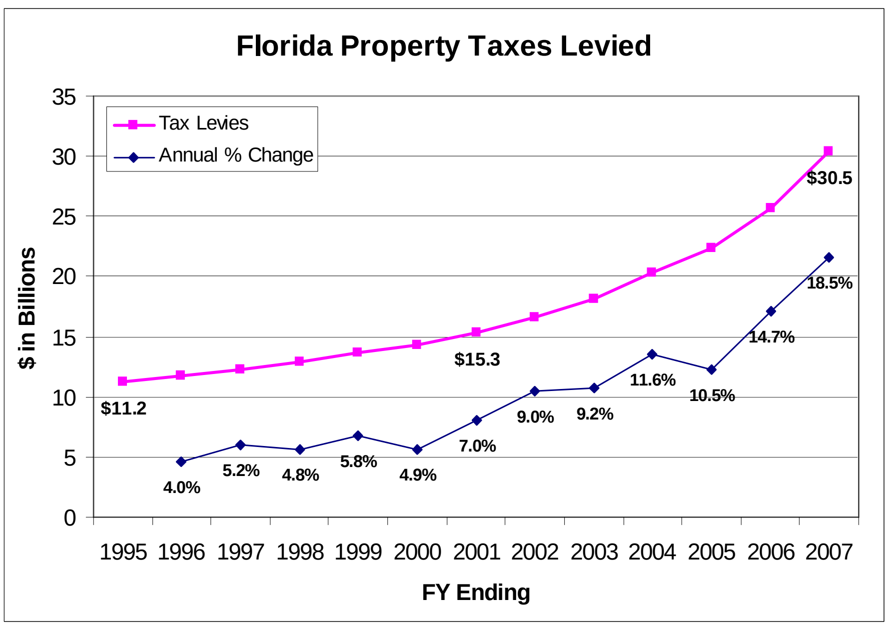
[1] Special districts exist in order to levy taxes that pay for specific services for a specific geographic region. Only those residents who benefit from the service are taxed by the special district. Examples of public services provided by special districts include water management or healthcare. Today, there are over 900 special districts in Florida.

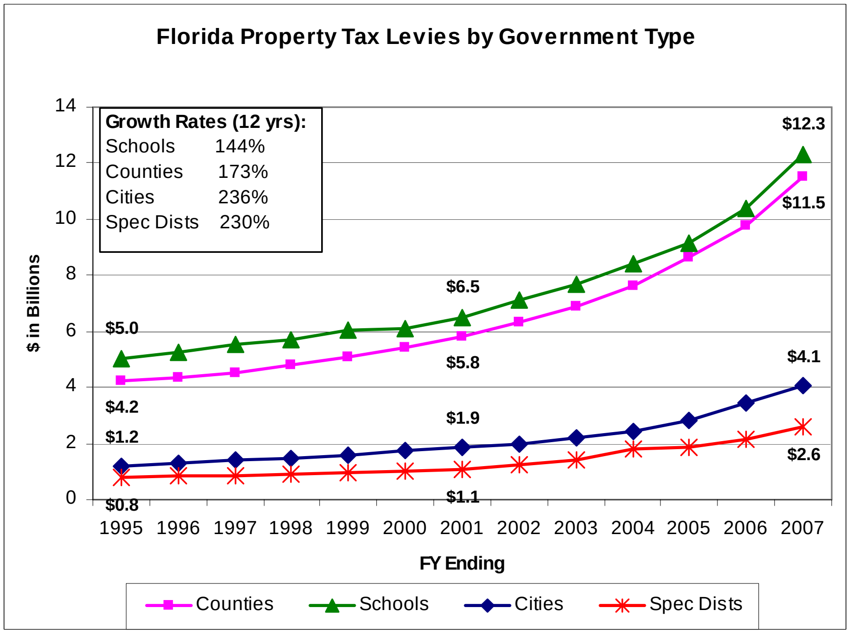
Revenue Generated by Local Property Taxes

Property taxes provide a significant source of revenue to local governments. For the 2006-07 Fiscal Year, local governments levied just over $30 billion through the property tax. However, local governments receive the great majority of their total revenue from other sources like fees, licenses, bonding, etc.:

