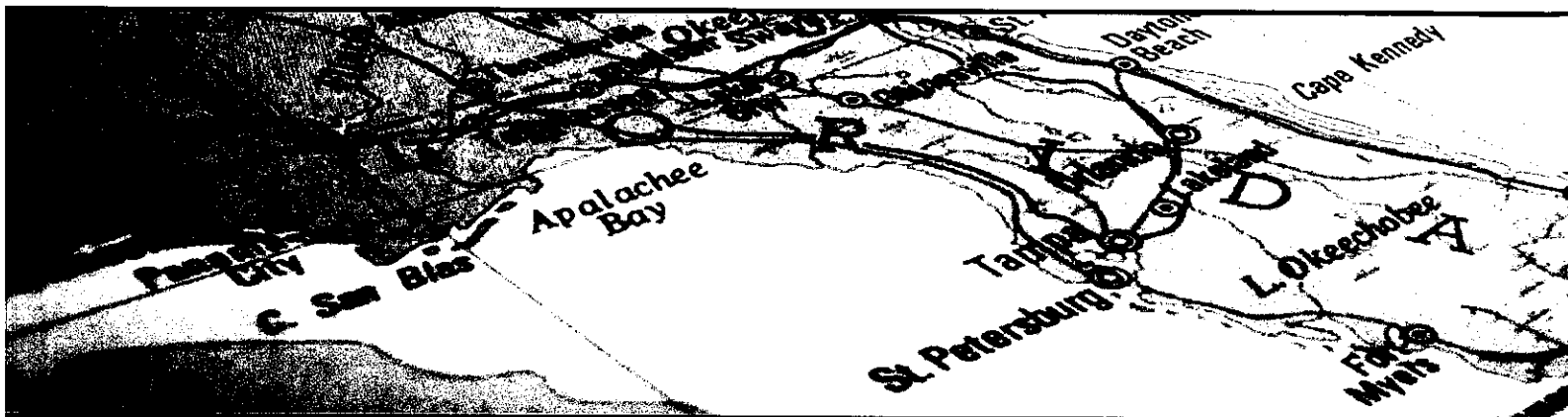


TOUGH CHOICES

FACING FLORIDA'S GOVERNMENTS



THE DOUBLE WHAMMY FACING FLORIDA'S COUNTIES

The past few years have been tumultuous ones for Floridians and their governments. Florida has faced near-record unemployment, housing prices have plummeted, the number of foreclosures has skyrocketed, and government revenues have fallen substantially. Realistic expectations would indicate a slow recovery for Florida and its citizens.

Florida local governments have seen their revenues fall, the demands for services increase, and the public increasingly critical of how they do their job. State legislators have piled on, putting measures on the November 2012 ballot that can substantially lower the property tax levies that make up the majority of local governments' revenue. Local officials are calling "foul," but who is listening?

The timing seems right for a careful assessment of financial trends in Florida local governments' revenues and spending. As part of a larger project on state-local relationships in Florida funded by the Jessie Ball duPont Fund, the LeRoy Collins Institute (LCI) is examining these fiscal trends across the state's counties, municipalities, and school districts spanning the mid-1970s to the 2000s. This report analyzes these financial trends for Florida's counties and how prepared they are for the current tough times. It provides an assessment of important financial trends in Florida counties leading up to the current financial downturn and puts this crisis in context. This analysis clearly shows what a difference the past three years has made to Florida counties. In the thirty-year period between 1976 and 2006, with only one exception in the early 1990s, revenues and spending increased for Florida's counties, accelerating during the 2003-2006



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period of the greatest housing price boom. But in 2007 the world changed, and Florida's counties began to feel the hardship of a substantial drop in revenues and spending--the likely result of the housing collapse and increased state restrictions on local revenues.

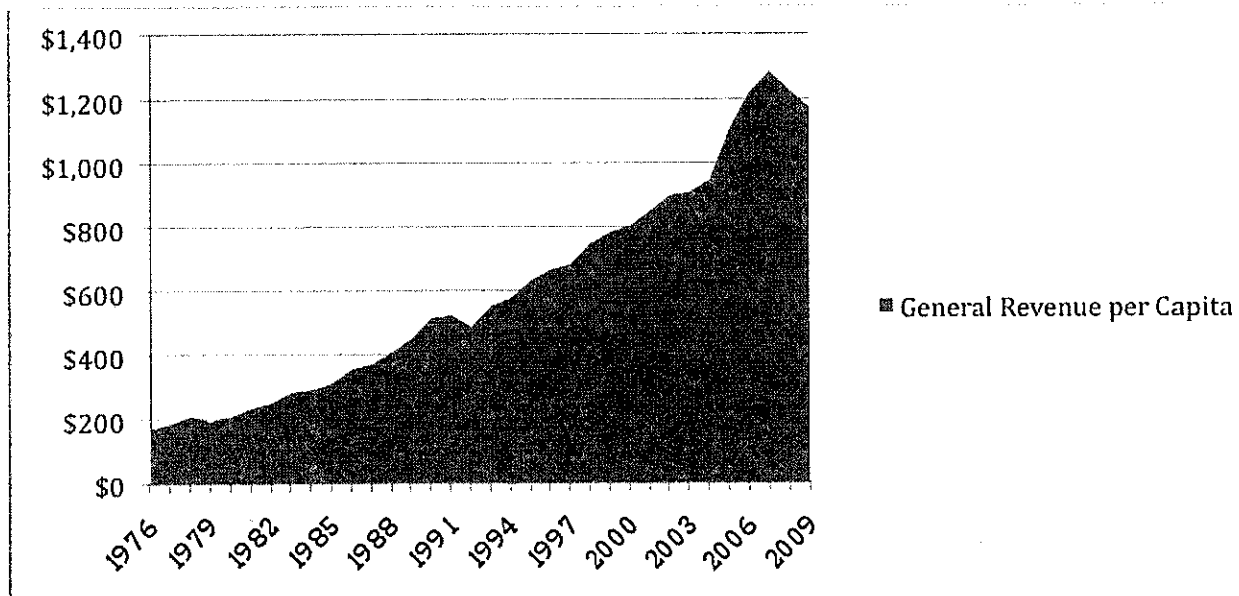
We set out to determine the impact of economic conditions and state mandates on local revenues and spending over the past three-plus decades. In short, we found that until 2007, counties had been successful at weathering these challenges. What happened in 2007, however, was a double whammy when the combination of an economic downturn and state mandates hit Florida governments like a home-grown hurricane. And the results were similarly harmful.

