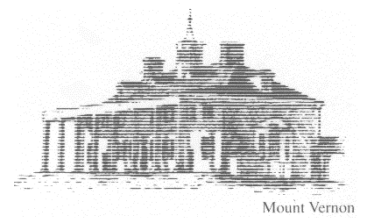




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Adoption of the Auditor of the Board's June 2021 Quarterly Report and Approval of the Audit Committee Work Plan for the Upcoming Quarter

June 22, 2021

Chairman McKay and the Board of Supervisors have received the Auditor of the Board's Quarterly Report for June 2021. The report included the following study areas, recommendations, and managements' concurrence:

June 2021 Quarterly Report:

LDS Future Construction, Bond, and Conservation Escrow Study:

Auditor Recommends Staff:

- Evaluate aged escrows transferred from FAMIS to assess the balances, documentation not presented, developer's status, and future use of funds (e.g., repurpose, escheat, or return to developer).
- Evaluate the aged escrows in FOCUS to assess the balances, developer's status, and future use of funds (e.g., repurpose, escheat, or return to developer).

LDS Cash Proffer Study:

Auditor Recommends Staff:

- Evaluate aged proffers to assess the status of balances, developers, and future use of funds (e.g., repurpose, escheat, or return to developer).

LDS Management of Escrows and Proffers:

Audit Committee Requests:

- LDS to provide a document flow of how the 4 (Escrows: Future Constructions / Bonds/ Conservations, and Proffers) financial instruments are managed to address issues of aging balances, developers, and continued use of funds. This information will be presented at the next report out.
- LDS to provide a plan of how to assess the escrows transferred from FAMIS using processes identified through resolving the anomalies in the sample tested by OFPA. This plan should identify the County's obligation and the resources and timeline estimated for this review. This information will be presented at the next report out.

FCPA Cash Proffer Study:

Auditor Recommends Staff:

- Evaluate aged proffers to assess the status of developers, aged proffer balances, committed balances and proffer fund receipt documentation for future use of funds (e.g., repurpose, escheat, or return to developer).
- Evaluate aged proffers with no activity, no receipt date of proffer monies, and developer's status for possible future use of funds (e.g., repurpose, escheat, or return to developer).

❖ *Management agreed with the recommendations.*

DPWES Cash Proffer Study:

- *All proffers current within three years. No Exceptions to Report.*

Chairman McKay, I move that the Board of Supervisors adopt the Auditor of the Board's June 2021 Quarterly Report and approve the attached Audit Committee Work Plan for the upcoming quarter.



County of Fairfax, Virginia

Supervisor Pat Herrity
Jointly with Supervisor Lusk, Supervisor Storck, and Supervisor Palchik
Board Matter
June 22nd, 2021
Machinery and Tools (M&T) Tax

Background: Mr. Chairman, the Machinery and Tools Tax (“M&T Tax”) on Fairfax County’s existing small-scale production businesses and startups is more than three times higher than a number of our surrounding jurisdictions. The combination of higher tax rate and a less favorable depreciation schedule is not only having an adverse financial burden on these businesses, but has also discouraged new business, and the expansion of existing facilities.

One of our efforts to diversify our tax base and fill empty commercial and retail space is attracting and growing small-scale producers. As noted in the County contracted **Recast City LLC Small-Scale Production Report** which was presented to the last Board, “*A number of scaling production businesses noted that the business taxes in the County are depressing their opportunity to grow and such disparity in tax rates might encourage them to consider neighboring jurisdictions as they scale*” **furthermore** “*The County’s tax rate on this equipment, (\$4.57 per \$100 of assessed value), while competitive with some adjacent jurisdictions, is higher than Loudoun County (\$2.75 per \$100 of assessed value), and may out compete the County for small-scale producers, especially as they scale.*”

Within the Northern Virginia Regional Commission area localities, the rates are as follows:

