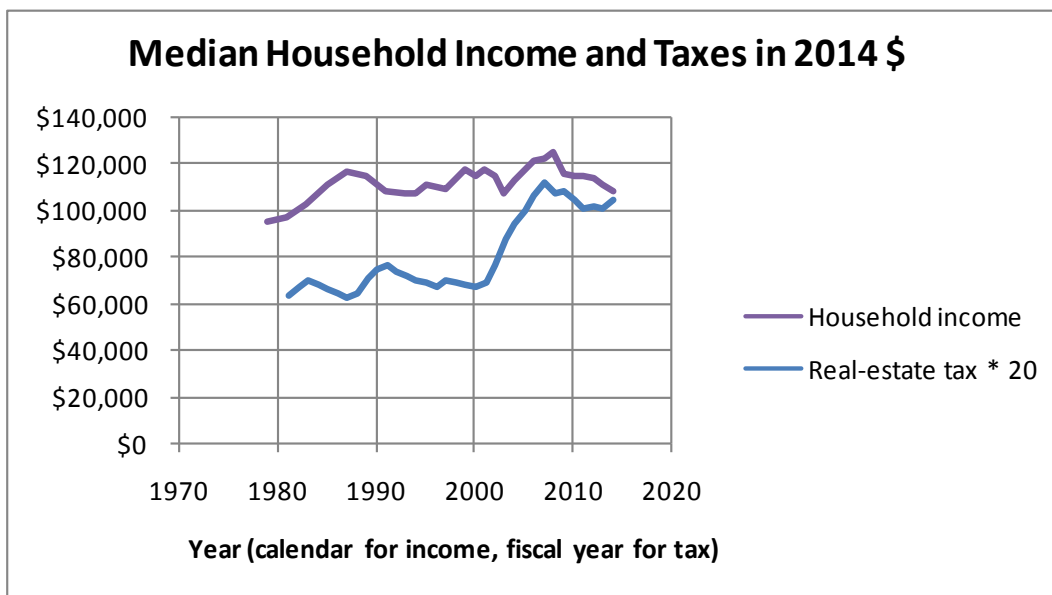


Frederick A. Costello  
 March 26, 2013

**Introduction:** At the March 21, 2013, meeting of the Board of Directors of the Federation of Citizens Associations, the Board voted to keep the real-estate tax rate at the current \$1.075 per hundred dollars of assessed value<sup>1</sup>. (Stormwater adds \$0.020 per hundred dollars to this amount.) The purpose of this report is to provide data by which the rate can justly be chosen.

By Revision A, for 2000 to 2011, we now use the mean price of homes from the budget documents, which differ from those in the County’s demographics data. By Revision B, we incorporated the mean price for years 1981 to 1999, as provided by Arthur Purves of the Fairfax County Taxpayer Alliance, who took the data from the printed budget documents from these years – the data is not on-line.

**Summary:** The real-estate tax rate should be set in part by the ability of the citizens to pay the tax. The ability can be estimated on the basis of the median household income rather than the price of the taxpayer’s house. The median household income has risen approximately 13% since 1980. The real-estate tax has risen approximately 66% (Figure 1). Taxes have added considerably to financial burden of the County taxpayers. (In Figure 1, we have multiplied the tax by 20 so the two curves could be more readily compared.)



**Figure 1: History of Household Income and Household Real-Estate Taxes**

Because the median income trend is downward this year, the ability to pay is decreasing; therefore, to keep the taxpayer burden constant, the real-estate tax rate should be decreased. Holding the rate constant at 1.075 will actually cause the real-estate tax to increase, due to the 3.5% increase in the assessed value of real estate. A tax rate of \$1.095, as shown in the graph and proposed by the County Executive, will increase the tax in FY2014. (The curve includes \$0.020 for stormwater.) To hold the tax burden steady, the tax rate should be set at 103.8, plus the 0.02 stormwater fee, thereby offsetting the increased assessment.

The large increase in the revenue between 2001 and 2008 was spent primarily on the fringe benefits of County employees, including teachers and other school personnel. Some was spent on increased salaries. In addition to

<sup>1</sup> At the March 28 general membership meeting, this vote was overturned. Those present voted to support the \$1.095 requested by the County Executive.

