HOUSE OF REPRESENTATIVES STAFF FINAL BILL ANALYSIS

BILL #: CS/HB 7019 PCB WMC 24-03 Exemption of Homesteads
SPONSOR(S): State Affairs Committee and Ways & Means Committee, Buchanan and others
TIED BILLS: CS/HJR 7017 **IDEN./SIM. BILLS:**

FINAL HOUSE FLOOR ACTION: 84 **Y's** 31 **N's** **GOVERNOR'S ACTION:** N/A

SUMMARY ANALYSIS

CS/HB 7019 passed the House on February 1, 2024, and subsequently passed the Senate on March 6, 2024.

The Florida Constitution requires all property to be assessed at just value (fair market value) as of January 1 of each year for purposes of ad valorem taxation. Ad valorem assessments are used to calculate property taxes that fund counties, municipalities, district school boards, and special districts. The taxable value against which local governments levy tax rates each year reflects the just value as reduced by any applicable exemptions allowed by the Florida Constitution. One such exemption is on the assessed value between $50,000 and $75,000, which is exempt from all taxes other than school district taxes.

Fiscally constrained counties are counties entirely within a rural area of opportunity or where a 1 mill levy would raise no more than $5 million in annual tax revenue. The Legislature annually appropriates money to fiscally constrained counties to offset ad valorem tax revenue reductions caused by various amendments to the Florida Constitution provided certain requirements are met. Florida's fiscally constrained counties are Baker, Bradford, Calhoun, Columbia, Desoto, Dixie, Franklin, Gadsden, Gilchrist, Glades, Gulf, Hamilton, Hardee, Hendry, Highlands, Holmes, Jackson, Jefferson, Lafayette, Levy, Liberty, Madison, Okeechobee, Putnam, Suwannee, Taylor, Union, Wakulla, and Washington.

The bill implements an amendment to Article VII, Section 6 of the Florida Constitution proposed by HJR 7017 (2024) by making conforming statutory changes. If the amendment proposed by HJR 7017 is approved by the voters, this bill amends current law to add an annual positive inflation adjustment to the current exemption on the assessed value for all levies, other than school district levies, of $50,000 up to $75,000. The inflation adjustment will begin on January 1, 2025.

The Revenue Estimating Conference estimated that the bill has no impact on local government revenues because the constitutional amendment that the bill implements is self-executing. Therefore, revenue impacts would result from approval of the constitutional amendment, not the implementing legislation.

The bill directs the Legislature to appropriate funds to offset reductions in ad valorem tax revenue experienced by fiscally constrained counties as a result of the annual positive inflation adjustment. To receive the offset, a qualifying county must annually apply to the Department of Revenue (DOR) and provide certain documentation. The annual revenue losses in fiscally constrained counties resulting from the annual positive inflation adjustment are estimated to be $0.7 million in Fiscal Year (FY) 2025-26, growing to approximately $4.3 million in FY 2028-29.

Subject to the Governor's veto powers, the bill will take effect on January 1, 2025, if the voters approve the amendment to the Florida Constitution proposed by HJR 7017.

I. SUBSTANTIVE INFORMATION

A. EFFECT OF CHANGES:

Present Situation

Ad Valorem Taxes

The Florida Constitution reserves ad valorem taxation to local governments and prohibits the state from levying ad valorem taxes on real and tangible personal property.[1] Ad valorem taxes are annual taxes levied by counties, municipalities, school districts, and certain special districts. These taxes are based on the just value (fair market value) of real and tangible property as determined by county property appraisers on January 1 of each year.[2] The just value may be subject to limitations, such as the "Save Our Homes" limitation on homestead property assessment increases.[3] The value arrived at after accounting for applicable limitations is known as the assessed value. Property appraisers then calculate the taxable value by reducing the assessed value in accordance with any applicable exemptions, such as the exemptions for homestead property.[4] Each year, local governing boards levy millage rates (i.e. tax rates) on the taxable value to generate the property tax revenue contemplated in their annual budgets.

Homestead Exemptions

Certain homestead exemptions are specified in Article VII, Section 6 of the Florida Constitution, which provides that every person who holds legal or equitable title to real estate and uses said real estate as a permanent residence for themselves, or a legal or natural dependent, is entitled to an exemption from taxes on the first $25,000 in assessed value.[5] In 2008, Florida voters amended this provision to include an additional $25,000 exemption from all taxes other than school district taxes on the assessed value greater than $50,000.[6] The constitution also vests the legislature with authority to enact general law establishing the manner in which individuals qualify for an exemption. Accordingly, s. 196.031(1)(b), F.S., automatically grants the additional, non-school homestead exemption, on the assessed value greater than $50,000 to every individual who qualifies for the initial homestead exemption on the first $25,000 of the assessed value of the property.

