

IMPACT OF PROPOSED ROLL BACK OF AD VALOREM TAX REVENUES ON FLORIDA'S COUNTIES

**Prepared for
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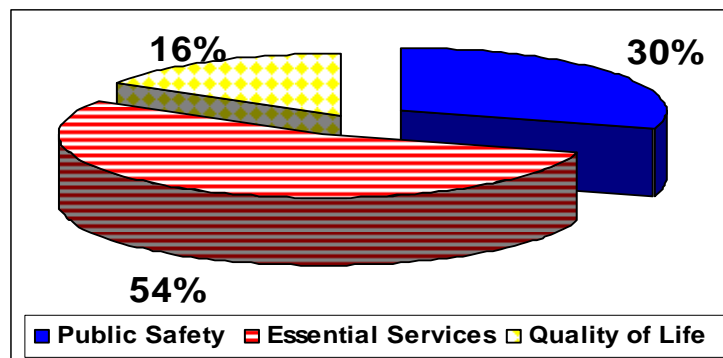
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June 8, 2007

Executive Summary

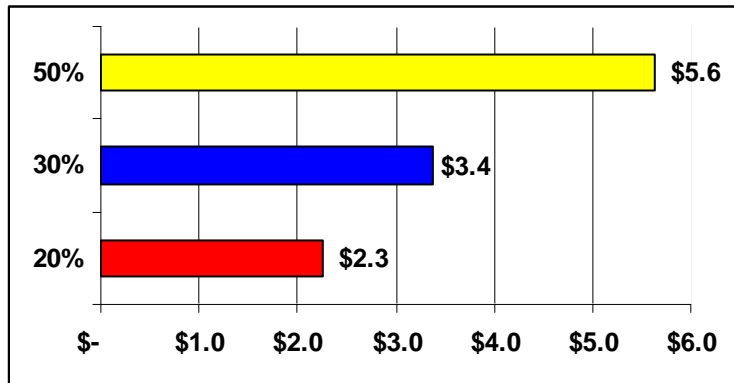
- There is considerable controversy in Florida over the potential impacts on local governments from proposed cuts in ad valorem revenues. While some political leaders at the State level predict no adverse impacts, many local governments project dire consequences.
- The Florida Association of Counties (“FAC”) commissioned Fishkind and Associates, Inc. to calculate the impacts of proposed reductions in ad valorem revenues on Florida’s County governments. Specifically, FAC requested analysis of three levels of reductions: (a) 20%, (b) 30%, and (c) 50%.
- All parties to the debate agree that public safety functions should be protected from spending cuts, placing more of the burden on other local government functions and services.
- For this analysis we divided county spending for the fiscal year ending 2006 into three broad categories for each of the 67 counties using the Uniform Chart of Accounts (documented in the report) as follows:
 - (1) Public Safety – law enforcement, corrections, fire control, emergency and disaster relief, ambulance, and other public safety
 - (2) Essential Services – courts, utilities, constitutional officers, debt service payments, health and human services (75% portion), and general government services (75% portion)
 - (3) Quality of Life – all other government spending including parks, libraries, culture, and 25% of general government and health and human services.
- Figure E1 illustrates the size of each of these spending categories for FY2005-06 across all 67 Florida counties.

Figure E1. Spending by Category FY 2005-06



- The analysis was conducted on a county-by-county basis with the results summed to the state level.
- The first step in the analysis is to convert the percentage roll back levels into dollar reductions in ad valorem revenues. The revenue cuts were then applied to each category of county spending in the following order of priority regardless of practicality public safety was last to be impacted:
 - First cuts were made in quality of life. If cuts to quality of life were sufficient, then no further cuts were made.
 - Second, if cuts to quality of life spending could not satisfy the revenue roll back, then additional cuts were made in essential services.
 - Third, if cuts to quality of life and to essential services were insufficient, then cuts would be made to public safety spending.
- Figure E2 illustrate the dollar amounts of the ad valorem reductions at each of the three roll back levels. A 20% roll back equates to a \$2.3 billion revenue cut, at 30% the cut is \$3.4 billion and at 50% a cut of \$5.6 billion is required.

