



April 18, 2008

Legislative Update

Seventh Week of Session, April 14-18, 2008

Legislature Begins Budget Negotiations, Many More Differences Exist

There are only two weeks left in the 2008 legislative session and big differences between the House and Senate remain on some major issues. These include the budget, property insurance and health insurance.

The chambers are about \$800 million apart on their budget plans, but the totals do not tell the whole story. Many decisions within the budget are sticking points. However, late Thursday, budget chairs Rep. Ray Sansom and Sen. Lisa Carlton announced they had come to agreement on some issues that will clear the way for budget conference committee meetings to begin in earnest next week. Among these compromises:

- No increase in Required Local Effort school property taxes. The Senate had proposed a \$484 million increase.
- A scaled-back "back to school" sales tax holiday and no hurricane preparedness holiday (see below).
- Putting \$300 million in transportation funds into general revenue. The House had wanted twice as much. Other trust funds will be "swept" for another \$270 million.
- \$83 million in increased court filing fees to limit judicial budget cuts.
- \$300 million in bonds for Florida Forever land acquisitions.

Issues remaining include paying for the Everglades restoration and whether to use funds from the Lawton Chiles Endowment to help Medicaid funding.

The House is also moving forward with a series of constitutional amendments on major fiscal issues, (see below) for which there is little support in the Senate. Despite promises that Amendment 1 was just the first step in property tax reform, it is doubtful that the legislature will

do anything major in this area this year. The Senate has made clear that it will not be doing any further property tax cutting.

Senator Mike Haridopolos, Chairman of the Finance and Taxation Committee, took the unusual step of calling a special meeting of the committee this morning to take public testimony on the Taxation and Budget Reform Commission's proposal (CP 02) to swap \$9 billion in required local effort school property taxes with some combination of tax hikes. Although the legislature cannot change the proposal, Senator Haridopolos felt that there had not been enough public input and that maybe the testimony in his committee might help sway some TBRC members to change their minds. The Senator has been a vocal opponent of the measure.

Florida TaxWatch testified at the hearing, explaining CP 02 is a well intentioned attempt to reduce the burden of required local effort property taxes without reducing school funding; however, this approach could have serious consequences for taxpayers, Florida schools, and the state's economy. The economic impact of replacing property taxes with sales taxes is at best debatable, at worst detrimental. For more information, see this [Florida TaxWatch report](#).

Status of Selected Legislation

PROPOSED CONSTITUTIONAL AMENDMENTS ON TAXES

1.35% Property Tax Cap (HJR 949, SJR 2190) - 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. It is far short of the needed signatures, so the House has offered the proposal. Florida TaxWatch concludes 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 appears headed towards the ballot.

This week's action: [The House bill cleared Policy and Budget and now goes to the floor.](#)

State and Local Government Revenue Limitation (HJR 7125). Another Speaker Rubio initiative, this state and local government "tax cap" 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 that was defeated by the TBRC earlier this week. Florida TaxWatch recommends a simpler approach – requiring a two-thirds vote of the legislature or local governments to create or increase any tax or fee.

This week's action: [HB 7125 cleared Policy and Budget and now goes to the floor.](#)

Minimum Homestead Exemption (HJR 421). This proposed amendment would create a new homestead exemption equal to 40% of the homesteads just value between \$75,000 and \$500,000. Homeowners would get the new exemption or their Save Our Homes savings, whichever is greater. The idea of a minimum exemption is a good way to reduce inequities among homesteaders. However, it can only be justified in a system where all property is capped and all property gets the minimum exemption. This approach has been recommended

by Florida TaxWatch as the way to make the property tax system fair for all. But only giving it to homesteaders would further shift tax burden to those who have already paid the most.

Bill status: On Calendar.

Assessment Cap for Commercial and Residential Rental Property (HJR 441). This 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.

Bill status: HJR 441 is stalled in the House Government Efficiency & Accountability Council. There is no Senate companion.

TAXATION

Corporate Income Tax “Piggyback” and Speedup (HB 5065). 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.

