Florida's Property Tax Reform: Local Government Impacts of the Proposed Constitutional Change¹

Rodney L. Clouser²

Introduction

This is the final publication of a series related to issues, statutory changes, and proposed constitutional changes in Florida’s property tax structure. Statutory and proposed constitutional changes both were made by the Florida Legislature in 2007. Other publications in this series are FE703, FE704, FE705, and FE706 which can be found at the EDIS website (http://edis.ifas.ufl.edu).

A significant change in the estimated cost of the proposed constitutional amendment has been made since December 7, 2007. Documentation of this change was made available through state government (Economic and Demographic Research, December 18, 2007) and is reported in this publication. In addition, this publication is intended to inform the public about the impact of proposed changes to the Florida Constitution that will be voted on by state citizens on January 29, 2008.

Updated Impacts

The estimated savings from the proposed constitutional amendment has been reduced from over $12 billion to just over $9 billion. This represents an approximate 25 percent reduction over the five-year period. The original (O) estimated impacts compared to the new (N) estimated impacts are reported in Table 1. These projected reductions have occurred because the estimates have been “fine-tuned” since the frenzied end of the last special session at the end of October 2007, and because Florida's economy, especially the housing industry, has slowed considerably. Estimates of nonschool impacts were decreased about 20 percent and estimated school impacts were decreased approximately 44 percent (only portability and tangible personal property changes applied to schools).

In addition, the proposed constitutional amendment did not address some of the statutory changes made related to affordable housing, working

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water fronts, and low income seniors. Therefore, the total impacts of the statutory and proposed constitutional changes are most likely in the $23 to $25 billion range.

Ad Valorem Tax Levies

Ad valorem tax levies (collections) for all units of local government (county, city, school board, and dependent and independent special districts) have increased from $20.4 billion in fiscal year 2002-03 to $30.4 billion in fiscal year 2005-06. That represents a 49 percent increase in ad valorem tax collections in just over three years. However, when accounting for inflation increases, the real dollar increase in ad valorem collections has increased just over 27 percent (Table 2). The largest increase in taxes levied since fiscal 2002-03 have been by municipalities, school boards (operating), and countywide independent special districts.

How are ad valorem property taxes collected and distributed among units of local government? In fiscal year 2002-03, school board operating funds accounted for 38 percent of all tax collections and, in fiscal year 2005-06, this had increased to 40 percent. County government operating funds were 29 percent of collections in both fiscal years 2002-03 and 2005-06. Municipalities increased their share of the total collection of ad valorem taxes from 12 percent in fiscal 2002-03 to 13.5 percent in fiscal 2005-06. The entire distribution of ad valorem tax collections by units of local government are reported in Table 3.

There were increases in the amount of collections (over 27 percent when adjusted for inflation over this three-year time period) and in the relative shares collected for school operating funds and municipalities. Caution needs to be practiced when reviewing information such as this. If a base year other than fiscal 2002-03 had been selected, percentage increases in budgets and relative shares of tax collections could produce entirely different results.

Using Ad Valorem Taxes

Many of the services provided by county, city, school, water management districts, etc. are paid for from ad valorem taxes. However, there is no “cookie cutter, one-size-fits-all” model for using ad valorem taxes at the local government level. However, in general, ad valorem taxes are used to pay for local government services such as executive services (administrator and associated offices), legislative services (commissioners, school boards, and associated offices), legal services (attorney fees), law enforcement, fire control, court, corrections and detention services, utility services, waste collection, resource management, roads, transportation systems and services, health, public assistance, libraries, parks and recreation, cultural and special events, education, etc.

Ad valorem taxes are used for both the physical goods needed to supply these services (e.g., gas, tires, and paper) and employees (e.g., police, firemen, and teachers). Less ad valorem taxes could lead to a flat or declining level of government services, some services could be eliminated, fewer purchases of goods by local governments could be made, and local government employees could remain constant or be reduced. This would occur as the state's population is projected to increase. It is unknown which services
would be held constant or reduced; which goods
would not be purchased; or which departments (in
terms of employees) would remain at current levels,
leave open positions unfilled, or eliminate
employees. If reductions in services, goods, or
employees are required, those decisions will be made
by the elected county and city commissions, school
boards, and the governing bodies of dependent and
independent taxing districts. It is entirely possible
that insights on future changes were observed during
this past budget cycle (2007-08) when the various
local government governing bodies were dealing with
the statutory changes made by the legislature.