Figure E2. Dollar Amount of Ad Valorem Cuts (\$billions)



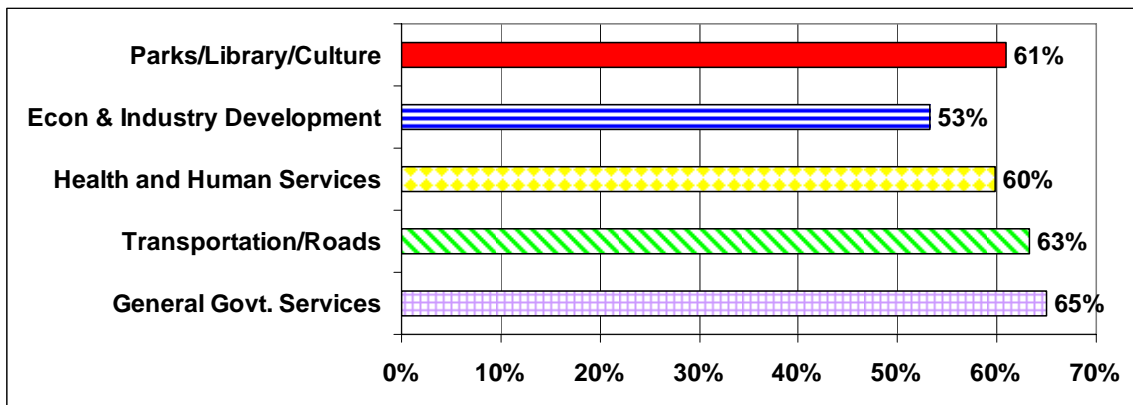
- Table E1 below summarizes the results of the exercise. A 20% roll back requires \$2.3 billion in spending reductions. It is possible to satisfy this requirement by cutting deeply in quality of life spending with reductions averaging 60%. However, some counties would have to cut 100% of the quality of life spending and also reduce essential services to make up for the loss in ad valorem revenues at the 20% roll back.

Table E1. Summary of Impacts from Ad Valorem Roll Backs

Category/Roll Back %	20% Roll Back		30% Roll Back		50% Roll Back	
Total Ad Valorem Cut	\$2.25		\$3.38		\$5.63	
Total Quality of Life Cut	\$2.24	59.8%	\$3.09	82.48%	\$3.71	98.92%
Total Essential Services Cut	\$0.01	0.1%	\$0.28	2.24%	\$1.92	15.23%
Total Public Safety Cut	\$0.00	0.0%	\$0.00	0.00%	\$0.00	0.00%

- The 30% roll back reduces ad valorem revenue by \$3.4 billion. The impact on quality of life spending is dramatic with cuts averaging over 80% statewide. Quality of life spending would be eliminated in 27 counties and each of these would also have to reduce spending on essential services.
- A 50% roll back causes 51 counties to eliminate spending on quality of life and to make significant cuts in essential services. The cuts to essential services average more than 15% statewide.
- The analysis summarized in Table E1 demonstrates that it is possible to roll back ad valorem revenues by as much as 50% without cutting public safety spending. However, this is completely unrealistic even if it is mathematically possible. At the 50% roll back most counties are forced to make significant cuts to essential services while eliminating all spending for quality of life.
- Even more modest roll backs of 20% or 30% result in sharp cuts into quality of life services of 60%-to-82%. The impact of cutting quality of life services at the 20% roll back is illustrated in Figure E3. It is unlikely that Floridians will find such sharp cuts in quality of life services to be worth the reduction in ad valorem taxes.

Figure E3. Estimated Average Cuts in Quality of Life Services Resulting from a 20% Roll Back of Ad Valorem Revenues



- To some extent arithmetical results of cuts in ad valorem revenues are a function of protecting public safety spending from any cuts. It is important to note that our prior study, Analysis of County Spending Patterns 1999-2006 Where Did the Money Go?, demonstrated that most of the increases in ad valorem revenues received by counties was spent on public safety, pensions, health care, insurance and fuel. Therefore, to hold public safety spending constant in the face of reduced revenues dooms all other areas of county spending to significant cuts.
- The wide variation in impact across the counties is a function of their budget structures. The cuts are highly correlated to the degree to which a county's budget depends upon ad valorem taxes. The higher the percentage of revenue from ad valorem taxes, the bigger is the impact flowing from a roll back in ad valorem revenues.
- Interestingly, this has little correlation with the growth in ad valorem revenues per capita since 2001. For example, Alachua County is highly dependent upon ad valorem revenues to support its budget, but since 2001 the growth rate in ad valorem revenues in Alachua County was 8.9% annually which is well below the statewide average of 10% annually.
- In light of these facts across the board roll backs in ad valorem revenues in an attempt to reduce property taxes in Florida will have widely differentiated impacts on citizens depending simply upon which county they happen to reside in. This is not equitable nor is it good tax policy.

