

STORAGE NAME: h1639.ft

DATE: April 14, 1999

**HOUSE OF REPRESENTATIVES
AS REVISED BY THE COMMITTEE ON
FINANCE AND TAXATION
ANALYSIS**

BILL #: HB 1639

RELATING TO: Ad valorem tax assessment

SPONSOR(S): Representative Alexander and others

COMPANION BILL(S): SB 1582 (s) by Senator Laurent

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:

- (1) AGRICULTURE YEAS 9 NAYS 0
 - (2) FINANCE AND TAXATION
 - (3) GENERAL GOVERNMENT APPROPRIATIONS
 - (4)
 - (5)
-

I. SUMMARY:

Section 193.461, F.S., provides requirements and directions to property appraisers for the assessment of agricultural lands. There are listed criteria for assessment, one of which is the income methodology approach which uses actual agricultural production on a parcel of property as a measure of the value of that particular property. Under this approach, productive agricultural property is assessed in a manner that reflects the rises and falls in the agriculture business by using a five-year moving average to establish the property's value.

The Florida Department of Revenue provides guidelines for property appraisers to utilize in calculation of property value; however, the guidelines do not specify which personal property is to be included in that calculation. As a result, there is no uniformity among the state's 67 counties regarding treatment of certain personal property used to create agricultural revenue. Agriculture industry representatives believe this creates a form of "double taxation." Personal property, such as irrigation systems, is taxed as tangible personal property and also as a land improvement to increase production revenue.

HB 1639 provides that for purposes of the income methodology approach to assessment of property used for agricultural purposes, irrigation systems, including pumps and motors, physically attached to the land shall only be included in the calculation of production revenue.

HB 1639 will have an estimated negative recurring impact of \$6.8 million to the revenue raising authority of local governments. As such, this bill falls under the constitutional mandate provisions.

II. SUBSTANTIVE ANALYSIS:

A. PRESENT SITUATION:

Section 193.461, F.S., provides requirements and directions to property appraisers for the assessment of agricultural lands. There are listed criteria for assessment, one of which is the income methodology approach which uses actual agricultural production on a parcel of property as a measure of the value of that particular property. Under this approach, productive agricultural property is assessed in a manner that reflects the rises and falls in the agriculture business by using a five-year moving average to establish the property's value.

Using citrus as an example, the income methodology approach takes into account the following:

- production of the tree or tree/acre, reflected in boxes of product per tree or tree/acre;
- price per box based upon the type and quality of fruit as well as whether it is fresh fruit, canned fruit, or Florida Concentrated Orange Juice (FCOJ);
- cost of production (cost to produce the product on a per acre basis);
- net income, from which land value is removed, leaving tree value; and
- capitalized tree value to which is added the land value to create the final value for an acre of citrus.

According to representatives of the agriculture industry, double taxation is created when the real estate property record card includes an "added line" for irrigation systems attached to the land or if the irrigation system is required to be reported as tangible personal property. Production per tree or tree/acre reflects the value of the irrigation when the income approach to value is used. In short, irrigation enhances production, therefore increasing value.

According to the Florida Department of Revenue (department), irrigation systems are assessed for ad valorem tax purposes based upon the value of the system. Systems consist of pumps, wells, motors, engines, valves, pipes, sprinkler heads, tubing, drip emitters, micro-jets, micro sprayers, electrical systems, sheds, concrete slabs, walking guns, reel systems, center-pivot systems, etc. Different parts of systems have different economic lives. Property appraisers have several methods of valuing the systems:

1. entire system valued as tangible personal property;
2. entire system valued as real property, either as an addition to land, or as extra features or improvements;
3. part of system valued as real property and part valued as tangible personal property;
4. part of system with longer economic life valued as real property or tangible personal property and remainder with short economic life not included;
5. entire system included with land value; or
6. any combination of 1-5.

The department's Tangible Personal Property Guidelines have historically classified these systems as tangible personal property. Consequently, the value of the systems are not a component of the real property when department staff calculates the value of agriculturally classified-use property in studies for comparison with values calculated by property appraisers.

