Committee on State Affairs

Wednesday, January 24, 2007
9:00 AM – 12:00 PM
Morris Hall

Marco Rubio
Speaker

Frank Attkisson
Chairman

Committee Meeting Notice

HOUSE OF REPRESENTATIVES

Speaker Marco Rubio

Committee on State Affairs

Start Date and Time:	Wednesday, January 24, 2007 09:00 am
End Date and Time:	Wednesday, January 24, 2007 12:00 pm
Location:	Morris Hall (17 HOB)
Duration:	3.00 hrs

Staff Presentations:

Background information on the idea of prohibiting governments from growing faster than the income of their taxpayers

Background information on the idea of requiring a supermajority vote for tax increases

Preliminary Report of the Property Tax Reform Committee, as established by Executive Order 06-141

NOTICE FINALIZED on 01/17/2007 15:31 by TUCK.SHIRLEY

IDEA 93

Adopt a constitutional amendment prohibiting Florida governments from growing faster than the incomes of their taxpaying citizens

Tab A — Article VII, Florida Constitution

Tab B — Tax and Expenditure Limits: the Latest
National Conference of State Legislatures, February 2006

Tab C — State Tax and Expenditure Limits
National Conference of State Legislatures, Updated February 2006

Tab D — Tough Times for Tax and Expenditure Limits
National Conference of State Legislatures, November 2006

Tab E — Issue Brief: Revenue and Expenditure Limits
Fiscal Analysis Department, Minnesota House of Representatives, February 2004

Tab F — Lower Taxes, Higher Growth: Tax and Expenditure Limits (TELs) and 10-Year Economic Performance, 1994 to 2004
Chart from Briefing Paper prepared by Donna Arduin

Tab G — Lower Taxes, Higher Growth: Limitations on Tax Increases and 10-Year Economic Performance, 1994 to 2004
Chart from Briefing Paper prepared by Donna Arduin

Tab H — Drafting Issues to Consider When Drafting Tax and Expenditure Limitations
Issues taken from Briefing Paper prepared by Donna Arduin

A

ARTICLE VII

FINANCE AND TAXATION

SECTION 1. Taxation; appropriations; state expenses; state revenue limitation.

SECTION 2. Taxes; rate.

SECTION 3. Taxes; exemptions.

SECTION 4. Taxation; assessments.

SECTION 5. Estate, inheritance and income taxes.

SECTION 6. Homestead exemptions.

SECTION 7. Allocation of pari-mutuel taxes.

SECTION 8. Aid to local governments.

SECTION 9. Local taxes.

SECTION 10. Pledging credit.

SECTION 11. State bonds; revenue bonds.

SECTION 12. Local bonds.

SECTION 13. Relief from illegal taxes.

SECTION 14. Bonds for pollution control and abatement and other water facilities.

SECTION 15. Revenue bonds for scholarship loans.

SECTION 16. Bonds for housing and related facilities.

SECTION 17. Bonds for acquiring transportation right-of-way or for constructing bridges.

SECTION 18. Laws requiring counties or municipalities to spend funds or limiting their ability to raise revenue or receive state tax revenue.

SECTION 1. Taxation; appropriations; state expenses; state revenue limitation.—

(a) No tax shall be levied except in pursuance of law. No state ad valorem taxes shall be levied upon real estate or tangible personal property. All other forms of taxation shall be preempted to the state except as provided by general law.

(b) Motor vehicles, boats, airplanes, trailers, trailer coaches and mobile homes, as defined by law, shall be subject to a license tax for their operation in the amounts and for the purposes prescribed by law, but shall not be subject to ad valorem taxes.

(c) No money shall be drawn from the treasury except in pursuance of appropriation made by law.

(d) Provision shall be made by law for raising sufficient revenue to defray the expenses of the state for each fiscal period.

(e) Except as provided herein, state revenues collected for any fiscal year shall be limited to state revenues allowed under this subsection for the prior fiscal year plus an adjustment for growth. As used in this subsection, "growth" means an amount equal to the average annual rate of growth in Florida personal income over the most recent twenty quarters times the state revenues allowed under this subsection for the prior fiscal year. For the 1995-1996 fiscal year, the state revenues allowed under this subsection for the prior fiscal year shall equal the state revenues collected for the 1994-1995 fiscal year. Florida personal income shall be determined by the legislature, from information available from the United States Department of Commerce or its successor on the first day of February prior to the beginning of the fiscal year. State revenues collected for any fiscal year in excess of this limitation shall be transferred to the budget stabilization fund until the fund reaches the maximum balance specified in Section 19(g) of Article III, and thereafter shall be refunded to taxpayers as provided by general law. State revenues allowed under this subsection for any fiscal year may be increased by a two-thirds vote of the membership of each house of the legislature in a separate bill that contains no other subject and that sets forth the dollar amount by which the state revenues allowed will be increased. The vote may not be taken less than seventy-two hours after the third reading of the bill. For purposes of this subsection, "state revenues" means taxes, fees, licenses, and charges for services imposed by the legislature on individuals, businesses, or agencies outside state government. However, "state revenues" does not include: revenues that are necessary to meet the requirements set forth in documents authorizing the issuance of bonds by the state; revenues that are used to provide matching funds for the federal Medicaid program with the exception of the revenues used to support the Public Medical Assistance Trust Fund or its successor program and with the exception of state matching funds used to fund elective expansions made after July 1, 1994; proceeds from the state lottery returned as prizes; receipts of the Florida Hurricane Catastrophe Fund; balances carried forward from prior fiscal years; taxes, licenses, fees, and charges for services imposed by local, regional, or school district governing bodies; or revenue from taxes, licenses, fees, and charges for services required to be imposed by any amendment or revision to this constitution after July 1, 1994. An adjustment to the revenue limitation shall be made by general law to reflect the fiscal impact of transfers of responsibility for the funding of governmental functions between the state and other levels of government. The legislature shall, by general law, prescribe procedures necessary to administer this subsection.

History.—Am. H.J.R. 2053, 1994; adopted 1994.

SECTION 2. Taxes; rate.—All ad valorem taxation shall be at a uniform rate within each taxing unit, except the taxes on intangible personal property may be at different rates but shall never exceed two mills on the dollar of assessed value; provided, as to any obligations secured by mortgage, deed of trust, or other lien on real estate wherever located, an intangible tax of not more than two mills on the dollar may be levied by law to be in lieu of all other intangible assessments on such obligations.

SECTION 3. Taxes; exemptions.—

(a) All property owned by a municipality and used exclusively by it for municipal or public purposes shall be exempt from taxation. A municipality, owning property outside the municipality, may be required by general law to make payment to the taxing unit in which the property is located. Such portions of property as are used predominantly for educational, literary, scientific, religious or charitable purposes may be exempted by general law from taxation.

(b) There shall be exempt from taxation, cumulatively, to every head of a family residing in this state, household goods and personal effects to the value fixed by general law, not less than one thousand dollars, and to every widow or widower or person who is blind or totally and permanently disabled, property to the value fixed by general law not less than five hundred dollars.

(c) Any county or municipality may, for the purpose of its respective tax levy and subject to the provisions of this subsection and general law, grant community and economic development ad valorem tax exemptions to new businesses and expansions of existing businesses, as defined by general law. Such an exemption may be granted only by ordinance of the county or municipality, and only after the electors of the county or municipality voting on such question in a referendum authorize the county or municipality to adopt such ordinances. An exemption so granted shall apply to improvements to real property made by or for the use of a new business and improvements to real property related to the expansion of an existing business and shall also apply to tangible personal property of such new business and tangible personal property related to the expansion of an existing business. The amount or limits of the amount of such exemption shall be specified by general law. The period of time for which such exemption may be granted to a new business or expansion of an existing business shall be determined by general law. The authority to grant such exemption shall expire ten years from the date of approval by the electors of the county or municipality, and may be renewable by referendum as provided by general law.

[1](d) By general law and subject to conditions specified therein, there may be granted an ad valorem tax exemption to a renewable energy source device and to real property on which such device is installed and operated, to the value fixed by general law not to exceed the original cost of the device, and for the period of time fixed by general law not to exceed ten years.

(e) Any county or municipality may, for the purpose of its respective tax levy and subject to the provisions of this subsection and general law, grant historic preservation ad valorem tax exemptions to owners of historic properties. This exemption may be granted only by ordinance of the county or municipality. The amount or limits of the amount of this exemption and the requirements for eligible properties must be specified by general law. The period of time for which this exemption may be granted to a property owner shall be determined by general law.

History.—Am. S.J.R.'s 9-E, 15-E, 1980; adopted 1980; Am. C.S. for S.J.R.'s 318, 356, 1988; adopted 1988; Am. S.J.R. 152, 1992; adopted 1992; Am. H.J.R. 969, 1997; adopted 1998.

[1]**Note.**—This subsection, originally designated (c) by S.J.R. 15-E, 1980, was redesignated (d) by the editors in order to avoid confusion with subsection (c) as contained in S.J.R. 9-E, 1980.

cf.—s. 19, Art. XII Schedule.

SECTION 4. Taxation; assessments.—By general law regulations shall be prescribed which shall secure a just valuation of all property for ad valorem taxation, provided:

(a) Agricultural land, land producing high water recharge to Florida's aquifers, or land used exclusively for noncommercial recreational purposes may be classified by general law and assessed solely on the basis of character or use.

(b) Pursuant to general law tangible personal property held for sale as stock in trade and livestock may be valued for taxation at a specified percentage of its value, may be classified for tax purposes, or may be exempted from taxation.

(c) All persons entitled to a homestead exemption under Section 6 of this Article shall have their homestead assessed at just value as of January 1 of the year following the effective date of this amendment. This assessment shall change only as provided herein.

(1) Assessments subject to this provision shall be changed annually on January 1st of each year; but those changes in assessments shall not exceed the lower of the following:

a. Three percent (3%) of the assessment for the prior year.

b. The percent change in the Consumer Price Index for all urban consumers, U.S. City Average, all items 1967=100, or successor reports for the preceding calendar year as initially reported by the United States Department of Labor, Bureau of Labor Statistics.

(2) No assessment shall exceed just value.

(3) After any change of ownership, as provided by general law, homestead property shall be assessed at just value as of January 1 of the following year. Thereafter, the homestead shall be assessed as provided herein.

(4) New homestead property shall be assessed at just value as of January 1st of the year following the establishment of the homestead. That assessment shall only change as provided herein.

(5) Changes, additions, reductions, or improvements to homestead property shall be assessed as provided for by general law; provided, however, after the adjustment for any change, addition, reduction, or improvement, the property shall be assessed as provided herein.

(6) In the event of a termination of homestead status, the property shall be assessed as provided by general law.

(7) The provisions of this amendment are severable. If any of the provisions of this amendment shall be held unconstitutional by any court of competent jurisdiction, the decision of such court shall not affect or impair any remaining provisions of this amendment.

(d) The legislature may, by general law, for assessment purposes and subject to the provisions of this subsection, allow counties and municipalities to authorize by ordinance that historic property may be assessed solely on the basis of character or use. Such character or use assessment shall apply only to the jurisdiction adopting the ordinance. The requirements for eligible properties must be specified by general law.

(e) A county may, in the manner prescribed by general law, provide for a reduction in the assessed value of homestead property to the extent of any increase in the assessed value of that property which results from the construction or reconstruction of the property for the purpose of providing living quarters for one or more natural or adoptive grandparents or parents of the owner of the property or of the owner's spouse if at least one of the grandparents or parents for whom the living quarters are provided is 62 years of age or older. Such a reduction may not exceed the lesser of the following:

(1) The increase in assessed value resulting from construction or reconstruction of the property.

(2) Twenty percent of the total assessed value of the property as improved.

History.—Am. S.J.R. 12-E, 1980; adopted 1980; Am. H.J.R. 214, 1987; adopted 1988; Am. by Initiative Petition filed with the Secretary of State August 3, 1992; adopted 1992; Am. H.J.R. 969, 1997; adopted 1998; Am. proposed by Constitution Revision Commission, Revision No. 13, 1998, filed with the Secretary of State May 5, 1998; adopted 1998; Am. C.S. for H.J.R. 317, 2002; adopted 2002.

SECTION 5. Estate, inheritance and income taxes.—

(a) NATURAL PERSONS. No tax upon estates or inheritances or upon the income of natural persons who are residents or citizens of the state shall be levied by the state, or under its authority, in excess of the aggregate of amounts which may be allowed to be credited upon or deducted from any similar tax levied by the United States or any state.

(b) OTHERS. No tax upon the income of residents and citizens other than natural persons shall be levied by the state, or under its authority, in excess of 5% of net income, as defined by law, or at such greater rate as is authorized by a three-fifths ($^3/_5$) vote of the membership of each house of the legislature or as will provide for the state the maximum amount which may be allowed to be credited against income taxes levied by the United States and other states. There shall be exempt from taxation not less than five thousand dollars ($5,000) of the excess of net income subject to tax over the maximum amount allowed to be credited against income taxes levied by the United States and other states.

(c) EFFECTIVE DATE. This section shall become effective immediately upon approval by the electors of Florida.

History.—Am. H.J.R. 7-B, 1971; adopted 1971.

SECTION 6. Homestead exemptions.—

(a) Every person who has the legal or equitable title to real estate and maintains thereon the permanent residence of the owner, or another legally or naturally dependent upon the owner, shall be exempt from taxation thereon, except assessments for special benefits, up to the assessed valuation of five thousand dollars, upon establishment of right thereto in the manner prescribed by law. The real estate may be held by legal or equitable title, by the entireties, jointly, in common, as a condominium, or indirectly by stock ownership or membership representing the owner's or member's proprietary interest in a corporation owning a fee or a leasehold initially in excess of ninety-eight years.

(b) Not more than one exemption shall be allowed any individual or family unit or with respect to any residential unit. No exemption shall exceed the value of the real estate assessable to the owner or, in case of ownership through stock or membership in a corporation, the value of the proportion which the interest in the corporation bears to the assessed value of the property.

(c) By general law and subject to conditions specified therein, the exemption shall be increased to a total of twenty-five thousand dollars of the assessed value of the real estate for each school district levy. By general law and subject to conditions specified therein, the exemption for all other levies may be increased up to an amount not exceeding ten thousand dollars of the assessed value of the real estate if the owner has attained age sixty-five or is totally and permanently disabled and if the owner is not entitled to the exemption provided in subsection (d).

(d) By general law and subject to conditions specified therein, the exemption shall be increased to a total of the following amounts of assessed value of real estate for each levy other than those of school districts: fifteen thousand dollars with respect to 1980 assessments; twenty thousand dollars with respect to 1981 assessments; twenty-five thousand dollars with respect to assessments for 1982 and each year thereafter. However, such increase shall not apply with respect to any assessment roll until such roll is first determined to be in compliance with the provisions of section 4 by a state agency designated by general law. This subsection shall stand repealed on the effective date of any amendment to section 4 which provides for the assessment of homestead property at a specified percentage of its just value.

(e) By general law and subject to conditions specified therein, the Legislature may provide to renters, who are permanent residents, ad valorem tax relief on all ad valorem tax levies. Such ad valorem tax relief shall be in the form and amount established by general law.

(f) The legislature may, by general law, allow counties or municipalities, for the purpose of their respective tax levies and subject to the provisions of general law, to grant an additional homestead tax exemption not exceeding fifty thousand dollars to any person who has the legal or equitable title to real estate and maintains thereon the permanent residence of the owner and who has attained age sixty-five and whose household income, as defined by general law, does not exceed twenty thousand dollars. The general law must allow counties and municipalities to grant this additional exemption, within the limits prescribed in this subsection, by ordinance adopted in the manner prescribed by general law, and must provide for the periodic adjustment of the income limitation prescribed in this subsection for changes in the cost of living.

(g) Each veteran who is age 65 or older who is partially or totally permanently disabled shall receive a discount from the amount of the ad valorem tax otherwise owed on homestead property the veteran owns and resides in if the disability was combat related, the veteran was a resident of this state at the time of entering the military service of the United States, and the veteran was honorably discharged upon separation from military service. The discount shall be in a percentage equal to the percentage of the veteran's permanent, service-connected disability as determined by the United States Department of Veterans Affairs. To qualify for the discount granted by this subsection, an applicant must submit to the county property appraiser, by March 1, proof of residency at the time of entering military service, an official letter from the United States Department of Veterans Affairs stating the percentage of the veteran's service-connected disability and such evidence that reasonably identifies the disability as combat related, and a copy of the veteran's honorable discharge. If the property

appraiser denies the request for a discount, the appraiser must notify the applicant in writing of the reasons for the denial, and the veteran may reapply. The Legislature may, by general law, waive the annual application requirement in subsequent years. This subsection shall take effect December 7, 2006, is self-executing, and does not require implementing legislation.

History.—Am. S.J.R. 1-B, 1979; adopted 1980; Am. S.J.R. 4-E, 1980; adopted 1980; Am. H.J.R. 3151, 1998; adopted 1998; Am. proposed by Constitution Revision Commission, Revision No. 13, 1998, filed with the Secretary of State May 5, 1998; adopted 1998; Am. H.J.R. 353, 2006; adopted 2006; Am. H.J.R. 631, 2006; adopted 2006.

SECTION 7. Allocation of pari-mutuel taxes.—Taxes upon the operation of pari-mutuel pools may be preempted to the state or allocated in whole or in part to the counties. When allocated to the counties, the distribution shall be in equal amounts to the several counties.

SECTION 8. Aid to local governments.—State funds may be appropriated to the several counties, school districts, municipalities or special districts upon such conditions as may be provided by general law. These conditions may include the use of relative ad valorem assessment levels determined by a state agency designated by general law.

History.—Am. S.J.R. 4-E, 1980; adopted 1980.

SECTION 9. Local taxes.—

(a) Counties, school districts, and municipalities shall, and special districts may, be authorized by law to levy ad valorem taxes and may be authorized by general law to levy other taxes, for their respective purposes, except ad valorem taxes on intangible personal property and taxes prohibited by this constitution.

(b) Ad valorem taxes, exclusive of taxes levied for the payment of bonds and taxes levied for periods not longer than two years when authorized by vote of the electors who are the owners of freeholds therein not wholly exempt from taxation, shall not be levied in excess of the following millages upon the assessed value of real estate and tangible personal property: for all county purposes, ten mills; for all municipal purposes, ten mills; for all school purposes, ten mills; for water management purposes for the northwest portion of the state lying west of the line between ranges two and three east, 0.05 mill; for water management purposes for the remaining portions of the state, 1.0 mill; and for all other special districts a millage authorized by law approved by vote of the electors who are owners of freeholds therein not wholly exempt from taxation. A county furnishing municipal services may, to the extent authorized by law, levy additional taxes within the limits fixed for municipal purposes.

History.—Am. S.J.R. 1061, 1975; adopted 1976.

SECTION 10. Pledging credit.—Neither the state nor any county, school district, municipality, special district, or agency of any of them, shall become a joint owner with, or stockholder of, or give, lend or use its taxing power or credit to aid any corporation, association, partnership or person; but this shall not prohibit laws authorizing:

(a) the investment of public trust funds;

(b) the investment of other public funds in obligations of, or insured by, the United States or any of its instrumentalities;

(c) the issuance and sale by any county, municipality, special district or other local governmental body of (1) revenue bonds to finance or refinance the cost of capital projects for airports or port facilities, or (2) revenue bonds to finance or refinance the cost of capital projects for industrial or manufacturing plants to the extent that the interest thereon is exempt from income taxes under the then existing laws of the United States, when, in either case, the revenue bonds are payable solely from revenue derived from the sale, operation or leasing of the projects. If any project so financed, or any part thereof, is occupied or operated by any private corporation, association, partnership or person pursuant to contract or lease with the issuing body, the property interest created by such contract or lease shall be subject to taxation to the same extent as other privately owned property.

(d) a municipality, county, special district, or agency of any of them, being a joint owner of, giving, or lending or using its taxing power or credit for the joint ownership, construction and operation of electrical energy generating or transmission facilities with any corporation, association, partnership or person.

History.—Am. H.J.R. 1424, 1973; adopted 1974.

SECTION 11. State bonds; revenue bonds.—

(a) State bonds pledging the full faith and credit of the state may be issued only to finance or refinance the cost of state fixed capital outlay projects authorized by law, and purposes incidental thereto, upon approval by a vote of the electors; provided state bonds issued pursuant to this subsection may be refunded without a vote of the electors at a lower net average interest cost rate. The total outstanding principal of state bonds issued pursuant to this subsection shall never exceed fifty percent of the total tax revenues of the state for the two preceding fiscal years, excluding any tax revenues held in trust under the provisions of this constitution.

(b) Moneys sufficient to pay debt service on state bonds as the same becomes due shall be appropriated by law.

(c) Any state bonds pledging the full faith and credit of the state issued under this section or any other section of this constitution may be combined for the purposes of sale.

(d) Revenue bonds may be issued by the state or its agencies without a vote of the electors to finance or refinance the cost of state fixed capital outlay projects authorized by law, and purposes incidental thereto, and shall be payable solely from funds derived directly from sources other than state tax revenues.

(e) Bonds pledging all or part of a dedicated state tax revenue may be issued by the state in the manner provided by general law to finance or refinance the acquisition and improvement of land, water areas, and related property interests and resources for the purposes of conservation, outdoor recreation, water resource development, restoration of natural systems, and historic preservation.

(f) Each project, building, or facility to be financed or refinanced with revenue bonds issued under this section shall first be approved by the Legislature by an act relating to appropriations or by general law.

History.—Am. C.S. for C.S. for S.J.R. 612, 1984; adopted 1984; Am. proposed by Constitution Revision Commission, Revision No. 5, 1998, filed with the Secretary of State May 5, 1998; adopted 1998.

SECTION 12. Local bonds.—Counties, school districts, municipalities, special districts and local governmental bodies with taxing powers may issue bonds, certificates of indebtedness or any form of tax anticipation certificates, payable from ad valorem taxation and maturing more than twelve months after issuance only:

(a) to finance or refinance capital projects authorized by law and only when approved by vote of the electors who are owners of freeholds therein not wholly exempt from taxation; or

(b) to refund outstanding bonds and interest and redemption premium thereon at a lower net average interest cost rate.

SECTION 13. Relief from illegal taxes.—Until payment of all taxes which have been legally assessed upon the property of the same owner, no court shall grant relief from the payment of any tax that may be illegal or illegally assessed.

SECTION 14. Bonds for pollution control and abatement and other water facilities.—

(a) When authorized by law, state bonds pledging the full faith and credit of the state may be issued without an election to finance the construction of air and water pollution control and abatement and solid waste disposal facilities and other water facilities authorized by general law (herein referred to as "facilities") to be operated by any municipality, county, district or authority, or any agency thereof (herein referred to as "local governmental agencies"), or by any agency of the State of Florida. Such bonds shall be secured by a pledge of and shall be payable primarily from all or any part of revenues to be derived from operation of such facilities, special assessments, rentals to be received under lease-purchase agreements herein provided for, any other revenues that may be legally available for such purpose, including revenues from other facilities, or any combination thereof (herein collectively referred to as "pledged revenues"), and shall be additionally secured by the full faith and credit of the State of Florida.

(b) No such bonds shall be issued unless a state fiscal agency, created by law, has made a determination that in no state fiscal year will the debt service requirements of the bonds proposed to be issued and all other bonds secured by the pledged revenues exceed seventy-five per cent of the pledged revenues.

(c) The state may lease any of such facilities to any local governmental agency, under lease-purchase agreements for such periods and under such other terms and conditions as may be mutually agreed upon. The local governmental agencies may pledge the revenues derived from such leased facilities or any other available funds for the payment of rentals thereunder; and, in addition, the full faith and credit and taxing power of such local governmental agencies may be pledged for the payment of such rentals without any election of freeholder electors or qualified electors.

(d) The state may also issue such bonds for the purpose of loaning money to local governmental agencies, for the construction of such facilities to be owned or operated by any of such local governmental agencies. Such loans shall bear interest at not more than one-half of one per cent per annum greater than the last preceding issue of state bonds pursuant to this section, shall be secured by the pledged revenues, and may be additionally secured by the full faith and credit of the local governmental agencies.

(e) The total outstanding principal of state bonds issued pursuant to this section 14 shall never exceed fifty per cent of the total tax revenues of the state for the two preceding fiscal years.

History.—C.S. for H.J.R.'s 3853, 4040, 1970; adopted 1970; Am. H.J.R. 1471, 1980; adopted 1980.

SECTION 15. Revenue bonds for scholarship loans.—

(a) When authorized by law, revenue bonds may be issued to establish a fund to make loans to students determined eligible as prescribed by law and who have been admitted to attend any public or private institutions of higher learning, junior colleges, health related training institutions, or vocational training centers, which are recognized or accredited under terms and conditions prescribed by law. Revenue bonds issued pursuant to this section shall be secured by a pledge of and shall be payable primarily from payments of interest, principal, and handling charges to such fund from the recipients of the loans and, if authorized by law, may be additionally secured by student fees and by any other moneys in such fund. There shall be established from the proceeds of each issue of revenue bonds a reserve account in an amount equal to and sufficient to pay the greatest amount of principal, interest, and handling charges to become due on such issue in any ensuing state fiscal year.

(b) Interest moneys in the fund established pursuant to this section, not required in any fiscal year for payment of debt service on then outstanding revenue bonds or for maintenance of the reserve account, may be used for educational loans to students determined to be eligible therefor in the manner provided by law, or for such other related purposes as may be provided by law.

