



Taxing Authority and Options for Revenue Diversification

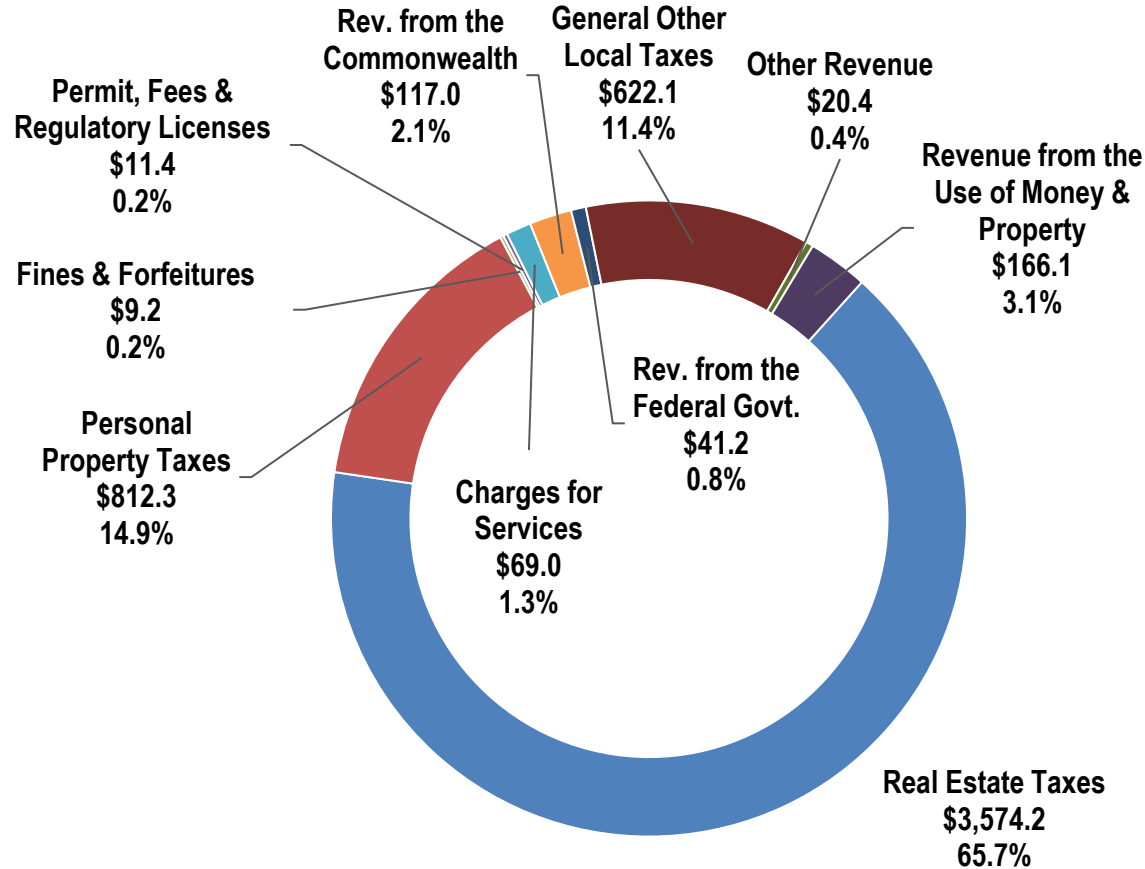
Board of Supervisors Budget Committee Meeting

September 17, 2024

Board Direction

- FY 2026 Budget Guidance included the direction “*to review all existing taxing authority and come back to the Board at a future Budget Committee meeting with recommendations for strategies to diversify our revenue base and reduce the over-reliance on the Real Estate Tax.*”
- The Board of Supervisors provided additional direction as part of a May 21, 2024, Board Matter.