This week’s action: The Senate slightly amended the House bill and sent it back.

Back to School Sales Tax Holiday (HB 893). This bill would establish 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.

Bill status: HB 893 was removed from the Special Order Calendar today.

Hurricane Preparedness Sales Tax Holiday (HB 111, SB 86). This would create another sales tax holiday for hurricane supplies from June 1 to June 7, 2008. Last year, the holiday lasted 12 days. The holiday would save taxpayers an estimated \$15 million.

This week’s action: Passed Policy & Budget this week. However, it appears budget negotiations have ruled this out.

Cigarette Tax Hike (SB 2790, HB 299). A Senate committee this week had the first hearing on a proposal to increase cigarette taxes by \$1 per pack to raise about \$1 billion. The Senate would use most of the revenue for health programs. The House plan would put all of the new money into general revenue. The House leadership and the Governor have voiced their

opposition, not swayed by the legislation changing the term “cigarette taxes” to “cigarette user fees.”

This week’s action: Committee Substitute passed by Senate Health Policy Committee.

Property Tax Challenges (HJR 7005, HB 1283). The Proposed constitutional amendment HJR 7005 would remove the “presumption of correctness” from the property appraiser in property tax assessment disputes. A similar proposal was defeated by the TBRC earlier this week. HB 1283 is less drastic an approach supported by Florida TaxWatch to reduce the burden of proof on the taxpayer to a “preponderance of the evidence”. The TBRC has already passed a statutory recommendation similar to HB 1283. Both bills have passed all their committees of reference and are ready for the floor. However, the outlook for this legislation in the Senate is not as promising.

Bill status: Both bills are on the Calendar.

TRIM notices (HB 177, SB 664). These bills would make a common-sense improvement to the state’s Truth-In-Millage (TRIM) statement by adding the following: last year’s millage rate; the proposed millage rate if the proposed budget change is made; and the current year’s millage rate if no budget change is made.

Bill status: HB 177 on calendar. The Senate companion has yet to be heard.

Homestead Exemption Fraud (SB 1548). The benefits provided by Amendment One have made the homestead exemption even more valuable. One of the provisions of the bill is an attempt to crack down on fraudulent homestead exemptions for non-state residents, by requiring formal declarations of domicile to be recorded in the public records of the county in which exemption is sought. It replaces informal statements of the applicant with evidence of the location of the school where the applicant’s dependent children are registered; place where the applicant is registered to vote with proof of voter registration; and place of issuance of a driver’s license with the requirement of a Florida driver license. It adds location of bank statement and checking accounts to the factors that may be considered as well as proof of payment of utilities at the property for which permanent residency is claimed. The House companion no longer contains the homestead fraud provisions.

This week’s action: The bill cleared Finance & Tax this week.

Save Our Homes Quirk (HB 1279 and SB 2506). These bills attempt to “fix” a little-know 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.

Bill status: HB 1279 is in Policy & Budget. SB 2056 has not been heard.

VAB Reforms (HB 909, SB 2080). This legislation would 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 their population.

This week's action: HB 909 passed Policy and Budget this week. SB 2080 passed the Community Affairs Committee.

ACCOUNTABILITY & EFFICIENCY

Financial Management by Local Governments (SB 640 and HB 399). Florida TaxWatch has released a *Briefing* ([available by clicking here](#)) examining these bills that designate the Clerk of the Circuit Court as the "county auditor" in most counties. 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.

Bill status: SB 640 is on the Judiciary Committee agenda next week. HB 399 is in the Policy & Budget Council.

Transparency in Local Government Contracting (SB 392). This legislation would require 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.

This week's action: Passed the full Senate this week.

Cost-Saving Idea - Eliminating Form DR-219 (HB 7019). This form, which is intended primarily to provide the Dept. of Revenue with property sales information for analysis of county tax rolls, is of little usefulness. Florida TaxWatch has been recommending its elimination since 2001. The information on the form is unreliable and available elsewhere. This long-overdue move will save more than \$12 million annually. The savings comes from eliminating the 1% commission paid to county clerks to handle the form and reduced expenses for DOR.

