



**FLORIDA'S OPTIONS FOR PROPERTY TAX RELIEF
PRESENTATION TO THE HOUSE POLICY AND BUDGET
COUNCIL
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The Florida Center for Fiscal & Economic Policy

PROPERTY TAX RELIEF IN FLORIDA¹

The Governor and legislative leaders have all called for ad valorem (property) tax relief with many proposals dramatically modifying the basic structure of local taxes in Florida. Yet, comprehensive state tax reform has not been directly discussed except for proposals to cap state and local revenues and increase the general sales tax significantly to provide local property tax relief to Florida homesteads.

Most plans focus on the amount of property tax reduced and who gets the relief. All plans place the initial burden of financing relief on “rolling back” or “freezing” local revenues with no recognition that the state has significantly increased its reliance on the local property tax to fund public school education and healthcare costs and provided tax relief and subsidies from state taxes to the corporate and wealthy interests in the state. Current plans also focus on removing significant portions of the property tax base without replacement revenue sources.

There is no mention of replacing revenue required for state-mandated programs, or services in which the state has shifted funding to local property taxes, with state money. There has been no discussion of state tax reform required to support significant shifts in the local tax burden; such as: reinstating portions of the intangible property and estate taxes for individuals with assets over \$1,000,000.00 (or couples with over \$2,000,000.00) or repealing sales and corporate income tax loopholes that are unfair and benefit only a few. In fact, the adopted legislative budget for the next fiscal year calls for continued increases in the school property taxes of over \$620 million (\$545 million in required local effort alone) and a very minor increase (\$8.5 million or 0.13%) in meeting its state share of the basic Florida Education Financing Program (“FEFP”). Overall, the state has reduced its state commitment by almost \$300 million (in nominal dollars) over the past five years.

Background data gathered in reviewing proposals for property tax relief² have shown that, while local property taxes have increased by 36% in the current and past two fiscal years, the state has led the way to increases in the property tax by increasing the required local property tax effort 42.6% over the three year period and reducing the actual amount spent by it for the basic Florida Education Financing Program (“FEFP”) in each of those years. This has led to the state’s share of the state-local financing to drop from 55% to a low of 44% in the current and next fiscal year.³

¹ Prepared remarks House Policy & Budget Council meeting on June 13, 2007 by Jim Tait, Executive Director, Florida Center for Fiscal and Economic Policy at www.fcfe.org or jim@fcfe.org 850.325.6480

² See our original report, Florida’s Options for Property Tax Relief, March 21, 2007, found at our website www.fcfe.org;

³ See Chart A and updated tables A-1 & A-2 in Appendices B&C which include actions taken by the 2007 Legislature in appropriations

The state has also repealed or significantly reduced state taxes on a recurring basis by over \$3 billion⁴ in the current fiscal year with over 75% of that amount coming from the repeal of the estate and intangible taxes and corporate income tax credits or subsidies. The amount of tax relief is remarkably close to the amount the state would have needed to meet its traditional 55% share in funding public schools; thereby providing immediate property tax relief. There is also data indicating that the State has also significantly restricted its commitment to healthcare, especially for children and elderly populations, and has shifted significant burdens to local governments who have been required to increase their share of healthcare funding through both Medicaid matching, public health unit financing and local programs for public hospitals and healthcare providers over the past several years.

In addition, the recent Florida boom in real property values has fueled a significant shift in property tax burden away from homestead property onto non-homestead residential and non-residential property.⁵ Although many Florida homeowners have reaped major benefits from the Save Our Homes constitutional amendment of 1994 (“SOH”), they have also faced dramatic increases in their property insurance premiums. The inequities in SOH have become highly visible and dramatic where, on average, the same family purchasing a home in 2005 pays more than twice the property taxes than if it had purchased one in 1999. This is the state-wide average and is even more disparate from county to county and neighborhood to neighborhood. Both new and existing homeowners have experienced the same dramatic increases in property insurance premiums; but, it has obviously hit harder on the new homeowner because they have not yet enjoyed the significant benefits from SOH.

SUMMARY OF CONCERNS ABOUT CURRENT PLANS

The current proposal in the Legislature has combined “rolling-back and capping” local property taxes and providing additional exemptions (especially to homesteads already benefited greatly by the Save Our Homes constitutional limitation), changing assessment practices and “rolling-back” recent increases in city and county taxes. Public School education is supposedly held “exempt” but there is no demonstrated commitment on the part of the state to assume its full share of funding and to continue meeting its obligations for its necessary support of other education, health care, corrections, juvenile justice and other program commitments, much less its commitments to environmental and infrastructure concerns.