This analysis looks at these trends in Florida counties from 1976 through 2009. To control for the effects of inflation, the revenue and spending data in this report are presented in 2007 dollars.

COUNTY REVENUES GROW—BUT NOT UNIFORMLY

County general revenues per capita¹ grew steadily from 1976 to 2007. Examining the revenues on a per capita basis is one way to "control" for growth. If revenues and population grow at the same rate, per capita revenues will remain the same over time. As Chart 1 indicates, this is not the case for Florida counties. With the exception of a dip in 1994 and an acceleration beginning with the new millennium, the rate of growth was steadily upward. In 2008, revenues fell by \$60 to \$1,226 per capita and it fell another \$53 in 2009 to \$1,173 per capita. (The only other time revenues fell, in 1994, the drop was considerably smaller—by less than \$16 per capita.)

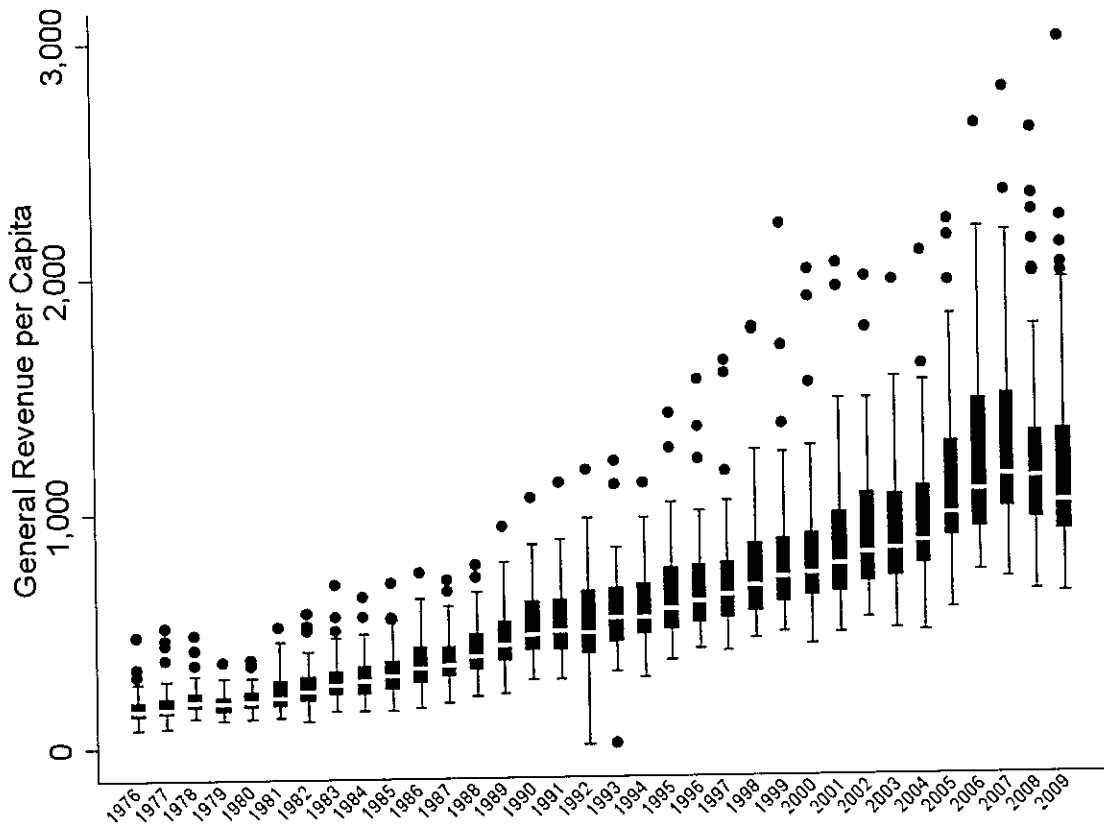
CHART 1: General Revenue Collected by Counties per Capita, 1976-2009



**Data in this chart and all other charts are in 2007 \$'s to control for inflation. All data are from the Florida Department of Revenue unless otherwise noted.*

However, these changes were not uniform across Florida's 67 counties. At the low end was Okaloosa County, which saw its per capita general revenue increase by only \$516 over 33 years (from \$165 in 1976 to \$681 per capita in 2009). At the other extreme was Monroe County whose revenues per capita increased by \$2,818—from \$170 in 1976 to \$2,988 per capita in 2009.

