

# SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS for SJR's 1204 and 1168

SPONSOR: Comprehensive Planning Committee, Senators Diaz de la Portilla and Haridopolos

SUBJECT: Homestead / Assessed Value / Elderly

DATE: February 2, 2004      REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Cooper</u>	<u>Yeatman</u>	_____	<u>Fav/Combined CS</u>
2.	_____	_____	_____	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

**I. Summary:**

CS for SJR 1204 and 1168 proposes to amend Art. VII, s. 4, Florida Constitution, to authorize a county to prohibit, by ordinance, an increase in the assessed value of homestead property located in that county which is owned by any person who is age 65 or older and whose household income does not exceed \$20,000.

This joint resolution creates, upon approval of the electorate, subsection 4(f) of Article VII of the State Constitution.

**II. Present Situation:**

*Property Taxation in Florida*

Ad valorem tax or “property tax” continues to be a major source of revenue for local governments in Florida. In FY 2000-01 (the last year for which fiscal information is available) property taxes constituted 39 percent of county governmental revenue (\$5.2 billion ), and 24 percent of municipal governmental revenue (\$2.1 billion), making it by far the largest single source of tax or general revenue for general purpose governments in Florida.<sup>1</sup> In addition, the property tax is the primary local revenue source for School Districts. In FY 2000-01, school districts levied \$6.5 billion in property taxes for K-12 education.<sup>2</sup>

<sup>1</sup> Information provided by the Legislative Committee on Governmental Relations (LCIR), from the LCIR database @ <http://fcn.state.fl.us/lcir/dataAtoZ.html>.

<sup>2</sup> 2003 FLORIDA TAX HANDBOOK, p. 135. The state and federal governments contributed approximately \$9 billion in the same year.

The property tax is important not only because of the revenue it generates, but because it is the only taxing authority not preempted by the Florida Constitution to the state.<sup>3</sup> However, the property tax is not an unlimited source of revenue. The State Constitution caps the millage rates assessed against the value of the property.<sup>4</sup> In addition, the Constitution grants property tax relief in the form of valuation differentials (based on character or use, such as agricultural land),<sup>5</sup> assessment limitations,<sup>6</sup> and exemptions.<sup>7</sup>

In tax year 2002, the combination of these forms of property tax relief effectively reduce the taxable value of property in this state by 28 percent.<sup>8</sup> For FY 2003-04, it is estimated that the tax revenue loss due to these forms of property tax relief will be \$686 million for valuation differentials, \$2.09 billion for the "Save Our Homes" assessment limitation, and \$10.5 billion for all exemptions.<sup>9</sup>

Any additional reduction in the property tax base will result in a corresponding shift in property tax burden to other property tax owners.<sup>10</sup>

### *Valuation Differentials*

Article VII, s. 4 of the State Constitution requires that all property be assessed at its just value for ad valorem tax purposes. Just value has been interpreted to mean fair market value.<sup>11</sup> However, this section provides exceptions to this requirement for agricultural land,<sup>12</sup> land producing high water recharge to Florida's aquifers,<sup>13</sup> and land used exclusively for non-commercial recreational purposes,<sup>14</sup> all of which may be assessed solely on the basis of their character or use. Tangible personal property that is held as inventory may also be assessed at a specified percentage of its value or totally exempted.<sup>15</sup> Additionally, counties and cities may be authorized to assess historical property based solely on the basis of its character or use.<sup>16</sup>

---

<sup>3</sup> Article VII, Section 1 of the State Constitution.

<sup>4</sup> See Article VII, Section 9 of the State Constitution. For counties, municipalities, and school districts, the cap is 10 mills. The millage rate for water management districts is capped at 1 mill, except that it is 0.05 mills for the Northwest Florida Water Management District. The millage rate for other special districts is as established by law. A mill is defined as 1/1000 of a dollar, or \$1 per \$1000 of table value.

<sup>5</sup> Article VII, Section 4(a) of the State Constitution.

