Planning and Budgetary Processes Committee
Taxation and Budget Reform Commission
Senate Office Building, Room 37
Tallahassee, Florida
Friday, November 16, 2007
8:30 a.m. – 10:30 a.m.

Committee members: Carlos Lacasa, Chair; Mark Bostick, Sandy D'Alemberte, Mike Hogan, Jacinta Mathis, Bob McKee, Les Miller, Jade Moore, Nancy Riley, Darryl Rouson, Greg Turbeville

Committee Members Present:
- Mike Hogan
- Bob McKee
- Jacinta Mathis
- Les Miller
- Jade Moore
- Darryl Rouson
- Greg Turbeville
- Carlos Lacasa, Chair

Other members in attendance:
- Brian Yablonski

Members Excused:
- Mike Bostick
- Sandy D'Alemberte
- Nancy Riley

Chair Lacasa called the meeting to order at 8:30 a.m. Staff called the roll and announced that a quorum was not present. The Chair acknowledged that a quorum was not present at the time and indicated that since there were no actions items on the agenda requiring a vote that not having a quorum was not a problem. The Chair thanked the commissioners at the meeting for their attendance. The Chair commented that, at the last meeting, he had stated that the committee would have the fiscal impact of the legislation that will be on the January 29th ballot. However, the fiscal impact was not available and he indicated that he would consult with the Speaker's Office and determine the status of the fiscal impact of the property tax reform legislation. Chair Lacasa stated that he hoped to have the fiscal impact by the end of the month.

Chair Lacasa introduced Chip Morrison, General Counsel for the League of Cities to make a presentation on "The Florida League of Cities Perspective on Property Tax Reform".

Mr. Morrison indicated that the Chair had asked him to speak about property tax and the constitutional amendment. However, he requested an opportunity to discuss municipal finances and where municipalities get their revenues because it would add perspective to the comments of property taxes. The Chair agreed and indicated that Mr. Morrison should proceed with the discussion.

Mr. Morrison indicated that there were a number of different sources of revenue which constitute the primary revenues for municipalities. These revenues include:

- Actual taxes – The actual taxes levied include property tax, utility tax, communication service taxes and occupational license tax. Twenty eight percent of total municipal revenue is attributed to these taxes and 60% of the total municipal revenue is attributed to property taxes.
- User Fees – User fees are approximately 48% of the total municipal revenue. The customers get garbage collection, water and sewer or electric utility and fees are charged for the services provided by the cities. The cities only charge the fee amount that is designed to offset the cost of service.
- State or Federal Shared Revenues – There are two categories of shared revenues which are:
    - Restricted fees –Local option sales tax and gas taxes represent 12.5% of total municipal revenue. The gas tax can only be spent on roads and local options sales taxes can only be spent on infrastructure.
    - Unrestricted fees – This is $.05 of sales tax and represent 5.5% of total municipal revenue. These fees are distributed to cities to use at their discretion.
- Miscellaneous Revenues - Investment income, donations, and forfeitures represent 7.5% of total municipal revenue.

Mr. Morrison indicated that The League of Cities (League) will oppose the upcoming constitutional amendment for the same reason that they opposed the Save Our Homes legislation in 1992. He further commented that the opposition was because the League recognized that the proposal would produce an unfair shift of property tax burden from homeowners to non-homeowners. According to Mr. Morrison, the existing proposal will "continue to shift the burden to property tax owners when the burden should be shared by everybody".

<u>Property Tax Reform</u>

Mr. Morrison indicated that it was very difficult to have any type of meaningful discussion of property tax without including school property tax. He commented on the percent of the average tax bill that supports school property tax. Mr. Morrison commented that 40% of the taxpayer's bill for a taxpayer living in a city consists of school property taxes. Furthermore, he indicated that if a taxpayer lives in an unincorporated area, school property taxes are 50% of the taxpayer's bill. He indicated that it would be difficult to accomplish any property tax relief and hold schools harmless.

Local Required Effort

Mr. Morrison explained that "the local required effort is the amount of property tax that school districts have to raise in order to get state funds". He further stated that:

- Over the last six years, school districts on an average have been required to raise a 9.85% increase every year, over and above the increase in assessments.
- In 2006-07, the amount that school districts were required to raise was 17.8%.
- In 2000-01, 61% of education (K-12) was funded by the state and 39% percent was funded by property taxes.
- In 2005-06, 47% percent of education (K-12) was funded by the state and 53% was funded by property taxes.

Mr. Morrison indicated that the state, over time, has shifted its primary responsibility to provide an adequate school education to the school districts.

Unfunded Mandates

Mr. Morrison indicated that the state continues to require the cities to perform state initiatives without providing adequate funding which create unfunded state mandates. He stated that in these instances, cities try to absorb these expenses and still try to meet the service demands of the citizens.

Commissioner Mathis inquired whether there was a constitutional provision to address unfunded mandates. Mr. Morrison indicated that there was constitutional language; however, there were exceptions that should be addressed.

Mr. Morrison discussed the passage of water quality legislation and the legislature's action which reduced the original funding. Chair Lacasa inquired whether the shift in local versus state funds in 2001-07 coincided with the rise in property values in the state. He also asked if Mr. Morrison thought that the increase in required local effort and levy of unfunded mandates is a result of staff and legislators realizing the amount of local government revenues. Mr. Morrison agreed that he thinks that it was a part of the issue.