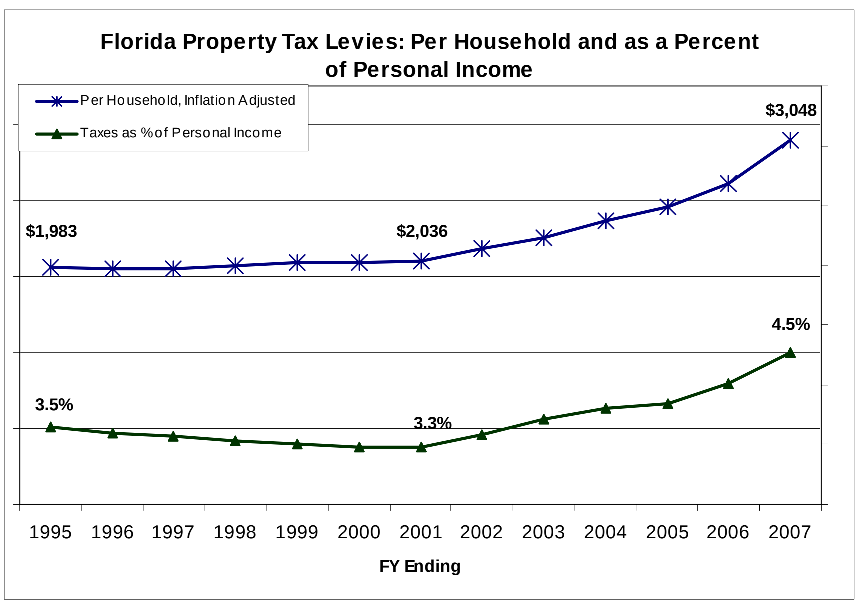
Government Entity	% of Total Revenue from Property Taxes (FY03-04 - most recent data available)
Counties	**31%**
Cities	**18%**
School Districts	**38% (in 2004-2005)**
Special Districts	**20%**

Driven largely by remarkable gains in property values, tax levies by local governments have soared in the last half decade:

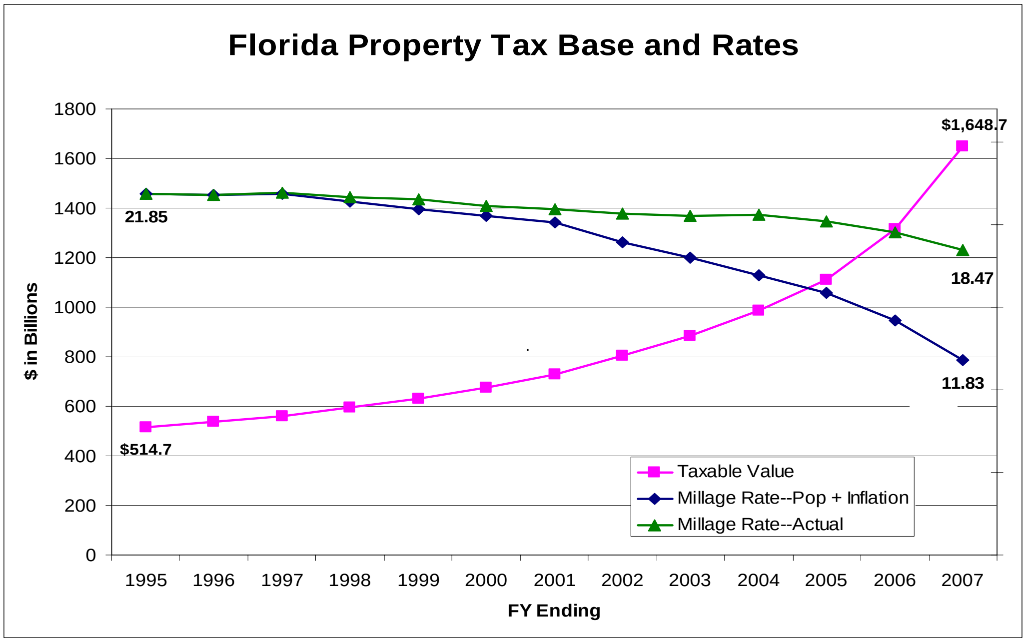




Unfortunately, local governments have allowed taxes to grow at a faster pace than personal income.



Local governments have reduced millage rates modestly in recent years. However, they have simultaneously experienced revenue windfalls. The next chart shows the difference between the actual millage rate today and what the millage rate today *would be if* local governments had matched tax levies to population plus inflation over the last 12 years.



In conclusion, local governments have collected significantly more revenue than has been required to keep pace with growth in population and inflation.

