Watchdog of the Taxpayer's Dollar Since 1956

The Fairfax County Taxpayers Alliance

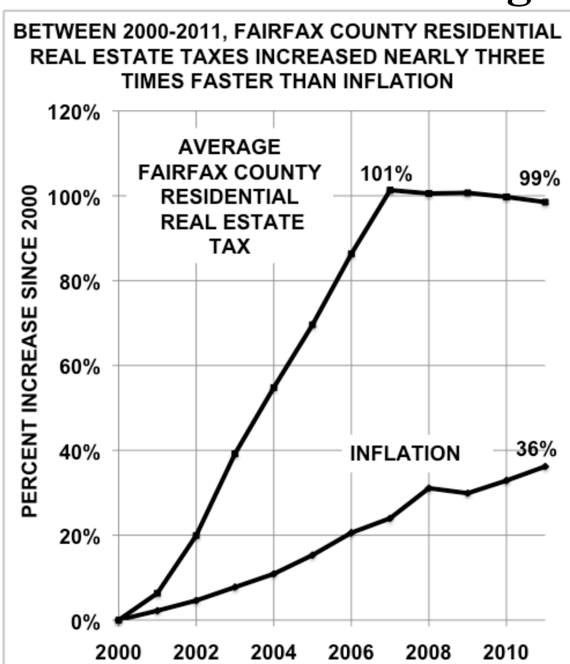
Bulletin

2010 COUNTY BUDGET ISSUE

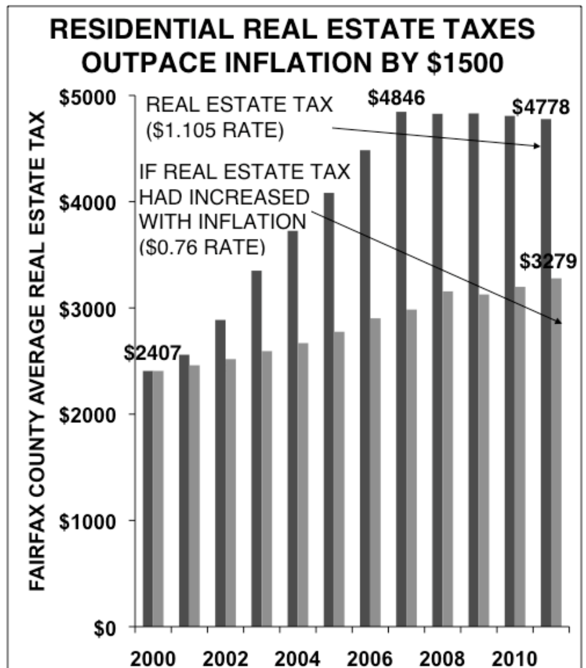
Vol. LIII, No. 1 | **www.fcta.org** | **Spring 2010**

Supervisors, school board to raise tax rate and cut programs to fund employee benefits

Taxes remain high while assessments decrease



FAIRFAX COUNTY TAXPAYERS ALLIANCE ANALYSIS BASED ON FAIRFAX COUNTY FY2002-2010 ADOPTED AND FY2011 ADVERTISED BUDGETS. 3/29/10



FAIRFAX COUNTY TAXPAYERS ALLIANCE ANALYSIS BASED ON FAIRFAX COUNTY FY2002-2010 ADOPTED AND FY2011 ADVERTISED BUDGETS. 3/6/10