CHART 2: County Variation in General Revenue per Capita, 1976-2009



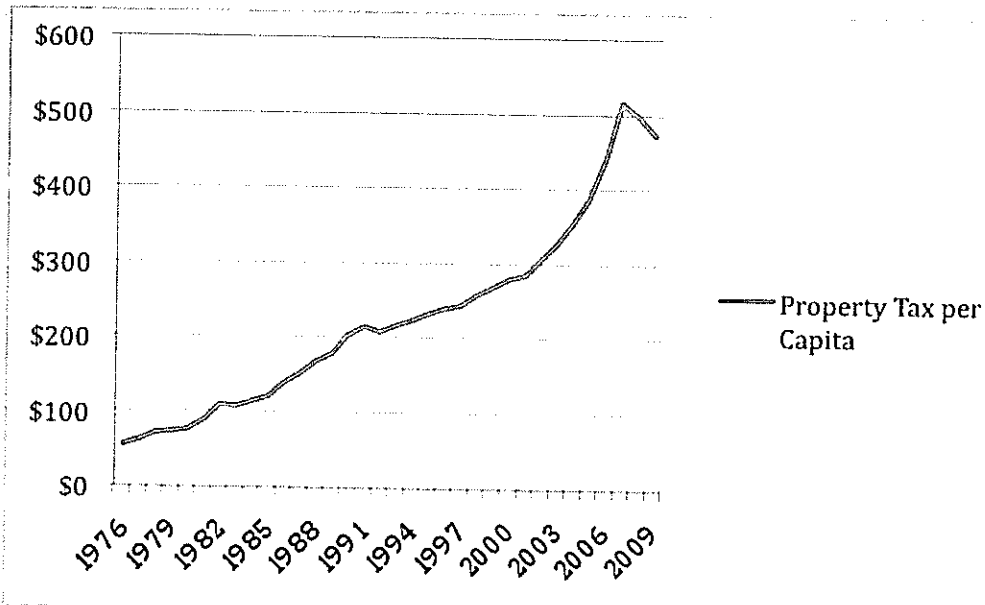
Another way to look at these differences is found in Chart 2 which illustrates the range of revenues per capita over time. The horizontal line in the middle of each box represents the median county's general revenue per capita. The top and bottom parts of the box represent the number of counties within the first standard deviation. The length of the lines shows the range of values with the dots representing "outlier" counties that far exceed other counties' values. In 1976, general revenues per capita were around \$172 per person and the range was between \$80 and \$704. By 2009, the average general revenues per capita were \$1,173. However, it is important to note, the range had increased substantially from \$633 to \$2,988.²

The growth in general revenue until 2007 was primarily from increased tax revenues with the exception of sales and use tax (which fell by 7 percent—or around \$8 per capita—from 2006 to 2009). The other categories of revenue, including fines and licenses, remained quite stable over the period of time studied.

WHAT ABOUT THE PROPERTY TAX?

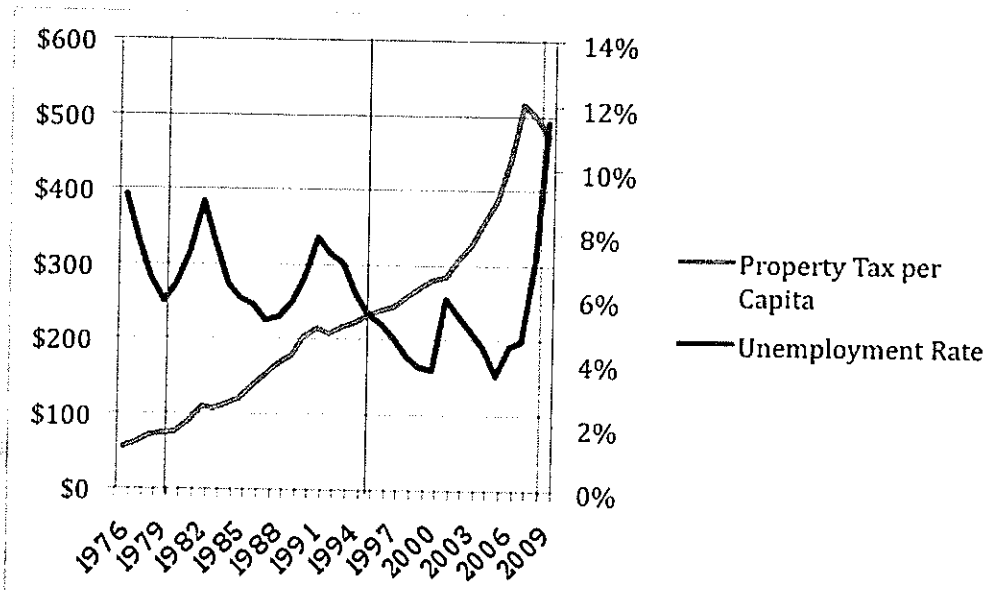
Chart 3 provides a closer look at the primary tax revenue source for counties—the property tax. The chart shows the rate of growth in per capita taxes since early 2000, but also clearly shows the rather dramatic drop in property tax revenues in 2007-2009. Property taxes per capita were \$475 in 2009, down from the high of \$517 in 2007.

CHART 3: County Property Tax Collected per Capita, 1976-2009



While the property tax is not as sensitive to economic conditions as the sales tax, one might argue that in good economic times, property tax revenues will rise and in tougher times they will fall. According to Chart 4, the latter contention does not hold true. Chart 4 provides information concerning the impact of economic conditions on county property tax per capita. Using the annual unemployment rate for the state as the measure, we find little relationship between rising unemployment and lower property tax rates per capita (or falling unemployment and higher property tax yields)—until 2008 when unemployment rates increase rapidly and property taxes per capita fall as equally quickly.³

CHART 4: Property Tax Collected per Capita and Annual Unemployment Rate, 1976-2009



Source: Florida Department of Revenue, US Bureau of Labor Statistics

Chart 4 also illustrates the effect of two major state constitutional amendments on county property tax revenues. In 1980 the state adopted a \$25,000 property tax exemption for all homesteaded properties. In 1992, state voters adopted the Save Our Homes (SOH) amendment that limited property tax assessment increases to 3 percent. SOH went into effect in 1995. The chart shows a slowed rate of increase for several years after the

implementation of both changes. By 2000, however, the rate of increase was even more substantial than in the pre-SOH period. In 2007 the legislature stepped up the pressure on local governments by rolling back the property tax rate, but allowed county commissions to approve higher rates with a super-majority vote. In 2008, voters approved a constitutional amendment to double the homestead exemption for homeowners, create portability for the SOH and put a cap on tax assessments for non-homestead property. These actions—along with the economy—seem to have a clear effect on aggregate property taxes per capita.

The effect of changes to the property tax on counties may be best understood by looking at counties' reliance on the property tax. In 2009 property tax made up just over 55 percent of the average county's revenues in Florida.⁴ But differences among the counties are stark. Property taxes make up 78 percent of the average tax revenue of counties in the lowest quartile of population in the state.⁵ More populous counties tend to use other revenue sources more than smaller counties—especially franchise fees, utility service taxes, and other taxes.

