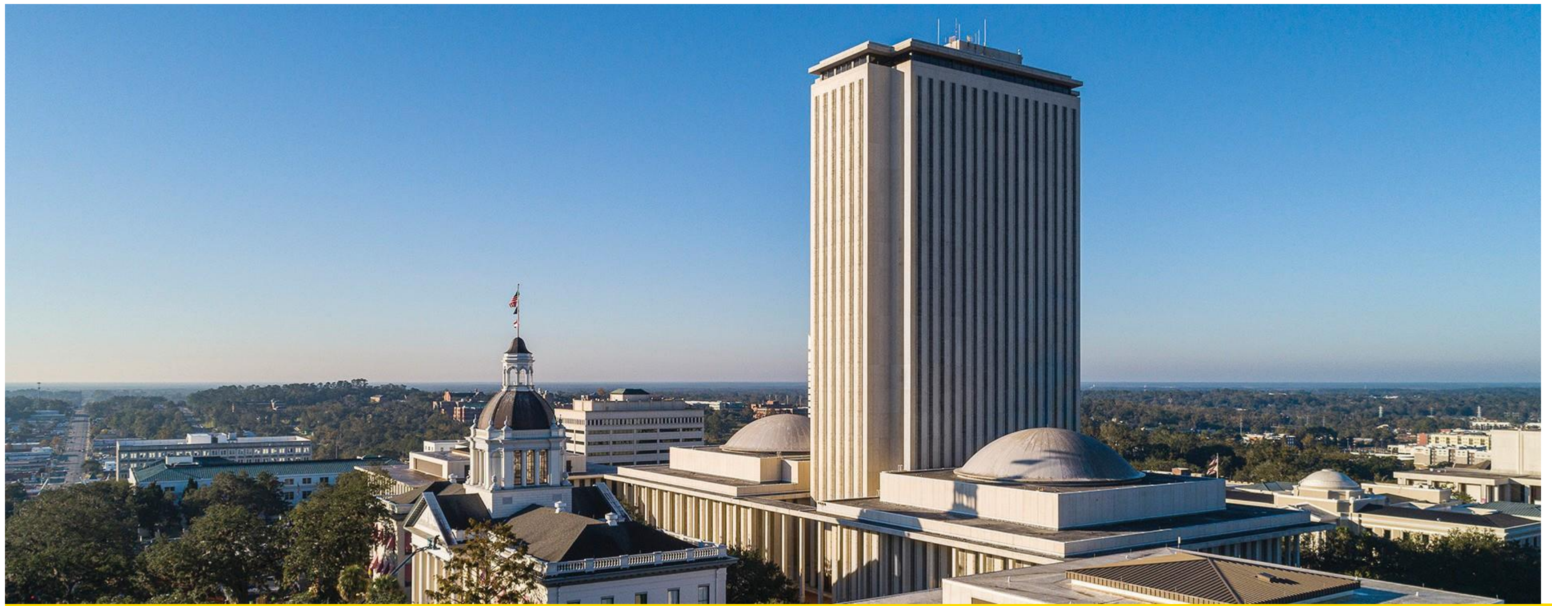


FINANCE, TAXATION & PERSONNEL COMMITTEE

Friday, October 6, 2023
10:00 a.m. – 2:00 p.m. EDT

Naples Meeting Room
Gaylord Palms Resort & Convention Center
6000 West Osceola Parkway, Kissimmee, FL 34746

FLC Staff Contact: Charles Chapman

FLC
FLORIDA LEAGUE OF CITIES

Agenda

Finance, Taxation & Personnel Legislative Policy Committee
Friday, October 6, 2023, from 10:00 a.m. to 2:00 p.m.
Gaylord Palms Resort & Convention Center – Meeting Room: Naples
6000 West Osceola Parkway, Kissimmee, FL 34746

AGENDA

I. Introduction & Opening Remarks .... **Chair Joe Kyles**
Mayor, City of South Bay

II. Florida's Office of Economics, Demographics, and Research (EDR) .... **David Dobbs, EDR**
Data Visualization Project

III. Potential 2024 Priority and Policy Issues

A. Property Tax Issues .... **Charles Chapman, FLC Staff**

B. Enterprise Fund Transfers .... **Charles Chapman, FLC Staff**

C. Introduction of Land Value Tax .... **Vice Chair Erik Arroyo**
Commissioner, City of Sarasota

IV. Other Business .... **Charles Chapman, FLC Staff**

A. Revenue and Expense Issues Forecasting Discussion

V. Additional Information .... **Charles Chapman, FLC Staff**

A. FLC Policy Committee Process for 2023-2024

B. Key Legislative Dates

C. Home Rule Hero Criteria

D. Key Contacts – Click HERE to sign-up

VI. Closing Remarks .... **Chair Joe Kyles**
Mayor, City of South Bay

VII. Adjournment

Breakfast and Lunch provided by the Florida League of Cities

WiFi Available
Network: Gaylord_Conference
Access Code: Policy2023

Committee Roster

2023-2024 Legislative Policy Committee

Finance, Taxation & Personnel

Staffed by: Charles Chapman, Legislative Consultant

CHAIR:

The Honorable Joe Kyles
Mayor, City of South Bay

VICE CHAIR:

The Honorable Erik Arroyo
Comissioner, City of Sarasota

MEMBERS:

The Honorable Thom Barnhorn
Councilor, City of Seminole

The Honorable Michael Blake
FLC First Vice President and Mayor, City of Cocoa

The Honorable Nancy Metayer Bowen
Commissioner, City of Coral Springs

Jennifer Bramley
City Manager, City of Dunedin

The Honorable Thomas Bronson
Council Member, City of Brooksville

Roy Brown
Budget and Finance Director, Town of Pembroke Park

Brian Bulthuis
City Manager, City of Clermont

The Honorable Michael Cadore
Councilman, City of Rockledge

The Honorable Dennis Dawson
Councilmember, City of Mount Dora

The Honorable Kevin Docherty
Council Member, Town of Ocean Breeze

The Honorable Brent Eden
Commissioner, City of Lake Alfred

The Honorable Judith Goldberg
Commissioner, Town of Highland Beach

The Honorable Michael Gonzalez
Council Member, City of Clermont

The Honorable Daniel Henkel
Mayor, City of Niceville

Lori Houghton
Finance Director, City of Tavares

Patricia Jackson
City Manager, Polk City

Antonio Jefferson
City Manager, City of Gretna

The Honorable Chris Johnson
Commissioner, City of Largo

David Keller
Finance Director, City of Hollywood

Lynne Ladner
Town Manager, Town of Ocean Ridge

The Honorable Barbara Langdon
Mayor, City of North Port

John Lege
Assistant City Manager, City of Fort Myers

Revised 9/28/2023

Joseph Lo Bello
Town Manager, Town of Lake Clarke Shores

The Honorable Lisa Mallozzi
Commissioner, City of Cooper City

David Margolis
City Attorney, City of Clearwater

The Honorable Kaija Mayfield
Commissioner, Town of Sewall's Point

The Honorable Kevin McCann
Mayor, City of Winter Springs

The Honorable Tradrick McCoy
Councilman, City of Riviera Beach

Christopher McCullion
Chief Financial Officer, City of Orlando

The Honorable Fernando Meza
Council Member, City of Jacksonville Beach

The Honorable Roger Michaud
Mayor, Town of Lake Park

The Honorable Maria Mitchell
Mayor, City of Miami Springs

Stephen Okiye
Finance Director, City of Port St. Lucie

The Honorable Bill Partington
Mayor, City of Ormond Beach

Leslie Porter
City Manager, City of Dade City

The Honorable Ed Potts
Commissioner, City of Alachua

The Honorable Mike Radzik
Council Member, City of Groveland

Francine Ramaglia
Town Manager, Town of Loxahatchee Groves

The Honorable Jacquelyn Randall
Mayor, City of Hawthorne

The Honorable Gary Ready
Councilmember, Village of Palm Springs

Brittany Retherford
Assistant City Manager, City of Satellite Beach

Suzanne Sherman
City Manager, City of Palm Bay

The Honorable Megan Sladek
Mayor, City of Oviedo

The Honorable Vernel Smith
Commissioner, Haines City

The Honorable Fortuna Smukler
Commissioner, City of North Miami Beach

Rebecca Spuhler
Finance Director, City of Largo

The Honorable Johnny Streets Jr.
Councilmember, City of Fort Myers

Kelly Strickland
Finance Director, City of Sarasota

Debra Sullivan
City Administrator, City of Belleair Bluffs

Doug Thomas
Executive VP of Recruitment, Strategic Government Resources, Business Watch

Darrel Thomas
Assistant City Manager/CFO, City of Weston

Andrew Thompson
Chief Financial Officer, City of Oakland Park

Ann Toney-Deal
City Manager, City of Seminole

The Honorable Bobby Wagner
Mayor, City of Destin

Nick Walsh
Comptroller, City of Satellite Beach

The Honorable Kathy Washington
Councilwoman, Town of Welaka

The Honorable Judy Wertz Strickland
Councilmember, City of Arcadia

The Honorable Robert Yaffe
Council Member, Town of Bay Harbor Islands

The Honorable Brian Yates
Commissioner, City of Winter Haven

The Honorable Molly Young
Mayor, Village of Tequesta

Property Tax Issues

OCTOBER 6, 2023

FINANCE, TAX, AND PERSONNEL POLICY COMMITTEE

DRAFT POLICY POSITION OR PRIORITY STATEMENT

Property Tax Protection

Priority or Policy Position Statement:
The Florida League of Cities SUPPORTS legislation that maintains an equitable property tax system while preserving a municipality's ability to fund public infrastructure, police, fire, emergency services and other essential services. Any further erosions and/or exemptions on the current property tax structure will unfairly shift the tax burden to the business community, renters and others.

Background:
General
People are moving to Florida because of the quality of life our cities provide and the strong local economies made possible by prudent infrastructure investments funded in part by property tax revenues, which are the primary source of revenue for Florida's cities, counties and school districts. With this influx of people moving to Florida, housing demand is outstripping the supply, thus driving up the price. Other factors, such as the number of available units in a particular market, the cost of construction, land procurement costs, interest rates and a variety of other factors, ultimately impact property values. Over the past several years, most of the factors have driven the costs of housing and assessed values ever higher. As property values increase, so does the assessed value of these properties. However, even as the assessed value of property increases, Florida's constitution limits the growth in property tax collections to 3% for homestead properties and 10% for all other properties. This built-in relief valve helps keep property tax increases in check. At the same time, costs to provide services to citizens continue to grow, even when the level of services is the same. Florida's cities are doing more with less, and we believe further erosion of the current property tax structure will unfairly shift the tax burden to the business community, renters and others.

2008 Florida Constitutional Amendment – Amendment 1
On January 29, 2008, Florida voters approved Amendment 1 to the state constitution, which included provisions that double the homestead exemption, allow for portability of the Save Our Homes (SOH) assessment differential, provide an exemption for tangible personal property and provide a 10% assessment cap for non-homestead property.

DRAFT

2022 Florida Constitutional Amendment – Amendment 3

On November 8, 2022, Amendment 3 received 58.7% of the vote, a mere 1.3% below the 60% threshold necessary to revise Florida's constitution. If it had passed, Amendment 3 would have authorized the Florida Legislature to provide an additional homestead property tax exemption of $50,000 on the assessed value between $100,000 and $150,000, and it would have exempted that amount from all taxes other than school district taxes for homesteaded property owned by certain public service workers. Public service workers eligible for the additional exemption would have included K-12 classroom teachers, law enforcement officers, EMTs, firefighters, paramedics, active-duty members of the national military and Florida National Guard and state child welfare service employees. The fiscal impacts of the exemption were not fully known as it was not clear how many eligible individuals would have taken advantage of the proposed tax relief.

DRAFT

Could you drastically reduce your property taxes?

BY JOAN MURRAY

UPDATED ON: SEPTEMBER 18, 2023 / 7:09 PM / CBS MIAMI

FORT LAUDERDALE - Ann and Warren Whatley bought their Fort Lauderdale house near the New River in 2016

Then they got the shock of their life when their tax bill arrived.

"The county reappraised our property so our taxes jumped 50 percent," said Ann Whatley.

They went from paying $20,000 a year to $30,000 a year in property taxes.

"It's crazy, ridiculous," she explained.

It's a feeling shared by a lot of Broward taxpayers.

Because although the county commission is holding the line on the millage rate in their proposed budget, property taxes are rising in proportion to escalating home values.

On Tuesday, the Broward County Commission will take public comment on the proposed budget and then vote. The new budget will determine the taxes property owners will pay in 2023.

Most commissioners support holding the line on the 'millage' rate. And there is little support for decreasing the millage rate.

Commissioner Steve Geller says the increased tax money will be saved for a rainy day.

"The majority of complaints are from people who say I bought the house and my taxes were one level, now I'm reassessed and I can't afford it," he says.

Geller points out that the county is only one portion of your tax bill.

You are taxed also on public schools and the 'debt' from a bond issue voters supported to give raises to teachers.

You also pay city taxes where you live and the county hospital district.

He says 54 percent of your tax money is going to public safety to fund BSO and the county fire department.

To reduce their tax bill, the Whatleys used little-known 'Homestead property tax deferral."

"It keeps property taxes at 5 percent of your adjusted gross income," said Ann Whatley

To qualify you must meet stringent requirements, including but not limited to:

-The Homestead exemption

-The senior exemption

-Income requirements

-Yearly income tax return

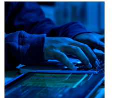
-Pay the taxes you owe when the property sells

The Whatleys saw their taxes go from $30,000 per year to a little more than $6,000 per year.

"As we quit working, our property taxes will continue to go down," said Ann Whatley.

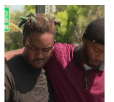
More from CBS News

Tarrant Appraisal District acknowledges computer system security breach possible



School zone speeders beware! Some cities plan to install cameras to catch you

Pompano Beach brothers left homeless by crashed BSO chopper ask for help



Facing South Florida for Sept. 17: Florida Abortion

In: South Florida Fort Lauderdale Property Taxes Broward County

Joan Murray

Get browser notifications for breaking news, live events, and exclusive reporting.

Joan Murray is an award-winning reporter who joined CBS Miami in August 2001, shortly before the 9/11 terror attacks. She was among the first to report the South Florida connection to the terrorists.

Ad Valorem Tax

Article VII, Section 9, Florida Constitution
Chapters 192-197 and 200, Florida Statutes

Summary:
The ability of local governments to raise revenue for governmental operations is limited by the state constitution.

> Counties, school districts, and municipalities shall, and special districts may, be authorized by law to levy ad valorem taxes and may be authorized by general law to levy other taxes, for their respective purposes, except ad valorem taxes on intangible personal property and taxes prohibited by this constitution.[1]
>
> Ad valorem taxes, exclusive of taxes levied for the payment of bonds and taxes levied for periods not longer than two years when authorized by vote of the electors who are the owners of freeholds therein not wholly exempt from taxation, shall not be levied in excess of the following millages upon the assessed value of real estate and tangible personal property: for all county purposes, ten mills; for all municipal purposes, ten mills; for all school purposes, ten mills; for water management purposes for the northwest portion of the state lying west of the line between ranges two and three east, 0.05 mill; for water management purposes for the remaining portions of the state, 1.0 mill; and for all other special districts a millage authorized by law approved by vote of the electors who are owners of freeholds therein not wholly exempt from taxation. A county furnishing municipal services may, to the extent authorized by law, levy additional taxes within the limits fixed for municipal purposes.[2]

With the exception of the ad valorem tax and constitutionally and statutorily authorized home-rule revenue sources (i.e., fees and assessments), local governments are dependent on the Legislature for the authority to levy other forms of taxation. Therefore, the relative importance of the ad valorem tax as a local government revenue source is increased.

To summarize, local governments may levy ad valorem taxes subject to the following limitations.

1. Ten mills for county purposes.
2. Ten mills for municipal purposes.
3. Ten mills for school purposes.
4. A millage fixed by law for a county furnishing municipal services.
5. A millage authorized by law and approved by voters for special districts.

As mentioned, the state constitution provides two exceptions to the ten-mill cap. The exceptions include a voted debt service millage and a voted millage not to exceed a period of two years. Additionally, no property may be subject to more than twenty mills of ad valorem tax for municipal and county purposes without elector approval, regardless of the property's location, under the state constitution. Duval County-City of Jacksonville is a consolidated government; therefore, it has a twenty-mill cap since it operates as both a county and municipal government.

1. Article VII, s. 9(a), Fla. Const.
2. Article VII, s. 9(b), Fla. Const.

County Millages:
County government millages are composed of four categories of millage rates.[3]

1. County general millage is the nonvoted millage rate set by the county's governing body.
2. County debt service millage is the rate necessary to raise taxes for debt service as authorized by a vote of the electors pursuant to Article VII, s. 12, Fla. Const.
3. County voted millage is the rate set by the county's governing body as authorized by a vote of the electors pursuant to Article VII, s. 9(b), Fla. Const.
4. County dependent special district millage is set by the county's governing body pursuant to s. 200.001(5), F.S., and added to the county's millage to which the district is dependent. A dependent special district is defined as a special district that meets at least one of four criteria specified in law.[4]

County Furnishing Municipal Services:
General law implements the constitutional provision authorizing a county furnishing municipal services to levy additional taxes within the limits fixed for municipal purposes via the establishment of municipal service taxing or benefit units.[5] The distinction between a municipal service taxing unit (MSTU) and a municipal service benefit unit (MSBU) is that a MSTU is the correct terminology when the mechanism used to fund the county services is derived through taxes rather than service charges or special assessments (i.e., MSBU). The MSTU may encompass the entire unincorporated area, a portion of the unincorporated area, or all or part of the boundaries of a municipality. However, the inclusion of municipal boundaries within the MSTU is subject to the consent by ordinance of the governing body of the affected municipality given either annually or for a term of years.

The creation of a MSTU allows the county's governing body to place the burden of ad valorem taxes upon property in a geographic area that is less than countywide in order to fund municipal-type services. The MSTU is used in a county budget to separate those ad valorem taxes levied within the taxing unit itself to ensure that the funds derived from the tax levy are used within the boundaries of the taxing unit for the contemplated services. If ad valorem taxes are levied to provide these municipal services, counties may levy up to ten mills.[6]

Municipal Millages:
Municipal government millages are composed of four categories of millage rates.[7]

1. Municipal general millage is the nonvoted millage rate set by the municipality's governing body.
2. Municipal debt service millage is the rate necessary to raise taxes for debt service as authorized by a vote of the electors pursuant to Article VII, s. 12, Fla. Const.
3. Municipal voted millage is the rate set by the municipality's governing body as authorized by a vote of the electors pursuant to Article VII, s. 9(b), Fla. Const.
4. Municipal dependent special district millage is set by the municipality's governing body pursuant to s. 200.001(5), F.S., and added to the municipality's millage to which the district is dependent and included as municipal millage for the purpose of the ten-mill cap.

3. Section 200.001(1), F.S.
4. Section 189.012(2), F.S.
5. Section 125.01(1)(q), F.S.
6. Section 200.071(3), F.S.
7. Section 200.001(2), F.S.