History.—Added, H.J.R. 46-D, 1971; adopted 1972.

SECTION 16. Bonds for housing and related facilities.—

(a) When authorized by law, revenue bonds may be issued without an election to finance or refinance housing and related facilities in Florida, herein referred to as "facilities."

(b) The bonds shall be secured by a pledge of and shall be payable primarily from all or any part of revenues to be derived from the financing, operation or sale of such facilities, mortgage or loan payments, and any other revenues or assets that may be legally available for such purposes derived from sources other than ad valorem taxation, including revenues from other facilities, or any combination thereof, herein collectively referred to as "pledged revenues," provided that in no event shall the full faith and credit of the state be pledged to secure such revenue bonds.

(c) No bonds shall be issued unless a state fiscal agency, created by law, has made a determination that in no state fiscal year will the debt service requirements of the bonds proposed to be issued and all other bonds secured by the same pledged revenues exceed the pledged revenues available for payment of such debt service requirements, as defined by law.

History.—Added, S.J.R. 6-E, 1980; adopted 1980.

cf.—s. 18, Art. XII Schedule.

SECTION 17. Bonds for acquiring transportation right-of-way or for constructing bridges.—

(a) When authorized by law, state bonds pledging the full faith and credit of the state may be issued, without a vote of the electors, to finance or refinance the cost of acquiring real property or the rights to real property for state roads as defined by law, or to finance or refinance the cost of state bridge construction, and purposes incidental to such property acquisition or state bridge construction.

(b) Bonds issued under this section shall be secured by a pledge of and shall be payable primarily from motor fuel or special fuel taxes, except those defined in Section 9(c) of Article XII, as provided by law, and shall additionally be secured by the full faith and credit of the state.

(c) No bonds shall be issued under this section unless a state fiscal agency, created by law, has made a determination that in no state fiscal year will the debt service requirements of the bonds proposed to be issued and all other bonds secured by the same pledged revenues exceed ninety percent of the pledged revenues available for payment of such debt service requirements, as defined by law. For the purposes of this subsection, the term "pledged revenues" means all revenues pledged to the payment of debt service, excluding any pledge of the full faith and credit of the state.

History.—Added, C.S. for C.S. for S.J.R. 391, 1988; adopted 1988.

SECTION 18. Laws requiring counties or municipalities to spend funds or limiting their ability to raise revenue or receive state tax revenue.—

(a) No county or municipality shall be bound by any general law requiring such county or municipality to spend funds or to take an action requiring the expenditure of funds unless the legislature has determined that such law fulfills an important state interest and unless: funds have been appropriated that have been estimated at the time of enactment to be sufficient to fund such expenditure; the legislature authorizes or has authorized a county or municipality to enact a funding source not available for such county or municipality on February 1, 1989, that can be used to generate the amount of funds estimated to be sufficient to fund such expenditure by a simple majority vote of the governing body of such county or municipality; the law requiring such expenditure is approved by two-thirds of the membership in each house of the legislature; the expenditure is required to comply with a law that applies to all persons similarly situated, including the state and local governments; or the law is either required to comply with a federal requirement or required for eligibility for a federal entitlement, which federal requirement specifically contemplates actions by counties or municipalities for compliance.

(b) Except upon approval of each house of the legislature by two-thirds of the membership, the legislature may not enact, amend, or repeal any general law if the anticipated effect of doing so would be to reduce the authority that municipalities or counties have to raise revenues in the aggregate, as such authority exists on February 1, 1989.

(c) Except upon approval of each house of the legislature by two-thirds of the membership, the legislature may not enact, amend, or repeal any general law if the anticipated effect of doing so would be to reduce the percentage of a state tax shared with counties and municipalities as an aggregate on February 1, 1989. The provisions of this subsection shall not apply to enhancements enacted after February 1, 1989, to state tax sources, or during a fiscal emergency declared in a written joint proclamation issued by the president of the senate and the speaker of the house of representatives, or where the legislature provides additional state-shared revenues which are anticipated to be sufficient to replace the anticipated aggregate loss of state-shared revenues resulting from the reduction of the percentage of the state tax shared with counties and municipalities, which source of replacement revenues shall be subject to the same requirements for repeal or modification as provided herein for a state-shared tax source existing on February 1, 1989.

(d) Laws adopted to require funding of pension benefits existing on the effective date of this section, criminal laws, election laws, the general appropriations act, special appropriations acts, laws reauthorizing but not expanding then-existing statutory authority, laws having insignificant fiscal impact, and laws creating, modifying, or repealing noncriminal infractions, are exempt from the requirements of this section.

(e) The legislature may enact laws to assist in the implementation and enforcement of this section.

History.—Added, C.S. for C.S. for C.S. for C.S. for H.J.R.'s 139, 40, 1989; adopted 1990.

B

Tax and Expenditure Limits: the Latest

There has been considerable attention given to tax and expenditure limitations, or TELs, in recent years. Several states debate fiscal limit proposals every year. However, the notion suggested by some policy observers that a wave of new and highly restrictive state fiscal limits is sweeping the land may be premature.

While thirty states have some form of fiscal limit mechanism restricting spending or revenue growth, the components of the mechanisms vary widely. Maine is the only state since 2002 to enact a new spending limit statute. By contrast, in November 2005 voters rejected additional state spending limits in California and relaxed existing tax and expenditure limits in Colorado.

California has an existing constitutional spending limit based on population growth and personal income growth. The ballot proposal would have further limited state expenditures by basing its spending growth on a three-year average of revenue growth.

Colorado, widely known as having the most restrictive fiscal limitations in the nation called TABOR (Taxpayer's Bill of Rights), asked its voters to suspend for five years mandatory tax refunds that would occur partly as a result of a mechanism known as the "ratchet," which is the revenue formula allowed under TABOR. It requires that revenues above a base, plus population and inflation growth, to be returned to the taxpayers. Colorado voters approved Referendum C, which eliminates the ratchet effect, allows the state to retain all revenues collected for five years, and sets a new revenue base after that time. More information on Referendum C is found in "Coloradans Reach Their Limit with TABOR," *State Legislatures,* January 2006.

Legislative sessions and citizen initiatives in 2006 promise more TELs policy consideration. To date nearly a dozen states (Arizona, Iowa, Kansas, Nevada, Oklahoma, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, and Wisconsin) are debating TELs, including possible ballot initiatives in at least two states (Ohio and Oregon). There may be other developments before the year ends. The question yet unanswered is: How many states, if any, will enact new fiscal limitation mechanisms before the 2006 calendar draws to a close? NCSL will closely monitor state fiscal legislation.

For additional background on TELs, see NCSL's working paper, "State Tax and Expenditure Limits."

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State Tax and Expenditure Limits

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Overview

The first years of the twenty-first century have brought renewed interest in the structure and effectiveness of tax and expenditure limitations (TELs). These fiscal mechanisms are designed to provide certain strictures to restrain the growth of governmental budgets either on the tax side or the spending side or on both. This paper reviews the use of TELs by the several states and explores the policy issues associated with fiscal limits.

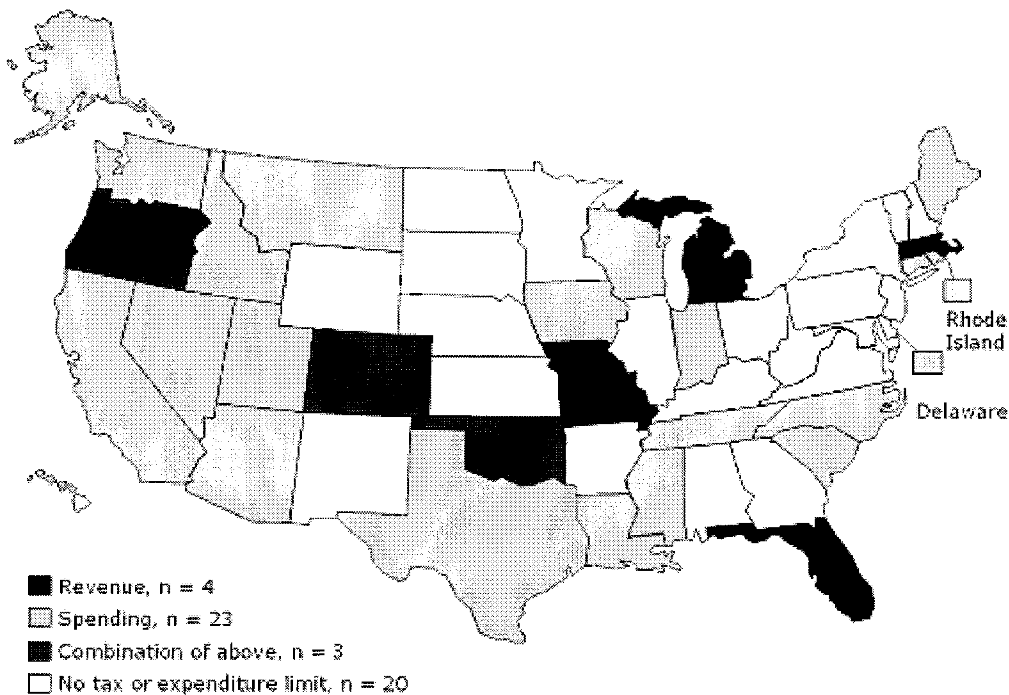
As of early 2005, 30 states operate under a tax or expenditure limitation. The State of Maine is the most recent state to act. In its 2005 session, legislators crafted a statutory spending limit based on average personal income growth over time. This is the first enactment of a TEL in several years. Several states, like Maine, have statutory spending or tax limit mechanisms, while others, such as Colorado, have TELs embedded in their state constitutions. Colorado is commonly viewed as having the most restrictive set of fiscal limits, and will be further explored in this report.

Twenty-three states having spending limits, four have tax limits, and three have both. About half are constitutional provisions and the other half are statutory. Many of the existing TELs were enacted in two periods of time--the late 1970s and early 1990s. This coincided with economic fluctuations in the United States and began shortly after the property tax revolt in California that resulted in passage of Proposition 13. This paper will review the states' experience with TELs.

Types of Limits

In general, no two TELs are exactly alike in their design and characteristics. While the general goal of limits is the same--to restrain government tax revenues and spending outlays--they vary considerably in design, scope, and restrictiveness. In a 1996 NCSL report on TELs, four categories of traditional TELs were identified: expenditure limits, revenue limits, appropriations limited by the revenue estimate, and hybrids or combinations (note 1). In addition, within these categories, some TELs also may include certain exceptions and exemptions. Also, some states have other provisions that require voter approval or supermajority legislative votes.

Figure 1. State Tax and Expenditure Limits, 2005



Source: National Conference of State Legislatures, 2005.

Traditional Limits

Traditional limits refer to revenue, expenditure or appropriation limits. The features and restrictiveness of these limits vary considerably. Such variations make it difficult to categorize state TELs, but generally, they fall into one of the categories described below:

Revenue limits. Revenue limits tie allowable yearly increases in revenue to personal income or some other type of index such as inflation or population. The limit provides for the refund of excess revenues to taxpayers.

Expenditure limits. This is the most common type of state TEL. Expenditure limits, like revenue limits, are typically tied to personal income or a growth index. The impact of expenditure limits depends upon the limit parameters. In many states, the limit is tied to a growth index related to the expansion of the economy. Somewhat more restrictive are expenditure limits with refund provisions if revenues exceed the authorized spending level.

Appropriations limited to a percentage of revenue estimates. This variation of a spending limit simply ties appropriations to the revenue forecast, typically ranging from 95 percent to 99 percent of expected revenues. It does not establish an absolute limit or tie growth to a measurable index. Delaware, Iowa, Mississippi, Oklahoma and Rhode Island have this type of appropriation limit in place.

Hybrids. States also have combined components of various limits. For example, Oregon has a state spending limit tied to personal income growth, and a provision requiring refunds if revenues are more than 2 percent above the revenue forecast. This law limits spending and, in a sense, limits revenues by tying them to the forecasted amount. Colorado is another hybrid state.

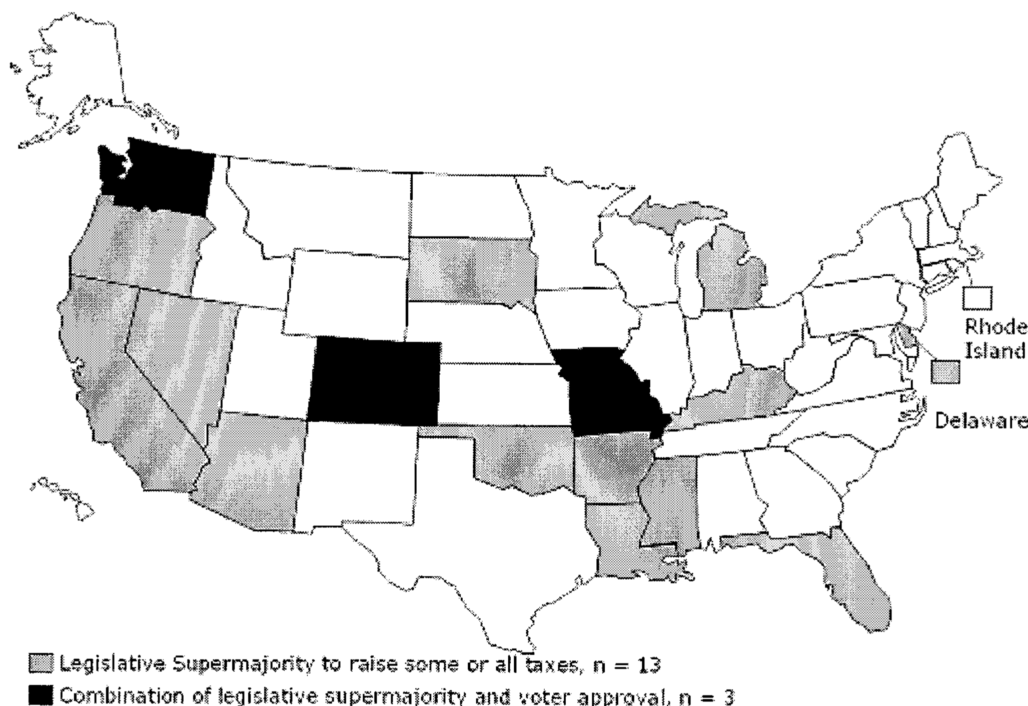
Other Tax and Expenditure Limitations

A number of states operate under voter approval and supermajority requirements that are not tax or expenditure limitations in the traditional sense; however, they can limit state

revenue and expenditure options. Therefore, they are discussed here as a type of limitation. Often these measures are more restrictive than traditional limits.

Voter approval requirements. This is the most restrictive type of limit since all tax increases or tax increases over a specified amount must receive voter approval. Only three states have adopted voter approval requirements. Currently Colorado requires voter approval for all tax increases, and Missouri and Washington require voter approval for tax increases over a certain amount.

Figure 2. Legislative Supermajority and Voter Approval to Raise Taxes, 2005



Source: National Conference of State Legislatures, 2005.

Supermajority requirements. Sixteen states now use supermajority requirements to pass tax increases. Supermajority requirements dictate either a three-fifths, two-thirds, or three-fourths majority vote in both chambers to pass tax increases or impose new taxes. The effectiveness of supermajority requirements depends upon the makeup of the legislature and the state's tax system. In states with one predominant party, the majority party may have enough votes to increase or block tax increases (note 2).

Formulas for Fiscal Restraint

Currently in 2005, there are generally two camps that have developed regarding the formulas used in fiscal limits: the more strict restraints of population growth plus inflation and the more flexible economic responsiveness of percent of personal income. Why are certain economic indicators contained in these formulas viewed as having such impacts? Population is generally a steady, if not slow or stagnant demographic indicator in a state. Generally it is not volatile, and it takes significant population inflows through interstate migration and international immigration to register a big increase year over year. Such events typically only occur in certain pockets of the country and from time to time. The consumer price index (CPI) inflation measure also has grown slowly in recent years. While the CPI trend is related to the low inflation environment experienced in the United States, it is by no means a guarantee of future levels. Also, it is widely accepted in economic circles that as the official government

estimate of inflation, the CPI has the capacity to understate actual inflation. This occurs because of important adjustments that are made to the data over time. In general, the personal income growth measure tends to track economic ups and downs, with incomes decreasing during recessions and increasing during expansionary periods. As a result, use of this indicator is intended to keep budget growth restrained to the level of general economic growth in a state.

Interest Groups Are Generally in Two Camps

Supporters of TELs argue for their expansion into more states as a means of downsizing state government and containing spending and taxes. The CATO Institute is among groups that are strong advocates for TELs. CATO supports TELs that limit government spending to the inflation rate plus population growth index and mandate immediate rebates of government surpluses (note 3). The Americans for Prosperity Foundation (APF) believes that TELs should be enacted in the states, and that states with them experience fewer tax increases. APF argues that TELs are most effective when they include the population and inflation formula, are put into state constitutions, and include voter approval for tax increases (note 4).

On the other hand, groups such as The Bell Policy Center have reservations about the impact of TELs on a government's ability to fund public services adequately. The Bell Center concludes in its 10-year review of the Taxpayers' Bill of Rights (TABOR) in Colorado that TELs in the state have indeed limited government, that education and health programs have borne a disproportionate share of cuts, that TABOR prevents state budgets from recovering after recessions, and it has diminished the role of elected officials (note 5). The Center for Budget and Policy Priorities argues that while restrictive TELs sound reasonable, they are "actually a recipe for sharply reduced public services and an impaired ability to respond effectively to public needs, federal mandates, and changing circumstances" (note 6). It also argues that public services have declined since the passage of TABOR and particularly since the recent recession (note 7).

Studies on the Impact and Effectiveness of TELs

A number of academic studies have been completed over the past few years to examine how well TELs work and what other implications they may have had for state fiscal policy. For example, the Center for Tax Policy examined TELs, noting that limiting the growth of government through fiscal caps is much more prevalent than property tax limits. It outlined the structures of TEL mechanisms as follows:

- Method of codification (statutory or constitutional)
- Method of approving the limit (e.g., citizen vote, legislative referendum, legislative action)
- Formula of limit
- To what the limit applies
- Treatment of any surplus
- Waiver provisions
- Requirements for passing tax increases (legislative or popular vote) (note 8)

The Center then qualified the level of fiscal restrictiveness of each state's TEL based on these criteria, with the key factors being the constitutional requirement, the population and inflation economic factor, voter approval requirements for spending and tax increases, and legislative supermajorities for considering tax increases (note 9). Colorado was ranked the most restrictive TEL state and Rhode Island the least.

A 1999 California study on the topic of TELs found that they may have an impact on borrowing costs, specifically the bond yields that affect debt servicing costs. Co-authors James Poterba and Kim Rueben found that states with strict spending limits faced lower borrowing costs during the previous two decades, while alternatively, states with strict tax

limits faced higher than average borrowing costs. The authors concluded that higher bond costs may reflect the difficulties limits can add to raising revenue to meet debt payments (note 10).

Another study considered the question of TELs' impact on government growth and size. It found that since most TELs did not "outlaw growth in government" that they did not have a strong effect on the size of government. However, the study did find government size limitation effects in TELs states with low income growth, and increased government growth in states with high income growth. In other words, TELs were responsive to income growth, perhaps because the majority of states use personal income in their TELs mechanisms (note 11).

In 2004, as Wisconsin considered a TABOR-like fiscal limit mechanism, a University of Wisconsin study simulated what the state's budget trends would have been had TABOR been in effect since 1986 (note 12). It concluded that such a TEL would have restricted government spending, and estimated that state spending would have been $8.4 billion lower from 1986 to 2003. This would have required "a dramatic reduction in state government and school district spending."

Status of TEL Actions

More than a dozen legislatures considered adding new tax and spending limits during the 2003 and 2004 legislative sessions, although none were enacted. Under legislation passed early in 2005, a statutory spending limit tied to average personal income growth will limit appropriations in Maine in the next biennium. Several states have either introduced or may consider TELs legislation by the end of 2005. Among those states are Kansas, Nevada, Ohio, Pennsylvania and Wisconsin.

Pros and Cons

There are numerous arguments in favor of state tax and expenditure limitations. For example, limits are said to:

- Make government more accountable;
- Force more discipline over budget and tax practices;
- Make government more efficient;
- Make governments think of creative ways to generate revenues--for example, advertising on state-owned facilities;
- Control the growth of government;
- Enable citizens to vote on tax increases and determine their desired level of government service;
- Force government to evaluate programs and prioritize services;
- Raise questions about the advisability of some functions provided by state government;
- Help citizens feel empowered and result in more taxpayer satisfaction;
- Help diffuse the power of special interests;

There are arguments against state tax and expenditure limitations as well. For example, limits are said to:

- Shift fiscal decision making away from elected representatives;
- Cause disproportional cuts for non-mandated or general revenue fund programs;
- Fail to account for disproportionate growth of intensive government service populations like the elderly and school-age children;
- Make it harder for states to raise new revenue so that scarce resources may be shifted between programs;
- Cause a "ratchet-down-effect" where the limit causes the spending base to decrease

so that maximum allowable growth will not bring it up to the original level;
- Result in excess revenues that are difficult to refund in an equitable or cost-effective manner;
- Result in declining government service levels over time;
- Fail to provide enough revenues to meet continuing levels of spending in hard economic times;
- Shift the state tax base away from the income tax to the more popular (but regressive) sales tax if voter approval is required;
- Shift the tax base away from broad taxes (property, sales and income) to narrowly defined sources such as lotteries and user fees.

TELs in the News: Colorado's TABOR

Perhaps the most well known TEL is Colorado's Taxpayers' Bill of Rights. TABOR is a set of constitutional provisions Colorado voters adopted in 1992 to limit revenue growth for state and local governments and to require that any tax increase by state or local government (counties, cities, towns, school districts and special districts) be approved by the voters of the affected government.

TABOR is principally a revenue limit. It limits annual revenue the state government can retain from all sources except federal funds to the previous year's *allowed* collections (not actual collections) plus a percentage adjustment equal to the percentage growth in population plus the inflation rate. Any revenues received in excess of this limit must be refunded to the voters. When revenues fall, the following year's limit on collections is still based on the allowed collections of the previous year. The result is that in years following a recession, allowed revenues will grow only from the worst revenue collection year of the recession to the extent allowed by rate of population growth and inflation. Although citizens may vote to allow the state to keep the excess, TABOR limits the times when such votes may occur. Voters may also exempt government from TABOR revenue limits for a set number of years.

TABOR also affected a 1991 limit on spending growth that the General Assembly had passed. By reference, it made the limit impossible to amend except by vote of the people. This provision, known as Arveschoug-Bird, limits the growth of general fund expenditures to 6 percent more than the previous year or 5 percent of personal income, whichever amount is lower. In practice the 6 percent limit is always lower.

Colorado's early experience with TABOR included very rapid demographic and economic growth in the state in the 1990s, due to substantial migration (30 percent population growth from 1990 to 2000) and the rapid expansion of the electronics and telecommunications industries in the state. Taxpayers saw substantial "TABOR refund checks" as revenues were returned to them. The General Assembly reduced personal income and sales tax rates to reduce surplus (returnable) revenues.

Contraction in electronics and telecommunications industries occurred rapidly in 2000 and 2001, shrinking the state economy and tax collections (note 13). The state's budget problems have been made worse by the interaction of an additional constitutional provision with the TABOR revenue limit. Voters in 2000 approved Amendment 23, which requires the General Assembly to increase base per-pupil funding for K-12 education by inflation plus one percentage point annually through 2010, and by inflation thereafter. K-12 funding now accounts for 40 percent of the Colorado general fund budget.

Overall, then, it is very unlikely Colorado can grow out of its problems, especially if slower migration rates and low inflation continue. The TABOR cap will ensure that state revenue growth will remain below the rate of economic growth in the state. At the same time, Amendment 23 will require an increasing share of allowable revenue growth be directed to K-12 education.

TABOR prevented the creation of a traditional state rainy day fund through implication as well as its requirement that revenues in excess of a limit be returned to the voters. Reserves of 3 percent of the general fund are allowed, but any use must be repaid in the following fiscal year. Thus the reserve fund is more like a cash-flow reserve than a rainy-day fund (note 14).

Colorado is widely agreed to have the most restrictive fiscal limits in the nation, and following the pressure points exposed by the impact of a severe recession in the early 2000s, there is bipartisan agreement that some easing of the existing limits would be helpful in allowing the state budget to recover and move forward. For example, former Republican Joint Budget Committee Chairman Brad Young states that TABOR shrinks state government relative to the economy every year, regardless of federally mandated spending and other budget demands, and results in direct democracy, rather than representative governance (note 15). Certainly there are other viewpoints in Colorado about TABOR, but the challenges associated with post-recessionary fiscal policy under TABOR are shared by members of both parties in the state.

As of this writing, the Colorado Legislature had approved legislation, signed by the governor, to allow the state to retain more revenue than allowed under current law to provide a more stable means of funding state budgetary needs for the next five years. The measure requires voter approval on the November 2005 ballot to become effective.

TELs Engineering: Things to Consider if Designing a Fiscal Limit

The details matter in the design of a fiscal limitation mechanism and many questions must be answered. The Minnesota House Fiscal Analysis Department published in 2004 an issue brief with some of the questions to consider regarding a tax or expenditure limit (note 16). Here is an overview:

1. What is limited, revenues or expenditures? Does the limit apply to all revenues or spending, or are there exclusions?
2. Should the growth factor limit be population plus inflation, or state personal income growth? Which measures of inflation and population will be used?
3. How is the growth measure calculated (e.g., what time periods are used)?
4. Is the baseline revenue or spending a one-year amount or multi-year average?
5. What triggers the limit to be adjusted, and how often might that occur?
6. For revenue limits, is there a threshold after which a rebate is activated?
7. Is there a disaster or emergency exception?
8. Is an adjustment allowed for a major state-local funding relationship change?
9. Can a limit be overridden by a supermajority vote in the legislature?
10. Is there a sunset date on the fiscal limit?
11. Are any limits extended to local government revenues or outlays?

