

Memorandum



Date: March 9, 2007

Item No. C

To: Honorable Carlos Alvarez, Mayor
Honorable Bruno A. Barreiro, Chairman
And Members, Board of County Commissioners

From: George M. Burgess
County Manager

A handwritten signature in black ink, appearing to read "Burgess", written over the printed name of George M. Burgess.

Subject: Property Tax Reform

For several years, the subject of property tax relief has been discussed as the value of real and personal property, particularly in Florida, has increased dramatically. Although property owners benefit from the appreciating value of their investments, certain segments of the population may be potentially hurt by these increases. The Florida Legislature has been considering potential statutory and constitutional changes to affect the valuation of property and the setting of tax rates in order to provide relief to the taxpayers. There are a number of bills that have been filed for the 2007 Legislative Session with a myriad of options for providing relief.

While the assessed values of all properties have increased by unprecedented rates over the past few years, not all property owners have borne this increase equally. Since the passage of Amendment 10, homesteaded property owners have had increases to taxable values limited to the lesser of CPI or three percent. As other property owners have seen their taxable values grow with the market, the tax burden has shifted to the non-homesteaded residential and commercial property owners. Renters and small business owners have been particularly burdened by tax increases.

Another unintended impact of Amendment 10 has been the inability of owners of homesteaded properties to downsize without having to pay higher property taxes. Property owners that have been subject to Amendment 10 for many years and had taxable values artificially held below market values may actually end up paying substantially higher taxes if they purchase properties with lower market values. This phenomenon has actually served to keep many properties off the market.

There is an assertion that counties and other local jurisdictions have been growing their budgets without control. Actually, counties have been able to lower their millage rates, bolster their reserves, and expand service to our growing populations. We have also absorbed funding shifts from both the federal and state levels – assuming costs that had previously been funded by other levels of government or new mandates. Over the past five years, the county general funds have had to absorb costs for juvenile detention, child development services, and Medicaid – things that had previously been State responsibilities. The federal government has implemented homeland security mandates and reduced funding for affordable housing, services for people who are HIV+, and dredging of our ports and rivers. Local governments have absorbed these costs as well as the service expansion necessary for the growing population.

In the past five years, we have opened 10 new libraries and 24 new fire rescue units including 10 new fire stations. We have made investments in electronic voting technology and enhanced services to the voting public such as early voting sites, expanded capacity to process absentee ballots, and enhanced campaign finance reporting and auditing. Park improvements, increased senior and children programming, land acquisition and construction of new facilities, and increased facilities maintenance has been funded, as well as additional funding for Small Business Stability Loans, Mom and Pop Business Grant programs, youth summer employment, and trade initiative programs. To address quality of life issues for our residents, we have created NEAT teams to serve as roving crews in the

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unincorporated area's neighborhoods such as downed trees or signs, illegal dumping, sidewalk repairs, and other services. Additional funding support has also been allocated to help restore the tree canopy after the effects of the recent hurricanes. To fill the gaps from reduced state and federal funding, the General Fund has provided support for tenant-based rental subsidy program and general fund support for public services, freeing up CDBG funding for affordable housing issues.

The Miami-Dade County FY 2006-07 Adopted Budget of \$6.977 billion is actually made up of many funding sources besides tax dollars and many of these revenues have limited applicability for use. The following details at a high level the breakdown of the total budget.

FY 2006-07 Total Adopted Budget	\$6,977		
FY 2006-07 Capital Budget	(2,245)		
FY 2006-07 Operating Budget	4,732		
Proprietary Revenues, State/Federal funding, Grants	(2,462)		
Tax Supported - General Fund, Fire District and Library District	\$2,270		
		Countywide	\$1,382
		UMSA	480
		Fire District	319
		Library District	89

Any reductions in property tax revenues impact only the General Fund, Fire District and Library District budgets. Proprietary revenues cannot be used to make up these reductions and the General Fund cannot subsidize the Fire District or the Library District. Many of the expenses in the General Fund, including funding for operations of correctional facilities, public safety expenditures, maintenance of effort contributions to the Public Health Trust and Miami-Dade Transit, fire suppression, homeland security and emergency management activities, funding for traffic signals and other county facilities, debt service obligations, support for elections, and court obligations cannot be reduced significantly. These expenses represent more than 60 percent of the total General Fund budget; any reductions must be taken wholly from the remaining 40 percent of the funding which supports things like elderly meals, recreational and cultural programming, code enforcement, animal services, day care and after-school programs, and the internal administration which supports all governmental activities. Reductions in the number of days that libraries are open and completely shutting down libraries would be necessary, as would elimination of service units in the Fire District.

There are a number of property tax relief proposals being considered right now. Among them are expanding the use of exemptions, expanding the application of the Amendment 10 cap to all properties, setting revenue caps, doubling the homestead exemption, applying some level of portability of assessment differentials, and eliminating taxes on homesteaded properties in favor of increased sales tax rates. Several of the proposals that have been put forward would have a dramatic negative impact to local governments. Some of these proposals provide further savings for property owners already protected by Amendment 10 (increases to the homestead exemption) and/or transfer the responsibility for funding County government from the same subset of protected property owners to all consumers (elimination of homesteaded property tax in favor of sales tax). Depending on the options that might be adopted, the impacts to County government municipalities would range from significantly adverse to cataclysmic.

There are three segments of the population that most need tax relief: renters and others who need affordable housing, small business owners, and property owners who need to downsize. By implementing exemptions for affordable housing properties (both single family homes and multi-family units), exemptions for tangible personal property, and allowing limited portability, relief can be provided

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to those targeted property owners, without impairing local governments' ability to provide service. Implementation of a \$25,000 exemption would save the taxpayer \$287 annually in County imposed taxes (CW, fire, library, and UMSA). Allowing for portability of up to \$250,000 of assessment differential, would save the taxpayer up to \$2,871 annually in County imposed taxes, depending on the value of the property purchased. The ability to "port" assessment differentials would also have the benefit of returning properties to the market, which would in turn increase roll value and improve the distribution of tax responsibility.

