COMMONWEALTH OF VIRGINIA
COUNTY OF FAIRFAX
BOARD OF SUPERVISORS
FAIRFAX, VIRGINIA

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Joint Board Matter with Vice Chairman Smith and Chairman McKay

Revenue Diversification

Members of the Board,

As part of the adoption of the FY 2025 Budget, the Board of Supervisors approved Budget Guidance for FY 2026 that included direction to the County Executive to review all existing taxing authority and come back to the Board with recommendations for strategies to diversify our revenue base and reduce the over-reliance on the Real Estate Tax.

The FY 2025 budget presented a challenging year, as do the projections for the FY 2026 budget. Over the past 10 years, real estate tax revenue has increased from 63.5 to 66% of the County's entire General Fund revenue. This is creating an affordability challenge for all Fairfax County residents, particularly those on fixed incomes and those who are already struggling to make ends meet in a high-cost-of-living region.

Ongoing actions by staff to streamline, innovate, and identify savings have helped the County curb costs and allowed the Board to shift resources to higher priorities. This has also helped to minimize operating cost increases in recent years across the County. The FY 2025 Budget included a decrease of $34.35 million and the elimination of 84/83.5 FTE positions, the latest example in what staff has been able to accomplish to rein in cost increases. However, it is clear that this is not sufficient to cover the cost of continuing to deliver high quality core County services and that we must look at available options beyond real estate taxes.

Furthermore, we continue to be challenged by chronic inadequate state support for schools, as identified in the 2023 Joint Legislative Audit and Review Commission (JLARC) study which found that the State uses a "complex and unreasonable funding formula" that results in the underfunding of schools by $1,900 per student when compared to the national average. FCPS estimates that if all JLARC recommendations were implemented, FCPS would have received an additional $568.7 million this year. The cost of supporting our schools continues to fall disproportionately on our local homeowners.

As we look for additional tools to diversify our tax base, we cannot leave any in the toolbox. We, therefore, as the Chair and Vice Chairs of the Budget Committee, ask the County Executive to come back to the Board at the September 17 Budget Committee meeting with all options for revenue diversification, including the implementation of a meals tax. Options for the meals tax should include: a range of 1-6% and subsequent revenue projections for each; comparisons with local meals taxes implemented in the region; the timeline and cost for implementation, including estimates for industry; and any restrictions on the use of revenue generated by the meals tax. Furthermore, we ask the County Executive to provide a draft community outreach strategy for potentially implementing the meals tax. As part of the timeline for implementation includes work with businesses, we expect restaurants and other businesses to be substantively included in the outreach process.