

## Florida's Property Tax Debate: Assessing the Situation and Why We Are Where We Are Today<sup>1</sup>

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### Introduction

Elected decision makers and residents in Florida have had to deal with many public policy challenges in the past three years. In recent months, none has been bigger than the issue of property taxes. Trying to address the property tax issue has resulted in a flurry of activity since the beginning of 2007. Specifically, the state legislature has instituted a statutory property tax rollback and future cap on property tax growth. In June 2007, the legislature proposed a constitutional amendment that would have been voted on by state residents in January 2008. However, the proposed constitutional amendment was ruled unconstitutional. The legislature then reconvened in October 2007 to address property tax issues as a result of the court ruling. A new plan was developed and approved at the end of October and this legislation became the basis for a proposed constitutional amendment that will be voted on by Florida residents on January 29, 2008.

Although it would probably be erroneous to classify the property tax issue in Florida as a “tax revolt” by the public, it would be correct to say that nationally, not just in Florida, concerns are being

expressed about property taxes. For example, recent reports indicate nationally that state and local tax burdens as a percent of personal income are at a 25-year high. And a recent national survey [Tax Foundation, “What Does America Think About Taxes”] indicates that Americans view property taxes as the second most unfair source of state and local taxes (consistent with previous studies). While taxpayers express concern about property taxes, this revenue source remains well-liked by local elected officials. Acceptance of property taxes as a reasonable means of taxation by local elected officials is most likely related to the fact that property taxes are a relatively stable source of revenue, easy to administer, reserved exclusively as a local source of revenue, and impossible to avoid if property tax is owed.

### How We Got Where We Are Today

To understand how we got where we are requires a brief review of the history of property tax use and “reforms” in Florida. Some of the concerns with property taxes in Florida are probably more central to the public's dissatisfaction than others. A potential

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list of issues of concern in Florida includes local government tax revenue, homestead exemption, the Save Our Homes program, unfunded mandates to local governments, increased local government services costs, expectations of voters and elected officials, and information sources.

### **Local Government Tax Revenue**

Property tax at the local level of government is the single largest source of tax revenue. School districts obtain 95 percent of their tax revenue from property taxes (\$10.4 billion), followed by county government (74 percent, \$9.7 billion) and cities/municipalities (56 percent, \$3.4 billion) (Property Tax Reform Committee). Special districts, which include everything from water management districts to library districts to community development districts and community redevelopment areas, derive over 99 percent (\$2.1 billion) of their tax revenue from property taxes. They are increasing rapidly in the state and are estimated to exceed 1500 taxing units. The special districts are listed online at [http://www.floridaspecialdistricts.org/OfficialList/numbr\\_of.cfm](http://www.floridaspecialdistricts.org/OfficialList/numbr_of.cfm). While not all these units levy property taxes, the number of property taxes and the amount of property taxes levied have increased. For example, independent special district property tax revenues increased from approximately \$660 million to \$1.4 billion between 1995 and 2005 (<http://www.floridalcir.gov/stwidedfiscal.cfm>). Of the \$1.4 billion collected in 2005, about 47 percent was taxes collected by the state's five water management districts. Of the \$740 million increase in independent special district property taxes collected between 1995 and 2005, almost 50 percent of the increase was through levies by the five water management districts.

### **Homestead Exemption**

Florida's homestead exemption for residential properties owned by permanent residents was adopted in 1980 and increased to the \$25,000 level for 1982 assessments. Each individual or family unit is allowed only one exemption. For many years, it was the largest source of residential value being removed from local government property tax rolls. As late as 2003, the homestead exemption program removed more assessed value from property tax rolls than the Save Our Homes program (\$95.4 versus \$80.4

million). It is estimated that in 2007 over \$108 billion of assessed value will be removed from local government tax rolls by the \$25,000 homestead exemption. The homestead exemption program and the SOH program both result in higher tax burdens being shifted to non-eligible property. However, unlike the SOH program, the homestead exemption program has not increased as radically because it is set at a flat, fixed rate. In addition, the \$25,000 exemption is not indexed to any inflation index and everyone realizes the exemption is worth much less today than in the 1980s. Changes to or elimination of the homestead exemption program would require amendment of the Florida Constitution.

### **Save Our Homes (SOH)**

In 1992, Florida voters approved the Save Our Homes (SOH) assessment process. Any changes in this program would require amending the state constitution. Approval of this constitutional amendment in 1992 limited the increase in taxable assessment to the lower of three percent, or the increase in the consumer price index. The SOH program applies to the primary residence for single family housing owned by permanent residents of the state until ownership of the property changes. The result of this program is that over \$400 billion (2007 estimate) of property value has been removed from local government tax rolls (Property Tax Reform Committee). The increase in the value of SOH has increased radically because of large increases in the just (market) value of residential property in Florida over the past three to four years. This has resulted in higher millage rates (the tax rate per \$1000 taxable value) to raise the same amount of revenue if the SOH values were not removed from the tax rolls. The SOH program has resulted in shifting the tax burden (amount of taxes paid) to properties ineligible for the SOH program, such as commercial, rental, industrial, and non-primary homes in the state. Owners of non-SOH properties pay more in taxes, and properties and property owners in non-SOH categories do not have a limit placed on their taxable value increase. This has resulted in similar properties in subdivisions, cities, and counties being taxed at very different values, primarily based on when the property was purchased. The constitutionality of SOH has recently been challenged by some Alabama

residents in northwest Florida. A class action lawsuit (Lanning v. Pilcher) was filed arguing that SOH affects interstate commerce. People buying property in Florida should not have to pay higher taxes than Floridians (Saunders). The initial lawsuit was dismissed in August 2007, but an appeal is anticipated (Saunders, "Judge: Save Our Homes fair to all").

