County of Fairfax, Virginia

MEMORANDUM

DATE: April 10, 2019

TO: Board of Supervisors

FROM: Bryan J. Hill
County Executive

SUBJECT: Adjustments to FY 2020 Advertised Budget Plan (Add-On Package)

This package has been prepared to present the revenue and expenditure adjustments that have been identified since the preparation of the FY 2020 Advertised Budget Plan. Based on the adjustments detailed in the FY 2020 Add-On package, the available FY 2020 General Fund balance is $10.69 million.

Staff has reviewed General Fund revenue estimates based on the most up-to-date information. An increase of $7,244,739 to FY 2020 revenues is recommended as part of the Add-on Process. The adjustment is due to an increase of $2.7 million in Personal Property tax receipts, $2.2 million in Business, Professional and Occupational Licenses (BPOL) tax, $2.0 million in Bank Franchise Tax, and $0.3 million in Revenue from the Commonwealth. Staff will continue to monitor revenue collections monthly and will report to the Board with any necessary changes based on economic conditions. More details regarding the FY 2020 recommended revenue adjustments can be found in Attachment I, Summary of General Fund Receipts.

As a result of approved changes to the Metro Operating Budget, the General Fund transfer to Fund 30000, Metro Operations and Construction, is decreased by $3,129,561, from the FY 2020 Advertised Budget Plan amount of **$47,079,985 to $43,950,424**. This amount reflects the adjustments that occurred as part of the Metro FY 2020 budget process and incorporates the final Fairfax County operating subsidy that includes the three percent operating cap, legislative exclusions to the three percent operating cap, and debt service payments. The FY 2020 Metro Adopted Operating Budget was approved by the Metro Board of Directors on March 28, 2019.

Included in the Add-On package are two reorganizations to more effectively align resources dedicated to the County's continued economic success in FY 2020. The first is the transfer of all funding and 14/14.0 FTE positions from the Office of Community Revitalization in Agency 02, Office of the County Executive, to Agency 35, Department of Planning and Zoning and the subsequent renaming of Agency 35 to the Department of Planning and Development. This transfer will facilitate closer collaboration among stakeholders as the County increasingly engages in community revitalization and development projects. The second reorganization establishes Agency 30, Department of Economic Initiatives, with the transfer of all funding and 6/6.0 FTE positions from the Office of Public Private Partnerships (OP3) in Agency 02, Office of the County Executive, as well as funding and positions supporting activities related to the Economic Success Strategic Plan from Agency 31, Land Development Services (4/4.0 FTE positions) and Agency 26, Office of Capital Facilities (1.0 FTE position). It should be noted that 1/1.0 FTE position, and

Office of the County Executive
12000 Government Center Parkway, Suite 552
Fairfax, VA 22035-0066
703-324-2531, TTY 711, Fax 703-324-3956
www.fairfaxcounty.gov

related funding, supporting volunteer recruitment, management and information technology in OP3 is transferred to Agency 11, Department of Human Resources. These reorganizations have no net funding or position impact on the General Fund.

Details regarding the FY 2020 recommended Metro administrative expenditure adjustment can be found in Attachment II, Administrative Adjustments.

As a result of the recommended adjustments, including adjustments to the Managed Reserve, a General Fund balance of $10.69 million is available in FY 2020.

Summary of Add-On Adjustments

	FY 2020
Balance from Advertised Budget	**$0**
Additional Revenue	$7,244,739
Metro Saving	$3,129,561
Managed Reserve Adjustment	$312,957
Balance as of Add-On	**$10,687,257**

A summary of Consideration Items as of April 10, 2019, which total $14,208,587 and 33/33.0 positions in FY 2020, is included in Attachment III.

