

THE "SAVE OUR HOMES" AMENDMENT COULD CAUSE SOME PROBLEMS

Florida TaxWatch reviewed the implications of the "Save Our Homes" Amendment in an October 1992 research report for several reasons: There were indications that it would lead to tax inequities, it would not limit government spending or taxation, it would set an arbitrary limit and it could be harmful to many Floridians as well as renters, homeowners and real estate and construction industries. This research report, conducted for the Florida Real Estate Research and Education Foundation, supports TaxWatch's concerns and finds that Amendment 10 will create property tax inequities and could cost local governments as much as \$625 million per year statewide within the next 20 years.

By: Dean H. Gatzlaff, Ph.D., Assistant Professor of Real Estate, Florida State University

By the narrow margin of 53.6 to 46.4 percent, Florida voters in November 1992 approved Amendment 10 (the so-called "Save Our Homes" amendment). This constitutional amendment, supported by voters in 34 counties and opposed in 33 counties, is to take effect in 1995.

The measure currently faces some legal challenges. But when fully implemented it will significantly change the way property taxes are now levied.

The amendment sets limits on the yearly changes in the assessed values of all homestead (owner-occupied residential) properties. It stipulates that annual increases in assessed values shall not be more than the smallest of the following: (1) three percent of the assessment of the prior year, (2) the annual rate of change in the U.S. Consumer Price Index for the preceding calendar year, or (3) an amount not to exceed its just value. In addition, all homestead properties are to

be assessed at just value after any change of ownership.

In a study conducted for the Florida Real Estate Research and Education Foundation I examined the likely long-run effects of the amendment using simulation models. The major findings of the study indicated that Florida counties will experience two direct and dramatic consequences as a result of the amendment:

■ Amendment 10 will create differences in the effective property tax rates between homestead and non-homestead property classes.

■ Amendment 10 will create differences in the effective property tax rates between homestead properties classified by their relative time of acquisition.

Also, it is likely that the older, more affluent homeowner population will benefit from

the amendment at the expense of the younger, less affluent renter population.

The Winners

Current homeowners are clearly in line to benefit from this amendment -- especially homeowners who live in areas that experience higher than average appreciation rates and those who do not move. Many county appraisers say that this suggests owners of expensive waterfront residences will receive significant benefits.

The study indicates that in 20 years the average taxable value of homestead property is estimated to be about 22.4 percent less than what it would have been without the amendment. The percentage reductions in the assessed values of residences will result in larger property tax decreases -- from what taxes would have been -- to expensive properties relative to the tax decreases on less expensive properties.

Research also indicates that there eventually will be a dramatic difference in the assessed values of identically-valued homes. Within 20 years, homes that have been owner-occupied for substantial periods will be assessed at values as little as 50 percent of identical homes that were recently purchased. Hence, long-time residents will benefit from the amendment while individuals attempting to relocate either within or between metropolitan areas will likely experience property tax increases as the result of their move.

In addition, assessing properties at different values will make monitoring tax inequities difficult, if not impossible, and open the door to potential fraud and abuse within the property tax system.

The Losers

The decline in the taxable value of homestead property will result in local governments adopting one or more of the following scenarios:

■ Local school, city and county government spending may be reduced.

■ Millage rates may be increased by government bodies not at their statutory limit to offset losses in the tax base.

■ Additional sources of revenue may be developed.

The most likely effect of the amendment is some combination

of these three scenarios. Let's look at them independently.

A Reduction in Local Spending

If millage rates remain at their current levels over the next two decades, the 22.4 percent decrease in the assessed value of homestead property translates into a 6.8 percent decrease in the total taxable value of Florida's property. This decline would represent a decrease in revenues of about \$625 million (in 1992 dollars) statewide, compared to what revenues would have been under the current system.

Under this scenario, counties that have excess government funds will eliminate unnecessary and inefficiently delivered services. However, in counties where revenues for schools and municipal and county governments are not excessive, the elimination of valuable government services will be necessary. Hence, the broadly based application of the amendment will effectively penalize efficiently operated local

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Source: An Analysis of the Recently Enacted "Save Our Homes" Amendment completed January 1994

schools, cities and counties under a scenario of no additional revenues.

An Increase in Millage Rates

If millage rates are increased to offset the real revenue decline resulting from the assessment reductions, property tax payments will be effectively shifted from homestead properties that have not been sold recently to properties recently sold (reassessed at market value) and to non-homestead properties such as businesses and rental units. Under this scenario, government services are not affected -- the property tax incidence is simply shifted.

Taxes on non-homestead properties, including residential rental units and recently sold homestead properties are expected to increase in two decades to levels approximately 6.8 percent above what they otherwise would have been. This means that renters should expect to pay higher rents as additional property taxes on apartments are actually passed through to tenants in the form of higher rents. In this sense, the amendment is regressive and the real losers are apartment tenants and new homeowners, who tend to be younger and less affluent.

Special Assessment Increases and Other Taxes

Counties may attempt to generate additional funds through the use of special assessments or other taxing mechanisms. This simply transfers tax revenues from property taxes to other tax forms. California, for example, experienced dramatic increases in the use of special assessments as a means of mitigating the impact of Proposition 13 which imposed limits on property taxes in 1978.

Other County-Specific Effects

Baker County will be affected more than other Florida counties because 70 percent of its taxable property contains owner-occupied dwellings. Suwannee County, where owner-occupied homes make up 53 percent of taxable property, and Levy County, where 47 percent of the taxable property falls under the amendment, also will be greatly affected.

The next most affected counties are Alachua, Brevard, Clay, Dade, Hernando, Hillsborough, Indian River, Lake, Leon, Martin, Palm Beach, Pasco, Pinellas, St. Johns, Santa Rosa and Sarasota. Homestead properties make up more than 30 percent of taxable value in all of these counties.

The least affected counties, all with homestead properties comprising less than 10 percent of taxable value are Dixie, Gulf, Hamilton, Okaloosa, Walton and Washington.

Over time, the changes may work to limit population growth, to slow down new construction and to decrease sales in the real estate market, but it is impossible to predict this with certainty prior to the amendment's effective date.

Finally, while it is unlikely that the current homestead deduction will be eliminated to replace lost revenue, it is possible that it will not be increased enough to offset value increases due to inflation. The effective declines in the real homestead deduction would effectively raise property tax rates on lower-valued housing, relative to higher-valued housing, and disproportionately affected lower-income individuals.

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Dr. Gatzlaff joined the faculty at FSU in 1990. His research concentration is housing economics and his work has been recently published in the *Journal of Urban Economics*, *Journal of the American Real Estate and Urban Economics Association*, and *Land Economics* as well as in a number of other academic research journals. Recently, he received a post-doctoral award from the Homer Hoyt Institute for Advanced Studies in Urban and Land Economics for his research contributions. Dr. Gatzlaff has served as a research consultant for projects funded, or administered, by the Florida High-Speed Rail Commission, the Florida Department of Insurance and the Florida Department of Business and Professional Regulation.

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