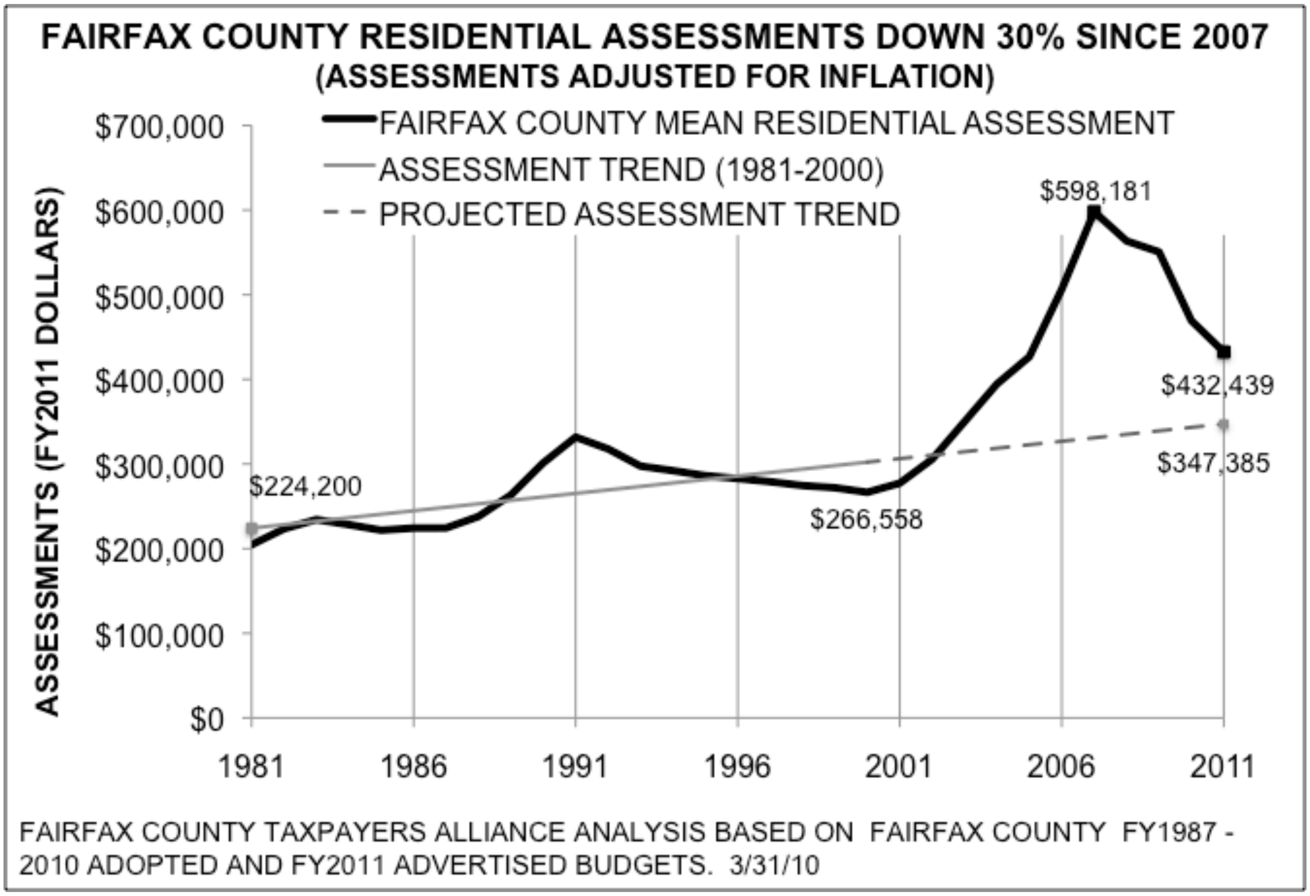
Using soaring assessments as political cover, the Fairfax County Board of Supervisors, between 2000 and 2007, doubled the typical Fairfax County residential real estate tax from $2400 to $4800, a 100% increase.

Despite falling assessments since 2007, the supervisors have increased the real estate tax rate from 89 cents to $1.05 this year to keep real estate taxes at $4800. For FY2011, the county executive has proposed another rate increase, to $1.105 to offset another decrease in assessments.

If real estate taxes would have increased at the same rate as inflation between 2000 and 2011, the typical homeowner's real estate tax would have been $3279, about $1500 less than what homeowners are paying today. The FY2011 real estate tax rate would have been 76 cents instead of $1.105.

The supervisors have advertised a higher rate, $1.135, which would increase the typical real estate tax to $4908. Both the $1.105 and $1.135 rates include a 1½ cent countywide real estate tax rate, added last year, for stormwater control.

Attend April 6 taxpayer rally before start of budget hearings! **See back cover.**



Since the peak of the housing bubble in 2007, Fairfax County mean residential assessments have decreased 28 percent (adjusted for inflation).

Between 2009 and 2010, the one-year inflation-adjusted decrease in assessments was 15 percent. **To keep real estate taxes at the 2007 level, last year the Board of Supervisors, including all three Republicans, unanimously voted for a 13-cent tax rate increase, which was the largest real estate tax rate increase in 33 years.** (There was a 20-cent increase in 1977.)

Some supervisors will claim that they've lowered real estate taxes. However, the decrease from the 2009 to the 2010 typical household's real estate tax was only $23, from $4831 to $4808.