Other Factors

It needs to be made clear that the statutory
changes and the proposed constitutional changes do
not necessarily translate into less money available for
local governments. Rather, future tax levies collected
by units of local government will be less because of
changes.

Revenue to support local government services
also can come from other sources such as fees and
assessments, which could offset property tax
reductions. If this occurs, local government services
might not have to be maintained at current levels or
reduced at all.

Another reason that the statutory changes and
the proposed constitutional changes do not
necessarily translate into less money for government
services is because new property is being added to
the tax rolls as homes and business expand
throughout the state. This can be more easily
understood with a specific example. The state
estimates that Alachua County will lose $18.3 million
in tax collections in tax year 2008 ($11.1 million,
county government; $2.1 million, schools; $2.9
million, municipalities; and $2.2 million, special
districts). The county government will lose $11.1
million, which represents just over 60 percent of the
total tax impact for all taxing districts in the county.
Approximately $8 to $9 million of the “loss” is
projected as a result of doubling the homestead tax
exemption. Yet, Alachua County government has
indicated the loss they are expecting is only around
$1 million. Why? New growth in houses and
businesses will generate new revenue. Local county
and city governments with slow growth will
experience decreased property tax revenues while
local government units with rapid growth may not
experience any decreases at all.

It is difficult to understand the size and scope of
the numbers associated with the proposed amendment
($23 to $25 billion). The total expected reduction in
tax levies over the five-year period is equivalent to
about 80 percent of what all units of local
government collected in property tax 2006. Is that a
significant amount of money? Probably. Assume your
family had an income of $50,000 per year and over
the next five years you would not collect $40,000 of
that income ($8,000 per year). Would that be
significant to you? Probably. This may help to explain
why units of local government are so concerned with
the proposed changes.

Sometimes public policies have unintended
consequences that are not examined in detail. That
may be the case with the proposed property tax
changes. If property taxes decline for Floridians,
individuals who itemize deductions on their federal
tax returns will pay more in federal taxes. This has
not been mentioned very often during the property tax
debate. Even if the increased federal tax increase is
small for an individual, when multiplied by hundreds
of thousands of Florida tax returns (in 2005, 2.37
million Floridians itemized real estate taxes,
http://www.irs.gov/pub/irs-soi/05in10fl.xls), it may
become sizeable.

It is unclear how the reduction in the amount of
funds for public education will be replaced. Both the
Governor and members of the legislature have
indicated or “promised” that public education
funding will not be reduced, but they have not said
how funding will be replaced. Will it be from some
type of new fee or tax, a transfer from another fund,
or monies reallocated from state-funded agencies and
projects? No one knows for sure, and the sum of
$1.56 billion over the five-year period is significant.
Likewise, the proposed changes do not explicitly
explain how funding for fiscally constrained counties
will be replaced or if the funds will be replaced on a
dollar-for-dollar basis.
Some people may base their support or lack of support on the proposed constitutional change on what individuals or politically active groups are telling them about the proposed amendment. Groups supporting the proposed constitutional change include the Florida Outdoor Advertising Association, the Florida Chamber of Commerce, The Associated Industries of Florida, and the Florida Association of Realtors. Another group supporting the amendment is the Political Action Committee (PAC) called “Vote Yes on 1, Save Our Homes Now”. The largest contributor to date for this PAC is the Florida Association of Realtors ($1 million). Other significant contributions have come from Florida Power and Light Company ($500,000) and the Florida Chamber of Commerce ($100,000). Groups opposing the amendment include the Florida League of Cities, Florida Education Association, Florida Association of Professional Firefighters, the Florida AFL-CIO, the Florida PTA, and the Florida League of Women Voters. Several of these groups are supporters of a Political Action Committee called “Florida Is Our Home”. No campaign contributions or expenditures have been reported by this group as of the end of December 2007.

Finally, do not assume the 2008 proposed constitutional amendment is the last word about property taxes in Florida. It seems unlikely at this time that the Florida Legislature will directly initiate changes during the next session. However, the Taxation and Budget Reform Commission (TBRC) can recommend changes to the legislature and can also place policies directly on the fall 2008 ballot. Also, there are efforts underway to place further property tax changes on the fall ballot through citizen-led initiatives.

