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CONTACT: Becky Reese
850-222-5052

FLORIDA TAXWATCH URGES STRONGER CONTROLS ON RISING PROPERTY TAXES AND SPENDING

Report Released as Governor's Property Tax Reform Committee Meets to Address Fixes

TALLAHASSEE — Florida's property tax system is in crisis, with skyrocketing levies accompanied by explosive local government spending that is exceeding the taxpayers' ability to pay. That's the finding of Florida TaxWatch in a new research report released today that urges repeal of a popular three-percent cap on homesteaded property owners' annual tax bills while maintaining taxpayers' current savings, a cap on local property taxes and revenues, and a fairer system for assessing a property's value.

"Florida taxpayers perceive our property tax system as unfair and unaffordable and they are right," said Dominic M. Calabro, President and CEO of the non-profit, non-partisan government watchdog group. "Our research quantifies the growing tax burden and tax shift onto certain classes of property owners that has created two separate, but unequal tax systems in Florida," Calabro said, noting that his organization has seen a big increase in the volume of calls and emails from upset taxpayers.

The research report, **"Controlling Escalating Property Taxation and Local Government Spending and Revenue"**, places part of the blame on the state's "Save Our Homes" amendment in the state constitution. Since it took effect in 1995, it has limited annual increases in homesteaded property to three percent or the increase in inflation, whichever is less. The report shows that while holding down taxes for many homeowners, the amendment has brought on a myriad of problems, shifting billions of dollars in taxes from homesteaded taxpayers to non-homesteaded businesses and those with second properties, creating inequities in tax treatment, increasing housing costs for renters and new home buyers, and restricting the financial ability of some people to move to a different home. It also shifts taxes among homesteaders, as some benefit more than others.

Those inequities, such as two similar houses in the same area having vastly different tax bills, have created an unfair tax system, according to the report. The amendment has also resulted in people feeling "trapped in their homes". Many homeowners who want to move to another house feel they cannot due to the huge tax increases they would face when the new home is initially re-assessed at full value.

"Save Our Homes is flawed and, as TaxWatch pointed out in 1992, it is not a tax limit but a tax shift," said Kurt Wenner, TaxWatch Senior Research Analyst and the report's author. "Since it does not control property tax millage rates, the effect has been a shifting of the tax burden to non-homestead property, and keeping rates artificially high. Even though average millage rates have been falling, they are certainly much higher than they would be without the amendment," Wenner said.

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Total property tax levies in Florida have more than doubled in the last nine years (FY 1997 – FY 2006), including growth of 42% in just three years. This is almost three times as fast as the combined growth in population and inflation, and doesn't even include the recently begun local fiscal year (FY 2007), which is likely to have the largest increase in recent history.

Statewide, taxable values in Florida increased a remarkable 25% in for FY 2006.

In recent years, Florida's rapidly escalating property values have made it possible for cities, counties, and school districts to raise significant new revenues without increasing, and even slightly reducing, millage rates. Many local governments have treated this as a windfall, when by law it is actually a significant tax increase and supposed to be acknowledged as such by local officials in public budget hearings, something the report noted doesn't happen all of the time.

"Some local government officials are ignoring the state's Truth In Millage law in proclaiming tax cuts, when in reality they are raising taxes," said Wenner. The report recommends tightening accountability controls within the law to require local governments to use last year's tax rate as a starting point for creating a new budget.

Wenner says it's possible that Save Our Homes may have prompted local governments to tax and spend at a greater level than they would have without it. With statewide taxable values up 25%, if a local government voted to keep the same millage rate, that would result in a 25% increase in taxes. If all taxpayers shared equally in that tax increase, Wenner points out, it's likely more taxpayers would have attended budget hearings this summer and demanded their local officials roll back tax rates.

But the TaxWatch report also reveals a much broader, more insidious problem of spending by local governments. Virtually all sources of local government revenue are increasing rapidly, some even faster than property taxes.

For the ten year period from 1994-2004, total local property tax revenues grew 94%, but total local governments' revenue increased 108%. Charges for services grew 200% and miscellaneous revenues, which include impact fees and special assessments, grew 144%. Interestingly, non-property taxes, including sales, franchise, utility, and communications grew slightly faster than property taxes.

The latest data available from the U.S. Census Bureau (FY 2004) shows that Floridians' per capita local tax burden is the 16th highest in the nation. This is up from 21st in 2002. The double-digit growth in property taxes in recent years will likely push Florida's ranking even higher, according to the TaxWatch report.

In addition to repealing the Save Our Homes amendment, Florida TaxWatch recommendations include:

- Allowing homeowners who currently enjoy the protection of the amendment's cap to keep their reduced assessment. Future assessments would be at full market value minus the existing differential under the cap.

- Capping local governments' revenues. This could include mandating that local governments adopt a millage rate that is no higher than a redefined rolled-back rate that allows for new construction and inflation or growth in personal income or both. The cap could be overridden by a supermajority vote of the local government body.

- Allowing a one-time statewide portability of a homeowner's assessment reduction. If a homeowner moves within Florida, their new house's fair market assessment would be reduced by the same amount as their old house, so long as the new home's assessment is of equal or greater value.

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- Assessing commercial property at the value of its existing business, rather than what the property could sell for under the current "highest and best use" criteria.

The report notes that many taxpayers are upset and some are predicting a tax revolt. If taxing and spending continues unabated, this is a real possibility. If this should happen, limits on local governments may be imposed by the citizens through the constitutional initiative process. Before this happens, Florida needs to implement a reasonable, but meaningful, limit on local government revenues or expenditures.

Florida TaxWatch acknowledges that the Florida Legislature is feeling a lot of pressure to do something about property taxes.

"The 2007 Session will surely consider measures such as allowing for Save Our Homes portability and increasing the homestead exemption," said Calabro. "The Legislature should avoid attempting quick fixes, such as increasing the homestead exemption, that do not address the real problems and, in fact, would magnify those problems."

Calabro believes the Governor's Property Tax Reform Committee formed this past summer to examine the problems and develop solutions, and the upcoming Taxation and Budget Reform Commission have the opportunity to develop "truly deep, comprehensive reform, and the Legislature or TBRC can provide constitutional proposals to voters."

"It will take a good educational campaign to inform the voters, and a proposal that maintains most of the property tax protections homesteaders now enjoy, coupled with a system to limit property tax increases in the future," said Calabro.

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MEDIA NOTE: Dominic M. Calabro, President and CEO of Florida TaxWatch, will be testifying before the Governor's Property Tax Reform Committee meeting this morning at 10:30 a.m. in Room 110 of the Senate Office Building in Tallahassee. He will be available for additional comments following his testimony at approximately 10:50 a.m. outside of Room 110.

Florida TaxWatch is a private, non-profit, non-partisan research institute that over its 27 year history has become widely recognized as the watchdog of citizens' hard-earned tax dollars. Our mission is to provide the citizens of Florida and public officials with high quality, independent research and education on government revenues, expenditures, taxation, public policies and programs and to increase the productivity and accountability of Florida Government. On the web at www.FloridaTaxWatch.org.