DAILY BRIEF

DAILY LEGISLATIVE BRIEF FROM MARCH 17, 2008

The Taxation and Budget Reform Commission took up a number of property tax proposals today, during a marathon 8 hour meeting, the first in a number of meetings that will take place over the next month. The Commission must vote on a number of proposals and draft them into ballot language before their deadline of May 2nd. Attendance, which had been an issue prior to today's meeting, was very good as commissioners debated Commissioner McKay's "sales tax exemption" proposal. After months of deliberation, the proposal was finally approved by a 21 to 4 margin (it takes 17 affirmative votes to adopt a proposal).

The Commission also took up a number of other proposals, which are included in tonight's report.

TBRC

The Taxation and Budget Reform Commission (TBRC) met in a day-long session for the purpose of voting on a series of property tax reform proposals, which were able to make it through the committee process for final approval. The TBRC is a group of 29 individuals (4 of which are ex-officio members) appointed by the Governor, Speaker of the House, and Senate President. This powerful commission has been given the task of evaluating Florida's tax and budget structure, and they have the ability to place constitution proposals before the voters of Florida without having to collect signatures or obtain approval from the Legislature. It takes a positive vote of 17 of the 25 voting commissioners to place a constitutional proposal on the November ballot. The TBRC also has the authority to make statutory recommendations to the Legislature.

The first and perhaps most awaited proposal voted on by the TBRC today was CP 2 sponsored by Commissioner John McKay. This proposal would achieve property tax relief by replacing the portion of ad valorem taxes, which fund public education (otherwise known as the Required Local Effort or RLE) with revenue from a variety of sources including:

- up to 1 percent sales tax increase
- a review of sales tax exemptions
- funds from budget cuts
- other sources of revenue

After months of deliberating and testimony from respected economists, the business community, and volunteer groups, the Commission adopted CP 2 on a 21-4 vote. Speaker Marco Rubio (R-Miami) made a rare appearance and addressed the Commission in support of Commissioner McKay's proposal. Speaker Rubio lobbied commission members heavily and stayed for most of the debate.

Members of the business community, including AIF, testified in opposition to the proposal because of the uncertainty it would bring to Florida's tax structure, especially during a time when Florida is seeing a historic downturn in its economy. Kurt Wenner, Director of Tax Research for Florida TaxWatch, made several great arguments as to the potentially negative impacts of this proposal, including the fact that this proposal would place legislators in a box in order to find sources of revenue that would equal the amount of money raised by the RLE (approximately 8 billion dollars and growing). Even increasing the sales tax by 1 percent only raises about 3.3 billion dollars in today's currency. If this proposal is adopted by the voters in November, the Legislature will be under heavy pressure to look at sales tax exemptions and possibly the services tax in order to come up with the 8+ billion dollars needed to fund the RLE.

AIF's Jose Gonzalez cautioned commission members about the dangers of disrupting Florida's tax structure and the unintended consequences of doing away with important sales tax exemptions that ensure that Florida's industries can compete with neighboring states.

Commissioner Randy Miller argued valiantly against the proposal, reminding his fellow commission members that the sales tax was a regressive tax and any increase in the sales tax would have a greater impact on those who could least afford it. Representatives of the Catholic Conference agreed with Commissioner Miller and asked the Commission members on behalf of Florida's Bishops not to approve the proposal.

Senator Mike Haridopolos (R-Melbourne), ex-officio member of the TBRC and Chairman of the Senate Finance & Tax Committee, shared his perspective as a sitting legislator stating that "there is going to be some hard work ahead of us…finding enough revenue to make up this hole will be a difficult task." He also went on to state that businesses rely on the current tax structure and any changes to it would have an impact.

In the end, Commission members sided with the opportunity to send to the voters a proposal that certainly has the potential to cut property taxes, but one that is riddled with unanswered questions.

> **AIF opposed this proposal on the grounds that currently, the Legislature has the power to review sales tax exemptions without the need for a constitutional amendment. In addition, the idea of swapping property tax relief in return for an increase in sales tax has been found by economist to be problematic. Florida's tax structure should encourage productivity not tax it.**

The Commission also temporarily passed a number of proposals that were on today's agenda. CP 50 by Commissioner Pat Levesque was almost identical to Commissioner McKay's proposal and; therefore, it was temporarily passed due to passage of CP 2. A proposal that would have provided relief to Florida's working waterfronts was also temporarily passed on a request by Chairman Allen Bense, who felt that the financial impact of protecting property owners located on the coast was unknown. This issue is a priority for AIF and we will be working with the sponsors to address any concerns.

CP 42 by Commissioner Barney Barnett, dealing with the issue of how property should be appraised and "highest and best use" was also abandoned; instead the Commission approved SR 13, a statutory recommendation by Commissioner Martha Barnett, which contains many of the same provisions found in CP 42. SR 13 amends current law to revise the factors that a property appraiser must consider in deriving just valuation of real and tangible property. The revised factors require a property appraiser to consider the legally permissible use of property, zoning changes, concurrency requirements, permits necessary to achieve the highest and best use of property, and physical deterioration and functional obsolescence of property. The recommendation provides that it will apply to assessments beginning in 2009. SR 13 was amended by Commissioners today to include very similar language to that of HB 1283 by Representative Dean Cannon (R-Winter Park).

SR 13 was passed by the TBRC and will now be transmitted to the Florida Legislature for consideration.

> **AIF supports providing property tax relief to Florida's working waterfronts. Businesses located on these areas must be protected in order for them to remain a part of our state's economy. In addition, AIF supports looking at ways to address how best to appraise property in this state.**

And finally, the Commission took up the issue of "class size" with the consideration of CP 30 by Commissioner Roberto Martinez. The proposed constitutional amendment proposes an amendment to Article IX, Section 1 of the Florida Constitution to make the class size limitations applicable to school averages and to create limited flexibility to the number of students assigned to each teacher. The issue of whether to provide additional flexibility to the hard caps on the number of students per classroom included presently in the Constitution was supported by representatives from the school districts and school superintendents. On the other hand, representatives from the teacher's union testified in opposition to the proposal. After a long debate, the proposal was defeated, but Vice-Chairman Jim Scott made a motion to "reconsider" thereby keeping the proposal alive for the next meeting.

> **AIF supports a new approach to class size reduction implementation. AIF looks forward to working with all the partners reviewing the issue to find the most effective way to meet the intent of the amendment, address escalating costs of compliance, and focus remaining capital outlay funds where they are most needed. This can be accomplished by allowing flexibility for unplanned student growth after the beginning of the school year.**

516 North Adams Street ● Post Office Box 784 ● Tallahassee, Florida 32302-0784 ● Phone: (850) 224-7171 ● Fax: (850) 224-6532 ● www.aif.com