School District Millages:
As previously stated, the state constitution restricts the levy of nonvoted ad valorem tax levies for school purposes to ten mills.[8] The voted levies, which are constitutionally available to counties and municipalities as well as school districts, do not count toward the ten-mill cap. School district millage rates are composed of five categories.[9]

1. Nonvoted required school operating millage necessary to meet Required Local Effort (RLE) is determined by the Commissioner of Education and set by the school board. For operating purposes, it is imposed pursuant to s. 1011.60(6), F.S., and reflects the minimum financial effort required for support of the Florida Education Finance Program (FEFP) as prescribed in the current year's General Appropriations Act.
2. Nonvoted discretionary school operating millage is the rate set by the school board for operating purposes other than the required local effort millage rate imposed pursuant to s. 1011.60(6), F.S., and the nonvoted capital improvement millage rate imposed pursuant to s. 1011.71(2), F.S. The Legislature annually prescribes in the appropriations act the maximum amount of millage a district may levy.[10]
3. Nonvoted district school capital improvement millage is the rate set by the school board for capital improvements as authorized in s. 1011.71(2), F.S. General law limits the maximum rate at 1.5 mills.[11] However, a district school board is authorized to levy an additional millage of up to 0.25 mills for fixed capital outlay under certain circumstances.[12]
4. Voted district school operating millage is the rate set by the school board for current operating purposes as authorized by a vote of the electors pursuant to Section 9(b), Art. VII, State Constitution.
5. Voted district school debt service millage is the rate set by the school board as authorized by a vote of the electors pursuant to Section 12, Art. VII, State Constitution.

The Florida Department of Education's *2021-22 Funding for Florida School Districts*, provides an overview of school district funding and discussion of school district millages.[13]

Independent Special District Millages:
Independent special district millages are the rates set by the district's governing body, and the following issues must be addressed.[14]

1. Whether the millage authorized by a special act is approved by the electors pursuant to Article VII, s. 9(b), Fla. Const.; authorized pursuant to Article XII, s. 15, Fla. Const.; or otherwise authorized.
2. Whether the tax is to be levied countywide, less than countywide, or on a multicounty basis.

8. Counties, municipalities, and school districts may levy taxes in excess of the ten-mill limit to pay bonds or for periods no longer than two years when authorized by a vote of the electorate, pursuant to Article VII, s. 9(b), Fla. Const. In addition to the maximum millage levied pursuant to s. 1011.71, F.S., and the General Appropriations Act, a school district may levy, by local referendum or in a general election, additional millage for school operational purposes up to an amount that, when combined with nonvoted millage levied under this section, does not exceed the 10-mill limit established in Article VII, s. 9(b), Fla. Const. Any such levy shall be for a maximum of 4 years and shall be counted as part of the 10-mill limit.
9. Section 200.001(3), F.S.
10. Section 1011.71(1), F.S.
11. Section 1011.71(2), F.S.
12. Section 1011.71(3), F.S.
13. https://www.fldoe.org/core/fileparse.php/7507/urlt/Fefpdist.pdf
14. Section 200.001(4), F.S.

Adjustments to the Tax Base:
The ad valorem taxable base is the fair market value of locally assessed real estate, tangible personal property, and state assessed railroad property, less certain exclusions, differentials, exemptions, credits and deferrals.[15] Intangible personal property is excluded because it is separately assessed and taxed by the state. Exclusions are specific types of property constitutionally or statutorily removed from ad valorem taxation. Differentials are reductions in assessments that result from a valuation standard other than fair market value. Exemptions are deductions from the assessed value that are typically specified as a dollar amount (e.g., homestead exemption of $25,000). Credits are deductions from the tax liability of a particular taxpayer and may take the form of allowances, discounts, and rebates. Deferrals allow for changes in the timing of payments but do not reduce the taxpayer's overall tax liability.

General Law Amendments:
The list below represents the legislation enacted during the 2022 Regular Legislative Session that amended provisions in one or more of the following chapters of the Florida Statutes, which address the ad valorem tax, its administration, and other relevant issues: Chapter 192, general provisions of taxation; Chapter 193, assessments; Chapter 194, administrative and judicial review of property taxes; Chapter 195, administration of property assessments; Chapter 196, exemptions; Chapter 197, tax collections, sales, and liens; and Chapter 200, determination of millage. These chapter laws are available via the Department of State's Division of Elections website.[16]

Chapter Law #	Subject
2022-97	Taxation
2022-103	Legal Notices
2022-214	Local Tax Referenda Requirements
2022-219	Homestead Property Tax Exemptions for Certain Individuals

Eligibility Requirements:
Florida's constitution authorizes counties, municipalities, and school districts to levy ad valorem taxes. At its discretion, the Legislature may authorize special districts to levy ad valorem taxes. Millage rates are fixed only by ordinance or resolution of the taxing authority's governing body in the manner specifically provided by general law or special law.[17] Millage rates vary among local governments subject to constitutional, statutory, and political limitations.

Administrative Procedures:
The DOR and units of local government administer the ad valorem tax. Two county constitutional officers, the property appraiser and tax collector, have primary responsibility for the administration and collection of ad valorem taxes at the local level. The property appraiser is charged with determining the fair market value, the assessed value, and the values of applicable exemptions to arrive at the taxable value of all property within the county, pursuant to constitutional and statutory requirements. The property appraiser is also tasked with maintaining appropriate records related to the valuation of such property. The tax collector is charged with the collection of ad valorem taxes levied by the county, school district, all municipalities within the county, and any special taxing districts within the county.

15. See the Florida Revenue Estimating Conference's *2022 Florida Tax Handbook Including Fiscal Impact of Potential Change,* pp. 203-217 at http://edr.state.fl.us/Content/revenues/reports/tax-handbook/taxhandbook2022.pdf for additional detail.
16. http://laws.flrules.org/
17. Section 200.001(7), F.S.

The DOR has general supervision of the assessment and valuation of property so that all property is placed on the tax rolls and valued according to its just valuation. Additionally, the DOR prescribes and furnishes all forms as well as prescribes rules and regulations to be used by property appraisers, tax collectors, clerks of circuit court, and value adjustment boards in administering and collecting ad valorem taxes.

Distribution of Proceeds:
The tax collector distributes taxes to each taxing authority.[18]

Authorized Uses:
Ad valorem taxes are considered general revenue for general-purpose local governments (i.e., county, municipality, or consolidated city-county government) as well as for school districts. An independent special district may be restricted in the expenditure of the revenue for the purpose associated with the district's creation. If ad valorem taxes are levied within a municipal service taxing unit (MSTU), the expenditure of those funds may be restricted to those services specified in s. 125.01(1)(q), F.S.

Attorney General Opinions:
Florida's Attorney General has issued hundreds of legal opinions relevant to this revenue source. The full texts of those opinions are available via the searchable on-line database of legal opinions.[19] Interested persons may view the opinions by accessing the website and performing a search using the keyword phrase *ad valorem tax*. Local government officials seeking more clarification should review the opinions in their entirety. The reader should keep the date of the opinion in mind when reviewing its relevance to current law or any interpretations that have been articulated in Florida case law.

Prior Years' Revenues:
The DOR annually publishes online its *Florida Property Valuations & Tax Data*, which details property valuations and tax data by local jurisdiction.[20] Using data obtained from these annual reports, several summaries that profile historical millage rates and ad valorem taxes levied by counties, municipalities, and school districts have been compiled.[21]

18. Section 197.383, F.S.
19. http://myfloridalegal.com/ago.nsf/Opinions
20. http://floridarevenue.com/property/Pages/DataPortal_DataBook.aspx
21. http://edr.state.fl.us/Content/local-government/data/data-a-to-z/index.cfm

Revenue Estimating Conference
Ad Valorem Assessments
August 1, 2023
Executive Summary

Estimates of the statewide property tax roll are primarily used in the appropriations process to calculate the Required Local Effort (RLE) millage rates. These are the expected rates local school districts must levy in order to generate the required local funding for participation in the Florida Education Finance Program. The 2023 certified school taxable value came in at $3,367.19 billion or $80.89 billion (2.5%) higher than expected. Based largely on this new information, the Revenue Estimating Conference has updated its ad valorem forecast for 2024. The new projection is $3,474.08 billion, which is $78.59 billion (2.3%) higher than the previous estimate for 2024 adopted in March 2023. At 96 percent, the value of one mill is now projected to be $3,335.12 million.

Conditions in Florida's housing market are still important to the overall forecast, but they are not the singular driving factors they once were. The 2023 appreciation across all property types came in at 15.27%. Although this is lower than the 24.96% seen in 2022, double digit growth rates are considered abnormally high. The Conference expects appreciation to drop to the low single digits in all of the forecasted years. Just as record low interest rates brought on the 2021 and 2022 buying surge, tightening monetary policy and elevated mortgage rates have already started to halt the spree—introducing a dampening effect on price increases or even price decreases. Expected appreciation in 2024 declines to 0.99% and then modestly increases to 2.19% in 2025. This expectation is in line with the forecast adopted by the Florida Economic Estimating Conference.

County (non-school) taxable value is lower than school taxable value due to the greater number of exemptions available to property owners. In recent years, the Revenue Estimating Conference has been forecasting county taxable value separately from school taxable value. County taxable value on January 1, 2023 came in at $2,920.64 billion. The new projection for 2024 is $3,088.04 billion. This represents a year-over-year increase of $167.41 billion or a 5.73 percent increase from the 2023 actual. The revised estimate is $45.09 billion lower than the previous estimate for 2024 adopted in March 2023.

July 1, 2024 Certified School Taxable Value

(billions of dollars)	Actual July 1, 2023 Certified School Taxable Value	March 2023 Estimate of July 1, 2024 Certified School Taxable Value	August 2023 Estimate of July 1, 2024 Certified School Taxable Value	Change in Estimates (August. 23 vs Mar. 23)	Change from 2023 Actual	Percentage Change from 2023 Actual
School Taxable Value	3,367.19	3,395.50	3,474.08	78.59	106.90	3.17%
Real Property	3,197.27	3,242.50	3,297.25	54.75	99.98	3.13%
Personal Property	167.97	161.04	174.81	13.77	6.85	4.08%
Centrally Assessed Property	1.95	2.05	2.02	-0.03	0.07	3.50%
Projectd VAB	0.00	-10.10	0.00	10.10	0.00	n/a
Value of one mill at 96 percent	3.23	3.26	3.34	0.08	0.10	3.17%

**Total school taxable value includes Value Adjustment Board changes and other tax roll adjustments. Components may not add up to the total.*

January 1, 2024 County Taxable Value

(billions of dollars)	Actual January 1, 2023 County Taxable Value	March 2023 Estimate of January 1, 2024 County Taxable Value	August 2023 Estimate of January 1, 2024 County Taxable Value	Change in Estimates (August. 23 vs Mar. 23)	Change from 2023 Actual	Percentage Change from 2023 Actual
County Taxable Value	2,920.64	3,133.13	3,088.04	-45.09	167.41	5.73%
Real Property	2,750.72	2,980.14	2,911.21	-68.92	160.49	5.83%
Personal Property	167.97	161.04	174.81	13.77	6.85	4.08%
Centrally Assessed Property	1.95	2.05	2.02	-0.03	0.07	3.50%
Projected VAB	0.00	-10.10	0.00	10.10	0.00	n/a

**Total county taxable value includes Value Adjustment Board changes and other tax roll adjustments. Components may not add up to the total.*

CERTIFIED SCHOOL TAXABLE VALUE GROWTH RATES		
Year	March 2023	March 2023
2023	12.03%	14.79%
2024	3.32%	3.17%
2025	6.67%	5.14%
2026	6.16%	5.53%
2027	5.52%	5.51%
2028	5.39%	5.32%
2029	n/a	5.03%

Property Tax Protection

Policy Position Statement:
The Florida League of Cities SUPPORTS legislation that maintains an equitable property tax system while preserving a municipality's ability to fund public infrastructure, police, fire, emergency services and other essential services. Any further erosions and/or exemptions on the current property tax structure will unfairly shift the tax burden to the business community, renters and others.

Background:

General

People are moving to Florida because of the quality of life our cities provide and the strong local economies made possible by prudent infrastructure investments funded in part by property tax revenues, which are the primary source of revenue for Florida's cities, counties and school districts. With this influx of people moving to Florida, housing demand is outstripping the supply, thus driving up the price. Other factors, such as the number of available units in a particular market, the cost of construction, land procurement costs, interest rates and a variety of other factors, ultimately impact property values. Over the past several years, most of the factors have driven the costs of housing and assessed values ever higher. As property values increase, so does the assessed value of these properties. However, even as the assessed value of property increases, Florida's constitution limits the growth in property tax collections to 3% for homestead properties and 10% for all other properties. This built-in relief valve helps keep property tax increases in check. At the same time, costs to provide services to citizens continue to grow, even when the level of services is the same. Florida's cities are doing more with less, and we believe further erosion of the current property tax structure will unfairly shift the tax burden to the business community, renters and others.

2008 Florida Constitutional Amendment – Amendment 1

On January 29, 2008, Florida voters approved Amendment 1 to the state constitution, which included provisions that double the homestead exemption, allow for portability of the Save Our Homes (SOH) assessment differential, provide an exemption for tangible personal property and provide a 10% assessment cap for non-homestead property.

2022 Florida Constitutional Amendment – Amendment 3

On November 8, 2022, Amendment 3 received 58.7% of the vote, a mere 1.3% below the 60% threshold necessary to revise Florida's constitution. If it had passed, Amendment 3 would have

authorized the Florida Legislature to provide an additional homestead property tax exemption of $50,000 on the assessed value between $100,000 and $150,000, and it would have exempted that amount from all taxes other than school district taxes for homesteaded property owned by certain public service workers. Public service workers eligible for the additional exemption would have included K-12 classroom teachers, law enforcement officers, EMTs, firefighters, paramedics, active-duty members of the national military and Florida National Guard and state child welfare service employees. The fiscal impacts of the exemption were not fully known as it was not clear how many eligible individuals would have taken advantage of the proposed tax relief.

Contact: Charles Chapman, FLC Consultant – cchapman@flcities.com

Constitutional Amendment: Revised Limitation on Increases of Homestead Property Tax Assessments (Oppose)

SJR 122 (Avila) and **HJR 469** (Fernandez-Barquin) would have reduced the limitation on annual increases of homestead property tax assessments from 3% to 2%. SJR 122 and HJR 469 were constitutional amendments and would have required the approval of the Florida Legislature and the voters of Florida. (Chapman)

FOR IMMEDIATE RELEASE **CONTACT: Yohana de la Torre**
February 2, 2023 **(239) 896-4695**

Rep. Juan Fernandez-Barquin Files Legislation to Revise Limitation on Increases of Annual Homestead Property Tax Assessments

TALLAHASSEE, FL- Today, Representative Juan Fernandez-Barquin (R-Miami Dade) released the following statement on HB 469/HB 471 Revised Limitation on Increases of Homestead Property Tax Assessments:

"Property prices are through the roof in Florida, stifling the middle class that is already being crushed by rampant inflation. Our state permits a limited exemption for homestead property, which is usually based on the assessed value of said land. However, because of rising property values, residents who own their own home could truly benefit in the long run by lowering the amount your property tax assessment can increase from 3% to 2%. I ran on a platform of smaller government, tax reduction and fiscal responsibility, and this bill does just that— keeps more money in the pockets of hardworking Floridians," said Rep. Fernandez-Barquin.

HB 469/HB 471 Revised Limitation on Increases of Homestead Property Tax Assessments seeks to propose an amendment to the State Constitution to revise limitation on annual increases of homestead property tax assessments, and shall be submitted to the electors of the Sunshine State for approval or rejection in the next general or special election.

###

1 House Joint Resolution
2 A joint resolution proposing an amendment to Section 4
3 of Article VII and the creation of a new section in
4 Article XII of the State Constitution to revise the
5 limitation on annual increases of homestead property
6 tax assessments and to provide an effective date.
7
8 Be It Resolved by the Legislature of the State of Florida:
9
10 That the following amendment to Section 4 of Article VII
11 and the creation of a new section in Article XII of the State
12 Constitution are agreed to and shall be submitted to the
13 electors of this state for approval or rejection at the next
14 general election or at an earlier special election specifically
15 authorized by law for that purpose:
16 ARTICLE VII
17 FINANCE AND TAXATION
18 SECTION 4. Taxation; assessments.—By general law
19 regulations shall be prescribed which shall secure a just
20 valuation of all property for ad valorem taxation, provided:
21 (a) Agricultural land, land producing high water recharge
22 to Florida's aquifers, or land used exclusively for
23 noncommercial recreational purposes may be classified by general
24 law and assessed solely on the basis of character or use.
25 (b) As provided by general law and subject to conditions,

26 limitations, and reasonable definitions specified therein, land
27 used for conservation purposes shall be classified by general
28 law and assessed solely on the basis of character or use.
29 (c) Pursuant to general law tangible personal property
30 held for sale as stock in trade and livestock may be valued for
31 taxation at a specified percentage of its value, may be
32 classified for tax purposes, or may be exempted from taxation.
33 (d) All persons entitled to a homestead exemption under
34 Section 6 of this Article shall have their homestead assessed at
35 just value as of January 1 of the year following the effective
36 date of this amendment. This assessment shall change only as
37 provided in this subsection.
38 (1) Assessments subject to this subsection shall be
39 changed annually on January 1st of each year; but those changes
40 in assessments shall not exceed the lower of the following:
41 a. <u>Two</u> ~~Three~~ percent <u>(2%)</u> ~~(3%)~~ of the assessment for the
42 prior year.
43 b. The percent change in the Consumer Price Index for all
44 urban consumers, U.S. City Average, all items 1967=100, or
45 successor reports for the preceding calendar year as initially
46 reported by the United States Department of Labor, Bureau of
47 Labor Statistics.
48 (2) No assessment shall exceed just value.
49 (3) After any change of ownership, as provided by general
50 law, homestead property shall be assessed at just value as of

CODING: Words ~~stricken~~ are deletions; words <u>underlined</u> are additions.

