Dealing with Property Tax Reform and Economic Challenges in Florida

Presentation by:
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Orange County OMB
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OUTLINE

• Background
• Property Tax Reform
• Economic Pressures
• Budget Challenges
• Summary
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ORANGE COUNTY STATS

- 5th Largest County in Florida
- 4.4347 Countywide Millage Rate
- 600+ Funds
- Population = 1,079,524
- First in tourist development tax collections
- Second in sales tax collections
- Largest Restaurant
Orange County has an annual budget of $3.4 billion.

In dollar terms, about the same size as Bermuda, The Bahamas, Fiji, or Greenland
Our biggest taxpayer accounts for about 6% of total taxable value...

Countywide: ~$108 B
BACKGROUND

about the same as the next 10 put together.
OUTLINE

• Background

• Property Tax Reform

• Economic Pressures

• Budget Challenges

• Summary
Property Tax Reform

Back in the “Good Old Days”

- Counties, Cities, and School Boards set their own millage rates, up to a 10 mill cap.
- The State required that tax increases be properly advertised and adopted.
- Debt issued against property tax had to be approved by a referendum.
- “Taxable value” was generally the assessed value.
Property Tax Reform

- 1934 - Homestead Exemption
- 1992 – Save Our Homes
- 2007 – Millage Limitations
- Jan. 2008 – Amendment 1
- Nov. 2008 – Amendment 5
Property Tax Reform

Frequently Used Terms

- **Market Value/Sale Price** – The value of your property on the open market
- **Just Value** – The market value less cost of sales (~15%)
- **Assessed Value** – The value of your property before exemptions are deducted (JV-CD)
- **Capped Difference (SOH savings not taxed)** - Just Value less Assessed Value
- **Exemptions** – Includes the homestead exemption, Widow/Widower, and disability
- **Taxable Value** – The Assessed Value minus any applicable exemptions
Property Tax Reform

• 1934 – Homestead Exemption
• 1992 – Save Our Homes
• 2007 – Legislative Action
• Jan. 2008 – Amendment 1
• Nov. 2008 – Amendment 5
Homestead Exemption

- Created in 1934 @ $5K during Great Depression
- 1982 increased to $25K
- 1998 additional $25K to low income seniors 65+ years
- 2008 Amendment 1 increased by $25K for home value greater than $50K
Property Tax Reform

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In the 1990’s, Floridians were worried that rapidly increasing real estate values would cause taxes to increase too quickly for fixed income residents.


- Limits the increase in assessment to 3% or CPI, whichever is less.
- Went into effect in 1995.
- Created a whole new set of problems.
Taxpayers Also Voiced Complaints.

1. A new home buyer might be paying twice the total taxes as the long-time homeowner next door in a bigger house.

2. If you had owned your home for many years, selling your house and moving to a smaller home might cause a big increase in your taxes.

3. SOH favors higher priced homes.

4. Even when the market value goes down, your assessed value can continue to climb.
Save Our Homes

- Statewide Value Removed From Tax Rolls:
- $25K Homestead Exemption and SOH Differential

![Chart showing the increasing value removed from tax rolls over fiscal years 1996 to 2007, with a total of $513 Billion removed by 2007.](chart_image.png)
Property Tax Reform

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Pressure for even more tax reform.

- Local government was called “wasteful and inefficient.”
- Citizens felt their taxes were too high, and their local governments were unresponsive.

• The 2007 Florida Legislature heard those complaints...
• And swung into action to answer the call.
2007 Millage Limitations
FY 08 Impact

“Maximum Millage” - F.S. 200.185

- Capped tax rates for counties, cities and special districts.
- Rolled back fiscal year 2007-08 taxes to FY 2006-07 level,
  - Minus an additional percentage cut (3%, 5%, 7% or 9%) based on prior tax performance
  - Plus an adjustment for new construction.
- Cut taxes by roughly $1.5 billion statewide.
2007 Millage Limitations
FY 08 Impact

“Rolled Back Rate” – F.S. 200.065

- The millage rate levy that would generate the same amount of tax proceeds as the prior year after excluding new construction and neutralizing the impact of CRA payments