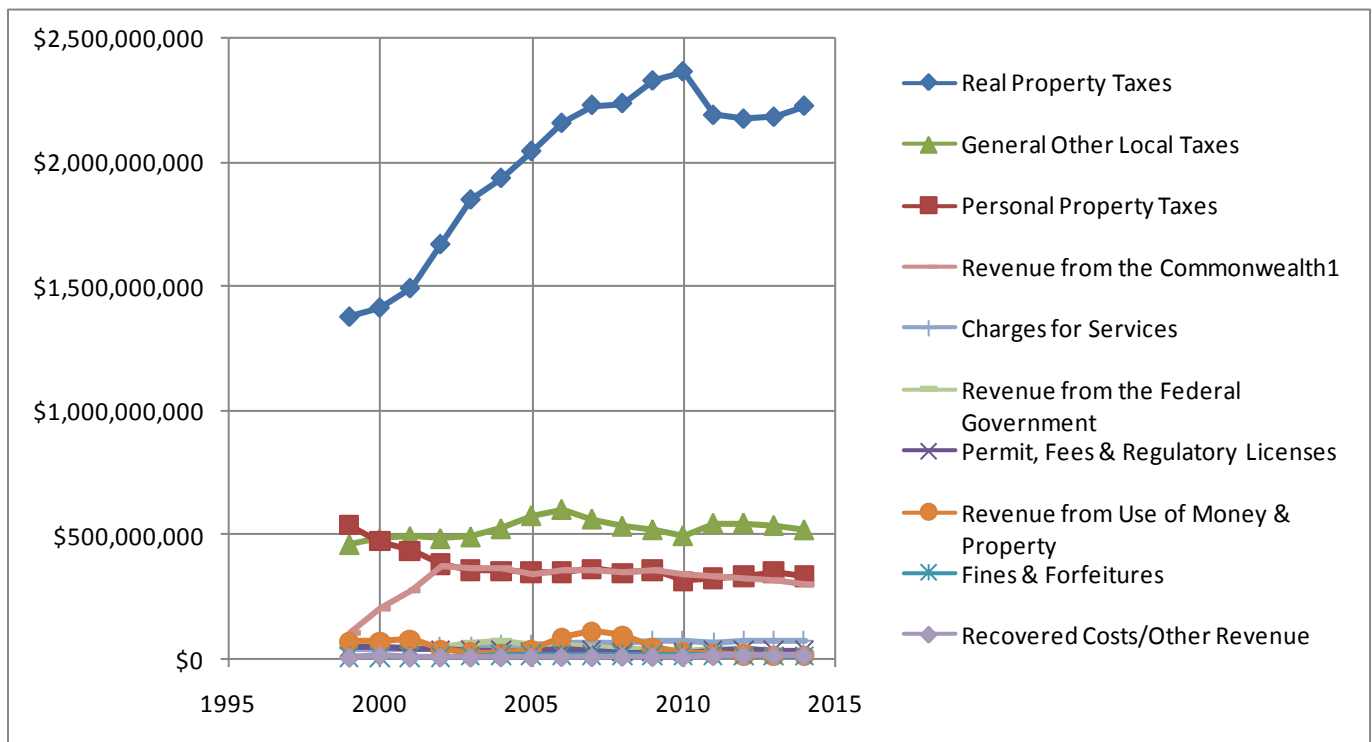
increases in remuneration, a 12% increase in school personnel added to the expenditures. This increase exceeded the 8% enrollment increase. Many assistants and specialists were added at all levels. Some of the increases might be attributed to the increase in the number of disadvantaged students.

**Discussion:**

*Analysis of the Revenues*

The ability of people to pay taxes depends not so much on the value of the house in which they live as it does on their income; therefore, setting the real-estate tax rate should be based on the income. Data for the median income is available from 1979 to 2011, inclusive, at the County website<sup>2</sup>. Estimates for the more recent years are available from private sources<sup>3</sup>. Data is readily available for the assessed value of real estate from FY2000 through FY2012<sup>4</sup>, based on an extrapolation for FY2014 made by the County in its budget documents. We have taken the data on assessed value and multiplied it by the tax rate. For FY2014, we have used a tax rate of \$1.095 per hundred dollars of assessed value. This rate may be compared to the \$1.075 for FY2013. These rates do not include the \$0.02 added for stormwater management.