51 January 1 of the following year, unless the provisions of
52 paragraph (8) apply. Thereafter, the homestead shall be assessed
53 as provided in this subsection.
54 (4) New homestead property shall be assessed at just value
55 as of January 1st of the year following the establishment of the
56 homestead, unless the provisions of paragraph (8) apply. That
57 assessment shall only change as provided in this subsection.
58 (5) Changes, additions, reductions, or improvements to
59 homestead property shall be assessed as provided for by general
60 law; provided, however, after the adjustment for any change,
61 addition, reduction, or improvement, the property shall be
62 assessed as provided in this subsection.
63 (6) In the event of a termination of homestead status, the
64 property shall be assessed as provided by general law.
65 (7) The provisions of this amendment are severable. If any
66 of the provisions of this amendment shall be held
67 unconstitutional by any court of competent jurisdiction, the
68 decision of such court shall not affect or impair any remaining
69 provisions of this amendment.
70 (8)a. A person who establishes a new homestead as of
71 January 1 and who has received a homestead exemption pursuant to
72 Section 6 of this Article as of January 1 of any of the three
73 years immediately preceding the establishment of the new
74 homestead is entitled to have the new homestead assessed at less
75 than just value. The assessed value of the newly established

76 homestead shall be determined as follows:
77 1. If the just value of the new homestead is greater than
78 or equal to the just value of the prior homestead as of January
79 1 of the year in which the prior homestead was abandoned, the
80 assessed value of the new homestead shall be the just value of
81 the new homestead minus an amount equal to the lesser of
82 $500,000 or the difference between the just value and the
83 assessed value of the prior homestead as of January 1 of the
84 year in which the prior homestead was abandoned. Thereafter, the
85 homestead shall be assessed as provided in this subsection.
86 2. If the just value of the new homestead is less than the
87 just value of the prior homestead as of January 1 of the year in
88 which the prior homestead was abandoned, the assessed value of
89 the new homestead shall be equal to the just value of the new
90 homestead divided by the just value of the prior homestead and
91 multiplied by the assessed value of the prior homestead.
92 However, if the difference between the just value of the new
93 homestead and the assessed value of the new homestead calculated
94 pursuant to this sub-subparagraph is greater than $500,000, the
95 assessed value of the new homestead shall be increased so that
96 the difference between the just value and the assessed value
97 equals $500,000. Thereafter, the homestead shall be assessed as
98 provided in this subsection.
99 b. By general law and subject to conditions specified
100 therein, the legislature shall provide for application of this

101 paragraph to property owned by more than one person.
102 (e) The legislature may, by general law, for assessment
103 purposes and subject to the provisions of this subsection, allow
104 counties and municipalities to authorize by ordinance that
105 historic property may be assessed solely on the basis of
106 character or use. Such character or use assessment shall apply
107 only to the jurisdiction adopting the ordinance. The
108 requirements for eligible properties must be specified by
109 general law.
110 (f) A county may, in the manner prescribed by general law,
111 provide for a reduction in the assessed value of homestead
112 property to the extent of any increase in the assessed value of
113 that property which results from the construction or
114 reconstruction of the property for the purpose of providing
115 living quarters for one or more natural or adoptive grandparents
116 or parents of the owner of the property or of the owner's spouse
117 if at least one of the grandparents or parents for whom the
118 living quarters are provided is 62 years of age or older. Such a
119 reduction may not exceed the lesser of the following:
120 (1) The increase in assessed value resulting from
121 construction or reconstruction of the property.
122 (2) Twenty percent of the total assessed value of the
123 property as improved.
124 (g) For all levies other than school district levies,
125 assessments of residential real property, as defined by general

126 law, which contains nine units or fewer and which is not subject
127 to the assessment limitations set forth in subsections (a)
128 through (d) shall change only as provided in this subsection.
129 (1) Assessments subject to this subsection shall be
130 changed annually on the date of assessment provided by law; but
131 those changes in assessments shall not exceed ten percent (10%)
132 of the assessment for the prior year.
133 (2) No assessment shall exceed just value.
134 (3) After a change of ownership or control, as defined by
135 general law, including any change of ownership of a legal entity
136 that owns the property, such property shall be assessed at just
137 value as of the next assessment date. Thereafter, such property
138 shall be assessed as provided in this subsection.
139 (4) Changes, additions, reductions, or improvements to
140 such property shall be assessed as provided for by general law;
141 however, after the adjustment for any change, addition,
142 reduction, or improvement, the property shall be assessed as
143 provided in this subsection.
144 (h) For all levies other than school district levies,
145 assessments of real property that is not subject to the
146 assessment limitations set forth in subsections (a) through (d)
147 and (g) shall change only as provided in this subsection.
148 (1) Assessments subject to this subsection shall be
149 changed annually on the date of assessment provided by law; but
150 those changes in assessments shall not exceed ten percent (10%)

151 of the assessment for the prior year.
152 (2) No assessment shall exceed just value.
153 (3) The legislature must provide that such property shall
154 be assessed at just value as of the next assessment date after a
155 qualifying improvement, as defined by general law, is made to
156 such property. Thereafter, such property shall be assessed as
157 provided in this subsection.
158 (4) The legislature may provide that such property shall
159 be assessed at just value as of the next assessment date after a
160 change of ownership or control, as defined by general law,
161 including any change of ownership of the legal entity that owns
162 the property. Thereafter, such property shall be assessed as
163 provided in this subsection.
164 (5) Changes, additions, reductions, or improvements to
165 such property shall be assessed as provided for by general law;
166 however, after the adjustment for any change, addition,
167 reduction, or improvement, the property shall be assessed as
168 provided in this subsection.
169 (i) The legislature, by general law and subject to
170 conditions specified therein, may prohibit the consideration of
171 the following in the determination of the assessed value of real
172 property:
173 (1) Any change or improvement to real property used for
174 residential purposes made to improve the property's resistance
175 to wind damage.

176 (2) The installation of a solar or renewable energy source
177 device.
178 (j)(1) The assessment of the following working waterfront
179 properties shall be based upon the current use of the property:
180 a. Land used predominantly for commercial fishing
181 purposes.
182 b. Land that is accessible to the public and used for
183 vessel launches into waters that are navigable.
184 c. Marinas and drystacks that are open to the public.
185 d. Water-dependent marine manufacturing facilities,
186 commercial fishing facilities, and marine vessel construction
187 and repair facilities and their support activities.
188 (2) The assessment benefit provided by this subsection is
189 subject to conditions and limitations and reasonable definitions
190 as specified by the legislature by general law.
191 ARTICLE XII
192 SCHEDULE
193 Revised limitation on increases of homestead property tax
194 assessments.—The amendment to Section 4 of Article VII revising,
195 from 3 percent to 2 percent, the limitation on an annual
196 increase of a homestead property tax assessment when such
197 percentage is lower than the percent change in the Consumer
198 Price Index for all urban consumers for the preceding calendar
199 year shall take effect January 1, 2025.
200 BE IT FURTHER RESOLVED that the following statement be

201 placed on the ballot:

202 CONSTITUTIONAL AMENDMENT

203 ARTICLE VII, SECTION 4

204 ARTICLE XII

205 REVISED LIMITATION ON INCREASES OF HOMESTEAD PROPERTY TAX
206 ASSESSMENTS.—Proposing an amendment to the State Constitution to
207 revise, from 3 percent to 2 percent, the limitation on an annual
208 increase of a homestead property tax assessment when such
209 percentage is lower than the percent change in the Consumer
210 Price Index for all urban consumers for the preceding calendar
211 year. If approved, this amendment shall take effect January 1,
212 2025.

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: CS/HJR 469 Revised Limitation on Increases of Homestead Property Tax Assessments
SPONSOR(S): Ways & Means Committee, Fernandez-Barquin and others
TIED BILLS: HB 471 **IDEN./SIM. BILLS:** SJR 122

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
1) Ways & Means Committee	13 Y, 8 N	McCain	Aldridge
2) Local Administration, Federal Affairs & Special Districts Subcommittee			
3) State Affairs Committee			

SUMMARY ANALYSIS

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. Ad valorem taxes are annual taxes levied by counties, cities, school districts, and certain special districts. These taxes are based on the just or fair market value of real and tangible personal property as determined by county property appraisers on January 1 of each year. The just value may be subject to limitations, such as the "save our homes" limitation on homestead property assessment increases. The "Save Our Homes" assessment limitation limits any increase in the annual assessment of homestead property to 3% of the assessment for the prior year or the percent change in the Consumer Price Index, whichever is lower. When there is a change in ownership or control of homestead property, the assessment is not limited by the assessed value of the previous year and it is reassessed at just value.

This joint resolution proposes to amend Section 4(d)(1) of Article VII of the Florida Constitution to reduce the maximum increase of the annual assessment of homestead property under the Save Our Homes assessment limitation from 3% to 2% of the previous year's assessment, or the percent changes in the consumer price index, whichever is lower.

Subject to approval by 60 percent of voters during the 2024 general election or earlier special election, the amendment proposed in the joint resolution will take effect on January 1, 2025. The joint resolution is not subject to the governor's veto powers.

The Revenue Estimating Conference estimated that the impact of the joint resolution on local government revenues is zero or negative indeterminate because the amendment proposed by the joint resolution is subject to voter approval.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

Current Situation

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, cities, school districts, and certain special districts. These taxes are based on the just or fair market value of real and tangible personal 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 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 taxable value to generate the property tax revenue contemplated in their annual budgets.

The voters in 1992 approved an amendment to the Florida Constitution limiting any increase in the annual assessment of homestead property to 3% of the assessment for the prior year or the percent change in the Consumer Price Index, whichever is lower.[5] This amendment is what is known as the "Save Our Homes" provision of the Florida Constitution. When there is a change in ownership or control of homestead property, the assessment is not limited by the assessed value of the previous year and it is reassessed at just value.[6] Future assessments are then limited by the Save Our Homes provision as applied to the reassessed just value.

Effect of Proposed Changes

This joint resolution proposes to amend Section 4(d)(1) of Article VII of the Florida Constitution to reduce the maximum increase of the annual assessment of homestead property from 3% to 2% of the previous year's assessment. The provision related to the percent change in the Consumer Price Index in unchanged, so the revised limitation would be a maximum increase of 2% or the percent change in the Consumer Price Index, whichever is lower. Approving the joint resolution would place the amendment on the ballot during either the 2024 general election or an earlier special election held for the purpose of proposing this amendment to the voters.[7] Pending voter approval, the amendment will take effect on January 1, 2025.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

   None.

2. Expenditures:

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[1] Art. VII, s. 1(a), Fla. Const.
[2] Art. VII, s. 4, Fla. Const.
[3] S. 193.155(1), F.S.
[4] S. 196.031, F.S.
[5] Art. VII, s. 4(d)(1), Fla. Const.
[6] Art. VII, s. 4(d)(3), Fla. Const.; s. 193.155(3), F.S.
[7] Note: Pursuant to Article XI, Section 5 of the Florida Constitution, placing the joint resolution on a special election ballot would require the legislature to pass a general law by 3/4th vote of each house.

Article XI, s. 5(d) of the Florida Constitution requires publication of a proposed amendment in a newspaper of general circulation in each county. The Division of Elections within the Department of State must advertise the full text of the amendment twice in a newspaper of general circulation in each county where the amendment will appear on the ballot. The Division must also provide each supervisor of elections with either booklets or posters displaying the full text of each proposed amendment.[8]

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

The Revenue Estimating Conference (REC) estimated that the impact of the joint resolution on local government revenues is zero or negative indeterminate because the amendment is subject to voter approval. If the constitutional amendment proposed by HJR 469 does not pass, the impact is zero. If it is approved, because the amendment is self-executing, the impact would be negative indeterminate due to the inherent forecasting complexities between market conditions and changes in the Consumer Price Index. However, the REC noted that if the provision had been in place in 2022, the impact on local government revenues would have been approximately -$150 million.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Owners of homestead property in Florida would realize lower property tax bills over time due to the lower limitation of increases in the annual value assessment of their property.

D. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

Not applicable. The mandates provision applies only to a general law, not to a joint resolution proposing to amend the state Constitution.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE CHANGES

[8] S. 101.171, F.S.

Measures to lower cap on property tax hikes clear first committee hurdle

'Changes to (property taxes) just don't land the same in every county.'

Voters could get the chance to reduce the size of property tax increases in the 2024 election, as one Senate panel gave its approval to a ballot measure that would cut the cap on annual property value hikes from 3% to 2%.

The Senate Community Affairs Committee on Wednesday passed **SJR 122**, which places the measure on the November 2024 ballot, and **SB 120**, which installs the language in statute, effective Jan. 1, 2025, if 60% of voters approve. The implementing bill passed 6-3 on a party line vote, with Republicans in favor and Democrats opposed.

Democrats expressed concern the measure would put stress on local governments during a time of high inflation. Sen. **Jason Pizzo**, a North Miami Democrat, said the savings per taxpayer wouldn't make as much of a difference as capping hikes on insurance rates, which are growing faster than property values.

"We're going to the weakest link … because we just don't have either the acumen or the will to put a cap on things that are exploding at a much higher rate," Pizzo said.

Sen. **Bryan Ávila**, a Miami Republican, said rampant inflation is part of the reason the tax relief is necessary.

"(Inflation) is having a dramatic impact on the cost of living in our state," Ávila said. "This is just another initiative to make sure we prioritize our residents."

One Republican, Sen. **Jennifer Bradley** of Fleming Island, also had concerns about the measure's effect on small, rural counties in her Northeast Florida district.

"Changes to (property taxes) just don't land the same in every county," Bradley said. "I certainly support a reduction in property tax but this is going to have a significant impact on folks who can least afford it."

Bradley said she'd still vote for it since Ávila had agreed to insert a provision protecting less populated counties with small tax bases from being harmed by the measure.

The potential impact on small counties is a big bone of contention, although the exact cost each area will bear is unclear. State economists scoring the measure found an indeterminate fiscal impact, although they found that if the cap was at 2% last year, it **would've cost local governments $146.6 million**.

Bob McKee, deputy director of the Florida Association of Counties, argued the change would effectively be a cost shift, rather than a tax cut, if counties sought to recoup revenues from other areas, putting a greater tax burden on renters and those whose homes don't rise in value as quickly.

"All properties across Florida do not grow at the same rate," McKee said. "This puts more benefit to the high-value properties … and less towards the average affordable home."

The House versions of the measures (**HJR 469** and **HB 471**) haven't received a hearing in that chamber yet.

Gray Rohrer

February 15, 2023

5 min

Bryan Avila

Florida Senate

HB 471 HJR 469

Jason Pizzo

Jennifer Bradley

Property Tax

Enterprise Fund Transfers

OCTOBER 6, 2023

FINANCE, TAX, & PERSONNEL POLICY COMMITTEE

DRAFT POLICY POSITION OR PRIORITY STATEMENT

Enterprise Fund Transfers

Priority OR Policy Statement:
The Florida League of Cities SUPPORTS the preservation of municipal authority to manage municipal revenue sources and realize a reasonable rate of return on their proprietary assets, investments and services.

Background:

- During the 2022 Session, legislation was filed that would have prohibited specified state agencies and water management districts from disbursing state funds (including grants) for local government infrastructure, water and resiliency projects if the local government transferred its utility revenues (other than the costs of administrative and support services under a cost allocation plan) for use in providing general government functions and services.

- Currently cities have the ability to transfer utility revenues as needed to supplement their general funds for other municipal operations.

DRAFT

Municipal Utilities (Oppose)

CS/HB 1331 (Busatta Cabrera) would have substantially amended provisions of law relating to municipal water and electric utility extraterritorial surcharges, extraterritorial service **and transfers of enterprise funds.** The bill would have authorized a municipal utility to transfer a portion of its earnings to the municipality for general government purposes. The revenues transferred to fund general government purposes could not have exceeded a rate equal to the amount derived by applying the average of the midpoints of the rates of return on equity approved by the PSC for investor-owned utilities in the state. **The amount of the transfer would have been required to be further reduced based on the percentage of extraterritorial customers served by the utility.** The bill would have eliminated the automatic 25% surcharge that may be added to the rates and fees charged to extraterritorial customers. (O'Hara)

PRESS RELEASE

FOR IMMEDIATE RELEASE
DATE: March 21, 2023
CONTACT: Jennifer Fennell
PHONE: (850) 597-0057
EMAIL: jennifer@coremessage.com

STATEMENT BY:
Amy Zubaly, Executive Director, Florida Municipal Electric Association
Regarding Proposed Committee Substitute for HB 1331, Amendment to SB 1380

"The proposed substitute language for House Bill 1331 and an amendment to Senate Bill 1380 will hurt municipal utility communities and their residents.

Municipal utilities have constitutional authority to transfer revenue generated from assets owned and operated by the local government to the general government budget. These dollars are often used to provide residents with critical life and safety services, including police and fire departments.

House Bill 1331 and Senate Bill 1380 substantially limit municipal electric utilities' ability to transfer revenues to cities' general funds, which is used to reinvest in the health, safety and welfare of their communities. This will inordinately affect rural, often economically distressed, communities that have a weaker tax base because of the volume of tax-exempt properties that are located there, such as houses of worship, schools and government buildings.

Prohibiting or limiting general fund transfers would eliminate a city's right as the utility owner to earn a reasonable return on the investment in its utility systems, a recognized right of every utility owner and operator, to provide an essential service and promote a higher quality of life in their communities.

PCS House Bill 1331 and Senate Bill 1380 will have innumerable unintended consequences for millions of Florida residents and businesses receiving utility services from a municipality. The legislation will undoubtedly raise costs and diminish the quality of life, through reduced services provided or higher taxes, for millions of Floridians already struggling with the burdens of inflation."

###

The Florida Municipal Electric Association (FMEA) represents the unified interests of 33 public power communities across the state, which provide electricity to more than 4 million of Florida's residential and business consumers.

1 A bill to be entitled
2 An act relating to municipal utilities; amending s.
3 166.201, F.S.; authorizing a municipality to fund or
4 finance general government functions with a portion of
5 revenues from utility operations; establishing limits
6 on utility revenue transfers for municipal utilities;
7 amending s. 180.191, F.S.; modifying provisions
8 relating to permissible rates, fees, and charges
9 imposed by municipal water and sewer utilities on
10 customers located outside the municipal boundaries;
11 providing an effective date.
12
13 Be It Enacted by the Legislature of the State of Florida:
14
15 Section 1. Section 166.201, Florida Statutes, is amended
16 to read:
17 166.201 Taxes and charges.—
18 (1) A municipality may raise, by taxation and licenses
19 authorized by the constitution or general law, or by user
20 charges or fees authorized by ordinance, amounts of money which
21 are necessary for the conduct of municipal government and may
22 enforce their receipt and collection in the manner prescribed by
23 ordinance not inconsistent with law.
24 (2)(a) A municipality that owns and operates an electric,
25 natural gas, water, or wastewater utility may fund or finance

CODING: Words stricken are deletions; words underlined are additions.

26 general government functions using a portion of the revenues
27 generated from rates, fees, and charges for the provision of
28 such utility service. The portion of utility revenues that may
29 be used during a fiscal year to fund or finance general
30 government functions, after payment of all utility expenses, may
31 not exceed:
32 1. For revenues generated from electric utility
33 operations, a transfer rate equal to the amount derived by
34 applying the average of the midpoints of the rates of return on
35 equity approved by the Public Service Commission for each
36 investor-owned electric utility in the state to the municipal
37 electric utility's revenues.
38 2. For revenues generated from natural gas utility
39 operations, a transfer rate equal to the amount derived by
40 applying the average of the midpoints of the rates of return on
41 equity approved by the Public Service Commission for each
42 investor-owned natural gas utility in the state to the municipal
43 natural gas utility's revenues.
44 3. For revenues generated from water or wastewater
45 operations, a transfer rate equal to the amount derived by
46 applying the rate of return on equity established by the Public
47 Service Commission under s. 367.081(4)(f) to the revenues of the
48 municipal water or wastewater utility.
49 (b) Except as provided in paragraph (c), the transfer rate
50 applied to municipal utility revenues under subparagraphs (a)1.-

51 3. shall be reduced as follows:
52 1. If more than 15 percent of a municipal utility's retail
53 customers, as measured by total meters served, are located
54 outside the municipal boundaries, the transfer rate applied to
55 utility revenues shall be reduced by 150 basis points.
56 2. If more than 30 percent of a municipal utility's retail
57 customers, as measured by total meters served, are located
58 outside the municipal boundaries, the transfer rate applied to
59 utility revenues shall be reduced by 300 basis points.
60 3. If more than 45 percent of a municipal utility's retail
61 customers, as measured by total meters served, are located
62 outside the municipal boundaries, the transfer rate applied to
63 utility revenues shall be reduced by 450 basis points.
64 (c) The reductions specified in paragraph (b) shall not
65 apply to a municipal utility service if the utility service is
66 governed by a utility authority board that, through the election
67 of voting members from outside the municipal boundaries,
68 provides for representation of retail customers located outside
69 the municipal boundaries approximately proportionate to the
70 percentage of such customers, as measured by total meters
71 served, that receive service from the utility.
72 Section 2. Subsection (1) of section 180.191, Florida
73 Statutes, is amended to read:
74 180.191 Limitation on rates charged consumer outside city
75 limits.—

76 (1) Any municipality within the state operating a water or
77 sewer utility outside of the boundaries of such municipality
78 shall charge consumers outside the boundaries rates, fees, and
79 charges determined in one of the following manners:
80 (a) It may charge the same rates, fees, and charges as
81 consumers inside the municipal boundaries. ~~However, in addition~~
82 ~~thereto, the municipality may add a surcharge of not more than~~
83 ~~25 percent of such rates, fees, and charges to consumers outside~~
84 ~~the boundaries.~~ Fixing of such rates, fees, and charges in this
85 manner shall not require a public hearing except as may be
86 provided for service to consumers inside the municipality.
87 (b)<u>1.</u> It may charge rates, fees, and charges that are just
88 and equitable and which are based on the same factors used in
89 fixing the rates, fees, and charges for consumers inside the
90 municipal boundaries. ~~In addition thereto, the municipality may~~
91 ~~add a surcharge not to exceed 25 percent of such rates, fees,~~
92 ~~and charges for said services to consumers outside the~~
93 ~~boundaries. However, the total of all~~ Such rates, fees, and
94 charges for the services to consumers outside the boundaries
95 shall not be more than <u>25</u> ~~50~~ percent <u>greater than</u> ~~in excess of~~
96 the total amount the municipality charges consumers served
97 within the municipality for corresponding service. No such
98 rates, fees, and charges shall be fixed until after a public
99 hearing at which all of the users of the water or sewer systems;
100 owners, tenants, or occupants of property served or to be served

101 thereby; and all others interested shall have an opportunity to
102 be heard concerning the proposed rates, fees, and charges. Any
103 change or revision of such rates, fees, or charges may be made
104 in the same manner as such rates, fees, or charges were
105 originally established, but if such change or revision is to be
106 made substantially pro rata as to all classes of service, both
107 inside and outside the municipality, no hearing or notice shall
108 be required.
109 2. Any municipality within the state operating a water or
110 sewer utility that provides service to consumers within the
111 boundaries of a separate municipality through the use of a water
112 treatment plant or sewer treatment plant located within the
113 boundaries of that separate municipality may charge consumers in
114 the separate municipality no more than the rates, fees, and
115 charges imposed on consumers inside its own municipal
116 boundaries.
117 Section 3. This act shall take effect July 1, 2024.