While providing meaningful tax relief to those segments of our population most impacted by the increasing property values is important to our communities, balancing these proposals against the potential negative impacts to the delivery of services of revenue losses to local governments is equally important. Options such as the revenue cap proposal currently being considered by the House need to be modified in order to achieve the desired effect of property tax relief without disabling local governments.

For your information, staff has prepared the attached presentation to outline issues and fiscal impacts related to property tax reform proposals currently being considered by the State Legislature. While I believe we all agree that some kind of relief must be provided to taxpayers, we must be careful to address those segments of our community most burdened by the increasing property tax roll and beware that we do not create a situation in which we cannot surmount the severe fiscal impact of a few of these proposals.

In the presentation attached, we have provided the fiscal impact analysis for the proposals proffered by Governor Crist and the current House proposal. Implementation of elements of these proposals would require significant service reductions for all local governments. Many municipalities would be unable to overcome these cuts.

I look forward to discussing this information with you. We will continue to provide updated information as proposals in Tallahassee are adjusted.

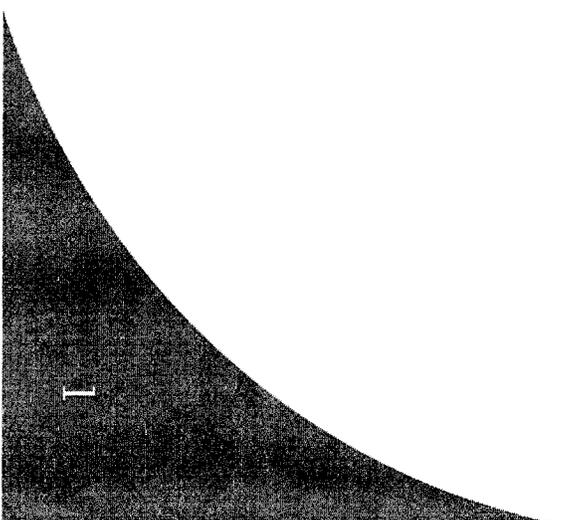
Attachment

Cc: Murray Greenberg, County Attorney
Denis Morales, Chief of Staff
Assistant County Managers
Department Directors
Charles Anderson, Commission Auditor

Cmo08507

Property Tax Relief

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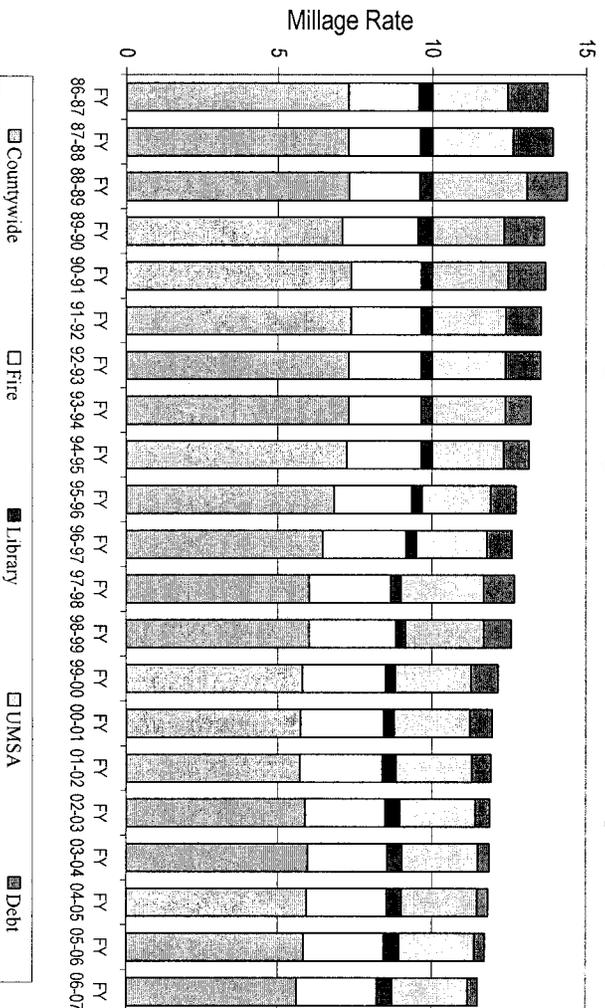
Outline

- Historical Tax Policy for Miami-Dade County
- Impact on County budget
- Communities/populations most affected by tax roll growth
- Relief Proposals
- The biggest problems
- Alternative solutions

Historical Budget Information

- Nine straight years at 10 mill cap (FY 1986-87 through FY 1994-95)
- Immediately followed by three years in a row of aggregate roll back (FY 1995-96 through FY 1997-98)
- Followed by nine straight years of millage reductions (over one mill in total; FY 1998-99 through FY 2006-07)
- Miami-Dade County is currently forgoing \$230 million in revenue having total millage below 10 mill cap

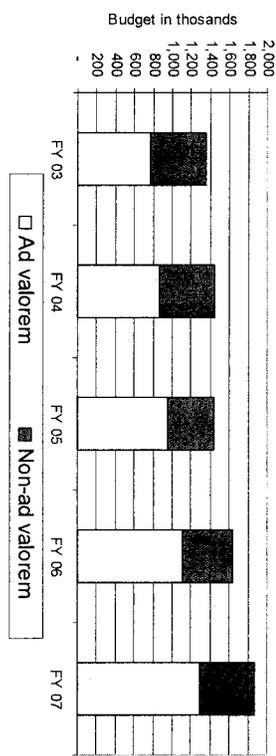
Countywide, Fire Rescue District, Library, and UMMSA
Operating Millages and Voted Debt Millages