CHART 5: State Actions and Just and Taxable Property Tax Value, 1976-2009

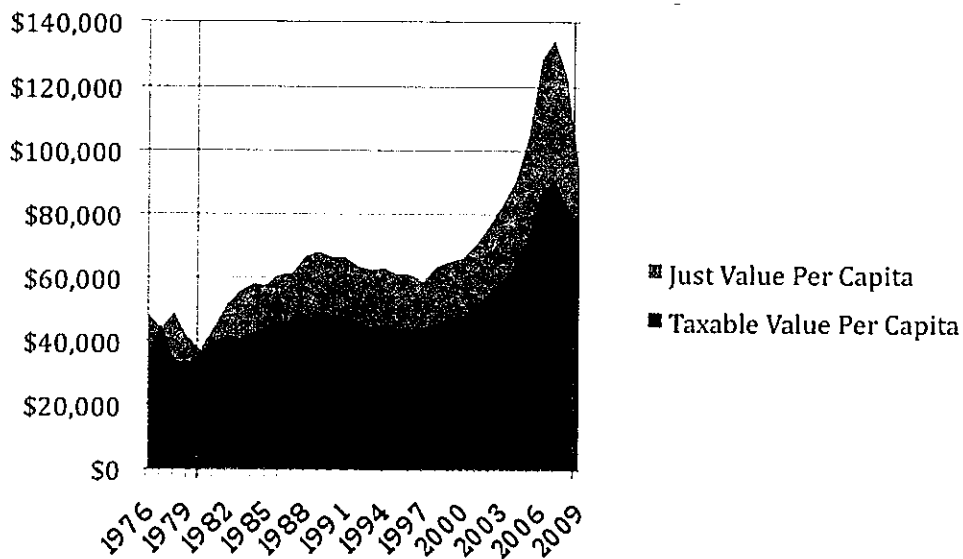
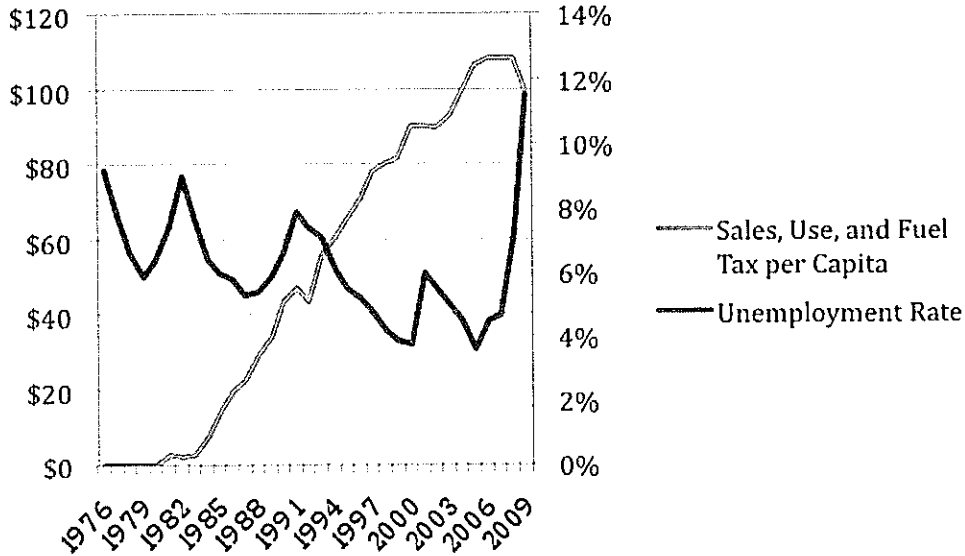


Chart 5 illustrates the impact of the two early constitutional amendments on counties' property tax values. While there were some exemptions prior to 1980, the blue area shows the difference between the taxable value per capita (assessed value on which the property tax was actually paid) and the just value per capita (the estimated market value of the property). There was an immediate effect after the initial constitutional amendment, but the largest impact was in the mid-2000s when housing prices skyrocketed in the state. Thus, the amendment did as it was intended—held down assessments. However, the counties continued to benefit from increased housing stocks until 2007.

While property taxes are the major source of revenue for Florida's counties, they are not the only one. Counties get revenue from sales and use taxes and these taxes have also increased over the years. Chart 6 shows sales, use and fuel taxes per capita. This chart shows the expected inverse relationship between rising unemployment rates and falling sales tax revenues. There was a slight downturn in the sales tax revenue per capita following the uptick in the unemployment rate in 2002 (\$0.68 per capita) and another small downturn from 2007-2008 (\$0.12 per capita as unemployment grew by 2.5 percent). More dramatically, when unemployment increased by an additional 4.3 percent in 2009, sales and use tax revenue fell by more than \$8 per capita.

CHART 6: Sales, Use, and Fuel Taxes Collected by Counties per Capita and State Unemployment, 1976-2009



Source: Florida Department of Revenue, US Bureau of Labor Statistics

Intergovernmental grants from the federal and state governments are another source of revenue for Florida's counties. Chart 7 shows intergovernmental revenue per capita since 1979. Intergovernmental revenue includes both federal and state grants and shared revenue. Overall, intergovernmental revenue is not countercyclical; in other words it does not rise as the unemployment rate rises (with the exception of 1984). In fact, combined intergovernmental revenue increased substantially as the unemployment rate dropped in the mid-2000s and it fell during the 2007-2009 period. By 2009 we would have expected to see a noticeable increase in intergovernmental revenue from the federal and state government as the federal stimulus package took effect. But we do not, in fact, see evidence of this—either from stimulus money being filtered through the state to county governments or additional funds being directly given to county governments (See Charts 8 and 9).

CHART 7: Total Intergovernmental Revenue per Capita and Unemployment Rate, 1976-2009.