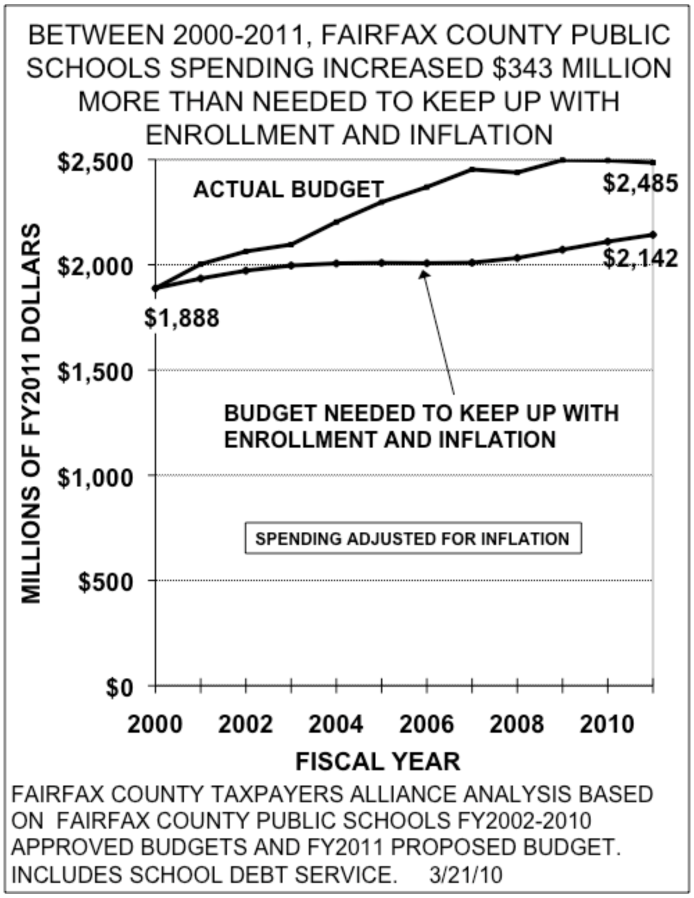
Long-term Fairfax County residential assessment data suggest that assessments have not yet bottomed out. Based on the inflation-adjusted average increase in assessments between 1981 and 2000, the typical assessment today would be $347,385 instead of the current mean assessment of $432,439 (see above graph).

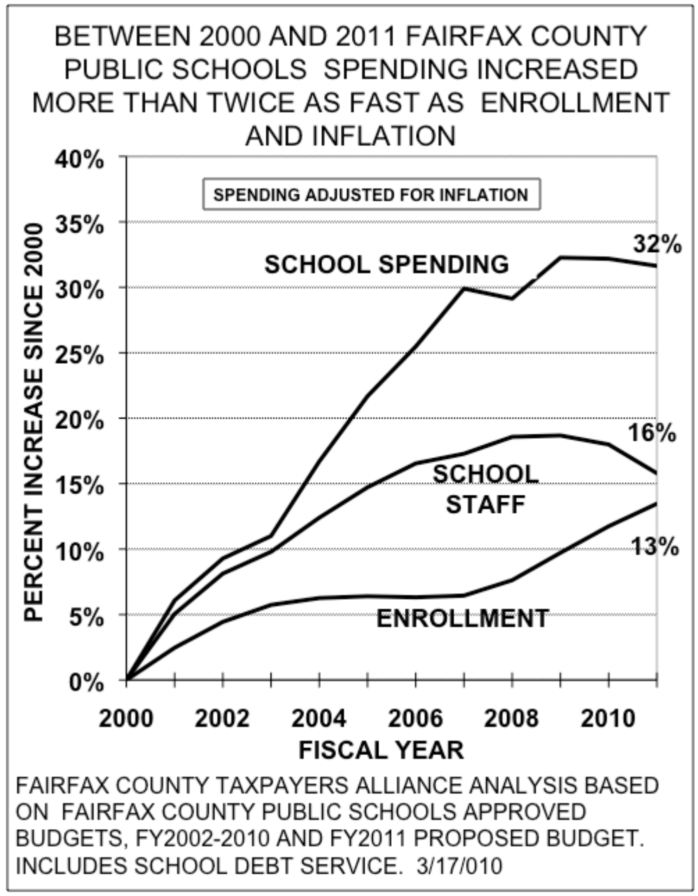
Each penny of the real estate tax rate provides the county with an additional $18.7 million and each penny increases the typical real estate tax by $43.24

Therefore, raising the real estate tax rate to $1.105 instead of 76 cents costs the typical homeowner an extra $1491 and gives the county an extra $644 million.

Yet, despite this windfall from the housing-bubble real estate tax hikes, both the county government and school system announced "austere" budgets.

In his January 7, 2010, budget message the school superintendent wrote: "Reductions of the magnitude required to close the FY 2011 budget gap are severe, and will have a far-reaching impact on student achievement for years to come. As FCPS experienced in FY 2010, a continued decline in state revenue, stagnant local funding, and increased educational demands including 1,760 additional students projected for the 2010-2011 school year have forced FCPS to develop a truly austere budget."





However, according to the superintendent's own budget, the cost of educating an extra 1760 students is $9 million. The increased cost of utilities for FY2011 is another $3.6 million.

School budget documents and presentations do not mention that between FY2000 and the proposed FY2011 school budget, inflation-adjusted school spending will have increased $597 million, from $1,888M to $2,485M. This is $343 million more than necessary to keep up with enrollment growth and inflation (see graph above left) since FY2000.

Inflation-adjusted spending for Fairfax County Public Schools has increased more than twice as fast as enrollment between FY2000 and the proposed FY2011 budget, 32 percent vs. 13 percent (see graph above right).

