

Discussion of Florida's Property Tax Problems & Recommendations For Comprehensive Solutions

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The Problems:

Florida's property tax problems are many. While every property owner knows there are problems, many do not understand the complexity and interrelationships involved in the many proposed solutions. Suffering from these problems are resident homeowners, new homeowners (both in and out of state), business owners, all other property owners, and all renters and other categories of occupants who receive *pass through property taxes*. The list is long and the inequities are often great. Our resident and non-resident property owners are crying for tax reform. The 2006 Legislature set in motion a process of analyzing the problems and forming solutions through the Governor's Tax Reform Commission and another study group, both commissioned to formulate findings. No comprehensive recommendations have been issued and the receipt of the 2006 tax bills fanned the flames further.

The 2007 Legislature has the unenviable task of responding to all of the criticisms and of attempting to fix the problems. I do not think our citizens will wait any longer. The Save Our Homes, Inc (SOH) organization is poised to begin another petition drive on the *portability issue*. Most of our property owners are aware that problems exist, but they may not fully understand the reasons why or the interrelationships between problems. I believe they are demanding action. How did we get here? First, local government property tax increases have risen in the past 5-7 years much faster than the Consumer Price Index (CPI). This basically means that the increase in our citizen's income levels (ability to pay) was way behind the level of increase in spending by government.

For example, over the past seven years Florida's CPI averaged a 2.9% annual increase (7 year total of 20.3%). Over the same period, four typical Volusia taxing authorities increased their spending (their property taxes) by an annual average of 16.6% (total of 115.9%). This is why we had 600 people in our budget hearing this year. An annual 2.9% income-level increase compared to the 16.6% tax increase created, in my opinion, a credibility-disconnect with the public.

In addition to the incredible increases in local government spending, increases in exemptions (primarily the homestead related ones) have depleted the tax base to the current crisis level. Increased real estate values have been named a culprit, but that is not true. The two prime reasons (and this is a provable point) are the depleted tax base and the tremendous increases in governmental spending. Unfortunately, fixing problems is rarely as easy as recognizing them. Many property owners *recognized the problem* as they viewed their tax bills the past two or three years. The problems have been building much longer than that.

What is needed is *comprehensive property tax reform*. Some, with the best of intentions, believe that *portability* is the only real problem and solving it is foremost to them. Others think high business taxes are the only problem, while others may think government spending is the real culprit. A single "fix" to a single problem which might well create greater problems for all of us in the future. Florida's property tax system has many problems coming from a number of areas so truly effective *property tax reform* will require comprehensive and interrelated solutions, addressing all problem areas. I believe the *comprehensive property tax solutions* listed under "Proposals for a comprehensive solution", if implemented, would solve virtually all of the problem areas.

A brief description of problems areas:

1. **Homestead Cap "Portability"** – Floridians cannot move from one place to another. Young couples cannot afford a larger second as their family grows and older citizens cannot afford to retire to a lower priced home. Floridians are *bound* in their existing homes because moving to a new one creates unbearable property tax burdens. This negatively impacts mobility of our citizens, creates untold related business complications and depresses real estate market activity. (See Proposal #1 below)
2. **Unbearable business tax increases** – Florida's business community has borne the brunt of the highest spending increases by local government in Florida's history. The increases in spending,

combined in the shift of taxes from Save Our Homes is literally impacting the viability of doing business for many merchants (due to pass through of taxes), renters, and business owners who also own their land. It is my opinion that this has reached sufficient level to negatively impact corporate relocation decisions, making it an economic development issue as well. (See Proposal #2 below)