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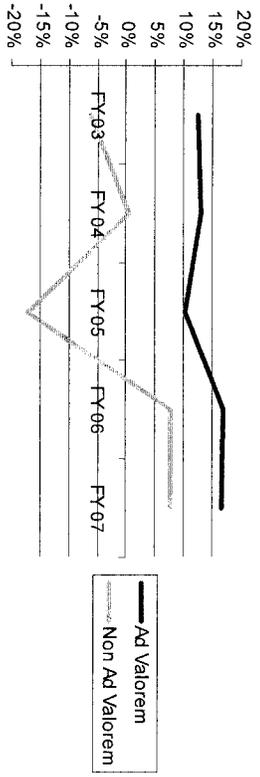
Historical Budget Information

Miami-Dade County General Fund Budget



Ad valorem revenue as a percentage of the total general fund budget has increased as other revenues have decreased

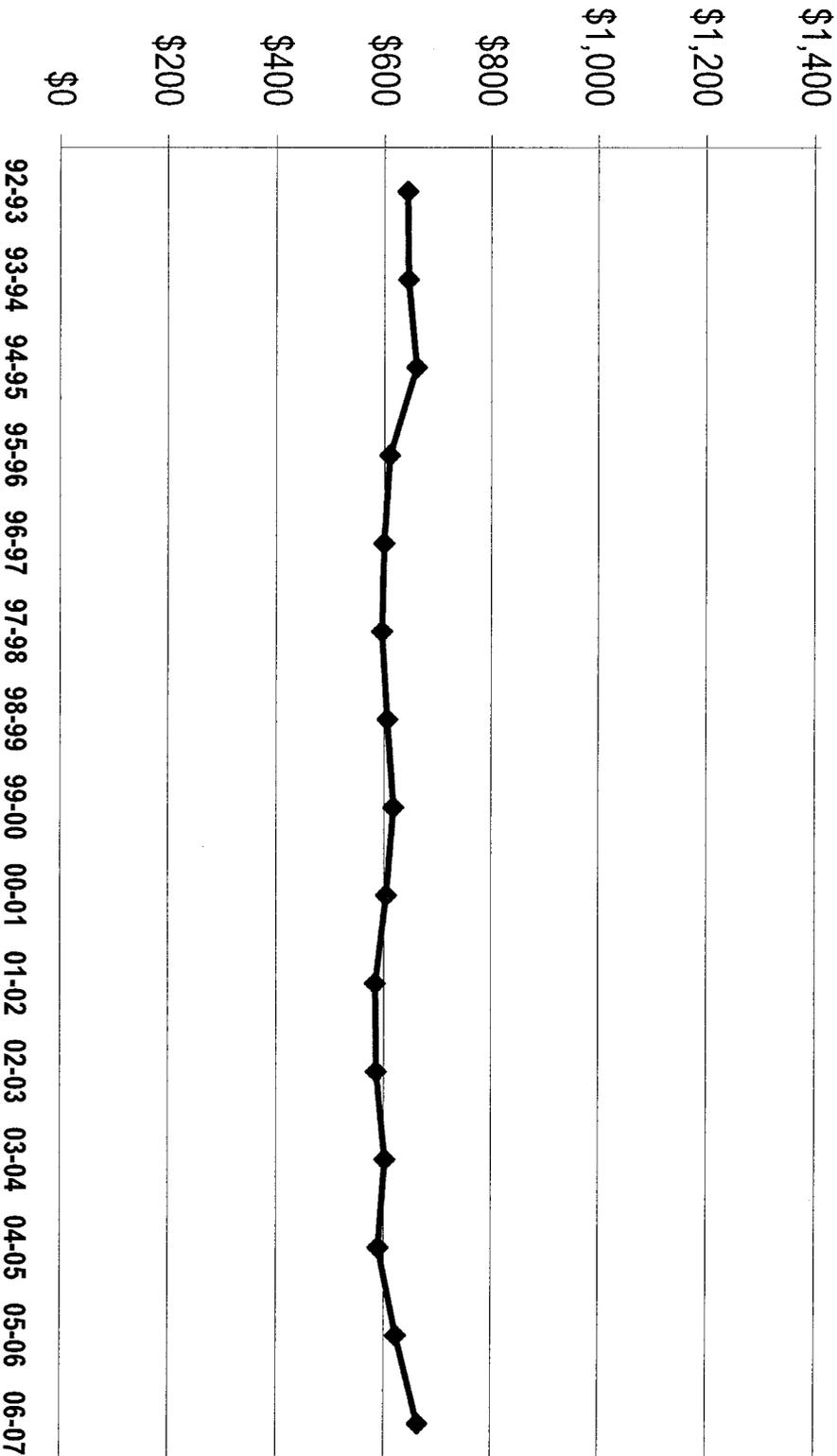
Growth of Ad Valorem vs. Non Ad Valorem Revenues



