



Clerk of the Circuit Court **Brevard County, Florida**

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<http://www.brevardclerk.us>

Scott Ellis, Clerk

September 20, 2006

Scott Ellis
 Clerk of Courts
 400 South Street
 Titusville, FL 32781

Mr. Ellis:

Pursuant to your request, we have evaluated real property records to assess the impact upon Taxable Value of real property should Brevard County experience a decrease in aggregate property values.

We obtained Real Property Tax Roll data directly from the Property Appraiser as of September 13, 2006. The data file included, but was not limited to, just value, appraised value, and taxable value for all real property in the county. The data is summarized as follows:

Brevard County - Real Property Tax Roll			
Source: Property Appraiser			
	<u>Just Value</u>	<u>Assessed Value</u>	<u>Taxable Value</u>
All Real Property	\$ 62,875,492,474	\$ 47,761,260,314	\$ 36,979,660,614

Just values and assessed values are determined by the Property Appraiser. The taxable value is the assessed value reduced by applicable exemptions made available to the property owners. In reviewing the data, we noted the following regarding records where the assessed value is equal to the just value and where the assessed value is within 10%, 25%, and 50% of the just value:

	Just Value	% of All	Assessed Value	% of All	Taxable Value	% of All
All Real Property	\$ 62,875,492,474	100%	\$ 47,761,260,314	100%	\$ 36,979,660,614	100%
Assessed equals Just	\$ 31,280,729,204	50%	\$ 31,280,729,204	65%	\$ 24,140,073,154	65%
Assessed within 10% of Just	\$ 32,117,429,434	51%	\$ 32,065,353,634	67%	\$ 24,840,446,004	67%
Assessed within 25% of Just	\$ 34,787,785,234	55%	\$ 34,283,680,954	72%	\$ 26,729,860,164	72%
Assessed within 50% of Just	\$ 46,510,885,024	74%	\$ 41,159,647,774	86%	\$ 32,224,379,634	87%

In spite of the shield provided by Save Our Homes, it is surprising to see such a large amount (65%) of taxable value held in properties where the assessed value equals the just value. Should Brevard County experience a decrease in aggregate property values, the effect upon taxable value will be most dramatic and immediate for these properties. Since 65% of the taxable value is made up of properties where

assessed value equals just value, Brevard County’s taxable value is subject to a great degree of market volatility. Most surprising is the number of Single Family Residences (41,526) where the assessed value equals just value.

	Just Value	% of All	Assessed Value	% of All	Taxable Value	% of All
Single Family Residence	\$ 8,649,834,360	14%	\$ 8,649,834,360	18%	\$ 8,320,799,550	23%

To project the effect declining property values would have on Taxable Value, many factors must be considered and certain assumptions must be made. Factors include the difference between assessed value and just value for personal residences qualifying for protection under Save Our Homes. This amount, described as the Homestead Assessment Differential (HAD), has grown significantly over the past six years from \$649,598,050 in 2000 to \$14,525,783,970 in 2006 (see Exhibit 1). While the just value of these homes has increased dramatically over the past few years, the assessed value, under Save Our Homes, has only increased 3% per year. Should just value decrease, the assessed value may still increase if the reduced just value still exceeds the assessed value (such increase in the assessed value would be limited to 3%). Other factors include exemptions (new applications made and current exemptions terminating) and the time lag between decreasing property values and the decrease reflected by the Property Appraiser’s Office.

Analysis methodology and assumptions were as follows:

1. The **just value**, **assessed value**, and **taxable value** for each tax account were taken directly from the property tax rolls, tax account by tax account;
2. The **exemption** was calculated by subtracting the taxable value from the assessed value;
3. The **new assessed value** for every property was calculated by increasing the current assessed value by 3%;
4. The **new exemption** was calculated by either a) keeping the old exemption amount if the assessed property value was previously greater than or equal to \$25,500; or b) increasing the exemption when the old assessed value was less than \$25,500 up to the allowable exemption amount;
5. The **just value decreased** was calculated by taking 95%, 90%, 85%, and finally 80% of the current just value, tax account by tax account; and
6. The **new taxable value** was calculated by subtracting the new exemption from the lesser of the assessed value (after being increased by 3%) or the new just value (after being decreased by 5 – 20%).