IMPACT OF PRPOSED ROLL BACK OF AD VALOREM TAX REVENUES ON FLORIDA'S COUNTIES

1.0 Introduction and Assignment

The Florida Legislature is scheduled to convene in special session from June 12, 2007 through June 22, 2007 to discuss property tax reform. On June 1, 2007 Senate President Pruitt and Speaker of the House Rubio announced that the Joint Select Committee on Property Tax Reform has agreed to the following two part reform program. Part 1 consists of statutory tax relief and reform. Cities and counties will be required to cut their taxes based on a formula tied to past taxing behavior. In addition, there will be a cap on future increases in property taxes. Part 2 is a constitutional amendment designed to replace the current homestead exemption and the cap on assessments known as "save our homes" ("SOS"). The replacement is an exemption based on the value of the homestead using a tiered percentage approach.

However, there still is no agreement on the magnitude of the statutory property tax roll back. In addition, there is no agreement on the constitutional amendment to replace the current homestead exemption and its SOS cap. Furthermore, the Committee has not produced any studies to quantify the potential impacts of the property tax cuts under consideration.

There is considerable controversy in Florida over the potential impacts on local governments from proposed cuts in ad valorem revenues. While some political leaders at the State level predict no adverse impacts, many local governments project dire consequences.

The Florida Association of Counties ("FAC") commissioned Fishkind & Associates ("Consultant") to calculate the impacts of proposed reductions in Ad Valorem revenues on Florida's County governments. Specifically, FAC requested analysis of three levels of reductions: (a) 20%, (b) 30%, and (c) 50%. The purpose of this study is to provide objective information concerning the likely impacts of reductions in ad valorem revenues received by counties.

2.0 Methodology

The analysis is based on the latest budget data reported by counties to the Florida Department of Financial Services for FY2005-06 using the Uniform Chart of Accounts (“UCA”). All of Florida’s local government entities (i.e., counties, municipalities, and certain statutorily-defined independent special districts) must submit annually a copy of their annual financial report (“AFR”) for the previous fiscal year to the Florida Department of Financial Services. The AFR must be submitted in a format prescribed by the Department, which is known as the UCA. Each local government entity must submit a copy of its AFR no later than 12 months after its September 30th year end as required by Chapter 218.32, F.S. The Department receives these reports, and then it compiles the reported fiscal data.

The analysis proceeds by first dividing spending for the fiscal year ending 2006 into three broad categories for each of the 67 counties:

- (1) Public Safety – law enforcement, corrections, fire control, emergency and disaster relief, and other public safety
- (2) Essential Services – courts, utilities, constitutional officers, debt service payments, health and human services (75% portion), general government services (75% portion), and ambulance services
- (3) Quality of Life – all other government spending including parks, libraries, culture, and 25% of general government and health and human services.

Table 1 displays the account code and account description for each element included in the three categories.

Next, the dollar amount of the ad valorem revenue cut is applied to expenditures in each category for FY2005-06 in the following order of priority: (1) quality of life, (2) essential services and (3) public safety. This priority ranking is consistent with our interviews of county elected officials, county budget officers, and the analyses of the potential impact of the cuts on county and city budgets conducted by local governments across Florida. If the dollar magnitude of the cut can be absorbed by quality of life services and facilities, then the cuts are assumed to occur in this group with no cuts to essential services or to public safety. If not, then the quality of life spending is eliminated and cuts are made to essential services. If the required reduction in spending cannot be satisfied with cuts in quality of life and in essential services, then cuts would be forced in the public safety category

Table 1. Summary of Accounts by Category

Public Safety	
<u>Account Code</u>	<u>Description</u>
525	Emergency & Disaster Relief
523	Detentions & Corrections
524	Protective Inspections
529	Other Public Safety
522	Fire Control
521	Law Enforcement
Essential Services	
<u>Account Code</u>	<u>Description</u>
517	Debt Service Payments
531-539	Utilities (not including enterprise funds)
75 % is Quality of Life for these categories 511-515, 519	Legislative, Executive, Legal, Finance & Administration, Other General Government
75% is Quality of Life for these categories 541-549	Transportation, Mass Transit, Parking Facilities, Airports
75% is Quality of Life for these categories 561-569	Health & Human Services
526	Ambulance
527	Medical Examiner
581	Constitutional Officer Payments
583-585	Lease or Installment Payments
590	Interest
600's and 700's	Courts
Quality of Life	
<u>Account Code</u>	<u>Description</u>
25 % is Quality of Life for these categories 511-515, 519	Legislative, Executive, Legal, Finance & Administration, Other General Government
25% is Quality of Life for these categories 541-549	Transportation, Mass Transit, Parking Facilities, Airports
551-559	Economic Development
25% is Quality of Life for these categories 561-569	Health & Human Services
571-579	Parks, Libraries, Culture