Impact on County Budget

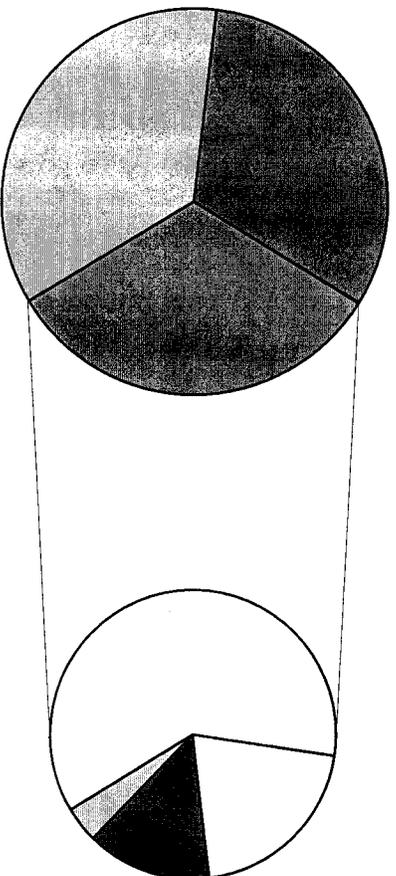
Price of Government

General Fund Budget Per Capita Adjusted for Inflation



Impact on County Budget

FY 2006-07 Adopted Budget



Total Budget

\$6.977 billion

Capital = \$2.245b

Operating = \$4.732b

Tax Supported Budget

\$2.27 billion

CW = \$1.382b

UMSA = \$480m

Fire = \$319m

Library = \$89m

- Proprietary
- Capital
- Countywide
- UMSA
- Fire District
- Library District



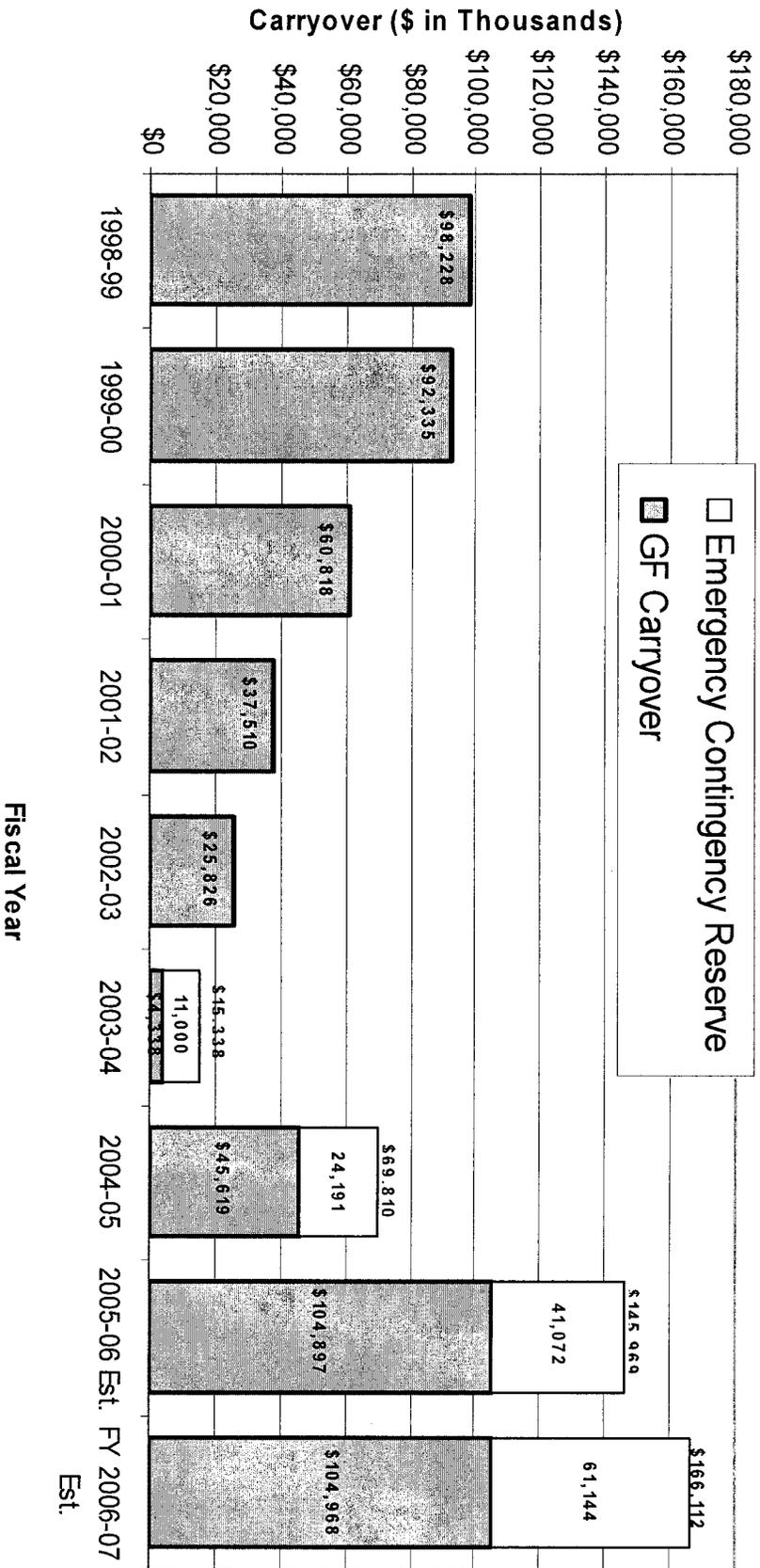
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Impact on County Budget