- This rate is used to determine advertising requirements
2007 Millage Limitations
FY 08 Impact
Orange County

$120 million less in property taxes
2007 Millage Limitations
FY 09 Impact

“Method of Fixing Millage” - F.S. 200.065

- Fiscal Year 2008-09 and thereafter
  - Maximum millage rate equal to the “rolled-back rate” plus personal income growth
2007 Millage Limitations
FY 09 Impact

• **Form DR 487 V**

  • Form was added to record names and votes of each member (of the Board or Council)

  • For FY 2009, vote record will have to be completed for all jurisdictions.
Steps to be taken if DOR indicates Non-Compliance

• Repeat the advertisement and public hearing process.

• “The previous notice... determined to be in violation of the law...”

• Any excess taxes collected must be held in trust by Tax Collector.

• Excess may be used only to reduce taxes next year.
2007 Millage Limitations

- **Penalty if still in non-Compliance**

- Governments that don’t comply with statutory requirements, and fail to remedy the non-compliance, lose their \( \frac{1}{2} \) cent sales tax revenue sharing from the state for a 12 month period.
2007 Millage Limitations
The “Rolled Back Rate” made simple.

(Orange, Countywide only.)
2007 Millage Limitations

Maximum Millage Made Simple

(Orange, Countywide, Majority vote only.)
Millage Limitations (cont.)

Maximum Millage for FY 2009

- Majority Vote – Rolled Back rate, adjusted for Amendment One, plus 4.15% (the per capita personal income change)
- 2/3 vote = 110% of RBR, plus 4.15%, adjustment for Amendment One
- Unanimous (3/4 if 9 or more) or referendum = up to 10 mil cap
Property Tax Reform

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Amendment 1

Passed January 29, 2008

- Additional $25,000 homestead exemption for value above $50,000 (*Except School Tax*)
- 10% cap on non-homestead (*Except School Tax*)
- $25,000 tangible personal property tax exemption
- Save Our Homes Portability
## Amendment 1

### Tax Cut ($ in Millions)

<table>
<thead>
<tr>
<th></th>
<th>Portability</th>
<th>Added Exempt.</th>
<th>Tangible Exempt.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orange County</td>
<td>$3.6</td>
<td>$32.3</td>
<td>$4.2</td>
<td>$40.0</td>
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<tr>
<td>Statewide</td>
<td>$70.5</td>
<td>$569.1</td>
<td>$66.4</td>
<td>$706.0</td>
</tr>
</tbody>
</table>
Amendment 1

**Portability**

- Difference between the Just Value and the Assessed Value – the Capped Difference
- Amount that is not taxed
- Amount that can be transferred to a new home
Amendment 1

Portability Details

✓ Statewide
✓ Up to $500,000 can be transferred.
✓ If new home has a lower value, can transfer proportional benefit.
✓ Must apply for portability.
Amendment 1

PORTABILITY EXAMPLE

Purchased Price in 2004 $235,000
Just Market Value in 2004 200,000
(based on price less 15%)
Assessed Value = JMV 200,000
Homestead Exemption -25,000
Initial Taxable Value $175,000

2007 Just Market Value $350,000
2007 Assessed Value -212,000 (60.57% JMV)
(assuming 3% cap applied)

Save Our Homes Benefit $138,000

$138,000 is the Portable amount, worth about $2,484 in tax dollars saved
(assuming about 18 mills total tax rate)
### Amendment 1

Assume you take your Portability to a:

<table>
<thead>
<tr>
<th></th>
<th>“Bigger” home</th>
<th>“Smaller” home</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase Price</td>
<td>$450,000</td>
<td>$185,000</td>
</tr>
<tr>
<td>Just Value (85%)</td>
<td>382,500</td>
<td>157,250</td>
</tr>
<tr>
<td>Portability</td>
<td>-138,000</td>
<td>-95,246*</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>= Assessed Value</td>
<td>272,000</td>
<td>62,004</td>
</tr>
<tr>
<td>Homestead</td>
<td>-50,000</td>
<td>-37,004**</td>
</tr>
<tr>
<td>= New Taxable Value</td>
<td>$222,000</td>
<td>$25,000</td>
</tr>
</tbody>
</table>