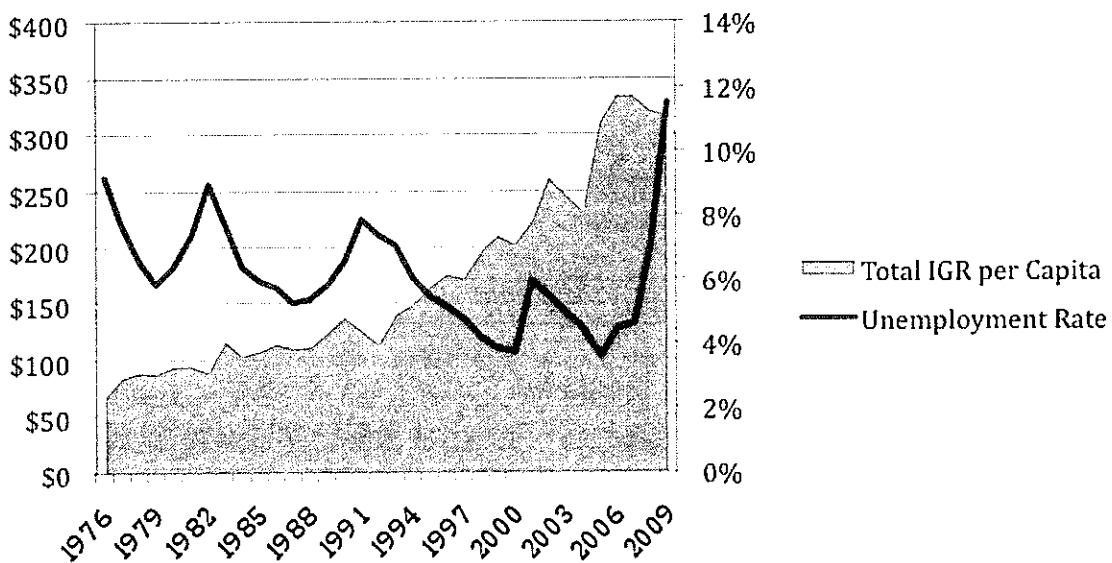
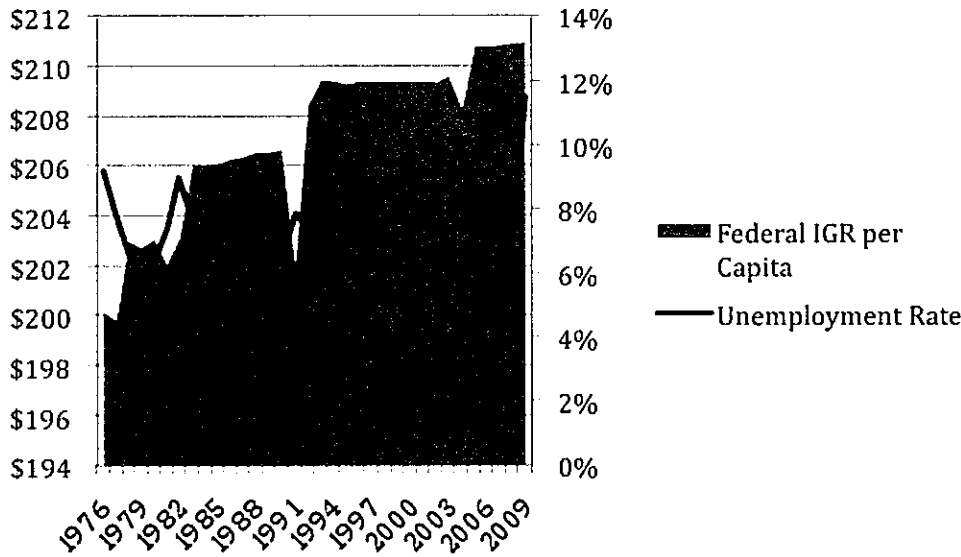
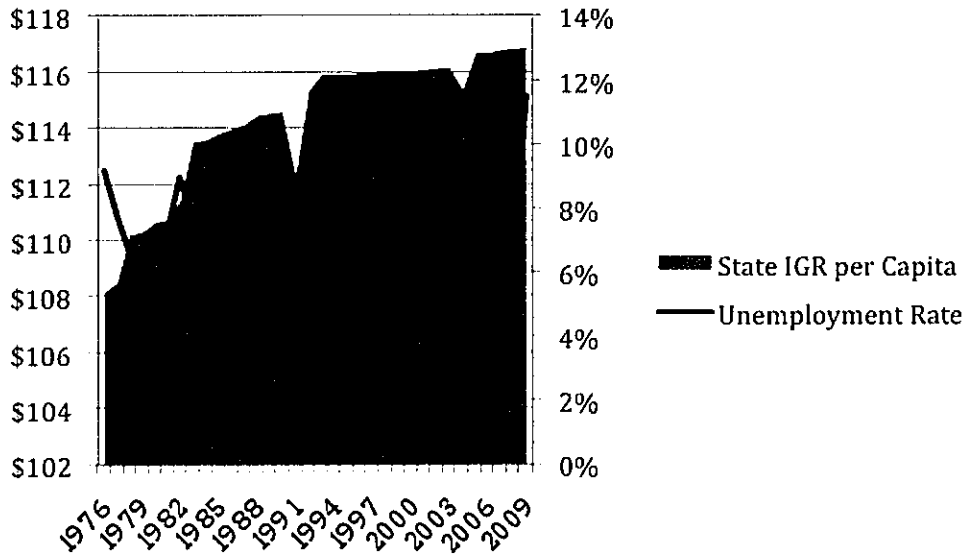


CHART 8: Federal Intergovernmental Revenue per Capita and Unemployment Rate, 1976-2009



Source: Florida Department of Revenue, US Bureau of Labor Statistics

CHART 9: State Intergovernmental Revenue per Capita and Unemployment Rate, 1976-2009



Source: Florida Department of Revenue, US Bureau of Labor Statistics

PUBLIC SAFETY DOMINATES COUNTY SPENDING

On the spending side of the equation, Chart 10 shows the growth of expenditures per capita from 1976-2009. While there were a few years when spending per capita fell (1979, 1984, and 1993) it was never more than a few dollars. That is, until the current recession. While most counties were able to continue their upward spending trajectory through 2008, by 2009 this became unsustainable. On average, county expenditures per capita in 2009 dropped from 2008 levels by about \$130. Chart 11 shows the median per capita spending by year, along with the standard deviations, range and outliers. The median per capita spending grew from \$166 in 1979 to \$1,167 in 2009 (dollars are inflation-adjusted). Moreover, the range of spending across counties has increased dramatically over the time period from 1976-2009 showing a growing difference among counties across the state.

