

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

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.

The Florida legislature has inserted itself aggressively in tax reform at least three times in the last several years, beginning with Republican Governor Martinez orchestrated a repeal of the services tax. Chiles, then Bush and now Crist have all made their pitch.

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.

We may smirk at the comparison with Mississippi but that state 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?

The answer should be easy enough but tax practices are difficult to understand. Taxpayers 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. How aggressively legislative 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. 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. However disconcerting local resistance may be to certain pandering 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.

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.

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.

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 outcome, 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

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, 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?

For planners, the surprise is that redevelopment areas, if they escape the death threats of the Strand decision, may not be as

burdened as they seem, and counties actually have reason to partner with their cities to boost the millage rate. In any case, all local governments have revenue options which may require more political skill to implement. 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 that planners need to understand. The changes may

however, be very different than either the tax payers, the legislature, or local governments fully realize at this point.

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.

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