A FY2015 County Budget That Yields a 2.1% Real-Estate Tax Increase **Report FAC/FCTA-015**

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Introduction: The County has advertised a FY 2015 budget of $3,704,394,576 in disbursements (expenditures). This amount is an increase of $118M (million), or 3.3%, from the FY2014 budget. This advertised budget gives the County an increase that is greater than the household-income increase (2.1%) and, therefore, adds to the taxpayer burden. The purpose of this report is to present the results of a study to determine if the advertised disbursement amounts can be met without increasing the dollar value that the household must pay in taxes.

Summary: Because the median household income has increased 2.1%, the taxpaying householder burden will be no greater in FY2015 than in FY2014 if the increase in real-estate tax revenue is less than $46M (2.1% of the FY2014 real-estate revenue of $2,207,982,016). Because assessments have increase 6.54%, the tax rate to realize the 2.1% increase would be $1.059/$100 of assessed value. This rate includes the stormwater fee of $0.0225; therefore, the real-estate tax that yields the 2.1% increase in county income is $1.0365.

The difference between the advertised $118M increase and $46M, $72M, can be obtained by reducing the disbursements (expenses). The county reserves funds in case the actual revenue is less than budgeted. By reducing the reserves from the advertised 3.3% of the disbursements to the long-term average of 2.5%, the county can save $30M, leaving $42M remaining to be saved.

In addition, a $65M saving can be realized if the disbursements are limited to the rate of population growth plus inflation, a total of 1.8%, far more than the additional $42M that remained to be saved.

Discussion:

All year-to-year data used herein with the actual budgets for FY2013 and earlier, the adopted budget for FY2014, and the advertised budget for FY2015. The revised budget includes unexpected revenue; therefore, it cannot be the basis for a budget or a budget comparison. Some expenditures in the revised budget are one-time expenditures (e.g., bonuses). The actual budget includes carry-over funds from the previous year in two places: in the beginning balance and in the disbursements.

The Budget

The budgeting is done such that any unspent funds from one year are put into the carryover budget and the funds are "carried over" to the next year. The carried-over assets are put in the beginning balance of the next year and the BOS dispenses the carry-over funds to various agencies for disbursements as shown in its carry-over budget. The result is that all of the reserved funds are spent in the following year, with the assets shown in the beginning balance and the expenditures shown under the agencies to which the funds were allocated. The argument in favor of this system are (1) reserves of approximately 2.5% are held during the year in case revenues are unexpectedly low or some expenses are unexpectedly high and (2) unused reserves are spent as would be needed in the following year, thereby reducing the need for increased taxes in the following year.

The only argument against the present system is that, if the agencies functioned adequately with their budgets in the current year, the agencies should not need additional funds in the following year. The agency expenditures should be kept at their original approved amounts, adjusted for inflation and perhaps population. Most agencies over-estimate their needs by 3%, as a comparison between approved and actual shows, so there are enough reserves in the approved budget.

The Reserved Funds

There are several funds listed as reserve funds. Since 1999, the reserved funds have increased from $40M to $120M (Figure 1). If the reserved funds are corrected for inflation, the average amount of reserved funds since 1999 is $90M; therefore, the advertised amount of reserved funds for FY2015 of $122M is $32M more than appears to be needed. The total disbursements have also increased since 1999, at a rate 1.8% above inflation, so the amount of reserved funds should be presented as the percent of disbursements (Figure 2). At the March 13, 2014, Braddock District Town Hall on the budget, Supervisor John Cook said that the County bond rating depends on the ratio of reserves to disbursements. Although the bonds are rated AAA, they were recently put on watch because, at least in part, the reserves were too low. The bond rating has been AAA at least since 1999, during which time the reserves have varied between 2.0% and 3.4% of the disbursements (**Error! Reference source not found.**). I think the rating is more strongly dependent on the evidence that the county is willing to raise taxes to cover its debts. A reduction from the advertised 3.3% reserves to 2.5% reserves would make another $30M available to fund the agencies.

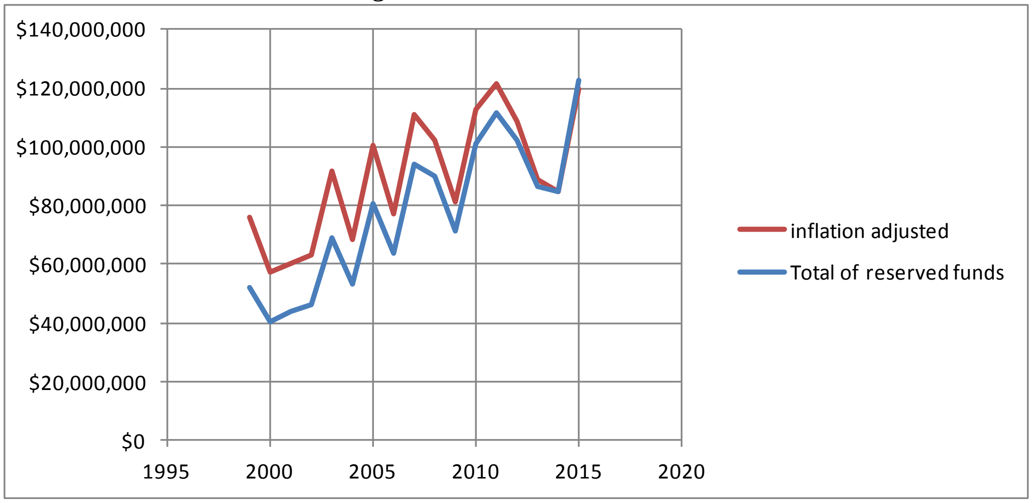

Figure 1: Total Reserved Funds (listed below Total Disbursements in the General Fund Statement)