Conclusions

If state economies are volatile, or state budgets face costs higher than average inflation (such as for health care), or other external changes occur (such as natural disasters), then states with TELs may see pressure points develop when these forces and fiscal limitation mechanisms come into contact. The level of flexibility in a TEL's structure to respond to sweeping changes or volatile fiscal environments will help to shape the types of responses legislatures will consider when these situations arise.

The most restrictive TELs will ensure that voters will have a direct say over fiscal issues in a state, and legislators will have reduced fiscal policy-making authority. In addition, interest groups whose funding priorities are exposed to fiscal restrictions may seek to carve out protections for those priorities.

In the months and years immediately ahead, state fiscal affairs will be conducted in an atmosphere of continuous change resulting from economic fluctuations, demographic

realities, intergovernmental relations and external factors. This makes it likely that the dual effort to deliver state government services and restrain state government growth will remain a delicate balance for the foreseeable future.

Legislative Supermajority to Raise Taxes--2005

State	Year Adopted	Initiative or Referendum	Legislative Supermajority Vote Required	Applies To...
Arizona	1992	I	2/3	All taxes
Arkansas	1934	R	3/4	All taxes except sales and alcohol
California	1979	I	2/3	All taxes
Colorado	1992	I	2/3	All taxes [1]
Delaware	1980	R	3/5	All taxes
Florida	1971	R	3/5	Corporate income tax [2]
Kentucky	2000	R	3/5	All taxes [3]
Louisiana	1966	R	2/3	All taxes
Michigan	1994	R	3/4	State property tax
Mississippi	1970	R	3/5	All taxes
Missouri	1996	R	2/3	All taxes [4]
Nevada	1996	I	2/3	All taxes
Oklahoma	1992	I	3/4	All taxes
Oregon	1996	R	3/5	All taxes
South Dakota	1996	R	2/3	All taxes
Washington	1993	I	2/3	All taxes [5]

1. Tax increases automatically sunset unless approved by the voters at the next election.

2. Constitution limits corporate income tax rate to 5%. A 3/5 vote in legislature is needed to surpass 5%. If voters are asked to approve a tax hike, it must be approved by 60% of those voting to pass.

3. Tax and fee increases voted on by legislature in odd-numbered years.

4. If the governor declares an emergency, legislature can raise taxes by 2/3 legislative vote; otherwise, tax increases over approximately $70 million must be approved by a vote of the people.

5. Tax increases producing revenue that do not exceed the spending limit must be approved by 2/3 legislative vote; tax increases that produce revenue over the limit must receive 2/3 approval by legislature and voters. *The 2/3 tax increase supermajority was suspended for two years and reduced to simple majority through June 30, 2007, by legislation enacted in April 2005.

Source: National Conference of State Legislatures, 2005.

State Tax and Expenditure Limits 2005

State	Year Adopted	Constitution or Statute	Type of Limit	Main Features of the Limit
Alaska	1982	Constitution	Spending	A cap on appropriations grows yearly by the increase in population and inflation.
Arizona	1978	Constitution	Spending	Appropriations cannot be more than 7.41% of total state personal income.
California	1979	Constitution	Spending	Annual appropriations growth linked to population growth and per capita personal income growth.

Colorado	1991	Statute	Spending	General fund appropriations limited to the lesser of a) 5% of total state personal income or b) 6% over the previous year's appropriation.
	1992	Constitution	Revenue & Spending	Most revenues limited to population growth plus inflation. Changes to spending limits or tax increases must receive voter approval.
Connecticut	1991	Statute	Spending	Spending limited to average of growth in personal income for previous five years or previous year's increase in inflation, whichever is greater.
	1992	Constitution	Spending	Voters approved a limit similar to the statutory one in 1992, but it has not received the three-fifths vote in the legislature needed to take effect.
Delaware	1978	Constitution	Appropriations to Revenue Estimate	Appropriations limited to 98% of revenue estimate.
Florida	1994	Constitution	Revenue	Revenue limited to the average growth rate in state personal income for previous five years.
Hawaii	1978	Constitution	Spending	General fund spending must be less than the average growth in personal income in previous three years.
Idaho	1980	Statute	Spending	General fund appropriations cannot exceed 5.33% of total state personal income, as estimated by the State Tax Commission. One-time expenditures are exempt.
Indiana	2002	Statute	Spending	State spending cap per fiscal year with growth set according to formula for each biennial period.
Iowa	1992	Statute	Appropriations	Appropriations limited to 99% of the adjusted revenue estimate.
Louisiana	1993	Constitution	Spending	Expenditures limited to 1992 appropriations plus annual growth in state per capita personal income.
Maine	2005	Statute	Spending	Expenditure growth limited to a 10-year average of personal income growth, or maximum of 2.75%. Formulas are based on state's tax burden ranking.
Massachusetts	1986	Statute	Revenue	Revenue cannot exceed the three-year average growth in state wages and salaries. The limit was amended in 2002 adding definitions for a limit that would be tied to inflation in government purchasing plus 2 percent.
Michigan	1978	Constitution	Revenue	Revenue limited to 1% over 9.49% of the previous year's state personal income.
Mississippi	1982	Statute	Appropriations	Appropriations limited to 98% of projected revenue. The statutory limit can be amended by majority vote of

				legislature.
Missouri	1980	Constitution	Revenue	Revenue limited to 5.64% of previous year's total state personal income.
Missouri, continued	1996	Constitution	Revenue	Voter approval required for tax hikes over approximately $77 million or 1% of state revenues, whichever is less.
Montana	1981	Statute	Spending	Spending is limited to a growth index based on state personal income.
Nevada	1979	Statute	Spending	Proposed expenditures are limited to the biennial percentage growth in state population and inflation.
New Jersey	1990	Statute	Spending	Expenditures are limited to the growth in state personal income.
North Carolina	1991	Statute	Spending	Spending is limited to 7% or less of total state personal income.
Oklahoma	1985	Constitution	Spending	Expenditures are limited to 12% annual growth adjusted for inflation.
	1985	Constitution	Appropriations	Appropriations are limited to 95% of certified revenue.
Oregon	2000	Constitution	Revenue	Any general fund revenue in excess of 2% of the revenue estimate must be refunded to taxpayers.
	2001	Statute	Spending	Appropriations growth limited to 8% of projected personal income for biennium.
Rhode Island	1992	Constitution	Appropriations	Appropriations limited to 98% of projected revenue.
South Carolina	1980 1984	Constitution	Spending	Spending growth is limited by either the average growth in personal income or 9.5% of total state personal income for the previous year, whichever is greater. The number of state employees is limited to a ratio of state population.
Tennessee	1978	Constitution	Spending	Appropriations limited to the growth in state personal income.
Texas	1978	Constitution	Spending	Biennial appropriations limited to the growth in state personal income.
Utah	1989	Statute	Spending	Spending growth is limited by formula that includes growth in population, and inflation.
Washington	1993	Statute	Spending	Spending limited to average of inflation for previous three years plus population growth.
Wisconsin	2001	Statute	Spending	Spending limit on qualified appropriations (some exclusions) limited to personal income growth rate.

Source: National Conference of State Legislatures, 2005.

See updates on the status of TELS:

- Tough Times for Tax and Expenditure Limits. November 2006.
- The Latest on Tax and Expenditure Limits. February 2006.

Footnotes

1. Mandy Rafool. "State Tax and Expenditure Limits." NCSL. 1996. [back]
2. Currently 11 states have 2/3 supermajorities by party representation. NCSL Legislative Management staff calculation as of April 11, 2005, not including vacancies. [back]
3. Michael New. *Limiting Government through Direct Democracy: The Case of State Tax and Expenditure Limitations.* CATO. 2001. [back]
4. Barry Poulson. *The Next Generation of Tax and Expenditure Limits.* Americans for Prosperity Foundation. 2004. [back]
5. Ten Years of TABOR: A Study of Colorado's Taxpayer's Bill of Rights. Bell Policy Center. 2003. [back]
6. The Flawed "Population Plus Inflation" Formula: Why TABOR's Growth Formula Doesn't Work. Center on Budget and Policy Priorities. 2005. [back]
7. Public Services and TABOR in Colorado. CBPP. 2005. [back]
8. Rafool. 1996. [back]
9. Fiscal Cap Style TELs in the States: An Inventory and Evaluation. Phyllis Resnick. The Center for Tax Policy. 2004. [back]
10. *Fiscal Rules and Bond Yields: Do Tax Limits Raise the State's Borrowing Costs?* James Poterba and Kim Rueben. Public Policy Institute of California. 1999. [back]
11. Ronald Shadbegian. Do Tax and Expenditure Limitations Affect the Size and Growth of Government? *Contemporary Economic Policy.* January 1996. [back]
12. Andrew Reschovsky. The Taxpayer Bill of Rights: A Solution to Wisconsin's Fiscal Problems or a Prescription for Future Crises? *State Tax Notes.* July 26, 2004. [back]
13. Adapted from NCSL's Talking Points on TABOR. Fiscal Affairs Program. 2004. http://www.ncsl.org/programs/fiscal/taborpts.htm [back]
14. Personal income grew only 2 percent from 2002 to 2003, the sixth worst rate in the country, when the national average was 2.8 percent. State employment shrank by 1 percent from 2002 to 2003, again the sixth worst rate in the country, when the national average was -0.1 percent. NSCL Talking Points, 2004. [back]
15. Brad Young. Presentation to *Governing Magazine* Conference. Washington, D.C. February 2005. [back]
16. *Revenue and Expenditure Limits.* Issue Brief. House Fiscal Research Department. February 2004. http://www.house.leg.state.mn.us/fiscal/files/ibrevexp.pdf [back]

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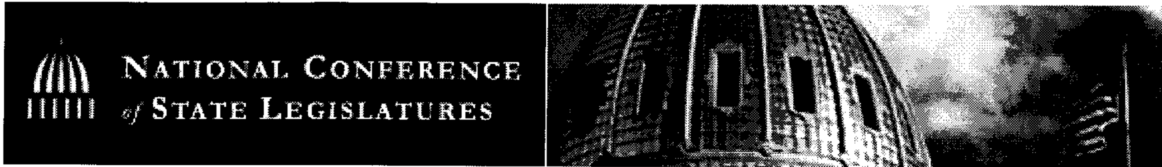

Tough Times for Tax and Expenditure Limits

In the November 2006 general elections, voters in Maine, Nebraska and Oregon rejected new tax and expenditure limits (TELs) by wide margins. These initiatives, modeled after Colorado's Taxpayer Bill of Rights (TABOR), generally included a spending limit tied to population growth plus inflation and voter approval for tax increases.

In addition to the measures that failed to win voter approval, several other TABOR-like proposals either did not qualify for this year's ballot or were removed by the courts. These included Michigan, Montana and Oklahoma, where the courts cited fraud in the petition process, and Missouri and Nevada, where the courts cited technical flaws in the actual petitions.

Despite the activity surrounding TELs, few new ones have been adopted in recent years. Last year, California voters rejected a measure that would have made the exiting limit more stringent and Colorado voters relaxed that state's TABOR provision. Only two states--Maine and Ohio--have approved limits in recent years and both of those are statutory, not constitutional, provisions.

More information on this year's statewide ballot measures, including TABOR and other tax and budget measures, is available through NCSL's Ballot Measures database.

See also background on tax and expenditure limits

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E

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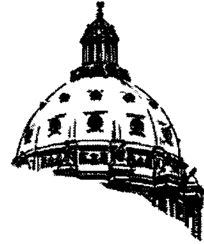

ISSUE BRIEF

Revenue and Expenditure Limits

February 2004

Proposals have been introduced in the Legislature for statutory or constitutional limits on Minnesota governmental revenue and spending.

According to information from the National Conference of State Legislatures, 21 states have some type of tax or spending limit. Limits included in this number range from the constitutional revenue limit of population growth plus inflation in Colorado, to a statutory spending limit of the average growth in personal income for the previous five years or change in inflation from the prior year in Connecticut.

As seen by the examples listed above, what is limited (revenue or expenditures) and the mechanism for determining the limit vary significantly. The Colorado revenue limit is increased by inflation plus population change. The Connecticut spending limit increases by the greater of the average personal income growth over the previous five years or the increase in inflation over the previous year.

Of the 21 states, four have limits that apply to revenue, 15 have limits that apply to spending, and two have limits that apply to both revenue and spending.

Seventeen of the 21 states have limits tied to the growth in personal income in the state and four states have limits tied to change in population plus inflation.

Not included in the number above are an Oklahoma limit on expenditure growth of 12 percent plus inflation and a Nevada limit on spending of population growth plus inflation that applies to the *proposed* budget. Also not included in the number above are four states that have limits on expenditures as a percent of revenues. (These limits attempt to assure a balanced budget and to maintain a budget balance.)

To help in thinking about these proposals, the following are a series of questions that might be asked. The questions and issues are intended to explore various options that might be considered in designing and discussing the proposed limits.

1. **What is limited, revenues or expenditures?**

   - If revenues, does the limit apply to all revenues, general fund revenues, tax only revenues (non-tax revenue would primarily be fees)? Is higher education tuition included? Is federal revenue included?

   - If expenditures, does the limit apply to all spending, or general fund spending only, or general fund and some other funds? Is spending of federal funds included? Is "spending" to increase budget reserves included?

   - If expenditures, is there an exception for spending to reduce taxes (i.e. state expenditures for property tax refunds or property tax credits)?

   - If expenditures, is the cost of bonding projects included in the limit or only the annual debt service on bonding projects (technically, the cost of bonding projects are appropriations from the state bond fund)?

2. **Should growth be limited by population growth plus inflation, or by growth in personal income in the state?**

   - If population plus inflation, how should they be measured?

     a) What measure of inflation should used?

        i. Consumer price index (CPI) national, Midwest regional CPI, or Minneapolis - St. Paul CPI.
        ii. Gross domestic product price deflator.
        iii. State and local government price index – the price index for state and local government consumption expenditures and gross investment.

     b) What measure of population change should be used?

        i. State demographic estimates.
        ii. Census Bureau data.
        iii. Should this measure be annual change or some average?

   - If personal income, how should income in the state be measured?

     a) Most states use personal income as measured by the U.S. Department of Commerce. This income measure is used by the Department of Finance in calculating the price of government measure.
     b) One state uses wages and salary income.

3. **How is the growth measure calculated?**

   - Is the measure an estimate of future growth for the year being limited (an estimate of personal income change between 2004 and 2005) or is it actual measure of past change?

   - Should the measure be an annual change (i.e. FY 2005 adjusted by annual CPI change compared to FY 2003) or an average (i.e. FY 2005 adjusted by a three or five year average change compared to FY 2003)?

4. **Is the baseline revenue or spending a one-year amount or an average of several years?**
   - Is the limit based on revenue or spending in one base year (i.e. FY 2005)? Does it float (third previous year)?
   - Another perspective, if spending or revenue falls short of the capped level in one budget period, does this result in a lower limit for the next year? (Use it or lose it?) Or is it the *limit* that grows each year?

5. **Once adopted, how often must the limit be adjusted?**
   - Must the limit be adjusted when updated data for a year is available? If adjustment is not required, is it an option?
   - How does the limit interact with forecasted expenditures? For example, if the limit is on expenditures and expenditures are at the limit, then the number of K-12 education students increases in the second year of the biennium, are any adjustments in state expenditures required or allowed?

6. **If the limit is a revenue limit, is there a threshold after which revenue must be rebated?**
   - For example, a rebate is only in effect if revenue collection exceeds the limit by more than a certain percent. (On a $14 billion annual budget, ½ of one percent would be $70 million.) This could eliminate rebating relatively small amounts.
   - What are the permissible uses of the excess revenue beyond the limit? Can they be used to fund *any* tax cut? Or only "rebates" or tax cuts of a specified nature?

7. **Is there an exception for disasters or emergencies (such as tornado relief)?**

8. **Is an adjustment to the limit allowed for a major change in state/local funding relationships (such as the state takeover of the general education levy)?**

9. **Can a limit be overridden by a super-majority vote of the Legislature?**

10. **Is there a sunset date on the revenue or spending limit (for example, expiration after 8 years)?**

11. **Are any limits placed on revenue or spending of local governments?**

For more information, contact Bill Marx, Chief Fiscal Analyst, at 651-296-7176 or at bill.marx@house.mn or Paul Wilson, Fiscal Analyst, at 651-297-8405 or at paul.wilson@house.mn

F

Lower Taxes, Higher Growth:
Tax and Expenditure Limits (TELs) and 10-Year Economic Performance, 1994 to 2004

	TEL in Place?	S&L Tax Burden	Gross State Product Growth	Personal Income Growth	Population Growth	Net Domestic In-Migration as a % of Population	Non-Farm Payroll Employment Growth
Alaska	Yes	$103.17	57.5%	49.4%	8.6%	-4.9%	17.0%
Arizona	Yes	$103.09	102.2%	100.3%	35.3%	12.0%	40.3%
California	Yes	$108.08	80.7%	72.1%	14.0%	-4.0%	19.6%
Colorado	Yes	$90.90	91.7%	93.7%	23.6%	6.0%	24.1%
Connecticut	Yes	$108.34	68.0%	61.5%	5.7%	-3.5%	7.0%
Delaware	Yes	$99.67	91.1%	76.4%	15.7%	5.1%	19.2%
Florida	Yes	$96.47	81.1%	77.4%	22.2%	8.2%	29.3%
Hawaii	Yes	$121.53	39.7%	38.0%	6.3%	-7.4%	8.7%
Idaho	Yes	$99.48	80.1%	76.2%	21.7%	7.2%	27.3%
Indiana	Yes	$106.71	57.3%	56.1%	7.7%	0.1%	8.0%
Iowa	Yes	$103.11	65.2%	56.0%	3.6%	-2.0%	10.3%
Louisiana	Yes	$109.55	60.3%	55.6%	3.9%	-3.8%	11.4%
Maine	Yes	$128.98	60.2%	67.1%	6.0%	3.2%	15.4%
Massachusetts	Yes	$100.74	72.3%	67.3%	5.3%	-3.8%	9.5%
Michigan	Yes	$106.08	41.3%	48.4%	5.4%	-2.1%	6.0%
Mississippi	Yes	$106.77	51.3%	63.4%	8.0%	0.5%	6.5%
Missouri	Yes	$94.24	54.4%	58.7%	8.1%	1.5%	9.0%
Montana	Yes	$99.15	60.1%	61.8%	7.6%	2.6%	21.0%
Nevada	Yes	$100.93	118.0%	118.8%	55.7%	21.1%	56.2%
New Jersey	Yes	$111.05	60.8%	62.8%	8.5%	-4.0%	12.7%
North Carolina	Yes	$101.30	78.2%	70.4%	18.8%	6.4%	14.0%
Oklahoma	Yes	$97.02	62.7%	64.2%	7.4%	0.1%	14.9%
Oregon	Yes	$97.24	73.7%	63.9%	15.2%	5.0%	17.0%
Rhode Island	Yes	$115.52	74.7%	62.4%	6.4%	-1.8%	12.5%
South Carolina	Yes	$97.65	62.6%	67.6%	13.3%	4.6%	13.4%
Tennessee	Yes	$89.02	65.7%	67.3%	12.8%	4.6%	11.5%
Texas	Yes	$97.89	86.0%	81.4%	21.1%	2.3%	22.3%
Utah	Yes	$106.23	88.2%	84.6%	21.9%	-1.4%	28.3%
Washington	Yes	$101.94	73.1%	77.6%	15.4%	3.4%	17.1%
Wisconsin	Yes	$118.24	61.9%	61.2%	7.3%	0.8%	12.6%
30 States With TELs*		**$104.00**	**70.7%**	**68.7%**	**13.7%**	**1.9%**	**17.4%**
20 States Without TELs*		**$106.48**	**63.2%**	**64.0%**	**7.6%**	**-0.7%**	**13.7%**
Alabama	No	$85.46	56.5%	58.9%	6.3%	0.8%	8.1%
Arkansas	No	$101.47	58.4%	63.6%	10.4%	2.6%	12.0%
Georgia	No	$99.03	79.4%	79.0%	23.4%	6.9%	19.1%
Illinois	No	$103.52	52.9%	53.0%	6.7%	-5.3%	6.3%
Kansas	No	$106.67	61.3%	55.6%	6.0%	-2.4%	13.5%
Kentucky	No	$106.98	51.2%	63.8%	7.7%	1.7%	12.4%
Maryland	No	$103.20	69.4%	69.7%	10.7%	-0.4%	17.2%
Minnesota	No	$116.96	76.6%	72.6%	10.6%	0.9%	15.6%
Nebraska	No	$117.15	56.2%	61.0%	6.6%	-1.8%	15.9%
New Hampshire	No	$85.20	79.6%	78.5%	13.7%	6.2%	19.9%
New Mexico	No	$109.58	48.5%	68.1%	13.1%	-0.7%	20.3%
New York	No	$133.56	61.2%	54.4%	4.2%	-10.0%	7.9%
North Dakota	No	$107.54	65.4%	62.5%	-1.6%	-7.0%	14.4%
Ohio	No	$112.63	47.1%	48.2%	2.7%	-2.5%	6.6%
Pennsylvania	No	$103.31	56.5%	51.7%	2.0%	-2.0%	8.6%
South Dakota	No	$94.23	70.2%	67.8%	5.5%	-1.7%	15.4%
Vermont	No	$110.28	64.3%	72.4%	6.4%	1.3%	14.9%
Virginia	No	$95.22	81.6%	72.2%	13.1%	1.9%	19.4%
West Virginia	No	$110.21	41.8%	50.0%	-0.3%	-0.7%	9.3%
Wyoming	No	$127.50	85.7%	76.5%	5.5%	-2.0%	17.7%

*Equal-weighted averages.

Sources: National Conference of State Legislatures, Census Bureau, Bureau of Economic Analysis, Bureau of Labor Statistics.

G

Lower Taxes, Higher Growth:
Limitations* on Tax Increases and 10-Year Economic Performance, 1994 to 2004

	Limitations in Place?*	S&L Tax Burden	Gross State Product Growth	Personal Income Growth	Population Growth	Net Domestic In-Migration as a % of Population	Non-Farm Payroll Employment Growth
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Washington	Yes	$101.94	73.1%	77.6%	15.4%	3.4%	17.1%
16 States With Limitations**		**$100.92**	**72.6%**	**72.8%**	**15.8%**	**3.5%**	**19.4%**
34 States Without Limitations**		**$106.92**	**65.4%**	**64.0%**	**9.2%**	**-0.4%**	**14.3%**
Alabama	No	$85.46	56.5%	58.9%	6.3%	0.8%	8.1%
Alaska	No	$103.17	57.5%	49.4%	8.6%	-4.9%	17.0%
Connecticut	No	$108.34	68.0%	61.5%	5.7%	-3.5%	7.0%
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Wyoming	No	$127.50	85.7%	76.5%	5.5%	-2.0%	17.7%

*Defined here as those states which require at least a three-fifths legislative supermajority vote and/or voter approval to increase some or all taxes.

**Equal-weighted averages.

Sources: National Conference of State Legislatures, Census Bureau, Bureau of Economic Analysis, Bureau of Labor Statistics.

H

RECOMMENDED DRAFTING ISSUES TO CONSIDER WHEN DRAFTING TAX AND EXPENDITURE LIMITATIONS

Define type of Tax & Expenditure Limitation (4 types):

1. Revenue Limits: Tie allowable yearly increases in revenue to a type of index such as population, inflation and/or personal income. These usually include refunding excess revenue to taxpayers and/or establishing a "rainy day" fund.

2. Expenditure Limits: Tie allowable yearly expenditure to a growth index related to the expansion of the economy.

3. Appropriations Limited by revenue estimates: Tie appropriations to the revenue forecast usually ranging from 95-99% of expected revenues (this type does not establish an absolute limit nor is it pegged to a growth index).

4. Hybrids or Combinations of the above.

Items to Clearly Delineate when Drafting:

1. What is limited: Revenues, Expenditures or Appropriations? Does the limit apply to all spending, or are there exceptions (i.e.: federal revenues)?

2. Does it limit state spending or state and local spending? If local spending is included, will it be accompanied with mandate relief and local option votes to suspend the limits in certain cases? Define such cases.

3. Base Year: The base year or years if using an average growth over several years is critical.
   a. If the purpose of the limit is to smooth revenues available to be spent, choosing a base year or years where government is at an optimal size relative to the state's economy would be ideal.
   b. If the purpose is to scale-back government, do not choose an unusually high growth year, nor include extraordinary cash windfalls (i.e.: Revenues generated due to Florida's tobacco litigation settlements).

4. Growth Factor: This will determine if future budgets will merely be smoothed out or if excess revenues will accumulate. (Some states use personal income growth, others a combination of Consumer Price Index, or CPI, in conjunction with Population growth. CPI has the capacity to underestimate inflation, and personal income growth tends to track economic ups and downs. Analysis of past revenue growth should be used as a guide and should make sure that the limit is not in danger of becoming moot). Consider a "reset" provision.