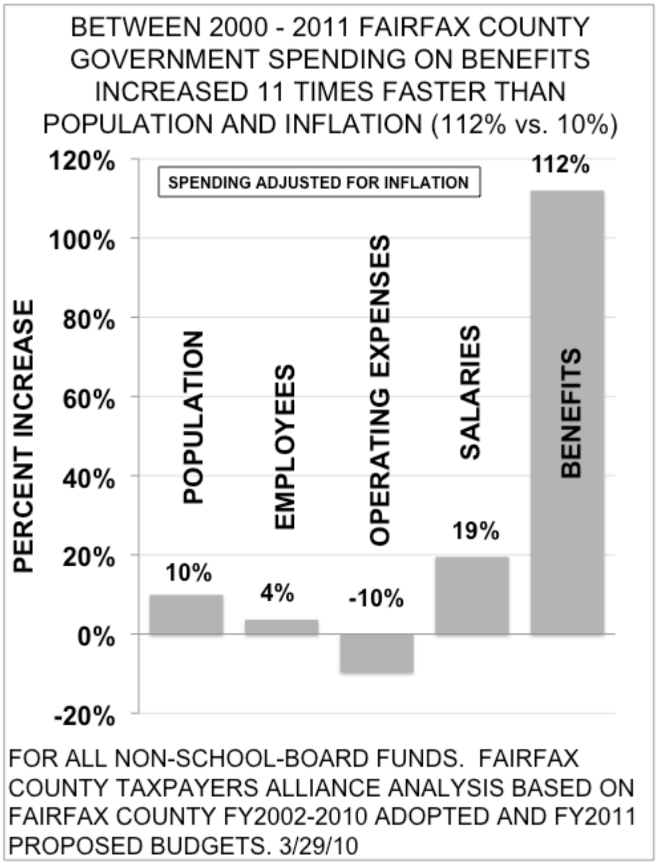
In FY2007, at the peak of the housing bubble, school staff had increased three times faster than enrollment (17 percent vs. 6 percent). Even after two years of cuts, schools staff will have still outpaced enrollment, 16 percent vs. 13 percent.

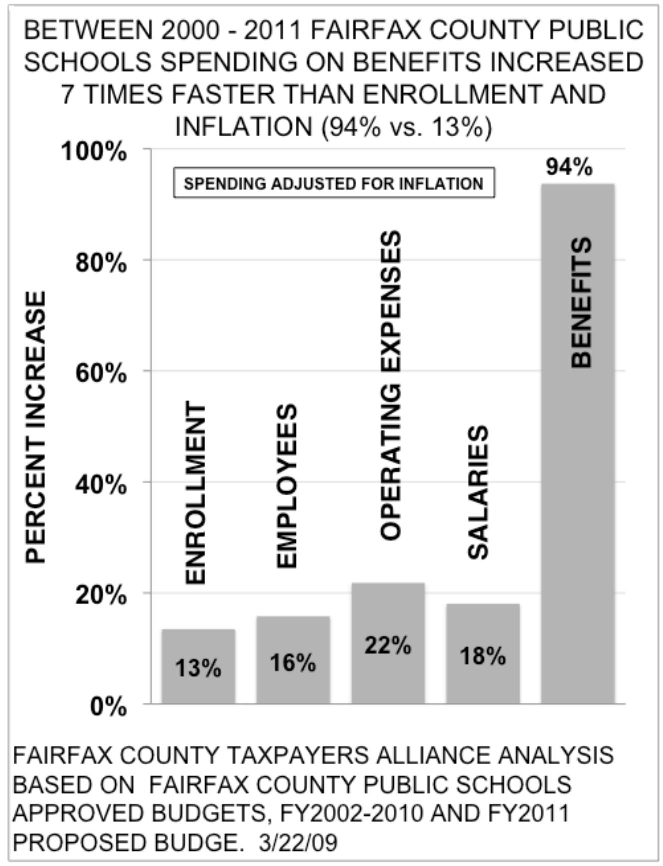
One would think that in an extra $343 million, schools could find $13 million for utilities and 1760 new students.

County government spending trends are difficult to summarize. Most county functions are funded by the "General Fund", whose spending is $43 million above the amount required to keep up with inflation and population between FY2000 and FY2011. However, the county has 27 other funds, and their budgets are not as readily summarized as is the General Fund.

Nevertheless, lack of revenue is not reason for the county and school budget shortfalls.

The first reason is generous salary raises given during the housing-bubble spending spree. According to the county staff's response to a question by Supervisor John Cook (R-Braddock), between FY2001 and FY2009 Fairfax County compensation increases outpaced inflation by 22 percent. In contrast, over the same period private-sector raises in the D.C. area outpaced inflation by only 7 percent.





The second reason for both high taxes and program cuts is the soaring costs of employee benefits.