CODING: Words ~~stricken~~ are deletions; words underlined are additions.

Infrastructure Project Funding/Transfers of Utility Revenues (Opposed) - 2022

HB 621 (Fine) and **SB 1162** (Broxson) would have prohibited specified state agencies and water management districts from disbursing state funds (including grants) for local government infrastructure, water and resiliency projects if the local government transferred its utility revenues (other than the costs of administrative and support services under a cost allocation plan) for use in providing general government functions and services. (Branch)

1 A bill to be entitled
2 An act relating to infrastructure project funding;
3 creating s. 216.3492, F.S.; providing definitions;
4 prohibiting an administering agency from disbursing
5 funds from any category of the General Appropriations
6 Act for infrastructure projects under certain
7 conditions; requiring a grantee to use the revenues
8 for infrastructure projects for certain activities;
9 amending s. 373.501, F.S.; prohibiting water
10 management districts from disbursing funds to grantees
11 for water-related projects unless certain conditions
12 are met; prohibiting potential grantees from seeking
13 funds for water-related projects under certain
14 conditions; amending s. 403.885, F.S.; prohibiting
15 certain entities from applying for water project
16 grant funding; prohibiting applicants from seeking
17 water project grant funding under certain conditions;
18 providing an effective date.
19
20 Be It Enacted by the Legislature of the State of Florida:
21
22 Section 1. Section 216.3492, Florida Statutes, is created
23 to read:
24 <u>216.3492 Limitation on disbursements to certain local</u>
25 <u>governments and special districts for infrastructure projects.—</u>

CODING: Words ~~stricken~~ are deletions; words <u>underlined</u> are additions.

26 (1) As used in this section, the term:
27 (a) "Administering agency" means the governmental agency
28 or entity charged in any category of the General Appropriations
29 Act with administering or disbursing an appropriation.
30 (b) "General governmental functions" means all the
31 services, other than provision of utility services, provided by
32 a grantee. However, for the purposes of this section, the term
33 does not include administrative and support services provided by
34 the grantee to a government-owned utility under an approved cost
35 allocation plan.
36 (c) "Government-owned utility" means any electric, water,
37 stormwater, or wastewater utility system owned by a
38 municipality, a county, a rural electric cooperative, or a
39 special district created to own and operate a government-owned
40 utility.
41 (d) "Grantee" means a county, a municipality, a rural
42 electric cooperative, or a special district created to own and
43 operate a government-owned utility, which applies for funds
44 appropriated by the Legislature in the General Appropriations
45 Act.
46 (e) "Infrastructure project" means a project related to
47 coastal resiliency, flood control, stormwater management,
48 wastewater management, water supply, or power generation,
49 including the construction, renovation, maintenance, operations
50 or repair of building or facility, fixtures and equipment.

51 (2) An administering agency may not disburse funds from
52 any category of the General Appropriations Act related to
53 infrastructure projects to a grantee if the grantee uses any
54 revenues collected in providing utility services to finance the
55 grantee's general governmental functions or to lend money to
56 finance the grantee's general governmental functions. To be
57 eligible for a disbursement of an appropriation or a grant by an
58 administering agency, the grantee must use the revenues of the
59 government-owned utility exclusively for construction,
60 operations, maintenance, and administrative costs directly
61 associated with providing utility services to its customers.
62 Section 2. Subsection (3) is added to section 373.501,
63 Florida Statutes, to read:
64 373.501 Appropriation of funds to water management
65 districts; appropriation of funds from water management
66 districts.—
67 (3) A water management district may not appropriate or
68 disburse funds to a grantee from any source for any water-
69 related project, including, but not limited to, a coastal
70 resiliency, flood control, stormwater management, wastewater
71 management, or water supply project, if the recipient uses
72 revenues it collects in providing utility services to finance
73 the grantee's general governmental functions or to lend money to
74 finance the grantee's general governmental functions, as defined
75 in s. 216.3492(1)(b). A potential grantee may not seek funds if

76 any of the revenues it collects in providing utility services
77 are transferred to another fund to finance the grantee's general
78 governmental functions or if the revenues collected are used to
79 provide loans to finance its general governmental functions. For
80 purposes of this subsection, the term "grantee" means a county
81 or municipality that provides water, stormwater, or wastewater
82 services, or a special district created to own and operate a
83 utility that provides water, stormwater, or wastewater services.
84 Section 3. Subsection (1) of section 403.885, Florida
85 Statutes, is amended to read:
86 403.885 Water Projects Grant Program.—
87 (1) The Department of Environmental Protection shall
88 administer a grant program to use funds appropriated by the
89 Legislature for water quality improvement, stormwater
90 management, wastewater management, and water restoration and
91 other water projects as specifically appropriated by the
92 Legislature. Eligible recipients of such grants include
93 counties, municipalities, water management districts, and
94 special districts that have legal responsibilities for water
95 quality improvement, water management, stormwater management,
96 wastewater management, lake and river water restoration
97 projects, and drinking water projects pursuant to this section.
98 To be eligible for grant funding, a recipient of grant funds
99 must verify to the department that it will use the revenues
100 received exclusively for construction, operations, maintenance

101 or administrative costs directly associated with providing
102 utility services to its customers. A recipient may not apply for
103 grant funding if any of the revenues it collects from providing
104 utility services are transferred to any other fund to finance
105 the recipient's general governmental functions, as defined in s.
106 216.3492(1)(b), or if the revenues collected are used to lend
107 funds to finance the recipient's general governmental functions.
108 Section 4. This act shall take effect July 1, 2022.

Enterprise Fund Transfers

Priority Statement:
The Florida League of Cities SUPPORTS the preservation of municipal authority to manage municipal revenue sources and realize a reasonable rate of return on their proprietary assets, investments and services.

Background:

- During the 2022 Session, legislation was filed that would have prohibited specified state agencies and water management districts from disbursing state funds (including grants) for local government infrastructure, water and resiliency projects if the local government transferred its utility revenues (other than the costs of administrative and support services under a cost allocation plan) for use in providing general government functions and services.

- Currently cities have the ability to transfer utility revenues as needed to supplement their general funds for other municipal operations.

Contact: Charles Chapman, FLC Consultant – cchapman@flcities.com

Introduction of Land Value Tax

Detroit Considers Shift From Property To Land Value Taxation

Detroit Mayor Mike Duggan (D) recently proposed raising the city's tax on vacant or undeveloped land while reducing taxes on buildings by 30 percent. The hope is his proposed land value tax (LVT) — that is, a tax on the value of land instead of what's built on it — can help address some of the city's economic woes, such as deteriorating neighborhoods and high property taxes.

"Blight is rewarded and building is punished"

Because typical property tax regimes apply equally to the parcel of land and any improvements on it, there is evidence the tax can discourage investment. This is because construction, repair, and maintenance all contribute to higher property values, and subsequently, higher property taxes. This may prompt some landowners to keep their land vacant or let buildings deteriorate.

This is especially problematic in Detroit, where land speculation is rampant: by some estimates, speculators (mostly non-Detroit residents) own almost 20 percent of parcels in the city. And many would rather sit on low-taxed property — some potentially owe less than $30 a year in property taxes — than build new homes or business property.

To make up that lost revenue, the city must shift a relatively large share of its tax burden onto homeowners. In fact, homeowning residents can face tax bills that equal up to 15 percent of their household income, in turn leading to high rates of tax-induced foreclosure and abandonment. By some estimates, Detroit's tax-related foreclosures affect one in four properties.

That further fuels speculation by nonresidents, who account for the vast majority of purchases at the tax auctions where foreclosed homes are sold.

In the words of Mayor Duggan, "Blight is rewarded and building is punished." Thus, the mayor hopes to force the hands of vacant property owners by taxing their land, and to use the revenue to lower the burden for many homeowners and businesses.

The city estimates that the LVT plan would reduce property taxes for 97 percent of Detroit homeowners and 70 percent of small businesses, with a typical multifamily housing unit saving 20 percent on their tax bills. By contrast, owners of vacant lots or scrap yards could see their tax bills rise by over 100 percent.

Pros and cons of LVTs

Like many other US cities, Detroit has historically undervalued and over-assessed its lowest-value homes, disproportionately impacting its Black residents. After years of over-taxing Black homeowners, an LVT might help alleviate excessive tax burdens, with greater savings in lower land-value neighborhoods, which have larger Black communities due to historical disinvestments from redlining.

LVTs could also help solve a (nationwide) affordable housing shortage. By removing disincentives for construction, LVTs promote greater development. This could support building more housing, especially multifamily housing. Increased housing supply, paired with lower taxes on landlords, could reduce rents for tenants. And more construction can help increase density in cities, which has added benefits for the environment and public health.

However, the empirical evidence on LVTs so far is mixed, with some studies finding LVTs stimulate more development but others finding no significant impact. This is in part because restrictive land use policies can limit development no matter the tax system. And although LVTs can incentivize construction, they do not guarantee more affordable housing. To succeed, any LVT probably needs to be a part of a larger strategy that includes inclusionary zoning policies, social housing mandates, or public housing renovations.

There are also political challenges. Owners of parking lots, car dealerships, and golf courses tend to oppose a policy that raises taxes for low-density land. And without attention to equity, LVT proposals can have repercussions for farmers or low-income homeowners on large lots. Currently, no major local government in the US uses an LVT, and Detroit's must be approved both by the city and the state government.

But that doesn't mean LVTs are politically infeasible. Implementing any new tax system can generate backlash, but LVTs have been successfully implemented in some Pennsylvania cities, as well as Hong Kong, Australia, South Africa, and other places across the world. An LVT that applies equally to all might be perceived as more fair than the current regime, in which governments give large tax breaks to developers to subsidize housing construction.

While every tax has pros and cons, LVTs have the capacity to improve access to affordable housing, encourage development, and deter blight — all issues central to Detroit's broader goals for economic growth and equitable tax policy.

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https://www.wsj.com/articles/detroit-aims-to-spur-new-housing-boost-property-values-with-tax-change-5e81cbcc

REAL ESTATE | PROPERTY REPORT

Detroit Aims to Spur New Housing, Boost Property Values With Tax Change

A land-value tax will help revitalize city, become model for Rust Belt, proponents say

By Konrad Putzier

Feb. 14, 2023 8:00 am ET

Detroit has a glut of vacant lots and a lack of development. PHOTO: JIM WEST/ZUMA PRESS

Detroit city officials are weighing a radical change to the way the city taxes property, which proponents say will help revitalize the city and become a model for the Rust Belt.

Detroit would be the largest U.S. city to introduce a so-called land-value tax. Like most U.S. cities, Detroit calculates property taxes by estimating the value of a property's land and buildings and charging a fixed percentage each year.

Under the proposed change, the city would replace some property levies with a single tax on the land value only, according to people familiar with the matter.

That means owners of vacant land would see their tax bills skyrocket, while the tax bill for many homeowners and commercial-property owners would fall. That in turn would push up home values and encourage more property owners to build, said Roderick Hardamon, a local real-estate developer who supports the change.

Black homeowners have been hit particularly hard by declining values in recent decades, and proponents say the change could help shrink the region's racial wealth gap.

The tax change has a couple of legislative hurdles to clear. First, it would need state approval. Then it would need to win a majority of Detroit voters through a ballot measure.

There is no clear timetable for either right now. Detroit Mayor Mike Duggan has said the city is "80% of the way to a solution" on a new tax system, a spokeswoman said.

The speaker of Michigan's house of representatives, Joe Tate, supports the new tax policy, which is also backed by a number of advocacy groups, economists and property developers.

"Reducing the tax burden creates stronger communities, not only in Detroit but across the state," Mr. Tate said.

Mayor Mike Duggan has said Detroit is '80% of the way to a solution' on a new tax system. PHOTO: ERIN KIRKLAND/BLOOMBERG NEWS

Other mayors and housing advocates see Detroit as a crucial test case for this tax policy, one that could open the door for other cities to follow.

"I think this is a policy that works in any city in Michigan and works in a lot of distressed cities in a similar way," said Nick Allen, a Ph.D. student at the Massachusetts Institute of Technology and former manager at the Detroit Economic Growth Corporation, who has been pushing for the tax change.

Detroit has a glut of vacant lots and a lack of development. Investors, many from out of state, bought up land and kept it vacant, waiting for prices to rise, according to developers and community activists.

Live Q&A

2023 Housing Market Outlook

Falling mortgage rates are beginning to stir demand in the housing market. As we head into the spring, a season that tends to bring out more buyers and sellers, what can we expect for the year ahead? Redfin CEO Glenn Kelman sat down with Nicole Friedman, Wall Street Journal reporter covering the housing market, to discuss his outlook for 2023.

Watch the conversation →

A declining population pushed down home values and property-tax income in recent decades, leading the city to raise tax rates to make up the shortfall, causing more people to leave and pushing home values lower.

In a study published last year, Mr. Allen and John Anderson, a professor of economics at the University of Nebraska-Lincoln, estimated that more than 96% of Detroit homes and small rental buildings would see their property-tax bills fall as a result of the proposed change. That, along with an expected increase in development, could help push up residential-property values, they said.

Changing tax systems can be legally complicated, and some landlords have argued that the impact on development is minimal at best. One risk is that the change could take a toll on businesses using a lot of land, said Aaron Seybert, a managing director at the Kresge Foundation, who supports the change.

The idea of shifting taxes onto land goes back more than a century. American journalist Henry George popularized the concept in the late 19th century, writing a book on the subject that for years sold more copies in the U.S. than any book

other than the Bible and spawned a tax-overhaul movement. But despite the idea's early popularity, it failed to take root.

In the U.S., tax systems with higher rates on land than on buildings only exist in a handful of cities in Pennsylvania. Pittsburgh, the only major U.S. city that had such a system, ditched it in 2001 as part of a broader shake-up of the city's tax system.

Calculating two values for a single property can also be tricky. But Mr. Hardamon said unfair assessments also happen under traditional property-tax systems.

"It's the same risk today, so what's the difference," he said.

Write to Konrad Putzier at konrad.putzier@wsj.com

Appeared in the February 15, 2023, print edition as 'Detroit Weighs a Tax Change to Juice Real Estate'.

STRONG TOWNS

If the Land Tax Is Such A Good Idea, Why Isn't It Being Implemented?

Rick Rybeck · March 8, 2019

Why is a piece of urban land worth something?

The answer is mostly, "Because of what is nearby." The value of land is collectively, *publicly created*. But private landowners can appropriate this publicly-created value regardless of whether or not they put it to productive use. In other words, they don't have to contribute to the good party going on around them.

Speculation inflates land prices near existing infrastructure, thereby pushing development to cheaper (but more remote and less productive) sites. This destroys farmland, and it requires the wasteful duplication of expensive infrastructure, increasing tax burdens.

Image: Steven Vance via Flickr

In the late 1800s, there was a growing movement to tax land values, led by the economist Henry George, because these gains were "unearned" income. Land speculators endowed economics departments at key universities. Over time, "neo-classical" economics developed, under which "land" and "natural resources" disappeared as separate factors of production. Instead, they are lumped

the economy.

This is a major reason the land tax hasn't caught on politically: land is unlike all other things you can own, buy, and/or sell, but that fact is often poorly understood.

Land speculation, for example, is often referred to as "real estate investment." But "investment" is the creation of something new that enhances future production. Buying and selling land creates nothing; it's what you *do* on the land that creates value. Land speculation in itself is just gambling. It is betting that the work of the community will enhance land values, without contributing to that enhancement.

Reining in Speculation

Strong Towns advocates that local communities be given the option of taxing land value separately from building ("improvement") value. A land value tax (LVT) returns the value of land to the communities that created it—and recycles that value to fund public needs like infrastructure creation, operation and maintenance. The benefits are several:

- LVT makes land speculation less profitable and reduces the incentive for fringe suburban development.
- Shifting the property tax off of building values and onto land values can make both buildings and land less expensive, thereby making housing more affordable while fostering business growth and employment.
- Communities that have implemented this reform have outperformed comparable communities using the traditional property tax.

Most things that we're familiar with are produced. If we tax them, production falls and prices rise. Therefore, many assume that if we tax land,

LVT enjoys broad support among economists. Yet few places are implementing it, which raises the question: Why hasn't land value taxation been implemented more widely?

Land Taxes *Are* Widespread… Sort Of

In one sense, land value taxation *is* widely practiced. Almost every community has a property tax that is levied against the combined value of buildings and land.

The problem is that the land tax component of a traditional property tax is too small to deter land speculation. Although property taxes vary from place to place, they are typically between 1% and 2% of the property's total value paid annually. If inflation is low, then for longtime property owners, this amounts to roughly the same cost as if they paid a one-time sales tax on the property of between 10% and 20%. Thus, the property tax applied to building values inflates their price by between 10% and 20%. And the property tax applied to land value allows 80% to 90% of publicly-created land value to accrue as a windfall to landowners.

Thus, typical land taxes are too weak to discourage land speculation. And this problem is compounded by the negative impacts of the property tax applied to buildings, which especially in weaker real-estate markets can make it unprofitable to do renovations or even basic maintenance on a building. Fortunately, as Joshua Vincent wrote earlier in this series, some communities (especially in Pennsylvania) have shifted property taxes off of buildings and onto land, improving their economic performance.

How About a Universal Tax Abatement on Buildings?

If you go to a public hearing and declare , "There's a good tax that could help our community," nobody will hear a word you say after that. In most people's minds, *all* taxes are bad.

higher taxes when they construct, improve or maintain buildings?"