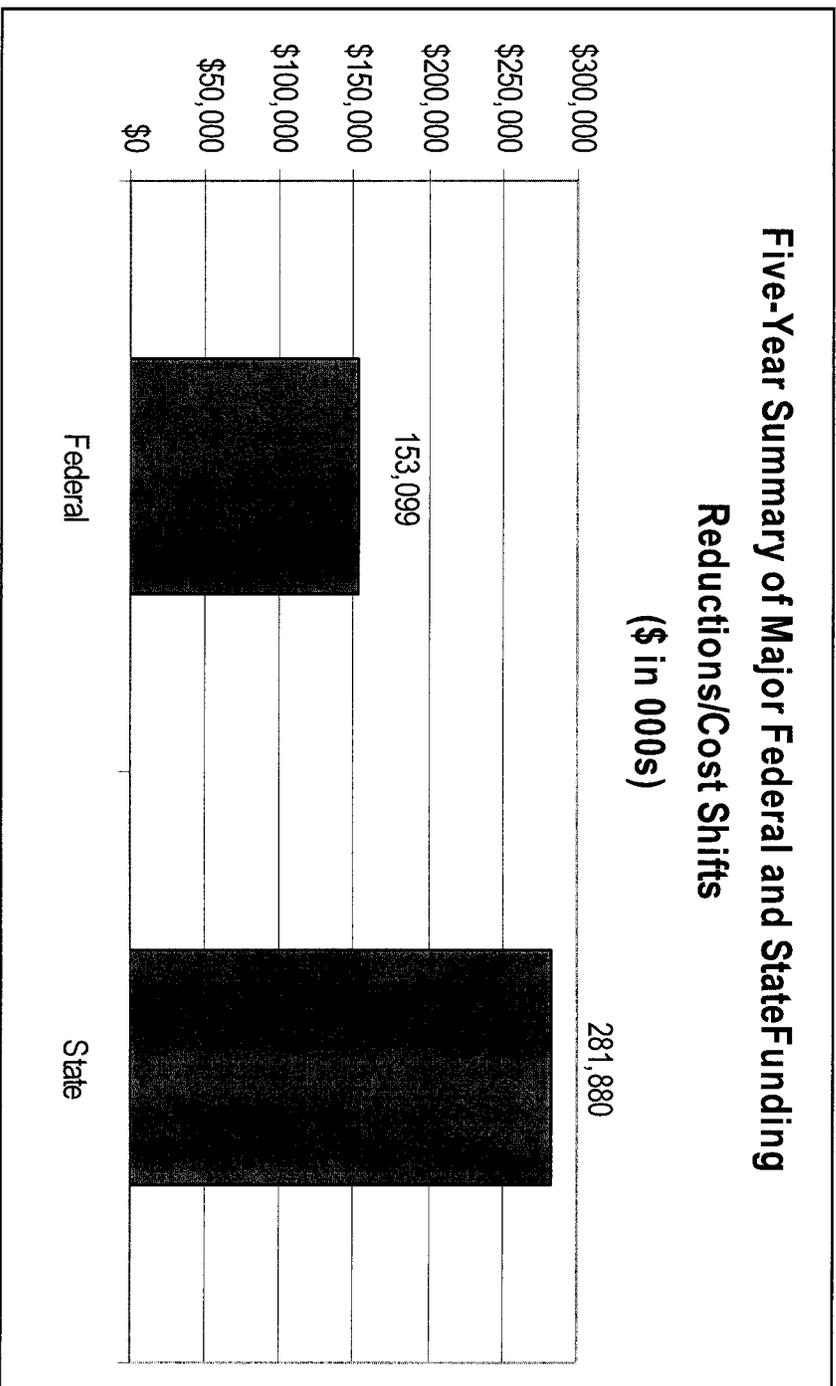
Where have these increases been invested?

- Strengthened Reserves and Budget
- Funding Shifts
- Public Health Trust
- Corrections and Rehabilitation
- Traffic and Transportation
- Other Enhancements

General Fund Year-End Fund Balance



Major Federal and State Funding Reductions/Cost Shifts

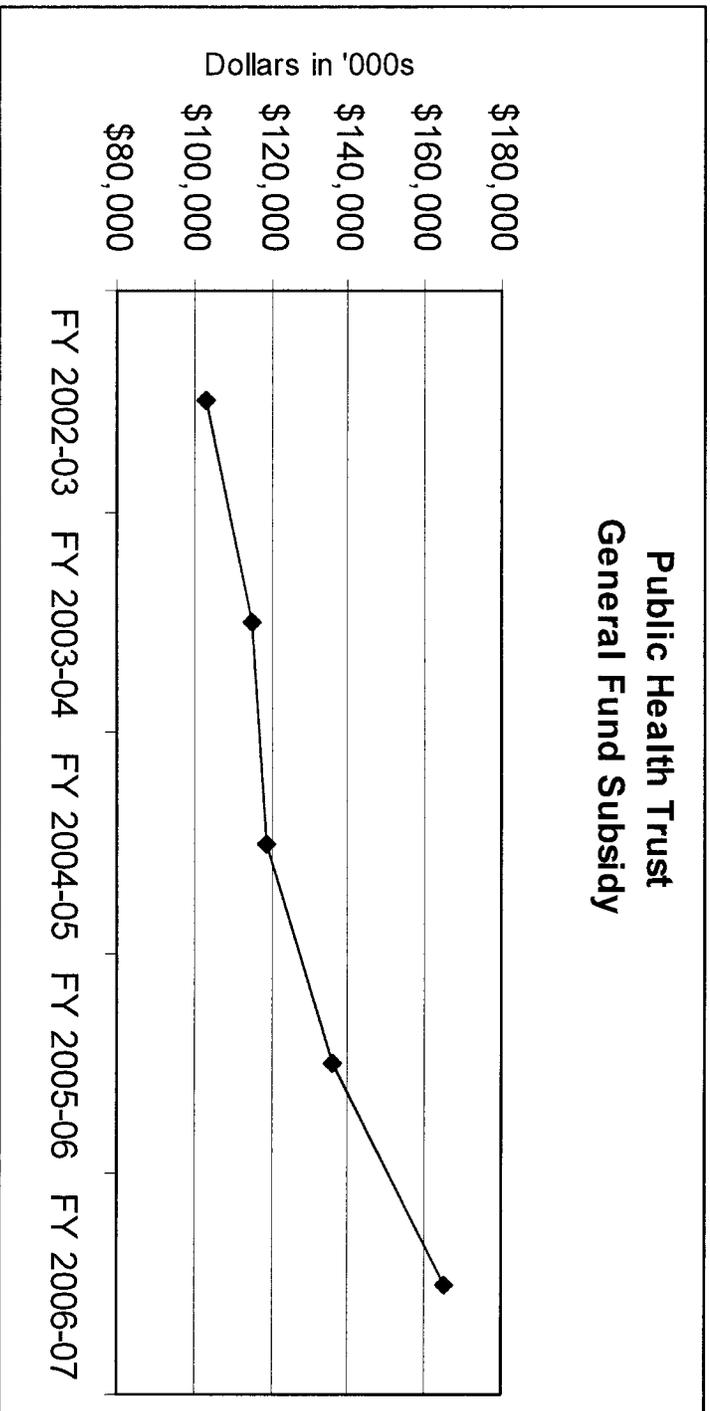


Federal: TSA requirements, CDBG, Miami River Dredging, Housing Subsidy, Ryan White Title I grant
 State: Child Development, Medicaid, Juvenile Detention, Port Dredging and Security, Tire grant