<sup>6</sup> Article VII, Section 4(c) of the State Constitution. This is popularly referred to as the "Save Our Homes" property assessment limitation. Implemented in s. 193.155, F.S., it limits the increase in assessment of homestead property to the lesser of 3 percent or the percentage change in the Consumer Price Index. After any change in ownership, homestead property is assessed at just value as of January 1 of the following year.

<sup>7</sup> Article VII, Sections 3 & 6 of the State Constitution.

<sup>8</sup> Out of \$1,236 billion in just (or market) value, \$347 billion was not taxed. See LCIR database @ <http://fcn.state.fl.us/lcir/dataAto?Z.html>.

<sup>9</sup> 2003 FLORIDA TAX HANDBOOK, p. 139-140.

<sup>10</sup> Generally, local governments respond to this resulting reduction in the tax base in one of three ways: decrease their budgets, replace the lost revenue with other sources of revenue, or increase the millage rate on the remaining taxable property.

<sup>11</sup> *Walter v. Schuler*, 176 So.2d 81.

<sup>12</sup> Implemented in s. 193.461, F.S.

<sup>13</sup> Implemented in s. 193.625, F.S.

<sup>14</sup> Implemented in s. 193.501, F.S.

<sup>15</sup> Implemented in s. 196.185, F.S.

<sup>16</sup> Implemented in s. 193.505, F.S.

*Assessment Limitations*

Article VII, s. 4 of the State Constitution also provides for property assessment limitations on homestead property<sup>17</sup> and, by local option, improvements to homestead property for the purpose of providing living quarters for elderly parents or grandparents.<sup>18</sup>

The statutes also provide for differential treatment of specific property,<sup>19</sup> to include pollution control devices<sup>20</sup> and building renovations for the physically handicapped.<sup>21</sup>

*Property Tax Exemptions*

The Legislature may only grant property tax exemptions that are authorized in the constitution, and modifications to property tax exemptions must be consistent with the constitutional provision authorizing the exemption.<sup>22</sup>

Article VII, s. 3 of the Florida Constitution, provides authority for the following property tax exemptions:

- All property owned by a municipality and used exclusively by it for municipal or public purposes;<sup>23</sup>
- Portions of property use predominantly for educational, literary, scientific, religious or charitable purposes, as provided in general law;<sup>24</sup>
- Household goods and personal effects, not less than one thousand dollars;<sup>25</sup>
- Property owned by a widow or widower or person who is blind or totally and permanently disabled, not less than five hundred dollars, as provided in general law;<sup>26</sup>

<sup>17</sup>Implemented in s. 193.155, F.S. This is popularly referred to as the "Save Our Homes" property assessment limitation.. Implemented in s. 193.155, F.S., it limits the increase in assessment of homestead property to the lesser of 3 percent or the percentage change in the Consumer Price Index. After any change in ownership, homestead property is assessed at just value as of January 1 of the following year.

<sup>18</sup> Implemented in s. 193.703, F.S. Counties may provide for a reduction in the assessed value of homestead property to the extent of any increase in the assessed value of that property which results from the construction or reconstruction of the property for the purpose of providing living quarters for one or more natural or adoptive grandparents or parents of the owner of the property or of the owner's spouse if at least one of the grandparents or parents for whom the living quarters are provided is 62 years of age or older. As of 12 January, 2004, five counties have granted this assessment limitation. (Brevard, Leon, Miami-Dade, Seminole, and Volusia counties.)

<sup>19</sup> Which are reductions in assessments which result form a valuation standard other than fair market value.

<sup>20</sup> Implemented in s. 193.621, F.S.

<sup>21</sup> Implemented in s. 193.623, F.S.

<sup>22</sup>*Sebring Airport Authority v. McIntyre*, 783 So.2d 238 (Fla. 2001). See also, *Archer v. Marshall*, 355 So.2d 781, 784. (Fla. 1978). See also, *Am Fi Inv. Corp. v. Kinney*, 360 So.2d 415 (Fla. 1978). *Sparkman v. State*, 58 So.2d 431, 432 (Fla. 1952).