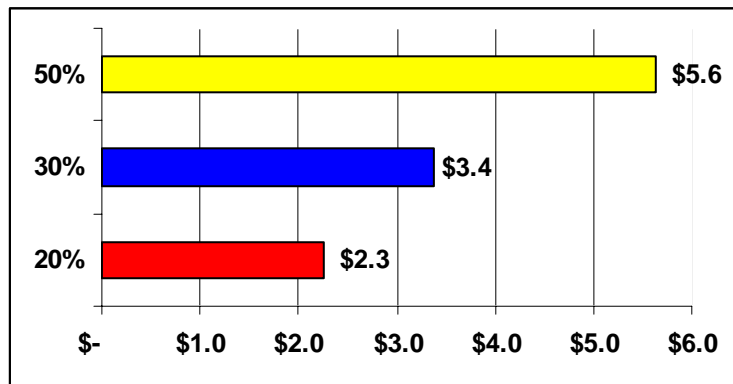
Source: Uniform Chart of Accounts

The analysis was conducted individually for each of Florida's 67 counties. There is significant variation in the budgetary structure of the counties in terms of the percentage of their total revenues coming from property taxes. Those counties that are most reliant on property taxes suffer the greatest impacts from reductions in those taxes. In addition, there is substantial variance in spending by counties on the three categories of spending: (a) public safety, (b) essential services, and (c) quality of life. These differences also produce large variances in the impact of revenue roll backs on the counties.

3.0 Dollar Amount of Statewide Ad Valorem Revenue Cuts

Figure 1 displays the cumulative statewide total dollar amount of cuts necessary under each scenario. For example, a 20% cut in ad valorem revenues translates into a \$2.3 billion reduction in funding for County governments. A 30% cut would equal a \$3.4 billion reduction in funding and a 50% cut would equate to \$5.6 billion in lost revenue for County governments.

Figure 1. Dollar Amount of Ad Valorem Cuts (\$billions)



4.0 Summary of Impacts from Reducing Ad Valorem Revenues by 20%, 30% and 50%

To begin the analysis it is useful to summarize the expenditures by Florida's counties in FY2005-06 by the three categories of spending in this analysis: public safety, essential services, and quality of life. Table 2 summarizes the data. Of the \$23.2 billion in total spending \$6.8 billion was for public safety, \$12.6 went for essential services, and \$3.8 billion for quality of life facilities and services.

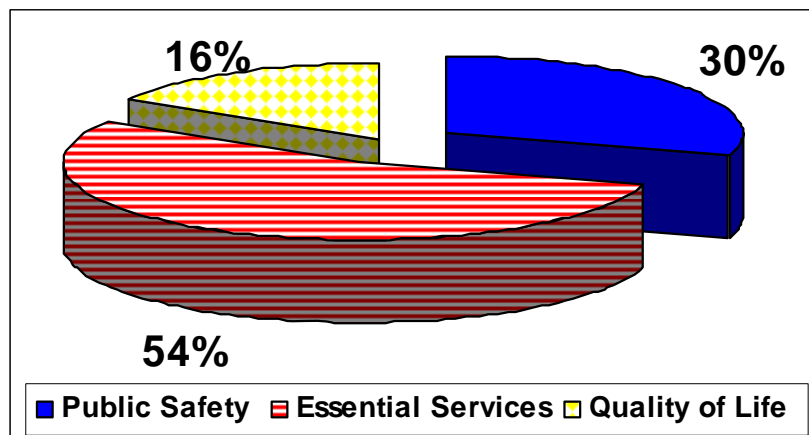
**Table 2. Summary of Expenditures by Florida Counties
Fiscal Year 2005-06**

Category	Amount	% of Total
Public Safety	\$ 6,874,859,190	29.63%
Essential Services	\$ 12,577,526,988	54.20%
Quality of Life	\$ 3,751,822,697	16.17%
Total	\$ 23,204,208,875	100.00%

Source: Florida Division of Financial Services Annual Financial Reports

On a percentage basis nearly 30% of total spending was for public safety. Essential services absorbed 54% of the total budget with quality of life spending responsible for 16% of total county spending in FY 2005-06. Figure 2 illustrates the distribution of spending by counties in total.

