Policy and Budget Council

March 9, 2007
9:00 a.m.
212 Knott Building

Meeting Packet

Marco Rubio
Speaker

Ray Sansom
Chair

The Florida House of Representatives

Policy & Budget Council

Marco Rubio
Speaker

Ray Sansom
Chair

Agenda
Date: March 9, 2007
Location: 212 Knott Building
Time: 9:00 a.m.

I. Call to Order

II. Roll Call

III. Workshop on HB 7001 by Government Efficiency & Accountability Council and Representative Attkisson – Ad Valorem Tax Millage

IV. Workshop on PCB PBC 07-01 – Property Tax Relief

V. Public Testimony

VI. Follow-up to Policy and Budget Council Meeting on February 23, 2007

VII. Adjournment

418 The Capitol, 402 South Monroe Street, Tallahassee, Florida 32399-1300
850-488-1601 Fax: 850-414-6879

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 7001 PCB GEAC 07-01 Ad Valorem Tax Millage
SPONSOR(S): Government Efficiency & Accountability Council and Attkisson
TIED BILLS: **IDEN./SIM. BILLS:**

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
Orig. Comm.: Government Efficiency & Accountability Council	10 Y, 5 N	Levin	Cooper
1) Policy & Budget Council			
2)			
3)			
4)			
5)			

SUMMARY ANALYSIS

The property tax is the largest single tax revenue source for government in Florida, with $30.5 billion levied in FY 2006 – 07. Property taxes have grown in recent years from $16 billion in 2001 to $30.5 billion in 2006. Since FY 1999 – 00, property taxes have increased by 80 percent, compared to a total personal income growth of 39 percent and inflation plus population growth of 32 percent.

HB 7001 creates s. 200.192, F.S., which establishes a roll-back in the millage limitation for ad valorem taxes levied by counties, municipalities, and special districts, including: independent special districts, dependent special districts, and municipal dependent special districts. The rolled-back rate is established by using the millage rate in effect for the particular taxing authority for November 1, 2000. The rolled-back rate is then adjusted for the applicable Consumer Price Index. This millage rate is then levied on total taxable value in the current year. The millage limitation does not apply to ad valorem taxes levied by school boards, for the payment of bonds, or for periods not longer than 2 years when authorized by a vote of the electors. Special phase-in provisions are applicable to taxing authorities that began levying ad valorem taxes after January 1, 2001.

Effective July 1, 2007, ad valorem taxes may not be levied in excess of a millage rate equal to the rolled-back rate computed as if the rolled-back rate had been in effect beginning January 1, 2001 and had been continuously applied thereafter.

The bill creates new public advertising requirements in s. 200.065(3) (a), F.S., prior to final adoption of the annual tax levy by the taxing authority when the tax levy proposed is greater than the rolled-back rate. The notice will indicate this year's total proposed tax levy, inform the public that the levy is in excess of the rolled-back rate, and that failure of the taxing authority to adopt the tax levy by the requisite super majority vote (the greater of a majority plus one or two-thirds of the full membership of the governing body) may bar the taxing authority from receiving state revenue sharing. Counties and municipalities which levy a millage rate in excess of the rolled-back rate without the requisite super-majority vote are barred from participation in the local government half-cent sales tax distribution for the fiscal year immediately following adoption of the excess millage rate.

The bill takes effect July 1, 2007 and would supply tax relief for Florida's ad valorem taxpayers beginning January 1, 2007.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. HOUSE PRINCIPLES ANALYSIS:

Provide limited government: The bill requires ad valorem taxes to be levied at a rolled-back rate. Adoption of a rolled-back rate will generally cause the taxing authority to have its revenues reduced to the millage in effect for January 1, 2001 plus an adjustment for the applicable Consumer Price Index.

Ensure lower taxes: The bill requires all taxing entities which levy ad valorem taxes to compute a tax rolled-back rate and to publish a "Notice of Proposed Tax Increase in Excess of the Millage Limitation" if the taxing authority proposes a levy in excess of the rolled-back rate as adjusted. The published notice will inform the taxpayers that unless the excess millage levy is adopted by a supermajority vote, the taxing authority may lose state revenue sharing.

B. EFFECT OF PROPOSED CHANGES:

PRESENT SITUATION:

<u>Ad valorem taxation in Florida:</u>

Constitutionally, ad valorem taxation is reserved to local government as a source of revenue. Local governments may levy ad valorem taxes subject to the following limitations:

Ten mills for county purposes
Ten mills for municipal purposes
Ten mills for school purposes
Millage fixed by law for a county furnishing municipal services
Millage authorized by law and approved by voters for special districts[1]

The Florida Constitution provides two exceptions to the 10 mill cap. The exceptions include a voted debt service millage and a voted millage not to exceed a period of two years.

<u>The financial importance of property taxes in Florida's total tax picture:</u>

The property tax is the largest single tax revenue source for government in Florida, with $30.5 billion levied in FY 2006 – 07.[2] Property taxes in Florida have grown rapidly in recent years from $16 billion in 2001 to $30.5 billion in 2006. Since FY 1999 – 00, property taxes have increased by 80 percent, compared to a total personal income growth of 39 percent and inflation plus population growth of 32 percent.

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[1] " Special district" means a special district as defined in s. 189.403(1), F.S. It is a local unit of special purpose, created by general law, special act, local ordinance, or by rule of the Governor and Cabinet. The term does not include a school district, a community college district, a special improvement district created pursuant to s. 285.17 [Indian reservations], municipal service taxing or benefit unit as specified in s. 125.01, F.S., or a board which provides electrical service and which is a political subdivision of a municipality or is part of a municipality.
"Dependent special district" means a special district as defined in s. 189.403(2), F.S.
"Independent special districts" are defined in s. 189.403(3), F.S., subject to the following limitations: downtown development authorities created prior to the 1968 Constitution; independent special districts levying millage for water management purposes pursuant to s. 9(b), Art. VII, Florida Constitution, and s. 125.01(1) (q) municipal service taxing or benefit units for any part or all of the unincorporated areas of the county.

[2] Property Tax Reform Committee: Preliminary Report and Recommendations. Presentation to the House Committee on State Affairs, January 24, 2007.

Difficulties which have emerged concerning ad valorem taxation:

Many assert that the increases in property taxes are not affordable. Extraordinary strength in the Florida real estate market has resulted in the rapid increase of assessed values for real property in Florida. The median house price soared 90% from July 2001 to July 2006.[3] The fair market value of real property has outstripped taxpayer's growth in income. Large price increases have also been experienced in almost every segment of the Florida real estate market including non-homestead residential, commercial, and agricultural.

The Homestead Exemption is an amendment to the Florida Constitution, originally adopted in 1934 and effective beginning in 1935. The exemption is available to every person having title to Florida real estate and maintaining a permanent residence on the property. The original exemption amount was $5000. Since 1982, the homestead exemption amount has been $25,000 for all property tax levies.[4]

The Save Our Homes assessment growth limitation was added to the Constitution in 1992, although its limitations were effective with the 1995 tax roll. It provides that homestead assessed value may not exceed the lower of 3% or the change in percentage in the Consumer Price Index. Save Our Homes has suppressed the taxable value of homestead properties in Florida. In doing so, it has significantly shifted the tax burden away from homestead property and onto non-homestead residential and non-residential property.[5]

The Tax Foundation has devised a "State Business Tax Climate Index," which is based on the principle that "the ideal tax system . . . is neutral to business activity."[6] But the studies conducted by the Department of Revenue, the Office of Economic and Demographic Research, and the Property Tax Reform Committee all conclude that businesses are bearing an unequal share of the ad valorem tax burden. This tax burden may not be conducive to the growth of business in Florida. Indeed the sharp increases in ad valorem taxation on commercial property may discourage business activity in Florida. Several studies have found that commercial and industrial investment tends to be more responsive to tax rates than residential investment. This means that the increasing shift of the property tax burden to businesses may cause them to reduce or eliminate commercial investment – in some instances, leading them to investments in other states where the property taxes are less burdensome.[7]

Residential non-homestead property has also been experiencing sharp increases in ad valorem taxation. Owners of these properties are forced to raise rental rates to pay for the taxes. These increases in residential rent further exacerbate the need for more affordable housing in Florida. Higher rents also mean that it is more difficult for those in rental housing to save the funds necessary to purchase their own home.

Understanding millage and the roll back rate:

Unlike most taxes in the state of Florida, the ad valorem tax does not have a set rate. Instead, the tax rate, known as the millage rate, is determined by the taxing authority each year. This process begins with the taxing authority considering its budget needs for the coming fiscal year. Then, on July 1, the taxing authority is given an estimate of the taxable value of the property upon which it shall be levying

[3] Property Tax Reform Efforts An Update. Office of Economic and Demographic Research, January 11, 2007

[4] Florida's Property Tax Structure: An Analysis of Save Our Homes and Truth in Millage Pursuant to Chapter 2006 – 311, L.O.F. Florida Department of Revenue. January 2, 2007.

[5]

	Percent of Taxable Value	
	Current	**Without Save Our Homes**
Homestead Property	32.1%	45.5%
Non-Homestead Property	34.5%	28.4%
Non-Residential Property	32.5%	26.1%

Source: Property Tax Reform Efforts An Update. Office of Economic and Demographic Research, January 11, 2007.

[6] Tax Foundation, "State Business Tax Climate Index" presentation to the Property Tax Reform Committee, September 20, 2006.

[7] Florida's Property Tax Study Interim Report. Legislative Office of Economic and Demographic Research.

taxes. The taxing authority is also instructed on how to calculate the roll-back rate for the coming fiscal year.

The roll-back rate is the millage that would provide the same amount of taxes for the taxing authority that it had during the previous year, and it is computed exclusive of any new construction, major improvements to existing property, or boundary changes. Thus, levying the roll-back rate typically provides a jurisdiction with slightly higher revenues than it had the year before, even though the tax rate is lower that that of the previous year in most cases.

Under current law, if a taxing authority levies a tax rate in excess of the roll-back rate, the taxing authority must publish a notice of tax increase. Likewise the TRIM notice received by each taxpayer shows the difference between the taxes which would be due if the roll-back rate were levied and the taxes which would be due under the taxing authorities proposed budget. The intent of these measures was to help taxpayers know when the budgets of local taxing authorities were increasing. Because property values in most jurisdictions increase each year, multiplying the increased value by the same millage rate can result in large budget increases, even though the tax rate has remained the same. With the tremendous increases in value of real estate in Florida in recent years, local budgets have managed to grow greatly given the increase in property value while millage rates have remained the same or dropped.

<u>The effect of rising real estate values on local government revenues:</u>

Local governmental budgets have increased dramatically over the past few years. Because of the large increases in taxable value, it is frequently not necessary to increase the millage levied. But because of the increase in the value of the property, the taxpayer pays more taxes, even though the millage has remained the same. In general, local government tax rates have fallen, but the decreases in millage have not been sufficient to off-set the tremendous increase in just value.[8]

CHANGES PROPOSED BY THE BILL:

<u>Establishing a reduced millage rate for FY 2007 - 2008:</u>

HB 7001 tackles the problem of property tax increases by focusing on the tax rate rather than the value of the property subject to tax. Under the provisions of this bill, all taxing authorities would be required to levy a tax rate not in excess of the roll-back rate multiplied by a growth factor, the Consumer Price Index, which is intended to offset inflation. This limitation on the tax rate could only be exceeded by a super-majority vote of the levying body (which consists of at least a majority plus one, or two-thirds of the full membership of the governing body). If millage is levied in excess of this limitation without the requisite super-majority vote, the taxing authority will forfeit any revenue sharing dollars to which it might otherwise be entitled, for the following fiscal year.

Moreover, since taxing authorities have been benefiting from the remarkable increase in property taxes over recent years, the bill would further require that the maximum millage rate which could be levied by the taxing authority for the 2007 – 2008 tax year be based upon their budget for FY 2000 – 2001. These taxing authorities would be limited to levying that tax rate which would be permitted in FY 2007 – 2008 if the provisions limiting millage rates had been in effect during the intervening period.

<u>Exceptions to the rolled-back rate:</u>

Ad valorem taxes levied by school districts, for the payment of bonds, or for periods not longer than 2 years following a vote of the electors are exempt from the rolled-back rate. Taxing authorities that have levied ad valorem taxes for less than 2 years are also exempt. Taxing authorities that began levying ad valorem taxes after January 1, 2001 may not levy ad valorem taxes in excess of the rolled back rate

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[8] In 2005, local governments as a whole levied tax rates approximately 11% above the rolled-back rate; in 2006 the number grew to over 14%. Property Tax Reform Efforts An Update. Office of Economic and Demographic Research, January 11, 2007

which is calculated beginning with the second full fiscal year in which the authority levied ad valorem taxes.

Publication requirements for a tax increase in excess of the rolled-back rate:

If a taxing authority proposes a tax levy in excess of the reduced millage rate permitted by s. 200.192 (1), F.S., the published public notification prior to a vote being taken on the levy must include a statement that unless the levy is passed by a supermajority vote, the taxing authority may lose state revenue sharing.

Penalties for failure to adhere to the millage limitations:

If a tax levy in excess of the reduced millage is approved by the governing body of the taxing entity without a supermajority vote, counties and municipalities are barred from participation in the local government half-cent sales tax revenue ordinary distribution to eligible counties and municipalities, as well as emergency and supplemental distributions; fiscally constrained counties would also lose eligibility for these funds as well. The revenue sharing would be forfeited for the year in which the excess levy is approved.

Effects of the rolled-back rate:

The bill makes the new tax rate effective for FY 07 – 08, which will result in all Florida property owners seeing a reduction on the next property tax bill they receive. The estimated average statewide savings is 19% per property, although the amount will vary by county.[9]

C. SECTION DIRECTORY:

Section 1. Amends s. 200.065, F.S., to include a public notice provision that a taxing authority (other than a school district) which proposes a tax levy in excess of the millage limitation in s. 200.192, F.S., may lose state revenue sharing.

Section 2. Creates s. 200.192, F.S., which provides millage limitations for tax levies (other than those of school districts). Municipalities and counties which levy millage in excess of the roll-back rate without a supermajority (which consists of at least a majority plus one, or two-thirds of the full membership of the governing body) will be ineligible to participate in the local government half-cent tax distributions provided for in ss. 218.23(3) (e) and 218.60-218.66, F.S., during the fiscal year immediately following the adoption of the excess millage rate.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

   None.

2. Expenditures:

   If counties or municipalities fail to adopt local ad valorem tax levies in excess of the millage limitations by less than a supermajority vote, these entities will not be permitted to participate in the local government half-cent sales tax distributions provided for in ss. 218.23(3) (e) and 218.60 – 218.66, F.S., during the fiscal year immediately following the adoption of the excess millage rate. These funds would remain in the state treasury, and state expenditures would be reduced.

[9] Meeting Packet of the House Policy and Budget Council for February 23, 2007 page 125.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

Counties and municipalities would experience the loss of local government half-cent sales tax distributions provided for in ss. 218.23(3)(e) and 218.60 – 218.66, F.S., during the fiscal year immediately following the adoption of the excess millage rate. In FY 2004 – 05 distributions totaled $1.59 billion.[10]

2. Expenditures:

Expenditures by counties and municipalities which fail to adopt local ad valorem tax levies in excess of the millage limitations by less than a supermajority vote will be decreased to the extent that local government half-cent sales tax distributions provided for in ss. 218.23(3) (e) and 218.60 – 218.66, F.S., will not be received and will not be available for expenditure.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Taxpayers should receive ad valorem tax relief in FY 2007 – 2008. This will create a more favorable climate for business prosperity and expansion. As ad valorem tax rates decrease, there may be an increase in the stock of affordable housing. Decreases in ad valorem taxation should enable individuals to have greater disposable income as well.

D. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The mandates provision is inapplicable because this bill does not reduce the authority of municipalities and counties to raise total revenues over the levels which existed on February 1, 1989.

2. Other:

A class action lawsuit was filed in February 2007 in the Leon County Circuit Court[11] which alleges that the taxes paid by non-resident owners of residential real property constitute a disproportionate share of the assessed ad valorem taxes. The lawsuit alleges that the tax burden has a chilling effect on decisions by citizens of the United States to own second homes in Florida and impedes their right to engage in interstate travel and commerce, all in violation of the "dormant commerce clause" of Article I, Section 8 of the United States Constitution and the equal protection clause of the 14th Amendment to the Constitution.

In *Reinish v. Clark,* 765 So. 2d 197 (FL 1DCA 2000) nonresident taxpayers brought an action challenging the constitutionality of the Florida state homestead tax. The District Court of Appeal for the First District of Florida affirmed the ruling of the Leon County circuit court. The court held that the exemption did not violate either the privileges and immunities clause of the Federal Constitution or the "dormant" commerce clause.

B. RULE-MAKING AUTHORITY:

None.

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[10] 2006 *Florida Tax Handbook,* p. 176.

[11] Case No. 37 2007 CA 000582 filed in the Circuit Court for the Second Judicial Circuit in and for Leon County, Florida.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

D. STATEMENT OF THE SPONSOR

No statement submitted.

IV. AMENDMENTS/COUNCIL SUBSTITUTE CHANGES

On March 7, 2007, the Government Efficiency & Accountability Council adopted a strike-all amendment which included the text of the Notice of Proposed Tax Increase in Excess of the Millage Limitation included in s. 200.065, F.S. This analysis reflects the changes made by the strike-all.

A bill to be entitled

An act relating to ad valorem tax millage; amending s. 200.065, F.S.; specifying a form for advertisements of proposed tax increases in excess of a millage limitation; creating s. 200.192, F.S.; providing ad valorem tax millage limitations; providing exemption for certain taxing authorities; providing for exceeding the limitations under certain circumstances; prohibiting certain counties or municipalities from participating in certain local government half-cent sales tax distributions under certain circumstances; requiring forms of property appraisers to contain certain millage calculation instructions; providing for nonapplication to the millage of certain ad valorem tax levies; amending s. 373.536, F.S.; correcting cross-references; providing an effective date.

Be It Enacted by the Legislature of the State of Florida:

Section 1. Subsection (3) of section 200.065, Florida Statutes, is amended to read:

200.065 Method of fixing millage.--

(3) The advertisement shall be no less than one-quarter page in size of a standard size or a tabloid size newspaper, and the headline in the advertisement shall be in a type no smaller than 18 point. The advertisement shall not be placed in that portion of the newspaper where legal notices and classified advertisements appear. The advertisement shall be published in a

newspaper of general paid circulation in the county or in a geographically limited insert of such newspaper. The geographic boundaries in which such insert is circulated shall include the geographic boundaries of the taxing authority. It is the legislative intent that, whenever possible, the advertisement appear in a newspaper that is published at least 5 days a week unless the only newspaper in the county is published less than 5 days a week, or that the advertisement appear in a geographically limited insert of such newspaper which insert is published throughout the taxing authority's jurisdiction at least twice each week. It is further the legislative intent that the newspaper selected be one of general interest and readership in the community and not one of limited subject matter, pursuant to chapter 50.