<sup>23</sup> Implemented in ss. 196.192(1) & 196.199(1)(c), F.S.

<sup>24</sup> Implemented in s. 196.192(2), F.S.

<sup>25</sup> Implemented in s. 196.181, F.S. This provision totally exempts household goods and personal effects of residents.

<sup>26</sup> Sections 196.081 and 196.091, F.S., provide for total homestead exemptions for disabled veterans and their surviving spouses. Section 196.101, F.S., exempts the total value of homesteads used and owned by quadriplegics. In addition, paraplegics, hemiplegics, or "other totally and permanently disabled person, as defined in s. 196.012(11), F.S., who must use a wheel chair for mobility or who is legally blind" may have their homestead exempt from taxation if the combined annual income of the household does not exceed a level set by statute (\$14,500 in 1990), annually adjusted for inflation.

The widows/widowers exemption of \$500 is implemented in s. 196.202, F.S.

Section 196.24, F.S., provides a \$5,000 reduction in taxable value to any resident, ex-service member who has been disabled to a degree of 10 percent or more while serving during a period of wartime service or by misfortune while in active service.

- Property used for community and economic development, by local option and as defined by general law;<sup>27</sup>
- Certain renewable energy source devices and real property on which the device is installed and operated;<sup>28</sup> and
- Historic properties, by local option and as defined by general law.<sup>29</sup>

The statutes also clarify or provide property tax exemptions for certain licensed child care facilities operating in an enterprise zone,<sup>30</sup> properties used to provide affordable housing,<sup>31</sup> educational facilities,<sup>32</sup> charter schools,<sup>33</sup> property owned and used by any labor organizations,<sup>34</sup> community centers,<sup>35</sup> space laboratories,<sup>36</sup> and not-for-profit sewer and water companies.<sup>37</sup>

#### *Homestead Exemptions*

Article VII, s. 6 of the State Constitution authorizes an exemption from ad valorem taxation for homestead property owned by a taxpayer and used as the owner's permanent residence or the permanent residence of another who is legally or naturally dependent upon the owner. The value of the homestead exemption is currently \$25,000 of the assessed value of the real estate.<sup>38</sup>

Article VII, s. 6(e) of the State Constitution authorizes the Legislature to provide renters who are permanent residents ad valorem tax relief on all ad valorem tax levies. Under this provision, s. 196.1975(9)(a), F.S., provides a \$25,000 exemption for each unit or apartment of a non-profit home for the aged not receiving a "charitable use" exemption, if such unit is occupied as a permanent residence on January 1. Similarly, s. 196.1977, F.S., provides a \$25,000 exemption for each apartment in certain proprietary continuing care facilities occupied by a person who holds a continuing care contract, who makes the apartment his or her permanent home, and who is not eligible for the homestead exemption in s. 196.031, F.S.

#### *Homestead Exemption for the Elderly*

Article VII, s. 6(f) of the Florida Constitution, authorizes the Legislature to allow counties or municipalities, by ordinance, for the purpose of their respective tax levies, to grant an additional homestead tax exemption of up to \$25,000 to resident homeowners who are 65 years of age whose household income, as defined by general law, does not exceed \$20,000, adjusted for inflation.<sup>39</sup>

As of October, 2003, 46 of 67 counties and 121 of 407 cities have granted this additional homestead exemption for the elderly in their respective jurisdictions.

<sup>27</sup> Implemented in s. 196.1995, F.S.

<sup>28</sup> Implemented in s. 196.175, F.S.

<sup>29</sup> Implemented in ss. 196.1961 & 196.1997, F.S.

<sup>30</sup> Implemented in s. 196.095, F.S.

<sup>31</sup> Implemented in s. 196.1978, F.S.

<sup>32</sup> Implemented in s. 196.198, F.S.

<sup>33</sup> Implemented in s. 196.1983, F.S.

<sup>34</sup> Implemented in s. 196.1985, F.S.

<sup>35</sup> Implemented in s. 196.1986, F.S.