Chart 10: Total Expenditures per Capita, 1976-2009

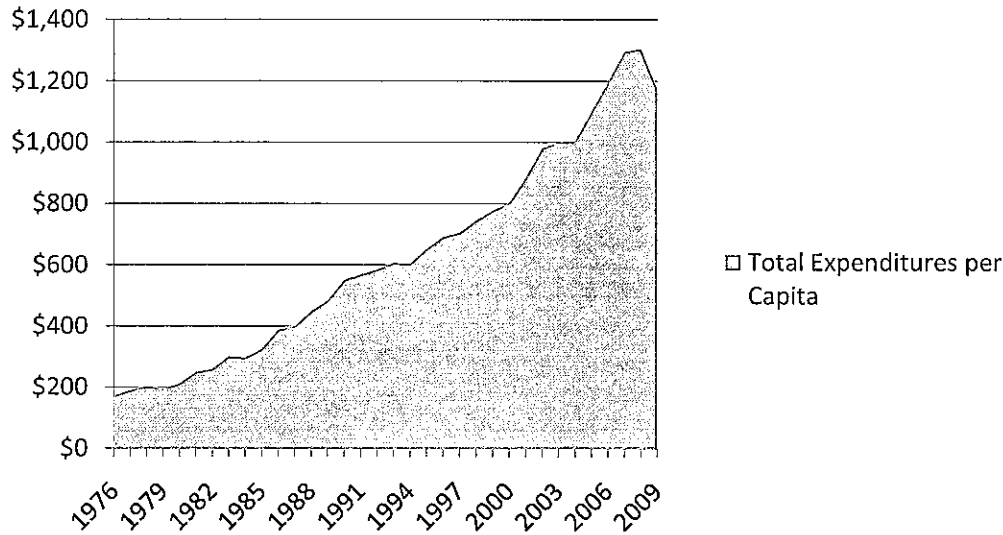


CHART 11: County Variation in General Expenditures per Capita, 1976-2009

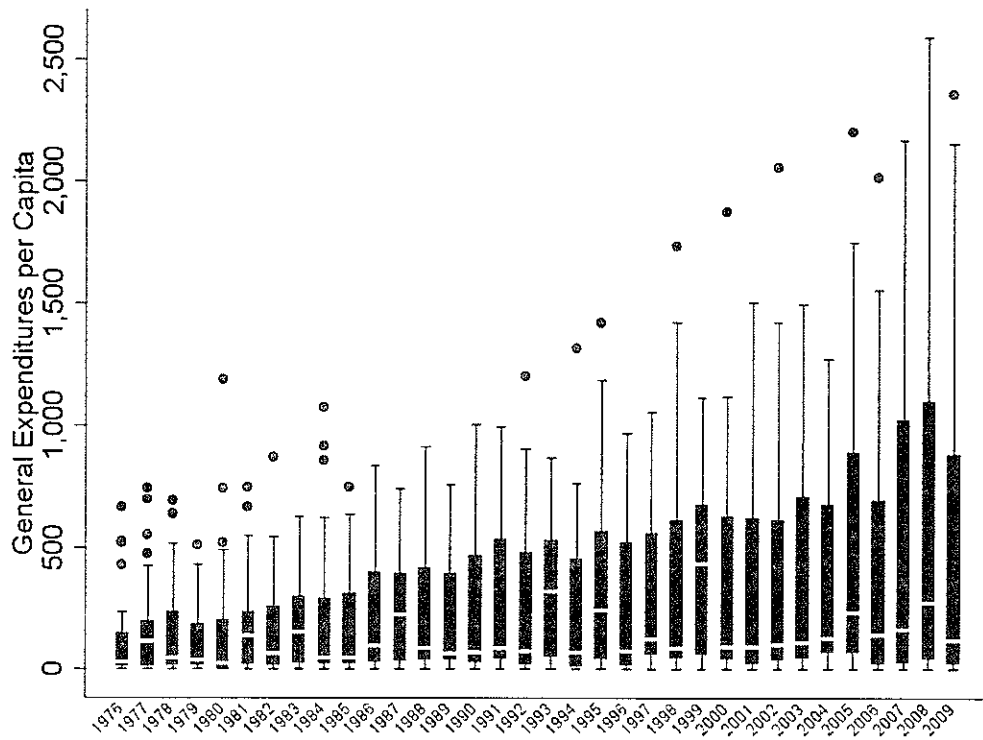


Chart 12 provides per capita spending trends for Florida’s counties since 1976 in four areas—human services, culture, public safety and recreation. The area where the spending increase was the most dramatic is public safety which rose from \$32 per capita in 1976 to a high of \$442 in 2008. In 2009, public safety spending fell slightly. Human services and parks are much smaller components of spending and spending has remained fairly stable over time. As Chart 12, notes, it is roads and street expenditures that have fallen over the past two years—from \$250 per capita on average in 2007 to \$194 in 2009.

