



Who supports portable assessment caps: The role of lock-in, mobility and tax share

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ABSTRACT

Popular support for property assessment caps has been explained as attempts to protect long-time home owners and to constrain local public expenditures. However, in the absence of a binding cap on millage rates, an assessment limit simply lowers the tax share of low-mobility homeowners at the expense of high-mobility homeowners. A recent amendment in Florida made existing exemptions portable, lowering the tax share of high mobility households and raising the tax share of low mobility households. Examining vote share by precinct, we find that more mobile households support portability but that precincts with larger exemptions do not. We also find evidence that voters understood how the amendment impacts their tax share. Support for portability is higher when a city has many out-of-state and thus “exemption-less” immigrants and support is lower when mobility in the rest of the tax jurisdiction is high. These findings suggest that voters alter assessment rules to minimize their own tax share.

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1. Introduction

Since California voters' approval of Proposition 13 in 1978, fifteen states have limited the growth in property assessments (Hoyt et al., 2009). The tax protection afforded by such caps may induce households to over-stay in their current home (Bogart, 1990; Stohs et al., 2001; Wasi and White, 2005; Ferreira, 2007).¹ If housing match quality diminishes over time, then this “lock-in” effect from assessment caps will generate an aggregate welfare loss (O'Sullivan et al., 1995, 1999) and could induce additional construction at the urban fringe (Wassmer, 2008). The leading explanations for popular support for property assessment caps are that they are intended to constrain local public expenditures or to protect long-time home

owners.² However, in Florida, where an assessment cap has been in place since 1995, few cities have tax rates near the cap, discounting the first hypothesis. Then in 2008, voters passed a novel amendment to make the existing exemption portable, calling the second hypothesis into question and providing the subject for our empirical analysis.³

² When combined with a cap on millage rates, an assessment cap can significantly reduce local revenues and expenditures (Downes, 1992; Figlio, 1997). Voters may support these limitations because they believe they will improve local government efficiency rather than reduce public services (Citrin, 1979; Ladd and Wilson, 1982). However, these expectations are often not realized (Doyle, 1994; Figlio and Rueben, 2001; Hoyt et al., 2009). In addition, voters' estimation of government efficiency appears to be inversely correlated with their personal tax liabilities (Cutler et al., 1999). A related puzzle is why voters use state referenda to constrain a revenue source that is primarily utilized by local government. The common explanation is agency failure: Anderson and Pape (2008) suggest that current voters do not trust future voters to guard their interests and thus seek institutional barriers to future taxes, while Vigdor (2004) suggests it is residents of other cities in the same state that voters guard against.

³ Ferreira (2007) examines an amendment to California's Proposition 13 that permitted counties to port the exemptions of residents 55 and over. Counties had a choice whether to allow the portability or not. Oregon has a system in place where the assessment cap is transferrable to new owner, but it is not portable.

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¹ Nagy (1997) does not find an effect on mobility.

By treating newly purchased homes in the same way as currently owned homes, the amendment ameliorates the lock-in effect but at the expense of administrative complexity, greater horizontal inequity between recent and longtime homeowners and a faster erosion of the property tax base. While the original assessment cap passed with popular support, there was even greater support for the mobility-enhancing amendment. The portability provision is unusual because it impacts not only a household's current and future property tax liability and thus the finances of its current city, but also the assessed value of any city the household may move to in the future. Formerly, cities were able to rely on a certain amount of turnover in the market to reset the tax base back to market prices; now the base will only be restored when a first-time or out-of-state homebuyer makes a purchase. In addition, in-state migrants from other parts of Florida can erode the local tax base faster if they port large exemptions into districts that have not experienced much appreciation. Thus, after the portability amendment, local governments must reduce their expenditures, raise other taxes or fees, tax non-protected property, or raise the millage rate, which was almost never constrained.⁴ Rational voters thus had to balance their potential tax savings after a move against potentially higher immediate taxes or fewer public goods.

To explain support for the portability amendment, we combine statewide assessor property records with precinct level election data and 2000 census block group data. We predict the share of yes votes based on the mobility rate and the existing tax savings (the "tax wedge") from the existing assessment cap, controlling for average demographic characteristics, mean income and partisanship. Despite amendment supporters' claims that it would result in a tax reduction for owner-occupied property, we do not find higher support for the measure in precincts with a greater share of homesteaded property. Nor was support explained by the average size of a homeowner's current tax exemption, even though an existing exemption is a necessary condition for lock-in to occur. Instead, we find that precincts with more mobile households, and ones more mobile *relative* to other households in the same tax jurisdiction, were more likely to support portability. In addition, when examining inter-tax district migration, support increases when a jurisdiction has high rates of in-migration from other states but decreases with high rates of in-state migrants. These findings are consistent with voters understanding the mechanics of how portability affects their property tax shares. We believe that voters' behavior was motivated less by immediate tax savings and more by an attempt to shift the burden of financing government back to low-mobility households and especially to new homeowners in Florida.

