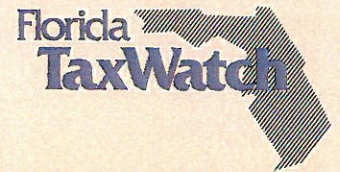


# RESEARCH REPORT



October 1995

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## Truth in Property Taxation Often Hard to Come By *Taxpayers Don't Always Get Answers In The Spirit of the TRIM Law*

Florida has a law called the Truth in Millage Act (TRIM) that was enacted to formalize the property tax process and provide information and opportunities for input to taxpayers. One provision of this law requires that when setting property tax rates, local governments use as the starting point the tax rate that would bring in the same amount of tax revenues as the prior year with the increased or decreased total taxable value of property. The TRIM law directs that any increase over this rate -- called the rolled-back rate -- should be characterized as a tax increase. For comprehensive definition of the rolled-back rate see Figure 1 on page 2.

Each year, as local governments put their budgets together, set their property tax rates and advertise their intentions to taxpayers, Florida TaxWatch receives many calls from citizens concerning the process. Many of the calls center on the complaint that there is difficulty in getting what taxpayers perceive as straight forward answers about property taxes, particularly about tax increases. With the newly implemented Amendment 10 (the "Save Our Homes" constitutional amendment which limits growth of homestead assessments) now a reality, things have gotten even more confusing.

To help determine what causes taxpayer confusion, Florida TaxWatch performed a short telephone survey of local taxing authorities to determine what kind of information they were providing interested taxpayers. TaxWatch obtained copies of Form DR-420 for all the counties, municipalities and school boards, which the Florida Department of Revenue had on file. This is the form each taxing authority must complete to get its TRIM certification and millage levy privilege. Form DR-420 contains the calculations used to determine the local taxing authority's rolled-back rate and the proposed millage rate. It also calculates the percent change of the proposed rate over the rolled-back rate. This percent is the taxing authority's initial proposed property tax increase (or decrease). The information on the form is used to prepare the Notice of Proposed Property Taxes (called the TRIM notice) which is mailed to taxpayers.

### About this Survey

This incidental survey was conducted on September 26 and 27, 1995. Using the information on DR-420 forms obtained from the Department of Revenue, volunteer surveyors for Florida TaxWatch attempted to contact all the state's counties, school districts and municipalities. A total of 482 local taxing authorities were called and complete responses were received from 412, a response rate of 85%. Responses were received from 301 municipalities, 57 counties and 54 school districts. One question was asked: "Did (name of taxing authority) propose a property tax increase this year?" The number for the contact person on the DR-420 form was called and to emulate a concerned taxpayer calling for information, the question was posed to the person answering the phone. Usually, the call would be transferred and the response from the first person with a definitive answer would be accepted.

*"Improving taxpayer value, citizen understanding and government accountability"*

# Definitions

-Figure 1-

**Millage rate** - the rate in mills (1 mill = 1/1000 of a dollar or .001) at which your property is taxed. For example, if the taxable value of your property is \$50,000 and the millage rate is 5 mills, your tax is calculated as follows:  $\$50,000 \times .005 = \$250$  of property taxes. The millage rate is set by your local governments (an important exception is the Required Local Effort portion of school districts' millage rates which is set by the Florida Legislature). The Florida Constitution limits millage rates for counties, cities and school districts to 10 mills unless these limits are exceeded through voter referendum approval.

**Rolled-back millage rate** - the "no new taxes millage rate." This rate will bring in the same amount of taxes as levied the prior year when applied to the current year's increased or decreased tax base. Any newly constructed property or other property added to or deleted from the tax base is excluded. For example:

Current year taxable value	\$520,000,000	Prior year tax proceeds	\$1,000,000
Less new construction, etc.	<u>20,000,000</u>		
= Adjusted taxable base	\$500,000,000	Rolled-back rate =	$\frac{1,000,000}{500,000,000} = .002$ or 2 mills

If net assessments rise in a tax jurisdiction, the rolled-back rate will be less than the millage rate levied the previous year. Any increase over the rolled-back rate is a tax increase. Conversely, if net assessments fall (a situation that has become less and less rare) the rolled-back rate will be higher than the previous year's millage rate. In this case, if the taxing authority adopts the rolled-back rate, it is not, by law, increasing taxes, even though the rate will be higher than last year. It must be noted that using the rolled-back rate does not take into account the effect inflation has on the cost of government. But excluding new construction from the calculation mitigates it to some degree.