(a) For taxing authorities other than school districts which have tentatively adopted a millage rate in excess of the millage rate limitation contained in s. 200.192, the advertisement shall be in the following form:

NOTICE OF PROPOSED TAX INCREASE IN EXCESS OF THE MILLAGE LIMITATION

The (name of the taxing authority) has tentatively adopted a measure to increase its property tax levy in excess of the millage limitation imposed by statute.

Last year's property tax levy:

A. Initially proposed tax levy........$XX,XXX,XXX

B. Less tax reductions due to Value Adjustment Board and other assessment changes.................($XX,XXX,XXX)

C. Actual property tax levy...........$XX,XXX,XXX

This year's proposed tax levy $XX,XXX,XXX

If this proposed tax increase in excess of the millage limitation is levied by less than the required supermajority vote, the (name of taxing authority) may lose state revenue sharing. Last year, (name of taxing authority) received $XX,XXX,XXX from revenue sharing.

All concerned citizens are invited to attend a public hearing on the tax increase to be held on (date and time) at (meeting place) .

A FINAL DECISION on the proposed tax increase and the budget will be made at this hearing.

(b) ~~(a)~~ For taxing authorities other than school districts which have tentatively adopted a millage rate in excess of 100 percent of the rolled-back rate computed pursuant to subsection (1), the advertisement shall be in the following form:

NOTICE OF PROPOSED TAX INCREASE

The (name of the taxing authority) has tentatively adopted a measure to increase its property tax levy.

Last year's property tax levy:

A. Initially proposed tax levy....$XX,XXX,XXX

B. Less tax reductions due to Value Adjustment Board and other assessment changes....($XX,XXX,XXX)

C. Actual property tax levy....$XX,XXX,XXX

This year's proposed tax levy....$XX,XXX,XXX

All concerned citizens are invited to attend a public hearing on the tax increase to be held on (date and time) at (meeting place) .

A FINAL DECISION on the proposed tax increase and the budget will be made at this hearing.

(c) ~~(b)~~ In all instances in which the provisions of paragraphs ~~paragraph~~ (a) and (b) are inapplicable for taxing authorities other than school districts, the advertisement shall be in the following form:

NOTICE OF BUDGET HEARING

The (name of taxing authority) has tentatively adopted a budget for (fiscal year) . A public hearing to make a FINAL DECISION on the budget AND TAXES will be held on (date and time) at (meeting place) .

(d) ~~(c)~~ For school districts which have proposed a millage rate in excess of 100 percent of the rolled-back rate computed pursuant to subsection (1) and which propose to levy nonvoted millage in excess of the minimum amount required pursuant to s. 1011.60(6), the advertisement shall be in the following form:

NOTICE OF PROPOSED TAX INCREASE

The (name of school district) will soon consider a measure to increase its property tax levy.

Last year's property tax levy:

A. Initially proposed tax levy....$XX,XXX,XXX

B. Less tax reductions due to Value Adjustment Board and other assessment changes....($XX,XXX,XXX)

C. Actual property tax levy....$XX,XXX,XXX

This year's proposed tax levy....$XX,XXX,XXX

A portion of the tax levy is required under state law in order for the school board to receive $ (amount A) in state education grants. The required portion has (increased or decreased) by (amount B) percent and represents approximately (amount C) of the total proposed taxes.

The remainder of the taxes is proposed solely at the discretion of the school board.

All concerned citizens are invited to a public hearing on the tax increase to be held on (date and time) at (meeting place) .

A DECISION on the proposed tax increase and the budget will be made at this hearing.

1. AMOUNT A shall be an estimate, provided by the Department of Education, of the amount to be received in the current fiscal year by the district from state appropriations for the Florida Education Finance Program.

2. AMOUNT B shall be the percent increase over the rolled-back rate necessary to levy only the required local effort in the current fiscal year, computed as though in the preceding fiscal year only the required local effort was levied.

3. AMOUNT C shall be the quotient of required local-effort millage divided by the total proposed nonvoted millage, rounded

to the nearest tenth and stated in words; however, the stated amount shall not exceed nine-tenths.

(e) ~~(d)~~ For school districts which have proposed a millage rate in excess of 100 percent of the rolled-back rate computed pursuant to subsection (1) and which propose to levy as nonvoted millage only the minimum amount required pursuant to s. 1011.60(6), the advertisement shall be the same as provided in paragraph (d) ~~(c)~~, except that the second and third paragraphs shall be replaced with the following paragraph:

This increase is required under state law in order for the school board to receive $ (amount A) in state education grants.

(f) ~~(e)~~ In all instances in which the provisions of paragraphs (d) ~~(c)~~ and (e) ~~(d)~~ are inapplicable for school districts, the advertisement shall be in the following form:

NOTICE OF BUDGET HEARING

The (name of school district) will soon consider a budget for (fiscal year). A public hearing to make a DECISION on the budget AND TAXES will be held on (date and time) at (meeting place).

(g) ~~(f)~~ In lieu of publishing the notice set out in this subsection, the taxing authority may mail a copy of the notice to each elector residing within the jurisdiction of the taxing authority.

<u>(h)</u> ~~(g)~~ In the event that the mailing of the notice of proposed property taxes is delayed beyond September 3 in a county, any multicounty taxing authority which levies ad valorem taxes within that county shall advertise its intention to adopt a tentative budget and millage rate in a newspaper of paid general circulation within that county, as provided in this subsection, and shall hold the hearing required pursuant to paragraph (2)(c) not less than 2 days or more than 5 days thereafter, and not later than September 18. The advertisement shall be in the following form, unless the proposed millage rate is less than or equal to the rolled-back rate, computed pursuant to subsection (1), in which case the advertisement shall be as provided in paragraph <u>(f)</u> ~~(e)~~:

NOTICE OF TAX INCREASE

The (name of the taxing authority) proposes to increase its property tax levy by (percentage of increase over rolled-back rate) percent.

All concerned citizens are invited to attend a public hearing on the proposed tax increase to be held on (date and time) at (meeting place) .

<u>(i)</u> ~~(h)~~ In no event shall any taxing authority add to or delete from the language of the advertisements as specified herein unless expressly authorized by law, except that, if an increase in ad valorem tax rates will affect only a portion of the jurisdiction of a taxing authority, advertisements may include a map or geographical description of the area to be

affected and the proposed use of the tax revenues under consideration. The advertisements required herein shall not be accompanied, preceded, or followed by other advertising or notices which conflict with or modify the substantive content prescribed herein.

(j)~~(i)~~ The advertisements required pursuant to paragraphs (c) ~~(b)~~ and (f) ~~(e)~~ need not be one-quarter page in size or have a headline in type no smaller than 18 point.

(k)~~(j)~~ The amounts to be published as percentages of increase over the rolled-back rate pursuant to this subsection shall be based on aggregate millage rates and shall exclude voted millage levies unless expressly provided otherwise in this subsection.

(l)~~(k)~~ Any taxing authority which will levy an ad valorem tax for an upcoming budget year but does not levy an ad valorem tax currently shall, in the advertisement specified in paragraph (a), paragraph (b) ~~(a)~~, paragraph (d) ~~(c)~~, paragraph (e) ~~(d)~~, or paragraph (h) ~~(g)~~, replace the phrase "increase its property tax levy by (percentage of increase over rolled-back rate) percent" with the phrase "impose a new property tax levy of $ (amount) per $1,000 value."

(m)~~(l)~~ Any advertisement required pursuant to this section shall be accompanied by an adjacent notice meeting the budget summary requirements of s. 129.03(3)(b). Except for those taxing authorities proposing to levy ad valorem taxes for the first time, the following statement shall appear in the budget summary in boldfaced type immediately following the heading, if the applicable percentage is greater than zero:

THE PROPOSED OPERATING BUDGET EXPENDITURES OF (name of taxing authority) ARE (percent rounded to one decimal place) MORE THAN LAST YEAR'S TOTAL OPERATING EXPENDITURES.

For purposes of this paragraph, "proposed operating budget expenditures" or "operating expenditures" means all moneys of the local government, including dependent special districts, that:

1. Were or could be expended during the applicable fiscal year, or

2. Were or could be retained as a balance for future spending in the fiscal year.

Provided, however, those moneys held in or used in trust, agency, or internal service funds, and expenditures of bond proceeds for capital outlay or for advanced refunded debt principal, shall be excluded.

Section 2. Section 200.192, Florida Statutes, is created to read:

200.192 Millage limitation; exception; form; application.--

(1)(a) Ad valorem taxes may not be levied in excess of a millage rate equal to the rolled-back rate as defined in s. 200.065, adjusted by the percentage change in the Consumer Price Index for all urban consumers, U.S. City Average, all items 1967=100, or successor reports for the 12-month period through June prior to the beginning of the fiscal year as initially

<u>reported by the United States Department of Labor, Bureau of Labor Statistics.</u>

<u>(b) This subsection does not apply to taxing authorities that have levied ad valorem taxes for less than 2 years.</u>

<u>(2)(a) For the fiscal year beginning October 1, 2007, ad valorem taxes may not be levied in excess of the maximum millage rate that would have resulted from application of subsection (1) if subsection (1) had been in effect beginning January 1, 2001, and had been applied each year up to and including the fiscal year beginning October 1, 2006.</u>

<u>(b) A taxing authority that began levying ad valorem taxes after January 1, 2001, may not levy ad valorem taxes in excess of the maximum millage rate that would have resulted from application of subsection (1) if subsection (1) had been in effect in the second full fiscal year in which the authority levied ad valorem taxes and had been applied up to and including the fiscal year beginning October 1, 2006.</u>

<u>(3) Ad valorem taxes may be levied in excess of the limitations provided in this section upon approval by the affirmative vote of the greater of at least a majority plus one or two-thirds of the full membership of the governing body adopting the millage rate.</u>

<u>(4) A county or municipality that levies a millage rate in excess of the maximum millage provided in this section without complying with subsection (3) may not participate in the local government half-cent sales tax distributions provided for in ss. 218.23(3)(e) and 218.60-218.66 during the fiscal year immediately following the adoption of the excess millage rate.</u>

(5) The form provided to taxing authorities by the property appraiser pursuant to s. 200.065(1) must include instructions to each taxing authority describing the proper method of computing the maximum millage described in subsections (1) and (2).

(6) This section does not apply to ad valorem taxes levied by school districts, for the payment of bonds, or for periods not longer than 2 years when authorized by a vote of the electors.

Section 3. Paragraphs (c) and (d) of subsection (3) of section 373.536, Florida Statutes, are amended to read:

373.536 District budget and hearing thereon.--

(3) BUDGET HEARINGS AND WORKSHOPS; NOTICE.--

(c) The tentative budget shall be adopted in accordance with the provisions of s. 200.065; however, if the mailing of the notice of proposed property taxes is delayed beyond September 3 in any county in which the district lies, the district shall advertise its intention to adopt a tentative budget and millage rate, pursuant to s. 200.065(3)(h) ~~(g)~~, in a newspaper of general paid circulation in that county.

(d) As provided in s. 200.065(2)(d), the board shall publish one or more notices of its intention to adopt a final budget for the district for the ensuing fiscal year. The notice shall appear adjacent to an advertisement that sets forth the tentative budget in a format meeting the budget summary requirements of s. 129.03(3)(b). The district shall not include expenditures of federal special revenues and state special revenues when preparing the statement required by s.

200.065(3)(m)~~(1)~~. The notice and advertisement shall be published in one or more newspapers having a combined general paid circulation in each county in which the district lies. Districts may include explanatory phrases and examples in budget advertisements published under s. 200.065 to clarify or illustrate the effect that the district budget may have on ad valorem taxes.

Section 4. This act shall take effect July 1, 2007.

PCB PBC 07-01

CONSTITUTIONAL AMENDMENT

I. PROVIDES A TOTAL EXEMPTION FROM PROPERTY TAXES TO HOMESTEAD PROPERTIES BEGINNING WITH 2008 TAX BILLS.

II. LIMITS LOCAL GOVERNMENT AND SCHOOL DISTRICT MILLAGE RATES BEGINNING IN 2008.

A For the 2009-2010 fiscal year and thereafter, millage rates are limited to the rolled-back rate, plus change in the Consumer Price Index.

B. For property taxes levied in 2008, except school district taxes, millage rates are limited to what they would have been had the limitation been in place with 2000-2001 as the base year.

C. Taxes may be levied in excess of the limitation, if approved by a unanimous vote of the governing board adopting the millage rate.

D. The limits do not apply to taxes for the payment of bonds, or for a 2-year period when authorized by a vote of electors.

III. 2.5% SALES TAX FOR DISTRIBUTION TO LOCAL GOVERNMENTS BEGINNING ON JULY1, 2008.

IV. LIMITATION ON STATE REVENUE GROWTH BEGINNING IN 2008

A. Changes the current state revenue limitation to limit growth in state revenues to the growth in population and inflation.

B. Includes state revenues needed to match Medicaid within the limitation. The current limitation excludes these revenues.

C. For the 2008-2009 fiscal year, state revenues are limited to the state revenues that would be allowed under the formula, if the formula had been in place since 2001-2002, with 2000-2001 as the base year.

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

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

V. SPECIAL ELECTION 2007

CHANGES TO PROPOSED HJR SINCE LAST MEETING

PCB PBC 07-01, the proposed constitutional amendment, contains some minor changes from the draft distributed at the last Policy and Budget Council Meeting.

The changes are:

1. Language in Section 19, page 12, dealing with the increased sales tax was modified to reflect that the sales tax is being increased, instead of the previous language which referred to an additional tax.

2. Language was added in Section 19, page 12, to provide that proceeds from the distribution of the increased sales tax are to be used first to repay outstanding bonds.

3. Language was added to the Schedule, page 13, to provide a nonseverability clause.

House Joint Resolution

A joint resolution proposing amendments to Sections 1, 4, 6, and 9 of Article VII and the creation of Section 19 of Article VII and Section 27 of Article XII of the State Constitution to revise the methodology for limiting state revenues and the manner of distributing excess collections each year, exempt homestead property from all ad valorem taxation and delete all provisions relating to assessing and taxing homestead property, provide a methodology for limiting increases in ad valorem taxes, impose an additional state sales and use tax to replace revenues lost from homestead property taxes, and provide applicability, nonseverability, and an effective date.

Be It Resolved by the Legislature of the State of Florida:

That the following amendments to Sections 1, 4, 6, and 9 of Article VII and the creation of Section 19 of Article VII and Section 27 of Article XII of the State Constitution are agreed to and shall be submitted to the electors of this state for approval or rejection at the next general election or at an earlier special election specifically authorized by law for that purpose:

ARTICLE VII

FINANCE AND TAXATION

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

V

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 multiplied by a ~~plus an adjustment for~~ growth factor.

(1) As used in this subsection, the term "growth factor" means the product of multiplying:

a. The percentage change in the Consumer Price Index for all urban consumers, U.S. City Average, all items 1982-84 = 100, or its successor index, over the 12-month period through January prior to the beginning of the fiscal year, plus 1; by

b. The percentage change in state population as of the first day of July prior to the beginning of the fiscal year, using population as annually determined by federal census estimates, plus 1 ~~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~~.

(2) For the 2008-2009 ~~1995-1996~~ fiscal year, the state revenues allowed under this subsection for the prior fiscal year shall equal the state revenues that would have been allowed ~~collected~~ for the 2007-2008 ~~1994-1995~~ fiscal year if the limitation set forth in paragraph (1) had first been applied to the state revenues collected in the 2001-2002 fiscal year. For the 2001-2002 fiscal year, the state revenues allowed under this paragraph for the prior fiscal year shall equal the state revenues collected in the 2000-2001 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.~~

(3) 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 or to a special reserve account that may be used solely for tax reductions for school districts, counties, municipalities, and special districts~~, and thereafter shall be refunded to taxpayers~~ as provided by general law.

(4) The state revenue limit provided for ~~revenues allowed~~ under this subsection for any fiscal year may be exceeded if approved ~~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.

(5) 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.

(6) 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.

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.~~

<u>(c)</u> ~~(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.~~

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.~~

<u>(c)</u> ~~(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.~~

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.

(c) Subject to the limitations provided for in subsection (b):

CODING: Words ~~stricken~~ are deletions; words underlined are additions.

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<u>(1)a. For fiscal years beginning in 2009 and thereafter, ad valorem taxes may not be levied in excess of a millage rate equal to the rolled-back rate adjusted by the percentage change in the Consumer Price Index for all urban consumers, U.S. City Average, all items 1982-84 = 100, or successor reports for the 12-month period through June prior to the beginning of the fiscal year as initially reported by the United States Department of Labor, Bureau of Labor Statistics. For purposes of this paragraph, the term "rolled-back rate" means a millage rate that, exclusive of new construction, additions to structures, deletions, increases in the value of improvements that have undergone a substantial rehabilitation that increased the assessed value of such improvements by at least 100 percent, and property added due to geographic boundary changes, will provide the same ad valorem tax revenue for each taxing authority as was levied during the prior year.</u>

<u>b. This paragraph does not apply to taxing authorities that have levied ad valorem taxes for less than two years.</u>

<u>(2)a. For the fiscal year beginning October 1, 2008, ad valorem taxes may not be levied in excess of the maximum millage rate that would have resulted from the application of paragraph (1) if paragraph (1) had been in effect beginning on January 1, 2001, and had been applied each year up to and including the fiscal year beginning October 1, 2007.</u>

<u>b. A taxing authority that begins levying taxes after January 1, 2001, may not levy ad valorem taxes in excess of the maximum millage rate that would have resulted from the application of paragraph (1) if paragraph (1) had been in effect in the second full fiscal year in which the authority levied ad</u>

valorem taxes and had been applied up to and including the fiscal year beginning October 1, 2007.

c. This paragraph does not apply to ad valorem taxes levied by school districts, levied for the payment of bonds issued pursuant to Section 12 of Article VI, or levied for periods not longer than two years when authorized by a vote of the electors.

(4) Ad valorem taxes may be levied in excess of the limitations provided in this subsection upon approval by a unanimous vote of the full membership of the governing body adopting the millage rate.

(5) This subsection does not apply to ad valorem taxes levied for the payment of bonds or for periods not longer than two years when authorized by a vote of the electors.

SECTION 19. Additional state sales and use tax.--

(a) Beginning July 1, 2008, the tax imposed on any transaction or use currently or hereafter subject to tax pursuant to the provisions of chapter 212, Florida Statutes, is increased by adding 2.5 percent to the tax rate imposed by chapter 212, Florida Statutes. Exemptions from the tax imposed pursuant to chapter 212, Florida Statutes, adopted by general law, shall apply to the tax increase provided by this section.

(b) The proceeds of the tax increase provided by this section shall be set aside for distribution to school districts, counties, municipalities, and special districts as provided by general law.