5. Use of Excess Revenues:
    a. If the limit is meant to smooth, excess revenues should be put into a "rainy day" reserve.
    b. If the limit is meant to reduce government over time, excess revenues should first maintain adequate reserves and then can be used for one-time infrastructure spending or taxpayer refunds.

6. Is there a trigger mechanism?

7. Is there a release valve (i.e.: supermajority vote of the legislature)?

8. Is there an emergency or disaster provision?

9. Is there a reset provision to keep the limit useful after unforeseen circumstances or a slow period in the economy?

IDEA 94

Require a supermajority vote for any tax increases

Tab A	Which States Require a Supermajority Vote to Raise Taxes? National Conference of State Legislatures, March 25, 1998
Tab B	Majority and Supermajority Requirements in Legislative Powers over Revenue Increases National Conference of State Legislatures, March 2006
Tab C	Supermajority Vote Requirements to Pass the Budget National Conference of State Legislatures, November/December 1998
Tab D	Research Report: Supermajority Votes on Taxes and Constitutional Amendments Will Promote Public Consensus and Voter Confidence While Slowing the Trend Toward Governing by Referendum Florida Tax Watch, July 1998

A

Which States Require a Supermajority Vote to Raise Taxes?

Mandy Rafool
National Conference of State Legislatures
25 March 1998

See also Majority and Supermajority Requirements and Other Constitutional Restrictions on Legislative Tax Powers, a table.

The recent debate in Washington, D.C., over requiring a three-fifths vote of Congress in order to raise taxes, has rekindled interest in state supermajority requirements and how they affect state finances.

Fourteen states now use supermajority requirements to restrict legislative fiscal power. Supermajority requirements are not tax limitations in the traditional sense, although they can serve to limit the growth of state revenues if they prevent tax increases. Supermajority requirements dictate either a two-thirds, three-fourths or three-fifths majority vote in both chambers to pass tax increases or new taxes.

The Arkansas Legislature was the first in 1934, to require tax increases to be approved by an extraordinary majority. Arkansas courts have interpreted the supermajority requirement to apply only to taxes on the books when it was adopted, so sales taxes and alcohol excise taxes are exempt from the requirement. Legislatures in Louisiana, Mississippi and Florida followed with supermajority requirements. The Louisiana and Mississippi measures apply to all tax increases. The Florida measure applies only to bills that increase the corporate income tax above a constitutional cap of 5 percent.

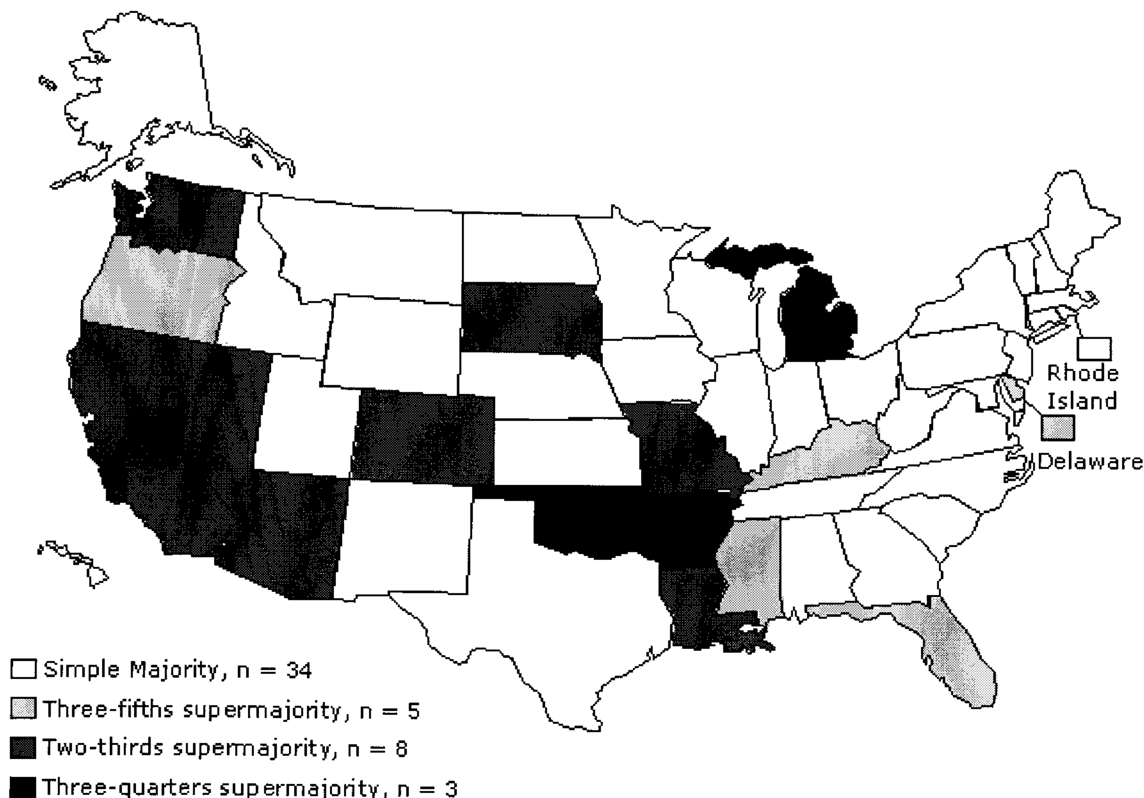
Citizens took up the cause in the late 1970s in California and South Dakota, passing initiatives to require supermajority votes. Delaware's General Assembly refereed the issue to the ballot itself and voters passed it in 1980.

Another wave of supermajority requirement initiatives surfaced in the early 1990s as citizens in at least six states voted on the issue. Measures in Arizona, Colorado, Nevada, Oklahoma, Oregon, South Dakota and Washington have passed. All (except Oregon and South Dakota) of the these recent supermajority requirements are the result of citizen initiatives.

The effectiveness of supermajority requirements in controlling government growth depends upon the make-up of the legislature and on the state's tax system. In states with one predominant party, the majority party traditionally has enough votes to approve tax increases. In other states, the requirement can be very restrictive. Staff from supermajority states report that diligent consensus building by legislative leaders is necessary to gain approval of most tax increases. States with tax systems that fail to provide revenue growth commensurate with economic growth may have trouble coping with such requirements.

The spread of supermajority requirements is probably limited to the states, mostly in the West, with the voter initiative process. They are just one of a number of "tax revolt" measures that may be favored by anti-tax or anti-government groups, although the recent debate in Congress over supermajority requirements will likely spur a renewed interest in the states.

Figure: States with Supermajority Requirements to Raise Taxes



Source: NCSL survey of state fiscal officers.

Posted March 1998, reviewed March 2006.
Email Which States Require a Supermajority Vote to Raise Taxes? for more information.
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B

Majority and Supermajority Requirements in Legislative Powers over Revenue Increases

State or Jurisdiction	Required to Pass Revenue Increase	Adopted	Referendum or Voter Initiative	Applies To
Alabama	Majority			
Alaska	Majority			
Arizona	2/3	1992	I	All taxes
Arkansas	3/4	1934	R	All taxes except sales and alcohol
California	2/3	1979	I	All taxes
Colorado	2/3	1992	I	All taxes*
Connecticut	Majority			
Delaware	3/5	1980	R	All taxes
Florida	3/5	1971	R	Corporate income tax**
Georgia	Majority			
Hawaii	Majority			
Idaho	Majority			
Illinois	Majority			
Indiana	Majority			
Iowa	Majority			
Kansas	Majority			
Kentucky	3/5			
Louisiana	2/3	1966	R	All taxes
Maine	Majority			
Maryland	Majority			
Massachusetts	Majority			
Michigan	3/4	1994	R	State property tax
Minnesota	Majority			
Mississippi	3/5	1970	R	All taxes
Missouri	2/3			
Montana	Majority			
Nebraska	Majority			
Nevada	2/3 elected	1996	I	All taxes
New Hampshire	Majority			
New Jersey	Majority			
NewMexico	Majority			
New York	Majority			
North Carolina	Majority			
North Dakota	Majority			
Ohio	Majority			
Oklahoma	3/4	1992	I	All taxes
Oregon	3/5	1996	R	All taxes
Pennsylvania	Majority Elected			
Rhode Island	Majority			
South Carolina	Majority			

South Dakota	2/3	1978	I	Sales and income tax
South Dakota	Majority Elected	1996	R	All taxes
Tennessee	Majority			
Texas	Majority			
Utah	Majority			
Vermont	Majority			
Virginia	Majority			
Washington	2/3	1993	I	All taxes***
West Virginia	Majority			
Wisconsin	Majority			
Wyoming	Majority			

Notes:

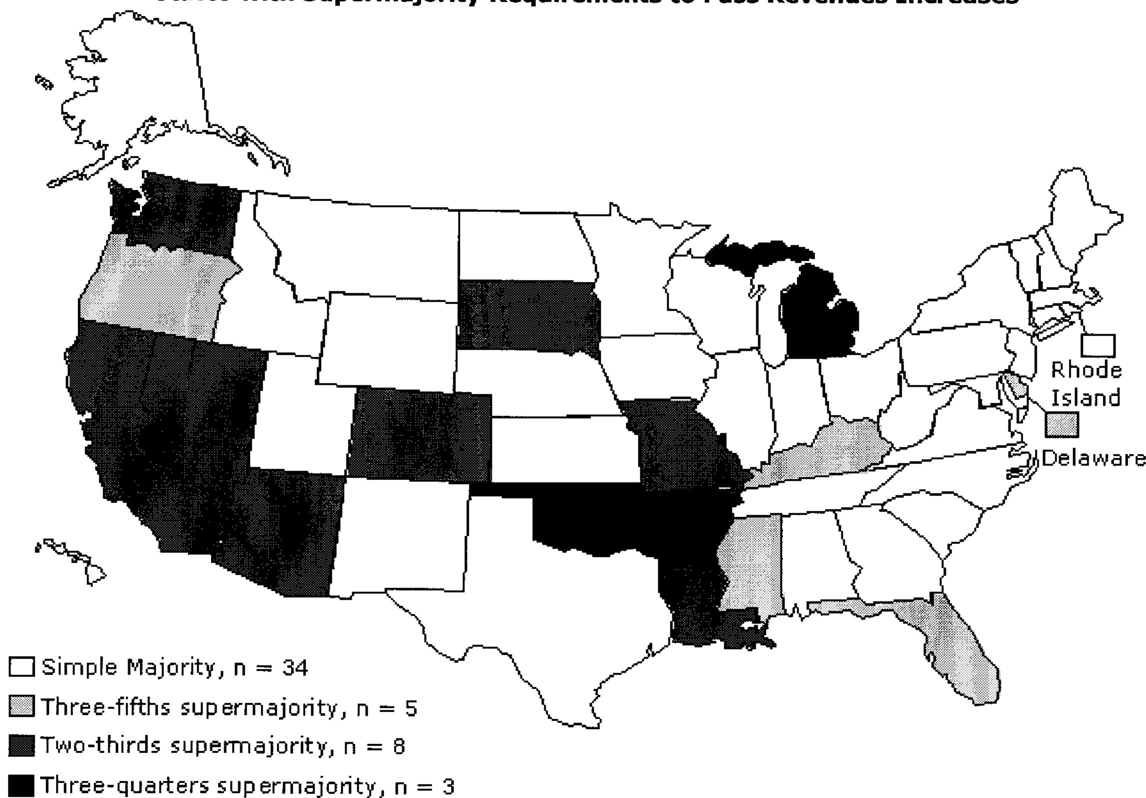
* Tax increases automatically sunset unless approved by the voters at the next election.

** The constitution limits the corporate income tax rate to 5 percent 3/5 vote needed to increase beyond 5 percent.

*** Tax increases producing revenue that do not exceed the spending limit must be approved by 2/3 legislative vote; tax increases that produce revenue over the limit, must be approved by 2/3 legislative majority and by the voters.

Source: National Conference of State Legislatures, Legislative Budget Procedures A Guide to Appropriations and Budget Processes in the States, Commonwealths and Territories, December 1997; and Council of State Governments, *The Book of the States, 2003,* Volume 35.

States with Supermajority Requirements to Pass Revenues Increases



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c

Supermajority Vote Requirements to Pass the Budget

A Legisbrief

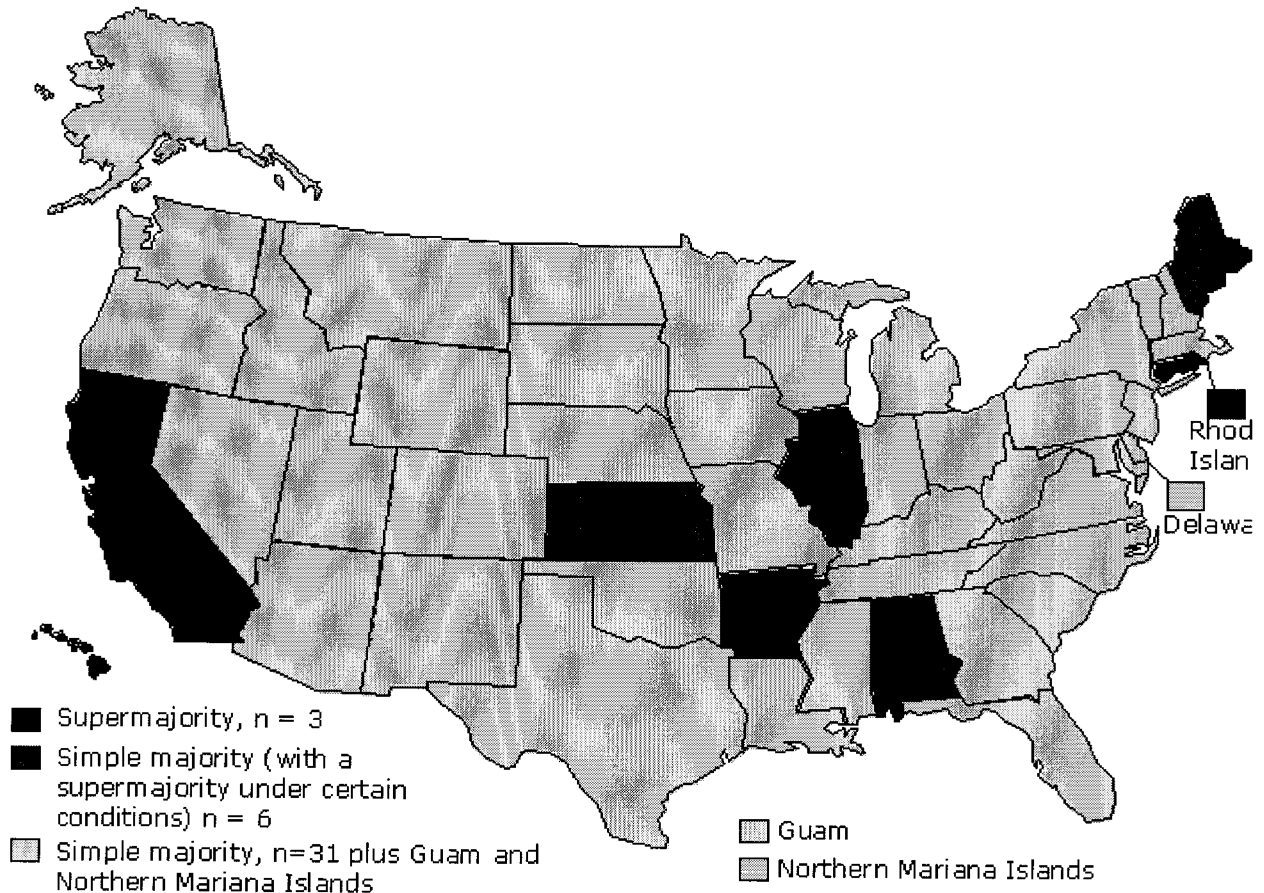
November/December 1998
Vol. 6, No. 48

Some states require an extraordinary vote to pass general appropriations bills for state operations.

In an effort to control spending or limit certain types of appropriations, some states require an extraordinary v to pass general appropriations bills for state operations. Although they are not spending limits in the traditiona sense, requirements for a supermajority--two-thirds, three-fourths or three-fifths of the legislature--can limit spending decisions if an agreement cannot be reached.

Extraordinary vote requirements vary. Nine states have some type of requirement. Three--Arkansas, California Rhode Island--need a supermajority vote each budget cycle to pass appropriations bills. Of the 47 states that require a simple majority vote, six--Connecticut, Hawaii, Illinois, Nebraska, Mississippi and Nebraska--require a supermajority under certain conditions.

Vote Required to Pass the Budget for State Operations



Arkansas. A constitutional amendment that become effective in 1934 requires the Arkansas legislature to obta three-fourths majority on appropriations for all purposes except education, highways, and paying down the sta debt. (Const., Art. V, Sec. 39). Appropriations for these purposes require a simple majority of members electe

California. A constitutional provision dating back to 1879 requires a two-thirds vote for general fund appropriations for purposes other than public schools (Const., Art. IV, Sec. 12). Because the Legislature typica passes one main budget bill, the requirement has effectively applied to the whole budget bill.

Connecticut. Appropriations require a simple majority of members elected, unless the general fund expenditu ceiling is exceeded. In that case, the Legislature must obtain a three-fifths majority (C.G.S.A. Sec. 2-33a).

Hawaii. Appropriations require a simple majority of members elected, unless the general fund expenditure cei is exceeded. In that case, the Legislature must obtain a two-thirds majority (Const., Art. VII, Sec. 9).

Illinois. Since 1994, an amendment to the constitution has required a majority vote until June 1 to pass all legislation, including the budget. After that date, the legislature must obtain a three-fifths vote (Const., Art. IV Sec. 10). The intent is to provide an incentive for the legislature to complete its work in a timely fashion before supermajority is required. Budgets were passed on time in 1995, 1996 and 1997, but it is not certain that the supermajority vote is responsible. The previous requirement--that a three-fifths majority was needed after Jun 30--failed to prevent late budget on a number of occasions in the 1980s and early 1990s.

Maine. A simple majority is required to pass all bills, and they become effective 90 days after the Legislature adjourns (Const., Art. IV, Sec. 16). If the budget isn't passed before April 1, however, it will not take effect by 1, the beginning of the fiscal year. For the budget to be operative in time. The Legislature must pass it as an emergency, requiring a two-thirds vote. (Bills passed as emergencies take effect immediately.) In at least the two years, a budget has been enacted as nonemergency legislation to avoid the supermajority requirement. Shortly afterward, the governor and the Legislature resolved pending budget issues in a special session.

Nebraska. Similar to Maine, a Nebraska provision dictates bill effective dates to be 90 legislative days after th are enacted in odd years (Const., Art. III, Sec. 27, Rule 6, Sec. 10). If the budget is passed after the end of M in an extended session, an emergency clause requiring a two-thirds vote is attached to make it operative at th beginning of the fiscal year.

Rhode Island. For appropriations for local or private purposes, a two-thirds majority vote is required (Const., VI, Sec. 11). Because the state typically drafts all main appropriations bills for operations into a single budget a two-thirds vote has been effectively necessary for all appropriations.

There is little empirical evidence identifying the effects of supermajority vote requirements on the budget process.

There is little empirical evidence identifying the effects of supermajority vote requirements on the budget proc Anecdotal evidence suggests that they may cause states to miss or bump up against their budget deadlines, making it even harder to pass a budget on time. And, according to a new report released by the California Citiz Budget Commission, instead of slowing the growth in state spending, California's two-thirds vote requirement have the opposite effect, allowing the legislative minority to frustrate the process of reaching compromise by withholding votes for spending in other areas. Ultimately, however, it is important to note that difficult budget decisions are probably more likely to be an obstacle to getting the budget passed on time than the number of required.

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Research Report

July 1998

Supermajority Votes on Taxes and Constitutional Amendments Will Promote Public Consensus and Voter Confidence While Slowing the Trend Toward Governing by Referendum

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Introduction

For over two centuries America's system of representative government has been vested with the responsibility of protecting the rights and property of vulnerable minorities from the tyranny of the majority. The masses are also protected from the undue influence of a powerful and well- organized minority by promoting the construct of consensus building and accommodation as described in The Federalist Papers, no. 10 , by James Madison. (see box)

Unfortunately, in recent years public dissatisfaction with government has led to the proposal of drastic measures that threaten the viability of representative government by resorting to a single issue hyper-democracy of referendum politics. Although some direct voter control methods are sound in concept and are a fundamental right of citizens, if carried to an extreme they can have dire consequences for government and the people government is supposed to both serve and protect. This is especially true when constitutional revision by referendum, supported by special interests, is used in lieu of the legislative process to address the people's concerns.

Voters' disaffection with the tax system is another trend that has fueled their demand for popular referendums to head off tax increases. This taxation by popular plebiscite compromises benefits which are afforded minorities by constitutional protections operative under the auspices of representative government. Consensus building is the key element in providing such protection. However, the endorsement or rejection of a tax in the atmosphere of a plebiscite short-circuits the legislative consensus element and opens the door to a massive transfer of tax burdens. In a populist environment that is emerging in the current political atmosphere, a substantial portion of such transfers are focused on the voting minority of society or the tax paying entities who do not possess a direct vote in elections, namely the private sector and business. Such an environment forces businesses to resort to committing more and more resources to lobbying efforts and political contributions. In order to maintain favorable economic conditions for themselves, they must expend resources that could be more efficiently used for economic productivity and job creation to benefit the entire state.

Federalist Papers Point the Way

During the ratification process that followed the drafting of the United States Constitution, Alexander Hamilton, James Madison, and John Jay wrote a series of articles known as *The Federalist Papers*. Published anonymously under the name Publius, these essays advocated the new representative government established by the Constitution and helped persuade political leaders in New York State to ratify it. Over the course of American history, the *Federalist Papers* have become essential to understanding the meaning of the Constitution and the purpose of American representative government.

Federalist Paper No. 10 argued in favor of representative government as the cure for factional politics. Madison asserted that the effects of representative government are "to refine and enlarge the public views, by passing them through the medium of a chosen body of citizens, whose wisdom may best discern the true interest of their country, and whose patriotism and love of justice will be least likely to sacrifice it to temporary or partial considerations. Under such a regulation, it may well happen that the public voice, pronounced by the representatives of the people, will be more consonant to the public good..." Due to the deteriorating view which the public holds its political leaders, a supermajority requirement might return some of the virtues Madison is describing.

The popular sounding 1992 *"Save Our Homes"* Constitutional Amendment is a good example. The implications and outcomes associated with this provision have not helped

save most homes or reduced the tax burden for the average citizen. Rather, it has helped mainly affluent owners of beach front property while increasing the tax burden on commercial and business property.

A responsible alternative to governing by and taxation through popular initiatives is supermajority requirements that will produce greater consensus among legislators and voters concerning the important issues of taxation and constitutional amendments. Two proposed reforms discussed in this paper should be considered by the Constitution Revision Commission to provide a legitimate alternative to government by plebiscite that is posturing as the only way to restore the people's confidence in government. More panaceas like the *"Save Our Homes"* Amendment will not bring consolation to the public -- returning to fundamental principles that assure consensus building will.

It is imperative for Florida's government to address this concern to avoid the prospect of being rendered unable to protect the foundation of representative government from the adverse effects of direct voter control methods of government where the winner takes all and the minority is at its mercy.

Supermajority of Legislature to Raise Taxes

As currently provided by the state Constitution, a majority of a quorum of the membership of each house of the Legislature, meaning as few as one member more than a quarter of the membership of the Florida Senate and House of Representatives, can pass a new or increased state tax. Although this scenario is highly unlikely due to the importance that citizens -- and consequently their legislators -- place on the issue of taxes, the possibility of minority rule does exist. This possibility, along with the public's distrust of government, makes it clear that requiring a greater consensus among awmakers to raise or initiate new taxes is a needed safeguard.

Requiring a supermajority of the full membership of each house of the Legislature, such as 2/3 or 3/5 votes, to increase existing taxes or enact new ones would help assure citizens, taxpayers, and business leaders that Florida will have a stable and predictable tax structure that is less subject to tweaking and manipulation by special interests. It would also discourage special interests from wasting resources on lobbying and campaign contributions which ultimately reduce the accountability of legislators and other elected leaders. Finally, it would reduce legislators' ability to increase taxes as the first option in meeting the state's fiscal needs.

Why is a supermajority needed rather than a simple majority vote of a quorum of members present in the respective houses of the legislature? As Florida TaxWatch stated previously, (*Briefings*, Volume III Issue 4, March 1995) a simple majority, particularly a simple majority of a quorum, can mask unresolved conflict amongst the electorate and its lack of real acceptance of a tax change. It is the obligation of elected officials to provide political leadership built upon public consensus. A supermajority to raise or even lower taxes would provide such leadership and promote such consensus.

The legislative process has historically been the vehicle used to build consensus. A supermajority requirement to raise taxes would help restore public confidence in representative government and reduce the inclination to utilize alternative methods to promote special interest agendas. It would also help assure better government by allowing more thoughtful consideration of the impacts of taxes. If the *"Save Our Homes"* amendment, cited above, had been drafted by the Legislature, the threat to renters and commercial property interests -- and the subsequent harm it has caused economic development -- might have been avoided. In fact, the amendment could have been designed to suit the concerns of a much broader constituency than it currently benefits.

Voter approval of taxes by referendum has been proposed as a way to allow the public greater say in taxation. This objective would essentially be accomplished by requiring supermajority votes in the Legislature to pass new or increased taxes. Voter approval is not widespread in the United States as a device to limit government. Only a handful of states have it, and only in one state (Colorado) does it apply to all taxes. Arkansas applies voter approval to most state taxes. Oklahoma applies it to any taxes passed by the Legislature with less than a 3/4 majority. Michigan applies it only to raising taxes above their constitutional limit. Tax shifting can be the ultimate outcome that aborts the legislative process.