The surveyor called the contact phone number on the form and asked one simple question: "Did (name of taxing authority) propose a property tax increase this year?"

A total of 482 local taxing authorities were called with complete responses received from 412, an 85% response rate. Of the 307 local taxing authorities that responded and showed an increase in their proposed property tax rate over their rolled-back rate, almost one-half (149) gave responses that conflicted with the information on their DR-420 form. They said there was no proposed tax increase when they had reported proposed millage rates in excess of the rolled-back rate. Of these, 107 had a

proposed millage rate that was the same or less than last year's rate. However, under the TRIM law, a proposed millage rate that is higher than the rolled-back rate, even if it is less than the rate levied the prior year, is a tax increase and must be characterized as such.

Forty-two respondents (13.5% of those with proposed increases) gave answers that were even further from correct. These taxing authorities said they did not propose a property tax increase when not only was the proposed millage rate higher than the rolled-back rate, but it was also higher than the millage rate levied in the previous year.

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*The resolution or ordinance shall state the percent, if any, by which the millage rate to be levied exceeds the rolled-back rate computed pursuant to subsection (1), which shall be characterized as the percentage increase in property taxes adopted by the governing body.*

### *Section 200.065, Florida Statutes*

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Of the 307 taxing authorities that did propose tax increases, 158 accurately reported that they did. Of these, 60 showed a special knowledge and respect of the TRIM law by answering "yes" even though the proposed rate, while higher than the rolled-back rate, was the same or less than the millage rate imposed last year.

Several respondents answered "yes" correctly, but proceeded to provide erroneous information. This included significantly understating the size of the tax increase, blaming the property appraiser for any tax increase, or comments such as "DOR (Florida Department of Revenue) is the bad guy."

The property appraiser was a common scapegoat. Over 70 respondents deflected at least some responsibility for property tax increases toward the appraiser. When asked the question, some would direct the caller to the property appraiser or tell the caller that any tax increase was "the property appraiser's fault."

The property appraiser plays a largely ministerial role and is not directly responsible for the amount of tax money a property owner pays. The property appraiser's duty is to determine the fair market value and the taxable value of property. (Due to Amendment 10, these two values for homestead property are not likely to be the same.) The local taxing authority is responsible for setting a higher or lower property tax rate to fund the jurisdiction's expenses for the coming year. Rising assessments are the reason the rolled-back rate is used. When assessed values in a taxing jurisdiction go up, the rolled-back rate will be less than the prior year's millage rate, requiring local governments to advertise a tax increase in order to bring in more money than in the prior year.

As a whole, school districts tended to give the most correct answers, although there is still room for improvement. School district millage rates are comprised of two parts, a levy adjusted and imposed annually by the Florida Legislature (the amount required in order to receive state education funding) and a portion that is at the discretion of the school board. Of the 54 districts contacted, 15 said there was

no proposed property tax increase when in fact the total proposed rate was in excess of the rolled-back rate (one of these districts proposed a total rate that was higher than the rolled-back rate but the discretionary portion was equal to the discretionary rolled-back rate). But only three of those total proposed millage rates were in excess of last year's rate and the other 12 proposed rates were at or below last year's rate. Of the 54 districts contacted, only six did not propose a property tax increase. Of the 48 that did, 33 (69%) correctly answered the question.

Twenty-one (47%) of the counties contacted which had proposed increases responded that they did not, while 113 (53%) of the municipalities responded incorrectly. Four of these counties and 35 of these cities had proposed millage rates that were even higher than last year's rate.