The curve in the Summary shows a large increase in real-estate taxes from 2001 to 2008. The increase is due to the housing “bubble”, along with a nearly constant tax rate (Figure 2: The History of the Various County Revenue Streams: 1999-2014 (2014\$)Figure 2). Instead of decreasing the tax rate to keep the tax relatively constant, the County chose to let the tax increase. Other sources of revenue remained relatively constant (as corrected for inflation), but revenue from real estate increased by approximately 50%.



**Figure 2: The History of the Various County Revenue Streams: 1999-2014 (2014\$)**

<sup>2</sup> <http://www.fairfaxcounty.gov/demogrph/gendemo.htm#inc>

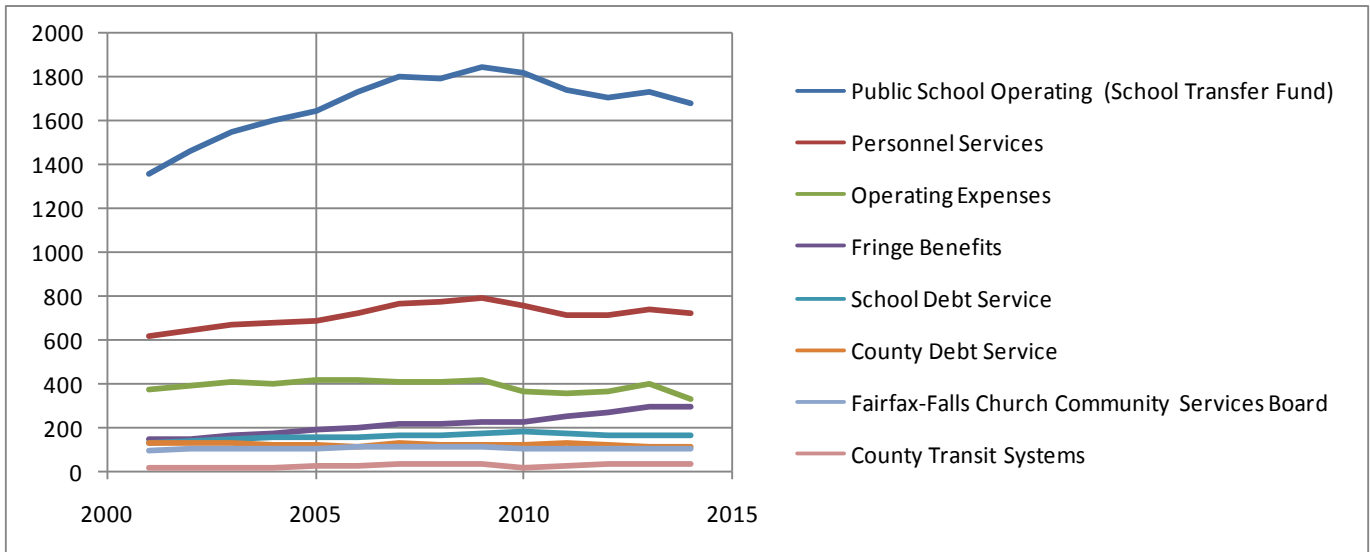
<sup>3</sup> <http://advisorperspectives.com/dshort/updates/Median-Household-Income-Update.php>

<sup>4</sup> [http://www.fairfaxcounty.gov/dmb/adopted/fy2010/overview/18 Trends Demographics.pdf](http://www.fairfaxcounty.gov/dmb/adopted/fy2010/overview/18_Trends_Demographics.pdf) and <http://www.fairfaxcounty.gov/dmb/fy2012/advertised/overview.htm>

The next question to answer is: What was done with the increased revenue? We look next at the expenditures.