Twenty-five years ago, Floridians accepted a supermajority requirement in the Legislature to raise the corporate income tax. Why should raising other taxes be permitted with less legislative support? The fact is that all taxes should meet this high threshold of legislative consensus because all taxes are confiscatory and involuntary in nature.

A supermajority vote of the Legislature will support one of the most basic tenets of representative democracy: protection of the minority from dominance by the majority. It will also promote another basic idea: limitation of undue control by a powerful minority.

Table 1 shows how 2/3 and 3/5 supermajority requirements would have affected the outcome of major tax and fee increases in Florida over the past decade. While eight of nine would have passed a 3/5 requirement, just five of the nine increases would have passed under a 2/3 majority requirement. Thus, the 2/3 majority would substantially impact the fiscal and political landscape of state government in Florida.

Twelve other states currently have supermajority requirements for raising taxes. Table 2 shows which states have them and what size majority they require. Seven of these states also have revenue limits similar to one Florida voters approved in a 1994 constitutional amendment.

Table 2
States Requiring Supermajorities to Raise Taxes

3/5	Delaware*, Mississippi, Oregon

majority	
2/3 majority	Arizona*, California*, Colorado*, Louisiana*, Nevada, South Dakota, Washington#
3/4 majority	Arkansas, Oklahoma*

*also have revenue limit similar to FL
#only taxes raising revenue exceeding constitutional revenue limit
Source : Florida TaxWatch and National Conference of State Legislatures, July 1997

Benefits of a supermajority requirement to raise taxes

◆More responsible tax policy built on broader consensus;
◆More stable tax policy to promote economic growth and job creation;
◆Increased accountability in the Legislature;
◆Public policy based not on taxation as first response, but on more thorough analysis of the state's needs; and
◆Increased public confidence and trust in the Legislature to govern effectively and responsibly.

Supermajority Vote to Amend Constitution

Currently, a simple majority of those voting on an amendment can add it to the state constitution. Turnout of registered voters has been as low as 58% in non-presidential election years, and less than 80% of those voters actually vote on constitutional amendments. Consequently, less than 20% of Florida's registered voters have enacted some constitutional amendments. Although this scenario is not common, the door to the possibility of minority rule is open. The potential of this fact and the public's lack of confidence in government lend merit to a requirement of supermajority approval to change the state constitution. A supermajority can range from 3/5 to 2/3 of voters voting on each proposed amendment, or even a simple majority of the total of all persons who vote in the election (as opposed to a majority of those voting on the amendment.) Although the latter is not a supermajority by definition, it is a more stringent requirement than what is currently in place.

Most Floridians likely agree that changes in the foundation and structure of government should be based on a broad consensus of the governed. However, since 1968 the Florida Constitution has often been amended by less than a majority of those voting on election day. The ease of placing amendments on the ballot by citizen initiative and legislative directive, compared to the difficulty of doing so to the federal constitution, has resulted in the state constitution being amended 73 times (out of 103 proposed) since 1970, an astonishing 71% success rate! By comparison, the U.S. Constitution has been amended only 27 times in the last 208 years.

Two key issues have contributed to the large number of amendments: the number of ways amendments can be proposed and the ease of ratification of proposed amendments. Two earlier Florida TaxWatch *Briefings* (Sept. 1994 and August 1995) proposed reforming the more easily correctable of the two key issues -- amendment ratification.

Florida TaxWatch supports requiring a greater consensus of Florida voters to pass constitutional amendments for three reasons:

First, the constitution should be a basic document that contains the root guidelines from which Florida law should be written. It should not be an instrument for redress of policy issues that the Legislature refuses to tackle, or a compendium of special interest provisions put forth to the public in petition drives that use flowery language and high powered advertising campaigns to gain support. Moreover, the body of law encompassed in the constitution should be a product of dialogue and consensus generated by deliberation. It should not involve "logrolling," which hides special interest issues under a coating of popular prescriptions and attractive attributes often designed to mislead voters.

Second, if a supermajority vote is required to pass constitutional amendments, it would be more difficult for special interest groups to effect changes that benefit their priorities at the expense of the taxpayers. Many powerful interest groups have the money to run well-financed campaigns that may misrepresent or deceive voters. Such efforts attempt to induce a positive perception of an amendment, not necessarily an understanding of its impact. A supermajority vote would help ensure that passing constitutional amendments requires greater consensus and acceptance by Florida's diverse demographic and social groups.

Table 3 shows what impact a supermajority requirement would have had on the previously noted 73 amendments to Florida's Constitution. Although about two-thirds of the amendments would have passed a supermajority requirement, Floridians might have been spared the consequences of controversial amendments, such as the 1992 "Save Our Homes" amendment, which passed by a bare majority of those voting on it. The full consequence of this tax shifting amendment is yet to be calculated.

Third, requiring a supermajority vote would force those endorsing controversial amendments to campaign differently -- hopefully more openly -- in order to pass their agendas. The greater degree of consensus required to pass amendments would ensure that concerns of more Floridians are heard. In short, a more stringent method of ratification would help prevent narrowly focused amendments from being forced into the Constitution.

Table 3
Impact of Supermajority Requirements on Constitutional Amendments Since 1968

Type of	2/3 of those	3/5 of those	Simple majority

Supermajority required:	voting on an amendment	voting on the amendment	of all persons voting in the election*
Number that would have passed	48	62	41
Number that would have failed	25	11	23

* = Total election counts unavailable for nine amendments: 1971, 1972, 1980 (special election amendments)
Source : Department of State, Division of Elections and Florida TaxWatch, June 1997

Table 4 lists each amendment to the Florida Constitution that has passed since the 1968 Revision. Fifteen of those amendments would have failed a two-thirds requirement. The table also shows that imposing a requirement of approval by 51% of those voting in an election would present a higher hurdle to ratification. Only thirteen amendments would have passed if this restriction had been in place.

Implementing a supermajority requirement to pass constitutional amendments would put Florida at the forefront of the struggle to limit the influence of special interests and help restore confidence in government. Currently, New Hampshire is the only state that requires a supermajority vote (2/3) to pass amendments to its Constitution. Three other states, Minnesota, Tennessee, and Wyoming, require a majority vote of all persons voting in the election.

Conclusion

The 1997 Florida Legislature did not act to place amendments on the 1998 ballot requiring a supermajority vote in the Legislature to raise taxes and to approve constitutional amendments. Ironically, legislators who see merit and virtue in a supermajority of the Legislature raising taxes do not see the same virtue in a supermajority vote by the people to amend the Constitution. Likewise, those favoring a supermajority to approve constitutional amendments should favor a supermajority vote for legislative changes in taxes. Although the appeal of these two ideas may be different, the fundamental construct of garnering substantial consensus concerning any basic public issue is not.

The public should make legislators aware of its beliefs and concerns about what thresholds should be required for the Legislature to change the state's tax structure, and voters to change the state's primary body of law -- the constitution. Florida TaxWatch hopes the Constitutional Revision Commission will take on this issue as it conducts its

important work over the next few months. If not, grave harm could come to the political and social climate our constitution sustains.

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PROPERTY TAX REFORM COMMITTEE

Tab A	PowerPoint Presentation
Tab B	Property Tax Reform Committee Preliminary Report and Recommendations

A

B

Property Tax Reform Committee Preliminary Report and Recommendations

State of Florida
December 2006

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Executive Summary

The property tax in Florida is the single largest tax source currently used to fund government. The Florida Constitution has reserved the property tax for local governments to use in funding a wide array of public goods and services. Yet, as the year 2006 comes to a close, even though tax preferences for many permanent residents are higher than ever before, many taxpayers are very unhappy with Florida's property tax system. Several years of extraordinary appreciation in real property values, while bestowing greater wealth to property owners, has also brought into clear relief the shortcomings of the current tax structure.

Affordability is a problem. Taxes on many properties have far outstripped the ability of their owners to pay. Several years of double-digit increases in property values have not been offset by reductions in tax millage rates levied annually by local governments. New residents to the state wishing to purchase their own home are finding the taxes on many properties to be unaffordable. Citizens' interest in restraining local government tax increases has been undermined by the Save Our Homes preference, which has insulated most voters from rapid tax increases even though property values have risen dramatically and tax rates have fallen only modestly.

There is a "lock in" effect. Many Floridians that own their own homes and have lived here for several years are finding themselves unable to relocate within the state because a change in homeownership will result in loss of substantial tax benefits.

Systematic inequities have emerged. Neighbors with the same property values are often being taxed at drastically different levels. The constitutional protections granted to homesteaded properties have shifted the overall burden of taxes to other property types, such as those used by businesses, renters, and part-time residents.

The variety of issues defies a simple solution. The Florida Legislature, unable to find a solution in its 2006 legislative session, authorized an in-depth study of property taxes in

Florida to help form the factual basis for future decisions on the issue. The results of this study will serve both the Legislature and the constitutionally established Taxation and Budget Reform Commission to be formed in 2007. This commission will have the power to consider a wide range of budget and taxation issues and place constitutional amendments on the statewide ballot in the 2008 general election.

In June 2006, Governor Jeb Bush issued Executive Order Number 06-141 establishing the Property Tax Reform Committee. Governor Bush saw a need to inform the debate on property tax reform with input from the "real world"—from private citizens, business associations, professional associations, and state and local governments. Additionally, the Committee's efforts were seen as a bridge between the legislative study and the Taxation and Budget Reform Commission.

The Committee is charged with making recommendations on how to improve property taxation in Florida. The recommendations to the Governor, the Legislature, and the Taxation and Budget Reform Commission are to be guided by policy criteria emphasizing a tax system that promotes equity, ease of compliance, economic competitiveness and neutrality, and an appropriate balance between public funding needs and taxpayers' ability to pay. Governor Bush directed the Committee to consider, at a minimum, the following:

- The consequences of current property **tax exemptions and assessment differentials**;
- The appropriateness, affordability and economic consequences of property **taxation levels** in Florida;
- **Alternative means of taxation** including, but not limited to, split-rate and land value taxation;
- **Replacement alternatives** to property taxation; and
- **Limitations upon local government** revenue and expenditures.

An initial report is due by December 15, 2006, followed by a mid-term report no later than March 1, 2007, then a final report no later than December 1, 2007.

Thus far, the Committee has held six meetings, during which the primary problems with the property tax structure were identified and many possible solutions were suggested. This four month period of information gathering has enabled the Property Tax Reform Committee to establish for itself a base of knowledge from which to move forward. The next phase of the committee's work will entail a more in-depth exploration of the consequences of specific ideas for solutions. The committee's recommendations listed below largely reflect the need for further study and deliberation and are consistent with the timeline set in the Governor's executive order establishing the committee.

Recommendations:

1. **Any recommendations to improve property taxation in Florida should be founded on a comprehensive approach, with an emphasis on simplifying the system for all taxpayers.**

2. **The Property Tax Reform Committee should continue to meet and formulate recommendations as contemplated in Executive Order Number 06 – 141.**

3. **The Property Tax Reform Committee concurs with the suggestions offered by the Auditor General in his performance audit of the Value Adjustment Board process (Report # 2006-007), except for the possible creation of an appeals process at the regional or state level.**

Further Study:

Several potential property tax system changes should be explored in more detail. The Committee will further study the following ideas:

a. Assess business property based on current use only, instead of "highest and best use" value.

b. Cap tax revenue growth for individual local governments.

c. Cap tax growth for individual properties.

d. Full or partial replacement of the property tax with other forms of taxation.

e. Assess properties using a moving average value of several years' assessments instead of using just the current year's value.

f. Simplify the "Truth in Millage" notice to be more easily understood by taxpayers.

g. Increase the homestead exemption.

h. Save Our Homes Portability.

i. Phase-out of the Save Our Homes tax preference.

j. Partial-year assessment of improvements to real property.

k. Agricultural use classification improvements.

l. Protecting homestead-related tax benefits when property is taken through the use of governmental powers of eminent domain.

m. Protecting homestead-related tax benefits during frequent relocations required by military service.

Background/History

Property taxes are the leading single source of tax revenue for government in Florida, with $25.7 billion levied in Fiscal Year 2005-06. This compares to the $23.6 billion in state and local sales taxes collected--the second largest single tax source. The property tax base, or taxable value increased by 25 percent in one year, growing from $1.31 trillion in Fiscal Year 2004-05 to $1.64 trillion in Fiscal Year 2005-06. Property taxes in Florida are used to fund the activities of counties, school districts, cities, and a variety of special districts such as water management districts, fire control districts, port authorities, and community redevelopment areas.

The importance of property taxes as a source of revenue for local governments is shown in Table 1. Property taxes as a proportion of local government revenues range from a low of 18 percent for cities to a high of 38 percent for school districts. As a proportion of tax revenues, property taxes are even more significant.

Table 1

	Property Tax as a percent of Local Government Revenues (FY 2003-04):	
	Total Revenue	Tax Revenue
Counties	31%	74%
Cities	18%	56%
School Districts*	38%	95%
Special Districts	20%	99%

(*) School data from FY 2004-05

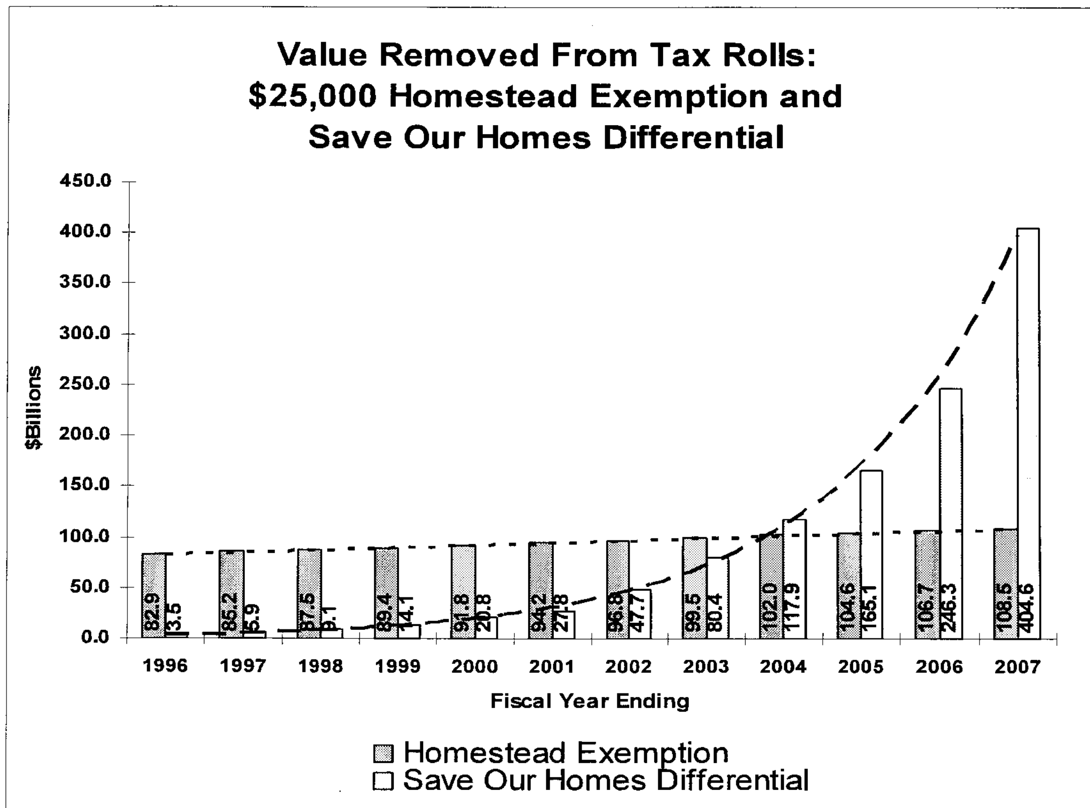
The prominence of property taxes in local government finances is founded in the Florida Constitution. The constitution reserves property taxes on real and tangible personal property exclusively for local governments. Furthermore, important structural aspects of local government property taxes are also set forth. Tax rates for county, city, and school district purposes are capped at 10 mills. Requirements are established for valuation of

property at market value. Exemptions are set forth and allowances are made for special classifications (and assessments) of property.

In the current property tax debate the most prominent of the special tax preferences allowed by the Florida Constitution are the homestead exemption and the Save Our Homes assessment limitation. The homestead exemption was amended into the Florida Constitution in 1934. It is available to persons that own the property in which they maintain a permanent residence in Florida. Until 1980, the homestead exemption amount was the first $5,000 of property value. In that year, voters approved an increase in the exemption to $25,000 for school purposes. A three-year phased increase to $25,000 for all other property tax levies was also approved then.

Approved by the voters in 1992, the Save Our Homes assessment limit constrains growth in the assessed value of homestead parcels to the lesser of 3 percent or the

Chart 1



percentage change in the Consumer Price Index, with assessed value never being allowed to exceed market value. The limit applies to individual homesteaded parcels until ownership changes, at which point the assessed value is reset to market value and the limit process begins again. Chart 1 shows how important the Save Our Homes preference has become.

In the first eight years since Save Our Homes took effect the homestead exemption continued to be the most important tax preference for homestead properties, removing $99.5 billion in value from the tax rolls in Fiscal Year 2002-03, compared to $80.4 billion for Save Our Homes. However, in the past four years, driven by rapid market value appreciation, the value of the Save Our Homes preference has increased dramatically. By Fiscal Year 2006-07, Save Our Homes protected $404.6 billion in property value from taxation, compared to only $108.5 billion attributable to the homestead exemption.

As the year 2006 comes to a close, even though tax preferences for homestead properties are higher than ever before, many taxpayers are very unhappy with Florida's property tax system. Several years of extraordinary appreciation in real property values, while bestowing greater wealth to property owners, has also brought into clear relief the shortcomings of the current tax structure.

- **Affordability is a problem.** Taxes on many properties not benefiting from accumulated Save Our Homes protections have far outstripped the ability of their owners to pay. Several years of double-digit increases in property values have not been offset by reductions in tax millage rates levied annually by local governments. New residents to the state wishing to purchase their own home are finding the taxes on many properties to be unaffordable.
- **There is a "lock in" effect.** Floridians that own their own homes and have lived here for several years are finding themselves unable to relocate within the state because a change in homeownership will result in loss of substantial tax benefits.
- **Systematic inequities have emerged.** Neighbors with the same property values are often being taxed at drastically different levels. The constitutional protections granted to homesteaded properties (i.e., the Homestead Exemption and the "Save

Our Homes" assessment growth limitation) have shifted the overall burden of taxes to other property types, such as those used by businesses, renters, and part-time residents.

This variety of issues defies a simple solution, as was apparent in the 2006 regular session of the Florida Legislature. Numerous proposals were made to address particular problems, but no comprehensive answer emerged. In recognition of the complexity of the situation, the Legislature authorized an in-depth study of property taxes in Florida, with special emphasis on the effects of Save Our Homes currently and under proposed changes. The study is also to analyze the millage rates levied by local governments and the effectiveness of the annual tax rate/budget noticing process. Though some findings and recommendations are expected to be made prior to the 2007 legislative session, the final report of the legislative study is due in September 2007. The timing of the results is meant to serve both the Legislature and the constitutionally established Taxation and Budget Reform Commission, to be formed in 2007.

The Taxation and Budget Reform Commission, pursuant to the Florida Constitution, is formed once every 20 years for the purpose of proposing legislative and constitutional changes to Florida's state government budget laws and state and local government tax systems. The 25 member commission consists of 11 appointees by the Governor, seven by the Speaker of the House of Representatives, and seven by the President of the Senate. It can place measures directly on the ballot to be considered by voters, bypassing the normal legislative approval or citizens' initiative processes. Though the constitutional language is unclear as to the timing of submission of constitutional amendments by the upcoming commission, it is likely that they will be considering amendments for the 2008 general election ballot. The commission can be expected to consider property tax reform ideas and use the results of the legislatively approved property tax study.

In June 2006, Governor Jeb Bush issued Executive Order Number 06-141 establishing the Property Tax Reform Committee (see Appendices A and B). Governor Bush saw a need to inform the debate on property tax reform with input from the "real world"—from

private citizens, business associations, professional associations, and state and local governments. Additionally, the Committee's efforts were seen as a bridge between the legislative study and the Taxation and Budget Reform Commission.

The 15 member Committee is charged with making recommendations on how to improve property taxation in Florida. To assist with its deliberations, the Committee is required to consider public comment from a broad variety of business associations, professional associations, governmental associations, agencies, businesses, and citizens. The recommendations to the Governor, the Legislature, and the Taxation and Budget Reform Commission are to be guided by the following policy criteria:

- **Equity**--The Florida tax system should treat similarly-situated taxpayers similarly;
- **Compliance**--The Florida tax system should be simple and easy to understand, as well as fair, consistent and predictable in enforcement and collection;
- **Competitiveness**--The Florida tax system should be responsive to interstate and international economic competition;
- **Economic Neutrality**--The Florida tax system should minimize distortions in economic decision-making affecting investment, consumption, geographic location, and similar decisions; and
- **Fiscal Balance**--The Florida tax system should maintain an appropriate balance between public funding needs and taxpayers' ability to pay.

Governor Bush directed the Committee to consider, at a minimum, the following:

- The consequences of current property **tax exemptions and assessment differentials**;
- The appropriateness, affordability and economic consequences of property **taxation levels** in Florida;
- **Alternative means of taxation** including, but not limited to, split-rate and land value taxation;
- **Replacement alternatives** to property taxation; and
- **Limitations upon local government** revenue and expenditures.

An initial report is due by December 15, 2006, followed by a mid-term report no later than March 1, 2007, then a final report no later than December 1, 2007.

Committee Activities To-Date

The Property Tax Reform Committee has held six meetings to receive public input and expert testimony. As implied by the meeting minutes found in Appendix C, the information provided has encompassed a wide range of concerns from both taxpayers and local governments. Many issues, and possible solutions, have been identified for the Committee's consideration.

Additionally, a large volume of public input has been received through the Committee's website at { HYPERLINK "http://www.propertytaxreform.state.fl.us" }. The website allows interested parties to easily submit suggested solutions or other information to the committee. The submitted solutions can be viewed by the general public and are categorized for easier examination. To date, a total of more than 1,000 suggestions have been submitted in the following categories:

- Unequal Taxes on Seasonal Residents (260)
- Alternative Ways of Taxing Property (179)
- Unequal Taxes on Similar Properties (137)
- Large Tax Increases When There is a Change in Residence (129)
- Homestead Exemption (127)
- Other (129)
- Replacement Alternatives to Property Tax (60)
- Budget Process Improvements (20)
- Value Adjustment Board Improvements (12)
- Tax Notice Improvements (9)
- Agriculture Classification (7)

Nearly 300 non-suggestion contacts have been made through the website as well.

Property Tax Issues and Options

This section of the report will describe the issues, the evidence and some of the possible solutions identified by the Committee. From the many hours of public testimony and the hundreds of suggestions submitted via the Committee's website, it became apparent that **a comprehensive approach will be needed to address the main issues raised by taxpayers.** The complex array of problems facing taxpayers defies simple, one-dimensional solutions. Furthermore, solutions to some problems can make other problems worse. While the many concerns expressed by taxpayers are as unique as the circumstances of each individual, the common themes of *affordability and economic competitiveness, equity,* and *the "lock-in" effect* quickly emerged as the most prominent in taxpayers' minds. In addition to these broad issues, other, more narrowly focused matters were raised, such as concerns with the valuation appeals process, use or misuse of preferential treatment granted agricultural property and certain situations in which homestead exempt status can be lost.

Issue: **AFFORDABILITY--Property taxes are no longer affordable for many taxpayers.**

A common complaint to the Committee has been that recent increases in property taxes are not affordable. Property taxes in Florida have grown rapidly in recent years following several years of much slower increase. Chart 2 shows total property tax levies in Florida growing from $11.2 billion in Fiscal Year 1994-95 to $25.7 billion in Fiscal Year 2005-06. The shape of the line indicates that levies have accelerated in recent years.