It must be noted that many respondents were knowledgeable, polite and eager to help. But our callers reported something distressing: a significant number of respondents who were quite the opposite. In addition to displaying some impolite treatment, some local officials treated this public information as if it were proprietary information and were very reluctant to provide it.

Then there were those who seemed to know the TRIM law, but characterized the TRIM notices and legally required advertisements as misleading. Statements to the effect that "we cut taxes but the state makes us advertise a tax increase" were not uncommon.

This report is not meant to criticize local governments for raising taxes. Only the taxpaying citizens living in the jurisdiction and receiving the services can judge whether or not the tax increases are warranted. While the Florida TRIM law is one of the most accountable and taxpayer-friendly laws in the nation, it is only as good as the public servants that implement it. Moreover, if the TRIM law is to produce its intended benefits, taxpayers must avail themselves of the information it provides and take advantage of its opportunities for input. It is essential that local governments uphold the TRIM law and provide information to taxpayers in keeping with the letter and the spirit of the law.

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*"... a people who mean to be their own Governors, must arm themselves with the power which knowledge gives."*

*-- James Madison*

*"I know of no safe depository of the ultimate power of the society but the people themselves."*

*-- Thomas Jefferson*

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## How Did Proposed Millage Rates Compare to Rolled Back Rates?

The following millage rate information does not include any voted millage or any millage attributed to dependent special districts or municipal service taxing units (MSTUs.)

**Counties.** The median proposed operating millage was 7.977. This compares to the median rolled-back rate of 7.829. A breakdown of the size of the percentage increase of the proposed operating millage rate and the rolled-back operating rate follows:

Size of increase (decrease)	# of counties	Size of increase (decrease)	# of counties
10-20%	9	no change	4
5-10%	11	(<1%)	4
1-5%	26	(1-5%)	5
<1%	4	(>10%)	2

**Municipalities.** The median proposed operating millage was 4.500. This compares to the median rolled-back rate of 4.230. A breakdown of the size of the percentage increase of the proposed operating millage rate and the rolled-back operating rate follows:

Size of increase (decrease)	# of municipalities	Size of increase (decrease)	# of municipalities
>100%	5	no change	62
50-100%	4	(<1%)	20
10-50%	63	(1-5%)	16
5-10%	46	(5-10%)	4
1-5%	99	(10-20%)	3
<1%	26		

**School districts.** The median proposed operating millage was 9.310. This compares to the median rolled-back rate of 8.940. A breakdown of the size of the percentage increase of the proposed operating millage rate and the rolled-back operating rate follows (includes both state required local effort and local board millage rates):

Size of increase (decrease)	# of counties	Size of increase (decrease)	# of counties
22%	1	no change	0
10-20%	10	(<1%)	3
5-10%	11	(1-5%)	2
1-5%	32	(5-6.9%)	2
<1%	4		

Eight districts' required local effort portion of their millage rates decreased, one district decreased its local board portion and one kept the rolled-back local rate. Two counties do not levy a local school board millage rate.

# The Truth in Millage Act

The Truth in Millage Act (TRIM) serves to formalize the property tax levying process by requiring a specific method of tax rate calculation, form of notice, public hearing requirements and advertisement specification prior to the adoption of a budget and tax rate.

TRIM informs taxpayers that their property taxes are changing (up or down), what portion of that change is due to taxing and spending decision made by local officials and what portion is due to changing assessed values of their property. It also informs taxpayers as to how the proposed new tax rate compares to the rate that would generate the same property tax dollars as the current year (see definition of "rolled-back millage rate" on page 2). Local governments also are required to advertise as a tax increase the percentage by which any tentatively adopted millage rate exceeds the rolled-back rate.

The following is a TRIM calendar of required actions and maximum deadlines (in days). It assumes that the process begins with the certified tax roll as of July 1st.

