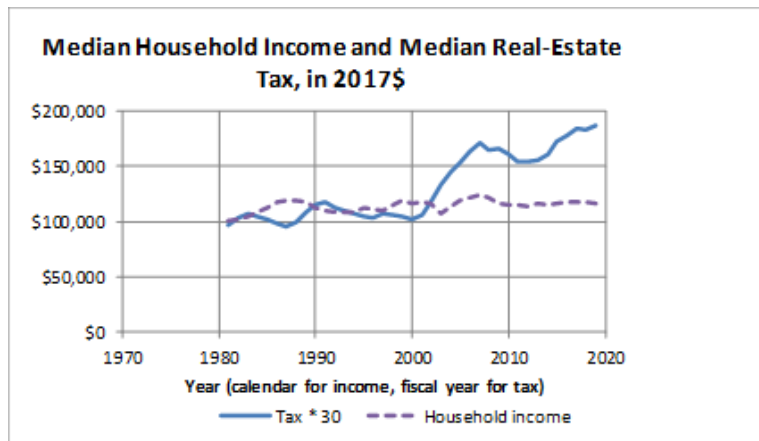


Frederick A. Costello  
 March 5, 2018

**Introduction:** Fairfax County and Fairfax County Public Schools have released their proposed budgets. The county budget includes the rate at which residential real estate must be taxed to meet the budget. The purpose of this report is to provide an analysis of the budgets and the tax rates.

**Summary:** The real-estate tax rate should be set in part by the ability of the citizens to pay the tax. The ability should be estimated on the basis of the median household income<sup>1</sup> rather than the price of the taxpayer’s house.



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

The county executive wants to raise the tax rate, even though the prices of houses have increased<sup>2</sup>. Increasing the rate and the assessments would be made in the face of a continuing decrease in median household income (Exhibit 1); therefore, increasing the real-estate taxes will add considerably to the financial burden on County taxpayers<sup>3</sup>. (In Exhibit 1, we have multiplied the tax by 30 so the two curves could be more readily compared.)

Real-estate taxes increased considerably during the housing bubble from 2001 to 2007, almost doubling the tax on a typical property – less than double in the graph, because the values are in 2017\$; i.e., corrected for inflation. Real-estate taxes rose 8.3% per year during this time period. Household income rose only 1.0%. From 2013 to 2019, taxes rose 3.8% per year, but household income did not change – despite the fact that one component of the household-income statistic, the county and school wages, increased approximately 4% per year. The rapid rise after 2013 is alarming, especially for middle-income families.

The rate of increase in real-estate taxes is not sustainable. The added burden is not on the wealthy, for whom real-estate taxes are a small part of their income. The low-income households see it as a rent increase, which they blame on the landlord rather than the county. The county’s affordable-housing program and other public assistance helps many of these low-income people. The burden is felt most severely by the middle-income households. The unsustainable tax increase causes many middle-income people to flee the county.

Reasonable budget reductions would make the tax burden sustainable. Appendix A<sup>4</sup> lists some possible savings, totaling \$750M (16% of the combined school and county operating budgets).

<sup>1</sup> Countywide average income is approximately 30% more than the median; however, the rate of change in the average is approximately the same as for the median.

<sup>2</sup> In his proposed 2019 budget, the county executive wants to raise almost every category of expenditures by approximately 4.5% so that next year, when we vote for the Board of Supervisors and the School Board, he can propose no increase.

<sup>3</sup> Notice the sharp rise in taxes over the past five years, especially as compare to the average rise from 1982 to 2000.

<sup>4</sup> This list, with supporting computations, was originally published in 2015 as [Report -147](#).