The House Property Tax Relief & Reform Plan

Overview

The House plan consists of a two-tiered approach to achieve *immediate relief* and *long-term reform*.

Immediate relief will be provided by a enacting **a statutory requirement that local governments immediately and meaningfully reduce tax rates** to provide savings for all property owners this year.

Long-term reform will be accomplished by a **constitutional amendment to fundamentally transform the property tax system in Florida**, including an abolishment of all property taxes on homestead properties.

Statutory Tax Relief: Requiring Meaningful Rate Roll-Back

The Bottom Line

The proposed House Bill will statutorily require an **immediate and meaningful cut in tax rates** for all local taxing authorities **except school districts.** As a result of this relief package, all property owners in Florida will enjoy immediate relief on their next tax bill. **Initial estimates project an average statewide savings of 19%, though actual savings will vary from county to county.**

1. **Require Local Governments to Reset Local Taxes at *Fair* Rates.**

 The bill requires local governments to set tax rates that fairly reflect growth in government needs, rather than allowing them to benefit from windfalls generated by rapid property value increases.

 The bill **creates a new formula** that will be used to calculate the reduced millage rates for local governments. The formula is intended limit millage rates today to what they *would have been* if the formula had been in place since the 2000-2001 Fiscal Year. Thus, tax rates today will reflect recent increases in costs of government service, rather than property appreciation.

 Calculating the Formula

 - First, for purposes of calculation, each local government must relate back to its 2000-2001 tax rate. This is simply for the sake of setting the formula; it does not actually implement a roll back to the 00-01 tax levels.

- Next, the local government must calculate its "rolled-back-rate" and changes in the Consumer Price Index for each year between 00-01 and 07-08. That is, the local government must determine what its tax rate *would have been* for each of those years if it had set millage rates based *only* on the "rolled-back-rate" PLUS the Consumer Price Index.

Important

<u>The difference between millage rate *reduction* and the *"rolled-back-rate"*</u>

Local governments have *reduced* millage rates modestly in recent years, but they have not *"rolled-back"* millage rates.

The "rolled-back-rate" represents the rate that would produce for the current year the same amount in taxes that were generated in the previous year, excluding those taxes that will be produced in the current year from new construction, annexations, etc., thereby accounting for growth.

When property values increase, the "rolled-back-rate" is lower than the previous year's rate. In other words, when the tax base grows, moving to the "rolled-back-rate" will prevent a local government from collecting more tax money from one year to the next.

- In this way, the bill requires local governments to increase revenue only in direct proportion to the growth of population and inflation.

- The bill makes the new tax rate effective for 2007-2008 Fiscal Year, which means that all Florida property owners will see a reduction on their next tax bill. The estimated average statewide savings is 19% per property.[2]

- For taxing authorities created after January 1, 2001, the limit for 2007 is calculated using information from the second full year that the authority levied a tax.

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[2] This figure will vary by county. The formula requires each county to identify its 2000-2001"rolled-back-rate" and base all calculations about present tax rates on that figure. However, County A might have allowed tax levies to grow much higher in relation to its "rolled-back-rate" than County B. As a result, County A's taxes will have "further to fall" than County B's, so residents of County A would see higher tax savings. In this way, those counties that have more responsibly adjusted millage rates over the last seven years will experience less disruption by the required roll back. ***See also Appendix A- "Savings by the Numbers"***

2. **Excuse Certain Levies from Required Tax Reductions**

- This required reduction of tax rates would apply to all property taxes except:
    - **School districts** are exempt in order to protect the quality of Florida's education system.

    - Taxes levied 1) **for the payment of bonds** or 2) **for a special 2-year period.** These taxes can only be levied with the direct approval of voters. This added layer of taxpayer accountability mitigates the need to require rate reduction on these levies.

3. **Protect Taxpayers by Requiring a Supermajority Override**

- The bill includes a safety valve for local governments that may require additional revenue above the cap. The revenue cap may be exceeded with a majority plus one or two-thirds vote, whichever is greater, of the governing authority.

- Local governments that intend to hold a vote to exceed the cap will have to adhere to newly created notice requirements under the bill. The local taxing authority that intends to exceed the cap must publicly advertise:

    - The name of the taxing authority that intends to exceed the cap
    - The tax levy that would satisfy the cap
    - The proposed tax levy that would exceed the cap
    - That exceeding the cap without a supermajority vote may jeopardize the local authority's revenue sharing with the state (see "4." below)
    - How much state revenue sharing is at risk
    - The date, time, and place of the meeting

4. **Tie State Revenue Sharing to Property Tax Reductions**

- If a local government exceeds the cap without complying with the supermajority vote requirement, the bill eliminates sales tax revenue sharing for that local government for the Fiscal Year. [3] Annually, the state currently shares over $2 billion in revenue with local governments.