(c) Proceeds received by a school district, county, municipality, or special district shall be used, prior to any other purpose, to the extent necessary for payments relating to bonds or any similar financial obligations, paid from or secured by ad valorem tax revenues, that are outstanding on the effective date of this amendment, including any subsequent refunding of such bonds or other similar financial obligations.

ARTICLE XII

SCHEDULE

SECTION 27. Property tax relief reform; nonseverability.--

(a) The amendments to Sections 1, 4, 6, and 9 of Article VII and the creations of Section 19 of Article VII and Section 27 of Article XII of this constitution contained in this revision shall take effect January 1, 2008.

(b) The amendments to Sections 1, 4, 6, and 9 of Article VII and the creation of Section 19 of Article VII of this constitution contained in this revision are not severable. If any portion of this revision is held invalid under any provision of this constitution, the effect of such declaration shall be that the amendments to Sections 1, 4, 6, and 9 of Article VII and the creation of Section 19 of Article VII of this constitution contained in this revision shall be null, void, and without effect.

BE IT FURTHER RESOLVED that the following statement be placed on the ballot:

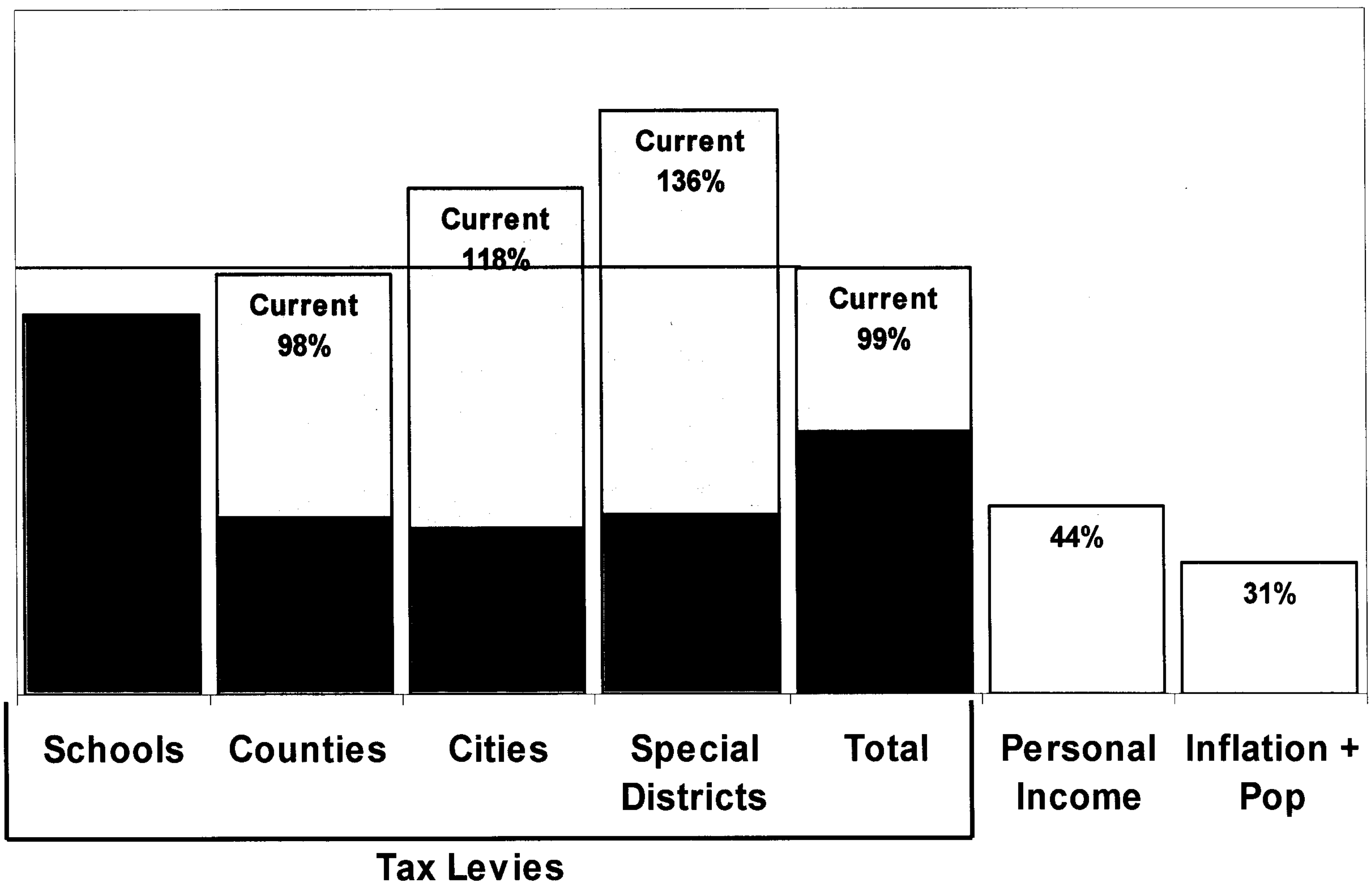
CONSTITUTIONAL AMENDMENT

ARTICLE VII, SECTIONS 1, 4, 6, 9, 19

ARTICLE XII, SECTION 27

STATE REVENUE LIMITATION; HOMESTEAD EXEMPTION; AD VALOREM TAX MILLAGE LIMITATION; ADDITIONAL SALES AND USE TAX.--Proposing amendment of the State Constitution to revise the methodology for limiting state revenues allowed each year by applying a growth factor consisting of the Consumer Price Index and state population changes retroactively to revenues from fiscal year 2000-2001 onward, with excess collections transferred to the Budget Stabilization Fund to its maximum authorized balance or to a special reserve account that may be used solely for local government tax reductions as provided by general law; to exempt homestead property from all ad valorem taxation by deleting all provisions relating to assessing and taxing homestead property but leaving intact assessments for special benefits; to provide a methodology for limiting increases in ad valorem taxes applied to the rolled-back rate adjusted by changes in the Consumer Price Index retroactively to 2001, including an override by a unanimous vote of the governing body levying the millage; to impose an additional state sales and use tax of 2.5 percent dedicated to replacing revenues lost from totally exempting homestead property from ad valorem taxation; to provide for application; to require that provisions of the revision are not severable such that if any are held invalid, all will be invalid; and to provide an effective date of January 1, 2008.

Effect of Proposed Tax Rate Constraints
Cumulative Tax Levy Growth Rates: FY 2001 - FY 2007



Follow-up to 02/23/07
PBC Meeting

Property Tax Reform: Follow-up Questions and Answers

1. Have we explored **other inflation indices** that might more appropriately reflect cost pressures being faced by local government?

   The federal government produces a quarterly price index for state and local government purchases (Chained Price Index—State and Local Government Purchases). Between FY 1999-2000 and FY 2005-06 this index indicated price inflation of 27.6%, which is 58% greater than consumer price inflation of 17.5% as measured by the CPI. If the chained price index is used in the tax rate roll back calculations, the overall estimated tax reduction would be -15.8% ($4.7 billion) instead of the -19% ($5.8 billion) using the CPI.

2. How do local governments spend their property tax collections?

   The vast majority of property tax is used in "governmental" funds as opposed to "enterprise" funds [% of Property Tax in Governmental fund types: Counties 99.9%, Cities 99.9%, Special Districts 81.3%]. Within governmental funds most property taxes are used as general revenue [**Tab A**: Counties 74%, Cities 94%]. "Special Revenue" fund types receive 22% of county and 3% of city property taxes. The remaining 3% – 4% is used for capital projects or debt service.

   Typical uses of county and city general funds are for police, fire, EMS, code enforcement, legal, admin & finance & audit, city and county clerk (all recordkeeping and elections), public works, parks & recreation, building inspection, planning & growth management, economic development, community development, storm water & drainage, animal control, senior centers, libraries, and neighborhood centers.

3. What are the governments that have **voted millages**?

   See **Tab B**.

4. How much has the **state budget grown** over the past several years?

   The total state budget grew by 62% between FY 2000-01 and FY 2006-07, from $45.4 billion to $73.6 billion. The state funds portion of the budget (excluding federal funds) grew by 57%, from $34.1 billion to $53.4 billion. Combined population and inflation growth was 33%.

5. What is the effect on **"298 districts"** regarding the 1 acre/1 vote rule?

Very few of these districts levy property taxes. The ones that do will be subject to the bill's provisions regarding the rollback of their millage rates. The extraordinary vote requirement will apply when the district's board sets the millage rate. The 1 acre / 1 vote requirement applies when elections are held and the landowners vote.

6. What is the distribution formula for the 2.5% sales tax replacement revenues?

A distribution formula has not been derived yet. Rep. Mayfield has begun work on that with input from the Florida League of Cities.

7. How will the sales tax change affect **North Florida county sales tax collections**?

Attached are maps that show current state and county combined sales tax rates for Florida, Georgia and Alabama border counties. All Georgia border counties, except 2, have a 7% rate. Alabama border counties have rates ranging from 5% to 6%. Alabama also allows cities to levy sales taxes. The major cities in border counties levy additional sales taxes ranging from 2% to 4%. [See **Tab C**]

8. How much have **unfunded mandates** from the state to local governments contributed to the need to increase property taxes in recent years?

Since 1999 (the year before the proposed property tax roll-back base year), all of the actions by the state that significantly impacted local governments' revenues or expenditures appear to have left local governments slightly better off, particularly due to the state's provisions for court system costs when Revision 7 to Article V of the Florida Constitution was implemented. Based on the estimates for each action, local governments have gained a net of $55.4 million in the aggregate for recurring impacts. This net gain includes major negative impacts to local governments such as requiring county payments for pre-adjudication juvenile detention, and the local governments' losses due to reductions in the intangible personal property tax.

One-time local government losses due to sales tax holidays during the time period amounted to $42.0 million. In addition, during the same time period, the local governments' contributions to the Florida Retirement System do not appear to have placed any undue burden on local governments. In fact, for counties, the most recent six years of actual contributions is less than it would have been had contribution rates remained constant at 2000-2001 levels. [See **Tab D**]

9. How will state and local **funding for schools** be affected in the future?

This proposal, like any other that limits property taxes generally, will also limit growth revenues for schools, compared to the past several years. This will result in greater reliance on state funding.

10. How will the plan affect **Children's Services Councils** and **hospital districts** ability to fund indigent care and draw down federal matching funds?

Staff is still evaluating the issue, but it appears that most hospital districts drawing down federal funds for indigent care will have sufficient revenues to continue current federal funding levels.

Staff is continuing to evaluate whether the reduced millages to Children's Services Councils' will impact their ability to draw down federal funding.

12. What will the impact be on **"fiscally constrained" counties**?

As is true for any other county, "fiscally constrained" counties that have increased their tax collections more rapidly than inflation and new construction growth will experience tax rate reductions. Property tax reductions in counties currently defined as "fiscally constrained" would average 26%, for a total of approximately $104 million [See **Tab E**].

13. How will city and county governments be affected as a consequence of **annexations**?

A city that adds territory through annexation will be held harmless in the first year after the annexation, since the millage limitation formula allows for the receipt of increased taxes from taxable value added by an annexation. In later years, the city's millage rate, including the rate applicable to the annexed territory, will be limited, unless the governing board approves a higher millage rate by an extraordinary vote.

14. Will local governments increase non-property tax revenues to try to offset the proposed limitations?

Probably yes. Evidence from California in the years after Proposition 13 was adopted shows that local governments increased other existing revenue sources or imposed new ones. Whether these other revenues fully replaced expected property tax revenues is unknown.

Non-property tax revenue sources that could be used include user fees (i.e., charges for services such as garbage pick-up, water service, recreational activities, library services, etc.), impact fees and special assessments. Special assessments are levies against property to pay for various types of improvements or services (e.g., sidewalks, drainage, street lights, fire protection) that directly benefit the assessed property. The assessment amount is limited to the cost of providing the improvement or service and must bear a relationship to the benefit the property receives.

15. What are the **economic impacts** on:

a. The overall state economy

According to a study by Arduin, Laffer & Moore Econometrics (ALME) the property tax rate rollback will have a net positive effect on the state economy. By 2014 ALME estimates that real personal income will be $16.1 billion higher in total and $752 higher on a per capita basis, or about 1.8% higher than the baseline projection. [See **Tab F**]

b. Households with different income levels

Another ALME study estimates that both low and high-income households will have net after-tax income gains from the combined property tax rollback and replacement of homestead taxes with a 2.5% sales tax rate increase. This conclusion holds for households that rent their dwellings under the assumption that property tax savings are passed on by landlords. [See **Tab G**]

c. Real estate/construction/Doc Stamp and Intangibles Tax collections

The demand for residential property (single-family homes & condos) will increase as a result of the repeal of homestead property taxes and elimination of the "lock-in effect." Consequently, values of such properties will likely increase, as will construction activity. A surge in buy/sell transactions is likely to characterize the market adjustment period. Both the increase in transactions and prices will have a positive impact on Documentary Stamp Tax and Intangibles Tax collections. The likely magnitude of these changes is still under study.

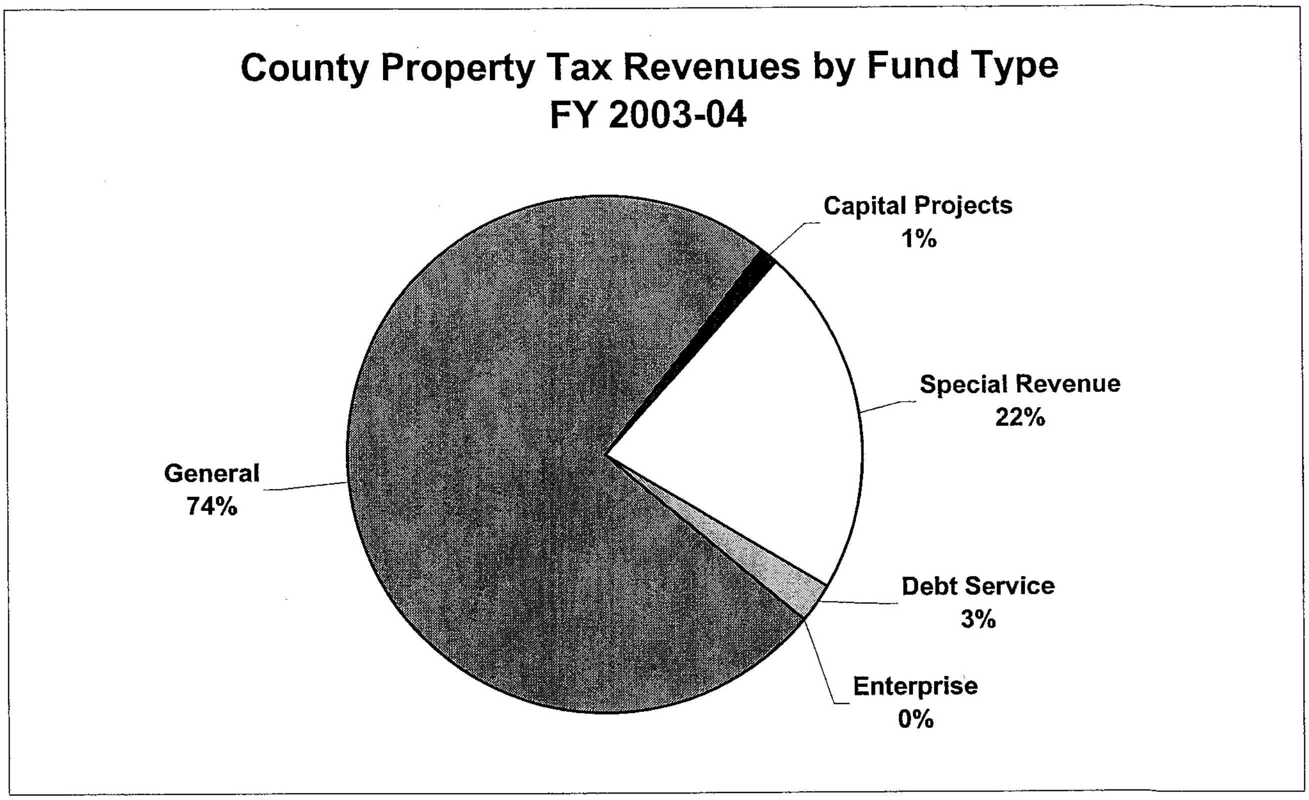
Also, the cost of construction materials will increase by 2.5%, if the additional sales tax is fully passed through to end users. This would increase the cost of a new home by approximately 1%, but should be more than offset by a single-year of annual tax savings from repeal of homestead taxes, which will average approximately 1.4% of the home value.

d. Tourism

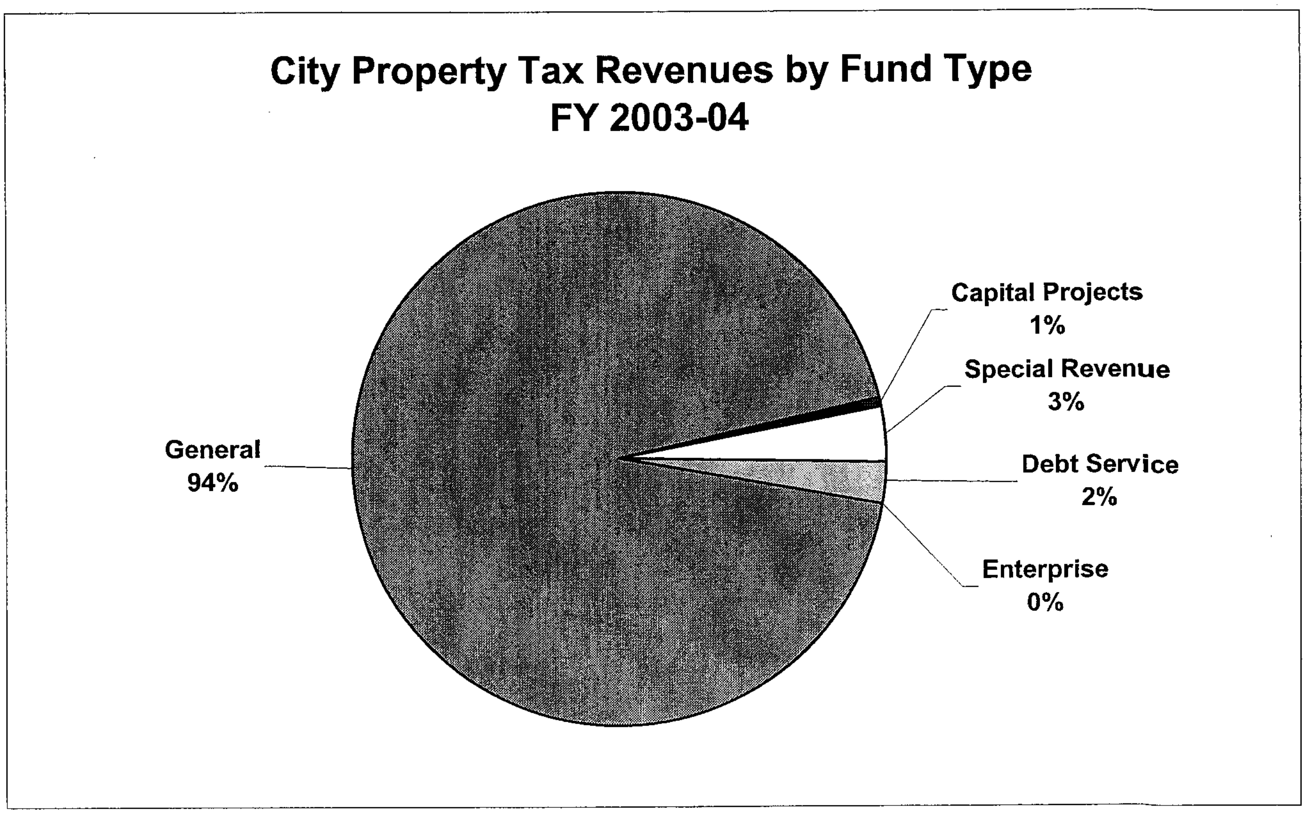
Florida tourist profile data available from VisitFlorida suggest that the average cost per visit to Florida by tourists in 2005 was approximately $1,055. The additional 2.5% sales tax would increase the average cost per visit by an estimated $24, or 2.3% if retailers do not adjust their pre-tax prices.