Results are summarized as follows:

Percent Decrease in Just Value	Estimated Taxable Value	Percent Decrease in Taxable Value	Tax Loss Due to Decline in Taxable Value	Required % Increase In Roll Forward Millage	Required Millage To Equal Current Tax Revenue
5%	\$36,220,955,439	2%	\$4,380,942	2.10%	6.0475
10%	\$34,946,893,836	5%	\$10,952,355	5.80%	6.2680
15%	\$33,089,496,061	11%	\$24,095,180	11.80%	6.6198
20%	\$31,755,640,816	14%	\$30,666,593	16.50%	6.8979

To further demonstrate:

Should Just Value decrease by 5%, the Taxable Value is projected to be \$36,220,955,439. This result is a 2% decrease in Taxable Value from the current level of \$36,979,660,614. The result of declining tax values at current aggregate millage would result in a decrease of tax revenues of \$4,380,942. To maintain the current level of tax revenue would require a 2.1% increase in aggregate millage. This would increase the millage 6.0475.

Results are graphically presented as Exhibit 2.

While we cannot project the likelihood of a decrease in aggregate property values, or the amount of such decrease, the year-over-year change in median sales price of existing homes in Brevard County for July 2006 is summarized below:

Brevard County - Residential Sales				
Source: Florida Association of Realtors				
	<u>July 2005</u>	<u>July 2006</u>	<u>Year-over-Year Change</u>	<u>Percent Change</u>
Existing Home Sales	794	488	(306)	-38.5%
Median Price	\$ 239,800	\$ 220,300	\$ (19,500)	-8.1%

This follows a similar decline reported for June 2006 and is establishing a trend line for aggregate property values to follow.