[3] It is possible that a local government will contend that the Florida Constitution does not permit the Legislature to codify this required tax reduction in statute. However, the Constitution seems to clearly permit the Legislature to require millage reduction such as this. Also, the courts have upheld the right of the state to set conditions for the distribution of discretionary revenue.

Constitutional Tax Reform: Transforming the Florida Property Tax System

The Bottom Line

In order to accomplish long-term reform that restores balance, common sense, and affordability to the property tax system, it is necessary to amend the Florida Constitution.

The proposed Joint Resolution will abolish the property tax on all homestead properties, cap the growth of all other property tax revenues, and supplement local governments with an additional 2.5% sales tax. This amendment would also cap state revenue growth, in order to require the state government to spend within its means.

If the Joint Resolution passes both chambers, it will be put before the voters potentially as soon as a 2007 special election. It would take effect after voter approval.

1. Eliminate all property taxes on Homestead Properties

- The Joint Resolution eliminates all property taxes on all homestead property.
- The average property tax paid by homestead owners today is about $2,300 per year. Thus, the average Florida homestead owner stands to save thousands of dollars a year under this bold reform.

2. Substitute Reduced Property Tax with Additional Sales Tax

- In order to offset revenue losses created by abolishing the homestead property tax, the Joint Resolution creates an additional 2.5% sales tax.
- The Joint Resolution stipulates that this revenue will be specifically dedicated to local governments.
- The Joint Resolution grants the Department of Revenue rulemaking authority to implement the increase and adjust tax rates to reflect the 2.5% increase.

While the sales tax increase is necessary to offset lost property tax revenue, it is important to keep the larger reform package in the proper context:

> ***Example 2***
> Assume a homestead property owner has a property tax bill of $2,300, which is near the current statewide average. The proposed amendment would abolish that tax burden creating an immediate $2,300 savings.
>
> Given the additional 2.5% sales tax, in order to "break even," **that homeowner would have to purchase $92,000 in sales tax-eligible goods to pay the same amount of taxes as under the former property tax system.**

3. **<u>Limit Growth of Property Taxes on Non-homestead Properties</u>**

- The Joint Resolution limits future growth in property taxes for all units of government (except school districts) to the 2000-2001 "rolled-back-rate" plus CPI, in the same way outlined on pages 6 and 7 above. That is, the Joint Resolution places the provisions of the statutory relief plan into the Constitution.

- School districts will *not* be required to calculate the "rolled-back-rate" + CPI since 2000-2001. Rather, school districts will be required to cap *future* growth to changes in population and inflation.

4. **<u>Protect Taxpayers by Requiring a Unanimous Override</u>**

- The Joint Resolution allows a taxing authority to exceed the cap only with a unanimous vote of its governing body.

5. **<u>Limit the Growth of *State* Revenues</u>**

The Joint Resolution also limits revenues collected by the state in addition to the local revenue caps listed above. The state government will require of itself the same strict standard that will be applied to local governments: that government should not grow beyond its citizens' ability to pay.

- The Joint Resolution would reform the current state revenue limitation[4] to limit growth in revenues to the growth in population and inflation.

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[4] The Florida Constitution currently includes a revenue cap on state government, which is tied to growth in Florida personal income. However, due in part to an exemption for Medicaid state matching funds, the cap has not had the intended effect of limiting revenue growth. This proposal abolishes the Medicaid exemption in order to compel state government to spend only within the means of Floridians' ability to pay.

- Beginning in the 2008-2009 Fiscal Year, state revenues are limited to the state revenues that *would be permitted if* the formula had been in place since 2000-2001.

- The Joint Resolution includes state revenues used to match Medicaid within the limitation. Medicaid matching funds are not subject to the current constitutional revenue limitation. Placing this restriction on state government represents a significant promise to taxpayers that their government will not unduly expand.

- The state revenue limitation may be exceeded in any year by a 2/3 vote of the membership of each legislative house.

- State revenues collected in excess of the limitation must be deposited in the Budget Stabilization Fund or used for local government tax relief.

What Happens Next?