### *Analysis of the County Expenditures*

Of the approximately 40 expenditure streams, the school transfer fund increased the most (32%) from 2001 to 2008. As illustrated in Figure 3, the school transfer fund is the largest expenditure stream in the County budget, with non-school labor costs next. These labor costs increased 25% from 2001 to 2008 while the associated non-school fringe benefits increased 48%. We can see that the much of the increased revenue was used for County-worker remuneration (salaries plus benefits).



**Figure 3: History of County Expenditures, in millions of 2014\$**

We next ask: What was done with the increased public-school transfer funds? These funds flow from the County to the Fairfax County public school system, which is free to spend the funds as it wishes.

### *Analysis of Public School Expenditures*

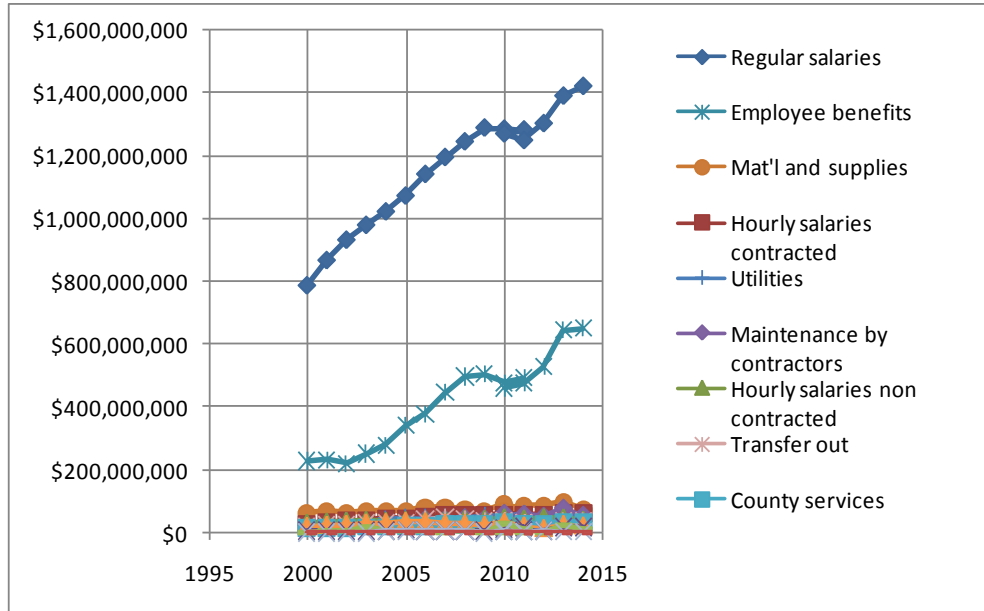
The increase in school budget was spent primarily on the instruction programs, which are dominated by labor costs. The increase in total compensation (salaries plus benefits) from 2001 to 2008 was 57%. That increase is in the largest single school expenditure stream. This increase consisted of a 44% increase in salary and a 111% increase in benefits (**Error! Reference source not found.**). These increases can be compared to the increase in the cost of living (CPI-U) of 22%<sup>5</sup>. The curve is a composite for the entire teaching staff. With people retiring and younger people being hired to replace them as the others age, we would expect the expenditures to be constant or, at most, increasing at the inflation rate.

In an attempt to look for justification for the large increases in salaries and benefits during the 2001-2008 housing bubble, we compiled a list of the average rates of increase in areas that might affect the demands on the teachers and other employees (Table 1). The number of ESOL students and the number of free-and-reduced-lunch students increased suddenly from 2011 to 2012 – well after the 2001-2008 increase in spending. The criteria might have changed. I talked to one ESOL parent who said that her daughter is classified as ESOL because Spanish is spoken at home. English is the family’s first language.

The salary of someone with a Master’s degree at Step 9 earns close to the average teacher salary. The rate of increase from 2001 to 2008 (3.1%) exceeded the rate of increase in inflation (2.8%), but not by much. The number

<sup>5</sup> We used the County’s estimate of the CPI-U for 2013 and 2014.

of employees (1.8%) and the number of teachers (2.0%) increased much faster than the number of students (0.7%). So the money seems to have spent on an enlarged staff that was, on the average, paid more and whose fringe benefits were substantially greater. Individual teachers received larger salary increases, because, during these years, they earned a step with each year of experience. Except for smaller increases in the first five years, a one-step increase is accompanied by a salary increase of approximately 2.9%<sup>6</sup>; therefore, an individual teacher realized salary increases averaging 6.0% per year during this time period (3.1% plus 2.9%).



