

Understanding Your Property Tax

Volume 9, August 2008



From the desk of Morgan Gilreath:

Dear Taxpayers:

The 2008 Tax Roll reflects the actions of the 2007 Real Estate Market.

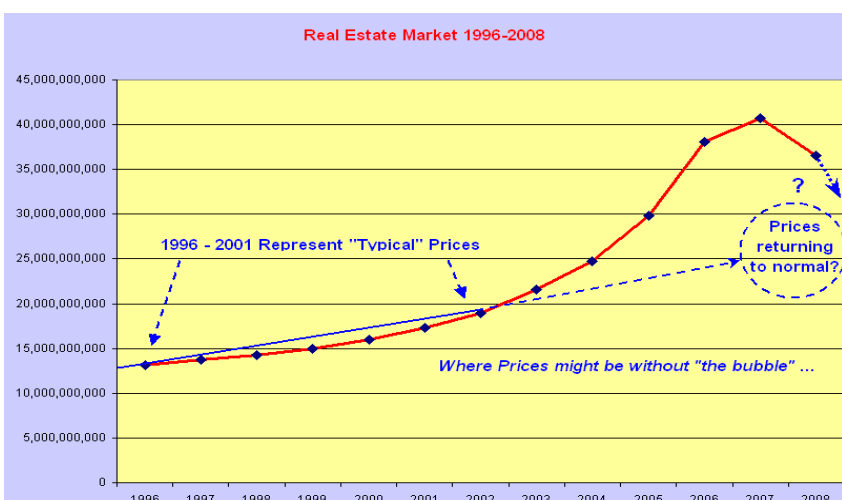
We are in the steepest downward spiraling real estate market since the Depression of the 1930's. Statewide, single family homes, from January 1, 2007 to January 1, 2008 (the 2007 real estate market) decreased in value by around 12%. The Volusia market was no different. The incredible nature of what is going on is that "it is still going on." As I write this, we are seven months into 2008 and the market is already approximating what it did in all of 2007!

While our property tax values are down for most of you from last year, please keep in mind that by law our values are as of January 1st, 2008. They are not as low as the August prices you're seeing as you read this. We are now almost three-quarters of the way through 2008 and this part of the "down market" will not be reflected until the 2009 tax roll. However, from the actions of the 2007 market, over 90% of our residential property values have been lowered, 48% reduced over 20% and 64% (inclusive) reduced over 15%. I mention this because many may see our values and think, "they didn't go down far enough!" The 2008 market will be reflected on the 2009 tax roll... more to come next year.

Save Our Home (SOH) "Recapture" will probably "eat up" some of your value reduction! SOH requires that your Assessed Value rise by 3% or the Consumer Price Index (CPI), which ever is less. Even though we will have lowered the Just Value of most homesteaded properties, the Assessed Value will rise by 3% unless the home was newly purchased and there is not much SOH benefit there. The Florida Association of Property Appraisers, including myself as a Past President, lobbied to have the same percentage drop in Assessed Value as in Just Value. The Legislature, the Florida Department of Revenue, and the Attorney General's office have all weighed in to keep that from happening. It's called "Recapture" meaning the SOH exemption gets "recaptured" at the 3% rate, no matter what's going on in the market place. I don't like it, but I can't change it. The good news is that, unless we see tax increases, the new \$25,000 exemption will counteract this effect on most properties.

1. What is going on with the "Real Estate Bubble" and Government Spending? The "Bubble" has burst, how about the spending?

To assist in understanding what is going on with the real estate market and how it may be evolving, I've prepared some charts depicting Volusia's real estate market from 1996 to 2008, as well as our reaction to it.



