

Memorandum



Date: June 20, 2007

Agenda Item No. 12(B)2
June 26, 2007

To: Honorable Carlos Alvarez
Mayor

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: Report on Special Legislative Session on Property Tax Reform

Last Thursday, the Florida Legislature adopted sweeping legislation intended to provide property tax relief to Florida property owners. Thanks to the extraordinary efforts of many elected officials and our staff, the impacts to local government of this legislation are much more reasonable than that which was originally under consideration during the regular session. The legislation provides for rollbacks of millage rates for FY 2007-08 and a special election to be held in January to approve constitutional changes to the assessment methodology for property owners that would be applicable to the FY 2008-09 budget. While the legislation adopted may not resolve the problems that exist in our property tax system, it will provide some savings to taxpayers as detailed below. In order to achieve these savings, it will be necessary to make significant reductions to the budgets of the County's four taxing jurisdictions – Countywide, the Unincorporated Municipal Service Area (UMSA), the Fire District, and the Miami-Dade Library System. Funding losses cannot be absorbed through administrative and support cuts, i.e., "cutting the fat", and will require some service reductions. My staff and I will be working diligently over the next few weeks to develop a proposed budget that keeps services intact as much as possible.

Last week, the Legislature passed legislation requiring Miami-Dade County to reduce the Countywide and Library District budgets by the equivalent of rollback plus an additional nine (9) percent reduction for FY 2007-08. Staff is still working with the Florida Department of Revenue to modify the calculations given the changes in the statutory definition of rollback. For the Countywide budget, this means approximately a \$226 million reduction from the revenue that would have been generated if we had applied the FY 2006-07 millage rates. For the Library District, we will need to reduce the budget by \$20 million. We were successful in getting three amendments to the original proposed legislation adopted, thanks to the hard work of staff, with support from Commissioners Moss, Sorenson and Sosa, as well as members of our State Legislative Delegation. As a result of these amendments, UMSA will be treated as a municipality and based on our performance over the past five years measured by per capita tax levies, that budget will be reduced by rollback plus an additional five (5) percent or \$30 million. The Fire District budget also will be reduced by rollback plus an additional three (3) percent or \$51 million. The maintenance of effort payment to the Public Health Trust will be held harmless by being removed from the calculation of rollback and then added back for purposes of setting the millage rate. Absent these amendments, UMSA and the Fire District would have been subject to rollback plus an additional nine (9) percent reduction, and the Public Health Trust maintenance of effort would have been taken from the general fund after the rollback and additional nine (9) percent reduction was taken. These amendments saved the County \$25.079 million in avoided service reductions in the Fire District and UMSA. Pending Florida Department of Revenue interpretation of the amendment, the Public Health Trust maintenance of effort payment will be at a

minimum held harmless from revenue loss and may be allowed to grow along with the growth in the property tax roll, generating approximately \$30 million.

The Board of County Commissioners may override these millage rates up to rollback by a two-thirds vote and may set the millage rates above rollback up to flat millage rates by a three-fourths vote. Setting of a millage rate higher than in the previous year will now require a referendum. The penalty for violating these standards is the loss of state revenue from the local government half-cent sales tax for a period of twelve months. Rollback calculations beginning in FY 2008-09 will now include adjustments for the growth in per capita income.

As a result of the implementation of the property tax reform initiatives, and as we proceed to finalize the FY 2007-08 Proposed Budget, the four taxing jurisdictions combined are expected to receive \$87.05 million less in revenue when compared to the FY 2006-07 Adopted Budget. The challenge that we face when balancing the FY 2007-08 budget is the combination of these revenue losses, coupled with the normal incremental increase in the cost of delivering services, which at a conservative six percent growth rate represents \$136 million of additional costs within the property tax supported activities.