## Days

## Required Action

- July 1 Property Appraiser certifies to each taxing authority the taxable value within the boundaries of the jurisdiction.
- Budget workshops are being conducted during this period.
- (35) Local officials advise Property Appraiser of proposed millage, rolled-back rate and date, time and place of the Tentative Budget Hearing. (Note: If municipality fails to provide the required information in a timely fashion, the taxing authority shall be prohibited from levying a millage rate greater than the rolled-back rate for the upcoming year.)
- (55) Property Appraiser mails the Notice of Proposed Property Taxes (commonly referred to as the TRIM notice). This also serves as a notice of the tentative budget and millage hearing.
- (80) Tentative budget and millage hearing. The tentative budget and millage are adopted at this hearing (usually in early/mid-September).
- (95) Advertisement of tentatively adopted tax increase and final budget and millage hearing.
- (100) Final budget and millage hearing and adoption (usually in mid/late-September).

At this final hearing, local officials will adopt a series of ordinances and resolutions relating to taxation and spending for the new fiscal year. These are:

- ◆ An Operating Budget Appropriations Ordinance to fund the ongoing operations of the city. Appropriations are generally made for each unit within the local government.
- ◆ Revenue ordinances for levying of ad valorem property tax and other tax rates.
- ◆ A Capital Budget Ordinance to appropriate funds for specific construction and public works projects.

## About Florida TaxWatch

Florida TaxWatch is the only statewide organization entirely devoted to state taxing and spending issues in Florida. Since its inception in 1979, Florida TaxWatch has become widely recognized as the watchdog of citizens' hard-earned tax dollars. The nationally distributed *City and State* magazine (purchased by *Governing* magazine) in 1989 published a poll of the nation's statewide taxpayer research centers. Based on this poll, the publication cited Florida TaxWatch as one of the six most influential and respected taxpayer assistance institutes in the nation.

In recent years, news stories about Florida TaxWatch have run in all Florida newspapers, *The Wall Street Journal*, *The New York Times* and *The Washington Post*. In addition, Florida TaxWatch has been featured on the prestigious *MacNeil/Lehrer Newshour* and several times in *The Wall Street Journal*.

Florida TaxWatch is a private, non-profit, non-partisan research institute supported entirely by voluntary, tax-deductible membership contributions and philanthropic foundation grants. Membership is open to any organization or individual interested in supporting a credible research effort that promotes positive change. Members, through their loyal support, help Florida TaxWatch to bring about an effective, responsive government that is accountable to the citizens it serves.

Florida TaxWatch is supported by all types of taxpayers -- homeowners, small businesses, large corporations, professional firms, labor unions, associations, individuals and philanthropic foundations -- representing a wide spectrum of Florida's citizens.

Florida TaxWatch is well known and respected for its empirically sound research products which recommend productivity enhancements and explain statewide impact of economic and tax and spend policies and practices. Without lobbying, Florida TaxWatch has worked diligently and effectively to build government efficiency and promote responsible, cost-effective improvements that add value and benefit taxpayers. This diligence has yielded impressive results: three out of four of TaxWatch's cost-saving recommendations have been implemented, saving taxpayers \$2.5 billion. That translates to nearly \$350 for every Florida family.

With your help, we will continue our diligence to make certain your tax investments are fair and beneficial to you, the taxpaying customer who supports Florida's government. Florida TaxWatch is ever present to ensure that taxes are equitable, not excessive, that their public benefits and costs are weighed, and that government agencies are more responsive and productive in their use of public funds.

*The Florida TaxWatch Board of Trustees is responsible for the general direction and oversight of the research institute and safeguarding the independence of the organization's work. In his capacity as chief executive officer, the president is responsible for formulating and coordinating policies, projects, publications and selecting the professional staff. As an independent research institute and taxpayer watchdog, the research findings, conclusions and recommendations of Florida TaxWatch do not necessarily reflect the view of its members, staff or distinguished Board of Trustees.*

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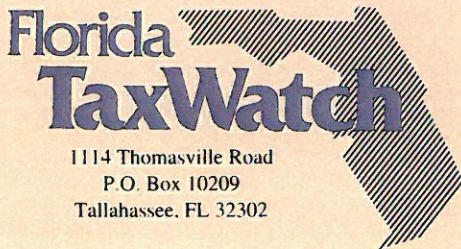
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