The Florida Legislature went into the 2002 Regular Session with four things it really needed to get done. It finished the 60-day session accomplishing only one. While they got through the sticky wicket of legislative and congressional reapportionment, legislators left undone the budget, a major rewrite of the education code and the creation of a cabinet-level Chief Financial Officer.

The issue mostly responsible for the logjam was sales tax reform, or the review/repeal of sales and use tax exemptions. Senate President John McKay developed a plan for a constitutional amendment to eliminate many exemptions from the sales and use tax, begin taxing many services and lower the sales tax rate from 6% to 4.5%. The Senate passed the plan, but, with the House showing no interest in following suit, the Senate basically shut down until a compromise was reached in the final days.

Here's a review of some of the issues Florida TaxWatch was involved with this session:

**Sales Tax Exemption Review**

The Legislature passed a proposed constitutional amendment, which will be on the November ballot, creating a 12-member committee made up of six Senators and six House members. The committee will review all sales tax exemptions over a three-year period and submit its findings by March 1 of 2004, 2005 and 2006.

A simple majority (7 members) of the committee could decide to deauthorize an exemption or exclusion. Instead of the Legislature then having to approve the rescinding of an exemption, the committee's recommendation would have the force of law. The recommendation would become effective July 1 following the second regular session occurring after submission to the Legislature.

The Legislature would have the power to reenact any exemption recommended for deauthorization, but absent any action, the exemption would be repealed. The recommendation of the committee would not be subject to the Governor's veto. The joint committee would be dissolved July 1, 2006.

Florida TaxWatch supports the review of sales tax exemptions but certain elements of the new proposal cause concern, such as the use of the constitution to effectuate this plan. Most dangerous is the fact that a handful of Legislators (7) have the power to rescind sales tax exemptions that can have
a profound impact on taxpayers and the soundness of our economy. The requirement that the whole Legislature must act to reinstate an exemption deauthorized by the committee turns the Legislative process upside down. This is simply a variation of a "sunset provision." The state should have learned from the services tax debacle of 1989 that this is not a prudent course to take. Further, if a significant number of exemptions are repealed, there is nothing to ensure that it is done on a revenue neutral basis, meaning "tax reform" becomes tax increases.¹

Capping Documentary Stamp Taxes

Legislation was passed to implement a recommendation made by Florida TaxWatch last year. The documentary stamp tax on promissory notes, nonnegotiable notes, written obligations to pay money and wage assignments will now be capped at $2,450. This translates into a loan of $700,000. In other words, all such loans of $700,000 or more would have a tax liability of $2,450. This removes the incentive for businesses to legally avoid the tax by closing such large transactions out of state. The state has determined that this change will not reduce state revenues, and Florida TaxWatch contends it will actually increase revenues since loans of this size are virtually always closed out of state.

Tax/Budget Limitations

Two proposed constitutional amendments were passed by the House to limit the ability of the Legislature to raise taxes and increase the budget. These proposals went nowhere in the Senate. One would have replaced the current state revenue limitation with an appropriations limitation for any fiscal year to state appropriations for the prior fiscal year plus a growth adjustment based on Florida median household income rather than on the aggregate personal income of Floridians.

The other would have required that any law that imposes a tax, fee, penalty, or fine, expands a tax base, or increases a tax rate, fee, penalty, or fine be enacted in a separate bill by a two-thirds vote of each house of the Legislature. This includes repealing tax exemptions.

Sales Tax Holiday

A bill to continue offering a "sales tax holiday" was passed by the House but not the Senate. Similar to what was done the past four years, purchases of clothing under $50 and school supplies under $10, would have been exempt from the sales tax for a nine-day period from July 27 to August 4.

Service First

The Service First state government civil service reform act, passed by the 2001 Legislature, substantially revises state recruitment, employment, reward and discipline standards and processes to modernize the state workforce and improve service delivery. No bills relating to Service First were enacted during the 2002 General Session. Four budget issues yet to be resolved are outsourcing of the state's payroll preparation transactions, approval of a reduced number of employee classifications
and pay bands, distribution of bonuses and pay raises resulting from savings in program areas, and
employee tuition waivers.

**Letting Tax Collectors Take Over Drivers License Services**

During the legislative session, Florida TaxWatch issued a report that found that legislation to
increase the participation of tax collectors in the provision of drivers license services would increase
service to the public without increasing costs. In fact, a $5.25 surcharge paid by drivers currently
getting their licenses from tax collectors would be eliminated.

While some tax collectors currently provide some services (instead of the Dept. of Highway Safety
and Motor Vehicles) the new legislation would have allowed them to apply to the department to
become exclusive agents in their counties. Florida TaxWatch cautioned that the new fee schedule
must be revenue neutral. That way, since the number of license offices would be increased, service
would be increased at no added cost to the state. Legislation to accomplish this died on the calendar
in both chambers.

**Overweight Truck Fines**

Florida TaxWatch has long recommended a review of Florida's truck weight/fine schedule.
Legislation to increase overweight truck fines by approximately $2 million a year did not make it
through the session.

**School Services Accountability Act**

H 217 was sponsored by Rep. Mack and co-sponsored by Reps. Byrd and Haridopolos. The bill
required analysis of expenditure of funds and quality of service for certain non-instructional services.
It required that Florida school districts issue request for proposals (RFP) or solicitation of bids to
contract in one of three services deliverables areas over each of three years: facilities maintenance
and operations, food services and transportation. The districts would have been required to put any
resulting cost savings back into the classroom for instructional purposes. They also would have been
required to report on the results of their analysis of funds, quality of services and the results of the
RFP to the public in writing.

H 217 was referred to the Education Innovation Committee, Fiscal Responsibility Council and
Council for Lifelong Learning. It passed favorably with two amendments in Education Innovation,
favorably with one amendment in Fiscal Responsibility, but failed by one vote in Lifelong Learning.
A similar bill in the Senate, S 194, sponsored by Sen. Villalobos, was referred to Education,
Appropriations Subcommittee on Education and Appropriations but did not get a hearing in the
Senate.

In addition, the Legislature passed a growth management law that ties the building of schools to new
development, closed a loophole in the state's campaign finance laws, allowed building of some toll roads even if they are not self-sufficient, and further eroded the state's open records law.

More Work to Be Done

The Legislature will be coming back to complete some unfinished business. A special session is scheduled for April 2 to tackle the education code rewrite. The Chief Financial Officer, a cabinet post approved by the voters in 1998 will also have to be addressed. The $49 billion budget, on which the House and Senate are currently approximately $415 million apart, may not be taken up until May. By then the state will have new revenue estimates that could give Legislators more money to spend.

ENDNOTE