Other action taken by the Legislature calls for an election on January 29, 2008 for the purposes of adopting constitutional changes to the assessment methodology for homesteaded properties and tangible personal property. New super-exemptions have been proposed to address issues for first-time homebuyers and portability of values for current owners of homesteaded properties. A "super homestead exemption" of 75 percent of the first \$200,000 in value and 15 percent of the value between \$200,000 and \$500,000 would be put in place if approved by the voters. An automatic increase of the \$500,000 cap by an amount equal to the annual change in state personal income growth would also be adopted. The Legislature would be authorized to further increase the \$500,000 cap by general law approved by a two-thirds vote of the Legislature and to increase the \$500,000 cap on the 15 percent homestead exemption cap during any legislative session. The changes would also grant a \$100,000 homestead exemption for low-income seniors and a \$50,000 minimum homestead exemption for every other homesteaded property owner. Homesteaded property owners who are currently protected by Save Our Homes (SOH) from assessment increases could opt to keep the SOH three (3) percent/consumer price index (CPI) assessment protection on homesteaded property in which they currently reside until they move. Owners would be allowed a one-time switch to the super homestead exemption at the homesteaded property owner's option. All new homesteads after January 1, 2008 would receive the super homestead exemption but would no longer receive the SOH three (3) percent/consumer price index (CPI) assessment cap. These changes would reduce property tax revenues to schools by an estimated \$7.1 billion statewide, in addition to reducing revenue to counties, cities and independent special districts, by lowering assessed values through the super homestead exemptions. The Legislature did not address how this revenue loss to schools would be offset. The Legislature would need to either increase the amount the state provides to schools, increase the millage rate that school districts can impose, or find new revenue sources to replace the lost revenue.

The constitutional changes would also authorize the Legislature to provide an exemption of not less than \$25,000 for tangible personal property (TPP). This provision provides a minimum exemption for TPP, but allows the legislature to grant an exemption larger than

\$25,000 by a simple majority vote. It also allows that affordable housing subject to rent restrictions and working waterfront property, such as marinas and commercial fisheries, to be assessed at less than market value as provided by general law.

The legislation specifically requires calculations of rollback for FY 2008-09 to be done so as to avoid millage increases to offset the revenue losses due to the assessment changes. If the constitutional changes are implemented, revenues in FY 2008-09 would be reduced by \$56 million for the Countywide budget, \$12 million for the UMSA budget, \$20 million for the Fire District, and \$4 million for the Library System. FY 2008-09 budgeted revenues will be \$76 million less than the FY 2006-07 budgeted revenues. As was pointed out before, normal anticipated growth of six percent over those two years of \$270 million would have to be absorbed. We must be cognizant of these potential losses as we develop the FY 2007-08 Budget because there are actions we may need to take now in order to avoid more detrimental impacts in FY 2008-09. The constitutional changes will also impact the revenues to the Building Better Communities Bond Program. We are currently reviewing BCC funded projects and other aspects of our multi-year capital plan to determine revisions that may be necessary due the constitutional changes and the impacts of the rollback. Across all county-funded activities, we need to consider doing things differently.

For FY 2007-08, the owner of a homesteaded property in UMSA with a value of \$250,000 can expect to save \$414 in their taxes levied by Miami-Dade County. It is difficult to determine with certainty the savings associated with the constitutional changes that will be considered in January by the voters due to the wide variances of market and taxable values for homesteaded properties. There are a number of property tax calculators available on the Internet for individual property owners to use to determine if savings will be applicable in their situation. Implementation of a \$25,000 exemption to tangible personal property will save business owners up to \$241 depending upon the value of the business's tangible personal property.

In the coming weeks, I will be submitting to you and to the Board my FY 2007-08 Proposed Budget which will detail my recommendations based on the reductions required due to the state's recent actions and our priority service requirements. Again, while we will focus as much as possible on administrative overhead and support costs, service reductions are unavoidable. We intend to responsibly keep any such service reductions to a minimum. I look forward to discussing this information and our service priorities with each of our elected officials. The development of this budget will be a challenge for all of us.

cc: Honorable Bruno A. Barreiro, Chairman
and Members Board of County Commissioners
Honorable Joseph P. Farina, Chief Judge
Honorable Bennett Brummer, Public Defender
Honorable Katherine Fernandez-Rundle, State Attorney
Marvin O'Quinn, President and CEO, Public Health Trust
Murray Greenberg, County Attorney
Denis Morales, Chief of Staff, Office of the Mayor
Assistant County Managers
Department Directors
Charles Anderson, Commission Auditor