In fact, the Legislative spending plan for the next fiscal year entails significant increases in local school property taxes along with reductions in state spending across

⁴ \$5 billion if you include failure to adopt actions to close corporate income tax loopholes; see also Chart B and updated Tables B-1 & B-2 in Appendices B&C.

⁵Florida’s Property Tax Study, Interim Report, Office of Economic and Demographic Research, February 2007, shows that Homestead Property is currently 32.1% of assessed value instead of 45.5% without “Save Our Homes” and non-homestead residential is 34.5% and non-residential is 32.5% (instead of 28.4% & 26.1% respectively); see also, updated table A in Appendix.

many program areas, including healthcare, and places an even greater burden on local governments to meet the basic concerns of its citizens and businesses. The Legislature has failed to address additional state funding for public schools, health care and a host of other issues of state-wide import. We will continue to be in the bottom ten states (40th or worse, or, most likely, 50th) in funding most critical state services such as: education, health care and other social services.

The plan calls for property tax “freezes, caps and roll-backs” which provide very expensive, across-the-board relief and fail to target the relief to those most in need. It further provides for additional exemptions and changes in assessment practices that significantly reduces the property tax base. As pointed out above, they also put the burden of paying for the relief on local governments and the people they serve. If these actions are to be taken, it would be best to do statutorily so that mistakes and unanticipated consequences may be more easily corrected. Where constitutional modification is required, it should be minimal and carefully drafted to avoid the consequences we are now experiencing under Save Our Homes.

SUGGESTED GUIDELINES FOR ACTION

The state should limit its immediate (special session) focus to statutory provisions and initiate development of a comprehensive tax reform effort where constitutional amendments may be required. The Legislature should consider:

- Targeting immediate relief to those most in need by using the circuit breaker approach (see Appendix A) to relieve homeowners and permanent renters from excessive property taxes and not lose focus on the need for relief from excessive increases in home property insurance.
- Comprehensive tax reform and the inter-connectedness of state and local taxes and fiscal strategy.
- Assuring that unintended consequences do not occur and are repairable if they occur.
- Holding off on constitutional proposals until fully developed and allow time for consideration and comments from the public and interested parties.
- Not constitutionally limitig property tax levies beyond the current constitutional limits. Florida’s local governments are pre-empted from all other forms of taxation except as provided by general law. The local elected officials should be given the latitude to provide funding for needed public services as they determine. If the property tax is restricted, local funding may require the adoption of potentially regressive sources that impose a greater burden on the low, moderate and middle income citizen and locally-owned small business.
- If the property tax is limited statutorily, the state should meet fully its obligations to fund education, healthcare, public safety (public health, juvenile justice, courts, etc.) and other mandated programs. It should further assure replacement revenues for necessary services affected by any “roll-back” or new “exemptions” provided.

A FINAL NOTE

Using the same methodology developed for the county and city rollback proposal (and using the format provided by the 2007-08 TAX CUT: CALCULATION provided to the Joint Select Committee on Property Tax Relief and Reform on June 11), I developed the following example of recalculating the state school required local effort taxes if the state set the example for its local governments.

EXAMPLE OF	SCHOOL TAX CALCULATION	
	(Statewide FEFP Required Local Effort)	
FISCAL YEAR	2006-07	2007-08
TAX ROLL	2006	2007
TAX BASE	\$1,648,441,700,000	\$1,738,282,800,000
NEW CONSTRUCTION		\$53,172,000,000
TOTAL	\$1,648,441,700,000	\$1,791,454,800,000
Tax rate (RLE millage)	0.00447	0.00442
TAX LEVY	\$7,363,000,000	\$7,911,000,000
PROPOSAL		
2006-07 Revenues		\$7,363,000,000
<u>minus % reduction factor (5%)</u>		<u>\$368,150,000</u>
		\$6,994,850,000
[new tax rate]	0.004024	
<u>plus Tax on New construction</u>		\$213,964,128
TAX LEVY under Proposal		\$7,208,814,128
DIFFERENCE		\$702,185,872

APPENDIX A—A “CIRCUIT BREAKER” APPROACH

A “circuit breaker” option which is used in many states (18 at last count) would assure that property taxes paid by either renters or homeowners would not exceed a certain portion of their income. See a recent report on “THE PROPERTY TAX CIRCUIT BREAKER: An Introduction and Survey of Current Programs” found at <http://www.cbpp.org/3-21-07sfp.htm>.