Additional information regarding Add-On adjustments is included in the following attachments:

Attachment I – Summary of General Fund Receipts
Attachment II – Administrative Adjustments
Attachment III – Consideration Items

ATTACHMENT I
SUMMARY OF GENERAL FUND RECEIPTS

An increase of $7,244,739 to FY 2020 revenues is recommended as part of the Add-on Process. Revenue categories that are sensitive to economic change may require adjustments during FY 2020. For example, at the time of the preparation of the FY 2020 Advertised Budget Plan revenue estimate for Investment Interest, the Fed had indicated that two interest rate hikes were possible in 2019. However, the Federal Reserve did not raise rates in its March 2019 meeting and downgraded its expected rate path to signal that no rate increases are likely in 2019. The Fed said the labor market "remains strong" but economic growth has "slowed from its solid rate in the fourth quarter." In addition, staff is reviewing new legislation passed by the General Assembly relating to the collection of online sales taxes in response to the provisions of the U.S. Supreme Court decision in the *South Dakota v. Wayfair, Inc.* case and its potential impact on the projected FY 2020 sales tax revenue. Staff will continue to monitor revenue collections monthly and will report to the Board with any necessary changes based on economic conditions.

PERSONAL PROPERTY TAX - CURRENT[1]

FY 2020 Advertised	FY 2020 Revised	FY 2020 Increase/ (Decrease)	Percent Change
$622,530,491	$625,254,378	$2,723,887	0.44%

[1] Includes Personal Property Taxes that are reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998.

The FY 2020 revised estimate for Personal Property Tax receipts is $625,254,378 and reflects an increase of $2.7 million, or 0.4 percent, over the FY 2020 Advertised Budget Plan estimate. This increase is primarily the result of final analysis of vehicles currently in the County valued with information from the National Automobile Dealers Association, reflecting higher than anticipated average vehicle levy. This assessed value will be reflected in FY 2020 bills.

BUSINESS, PROFESSIONAL AND OCCUPATIONAL LICENSES (BPOL)

FY 2020 Advertised	FY 2020 Revised	FY 2020 Increase/ (Decrease)	Percent Change
$167,204,226	$169,415,261	$2,211,035	1.32%

The FY 2020 revised estimate for Business, Professional and Occupational Licenses (BPOL) is $169,415,261, an increase of $2.2 million, or 1.3 percent, over the FY 2020 Advertised Budget Plan estimate. Since County businesses file and pay their BPOL Taxes concurrently on March 1 each year based on their gross receipts during the previous calendar year, little actual data was available during the *FY 2019 Third Quarter Review* in order to revise the FY 2019 estimate. However, based on initial tax year 2018 BPOL returns, FY 2019 BPOL receipts are anticipated to be higher than originally projected. The FY 2020 revised estimate of $169.4 million represents an increase of 1.5 percent over the anticipated FY 2019 level.

BANK FRANCHISE TAX

FY 2020 Advertised	FY 2020 Revised	FY 2020 Increase/ (Decrease)	Percent Change
$21,664,500	$23,654,317	$1,989,817	9.18%

The FY 2020 revised estimate for Bank Franchise Tax is $23,654,317, an increase of $2.0 million, or 9.2 percent, over the FY 2020 Advertised Budget Plan estimate. Billing for the Bank Franchise Tax is done by the Department of Tax Administration in the middle of March, with payment of the FY 2019 bills due by June 1. As a result, little actual data was available during the *FY 2019 Third Quarter Review* in order to revise the FY 2019 estimate. However, based on current billings, FY 2019 Bank Franchise Tax receipts are anticipated to be higher than originally projected. The FY 2020 revised estimate of $23.7 million represents no change from the anticipated FY 2019 level.

REVENUE FROM THE COMMONWEALTH[1]

FY 2020 Advertised	FY 2020 Revised	FY 2020 Increase/ (Decrease)	Percent Change
$100,348,674	$100,668,674	$320,000	0.32%

[1] Excludes Personal Property Taxes that are reimbursed by the Commonwealth as a result of the Personal Property Tax Relief Act of 1998.

The FY 2020 revised estimate for Revenue from the Commonwealth is $100,668,674, an increase of $320,000, or 0.3 percent, over the FY 2020 Advertised Budget Plan estimate. The revenue adjustments are based on State budget amendments approved during the 2019 Session of the General Assembly. The General Assembly approved an increase to the state-supported employee compensation of Constitutional Officers and their employees. These adjustments result in an additional $320,000 to the County in FY 2020.