Fiscally Constrained Counties

Fiscally constrained counties are counties entirely within a rural area of opportunity or where a 1 mill levy would raise no more than $5 million in annual tax revenue.[7] A "rural area of opportunity" is a rural community or a region, as designated by the Governor, that has been adversely affected by an extraordinary economic event, a severe or chronic distress, or a natural disaster or that presents a unique economic development opportunity of regional impact.[8]

Florida's fiscally constrained counties are Baker, Bradford, Calhoun, Columbia, Desoto, Dixie, Franklin, Gadsden, Gilchrist, Glades, Gulf, Hamilton, Hardee, Hendry, Highlands, Holmes, Jackson, Jefferson, Lafayette, Levy, Liberty, Madison, Okeechobee, Putnam, Suwannee, Taylor, Union, Wakulla, and Washington.[9]

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[1] Art. VII, s. 1(a)., Fla. Const.
[2] Art. VII, s. 4., Fla. Const.
[3] *See generally* s. 193.155, F.S.
[4] S. 196.031, F.S.
[5] Art. VII s. 6., Fla. Const.
[6] *Id.*
[7] S. 218.67(1), F.S.
[8] S. 288.0656, F.S.
[9] Florida Department of Revenue, *Fiscally Constrained Counties*, available at: https://www.floridarevenue.com/property/Documents/fcc_map.pdf (last visited Jan. 23, 2024).

The Legislature annually appropriates money to fiscally constrained counties to offset ad valorem tax revenue reductions caused by various amendments to the Florida Constitution.[10] In order to receive an offset distribution, fiscally constrained counties must annually provide the Department of Revenue with an estimate of the expected reduction in ad valorem tax revenues that are directly attributable to specified revisions of Article VII of the Florida Constitution.[11] This prevents such amendments related to property tax from negatively affecting fiscally constrained county tax revenues.

<u>HJR 7017 (2024)</u>

HJR 7017 proposes an amendment to the Florida Constitution requiring the existing $25,000 assessed value amount, which is exempt from all ad valorem taxes other than school district taxes, be adjusted annually for positive inflation growth. This inflation adjustment would also apply to any future homestead exemption applying only to ad valorem taxes, other than school district taxes, if approved by the voters, and would begin on January 1, 2025.

Effect of Proposed Changes

This bill implements an amendment to Article VII, Section 6 of the Florida Constitution proposed in HJR 7017 by making conforming statutory changes. If the amendment proposed by HJR 7017 is approved by the voters, this bill amends s. 196.031, F.S., to add an annual positive inflation adjustment to the current exemption on the assessed value for all levies, other than school district levies, of $50,000 up to $75,000. The inflation adjustment will begin on January 1, 2025.

The bill creates s. 218.136, F.S., requiring the Legislature to appropriate funds to offset reductions in ad valorem tax revenue experienced by fiscally constrained counties as a result of the annual positive inflation adjustment. To receive the offset, a qualifying county must annually apply to the Department of Revenue and provide documentation regarding the county's estimated reduction in ad valorem tax revenue. If a fiscally constrained county fails to apply for the distribution, its share reverts to the fund from which the appropriation was made.

The bill provides emergency rulemaking authority to the Department of Revenue to administer the provisions of the act.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

   None.

2. Expenditures:

   If the bill becomes effective and the Legislature makes appropriations as contemplated by the bill, the Revenue Estimating Conference (REC) estimates the state expenditures necessary to fully offset the revenue losses for fiscally constrained counties resulting from the inflation adjustment provision would be $0.7 million in Fiscal Year (FY) 2025-26, growing to approximately $4.3 million in FY 2028-29.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

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[10] *See* ss. 218.12, 218.125, and 218.135, F.S.
[11] Ss. 218.12(2), 218.125(2), and 218.135(2), F.S.

The REC estimated that the bill has no impact on local government revenues because the constitutional amendment that the bill implements is self-executing. Therefore, revenue impacts would result from approval of the constitutional amendment, not the implementing legislation.

2. Expenditures:

   None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

None. The economic impact on the private sector would result from approval by the voters of the constitutional amendment proposed by HJR 7017, not the implementing legislation.

D. FISCAL COMMENTS:

None.