Between FY2000 and FY2011, Fairfax County population will have increased ten percent. Over the same period, the cost of Fairfax County inflation-adjusted employee benefits will have increased 112 percent (see graph, above left). This includes the county General Fund and the 27 other funds.

Between FY2000 and FY2011, Fairfax County Public Schools student enrollment will have increased 13 percent. Over the same period, school inflation-adjusted spending on employee benefits will have increased 94 percent (see graph, above right).

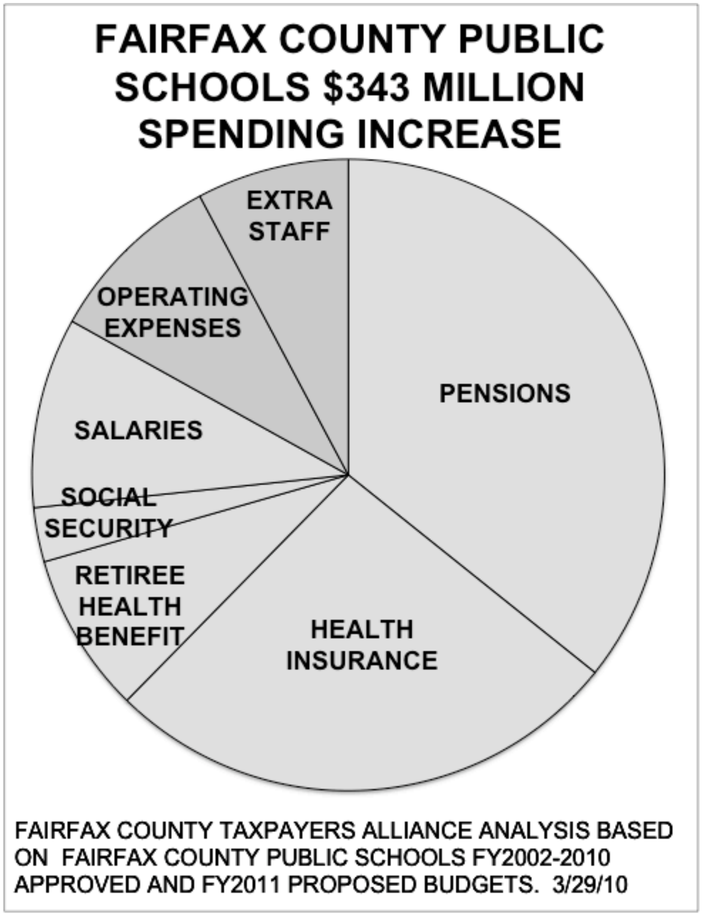
In FY2000, county and school spending on employee benefits was $379 million. FY2011 proposed spending on employee benefits would be $1,038 million (over $1 billion). That is an increase of $659 million ($521 million after adjusting for inflation). The average annual rate of increase for employee benefits spending is 9.6 percent (6.5 percent after inflation).

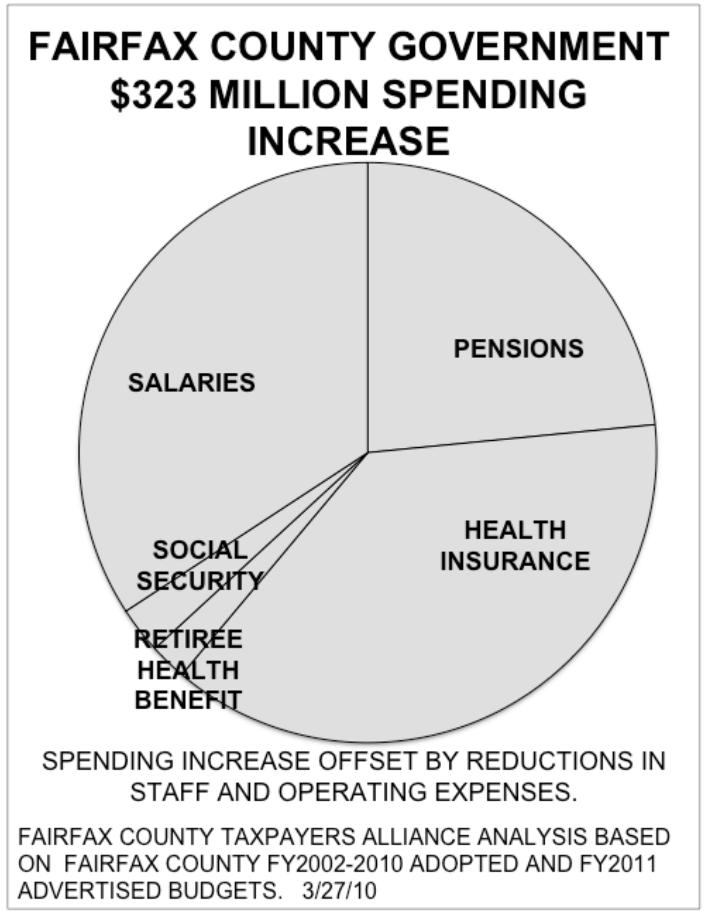
In FY2000, total county and school employee benefits costs were 27 percent of salaries. In FY2011 that will have increased to 46 percent.

