

Keeping Residential Taxes Unchanged

My pledge to keep residential taxes unchanged over the next four budget years is not wishful thinking. In fact, it is quite realistic. Over the past four years, the current Board has increased General Fund (the principal operating fund of the County) expenditures over \$650M and the total residential tax burden by 21%. It is time to impose some fiscal restraint.

Since over 50% of General Fund expenditures consist of funding for Fairfax County Public Schools (referred to as the County transfer), it is helpful to first examine school funding.

Fairfax County Public Schools (FCPS)

Under the current Board, the transfer to FCPS has increased by \$283M despite a decline in the number of students. Moreover, FCPS historically spends significantly less than its budgeted funding (e.g., \$295M in FY 2022). The following chart illustrates that correcting for these past unnecessary increases by freezing the County transfer still allows for sufficient FCPS funding to accommodate reasonable cost growth (i.e., each year ends with surplus).

FCPS Budget (in millions)

	FY 2024		FY 2025	FY 2026	FY 2027	FY 2028
Beginning Balance	TBD		\$265	\$218	\$157	\$88
County Transfer	\$2,419		\$2,419	\$2,419	\$2,419	\$2,419
State Aid	\$678		\$746	\$820	\$902	\$992
Other	\$386		\$402	\$418	\$435	\$452
Total Revenue	\$3,483		\$3,832	\$3,875	\$3,913	\$3,951
Compensation	\$3,122		\$3,216	\$3,312	\$3,412	\$3,514
Other	\$390		\$398	\$406	\$413	\$422
Total Expenditures	\$3,512		\$3,614	\$3,718	\$3,825	\$3,936
EOY Balance	TBD		\$218	\$157	\$88	\$15

Let's look at the chart assumptions.

Revenue: In addition to the County transfer (which is assumed to remain at the FY 2024 amount of \$2.419B), FCPS funding includes a beginning balance (unspent FCPS funds from the previous fiscal year), State aid, and various other sources (e.g., sales taxes, federal aid). Using FCPS' FY 2024 Adopted Budget as a baseline, State Aid is assumed to increase 10%/ year (the five-year average from FY 2019 – FY 2023)), and other revenue is assumed to increase 4%/year (past five-year average). The FY 2025 beginning balance is assumed to be \$265M (the average of the last two years), and it gradually decreases to an ending balance of \$15M by FY 2028.

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Expenditures: Broadly, expenditures can be grouped into compensation (pay and benefits for employees) and other expenses (contracts, materials, utilities, etc.). For expenditures, also using FY 2024 as a baseline, compensation is assumed to increase 3%/year and other expenses are limited to 2%/year. It should be noted that FY 2024 budgeted expenditures are inflated by \$50M - \$250M (see Attachment A). Even in the unlikely scenario that these expenses were to occur, keeping the County transfer constant would still be sufficient to fund FCPS' needs.

Summary: Keeping the County transfer the same for all four years still provides FCPS sufficient funding to maintain current operations with a 3% annual increase in compensation and 2% increase in other categories, with at least \$50M/year in additional flexibility.

County General Fund

Recognizing that the transfer to FCPS can be maintained at \$2.4B over the next four budget years, let's next evaluate the County General Fund, with the assumption that the residential tax burden remains unchanged.

The following chart illustrates assuming realistic increases in the remaining revenue areas, and reasonably restraining costs, provides sufficient funding for County operations over the next four budget years. Each year ends with a balance that exceeds the County's target funding reserve (4% of expenditures).

County General Fund Budget (in millions)

	FY 2024		FY 2025	FY 2026	FY 2027	FY 2028
Beginning Balance	TBD		\$364	\$361	\$336	\$289
Real Property Taxes	\$3,372		\$3,389	\$3,389	\$3,389	\$3,389
Other Local Taxes	\$1,134		\$1,164	\$1,194	\$1,225	\$1,257
State Revenue	\$326		\$329	\$332	\$336	\$339
Other	\$276		\$276	\$276	\$276	\$276
Total Revenue	\$5,108		\$5,522	\$5,552	\$5,562	\$5,550
Compensation	\$1,568		\$1,615	\$1,663	\$1,713	\$1,765
Direct Expenses	\$349		\$356	\$363	\$370	\$377
Total Gen. Fund	\$1,917		\$1,971	\$2,026	\$2,083	\$2,142
Transfer to FCPS	\$2,419		\$2,419	\$2,419	\$2,419	\$2,419
Other Transfers	\$771		\$771	\$771	\$771	\$771
Total Expenditures	\$5,107		\$5,161	\$5,216	\$5,273	\$5,332
EOY Balance	TBD		\$361	\$336	\$289	\$218

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Let's look at the chart assumptions.