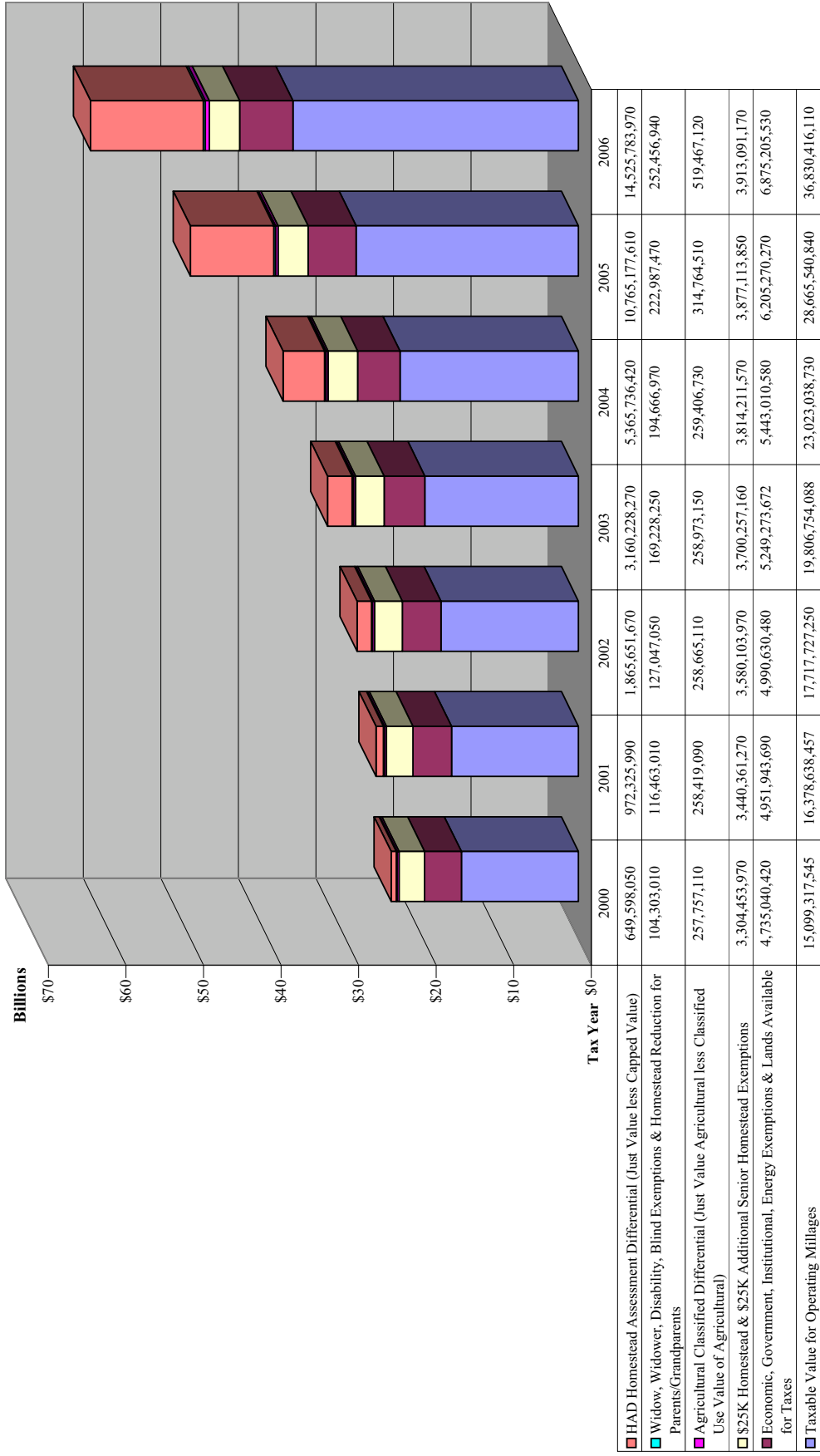
The effect of decreasing taxable values will be most profound on voter approved special taxing districts where tax revenue streams are bonded. Should taxable values decrease, these special districts could see a significant reduction in tax revenue jeopardizing the cash flow requirements needed for debt service. Depending on the percentage of current tax revenue dedicated to debt service, a decrease in taxable values could lead to the inability to meet debt service requirements. In such case, the County will be required to use General Fund revenues to cover the shortfall. In many of these special taxing districts, the tax revenue is generated to fund debt service and pay for maintenance and operations. In the event that tax revenues are insufficient to cover debt service, the maintenance and operation costs of the special districts must be funded elsewhere.

Submitted by:

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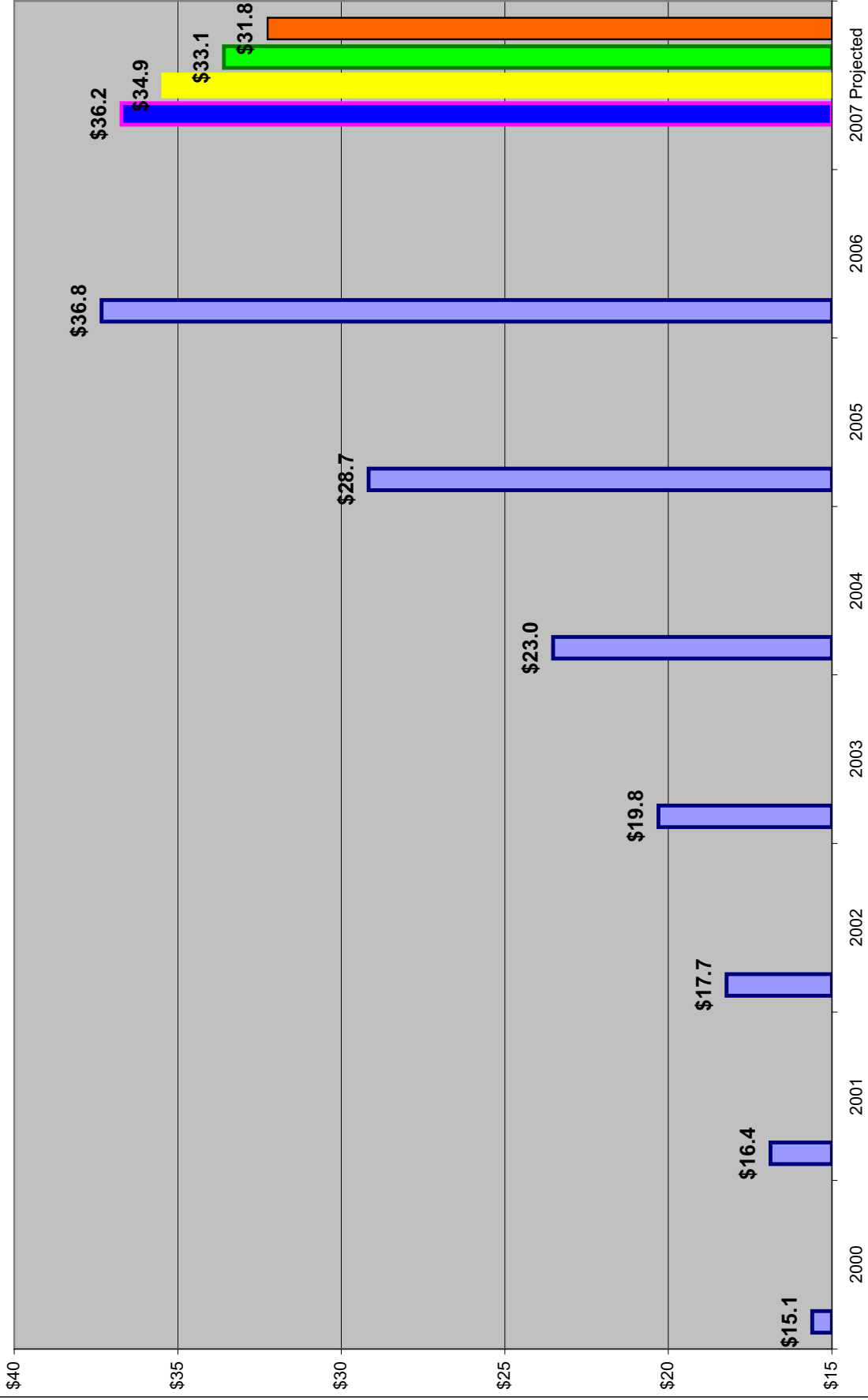
- Exhibit 1: Historical Brevard County Real Property Values
- Exhibit 2: Taxable Value with decrease in Just Value
- Exhibit 3: Taxable Value to Total Ad Valorem Taxes
- Exhibit 4: General Fund Ad Valorem Tax Revenues
- Exhibit 5: General Fund Reserves and Unreserved Fund Balance
- Exhibit 6: 2007 Tentative Millages
- Addendum: Additional Considerations