In FY2011, the cost per student for Fairfax County Public Schools will be about $14,000. Of that $3,500 is for employee benefits.

So when the school superintendent wrote about severe reductions that would have a far-reaching impact on student achievement, the reductions were not due to a decrease in revenue. As already noted, schools have $343 million more than needed to keep up with enrollment increases and inflation since FY2000.

The main reason for school reductions is the increase in school employee benefits. Likewise the county will have cut funding for parks and libraries by 38 percent since FY2000, eliminated 589 positions since 2008, and increased the real estate tax rate, primarily to pay for employee benefits.





Employee benefits spending includes primarily pensions, health insurance, retiree medical benefits, and social security. For schools and the county, pension and health insurance costs account for most of the increase in employee benefits spending (see pie charts, above). Higher pension costs are levied to offset large unfunded liabilities due to the global financial crisis.

Even though Fairfax County Public Schools has an extra $343 million, the Virginia General Assembly reduced the county school's FY2011 payment to the Virginia Retirement System by $109 million, from $215 million to $106 million. However the schools will be required to make up the $109 million over ten years starting in FY2013 and pay 7.5 percent interest.

Most private-sector employers no longer offer pensions and many have been dropping health insurance. As noted above, between FY2001 and FY2009 county salaries increased far faster than private-sector salaries. Fairfax County competes with neighboring counties and school districts that also give generous raises, pensions, and health insurance.

It comes down to this: Fairfax County, and the neighboring counties against which Fairfax County competes, have raised taxes so county and school employees can have bigger raises and better benefits than the taxpayers who fund them.

Fairfax County Taxpayer Alliance board members have recently attended several supervisor and school budget town halls.

At a McLean town hall on March 11, the Alliance president asked Fairfax County board chairman Sharon Bulova if the board and neighboring counties are being fair to the taxpayers in raising taxes so county employees can get bigger raises and better benefits than the taxpayers. Most important, Chairman Bulova did not deny that taxes were increasing so county and school employees could get better compensation than the taxpayers. Her response was, “Is that a rhetorical question?”

THOUGHTS ON MEDICAL INSURANCE

By David Swink, FCTA Board Member

As a software consultant, I've been in and out of full employment (and hence full medical insurance coverage) for years. Having recently turned 65, I've just gone through the unpleasant experience of educating myself about Medicare and what, if any, additional coverage one might need (as you won't find a coherent explanation of your options on the Internet).

After noting that I'm reasonably healthy, let me describe the system and how I've navigated it:

(1) The average employer-sponsored premium for a family of four costs close to $13,000 a year, ranging from $3,300 in Utah (with minimal insurance regulation) to nearly $17,000 in Massachusetts (where insurance is highly regulated). These "benefit" costs are of course deducted from the salary your employer would otherwise be paying for your services.

(2) The birth of my two children was probably the most expensive of medical insurance I've utilized thus far. Other than my kids suffering a few broken bones during their childhood, our family has incurred no expensive treatments, and the insurance company has generally come out on top, which is how they make money. The kids are now grown and on their own, while my wife is still working and has always had her own insurance.

(3) During those times between jobs, COBRA was always an option offered by my former employer. However the premiums always seemed excessive considering my state of health at the time, so I always declined the offer. I've thus far had no cause to regret this course of action. I've just completed seven full months of unemployment, with three dental visits and a normal checkup with my eye doctor.

(4) I've always assumed that I am ultimately responsible for mine and my family's general welfare. Given the ups and downs of the job market in my chosen profession, my strategy is to build a reservoir during the good times to carry me through the bad times: I paid off the mortgage on my house in five years. Since my wife has remained employed since before we were married, I considered life insurance a luxury I could easily do without. Since the kids have left the nest, I've also cancelled my house insurance, especially as the premiums recently became exorbitant. I always keep at $30,000-$60,000 readily accessible for large expenditures such as a very occasional new car and of course an accident or other major expense. Life becomes a lot simpler and less stressful when you identify what you consider "reasonable risks" and keep enough "in the kitty" to cover these contingencies -- in other words, provide your own insurance and forego the middleman.

(5) I keep past medical and dental insurance statements from procedures that were covered when I was insured. Then when I'm not covered, I negotiate with the doctor, hospital, or clinic for a price resembling what my old insurance company negotiated, plus my co-pay, and then maybe I throw in another $20. Providers are generally quite willing to accept a check, and forego the overhead they would have incurred if I had insurance. With Obamacare, we will lose the freedom to be frugal and provide our own insurance as I've just described.