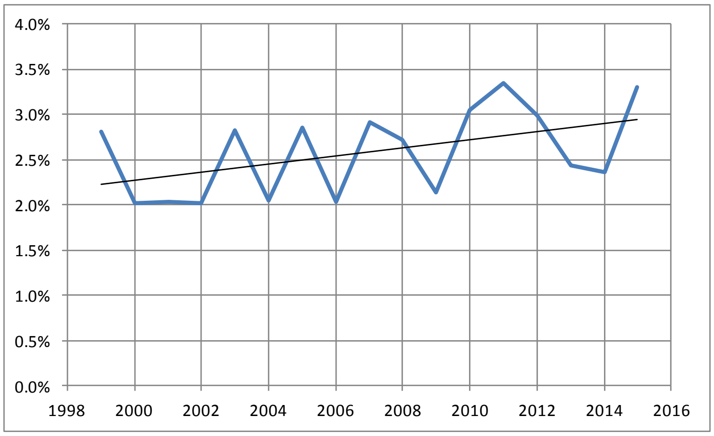

Figure 2: Reserves as a Percent of Disbursements

The Disbursements

The average rate of growth in county population and in household has been 0.9% per year from FY2000 to FY2015, but only 0.4% from FY2014 to FY2015[1]. Inflation was 2.3% from FY2000 to FY2013, but only 1.4% from FY2012 to FY2013. The combined effect of inflation and population growth is 3.2% from FY2000 to FY2015 and 1.8% from FY2014 to FY2015. If there were an economy of scale, the average growth in disbursements and reserves would be less than these combined effects. In fact, the disbursements and reserves have grown more rapidly.

[1] http://www.fairfaxcounty.gov/demogrph/gendemo.htm

The average growth in disbursements and reserves exceeds what might be justified by inflation and population growth – a diseconomy in scale. From FY2000 to FY2015, the average growth in total disbursements has been 4.2% and in reserves, 7.7%. From FY2013 to FY2015, the average growth in total disbursements has been 2.4% and in reserves, 19.1%. Therefore, the growth in disbursements has been 1% greater (0.6% for FY2014 to FY2015) than population and inflation; and in reserves, 4.5% greater (5.9% for FY2014 to FY2015). Notice that 0.6% in disbursements corresponds to $21M and the 5.9% in reserves corresponds to $5M.

Carry-over

The carry-over funds, after subtracting commitments and administrative adjustments, have averaged 0.57% of the disbursements. For FY2015, this is approximately $20M that need not be included in the expenditures, probably by reducing the advertised budgets of the individual agencies by this percentage. Because most agencies actually spend approximately 3% less than the adopted budget, the 0.57% reduction will have little effect.

New Revenue

With both population and households increasing by 0.4% (1600 homes), the county should realize an increase in revenue from the new homes of 1600*$500,000*1.059/$100 = $8.5M.

Conclusions

The foregoing shows that the dollar amount of real-estate taxes need not increase. The current total tax rate is 1.105 (1.085 real estate plus 0.02 stormwater). The average assessed value is approximately $500,000; therefore, the current tax, including stormwater, is $5525 per year (1.105/100*$500,000). Because the new assessments are 6.54% greater, for the tax to be $5525 in FY2015, the total tax rate must be reduced to 1.037 (1.105/1.0654). If the stormwater fee is the advertised 0.0225, then the real-estate tax rate should be 1.0145 (1.037 – 0.0225). Under these assumptions, County revenue from real estate would be unchanged. The ending balance would be a negative $12M. This $12M is easily offset by the reserve funds and a slight reduction in agency budgets. The ending balance in the adopted budget for FY2014 was $84M. The actual ending balance in FY2013 was $389M, as compared to the FY2013 advertised ending balance of $70M.

If we grant the County a 2.1% increase in real-estate revenue, matching the 2.1% increase in household income, the total tax rate would be set at 1.059 (1.021*1.037). If the stormwater rate is set at 0.0225, then the real-estate tax rate should be 1.0365 (1.059 – 0.0225). The typical household total tax would then increase to $5641.

Appendix A: Proposed Budget Resolution

Whereas the basis for FY2015 budget comparisons should be the adopted budget from FY2014 -- what was acceptable last year.
Whereas the tax burden on the householder should not be more than the increase in the household income
Whereas the household income is expected to increase 2.1% in FY2015
Whereas assessments have increased 6.54%
Whereas the tax paid by a householder will be 2.1% more than in FY2014 if the tax rate, including stormwater fee, equals 1.059
Whereas the advertised budget calls for an increase in disbursements of $118M
Whereas a 2.1% increase in real-estate taxes amounts to a $46M increase in revenue from real-estate taxes
Whereas approximately 2100 households will be added to the tax rolls, increasing revenue by $8M
Whereas the reducing the advertised reserve funds of $122M to the $92M saves $30M
Whereas the carryover budget has available approximately $20M each year after commitments and administrative adjustments are made.
Whereas limiting the budget increase to inflation plus population increases will result in a $65M reduction in disbursements
Whereas $46M + $8M + $30M + $20M + $65M = $169M – much more than the $118M needed to prevent further burdening of the taxpayer.

Therefore, be it resolved that the real-estate tax rate, including the stormwater fee, be set as no more than $1.059 per $100 of assessed value, thereby giving the county a budget increase of 2.1% with much margin to spare.