The impact of these potential price changes on tourism will occur in the context of the variety of factors that determine tourist activity. The tourism research literature suggests a combination of several factors that explain tourism, including: overall travel costs, previous experience with the destination, advertising, price of tourism for alternative destinations, unique features of a destination (Pyramids, Disney World), unique events at a destination (Olympics, Super Bowl), travelers' income, basic tastes and preferences.

A



County Property Tax Revenues by Fund Type
FY 2003-04
Capital Projects
1%
Special Revenue
22%
Debt Service
3%
Enterprise
0%
General
74%



City Property Tax Revenues by Fund Type
FY 2003-04
Capital Projects
1%
Special Revenue
3%
Debt Service
2%
Enterprise
0%
General
94%

Local Government Expenditures FY 2003-04: Governmental Fund Types

($ in Millions)

Expenditure Category	Counties	% of Total	Municipalities	% of Total	Special Districts	% of Total
General Government Services	**$ 3,650.8**	**21.3**	**$ 1,850.4**	**16.0**	**$ 256.7**	**10.8**
Legislative	105.2	0.6	76.3	0.7	0.5	0.0
Executive	90.6	0.5	171.9	1.5	13.6	0.6
Financial and Administrative	1,060.3	6.2	624.7	5.4	93.9	4.0
Legal	78.1	0.5	76.1	0.7	9.8	0.4
Comprehensive Planning	125.7	0.7	154.7	1.3	2.0	0.1
Judicial	854.4	5.0	32.8	0.3	0.2	0.0
Other General Government Services	1,336.5	7.8	713.9	6.2	136.8	5.8
Public Safety	**6,096.6**	**35.6**	**3,873.2**	**33.5**	**243.8**	**10.3**
Law Enforcement	2,723.2	15.9	2,316.0	20.0	0.5	0.0
Fire Control	953.6	5.6	1,131.6	9.8	224.9	9.5
Detention and Correction	1,410.3	8.2	3.8	0.0	-	-
Protective Inspections	229.0	1.3	182.9	1.6	2.4	0.1
Ambulance and Rescue	288.6	1.7	115.6	1.0	13.4	0.6
Other Public Safety	491.8	2.9	123.3	1.1	2.6	0.1
Physical Environment	**719.4**	**4.2**	**1,817.4**	**15.7**	**1,076.8**	**45.4**
Electric	0.6	0.0	1,029.2	8.9	0.2	0.0
Gas	-	-	6.5	0.1	0.2	0.0
Water	2.2	0.0	18.3	0.2	3.2	0.1
Garbage and Solid Waste	80.5	0.5	132.7	1.1	0.3	0.0
Sewer	4.0	0.0	33.5	0.3	6.4	0.3
Water and Sewer Combination	9.4	0.1	269.2	2.3	0.0	0.0
Flood Control	142.7	0.8	51.4	0.4	282.2	11.9
Other Physical Environment	480.0	2.8	276.4	2.4	784.4	33.0
Transportation	**2,036.8**	**11.9**	**1,399.7**	**12.1**	**82.8**	**3.5**
Road and Street Facilities	1,734.5	10.1	1,000.4	8.7	50.5	2.1
Airports	7.8	0.0	99.3	0.9	0.3	0.0
Water Transportation	3.6	0.0	52.5	0.5	24.1	1.0
Transit Systems	268.7	1.6	132.5	1.1	3.7	0.2
Parking and Other Transportation	22.2	0.1	115.0	1.0	4.3	0.2
Economic Environment	**876.9**	**5.1**	**598.2**	**5.2**	**20.4**	**0.9**
Employment Development	15.7	0.1	4.4	0.0	8.4	0.4
Downtown and Industrial Developmen	171.2	1.0	125.6	1.1	1.9	0.1
Housing and Urban Development	500.1	2.9	293.3	2.5	10.1	0.4
Other Economic Environment	190.0	1.1	175.0	1.5	-	-
Human Services	**1,256.3**	**7.3**	**179.8**	**1.6**	**334.5**	**14.1**
Hospitals	56.7	0.3	29.2	0.3	69.7	2.9
Health	422.8	2.5	23.2	0.2	141.8	6.0
Mental Health	38.6	0.2	11.8	0.1	-	-
Welfare	208.7	1.2	3.5	0.0	3.3	0.1
Other Human Services	529.6	3.1	112.0	1.0	119.6	5.0
Culture and Recreation	**1,371.2**	**8.0**	**1,263.7**	**10.9**	**93.0**	**3.9**
Libraries	370.0	2.2	179.1	1.5	42.3	1.8
Park and Recreation	706.8	4.1	880.7	7.6	40.3	1.7
Other Recreation	294.4	1.7	203.9	1.8	10.5	0.4
Debt Service	**1,107.3**	**6.5**	**576.2**	**5.0**	**265.9**	**11.2**
Total Expenditures	**$ 17,115**	**100.0**	**$ 11,559**	**100.0**	**$ 2,374**	**100.0**

B

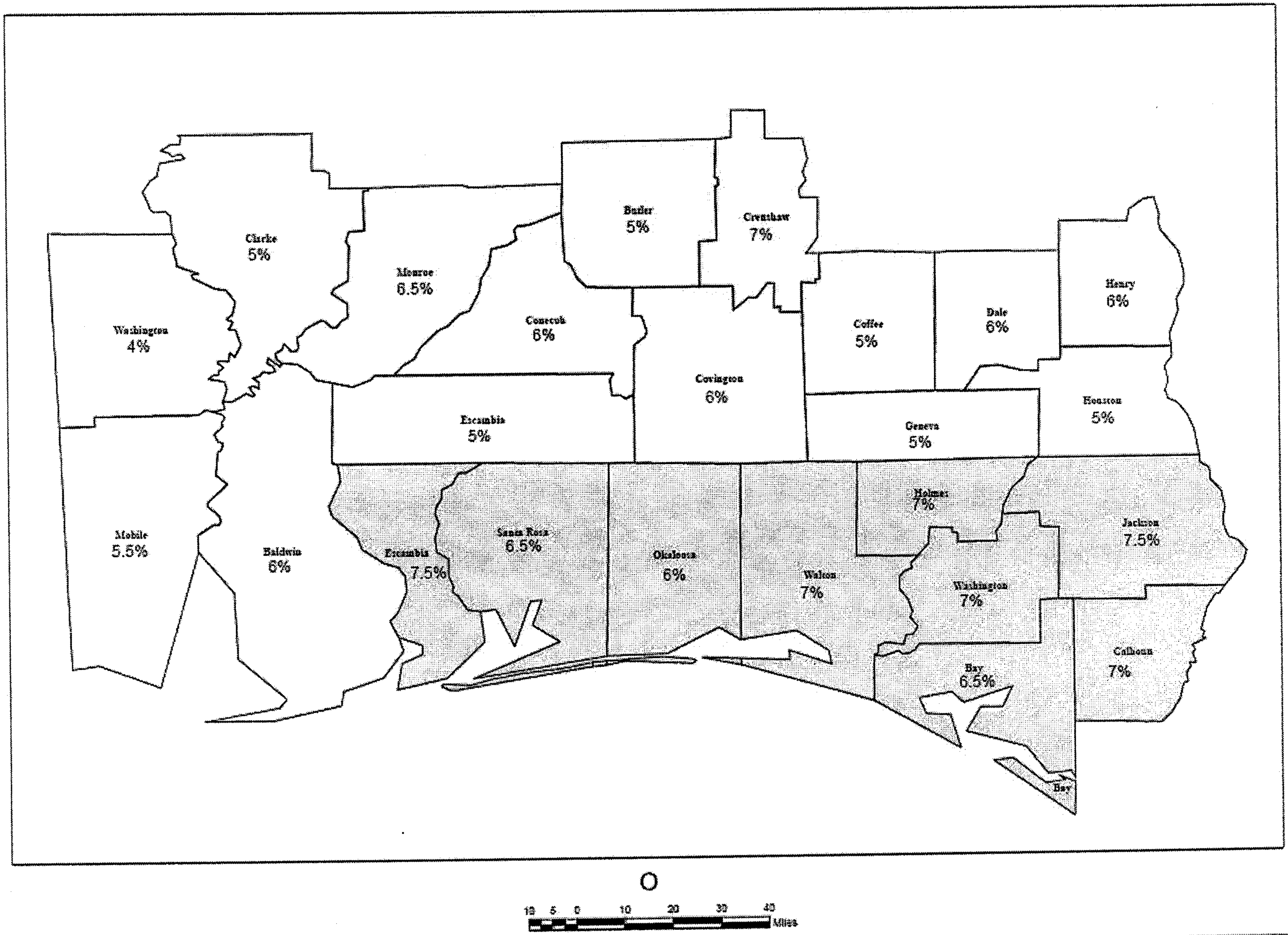
Entities with Voted Debt Service Millages

		Millage Rate
Alachua	DEBT	0.2500
Alachua	BOND 4	0.3200
Alachua	BOND 5	0.4300
Alachua	LIBRARY DEBT	0.1140
Brevard	M I REC DIST 2 MSTU DBTP 200	0.3286
Brevard	PSJ/CANV GRV REC MSTU DBTP	0.4054
Brevard	S BREV REC DIST DBTP 2001	0.1812
Brevard	ENV END LAND & WTR AREAS DBTP	0.0980
Brevard	ENV ENDANG LAND ACQ DBTP 91	0.1665
Brevard	N BREV REC DIST 1/TITUS 01-202	0.4449
Broward	BOCC DEBT	0.4228
Broward	BROWARD SCHOOL DIST.-DEBT SERV	0.1897
Broward	PEMBROKE PINES DEBT	0.2606
Broward	DANIA DEBT SERVICE	0.1490
Broward	COOPER CITY DEBT SERVICE	0.2030
Broward	CORAL SPRINGS DEBT SERVICE	0.2134
Broward	DAVIE DEBT SERVICE	0.7541
Broward	DEERFIELD BEACH DEBT SERVICE	0.4250
Broward	FT. LAUDERDALE DEBT SERVICE	0.2760
Broward	HOLLYWOOD DEBT SERVICE	0.2293
Broward	LAUDERDALE LAKES DEBT	0.6600
Broward	LAUDERHILL DEBT SERVICE	0.6310
Broward	LIGHTHOUSE POINT DEBT	0.2383
Broward	MARGATE DEBT SERVICE	0.1603
Broward	N. LAUDERDALE DEBT SERVICE	0.2849
Broward	POMPANO BEACH DEBT SERVICE	0.0947
Broward	TAMARAC DEBT SERVICE	0.1305
Broward	WILTON MANORS DEBT SERVICE	0.2236
Charlotte	SCHOOL BOARD (III) DEBT SERV.	0.1400
Collier	MARCO-DEBT	0.0736
Collier	NAPLES-DEBT	0.0364
Miami-Dade	CO. DEBT SERVICE	0.2850
Miami-Dade	EVERGLADES PROJECT	0.1000
Miami-Dade	FIRE DEBT SERVICE	0.0420
Miami-Dade	SCHOOL BOARD DEBT SERV.	0.4140
Miami-Dade	INDIAN CREEK DEBT SERVICE	0.4500
Miami-Dade	MIAMI BEACH DEBT SERVICE	0.2990
Miami-Dade	MIAMI DEBT SERVICE	0.6210
Miami-Dade	MIAMI SHORES DEBT SERVICE	0.8559
Miami-Dade	MIAMI SPRINGS DEBT SERVICE	0.3953
Miami-Dade	NORTH BAY VILLAGE D. SERVICE	0.1980
Miami-Dade	NORTH MIAMI BCH DEBT SERVICE	0.9085
Miami-Dade	NORTH MIAMI DEBT SERVICE	0.1628
Duval	SCHOOL BOARD	0.3420
Flagler	DEBT SERVICE	0.1061
Hernando	RECREATION/SENSATIVE LAND	0.1000
Hillsborough	ENVIR. SENSITIVE LANDS	0.0667
Hillsborough	UNINCORP. PARKS & REC BONDS	0.0286
Indian River	LAND ACQUISITION BOND	0.1406
Indian River	SCHOOL BOND	0.2800
Jackson	CAMPBELLTON GRACEVILLE HOSP.	1.5000
Lake	LAKE COUNTY VOTED DEBT	0.2000

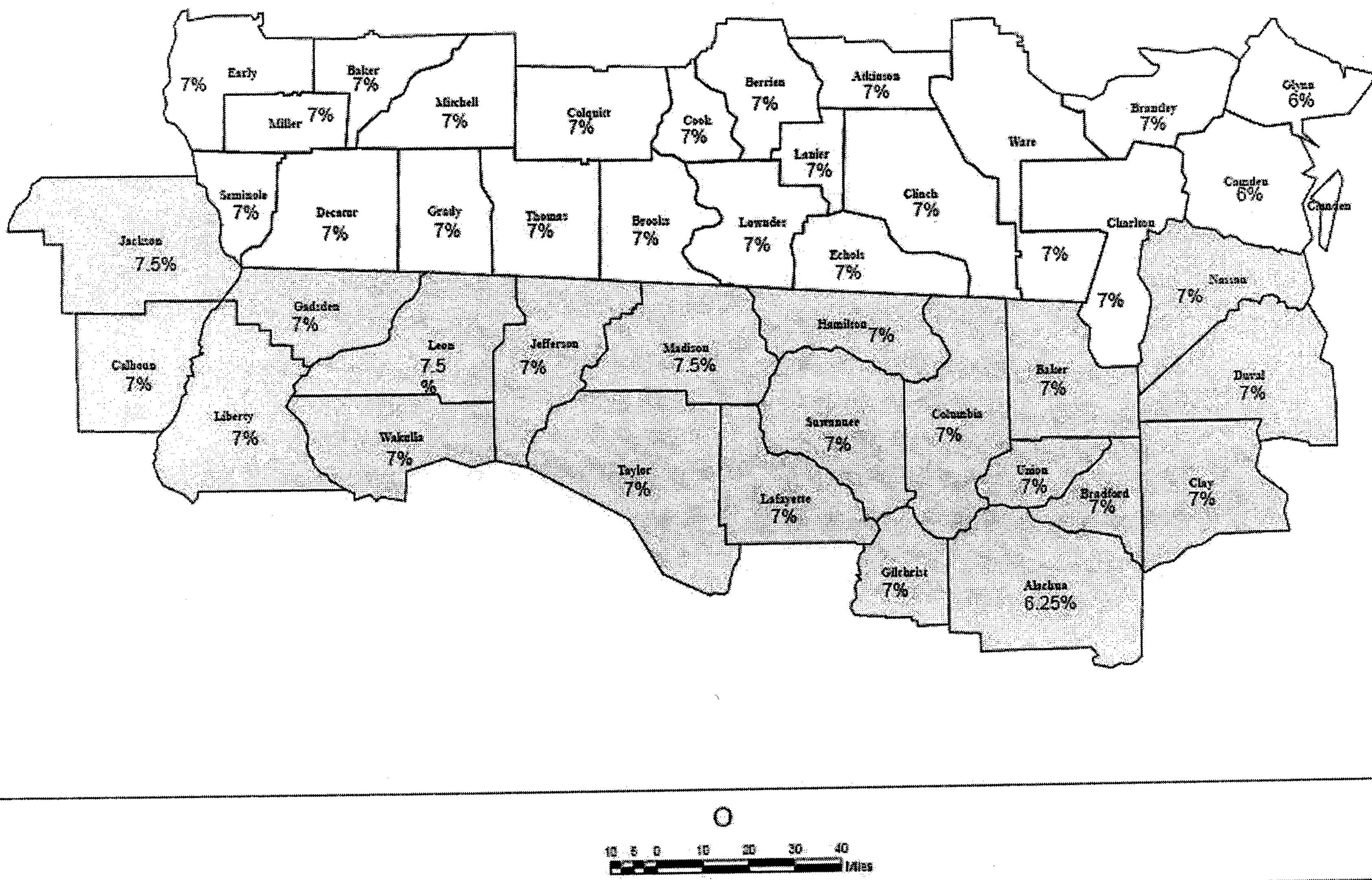
Entities with Voted Debt Service Millages