* Old Assessed Value / Old Just Value x New Just Value = Portability for smaller value property

** First $25K plus amount over $50K Assessed value
Amendment 1

Economic Effect

✓ Portability is retroactive to 2007.
✓ Will decrease the rate of growth
✓ Very difficult to project
✓ Did you hear the “sonic boom?”
Property Tax Reform

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Florida Taxation and Budget Reform Commission (TBRC)

- Established by constitution in 1988;
- Meets every 20 years;
- First meeting in 1990, second in 2008;
- 25 voting members: 11 appointed by Governor, seven by the Senate President, seven by the Speaker of the House.
- Four non-voting members.
Florida Taxation and Budget Reform Commission (TBRC)

TBRC tasked to examine:

1. State Budgetary Process;
2. Revenue needs of the state;
3. Expenditure process of the state;
4. Appropriateness of the tax structure of the state;
5. Governmental productivity and efficiency.
2008 Adopted Proposals:

2. Replaces School Tax with Sales Tax (Amendment #5)
6. Assessment of Working Waterfronts
20. Allows the State to support religious institutions.
21. Requires a percent of school funds to be spent in the classroom.
35. Authorizes local option taxes for community colleges
On the ballot November 4, 2008:

1. Limits non-homestead valuation to 5% (instead of the current 10%)
2. Limits the total of all school millage to 5 mills (instead of the current 10 mills)
3. Eliminates the Required Local Effort property tax for schools, starting in FY 2010
4. Replaces lost RLE revenue with up to a 1% sales tax...
5. Plus “Other Revenue Sources” such as the elimination of sales tax loopholes
TBRC - Amendment #5

Potential Problems:

1. Required Local Effort last year was roughly $8 billion
2. A 1% increase in Sales Tax would generate roughly $4 billion
3. Trying to eliminate sales tax exemptions has been tried, with very little success
4. The bill also relies on “...revenue increases resulting from economic growth attributable to lower property taxes.” (Because of the regressive nature of sales tax, revenues may decrease, not increase)
TBRC - Amendment #5

Potential Problems:

Unfunded shortfall: about $4 billion.
Overall Tax Loss

Orange County: FY 08 & FY 09

Legislative Action $240 Million
Amendment One $40 Million

Total $280 Million

Statewide $3,819 Billion
OUTLINE

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Inflation Pressures

- CPI Annual Inflation 5.0%
  - Energy 24.7%
  - Transportation 12%
  - Food 5.3%
  - Medical Care 4%

Source: Bureau of Labor Statistics
June inflation projections were in excess of 5% for the remainder of the calendar year.

The first month was about 99% accurate.
Inflation Pressures

✓ July projections are much more troublesome.

✓ Assumes money supply increases continue.
Potential for more inflation

U.S. Home Mortgages Outstanding (in trillions)

- $6.0
- $3.0
- $2.3

FNMA
FHLMC
All Other
Potential for more inflation

Total Debt as a percent of GDP. 350%

The Great Depression
Other factors leading to inflation
Other factors leading to inflation
Deficit Spending

Inflation Rate (Zimbabwe $)
Florida’s unemployment rate highest in 5 years at 5.5%, which is the same as national rate.
Economic Environment

Housing Slump

- Orange County’s housing starts decreased 60% since 2005
Economic Environment

Commercial Construction

- Orange County’s commercial construction leveling off
Gas Prices

- Florida gas prices at $4.06 gallon is a 118% increase since 2004
OUTLINE

• Background
• Property Tax Reform
• Economic Pressures
  – Revenue Outlook
• Budget Challenges
• Summary
Revenue Outlook

• Flat or Decreasing Revenues
• Unfunded Needs
Revenue Outlook

Countywide Property Taxes

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$474.1</td>
</tr>
<tr>
<td>2008</td>
<td>$475.8</td>
</tr>
<tr>
<td>2009</td>
<td>$478.8</td>
</tr>
</tbody>
</table>
Revenue Outlook

Half Cent Sales Tax

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>$ Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$127.7</td>
</tr>
<tr>
<td>2008</td>
<td>$126.5</td>
</tr>
<tr>
<td>2009</td>
<td>$121.2</td>
</tr>
</tbody>
</table>
Revenue Outlook

