Chowder Trends Special Focus: Key West Property Tax 101 (Part I)

Our local county and municipal governments have begun preparing their budgets for the fiscal year 2014/2015, and determining our property taxes for the Tax Roll Year of 2014. This year's budgets will be crafted during a period of increasing property values. All citizens need to be alert, informed, and active participants in the process to insure that all levels of our government have spending plans that do not add to the tax burden for citizens and local businesses. Just as in previous years, your Chamber of Commerce will bring you a series of articles in our *Chamber Chowder*, entitled "***Key West Property Tax 101***," to refresh you about the budget process. In this month's *Chowder* we will review how the **"Millage Rate"** (amount of tax per thousand dollars of property value) is derived during the municipal budget process, and the concept of **"Roll-Back Rate."**

The City of Key West will hold public hearings, regarding their proposed budget and tentative "millage rate," at 6:00pm on both Thursday, September 4th and Tuesday, September 16th. At these public hearings city staff will present the proposed budget and **"millage rate,"** for the fiscal year 2014/2015, for review by the Commission. The Key West Chamber of Commerce encourages the City of Key West to bring in a budget at a **"Roll-Back Rate"** or lower. Property values in Key West, as determined by the Monroe County Property Appraiser's Office, increased citywide by 4.14% this year. A "**Roll-Back**" will be necessary this year to avoid a tax increase.

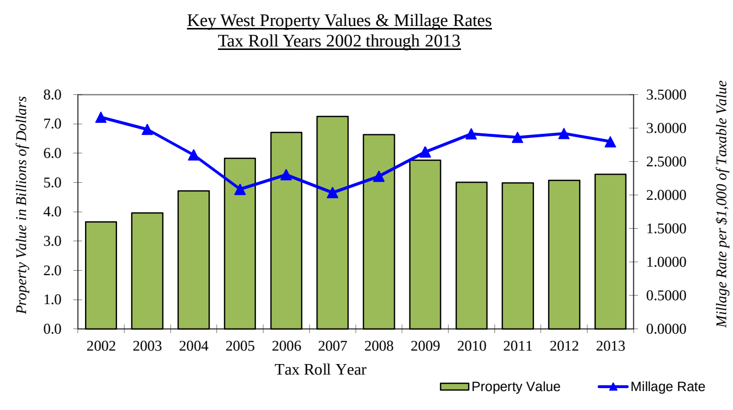
Let's assume that the City Commission requests staff to set the "millage rate" at **"Roll-Back."** The "**Roll-Back Rate"** is defined as the set "millage rate," when applied to the new year's tax base, **which would keep your property tax bill exactly the same as the previous year despite any change in assessed value.** Let's also assume that your home, or business, had an assessed property value of $1,000,000 on January 1, 2013 (leaving exemptions out for this example). The millage rate determined by the City for the Tax Roll Year of 2013 was 2.7976, therefore your City Ad Valorem Tax was levied at $2,797.60 for 2013. Now, let's assume that your property was reassessed during 2013 and the property appraiser increased the assessed value by 4% to $1,040,000, which is the new appraised value as of January 1, 2014. If the millage rate used in 2013 was maintained for 2014, your tax bill would increase to $2,909.50, an increase of $111.90. **But the "Roll-Back Rate" rolls the millage tax rate back, collecting the same amount of taxes in the coming year as was collected in the previous year**. Therefore, for this example, the 2014 "millage rate" should be set at a lower "millage rate" of 2.6857 to collect the same amount of tax, $2,797.60, as was collected in 2013. Before the public hearings, the City and County will each set a tentative "millage rate." Once this is set they may only reduce, or leave as is, the proposed "millage rate;" they may not increase it. You will be sent a notice of this tentative "millage rate," called the "**TRIM Notice"** (abbreviation for "TRuth In Millage") no later than August 24th.

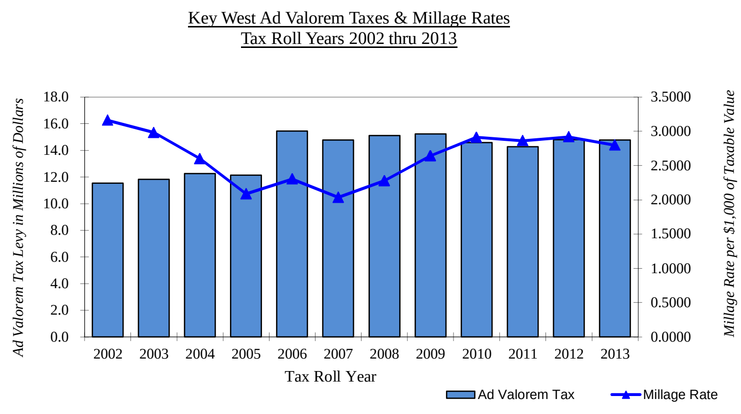
In next month's Chamber Chowder we will discuss how to review your "TRIM Notice" and the continuing public hearing process. Public input is critical to the budget process. Your local officials are elected to serve you; for them to properly do that you must let your voice be heard. **Please remember that it's your money they're spending.**

The top chart, on the right, has a blue line connecting the millage rates for the City of Key West's General Fund for the Tax Roll Years of 2002 through 2013, compared with property values for the same period. **Declines in property values does not automatically mean lower taxes,** as you will see in the next example.