Statutory Property Tax Relief Plan

The Government Efficiency and Accountability Council will consider the Relief Plan as a Proposed Council Bill. If passed out of the Council, the PCB will become a standard bill and will require passage by a majority vote of both chambers of the Legislature and the approval of the Governor to become law.

Constitutional Property Tax Reform

The Policy and Budget Council will consider the Constitutional Reform Plan as two Proposed Council Bills.

The first PCB, if approved, would be a House Joint Resolution that would require the approval of 3/5 of each chamber of the Legislature. The HJR would place a proposed constitutional amendment on the ballot for consideration by the voters of Florida.

The second PCB, if approved, would be a bill setting a special election for the voters to consider proposed constitutional amendment. The bill setting the special election would require 3/4 of each chamber of the Legislature and the approval of the Governor.

APPENDIX A
SAVINGS BY THE NUMBERS

Average Homestead Property Tax Cuts Under the House Proposal

	Statutory Relief Plan	Constitutional Reform Plan
Cape Coral	$926	$2,087
Ft. Lauderdale	$539	$2,867
Jacksonville	$91	$1,700
Miami	$1007	$2,507
Orlando	$403	$2,443
Pensacola	$166	$1,165
St. Petersburg	$526	$2,098
Tallahassee	$268	$1,847
Tampa	$533	$2,477
West Palm Beach	$1,059	$3,225
Statewide	**$433**	**$1,850**

Average Commercial Property Tax Cuts under House Relief Proposal

Cape Coral	$7,754
Ft. Lauderdale	$6,646
Jacksonville	$577
Miami	$8,949
Orlando	$5,527
Pensacola	$1,166
St. Petersburg	$4,338
Tallahassee	$1,849
Tampa	$4,685
West Palm Beach	$10,163
Statewide	**$3,353**

Total Fiscal Impact (Combined Statutory & Constitutional Plans)

Total Property Tax Reduction	**$13.55 Billion**
Sales Tax Replacement	**$7.78 Billion**
Net Tax Reduction	**$5.77 Billion**

TEN FREQUENTLY ASKED QUESTIONS

1. Who Saves Under This Plan?

ALL property taxpayers in Florida.

2. How Much Will Taxpayers Really Save?

For the Statutory Relief Plan, taxpayers will see, on average, a 19% reduction ($433 per homestead and $3,353 per commercial property) in their property taxes.

For the Constitutional Reform Plan, homestead property taxes will be abolished resulting in an **additional** average savings of $1,850.

See Appendix A of the Whip's Policy Brief to see specific savings by geographic region.

3. When Will Taxpayers See These Savings?

The Statutory Relief Plan would take effect immediately for the 2007-08 Fiscal Year.

The Constitutional Reform Plan would take effect after approval by the voters. The House proposal calls for a special election to put the issue before the voters in 2007 rather than waiting for the November 2008 General Election.

4. Won't These Roll Backs Cripple Local Government?

No.

First, although we are "rolling back" the rate, we are also rolling it forward to account for increases in population and inflation.

Second, despite popular perceptions, the substantial majority of local government revenue **does NOT come from property taxes.** Based on the most recently available data, property tax comprises only 31% of county budgets and 18% of city budgets.

The House proposal will reduce **average county property tax revenues** by 29%. Consequently, counties, on average, will need to reduce only 29% of 31% of their total budget, or **8.99%.**

The House plan will reduce average city property tax revenues by 38%. Consequently, counties, on average, will need to reduce only 38% of 18% of their total budget, or **6.84%.**

5. Aren't State Mandates Driving Up the Local Budgets?

Claims about state-imposed mandates driving up local government budgets, when measured against the data, seem to be somewhat exaggerated for effect.

For example, the most often-cited mandate – the implementation of Article V – actually produced ***a net GAIN for the counties*** in the amount of $252.5 million.

6. Isn't This Unfair to Local Government? What about State Spending?

The House proposal is not only fair to local government but it imposes even more stringent limitations on the state government.

Local governments have been collecting and spending more than they need. As property values have skyrocketed over the past few years, local governments have experienced dramatic increases in revenues. These revenue increases are **windfalls** because the rise in property values did not, in and of itself, create any increase need or demand for local government services.

In addition, the House Plan applies the same restrictions on local property taxes to **ALL state government revenues**. In other words, we will not be asking local governments to do anything that the State itself isn't prepared to do. In fact, the restrictions on the State will be greater because in the case of local governments we are only placing limits on one of their multiple revenue sources.