FAIRFAX COUNTY DTA SURVEY																							
TAX AND DEPRECIATION RATES IN NORTHERN VIRGINIA LOCALITIES																							
Jurisdiction	Furniture & Fixtures (F&F)							Tax Rate	Computer Equipment (CE)					Tax Rate	Machinery & Tools (M&T)							Tax Rate	Basis
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7		Year 1	Year 2	Year 3	Year 4	Year 5		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7		
Alex City	80%	70%	60%	50%	40%	30%	20%	\$4.75	65%	45%	30%	20%	5%	\$4.75	80%	70%	60%	50%	40%	30%	20%	\$ 4.50	OC
Arlington	80%	70%	60%	50%	40%	30%	20%	\$5.00	65%	45%	30%	10%	10%	\$5.00	80%	70%	60%	50%	40%	30%	20%	\$ 5.00	OC
Fairfax City	70%	60%	50%	40%	30%	20%	10%	\$4.13	65%	45%	30%	10%	2%	\$4.13	70%	60%	50%	40%	30%	20%	10%	\$ 4.13	OC
Fairfax County	80%	70%	60%	50%	40%	30%	20%	\$4.57	50%	35%	20%	10%	2%	\$4.57	80%	70%	60%	50%	40%	30%	20%	\$ 4.57	OC
Falls Church	80%	70%	60%	50%	40%	30%	20%	\$5.00	70%	50%	35%	10%	5%	\$5.00	80%	70%	60%	50%	40%	30%	20%	\$ 5.00	FMV
Leesburg	50%	40%	30%	20%	10%	10%	10%	\$1.00	50%	40%	30%	20%	10%	\$1.00	50%	40%	30%	20%	10%	10%	10%	\$ 1.00	FMV
Loudoun	50%	40%	30%	20%	10%	10%	10%	\$4.20	50%	40%	30%	20%	10%	\$4.20	50%	40%	30%	20%	10%	10%	10%	\$ 2.75	OC
Manassas	80%	70%	60%	50%	40%	30%	20%	\$3.60	50%	35%	20%	10%	5%	\$1.25	80%	70%	60%	50%	40%	30%	20%	\$ 3.60	OC
Manassas Park	80%	70%	60%	50%	40%	30%	20%	\$3.50	80%	70%	60%	50%	10%	\$3.50	80%	70%	60%	50%	40%	30%	20%	\$ 3.50	OC
Prince William	85%	75%	65%	55%	45%	35%	25%	\$3.70	50%	35%	20%	10%	5%	\$1.50	85%	75%	65%	55%	45%	35%	35%	\$ 2.00	OC
Note: Dumfries is part of Prince William County. Town of Herndon, Vienna are part of Fairfax County.																			M&T AVG Rate	\$4.01			
																			W/out Loudoun	\$ 3.70			
Basis: OC = Original Cost, FMV = Fair Market Value																							

While representing only \$1.3 million in our over \$4 billion total budget, the tax may have a significant impact on companies. As an example, the tax can be 27 percent of the cost of a piece of equipment financed over 10 years. The high M&T tax may also discourage location of

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small-scale production companies in the County. Fairfax County currently has 10 breweries compared to 35 in Loudoun County – the M&T tax in Fairfax County is the reason often cited by industry for the lower numbers.

From our previous conversations with DTA, it would take about \$400,000 to adjust our M&T tax rate to Loudoun’s M&T rate, and another approximately \$400,000 to adjust the depreciation schedule. If we are to advance our diversification and placemaking efforts, we need to have a competitive M&T tax structure, including tax rate and depreciation schedule. The adjustments in the rate structure could be offset by the growth in both M&T tax, related sales tax, and jobs created by new and expanding small scale production businesses. Adjusting this tax structure would support our efforts to strengthen our local businesses as well as initiatives like “Made in Fairfax”.

Motion: Therefore Mr. Chairman, without objection we request that more information on the Machinery and Tools Tax be brought back before the Board as part of the FY 2023 budget discussion. We further ask without objection that DTA recirculate with the Board an analysis of the tax rates and depreciation schedules of the county and surrounding jurisdictions and the resulting tax impacts on an investment of \$100,000 over the 10 years by a business in each of the jurisdictions.



County of Fairfax, Virginia

**Supervisor Pat Herrity
Jointly with Supervisor Storck
Board Matter
June 22nd, 2021
Recognizing Fort Hunt Warriors Rugby State Champions**

Background: On Sunday June 6th, the Fort Hunt Warriors Rugby team defeated strong challengers from other regions in Virginia to win the Rugby Virginia High School State Championship. The Fort Hunt Warriors went on to compete in the national tournament starting in the fourth-place seed. They competed hard and although they fell short of the championship, they earned the ranking of 8th in the nation.

The players and coaches deserve a lot of credit for winning the state championship this year and going on to compete at the national level. On top of their skill as a team, this team is also known for showing great sportsmanship. It is a testament to the character of everyone involved that they overcame formidable opposition to clinch their titles and capped off another fantastic season. As the Board knows, rugby is a game close to my heart, and I am ecstatic that a national finalist team once again came from Fairfax County.

Motion: Therefore Mr. Chairman, without objection I request that we bring the Fort Hunt Warriors Rugby team before the Board to receive a resolution recognizing their successful season, national ranking, and sportsmanship.

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