The chart on the bottom shows that same millage rate line, compared with the amount of Ad Valorem taxes levied during the period. **Note that the tax bills levied bear little relationship to property values.** Ad Valorem taxes represent what a government thinks is required to provide services that it believes the citizenry needs or wants.

Throughout the budget process one should keep mindful that the "millage rate" is not the final objective. The focus should be on the absolute dollar amount of taxes to be collected. This means that all citizens need to watch how your government is spending your tax dollars, by attending budget meetings and speaking out. Your Chamber of Commerce will be at these meetings, and will inform you in coming issues of the *Chamber Chowder* where and when meetings are to be held.





Trends Special Focus: Property Tax 101 (Part II)

Last month we looked at how millage rates are derived from the municipal budget process and reviewed the concepts of rollback. This month we will describe budget terminology to prepare you for the upcoming budget hearings. The Board of County Commissioners (BOCC) has set a date of July 16th at the Harvey Government Center in Key West for staff to deliver the proposed budget to the commissioners. Workshop meetings will then be conducted to review and possibly to change the budgets based on the commission's direction. At the end of these, each commission will set a tentative millage rate. Once this rate has been set it cannot be increased. The commission can only vote to decrease the tentative millage rate.

The Monroe County Property Appraiser has until August 24th to mail TRIM notices to property owners. These notices inform property owners of the tentative millage rates for each taxing authority including not only the City of Key West but also Monroe County, the School District, the Water Management Districts,and the Mosquito Control District. Subsequent to sending the notices, a series of public hearings will be scheduled to discuss budget issues and take public input respecting the budgets of each entity. This is a critical time for your voice to be heard as both business owners and property owners.

Over the first seven years of the past decade, we became quite used to rising real estate values. Millages rates were expected to decrease each year as property values increased. Taxpayers were not so mindful that their *tax bill in dollars* might have been increasing because they read newspaper headlines that proclaimed the ***RATE*** had declined. However, individual TRIM notices needed to be read to figure out if their *tax dollars* were increasing or decreasing. The five years that followed presented a different scenario because property values had been decreasing requiring that you adopt a new mindset toward taxes. Now, **property values are increasing once again and property owners must revert to their original mindset of the early 2000's**.

Here are some important budget terms:

Millage: Millage is "a rate expressed in mills" so that one mill is equivalent to $1.00 in taxes per $1,000 in taxable value. For example, the total millage rate for all taxing authorities paid by Key West property owners for 2013 was 10.5345 mills (in aggregate, for the City of Key West, the County, the School District, the Mosquito Control District and the Water Funds). That is 10.5345 thousandths of a dollar. Thus to get the dollar value of this tax, you would multiply your property's taxable value (say, $400,000) by .0105345 - making your overall ad valorem tax bill $4,213.80.

Market Value (Just Value): The Monroe County Property Appraiser is responsible for "appraising" your property, or determining its fair market value. That is the price most people would pay to purchase your property. Replacement cost, market value, and income (if it is an income producing property) all factor into your appraisal. As a property owner, you may appeal your valuation. Real property is assessed at full market value as of January 1st each year. That value becomes the basis for paying the following year's tax bill so that 1/1/14 market values are used to pay the 2014 tax bill due for payment on 3/31/15.

Assessed Value: The Market Value is adjusted by law to arrive at an Assessed Value. The most notable of the laws was the *Save Our Homes* Amendment enacted in 1992. That amendment basically provides that any change from the prior year's assessed value is not to exceed the lesser of 3% of that prior year assessed value or the CPI percentage change, (except capital improvements, additions or improvements). *Save Our Homes* was itself amended in 2008 to provide a greater Homestead Exemption, to provide for portability of the exemption between Florida Taxing jurisdictions and to establish a 10% cap on annual assessed value of non-homesteaded property. The intent of these amendments was to prevent runaway housing values from forcing Florida residents off their property with runaway tax increases.

Taxable Value and the Homestead Exemption: In addition to the cap on Assessed Value discussed above, some Florida residents who live on their property qualify for the State's homestead exemption. This changes the amount of their property taxes in two ways. First, the exemption provides a $50,000 reduction in assessment. Second, the annual increase in property assessed value is limited to the lesser of 3% or the CPI change increase (see below).

CPI: stands for Consumer Price Index. It is published each month by the US Department of Labor. It is used to measure the pace of inflation in the US economy.

The value of your home is important to how much you will pay in property taxes, both its Market Value and its Assessed Value. But **when** you bought your home and the **change in millage rates** are equally as important in determining your taxes. Next month, we will review examples of how these factors can affect your taxes.