7. What about the Schools?

Schools are **held harmless** by these changes. The rate roll backs do NOT apply to schools, and the revenue lost from the abolition of homestead property tax will be replaced by sales taxes.

8. What About "Save Our Homes," portability and doubling the Homestead Exemption?

The House plan renders all of these reforms unnecessary by completely eliminating the property tax on homestead property.

9. What About an Emergency or Natural Disaster?

Both the local government and the state revenue caps may be set aside by extraordinary votes of the governing bodies.

10 What Guarantee Do We Have That the Sales Tax Will Be Used to Replace Property Taxes?

The House's proposed constitutional amendment would require the Legislature to set aside for local government all funds received from the 2.5% sales tax.

APPENDIX C
GLOSSARY OF TERMS

Ad Valorem Tax –A tax on the value of property.

Assessed Value – This term has specific meaning under Florida law. It is the value of property assessed for property tax purposes, which for certain properties is on a basis different from just value. Primary examples of property assessed on a basis other than just value include agricultural property assessed based on character or use and homestead property subject to the assessment increase limitation. *Compare "Just Value" and "Taxable Value"*

Classification – The determination of the type of real property taking into consideration the current use and permitted use of the property. Types or classes of real property include: Single Family Residential, Homestead, Non-Homestead, Commercial, Industrial, Multi-Family, Governmental, Agricultural, Historic, and High Water Recharge.

Consumer Price Index -- A price index maintained that by the U.S. Department of Labor that measures annual cost of living changes.

Discount – An amount deducted from the tax due after all value and exemption calculations are made. Discounts are typically granted for early payment of taxes.

Exemption – The portion of a properties value, usually stated in dollar or percentage terms, to which the applicable tax rate does not apply. In Florida, all exemptions must arise from language in the constitution.

Homestead - Property described in s. 6(a), Art. VII of the State Constitution. Generally described as the property used as the owner's permanent residence.

Homestead Exemption – A specific exemption in the Florida Constitution that removes up to $25,000 of value for homestead property from property taxation. Irrespective of home value and assuming a total millage rate of 20 mills for a given property, the Homestead Exemption would provide $500 in savings every year.

Just Value – The market value of the real property. What a willing buyer and willing seller in an arm's length transaction would determine to be the fair price for the real property. *Compare "Assessed Value" and "Taxable Value"*

Levy – The imposition of a tax.

Mill –One mill equates to $1 for every $1000 of value.

Millage – Rate of property taxation that is expressed in mills.

Nonhomestead Property – All properties that are not homestead properties. This includes commercial properties, rental properties, "second homes," etc. Under current law, these properties receive less protection from property taxes than homestead properties.

"Rolled-Back-Rate" – The millage rate established in Florida Statutes designed to inform the taxpayer of the rate of taxation that could be levied upon the current property tax base and generate the same amount of tax dollars that were levied in the prior year upon the prior year's tax base.

Revenue Cap – A limitation on the growth in revenue a government entity may collect in a given year. *Distinguishable from spending caps or assessment limitations on properties (e.g., Save Our Homes assessment limitations).*

Save Our Homes – In 1992, Florida voters approved the "Save Our Homes" (SOH) amendment to the Florida Constitution. SOH limits the annual growth in the assessed value of homestead property to 3 percent over the prior year assessment or the percentage change in CPI, whichever is less. A property that experiences a change in ownership of the property is reassessed at just value, thus "losing" accumulated SOH protections.

Special Districts – Local government entities that exist in order to levy taxes that pay for specific services for a specific geographic region. Only those residents who benefit from the service are taxed by the special district.

Tax Bill – The document sent to each taxpayer notifying them of the required amount of property tax due and the timeframes to pay the tax due. Property tax bills in Florida are usually mailed in November for taxes based on the previous January 1.

Tax Roll – The compilation of all property within a jurisdiction denoting the taxable value of each property to which the millage rate is applied.

Taxable Value – The value to which the millage rate is applied to determine the amount of property taxes. Taxable value equals assessed value less any applicable exemptions. *Compare "Assessed Value" and "Just Value."*

Taxing Authority – The governmental entity that has the authority to impose property tax on the real and tangible personal property within its boundaries.

TRIM (Truth in Millage) – The process designed to provide property taxpayers with sufficient information to distinguish the effect of property valuation increases on their tax bill from the effect of tax change proposed by each taxing authority.