

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. HOUSE PRINCIPLES ANALYSIS:

The bill implicates the following House Principle:

Ensure lower taxes—

If approved by the voters and if market values continue to outpace the proposed assessment cap, then this proposal would reduce the amount of growth in total assessed property values and without off-setting millage changes, would result in property tax savings by homeowners. Many sparsely populated rural counties have no available millage capacity and would be among those local governments unable to increase their millage rates to compensate for resulting revenue losses.¹

B. EFFECT OF PROPOSED CHANGES:

Ad valorem property taxes are the single largest source of tax revenues for general purpose local governments in Florida. In FY 2002-03 (the last year for which published fiscal information is available), property taxes accounted for 31 percent of county governmental revenue (i.e., \$6.3 billion), and almost 20 percent of municipal government revenue (i.e., \$2.4 billion). Ad valorem property tax revenues also are the primary local revenue source for school districts. For that same fiscal year, school districts levied \$8.4 billion in property taxes.

Ad valorem property tax revenues result from multiplying the millage rate adopted by counties, municipalities, and school boards, by the taxable value of property within that jurisdiction. Each entity may levy up to 10 mills and, in most cases, the real property must be assessed at just value.² Article VII, s. 6 of the State Constitution authorizes a \$25,000 ad valorem property tax exemption for homestead property.

In 1992, Florida voters approved the so-called “Save Our Homes” amendment to the State Constitution. This amendment limits the annual growth in the assessed value of homestead property to 3 percent over the prior year assessment or the percentage change in the U. S. Consumer Price Index, whichever is less. It also provides for a reassessment of homestead property at just value after any change of ownership.³ The “Save Our Homes” constitutional amendment, originally proposed as a way to protect homeowners from being forced to sell their homes because of escalating property taxes caused by assessment increases, is now seen by some as keeping people from selling their homes and buying another home because of substantially higher property taxes resulting from the constitutionally required reassessment upon change in ownership.

Largely due to the recent surge in housing values⁴ and lack of corresponding millage rate reductions by local officials to offset double-digit increases in taxable values, ad valorem property tax revenues have increased substantially in recent years: 9.2 percent in 2002, 11.5 percent in 2003, and 10.4 percent in

¹ For 2004 (the latest published information available), 14 of the 67 county governments levied the full 10 mills, the constitutional maximum, and, therefore, have no available millage capacity. An additional 8 counties levied at least 9 mills. *Florida Property Valuation & Tax Data*, Department of Revenue, State of Florida (Dec. 2004).

² “Just value” is the estimated market value of the property. “Assessed value” is generally synonymous with “just value” unless a constitutional exception such as Save Our Homes applies to reduce the value of the property. “Taxable value” is the assessed value minus any applicable exemptions such as the \$25,000 homestead exemption.

³ Fla. Const. art. VII, s. 4(c)(3).

⁴ The boom in housing values does not translate into an identical increase in “just values” or “assessed values” since not all property is taxed at “just value.” “Just values” have experienced double-digit increases since 2001: 10.6% in 2001; 11.3% in 2002; 12.4% in 2003; and 14.0% in 2004. For the period 1990-2000, the largest increase was 8.3%, with two years, 1992 and 1993, experiencing an increase of only 2.0%. Although not as large, the growth in “taxable values” resulted in a similar experience.

2004.⁵ These annual property tax increases are twice as high as the 5 percent average increase experienced between 1991 and 2000, but comparable to the 12.5 percent average annual increase from 1981 to 1990.⁶ Despite the growth in total taxable values, the statewide average actual millage rates have remained relatively unchanged, although on a generally downward trend.⁷ However, the differential between the actual millage rate and the so-called “roll back rate” (i.e., the millage rate necessary to generate the same amount of revenue as the prior year excluding new construction and boundary changes) is substantially more pronounced since 2000, than it was from 1990 to 1999. The taxable value of all real property has increased 53 percent over the past four years.

The amount of value removed from the tax rolls from the “Save Our Homes” provision is growing at a much faster rate than the amount of value removed by the homestead exemption. For example, in 2005, the amount of value excluded from the tax rolls as a result of the Save Our Homes provision grew by \$81 billion over the previous year compared to \$1.7 billion removed as a result of the homestead exemption.