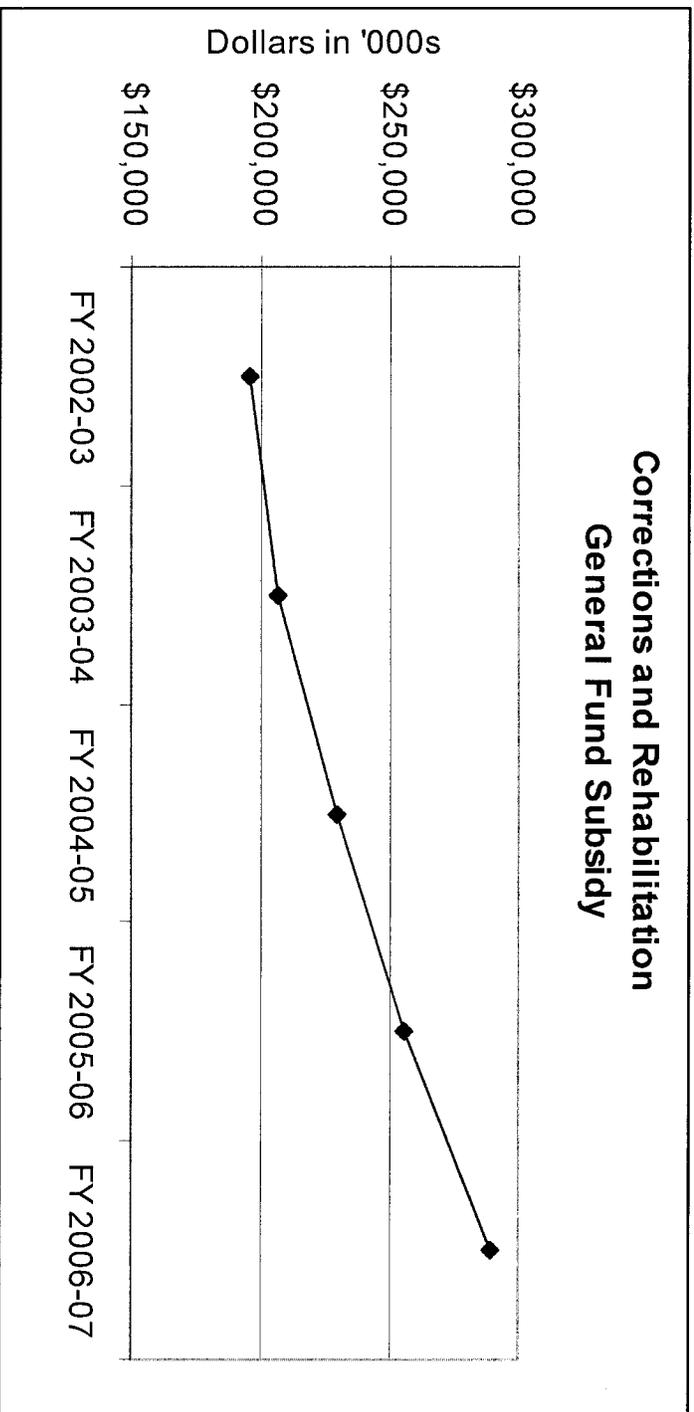
Public Health

- Public Health Trust funding from the Countywide General Fund has increased by \$61.6 million or 60 percent since FY 2002-03