Figure 2. Distribution of Total County Spending FY 2005-06



As noted above, the impact assessment starts from the premise that public safety will be protected from spending cuts to the maximum degree possible. Essentially, this tests the hypothesis that county spending could be reduced to absorb reductions in ad valorem revenues without the need to cut spending on public safety.

Table 3 summarizes the results of the analysis. A 20% roll back in ad valorem revenues would require a cut in spending for FY2005-06 of \$2.25 billion. Holding public safety constant, the reduction in revenues available would require cutting spending on quality of life by \$2.24 billion or by 59.8% in total across the 67 counties. However, in some counties the spending on quality of life would have to be completely eliminated and additional cuts into essential services would also be required. Counties so affected include Alachua, Franklin, Gulf, and Nassau. These counties would be forced to make small cuts in essential services to satisfy a reduction in their ad valorem revenues at the 20% roll back level.

**Table 3. Summary of Impacts on Spending from
Alternative Levels of Ad Valorem Roll Backs
(Dollars in Billions)**

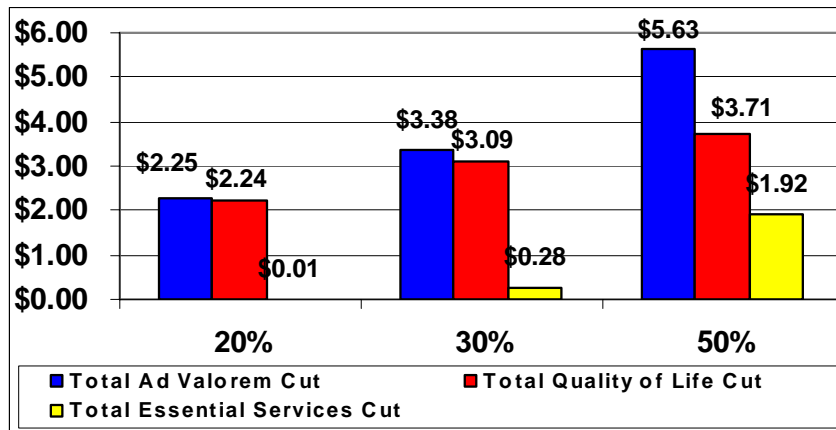
Category/Roll Back %	20% Roll Back		30% Roll Back		50% Roll Back	
Total Ad Valorem Cut	\$2.25		\$3.38		\$5.63	
Total Quality of Life Cut	\$2.24	59.8%	\$3.09	82.48%	\$3.71	98.92%
Total Essential Services Cut	\$0.01	0.1%	\$0.28	2.31%	\$1.92	15.70%
Total Public Safety Cut	\$0.00	0.0%	\$0.00	0.00%	\$0.00	0.00%

At the 30% roll back in ad valorem revenues the impacts are even more dramatic. The revenue reduction totals \$3.38 billion. At this level most counties would be forced to eliminate spending on quality of life, and many would also be forced to cut essential services as well. The statewide reduction for quality of life spending totals over 80% of spending on quality of life items. Cuts in essential service are estimated at \$280 million.

Finally, a 50% roll back in ad valorem revenues will have substantial impacts on county spending. The loss of revenue is \$5.63 billion. To make for cuts at this level almost every county would be forced to eliminate spending on quality of life items to husband resources to support essential services and public safety. However, the impact is so great that essential services would be cut by almost 16% across the state to make up nearly \$2 billion. In some counties the cuts in essential services would be severe. For example, at a 50% roll back Collier County would be forced to cut essential services by over 40%.

Figure 3 illustrates the impact of the various roll back scenarios on spending. These estimates are rolled up from individual analyses for the particular situations in each county.