General Fund Revenue Sources



- FY 2025 budgeted General Fund revenues total \$5.44 billion
- Real Estate Taxes make up 66% of all General Fund Revenue
 - Residential properties make up more than 75% of the real estate assessment base
- Limited revenue growth is projected in the next few fiscal years

\$211.3 million reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998 are included in the Personal Property category

2020 General Assembly Taxing Authority for Counties

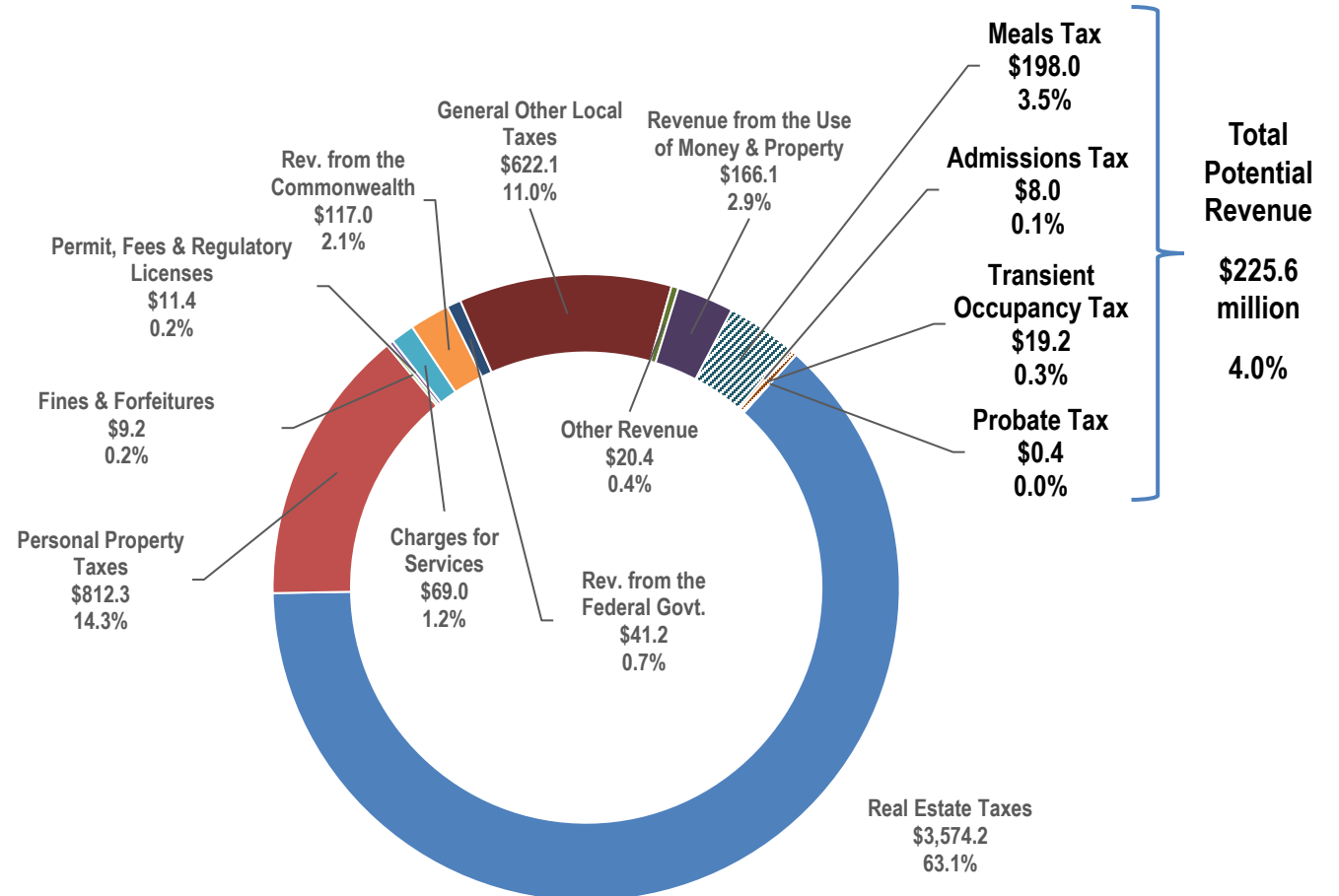
- Legislation providing long-sought additional taxing authority and revenue diversification options for counties received approval in April 2020
- Authorizes all counties to levy a **transient occupancy tax** at rates exceeding 2%, with the revenue derived from rates greater than 2% spent either (1) for purposes previously authorized or (2) for rates between 2% and 5%, for tourism promotion, effective May 1, 2021
 - Revenue from rates greater than 5% may be used for general purposes
- Authorizes all counties to impose a food and beverage tax “**meals tax**” at a rate not to exceed 6% and eliminates the referendum requirement, effective July 1, 2020
 - Also removed language allowing that “the tax shall be effective in an amount and on such terms as the governing body may by ordinance prescribe” which would have provided flexibility to the locality in implementation
- Authorizes all counties to levy an **admissions tax** at a rate not to exceed 10%, effective July 1, 2020
- Authorizes all counties to impose a **cigarette tax** at a rate not to exceed 40 cents per pack, effective July 1, 2021
 - Cities and towns with rates higher than 40 cents per pack were grandfathered at the rates in effect as of January 1, 2020
 - *As part of the FY 2025 budget, Fairfax County increased the rate from 30 cents to 40 cents per pack*