This week's action: Passed both Chamber and presented to the Governor.

EDUCATION

Class Size Reduction Implementation Flexibility (HB 7043, SB 1756). It appears the House and Senate are near agreement on reducing the impact of the constitutional class size requirements. 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. Florida TaxWatch supports this move, which will save between \$227 million and \$445 million. Even if this becomes law, school districts will have to comply fully with Constitutional class-size requirements beginning with the 2010-2011 school year.

This week's action: HB 7043 on the Special Order Calendar. SB 1756 is in conference.

Education Governance (SJR 2308). This proposed constitutional amendment would return the Commissioner of Education to an elected post and replaces the appointed State Board of Education with the Cabinet. Community colleges would become the Florida College System offering 2- and 4-year degrees, and the Board of Governors powers would shrink. Perhaps most importantly to the Legislature, it would reaffirm its contention that it is the only body that can set tuition. The House has not indicated if they will take this up.

Bill status: Has passed the full Senate. Now in Messages.

Corporate Income Tax Credit Scholarship Program (HB 653, SB 1440). The Legislature is moving towards an upgrade of the Scholarship Program, which has long been supported by Florida TaxWatch. Provisions of the House bill 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. The Education Pre-K-12 Appropriations Committee passed a committee substitute to provide only one \$30 million increase and to keep the same scholarship amount.

This week's action: Committee Substitute for SB 1440 by Education Pre-K – 12 Appropriations. HB 653 is on third reading.

ECONOMIC DEVELOPMENT.

Economically Targeted Investments (SB 2310). The bill adds economically targeted investments as an asset class in which the State Board of Administration is authorized to invest.

This week's action: Passed the full Senate unanimously this week. The House companion has not been heard.

New Markets (Corporate Income) Tax Credit Program (SB 850, HB 293).

This Program would establish a corporate income tax credit to encourage capital investment in rural and urban low-income communities.

This week's action: HB 293 passed the Policy & Budget Council this week. SB 850 passed the Community Affairs Committee.

Florida Research Commercialization Matching Grant Program (HB 593, SB 1120). The program would assist small or startup companies that take advantage of federal and state partnerships to accelerate their growth and market penetration.

This week's action: HB 593 passed the Policy & Budget Council. SB 1120 is in Higher Education Appropriations.

Research and Development Tax Credit. (SB 1398 and HB 733). Modeled after a federal tax credit, this would provide a corporate income tax credit equal to 10% of the difference between

the qualified R&D expenditures in the current year and the average R&D expenditures over the previous four tax years. Progress on this legislation has slowed.

Bill Status: HB in Economic Expansion & Infrastructure Council, SB in Finance & Tax.

INSURANCE

Citizens Property Insurance Corp (SB 2860, HB 5057). The Senate plan 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. It now goes to the House, which appears to have a different perspective. The House wants to encourage private companies to offer policies here and is concerned that the Senate bill conflicts with that. The House does agree with another provision to take \$250 million out of Citizens' reserves to pay private carriers to take on policies.

This week's action: Passed the full Senate this week.

Florida Hurricane Catastrophe Fund (HB 7021, SB 2156). Based on a plan offered by CFO Alex Sink, this would shrink the hurricane catastrophe fund's exposure by \$3 billion to reduce the risk to Floridians, who would be subject to huge assessments if a major hurricane struck. The legislation also sets the Fund's reimbursement at 70 percent of the insurer's losses.

Bill status: Both bills are ready for the floor.

Health Insurance (HB 7081, SB 2534). This week, the Senate unanimously approved its health insurance plan, which was put forth by the Governor. It aims to offer low-cost (about \$150 per month) coverage to Florida's 3.8 million uninsured by removing the requirement that insurers offer wide-ranging coverage. Companies could offer stripped down plans to cover pay basic doctor and hospitalization fees. The House has a different, more market-driven, approach. The House's "farmers' marketplace" would offer more options with less regulation, but would only be available through employers.

This week's action: The Senate passed SB 2534, the House amended its plan onto it.