Chart 2

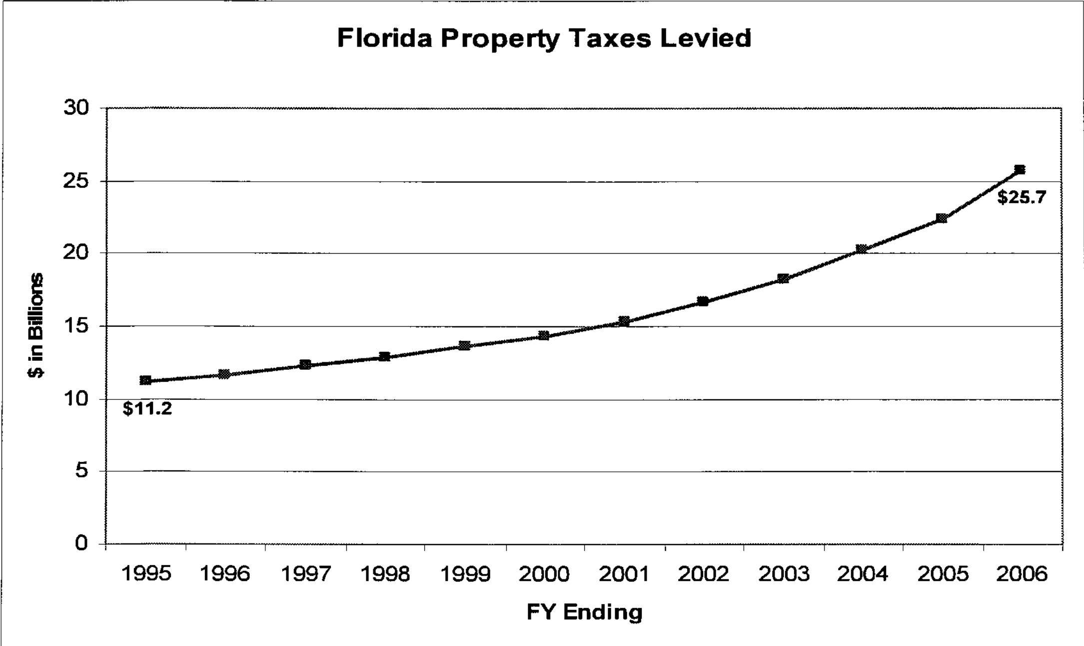
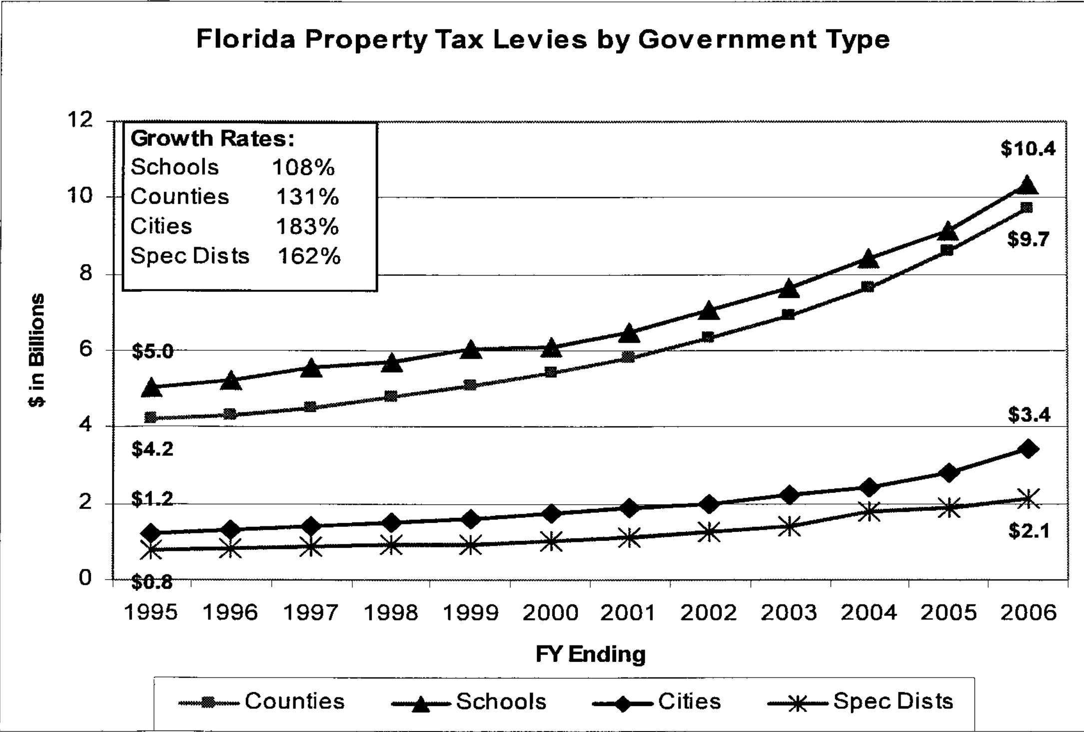


Chart 3 demonstrates that all local government types have shared in this growth.

Chart 3



Charts 4 and 5 support the assertion that taxes are unaffordable. Chart 4 demonstrates that beginning in Fiscal Year 2001-02 growth in property taxes outstripped personal income growth. Chart 5 summarizes recent history indicating that since Fiscal Year 1999-2000, property tax levies have increased by 80 percent, compared to total personal income growth of 39 percent and inflation plus population growth of 32 percent over the same period.

Chart 4

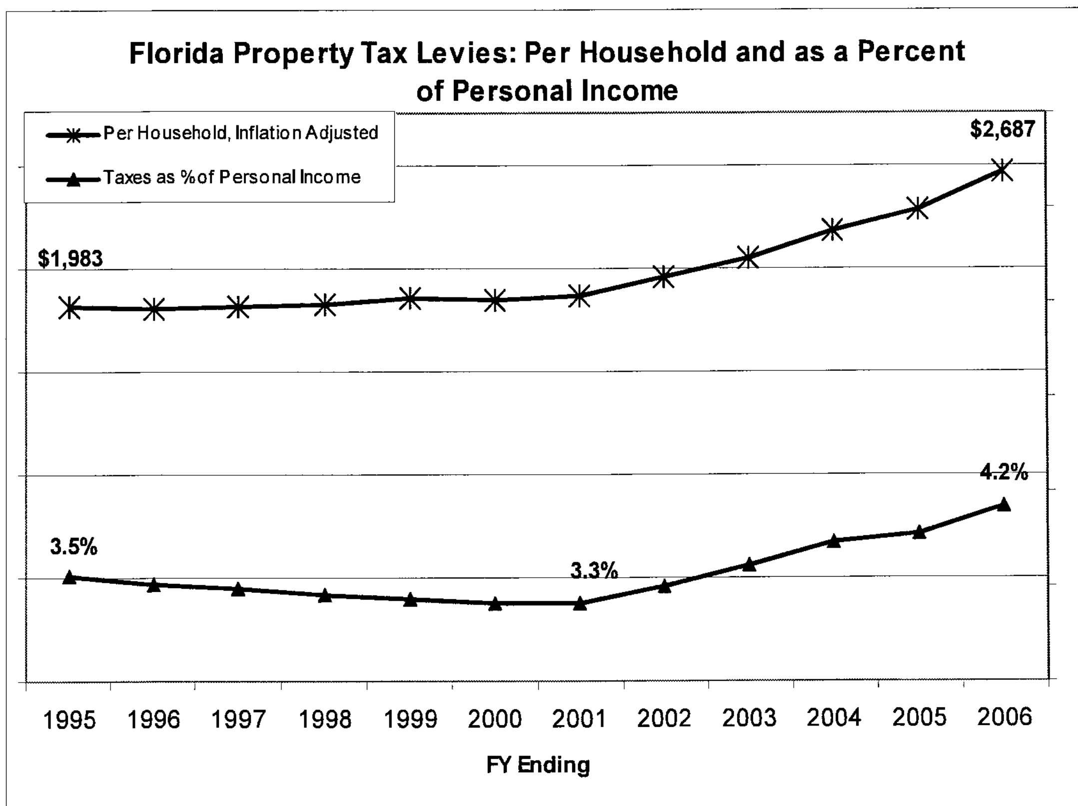
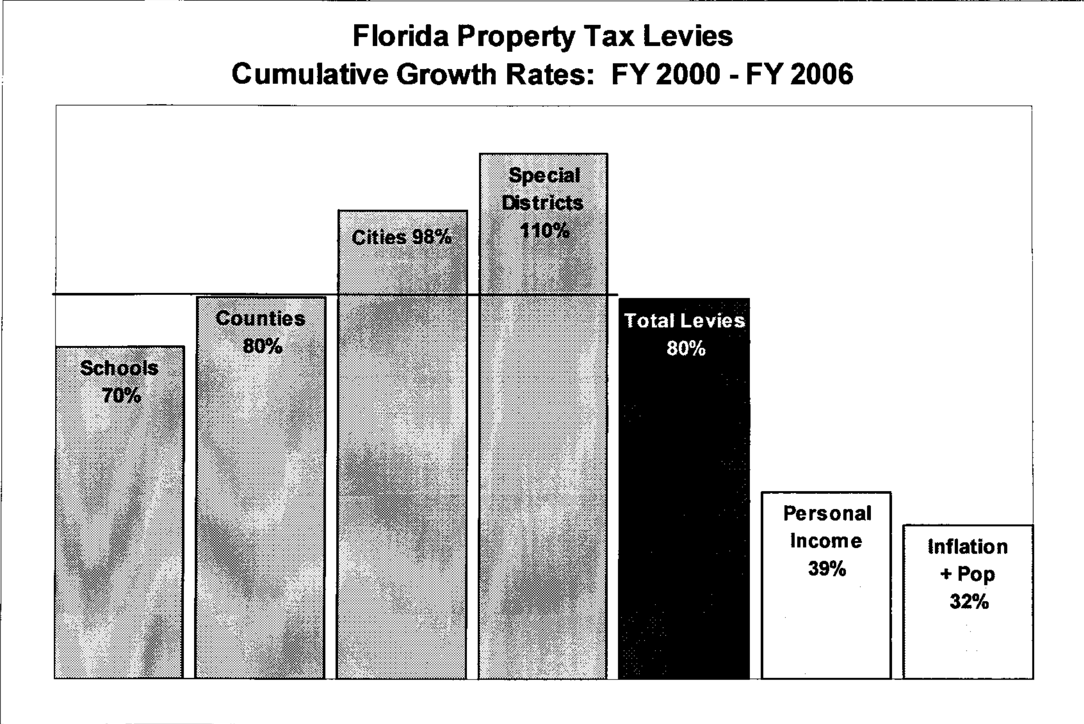


Chart 5



The effect on individual taxpayers has been dramatic. Public input to the Committee has revealed that part-time residents, often on limited or fixed retirement incomes, must consider selling their Florida retirement property because the taxes are no longer affordable (a situation made worse by recent increases in property insurance rates). Owners of residential and commercial rental properties are faced with the choice of either selling their properties or passing on large tax increases to their tenants, who often are unable to accommodate the increases. In either case the availability of affordable housing and affordable commercial space for small businesses in some areas of Florida is being hampered. Concerns have been raised about Florida's economic competitiveness and ability to continue to attract and retain businesses and jobs. For many businesses, large and small, competitive pressures prevent passing the tax increases on to customers. Businesses that can leave Florida are more likely to do so. Businesses that can not leave the state could see lower profits and curtailed operations.

The affordability issue reflects a couple of different aspects. First, assessed values based on the fair market value of real property have outstripped taxpayers' income growth. Second, tax rates determined by local government governing boards have declined modestly and not nearly enough to offset the increases in assessed values.

Assessed values have outstripped taxpayers' income growth. This is a problem for owners and users of non-homesteaded property (e.g., businesses, renters, and part-time residents) and recent new homestead owners. The extraordinary strength in real estate markets in recent years combined with the constitutional requirement that county property appraisers value properties at market value has resulted in a very rapid rise in taxable values for non-homesteaded properties. The taxable values of properties that were recently established as new homesteads also reflect this rapid acceleration. Unprotected by the Save Our Homes assessment growth cap, the average taxable value of non-homestead residential parcels increased by 99 percent (a 12.1 percent annual compound growth rate) between Fiscal Year 1999-2000 and 2005-06. The increase in the average commercial/industrial parcel taxable value was 53 percent (a 7.3 percent annual compound growth rate). These growth rates are well in excess of the 21 percent increase in Florida income per household over the same period (3.2 percent compound annually). However, it should be noted that continued rapid increases in property valuations seen in recent years are not likely to continue because real estate markets in many Florida cities and counties have cooled dramatically during 2006.

Tax rates have fallen, but not by enough to offset the increases in taxable values. Each year when local governments determine their budgets, they also set their property tax rates. Prior to finalizing their budgets and tax rates, local governments are required by state law to notify each property owner of his or her property valuation, previous year's taxes, current year proposed taxes, and taxes if the taxing authority did not increase its budget from the previous year. Additionally, each taxpayer is informed of the time and place of budget hearings, should the taxpayer want to provide input to the various governing boards prior to final budget and tax rate decisions.

In spite of current laws that afford opportunities for input from taxpayers and for annual adjustment of tax rates, recent years have seen only modest property tax rate reductions in the face of extraordinary taxable value growth. Consequently, tax levies have increased dramatically. Chart 6 shows that the statewide aggregate millage rate for all government types has decreased from 21.85 mills in Fiscal Year 1994-95 to 19.46 mills in Fiscal Year 2005-06, a 10.9 percent reduction (a 9.8 percent reduction since Fiscal Year 1999-2000). Chart 7 shows that different government types have shared in these tax rate declines to differing degrees. School district tax rates, in particular, fell noticeably more than for cities and counties. The modest tax rate declines explain why taxable value (i.e. the tax base) increased by 95 percent between Fiscal Years 1999-2000 and 2005-06, while tax levies increased by 80 percent (see Chart 8). Tax rate decreases in recent years have only slightly offset the effects of higher tax bases.

Chart 6

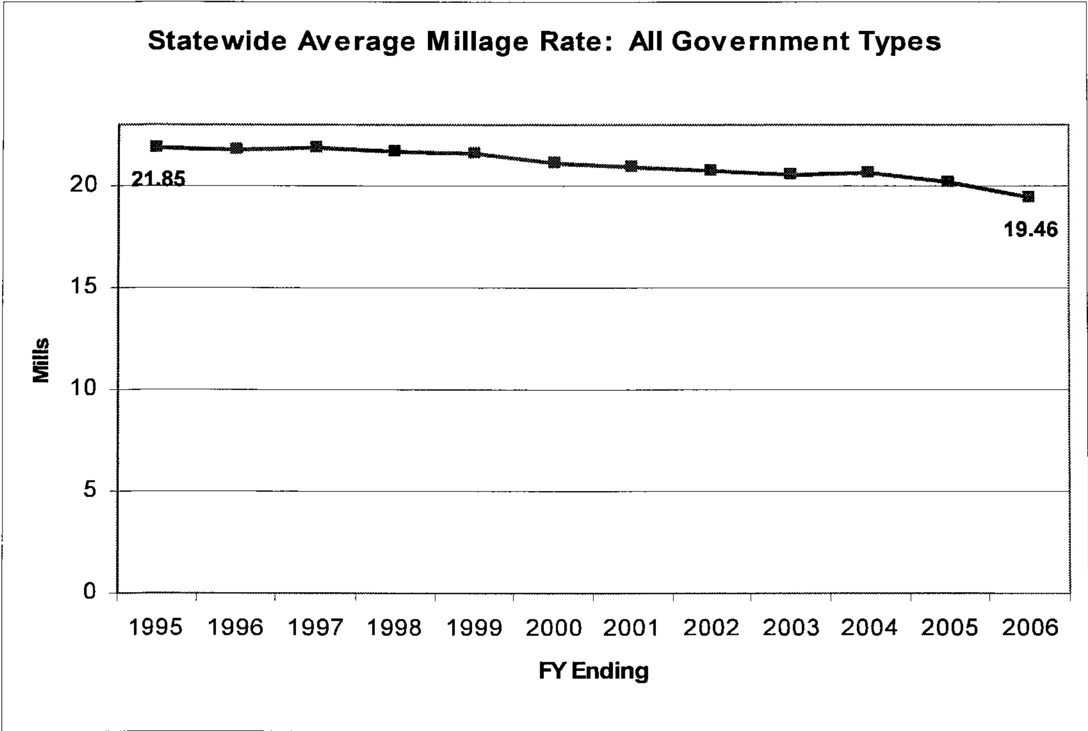


Chart 7

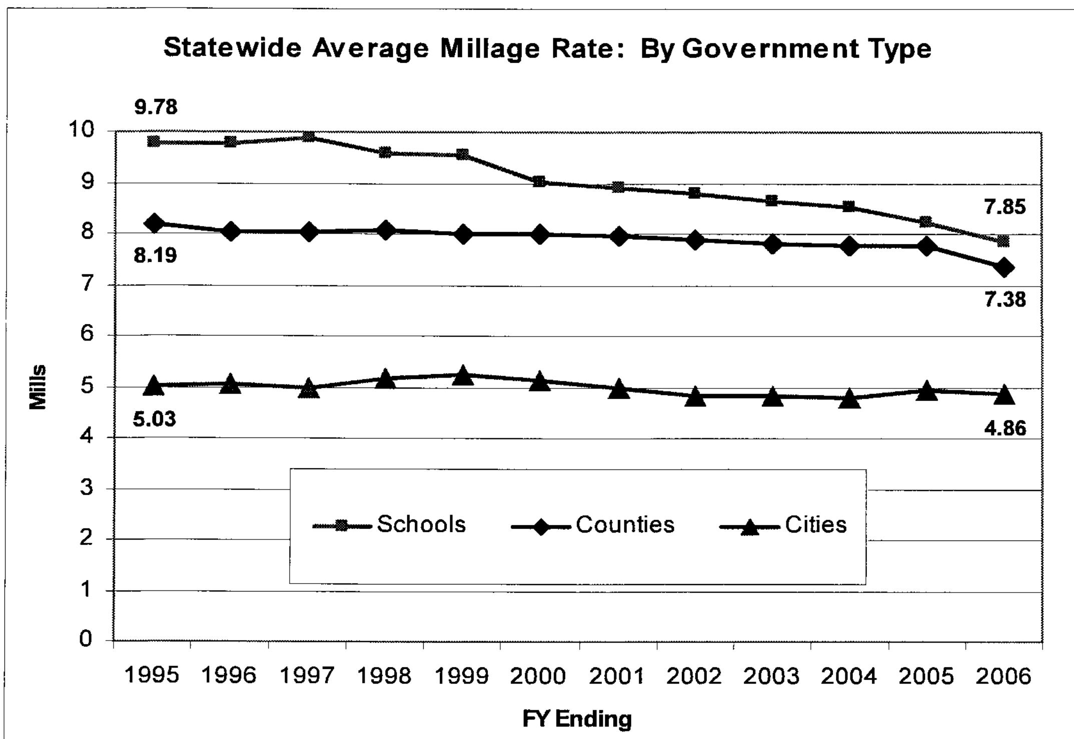
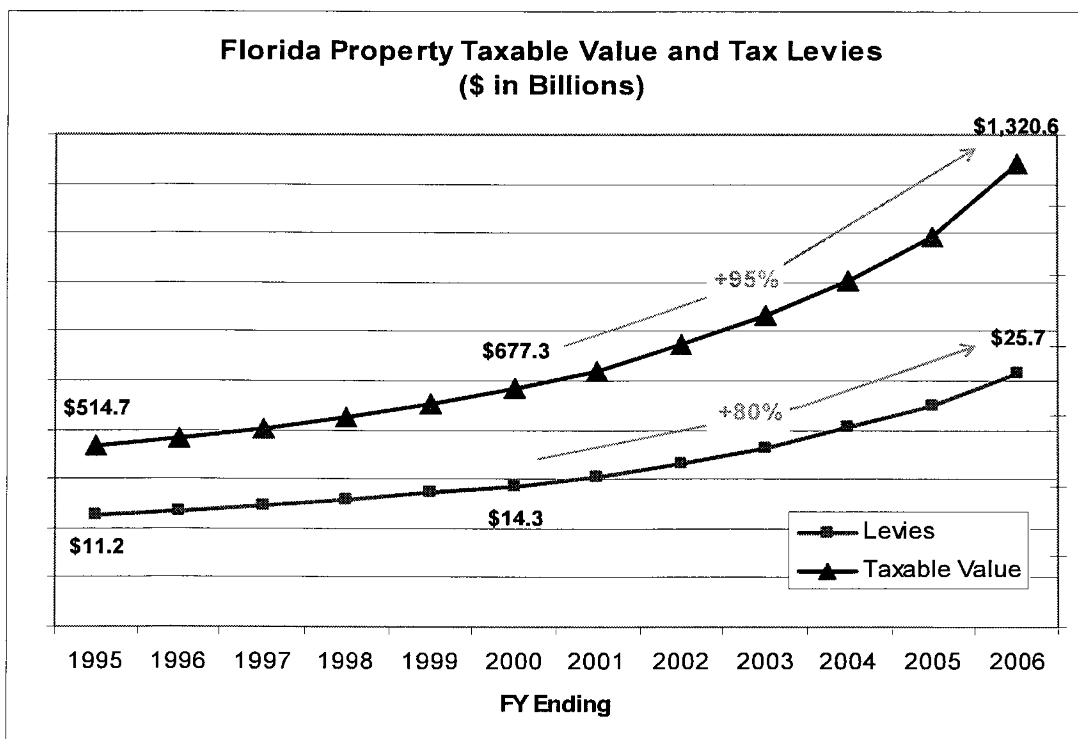


Chart 8



Options to improve affordability of property taxes include:

1. Assess non-homestead property based on current use only instead of true market value. Limit property appraisers to valuing business or residential rental property only on the basis of current use, instead of the "highest and best use" reflected in market prices. This would create a closer connection between property taxes and "ability to pay" (i.e., business income) than presently exists. Though property markets may establish higher values based on alternative uses, current businesses would not be forced out of their property by unaffordable taxes. Such a solution could be limited to certain types of property, such as affordable housing. While improving affordability, this option might also hinder the highest and best usage of real property, and place extraordinary discretion in the hands of the property appraisers. Furthermore, modification of an appraisal industry standard process is more likely to cause inequities in the valuation of many properties. Such a system might also create opportunities for abuse, against which great care should be taken.

2. Cap growth rates for individual properties. Similar to the Save Our Homes provisions for homestead properties, the annual increases in assessed value for all non-homestead properties could be limited to a certain percentage. As long as ownership does not change, affordability should be protected for most property owners. However, as is the case with Save Our Homes, inequities between similarly situated non-homesteaded taxpayers will develop over time. Additionally, new distortions in location decisions, such as the "lock-in" effect would be created and could discourage business formation. Also, assessment caps are subject to potential problems when properties that decline in market value are subject to tax increases at the same rate as properties that increase in market value.

3. Cap spending or revenue for individual local governments. Political feedback from taxpayers is not constraining local government governing boards from

allowing taxes to increase rapidly. One reason for this is that the Save Our Homes preference has insulated most voters from rapid tax increases even though property values have risen dramatically. An alternate mechanism may be needed to assure constraint of taxing authorities. A cap on revenue or spending would have forced tax rates down further in recent years and improved affordability. Even so, it would not necessarily have prevented individual taxpayers from experiencing very large tax increases due to increases in property valuations. Caps can vary in many ways, depending on:

- What is capped? Spending or revenues and types of spending or revenues,
- What is the allowable growth in the cap? Personal income, inflation, some other percentage,
- How can the cap be overridden?
- How is excess revenue disposed of?
- How is it to be enacted?

It should be noted that the committee heard testimony from representatives of local governments suggesting that the recent increases in taxes are at least partially explained by the need to offset higher costs that governments have to pay for things such as construction materials and insurance. The need to build reserves for emergencies, such as hurricanes, was also cited.

4. <u>Assess property using a five-year moving average.</u> Establish assessed value at the average of market value for the current year and the previous four. This will smooth out the effects of market changes on assessed values for tax purposes, giving property owners more time to adjust to changes. The likelihood that property taxes will outstrip owners' ability to pay will be reduced, though not eliminated. There will be a lag between market value changes and recognition of those changes for property tax purposes. This will increase the possibility that changes in assessed value in any given year will not reflect what is happening in property markets in that particular year. For example, if such a system was

currently in place, assessed value of a property could increase next year (mainly reflecting what has happened to market value the past four years) even though market value is stagnant or declines next year. Additionally, changing the appraisal process might only result in taxing authorities raising millage rates and using the appraisal process modification as an excuse for their reaction.

5. Improve Budgetary Discipline from Taxpayers. The "Truth in Millage" or other processes can be enhanced to improve information to and participation of taxpayers in local government budget-making processes. Political feedback from taxpayers is not constraining local government governing boards from allowing taxes to increase rapidly. One reason for this is that the Save Our Homes preference has insulated most voters from rapid tax increases even though property values have risen dramatically. Additionally, the timing or method of presentation or notification to taxpayers of proposed tax changes may also reduce taxpayer participation in the decision-making process. One possibility is to require earlier TRIM-type notices to taxpayers.

6. Increase the homestead exemption. This will provide immediate relief to all homesteaders (including new ones) from high levels of taxation. Inequities between homestead and non-homestead properties will increase, however. There are a number of variations of this option, including: doubling the value from $25,000 to $50,000; increasing the value of the exemption to reflect inflation since the exemption was set at $25,000, then indexing to inflation into the future; and setting the exemption as a percent of property value. The homestead exemption is essentially portable but can only provide limited protection from rapidly increasing taxes that might result from either valuation or tax rate increases. Further, local governments will see immediate and substantial reductions in their homestead tax bases, likely resulting in a further shift of taxes to businesses and rental properties.

7. Replace the property tax with an alternative revenue source. Complete replacement of the property tax will eliminate all the affordability, equity, and economic distortion problems with the current structure. The implications for taxpayers and governments will depend on the replacement tax source. The replacement revenue source will have different: patterns of incidence among taxpayers, growth characteristics, administrative issues, and levels of control by local government. Replacement sources that have been suggested include an increase in the state sales tax and a "commerce tax" on all commercial transactions in the state. There will be no more property tax problems, but other issues will almost certainly arise with a replacement source. A variation of this option is to reduce, but not eliminate, property taxes with a corresponding increase in an alternative revenue source, such as sales tax.

Issue: **THE "LOCK-IN" EFFECT-- Long-time permanent resident homeowners are finding it difficult or cost prohibitive to move to another home within Florida.**

The current Save Our Homes assessment limitation protects permanent resident homeowners who have established a homestead and experienced an increase in their market value from large annual tax increases as long as they remain in the same home. When a homestead is sold, though, the Save Our Homes benefit is lost. If the homesteader wants to relocate within Florida there is often a significant increase in tax liability, even if the newly acquired homestead property is less valuable.