General Fund Revenue with Additional Revenue Sources

- If local taxing authority had been maximized for FY 2025 including:
 - Transient Occupancy Tax (assumed 7%)
 - Meals Tax (maximum 6%)
 - Admissions Tax (maximum 10%) and
 - Probate Tax (\$0.033 per \$100 of assessed value)

Just under \$226 million would have been generated, representing 4.0% of General Fund revenues or approximately 7 cents on the FY 2025 Real Estate Tax rate

- This chart is for ***illustrative purposes only***



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Transient Occupancy Tax

Applies to any public or private hotel, inn, apartment hotel, hostelry, tourist home or house, motel, rooming house, any place that offers Short-Term Lodging as defined in subsection 9103.7 of the Fairfax County Zoning Ordinance, or other lodging place within the County offering lodging for one or more persons at any one time, and the owner and operator thereof, who, for compensation, furnishes lodging to any transients, rented out for any period of less than 30 consecutive days.

- FY 2025 tax rate of 4% (2% for general purposes and 2% to promote tourism) generates \$25.6 million
- Rates between 2% and 5% are earmarked for tourism promotion, with no restriction on the tax rate above 5%
- \$6.4 million per 1% on the tax rate
- Tax rate is adjusted in ordinance, requiring a public hearing and approval by the Board
- Rate last adjusted in FY 2005

Transient Occupancy Tax

Comparison of Rates to Neighboring Jurisdictions

Jurisdiction	Local Transient Occupancy Tax Rate
Northern Virginia¹	
City of Alexandria	6.5% + \$1.25/night
Arlington County	5.25%
City of Fairfax	4%
Fairfax County²	4%
City of Falls Church	6%
Loudoun County	5%
Prince William County	5%
Other	
District of Columbia	15.95%
Montgomery County	7%
Prince George's County	7%

¹ In addition to the rates noted, a regional transportation tax of 3% is mandated by VA Code § 58.1-1743.

² The total TOT levied by Fairfax County for businesses in the Towns of Clifton, Herndon, and Vienna is calculated at the rate of 5% (2% for tourism + 3% for regional transportation). This is in addition to TOT levied by the towns. The additional rates levied by the towns of Herndon and Vienna are 6% and 3% respectively. Town of Clifton does not levy additional TOT.

Meals Tax

With some exceptions, applies to food and beverages (ready-to-eat) sold at restaurants, a defined term that could include lunchrooms, cafeterias, coffee shops, cafes, taverns, delis, pushcart operations, and hot dog stands.

Beverage includes alcoholic and non-alcoholic beverages served with a meal.

Does not apply to groceries. Grocery and convenience stores would only collect the tax on ready-to-eat foods.

Does not apply to vending machines.

Under state law, a county meals tax would not apply within the limits of a town that has its own meals tax.

See Va. Code [58.1-3833](#)

- Counties in Virginia are limited to a rate of up to 6% and do not need to gain voter approval in a referendum before levying the tax
- Each 1% of a meals tax is estimated to generate \$33 million
 - The maximum rate of 6% would generate approximately \$198 million
- There are no restrictions on the use of the tax revenue generated by the meals tax
- A dealer discount of up to 5% may be implemented
 - A dealer discount would offset the cost of collecting the tax by allowing the restaurant to retain a portion of the tax collected

Meals Tax from Non-County Residents

Visitor Spending in Fairfax County

- 2022 total direct visitor spending in Fairfax County: \$3,075.1 million
- Estimated visitor spending on eating out in Fairfax County: \$1,140.9 million
- Estimated 1.0% meals tax revenue generated from visitors: \$11.4 million

Source: Virginia Tourism Corporation

- The Fairfax County restaurant customer base includes many non-residents
 - Approximately 228,000 individuals commute into the County on a daily basis
- Based on visitor spending data from the Virginia Tourism Corporation, it is estimated that approximately 34% of expenditures on meals are generated by visitors to the County