Historical Brevard County Real Property Values



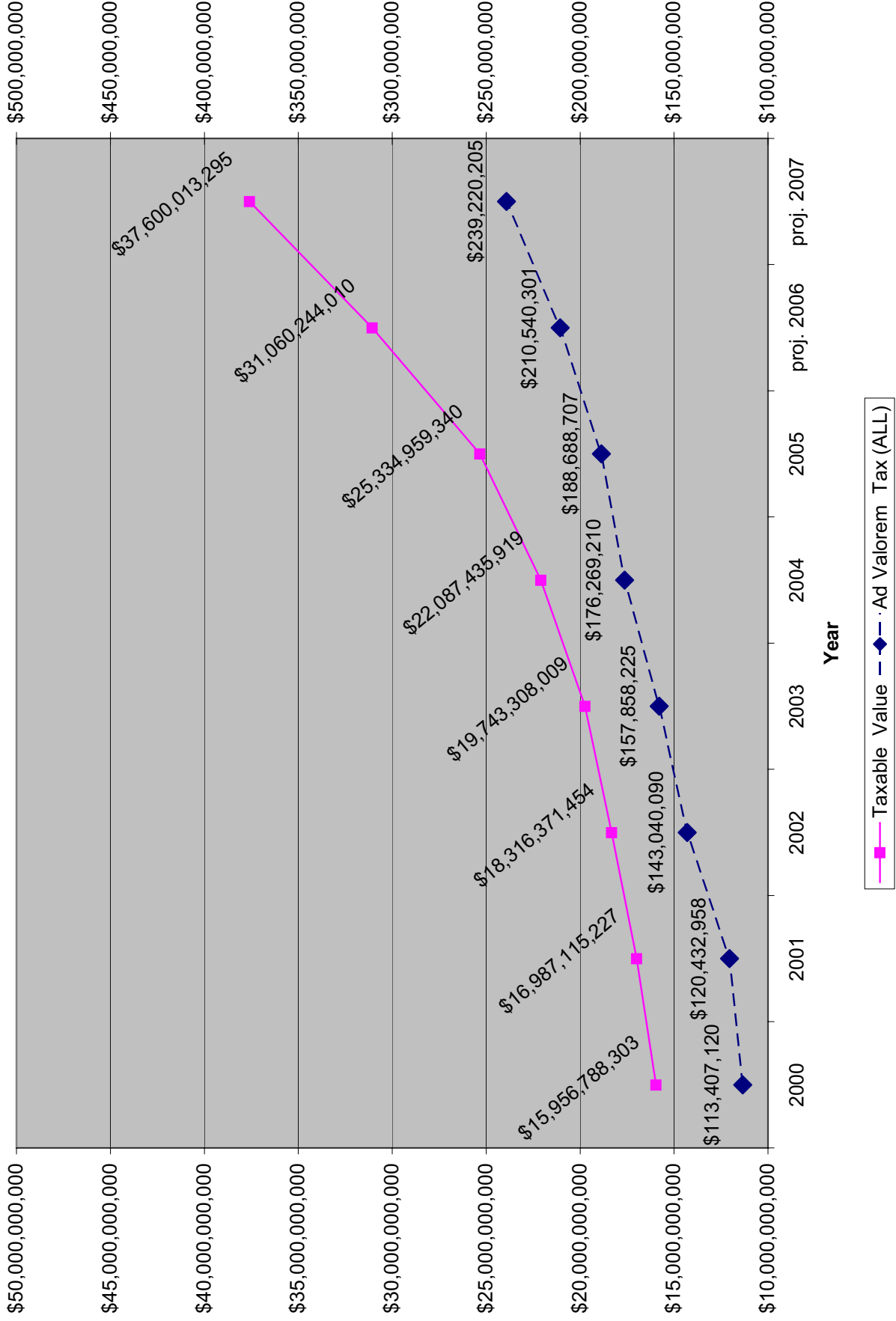
Taxable Value with decrease in Just Value (JV)