**Figure 4: The History of the Public School Expenditures: 2001-2014**

	<b>Annual Rates of Increase</b>				
	<b>2001 to 2008</b>	<b>2001 to 2011</b>	<b>2011 to 2012</b>	<b>2012 to 2013</b>	<b>2013 to 2014</b>
<b>Total Student Membership</b>	0.7%	1.0%	1.7%	2.0%	1.6%
<b>ESOL Enrollment</b>	5.0%	3.9%	23.4%	2.8%	2.5%
<b>Free/Reduced-Price Meal Eligible</b>	1.8%	3.1%	9.3%	7.5%	1.5%
<b>Self-contained special education enrollment Or Level 2</b>	3.5%	3.4%	1.7%	2.3%	2.5%
<b>Classroom teachers</b>	2.0%	1.6%	2.5%	3.5%	-1.5%
<b>Salary, Masters at step 9</b>	3.1%	1.8%	1.0%	0.4%	1.0%
<b>Number of FCPS employees</b>	1.8%	1.1%	2.8%	4.7%	0.0%
<b>County population</b>	0.9%	1.0%	0.4%	0.4%	0.4%
<b>Housing units</b>	1.1%	0.9%	0.7%	0.7%	0.7%
<b>CPI-U</b>	2.8%	2.9%	3.2%	3.0%	3.2%

**Table 1: Annual Rates of Increase for Budget-Related Items**

Not only did the teacher remuneration increase, but many more Assistant Principals, Supervisors, Specialists, Instructional Assistants, and Specialized Assistants were added.

The total expenditure increase in Exhibit 4 matches the increase shown in Exhibit 3; therefore, we have found where the increased revenue from 2001 to 2008 has been spent.

<sup>6</sup> Teacher compensation handbook.pdf

## **Appendix A: Responses to Comments and Questions Received Concerning the Body of This Report**

Does this (analysis) take into effect the reductions in transfers from the federal and state gov'ts to the county? What about increased mandates to both the county and school system which do not come with the funding required to implement them?

Figure 1 looks at County income from the homeowner, which is the topic of the report. The other figures look at County expenditures. Would a drop in funding justify raising taxes? I am not sure. In response to your question, I looked at the data. In 1999, fed + state funding amounted to 5.6% of the revenue. In 2002, it was 13.7% -- the maximum ever. Over the last six years, it has fluctuated between 10.2% and 10.7%. The FY2014 budget has it at 9.8%. The percents in the proposed budgets have been within 0.5% of the actual, the budget being lower, so what we get in FY2014 could easily be the same 10.2% we got in FY2013.

At the Lee district budget meeting on March 13th, it was stated that roughly 22% of the county budget goes to cover unfunded mandates.

Again, in response to the question, I did find that, for FY2006 and FY2007, the County did studies to determine how much of the fed/state mandates were unfunded. For these years, the numbers are inconsistent. For FY2006 the DMB section of the budget says the total is \$582 (19% of the total budget), as itemized by each agency, but the total itemized by the agencies is \$364M (12% of the total budget). In FY 2007, the FCPS unfunded mandate (\$262M, approximately 16% of the school budget) is reported separately from the County's (\$715M or 22%). The sum of 715M and 262M is \$977M. But the sum for the agencies in FY2007 is 12%. Accounting for the unfunded mandate is unclear. Some mandates may correct a deficiency. Other mandates may replace an existing burden.

Also missing here is a discussion that during economic hardship, certain aspects of the county are forced to provide services at a higher level than during bad times. Human service needs increase, food support in the school system increases.

The run-up in costs from 2001 to 2008 was during good times, but during good times people should require less aid. During good times, the county should be putting the money into a "rainy day" fund. It is disconcerting that people will lose their jobs if the charity cases are remedied. Such people have a disincentive to remedy the situation.