Restaurant Visitation at Selected Sites

- Analysis performed using the Placer.ai platform
 - Provides estimates of establishment visits based on georeferenced cell phone tracking and aggregation
- Geographic areas were selected that had high levels of restaurants to allow for data aggregation
 - Due to limitations of data, focus on stand-alone business locations

Destination	% of Visits from Residents	% of Visits from Non-Residents	Total Visits
Tysons – Selected Locations	58%	42%	1,430,500
Springfield Plaza Area	70%	30%	1,217,300
Old Centreville Plaza	65%	35%	681,300
Merrifield Area	67%	33%	1,185,200
Fairfax Center Area	67%	33%	1,698,300

Meals Tax

Rates in Neighboring Jurisdictions

Jurisdiction	Tax Rate on Meals	Dealer Discount
<i>Northern Virginia</i>		
City of Alexandria	5%	--
Arlington County	4%	--
City of Fairfax	4%	3%
City of Falls Church	4%	2%
Loudoun County*	--	--
Prince William County	4%	3%
Town of Herndon	3.75%	6%
Town of Vienna	3%	3%
<i>Other</i>		
District of Columbia	10%	--

* Loudoun County meals tax of 3.5% to 5% charged only within certain town limits

Admissions Tax

A tax on the admissions charged for attendance at any event. The Board of Supervisors sets the terms, conditions, and amount of the tax by ordinance and may classify between events conducted for charitable purposes and events conducted for noncharitable purposes.

See Va. Code [58.1-3818](#)

- Counties in Virginia are limited to a rate of up to 10%
- Each 1% of an admissions tax is estimated to generate \$0.8 million
- There are no restrictions on the use of the tax revenue generated by the admissions tax

Admissions Tax

Rates in Neighboring Jurisdictions

Jurisdiction	Admissions Tax Rate
<i>Northern Virginia</i>	
City of Alexandria	10%, max of \$0.50 a person
Arlington County	--
City of Fairfax	--
City of Falls Church	10% theatres & \$0.05 bowling
Loudoun County	--
Prince William County	--
<i>Other</i>	
District of Columbia	6% - 10.25%
Montgomery County	7%
Prince George's County	10%

Probate Tax

Cities and counties are allowed to impose a tax on the probate of every will or grant of administration equal to one-third the state tax rate. The state tax rate is \$0.10 for every \$100 of assessed value for estates over \$15,000.

The tax is based on the value of real and personal property, which is passed from a decedent to a beneficiary by will or intestacy.