Billions

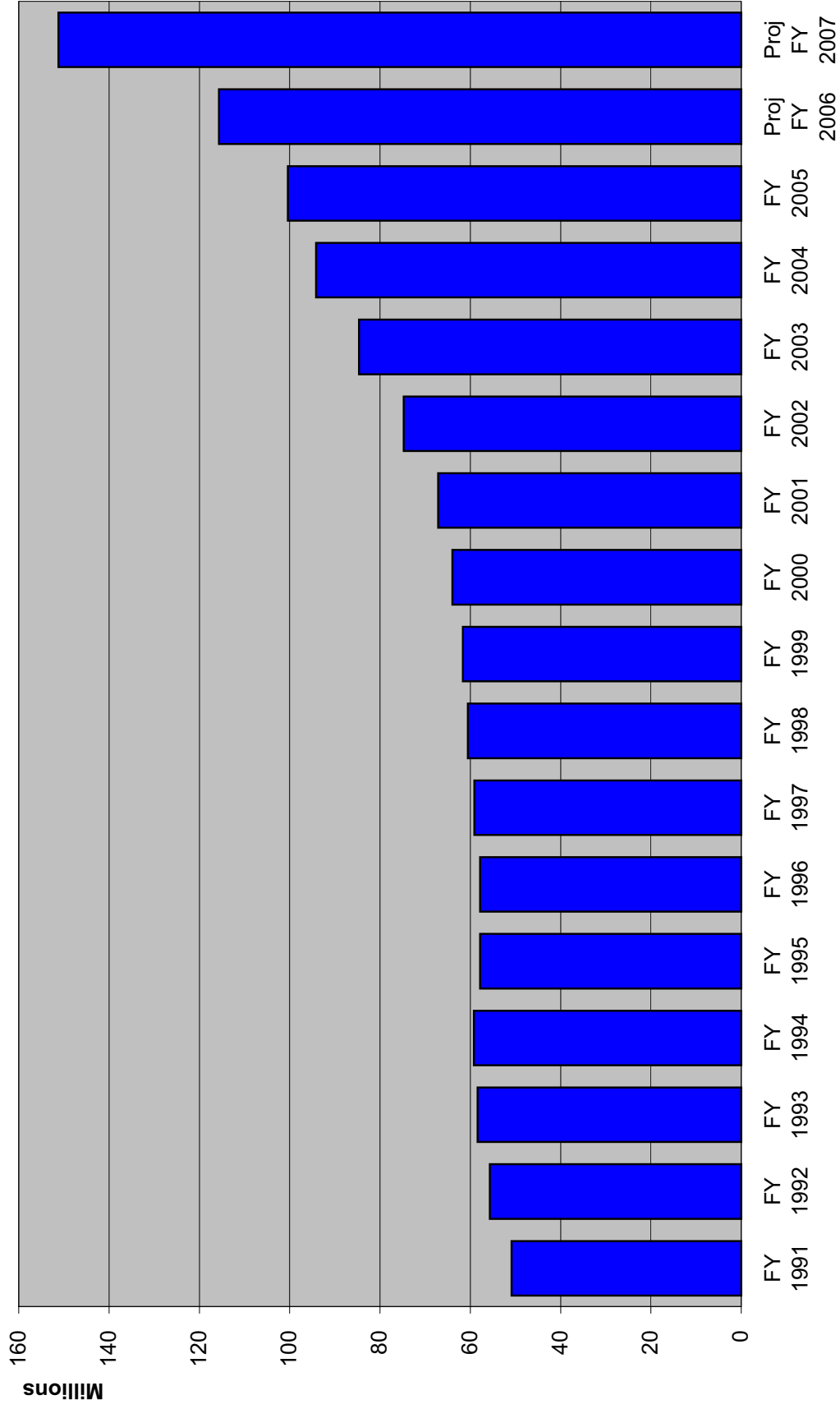


■ 5% Decrease in JV
 ■ 10% Decrease in JV
 ■ 15% Decrease in JV
 ■ 20% Decrease in JV
 ■ Historic Taxable Values