**Discussion:**

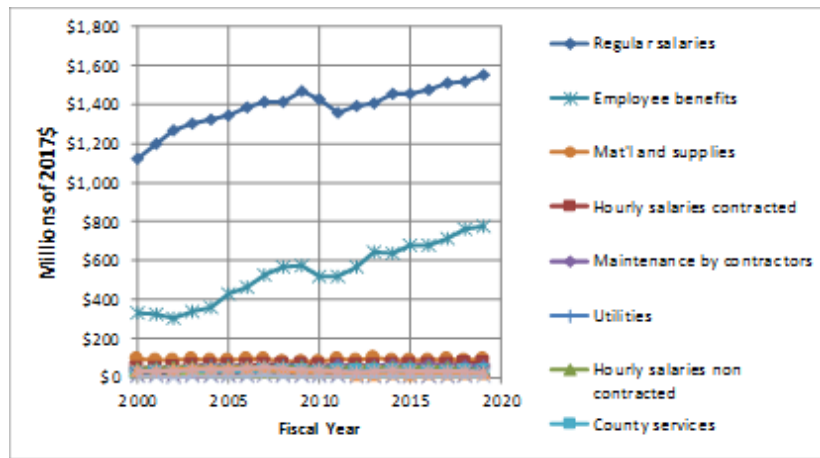
We look at the expenditures to determine how the increased revenues were spent and are planned to be spent. Because the school transfer from the county to the public schools accounts for over 50% of the county budget, we examine first the public-school budget.

*Analysis of Public School Expenditures*

School expenditures will increase by 4.5% from 2018 to 2019.

Where do the increased school expenditures go? The answer is “primarily employee wages and benefits.” Wages and benefits account for 84.3% of the school budget and 81.1% of the 2018-2019 increase. Wages and benefits of classroom teachers account for 46% of the budget and 58% of the 2018-2019 increase. Non-classroom teachers (primarily librarians, specialists, and counselors) account for 14% of the budget and 14% of the 2018-2019 increase. Administrators account for 13% of the budget and 4% of the 2018-2019 increase.

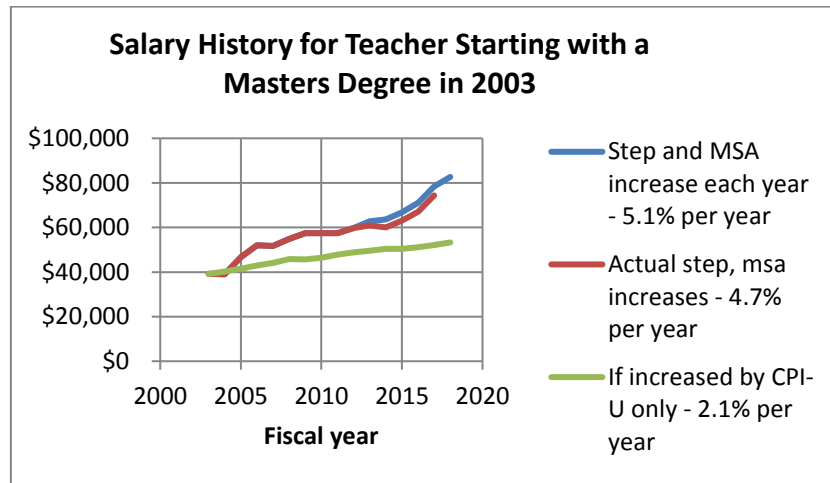
Over many years, especially since 2000 and up until today, 92% of the entire school-budget increase has been for employee wages and benefits. School membership (the number of students) increased only 0.7% per year from 2001 to 2008 and 0.9% from 2012 to 2019. For these same two periods, the number of classroom teachers increased 2.0% per year and 0.6%, respectively. However, during these same two periods, wages increased 2.4% and 1.6%, respectively, and benefits increased 8.2% and 4.6% (Exhibit 2). Because these rates are in inflation-corrected dollars, the rates are over and above the inflation rate.



**Exhibit 2: School Expenditures**

By how much are the salaries increased? For an individual teacher, the salary increases were much greater than 2.4% and 1.6%. Each year up until 2010, teachers received both a step increase and a Market Scale Adjustment (MSA) – the equivalent of a cost-of-living increase. In 2010, the policy changed so that either the step or the MSA increase was given, but not both. Despite the policy change, the two-fold increase was given three times since 2010, including in the last two years. In two years, neither increase was given. In the other years, one or the other increase was given but not both. If the two increases had been given, the average increase for a teacher from 2000 to 2018 would have been 5.1% per year, while inflation increased only 2.1%. With the procedure used since 2010, the average increase from 2000 to 2018 was 4.7% (Exhibit 3) -- 2.6% above inflation.

