



County of Fairfax, Virginia

MEMORANDUM

DATE: April 14, 2022

TO: Board of Supervisors

FROM: Bryan J. Hill *B. Hill*
County Executive

SUBJECT: Adjustments to FY 2023 Advertised Budget Plan (Add-On Package)

This package has been prepared to present the revenue adjustments that have been identified since the preparation of the FY 2023 Advertised Budget Plan. Based on the adjustments detailed in the FY 2023 Add-On package, the available FY 2023 General Fund balance is \$96.4 million.

Staff has reviewed General Fund revenue estimates based on the most up-to-date information and an increase of \$17,159,457 to FY 2023 revenues is recommended as part of the Add-on Process. The adjustment is due to an increase of \$10.8 million in Sales Tax receipts, \$3.2 million in Transient Occupancy Taxes (TOT), and \$3.2 million in Investment Interest revenue. The Sales Tax and TOT increases are consistent with adjustments made to FY 2022 revenue estimates as part of the *FY 2022 Third Quarter Review*. In March, the Federal Reserve moved to increase the Fed funds rate range by 0.25 percent, the first increase since 2018. As a result, it is projected that the County will be able to earn a higher yield on its investment portfolio compared to the level assumed in the advertised budget.

It should be noted that the General Assembly adjourned in March without completing the state budget for the upcoming biennium. Among the outstanding issues are different approaches to the elimination of the sales tax on groceries. Staff will report to the Board any revenue and expenditure impacts on the County's budget as a result of General Assembly actions once the state budget is adopted. Staff will also continue to monitor revenue collections monthly and will recommend to the Board any necessary changes based on economic factors, including Federal Reserve actions with regard to interest rates, as part of the *FY 2022 Carryover Review*.

As the Board is aware, during the March 15 Budget Committee meeting, staff presented a recommendation to mitigate the unprecedented increases in Personal Property Taxes on vehicles. The County Executive's presentation of the FY 2023 Advertised Budget Plan indicated that based on the updated January 1, 2022 vehicle values, additional revenues of \$83 million beyond what was included in the advertised budget could be realized, if no action was taken by the Board. In order to partially offset the impact of the increased vehicle assessments, staff recommended using an assessment ratio of 85 percent in tax year 2022 (FY 2023). With the reduction of the assessment ratio from 100 percent to 85 percent, there would be no additional Personal Property tax revenue above the level already assumed in the FY 2023 Advertised Budget Plan. As a result, no adjustment to the FY 2023 Personal Property Tax revenue estimate is included as part of the Add-on Process.

More details regarding the FY 2023 recommended revenue adjustments can be found in Attachment I, Summary of General Fund Receipts.

No administrative expenditure adjustments are recommended at this time.

As a result of the recommended revenue adjustments, a General Fund balance of \$96.4 million is available in FY 2023.

Summary of FY 2023 General Fund Add-on Adjustments

	FY 2023
Balance from FY 2023 Advertised Budget	\$79,257,068
Additional FY 2023 General Fund Revenue	\$17,159,457
FY 2023 General Fund Balance Available	\$96,416,525

A summary of FY 2023 Consideration Items totaling \$22,008,597 as of April 14, 2022 is included in Attachment II.

Additional information is included in the following attachments:

Attachment I – Summary of General Fund Receipts
Attachment II – Consideration Items

cc: Tom Arnold, Deputy County Executive
Rachel Flynn, Deputy County Executive
Christina C. Jackson, Chief Financial Officer and Director, Department of Management and Budget
Christopher A. Leonard, Deputy County Executive
Ellicia Seard-McCormick, Deputy County Executive
Philip Hagen, Deputy Director, Department of Management and Budget

**ATTACHMENT I
SUMMARY OF GENERAL FUND RECEIPTS**

FY 2023 Revenue Adjustments

Revenue adjustments for FY 2023 are recommended in the categories discussed below. These adjustments represent an increase of \$17.2 million and reflect information received subsequent to the development of the FY 2023 Advertised Budget Plan. The revenue adjustments include an increase of \$10.8 million in Sales Tax receipts, \$3.2 million in Transient Occupancy Taxes (TOT), and \$3.2 million in Investment Interest revenue. The Sales Tax and TOT increases are consistent with adjustments made to FY 2022 revenue estimates as part of the *FY 2022 Third Quarter Review*. As a result of actions taken by the Federal Reserve to increase the Fed funds rate range by 0.25 percent, it is projected that the County will be able to earn a higher yield on its investment portfolio compared to the level assumed in the advertised budget. Economic conditions and the impact on these and all other revenue categories will be closely monitored throughout FY 2023.