(6) Now that I've attained Medicare eligibility, my game plan has only slightly changed. I've signed up for Part B medical coverage only and am thus covered against future major medical liabilities. I'm not a fan of the Medicare system, but I've paid into this system my entire working life, so I am certainly entitled to whatever the system provides. However, if I am allowed, I plan to pay the $100/month (and increasing) Part B premiums but merely use Medicare for catastrophic coverage. Doctors hate Medicare because of the paperwork involved and the low reimbursement rate. They prefer that you pay an extra $125-$160 per month for "Medicare supplemental insurance", which pays them better and more promptly than Medicare alone, and also covers your annual deductibles (currently $135 for medical and $1050 for hospital stays). But the money I'd save by not paying for a supplemental plan is money available for paying the doctor

directly at better-than-Medicare rates, and we're both better off!

I've simply described how I personally have done my own risk analysis and determined that I can easily cover my medical obligations without a formal (and expensive) insurance policy. I recommend that other people in similar situations consider their own current and projected state of health, and conduct their own risk analysis and course of action -- like quite different from my own.

We live in interesting times, financially and politically. The individual freedom we currently enjoy to make our own insurance decisions may be collectivized in the near future, and we'll live in a "Brave New World".

Interesting times indeed.

VIRGINIA RETIREMENT SYSTEM: A generous system!

By Charles McAndrew, FCTA Board Member and Past President

Most people living in Virginia do not know that Virginia State government employees do not contribute into the Virginia Retirement System (VRS).

Virginia employs approximately 100,000 people and is the largest employer in the Richmond region with nearly 26,000 employees. The State is had a **$2.5 billion shortfall in fiscal year 2010.** The VRS funds approximately 600,000 participants.

Currently, the State, as an employer contributes 6.26 percent of each worker's annual salary into the VRS. The percentage of the state's employer contribution varies every budget cycle. It is calculated based on actuarial studies of how much money is needed to keep the plan adequately funded. In addition, the State contributes 5 percent for the employee share of the worker's annual salary. In other words, the State pays both the employer and employee share of their retirement without the employee contributing one penny! (1)

The Joint Legislative Audit and Review Committee (JLARC) 2008 study found that only four other States did not require state workers to contribute to their State government retirement plans. The study further explained that Maryland state workers pay 5 percent of their salary to their state pension plan and that North Carolina state workers pay 6 percent to their pension plan. The Director of the VRS, Robert P. Schultz, has stated that preliminary internal estimates suggest the system will need increased contributions of 4 to 6 percent of the current payroll to fund pension liabilities over the next 20 to 30 years to maintain the current level of benefits for future retirees. With the recent downturn for almost two years, the VRS has lost 21 percent of its value. The JLARC study recommends phasing in a 2 percent pretax salary contribution as employee pay increases to close the anticipated funding shortfall in the system. However, the study was based on figures collected before the collapse of the financial markets during which VRS lost 21 percent of its assets. (1)

Currently, the VRS total assets are $51.7 billion for 2008. The State contributed $2.148 billion in 2008 to the VRS. (2)

These facts are startling! Under the old Federal Government Civil Service Retirement System, as an employee you had to contribute 7 percent, which matched the Federal Government's contribution of 7 percent. This author does not know any other retirement system that does not have matching or similar employee contributions.

Isn't it time for the Virginia State government employees to contribute to this system before it sinks instead of having Virginia taxpayers bail out this system eventually?

(1) The Richmond Times-Dispatch newspaper dated September 12, 2009 front page article titled, "State Might Ask Workers to Help Fund Retirement".
(2) Virginia Retirement System – data obtained on 10/22/09.

"TAXES ARE NEVER ENOUGH!"

By Charles McAndrew, FCTA Board Member and Past President

To listen to the politicians, "taxes are never enough". The easy answer to deficits and overspending is to simply increase taxes. All levels of government participate in this sheer nonsense at taxpayer's expense. Rarely, if ever, do they do the hard work. The tedious task of carefully reviewing the budget, line by line, program by program, department by department, and division by division to ferret out waste, duplication, redundancy, and outdated programs that are now obsolete and finally reducing the budget, is rarely ever accomplished.

This is the case for the Commonwealth of Virginia.

Many years ago, back in the forties and fifties, Virginia operated on a "pay as you go" budget. That is, they spent within the annual budget. The budget usually never increased beyond the inflation and population percentages.

However, in the sixties the "liberals" took over and things started changing for the worse. In 1966, Governor Mills Godwin and the General Assembly of Virginia decided that they did not have enough money for their programs. So they established **sales tax** for the first time in Virginia history. They started with 2 percent sales tax with an optional 1 percent allowed for localities. For Fairfax residents, this meant a new 3 percent sales tax in 1966.