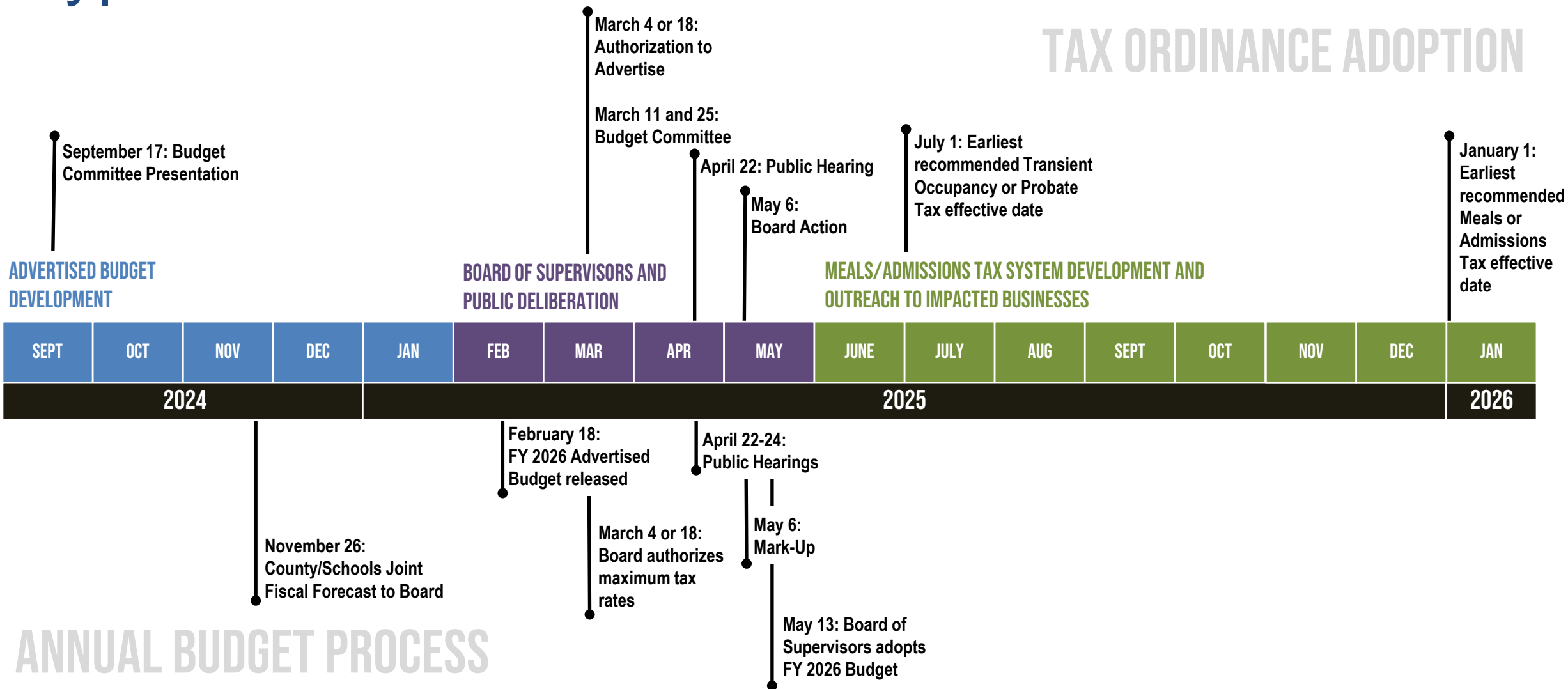
See Va. Code [58.1-3805](#)

- The local Probate Tax rate must be \$0.033 per \$100 of assessed value, one-third the state tax rate
- Probate tax is estimated to generate \$0.36 million
 - The Fairfax Circuit Court probated 1,687 wills during FY 2024
- There are no restrictions on the use of the tax revenue generated by the probate tax
- Arlington, Loudoun, and Falls Church levy this tax

Implementation

- Transient Occupancy Tax
 - Tax rate is adjusted in ordinance, requiring a public hearing and approval by the Board
- Meals Tax
 - Effective date recommended no earlier than January 1, 2026, due to lead time on County IT system development and for businesses to adapt
 - Require a public hearing and approval of an ordinance by the Board, but rate could be incorporated in the tax rate resolution
 - Additional resources will be required to support IT systems, outreach, compliance, and collection efforts
- Admissions Tax
 - Effective date recommended no earlier than January 1, 2026, due to lead time on County IT system development and for businesses to adapt
 - Require a public hearing and approval of an ordinance by the Board
 - Additional resources will be required to support IT systems, outreach, compliance, and collection efforts
- Probate Tax
 - Requires a public hearing and approval of an ordinance by the Board
 - Implementation would require approximately 1 month for IT system changes

Hypothetical Timeline



Outreach |

If the Board pursues any revenue diversification options, transparent communication will provide the rationale for revenue diversification and effects of implementation of new local taxes, process and timeline

Key Messages

Residents

- New revenue sources could reduce reliance on real estate taxes
- Visitor spending contributes additional tax revenue
- Additional funding for resident priorities

Industry

- Examples, context from neighboring/comparable localities
- Guidance and support for implementation of new taxes
- Recognition of need for operational adjustments

Everyone

- Need for additional funding for essential programs, services, community priorities
- Approval process information
- Transparency and accountability in implementation process
- Timeline for implementation

Outreach |

Communication in multiple languages, differentiated by audience, via easily accessible tools and platforms.

Tools and platforms

Everyone

- **Web hub:** Centralized online resource
- **Infographic/fact sheets:** Visual representation of key statistics/benefits.
- **Digital tools:** Social media, e-newsletters, boosted/targeted messaging.
- **Short videos:** Concise explanation of rationale and benefits.
- **Local media:** Outreach for coverage, information dissemination.

Industry-Specific

- **Virtual meetings:** to engage with business owners and other stakeholders.
- **Handouts:** addressing key considerations.
- **County ambassadors:** (HD, DTA): to share information, answer questions.

Discussion