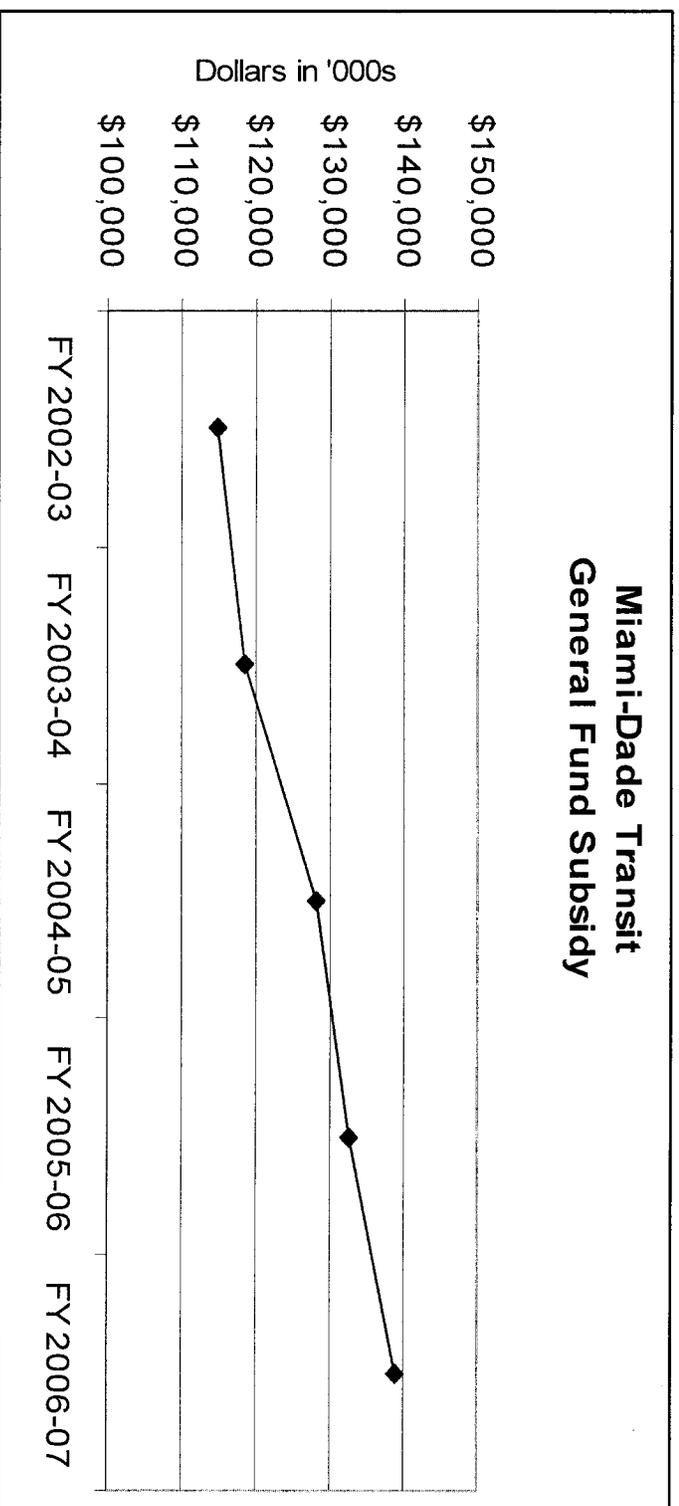
Corrections and Rehabilitation

- Corrections and Rehabilitation funding from the Countywide General Fund has increased by \$94.3 million or 48 percent since FY 2002-03



Public Transportation

- Transit funding from the Countywide General Fund has increased by \$23.9 million or 21 percent since FY 2002-03



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Expanded Services

- 10 new libraries opened since FY 2002-03
- 24 new fire rescue units including 10 new fire stations
- Investments in electronic voting technology and enhanced services to the voting public such as early voting sites, expanded capacity to process absentee ballots, and enhanced campaign finance reporting and auditing
- Park improvements, increased senior and children programming, land acquisition and construction of new facilities, and increased facilities maintenance of effort
- Additional funding for Small Business Stability Loans, Mom and Pop Business Grant programs, youth summer employment, Cultural grants, and trade initiative programs

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Expanded Services

- Creation of NEAT teams to serve as roving crews to address quality of life issues in the unincorporated area's neighborhoods
- Additional funding support to help restore the tree canopy after the effects of the recent hurricanes
- General Fund support for tenant-based rental subsidy program and general fund support for public services, freeing up CDBG funding for affordable housing issues

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Unmet Needs Remain

- Operating unmet needs total over \$127 million recurring plus \$61 million of startup/non-recurring costs
- Additional \$5.4 billion in unfunded capital needs

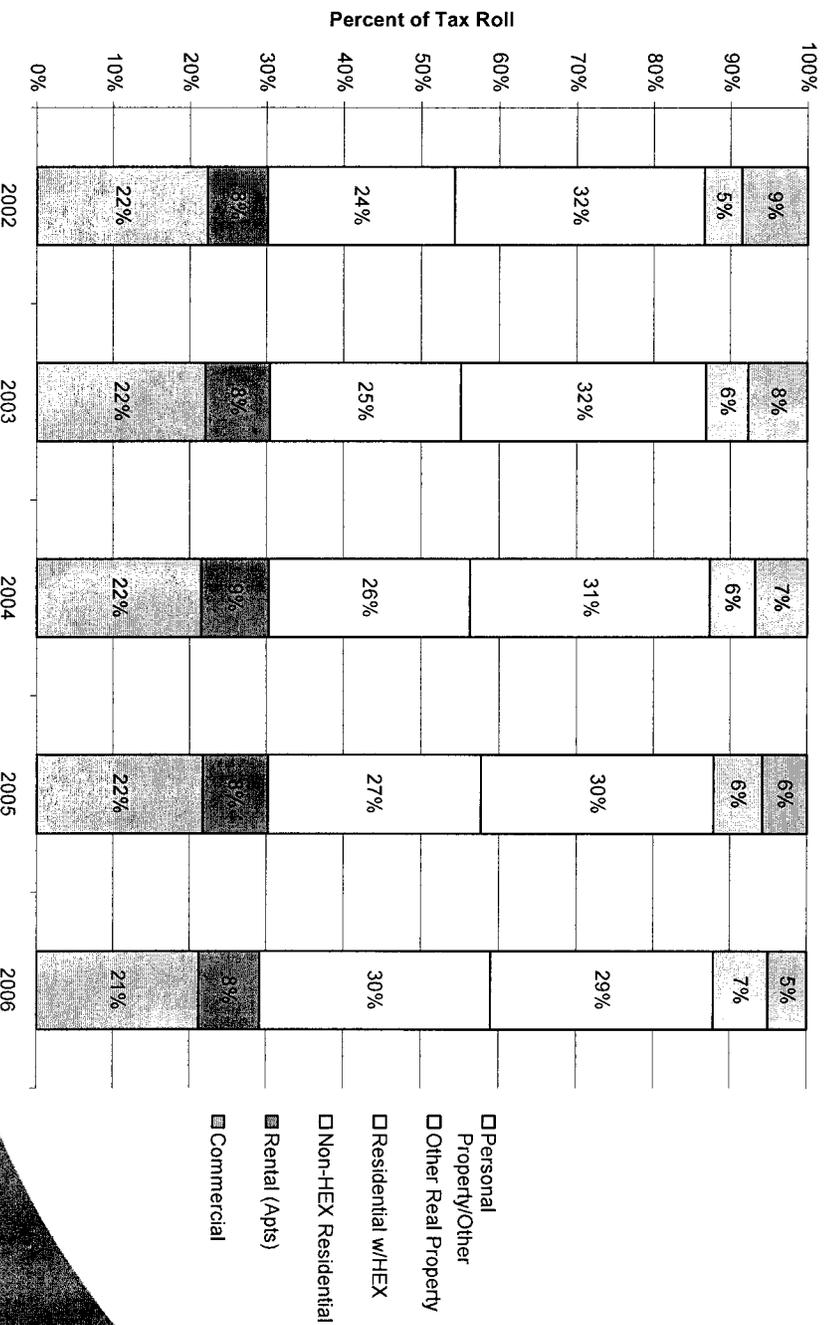
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Who is most affected?