### ***Other Important Factors***

There are many other factors that are important in the state's property tax debate and they are summarized below.

### **Unfunded Mandates to Local Governments**

The Florida Association of Counties (FAC) estimates that state government passes down responsibilities without funding and documented expenses for those passed down, but unfunded, are approaching \$1 billion for local governments. Some specific estimates from FAC include Medicaid, \$213 million; juvenile justice, \$100 million; revenue sharing loss, \$262 million since 1999; and court facilities, \$83 million. Additionally, during the legislature's 2007 session, the required local effort for school funding was increased in the neighborhood of \$500 million. As mentioned previously, property tax revenue accounts for approximately 95 percent of all school tax revenue and for 38 percent of total school revenue. This \$500 million increase was required by the state, not the local unit of government.

### **Local Government Services Cost Increases**

The cost for providing services by local units of government increases yearly and it is most likely not measured accurately by typical price indices such as the consumer price index (CPI), the producer price index (PPI), or the index of personal consumption expenditures (PCE). A good example was reported this year by the Florida Department of Transportation. In a survey conducted by the U.S. Department of Transportation and the American Association of State Highway Transportation Officials, Florida state highway officials estimated the cost of earthwork associated with transportation construction increased over 68 percent, followed by

asphalt at 26 percent and steel at almost 14 percent, between 2005 and 2006. Fishkind estimated that of the increase in property taxes for county governments since 1999, almost \$1 billion, or 33 percent of all the total increase, was for county-based law enforcement and corrections expenditures (Florida Association of Counties, "Unfunded Mandates Add Millions to County Budgets?"). It must be acknowledged that the costs for government services increase just like food, gas, clothes, etc. and many times these increases are much larger than people think. This is in addition to the fact that as the state and counties add more residents, the cost for providing services increases as well.

### **Increased Expectations and Differing Values of Voters and Elected Officials**

Looking back over the past 10 to 25 years, it is easy to see that the demand for services provided by local units of government and by the elected officials themselves have increased noticeably. Voters who live outside of urban centers want programs and services just like their urban counterparts and many local elected officials have been agreeable to providing those services. Many people want recreation programs for youth; green building programs; alternative transportation systems; professionally trained and certified police, fire, and emergency medical systems; sports complexes; and the like. The bottom line is that more services equates to the need for more revenue and, therefore, absent other revenue sources, more property taxes.

Beyond public safety and emergency medical services there may be little agreement among people about what services are "needed" and what services are "wanted." This is where the "rubber meets the road" and until needs and wants can be separated by voters and politicians there will always be the tendency to complain about taxes being too high. In Florida, the discussion has centered on the issue of property taxes and the amount property taxes have increased, but a discussion on what local government services are needed (essential) versus what services are wanted (desirable but not essential) may be more appropriate.

## Complex Issues and Information Sources

Florida's property tax system is complex and complicated, making it difficult to understand. Most Floridians get their information about the property tax system from elected officials and the media. Whether reliance on these two sources is adequate is difficult to say. Some might argue that the media does not provide in-depth information and that short sound bites are inadequate. Obviously, the views of state and local elected officials have differed drastically on this issue and some would dispute that neither group is unbiased. The issue is further complicated because different groups use different information to support their viewpoints.

The Tax Foundation is a credible arm's-length organization that assesses tax issues across states and counties in the United States. It provides reliable information and, according to the Foundation's April 2007 report, Florida residents pay 10 percent of their income in state and local taxes. This ranks Florida below the U.S. average and ranks Florida 38th out of the 50 U.S. states by this measure of taxation in 2007. The Property Tax Reform Commission estimates Florida's local property tax burden at 4.2 percent of personal income. This tax data would place Florida in the top 20 states in terms of property taxes. However, these latter data are misleading because it is simply a summation of taxes collected in the state divided by the personal income of state residents. What is misleading about this latter data? Much of the state and local taxes in Florida are paid by people who are not state residents. These include tourists, "snowbirds" who do not own homes in the state, people who own second homes in the state but are not residents, etc. The Tax Foundation estimates these individuals paid \$2.6 billion in Florida taxes in 2007. Therefore the property tax numbers presented as a percentage of personal income overstate the amount of taxes paid. Removing the taxes paid by non-residents changes the tax burden on residents from being in the top 20 states to the bottom 13 of all states for state and local taxes paid. This example is just one of many that show the complexity of understanding property tax issues in the state.

## Where We Are Today

The controversy over property taxes has resulted in a flurry of property tax reform activity in 2007. There are two basic components of the reform activity. The first component relates to statutory changes in property taxation, passed during a June 2007 special legislative session, that takes effect beginning with local governments' 2008 fiscal year. Specifics of these changes are detailed in FE704. The second component of property tax change is a proposed constitutional amendment. That program is explained in more detail in FE705.

## An Assumption Not Addressed

Many people believe that reducing or limiting the growth in property taxes will result in both a personal tax savings and a reduction in local government spending for services. Whether or not this occurs depends on each local government's decision regarding the types and levels of services and whether or not continued services will be funded by continuing the current level of taxation or by switching to alternative revenue sources such as fees for services.

## Summary and Conclusion

With the statutory changes already enacted and the looming vote on the proposed constitutional amendment, it is important that Floridians keep pace with changes made in the state's property tax system. This will be extremely important since state voters will be asked to vote on a constitutional amendment in January 2008. It is understood that in general people do not like to pay taxes and property taxes are at the top of the list. While people do not like to pay taxes, they do want government services and those service cost money. The key to reaching a middle ground in this debate may be the ability of voters and elected representative in the state deciding which services are needed versus which services are wanted.

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