Be sure to follow the budget hearings. The current schedule is for the **City of Key West** to hold its public hearings at **6:00pm on September 4th and September 16th at Old City Hall**. The **County BOCC** is to hold its public hearings at **5:05pm** in the following locations and dates: September 3rd in Key Largo, September 8th in Marathon and **September 11th in Key West at the Harvey Government Center**. The **Florida Keys Mosquito Control District** is scheduled to hold its first public hearing **at its College Road Facility in Key West on September 10th**. Since there are sometimes changes in meeting dates, the schedule of all public hearings will be republished in August's Chowder.

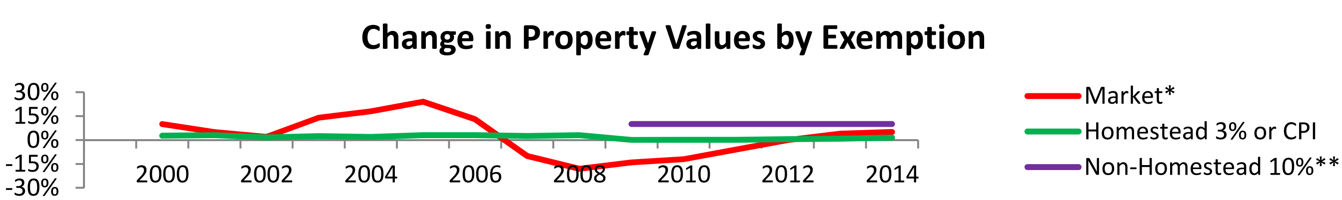
Chowder Trends Special Focus: Property Tax 101 (Part III)

TRIM Notices were just mailed to all property owners by the County Property Appraiser and provide estimates of your upcoming real estate property tax bills. The TRIM Notices are not a bill, they are an official notice of the proposed taxes to be levied, based on the millage rates submitted by the various taxing authorities in late July. In addition to this notice, providing the effect of these tax rates on your individual property's value, the taxing authorities will also be publishing official notices in the newspapers of their individually proposed millage rates along with the supporting budgets. Your real estate property taxes are a direct result of these taxing authorities' budgets. Each Authority has at least two Public Hearings before approving final budgets and related millage (tax) rates. Your tax bill could be reduced from what is proposed in the TRIM Notice based upon your participation at these Hearings.

Understanding Your TRIM Notice

The TRIM Notice will list both Taxable Value as well as the respective Tax Rates for each of the taxing authorities that collect taxes on your property. The TRIM Notice provides three sets of numbers: the amount of tax levied last year, how much your taxes would (or could) be at a rolled back rate, and what they will be if the budgets of each taxing authority are approved as proposed. Because the property values have increased throughout the county the "Roll-Back" tax rate has decreased from last year's rate. Unless an individual taxing authority complies with strict requirements in approving and timely submitting their new millage rate, the rolled back rate will be used for the November property tax bills. The Property Appraiser provides a tax estimator tool on their website (www.mcpafl.org) that can be helpful in considering what affects your tax bill, including where the property is located, the property value and all the possible exemptions including the Portability amendment that allows you to carry your "Save our Homes" benefit when buying a new home. If you have questions about your Taxable Value, contact the Monroe County Property Appraiser. If you have questions about the proposed tax rates, contact the respective taxing authority and plan to attend their Public Hearings to make your voice heard.

While an increase in the Tax Rate (millage) increases your tax bill, the same is true of your property's Taxable Value. Your tax bill equals **(Millage Rate/1000) x (Taxable Value)**. Taxable Value does not mean Market or "Just" Value; and two identical homes with the same Market Value could have very different Taxable Values and therefore significantly different tax bills. While all property owners are taxed at the same rate, Taxable Values will always be lower than Market values by differing amounts depending on exemptions owners receive and when they began receiving the particular exemptions. This is true not only because exemptions reflect the 'exemption' of a certain dollar amount of your property's value from being taxed, but also since those properties with Homestead exemptions and now certain commercial properties are afforded protections under State law (**"Save Our Homes")** which slow or "cap" the rate of increase in value. So even though Market values may rise based upon market forces, the Property Appraiser can only raise your Homestead property value by the lesser of 3% or CPI, and your qualified commercial property by 10%. This creates what is called Assessed Value, from which the exemptions are subtracted to determine that portion of your properties value that is subject to taxation (Taxable Value). So for the properties affected by an annual "cap" on rising values, there will always be a difference between the slow rise in Assessed Value and the up and down economy driven Market Value. For those who do not qualify for the annual "cap", your tax bills can go up or down from one year to the next as both the Taxable Value and Tax Rates fluctuate. Yet for those who benefit from the annual "cap", you will generally see slowly increasing tax bills even in years when Market Values drop, since the Assessed Value will continue to slowly increase until it equals Market Value. The chart below illustrates the dynamic of annual changes.



For illustrative purposes only, rates represent changes to Market Value and Assessed Values (for those properties with 'caps')
* Properties that do not qualify for annual 'caps' ** Approved by voters in 2008 for certain commercial properties