In Fiscal Year 2005-06 the average (per parcel) Save Our Homes taxable value protection was $58,061. At the statewide average tax rate of 19.5 mills, this would amount to an annual tax savings of $1,130 for a homestead owner, a benefit that would be lost should the homestead be relocated in Florida. In fact, there is great variation around the average. The size of the tax savings as a proportion of a property's value tends to increase as the tenure of the homeowner increases. Long-term residents, then, tend to have larger tax benefits and will have larger potential tax increases should they relocate within Florida. The lock-in effect will also be unevenly distributed geographically around the state

because it will tend to be more pronounced in areas that have had more rapid property value appreciation.

The lock-in effect discourages Florida households from using property in the manner most appropriate to individual preferences and circumstances. Examples of adjustments in property usage that are being hindered include: residence downsizing by retirees or "empty-nesters"; relocation to seek employment; upsizing to accommodate a growing family or larger income. Consequently, the number of home sales is also being suppressed, though no Florida-specific measurement of this effect is available at present.

Options to alleviate the lock-in effect include:

1. Portablilty—Allow homeowners to take their Save Our Homes benefits to relocated homesteads. By allowing homestead property owners to retain some or all of their Save Our Homes benefit upon change of homestead location, the lock-in effect can be reduced or eliminated. Decisions about whether or not to relocate within the state will be much less affected by tax considerations. Also, affordability for homestead property owners will be improved. However, inequities between long-time residents, on the one hand, and non-homestead properties, first-time homeowners and new residents, on the other, will grow. Many variations of "portability" are possible, including: limits on the amount that can be transferred; age, income, or geographic limitations on when benefits can transfer; the number of times a transfer can happen; applying only when "downsizing"; and allowing the benefit to be transferred from parent to non-dependent child if the child is living in the home.

   Implementation of a portability plan will reduce property tax rolls below levels they would otherwise have attained. This does not mean that tax rolls will decline. A more likely outcome is that rolls will grow more slowly than would otherwise be the case. Official estimates from the Florida Revenue Estimating Conference of the effects of Save Our Homes portability are not yet available. The Florida Department of Revenue, though, has developed some preliminary

estimates in cooperation with the estimating conference. For an unlimited portability plan, the preliminary estimates suggest that the statewide property tax base would be reduced by -0.7 percent in Fiscal Year 2008-09 (first year of implementation) growing to a -2.4% reduction by the fifth year. To maintain the same level of revenues the statewide average tax rate would have to increase by 0.7 percent in the first year and by 2.5 percent in the fifth year. Note that wide variations can be expected among counties.

2. Eliminate Save Our Homes. Elimination of the Save Our Homes preference would eliminate the lock-in effect. Many homestead property owners would also likely see substantial (double or triple digit) tax increases absent any other changes to rates or structure. Currently, more than 4.3 million households, representing at least that many voters, enjoy Save Our Homes protections and would likely not approve this option. One variation of this option is that elimination could be phased in. Benefits currently enjoyed could be grandfathered in, but not allowed to grow over time. Based on information from Fiscal Year 2006-07, elimination of the Save Our Homes preference would result in a 24.5 percent increase in the statewide property tax base. The statewide average tax rate would have to fall by 19.6 percent to maintain the same level of revenues.

3. Replace the property tax with an alternative revenue source. As discussed earlier, complete replacement of the property tax will eliminate all the affordability, equity, and economic distortion problems with the current structure, but would likely raise similar issues with any replacement revenue source.

Issue: **EQUITY--Florida's property tax system creates and sustains significant inequities among taxpayers.**

In tax systems, equity is the fundamental element of fairness. It means that taxpayers with similar circumstances are treated the same. It is commonly expressed by taxpayers

as "everyone should pay their fair share." Yet, most property tax systems, including Florida's allow for exemptions or special preferences that will naturally create inequities among taxpayers. The inequities in Florida's property tax system have been one of the most common complaints submitted to the Property Tax Reform Committee by the public. Broadly speaking, equity concerns pertain to unequal treatment *among* homestead property owners and tax shifting from homestead properties to non-homestead properties, such as those owned or used by businesses, renters, and part-time residents.

Wide differences in the tax treatment among homestead property owners have resulted from the combined effects of rapid property value appreciation and the Save Our Homes tax preference. The two primary tax preferences enjoyed by homestead property owners are the homestead exemption and the Save Our Homes assessment limitation. Generally, the value of the homestead exemption is the same for all homestead properties—the first $25,000 of property value is exempt—though very low-valued homesteads can not take full advantage of that amount. The value of the Save Our Homes preference, however, varies and changes among homestead properties as the tenure of the owner changes. If annual property value increases are more than 3 percent, then as the length of time a homeowner remains in his or her home increases, so too does the value of property protected from taxation by the assessment limit. This has been the common experience of Florida homesteaders since Save Our Homes became effective in 1994 and has been exaggerated by very rapid property value appreciation in recent years.

Not surprisingly, among homesteads the value of property protected from taxation varies widely. Chart 9 shows how the Save Our Homes benefit varied across all homesteads in Fiscal Year 2005-06. The chart shows equally sized groups of taxpayers, ordered on the basis of their Save Our Homes differential (i.e. the amount of property value protected from taxation). The natural result of differences in owner tenure and property appreciation rates is that, at the extremes, more than 500,000 homesteaders had no benefit while nearly 430,000 had an average benefit of $244,000 in property protected from taxation. More to the point raised by many taxpayers, Chart 10 shows how the tax treatment among similarly situated homestead taxpayers can vary. This chart shows

Chart 9

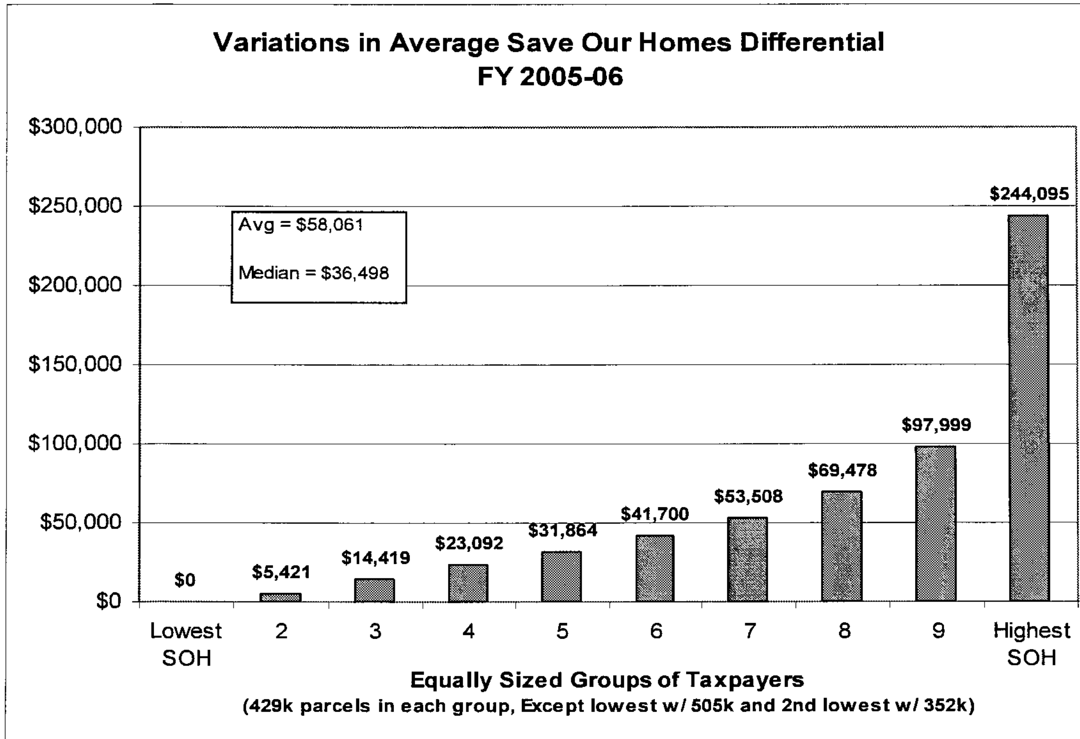
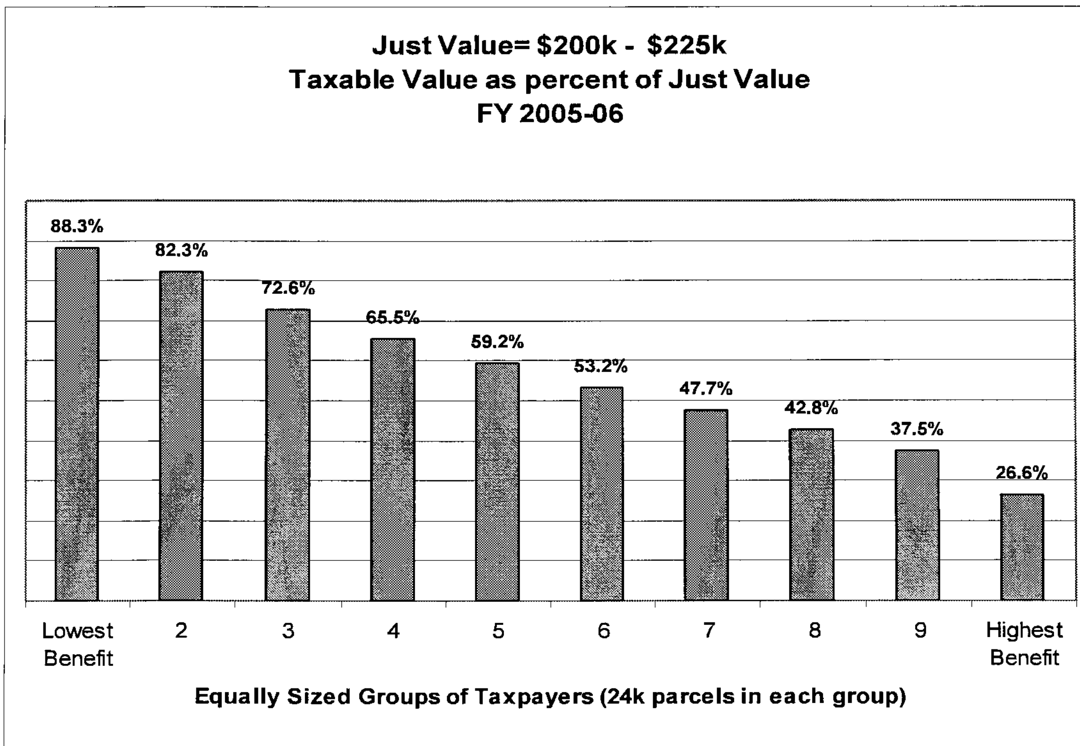


Chart 10



one group of similar homestead parcels, those with a market value of between $200,000 and $225,000, and puts all such parcels into equally sized groups. The chart shows that, at one extreme ten percent of taxpayers pay taxes on an average of 88 percent of their market value, while at the other extreme, ten percent of taxpayers pay taxes on an average of 27 percent of their market value. This represents a difference of 67 percent from highest to lowest taxable property value for properties with essentially the same market value. A similar pattern exists for other value groupings.

The growth of tax preferences for homesteaded property has contributed to a shift in tax burden from homesteaded taxpayers to non-homestead property owners (e.g., businesses, renters, part-time residents, second home owners). As the value of the Save Our Homes preference has increased over time, more and more homestead property value has been protected from taxation. This has been of great benefit to many permanent resident homeowners, but has meant that the burden of taxes that are levied will be born more heavily by non-homesteaded properties. Recent tabulations by the Florida Department of Revenue from the tax rolls for Fiscal Year 2006-07 indicate that the proportion of the tax base attributable to non-homestead residential and non-residential properties are both substantially higher as a result of Save Our Homes. With Save Our Homes the respective tax roll proportions of non-homestead residential and non-residential properties are 35.4 percent and 32.5 percent. Without Save Our Homes those percentages would be almost one-fifth lower at 28.5 percent and 26.2 percent, respectively. Conversely, without the Save Our Homes benefit the homestead tax base would be 74 percent higher. The larger resulting tax base would allow the same revenues currently being generated to be produced from lower tax rates so that taxes paid by non-homestead properties would be approximately 20 percent lower, but taxes on homesteaded property would be about 40 percent higher.

An additional source of inequity between taxpayers arises from current law that prevents taxation of substantially completed property improvements until the year following the completion of the improvements. For example, an improvement completed and occupied

as of February, can enjoy 11 months of reduced taxes, until the following year when the full value is reflected on the tax rolls.

Options to alleviate property tax inequities and tax shifting include:

1. Eliminate homestead-related tax preferences such as the homestead exemption and the Save Our Homes assessment limitation. Elimination of the source of the inequities described above would solve that problem, but would also adversely affect the affordability of taxes since most homestead properties would see substantial tax increases. Note that Florida's voters would have to approve such a change via an amendment to the Florida Constitution.

2. Increase Save Our Homes Growth Caps. Instead of capping growth in homestead assessed value at the lesser of 3% or inflation, the cap could be higher. Over time, a higher cap would lessen, though not eliminate, unequal tax treatment among homestead properties and between homestead and non-homestead properties. However, affordability would be adversely affected for homestead properties.

3. Replace the property tax with an alternative revenue source. As discussed earlier, complete replacement of the property tax will eliminate all the affordability, equity, and economic distortion problems with the current structure, but would likely raise similar issues with any replacement revenue source.

4. Partial-Year property assessments. Assessing improvements for the portion of the year during which they are first substantially completed could introduce greater equity. There would, however, be additional administrative costs associated with such a system.

Issue: **AGRICULTURAL CLASSIFICATION--The agricultural use classification is, in some cases, being misused in order to avoid higher taxes on soon-to-be-developed land.**

Florida law allows land that is being used for agricultural purposes to be valued solely on the basis of that use, instead of an often much higher "highest and best use" value. The tax savings associated with having an agricultural classification can be very large. Only lands that are used for good faith commercial agricultural purposes are to be classified agricultural.

Evidence was presented to the Property Tax Reform Committee suggesting that in some cases the current law is "gamed" in order to attain the classification and associated tax benefits. A couple of specific issues were identified as ways the current law is misused. First, owners/developers of land that has never been classified agricultural may claim that, by planting pine trees on the property, a bona fide agricultural use is established. Second, the land must only be in agricultural use on the January 1st date of assessment. If the use is discontinued a week after the assessment date, the property can still benefit from lower taxes for the year.

Options to address agricultural classification issues include:

1. Require minimum time periods during which property must be used as agricultural in order to qualify for the classification. This will prevent land owners from taking advantage of the January 1st assessment date.

2. Impose tax "recapture" provisions under certain circumstances. For example, land previously not classified as agricultural that is seeking the classification would be subject to repayment of the avoided taxes should the agricultural use be ended prior to a certain time.

Issue: VALUE ADJUSTMENT BOARDS—**Several areas of improvement have been identified by the Florida Auditor General.**

Value adjustment boards (VABs) exist in each county to hear appeals from taxpayers regarding their property valuations and their classifications and exemptions. VABs

consist of three members of the board of county commissioners and two school board members. Taxpayers may also appeal VAB decisions in circuit court, or go directly to circuit court, bypassing the VAB entirely. These boards are very important in the property tax appeals processes established under current law. Their proper conduct is of obvious vital importance to taxpayers.

In 2005, the Florida Auditor General conducted a performance audit (Report No. 2006-007) of county value adjustment boards in order to review the administration of the value adjustment board process by the Department of Revenue, the boards themselves, and the clerks of the court (who maintain the records for the VABs). The audit revealed numerous areas for improvement. Included among the Auditor General's suggestions were:

- The Legislature should consider creation of an appeals process at the regional or state level in conjunction with other recommendations in the report,
- The Department of Revenue should consider creation of a procedures manual to be used statewide so that procedures would be consistent and uniform for hearings before the VABs,
- Consideration should be given to requiring all counties to use special masters to promote consistency in the conduct of petitioner hearings,
- Value adjustment boards should review their procedures to ensure that there is no one in a position to influence the decision-making process of the Board regarding the selection of or disqualification of special masters who have ruled against the property appraiser in past petitioner hearings,
- Florida law should be amended to prohibit the county attorney from representing the VAB and to require the VAB to appoint private counsel, with the cost of such counsel being borne by the county and district school boards,
- Consideration should be given to providing petitioners in all counties the opportunity to have good cause hearings when warranted,
- VABs should ensure that their decisions are appropriately and adequately documented pursuant to law,

- The Department of Revenue should consider conducting training programs for special masters with specific emphasis on tangible personal property assessment,
- The law should be amended to require that the experience information contained in the applications submitted by the special masters to the clerks of the VABs be verified by either the clerks or the Department of Revenue,
- Clerks of VABs should assure that documentation that should be included as part of the record is retained,
- The Legislature should consider amending law to require VAB public notices to include the number of petitions heard by the boards and upon which a decision was rendered in the required public notice, and
- The VABs should consider the adoption of policies and procedures that would provide petitioners the opportunity to attend special master training meetings.

***Issue:* HOMESTEAD EXEMPTION—Loss of homestead exemption under select circumstances may not be desirable public policy.**

Some taxpayers identified specific situations in which they had lost homestead exemption benefits (which include Save Our Homes benefits) under current law, arguing that such situations were not desirable public policy and should be changed.

When a homestead property is taken by use of a government's power of eminent domain, the homestead location will have to change and, consequently, Save Our Homes benefits will be lost. Though not a common occurrence, there is a fundamental question of fairness, namely, should a homeowner be penalized, possibly with much higher taxes, if the state or local government forces him or her to sell their property?

The frequent relocations required by military service, especially requiring relocation overseas, makes it difficult to retain homestead exemption and Save Our Homes protections. Current Florida law allows members of the U.S. Armed Forces to retain their homestead exemption while stationed elsewhere if they rent out their homestead

property while absent. This arrangement may not suit all situations. Some taxpayers have suggested broadening these provisions.

The homestead exemption can not currently be transferred from one generation to another within a family or to a related family member. Some taxpayers have argued that the homestead exemption should pass on to a non-dependent child when that child has been a long-time live-in caretaker of their elderly parent in the parent's home.

Recommendations

After four months of gathering and absorbing a variety of information about Florida's property tax system, ranging from technical operational details of the system to real life experiences of taxpayers, the Property Tax Reform Committee has established for itself a base of knowledge from which to move forward. The next phase of the committee's work will entail a more in-depth exploration of the consequences of specific ideas for solutions. The committee's recommendations discussed below largely reflect the need for further study and deliberation and are consistent with the timeline set in the Governor's executive order establishing the committee.

Recommendation: **Any recommendations to improve property taxation in Florida should be founded on a comprehensive approach, with an emphasis on simplifying the system for all taxpayers.**

The issues and options discussed earlier in this report amply demonstrate the complexity of the problems plaguing Florida's property tax system. Solutions to the problems some taxpayers face will exacerbate the problems other taxpayers face. Consequently, the optimal solution for all involved should emerge from a careful, comprehensive consideration of *all* components of the tax system, not a piecemeal or "band-aid" approach. The result should be a simple, more taxpayer-friendly system.

Recommendation: **The Property Tax Reform Committee should continue to meet and formulate recommendations as contemplated in Executive Order Number 06 – 141.**

The executive order establishing the committee is created and sustained solely under the authority of the Governor. The committee recommends to Governor-elect Crist that he sustain Executive Order Number 06 – 141 and allow the Property Tax Reform Committee to continue its work. The complexity of the issues, the depth of knowledge required for good decisions, and the comprehensive approach needed to arrive at the best solution require more time than the committee has had thus far.

Recommendation: **The Property Tax Reform Committee concurs with the suggestions offered by the Auditor General in his performance audit of the Value Adjustment Board process (Report # 2006-007), except for the possible creation of an appeals process at the regional or state level.**

The committee felt that the creation of another level of property tax appeals process would add complexity and cost to the system and is not necessary to pursue.

Further Study

In its first four months of meetings the Property Tax Reform Committee discovered the scope of problems with Florida's property tax system and identified an array of possible responses, some of which might be components of a comprehensive solution. The committee will explore in more depth a number of solution options in order to more fully understand the benefits, costs, interactions with other potential changes, and implications for the tax policy criteria that the committee is charged with following. Table 2 at the end of the "Further Study" section provides a quick reference to how the various possible solutions will improve the tax system.

The committee will further study the ideas listed below. ***(Note: Further study does not constitute endorsement of the idea being studied.)***

1. Assess business property based on current use only, instead of "highest and best use" value.

2. Cap tax revenue growth for individual local governments. Specific mechanisms, such as tax rate caps, should be further examined in terms of their effectiveness, simplicity, and impacts on local government flexibility. There are likely to be interactive effects between government-level tax limitation mechanisms and other measures that limit growth of taxes on individual properties, such as caps on assessment increases.

3. Cap tax growth for individual properties. Current law caps growth in the valuation of homestead properties under certain circumstances, resulting in limited growth in taxes paid on individual homestead properties. Similar protections for non-homestead property should be explored. One example discussed by the committee is a permanent cap on annual valuations increases that stays with the property and is not affected by changes in ownership.

4. Full or partial replacement of the property tax with other forms of taxation. The committee recommends further study of this idea with particular attention given to business climate and economic development impacts, determination of appropriate levels of revenue replacement, administrative cost savings, incidence of tax changes relative to household income and geographic distributional consequences. Such a fundamental change in the Florida's tax structure should not proceed without full input from the business community and other affected parties.

5. Assess properties using a moving average value of several years' assessments instead of using just the current year's value.

6. Simplify the "Truth in Millage" notice to be more easily understood by taxpayers.

7. Increase the homestead exemption. As is true of caps on assessment growth, increases in the homestead exemption will result in individual taxpayer savings and a reduction in the overall tax base. The committee recommends further review of the variations of increasing the homestead exemption as a component or element of revenue control, both at the jurisdictional and individual taxpayer level.

8. Save Our Homes Portability. The committee recommends examination of Save Our Homes portability in all of its permutations, including but not limited to caps on transfer amounts, limits on the number of times a transfer can be made, and allowing portability only within one's home county, etc. Absent a broader solution to affordability and equity issues associated with the current tax structure, Save Our Homes portability options and implications will need to be better understood. Also, given the numerous administrative issues associated with portability, opinions of county property appraisers from around the state should be solicited.

9. Phase-out of the Save Our Homes tax preference. One idea for eventual elimination of the Save Our Homes tax preference is to grandfather in current beneficiaries but prevent future growth of the value of protected property. Over time, the effects of Save Our Homes preferences on equity and the tax base would disappear. This might be a component of a comprehensive solution needing further review.

10. Partial-Year assessment of improvements to real property.

11. Agricultural use classification improvements. The committee recommendation is to work with the agricultural industry, property appraisers, and other interested parties to look at ways to improve the current system.

12. Protecting homestead-related tax benefits when property is taken through the use of governmental powers of eminent domain.

13. Protecting homestead-related tax benefits during frequent relocations required by military service.

Table 2

Improvements to Property Tax Characteristics

Solution Idea	Equity: Homestead v. Homestead	Equity: Homestead v. Non-homestead	Affordability	Economic Competitiveness	Simplicity	Neutrality
Current Use Assessment		X	X	X		
Cap Tax Growth - Gov Unit			X	X		
Cap Tax Growth - Taxpayer		X	X	X		
Property Tax Replacement	X	X	X	X	X	X
Moving Avg Assessment			X	X		
TRIM Improvements			X	X		
Homestead Exempt Increase	X		X			
Save Our Homes Portability			X			X
Save Our Homes Phase-out	X	X			X	X

Appendices

Appendix A: Executive Orders

STATE OF FLORIDA

OFFICE OF THE GOVERNOR

EXECUTIVE ORDER NUMBER 06-141

WHEREAS, homeowners in the State of Florida are struggling under the dual burden of increased insurance costs and an escalating property tax burden related to increased housing prices and damage caused by hurricanes and tropical storms; and

WHEREAS, a differential tax burden has developed between first-time homestead property owners and long-term homestead property owners and between homestead property owners and non-homestead property owners related to the effect of *Save Our Homes* provisions of s. 4(c), Art. VII of the State Constitution; and

WHEREAS, the State of Florida's population is currently estimated at more than 18 million and is projected to increase to nearly 25 million by 2025, one of the most rapid growth rates in the nation, potentially exacerbating the stratification of the tax burden; and

WHEREAS, *Save Our Homes* has not prevented large increases in property tax assessments when existing homeowners relocate within Florida, potentially affecting homeowners' willingness to purchase a new home; and

WHEREAS, statewide total property tax collections have far exceeded growth in total personal income; and

WHEREAS, HB 7109 amended Sections 193.155 and 196.031, Florida Statutes, and required the Department of Revenue and Office of Economic and Demographic Research to conduct a study of the state's property tax structure to analyze the impact of the current homestead exemptions and homestead assessment limitations on different types of property; and

WHEREAS, a committee is needed to provide input to the Department of Revenue and Office of Economic and Demographic Research from business associations, professional associations, governmental associations, citizens, and local, regional and state agencies to supplement their research and help formulate strategies for improving the property tax system in Florida; and

WHEREAS, beginning in 2007, the Taxation and Budget Reform Commission will be established, among other things, to review policy as it relates to the ability of state

and local government to tax and fund governmental operations; to determine methods favored by the citizens of the state to fund the needs of the state, including alternative methods for raising sufficient revenues for the needs of the state; and to examine constitutional limitations on taxation and expenditures at the state and local level; and

WHEREAS, a committee is needed to bridge the efforts of the Department of Revenue and Office of Economic and Demographic Research to study property taxation and the inaugural efforts of the Taxation and Budget Reform Commission to study taxation and spending in the State of Florida;

NOW, THEREFORE, I, JEB BUSH, Governor of the State of Florida, by the powers vested in me by the Constitution and laws of the State of Florida, do hereby promulgate the following Executive Order, effective immediately:

1. I hereby create the "Property Tax Reform Committee," hereinafter referred to as the "Committee."

2. Members of the Committee and its Chairperson shall be appointed by and serve at the pleasure of the Governor. The Committee shall consist of 15 members, including two members of the Florida Senate recommended by the President of the Senate and two members of the Florida House of Representatives recommended by the Speaker of the House. Business of the Committee shall be conducted with a quorum consisting of a simple majority of the voting members. Votes of the Committee shall be passed upon a simple majority of those voting members present. The Chairperson of the Committee may appoint technical advisory subcommittees as needed to assist in the completion of the work of the Committee, and such subcommittees may include persons not on the Committee with special expertise or experience.

