



April 11, 2008

Legislative Update

Fifth Week of Session, April 7-11, 2008

House and Senate Pass Their Respective Budgets; Let the Horse Trading Begin

The House and Senate have both approved significantly scaled-back spending plans for the upcoming fiscal year. This sets the stage for budget conference negotiations to begin next week. On Wednesday, the Senate voted, largely along party lines, to approve a \$65.9 billion budget (SB 2900) which cuts more than \$1 billion from health and human services and reduces per student spending by \$116. It cuts about half a billion in general revenue by reducing Medicaid benefits. Under the plan, the Medically Needy program would be limited to pregnant women and children, and Medicaid coverage for dental services for adults and hearing aids would cease. The Senate used non-recurring dollars, including \$100 million from the Lawton Chiles Endowment Fund, to avoid even deeper cuts. It also wants to eliminate automatic cost-of-living increases for Medicaid reimbursements.

After debating budget amendments into the night Wednesday, the House approved its version of the budget (HB 5001) on Thursday. The House budget of \$65.1 billion contains a bit more funding for education, largely by raiding the State Transportation Trust Fund for \$639 million. The House rolled back the required local effort (RLE) school property tax millage rate to keep the taxes at the same level as last year, while the Senate plan includes a \$484 million increase in RLE.

The Democrats used the budget debate and amendment process to call for a number of tax increases to offset cuts, including repealing sales tax exemptions, resurrecting a scaled-back domestic version of the ill-fated unitary tax, closing a doc stamp tax "loophole," and levying a \$1 per pack cigarette tax. The House did adopt one minority party amendment worth \$20 million that eliminates professional sports team subsidies for next year.

Befitting a tight budget year, there were a (relatively) small number of budget amendments in both chambers. The Senate funded a number of extra local water projects by taking money from bigger water projects already in the budget. Another amendment attempted to shift \$20m from transportation rail projects to the court system.

Both chambers also approved amendments to cut legislators' salaries. The House voted for a 2.5% salary cut for lawmakers. The Senate went further, reducing the salaries of the governor, Cabinet members, and legislators by 10% and putting the money into Early Learning.

This Week's Bill Action

1.35% Property Tax Cap - Despite promises that Amendment 1 was just the first step in property tax reform, it is doubtful that the legislature will do anything major this year. The Senate has made clear that it will not be doing anymore property tax cutting. Speaker Rubio has voiced support for the "1.35%" plan, which is a current citizen initiative to limit total property taxes on all property to 1.35% (13.5 mills) of taxable value. The bills containing that proposal, **SJR 2190** and **HJR 949**, had their first committee hearings this week. [The Senate Community Affairs Committee and the House Government Efficiency & Accountability Council passed their respective proposed constitutional amendments.](#) This is really just a large tax cut, but does not really reform the system. All the features of the current system, including inequities and tax shifts, would remain. It is also unclear as to how the revenue would be distributed between the various local governments. The plan's prospects for this session are dim, particularly since a Taxation and Budget Reform Commission (TBRC) proposal to replace school property taxes is already headed towards the ballot.

State and Local Government Revenue Limitation. Another Speaker Rubio initiative, a state and local government "tax cap," also got its first hearing. [The House Efficiency and Government Accountability Committee submitted and approved proposed committee bill \(PCB\) 08-25](#) that would limit the annual increase in state and local revenue according to a preset formula – growth in population plus inflation plus 1 percent. This is similar to a proposal before the TBRC that is scheduled for a final vote Monday, April 14. A simpler and better approach developed by Florida TaxWatch – requiring a two-thirds vote of the legislature or local governments to create or increase any tax or fee – will also be considered at the same TBRC meeting.

Assessment Cap for Commercial and Residential Rental Property. **HJR 441** would create a cap on the growth of property assessment of 5% or the average growth in revenues derived from the property over the last 3 years. The property tax swap already passed by the TBRC includes a 5% cap for non-homestead properties. [HJR 441 was scheduled for a hearing in the House Government Efficiency & Accountability Council but was temporarily postponed.](#)

Corporate Income Tax "Piggyback" and Speedup. Every year, the Legislature passes a "piggyback" bill that conforms Florida's corporate income tax code to the federal code by picking up annual changes. Florida TaxWatch supports this annual bill that makes tax compliance less burdensome for businesses and enforcement easier for the state. This year's legislation is a little different. It still conforms the tax codes, allowing businesses to keep one set of books and use federal taxable income as the base for Florida's tax; however, the taxpayer must add-back the increased federal depreciation deduction provided by the Economic Stimulus Act of 2008. Allowing businesses to apply that deduction to their state taxes would have saved them a total of \$146.8 million next year. While it would have been preferable to extend that stimulus to state taxes, such a big hit to state revenues does not have much legislative support, given the current budget climate. Moreover, the legislation advances the due date for quarterly estimated taxes from July 10 to June 30, which provides an extra payment in FY 2008-09, adding \$93.8 million

to the state coffers for the next budget; however, there will be less money next year. [HB 5065](#) and [SB 1586](#) both passed their respective full chambers this week.

Back to School Sales Tax Holiday. [HB 893](#) establishes a sales tax holiday from August 2 to August 11, 2008 for books, clothing, footwear, wallets, and bags that cost \$50 or less, and school supplies that cost \$10 or less. It is estimated it would save taxpayers almost \$50 million. [The bill cleared the Policy & Budget Council this week and is now ready for the floor.](#) However, the Senate companion ([SB 2094](#)) has yet to be heard.

