

A Preliminary Analysis of Proposed Windstorm Mitigation Incentives

**Presented February 22, 2007
Legislative Office of Economic and Demographic Research
To
Windstorm Mitigation Study Committee**

Proposed Initiatives

- 1. Sales Tax Exemption on Building Materials Used for Mitigation**
- 2. Ad Valorem Tax Abatement (mitigation improvements for 10 years)**
- 3. Earmarking a Percentage of Surplus Sales Tax Revenue for Mitigation**
- 4. Dedicating a Percentage of Insurance Premium Tax for Mitigation**
- 5. Forgivable Loans to Make Mitigation Improvements**

Sales Tax Exemption on Building Materials Used In Mitigation

- Sales Tax Building Category: \$1.4 billion
- Cautionary Note: Need tight definition of “Building Materials Used for Mitigation” or many purchases at home improvement stores would become tax-free, driving up the costs.

Logistics & Decision Points

- Do the members want to include just the physical inputs (like lumber) or also the tools?
- Do the members want to run the program by refund or pre-application?
 - Refund can be from an appropriation or actual refunds from taxes paid, but people have to initially pay out of pocket
 - Pre-application process can provide certificates that are used at the stores.
 - Either way has additional administrative costs.

Preliminary Revenue Impact

CALCULATIONS & ASSUMPTIONS:	FY 07-08		
	HIGH	MID	LOW
Homeowners expenditures			
% homeowners mitigating	1%	2%	3%
# homeowners mitigating	43,371	86,743	130,114
Amt spent per homeowner	\$ 14,850	\$ 5,940	\$ 743
TOTAL Homeowner expenditures	\$ 644,059,350	\$ 515,253,420	\$ 96,674,702
Add'l for advantage buying (businesses & others making exempt purchases)	50%	33%	25%
	\$ 322,029,675	\$ 170,033,629	\$ 24,168,676
TOTAL Taxable Expenditures	\$ 966,089,025	\$ 685,287,049	\$ 120,843,378
TOTAL Sales Tax Exemption (\$ Millions)	\$ (57.97)	\$ (41.12)	\$ (7.25)
Exemption as % of BUILDING Sales Tax	4.3%	3.0%	0.5%

Ad Valorem Tax Abatement

- Mitigation improvements likely to increase assessed value:
 - 1) Improvements requiring a PERMIT and/or
 - 2) Improvements NOTICEABLE from the outside (can be seen by visual inspection)
- Improvements to property that might trigger an increase in assessment:
 - 1) Adding hurricane shutters at the more expensive end of the price range
 - 2) Replacing windows with high-impact windows
 - 3) Roof repairs that require a permit
 - 4) Replacing a garage door with a wind-resistant door

Preliminary Revenue Impact

Assume the percentage of homeowners participating is 10% for the High, 5% for Middle, and 1% for the low.

Ad Val Impact	FY 2007-08		
	<u>HIGH</u>	<u>MID</u>	<u>LOW</u>
# Homeowners	433,715	216,857	43,371
Ad Val Loss \$M	\$ (10.72)	\$ (3.57)	\$ (0.25)
	FY 2008-09		
	<u>HIGH</u>	<u>MID</u>	<u>LOW</u>
	443,126	221,563	44,313
	\$ (10.96)	\$ (3.65)	\$ (0.26)

Assumptions:

Ad valorem assessment increase exemption is for HOMEOWNERS only.

Assessment only increases at high end of mitigation actions (for example, electric shutters, impact-resistant windows).

Assessment increases at 60% of cost, not dollar-for-dollar to expenditures.

Statewide ad valorem rate is 18.5 mils.

% of homeowners performing mitigation is low.

Senate Bill 158 – REC Impact

- Specified list in the bill
- 25% detection rate by property appraisers

Adopted by REC: Impact of SB 158 Provides that addition of storm shutters, impact-resistant glazing, hurricane clips or generators for purposes of disaster preparedness shall not increase ad valorem value of homestead property.						
\$ Millions	FY 07-08 Annualized	FY 07-08 Cash	FY 08-09 Cash	FY 09-10 Cash	FY 10-11 Cash	
GR						
Total State Impact						
Total Local Impact	(2.5)	0.0	(0.5)	(1.0)	(1.4)	
Total Impact	(2.5)	0.0	(0.5)	(1.0)	(1.4)	

2004 Surplus Sales Tax Revenue

2004 Hurricane Season

FUNDS AVAILABLE	Rec	Non-Rec	Total
Incremental Increase to Revenue Estimate	0.0	751.9	751.9
Total Funds Available	0.0	751.9	751.9
EXPENDITURES (authorized & estimated)	Rec	Non-Rec	Total
State Match for FEMA Funds	0.0	403.0	403.0
BA - Emergency Food Stamp Services	0.0	1.3	1.3
BA - Grants to Public Schools	0.0	12.1	12.1
BA - Visit Florida for Tourism	0.0	4.8	4.8
SB 8-A Property Tax / Mobile Homes	0.0	35.1	35.1
SB 14-A Beaches and Dunes	0.0	64.6	64.6
SB 16-A Agricultural Programs	0.0	7.1	7.1
HB 1889 Doc Stamp Surplus for Housing	0.0	250.0	250.0
05/06 GAA Grants to Schools	0.0	12.7	12.7
Total State Expenditures	0.0	790.7	790.7
ENDING BALANCE	0.0	(38.8)	(38.8)

NOTE: Expenditures do not include the various loan programs.