A “circuit breaker” approach:

- Prevents taxpayers from being “overloaded” by their property tax bill
- Protects taxpayers from property tax increases they cannot afford – once property tax reaches designated proportion of income, all additional property taxes are rebated
- Is well-targeted to those who need the relief
- Is “Portable” if resident moves
- Is used in 18 states and requires simple administration

Example of Possible Florida Circuit Breaker

- Rebate property taxes that exceed 3 percent [or, if preferred, 4%] of income for people whose income is below \$75,000 and rebate property taxes that exceed 5 percent of income for people whose income is between \$75,000 and \$200,000
- Deem 20 percent of rent to be property tax that landlords pass through to tenants
Make available to homestead property owners and full-time rental residents who qualify for sales tax exemption
- Cost can be limited by the way it is tailored but would cost between \$600-750 million to provide appropriate relief to all permanent residents.
- Determine level at which to set max benefit
- Several examples to the relief that could be given:

Income	\$ 60,000	\$125,000
Just Value	200,000	400,000
Less Homestead	175,000	375,000
Millage (2006 state-wide average)	18.5	18.5
Tax	\$3,238	\$6,938
Limit: Percent of Income (3%/5%)	\$1,800	\$6,250
Potential rebate (depending on max)	\$1,438	\$ 687

APPENDIX B—CHARTS

Chart A
Florida School Taxes [excerpted from Tables A-1 & A-2]

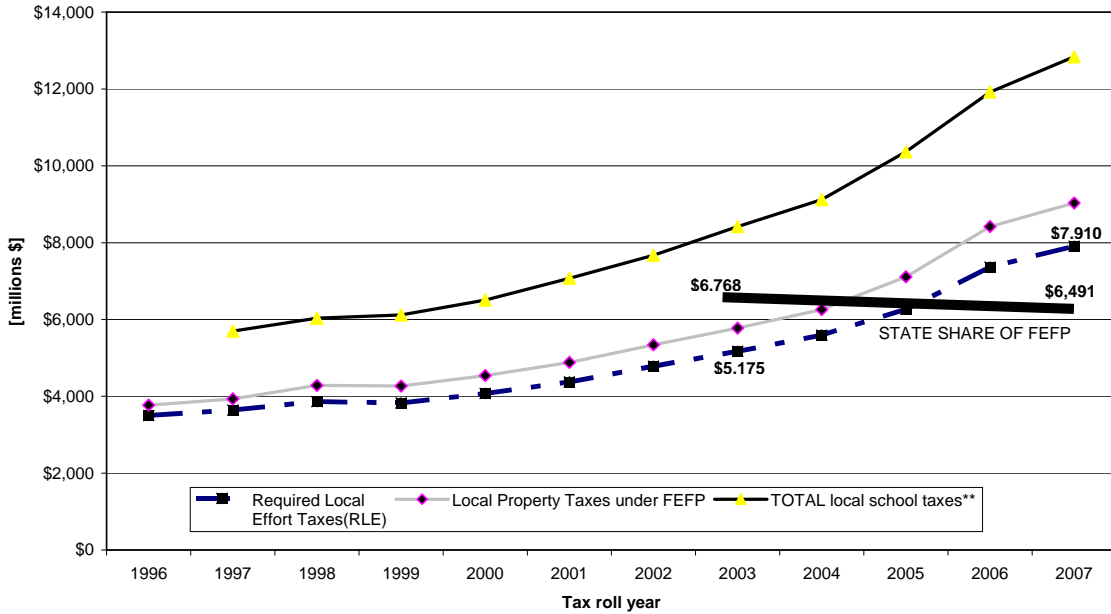


CHART B
FLORIDA'S CONSTITUTIONAL CAP ON STATE REVENUES (1994 Constitutional Amendment)
FY 2001-2011 [excerpted from Tables B-1 & B-2]