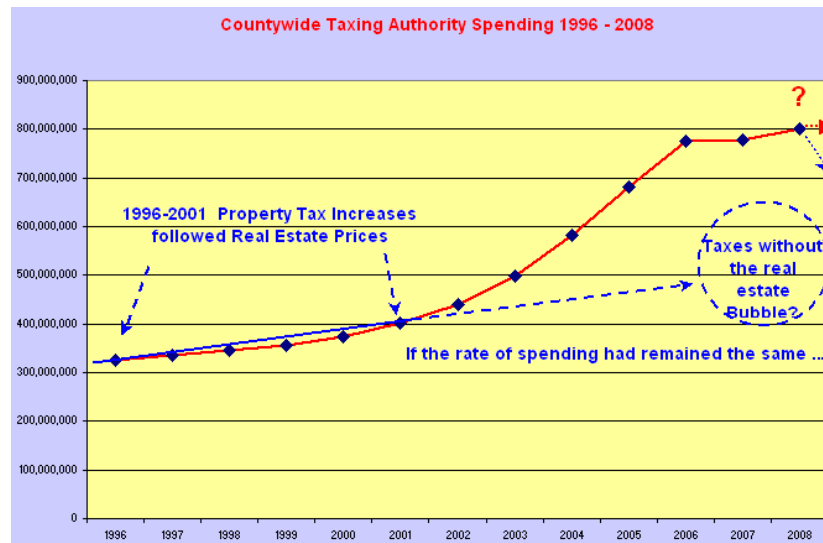
Taxable Values are going down...

E. Volusia Taxable Values 2007-2008	W Volusia Taxable Values 2007-2008
Daytona Beach	Debary
-9.25%	-9.50%
Daytona Beach Shores	Deland
-13.36%	-9.41%
Edgewater	Deltona
-19.24%	-20.94%
Flagler Beach	Lake Helen
-24.78%	-14.63%
Holly Hill	Orange City
-3.29%	-7.76%
New Smyrna Beach	Pierson
-11.68%	-9.90%
Oak Hill Operating	
-15.82%	
Ormond Beach	
-11.03%	
Ponce Inlet	
-15.68%	
Port Orange	
-13.68%	
South Daytona	
-14.16%	

This has great significance as you review our valuations on the Notice of Proposed Property Taxes (NOPPT) mailed with this newsletter. Our tax roll values, by law, must be reflective of real estate prices (Market Values). As the real estate market increases from year to year, so do our valuations. The law intends for property owners to pay property taxes based on a percentage of the value of their property. The "millage rate" is a simple percentage of taxes to value. Last year the average millage rate of 19.28 mills meant that taxpayers were paying 1.928% of the value of their property in property taxes. As "the real estate bubble" (rise in prices) increased during 2002-2006, our values followed suit, as the law requires. However, beginning last year, 2007, the market began falling and so did our values. That trend is very evident in our 2008 tax roll values, provided with this NOPPT (Notice of Proposed Property Taxes). It will be even more evident next year as the prices continue to fall during 2008. The interesting thing about this chart, is that real estate prices appear to be returning to a level near where they would have been without the real estate bubble. This is facilitated by corrections in the banking/lending world that allowed many to purchase at price-levels they simply could not afford.

This illustrates a free-enterprise real estate market (and associated financial considerations) that is “self-correcting” back to a level where participant buyers and sellers can both afford price levels as well as long-term financial obligations for purchase.

The same trend does not seem to be happening in the local government-spending arena. To illustrate, the following graph shows total Volusia local government property tax expenditures (local government property taxes) from 1996-2007 (and with 2008 projected at the “rolled back” millage).



This chart factually represents what has happened in Volusia County. It is not presented as a critical statement regarding spending. Local governments provide a myriad of services to their citizens and Florida’s laws are replete with all of the public-notice ways our citizens must be notified about budget hearings, etc... We the citizens have full opportunity to review the actions of government and to locally decide our own destiny and the service-levels desired and delivered in our own communities. Florida law clearly states that as values rise, millage rates must drop unless there is a “tax increase.”

