

Response to Questions on the FY 2016 Budget

Request By: Chairman Bulova

Question: Provide details on why Fairfax County self-imposed a tax exemption moratorium. Does the City of Fairfax have a Consolidated Community Funding Pool Program in addition to the tax exemption program that provides an exemption to the Brain Foundation's three group homes there?

Response: Prior to 2003, local tax exemption designations for non-profit entities were granted by the Virginia General Assembly upon recommendation by the local governing body. This was changed by an amendment to the Virginia Constitution as of January 1, 2003, at which time the authority to grant local tax exemptions, pursuant to enabling statutes, was delegated solely to the local governing body. The enabling legislation found in the *Code of Virginia*, §58.1-3651 states "...any county, city, or town may by designation or classification exempt from real or personal property taxes, or both, by ordinance adopted by a local governing body, the real or personal property, or both, owned by a nonprofit organization that uses such property for religious, charitable, patriotic, historical, benevolent, cultural, or public park and playground purposes." Any ordinance exempting property must be preceded by advertisement and a public hearing.

Because of the potential significant fiscal impact, the frequency of applications and the declining economy, the Fairfax County Board established a self-imposed moratorium in the mid-1990s on tax exemption of nonprofit organization by designation. The economic dynamics have not changed much from when the moratorium was last revisited in 2011. At that time, the Board once again chose not to resume a tax exemption program by designation.

The exemption process for certain entities continues to this day and is unaffected by the local moratorium. These exemptions pertain to entities that, by virtue of their classification, are automatically exempt following an administrative review by the Department of Tax Administration. Examples of these exemptions include all levels of government owned property; property owned by churches used for worship; and, disabled veterans. These types of entities do not need to seek a local designation from the Board in order to obtain future exemptions.

For perspective, approximately 5.6 percent of the County's real estate value is exempt as being property owned by federal, state, regional or local government. Another 1.3 percent of non-governmental property is also exempt. The non-governmental property exemptions result in unrealized real estate tax revenue totaling approximately \$35 million, the largest percentage of which stems from church-owned property. Of the \$35 million, approximately \$9.3 million is associated with more than 500 charitable, non-profit organizations that were exempted prior to the 2003 amendment to the Virginia Constitution. The charitable, non-profit organizations that are already exempt are grandfathered by statute and continue to remain exempt. New exemption applications would have to first receive a local designation from the Board pursuant to the adoption of an ordinance. It is this latter process that is held in abeyance by the self-imposed moratorium.

In addition, since FY 1997, Fairfax County has provided significant funding to many non-profit organizations that serve our community through the Community Funding Pool (CCFP). In FY 2016, the CCFP will provide \$12.5 million to County nonprofits. The City of Fairfax does not have a program similar to the County's Community Funding Pool.