Financial Management by Local Governments. Florida TaxWatch released a *Briefing* this week relating to a pair of bills ([SB 640](#) and [HB 399](#)) that designate the clerk of the circuit court as the “county auditor” in most counties. The *Briefing* ([available by clicking here](#)) was released this Wednesday afternoon, April 9, at a hearing of the Senate Community Affairs Committee discussing SB 640. Dominic M. Calabro, President and CEO of Florida TaxWatch, testified on the findings at the hearing. The report concluded that without the legislation’s clarification of the long-understood role of the clerks as the institutional check on the people’s money controlled by local governments, Floridians may be deprived of any independent oversight of county spending and be left with a system where only internal auditors oversee county spending and revenue practices. [SB 640 passed the Community Affairs Committee.](#) A similar bill, [HB 399](#), is in the Policy & Budget Council.

Corporate Income Tax Credit Scholarship Program. The Legislature is quickly moving towards an upgrade of the Scholarship Program, which has long been supported by Florida TaxWatch. Provisions include increasing the \$88 million maximum credit by \$30 million annually for five years to a total of \$238 million, allowing siblings to participate, and increasing scholarship amounts. It now goes to the floor. [SB 1440 passed Education Pre-K - 12 Appropriations this week.](#) [HB 653](#) is on the House calendar.

Economic Development. Legislation supported by Enterprise Florida is moving through the process. [SB 2310](#) adds economically targeted investments as an asset class in which the State Board of Administration is authorized to invest. [The bill was unanimously approved by the General Government Appropriations Committee this week.](#) [SB 850 and HB 293](#) would establish the New Markets (Corporate Income) Tax Credit Program to encourage capital investment in rural and urban low-income communities. [The Economic Expansion & Infrastructure Council passed a committee substitute for HB 1293 this week and SB 850 was on the Community Affairs agenda but was not considered.](#) Proposing to create the Florida Research Commercialization Matching Grant Program, [both SB 1120 and HB 593 cleared committees this week.](#) The program would assist small or startup companies that take advantage of federal and state partnerships to accelerate their growth and market penetration. However, progress on [SB 1398 and HB 733](#), which would provide a tax credit for research and development expenses, has slowed.

Transparency in Local Government Contracting. [SB 392](#) requires local governments and state agencies to electronically post specific information on contracts and directs the Department of Financial Services to develop and maintain a portal linking to websites containing this information. Website access must be provided to the public free of charge. [The bill cleared Transportation and Economic Development Appropriations this week and placed on the Special Order Calendar.](#)

Insurance. The Senate appears ready to pass its property insurance plan. [The General Government Appropriations Committee passed two bills that attempt to hold rates down while](#)

[reducing policyholder risk](#). **SB 2860** would freeze premiums for the 1.3 million policyholders in Citizens Property Insurance Corp. for another year. It would also prohibit insurance companies from charging higher rates before they are approved by the state and increase fines for violating state rules. Another provision was added to the bill to take \$250 million out of Citizens' reserves to pay private carriers to take on policies. [The bill was revised by a committee substitute and then passed out of committee; it was subsequently amended multiple times on the Senate floor. The bill, as amended, is on the Calendar for final vote next week \(i.e., week of April 14, 2008\).](#) **SB 2156**, a plan offered by CFO Alex Sink, also passed by [General Government Appropriations](#). This would shrink the hurricane catastrophe fund by \$3 billion to reduce the risk to Floridians, who would be subject to huge assessments if a major hurricane struck.

Save Our Homes Quirk. Legislation (**HB 1279 and SB 2506**) has also been filed to "fix" a little-known quirk in Save Our Homes. Under current law, if the just value of a house under SOH protection falls, the assessed value of the home will still increase by the SOH limit (the lesser of 3% or inflation), as long as the assessed value is still below the just value. While it certainly seems unfair for someone's taxes to rise when their property's value falls, this quirk does have the effect of reducing the property tax shift to non-homestead properties. [HB 1279 passed the Government Efficiency & Accountability Council this week.](#)

VAB Reforms. [The Senate Community Affairs Committee postponed consideration of a committee substitute for SB 2080](#) to implement many of the recommendations contained in a 2007 Auditor General report on county value adjustment boards. It requires uniform policies and procedures by boards, special magistrates, and taxpayers in board proceedings. It also requires two citizens to be VAB members, precludes county attorneys from serving as counsel to the board and requires all counties to appoint special magistrates, regardless of its population. [This week, the Government Efficiency & Accountability Council passed a committee substitute for a similar bill \(SB 909\).](#)

Increased Traffic Fees and Fines/FHP Salaries. **SB 920** would increase various traffic violation fees and fines by about \$17 million annually to provide funding to establish a recruitment and retention salary payment plan for Florida Highway Patrol Troopers. [The Senate Finance & Tax Committee passed the bill this week; the bill is now on the agenda of Transportation and Economic Development Appropriations Committee for next week. A committee substitute for HB 831 was approved by Economic Expansion & Infrastructure Council this week.](#) This version would increase fees by \$5.5 million annually.

Class Size Reduction Implementation Flexibility. [The full Senate approved its class size reduction bill \(SB 1756\) this week.](#) The intent is to provide school districts and charter schools two additional years to reduce the number of students in any classroom to the constitutional maximum and provide a more gradual approach to achieving compliance. Even if this becomes law, school districts will have to comply fully with Constitutional class-size requirements beginning with the 2010-2011 school year. [A similar bill in the House \(HB 7043\) cleared the Policy & Budget Council and is also now ready for the floor.](#)