LOCAL SALES TAX				
FY 2022 Revised	FY 2023 Advertised	FY 2023 Revised	FY 2023 Increase/ (Decrease)	Percent Change
\$218,759,355	\$213,426,158	\$224,228,339	\$10,802,181	5.06%

The FY 2023 revised estimate for Sales Tax is \$224,228,339, an increase of \$10.8 million over the FY 2023 Advertised Budget Plan estimate. This increase is consistent with adjustments made to the FY 2022 Sales Tax estimate as part of the *FY 2022 Third Quarter Review* to reflect higher than anticipated FY 2022 receipts. The \$10.8 million increase in FY 2023 Sales Tax revenue assumes that receipts will be up 2.5 percent in FY 2023 over the adjusted FY 2022 base.

TRANSIENT OCCUPANCY TAX				
FY 2022 Revised	FY 2023 Advertised	FY 2023 Revised	FY 2023 Increase/ (Decrease)	Percent Change
\$12,716,565	\$11,448,250	\$14,624,050	\$3,175,800	27.74%

The FY 2023 revised estimate for Transient Occupancy Tax (TOT) is \$14,624,050, an increase of \$3.2 million over the FY 2023 Advertised Budget Plan estimate. This increase is consistent with adjustments made to the FY 2022 TOT revenue estimate as part of the *FY 2022 Third Quarter Review* based on actual FY 2022 collections year-to-date. The FY 2023 estimate reflects an increase of 15.0 percent over the adjusted FY 2022 level, the same growth rate assumed in the FY 2023 Advertised Budget Plan.

INVESTMENT INTEREST				
FY 2022 Revised	FY 2023 Advertised	FY 2023 Revised	FY 2023 Increase/ (Decrease)	Percent Change
\$12,638,976	\$17,155,002	\$20,336,478	\$3,181,476	18.55%

The FY 2023 revised estimate for Investment Interest is \$20,336,478, an increase of \$3.2 million over the FY 2023 Advertised Budget Plan estimate. In March, the Federal Reserve raised interest rates by a quarter percentage point. This was the first increase since 2018, after two years of holding rates near zero to prop the economy from the effects of the pandemic. The FY 2023 estimate reflects a projected annual yield of 0.60 percent. While the interest rate hike is likely the first of several to come in 2022, there is significant uncertainty given the impacts on the global economy of Russia’s invasion of Ukraine and new COVID-19 lockdowns in China. Further actions by the Fed with regard to interest rates will be closely monitored and any necessary adjustments to the Investment Interest revenue estimate will be incorporated in future quarterly budget reviews.

ATTACHMENT II
FY 2023 Add-on Package
Consideration Items as of April 14, 2022

#	Consideration Item	Requested By	Positions	Net Cost/(Savings)	
				Recurring	Non-Recurring
1.	Provide a 10 percent salary increase for police officers at the rank of Second Lieutenant and below including APPOs.	Herrity	0 / 0.0	\$20,076,643	\$0
2.	Fully fund the Park Authority's request for additional funding to support the Authority's natural resources sustainability efforts.	Foust	3 / 3.0	\$751,954	\$0
3.	Provide funding to develop and maintain an entrepreneur/business start virtual resources platform, manage a business and customer database and engagement system, and establish a 'small business resource navigator and data analyst' position to track, understand and present small business data to better make decisions and provide assistance.	Foust	1 / 1.0	\$180,000	\$0
4.	Adjust the Machinery and Tools tax rate and depreciation schedule to provide an incentive for small-scale production in Fairfax County.	Palchik, McKay, Smith, Storck, Walkinshaw	0 / 0.0	\$1,000,000	\$0
Subtotal FY 2023 Consideration Items as of April 14, 2022:			4 / 4.0	\$22,008,597	\$0

<i>Total FY 2023 Add-on Consideration Items: 4/4.0 FTE Positions and Total Funding (not including reserves) of \$22,008,597</i>