Restoring a historic house (via Flickr)

Under the traditional property tax, the responsible owner of a well-maintained home pays more tax than the owner of an adjacent vacant lot or boarded-up building. Yet, the cost of maintaining streets, sidewalks and utility pipes adjacent to these properties is the same. The snowplow doesn't lift its blade as it passes the vacant lot. All these properties are receiving the same infrastructure benefits. Why punish the responsible homeowners while rewarding speculators?

An article by Daniel Herriges discussed how developers, especially in weak real-estate markets, often receive a property tax "abatement" as an inducement to develop. Instead of such abatements being the norm for a favored few, why not abatements for everybody? A "**universal property tax abatement**" would reduce the tax rate applied to all privately-created building values. This should be well-received by almost everybody. This would benefit existing homeowners and businesses as well as newcomers. The message fits with widespread anti-tax sentiment.

Becoming a Champion for Change

Changing the tax system is hard. As much as people hate it, they are familiar with it. And people are nervous about change. As with most things, the devils (and the angels) are in the details. Therefore, if you want to push for this reform in your community, before going public with it, it would be wise to:

like widespread "homestead" exemptions would be applied.

- **Look into what classes of property and/or which neighborhoods are paying the most under the status quo.** What about owners of surface parking lots, vacant lots and boarded-up buildings? Are there strategically-located parking lots, vacant lots and/or boarded-up buildings that are thwarting economic development? A universal property tax abatement would encourage development of such properties in prime locations.
- **How can rates be shifted off of buildings and onto land gradually over a 5-year period?** This avoids creating windfalls and wipeouts. After all, speculators are simply playing by the rules. A gradual shift allows those who would be disadvantaged to change their approach to land management to take advantage of the new incentives without significant hardship.
- **Be aware that tax departments may oppose this change** because it draws attention to assessments (which might not be up to par). They won't admit this. Instead they will claim (falsely) that total property assessments can't be separated into separate components for land and buildings. You and your Champion need to be aware of this in advance.
- **Identify state laws that permit or prohibit different rates of taxation** applied to buildings and land. In some cases, state laws will need to be changed before this reform can be implemented by a city, town or county. A single jurisdiction could lobby the state legislature for permissive legislation, but a coalition of communities would be better.
- **Identify key stakeholders, both groups and individuals**. Who are the key public officials whose votes will be needed? Who contributes to their campaigns? What constituencies do they listen to?

plentiful?

- **Understand your opponents.** The owners of "prime sites" in our downtowns are relatively few. Often, they don't even live in the communities where they own land. But they tend to make large campaign contributions. Once a tax reform idea becomes public, you can count on them to spread rumors and make false claims. Make sure that key constituencies are prepared and inoculated against them.
- **Identify members of the media who report on tax issues.** Have informal conversations with them about this "interesting idea for prosperity, sustainability and equity." When speculators start trashing your proposal, educated reporters might place false claims in their proper context. Develop graphics to illustrate your points. (See my article "Financing Infrastructure With Value Capture: The Good, The Bad, & The Ugly" for some examples.)
- **Some constituencies could be allies or opponents.** To get them on your side, it might be helpful to have a consultant who knows how to communicate these ideas to different groups and how to use assessment data to model possible results.

Strong Towns members have an opportunity to advocate incremental change that will make fundamental improvements in housing affordability, employment, sustainability and equity.

(Cover Image by naobim on Pixabay)

This week, Strong Towns is taking an in-depth look at the land tax and how it can incentivize a healthier, more resilient pattern of growth and reinvestment in cities.

STRONG TOWNS

This series is sponsored by the generous support of the Robert Schalkenbach Foundation (RSF).

About the Author

Rick Rybeck is the Director of Just Economics, a firm that helps communities harmonize economic incentives with public policy objectives to build better places. Rybeck is an attorney with a master's degree in real estate and urban development. He has worked on issues related to state and local government for over 35 years.

In 2009, Rybeck established Just Economics, LLC to assist communities in promoting job creation, affordable housing, transportation efficiency and sustainable economic development.

You might also like...

Strong Towns · Robert Schlankenbach Foundation

YOU GET WHAT YOU TAX FOR:

How a Land Value Tax Can Help Us Build Prosperous Places

You Get What You Tax For: How a Land Value Tax Can Help Us Build Prosperous Places

About this Report

In partnership with the Robert Schlankenbach Foundation (RSF)—who provides solutions integrating concerns for Economic, social and environmental justice, poverty, and government-granted privileges—Strong Towns created this report to take an in-depth look at the land tax and how it can incentivize a healthier, more resilient pattern of growth and reinvestment in cities.

About Strong Towns

Strong Towns is an international movement that's dedicated to making communities across the United States and Canada financially strong and resilient. Through media, events, and a network with over 70 local meetups and 2,000 members, the Strong Towns movement empowers everyone— from citizens to leaders, professionals to neighbors, and everyone in between—to do what they can to make their towns stronger.

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You Get What You Tax For

By: Charles Marohn

Cover photo: morisius cosmonaut via Flickr

It was in Alberobello, a small town in southern Italy, that I first learned about the Trulli. They are medieval homes erected without the use of mortar, a unique construction approach used to avoid taxes. When officials from Naples were on their way to extract the kingdom's share of wealth, inhabitants of the Trulli would simply disassemble their homes. No home, no tax. When the tax collectors moved on, the house was reassembled, and life resumed.

Trulli in Italy. Image: Wikimedia Commons

I have a model Trulli on my desk, a humble reminder that humans—including myself—respond to incentives, often in ways that are unintended.

The Mansard roof is another example. In France, property owners were taxed based on the number of floors below the roofline. By putting two slopes into the roof and adding some dormers, the Mansard roof allows a building owner to have a tax-free floor. Paris is filled with them.

American cities are also shaped by the taxing approach we have chosen to use.

Most cities have a property tax, which is a tax on the value of land plus the value of the improvements that have been made on that land. During suburbanization, governments favored property taxes because they put most of the tax burden on newly-developed properties. Cities that grew horizontally collected a lot of taxes very quickly.

As the post-war development pattern matured, as shopping malls and big box stores began to appear, the sales tax grew in popularity. For the lucky city that could capture a regional retail hub, a sales tax shifted more of the burden to outsiders. The sales tax is also popular because it raises lots of revenue in ways generally imperceptible to the payer.

"There are many causes of the stress our communities are experiencing, but a major factor—and one we can address—is the incentives that come with our current approaches to local taxation."

Photo: Paul Hohmann / vanishingstl via Flickr

Cities continue to mature, and the tax systems they are allowed to use need to be updated to reflect an evolving set of challenges. Today's cities are burdened with maintenance expenses from prior investments; they have too much infrastructure and do not make very good use of it. The number of neighborhoods trapped in decline is growing. And in those neighborhoods that do receive private investment, it tends to cause displacement of the residents who have lived there the longest. It's an all-or-nothing bargain; the trickle or the fire hose.

There are many causes of the stress our communities are experiencing, but a major factor—and one we can address—is the incentives that come with our current approaches to local taxation.

The property tax punishes modest improvements and rewards steady decline. People who take steps to add value to their property pay more taxes, while those who allow their property to diminish in value pay less. The property tax makes slumlords possible, allowing them to buy distressed properties and ride the cash flow down a slope of decline, paying minimal taxes the entire way.

And property taxes encourage idleness. Buying a vacant lot or a decrepit building in an otherwise improving area, then waiting for other properties to improve, all while paying low taxes, is an easy way to have large investment gains with minimal risk. The investor who refuses to improve but also refuses to sell their property is a common frustration within neighborhoods. It's a direct byproduct of the property tax.

The distortions of the sales tax are in some ways subtler, but equally pernicious. There is a winner-take-all aspect to the sales tax, where the only city that can capture the big retailers get the tax. This is true even though a collection of smaller retailers often produces more revenue. Cities that don't play the incentive game and don't give the retailers subsidies lose out to ones that do, ultimately making a loser out of every local government.

Cities that are funded disproportionately by the sales tax have an incentive to pursue regional-scale retail, but a disincentive to accommodate residents, especially those who are high-cost or have limited value as consumers. Put another way: the optimal sales tax city would have the regional mall, the big box stores, and the auto dealerships, but no residents. All the people who shop there and pay the tax would actually live someplace else.

What is needed most today is an approach to taxation that allows cities to grow financially strong and resilient when property owners invest incrementally in their own neighborhoods.

We need a taxing system that rewards neighborhood investments, discourages idleness, and closely aligns private gain with the public good. And a modern approach to taxation must encourage increasingly productive use of all the existing infrastructure, parks, and amenities local governments struggle to maintain.

Fortunately, there is such an approach. It's called the land tax.

What is Land Value Tax?

A land value tax is like a property tax, but where a property tax is based on the value of the land plus the value of the improvements, the land tax considers only the value of the land. The most consequential impact of this is that someone who improves their property will not automatically have a tax increase.

"We need a taxing system that rewards neighborhood investments, discourages idleness, and closely aligns private gain with the public good."

If a landlord fixes their leaky roof, a homeowner adds an accessory apartment, or a shop owner expands their building, they are not punished with more taxes.

Enacting a land tax shifts the burden from financially-productive properties to vacant and under-utilized properties. From the community's standpoint, this realignment makes a lot of sense. The street in front of the vacant lot, the pipe that leads to the neighbor's house, the sidewalk, the fire-fighters, the police force… they all must be there whether someone builds on the property or leaves it vacant. Why increase taxes on those investing in the community while giving absentee landowners and slumlords a free ride?

There are a lot of reasons for cities to switch to a land tax, but few are allowed to make that change. Only a handful of state governments have given cities the authority to make this choice. Even though such a reform would lower local taxes for most families and businesses, it would raise them on some major retailers, developers and land speculators, all of which are influential constituencies.

States that want their municipalities to grow into strong towns should give them the choice to switch to a land tax. Cities given that option should use it. This is a key reform for building stronger, healthier, more prosperous communities.

What’s With That Empty Lot in the Heart of the City?

By: Daniel Herriges

Cover photo: Wikimedia Commons

You’ve seen them. Maybe in Denver. Or Austin. Or Seattle. Or Nashville. Right in the centers of some of America’s most booming cities. Everywhere you look it’s steel and glass and construction cranes, and then you turn a corner and find yourself looking at a familiar vacant lot that’s been that way for a decade or more. Or, more often, a sparsely used, potholed parking lot with a forlorn-looking automated pay station, surrounded by gleaming high-rises.

Maybe you’ve wondered, “Why hasn’t anyone developed this yet?”

Housing prices in these cities, as in much of urban America, soared over the course of the 2010s. Maybe you’ve thought to yourself, “If we have a housing crisis and there’s all this talk about how we need to build more, how come we have all this land sitting right here that could be providing homes for people?”

The surprising truth is that sitting on a piece of land like this can be immensely profitable. The owners may be in no hurry to develop or sell. And a key reason for that has to do with the backwards incentives created by the way we tax property in almost every city in America.

Taxing Building Improvements is a Gift to Speculators

A parking lot in a bustling downtown is the classic example of a property where nearly all of the value is in the land itself, not the asphalt on top of it. In a rising market, you can hold onto the land and watch its value go steadily up (thanks to all the things your neighbors are doing to make the place more productive and successful). You can collect enough in parking fees to cover the taxes, and cash out when you’re ready to cash out. Your property tax bill will be relatively low, because it’s based on the sum of land value and improvements. The land may be in a central, prized location, but the “improvements” on the property (that’s tax-assessor speak for any sort of structure built on the land) are worth next to zero.

Figure 1 shows a parking lot in downtown Austin, Texas, a block away from iconic 6th Street.

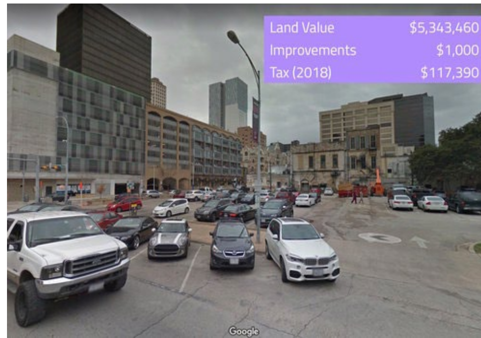


Figure 1

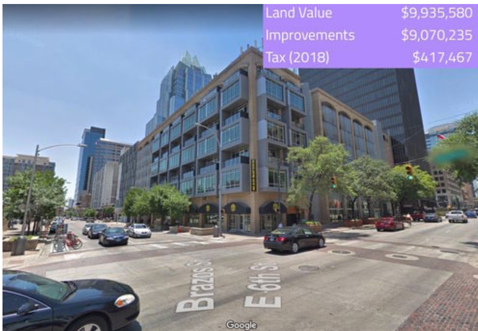


Figure 2

Across the street (Figure 2) from that parking lot is a mixed-use building that contains 24 rehabbed lofts, a Gold's Gym, and a parking garage. The land is worth about 85% more, but because of taxes on the improvements, the owner pays closer to 4 times as much tax.

The apartments and the gym of course generate rental income for the building owner, presumably enough to cover the higher tax bill, or this building would not have been developed. But when you factor in the risk, uncertainty, hassle, and expense of development, not every owner of something like that parking lot across the street is going to jump at the opportunity.

The result of this logic when you extend it to dozens or hundreds of properties is that land goes under-utilized, even in extremely valuable locations like downtown Austin—the fastest-growing large city in America. This kind of land speculation creates additional scarcity downtown, and pushes more new development to the outskirts of the city, where it incurs more infrastructure costs, more miles of driving on the part of individuals, and more gobbling up of farmland for suburban expansion.

It's possible to take an aerial photo of downtown Austin, Texas, or any big US city, and trace the outlines of surface parking lots (Figure 3).

Figure 3

Let's be clear that we can't make assumptions about the situation, or the motivations of the owner, of any specific lot, including the one profiled earlier. These lots exist for a wide variety of reasons—it's not all land speculation. Some serve adjacent buildings. Some are publicly owned. Some may even be in the planning or approval process for development that has not yet broken ground.

But the overall imprint of surface parking looms large in the 1.8 square miles of the booming downtown of one of America's most booming cities. And one reason is that even where land values are high, under a conventional property tax regime, extremely unproductive uses of that land can be profitable.

Austin residents could benefit from the development of many of those parking lots for more homes, more businesses, and more tax base to support Austin city services. But the owners of the lots, who pay virtually no tax on the improvements, may be more than happy to sit on them.

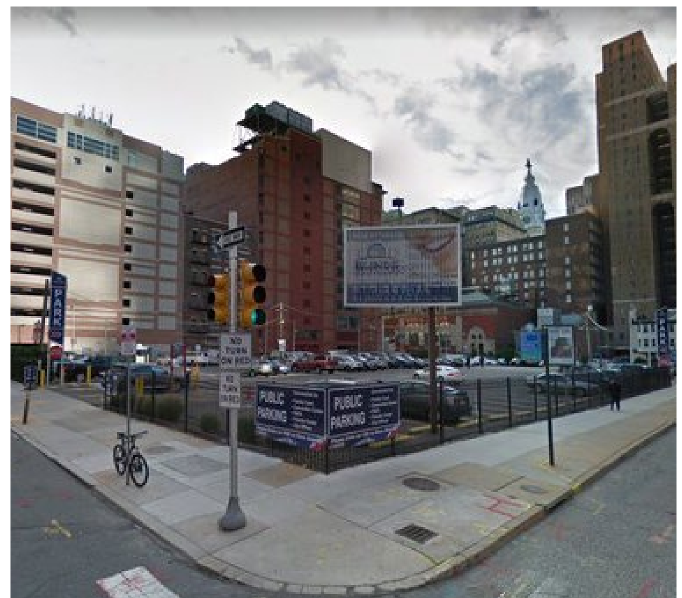
(As an aside: note that parking garages, which are a much more efficient use of land, are not shaded in this map. The issue here isn't the parking itself—a busy downtown does requires that. The issue is land owners opting for a low-value use of land they don't want to develop, but also don't want to sell—and in a downtown setting, the easiest such use is usually a parking lot.)

Taxing Land, Not Improvements, Leads to More Productive Uses

In an expensive, growing city, land is the one thing they're not making more of. There are many good reasons to want centrally-located land to be used to its full potential. One way to achieve this is to make it more costly to hold onto land in a high-value location and leave it underdeveloped.

This doesn't have to mean raising taxes overall. Rather, cities can redistribute the burden of property taxes by either taxing only the land, or taxing the land at a much higher percentage rate than the improvements. The latter is called a split-rate property tax.

This way, those who wish to build or renovate something on their property will face no tax penalty for doing so. And those who wish to hold onto a vacant lot or use it for something low-value like parking—in effect freeloading off of the location value created by the productive uses to which their neighbors have put nearby land—will face a much higher tax burden.



There is evidence that a split-rate tax has that effect of discouraging central-city vacancy. In 1979, the city of Pittsburgh, PA raised the tax rate on land to about five times the tax rate on structures. A study in 1997 compared Pittsburgh to 14 other Rust Belt cities, and found that the total annual value of building permits in Pittsburgh increased by 70.4% in the 1980s, while the comparison group had a 14% decrease in the annual value. There are other variables, but the tax code is a surprisingly key one.

But Won't We Price Granny Out of Her Home?

It's worth answering a common objection: wouldn't this unleash rapacious developers upon homeowners? Who is to say that someone who's lived in their house for decades won't suddenly find their tax bill skyrocketing as the land is assessed to be more valuable put to a denser, more intense use?

The short answer is no. Cities will still have the ability to use the zoning process to determine the range of uses appropriate for a site. If anything, that process becomes more important when land is taxed more heavily than buildings, since zoning has a dramatic effect on land value, often dictating the most profitable legal use of that land.

If the zoning code says a lot can only hold a small building, then the land will be priced and valued accordingly. Declaring that land currently occupied by single-family homes should be suitable for 5-story buildings is still something that has to go through the same political process it does now.

The experience of cities with land value taxation is that for most homeowners, taxes actually go down. And land value itself is likely to go down, because speculation artificially restricts the amount of land available in the places people want to be—like bustling downtown Austin—and makes it scarcer and more expensive, while pushing some development out to suburban locations.

A land value tax, on the other hand, is designed to help ensure that we get bang for our buck out of places that are already prospering and already have the infrastructure to support growth.

Non-Glamorous Gains: The Pennsylvania Land Tax Experiment

By: Joshua Vincent

Cover photo: 1930s postcard of Harrisburg, from Wikimedia Commons

For over a century, Pennsylvania has undertaken a quiet experiment. It is one of the only U.S. states where cities are allowed to tax land at a higher rate than the buildings on it. Pittsburgh and Scranton adopted this tax system in 1913, and roughly a dozen other cities have followed suit since the 1950s. This Pennsylvania Experiment has a lot to teach us about how taxes shape the behavior of property owners.

Most people think of the Keystone State as "East" just like New York or Massachusetts. Part of it is, but west of the Tuscarora Tunnel the traveler finds small towns and cities surrounded by miles of Appalachian Mountains and a few farms in the open lowlands.

These cities powered the US from the beginning of the Civil War until the end of World War II. When the steel industry finally collapsed in the mid to late seventies, these towns lost people, businesses and tax base. As in much of the country, people and commerce pulled out, and built anew, sometimes only a couple of miles away.

Image: Bob Jagendorf via Flickr

The situation was dire. Many cities fell into state control. During this period, Clairton, Aliquippa, and New Castle adopted a land value tax (LVT) at the recommendation of the State. By 1982, the state capital, Harrisburg, was facing bankruptcy. The Mayor looked at the papers to sign and said "No!" Instead, Harrisburg took LVT and expanded it.

