

Property taxation, rhetoric, And reality in Florida. The unchanged burden.

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The tax burden in Florida is among the nation's lowest so it is no surprise the state's local governments were quick to raise alarm when the legislature adopted a tax relief measure in its special session last spring.

Although both Governors Bush and Crist have vetoed local expenditures for some favored projects in Florida over the last nine years, it is difficult to envision overtly wasteful spending in a state ranked only 38th by the *Tax Foundation* in terms of taxes collected as a percentage of income during 2007. By *CNN Money's* ranking in 2005, Florida would have actually ranked even *lower*. According to that analysis, Florida would be among the lowest of the several southern states. In CNN's report, Florida does rank slightly higher than Tennessee, the other southern state with no income tax. But it ranks lower than Louisiana, Texas or Arkansas...lower even than Mississippi.

Three times in the last 20 years, the Florida legislature has inserted itself aggressively in sweeping tax reform, the first when Republican Governor Martinez orchestrated a repeal of the services tax he had championed just months before. Democratic Governor Chiles was more successful in his tax cut bid. Chiles implemented the

current limitations on property taxes codified in the Save Our The explicit message from Florida's legislative history is *neither* the Republican nor Democratic leadership shy away from a tax decrease. The implied message is that demonstrably populist measures, such as a property tax reduction, have greater resilience and appeal than on again, off again adjustments.

Those in residence here for many years have watched their home prices soar, pleased at the equity build up in their homes. On the other hand, they are generally unconcerned about their low tax status and may smirk at the comparison with Mississippi.

Mississippi, however, has had only modest economic growth in the last two decades while Florida has blossomed. With growth initiatives at least one of the targets of anti-taxing sentiments, the legislature's newest attempt to balance the budget with tax controls offers the prospects of an immediate budget disaster. But is that really the story here? Are Florida's local governments, community redevelopment agencies and other special district governments really facing financial troubles as the result of tax reform?

The answers seem easy enough but oddly there is not

universal agreement on the interpretation and impact of adopted and proposed changes in law, in part because of the powers that accrue through administrative controls and/or regulations.

Taxpayers may intuitively understand the apparent value of their homes or businesses but the underlying value comprises only one element in establishing either the actual tax rate or the resulting collections for a single budget year. Over time, there could be further legislative directives that bring taxing practice directly in line with legislative intent. How aggressively those directives create an alignment between claimed expectations and outcomes speaks to the level of rhetoric inherent in any debate over tax policy.

The state, concerned about the ways in which local governments tax and spend, is already experiencing losses from the sales tax. These losses in revenues make it difficult for the state to sustain its commitment to school funding which is explicitly reduced as local tax rates fall. School funding is only the most immediate visible challenge where state and local objectives may be at odds. Police. Fire. Property insurance. The list of operating and capital expenses shared with the state to some degree is virtually endless.

A few larger local governments, Sarasota for example, have already decided to override the legislative ceilings embedded in the act. Other local governments, such as Jacksonville, have elected to pursue higher fees and charges outside the normal tax levy. Some legislators have expressed their displeasure at this unexpected turn, an indication of their own derisory knowledge about tax policy or some evidence of pandering. However disconcerting local resistance may be to certain legislators, the actions of these governments remain legal financial strategies today.

So what are the effects of tax change, if any? On balance, the measures proposed and adopted respond, at least in the short term, to reasonable concerns about spikes in property valuations that materially exceed historical movements in value. The adopted language, especially in the context of administrative rules, indicates it is less clear the efforts will be effective at limiting collections and influencing the budgetary process, especially as the specifics of *collections* are perceived by tax payers.

Virtually, any county in Florida will have experienced much sharper property valuations in the last two years than they have experienced in the last decade. The jump -- perhaps better described as a leap -- in valuations is exacerbated by the velocity of sales and resales in residential property, much of it purchased by new taxpayers. This sale activity, in turn, has triggered an adjustment in the existing Save Our Homes base that is unprecedented. Almost by virtue of the population increase in Florida, any increase in values will fall

disproportionately on the state's newcomers under the existing Save Our Homes structure.

The new measures, as drafted, however, may do less over the longer term to address continuing tax increases which, with some latitude, can still occur in law based on adjustments allowed for income and for new construction. The income adjustment is a *modification* to the existing structure but the value of new construction has always been integral to setting tax rates. As opportunities to exercise portability become available, the newly implemented tax provisions will push even more of the property tax incidence onto newcomers and businesses.