The reason given was that Virginia did not have an adequate budget especially for education. At that time, Virginia rated low academically among all states. Also, Virginia needed to establish community colleges (two-year program) throughout the state, something that did not exist at that time. (1)

Now twenty years later, in 1986, again Virginia does not have enough money for education. So Governor Gerald Baliles and the General Assembly push through a **lottery.**

The lottery is set up to fund education throughout all of Virginia. The funds are only supposed to be used for education purposes. In 2008, the State netted \$455.3 million for educational purposes. In 2009, the State netted \$439.1 million. This means that the State has sales of \$1.365 billion and pays prizes of \$781.0 million with retailer compensation of \$76.9 million plus operating expenses of \$73.7 million thus netting for the State in 2009 \$439.1 million. (2)

Now eighteen years later, in 2004, again Virginia does not have enough money for education. So Governor Mark Warner and State Senator John Chichester, Chairman of the Finance Committee, stated that they need more taxes for education. So the budget and **state taxes** were raised an astronomical \$1.4 billion primarily for education. None of it went to transportation. At that time, the Wilder Commission Report that showed the state could save \$750 million but was ignored by the Governor and most of the General Assembly.

This was the largest tax increase in the Commonwealth of Virginia's history of almost 400 years. Remember that in 1607, the first permanent English settlement in the New World was established in Jamestown, VA. (3)

The Virginia budget has increased 99.2 percent in the past ten years from \$17.6 billion to \$35.1 billion ending in 2007 while inflation has only gone up less than 30 percent for the same period. (4)

So, as you can see, Virginia never has enough tax revenue. The greedy politicians always want some more of your money!

(1) Virginia: The New Dominion – A history of Virginia from 1607 by Virginius Dabney
(2) Virginia Lottery data gathered from Supervisor Frey's office dated 10/22/09
(3) FCTA Release dated 1/08/05 and 2/4/05
(4) FCTA Bulletin dated Fall 2009

Make the solutions politically acceptable

The out-of-control spending described in this bulletin also exists at the state and federal levels. Healthcare costs affect local, state, and federal government. School spending is the major expense of local and state government. Pensions affect local and state government while government retirement and social security affect the federal government.

In all cases the solutions are clear but are also felt to be so politically unacceptable that candidates and incumbents rarely advocate them.

According the McKinsey Global Institute, a major cause of healthcare inflation is the decrease in healthcare consumers' out-of-pocket expenditures, which have declined from 47 percent in 1960 to 12 percent in 2006. This applies to private medical insurance as well as Medicare and Medicaid. The principal solution to healthcare inflation is to increase co-pays and deductibles and cover catastrophic costs instead of maintenance. Consumers will be motivated to live healthier lives if they have to pay more for the consequences of ill health. Also the tax break for employer-provided insurance should end, but be offset by lower taxes elsewhere. This is the alternative to Obamacare.

Likewise, local and state government should follow the lead of private industry and the federal government and switch from defined-benefit pensions to defined-contribution 401K and 403B programs. If done soon, pensions could still be fully funded for current retirees.

County salaries should be market-based. It is not necessary for county raises to exceed private-sector raises when, as is the case, the county has 100 applicants for every job opening

These cuts would be a hardship for almost everyone. However government bankruptcy, which is now talked about frequently in the press, is worse but can be averted by the above suggestions.

Here is what you can do, and must do to reverse the 100-year trend toward more government spending: Make the solutions politically acceptable so candidates will support them.

Contact your school board member, supervisor, state delegate and senator, and federal representative and senators and their opponents. Ask them to support higher co-pays and deductibles for health insurance and to replace local and county pensions with 401Ks.

Have you renewed your FCTA membership for 2010? Please renew if the date on your mailing label is before April 1, 2010.

Please take the time now to return this membership form with your dues and, if possible, a contribution. Thank you.

_____Enclosed is my annual FCTA membership dues of $15
_____I'm enclosing an extra contribution of $_______
_____I would like to volunteer. Please contact me.

Name(s)_____________________________________ **Mail To: The Fairfax County Taxpayers Alliance**

Address____________________________________ **P.O. Box 356**

City/State/Zip_______________________________ **Fairfax, Va. 22038**

Telephone__________________________________ **703-281-0176 B2010-1**

Email____
To receive FCTA press releases and tax alerts, please provide your email address..

The Fairfax County Taxpayers Alliance
P.O. Box 356
Fairfax, Va. 22038

www.fcta.org
alerts@fcta.org

Fairfax County Taxpayers Alliance, Northern Virginia Tea Party, and NorthernVirginiaGOP.com
Taxpayer Rally
Protest the Supervisors' $1500 tax hike
Demand that the tax rate be lowered to 76 cents, not raised to $1.135

Tuesday, April 6, 6:00 PM
in front of the Fairfax County Government Center
Just before the Board of Supervisors
7:00 p.m. Budget Public Hearing
12000 Government Center Parkway Fairfax VA 22035
(Near Fair Oaks Mall)
Questions? Email alerts@fcta.org or phone (703674-9519)