3. The Committee shall be a forum to discuss, at a minimum, the following:

   a. The consequences of current property tax exemptions and assessment differentials;

   b. The appropriateness, affordability and economic consequences of property taxation levels in Florida;

   c. Alternative means of taxation including, but not limited to, split-rate and land value taxation;

   d. Replacement alternatives to property taxation; and

   e. Limitations upon local government revenue and expenditures.

4. The Committee shall make recommendations to the Governor, President of the Senate, Speaker of the House, and Chairman of the Taxation and Budget

Reform Commission on how to improve property taxation and, in particular, shall recommend proposed legislation or constitutional amendments. Recommendations should be guided by, at a minimum, the following criteria:

a. Equity. The Florida tax system should treat similarly-situated taxpayers similarly;

b. Compliance. The Florida tax system should be simple and easy to understand, as well as fair, consistent and predictable in enforcement and collection;

c. Competitiveness. The Florida tax system should be responsive to interstate and international economic competition;

d. Economic Neutrality. The Florida tax system should minimize distortions in economic decision-making affecting investment, consumption, geographic location, and similar decisions; and

e. Fiscal Balance. The Florida tax system should maintain an appropriate balance between public funding needs and taxpayers' ability to pay.

5. To assist with its deliberations, the Committee shall solicit and consider public comment from as broad a variety of business associations, professional associations, governmental associations, agencies, businesses, and citizens as is reasonable.

6. Members of the Committee shall not receive compensation for fulfilling their duties as Committee members. Those members of the Committee who are employees of the State, if any, may receive reimbursement from their respective agencies to the extent allowed by Section 112.061, Florida Statutes.

7. The Executive Office of the Governor and Department of Revenue shall, with the assistance of other agencies, as appropriate, arrange for technical assistance and administrative support to the Committee and be responsible for payment for any operational, administrative, or organizational expenses incurred by the Committee.

8. All agencies under the control of the Governor are directed, and all other agencies and local governments are requested, to render assistance to, and cooperate with, the Committee.

9. The Committee shall meet at times and places designated by the Chairperson, with the first meeting to occur no later than August 15, 2006. Any vacancy occurring in the Committee shall be filled in the manner of the original appointment.

10. The Committee shall present an Initial Report no later than December 15, 2006, a Mid-term Report no later than March 1, 2007, and Final Report of its findings and recommendations no later than December 1, 2007, to the Governor, the President of the Senate, the Speaker of the House of Representatives, and the Chairman of the Taxation and Budget Reform Commission.

11. The Committee shall cease to exist upon submission of its Final Report.

IN TESTIMONY WHEREOF, I have hereunto set my hand and have caused the Great Seal of the State of Florida to be affixed at Tallahassee, The Capitol, this ____the day of June, 2006.

____
GOVERNOR

ATTEST:

____
SECRETARY OF STATE

STATE OF FLORIDA

OFFICE OF THE GOVERNOR

EXECUTIVE ORDER NUMBER 06-147

(Amends Executive Order No. 06-141)

WHEREAS, Executive Order Number 06-141 created the Governor's Property Tax Reform Committee and ordered the Committee to submit various reports of recommendations and/or proposed legislation or constitutional amendments to the Governor, the President of the Senate, the Speaker of the House of Representatives, and the Chairman of the Taxation and Budget Reform Commission; and

WHEREAS, the Committee can best serve its purpose by modifying the composition of its board;

NOW, THEREFORE, I, JEB BUSH, Governor of the State of Florida, do hereby promulgate the following amendment to Executive Order No. 06-141, effective immediately:

The Committee shall consist of 15 members, including two individuals recommended by the President of the Senate and two individuals recommended by the Speaker of the House.

Except as amended herein, Executive Order No. 06-141 is attached, incorporated, ratified and reaffirmed.

IN TESTIMONY WHEREOF, I have hereunto set my hand and have caused the Great Seal of the State of Florida to be affixed at Tallahassee, The Capitol, this 26th day of June, 2006.

GOVERNOR

ATTEST:

SECRETARY OF STATE

STATE OF FLORIDA

OFFICE OF THE GOVERNOR

EXECUTIVE ORDER NUMBER 06-203

(Amending Executive Order 06-141)

WHEREAS, on June 21, 2006, I issued Executive Order 06-141 creating the Property Tax Reform Committee; and

WHEREAS, this amendment is necessary to improve the functioning of the committee;

NOW, THEREFORE, I, JEB BUSH, Governor of the State of Florida, by the powers vested in me by the Constitution and laws of the State of Florida, do hereby promulgate the following Executive Order, effective immediately:

Section 1. Number 6 of Executive Order 06-141 is amended to read as follows:

6. Members of the Committee shall not receive compensation for fulfilling their duties as Committee members. However, when requested, actual expenses necessarily incurred in the performance of the Committee's business including transportation, meals, lodging and incidental expenses allowable under section 112.061, Florida Statutes, will be reimbursed. Those members of the Committee who are employees of the State, if any, may receive reimbursement from their respective agencies to the extent allowed by Section 112.061, Florida Statutes.

Section 2. Except as amended herein, Executive Order 06-141 is ratified and reaffirmed.

IN TESTIMONY WHEREOF, I have hereunto set my hand and have caused the Great Seal of the State of Florida to be affixed at Tallahassee, The Capitol, this 29th day of August, 2006.

____
GOVERNOR

ATTEST:

____
SECRETARY OF STATE

Appendix B: Committee Member List

- Donna Arduin of Fort Lauderdale, Partner and President, Arduin, Laffer & Moore Econometrics, LLC.
- Stephen Auger of Tallahassee, Executive Director, Florida Housing Finance Corporation.
- Barney Barnett of Lakeland, Vice Chairman, Publix Super Markets, Inc.
- Don DeFosset of Tampa, retired, appointed as Chairman.
- Bill Donegan of Maitland, Orange County Property Appraiser.
- Representative Carlos Lopez-Cantera of Miami.
- Charles Milsted of Tallahassee, Associate State Director, AARP.
- Representative Dave Murzin of Pensacola.
- Dennis Nelson of Wellington, Realtor, Keyes Company.
- Senator Burt Saunders of Naples.
- Cynthia Shelton of Lake Mary, Director of Investment Sales, Colliers Arnold.
- Richard Spears of Orlando, retired.
- Robert Turner of Tampa, Hillsborough County Property Appraiser.
- Tony Villamil of Coral Gables, Chief Executive Officer, The Washington Economics Group.
- William Walker of Coral Gables, Partner, White & Case, LLP.

Appendix C: Meeting Minutes

PROPERTY TAX REFORM COMMITTEE MEETING
August 15, 2006
Room 37, Senate Office Building
Tallahassee, Florida

Minutes

Members Present: Chairman Don DeFosset
Donna Arduin
Stephen Auger
Barney Barnett
Bill Donegan
Representative Carlos Lopez-Cantera (by telephone)
Charles Milsted
Representative Dave Murzin
Dennis Nelson
Senator Burt Saunders (by telephone)
Cynthia Shelton
Richard Spears
Robert Turner
William Walker (by telephone)

Member Absent: Tony Villamil

Agenda Items:

1. **Opening Remarks**
   - Chairman Don DeFosset welcomed everyone to the meeting.
   - Members introduced themselves.

2. **Review of the Committee's charge**
   - Presented by Dr. Don Langston, Finance and Economic Analysis Policy Coordinator for Governor Jeb Bush.

3. **Review of Florida's Ethics and Sunshine Laws**
   - Presented by Nate Adams, General Counsel for Governor Jeb Bush.

4. **Property Tax Overview**
   - Presented by Dr. Don Langston
   - The presentation was an overview of the current property tax structure including historical trends in taxable value, tax collections, tax rates and shifts in the composition of the tax base. The presentation also included

comparisons of how the Save Our Homes benefits vary among homesteads as well as geographical areas of the state.
- The floor was opened for questions. The members focused much of the discussion on how Florida's property tax system compares with other states; how it impacts economic development; and what other states are doing with capped systems such as "Save Our Homes."
- Staff committed to beginning research on some of these issues for future consideration by the Committee.

5. **Scope and Timing of Legislatively Authorized Property Tax Study**
   - Presented by Amy Baker, Director of the Legislature's Office of Economic and Demographic Research (EDR)
   - The presentation was a review of House Bill 7109 which passed the 2006 Legislature.
   - This bill authorizes the Department of Revenue and the Office of Economic and Demographic Research to conduct a study of Florida's property tax structure and report its findings to the Legislature.
   - The floor was opened for questions. The discussion focused on the difficulty taxpayers often have in understanding their annual TRIM notices. A broader study of the entire local government budget process was also suggested.

6. **Other Related Research Efforts**
   - Bob McKee, Fiscal Policy Director for the Florida Association of Counties presented a brief overview of a study the Association plans to conduct on county government expenditures. The study is being designed to take a closer look at recent budget increases. He noted that there have been significant issues in recent years that have placed a strain on local government budgets including input cost increases, domestic security, economic development (SCRIPPS) and hurricanes. The plan is to look at how these and other issues have influenced the increases in local government budgets. The study is intended to be complete shortly after the end of the year.
   - The floor was opened for questions. The members requested additional research comparing growth in local government spending to that of the state government.

7. **Development of Action Plan**
   - The Committee members had an open discussion of issues pertinent to the Committee.
     - Future Committee Meetings—The Committee agreed to meet monthly, for the next several months, in venues located around the state to take public testimony. Staff was directed to arrange a schedule of future meetings. Staff was also directed to recommend to the Chairman a set of rules to guide the conduct of future public hearings.

8. **Public Comment**
    - Speakers:
        - Mr. Kenneth Wilkinson, Lee County Property Appraiser
        - Roger H. Wilson, Retired Legislator
        - Nancy Stephens, Florida Minerals and Chemistry Council and the Manufacturer's Association of Florida
        - Mr. Bob McKee, Florida Association of Counties
        - Sheila Anderson, Principal-Broker
        - Dominic Calabro, Florida TaxWatch

9. **Meeting Adjourned**

PROPERTY TAX REFORM COMMITTEE MEETING
September 20, 2006
Orlando City Hall
Orlando, Florida

Minutes

Members Present: Chairman Don DeFosset
Donna Arduin
Barney Barnett (by telephone)
Bill Donegan
Representative Carlos Lopez-Cantera
Charles Milsted
Representative Dave Murzin
Dennis Nelson (by telephone)
Senator Burt Saunders
Cynthia Shelton
Richard Spears
Robert Turner
Tony Villamil
William Walker

Member Absent: Stephen Auger

Agenda Items:

(1) Opening Remarks

- Chairman DeFosset welcomed everyone to the meeting. The Chairman reviewed the rules that would be followed during the public testimony. The rules were as follows:
  - The presiding chair shall determine the total amount of time to be allotted for public testimony.
  - The presiding chair shall set such time limits for individual testimony as the chair finds reasonable under the circumstances.
  - In order to address the committee, a speaker must first complete and submit a public appearance record to the committee.
  - Speakers will be called in the order in which public appearance records are received.
  - Repetitious testimony is discouraged.
  - Speakers shall limit their testimony to topics within the purview of the committee, as set forth in the establishing executive order (as amended).

(2) Approval of August 15, 2006 Meeting Minutes

- The August 15, 2006 minutes were approved by the Committee.

(3) Department of Revenue's Role in the Property Tax Process

- Presented by James McAdams, Dept. of Revenue
- The presentation was an overview of the property tax process and the Department of Revenue's oversight of the process. There are eight steps to the process starting with the property appraisal process and ending with the funding of local government services.
- The floor was opened for questions. The members expressed interest in Department of Revenue providing more history on property tax levies and collections.

(4) Value Adjustment Board Performance Audit Results

- Presented by Hardee Ratliff, Office of the Auditor General
- The purpose of the audit was to review the administration of the value adjustment board process by the Department of Revenue, the value adjustment boards, and the clerks of the court.
- The Auditor General's audit included twelve recommendations for improving the process. The complete report can be found on the Auditor General's web site { HYPERLINK "http://www.myflorida.com/audgen/pages/subjects/locgov" }.

(5) Perspectives on the Save Our Homes Amendment

- Ken Wilkinson, Lee County Property Appraiser, presented some history of the "Save Our Homes" constitutional amendment. He also announced the launch of an initiative drive to allow portability of "Save Our Homes" benefits. A document was provided which explained his approach to allowing homeowner's to transfer a portion of their property tax protection to newly purchased homes.

(6) Bay County Property Tax Issues and Possible Solutions

- Rick Barnett, Bay County Property Appraiser, requested permission to allow representatives from Bay County to speak first.
- Mr. Mike Nelson, Bay County Commission Chairman, expressed his concern with limiting the growth in county budgets and offered suggestions to increase homestead exemption, allow portability within a county, implement a local option cap for all properties, allow local governments to implement a local sales tax without a referendum and limit the use of community redevelopment areas (handout).
- Mr. Glen R. McDonald, Chairman, Bay County Chamber of Commerce, supports the changes that Mr. Barnett will be putting forth during his testimony.
- Mr. Barnett took back the floor and outlined his plan for changing the property tax structure which included a list of ten potential changes ranging from increasing the homestead exemption by $25,000 to limiting budget increases for all taxing authorities. Mr. Barnett provided a letter to the committee members that outlined each of the ten proposals (handout).

Break for Lunch
Afternoon Session:

(1) Requested Public Input/Comment

- Mr. Ed McIntosh, owner of a winter home on Nettles Island in St. Lucie County, gave testimony on behalf of non-homesteaded property owners there. He encouraged the committee to recognize that the issue is not just about homesteaders. He emphasized the need to reform the two-tiered tax system in Florida (handout).
- Vicki Weber, tax consultant for the Florida Chamber of Commerce, gave a perspective of the property tax burden for business owners. Ms. Weber gave some insights into how the business community is reacting to the higher cost of doing business in the state, which includes the higher property tax burden. She also provided information regarding the issues that the business community would like to see addressed by the committee (handout).

(2) Open Public Input/Comment

- Chairman DeFosset reviewed the rules for public testimony and opened the floor for members of the audience to speak.
- Speakers:
  1) Ted Morris – Center for the Study of Economics
  2) Richard Langdon – Indian River Drive Freeholders, Inc.
  3) Linda Hayward – Hernando County Citizens
  4) Robert Zulega –self
  5) Dwight D. Lewis – Volusia County Councilman (handout)
  6) Larry Guest -- self
  7) Doug Guetzloe – Ax The Tax
  8) Roger Baumgartner – self
  9) Duncan B. Dowling III – Blue Surf Condo Association, Inc.
  10) Julius Bruggeman – property owners (handout)
  11) R. M. Ludwic – self
  12) Kathy Torontali – Skycrest Subdivision (handout)
  13) Bruce Raynor – self
  14) James W. Clark – self (handout)
  15) Judy Elam --self
  16) Wilbur Lewis Hallock "Jim" -- self
  17) Edwina Nelon -- Homeowners Against Runaway Taxation
  18) Jane Bunkowske -- self
  19) Kathleen Clark -- self
  20) Amy Smelser – self, husband taxpayers & residents
  21) Tom Page – self
  22) Chris Adamik – self

(3) Closing Remarks

- Representative Fred Brummer, Chairman of the House Finance and Tax Committee, sent a letter to the committee and requested that it be recorded into the minutes. Chairman DeFosset indicated that it would be done.
- Chairman DeFosset recapped the items that he felt the staff should research.
  - Composition of statewide taxable value by type of property;
  - Revenue overages for local governments;
  - More input from cities and counties regarding their recent budgets;
  - Administrative/practical issues relating to local government revenue or spending caps;
  - Land value taxation;
  - Year over year spending comparisons for counties, municipalities and special districts for a 10 year period.
- Richard Spears requested information regarding the value of a dollar compared to 1981.
- Representative Murzin requested information regarding the sensitivity of tax roll assessments to down turns in real-estate markets.
- Donna Arduin requested research on what happens to the property tax needs if counties are limited to roll back rate plus inflation.

Meeting adjourned

PROPERTY TAX REFORM COMMITTEE MEETING
October 17, 2006
Miami-Dade College
Miami, Florida

Minutes

Members Present: Chairman Don DeFosset
Donna Arduin
Stephen Auger
Barney Barnett
Bill Donegan
Representative Carlos Lopez-Cantera
Charles Milsted
Representative Dave Murzin
Dennis Nelson
Senator Burt Saunders
Cynthia Shelton
Richard Spears
Robert Turner
Tony Villamil
William Walker

Agenda Items:

(1) Opening Remarks

- Eduardo J. Padron, President, Miami-Dade Community College welcomed the Committee to Miami.
  - Chairman DeFosset brought the Committee to order. The Chairman reviewed the rules that would be followed during the public testimony.

(2) Approval of September 20, 2006 Meeting Minutes

(4) The September 20, 2006 minutes were approved by the Committee.

(5) Local Government Expenditure Growth

- Presented by Dr. Don Langston, Executive Office of the Governor.
- The presentation was an overview of local government spending compared to state government spending.

(3) Miami-Dade County Revenue and Expenditure Experience

- Presented by Mr. George Burgess, County Manager, Miami-Dade County.
- Mr. Burgess' presentation outlined the recent property tax roll growth, its impact on Miami-Dade County's budget, the areas most affected by the tax roll growth, and potential solutions.

- Mr. Frank Jacobs, Miami-Dade County Property Appraiser, came to the podium to address specific questions regarding appraisal processes in Miami-Dade County.

(4) Revenue Caps on Local Government Spending

- Dr. Don Langston, Executive Office of the Governor, reviewed various decision points and alternative solutions that should be considered by the Committee as they discuss the issue of revenue caps on local governments.

Break for Lunch

Afternoon Session:

(5) Property Tax Reform Solutions/Decision Matrix

- Dr. Don Langston, Executive Office of the Governor, presented a list of the various problems associated with property taxation that have been identified to date by the Committee. Potential solutions were presented for each problem.
- The stated intention of this information that it should serve as a decision-making tool for the committee in its future deliberations.

(6) Portability and Property Tax Reform

- Representative Domino gave a presentation on his plan for "Save Our Homes" portability

(7) Portability – Implementation Issues

- Mr. Bill Donegan gave a presentation on another version of "Save Our Homes" portability and some of the implementation issues that will need to be addressed should portability become a recommendation.

Open Public Input/Comment

- Chairman DeFosset reviewed the rules for public testimony and opened the floor for members of the audience to speak.
- Speakers:
  1) Morgan Gilreath – Volusia County Property Appraiser
  2) Javier Hernanez-Lichti – Baptist Health South
  3) Martha Carley – Property Manager – Carley's Mobile Home Park
  4) Henry Patel – Hotel Owner (spoke on behalf of several others in room)
  5) Deborah Cimadevilla – Multi Family Apartment Building Owner
  6) Barbara Carlson – Homestead, Florida
  7) John Talamos – Coral Gables, Florida
  8) Caroline Gaynor – Director – Shorecrest Home Owners
  9) Erik Tietig – Vice President – Pine Island Nursery
  10) Gary Dufek – Miami, Florida
  11) Jeffrey Mandler – Miami, Florida
  12) Delores Roth -- realtor
  13) Elizabeth Cimadevilla – Rental Property Owner
  14) Ricardo Barthelemy – Miami, Florida

15) Nancy Hogan – Commissioner, Ocean Ridge, Florida
16) Katie Edwards – Executive Director, Dade County Farm Bureau
17) Jerry Flick – Coral Gables, Florida

(8) Closing Remarks

- Chairman DeFosset directed staff to begin checking into committee meeting dates early in 2007.
- Committee members made requests for further research in the following areas:
  - 1st time home buyers
  - Property taxation practices in other states

Meeting adjourned

PROPERTY TAX REFORM COMMITTEE MEETING
November 17, 2006
Hillsborough County Commission chambers
Tampa, Florida

Minutes

Members Present: Chairman Don DeFosset
Donna Arduin
Stephen Auger
Bill Donegan
Charles Milsted
Representative Dave Murzin
Dennis Nelson
Senator Burt Saunders
Cynthia Shelton (by Phone)
Richard Spears
Robert Turner
Tony Villamil (by Phone)
William Walker

Member Absent: Barney Barnett

Agenda Items:

Opening Remarks

- Chairman DeFosset brought the Committee to order. The Chairman outlined the issues that have been discussed to date.

Approval of October 17, 2006 Meeting Minutes

(6) The October 17, 2006 minutes were approved by the Committee.

Community Redevelopment Areas

- Presented by Ms. Bonnie Wise, Finance Director, City of Tampa.
- The purpose of the presentation was to educate the Committee members about Community Redevelopment Areas – what they are, how they are funded and why they are important.

Understanding Tax and Expenditure Limitations

- Presented by Mr. Eric Johnson, Budget Director, Hillsborough County.
- This presentation gave a history of tax and expenditure limitations and their impact on government spending.

Property Tax Reform Issues and Considerations

- Mr. Jim Smith, Pinellas County Property Appraiser gave testimony of his experiences with property tax and appraiser issues.

Break for Lunch

Afternoon Session:

Agricultural Classification Issues

- Mr. Michael Prestridge, Chief of Staff, Orange County Property Appraiser, gave a presentation on issues that Orange County is facing in the area of agriculture exemptions and the impact they are having on the tax rolls.

Canadian Snowbird Association Issues with Property Tax

- Mr. Gerry Brissenden, President, Canadian Snowbird Association, gave an overview of the property tax concerns that Snowbird's have. He also shared with the Committee recommendations for the Committee to consider when preparing their report.
- Mr. Wallace Weylie, legal counsel for the Association, answered questions for the Committee members.

Palm Beach County Property Tax Reform Proposals

Commissioner Warren Newell gave a presentation on the consensus recommendations of the Palm Beach County Board of County Commissioners to address the inequities that now exist in the current property tax system.

Open Public Input/Comment

- Chairman DeFosset reviewed the rules for public testimony and opened the floor for members of the audience to speak.
- Speakers:
  1) Will Shepherd
  2) Martha Johnson
  3) Delfin Fernandez
  4) Frank Millen
  5) Paul Flora
  6) Joseph Caetano
  7) Gary Brown
  8) Ralph Bowers
  9) Todd Jones
  10) Mike Dyer
  11) Betsy Valentine
  12) Mary Wilkerson
  13) Ford Smith
  14) Kenneth Hoyt
  15) Phil Tenn, Sr.
  16) Cristy Fish
  17) Al LoParrino
  18) Kay Hanks
  19) Mr. Kim Adams
  20) Chuck Aller
  21) Tom Aderhold

22) Bob McKee
23) James Nelson
24) Ron Weaver
25) Penny Farrar
26) Tom Mixson

Closing Remarks

- The Committee agreed that there should be one more meeting prior to the December 15 meeting. November 29 in Orlando was tentatively set as the date and location.

Meeting adjourned

PROPERTY TAX REFORM COMMITTEE MEETING
November 29, 2006
Orlando International Airport
Orlando, Florida

Minutes

Members Present: Chairman Don DeFosset
Donna Arduin
Barney Barnett
Bill Donegan
Representative Carlos Lopez-Cantera
Charles Milsted
Representative Dave Murzin
Dennis Nelson
Senator Burt Saunders (by Phone)
Cynthia Shelton
Richard Spears
Robert Turner
Tony Villamil
William Walker

Member Absent: Stephen Auger

Agenda Items:

Opening Remarks

- Chairman DeFosset brought the Committee to order. The Chairman outlined the issues that have been discussed to date.

Open Public Input/Comment

- Chairman DeFosset reviewed the rules for public testimony and opened the floor for members of the audience to speak.
- Speakers:
  1) Penny Herman
  2) Trey Price
  3) Jon Pospisil
  4) Gail Boettger
  5) Ken Wilkinson
  6) Mike Armstrong
  7) Don Oblazney
  8) Lloyd Lee

Presentation of Draft Preliminary Report

(7) Presented by Dr. Donald Langston, Policy Coordinator, Office of Planning and Budgeting, Office of the Governor.
(8) Dr. Langston reviewed the report with the committee and took comments.

Discussion of Recommendations for Inclusion in Preliminary Report

(9) Chairman DeFosset led the committee in a discussion of recommendations to include in the committee's preliminary report.

(10) The committee agreed to a series of recommendations for inclusion in the report and directed staff to complete the draft.

Closing Remarks

- The Committee agreed that another meeting should be scheduled in January and that Governor-elect Crist should be invited.

Meeting adjourned