B. EFFECT OF PROPOSED CHANGES:

HB 1639 establishes that irrigation systems physically attached to land shall only be included in the calculation of production revenue and not be valued as an add-on after the value has been established.

C. APPLICATION OF PRINCIPLES:

1. Less Government:

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

N/A

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

The bill would change the methods by which county property appraisers could appraise irrigation systems physically attached to the land.

(3) any entitlement to a government service or benefit?

N/A

b. If an agency or program is eliminated or reduced:

(1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

N/A

(2) what is the cost of such responsibility at the new level/agency?

N/A

(3) how is the new agency accountable to the people governed?

N/A

2. Lower Taxes:

a. Does the bill increase anyone's taxes?

No.

b. Does the bill require or authorize an increase in any fees?

No.

c. Does the bill reduce total taxes, both rates and revenues?

Because persons with irrigation systems physically attached to land would not have the systems assessed as tangible personal property if their property was appraised using the income methodology, they could end up paying less in property taxes.

d. Does the bill reduce total fees, both rates and revenues?

No.

e. Does the bill authorize any fee or tax increase by any local government?

No.

3. Personal Responsibility:

- a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

No.

- b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

No.

4. Individual Freedom:

- a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

No.

- b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

No.

5. Family Empowerment:

- a. If the bill purports to provide services to families or children:

- (1) Who evaluates the family's needs?

N/A

- (2) Who makes the decisions?

N/A

- (3) Are private alternatives permitted?

N/A

- (4) Are families required to participate in a program?

N/A

- (5) Are families penalized for not participating in a program?

N/A

- b. Does the bill directly affect the legal rights and obligations between family members?

N/A

- c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

(1) parents and guardians?

N/A

(2) service providers?

N/A

(3) government employees/agencies?

N/A

D. STATUTE(S) AFFECTED:

Section 193.461, Florida Statutes.

E. SECTION-BY-SECTION ANALYSIS:

Section 1. Amends s. 193.461(6)(b), F.S., specifying requirements for the inclusion of irrigation systems when the income methodology approach is used in the assessment of property used for agricultural purposes.

Section 2. Provides an effective date of January 1, 2000.

III. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

None.

2. Recurring Effects:

None.

3. Long Run Effects Other Than Normal Growth:

None.

4. Total Revenues and Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

None.

2. Recurring Effects:

Because persons with irrigation systems physically attached to land would not have the systems assessed as tangible personal property if their property was appraised using the income methodology, they could end up paying less in property taxes. This could result in a loss of ad valorem tax income to local governments.

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3. Long Run Effects Other Than Normal Growth:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

None.

2. Direct Private Sector Benefits:

Because persons with irrigation systems physically attached to land would not have the systems assessed as tangible personal property if their property was appraised using the income methodology, they could end up paying less in property taxes.

3. Effects on Competition, Private Enterprise and Employment Markets:

None.

D. FISCAL COMMENTS:

None.

IV. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

N/A

B. REDUCTION OF REVENUE RAISING AUTHORITY:

The estimated negative recurring local impact of this bill is \$6.5 million. As such, this bill does fall under the mandates provision and will need to be passed by a two-thirds vote.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

N/A

V. COMMENTS:

According to the department, the original proposed bill presented some difficulty in administration and enforcement. The bill provided no definition of the term "production revenue," nor is the term currently defined in statute. It was unclear to the department how this terminology related to appraisal methodology. The department also indicated that the original language was subject to broad interpretation by property appraisers and could result in inconsistent treatment throughout the state. The department proposed a clarifying amendment to resolve these issues.

VI. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

One amendment was adopted by the Agriculture Committee. The amendment, by Rep. Putnam, removed the term "production revenue" from the bill and clarified that irrigation systems physically attached to land used for agricultural purposes shall be considered a part of the average yields per acre and shall have no separately assessable contributory value. This amendment solved the problems described by the department and listed in the Comments section above.

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VII. SIGNATURES:

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