		Millage Rate
Lee	CITY OF SANIBEL REC CTR DEBT	0.1145
Lee	CITY OF CAPE CORAL DEBT SERV	0.0627
Lee	CITY OF SANIBEL DEBT SER.	0.2363
leon	LEON CO. SCHOOL BONDS	0.5360
Manatee	EMERSON POINT I & S	0.0055
Manatee	GO REFUNDING	0.0987
Martin	CO. - G.O. BOND SERIES	0.0530
Martin	CO. - LANDS FOR YOU	0.0290
Martin	COUNTY- FIT BOND	0.0320
Martin	STUART VOTED DEBT SERV	0.2442
Okeecobee	CO. COMM. BONDS	0.2360
Orange	MAITLAND DEBT SERVICE	0.4200
Orange	WINTER PARK DEBT SERV 3	0.2330
Orange	WINTER PARK DEBT SERV 4	0.0990
Palm Beach	CO. COMM. DEBT	0.1975
Palm Beach	SCHOOL BOARD/DEBT	0.1600
Palm Beach	LIBRARY DEBT SERVICE	0.0339
Palm Beach	PALM BEACH GARDENS-DEBT SER.	0.1600
Palm Beach	PALM SPRINGS- DEBT SERVICE	0.6657
Palm Beach	ROYAL PALM BEACH- DEBT SERV.	0.0235
Palm Beach	WEST PALM BEACH-DEBT SERV.	0.3249
Palm Beach	BOCA RATON -DEBT SERVICE	0.2886
Palm Beach	BOYNTON BEACH-DEBT SERVICE	0.0400
Palm Beach	DELRAY BEACH - DEBT SERVICE	0.4400
Palm Beach	HIGHLAND BEACH - DEBT SERVICE	0.4207
Palm Beach	JUPITER-DEBT SERVICE	0.2569
Palm Beach	LAKE PARK - DEBT SERVICE	1.3000
Palm Beach	LAKE WORTH- DEBT SERVICE	0.2260
Pasco	CO. WIDE SCHOOL BOND 2000	0.2280
Pinellas	ST. PETERSBURG DEBT SERVICE	0.0656
Polk	DEBT SERVICE FUND	0.0600
Putnam	INTEREST AND SINKING FUND	0.5000
St. Johns	SCHOOL DIST. 89 BOND INT & SKG	0.1800
St. Lucie	ST. LUCIE COUNTY PORT BOND	0.0154
St. Lucie	PORT ST. LUCIE DEBT SVC	1.0000
Sarasota	DEBT SERVICE	0.0749
Sarasota	LONGBOAT-DEBT SERVICE	0.0836
Sarasota	SARASOTA-DEBT SERVICE	0.0974
Sarasota	VENICE DEBT SERVICE	0.2150
Wakulla	SCHOOL BOARD BO	0.4900

Alabama-Florida



Georgia-Florida



ALABAMA STATE SALES TAX - 4%

Counties	Cities
Baldwin 2%	
	Bay Minnette 3%
	Daphne 2.5%
	Foley 2%
	Gulf Shores 3%
	Robertsdale 2%
Coffee 1%	
	Elba 3%
	Enterprise 3%
Escambia 1%	
	Brewton 3%
Geneva County 1%	
	Geneva 3%
Houston 1%	
	Dothan 4%
Mobile County 1.5%	
	Mobile 4%

D

RECENT STATE ACTIONS WITH SIGNIFICANT* IMPACTS ON LOCAL GOVERNMENT REVENUES OR EXPENDITURES**

LINE #	Year	Description	ESTIMATED LOCAL GOVT. GAIN/(LOSS) ($ in millions)
1		***ACTIONS WITH RECURRING REVENUE OR EXPENDITURE IMPACTS***	
2		**Article V Implementation** ***(see separate summary)***	
3	2004 2003	Implementation of Revision 7 to Article V of the Florida Constitution, relating to revised state and county responsibilities for operations and funding of the court system. (ch. 2003-402, L.O.F. (HB 113A) and ch. 2004-265, L.O.F. (SB 2962))	$347.7
4			
5		**Juvenile Detention - County Responsibility** ***(see separate summary)***	
6	2004	Increases the fiscal responsibility of counties for public safety issues related to pre-adjudication juvenile detention. (ch. 2004-263, L.O.F. (SB 2564))	($95.2)
7			
8		**Tax Issues** (Note: Several of the ad valorem issues listed below represent a loss of taxing capacity for local governments, but may not have resulted in lost revenue since local governments adjust millage rates to absorb the state exemptions.)	
9	2006	**Homestead Assessment -**Amends s. 193.55, F.S., to clarify that there is no change of ownership if a change or transfer merely adds an additional person or persons to the title and does not trigger a change in ownership. (ch. 2006-38, L.O.F. (SB 264))	($8.6)
10		**Exemptions on the Tax on Sales, Use and Other** - Amends s. 212.08, F.S., to provide a number of exemptions from the sales and use tax relating to machinery and equipment. (ch. 2006-56, L.O.F. (HB 69))	($4.7)
11		**Tax on Sales, Use -** Amends s. 212.052, F.S., to delete an exception to an exemption from the tax for research or development costs. (ch. 2006-57, L.O.F. (HB 415))	($6.1)
12		**Homestead Property Assessment -**Provides for the reassessment of homestead property being rebuilt after being damaged or destroyed by misfortune. (ch. 2006-311, L.O.F. (HB 7109))	($3.8)
13		**Fiscally Constrained Counties** - Amends s. 218.67, F.S., to distribute additional funds to certain fiscally constrained counties. *(Funds totalling $15.9 million were reallocated among counties - no state funds provided.)* (ch. 2006-256, L.O.F. (HB 293))	*[see text at left]*
14	2005	**Homestead Assessments** - Allows homestead property owners impacted by the 2004 hurricane season to rebuild their damaged property without incurring higher property assessments. (ch. 2005-268, L.O.F. (SB 1194))	($13.1)
15	2003	**Tax Amnesty -** Creates an amnesty program for a four-month period beginning on July 1, 2003, and ending on October 31, 2003, for taxpayers subject to taxes administered by the Department of Revenue. (ch. 2003-395, L.O.F. (SB 18A))	$4.9
16	2002	**Property Tax Administration -**Amends s. 194.035 F.S., to require rather than authorize counties with populations over 75,000 to appoint special masters. (ch. 2002-18, L.O.F. (SB 1360))	($3.3)
17		**Ad Valorem Tax Exemption -**Amends s.196.24, F.S., by increasing from $500 to $5,000 the property tax exemption for certain disabled ex-service members. (ch. 2002-271, L.O.F. (HB 165))	($9.3)
18	2000	**Intangible Personal Property Tax** - Amends s. 199.292(3), F.S., to repeal the sharing of intangibles tax revenues with county governments via the county Revenue Sharing Program. Amends s. 212.20(f), F.S., to provide that 2.25 percent of sales and use tax collections be transferred to the Revenue Sharing Trust Fund for counties, and to increase the percentage of sales and use tax collections transferred to the Local Government Half-cent sales Tax Clearing Trust Fund for the emergency distribution to eligible counties from 0.054 percent to 0.065 percent. (ch. 2000-173, L.O.F. (HB 67 & 187))	($41.8)
19		**Phosphate Rock Severance Tax** - Redistribution of severance tax on phosphate to selected counties. (ch. 2000-176, L.O.F. (HB 389))	$2.3
20		**Taxation** - Provides a sales tax exemption for sales and leases to organizations holding a current exemption from federal income tax. (ch. 2000-228, L.O.F. (SB 388))	($3.3)
21		**Brownfield Financial Incentives** - Authorizes tax credits, exemptions and refunds. (ch. 2000-317, L.O.F. (SB 1406))	($5.3)
22		**Sales Tax Exemptions** - Provides several tax exemption related to the sales tax on lease or rental of or license in real property and the admissions of sales tax. (ch. 2000-345, L.O.F. (HB349))	($1.7)
23	1999	**Tax Administration -** Creates s. 166.235, F.S., to establish a procedure for a purchaser to obtain a refund or credit from a seller for municipal utility taxes that were collected in error. (ch. 1999-208, L.O.F. (SB 888))	$3.3
24		**Taxation** - Various provisions relating to reducing statute of limitation on actions to collect taxes, filing extensions, estimated sales tax payments, interest rates on tax deficiencies, interest payments on refunds, and reduction of surcharge on sale of alcoholic beverages consumed in licensed establishments. (ch. 1999-239, L.O.F. (SB 172))	($12.8)
25		**Intangible Personal Property Tax** - Amends s. 199.032, F.S., to reduce the intangible tax rate from 2 mills to 1.5 mills. (ch. 1999-242, L.O.F. (SB 318))	($99.9)
26		**Sales Tax Exemption/Ad Agencies** - Creative services used by an advertising agency to design promotional items are exempt from taxation. (ch. 1999-269, L.O.F. (SB 1330))	($1.8)
27		**Sales Tax/Government Contractors** - Provides a sales tax exemption for sales to or use by a government contractor of overhead materials which are used or consumed in performance of such contract under certain conditions. (ch. 1999-273, L.O.F. (SB 2028))	($2.0)
28		**Child Care** - Exempts from ad valorem taxation any real estate used and owned as a child care facility operating in an Enterprise Zone. Exempts from sales and use taxation purchases of educational materials by a child care facility that holds a Gold Seal Quality Care designation and provides basic health insurance to all employees. (ch. 1999-304, L.O.F. (HB 869))	($1.5)
29		**Ad Valorem Tax Assessment** - Exemption for agricultural irrigation systems. (ch. 1999-351, L.O.F. (HB 1639))	($6.8)
30			

RECENT STATE ACTIONS WITH SIGNIFICANT* IMPACTS ON LOCAL GOVERNMENT REVENUES OR EXPENDITURES**

LINE #			ESTIMATED LOCAL GOVT. GAIN/(LOSS) ($ in millions)
31		**Other Issues**	
32	2006	**Facilities for Retained Spring Training Franchises**- Amends s. 288.1162(5), F.S., to provide for certification and funding of no more than five additional applicants for facilities for retained spring training franchises. (ch. 2006-262, L.O.F. (HB 7089))	$2.5
33		**Department of Highway Safety and Motor Vehicles** - Increases the drivers education surcharge on civil traffic penalties that goes to counties for driver education. (ch. 2006-290, L.O.F. (HB 7079))	$9.9
34	2004	**Independent Living Transition Services** - Provides revisions for the districts and community based care agencies to develop and implement an independent living transition services program. (Impacts tuition and fees). (ch. 2004-362, L.O.F. (SB 512))	($3.5)
35	2003	**Statewide Guardians Ad Litem** -Creates the Statewide Guardian Ad Litem Office and transfers existing local GAL offices and positions to the statewide office. (ch. 2003-53, L.O.F. (HB 439))	$3.1
36		**Emergency Communications** - Requires local governments to comply with federal phase II E911 service requirements. (ch. 2003-182, L.O.F. (HB 1307)) Revenue provided to local governments to offset cost of installing and maintaining systems required by federal government.	$12.0
37	2001	**Family Protection Act**- Surcharge on any domestic violence offense - pays local government cost of incarceration. (ch. 2001-50, L.O.F. (HB 1673))	$5.6
38		**Health Care Administration Agency** -Relating to county contributions to Medicaid, for both health maintenance members and fee-for-service beneficiaries, counties are required to begin payment for inpatient hospitalization days beginning the 11th day (changed from the 13th day), not to exceed the 45th day. (ch. 2001-104, L.O.F. (SB 792))	($13.5)
39	2000	**Transportation** - Repeals motor vehicle inspection program in Florida *(only 3 counties affected; eliminated $37.4 million of fees but also eliminated the corresponding expenditure of those fees, leaving the counties with a net no gain or loss.)* (ch. 2000-266, L.O.F. (SB 772))	*[see text at left]*
40	1999	**Lime Rock Mining** - Imposes mitigation fee for lime rock or sand sold from within the Miami-Dade County Lake Belt Area. (ch. 1999-298, L.O.F. (HB 329))	$2.1
41		***NET GAIN TO LOCAL GOVERNMENTS (recurring impacts)***	**$55.4**
42			

ACTIONS WITH NON-RECURRING REVENUE OR EXPENDITURE IMPACTS

LINE #			ESTIMATED LOCAL GOVT. GAIN/(LOSS) ($ in millions)
43		**Sales Tax Holidays**	
44	2006	**Hurricane Preparedness** -Provides exemption from sales tax certain tangible personal property related to hurricane preparedness from May 21, 2006 - June 1, 2006. (ch. 2006-07, L.O.F. (HB 47))	($7.5)
45		**Sales Tax/School Supplies and Clothing** -Provides exemption from sales tax specified items related to school preparedness July 22, 2006 -July 30,2006. (ch. 2006-63, L.O.F. (SB 692))	($7.2)
46	2005	**Tax on Sales, Use, & Other** - Creates the "Sales Tax Holiday" requiring that no tax levied under the provisions of ch. 212, F.S., shall be collected on the sale of specific items having a sales price of $50 or less during the last 9 days of July 2005. The bill also provides that no sales tax shall be collected on the sale of school supplies having a selling price of $10 or less during this same period. (ch. 2005-271, L.O.F. (HB 101))	($6.6)
47	2004	**Sales Tax Holiday** - No tax shall be collected upon the sale of selected items having a selling price of $50 or less during the period from July 24,2004 through August 1, 2004. (ch. 2004-73, L.O.F. (HB 237))	($5.7)
48	2001	**Sales Tax Holiday** - No tax shall be collected upon the sale of selected items having a selling price of $50 or less during the period from July 28, 2001 through August 5, 2001. (ch. 2001-148, L.O.F. (HB 251))	($4.7)
49	2000	**Sales Tax Exemption/Clothing** - Creates the Florida Residents' Tax Relief Act of 2000, which provides that no sales tax will be collected upon select clothing-related items having a selling price of $100 or less for a nine-day period beginning July 29, 2000. (ch. 2000-175, L.O.F. (HB 389))	($5.6)
50	1999	**Florida Resident's Tax Relief Act of 1999**- Exempts clothes and other select items having a selling price of $100 or less during the period from July 31 through August 8, 1999. (ch. 1999-229, L.O.F. (SB 140))	($4.7)
51		**Subtotal Sales Tax Holidays - nonrecurring local government losses**	($42.0)
52			
53		**Florida Retirement System (FRS)** ***(see separate summary)***	
54		Annual changes in contribution rates impacting counties and other local governments participating in the FRS.	*[see separate analysis]*

* Excludes insignificant local impacts (both gains and losses) less than $1.8 million statewide per year; excludes actions with indeterminate impacts; excludes actions that reallocated funds among counties but did not change in total amount; excludes tuition increases in Community Colleges; excludes changes affecting school district required local effort that is funded from separate ad valorem revenues.

** Sources: Annual reports published by the Legislative Committee on Intergovernmental Relations entitled *"[year] Intergovernmental Impact Report"* found at http://www.floridalcir.gov/reports.html (last visited March 5, 2007); and annual reports published by the Legislative Office of Economic and Demographic Research entitled *"Measures Affecting Revenue and Tax Administration - [year] Regular [or Special] Session"*.

ARTICLE V AND JUVENILE DETENTION CENTER IMPACTS ON COUNTIES

ARTICLE V IMPACTS *(2004 DOLLARS)*

1	Revenue Sharing Impact from 1/2 cent change (data from Dept of Revenue)	(116,200,000)
2	Estimated court-related revenue loss/amounts previously retained by Clerks	(337,416,927)
3	Estimated Clerk of Court Expenditures no longer required of counties	405,649,369
4	Other court system operational costs no longer required of counties	232,754,855
5	$4 increase in recording fee to fund county obligation under Article V to provide for information technology	108,319,988
6	Potential collections from $65 local add-on to court costs to fund county requirement for legal aid programs and other optional court services (e.g. teen courts)	38,500,000
7	Potential collections from $15 add-on to traffic fines to fund county obligation under Article V to provide for facilities	37,000,000
8	Selection Centers and criminal justice educations programs	10,889,000
9	Repeal of the optional $150 court cost	(26,400,000)
10	Public Defender liens, and shift of Information Technology costs from state to counties	(5,400,000)
	Net Article V Impacts = SAVINGS TO COUNTIES	**$347,696,285**

JUVENILE DETENTION CENTER IMPACT (AS OF FY 2006-07)

Net Impact of Juvenile Justice Cost Share Provisions *(net of the $6.1 million not charged to 30 fiscally constrained counties)*	**($95,215,488)**

NET GAIN TO COUNTIES **$252,480,798**

ARTICLE V DATA SHOWN ABOVE WAS COMPILED BY LEGISLATIVE STAFF FOR THE 2004 LEGISLATIVE SESSION. NET ARTICLE V IMPACTS ON COUNTIES (SAVINGS) MAY BE GREATER IN 2007 DOLLARS.

Article V Impacts Notes by Line #:

1 - Data from Department of Revenue/General Revenue Estimating Conference.

2 - Data represent 80% of revenue projection approved by the Clerks of Court Operations Conference. Used 80% to reflect 100% increase in traffic costs, 50% increase in services charges, increase in filing fees to $250 statewide and new requirements to increase collections.

3 - Clerk expenditures as approved by the Clerks of Court Operations Corporation for local FY 2004-05.

4 - Data from survey conducted by the Chief Financial Officer inflated forward to FY 2004-05 (8% per year).

5 - County by county data provided by the Florida Association of Court Clerks.

6 - $38.5 million statewide estimate based on court filings data and collection rate data provided by Florida Association of Court Clerks. Also assumes all counties will choose to enact ordinance. According to CFO staff, 64 of 67 counties have chosen to enact.

7 - $37 million statewide estimate and amounts to associate with each county based on traffic ticket data from Department of Highway Safety and Motor Vehicles.

8 - $10 million statewide estimate associated with each county based on number of traffic tickets.

9 - $26.4 million statewide estimate from Uniform Chart of Accounts. Impact allocated among the counties based on population.

10 - Data from the General Appropriations Act and the Uniform Chart of Accounts. Impact allocated among counties based on population.