Revenue: General Fund revenue includes a beginning balance (unspent General Funds from the previous fiscal year), real estate taxes, other local taxes (e.g., personal property, local sales and business taxes), State revenue, and various other sources (e.g., fees, Federal revenue). Real estate tax revenue is assumed to increase by \$17M from FY 2024 based on a one-time 0.5% increase, coupled with a 0.5% decrease in the stormwater tax rate¹, so that the net taxpayer burden is zero. Other local tax and state revenue are each assumed to increase by 2.6% and 1%, respectively, which are the average increases over the last five years. Other revenue is (conservatively) assumed to be held flat. The FY 2025 beginning balance is assumed to be \$364M (the average of the last four years), and it gradually decreases to an ending balance of \$218M by FY 2028.

Expenditures: Broadly, expenditures can be grouped into 1) General Fund compensation (pay and benefits for employees); 2) other General Fund expenses (contracts, materials, utilities, etc.); 3) the FCPS transfer; and 4) transfers to other County funds. Using FY 2024 as a baseline, General Fund compensation is assumed to increase 3%/year and other expenses are limited to 2%/year. The FCPS transfer is held flat at \$2.419B as explained above. In addition, transfers to other funds is held flat at \$771M. At the end of FY 2022, those other funds (excluding trust funds such as pensions) had balances of almost \$475M. Any necessary expenditure increases within those funds over the next four years can be easily funded out of existing balances; thus, no increases in General Fund transfers are necessary.

Summary: Keeping the residential tax burden the same for all four years still provides the County sufficient funding to maintain current operations with a 3% annual increase in General Fund compensation and 2% increase in other categories, while keeping transfers to other funds constant.

¹ Stormwater taxes, which are paid by every residential homeowner, were first established in FY 2010 at a rate of \$.01/\$100 assessed home value. The rate gradually increased to \$.0325/\$100 assessed home value in FY 2019, where it has remained. The rate has not been adjusted with the recent increases in assessments, so average stormwater taxes paid by County homeowners has effectively increased by over 30% since FY 2019, and as of the end of FY 2022 the stormwater fund has a balance of \$192M. Reducing stormwater taxes to match the approximate rate of inflation since FY 2019 would result in a 2.75% rate.

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ATTACHMENT A

The FY 2024 Fairfax County Public Schools budgeted expenditures are \$500M (17%) higher than FY 2022 actual expenditures (after factoring for nonrecurring spending funded by federal COVID relief) with a similar number of students. Here are seven examples of inflated costs or unwarranted contingencies in the FY 2024 budget:

1. \$65M (679 new positions) for a “projected” 1.3% increase in students from FY 2023.
 - FCPS has overestimated the following year’s student enrollment in 9 of the past 11 years.
 - 184 of the 679 positions are for teachers, which equates to 1 for every 13 new students.
 - 160 of the 679 positions are ESOL teachers. The actual number of ESOL students has been stable from FY 2019 – FY 2022 and FCPS already exceeds the state staffing standard of 20 FTEs/1000 students having limited English proficiency.
 - 280 of the 679 positions are for special education support. The actual number of special education students has been stable from FY 2019 – FY 2022.
2. \$28M for a “staffing reserve” of 310 additional positions.
3. \$27.5M for “salary supplements” and a “salary placeholder.
4. \$42M (52%) more for materials and supplies than was spent in FY 2022.
 - FCPS is budgeting \$309M for materials and supplies in FY 2023 and FY 2024, which is \$28M more than the combined total spent in the previous THREE years!
5. \$17.6M (43%) more for utilities than was spent in FY 2022.
6. \$22M (32%) more for privatized services than was spent pre-pandemic.
7. Continued growth in administrative positions from recent years despite the reduction in the number of students and with no new schools.
 - Compared to FY 2020, when there were 8,400 (5%) more students, the FY 2024 budget includes 61 additional assistant principal positions (\$12M) and 250 additional specialists (\$41M), including 83 additional “business specialists”.