3. **Incredible increases in government spending.** Over the past five years, Florida's local governments have increased taxes at many multiples of the Consumer Price Index (CPI). Over the past seven years the CPI has averaged an annual increase of 2.9% per year. Over the same period, four typical Volusia taxing authorities increased their spending (their property taxes) by an average of 16.9% per year. During those seven years, the general economy (as measured by the CPI) grew by 20.3%, overall. During that same seven years, these local governments (taxing authorities) increased their property taxes by 115.9%. In other words, local governments voted to increase taxes at almost six times the rate their constituents incomes were rising. (See Proposal #3 below)
4. The **statewide property tax base has become so depleted by exemptions** that no matter what remedy is found, property taxes will remain a significant cost to property owners. Another source of revenue, in my opinion, is needed to supplement the property tax. For example, the overall market value of property in Volusia County is \$58 billion dollars. Thirty-five percent (35%) of that is exempt, leaving only \$38 billion as *taxable value*. New exemptions do not cost local governments money, they shift who pays the taxes. All taxes not paid by exempt persons or agencies are paid by those without the exemption. It's that simple. There has never been any requirement for governments to cut spending to accommodate a new exemption. The costs of any new exemption are simply paid by all who didn't get it. (See Proposal #4 below)
5. **High (and unequal) property taxes make owning a first home very difficult** for many of Florida's young first home owners-to-be. The same problem faces all new Florida residents moving in from out of state. This, too, could be impacting individual and corporate relocation decisions and, of course, has an additional negative impact on the real estate industry in Florida. 2000 years ago, when one became a Roman citizen, they enjoyed the same rights as all other Roman citizens. Today, all new Americans, upon receiving citizenship, have the same rights as all others. In Florida, the only citizens enjoying the same rights are those who arrived in the same year. The inequity exists between resident homeowners (all with the same homestead exemption authorized by the same state constitution) and is even worse for Florida's businesses and other non-homesteaded properties. It takes the social stigma surrounding "... and when did 'you' move to town?" and places it right in the debit column of our citizen's checking accounts. All Florida citizens need to be equal. (See Proposal #5 below)
6. **Florida's laws (and governments) need to be forthright in communicating with their public.** One of reasons people don't trust government is because government does not tell them, in simple terms, what it is doing to them. Often it's just the opposite. There are some simple ways the actions of government can be more communicative and accurate in communicating *what government is doing to its taxpayers* regarding the property tax. (See Proposals #6 and #7 below)

Proposals For A Comprehensive Solution:

While there are many proposals for solving Florida's property tax problems, most deal with individual issues. The problems are not isolated; many are interrelated (portability is related to tax increases on business; high business taxes are also related to government spending; fairness and equity among all Florida citizens relates to all of the above, plus the issue of new home buyers; the issue of a depleted tax base relates to all of the above, etc.). I believe a comprehensive problem solving approach is needed, is possible and can address all of these issues/problems.

The following seven recommendations are not presented as perfect "silver-bullet" solutions to our property tax woes, but they do address all of them in a comprehensive and complementing manner. I have made notations where the Florida Association Of Property Appraiser's endorses a concept.

Proposal #1: Adopt the “Save Our Homes Portability” option proposed by Save Our Homes, Inc. This proposal is endorsed by the Florida Association of Property Appraisers (FAPA). This option proposes *portability of the capped differential* the following way:

- ❖ If the new home is greater in value than the previous home, the existing dollars of *capped differential* may be transferred to the new homesteaded property.
- ❖ If the new home is less in value than the previous home, the existing dollars of *capped differential* may be transferred up to one-half of the Just Value of the new home.

Proposal #2: Provide assistance to Florida’s business and other non-resident property owners (commercial, marine-related, etc.). The solution below has been endorsed by the Florida Association of Property Appraisers in two parts, one for marine-related properties, the other for commercial properties. Both changes require a constitutional amendment.

1. Change the constitutional requirement for Just Valuation (Market Value) of working marine facilities from a “highest and best use” valuation standard to “existing or current use.” It would create a “classified use” valuation for marine related properties similar to that of agricultural property.
2. Allow a *percentage-increase capped-value* for commercial properties similar to that enjoyed by residential homesteaded property. The legislature would determine if that percentage was 3%, as residential property or some larger percentage.

[Author’s note: Both of these are designed to provide property tax relief to the thousands of Florida business property owners (commercial, marine-related and otherwise) now experiencing serious financial difficulties from both property tax and insurance increases. Given the depleted nature of Florida’s property tax base, while providing much needed relief both of these solutions further exacerbate the problem.]