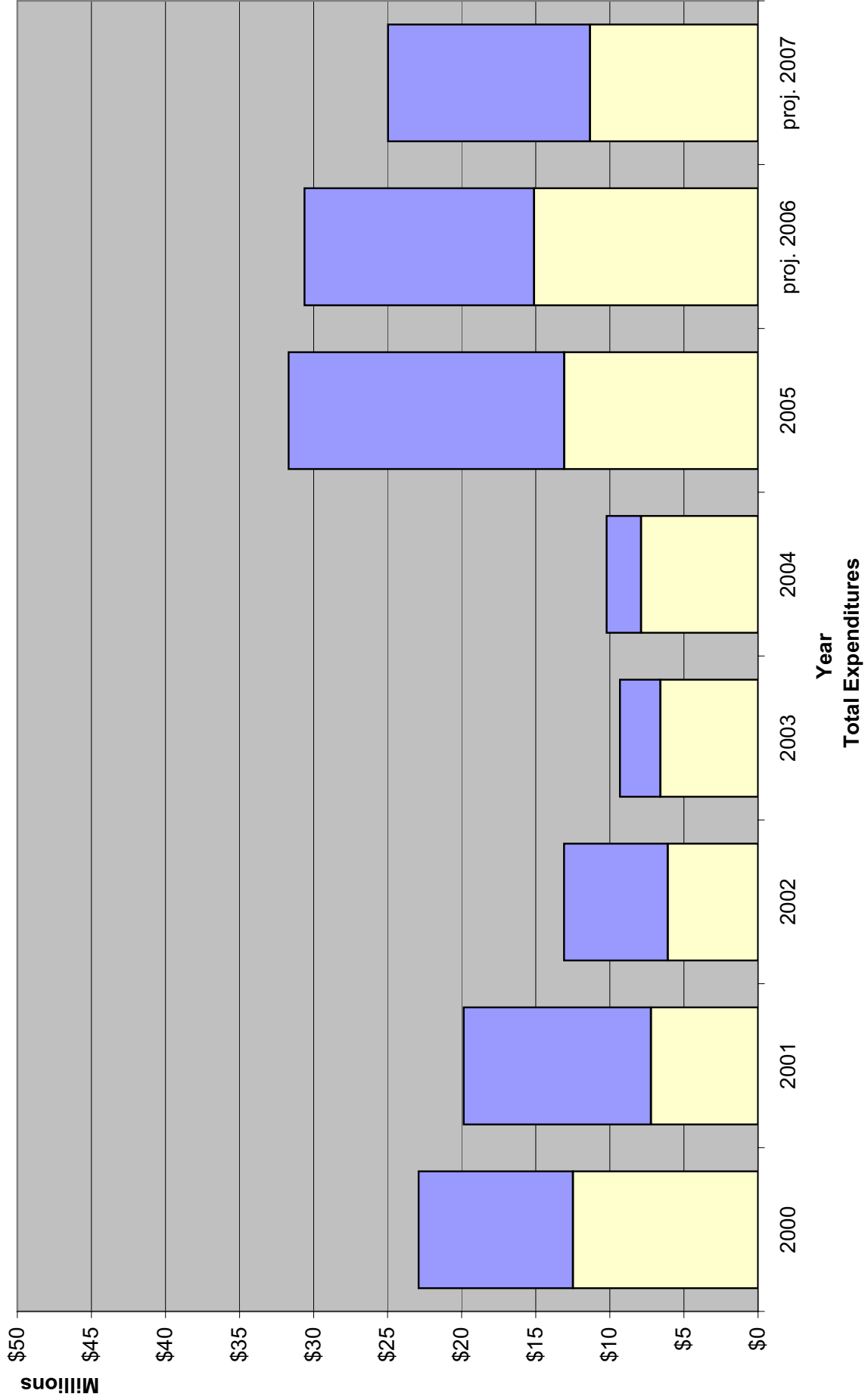
Taxable Value to Total Ad Valorem Taxes



General Fund Ad Valorem Tax Revenues



General Fund Reserves and Unreserved Fund Balance



Budgeted Reserves
 Fund Balance

ADDENDUM

Additional Considerations

Factors that would increase the taxable value of real property for operating millages:

1. 3% annual possible increase in tax assessment of homesteads;
2. Step-up in basis upon transfers of ownership of homesteads presently under the 3% annual cap;
3. Loss of exemptions of any type, or expiration of tax abatements;
4. New construction;
5. Change in classified use values of agricultural property; and
6. Upward reassessments of real property uses (other than homesteads, agricultural, or the totally exempt) in an otherwise declining market, due to special circumstances in a particular market sector.