Figure 3. Statewide County Government Property Tax Cut Impacts

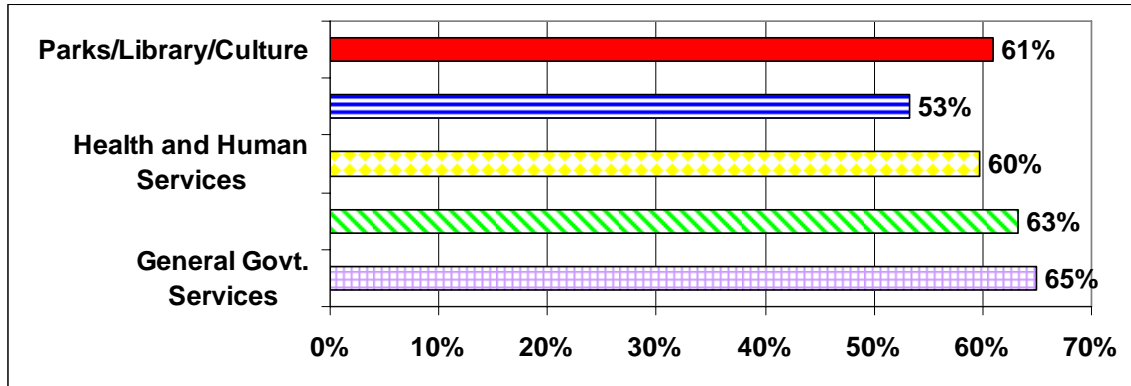


While it is mathematically possible to reduce revenues by as much as 50% and still preserve spending on public safety, it is unrealistic to expect that this would be possible. As noted above, even at the 20% roll back level, most counties would be forced to cut their spending on quality of life items by more than half. Furthermore, even at the 20% roll back level, some counties would also face cuts in essential services. This situation is magnified at the 30% roll back level. Roll backs of 50% would produce the elimination of quality of life spending in almost every county on top of an average 15% cut in essential services. For many counties that are particularly dependent upon ad valorem revenues, the impacts would be much greater as described below.

5.0 Analysis of the Impacts of a 20% Ad Valorem Revenue Cut

Figure 4 displays the impacts of a 20% ad Valorem cut. Quality of Life functions would be cut an average of 60% across the State. Cuts of this magnitude will have significant impacts on citizens. The Consult expects that the resulting cuts in the levels of service will mean less paving for streets, higher fees for Parks and Recreation functions, reduced economic incentive payments for local Chambers of Commerce and Economic Development Councils, and less money available to assist residents in times of natural disasters or other emergencies. There will be significant cuts in spending for health care and human services as well.

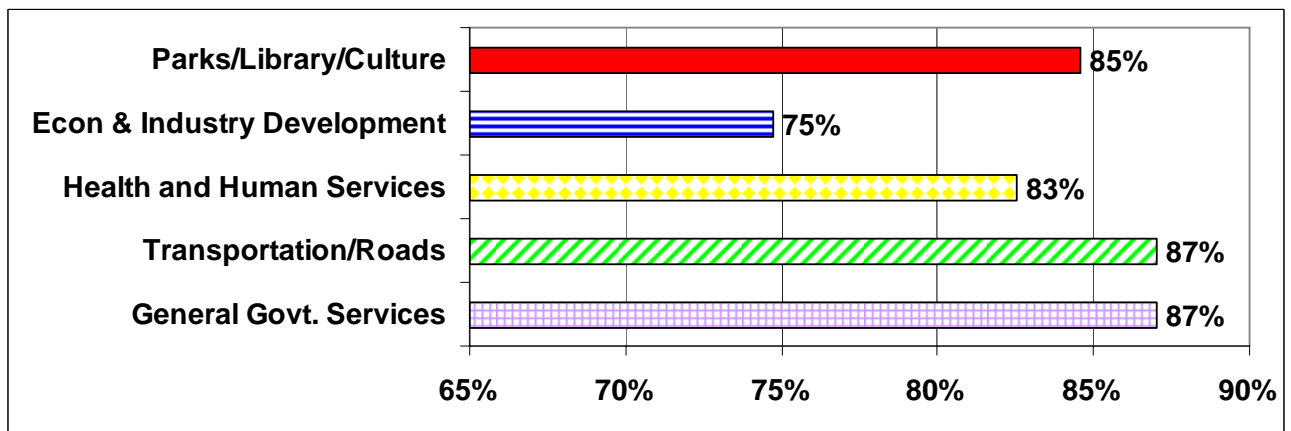
Figure 4. Percentage Reduction in Funding for Quality of Life Services due to a 20% Cut in Ad Valorem Revenues