<sup>36</sup> Implemented in s. 196.1994, F.S.

<sup>37</sup> Implemented in ss. 196.2001 & 196.2002, F.S.

<sup>38</sup> Implemented in s. 196.031, F.S.

<sup>39</sup> Implemented in s. 196.075, F.S.

*Property Tax Deferral*

Florida law also provides a means to defer the payment of annual property taxes on homestead property for qualified residents. Section 197.252, F.S., allows property owners to defer a portion of their property taxes due on homestead property for the remaining lifetime of the property owner and his or her spouse or until the sale of the property. While deferrals do not reduce the overall tax liability of a taxpayer, it does allow for change in the timing of payment.

Resident homeowners may defer the portion of property tax that exceeds 5 percent of the applicant's household income for the prior year. If household income for the prior year is less than \$10,000, all ad valorem taxes and non-ad valorem assessments may be deferred. Resident homeowners who are 65 years old or older may defer that portion of the tax that exceeds 3 percent of the applicant's household income for the previous year. The property taxes may also be deferred entirely for persons between 65 and 69 years of age, whose household income for the previous year was less than \$10,000. Or, the taxes may be deferred for persons 70 years old or older whose household income was less than \$12,000 for the previous year.

**III. Effect of Proposed Changes:**

This joint resolution would amend Art. VII, s. 4, of the Florida Constitution, to provide authority for a county to prohibit, by ordinance and in the manner prescribed by general law, an increase in the assessed value of homestead property located in that county which is owned by any person who has attained age 65 and whose annual household income, as defined by general law, does not exceed \$20,000, as adjusted in accordance with general law.

The joint resolution provides ballot language.

The joint resolution provides that the amendment shall be submitted to the electors of Florida for approval or rejection at the general election in November 2004.

**IV. Constitutional Issues:****A. Municipality/County Mandates Restrictions:**

None.

**B. Public Records/Open Meetings Issues:**

None.

**C. Trust Funds Restrictions:**

None.

**D. Other Constitutional Issues:**

Article XI, Section 1 of the State Constitution provides the Legislature the authority to propose amendments to the constitution by joint resolution approved by three-fifths of the membership of each house. The amendment must be placed before the electorate at the

next general election held after the proposal has been filed with Secretary of State's office or may be placed at a special election held for that purpose.

**V. Economic Impact and Fiscal Note:**

**A. Tax/Fee Issues:**

If approved by the electorate, counties could prohibit an increase in the assessed value of homestead property located in that county which is owned by any person who is age 65 or older and whose annual household income does not exceed \$20,000. All local government taxing authorities (counties, cities, school districts, & special districts) would not realize the tax revenue benefit of increasing assessments on properties whose owners qualify for the assessment cap.

In addition, any reduction in the property tax base will result in a corresponding shift in property tax burden to other property tax owners.

**B. Private Sector Impact:**

If approved by the electorate, counties could prohibit an increase in the assessed value of homestead property located in that county which is owned by any person who is age 65 or older and whose annual household income does not exceed \$20,000. Persons qualifying for such an exemption would generally pay the same property taxes in years subsequent to qualifying for the assessment cap, absent increases in millage rates.

**C. Government Sector Impact:**

The Division of Elections estimates that the cost to advertise the proposed constitutional amendment twice in a newspaper of general circulation in each county prior to the 2004 general election approximately is \$60,000.

Property Appraisers will be required to re-program their respective systems to accommodate this change.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

Article VII, s. 6(f) of the Florida Constitution provides authority for counties or cities to grant an additional homestead tax exemption of up to \$25,000 to senior homeowners whose household income does not exceed \$20,000, adjusted for inflation. Section 196.075, F.S., implements this provision and establishes the guidelines for the annual change in household income.

For consistency and ease in annual calculation, it may be practical to link the annual income adjustment required in this proposed constitutional amendment to the existing annual income adjustment for the senior homestead exemption currently provided for in statute.

**VIII. Amendments:**

None.

---

This Senate- staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.

---