- Expanding families and empty nesters
- Renters
- Commercial properties, particularly small businesses

Tax Roll by Property Type



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Proposed Solutions

- Governor's Proposal
 - Increases to Homestead Exemption
 - Extend Save Our Homes (SOH) Cap to All Parcels
 - Save Our Homes (SOH) Portability
 - Exemptions for Tangible Personal Property
- House Proposal
 - Caps on Revenue Growth
 - Replace Property Tax with Sales Tax
- Other Proposals
 - Increasing the Senior Exemption
 - Transferring Homestead Exemption
 - Other options
- Affordable Housing



Increases to Homestead Exemption

- Increasing the current \$25,000 homestead exemption only helps one segment of taxpayers
- Creates a disproportionate burden on heavily residential-type communities and small municipalities
- Potential of causing a further shift in tax burden to commercial and non-homesteaded properties

(all dollars are in 000's)

	Double Homestead Exemption
Countywide	61,370.2
Unincorporated Area	12,611.0
Fire District	20,786.0
Library District	4,386.2
Total Miami-Dade County	99,153.5
Impact to All Municipalities	32,179.7



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SOH Portability

- Allows property owner to retain difference between assessed value and market value when transferring ownership
- Provides incentive for homeowners to sell existing homestead property and apply the property tax savings to another residential property
- Portability could potentially provide the added benefit of increasing the number of available homes for sale in the real estate market
- Helps expanding families and empty nesters by shielding them from tax increases resulting from moving residences
- Portability does not address the inherent inequity created by SOH capped properties and all other uncapped properties. Unlimited portability threatens roll growth and will only perpetuate the increased shifting of the tax burden to businesses, renters and second homeowners

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(all dollars are in 000's)

	Full Portability
Countywide	10,153.2
Unincorporated Area	1,739.6
Fire District	3,155.6
Library District	740.5
Total Miami-Dade County	15,789.0
Impact to All Municipalities	6,292.2



Extend SOH Cap to All

- Extend SOH cap (the lower of CPI or 3%) to all properties
- Provides tax relief to all segments of taxpayers but reduces the ability of local governments to continue to provide the same level of services to residents

(all dollars are in 000's)	Extend Save Our Homes Cap to All Properties
Countywide	135,644.4
Unincorporated Area	15,848.4
Fire District	36,907.6
Library District	10,233.1
Total Miami-Dade County	198,633.4
Impact to All Municipalities	106,792.8



Tangible Personal Property Tax

- Provide a \$25,000 exemption for personal property tax parcels
- Eliminates personal property tax payments for many small businesses (80% of personal property folios have a value below \$25,000)

(all dollars are in 000's)	Eliminate Tangible Personal Property Tax
Countywide	62,852.4
Unincorporated Area	11,184.6
Fire District	19,631.6
Library District	4,664.1
Total Miami-Dade County	98,332.7
Impact to All Municipalities	40,218.4



Caps on Revenue and/or Expenditure Growth

- Revenue caps could be imposed that allow property tax revenues to grow based on a formula that adjusts for inflationary cost increases and population growth
- Provides tax relief to all segments of taxpayers but reduces the ability of local governments to continue to provide the same level of services to residents
- House proposal includes caps that are retrospective to FY 2000-01, adjusted for CPI growth

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(all dollars are in 000's)

	House Proposal to Reset Base
Countywide	481,643
Unincorporated Area	60,215
Fire District	124,943
Library District	58,145
Total Miami-Dade County	724,946



Replace Property Tax with Sales Tax

- Eliminate property tax for homesteaded properties and replace with 2.5 cents of sales tax (see homesteaded ad valorem revenues to each jurisdiction in table below)
- Sales tax is more regressive than property tax; owners of properties of high value would pay less, while owners of lower value property and renters would see net increases in tax burdens
- Depending on formula for distribution, Miami-Dade County may be a “donor” community
- Careful wording on formula for distribution is necessary due to Charter provision

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(all dollars are in 000's)

	Eliminate Homestead Property Tax
Countywide	\$363,684
Unincorporated Area	60,729
Fire District	109,718
Library District	27,204
Total Miami-Dade County	\$561,335
Impact to All Municipalities	\$219,087



Other Proposals

- Increase the exemption available for senior citizens who own homesteaded property
- Allow homestead exemptions to transfer when title transfers within families
- Freeze senior assessments
- Phase-in for first time homebuyers
- Proposals would have a relatively marginal fiscal impact

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Affordable Housing

- Support a State Constitutional amendment to provide for an exemption for affordable properties
- Pass legislation expanding the recently revised limited income Senior Homestead Tax Deferral to qualified owners of affordable/workforce housing
- Pass legislation or support a state Constitutional amendment providing for the expansion of the “classified use value” for tax purposes to include properties utilized for affordable/workforce housing for a period of years
- Expand and enhance hazard mitigation assistance programs to include rental apartment properties
- Employ CRA/TIF opportunities to provide relief to owners of affordable properties
- Rental property assessment valuation protection

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Alternative Solutions

- Major changes to State and local taxation structure addressing core issues and equitable distribution of taxes
- Strategic modifications to current taxation system addressing taxpayers most impacted while not creating new problems and limiting fiscal impact to local governments
 - Limited portability
 - Tangible personal property tax exemption
 - Senior exemptions and freezing assessment growth
 - Affordable housing exemption

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Where do we go from here?

- Legislative Action
- Statewide Election for Constitutional Amendments

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