6.0 Impacts of a 30% Ad Valorem Revenue Cut

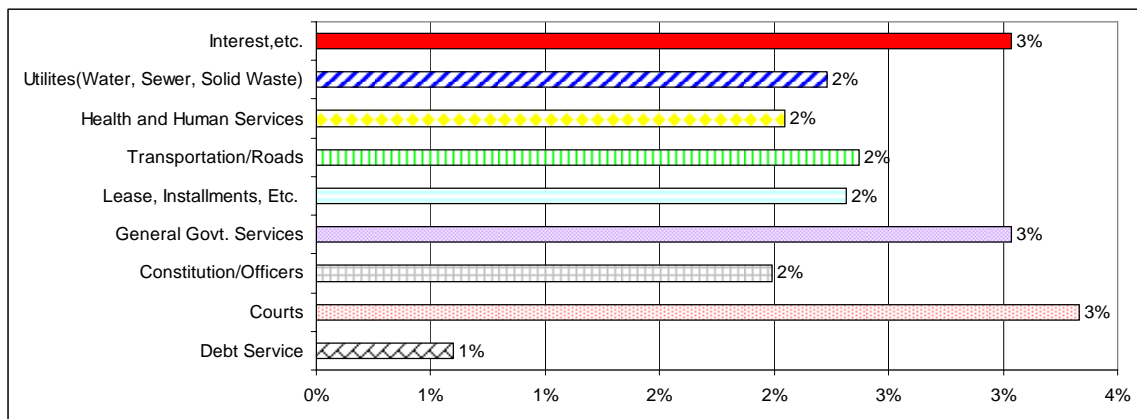
Figure 5 displays the potential impacts of a 30% cut in ad valorem revenues on Quality of Life Functions. On a statewide basis, Counties will need to cut these services an average of 82% in order to adjust to the lost ad valorem revenues. The impact from lower levels of service for residents felt under a 20% ad valorem cut will be magnified under a 30% revenue cut. Again, many functions such as cultural events, library funding, mass transit and roadway upkeep, etc. will be sharply curtailed in all counties and totally eliminated in others.

Figure 5. Percentage Reduction in Funding for Quality of Life Services due to a 30% Cut in Ad Valorem Revenues



After cutting Quality of Life functions, some Counties will be forced to cut their Essential Services as well, because after eliminating all Quality of Life functions these Counties will still need to reduce spending further. Figure 6 displays the Statewide adjustments needed to adjust to reduced revenues. Again, keep in mind that all Counties do not have the same budgetary structure. As a result, some Counties will have to take more drastic cuts than others to respond to the same percentage cut in ad valorem revenues. Also, even a 2% cut in the spending for Constitutional Officers equates to a dollar cut of over \$100 million across the State. So, although the percentages may seem small, their respective absolute values produce very real effects.

Figure 6. Percentage Reduction in Funding for Essential Services due to a 30% Cut in Ad Valorem Revenues

