

Meeting Minutes
Finance and Taxation Committee
Taxation and Budget Reform Commission
Conference Call (Room 232 Holland Building)
Tallahassee, Florida
Thursday, December 6, 2007
3:00 p.m. – 5:00 p.m.

Committee Members: *Susan Story, Chair; Barney Barnett, Martha Barnett, Julia Johnson, Bruce Kyle, Patricia Levesque, John McKay, Randy Miller, James Scott, Kenneth Wilkinson, Brian Yablonski*

Members Present:

Susan Story, Chair
Patricia Levesque
Gwen Margolis (ex officio)
Randy Miller
James Scott
Kenneth Wilkinson

Members Absent:

Barney Barnett
Martha Barnett
Julia Johnson
Bruce Kyle
John McKay
Brian Yablonski

Chair Story called the meeting to order and noted the absence of a quorum. The members present on the call decided to continue a discussion on the issues on the posted agenda, understanding that no votes or other actions would be taken.

Chair Story reminded members that the December 14 committee meeting in Tallahassee will have a very full agenda and asked that all members try to attend to hear the important discussions on spending caps and conservation tax proposals. In addition, the committee has invited Commissioner Mike Hogan, who has completed a trip to Colorado to discuss spending caps legislation implementation with state and local government officials, to address the committee at that meeting.

Commissioner Gwen Margolis was recognized to discuss her proposals (CP0004 and SR0005) regarding assessment exemptions for improvements made to residential structures for the purpose of storm mitigation or energy efficiency. Commissioner Margolis pointed out that the proposals address all residential housing and could be expanded to all properties. She indicated that she thought it was important to have the constitutional amendment (CP0004) and the implementing language (SR0005) to assure that details of what items would be included are clearly defined.

Commissioner Ken Wilkinson noted that he had asked the members of the Property Appraisers' Association about their thoughts on the proposals and said that there seemed to be support for the concept, but that it would be important to have very clear definitions of what improvements were and were not included. He spoke about how something as regular as a roof replacement to bring a structure to code, or the installation of a solar heating system for a swimming pool, might fall under the exemption as currently drafted. Commissioner Margolis agreed that she was only trying to provide assistance for hardening of structures, and energy efficiencies for interiors or structures, not amenities for pools. She said she would work with staff to come up with clarifying language and Commissioner Wilkinson indicated he would provide assistance to staff, if needed.

Commissioner Randy Miller asked Commissioner Margolis to clarify that she was addressing such improvement exemptions on current housing stock and existing residential property. She concurred with that description. When asked by staff to clarify whether the proposals would address the actual cost of installation of an improvement, or the increase to the value of the home because of the assessment, Commissioner Margolis stated that it was the latter.

Commissioner Ken Wilkinson made a presentation to the committee on the concept of fairness and equity in the tax structure and noted that while it has been difficult to understand, he now sees that the committee should be striving for equity and fairness in all of its proposals in a prospective manner. He spoke about the need for tax reform and for tax relief, and how those were two separate issues. He indicated that he believes that the repeal of the Required Local Effort ad valorem taxes at the local level would be a fair and equitable tax reform because it would provide across the board relief to all property tax payers across the state.

He then faced the issue of how to replace such a repeal with other funding sources to match the amount of funding provided by the RLE. He noted that such a replacement for this year would be about \$8 billion in RLE and another \$1 billion in discretionary local taxes for school districts. Assuming that an increase of one cent on sales taxes would raise approximately \$4 billion, he noted that two cents would bridge the gap, but would place Florida in the position of having one of the highest sales taxes in the country and would affect economic competitiveness. While he thought raising one penny might be an option, Commissioner Wilkinson pointed out that it seemed reasonable that some combination of sales tax exemption and exclusion repeal, and implementation of a plan to collect unpaid use tax on remote sales might be able to generate the needed additional \$9 billion to bridge the gap.

Commissioner Margolis then spoke and noted that it was not a bad thing for local school boards to have to levy some taxes because it causes school boards to face political realities and to be more accountable to the voters. She went on to reiterate that the sources of revenue discussed by Commissioner Wilkinson are not necessarily stable sources. The concept of "replacement of taxes" does not necessarily wash in reality when actual income numbers are applied to the concept of "trading" one tax for another.

Commissioner Patricia Levesque told the committee that at some point it will have to deal with the issues of tax reform and tax relief. She said on the reform side she saw some promise in the idea of spending caps for government, while on the relief side it appeared that repeal of the RLE is an equitable approach and could bring across the board relief. She noted that the mechanism for distribution of alternative revenue sources is already in place due to the formulaic structure of the education budget and that the source is the only missing piece. She spoke of the fact that more and more counties will be hitting the 90% contribution cap on education funding and that the state is not providing enough funding for public schools. She opined that there was a lot of benefit to trying to find some way to replace the RLE.

Commissioner James Scott noted that school funding is a state responsibility, yet in Broward County, 37% of the tax bill goes to pay for RLE and school taxes. He agreed that the committee was on the right track to pursue finding a replacement for RLE.

Commissioner Randy Miller addressed the committee and reminded the members that there is a need to keep long term perspective in mind. He used the example of a three-legged stool and noted that there are really only three types of taxation available to fund any government. He spoke of taxation on wealth (property), taxation on consumption (sales) and taxation on income. He noted that in Florida, property taxation is constitutionally limited to local governments and thus not available for state purposes. Next, he pointed out that personal income taxation is forbidden by the constitution, though corporate income tax is allowed. Finally, he pointed out that further limitation on sales tax availability for funding state programs would be horribly detrimental to the state's ability to function. By considering using sales tax to pay for education, the state would lose the ability to use most of its sole remaining funding source to pay for all other programs. He spoke of the instability of a sales tax and noted that placing all of the state's taxing ability "in one basket" could be a catastrophe.

Chair Story reminded members that due to a lack of a quorum, and the obvious interest on both sides of the debate, she would add the issue to a later meeting of the committee for further action when all members could be present to participate.

Commissioner Margolis raised the issue of the activities surrounding problems with the State Investment Fund and members agreed that the TBRC should be paying close attention to the situation. Staff told the committee that the Planning and Budgetary Processes Committee is working on scheduling a presentation by CFO Alex Sink on the issue and that all members would be made aware of the details of that meeting. Staff then reminded members that Chair Bense had spoken of the situation in last week's TBRC meeting and cautioned that the issue is being dealt with by the Cabinet and closely watched by the legislature and many other entities. Staff will continue to monitor the situation and keep members aware of any issues arising from the actions of the SBA, the Cabinet or the Legislature.

There being no further business, the meeting was adjourned at 3:52 p.m.