What appears even less understood than the basic provisions for calculating an overall tax rate is that municipal and county governments with community redevelopment agencies now actively contributing to their respective trust funds, will axiomatically generate a higher millage that can be applied to existing and new properties going forward. This modestly higher millage, stemming from the protocols used to establish the rolled-back rate, will mitigate some of the reductions in CRA collections and could, in fact, offset the reductions in future years. CRA's with little new construction will receive lesser benefits than those with aggressive programs.

Ironically, even Florida's counties, increasingly resistant to the loss of tax increment dollars going to CRA's, will generate a higher millage with the potential to mitigate

reductions to general fund revenue at the *county* level. Counties and cities should be resolute in resisting state control of local budgeting while also finally agreeing that CRA's improve the overall financial futures of their respective governments.

The changes and possible misunderstandings or miscalculations have created some interesting alignment among groups with vested interests in tax reform. The Florida Chamber, for example, representing business groups in the state, has taken up the cause of property tax reduction but there is virtually nothing in the existing and proposed measures to placate these businesses. As burdens are eased for residential owners, the tax incidence is further shifted to the non-residential sector, certainly in the short term.

At the same time, the realtors are pressing for tax relief to speed the velocity of housing sales. This group may be more sensitive to the economic biases of its constituencies than the Chamber but the excess housing inventory, much of it directed to investors, will benefit only modestly from preferred treatment.

Should the housing market rebound, then homeowners may assume a larger incidence of tax which is advantageous to businesses. Only then will homeowner needs align with business needs.

For the tax payer, there are accounting, economic, and civic lessons to be learned. The rolled-back rate mandated under Florida state law is *not* an

affirmation of lower taxes. It is only a *benchmark* by which prospective taxes are compared. The legislation and constitutional measures describe the procedures for calculating the rolled-back rate.

Now, with the new legislation, there is an automatic adjustment for growth in personal income which did not exist before. So, literally by definition, the rolled-back rate has the capacity to be *higher* than the once nominal rate without yielding what would legally constitute a tax increase. What might be inferred is that taxes, however much they can grow, should grow no more than the electorate's capacity to pay them.

On the face of the matter, this position does not seem that unreasonable or objectionable a basis for policy making. Such a result is precisely what the legislature intended when it adopted the now dysfunctional Save Our Homes. Local governments will still, however, collect a seemingly higher level of revenues with the income provisions allowed under the adopted statute. Whether these enhanced revenues offset declines or permit local governments to match citizen demands for service remain openly debated points.

Whatever the desired solution, Florida remains firmly among those states with the least tax burden. This state has erected its current economic platform on a solid foundation of low taxes and polices intended to leverage that standing. Literally for decades, the tax environment here has been among Florida's leading export activities, drawing in thousands of people intent on *maintaining* the low tax advantage. Growth can pay for itself if the financial structure deals with all costs on the margin. If growth slows, the system is jarred into financial disequilibrium.

With low taxes an important precondition to the state's economic growth, why the surprise when Save Our Homes fails to deliver except to a small percentage of taxpayers? Why *suddenly* the surprise when the newcomers realize, at least for them, the taxes may not be so low? Why the surprise when these newcomers insist on even more attractive taxing options when growth and perceptions about low taxes lured them to this state?

Complex problems require complex solutions. Like many state governments, Florida's active legislators have turned a blind political eye to the real economic problems in need of modification. Save Our Homes,

dulled many into believing a tax system centered on favored classes of tax payers or properties was beneficial. At the very point Florida's state government intervened to arrest the market's function to set valuation for property, it distributed the seeds for the current tax dilemma.

The fix once embedded in Save Our Homes may have been appropriate for transitional symptoms but it has become so powerfully addictive. Withdrawal will be painful and contentious but can be accomplished only through a dispassionate evaluation of broader tax policy and a critical analysis of sustainable tax burden.

Tax reduction is rhetorically appealing so it seems difficult to envision the referendum will falter. Whether or not the home building industry get energized as a result, there are some *structural* tax changes that will be experienced. Expect more fees, more tariffs, more locally created special district units that effectively privatize services.

These shifts are neither categorically good nor bad but they presage substantial changes. The changes may however, be very different than either the tax payers, the legislature, or local governments fully realize at this point.

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