ARTICLE V AND JUVENILE DETENTION CENTER IMPACTS ON COUNTIES

	County	Net Article V Impacts - SAVINGS TO COUNTIES *AS OF 2004*	Impact of Juvenile Detention Cost Share Provisions *AS OF FY 2006-07*	NET GAIN TO COUNTIES
1	ALACHUA	6,869,862	(2,034,046)	4,835,816
2	BAKER	568,168	-	568,168
3	BAY	2,837,214	(1,144,642)	1,692,572
4	BRADFORD	750,295	-	750,295
5	BREVARD	11,363,202	(2,640,784)	8,722,418
6	BROWARD	41,434,333	(6,876,939)	34,557,394
7	CALHOUN	413,057	-	413,057
8	CHARLOTTE	2,926,957	(465,928)	2,461,029
9	CITRUS	1,520,561	(548,038)	972,523
10	CLAY	2,051,582	(617,918)	1,433,663
11	COLLIER	3,103,594	(1,538,594)	1,565,000
12	COLUMBIA	783,405	-	783,405
13	DE SOTO	741,502	-	741,502
14	DIXIE	485,487	-	485,487
15	DUVAL	5,848,349	(4,909,978)	938,371
16	ESCAMBIA	6,736,134	(3,063,211)	3,672,923
17	FLAGLER	2,270,873	(463,657)	1,807,216
18	FRANKLIN	576,228	-	576,228
19	GADSDEN	1,531,662	-	1,531,662
20	GILCHRIST	493,192	-	493,192
21	GLADES	584,033	-	584,033
22	GULF	509,327	-	509,327
23	HAMILTON	305,061	-	305,061
24	HARDEE	809,010	-	809,010
25	HENDRY	927,942	-	927,942
26	HERNANDO	1,780,043	(565,333)	1,214,710
27	HIGHLANDS	699,086	-	699,086
28	HILLSBOROUGH	20,242,281	(8,405,749)	11,836,532
29	HOLMES	376,599	-	376,599
30	INDIAN RIVER	1,791,852	(427,494)	1,364,358
31	JACKSON	910,461	-	910,461
32	JEFFERSON	398,418	-	398,418
33	LAFAYETTE	194,332	-	194,332
34	LAKE	4,114,219	(1,142,895)	2,971,323
35	LEE	8,872,777	(3,430,608)	5,442,169
36	LEON	6,196,684	(1,681,499)	4,515,185
37	LEVY	1,301,636	-	1,301,636
38	LIBERTY	351,810	-	351,810
39	MADISON	329,363	-	329,363
40	MANATEE	6,585,113	(2,544,873)	4,040,240
41	MARION	3,297,489	(1,799,947)	1,497,543
42	MARTIN	1,660,112	(809,216)	850,896
43	MIAMI-DADE	62,414,158	(10,152,762)	52,261,397
44	MONROE	3,192,162	(385,042)	2,807,121
45	NASSAU	1,996,425	(321,101)	1,675,324
46	OKALOOSA	2,311,214	(823,367)	1,487,847
47	OKEECHOBEE	1,393,609	-	1,393,609
48	ORANGE	10,099,831	(8,344,429)	1,755,401
49	OSCEOLA	3,277,250	(1,724,126)	1,553,123
50	PALM BEACH	28,007,737	(4,998,901)	23,008,836
51	PASCO	8,470,979	(2,367,202)	6,103,777
52	PINELLAS	21,079,928	(5,685,302)	15,394,626
53	POLK	8,540,857	(3,184,279)	5,356,578
54	PUTNAM	2,550,926	-	2,550,926
55	SANTA ROSA	3,367,643	(764,143)	2,603,500
56	SARASOTA	5,098,617	(1,218,366)	3,880,251
57	SEMINOLE	5,992,377	(2,703,676)	3,288,701
58	ST. JOHNS	4,394,416	(1,253,656)	3,140,760
59	ST. LUCIE	6,056,284	(2,394,106)	3,662,178
60	SUMTER	1,196,561	-	1,196,561
61	SUWANNEE	769,412	-	769,412
62	TAYLOR	300,159	-	300,159
63	UNION	486,285	-	486,285
64	VOLUSIA	9,715,631	(3,578,580)	6,137,051
65	WAKULLA	378,046	-	378,046
66	WALTON	314,462	(205,099)	109,362
67	WASHINGTON	748,012	-	748,012
	Totals	**347,696,285**	**(95,215,488)**	**252,480,798**

Florida Retirement System (FRS)

Concerns have been raised that FRS changes have caused large increases in county employer FRS contributions. The table below shows county contributions to the FRS since FY 2000-2001 for all counties, Miami-Dade, Escambia and Orange counties. Because there is fluctuation in FRS contribution rates and consequently actual contributions, the cumulative total contributions since 2000-01 is less than what they would have been if the FY 2000-01 contribution levels remained constant for the past six years.

FLORIDA RETIREMENT SYSTEM (FRS) CONTRIBUTIONS BY COUNTIES* (Dollars in millions)									
Location/Year	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**Six Year Actual Cumulative Totals**	**Six Year Cumulative Totals at Constant FY 2000-01 Levels**	**Actual Cumulative Contributions Under Constant FY 2000-01 Levels**
All Counties	**706.5**	**505.4**	**526.7**	**669.3**	**726.5**	**807.9**	**3,942.2**	**4,238.8**	**(296.6)**
Miami Dade	166.1	124.4	135.2	156.3	168.3	187.7	938.0	996.5	(58.5)
Escambia	11.0	7.5	8.0	9.8	10.7	11.3	58.3	66.3	(8.0)
Orange	52.5	35.2	34.7	43.8	47.1	50.1	263.4	314.8	(51.4)

*excludes school districts, special districts and other local governments.

RECENT NON-RECURRING FRS IMPACTS ON ALL LOCAL GOVERNMENTS (including school boards):**

		ESTIMATED LOCAL GOVT. GAIN/(LOSS) ($ in millions)
2005	**Florida Retirement System -** Provides membership in the Special Risk Class for certain employees of law enforcement agencies or medical examiners offices. (ch. 2005-167, L.O.F. (SB 60))	unknown
2003	**Florida Retirement System/District School Boards -** Revises the payroll contribution rates for the FRS. For FY 2003-04 the amount of funds cities and counties must pay into the retirement system will be decreased, as surplus assets are applied. However, in subsequent years, cities and counties may be required to increase their contribution rates. (ch. 2003-260, L.O.F. (SB 958))	$387.2
2001	**State Retirement Contributions** - Provides for a one year reduction in retirement contribution rates for employers participating in the state retirement system. (ch. 2001-285, L.O.F. (SB 1172))	$510.0
2000	**State Retirement Contributions** - Increases retirement contribution rates to fund the increased normal costs resulting from implementation of the Public Employees Optional Retirement Program (ch. 2000-169, L.O.F. (HB 11))	($14.4)
1999	**State Retirement Contributions** - Reduces county government contributions to the State Retirement System. (ch. 1999-392, L.O.F. (HB 1883))	$868.9

** Sources: Annual reports published by the Legislative Committee on Intergovernmental Relations entitled *"[year] Intergovernmental Impact Report"* found at http://www.floridalcir.gov/reports.html (last visited March 5, 2007); and annual reports published by the Legislative Office of Economic and Demographic Research entitled *"Measures Affecting Revenue and Tax Administration - [year] Regular [or Special] Session"*.

E

FISCALLY CONSTRAINED COUNTIES

		Value of 1 mill	Sales Tax Distribution	Proposed Cuts Due to Roll Back	Cut as a % of Property Taxes Levied for FY 2006-07
1	BAKER	$ 584,901	$ 656,822	(1,560,284)	26.0%
2	BRADFORD	$ 674,446	$ 683,775	(956,255)	12.6%
3	CALHOUN	$ 278,370	$ 804,441	(318,290)	10.0%
4	COLUMBIA	$ 1,887,141	$ 552,088	(3,696,854)	18.0%
5	DESOTO	$ 1,141,425	$ 526,909	(3,711,104)	27.1%
6	DIXIE	$ 486,298	$ 603,331	(3,805,280)	49.6%
7	FRANKLIN	$ 3,360,049	$ 162,915	(9,449,860)	61.0%
8	GADSDEN	$ 1,076,791	$ 804,441	(1,234,548)	10.1%
9	GILCHRIST	$ 463,249	$ 603,331	(2,039,147)	31.3%
10	GLADES	$ 582,024	$ 402,220	(2,718,238)	33.7%
11	GULF	$ 2,670,903	$ 204,939	(7,893,960)	48.8%
12	HAMILTON	$ 571,032	$ 603,331	(668,379)	9.8%
13	HARDEE	$ 1,404,978	$ 350,189	(4,588,705)	35.0%
14	HENDRY	$ 1,926,387	$ 351,943	(2,986,948)	16.5%
15	HIGHLANDS	$ 4,096,402	$ 563,108	(16,781,684)	33.5%
16	HOLMES	$ 351,665	$ 804,441	(928,772)	23.4%
17	JACKSON	$ 1,175,248	$ 637,274	(422,042)	4.1%
18	JEFFERSON	$ 441,414	$ 603,331	(1,020,303)	20.2%
19	LAFAYETTE	$ 170,647	$ 703,886	(375,491)	17.6%
20	LEVY	$ 1,611,123	$ 563,108	(7,168,646)	39.4%
21	LIBERTY	$ 174,194	$ 703,886	(809,304)	39.5%
22	MADISON	$ 515,575	$ 703,886	(986,803)	16.8%
23	OKEECHOBEE	$ 1,847,711	$ 285,576	(2,137,425)	16.1%
24	PUTNAM	$ 3,120,129	$ 571,153	(10,918,708)	28.1%
25	SUMTER	$ 3,387,814	$ 312,425	(2,355,849)	8.0%
26	SUWANNEE	$ 1,184,960	$ 591,264	(3,964,887)	28.6%
27	TAYLOR	$ 1,082,202	$ 324,833	(2,366,489)	20.3%
28	UNION	$ 186,467	$ 804,441	(188,718)	8.9%
29	WAKULLA	$ 1,167,625	$ 532,942	(4,174,397)	35.9%
30	WASHINGTON	$ 646,323	$683,775	(3,528,523)	41.5%
31	**TOTAL**		**$ 16,700,000**	**(103,755,891)**	**25.7%**

F

An Analysis of the Proposed Property Tax Cut in Florida*

The absolute and relative property tax burden in Florida has grown significantly since 2000, and not without a cost. People do not work to pay taxes. They work to earn an after-tax rate of return. Rising tax burdens reduce the after-tax rate of return, and discourage economic growth.

In response to the rising tax burdens, a property tax cut has been proposed. The proposed property tax cut, excluding school tax revenues, is calculated based on the amount of revenues raised in 2000 and the 2001 value of the exact same property tax base (excluding all new property and property improvements). This calculated tax rate is then allowed to grow by the rollback rate plus CPI. Using this methodology going forward, the current 2007 tax rate is calculated. Overall, the proposed property tax rollback will provide Florida's taxpayers with nearly $5.8 billion in property tax relief (a 19.0 percent cut in property tax payments) in the first year of implementation (2007) according to the Policy and Budget Council of the Florida House of Representatives.

Economic Impact Analysis

ALME evaluated the economic impact from the property tax cut by comparing the expected economic outcomes from a scenario in which the proposed property tax cut is implemented compared to a baseline scenario. The baseline scenario uses Florida's historic tax burden growth. The baseline level of economic activity is then compared to the expected level of economic activity under the scenario where Florida's property taxes are reduced by the proposed rollback rate. Future property tax growth through 2014 is constrained to grow at the new "rollback" rate, while all other revenues are assumed to grow at their historic average growth rates, which is the same rate of growth all taxes are experiencing in the baseline scenario.

To quantify the impact of lower taxes on economic growth, we estimated the historic relationship between changes in a state's total tax burden and changes in a state's real personal income per capita.[1] The state and local tax data was compiled by the U.S. Census and state personal income data compiled by the Bureau of Economic Analysis.[2] Data from 48 states were used in the analysis to discern the impact from taxes on economic growth.[3]

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* This analysis was prepared on 2/20/2007 based in part on information provided by the Policy and Budget Council of the Florida House of Representatives.

[1] Measuring state personal income per capita adjusts for the divergent population differences across the states.

[2] It is important to note that although the Census data is gathered from the states, the data is adjusted to put all states on a comparable basis. Through this adjustment process, the final tax data as reported by the Census will not necessarily match the final data as reported by the state. This is especially true for property tax revenues as reported by the Florida Department of Revenue compared to the U.S. Census. For purposes of the econometric analysis, the U.S. Census data was used, for consistency purposes with the other states included in the analysis. However, when we discuss current property tax and sales tax trends in Florida, we use the relevant Florida source as these numbers more accurately reflect the real-time situation in Florida.

[3] Alaska and Wyoming were not included in the analysis because these states, being blessed with an abundance of natural resources, derive the lions-share of their tax revenues from severance taxes. Because severance taxes are levied on items such as oil and coal that are used by people across the country, a great deal of the tax revenues raised by Alaska and Wyoming are actually paid for by residents of other states. As a consequence, the tax systems in these states are not directly comparable to the tax systems in the other 48 states and were thus not included in the analysis.

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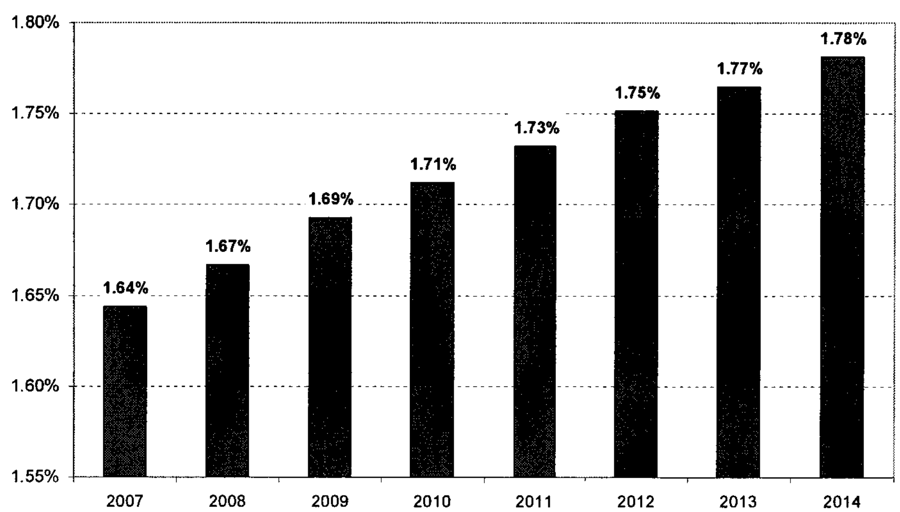
The change in each state's total tax burden per $1,000 of personal income was used as a proxy to measure whether a state's tax burden was growing, stable, or declining. In addition to the impact of a state's tax policy, overall economic growth in the country also impacts the rate of real per capita personal income growth in a state. To account for the impact from national economic growth trends, the model included the growth in real U.S. GDP per capita. The results of our analysis showed that for every one-dollar increase in a state's total tax burden, growth in real personal income per capita can be expected to decline by 0.20 percent.

Based on the measured econometric relationships the baseline and property tax replacement scenarios were evaluated. For the baseline scenario, we estimated the real per capita personal income in Florida between 2007 and 2014. The property tax rollback scenario begins in 2007 by applying the proposed property tax rollback scenario as described above. The property tax burden is now constrained to grow at its restricted rate, and all other taxes were allowed to grow at their historic rates. Thus, the total tax burden and total tax burden growth was lower under the property tax rollback scenario.

Figure 1 summarizes the results from the analysis. Due to the lower total tax burden under the property tax rollback scenario, real per capita personal income in Florida will be higher. By 2014, total real per capita personal income would be 1.78 percent higher under the property tax cut scenario compared to the baseline scenario or an increase of over $752 for every Florida resident.

Figure 1
Excess Growth in Real Personal Income Per Capita
Property Tax Rollback Scenario Compared to Baseline Scenario
2007 – 2014



In addition to the real per capita personal income being higher, total real personal income for the state would also be higher by 2014 than under the baseline scenario. This is due in part to rising personal incomes spurring population growth. More people mean more productive output and total gross state income increases. But before we arrive at the impact of the proposed tax reform on total real personal income, we needed to quantify the impact of the proposal on population growth.

It is logical, that people tend to move to places that offer better economic opportunities. Consequently, we expect a positive relationship to exist between a state's per capita personal income growth and the rate of a state's population growth. Our analysis supported this hypothesis. Due to the positive impacts on real per capita personal income growth, total population growth in Florida would have been expected to increase by an additional 0.02 percent or an additional 4,900 people by 2014. The combination of higher real per capita personal income growth and higher population growth would lead to total real personal income in 2014 being 1.81 percent higher than the baseline scenario, or an additional $16.1 billion in real personal income for the state of Florida.

Higher personal income growth would also lead to increased employment growth in the state. Based on the relationship between changes in employment and changes in real personal income per capita, total employment in Florida would have increased by 0.1 percent or an additional 8,080 jobs by 2014. The positive economic impacts from replacing the property tax with the state sales tax are summarized in Table 1.

Table 1
Summary of Economic Impacts
Property Tax Rollback

Total Real Personal Income Per Capita	$752
Total Real Personal Income (billions)	$16.1
Total Jobs Impact (thousands)	8.1
Total Population Impact (thousands)	4.9

These results confirm that the growing property tax burden has taken a toll on potential economic growth in the state of Florida. The significant property tax cut offers a pro-growth tax reform that could create significant economic benefits for the state.

Background

Florida's recent economic performance has been impressive, significantly outpacing the average economic growth in the U.S. The state's low-tax pro-growth environment has played an important role in generating these results. For instance, Florida has no income tax. States with no income tax consistently outperform those states with the highest income taxes, see Table 2.

While Florida's recent performance has been strong, the state's total tax burden has been growing at a disconcerting rate as of late. Rising tax burdens are detrimental to labor and capital, poor and rich, men and women, and old and young. A rising tax burden is an equal opportunity tormentor. In the short run, higher taxes lower after-tax earnings. In the longer run, mobile factors "vote with their feet" and leave the state, leaving immobile factors (such as low wage workers and property) to suffer the tax burden. Arduin, Laffer & Moore Econometrics has produced decades of research demonstrating that states with high and/or increasing taxes relative to the national average experience relative declines in income; housing values; and population as well as rising relative unemployment rates.

Table 2
Lower Taxes, Higher Growth:
Personal Income Tax (PIT) Rates vs. 10-Year Economic Performance through 2006
(Current tax rate vs. performance between 1996 to 2006, unless otherwise noted)

	Top PIT Rate*	Gross Domestic Product by State Growth**	Personal Income Growth**	Personal Income Per Capita Growth**	Population Growth**	Net Domestic In-Migration as a % of Population**	Non-Farm Payroll Employment Growth	Unemployment Rate, 2006
Alaska	0.00%	70.2%	52.6%	39.6%	9.8%	-3.9%	19.4%	6.8%
Florida	0.00%	94.0%	83.9%	46.4%	22.4%	8.9%	30.4%	3.2%
Nevada	0.00%	123.7%	120.1%	44.6%	52.7%	20.5%	52.9%	4.1%
New Hampshire	0.00%	73.9%	73.0%	55.2%	13.2%	6.0%	15.9%	3.4%
South Dakota	0.00%	71.0%	76.0%	62.1%	5.2%	-1.8%	14.5%	3.2%
Tennessee	0.00%	66.3%	63.6%	46.9%	11.9%	4.3%	9.6%	5.2%
Texas	0.00%	96.9%	87.2%	54.6%	20.6%	2.1%	20.8%	5.0%
Washington	0.00%	72.7%	70.6%	49.5%	14.7%	3.1%	18.6%	5.0%
Wyoming	0.00%	101.5%	86.0%	74.8%	5.0%	-2.0%	23.9%	3.2%
9 States With No PIT* **	**0.00%**	**85.6%**	**79.2%**	**52.6%**	**17.3%**	**4.1%**	**22.9%**	**4.3%**
9 States With Highest Marginal PIT Rate* **	**9.12%**	**62.1%**	**59.6%**	**49.5%**	**7.6%**	**-1.8%**	**12.1%**	**4.6%**
Kentucky	8.20%	49.6%	61.0%	51.0%	7.4%	1.7%	10.4%	5.8%
Hawaii	8.25%	49.2%	46.9%	38.1%	6.5%	-6.5%	16.5%	2.6%
Maine	8.50%	57.8%	62.6%	55.2%	6.3%	3.7%	13.1%	4.6%
Ohio	8.87%	47.3%	45.0%	44.4%	2.3%	-2.8%	3.0%	5.4%
New Jersey	8.97%	59.1%	63.3%	51.2%	7.9%	-4.2%	12.1%	4.8%
Oregon	9.00%	81.8%	65.0%	44.0%	14.3%	4.7%	16.0%	5.4%
Vermont	9.50%	69.2%	64.9%	58.7%	5.8%	1.0%	11.9%	3.5%
California	10.30%	80.1%	74.1%	53.3%	14.0%	-3.5%	17.7%	4.8%
New York	10.50%	64.4%	53.8%	49.6%	3.9%	-10.1%	8.3%	4.5%

Similar to the experience of the states with no personal income tax, economic growth in the states with lower overall tax burdens exceeds economic growth in the other states – especially those with the highest tax burdens. Table 3 illustrates this relationship.