State Revenue Sharing

Fiscal Year

$ Millions

2007  $30.5
2008  $29.4  Budget
2009  $28.2  Budget
Revenue Outlook

Fuel Taxes

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Budget</th>
<th>$ Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$42.2</td>
<td>$42.2</td>
</tr>
<tr>
<td>2008</td>
<td>$42.2</td>
<td>$42.2</td>
</tr>
<tr>
<td>2009</td>
<td>$41.5</td>
<td>$41.5</td>
</tr>
</tbody>
</table>
Revenue Outlook

Recording Fees

Fiscal Year

2007: $15.3 Million
2008: $10.6 Million
2009: $9.6 Million
Revenue Outlook

Tourist Development Tax

Fiscal Year

- 2007: $162.7
- 2008: $170.0
- 2009: $178.5

Budget
• Background

• Property Tax Reform

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• Budget Challenges
  – County Budget

• Summary
Budget Inputs

- Property taxes are down
- Other major revenues are down
- Growth – our economic driver continues to decline
- Tourism is expected to decline
- Utilities are increasing
- Infrastructure maintenance are increasing
- Healthcare costs are increasing
- More cost shift from the State
- Safe Reserve levels are critical
Budget Inputs
Public Safety

- Crime rates are increasing
- More serious crimes are being committed by juveniles and women
- Rising Jail population
- Sicker Inmate population
- Increased Mental Health population
- Increasing Foreclosures (Code Enf.)
- Rising homelessness
- Court services are being cut
Public Safety

✓ Added 142 Sheriff’s Personnel for FY 08 & FY 09

✓ $20 million for Jail Expansion
Budget Challenges

Possible solutions:

✓ Operate like the private corporations
✓ Be more efficient
✓ Prioritize
✓ More user fees
✓ Raise taxes
COUNTY BUDGET

• **Budget Cuts:**
  - 10% cut to operating budgets
  - 10% cut to various agencies
  - No new Parks or Park programs
  - Delay new fire stations
  - Delay new roads
  - Delay all other capital projects and programs
  - Cut 5% of the workforce (except public safety)
COUNTY BUDGET

- FY 08: $3.7 Billion
- FY 09: $3.4 Billion
- Reduction: $0.4 Billion
Other Counties

- **Budget Cuts:**
  - Tallahassee planning up to 50 layoffs
  - St. Petersburg to cut 51 jobs
  - Osceola cut 86 with ~60 layoffs
  - Brevard County approved a buyout program
  - St. Lucie to cut 247 positions.
  - Seminole Schools to cut 343 jobs
  - Hillsborough to eliminate 408 positions
  - Miami-Dade to cut 1,600 jobs
OCPS cut $70 million from FY 2009:

- 600 teachers put on notice back in April.
- Eliminated programs such as United Arts.
- Consolidated summer school, after-school.
- Cut five days from the school year.
- Reduced travel and supplies budget.
- Changed bus schedules.
- Etc…
Education Funding

- "Tax Swap" would most likely mean **much** larger cuts
- More school closings
- Additional teacher layoffs
- Overcrowded classrooms
- Questionable quality of education
Budget Challenges

State Budget Shortfalls

- $6 billion below prior year budget
- Revenue continues to erode and special session may be necessary

Budget Impacts
- Community Affairs
- Disability Services
- Medicaid Services
- Prison System
- Hundreds of State workers may be let go
OUTLINE

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  - Audit Implications
- Summary
Audit Implications

✓ Ensure accurate revenue collections and reporting (TDT, PST, Etc.,)

✓ Workforce reductions may result in weaker internal controls

✓ Increased pressure to use enterprise and other restricted funds to meet general needs
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Tough Road Ahead

✓ Economic outlook is terrifying
✓ National debt is beyond belief
✓ More Corporations will fail
✓ Similar trend worldwide
✓ Consumer confidence is low
✓ Political pressure not to raise taxes or new fees
✓ Infrastructure integrity at risk
  Roads, facilities, schools, etc.,
✓ Quality of Life at stake
  Education, environment, public health, social services; etc.,
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