Your Vote

The basic information that can help you determine how you will vote on January 29, 2008 has been provided in the five publications of this series. Your vote should express your personal preference. Most importantly, vote!

What is known about the proposed constitutional change is that potential tax savings for the average person will be relatively small. Savings from the proposed tangible personal property tax will most likely range between $74 and $400. Savings from the doubling of the homestead tax exemption might range from $150 to $250. Savings from the 10 percent cap on non-homesteads will be small as well. Savings from the portability provision could be several thousand dollars ($2,000 or more). However, this provision only applies if you own a home, and substantial savings will only occur if you have a sizeable Save Our Homes (SOH) differential and decide to purchase a new home.

The bottom line is that the tax savings for the average Floridian will most likely be less than $250 per year, or about 70 cents per day. If you are satisfied with the level and quality of local government services you receive and if you believe that your local elected officials are better able to meet the needs within the local community, then you may not support the proposed amendment. If the opposite is true, you may want to support the proposed constitutional changes. However, as mentioned in a previous publication, the proposed changes concentrate on money, not on the quality or the types of services needed at the local level. Until needs and wants can be separated by voters and politicians, there will always be the tendency to complain about taxes being too high.

References


Table 1. Revised impacts of proposed constitutional amendment.

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<thead>
<tr>
<th>Fiscal Year</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
<th>2011-12</th>
<th>2012-13</th>
<th>5 Year Total</th>
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<td>Nonschool</td>
<td>(N) $1.11B</td>
<td>(N) $1.28B</td>
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<td>(O) $204.0M</td>
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<td>Total</td>
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(N) = New estimated impacts  
(O) = Original estimated impacts  
Source: Office of Economic and Demographic Research

Table 2. Florida ad valorem taxes, by taxing unit, billion dollars, 2003–2006.

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<thead>
<tr>
<th>Year Source</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>Nominal Increase</th>
<th>Real Increase</th>
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<td>School Board Operating</td>
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<td>$8.8</td>
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<td>55.1%</td>
<td>32.6%</td>
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<tr>
<td>Independent Special Districts Countywide</td>
<td>$1.0</td>
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<td>$1.5</td>
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<td>Municipalities</td>
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<td>$2.9</td>
<td>$3.4</td>
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<td>Municipal Service Taxing Unit (MSTU)</td>
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<td>$0.9</td>
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<td>Independent Special Districts Less Than Countywide</td>
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<td>$0.9</td>
<td>$1.0</td>
<td>25.0%</td>
<td>6.8%</td>
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<td>All Other Ad Valorem Taxes</td>
<td>$1.6</td>
<td>$1.4</td>
<td>$1.4</td>
<td>$1.8</td>
<td>12.5%</td>
<td>–3.9%</td>
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<td>Grand Total</td>
<td>$20.4</td>
<td>$22.2</td>
<td>$25.7</td>
<td>$30.4</td>
<td>49.0%</td>
<td>27.4%</td>
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Sources: U.S. Department of Commerce, Bureau of Economic Analysis (2003 real dollars) and Florida Department of Revenue
Table 3. Percent of ad valorem taxes, by taxing unit, Florida local governments, 2003 and 2006.

<table>
<thead>
<tr>
<th>Year Source</th>
<th>2003</th>
<th>2006</th>
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<tr>
<td>County Government Operating</td>
<td>29.0%</td>
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<tr>
<td>School Board Operating</td>
<td>38.0%</td>
<td>40.0%</td>
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<td>Independent Special Districts Countywide</td>
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<tr>
<td>Municipalities</td>
<td>12.0%</td>
<td>13.5%</td>
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<tr>
<td>Municipal Service Taxing Unit (MSTU)</td>
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<tr>
<td>Independent Special Districts Less Than Countywide</td>
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<tr>
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<tr>
<td>Grand Total</td>
<td>100.0%</td>
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Table 4. Nominal, real, and real per resident increases in property taxes, 2003–2006.

<table>
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<td>County Government Operating</td>
<td>48.3%</td>
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<td>School Board Operating</td>
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