Economic growth in the 10 states with the lowest tax burden, defined as total state and local taxes as a percentage of personal income, exceeds the economic growth in the 10 states with the highest tax burdens. Overall economic growth as measured by total economic activity (State GDP) or resident's total personal income has been significantly higher in the low-tax states. Not surprisingly, stronger economic growth has led to more jobs and lower unemployment rates, this despite the higher population growth in the low-tax states as more and more people choose to relocate to the lower-taxed states.

Table 3
Lower Taxes, Higher Growth:
State and Local Tax Burden vs. 10-Year Economic Performance
(2004 State & Local tax burden vs. economic performance between 1995 and 2005, unless otherwise noted)

	S&L Tax Burden*	Gross Domestic Product by State Growth**	Personal Income Growth**	Personal Income Per Capita Growth**	Population Growth**	Net Domestic In-Migration as a % of Population**	Non-Farm Payroll Employment Growth	Unemployment Rate, 2006
South Dakota	$87.40	71.0%	76.0%	62.1%	5.2%	-1.8%	14.5%	3.2%
Tennessee	$88.99	66.3%	63.6%	46.9%	11.9%	4.3%	9.6%	5.2%
Alabama	$90.44	61.4%	61.6%	49.9%	6.1%	0.8%	8.0%	3.5%
New Hampshire	$90.51	73.9%	73.0%	55.2%	13.2%	6.0%	15.9%	3.4%
Colorado	$94.00	93.0%	88.5%	56.6%	21.9%	5.1%	19.5%	4.4%
Missouri	$98.48	53.4%	56.6%	48.0%	7.8%	1.3%	7.3%	4.8%
Texas	$99.49	96.9%	87.2%	54.6%	20.6%	2.1%	20.8%	5.0%
Oklahoma	$100.21	77.8%	70.1%	55.5%	7.2%	0.1%	13.8%	3.9%
Oregon	$101.10	81.8%	65.0%	44.0%	14.3%	4.7%	16.0%	5.4%
Georgia	$102.50	77.2%	78.1%	43.6%	23.8%	6.4%	15.7%	4.7%
10 States With Lowest Tax Burden* **	**$95.31**	**75.3%**	**72.0%**	**51.6%**	**13.2%**	**2.9%**	**14.1%**	**4.4%**
10 States With Highest Tax Burden* **	**$132.31**	**64.9%**	**59.5%**	**53.0%**	**5.5%**	**-2.3%**	**12.9%**	**4.4%**
Connecticut	$119.41	60.1%	61.6%	54.0%	5.6%	-3.1%	5.6%	4.3%
Wisconsin	$121.73	58.4%	59.8%	51.1%	6.8%	0.6%	10.3%	4.7%
West Virginia	$123.38	44.8%	46.3%	53.5%	-0.4%	-0.5%	8.2%	4.8%
Rhode Island	$125.32	73.3%	60.5%	55.7%	5.8%	-1.9%	11.8%	5.3%
Alaska	$131.39	70.2%	52.6%	39.6%	9.8%	-3.9%	19.4%	6.8%
Hawaii	$133.05	49.2%	46.9%	38.1%	6.5%	-6.5%	16.5%	2.6%
Maine	$134.56	57.8%	62.6%	55.2%	6.3%	3.7%	13.1%	4.6%
Wyoming	$140.43	101.5%	86.0%	74.8%	5.0%	-2.0%	23.9%	3.2%
Vermont	$143.29	69.2%	64.9%	58.7%	5.8%	1.0%	11.9%	3.5%
New York	$150.52	64.4%	53.8%	49.6%	3.9%	-10.1%	8.3%	4.5%

In short, taxes matter for economic growth: the higher the tax burden, the worst the economic performance; alternatively the lower the tax burden, the greater the economic performance. Florida is ranked 13th in terms of total state and local tax burden as a percentage of personal income in 2005. While seemingly impressive, the state's tax burden used to be lower, and this rising property tax burden is beginning to erode the state's low-tax status, see Figure 2.

Between 2001 and 2005 the total tax burden increased by nearly one percentage point of total state personal income. As is commonly recognized across the state, the increase has been entirely driven by rising property tax burdens, see Figure 3.

The proposed property tax rollback and property tax replacement initiative directly addresses the recent cause of the rising state and local tax burden in Florida. In so doing, the proposed tax cut will generate significant economic growth and prosperity for the state.

Figure 2
Total State and Local Taxes as a Percentage of Personal Income in Florida
1980 - 2005

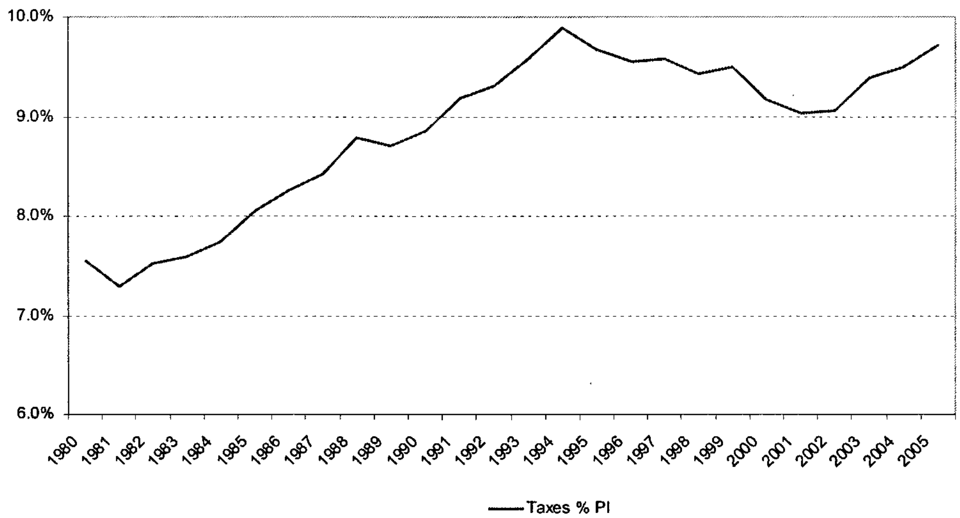
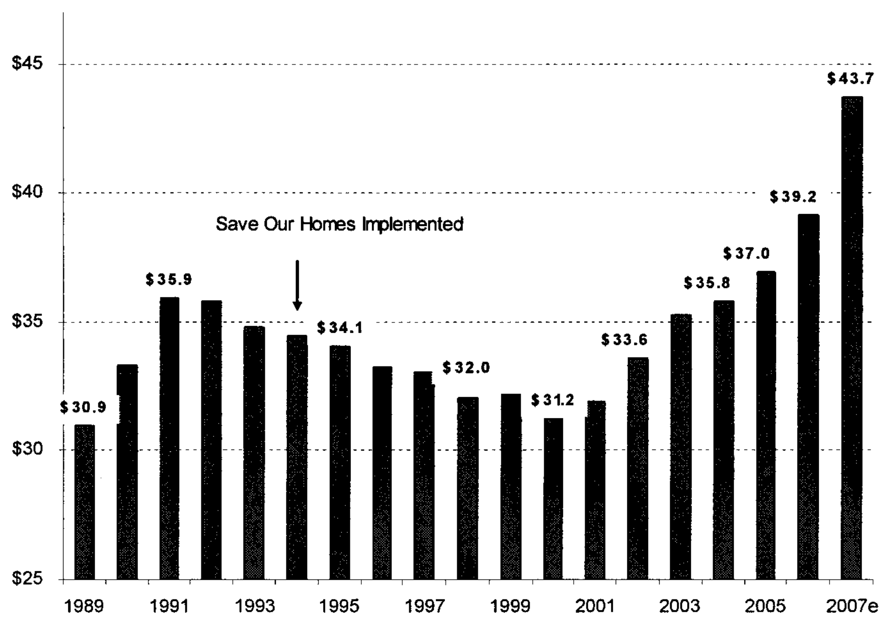


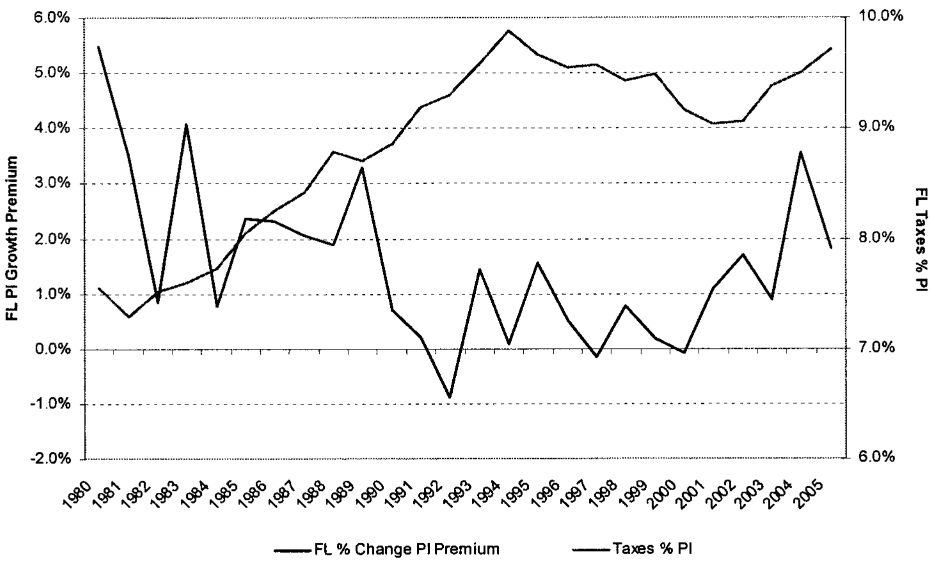
Figure 3
Total Florida Property Taxes per $1,000 of Personal Income
1989 - 2005



Property Tax Cut

Florida's overall tax burden has been steadily rising as of late due to the skyrocketing property tax burden. While a low-tax state, Florida is not immune from the negative effects from rising tax burdens – see Figure 4.

Figure 4
Total State and Local Taxes as a Percentage of Personal Income in Florida Compared to Florida's Personal Income Growth Premium over the U.S.
1980 - 2005



The black line in Figure 4 shows the premium in personal income growth in Florida compared to the rest of the nation. Personal income growth in Florida generally exceeds the national average – Florida experiences a personal income growth premium vis-à-vis the rest of the country. Taxes as a percentage of personal income rose through the late 1980's and peaked in 1994. Florida's personal income growth premium was significantly narrowed during this time period. However, as taxes declined as a percentage of personal income in the late 1990's early 2000's, Florida's growth premium has returned.

Beginning in 2001, taxes have begun to creep back up, which has continued through today. The excessive tax growth, driven by the property tax, once again threaten Florida's personal income growth premium. It is in this context, that the proposed property tax rollback can provide a significant economic boost to the state.

The Florida Legislature is considering rolling back the tax rate on all properties to its 2000 level. Tax rates are subsequently allowed to grow to their 2007 levels based on the capped property tax growth rate. The capped growth rate is defined as the rate necessary to generate last year's tax collections from this year's tax base (with a few adjustments), and allowing for increases in inflation. Utilizing the estimated tax cut from the Policy and Budget Council of the Florida House of Representatives, we analyzed the economic impact of both the property tax cut and sales tax replacement.

As part of the analysis we assumed that the ability for local governments to raise property taxes was sufficiently constrained such that local governments could not over-ride the tax restraint the state is imposing. To the extent that these controls do not constrain local governments from raising taxes, the positive economic benefits from the tax cut will be muted. Toward this end, the proposal to replace all homesteaded property taxes with an increase in the state sales tax further enshrines the proposed tax discipline. While not a necessary condition for the economic impacts estimated, any institutional changes that helps to ensure Florida maintains stricter control over the state tax burden helps ensure that the economic benefits will be realized.

The Property Tax Problem

Property tax burdens have been rising in Florida despite the implementation of Save Our Homes in 1994. Ironically, the Save Our Homes initiative was implemented in response to rising property tax burdens. The goal was to cap the growing burden that rising property taxes were imposing on residents. Save Our Homes works by capping the annual growth rate in the assessed value of a homestead property.

As described by the Broward County Property Tax Assessment Office:

> *Pursuant to the 1992 "Save Our Homes" Amendment to the Florida Constitution, the assessed value of your Homestead property can increase by no more than 3% above last year's assessed value (or the consumer price index, whichever is less). The Department of Revenue certifies the consumer price index – and the Department set that amount at 3% for 2005.*
>
> *To give you an example: if your Homestead property was assessed at $100,000 in 2004, and its market value increases to $125,000 in 2005, your maximum 2005 assessment is $103,000.*
>
> *The only way your assessment can increase more than this is if there is a change in ownership, or you made physical improvements (build an addition, converted a garage into a new room, etc.) to your property that were not included in last year's assessment.*
>
> *If the market value of your property declined since last year, this year's market value will reflect that decline in the market. However, your assessed value will continue to increase by 3% or the consumer price index, whichever is less, as long as the assessed value is less than the market value.*[4]

Homesteaded properties account for approximately one-half of all property in Florida. Properties that are not covered by Save Our Homes include commercial property, second homes, and property owned by "snow-birds". The assessed value for any property that qualifies for Save Our Homes is tied to the purchase price and a qualified resident can subsequently apply the Save Our Homes cap to the newly purchased home at the market price.

The reform achieved the goal of capping property taxes for some Florida residents, but not all. It has led to skyrocketing property taxes on others. Because Save Our Homes narrowed the tax base, and increased the taxes paid as a percentage of income, the reform did not achieve its objectives. Furthermore, the adverse impacts caused by the reform are beginning to hurt the competitiveness of Florida's economy – see Figure 4 above. As a result, it is imperative that the property tax be reformed.

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[4] Broward County Property Appraiser's Office, http://www.bcpa.net/index.cfm?page=SOH.

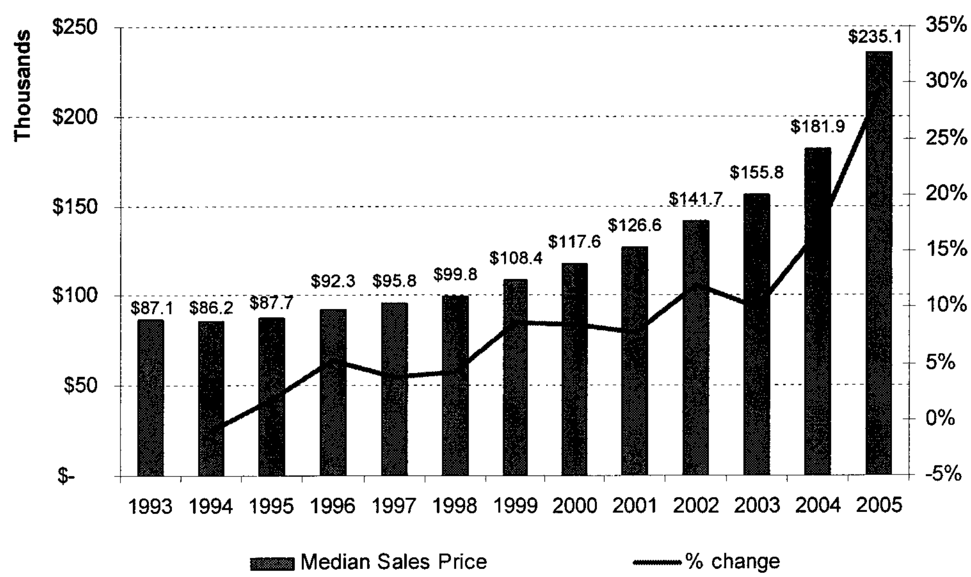
The adverse impacts of Save Our Homes arise due to simple arithmetic. Looking at two of the factors relevant for determining the total dollar amount of property taxes a resident must pay: property values and the tax rate.[5] Florida property values have been growing at double digit rates. If an adjustment is not made, property tax burdens will grow in step with property values. Save Our Homes tries to address this problem by "capping" the value of homesteaded property for tax purposes, but it does not affect non-homesteaded properties. The tax basis for properties that are not homesteaded is the property's market value. As a result, if the property tax rates are not adjusted, then the tax burden on the owners of non-homesteaded properties continues to grow proportionately with the rise in market values.

An important omission for Save Our Homes is that it does not address property tax rates. Although tax rates have come down, the decrease in rates has not offset the increase in property values. Consequently, property taxes as a share of state income have risen.

One explanation, in part, for why property tax rates have not fallen enough to offset rising values is the homestead exemption. Because homesteaded properties do not risk soaring property taxes when market values increase, the pressure to reduce the tax rate and offset the extreme rise in property values diminishes. Given the extreme run-up in property values as of late, and the diminished incentive to reduce property tax rates, an extreme tax disadvantage for non-homesteaded Floridians has arisen.

Looking first at the residential market, the median value of a new home is illustrated in Figure 5. In the last four years, Florida home prices have seen double digit increases in value. Between 2004 and 2005, the median sales price for a home in Florida increased by $53,200 or 29.2 percent.

Figure 5
Florida Median Home Prices
1993 - 2005

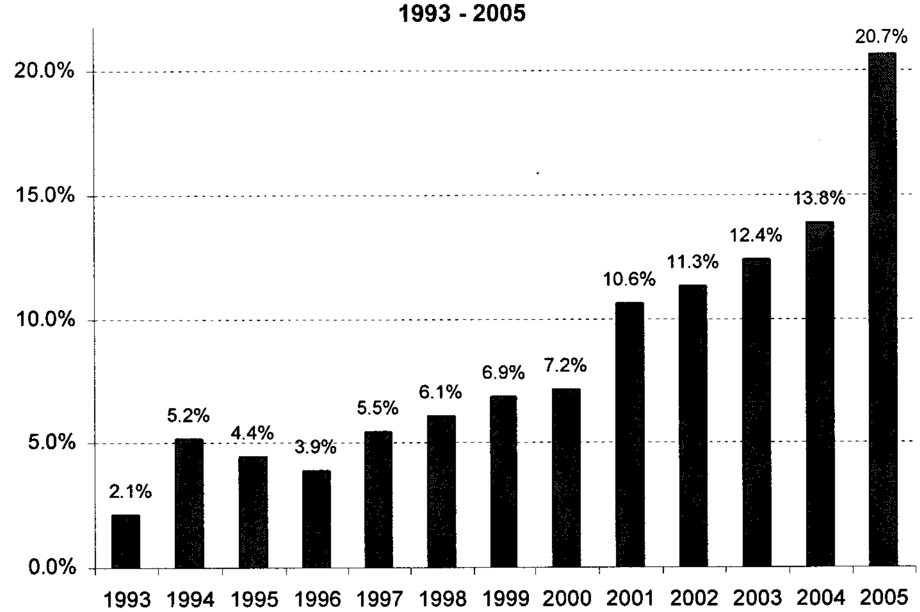


Source: Florida Realtor's Association, http://media.living.net/statistics/statisticsfull.htm.