CHART 12: Per Capita Expenditures for Select Expenditure Categories, 1976-2009

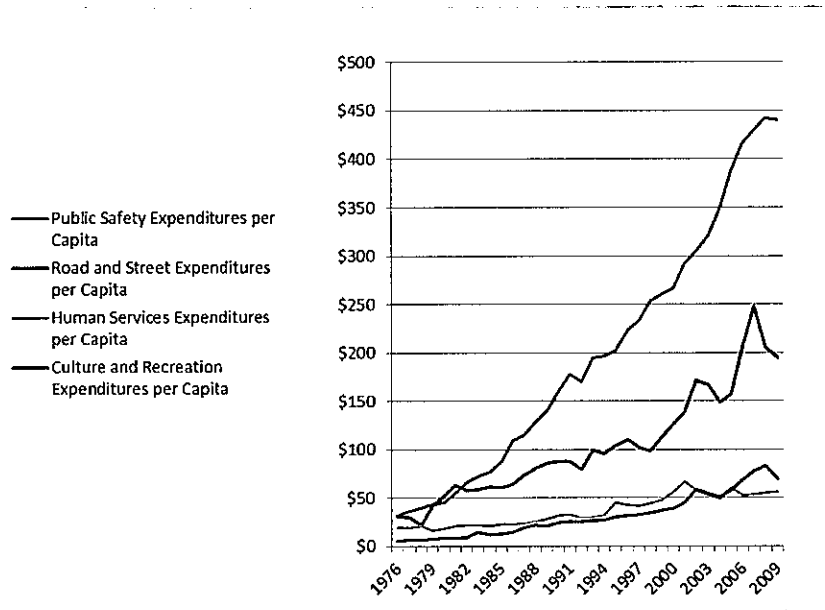


CHART 13: Human Service Spending per Capita, 2000-2009

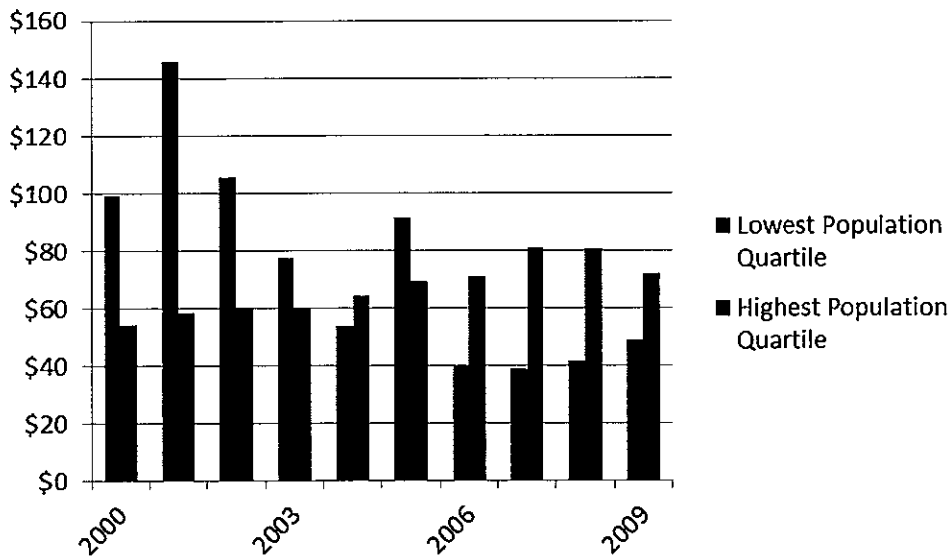


Chart 13 provides human service spending per capita 2000-2009 for the lowest population Florida counties (those whose populations fall in the lowest quartile or bottom fourth of the state) compared to the highest population counties (those whose populations fall in the top fourth of the state). Chart 13 indicates that from 2000 until 2006, counties with the lowest population tended to spend more per capita on human services than the highest population counties.

However, a switch happened in 2006-2009, where the highest population quartiles spent more per capita than the lowest population quartiles. In contrast, Chart 14 on public safety spending, shows the lowest population counties spent less per capita until 2009 when they spent more. In contrast, Chart 14 on public safety spending, shows the gap between spending per capita in lowest population and highest population counties has lowered in recent years.

One area of spending not negatively impacted by current economic conditions as of 2009 seemed to be spending for the “economic environment.” Expenditures in this general area encompass such things as employment opportunity, downtown, industrial, housing, and community development, as well as other economic considerations. While the growth of such spending appears to have skyrocketed since 2001 (see Chart 15), there is evidence that increased spending in this area is no longer sustainable. In the two years since the latest statewide data have been made available (and not reflected in Chart 15), individual counties are reporting that expenditures for the economic environment are being dramatically curtailed, lagging behind, but following the path of other expenditure areas.

CHART 14: Public Safety Spending per Capita, 2000-2009

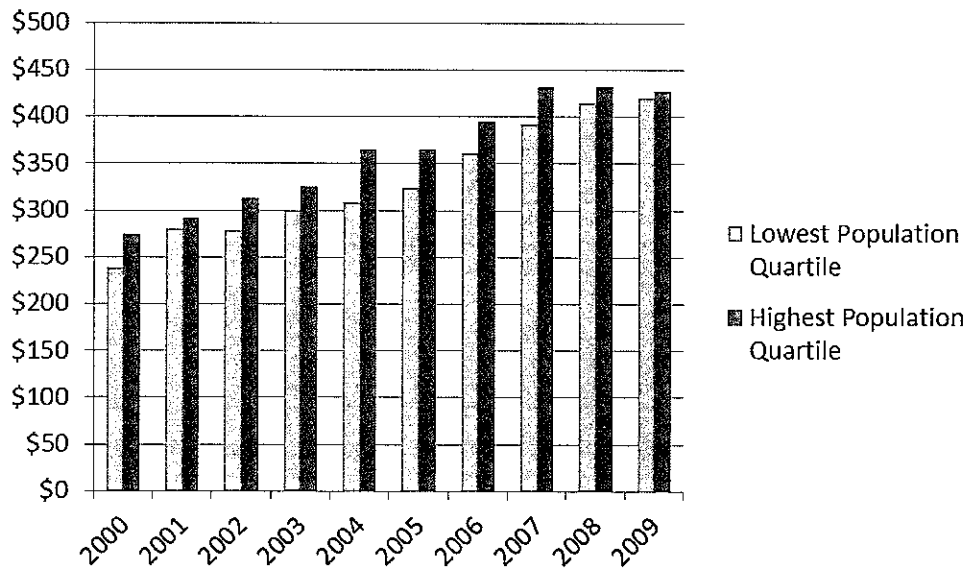
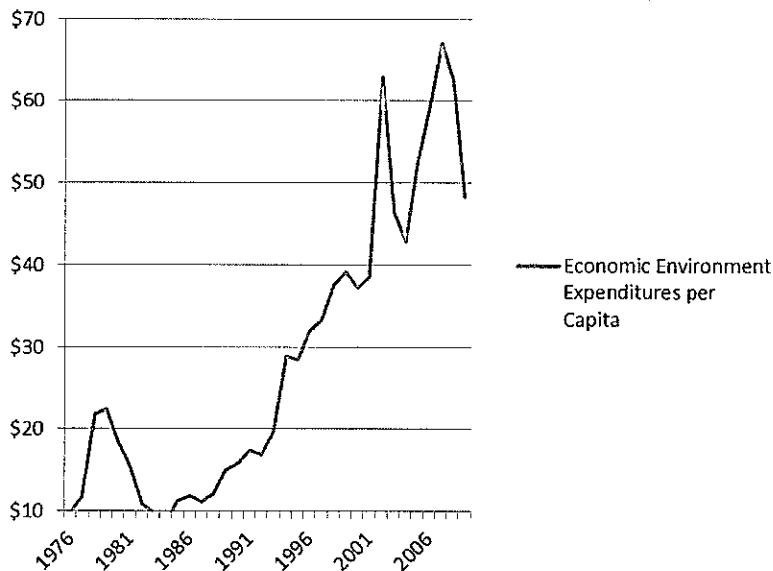