ATTACHMENT II
ADMINISTRATIVE ADJUSTMENT

General Fund Impact

General Fund Support to Metro		**RECURRING**
Fund 30000, Metro Operations and Construction	FY 2020 General Fund Transfer	($3,129,561)
	Net Cost	**($3,129,561)**

As a result of approved changes to the Metro Operating Budget, the General Fund transfer to Fund 30000, Metro Operations and Construction, is decreased by $3,129,561, from the FY 2020 Advertised Budget Plan amount of $47,079,985 to $43,950,424. This amount reflects the adjustments that occurred as part of the Metro FY 2020 budget process and incorporates the final Fairfax County operating subsidy that includes the three percent operating cap, legislative exclusions to the three percent operating cap, and debt service payments. The FY 2020 Metro Adopted Operating Budget was approved by the Metro Board of Directors on March 28, 2019.

ATTACHMENT III

SUMMARY OF FY 2020 CONSIDERATION ITEMS

as of April 10, 2019

#	Consideration Item	Requested By	Positions	Net Cost/(Savings) Recurring	Non-Recurring
1.	Provide funding for the Body Worn Camera program.	Foust	31 / 31.0	$7,856,838	$0
2.	Consider increasing the exempted acreage to 3 acres of land for the Real Estate Tax Relief Program for the Elderly and Disabled.	Foust	0 / 0.0	$2,175,000	$0
3.	Consider excluding $100,000 in retirement savings from assets for the purposes of determining eligibility for the Real Estate Tax Relief Program for the Elderly and Disabled.	Herrity	0 / 0.0	$2,500,000	$0
4.	Provide funding and positions for Community-wide Energy and Climate Action Plan for Fairfax County.	McKay	2 / 2.0	$276,749	$0
5.	Provide funding for Fairfax County Economic Development Authority's Workforce Attraction/Retention Program.	Bulova	0 / 0.0	$800,000	$0
6.	Adjust the Machinery & Tools tax rate from $4.57 to $2.75 per $100 of assessed value in the FY 2020 budget.	Herrity	0 / 0.0	$600,000	$0
	Subtotal FY 2020 Consideration Items as of April 10, 2019:		**33 / 33.0**	**$14,208,587**	**$0**

Total FY 2020 Consideration Items: 33/33.0 FTE Positions and Total Funding (not including reserves) of $14,208,587

ATTACHMENT III
CONSIDERATION ITEMS

1. Body Worn Camera **RECURRING/NON-RECURRING**

Multiple Agencies	Revenue	$0
	Expenditure	$7,856,838
	Net Cost	**$7,856,838**

As requested by the Board of Supervisors on November 27, 2018, funding of $7,856,868 and 31/31.0 FTE positions is requested to implement the Body Worn Camera Program. As part of the Ad Hoc Police Practices Review Commission Final report that was issued on October 8, 2015, recommendations were made by the Commission that Fairfax County Police Department officers be issued and required to utilize body-worn cameras (BWC) in performance of their duties. Throughout Virginia, Commonwealth Attorney's (CWA) Offices have expressed concerns regarding increased workloads due to BWCs and have requested legislative amendments requiring localities that have implemented, or are implementing, BWC programs to provide additional locally-funded staff to support the increased workload to their CWA office. These numbers reflect preliminary estimates; the Commonwealth Attorney's Office is still assessing their needs. A presentation to the Board of Supervisors on a BWC program is scheduled for the June 2019 Public Safety Committee Meeting.

2. Increase the exempted acreage for Senior Real Estate Tax Relief **RECURRING**

Agency 57, Department of Tax Administration	Revenue	($2,175,000)
	Expenditure	$0
	Net Cost	**$2,175,000**

As requested by the Board of Supervisors on October 9, 2018, funding of $2,175,000 is requested to increase the exempted acreage for the Real Estate Tax Relief Program for the Elderly and Disabled to three acres of land. Currently, if income and asset limits are met, the tax relief program provides tax relief for the home and one acre of land on which the house is situated. The Code of Virginia allows tax relief for up to 10 acres of land. As indicated by the Department of Tax Administration's staff at the October 9, 2018 meeting of the 50+ Committee, the estimated revenue loss of increasing the exempted acreage to three acres of land would be $2,175,000. If the Board of Supervisors wishes to implement the change, a County ordinance amendment would be required.