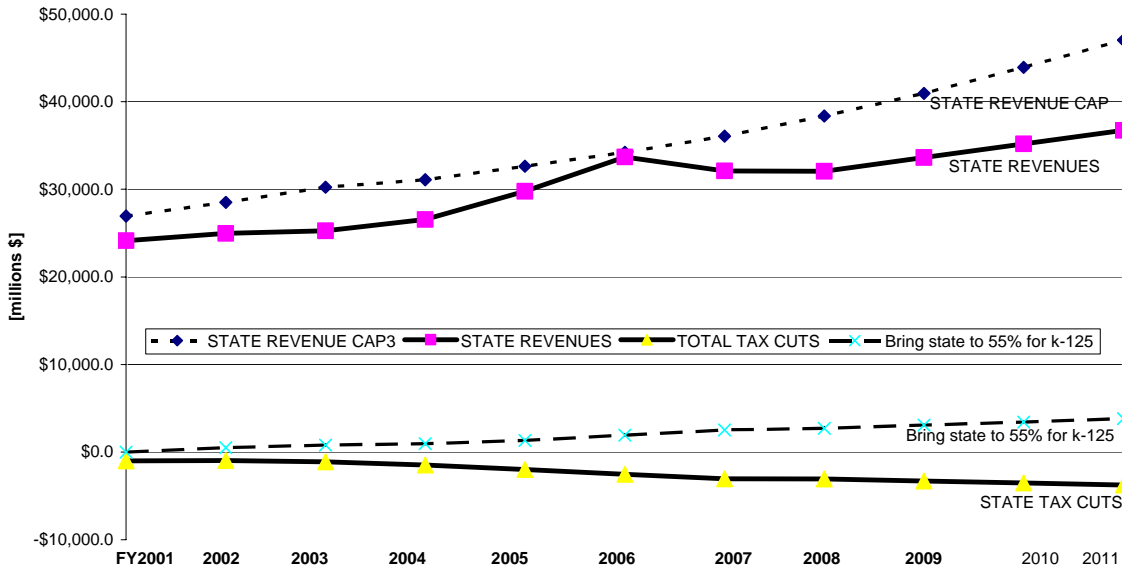
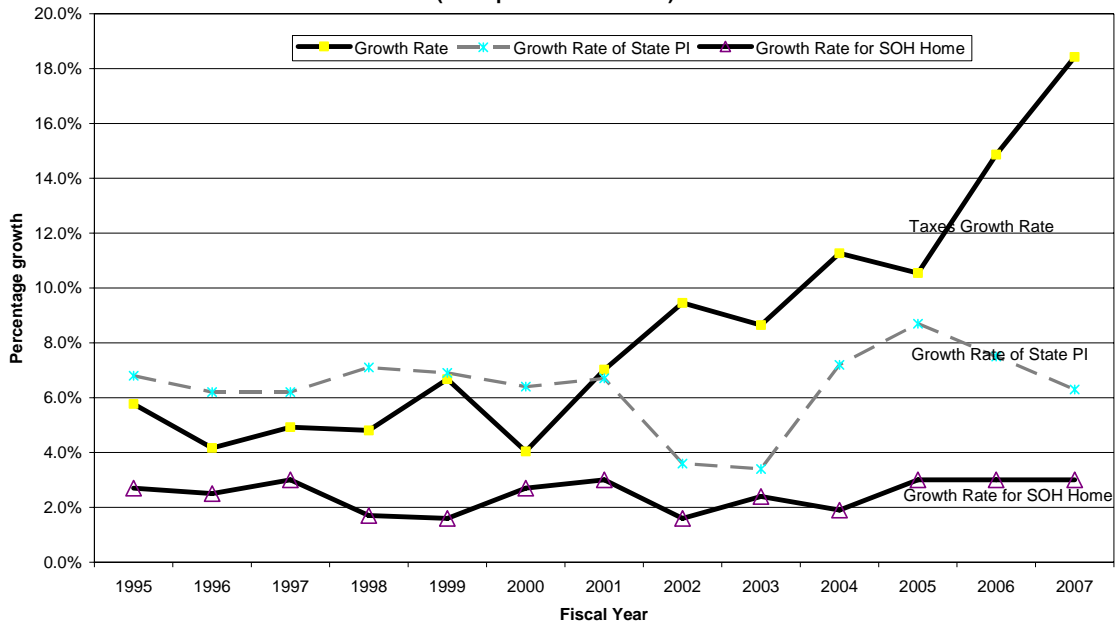


CHART C
Property tax and State Personal Income Growth
(excerpted from Table C)



APPENDIX C
 TABLES (see attached excel spreadsheets)