Section 2 details the original Save Our Homes exemption and the proposed portability amendment. Section 3 lays out the theoretical framework. In Section 4, we describe the econometric specification and the dataset, and we explain how we construct our independent variables of interest. Section 5 presents the initial results for the effect of mobility and wedge on support for portability. Section 6 looks for more sophisticated voter behavior by introducing a measure of relative mobility within the city and decomposing types of in-migration. There is a brief conclusion.

2. Institutional detail

Since 1980, Florida law has exempted the first \$25,000 of market value from assessment on a homeowner's primary residence or "homestead."⁵ In 1995, 54% of Florida voters approved changing the

⁴ Florida law limits the municipality property tax rate to 10 mills. In 2008, calculations by the authors show that of 388 municipalities, the median municipal millage rate is 4.1 mills. The municipality at the 95th percentile has a millage rate of 7.7 mills, comfortably below the cap.

⁵ In addition to the standard \$25,000 homestead exemption, there is also a \$500 exemption for a disabled homeowner, a \$500 exemption for a widow or widower and a \$5000 exemption for a disabled veteran. Beginning in 1997, local jurisdictions can grant exemptions to senior citizens (Section 193.155(1), F.S.).

state's constitution with the "Save Our Homes" (SOH) amendment which capped yearly increases in assessed value to the lesser of three percent or the rate of inflation (based on the CPI for urban consumers). Fig. 1 shows the growing "wedge" between market and assessed values that resulted. The light bars represent the annual capped increase in property values for every year since SOH's inception. In most years, the inflation rate (based on the previous year) represents the binding cap. For comparison, the dark bars show the annualized appreciation in the FHFA house price index. After a few initial years of low appreciation, many parts of Florida enjoyed extraordinary house price appreciation. For instance, house prices increased by 130 and 108% in Miami and Tampa, respectively, between 1995 and April 2008 (Case-Shiller repeat sales index). Fig. 1b demonstrates how the assessment cap results in a long-held property having nearly half of its value untaxed. The dashed line represents the market value of a house that was bought on December 31, 1994, and that enjoys the statewide appreciation rate. The solid line represents the assessed value of this house as long as it is not bought or sold. Thanks to Save Our Homes, by 2008, the wedge (vertical distance between the two lines) represents 47% of the market value of the house and is exempt from property tax.⁶

The motivation for altering SOH, like that for Proposition 13 in California and similar measures to cap the growth in assessments, was that the assessed value of a property reset to the market price upon sale, significantly increasing the property tax bill for the new owners.⁷ The fear of losing the benefit of a large untaxed wedge was thought to lock families into their existing homes.⁸ This fear of constraints on mobility, combined with the popular perception that property taxes were too high, created support to reform SOH.⁹ On January 29, 2008, 64% of Floridians voted to approve "Amendment 1." The law went into effect for 2008 property taxes and had four provisions: (1) the homestead exemption doubled to \$50,000 for non-school taxes; (2) the homeowner's tax wedge was made "portable" to other homes within the state; (3) a \$25,000 tangible personal property exemption was provided to businesses; and (4) assessment growth on non-homesteaded property, including rental properties, second homes and commercial properties, was capped at 10% per year (excluding school taxes). The \$25,000 increase in the exemption adds some modest progressivity to the property tax but is small relative to the average value of houses in the state. The business exemption on personal property was thought to be quite modest, and the 10% cap on non-homestead assessment growth does not appear to lower future non-homestead taxes.¹⁰ In summary, most of the benefits of Amendment 1 were expected to be conferred to owners of homestead property. The portability provision generates roughly half of these savings and is at the center of our analysis.¹¹ Thus,

⁶ Note that for long time homesteaders, assessed value will continue to rise even as current property value declines. In a time of declining house prices, the assessed value will gradually catch up with current market value. This is mandated by the provisions of SOH.

⁷ Florida is a relative latecomer among the states in passing a property tax limitation. Shadbegian (1998) points out that by 1992, half the states had passed some limitation measure. However, some of the states passed measures that did not limit annual assessment increases, which made it possible for local jurisdictions to override the limitation by inflating assessed values, while others directly capped revenue and forced jurisdictions to reset the millage rate.

⁸ Popular press cited large families that had outgrown their starter homes and retired empty-nesters who wanted to downsize, but neither group could afford to pay the additional property taxes that would come with a new house.

⁹ Charlie Crist, who was elected governor of Florida in 2006, campaigned on a platform of property tax reform. Prior to the passage of the amendment, the governor and the legislature enacted a rollback of 2007 property taxes to 2006 levels, reducing tax revenues by \$15 billion.

¹⁰ In 2006, the statewide average millage rate (including municipal and county taxes) was 18.47 or less than 2% of just value, Florida's Property Tax Study Interim Report, Legislative Office of Economic and Demographic Research February 15, 2007.

¹¹ A pre-reform analysis conducted by Florida TaxWatch projected that over 80% of tax relief would go to homestead property. *Briefings*, Florida TaxWatch, January 2008.

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