Factors that would decrease the taxable value of real property for operating millages:

1. Declining just values in general;
2. Demographically/economically based applications for the \$25,000 senior low-income additional exemption;
3. Pending HJR 353, Increased Homestead Exemption, for constitutionally increasing the maximum additional homestead exemption for low-income seniors from \$25,000 to \$50,000 effective 1-1-2007;
4. Issuance of tax abatements on commercial or industrial real property; and
5. Petitions to the VAB to lower property assessments.

Discussion of Increases:

In 2005 there were 149,917 actual homesteads per the PA Office. Note that the upward trend in number has been leveling off. The step-up in basis effect, upon transfer of ownership of homesteads, probably has been significant in the recent past. Significant future increases in assessments from this effect is doubtful, as transaction volume has slowed due to buyer resistance to high prices, taxes, insurance, etc., and most recently seller obstinacy to falling prices. Furthermore, if legislated, SOH portability would lessen step-ups in basis of real property assessments on homestead transactions.

Tax Year:	2000	2001	2002	2003	2004	2005	2006
Estimated Total Homesteads	132,178	135,773	139,926	143,009	147,103	149,439	150,854
\$25k Homestead Exemption	\$3.304B	\$3.394B	\$3.498B	\$3.575B	\$3.678B	\$3.736B	\$3.771B

Loss of exemptions, such as a widow or widower remarrying, or a private purchase of government or institutional property, or the expiration of tax abatements issued as economic incentives, would not be a significant factor. There are 32 companies in Brevard with currently active tax abatements at different levels, all expiring within the next 10 years. New construction, on the other hand, has been very significant in the past, growing from \$0.3B in 1996 to \$1.5B in 2005. From the CAFR:

Year	Residential Construction	
	Number of Permits	Value
1996	2,839	\$ 296,620,940
1997	3,051	327,328,925
1998	3,782	396,644,000
1999	4,141	511,087,000
2000	4,300	542,129,000
2001	5,044	671,676,000
2002	6,630	869,912,000
2003	6,169	999,716,000
2004	8,943	1,488,167,000
2005	7,745	1,451,648,000

Agricultural economics and world events, e.g. the price of Brazilian frozen orange juice concentrate, can in theory cause changes in the classified use values of agricultural property and thus the agricultural classified differential, but this would not be a significant factor as the total agricultural just value is only \$0.7B. The effect of upward reassessments of real property uses (other than homesteads, agricultural, or the totally exempt) in an otherwise declining market, due to special circumstances in a particular market sector, would be at this point speculative.

Discussion of Decreases:

The effect of declining real property just values in general, as the independent variable, could also be calculated at a few points under 10% to demonstrate the most instant consequence.

A preliminary figure from the PA is 6,267 for existing low-income senior additional \$25,000 homestead exemptions in 2006 in Brevard County. This exemption has not been granted by all taxing authorities, applies mainly to the general fund, and as a maximum may not be fully utilized by all applicants if their assessed homestead value is less than \$50,000. The same would apply to Pending HJR 353, intention which is to increase this additional homestead exemption for low-income seniors from \$25,000 to \$50,000 – the case then being the maximum exemption not fully utilized if the assessed homestead value is less than \$75,000. The impact of this likely would be less than the current \$142M in property exemptions (reduction of about \$0.6M in tax revenue) and therefore not significant, even should the numbers of qualifiers increase for demographic or economic reasons.

Tax Year:	2000	2001	2002	2003	2004	2005	2006
Estimated Senior Exemptions	0	1,842	3,278	5,001	5,465	5,646	5,669
Additional Senior \$25k Homestead Exemption	0	\$46M	\$82M	\$125M	\$137M	\$141M	\$142M

The issuance of new tax abatements on commercial and industrial real property I'm estimating won't be material, as future proposals to lure for businesses to a weakening economic climate may be overshadowed by the growing issues of fairness and effectiveness. The Supreme Court might rule on the legality of these tax credits (Daimler-Chrysler).

Across the state, the number of petitions to VABs to lower property assessments is up sharply; however, at this time the local quantitative effect is unknown.