2005 Surplus Sales Tax Revenue

2005 Hurricane Season - Recovery

Estimated Gross Probable Loss	Data
9,659,383,823	Wilma 4/30/06
25,242,545	Rita 4/30/06
853,000,053	Katrina 4/30/06
297,399,182	Dennis 12/31/05
10,835,025,603	TOTAL

0.5614 Ratio to 2004
 \$422.1 Estimated Incremental Revenue Increase

FUNDS AVAILABLE	Rec	Non-Rec	Total
Incremental Increase to Revenue Estimate	0.0	422.1	422.1
Total Funds Available	0.0	422.1	422.1
EXPENDITURES (authorized & estimated)	Rec	Non-Rec	Total
State Match for FEMA Funds	0.0	401.3	401.3
BA - Emergency Food Stamp Services	0.0	3.3	3.3
BA - National Guard Expenditures (partial)	0.0	14.5	14.5
BA - Dept of Military Affairs / EMAC Miss (partial)	0.0	2.8	2.8
HB 1363 - Affordable Housing Recovery (Sect 31)	0.0	108.0	108.0
<i>06/07 General Appropriations Act</i>			
DCA Funding for non-fed reimbursed items	0.0	1.2	1.2
SA 2227A - Hurricane Relief Funding / Repairs	0.0	35.1	35.1
SA 141A - Community College Risk Mgmt Fund	0.0	1.3	1.3
SA 383, 389, 393A, 409, 425 - Mental Health	0.0	5.3	5.3
SA 2035A - Hurricane Damaged Marinas	0.0	2.5	2.5
SA 3260B - Roof Repairs to 4th DCA (WPB)	0.0	0.2	0.2
SA 1796 - Beach Projects (hurricane impacts)	0.0	50.0	50.0
Total State Expenditures	0.0	625.4	625.4
ENDING BALANCE	0.0	(203.3)	(203.3)

NOTE: Expenditures do not include the various loan programs.

Sales Tax Value



Based on current long-run estimates (Nov 06 GR REC):

Sales Tax Value - Total Collections (\$ Millions)	FY 2006-07 Nov 06 REC Long-run	FY 2006-07 Nov 06 REC Long-run	FY 2006-07 Nov 06 REC Long-run	FY 2006-07 Nov 06 REC Long-run	FY 2006-07 Nov 06 REC Long-run
DOR Tape Sales Tax	\$ 21,580.0	\$ 22,555.3	\$ 24,118.4	\$ 25,791.6	\$ 27,585.9
Value of one-quarter penny	\$ 899.2	\$ 939.8	\$ 1,004.9	\$ 1,074.7	\$ 1,149.4
Value of one-half penny	\$ 1,798.4	\$ 1,879.6	\$ 2,009.8	\$ 2,149.4	\$ 2,298.8
Value of three-quarter penny	\$ 2,697.6	\$ 2,819.4	\$ 3,014.7	\$ 3,224.1	\$ 3,448.2
Value of one penny	\$ 3,596.7	\$ 3,759.2	\$ 4,019.7	\$ 4,298.6	\$ 4,597.7

% of Insurance Premium Tax

- Dedicating a portion of the Insurance Premium Tax to windstorm mitigation will result in a reduction to General Revenue.
- There are two sources that feed the Insurance Premium tax collections:
 - 2% Premium Tax Clearing Trust Fund
 - Surplus Lines

2% Premium Tax Clearing TF

Insurance Premium Tax (2% Premium Tax Clearing Trust Fund)				
	FY 2005-06 (actual)	FY 2006-07 Nov 06 REC	FY 2007-08 Nov 06 REC	
\$ in millions				
Total Available for Distribution	\$ 663.8	\$ 740.1	\$ 813.7	
5% Dedicated	\$ 33.2	\$ 37.0	\$ 40.7	Reduces GR by same amount
10% Dedicated	\$ 66.4	\$ 74.0	\$ 81.4	Reduces GR by same amount
15% Dedicated	\$ 99.6	\$ 111.0	\$ 122.1	Reduces GR by same amount
20% Dedicated	\$ 132.8	\$ 148.0	\$ 162.8	Reduces GR by same amount
25% Dedicated	\$ 166.0	\$ 185.0	\$ 203.5	Reduces GR by same amount
GR Current Estimate	\$ 474.4	\$ 525.9	\$ 580.8	

Example: If 10% of the premium tax were dedicated to mitigation, then GR would be reduced by \$81.4 M in FY 2007-08.

Surplus Lines

Surplus Lines			
	FY 2005-06 (actual)	FY 2006-07 Nov 06 REC	FY 2007-08 Nov 06 REC
Total Surplus Lines	\$ 181.4	\$ 206.2	\$ 222.5
GR Surplus Lines	\$ 137.3	\$ 156.1	\$ 168.4
DFS Surplus Lines	\$ 44.1	\$ 50.1	\$ 54.1
5% Dedicated	\$ 9.1	\$ 10.3	\$ 11.1
10% Dedicated	\$ 18.2	\$ 20.6	\$ 22.2
15% Dedicated	\$ 27.3	\$ 30.9	\$ 33.3
20% Dedicated	\$ 36.4	\$ 41.2	\$ 44.4
25% Dedicated	\$ 45.5	\$ 51.5	\$ 55.5
If reductions to the TOTAL Surplus Lines collections are distributed proportionally to both GR and DFS, GR reductions would be as follows:			
GR Reductions with:	FY 2005-06 (actual)	FY 2006-07 Nov 06 REC	FY 2007-08 Nov 06 REC
5% Dedicated	\$ 6.9	\$ 7.8	\$ 8.4
10% Dedicated	\$ 13.7	\$ 15.6	\$ 16.8
15% Dedicated	\$ 20.6	\$ 23.4	\$ 25.3
20% Dedicated	\$ 27.5	\$ 31.2	\$ 33.7
25% Dedicated	\$ 34.3	\$ 39.0	\$ 42.1

Forgivable Loans

- Appropriations Issue
- Study Committee can set the recommended level.