These moves were a bet that changing the property tax system could stem the tide of blight and vacancy in Pennsylvania cities: specifically, that taxing land at a higher rate than buildings would incentivize redevelopment and discourage owners from sitting on unused land, as Charles Marohn outlines in "You Get What You Tax For."

Did LVT help prevent blight in deindustrializing Pennsylvania cities? Let's take a look.

The Case for Harrisburg

In 1982, Harrisburg instituted a tax rate on land that was four times the rate on buildings. By 1994, the mayor, Stephen Reed, wrote the following in a letter to Allentown, PA civic activists:

With over 90% of the property owners in the City of Harrisburg, the two-tiered tax rate system actually saves money over what would otherwise be a single tax system that is currently in use nearly all municipalities in Pennsylvania.

We therefore continue to regard the two-tiered tax rate system as an important ingredient in our overall economic development activities.

I should note that the City of Harrisburg was considered the second most distressed in the United States twelve years ago under the Federal distress criteria. Since then, over $1.2 billion new investment has occurred here, reversing nearly three decades of very serious previous decline. None of this happened by accident and a variety of economic development initiatives and policies were created and utilized. The two-rate system has been and continues to be one of the key local policies that has been factored into this initial economic success here.

The number of vacant structures in Harrisburg declined from over 4200 in 1982 to under 500 by 2001. The downtown—previously a ghost town—is alive, even at night. The number of businesses on the tax roll has grown from 1,908 to 8,864.

The Case for Allentown

The city of Allentown adopted LVT in 1996, establishing dual tax rates of 5.038% on land value and 1.072% on building value. The land tax rate is nearly five times greater than the building rate. Under a traditional single-rate property tax, Allentown would levy a tax of 1.752% to produce the same amount of revenue.

Pennsylvania US Senator Pat Toomey was an early private-sector proponent of LVT in Allentown. He encourages other cities to adopt LVT in order to stabilize the tax base and induce investment:

When the people of Allentown voted for the land value tax in 1994, nearly 3 out of every 4 properties saw at least some sort of tax cut. Today, many of the properties that did pay more have new or better buildings on them, stabilizing the tax base to the point where we haven't had a tax increase in five years. In that time, the number of building permits in Allentown has increased by 32% from before we had a land tax.

Allentown row houses (Image: anaxila via Flickr)

Allentown's outcomes are notable by many measures.

After LVT was adopted by voters in 1996, 70% of residential parcels saw a tax decrease; importantly, in the most at-risk neighborhoods (older pre-war housing and factory blocks) upwards of 90% of homes had their tax liability reduced. Local business taxes were frozen by law at 1996 levels. Construction returned to the city: the number of taxable building permits surged past neighboring Bethlehem, market investment returned, and capital improvement reappeared in city budgets. Tax burdens on productive work and business declined. The losers in this trade were absentee owners of vacant lots, who had to shoulder much more of the burden.

LVT in Small Cities Helps Forgotten Citizens

Among the smaller cities that use LVT, their goal was to help citizens no one would help: the retired and the jobless. Said Mayor Sonny Spossey of Washington, PA:

> LVT still helps reduce taxes for our most vulnerable citizens. We have an aging demographic, like the county, region and the state. Taxpayers everywhere are less able to keep up with taxes, and that hurts revenue. LVT helps us mitigate the impact both to them and the city. It's a win/win.

The Key: Taxing What Can't Move

The land value tax (LVT) signals a halt to the policy of taxing whatever moves. Land is something that can't be shipped to the Caymans or Texas. This makes it a unique revenue-raising system for government, in comparison to other programs that require not much more than faith and excitable supplicants. Subsidies, abatements, TIFs, and "opportunity zones" are inexplicably popular, and results are vague and scattershot.

Cities that institute LVT can reduce or remove not just most or all of the tax on buildings, but a whole menu of local taxes that discourage use (and reuse) of land that already has extensive and still useful infrastructure. LVT is not temporary, does not confer favor for a few, and doesn't disrespect those longtime businesses and citizens that always kept the faith (and their capital) in their hometown.

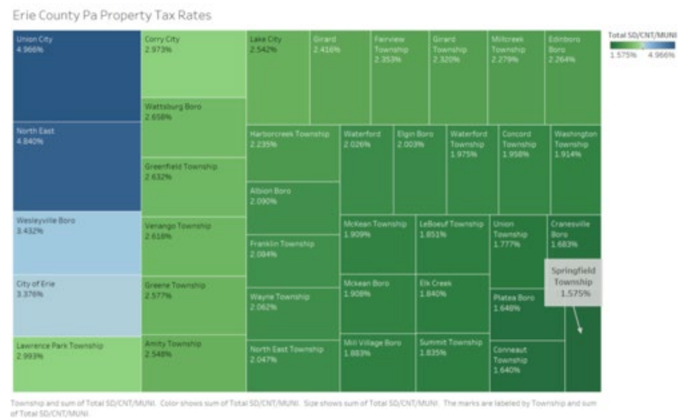


Figure 1: Total property tax rates in Erie, Pennsylvania and its suburbs.

Why is LVT different? LVT extracts its revenue from the ground, as opposed to the structures sitting on it. Land in cities is made more valuable by already existing physical infrastructure, and services such as police, parks, and schools. Indeed, competition between city and suburb for market investment has always placed communities with extensive infrastructure at a tax disadvantage. Suburbs can skate by with low tax rates because of the newness of their infrastructure. Figure 1 illustrates the range of tax rates in Erie County, PA, revealing that urban tax rates (blue) are several times those of outlying suburban townships (green).

By not taxing structures and improvements, the city does not discourage property owners from using their land productively. It opens itself to re-growth and reinvestment, which leads to lower long-term costs to property owners; by the same token a good house or office put up 20 years ago has its tax liabilities reduced as well. This breaks the vicious cycle in which an economically stagnating city must raise tax rates to maintain services and aging infrastructure.

Because LVT is a local policy, a room full of citizens often figures out what LVT means in a few minutes. They know how things work, after all, under a conventional property tax:

- **Q:** What happens when you fix your house up?
- **A:** My taxes go up.
- **Q:** What happens when the shabby absentee-owned rental property across the street finally falls over or burns down?
- **A:** Its tax bill is reduced dramatically.
- **Q:** So why does the city overtax work and investment, and reward blight?
- **A:** Because that's the way it's always been.

Many cities already make a regular practice of offering tax subsidies and abatements to prospective investors and builders. LVT simply extends this across the board to universally cover all buildings and improvements, new or old. With a simple change in the annual property tax ordinance, taxation of structures is permanently decreased, and moreover, it applies to everyone. No applications, no forms to fill out, and no golf games at the country club to get the tax break.

Long-Term, Non-Glamorous Gains

As Harrisburg Mayor Stephen Reed has said:

"What I would like to argue here is that a single tax rate system generates… sprawl. A land value tax policy instead serves to invite and reward vertical development in our cities and older communities that save, land, utilizes existing infrastructure and creates a sense of community and place that commuter oriented areas of a sprawl simply do not have."

LVT is not a panacea for all of the problems of Pennsylvania's cities. Yet almost all LVT cities have found that long-term non-glamorous gains exist: breathing space and time to figure out what's next. Tax revenues have stayed stable or even increased. Harrisburg's effective municipal tax rate dropped throughout 10 years from 1990 to 2000.

Buildings use infrastructure; vacant lots do not. LVT ramps up the use of existing infrastructure, a century-old asset that literally creates value from the ground up.

Under LVT, vacant or underused land ceases to be a great place to park your money. In most LVT cities the percentage of tax revenue derived from buildings drops from 75% or 80% to 20%. In towns like Millbourne, Clairton, and Aliquippa, tax revenue from the community-generated value of land has gone from 10% or 20% to 80% or 90%. The message to private land bankers is that while land ownership is a right in the United States, somebody will have to start paying for that privilege.

LVT is indeed no silver bullet, but towns that use it and stick with it become fiscally healthier. Their citizens grab the chance to create their own success with an environment that encourages free market activity. It's both an effective tax policy and an ethical way to treat citizens.

Rewarding Neglect and Punishing Investment in Struggling Neighborhoods

By: Daniel Herriges

Cover photo by TMG177 on Pixabay

On day one of a grad-school class I took about real-estate development, the instructor asked us to play a word-association game. "Shout out the first thing that comes to mind when you hear 'developer'." Among the list of words that he began furiously scribbling on the white board as they were shouted were some unsurprising choices: *Greedy. Arrogant. Corrupt. Profit. Money. Power. Gentrification.*

We were all well acquainted with the cultural trope: developers are money-grubbers who make a profit at the expense of the community, and local governments should, if anything, seek to rein in that profit motive, or redirect it to the public good by making them give something back.

For countless older cities, though, especially mid-sized ones in the Rust Belt and Northeast, the problem they face isn't how to get developers to do something beneficial for the public, but how to get developers to do anything at all. The conversation I described took place in a city with a strong economy and a growing population. In places still suffering the hangover of decline, population loss, and widespread neglect and abandonment of properties, the reality is very different.

Here's a startling fact I've learned about new development in many struggling older cities. I had to be told this several times, by several credible sources, before I really believed it, because it just didn't seem possible...

There are whole cities where *every single private development project* receives some sort of tax abatement or incentive.

All of them. Nothing is viable without it.

And these places aren't desolate slums. They're often cities that have made a notable resurgence from a period of past decline. They're often cities renowned for great "bones," walkable downtowns, gorgeous historic architecture. They're places that really could make a dazzling comeback. But the rents that people can afford to pay aren't enough to make building new homes a profitable endeavor, when you consider the expense of doing so—and a big part of that expense is property taxes.

And so developers negotiate for tax breaks to induce them to skip the suburbs and give the city a chance. Is this corporate welfare run amok? Not really. To no small extent, it's an object lesson in how something surprising—the property tax system—contributes to locking places into decline.

The Catch-22 of Low Demand and High Taxes

Many older cities have been through the same vicious cycle. Suburbanization leads to population loss. At the same time, the city's infrastructure is aging and requires more maintenance than it once did. Hit with the double whammy of falling revenues and rising expenses, the city does the only thing it can: raise property taxes.

The higher taxes act as a disincentive for people to live in the city or open business there, resulting in a further population drain. Joshua Vincent's piece on land taxation in Pennsylvania examines relative tax rates in Erie County, Pennsylvania, finding that property owners in the city of Erie proper pay close to double the taxes that those in many of Erie's suburbs pay.

Image: Jan Tik via Flickr

There's Bridgeport, Connecticut, the poorest city in one of the richest states, where in 2016 a reassessment caused total property value to fall by 14%, and the property tax rate to rise abruptly by a jarring 29%, as the New York Times describes.

There's York, Pennsylvania. I spoke with a York resident who said the same is true there: taxes are through the roof, and even committed urbanists may now find it a bad investment to settle in York proper. Homeowners won't make incremental improvements to their property, because the tax burden and market conditions mean they will never recoup that investment. New development requires a slew of tax abatements and subsidies. Nothing that is built in the city pencils out based on market rate rents alone.

"You're rewarded for neglecting your property, and punished for improving it."

There's Akron, Ohio, whose planning director, Jason Segedy, wrote this eye-opening piece about what it actually costs to maintain an older house. In many, many cases, the return on investment for doing so is negative.

And this is exacerbated by the way we tax property in most cities: as a single rate applied to both the land and the buildings on it. Fix up your house dramatically? Taxes go up. Put off maintenance and just deal with drafty windows and that one leaky pipe? At least your taxes stay low.

You're rewarded for neglecting your property, and punished for improving it.

And for owners or would-be builders of rental property, the taxes in one of these high-tax older cities can very, very easily be the thing that tips a project from the viable into the non-viable category.

From Flippers to "Milkers"

In a hot market you get one type of speculator: the flipper. This is someone who seeks to buy property low and sell it higher, riding a wave of rising values created by all the productive things their neighbors are doing.

In a market mired in decline you get a different type: the milker. (Credit for the term goes to urban researcher and author Alan Mallach.) The milker buys a property cheap and doesn't do basic maintenance. They rent it out for whatever they can get—a little more than the maintenance is costing them, and a little more than low taxes that are charged on a building in poor conditions that the tax assessor doesn't deem worth very much. The milker, then, can sit on their property and run it into the ground. Eventually, they'll sell or, worst case, abandon it.

Don't get us wrong: this shouldn't be caricatured as deeply villainous behavior. While there are some truly egregious examples of this kind of "milking" out there, there's also a much larger gray area of people who aren't actively trying to exploit a neighborhood's struggles, but who are simply being economically rational. It doesn't make sense to put money into improving a property if you will never recoup that investment. Or if increased taxes will swallow your investment while you're waiting for the market to turn around.

Providence, RI (Wikimedia Commons)

How Switching to a Land Value Tax Can Help

Under a Land Value Tax (LVT), on the other hand, the underlying land in our neighborhoods would be taxed at a higher rate, while the buildings on it would be taxed at a low rate or not at all. (If there is a low but nonzero rate for buildings, that's called a split-rate tax or partial land value tax.)

Seth Zeren is a small-scale developer in Providence, Rhode Island, another of those high-tax legacy cities increasingly appreciated for its historic assets, but that still has large areas of poverty and blight. Zeren says:

> "Land Value Tax [LVT] is a huge deal for the small developer crowd. If you want to make incremental improvements to a property, it makes that more viable. In regimes like the one I'm in, where we don't have a system like that, most projects of any substantial scale pursue property tax abatement or stabilization. It creates a sort of gap where projects have to be so large to develop the political will. They have to be able to push through the bureaucracy to get the special treatment."

Removing much of the tax on building improvements would mean that you're no longer punished for investing in your neighborhood, but rather incentivized to do so, or at least to sell your property to someone who will. It would be a game changer for places on the cusp of a comeback.

Not a Panacea, But Key to a Healthier Economic Ecosystem

Let's be clear: a land tax isn't Miracle Gro. But it will make the soil a bit more fertile.

If a place like Providence or Bridgeport or Erie or Niagara Falls (where, as of this writing, mayoral candidate Seth Piccirillo is a strong LVT advocate and makes the case for it in this video) instituted a split-rate tax tomorrow, they would still have the larger problems of vacant and blighted property, a lot of infrastructure to maintain, and a too-small tax base with which to do it.

But by shifting the tax code to incentivize property improvement rather than deter it, they would lay a crucial piece of the groundwork for revitalization of neighborhoods, and ultimately for these cities' populations to grow again.

That would make it possible to lower the overall tax burden on residents as the place's financial health improves.

And, importantly, LVT would weaken the ability of slumlords and "milkers" to profit from a neighborhood's decline. The tax burden would fall more heavily on those who sit on vacant or dilapidated properties and don't do anything to improve them. Those who are working hard to make their neighborhood a better place would get a badly-needed break.

If the Land Tax Is Such A Good Idea, Why Isn't It Being Implemented?

By: Rick Rybeck

Cover Image by nessolo on Pixabay

Why is a piece of urban land worth something?

The answer is mostly, "Because of what is nearby." The value of land is collectively, publicly created. But private landowners can appropriate this publicly-created value regardless of whether or not they put it to productive use. In other words, they don't have to contribute to the good party going on around them.

Speculation inflates land prices near existing infrastructure, thereby pushing development to cheaper (but more remote and less productive) sites. This destroys farmland, and it requires the wasteful duplication of expensive infrastructure, increasing tax burdens.

In the late 1800s, there was a growing movement to tax land values, led by the economist Henry George, because these gains were "unearned" income. Land speculators endowed economics departments at key universities. Over time, "neo-classical" economics developed, under which "land" and "natural resources" disappeared as separate factors of production. Instead, they are lumped together with "capital."

This too often conceals and obscures discussion of the role that unearned income from rising land and resource values plays in the economy.

This is a major reason the land tax hasn't caught on politically: land is unlike all other things you can own, buy, and/or sell, but that fact is often poorly understood.

Land speculation, for example, is often referred to as "real estate investment." But "investment" is the creation of something new that enhances future production. Buying and selling land creates nothing; it's what you do on the land that creates value. Land speculation in itself is just gambling. It is betting that the work of the community will enhance land values, without contributing to that enhancement.

Reining in Speculation

Strong Towns advocates that local communities be given the option of taxing land value separately from building ("improvement") value. A land value tax (LVT) returns the value of land to the communities that created it—and recycles that value to fund public needs like infrastructure creation, operation and maintenance. The benefits are several:

- LVT makes land speculation less profitable and reduces the incentive for fringe suburban development.
- Shifting the property tax off of building values and onto land values can make both buildings and land less expensive, thereby making housing more affordable while fostering business growth and employment.
- Communities that have implemented this reform have outperformed comparable communities using the traditional property tax.

Most things that we're familiar with are produced. If we tax them, production falls and prices rise. Therefore, many assume that if we tax land, its price will rise. But land taxes don't reduce the amount of land. Taxing land values reduces the benefits of land ownership. This reduces land prices.

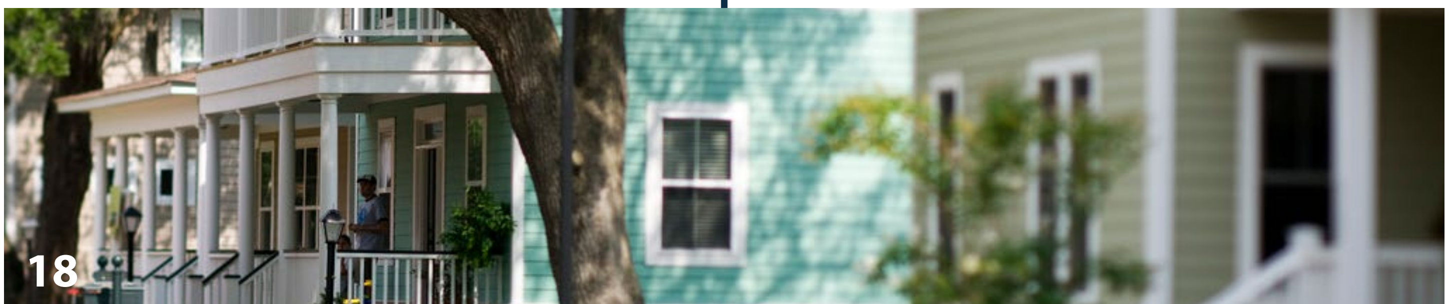
LVT enjoys broad support among economists. Yet few places are implementing it, which raises the question: Why hasn't land value taxation been implemented more widely?

Land Taxes Are Widespread... Sort Of

In one sense, land value taxation is widely practiced. Almost every community has a property tax that is levied against the combined value of buildings and land.

The problem is that the land tax component of a traditional property tax is too small to deter land speculation. Although property taxes vary from place to place, they are typically between 1% and 2% of the property's total value paid annually. If inflation is low, then for longtime property owners, this amounts to roughly the same cost as if they paid a one-time sales tax on the property of between 10% and 20%. Thus, the property tax applied to building values inflates their price by between 10% and 20%. And the property tax applied to land value allows 80% to 90% of publicly-created land value to accrue as a windfall to landowners.

Thus, typical land taxes are too weak to discourage land speculation. And this problem is compounded by the negative impacts of the property tax applied to buildings, which especially in weaker real-estate markets can make it unprofitable to do renovations or even basic maintenance on a building. Fortunately, as Joshua Vincent wrote earlier in this series, some communities (especially in Pennsylvania) have shifted property taxes off of buildings and onto land, improving their economic performance.



How About a Universal Tax Abatement on Buildings?