Proposal #3: Create a *spending cap* on local government ad valorem revenues from one year to the next. My recommendation is that “annual increases in each taxing authority budgets be limited to the roll-back millage rate plus the current year’s January 1st Consumer Price Index (CPI) plus 3%.” Provisions need to be added to allow for how a jurisdiction adds additional revenues (i.e. a referendum, a super-majority vote, etc.). Provisions for particular Capital Expense items are an additional area for discussion.

If this spending limitation had been in place on Volusia County’s 40+ taxing authorities for the past five years, our average millage rate would be 16 mills instead of 20 mills!

[See Senate Bill (SB) 220, Senator Evelyn Lynn, which places the cap at rollback, plus CPI plus 3% or the taxing authority forfeits sales tax revenues from the state. This methodology would allow the cap to be immediately in effect without a constitutional amendment.]

Proposal #4: Consider other sources of income to supplement the property tax in funding Florida’s local governments and schools. The need for this is inherent in the constant depletion of our tax base, as well as the tremendous increases in spending over the past ten years. Even if portability and spending caps are put in place, Floridians will still see large property tax bills because increased exemptions have decreased the remaining taxable tax base. In Volusia County in 2006, 96% of the annual increase from 2005 will be paid by businesses, new first time homeowners and all other non-capped property. Eleven years ago this amount was 75%. Aside from the inequities between taxpayers, in my opinion, another source of income is needed to supplement the property tax. However, before that can successfully happen, guarantees must be in place to insure that *more money* doesn’t just become *additional spending*, thus the spending cap and mandatory reductions in millage discussed below.

The “Fair Tax “ white paper entitled, “*Opportunities to replace or reform state and local government tax systems,*” states that Florida’s property tax, current sales tax and income (assumed to be corporate) taxes could be totally replaced by increasing the sales tax to 11.47% (California’s with 10.47%, New York’s with 12.23%, and Texas’ with 7.08%). Does that mean that an increase of 2.5% - 3% could decrease property taxes by 50%? Sounds like a good topic for research. Using a sales tax increase to fund local schools is also another attractive idea. It would, in effect, amount to an about 50% tax reduction.

As mentioned above, adding another source of income to local government expenditures would need to be accompanied by a *spending cap*. Otherwise the temptation to just have *another source of additional revenue*

might be too great. If, in fact, the *Fair Tax* concept were used, I would recommend a mandatory cut of existing millage rates by one-half in the first year and a cutting of the state's "10-mill cap" down to 5 mills. That would insure the public that this "cut" was one that would not re-grow government back to pre-existing levels. This is an issue without a lot of *hue and cry* because most people have no way to *see* what is happening to the tax base, they just see their taxes increasing and increasing.

Proposal #5: Fix the property tax penalty on both in-state and out-of-state new homeowners. Establish the statewide (or optionally countywide) "*average homestead SOH differential-value percentage*" (includes Save Our Homes Differential, but does not include the \$25,000 exemption). In Volusia County this SOH exempt percentage is close to 40%. This would mean an *assessment level* of 60%. Then assess new Florida Homesteaders at 60% (for example) of the Just Value of their new home, allowing a maximum \$400,000 of "*differential*" between the Just and Assessed Value. After the first year, the normal SOH procedure would apply. This methodology is consistent with the maximum portability allowed in Proposal #1 above. A one-time, first year adjustment to any homesteaded property currently assessed at less than 60% would insure that all existing resident homeowners are assessed at the same level as all new ones.

Proposal #6: Change the term "Roll Back Rate" in Chapter 200.065 to read "Last Year's Rate." The *Roll Back* rate literally is *last year's rate* on this year's tax base. This would insure that anyone referring to "last year's rate" would be also referring to "last year's budget amount." This simply makes the term understandable to all.

Proposal #7: Create an annual single-source public disclosure document from Florida's local governments to their citizens. This would annually notify citizens of all impact fees, surcharges, telecommunications fees, gasoline charges, garbage fees, all other user fees, etc., from cities and counties for the previous year and the current year, with percentage increases and decreases on each. In addition, the total budget (including everything) should be listed with the same percentages. This notification to our citizens of what we are doing to them could be called "Truth In Government Spending" (TRIGS). Many do not trust government because government does not communicate well with them.