Are the salary increases excessive? The annual raises that teachers get, on the order of 2.6% above inflation, are



**Exhibit 3: Salary Increases for a Typical Teacher**

much greater than the 1.4% annual increase in inflation-corrected wages and salaries that all employees in the Washington area, including county and school employees, received from 2013 to 2017<sup>5</sup>. Such a disparity is not sustainable, as acknowledged by Fairfax County’s Chief Financial Officer, Joe Mondoro. County salaries cannot be increased indefinitely at this rate while taxpayer salaries increase at a much lower rate. Gradually, a wealthy government elite is forming. Because all school and county workers get raises that are approximately the same as the teacher raises, the elite includes all county and school workers. This elite group campaigns, lobbies, and votes for politicians who will give them large raises. When county officials are being elected, the government workers and their families constitute 34% of the voters – a tremendous voting bloc; therefore, the elite has a disproportionate impact on who is elected. (Prior to President John Kennedy’s change in the law in the 1960’s, government workers were not permitted to campaign or lobby for politicians.)

Are the existing salaries low, so that large increases are necessary? The amount that teachers are paid seems low relative to private-sector salaries, until we include the fact that teachers have a two-month summer vacation, albeit unpaid. Teachers working under a 194-day contract get 8 paid holidays; therefore, they work 186 days. In the private sector, a person working full time works 260 days less 8 paid holidays less 15 days of vacation, for a net of 237 days. Teachers, therefore, work 78% of the hours that a private-sector worker works. A teacher who earns \$78,000 per year is paid the equivalent of a full-time employee earning \$100,000 per year.

Will we lose teachers to neighboring jurisdictions? The School Board justifies the wage and benefit increases as being necessary to meet the competition; namely, the wages and benefits of neighboring school jurisdictions. Fairfax County teachers are paid, in terms of wages as well as wages plus benefits, approximately the average of those in the Washington area<sup>6</sup>; however, for the Washington area schools, there is no correlation between SAT scores and teacher salaries<sup>7</sup>; therefore, we should not expect that paying the teachers more would result in increased SAT scores. Fairfax seems to be paying the teachers well enough. SAT scores in Fairfax County are higher than in almost all other Washington area school districts<sup>8</sup>.

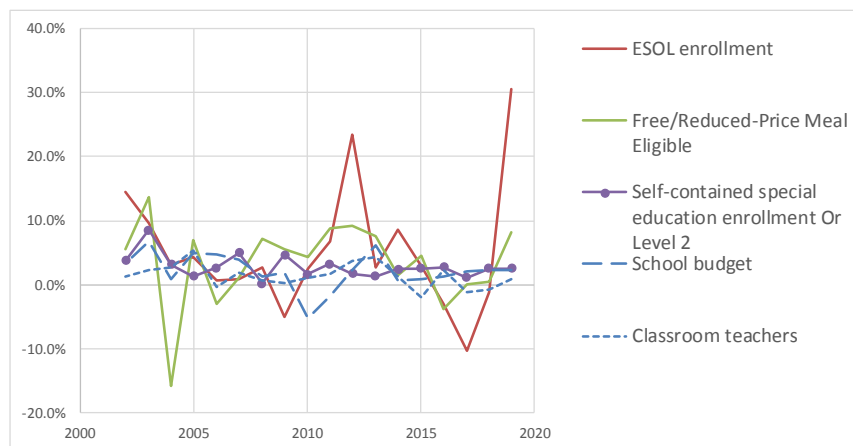
<sup>5</sup> [https://www.bls.gov/regions/mid-atlantic/news-release/employmentcostindex\\_washingtondc.htm](https://www.bls.gov/regions/mid-atlantic/news-release/employmentcostindex_washingtondc.htm)

<sup>6</sup> Report -151 has a detailed comparison.

<sup>7</sup> The data in Report -151 shows, for example, that in 2012, the correlation coefficient between MA+9 salaries and SAT scores was only 0.025. MA+9 salaries are approximately equal to the average salaries.

<sup>8</sup> Only Falls Church City schools have a higher SAT.