If you go to a public hearing and declare, "There's a good tax that could help our community," nobody will hear a word you say after that. In most people's minds, all taxes are bad.

"We need more housing and more jobs. So why do we penalize owners with higher taxes when they construct, improve or maintain buildings?"

Instead, we/you should emphasize how harmful it is to tax building values: "We need more housing and more jobs. So why do we penalize owners with higher taxes when they construct, improve or maintain buildings?"

Under the traditional property tax, the responsible owner of a well-maintained home pays more tax than the owner of an adjacent vacant lot or boarded-up building.

Yet, the cost of maintaining streets, sidewalks and utility pipes adjacent to these properties is the same.

The snowplow doesn't lift its blade as it passes the vacant lot. All these properties are receiving the same infrastructure benefits. Why punish the responsible homeowners while rewarding speculators?

An article by Daniel Herriges discussed how developers, especially in weak real-estate markets, often receive a property tax "abatement" as an inducement to develop. Instead of such abatements being the norm for a favored few, why not abatements for everybody? A "universal property tax abatement" would reduce the tax rate applied to all privately-created building values. This should be well-received by almost everybody. This would benefit existing homeowners and businesses as well as newcomers. The message fits with widespread anti-tax sentiment.

Become a Champion for Change

Changing the tax system is hard. As much as people hate it, they are familiar with it. And people are nervous about change. As with most things, the devils (and the angels) are in the details. Therefore, if you want to push for this reform in your community, before going public with it, it would be wise to:

- **Find a public official to be its champion.** The Champion can arrange for you to work with the local tax department to chart out the details: how assessments and appeals would work, and how existing benefits like widespread "homestead" exemptions would be applied.
- **Look into what classes of property and/or which neighborhoods are paying the most under the status quo.** What about owners of surface parking lots, vacant lots and boarded-up buildings? Are there strategically-located parking lots, vacant lots and/or boarded-up buildings that are thwarting economic development? A universal property tax abatement would encourage development of such properties in prime locations.
- **How can rates be shifted off of buildings and onto land gradually over a 5-year period?** This avoids creating windfalls and wipeouts. After all, speculators are simply playing by the rules. A gradual shift allows those who would be disadvantaged to change their approach to land management to take advantage of the new incentives without significant hardship.
- **Be aware that tax departments may oppose this change** because it draws attention to assessments (which might not be up to par). They won't admit this. Instead they will claim (falsely) that total property assessments can't be separated into separate components for land and buildings. You and your Champion need to be aware of this in advance.
- **Identify state laws that permit or prohibit different rates of taxation** applied to buildings and land. In some cases, state laws will need to be changed before this reform can be implemented by a city, town or county. A single jurisdiction could lobby the state legislature for permissive legislation, but a coalition of communities would be better.
- **Identify key stakeholders, both groups and individuals.** Who are the key public officials whose votes will be needed? Who contributes to their campaigns? What constituencies do they listen to?
- **Identify potentially supportive organizations and unions** that care about homelessness, poverty, and affordable housing. Could they become allies for making housing more affordable and jobs more plentiful?
- **Understand your opponents.** The owners of "prime sites" in our downtowns are relatively few. Often, they don't even live in the communities where they own land. But they tend to make large campaign contributions. Once a tax reform idea becomes public, you can count on them to spread rumors and make false claims. Make sure that key constituencies are prepared and inoculated against them.
- **Identify members of the media who report on tax issues.** Have informal conversations with them about this "interesting idea for prosperity, sustainability and equity." When speculators start trashing your proposal, educated reporters might place false claims in their proper context. Develop graphics to illustrate your points. (See my article "Financing Infrastructure With Value Capture: The Good, The Bad, & The Ugly" for some examples.)
- **Some constituencies could be allies or opponents.** To get them on your side, it might be helpful to have a consultant who knows how to communicate these ideas to different groups and how to use assessment data to model possible results.

Strong Towns members have an opportunity to advocate incremental change that will make fundamental improvements in housing affordability, employment, sustainability and equity.

About the Authors

Chuck Marohn is the Founder and President of Strong Towns. He's a Professional Engineer (PE) licensed in the State of Minnesota and a member of the American Institute of Certified Planners (AICP). Marohn has a bachelor's degree in Civil Engineering from the University of Minnesota's Institute of Technology and a Master of Urban and Regional Planning degree from the University of Minnesota's Humphrey Institute.

Daniel Herriges serves as Content Manager for Strong Towns, and has been a regular contributor since 2015. He is also a founding member of the organization. Daniel has a Masters in Urban and Regional Planning from the University of Minnesota.

Joshua Vincent joined the Center for the Study of Economics (CSE) as Associate Director in 1993. He has served as Executive Director since 1997. At CSE, Vincent has worked as a consultant to over 75 municipalities, counties, NGOs and national governments. Vincent works with tax departments and elected officials in restructuring their jurisdictions' taxation to land-based systems.

Rick Rybeck is the Director of Just Economics, a firm that helps communities harmonize economic incentives with public policy objectives to build better places. Rybeck is an attorney with a master's degree in real estate and urban development. He has worked on issues related to state and local government for over 35 years.

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QUICK FACTS

- The land value tax is a levy on the value of unimproved land that shifts the basis of property taxes away from buildings and improvements to the assessed value of land they are located on.
- The land value tax is well suited to cities where there is a need to build new infill projects but where high taxes on improvements discourage new development.
- The intent of the land value tax is to incentivize owners of vacant land to develop those parcels or sell them to others that will.
- The land value tax is a payment for the benefits received from the transportation system and municipal investment in other infrastructure.

CONTACT

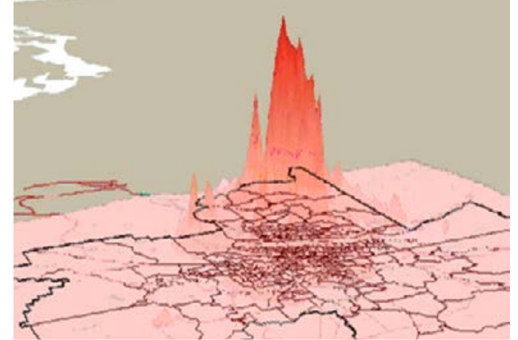
Thay N. Bishop
404-562-3695
Thay.Bishop@dot.gov

www.fhwa.dot.gov/ipd/value_capture

Altoona, a city of 46,300 in central Pennsylvania.

VALUE CAPTURE

Land Value Taxes



The land value tax is intended to encourage development.

The Land Value tax is a levy on the value of unimproved land. It disregards the value of buildings and shifts the basis of property taxes to the assessed value of land and away from that of the improvements on it. The land value tax has also been referred to as an annual charge on the rental value of land. It may be thought of as a payment for the benefits received from municipal improvements such as the street and sewer systems, parks, and schools. The 19th century American writer and political economist Henry George was a proponent of the land value tax and believed that when the locational value of land was improved by public works, the "economic rent" of the land was the most logical source of public revenue.[1]

A TOOL TO ENCOURAGE DEVELOPMENT

The land value tax is intended to encourage development and discourage speculative land investment. The land value tax is well suited to established cities and smaller growing cities where there is a need to build new mixed-use infill projects, but high taxes on improvements discourage new development. A land value tax is levied in 16 cities and two school districts in Pennsylvania, together with other taxes on buildings. In 2011, the City of Altoona in central Pennsylvania became the first and only city in the United States to rely on a land value tax alone. Outside the United States, the land value tax is used in such diverse places as Denmark, Estonia, Hong Kong, Singapore, New South Wales, and Mexicali.

The land value tax is levied on land only and not on any improvements on it such as buildings, drainage, agricultural crops, or other works. If there were a vacant parcel in a row of homes, all the properties would be taxed at the same rate including the vacant lot. Land valuations are based on optimum use of the land within existing planning regulations. If properties are rezoned, then they should be reassessed to reflect the type of development the change allows. Unlike property tax rolls which increase as new construction and development takes place, the tax base does not grow with the land value tax. Therefore, regular reassessments are essential with the land value tax if municipalities need additional tax proceeds.

ALTOONA LAND VALUE TAX

Altoona, a city of 46,300 in central Pennsylvania, is the only municipality in the United States that relies completely on land value taxes. The land value task was adopted in 2002 and was phased in over an eight-year period. The city experienced a decline of its rail-based economy as a hub between Philadelphia and Pittsburg in the mid-20th century, but local employment levels began to rebound in the 1990s. Local leaders have adopted the land value tax as part of a strategy to engender a more diverse and stable local economy. In its first year, the tax was levied on 20 percent of assessed land values and the corresponding rate on buildings was reduced to 80 percent. The land value tax rate was increased by 10 percent per year while building taxes were reduced by 10 percent annually until 2011, when there was a 100 percent tax on land and 0 percent on buildings.

(continued on side 2)

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(continued from side 1)

The assessed value of all land in Altoona is one-seventh that of the assessed value of land and buildings combined.[2] As a result, the city has increased it tax rate by a factor of seven in order to generate the same amount of revenue. Taxes are reduced for property owners whose land represents less than one-seventh of their total assessed value. Conversely, those for whom land values represent more than one-seventh of their total assessed value have seen their taxes increase. Taxes on approximately 72 percent of all residential property parcels have been reduced. Increases have been the most dramatic for those who own vacant or under developed parcels. Taxes on agricultural land have not been changed under the new land value tax regime.

The intent of the land value tax has been to incentivize owners of vacant land to develop those parcels or sell them to others that will. It is also hoped that home owners who had let their property deteriorate before in order not to incur higher taxes would also be incentivized to make improvements to homes and commercial buildings. Before the land value tax was introduced in 2002, 84 percent of the property tax collected in Altoona was levied on buildings; since 2011 the tax on buildings has been entirely eliminated. Given land in Altoona is a fixed resource, unlike improvements on the land which increase as development occurs over time, the only way that they city can increase its tax revenues under the new tax regime is by increasing the assessed value of land. Current land value assessments are based on frontage and location, with per-foot values decreasing the farther a property is from downtown Altoona.

The effects of the land value tax are not clear at this juncture. The Center for the Study of Economics reports that median incomes in Altoona increased by 19 percent from 2000 to 2010, which is much higher than the U.S. median income which rose only 4.2 percent over the same period.[3] Vacancy rates are also above the national average with 10.8 percent of housing units in Altoona vacant in 2011 compared to 12 percent nationally. Land values have also increased 25 percent between 2002 and 2010, while building values have increased 21 percent creating a total gain of 22 percent in property values.[5] Although these figures are healthy, they cannot be attributed to the land value tax. The Altoona Mirror quotes the executive director of the Greater Altoona Economic Development Corporation as saying that he "can't point to any particular example of the land value tax influencing a development decision." When asked if the land value tax had accelerated construction projects, his response was, "I don't know. Maybe."[6]

[1] www.henrygeorge.org/pchp11.htm
[2] www.altoonamirror.com/page/content.detail/id/555412.html
[3] Ibid.
[4] http://www.urbantoolsconsult.org/upload/Land
[5] Ibid.
[6] www.altoonamirror.com/page/content.detail/id/555412.html

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The Center for Innovative Finance Support provides a one-stop source for expertise, guidance, research, decision tools, and publications on program delivery innovations. Our Web page, workshops, and other resources help transportation professionals deliver innovation.

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The Center for Innovative Finance Support's Value Capture Strategies explores strategies for tapping into the added value the transportation improvements bring to nearby properties as a means to provide new funding for surface transportation improvements.

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PENNSYLVANIA
TAXING LAND AND BUILDINGS AT DIFFERENT RATES

In Pennsylvania, an arcane property tax structure is credited with helping revitalize communities, put vacant and underutilized land to use, and improve housing affordability, for both renters and homeowners.

✓ Taxing land and buildings at different rates

The land value tax, also called a two-rate property tax and a split-rate property tax, is currently in use in 16 municipalities in Pennsylvania. A typical property tax assesses taxes on land and the improvements on the land at the same rate. In contrast, land value taxation places a higher tax on land while reducing or eliminating the tax on improvements.

Henry George, a late-19th century economist, advocated the idea of taxing land in the interest of fairness. He believed that an increase in the "natural value" of land (or the unimproved value) is unearned, making landowners speculators. Therefore, he believed taxing this value would not affect productivity. Similarly, proponents of the land value tax today believe that taxes on the improvements on land place the tax burden on those who generate economic growth.

Land value taxes may improve housing affordability and revitalize declining cities

The Center for the Study of Economics, a Philadelphia-based nonprofit started in 1980, advocates for land value taxes in communities around the country. Joshua Vincent, the Center's executive director, explained that a land value tax implemented to be revenue neutral (to leave overall property tax revenues unaffected) improves housing affordability in two ways.

First, it reduces property taxes for most homeowners. "Most people getting a first house don't take advantage of benefits to homeownership, like the mortgage deduction, because their incomes aren't high enough [to itemize and claim the mortgage deduction]," Vincent said. In contrast to the mortgage deduction,

reducing property taxes for homeowners improves affordability regardless of income.

Second, Vincent describes a land value tax as a “stick” that encourages development by increasing the expense of holding vacant or underutilized land. The land value tax encourages denser development, because unlike a property tax that assesses land and improvements at the same rate, there is no disincentive to develop the property. This includes denser residential development, which can be more affordable than new construction on large lots.

“This flips the script by punishing disinvestment and rewarding investment,” said Vincent. However, for a land value tax to have an impact on development in a community, Vincent says the tax on land must be at least five times higher than the tax on buildings.

> ***“This flips the script by punishing disinvestment and rewarding investment.”***
>
> -Joshua Vincent

For example, Harrisburg, PA, had a moribund downtown when the land value tax was first implemented in 1975. The tax on land was about twice the rate of the tax on buildings until 1982, when one observer ranked Harrisburg the second most distressed city in the country. The tax on land was increased incrementally until it was six times the tax on buildings, where it remains. Since then, there has been an 85 percent reduction in the number of vacant properties, and there were 3.5 times the number of businesses on Harrisburg’s tax rolls in 2003 as there had been in the early 1980s.[88]

Vincent cautions that a land value tax does not work quickly: “It generally takes five to ten years to see results,” he said.

Communities with vacant and underutilized property are ideal candidates for a land value tax

The Center for the Study of Economics conducts research on the land value tax and assists communities interested in implementing the tax. Once the tax is in place, the land value tax is not administratively complicated. “Towns of 6,000 people – they manage to implement it,” he said.

According to Vincent, the best candidates for a land value tax are communities with high numbers of substandard housing units and buildings and vacant or underutilized lots. "If there's an abundance of these, that's an indicator that we should implement a land value tax," he said. In addition, the tax should result in property tax savings for most residential parcel owners.

Savings to homeowners on property tax bills vary widely by community. Vincent says the highest savings to homeowners are in communities with high building values relative to land values. In general, he said homeowners can expect to save about 25 to 40 percent annually on their property taxes.

Of course not every property owner is better off under a land value tax. In Philadelphia, Vincent says opposition to the tax is led by parking lot owners. Other types of commercial property, such as gas stations and convenience stores, which are more land intensive than building intensive, also pay higher taxes.

Adopting a land value tax can be controversial

A typical approach to evaluating whether a land value tax will work in a community involves calculating the change in property taxes for each parcel in the community and providing an assessment of the revenue impact for the city and each parcel. "The city looks at the implications: if they see that our productive citizens, those keeping up their property, will be rewarded, they adjust the property tax ordinance," said Vincent.

Vincent says adoption of a land value tax is often done quietly, without much community outreach or involvement. Although voters aren't typically involved in adoption of the land value tax, Allentown, PA, provides evidence that voters can enthusiastically support an issue that can be difficult to explain. In Allentown, after contentious debate and a great deal of lobbying by opponents, a land value tax ordinance on the ballot passed with 60 percent of the vote in 1996. An effort to repeal the tax about a year later, led by a small number of commercial landowners including owners of a large fairground in the city center, was overturned.[89]

However, a significant challenge to organizing support for a land value tax is that the relatively few property owners who will face substantially higher bills as a result

of the tax are typically better organized than individual homeowners, who do not have as much at stake financially.

To date, the Center for the Study of Economics has focused its efforts in Pennsylvania. "Now we're trying to spread the word elsewhere," said Vincent. The big island of Hawaii also uses a land value tax, but most states do not have enabling legislation authorizing municipalities to implement a land value tax.

Vincent expects state enabling legislation to be introduced in Connecticut, New York, Minnesota, and possibly Indiana during the next legislative year.

Contact Information:

Joshua Vincent
Center for the Study of Economics
1518 Walnut St. Suite 604
Philadelphia, PA 19102
215-545-6004
Joshua@urbantools.org

This document is a portion of NAHB's report
Research on State and Local Means of Increasing Affordable Housing.

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Research on State and Local Means of Increasing Affordable Housing

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Prepared for the
National Association of Home Builders
1201 15th Street NW
Washington, DC 20005

Prepared by
Kimberly Burnett
Jill Khadduri
Justin Lindenmayer
Abt Associates Inc.
55 Wheeler Street
Cambridge, MA 02138

Abt

Land Value Tax: An Alternative to the Property Tax

BY **JOSH MILLER** *on* **NOVEMBER 18, 2013** • (**14**)

An alternative to the local property tax, the land value tax offers certain benefits over the economically inefficient property tax. However, its novelty and legal and political challenges continue to make it an elusive option at this time.

According to **numerous polls**, the most hated tax is the local property tax. Economists Marika Cabral and Caroline Hoxby argue that Americans are averse to the property tax because it is the most noticeable and important major tax. In addition, many economists agree the property tax is economically inefficient because it taxes the value of improvements, which acts as a tax on economic development. A tax is said to be inefficient if another system could raise the same revenue while increasing economic growth.

One proposed alternative to the property tax is the land value tax. The land value tax would allow state and local governments to maintain control over a significant source of tax revenue while addressing issues of efficiency.

Although not used extensively, the land value tax is more than a theoretical abstraction. Local governments in New York, Pennsylvania and Hawaii have used it. In addition, twenty-five nations use some form of the land value tax.

The land value tax has been implemented in two forms. In a pure land value tax system, the tax is applied to the value of the land with no tax applied on improvements. In a split-rate tax system, land value is taxed at a higher rate than improvements. For example, in Harrisburg, the 2008 tax on the value of land was 28.67 while the tax on improvements was 4.78, a ratio of 6 to 1.

In addition to being more economically efficient, proponents argue that the land value tax provides an incentive for development. The evidence to support this conclusion is limited by the availability of data within the United States. Economists Oates and Schwab in a 1997 **paper** find a positive association

between adoption of land value taxation and building activity in Pittsburgh. In a 2000 **paper**, economists Plassmann and Tidemann use data from 15 Pennsylvania municipalities and find a direct, positive relationship between the tax differential between land and improvements and the number of building permits. In other words, under a split-rate system, Plassmann and Tideman find evidence that the higher the land tax in relation to the improvements tax, the more building activity occurs.

Elimination of the inefficient property tax system in the U.S. would be challenging because of the importance of the tax revenue to state and local governments. Property taxes are the **largest single source of revenue** for state and local governments, accounting for over one-third of all revenue. Opponents of the land value tax also argue that it encourages overdevelopment. The land value tax was largely blamed for the overdevelopment of Waikiki. Although unwanted higher density was most likely the result of poor planning rather than the land value tax, the county of Hawaii abolished the land value tax in 2002.

A recent study, **Assessing the Theory and Practice of Land Value Taxation**, lays out a framework for implementing the land tax. Another study, ***Land Value Taxation – Theory, Evidence, and Practice***, includes an exhaustive discussion of legal issues that need to be overcome in each state in order to implement the land value tax. The legal and political challenges of changing the current property tax system are daunting.