Having said that, it is fairly evident from the above factual data that spending levels in Volusia County are not, like real estate prices, dropping to where they might have been “without the bubble.” One of my often-repeated mantras is “Spending equals taxes.” From 2002 until 2006, taxes did not increase because prices and assessments went up... taxes increased because spending went up. Spending increases (higher taxes) went to provide citizens with increased services as well as for maintenance of prior increased service levels. The chart indicates that we are likely to see the higher spending levels and services remaining at basically the same levels. We are in inflationary times... we’ve seen gasoline go from under \$2.00 per gallon to over \$4.00 per gallon, along with many other increases in the cost of all services, government and private. Definition of desired governmental services, cost of services, and desired levels of service are not matters that my office has any responsibility for and I am not trying to make judgments regarding them. The two charts above are presented in an attempt to provide an easy to understand pictorial of both the real estate market and government-spending arenas. One could say they present a “taxing-picture.”

2. What happened with the January Amendment #1 Vote? How am I impacted by it?

The January Amendment passed with over 65% of the voters in Florida. That suggests they really wanted the features contained therein. The amendment impacted Florida property owners in four ways:

- a. Gave every Florida resident homeowner the ability to “Port” their Save Our Homes (SOH) benefit from their existing home to a new one. This has been done by over 1,800 homeowners in Volusia thus far, saving all of them money and, in some instances, probably being the only reason they were able to relocate within Florida at all. Fifty-five percent (55%) of those were moving within the county, 25% moving in from other counties and 20% were moving out to another county in the state.
- b. Created another \$25,000 homestead exemption that begins after a property reaches \$50,000 in Assessed Value. This new exemption does not apply to School Board millages; thereby reducing its impact by almost one-half. It will amount to around \$240 on each property. The 2008 Legislature passed a new law requiring taxing authorities to either absorb this cost (instead of passing it on to the taxpayers who voted 65% in favor of it) or to have a special vote indicating their intentions.
- c. Created a 10% [SOH-like] value-cap for all non-homesteaded properties. This means that if we ever have another “run-up” in values (real estate bubble) taxable value will not follow at more than 10% per year. **2008 Amendment #5, if passed, would lower this from 10% to 5%.**
- d. Created a new \$25,000 exemption for all Tangible Personal Property owners. This has virtually eliminated property taxes for mobile homes on rented land (15,933) and eliminated property taxes for many small Volusia Businesses (22,535).

There has been much discussion over the “cost of the January Amendment,” with varying estimates of its impact on taxing authorities. The first year’s cost is now known. The potential cost to the Volusia County School Board is less than one percent (0.8%), leaving their property tax budget 99.2% intact. The potential impact to the other taxing authorities depends mostly on how many homesteaded properties they have. Cities with low percentages of homesteaded owners will potentially fare well (Daytona Beach Shores 2.7%, Ponce Inlet 3.3%). For example, the potential cost to Volusia’s General Fund is 8.3%, to Daytona Beach is 4.8%, and to New Smyrna Beach is 5.3%. Deltona, at 16.9% and Edgewater, at 15.7%, have the highest potential cost because they are mostly residential communities. I use the term “potential cost” for a reason. It is important to understand that all of these costs will be passed directly back to the taxpayers unless the

Taxing Authorities levy the new millage rate, the “Maximum Millage” (defined in “Section 5” below). In other words, there is no cost to any taxing authority who chooses the “Rolled Back Rate” instead of the “Maximum Millage” (see definitions/explanations in “Section 3” below).

3. 2008 Legislature attempts to “shine a light” on budget process... with new millage rate terminology... Same ‘ole “Rolled Back Rate” plus all-new “Maximum Millage Rate.”

The budget process isn’t exactly one that “lights-up” a lot of people’s lives, but it can “light-up” (or conversely lighten) your bank account. Very few budget hearings are held in taxpayer-packed rooms, although in the past two years that has happened. Budget hearings are where your taxes are determined! Your valuation is all about whether or not you pay your “fair share” of the tax burden. The amount of the tax burden is, by Florida law, only determined at taxing authority budget hearings. As you, our Volusia taxpayers, are reading this in the middle of August, the first-level of budget hearings have already been held. The final budget hearings are listed on the attached Notice of Proposed Property Taxes (NOPPT). I point this out because taxpayer silence and inattention can easily be interpreted as consent. As is always the case in this wonderful democracy in which we live... “our government is truly in the hands of the people.” It works best when “they” (the owners) are involved.