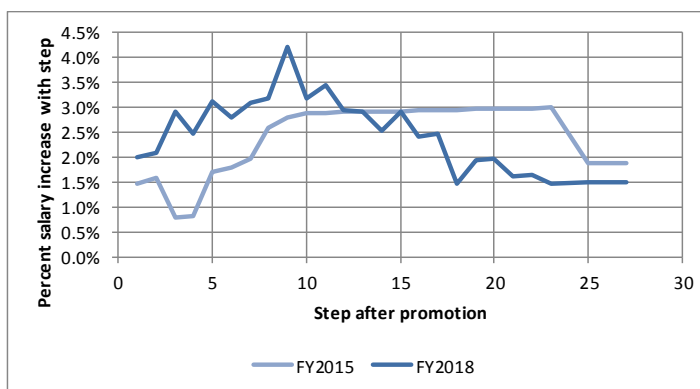
Are greater expenditures needed to accommodate ESOL, FRM, and Special-Education programs? Part of the increase in expenditures is due to increased enrollment in English Speakers of Other Languages (ESOL), Free-and-Reduced-Price Meals (FRM), and Special Education programs. FRM in 2019 is expected to be much greater



**Exhibit 4: Year-to-Year Changes of Key Factors in the School Budget**

because all Medicaid families will automatically be classified as FRM families. The surprising increase is in ESOL. A sudden large increase in ESOL is evident in 2011 and 2015 (Exhibit 4) – perhaps by coincidence, school-board election years. This phenomenon is worth investigating. By formula, schools receive more funds when ESOL, FRM, and Special Education enrollments are high because students in these categories require additional teachers. These increased enrollments increase the staff size but do not have an impact on the raises that employees receive.

Aren't classroom teachers underpaid? In previous years, young teachers, those mostly in the classrooms, received small raises when they were given a step increase while those with much experience received large raises. The turnover among young teachers, high due to marriage, childbearing, and disenchantment with teaching, was even higher due to the small salary increases. The salary structure was recently improved so this is no longer the case (Exhibit 5).

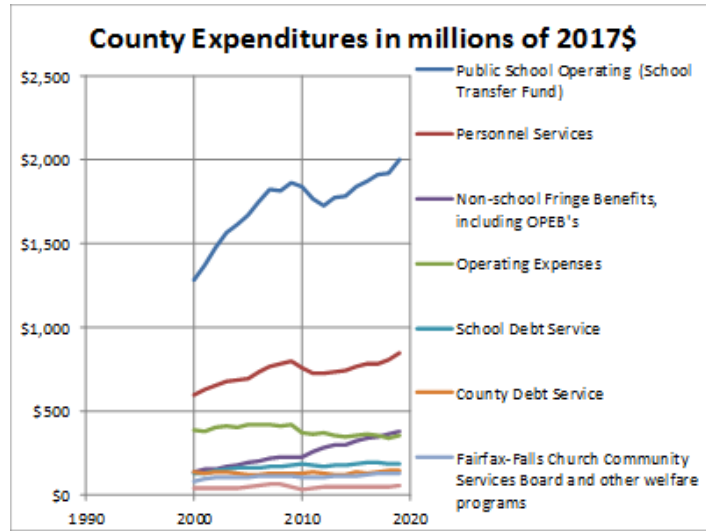


**Exhibit 5: Step-to-Step Salary Increases**

*Analysis of the County Expenditures*

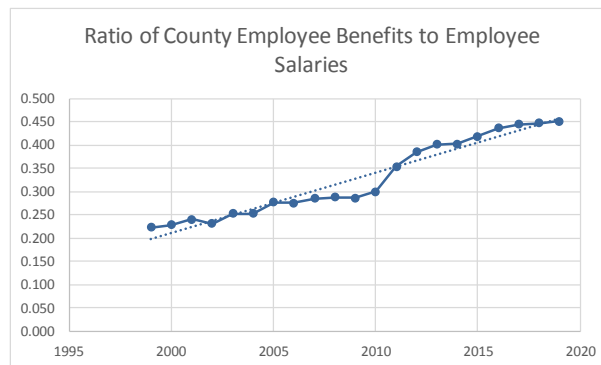
What county expenditures are increasing the most? Of the approximately 40 expenditure streams, the school transfer fund is by far the greatest. It also increased faster than any other stream, increasing 3.6% per year in inflation-corrected dollars from 2001 to 2008. From 2012 to 2019, it increased 2.2% per year (Exhibit 6). These increases, which are in inflation-corrected dollars, are over and above the inflation rate. The ingredients to these two increases in the school transfer fund are discussed in the previous section of this report. Recall that by far most of the increases are due to increases in wages and benefits.