CHART 15: Economic Environment Expenditures per Capita, 1976-2009



Finally, we examine economic environment expenditures per capita in Chart 15. Expenditures in this general area encompass such things as employment opportunity, downtown, industrial, housing, and community development, as well as other economic considerations. While there are great variations in county spending for this area, the trend is toward much more spending—until 2009 when spending falls. Individual counties are reporting that expenditures for the economic environment are being drastically curtailed in these tough times.

FLORIDA COUNTIES' TOUGH CHOICES AHEAD

Florida counties—and other Florida general purpose governments—are now feeling the detrimental effects of dramatically reduced revenues brought on by a double whammy of severe economic downturn and state restrictions on the property tax. Since we are in the midst of this policy hurricane, it is difficult to make predictions about near-term impacts. However, in this work, we can learn from past experiences to help alleviate future problems. For example, this analysis highlights that:

- while revenues per capita have edged up since 1979, the variation among counties has increased even more.
- although counties have a variety of options for revenues apart from general taxes, they remain heavily reliant on taxes, particularly the property tax.
- while the earlier constitutional provisions had little impact on the revenue growth of counties, the most recent changes—along with the tough economic times—may have had a major impact.
- per capita public safety increases have far outstripped the growth of other county expenditures in the past two decades. Human services, culture, recreation and the general economic environment have grown very little over that period of time. Roads and streets have taken the largest cuts since 2007 although spending is down in every category.
- in 2008 and 2009, the smallest population counties reduced their spending per capita for human services, while the highest population counties stepped up their spending in this area. It appears that the larger counties are better able to meet the increasing demands for human services in tough economic times than smaller counties.
- Intergovernmental grants—both federal and state—are not countercyclical, meaning they do not increase in tough economic times as might have been expected.

In summer 2011 the pressures on counties continue. In November 2010, the state's voters passed constitutional amendments putting in place additional property tax exemptions. More significant restrictions lowering the current assessment limit for non-homestead property will be on the ballot in November 2012. Future research by the LeRoy Collins Institute will analyze the impacts of these and other state mandates. Clearly, tough choices continue for the state's counties and cities and the citizens they serve.

¹ General revenues are defined as the sum of taxes, charges, fees, and miscellaneous income (not including intergovernmental transfers) collected by the counties in a given year.

² The numbers vary slightly from Chart 1 since Chart 1 shows per capita median figures statewide and Chart 2 shows the median across counties.

³ In this instance, unemployment rates are not lagged because there is little reason to believe that level of unemployment should have any delayed effect on property taxes owed; rather, any effect of unemployment should be reflected in present-time property taxes collected as increased unemployment decreases income for payment of property taxes.

⁴ This does not include intergovernmental revenues. If IGR revenues are included, the reliance drops to 40 percent.

⁵ The lowest quartile of population includes counties in the bottom 25 percent when counties are ranked by population.



Tough Choices: A research series focused on state and local government relationships from the LeRoy Collins Institute.

Established in 1988, the LeRoy Collins Institute is an independent, nonpartisan, non-profit organization which studies and promotes creative solutions to key private and public issues facing the people of Florida and the nation. The Institute, located in Tallahassee at Florida State University (FSU), is affiliated and works in collaboration with the State University System of Florida.

Named in honor of former Florida Governor LeRoy Collins, the Institute is governed by a distinguished board of directors, chaired by Allison DeFoor, D.Min. Other board members include executives, local elected officials, and senior professionals from throughout the state.

Beginning in 2005, the Institute published several reports in a series called, *Tough Choices: Shaping Florida's Future*. These publications provided an in-depth analysis of Florida tax and spending policy including Medicaid, PreK-12 education, higher education, and children's health and welfare. The research concluded Florida's pattern of low spending and low taxes conflicted with the growing demands of the state's residents, predicting trouble may be ahead.

In the newest research series, *Tough Choices: Facing Florida's Governments*, the Institute takes an objective look at the often tumultuous relationship between state and local governments in Florida. *The Double Whammy Facing Florida's Counties* is the third release in this research series. This report was written by Jessica Ice, Collins Fellow and PhD Candidate at the FSU Department of Political Science and Carol Weissert, Ph.D., director of the Institute, with data provided by Robert J. Eger, III, Ph.D., professor at the FSU Askew School of Public Administration and Public Policy and Bruce McDonald, Askew School graduate assistant. David Matkin, Ph.D., assistant professor at the Askew School, also assisted with the analysis and interpretation of the data.

The *Tough Choices* research series is funded by the Jessie Ball duPont Fund. Future reports in the *Tough Choices* research series will examine trends in city spending and revenue, the effects of state mandates on Florida's local governments, state proposals to limit local revenues, and differential effects of the economy and state mandates on fiscally distressed communities.

All publications from the Institute can be found at the Institute's website: <http://CollinsInstitute.fsu.edu>.

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