Now let’s look at the 2008 Legislatures newly defined “Maximum Millage” rate and the new voting requirements for our 2008 budget hearings. I’ll begin with three millage rates that have been with us for 25 years and are still with us (Rolled Back Rate, Proposed Millage, Final Millage). There is only one new millage term, the “Maximum Millage” Rate. There are no other types or names of millage rates than those listed below.

- **“Rolled Back Rate”:** Generates the same revenues (taxes or budgets) as last year... on the properties that existed last year. Rolled Back rates have been with us for 25 years. It does not calculate additional funds from newly constructed buildings. If chosen, it funds last year’s budget plus additional taxes from any newly constructed properties. An additional important consideration this year is that because the rolled back rate calculation includes the new taxable values, it will pass the “cost of the January amendment” on to the taxpayers.
- **New “Maximum Millage” Rate:** The “Maximum Millage” rate was created by the 2007 Legislature, but redefined by the 2008 Legislature. The Maximum Millage is now part of our law and it will be with us from now on, so it’s important to understand it. The “Maximum Millage” rate is simply and easily defined as follows:

$$\begin{array}{r}
 \text{Rolled Back Rate (defined above)} \\
 - \text{ Less } \text{Cost of January Amendment \#1 (only in 2008)} \\
 + \text{ Plus } \text{Allowance for Per Capita Income Index (PCI) (4.15\% as of Jan. 2008)} \\
 \hline
 = \text{ Equals } \text{Maximum Millage Rate}
 \end{array}$$

- **Proposed Millage Rate:** This is the rate chosen by each taxing authority after their initial budget hearings and is the rate used for the initial budget estimate shown as the “Proposed Budget Changes” column (3rd column) on the Notice of Proposed Property Taxes (NOPPT) accompanying this newsletter.
- **Final Millage Rate:** The final millage rate is chosen at the final budget hearings. The NOPPT contains the times and dates of all taxing authority final budget hearings so that each taxpayer has the opportunity to visit any and all hearings desired. The Final Millage Rate will be used to calculate your 2008 property tax bill.

New voting constraints on budget hearings and millage rate selection. The 2008 Legislature placed constraints on the taxing authorities as to their voting process. Traditionally, it only took a majority vote to pass on a millage rate. Now the following rules are law throughout Florida:

- Up to and including the Maximum Millage Rate can be voted in with a simple majority vote.
- Up to and including 10% above the Maximum Millage Rate requires a 2/3rd or super-majority vote.
- More than 10% above the Maximum Millage requires a unanimous vote or a voter referendum.

The Maximum Millage Rate and the new voting rules, in my opinion, need lots of discussion in this year’s budget hearings. “We the people,” the ultimate owners and funders for “our” government need to fully understand the millage rates being voted on by our taxing authorities. Below is an example of how the Maximum Millage and Rolled Back millage rates would translate into taxes for an actual property in Volusia County.

	2007 Final Millage Rate	2008 Rolled- Back Rate	2008 Maximum Millage Rate
Just Value	227,527	171,654	171,654
Assessed Value	93,545	96,351	96,351
Exemptions (Homestead + Widows)	25,500	25,500	25,500
School Taxable	68,045	70,851	70,851
Additional Exemption	0	25,000	25,000
Non-School Taxable	68,045	45,851	45,851
Total Taxes	\$1,279.94	\$1,155.13	\$1,145.48

The rate chosen (Rolled Back, Maximum Millage or above or below) is decided at your budget hearing.