How much of the increase in expenditure is due to labor costs? After the school-transfer fund, increased wages and



**Exhibit 6: County Expenditures**

benefits for county employees dominated the county-budget increases. From 2001 to 2008, county-wage costs increased 3.2%; from 2012 to 2019, 2.2%. These are approximately the same rates of increases as for the school system. Although the county argues that teachers need more pay, the county raises the wages of not only the teachers but also all other school and county employees by approximately the same amount. For the county workers, benefits increased 5.8% and 4.5% for these same two periods, somewhat less than the increases for school employees. The result of these increases is that, in 2000, the ratio of benefits to wages was 23% for county employees. In 2019, the ratio is 45% (Exhibit 7). The ratio is 50% for school employees.



**Exhibit 7: Ratio of Benefits to Salaries for County Employees**

Because increased wages and benefits are greater for county workers than for the taxpayers, the county workers are part of the government elite discussed in the previous section of this report. They campaign for, lobby for, and vote for those who will pay them more.

## Conclusion

Reasonable budget reductions would make the tax burden sustainable. Appendix A<sup>9</sup> lists some possible savings, totaling \$750M (16% of the combined school and county operating budgets).

<sup>9</sup> This list was originally published, along with the supporting computations, in 2015 as Report -147.

## Appendix A: Achievable Savings

### Fairfax County Public Schools

#### Annual savings

#### *Immediate reductions*

|  |                     |
|--|---------------------|
| Reduce raises to equal increase in household income              | \$10,556,859        |
| Reduce materials cost to increase in students and inflation      | \$14,122,138        |
| Limit increase in employment positions to increase in enrollment | \$11,593,055        |
| TOTAL  | <u>\$36,272,053</u> |

#### *Long-term reductions*

|   |                      |
|---|----------------------|
| Require \$2000 deductible in health insurance   | \$44,000,000         |
| Return to the ERFC legacy version <sup>10</sup> | \$206,442,870        |
| TOTAL   | <u>\$250,442,870</u> |

### County Government

#### Annual savings

#### *Immediate reductions*

|   |                     |
|---|---------------------|
| Reduce raises to equal increase in household income           | \$6,167,213         |
| Allow pension COLA to equal actual cost-of-living change      | \$4,229,559         |
| Reduce the litigation reserve to three times the 2005 value   | \$15,000,000        |
| Reduce school transfer (more than \$18M cut in County budget) | \$17,641,942        |
| TOTAL   | <u>\$43,038,714</u> |

#### *Long-term reductions*

|  |                      |
|--|----------------------|
| Require \$2000 deductible in health insurance              | \$22,156,200         |
| Terminate the DROP program                                 | \$31,227,747         |
| Raise the age at which retirement benefits start to age 66 | \$150,413,135        |
| TOTAL  | <u>\$203,797,082</u> |

### Contingency Funds in County Budget

|   |                      |
|---|----------------------|
| The adopted budget is frequently 1% below the advertised    | \$38,134,785         |
| Starting balance (not needed if above cuts are implemented) | \$83,301,192         |
| Managed reserve (typically 3% of the budget)                | \$111,490,919        |
| TOTAL   | <u>\$232,926,896</u> |

**Importance:** Raising the taxes faster than the household income is an attack on the middle-income class. The IRS has shown that, when taxes rose precipitately from 2001 to 2007, middle-income people moved out of the County and low-income people moved in. The net loss in gross income to County residents was and still is \$6B per year, which is 15% of the \$40B total gross income to all County residents and, probably, 15% of the real-estate tax. So adding to the householder's burden will eventually result in a county that has wealthy people and poor people, with few middle-income people. Adding to the burden is an unwise and unneeded attack on the middle class.

**Source:** The savings were derived from the FY2015 and FY2016 Fairfax County budgets. The computations can be found at the website of the Fairfax County Federation of Citizens Associations:

<http://www.fairfaxfederation.org/committees/Budget/CommentsOntheFY2016FairfaxCountyandSchoolBudgetsbyFAC20150301.xlsx>. They are also published in pdf format at <http://www.fcta.org/Pubs/Reports/2015-03a-fac.pdf>.

<sup>10</sup> ERFC Legacy version was designed to provide a pension from the age of retirement, approximately age 55, to the age at which Social Security starts. ERFC2001, which began in FY2001, provides the same pension amount from the age of retirement until death – on average age 83. The ERFC Legacy paid approximately \$25,000 for 10 years; ERFC2001, for 38 years, thereby increasing its cost.