

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. HOUSE PRINCIPLES ANALYSIS:

The bill implicates the following House Principle:

Ensure lower taxes—

If the Legislature were to require counties to implement this joint resolution, or if all counties chose to do so, then this proposal would reduce the amount of growth in total assessed property values and without off-setting millage rate 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 if the Legislature were to require these counties to implement this option.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

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.

increased substantially in recent years: 9.2 percent in 2002, 11.5 percent in 2003, and 10.4 percent in 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 joint resolution proposes to amend Article VII, s. 4, of the State Constitution to authorize the Legislature to require or authorize counties, subject to the conditions specified therein, to provide by ordinance for the assessment of newly established homestead property at less than just value if purchased within one year of the sale of property previously designated as homestead property. The difference between the just value and the assessed value of the newly established homestead property in the first year could not exceed the difference between the just value and the assessed value of the previous homestead property in the year sold. This proposed constitutional amendment would not apply with respect to the value of homestead property taxed for school purposes.

Under the joint resolution, 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
<u>Assessed value when sold</u>		<u>\$100,000</u>
Difference		\$100,000

New homestead—

Just value at purchase	:	\$250,000
<u>Assessed value (originally)</u>		<u>\$125,000</u>
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, since the joint resolution sets only the maximum limit on the degree of departure from just value.

C. SECTION DIRECTORY:

Not applicable.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

Publication costs incurred by the Department of State in informing the public of this proposed committee amendment would be an estimated \$50,000, assuming the ballot summary contains 75 or less words.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

Staff has requested an updated revenue impact since the committee substitute differs substantially from the original bill as filed. However, if the Legislature were to require counties to implement this joint resolution, or if all counties chose to do so, the estimated fiscal impact on counties, assuming no change in millage rates, as determined by the Special Impact Session of the Revenue Estimating Conference for each of the following years would 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).

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

The potential negative fiscal impact experienced by counties could 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.

D. FISCAL COMMENTS:

None.

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

The amendment effectively converts the original bill as filed into one requiring general law to implement. The Legislature would be authorized to require or permit counties to provide for assessments of homestead property at less than just value subject to certain limits and conditions. This authority would not extend to county determination of value of homestead property for school purposes.