Commissioner McKee asked several questions regarding mandates which included whether there were some mandates which were issues that should have been addressed by the local government. Mr. Morrison indicated that it was important that the members understand the cities. He indicated that cities are only groups of people who came together to voluntary tax themselves to provide services greater than they could get in another situation. According to Mr. Morrison, it is difficult to tell citizens that they cannot have the services that they request because the city has to spend the money on other services related to unfunded mandates.

Commissioner McKee asked whether there should be any mandates and Mr. Morrison responded that they should be reviewed on a case-by-case basis. Commissioner McKee agreed that they should be addressed on a case-by-case basis but indicated that it has become extremely convenient for cities to say that one of the largest potential deficit at the local level is due to unfunded mandates. Mr. Morrison reiterated that mandates should be given with funding of the policy.

Commissioner Mathis commented that the best way to approach reducing the amount of government that overlap may be to start with the local government. Commissioner Les Miller indicated that he had been in the legislature for fourteen years and when you discuss services for cities and state, cities have different responsibilities and offer more services. He further stated that consolidation may work in some areas and not others. The commissioner explained the historical issues which resulted in the current fiscal situation of the state and its impact on local government. Commissioner Les Miller suggested reviewing the quality and mix of who pays for education in the state.

Commissioner Hogan indicated that "the state was hitting all around the problem and missing the taxpayers". He further stated that another problem is that every county is not the same; however, they are treated as if they are the same. He commented that unfunded mandates exist at the state and federal level and the commission should focus on how to reduce state expenses without reducing services.

Commissioner Les Miller indicated that the commission should review expenses and services. He commented that the legislature had an opportunity to take care of the problem of property taxes but did resolve the issue. Furthermore, he indicated that the legislature put the responsibility on the Taxation and Budget Reform Commission.

Mr. Morrison made the following statements regarding tax revenues:

- Tax revenues that cities receive that are not restricted are devoted to fire protection, police, and parks and recreation.
- Approximately ninety percent of tax revenues support fire protection, police and parks and recreation and reducing property taxes will reduce these services.

The Chair inquired if there has been a trend in pension negotiation over the years. Mr. Morrison indicated that there is collective bargaining; however, there has been a historical trend since 1990 of the legislature providing benefits which exceeded what has been agreed to in local negotiation. Chair Lacasa inquired whether a significant measure on the ballot in January or November that reduced property taxes by fifty percent might trigger renegotiation of agreements. Mr. Morrison responded that it would trigger layoffs and some collective bargaining agreements are so sophisticated that they provide a layoff process. Commissioner Moore discussed unfunded mandates and their relationship to special risk increases for fire and police members.

Commissioner McKee discussed water issues and special districts. He indicated that the mission of taxing authority should be revisited because there may be new problems which are not addressed because the problem may not be included in the authority's mission.

Commissioner Mathis questioned whether the committee should look at consolidation and how to frame a proposal. She indicated that eliminating the taxing authorities may be a way to spur conversation and provide another forum to discuss the structure of consolidation. Chair Lacasa indicated that he did not think that the legislature would agree with eliminating the taxing authorities. However, Commissioner Mathis commented that the topic should be discussed and "put on the back burner." She indicated that it may not be politically popular but she would like to have the discussion. Commissioner Miller commented on the services that overlap in Duval County. Comments presented by Mr. Morrison on the issue of consolidate were:

- There is at least one study that indicates consolidation saves revenues in the short term; however, there is no study that indicates consolidation saves revenues over a long term.
- Consolidation may eliminate several upper-level management positions; however it doesn't result in a wholesale elimination of employees.
- The only way that consolidation can readily result in savings is to decrease the levels of services provided in cities to correspond with the lover level of service in the county.

Mr. Morrison also commented on "functional consolidation" and described several "political" obstacles to consolidation.

Mr. Morrison stated that cities would like a source of revenue, other than property tax, or a selection of revenue sources that could be available for use by the cities. Chair Lacasa asked if the League had an alternative to what was passed by the legislature as property tax reform. Mr. Morrison responded that the League would provide assistance to identify the problem but did not have an alternative. There was a discussion of several options which included a five year rolling average on assessment; public safety tax determined by how much fire and police cost with an assessment charged based on the use of the services, a surcharge on user fee and the repeal of sales tax exemptions.

Commissioners Hogan, Mathis, McKee and the Chair discussed water issues. Commissioner Mathis requested a subcommittee of the Planning and Budgetary Processes Committee to review consolidation. Chair Lacasa indicated that he would check with Chair Bense on the issue. He also stated that Commissioner Mathis could submit the proposal as a member proposal and he would have a proposal on property taxes by the deadline.

Commissioner Turbeville commented that there was a broader discussion of (1) whether taxes are too high or (2) whether taxes are too high for property taxes. He also noted that there is an issue of whether there should be another revenue source. Chair Lacasa inquired that if the committee recommended funding with another revenue source whether it would be up to the committee to recommend the source or the legislature.

Commissioner Moore commented on the issues heard around the state during public hearings which included concerns for second homeowners, renters, and how to target property tax relief. Chair Lacasa indicated that he liked the House proposal that was not passed. He commented that he would not be ready to present his proposal until the fiscal impact was ready. Commissioner Mathis indicated that she liked the proposal.

The commissioners discussed the elimination of the required local effort for the Florida Finance Education Program (FEFP) and the necessity of another revenue source. Commissioner Turbeville made a motion to extend the meeting for ten minutes, the motion was seconded and the meeting was extended until 10:40 a.m.

The commissioners discussed the ballot initiative, whether all information and the impact of the change should be included on the ballot.

There being no other business, the meeting was adjourned at 10:40 a.m.

Any presentation documents and audio recordings of the meeting are posted on the commission website at www.floridatbrc.org for further review.