Proposed Change

This House Joint Resolution proposes to amend Article VII, s. 4, of the State Constitution by providing that, at change of ownership, a newly acquired homestead property shall be assessed at less than just value rather than being reassessed at just value—if certain conditions are met:

- that the new homestead is purchased within one year of the sale of the previous homestead; and,
- the assessed value of the new homestead equals or exceeds the assessed value of the previous homestead.

The extent to which the initial assessment may depart from just value will be determined pursuant to general law. However, the proposal sets limits on the maximum extent to which the initial assessment can depart from just value, by providing that the difference between the just value for the new homestead property and its assessed value in the first year may not exceed the difference between the just value of the previous homestead and its assessed value when sold. Under the bill, the lowest possible assessment for the newly acquired homestead as provided in the following example would be:

Previous homestead—

Just value when sold	:	\$200,000
Assessed value when sold		\$100,000
Difference		\$100,000

New homestead—

Just value at purchase	:	\$250,000
Assessed value (originally)		\$125,000
Difference		\$125,000
Minimum new assessed value under proposal ⁸		\$150,000 (\$250,000-\$100,000)

⁵ “Taxes Levied and Millage Rates 1974-2004,” from *2006 Property Tax Roll Estimates* prepared by the Revenue Estimating Conference, November 8, 2005. The amount of ad valorem property tax levied for 2005 is not yet available, but the value of property subject to the tax increased by approximately 20%.

⁶ Id.

⁷ Actual average millage rates for all jurisdictions for 2004—20.18; for 2003—20.60; for 2002—20.57. Excluding public school levies for 2004—11.96; for 2003—12.06; for 2002—11.93.

⁸ Note that the initial assessed value for purposes of this example could wind up being anywhere between a low of \$150,000 and just under \$250,000, depending on the terms of general law. The proposal provides that the assessed value of the newly established

C. SECTION DIRECTORY:

Not applicable.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

Ad valorem taxes are the primary revenue source for school districts. Because this bill generally would limit the extent of reassessment of homestead properties upon change of ownership and keep more homesteads from ever being reassessed at just value, it would also limit the growth in the amount of revenue generated from property taxes for school purposes, absent an adjustment in the millage rates. As such, the state could be put in the position of having to supply an increasing amount of support for the school system if the necessary funds could not be generated at the local level.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

This proposal is expected to have a negative fiscal impact on local governments, necessitating reductions in expenditures and/or an increase in millage rates (in those jurisdictions where that capacity exists) to maintain current levels of property tax revenues. According to the Special Impact Session of the Revenue Estimating Conference, the proposal is expected to have the following negative fiscal impact on local governments for the following fiscal years, assuming no off-setting changes in millage rates: FY 2008-09 (\$447.5m), FY 2009-10 (\$931.4m), FY 2010-11 (\$1,430.6m), FY 2011-12 (\$1,923.7m), and FY 2012-13 (\$2,417.6m). This fiscal impact assumes that the general law enacted pursuant to the amendment will provide for the maximum allowable departure from just value.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

For homeowners, the potential negative fiscal impact experienced by local governments would translate into maximum property tax savings for homeowners of up to an amount corresponding to the estimated reduction in the growth of property tax revenues, assuming no off-setting changes in millage rates. For the following fiscal years, these amounts are estimated to be: FY 2008-09 (\$447.5m), FY 2009-10 (\$931.4m), FY 2010-11 (\$1,430.6m), FY 2011-12 (\$1,923.7m), and FY 2012-13 (\$2,417.6m). These amounts assume that the general law enacted pursuant to the amendment will provide for the maximum allowable departure from just value.

D. FISCAL COMMENTS:

None.

homestead shall initially be set at less than just value, *as provided by general law*. Presumably, general law would specify how much less than just value the assessment would be. Therefore, the actual impact of the bill will be determined by general law.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The mandates provision does not apply to House Joint Resolutions.

2. Other:

Article XI, Section 1 of the State Constitution provides the Legislature with the authority to propose amendments to the State Constitution by joint resolution approved by three-fifths of the membership of each house. The amendment must be placed before the electorate at the next general election held after the proposal has been filed with the Secretary of State's office or may be placed at a special election held for that purpose.

B. RULE-MAKING AUTHORITY:

Not applicable.

C. DRAFTING ISSUES OR OTHER COMMENTS:

Not applicable.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE & COMBINED BILL CHANGES