McLean Citizens Association
MCA
One Hundred Years and Counting

McLean Citizens Association Resolution
Meals Tax Referendum
September 7, 2016

Executive Summary

Whereas, the quality of life in our community depends to a great extent on the services that Fairfax County (County) provides – including education for our children, police and fire protection, parks and libraries - and the costs of providing these services continue to rise; and

Whereas, the County is challenged to pay the costs of these services in large part because of a state formula (the Local Composite Index) that allocates insufficient funds to Fairfax County Public Schools (FCPS) for K-12 education, ongoing effects of federal government sequestration, the high cost of retirement income plans, and high vacancy rates for commercial property; and

Whereas, the Board of Supervisors placed a referendum on the November 8 general election ballot that would allow the Supervisors to implement a County meals tax at a rate of up to 4%, raising up to an estimated $96 million per year, effective July 1, 2017; and

Whereas, the benefits of the meals tax, cited by the Board of Supervisors, are to

- Reduce dependence on real estate taxes,
- Raise revenue from visitors who dine out in the County, and
- Dedicate revenues to the FCPS; and

Whereas, regardless of the result of the meals tax referendum, the Board of Supervisors and School Board are obligated to improve the financial conditions of the County and FCPS through efficiencies and cost savings; and

Meals Tax

Whereas, state laws and regulations limit or control almost 90% of the County's non-property tax revenues, focus the burden of funding County services on real estate taxes, and therefore require increases in property values and higher real estate tax rates to pay for cost increases; and

Whereas, the Board of Supervisors requested approval for the referendum from the Fairfax County Circuit Court and advised the Court that the purposes of the meals tax are for the County "to broaden the revenue base and reduce dependency on real property taxes;" and

Whereas, when the County and FCPS identify cash shortfalls in the future to pay for existing and/or proposed programs, those shortfalls could be funded in full or in part by revenue from the meals tax instead of by higher real estate tax increases; and

Whereas, the County projects a cash shortfall in its Budget for Fiscal Year 2018 (FY 2018), which starts on July 1, 2017, and FCPS indicated it will request additional funds from the County to pay for higher teacher salaries and other programs in FY 2018 and beyond; and

Whereas, early indications are that the sizes of these FY 2018 cash shortfalls may be significant and require funding from a further increase in the real estate tax rate in FY 2018 or, alternatively, the meals tax if approved; and

Whereas, the revenue from a 4% meals tax is estimated to be approximately equal to the revenue from a four cent ($.04) increase in the real estate tax rate; and

Whereas, according to the County's meals tax filing, non-County residents such as commuters, travelers and tourists who dine out in the County would pay an estimated 28% of the meals tax; and

Whereas, according to the County's meals tax filing, the revenue generated by the tax would be dedicated 70% to FCPS and 30% to County services, capital improvements, and real estate tax relief; and

Whereas, the meals tax could provide a stable source of funding to FCPS to help meet its priorities and could reduce the need for further increases in transfers from the County; and

Whereas, homeowners are legally required to pay their property taxes, but they can choose not to buy prepared food and therefore choose not to pay meals taxes; and

Whereas, towns inside the County and surrounding jurisdictions already have meals taxes, including Herndon (2.5%), Vienna (3%), Alexandria (4%), Arlington (4%), Fairfax City (4%), Falls Church (4%), Manassas (4%), Manassas Park (4%) and Washington, D.C. (4% on a comparable basis); and

Whereas, the County would reimburse restaurants 3% or about $3 million of the meals tax revenue for their cost of administering the tax; and

Whereas, the demand for restaurant meals is relatively stable (inelastic) in response to price changes such as an increase caused by a meals tax, little information is available on the effect of a meals tax on restaurant sales (the National Restaurant Association reports having no research showing a negative impact on sales), and restaurant revenue increased annually in Arlington following its adoption of a meals tax in 1991; and

Whereas, MCA has examined closely the proposal to institute a meals tax to determine its potential negative implications for local businesses and residents and has concluded that, on balance, the proposed meals tax would provide greater potential benefits than economic disadvantages.

Now, therefore, be it resolved that McLean Citizens Association supports passage of the proposed meals tax and encourages the community to vote in favor of it, taking into account the benefits of reducing the County's dependence on residential real estate taxes, providing dedicated funding to FCPS, and raising revenue from visitors to the County; and

Be it further resolved that McLean Citizens Association urges the Board of Supervisors, if the meals tax passes, not to increase the real estate tax rate for FY 2018 above the current rate of $1.13 per $100 of assessed value and to reduce that tax rate if possible, consistent with the stated purpose of reducing dependence on real estate taxes.

Efficiencies and Cost Savings

Whereas, a meals tax would not affect the obligations of the Board of Supervisors and School Board to evaluate the cost effectiveness of programs, eliminate or restructure cost-ineffective programs, and find other efficiencies that lower operating costs; and

Whereas, the County manages and/or funds, directly or indirectly, five pension plans covering approximately 64,000 current and former employees of the County and FCPS; and

Whereas, these pension plans are underfunded in the aggregate by $4.2 billion, including underfunding for the Virginia Retirement System (VRS) allocable to FCPS employees and retirees, and the amount of pension underfunding will continue to increase; and

Whereas, the County and FCPS contributed approximately $542 million to these pension plans in FY 2015, and that amount will continue to grow and increasingly crowd out funding of core government services such as education, public safety, and infrastructure; and

Whereas, the County is undertaking Line of Business reviews, which incorporate community feedback, to evaluate all County programs and services to determine if they are run effectively and efficiently to achieve the desired outcomes and ultimately to prioritize and develop a sustainable financial plan; and

Whereas, the County's Line of Business reviews may underperform their potential effectiveness if they do not fully benchmark the County's programs against third party best practices, governmental as well as corporate; and

Whereas, while FCPS has an annual Program Budget that outlines each of its programs, FCPS staff conduct a few program evaluations and the Audit Office conducts a few performance audits annually, FCPS does not have a Line of Business review process that evaluates all FCPS programs and services, with community feedback, to determine if they are run effectively and efficiently to achieve the desired outcomes and ultimately to prioritize and develop a sustainable financial plan for the school system; and

Whereas, on May 26, 2016, the School Board adopted a policy (Policy 1105 on the Auditor General's Authority), which stated that the School Board was committed to "ensuring that public funds are spent wisely and responsibly, operations are efficient, and there is full transparency in all FCPS business activities.

Now, therefore, be it resolved that McLean Citizens Association urges the Board of Supervisors and the School Board to restructure the County and FCPS retirement income plans to new employees such that the net cost of those benefits to the County and FCPS is no greater than the net cost under the VRS hybrid pension plan; and

Be it further resolved that the McLean Citizens Association urges the Board of Supervisors to ensure that the Line of Business reviews include complete and impartial benchmarking against government and corporate best practices; and

Be if further resolved that the McLean Citizens Association urges the School Board to direct the FCPS Superintendent to conduct, prior to the submission of the FCPS FY 2019 proposed budget, complete Line of Business reviews for all FCPS programs and operations, comparable to that being conducted by the County, to determine if FCPS programs are run effectively and efficiently to achieve the desired outcomes and ultimately to prioritize and develop a sustainable financial plan for the school system, and to use the results of these Line of Business reviews in developing the FY 2019 proposed FCPS budget; and

Be it further resolved that the McLean Citizen Association urges the School Board to direct FCPS to solicit community input for all Line of Business reviews, as has the County Executive for the County Line of Business reviews.

Approved by the MCA Board of Directors
September 7, 2016

McLean Citizens Association, PO Box 273, McLean, Virginia 22101

Copies to:
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