In spite of these challenges, Connecticut signed into law this June a pilot program allowing three municipalities the option of implementing a land value tax. The success or failure of the program will likely determine the programs expansion within the state.

‹ **Builders Hold Steady in November**

Multifamily Market Sentiment Off Recent Peak, But Remains Positive ›

Tags: economics, home building, housing, property taxes, tax

14 replies

Walter Rybeck

Lincoln Institute of Land Policy Article
https://www.lincolninst.edu/publications/articles/land-value-taxation

Land Value Taxation

Could It Work Today?

Dick Netzer

Decades before Henry George made a passionate case for the "single tax" in Progress and Poverty, the classical economists had recognized that, in theory, the land value tax was almost the perfect tax. There was a strong moral basis for the land value tax—land value increased over time because of growth in population and improvements made by the community, either as utility infrastructure or transportation investments by government and the private sector.

Today, many scholars and practitioners question whether land value tax is a serious contender as a revenue source. But, whatever its political potential may be, economists continue to find the theoretical case for land value tax compelling. This article examines the efficiency of the land value tax as well as land value tax as a substitute for other taxes;

Edwin Mills examines the issue of land value tax in the context of an urban economy, showing that the land value tax is indeed efficient in its effects on land use, as claimed.

Thomas Nechyba explores the land value tax in the context of a general model of the entire economy. He develops what is known as a "computable general equilibrium model" that quantitatively describes the changes in the macro-economy that will occur with the substitution of the land value tax for income taxation.

Author of this article, Dick Netzer, argues that, although the empirical evidence on land values is poor, some reasonable estimates suggest that, at least in the United States, the land value tax could replace the conventional local property tax at reasonable tax rates.

Andrew Reschovsky points out that the current balmy climate for state and local finance in the United States is likely to change radically, for the worse. State governments may be looking for substantial additional revenues. Is the

land value tax the right, or the likely, choice for hard-pressed state governments?

Roy Bahl reviews the many difficulties and deficiencies in the use of property taxes by local governments in both developing countries and former Communist countries.

Edward Wolff suggests that substitution of the land value tax for the federal individual income tax would make the U.S. tax system less rather than more progressive with respect to income.

Decades before Henry George made a passionate case for the "single tax" in Progress and Poverty (published in 1879), the classical economists had recognized that, in theory, the land value tax was almost the perfect tax. Unlike other taxes, it causes no distortions in economic decision making and therefore does not lower the efficiency of a market economy in allocating resources. Also, it was obvious in the nineteenth century that a tax on the value of land would be highly progressive.

There was a strong moral basis for the land value tax, as well. Land value increased over time because of growth in population and improvements made by the community, either in the form of utility infrastructure or transportation investments by government and the private sector. Individual landowners did nothing to increase the value of their own land but rather realized "unearned increments" over time, unlike those who contributed labor and capital to production and thus earned their compensation.

In George's day there was little question that the tax could provide adequate revenue, at least in the United States where the role of government was small-no more than a tenth as important relative to gross domestic product as it today. Virtually all government services were supplied by local governments, which relied entirely on property taxes. Today, many scholars and practitioners question whether land value taxation is a serious contender as an important revenue source. But, whatever its political potential may be, economists continue to find the theoretical case for land value taxation compelling.

In January, the Lincoln Institute sponsored a conference to address these issues: "Land Value Taxation in Contemporary Societies: Can It and Will It Work?" In the opening paper, William Fischel focuses on the special nature of local government in this country, stressing its importance as an instrument of

enhancing property values within communities. He argues that, in pursuing that role, local land use controls actually achieve substantial efficiency advantages by more closely matching consumer preferences to local government services and taxes. This is what economists refer to as the Tiebout-Hamilton model.

Fischel maintains that there is substantial justice in this outcome, which might be improved only marginally by land value taxation. That is, land use controls permit local governments to appropriate much of the value generated by community growth. Moreover, this system is widely used, which argues that it is more workable than land value taxation, although the latter is, in principle, more fair.

Efficiency of the Land Value Tax

Two papers treated the efficiency characteristics of the land value tax. Edwin Mills examines the issue in the context of an urban economy, showing that the tax is indeed efficient in its effects on land use, as claimed. But he believes that this is immaterial because the land value tax cannot yield more than trivial revenues, even at rates that are so high that the courts would find them to be an unconstitutional "taking" of property. Moreover, it is so difficult to value land properly that the efficiency advantages cannot be realized.

Thomas Nechyba explores the land value tax in the context of a general model of the entire economy. He develops what is known as a "computable general equilibrium model" that quantitatively describes the changes in the macro-economy that will occur with the substitution of the land value tax for income taxation. Given his assumptions, the model predicts that the reduction in taxation of capital will so increase the aggregate amount of capital that the demand for land on which to use the capital will generate substantial increases in land values. That in turn will permit the land value tax to generate considerable revenues at a rate that is not confiscatory. Most economists would consider the significant increases in total national output predicted by the model to be real gains in economic efficiency.

Land Value Taxation as a Substitute for Other Taxes

Another pair of papers examines the land value tax as a substitute for other taxes used by sub-national governments in rich countries. In my own paper I argue that, although the empirical evidence on land values is poor, some reasonable estimates suggest that, at least in the United States, the land value tax could replace the conventional local property tax at reasonable tax

rates. But the main thrust of my argument is that those rich countries in which substantial government spending is done by local governments are the most plausible candidates for the use of the land value tax (see Table 1). Furthermore, its use is probably most feasible in those countries familiar with the idea of valuing real property for tax purposes. The combined administrative, compliance and evasion costs of most other taxes are so large that, even if the administrative costs of land value taxation are high, land value taxation is still promising.

Andrew Reschovsky points out that the current balmy climate for state and local finance in the United States is likely to change radically, for the worse, in the not too distant future. For a variety of reasons, state governments in particular may be looking for substantial additional revenues. Is the land value tax the right, or the likely, choice for hard-pressed state governments? He concludes, first, that the economic gains from the adoption of a new land value tax would be modest, compared to increasing the rates of existing state taxes. Second, a land value tax should help improve the equity of the state tax system. Third, he believes that it would add an element of cyclical stability to state revenue systems.

Nevertheless, Reschovsky remains skeptical about the tax on administrative grounds and is not convinced that it can generate enough revenues to replace any important existing state tax source. In the case of large central cities, however, he rates the land value tax somewhat higher as a replacement for existing tax sources, largely because of the probable lack of adverse locational effects. He views it as especially appropriate for those cities like Philadelphia that now receive relatively small percentages of tax revenue from the property tax.

Roy Bahl reviews the many difficulties and deficiencies in the use of property taxes by local governments in both developing countries and former Communist countries. There is widespread agreement that the property tax is the appropriate major local government tax, and in some countries this agreement extends to site value taxation as well. But, Bahl notes, the property tax usually provides negligible revenues, because of low nominal rates, low and inaccurate valuations, and poor collection experience. Almost everywhere, the basic requisites of good administration are lacking. Moreover, the political unpopularity of the tax generally is far greater than in the United States. Nonetheless, the property tax, especially the site value tax variant, is considered the best local revenue source in these countries.

Perhaps the most surprising research finding reported at the conference was the conclusion of Edward Wolff, who has written extensively on the distribution of income and wealth in the United States. He suggests that substitution of the land value tax for the federal individual income tax would make the U.S. tax system less rather than more progressive with respect to income (see Table 2). This result may be explained by the fact that the ratio of the value of land owned to household income rises steeply with the age of the householder. That is, mean household income declines sharply with age after age 54, while the mean value of land owned declines only slowly. On the other hand, a land value tax would be much more progressive with respect to wealth than is the income tax.

Broader Principles and Questions

Nicolaus Tideman, a convinced follower of Henry George, argues that the basic principles of and justifications for land value taxation apply to much more than the problems of land use in cities and suburbs-the usual focus for discussion of this form of taxation. He offers applications to environmental, congestion and population problems and to questions of efficient resource use and economic growth on a worldwide scale. He bases his views on the general principle that "all persons have equal rights to natural opportunities and should therefore pay for their above-average appropriations of natural opportunities."

Throughout the conference, there was lively disagreement about whether the land value tax could really produce substantial revenues. Some, like Mills, held that it could not even replace the conventional American property tax on land and buildings, much less a substantial portion of other state and local taxes as well. Others, including Tideman, Nechyba and I, presented data that suggested the possibility that land value taxation indeed could be an important factor in the American fiscal system. Participants also discussed the problems of administering a land tax so that tax liabilities actually and accurately reflect the value of individual parcels of land as bare sites, which is essential if the tax is to be a truly efficient one.

The conferees did not produce an agreed answer to the basic conference question, Can and will land value taxation work today? But they made it clear that the question remains a relevant one that deserves serious and continuing attention.

Dick Netzer is professor of economics and public administration in the Robert F. Wagner Graduate School of Public Service at New York University. He was

the conference coordinator and is the editor of a book containing the eight conference papers and the remarks of the formal discussants, which will be published by the Lincoln Institute later this year.

Land Value Taxation in Contemporary Societies: Can It and Will It Work?

Authors of Conference Papers

Roy Bahl, Professor of Economics and Dean, School of Policy Studies, Georgia State University

William A. Fischel, Professor of Economics, Dartmouth College

Edwin Mills, Professor of Real Estate and Finance, Kellogg Graduate School of Management, Northwestern University

Thomas Nechyba, Professor of Economics, Stanford University

Dick Netzer, Professor of Economics and Public Administration Robert F. Wagner Graduate School of Public Service New York University

Andrew Reschovsky, Professor of Agricultural and Applied Economics, University of Wisconsin-Madison

Nicolaus Tideman, Professor of Economics, Virginia Polytechnic University

Edward Wolff, Professor of Economics, New York University

Discussants

Alexander Anas, Professor of Economics, State University of New York at Buffalo

Daniel Bromley, Professor of Agricultural and Applied Economics, University of Wisconsin-Madison Karl Case, Professor of Economics, Wellesley College

Riel Franzsen, Professor of Mercantile Law, University of South Africa

Yolanda Kodrzycki, Economist, Federal Reserve Bank of Boston

Daphne Kenyon, Professor of Economics, Simmons College

Therese McGuire, Professor of Economics, Institute of Government and Public Affairs, University of Illinois-Chicago

Amy Ellen Schwartz, Professor of Economics, Robert F. Wagner Graduate School of Public Service New York University

Robert Schwab, Professor of Economics, University of Maryland

Robert Solow, Professor of Economics, Emeritus, Massachusetts Institute of Technology

Revenue and Expense Issues Forecasting

Revenue and Expense Issues: Forecasting Discussion

Purpose:

As we prepare for the 2024 State of Florida Legislative Session, it is recognized there are many issues facing the Florida League of Cities members in terms of municipal revenues and expenses. A best management practice in effective legislative advocacy strategy is to 1) identify small to medium class issues which may be easily addressed legislatively, 2) prepare draft legislative amendment language to address the desired outcomes of the identified issues, and 3) be prepared to present the desired amendments if the opportunities arise with State of Florida Legislature members and/or staff.

What to Expect and How to Prepare for this Discussion:

During our Finance, Tax, and Personnel Policy Committee meeting, Florida League of Cities staff will open the floor for points of discussion for committee members to identify potential revenue and expense concerns and opportunities which may be addressed legislatively during the 2024 State of Florida Legislative Session. The result of this discussion identifying the potential opportunities is to begin developing draft amendment language to resolve legislative areas presenting problems, frustrations, and/or limitations for local governments relating to taxation, State revenue sharing, unfunded mandates, cost shifts of State policies or programs to local governments, payment in lieu of taxation methodologies, and more.

Understanding the FT&P Policy Committee only as a limited amount of time scheduled for the October 6, 2023 meeting, please confer with your City Manager, Chief Financial Officer/Finance Director and/or Budget Director to identify potential topics for the open floor discussion that would:

a) Articulate the issue to be addressed concisely
b) Potentially identify paths for legislatively resolving the issue existing
c) Potentially identify a new solution for consideration legislatively
d) Forecast areas of revenues or expenses which need to be researched for future consideration of the State of Florida Legislature.

Policy Development Process

2023-2024 FLC Legislative Policy Process

The Florida League of Cities' (FLC's) Charter and Bylaws specify that the League shall engage only on legislation that pertains directly to "municipal affairs." "Municipal affairs" refers to issues that directly pertain to the governmental, corporate and proprietary powers to conduct municipal government, perform municipal functions, render municipal services and raise and expend revenues. Protecting Florida's cities from egregious far-reaching attacks on Home Rule powers will always be the top priority.

Each year, municipal officials from across the state volunteer to serve on the League's legislative policy committees. Appointments are a one-year commitment and involve developing the League's Legislative Platform. The Legislative Platform addresses priority issues of statewide interest that will most likely affect daily municipal governance and local decision-making during the upcoming legislative session.

Policy committee members also help League staff understand the real-world implications of proposed legislation, and they are asked to serve as advocates throughout the year. To get a broad spectrum of ideas and better understand the impact of League policy proposals on rural, suburban and urban cities of all sizes, it is ideal that each of Florida's cities be represented on one or more of the legislative policy committees.

The Florida Legislature convenes the 2024 Legislative Session on January 9. The League's legislative policy committee meetings commence in September 2023 and meet three times.

There are currently five standing **legislative policy committees**:

> **Finance, Taxation and Personnel Committee:** This committee addresses municipal roles in general finance and tax issues, Home Rule revenues, infrastructure funding, insurance, local option revenues, pension issues, personnel and collective bargaining issues, revenue sharing, tax and budget reform, telecommunications and workers' compensation.
>
> **Land Use and Economic Development Committee:** This committee addresses policies specific to municipal concerns with community redevelopment, economic development, growth management and land use planning issues, annexation, eminent domain, tort liability, property rights and ethics.

Municipal Administration Committee: This committee addresses municipal concerns with code enforcement, elections, emergency management, gaming, homeland security, public meetings, public property management, public records, public safety and procurement, charter counties and special districts.

Transportation and Intergovernmental Relations Committee: This committee addresses municipal concerns relating to transportation and highway safety, as well as aviation, affordable housing (and homelessness), billboards, building codes, charter schools, rights-of-way and veterans affairs.

Utilities, Natural Resources and Public Works Committee: This committee addresses policies specific to municipal concerns with coastal management, energy, environmental and wetlands permitting, hazardous and toxic wastes, recycling, solid waste collection and disposal, stormwater, wastewater treatment and reuse, water management and water quality and quantity.

At the last meeting, each of the five policy committees adopts ONE legislative priority that will be submitted to the Legislative Committee. The Legislative Committee is composed of:

- Each legislative policy committee chair and the chairs of the other standing committees
- The president of each local and regional league
- The presidents of several other municipal associations
- Chairs of the municipal trust boards
- Several at-large members appointed by the League President.

The policy priorities, as adopted by the Legislative Committee, are then recommended to the general membership for approval as the League's Legislative Platform.

In addition, a legislative policy committee may, but is not required to, recommend ONE policy position related to other relevant legislative issues. The policy position must satisfy the same criteria above for legislative priorities. The recommended policy position will be considered by the Legislative Committee. If favorably considered by that committee, it will be considered by the general membership. If adopted by the general membership, the policy position may be published and communicated to legislators and others, as appropriate.

Due to Sunshine Law issues, only one elected official per city can be represented on a committee, but a city could have an elected and a non-elected city official on each of the five policy committees. Appointments are made by the League President based upon a city official's support and advocacy of the Legislative Action Platform and participation at meetings, Legislative Action Days and other legislative-related activities.

2023 Legislative Policy Committee Meeting Dates

- September 8, 2023, 10:00 a.m. to 2:00 p.m. at the Rosen Centre Orlando, 9840 International Drive, Orlando, FL 32819
- October 6, 2023, 10:00 a.m. to 2:00 p.m. at the Gaylord Palms Resort & Convention Center, 6000 West Osceola Parkway, Kissimmee, FL 34746.
- November 30, 2023, during the FLC Legislative Conference at the Hilton Orlando, 6001 Destination Parkway, Orlando, FL 32819.

If you are interested in serving or learning more, please contact Mary Edenfield at 850.701.3624 or *medenfield@flcities.com*.

Key Dates

2023 - 2024 Key Legislative Dates

October 2023

6	FLC Policy Committee Meetings (Round 2) – Gaylord Palms Resort & Convention Center, 6000 West Osceola Parkway, Kissimmee, FL 34746
9-13	Interim Legislative Committee Meetings (Senate only)
16-20	Interim Legislative Committee Meetings
17-18	FAST Fly-In – Washington, D.C.

November 2023

6-9	Interim Legislative Committee Meetings
13-17	Interim Legislative Committee Meetings
16-18	NLC City Summit – Atlanta, GA
29-Dec. 1	FLC Legislative Conference – Hilton Orlando, 6001 Destination Parkway, Orlando, FL 32819

December 2023

4-7	Interim Legislative Committee Meetings
11-15	Interim Legislative Committee Meetings

January 2024

4	FLC Pre-Legislative Session Webinar at 2:00 p.m. ET
9	Regular Legislative Session Convenes
29-31	FLC Legislative Action Days – Tallahassee, FL

March 2024

8	Last Day of Regular Legislative Session
11-13	NLC Congressional City Conference – Washington, DC
19	FLC Post Legislative Session Webinar at 2:00 p.m. ET

For further details about the mentioned events, contact *medenfield@flcities.com*.

Rev. 9/15/2023

Home Rule Hero Criteria

Do you want to become a HOME RULE HERO?

AS THE ADAGE GOES, "ALL POLITICS IS LOCAL." Successful advocacy starts at home, not in Tallahassee. No one – not even a professional lobbyist – can tell your community's story better than you. Your involvement helps the League's legislative team turn the abstract into concrete. It is essential to help legislators understand how their decisions may impact their communities back home.

The League appreciates the individual advocacy efforts undertaken by municipal officials throughout the state. Each year, there are some League members who make an extraordinary effort; people who stand out for their high level of participation and effectiveness. The Home Rule Hero Award was created to acknowledge and thank them for their efforts. Hundreds of municipal officials have been recognized as "Home Rule Heroes" since the award's inception in 2009, and we thank you!

Home Rule Hero Award recipients are selected by the League's legislative team following each legislative session.

For the award, the most important criteria are timely responses and actions to FLC's Legislative Alerts, and notifying FLC staff of communications with your legislators.

Other exceptional efforts are:

- Attending the Florida League of Cities' Legislative Action Days in Tallahassee and Legislative Conference.
- Testifying before a House or Senate committee on an FLC priority issue, when a call to action has been sent out.
- Participating in FLC's Monday Morning "Call-ins" during session and on FLC's pre-and post-legislative session webinars.
- Participating in FLC's Legislator "Key Contact" program.
- Meeting legislators in their districts or in Tallahassee.
- Responding to FLC requests for information and data about how proposed legislation will specifically impact your city (telling your city's "story").
- Speaking at local legislative delegation meetings to discuss FLC municipal issues.
- Setting up opportunities for legislators and their staff to attend a city council meeting or special event; tour a park, project or facility; and attend a local league meeting.
- Serving on a FLC legislative policy committee.
- Participating in a Federal Action Strike Team fly-in to Washington, D.C.
- During an election year, providing opportunities for candidates for legislative offices to learn about your city and its issues, and introducing candidates to key city stakeholders or those in your professional network.

For more information on these activities and ways to step up your advocacy game, please contact Allison Payne at *apayne@flcities.com*.

Notes

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