3. Exclude $100,000 in retirement savings for Senior Real Estate Tax Relief **RECURRING**

Agency 57, Department of Tax Administration	Revenue	($2,500,000)
	Expenditure	$0
	Net Cost	**$2,500,000**

As requested by the Board of Supervisors on October 9, 2018, funding of up to $2,500,000 is requested to exclude $100,000 in retirement savings from assets for the purposes of determining eligibility for the Real Estate Tax Relief Program for the Elderly and Disabled. Currently, retirement vehicles such as 401(k) funds are treated as assets for purposes of tax relief. Unlike a pension, a 401(k) is owned by and is accessible to the applicant. The owner has a measure of control over these funds. Any penalties and taxes that might apply to cashing out a 401(k) are netted against the asset as a liability. The net asset is reportable on the Tax Relief application. Regular distributions from a 401(k) are treated as income. The remainder after the annual distributions is considered a part of the applicant's assets. While staff has no way to discern the income and fixed asset levels of homeowners who might become eligible for tax relief if the Board of Supervisors excludes a $100,000 in retirement savings from an applicant's assets, a reasonable estimate of the revenue loss would be between $2,000,000 and $2,500,000. If the Board of Supervisors wishes to implement the change, a County ordinance amendment would be required.

4. Energy and Climate Planning **RECURRING**

Agency 02, Office of the County Executive	Revenue	$0
	Expenditure	$276,749
	Net Cost	**$276,749**

As requested by the Board of Supervisors on April 9, 2019, an increase of $276,749 and 2/2.0 FTE positions is requested for Energy and Climate Planning. These positions would augment the new Office of Environmental and Energy Coordination and would be responsible for engaging with residents, businesses, stakeholders and leaders to the create and implement a Community-Wide Energy and Climate Action Plan. This request includes $176,554 in Personnel Services and $11,000 in Operating Costs in Agency 02, Office of the County Executive. In addition, an increase of $89,195 is requested for Agency 89, Fringe Benefits, for a total recurring cost of $276,749. Based on research into community energy planning efforts in other jurisdictions, a need for additional funding for contractual support for community engagement and plan development is anticipated and will be addressed through the *FY 2019 Carryover Review*.

5. Workforce Attraction and Retention Program **RECURRING**

Agency 16, Economic Development Authority	Revenue	$0
	Expenditure	$800,000
	Net Cost	**$800,000**

As requested by the Board of Supervisors on April 9, 2019, funding of $800,000 is requested to fund a Workforce Attraction and Retention Program. The Fairfax County Economic Development Authority (EDA) presented a proposal for a new workforce attraction/retention program at the March 26 joint Budget Committee meeting. The program would use a multi-faceted approach to build awareness of the area to potential workers outside the area and to reinforce this area as a great place to begin a career to young people who are raised here so more of them return after college. The EDA envisions this program as a partnership that could involve the County government, Fairfax County Public Schools, area business organizations and companies. In order to execute the program, EDA is requesting $800,000 in recurring funding. It should be noted that $200,000 in non-recurring funding is requested for the *FY 2019 Third Quarter Review*; this initial funding would be used to hire a research firm that would conduct qualitative and quantitative research and to begin development of the communications vehicles that will be used in the program.

6. Adjust the Machinery and Tools tax rate **RECURRING**

Agency 57, Department of Tax Administration	Revenue	($600,000)
	Expenditure	$0
	Net Cost	**$600,000**

As requested by the Board of Supervisors on April 9, 2019, funding of $600,000 is requested to adjust the County's Machinery & Tools equipment tax rate from $4.57 to $2.75 per $100 of assessed value in the FY 2020 budget. 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). The revenue loss as a result of lowering the tax rate to $2.75 per $100 of assessed value would be $600,000 based on 2018 tax return filings.