[5] The percentage of the property's market value that is considered "taxable" is also relevant. We discuss this issue below.

The rising trend in values is not confined to the residential housing market. Figure 6 tracks the percentage change in property values in Florida. Similar to the pattern in the housing market, overall property values grew slower during the 1990's, and has accelerated as of late growing at double digit rates.

Figure 6
Growth in Florida Property Values
1993 - 2005



Although tax rates have not increased in Florida, the large increase in market values necessitates that the tax rate would have to fall significantly in order to avoid a real increase in tax payments on property that is not homesteaded. But that has not happened, and the real property tax burden has outpaced income growth. This poses a real problem even for homesteaded property owners since businesses must pass on higher costs (due to higher property taxes) on to their consumers and snow birds spend less money in the Florida economy as their property tax burden increases. Figure 2 showed the result – a significantly rising property tax burden. Just prior to the Save Our Homes initiative, property tax levies comprised around $36 per $1,000 of personal income in Florida. Tax burdens steadily declined through 2000, only to increase at an even more rapid pace and ultimately surpass the pre-Save Our Homes levels in 2004, which has further accelerated through today.

Save Our Homes' Impact on the Non-Residential Market

Save Our Homes has been effective in capping the growth in property taxes for those taxpayers who qualify. Currently over $404 billion of just value is protected from taxation through the Save Our Homes caps, a figure that is nearly 25 percent of the total taxable value for all properties in Florida. As for total property tax revenues, they have continued to skyrocket, growing an average 12.2 percent since 2000 – the period covering the extreme run-up in property prices.

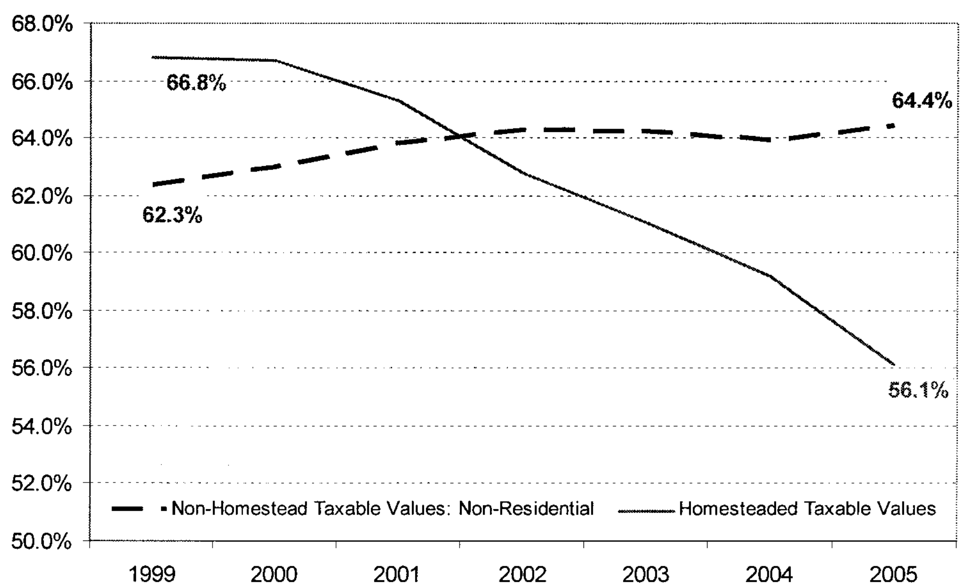
Tax revenue growth from exempted properties is capped well below the average growth rate of the 12.2 percent. Because Save Our Homes has capped property tax burdens for those exempted, but property tax revenues and revenues as a percentage of personal income have soared, it must be the case that the property tax burdens imposed on commercial businesses and non-Homesteaded homes in Florida has been rising substantially faster than the average rate of 12.2 percent. Florida based businesses, which are not eligible for the Save Our Homes exemption, fall into the unprotected category.

The rising tax burden on non-residential property is also evident by breaking down the components of a taxpayers total tax payment. Total tax payments are determined by three factors: the percentage of the market price subject to taxation (taxable value); the market price of the price; and, the millage rate applied to the taxable value.

When the aggregate taxable value declines as a percentage of just values, the taxes paid on the property as a percentage of the value of that property has declined (ignoring the impact of market prices and millage rate changes for the moment). The reverse is true if the taxable value increases as a percentage of just values: the taxes paid on the property as a percentage of the value of that property has increased.

Not surprisingly, taxable values as a percentage of just values for non-exempt non-residential property have grown an average 0.6 percent annually between 1999 and 2005. Over the same time period taxable values for exempt residential property as a percentage of just values have declined an average 2.9 percent. Consequently, the taxable burden on non-residential property, relative to its value, has been growing while the taxable burden on residential exempted property has been declining. This increasing growth trend indicates that there is a discrepancy, which is leading to a growing property tax burden on the non-residential market. Figure 7 illustrates the annual value of these percentages between 1999 and 2005.

Figure 7
Taxable Values as a Percentage of Just Values
Homesteaded versus Non-Residential Properties
1999 - 2005



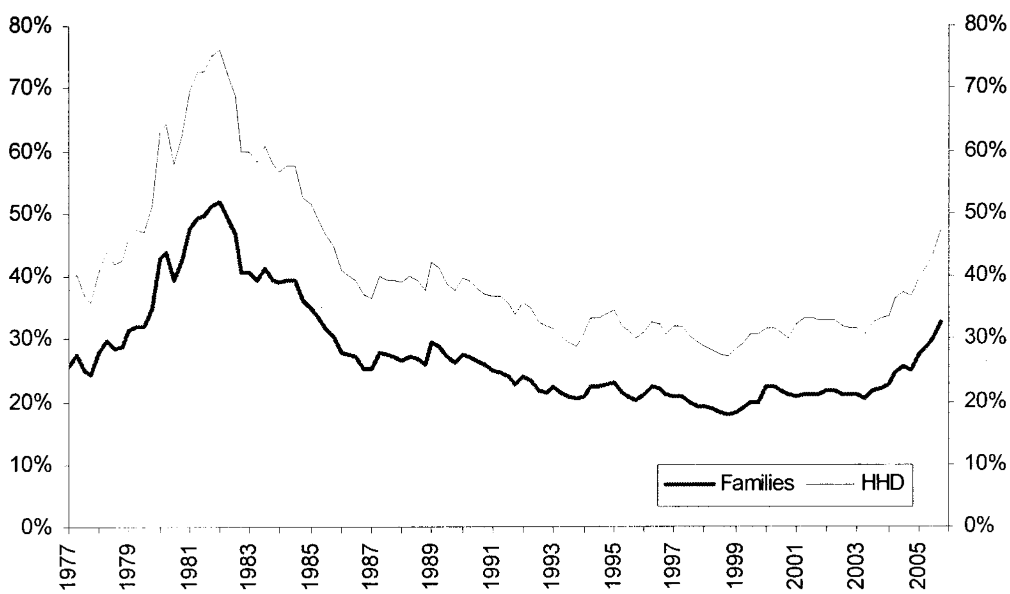
The millage charges and value of the properties have not been constant during this time. We have already established that the market value of properties in Florida has been growing significantly. With rising values and taxable values being a larger percentage of non-residential properties' market value, the only way that non-residential property tax payments would not grow under these circumstances is if the average millage rates would have declined enough to offset the growing taxable values. This has not been the case.

Falling Housing Affordability: Property Taxes and Housing Rising as a Share of Income

The growing property tax burden along with the extreme rise in housing prices has caused an additional problem, as rising values have made housing less affordable for the average Floridian. Figure 6 illustrates the estimated percentage of after-tax income (personal income minus federal, state, and local taxes—including property taxes) for the median family and median household to finance the median priced house in Florida. Median family income is the income earned by the family that is precisely in the middle – ½ of families in Florida in more than this income level, and ½ of families in Florida earn less than this income level. The same reasoning applies to the median household, which is another Census definition that varies slightly from families. The household measure exists because there are many people that do not live with their families. The median priced house is the price of the house that is precisely in the middle – ½ of the houses in Florida cost more, ½ of the houses in Florida cost less.

Figure 8 illustrates that following the implementation of the Save Our Homes initiative in 1994, housing affordability improved slightly through the beginning of 1999 – the cost of a mortgage for the average (median) family or household in Florida took a smaller percentage of the average (median) family's or household's income. The trend toward greater affordability reversed itself beginning in 1999. Since this time, housing affordability has worsened, especially over the last two years, despite record-low mortgage rates. Clearly then, there has been an upward trend in the after-tax costs of financing a new home that has grown faster than Florida's median income. While Florida's rapid housing appreciation is the primary driver of decreasing affordability, the increasing property tax burden makes after-tax income lower and compounds the problem.

Figure 8
Housing Affordability Declining in Florida
1977 - 2005



Renters and First Time Homebuyers

Florida has two different property tax rates: one that is low and stable for homesteaded property owners, and another that is high and fluctuates with the vagaries of the market that is imposed on all other property owners. Oftentimes, those with smaller incomes are the ones who face the higher and more volatile property tax rates.

For instance, first time home buyers have not yet been able to acquire a Save Our Home protection under the current system. These homebuyers, typically a family that is just getting started, face declining housing affordability as the prices of the median home in Florida has approximately doubled since 2000 – see Figure 3. Rising home insurance costs have also been burdening the typical homeowner as of late – especially those barely able to meet their monthly obligations. Then, there are the property taxes. Even assuming that the first-time home buyers qualify for the Save Our Homes exemption, the basis for this exemption is the current purchase price, which is already inflated. A first time home buyer will be paying property taxes based on current market rates while a more established family could be paying property taxes on a market rate almost ½ the market rate. As a direct result, families purchasing their first home will likely bear a significantly higher tax burden than their more established neighbors who were fortunate enough to purchase their homes prior to the recent price rises.

Renters, who tend to be of lesser incomes, also face higher implicit property taxes. Although renters do not directly pay property taxes, it is generally viewed that these taxes are "incorporated" into their monthly rent payments. However, rental properties are not covered by Save Our Homes. As a result, the property tax liability on rental units is higher than a similarly valued primary home. To the extent the property taxes are incorporated into the rent in Florida, renters are at a disadvantage and face higher property tax burdens.

However, the goal of any tax system should be to tax as broad a base as possible with the lowest possible rate. Taxes should be as unobtrusive as possible to produce the fewest economic distortions as possible. The current Save Our Homes initiative does neither of these things. Because Save Our Homes creates two parallel property tax systems for Florida residents, it is, in effect, a redistributive tax that rewards primary homeowners who are Florida residents and punishes secondary homeowners, businesses, first time home buyers, and renters. One way to solve this problem is to cut the property tax rate back to "rollback" the unjustified tax increases that accompanied the recent housing boom.

Revenue Neutral Property Tax Replacement

In addition to the property tax cut, a measure to replace the current homesteaded property taxes with a 2.5 percentage point increase in the state sales tax is also being proposed. This measure would require a state referendum before enactment, but offers additional benefits to the state in addition to those economic impacts estimated above. Because the proposal is revenue neutral, it does not have any direct impacts on the state's tax burden as previously measured.

There are many other benefits that will enhance the state's pro-growth tax environment. For instance, the mode of taxation is as important as the amount of taxation, as noted by 19th century American Economist Henry George:

> *The mode of taxation is, in fact, quite as important as the amount. As a small burden badly placed may distress a horse that could carry with ease a much larger one properly adjusted, so a people*

may be impoverished and their power of producing wealth destroyed by taxation, which, if levied in any other way, could be borne with ease.[4]

While the world is dynamic and many of its ups and downs are outside the control of state government, there are a number of criteria for judging the efficacy of a state's tax system. These were summarized well by Henry George in his chapter entitled "The Proposition Tried by the Canons of Taxation":

The best tax by which public revenues can be raised is evidently that which will closest conform to the following conditions:

1. That it bear as lightly as possible upon production—so as least to check the increase of the general fund from which taxes must be paid and the community maintained.

2. That it be easily and cheaply collected, and fall as directly as may be upon the ultimate payers—so as to take from the people as little as possible in addition to what it yields the government.

3. That it be certain—so as to give the least opportunity for tyranny or corruption on the part of officials, and the least temptation to lawbreaking and evasion on the part of the taxpayers.

4. That it bear equally—so as to give no citizen an advantage or put any at a disadvantage, as compared with others.

Florida's current convoluted property tax system does not meet these criteria. The current homestead property tax fails all of these criteria: it is disproportionately borne by businesses; it is not collected easily nor cheaply; it is not certain; and it does not bear equally on all taxpayers, especially first time home buyers, renters, and snow birds. While the property tax system fails to meet the standard of a good tax, the proposed sales tax replacement does.

By only partially replacing the current property taxes, the tax replacement proposal is able to keep the proposed state sales tax rate (8.5 percent) within the current range of state sales tax rates. Another benefit Florida receives from relying on the sales tax is the ability to "export" a portion of the state's tax liabilities to the millions of people who visit Florida each year.

Incentives drive all economic behavior; and taxes are a negative incentive. People do not work, invest, or engage in entrepreneurial activities in order to pay taxes. They engage in such economic activities in order to earn after-tax income. When the government increases its share of the income earned by its citizens, the incentive to engage in growth-enhancing economic activities falls; alternatively, the disincentive to these activities rises. The higher the tax on the next dollar earned (the marginal tax rate) the larger the disincentive. By replacing a tax on wealth (the current property tax) with a tax on consumption (the higher sales tax rate), the tax reform encourages greater incentives to acquire wealth (homeownership).

Lower property tax burdens will also help to defray many of the rising costs currently impacting Florida homeowners, including rising home insurance costs. Lower costs of ownership should also help to support current home values, which could be particularly well timed given the uncertainties surrounding the property market in general.

Arduin, Laffer & Moore
ECONOMETRICS

Distributional Analysis: Executive Summary

The proposed property tax rollback and subsequent homestead property tax replacement with a 2.5 percentage point increase in the state sales tax will benefit taxpayers across the income spectrum. Arduin, Laffer & Moore Econometrics (ALME) examined the impact on two different sets of households: 4 person families that owned a home and 4 person families that rented.

The 4 person families that owned a home were all assumed to qualify for the Save Our Homes exemption. Families with 5 different income levels were examined:

- $25,000
- $50,000
- $75,000
- $150,000
- $500,000

We made several assumptions regarding each family's tax payments:

- We included the impact of federal income, Social Security and Medicare taxes in the families tax payments -- including the impact of changes in state sales and property taxes on the total federal tax liability
- Scaled each family's property tax payment to the average payment as calculated by the Budget and Policy Office for the House of Representatives
- Assumed each family purchased a house based on a payment of 25 percent of their gross income, on a 30-year fixed rate loan of 6 percent
- Distributed the sales tax burden across households based on expenditure information contained in the Bureau of Labor Statistics Consumer Expenditure Survey.

Based on our calculations, following the initial $5.8 billion tax rollback, each family will receive a larger after-tax income compared to the after-tax income under the current Florida tax system – see Table 1.

Table 1
After-tax Income for families with homestead exemption
Before and after the property tax rollback

Gross Income	After-tax Income: Current System	After-tax Income: Following Tax Rollback	% Increase Net Income
$25,000	$21,507.80	$21,663.24	0.7%
$50,000	$41,426.27	$41,692.14	0.6%
$75,000	$60,943.03	$61,341.33	0.7%
$150,000	$120,349.99	$121,044.59	0.6%
$500,000	$378,924.37	$381,007.18	0.5%

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The homestead property tax replacement with a 2.5 percentage point increase in the state sales tax provides a further boost to the after-tax incomes of the families that own a home with a homestead exemption. The additional increase to after-tax incomes is described in Table 2.

Table 2
After-tax Income for all families with homestead exemption
Following Homesteaded property tax replacement with sales tax increase

Gross Income	After-tax Income: Current System	After-tax Income: Property Tax Replacement	% Increase Net Income
$25,000	$21,507.80	$22,074.32	2.63%
$50,000	$41,426.27	$42,515.07	2.63%
$75,000	$60,943.03	$62,639.50	2.78%
$150,000	$120,349.99	$123,535.30	2.65%
$500,000	$378,924.37	$388,412.28	2.50%

The 4 person families that rented also benefited from the property tax rollback, and were still better off following the homestead tax replacement. People who rent their homes pay property taxes, just not directly. Property taxes are a cost of doing business for landlords, and these costs are passed along to the people and families that rent a home. Because renters tend to be less wealthy than homeowners, we examined the impact on only the low-income and middle income families:

- $25,000
- $50,000
- $75,000

We employed similar assumptions to the renting scenarios as with the homeowner scenarios. With respect to rent payments, we assumed that the family that was renting faced the same monthly payments as a family in the homeowner scenario that had the same gross income. However, the value of the home that is rented is assumed to be less because the similar monthly payment must cover the cost of the home along with a reasonable profit for the landlord. Additionally, by definition the home that is rented is not eligible for the homestead exemption. Rental properties have a higher taxable value than if the same property was subject to the homestead exemption.

Due to the higher taxable value, renters have been paying a higher property tax than homeowners on a similarly valued property. Consequently, the tax rollback has a larger positive impact on the families that rent their homes currently because the rent these families must pay will decline in line with the reduction in the property tax costs. Table 3 summarizes these impacts, including the lower rent costs as a higher after-tax income.

Table 3
After-tax Income for families that rent
Before and after the property tax rollback

Gross Income	After-tax Income: Current System	After-tax Income: Following Tax Rollback	% Increase Net Income
$25,000	$20,909.37	$21,178.22	1.3%
$50,000	$39,239.40	$39,777.11	1.4%
$75,000	$56,919.73	$57,726.29	1.4%

The families that rent are not impacted by the repeal of the homestead property tax because these properties are not eligible for this exemption. These families are impacted by the 2.5 percentage point increase in the state sales tax. The higher sales tax payments do not outweigh the reduced rent costs due to the lower non-homestead property taxes. As a result, on net even the lower and middle income families that do not own a home have a higher disposable income following both proposed tax reforms than before the reforms were implemented – see Table 4.

Table 4
After-tax Income for all families that rent
Following Homesteaded property tax replacement with sales tax increase

Gross Income	After-tax Income: Current System	After-tax Income: Property Tax Replacement	% Increase Net Income
$25,000	$20,909.37	$20,924.64	0.1%
$50,000	$39,239.40	$39,412.72	0.4%
$75,000	$56,919.73	$57,262.47	0.6%