4. November 2008 Constitutional Amendments (Relating to the Property Tax)

I'm only presenting those Amendments relating to the Property Tax that will be on the ballot in November. I'm not making recommendations on how anyone should vote. The sole purpose of this section is to provide you with information on "what each amendment does." My personal approach to viewing Constitutional Amendments... unless I clearly understand it and am convinced it is either fixing or adding something needed, I vote against it. Constitutional Amendments bring change, which in all likelihood, will never be reversed... study them before voting.

Amendment #3: Creates a de facto exemption for anyone wishing to install energy-efficient devices on homes or to protect homes in any way from any type of wind damage. *Any cost involved in installing energy efficient devices or wind-protecting homes could not be added to the property value for tax purposes. This one is fairly straightforward and easy to understand.*

Amendment #4: Creates a new ad valorem tax exemption for all real property dedicated in perpetuity (forever) for conservation purposes, including conservation easements or other perpetual conservation protections. *It also states "...land used for conservation purposes shall be classified by general law and assessed solely on the basis of character or use." The first part clearly creates an exemption from taxation. The second part seems to address property that isn't dedicated for conservation purposes, but is being used for conservation purposes, regardless of its location or market value should it sell. This amendment would be effective on January 1, 2010 and would require later legislative action through general law to implement it.*

Amendment #5: Has two basic components: (A) School Board millage reduction (B) Lowering of allowable increases in non-residential assessments from 10% to 5%

A. Mandatory shift of School Tax LRE (Local Required Effort) from local (county) property tax to state-level funding.

The School Board in Volusia County has three millages (3 levies), as follows:

<i>Local Required Effort</i>	<i>5.07200 mills @ 2008 Rolled Back (23.5% of average millage)</i>
<i>Discretionary Millage</i>	<i>.71565 mills... not impacted by Amendment</i>
<i>Capital Improvement Millage</i>	<i>2.11730 mills ... not impacted by Amendment</i>
<i>Total current School millage</i>	<i>7.90495 mills</i>

The impact to Volusia's School Millage (LRE) by Amendment #5 will be a reduction of 5.0720 mills (23.5% reduction of average Volusia millage rate). This does not mean that all school millage levies will disappear from your tax bill, just the Local Required Effort (LRE). Schools will still levy local millage rates for Discretionary Funding and for Capital Improvements.

The reduction in local school taxes, according to the amendment will be decided by the Florida Legislature and will come from the following list provided in the amendment:

- Increase in sales tax of up to 1%*
- Repeal of sales tax exemptions which are determined not to advance or serve a public purpose*
- Spending reductions in the State budget and revenue increases from economic growth attributable to lower property taxes.*
- Other revenues identified or created by the legislature*

B. Lowers the 2007-Enacted Non-residential Assessed Value-Cap down from 10% to 5%. *This creates a SOH-like value-cap for all non-homesteaded properties of 5%, providing future protection against aggressive real estate markets like those from 2002 to 2006.*

Amendment #6: Provides for lower assessment of properties categorized as "Working Waterfront" properties by requiring that they be valued based on the "current use," not the "highest and best use."

This amendment provides constitutional protection for very specific categories of properties (commercial fishing, boat launching facilities, etc.) where higher prices and higher taxes have rendered many in the state unable to afford to stay in business. "Working waterfront properties" as defined here, were essentially deemed by the legislature to be in danger of extinction as many were purchased for development into condominiums or other higher density uses.

Please Carefully Review Your Property Valuation On The "Notice Of Proposed Property Taxes."

Please keep in mind that these values, sort of like your 2008 income taxes, are based on the real estate sale market of 2007. The continued-depressed market of 2008 will be reflected on the 2009 tax roll. If, for any reason, you feel that our valuation exceeds what your property was worth on January 1, 2008, please get in touch with us. Our objective is not just appraising property, but appraising it fairly and equally. I invite you to use our website <http://volusia.org/property> to research "your" real estate market and also to check out our values on your property.

OFFICE LOCATIONS:

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