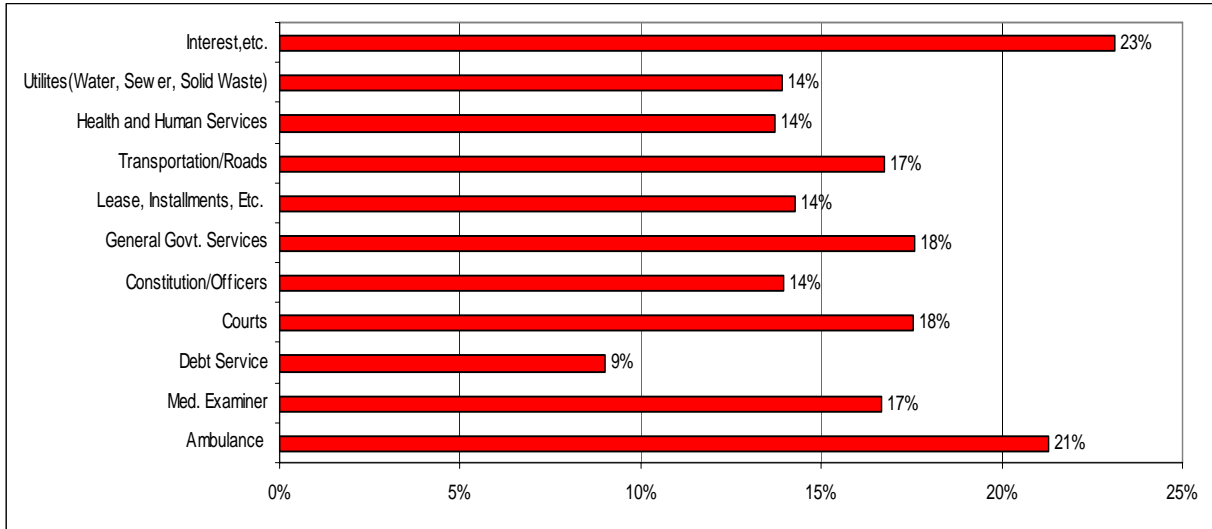


7.0 Impacts of a 50% Ad Valorem Revenue Cut

At a 50% roll back in ad valorem revenues almost every County in the State will be forced to eliminate spending on quality of life functions to husband scarce resources to support their essential services and public safety. The Consultant projects repercussions including the closing of parks and libraries, significant roadway deterioration, operating hours reduced, loss of economic development opportunities, and substantially increased wait time for permitting activities such as zoning, building inspections, and comprehensive plan analysis. County government could only operate to serve the essential functions and public safety.

However, even the elimination of quality of life services is insufficient to make up for a 50% cut in ad valorem revenues. An average reduction of 15% in essential services is also needed. Figure 7 illustrates the cuts that would be required on an average basis. Many counties would face much more dramatic cuts.

Figure 7. Percentage Reduction in Funding for Essential Services due to a 50% Cut in Ad Valorem Revenues



8.0 County Comparisons

The impact of proposed cuts in ad valorem revenue varies significantly across Florida's counties. The reason is that the budgetary structure of the counties is not uniform. Some governments are more reliant upon ad valorem revenues than are others. Those counties that are most dependent upon ad valorem revenues suffer the most impact from the proposed reductions in ad valorem revenues. In fact there is a 78% correlation between the percentage of spending supported by ad valorem taxes and the degree of cuts required under a roll back program of whatever magnitude.

At the 20% roll back level, four counties would have to completely eliminate their spending on quality of life services and cut make cuts in essential services as well. At 30% the number of counties required to eliminate all quality of life spending rises to 29 who would also be forced to cut essential services. Finally, at the 50% roll back level 52 counties, or more than 70% of all counties, would be forced to cut essential services as well as to eliminate all spending on quality of life services and facilities.

9.0 Conclusions

From a purely arithmetic perspective it is conceivable that Florida's counties could incur a roll back of 20% in ad valorem revenues and preserve spending on public safety. However, the impacts on quality of life would be significant. Even at the 20% level, if public safety and essential services are to be preserved, there would be dramatic cuts in quality of life services. Cuts averaging 60% would be necessary. Cuts in quality of life services of this magnitude would have significant impacts on the citizens of Florida.

At the 30% roll back level the impacts are very dramatic if the goal is to preserve all spending on public safety. At this level most quality of life spending would be eliminated and 40% of the counties would also have to make cuts in essential services. This is completely unrealistic even if it is mathematically possible.

The 50% roll back is clearly unworkable. To preserve spending levels on public safety at this degree of revenue loss would entail elimination of spending on quality of life services as well as dramatic cuts in essential services in many counties.

To some extent arithmetical results of cuts in ad valorem revenues are a function of protecting public safety spending from any cuts. It is important to note that our prior study, Analysis of County Spending Patterns 1999-2006 Where Did the Money Go?, demonstrated that most of the increases in ad valorem revenues received by counties was spent on public safety, pensions, health care, insurance and fuel. Therefore, to hold public safety spending constant in the face of reduced revenues dooms all other areas of county spending to significant cuts.

In addition, the wide variation in impact across the counties is a function of their budget structures. The cuts are highly correlated to the degree to which a county's budget depends upon ad valorem taxes. The higher the percentage of revenue from ad valorem taxes, the bigger is the impact flowing from a roll back in ad valorem revenues. Interestingly, this has little correlation with the growth in ad valorem revenues per capita since 2001. For example, Alachua County is highly dependent upon ad valorem revenues to support its budget, but since 2001 the growth rate in ad valorem revenues in Alachua County was 8.9% annually which is well below the statewide average of 10% annually.

Therefore, across the board roll backs in ad valorem revenues in an attempt to reduce property taxes in Florida will have widely differentiated impacts on citizens depending simply upon which county they happen to reside in. This is not equitable nor is it good tax policy.