Comments on the Fairfax County and School Budgets

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For homeowners to be no more burdened by County taxes in FY2016 as they currently are in FY2015, the County expenditures should increase no more than the expected 1.57% increase in household income[1]. Can the County reduce the budget so householders are not more heavily burdened? The answer is "Yes."

According to the recently released budgets for next year, the county-government expenditures and school expenditures will increase by 2.6% ($40M for the county and another $57M for schools). Fox Mill homeowners will be paying not 2.6% more but 7.41% more than last year. For no added burden, the budget must be reduced $50M.

On the school side, we see that labor costs are budgeted to rise 3.0% for school employees ($43M). School materials and supplies are budgeted to increase 20% ($16M). If we allow first to rise the 1.57% that household income will rise and the second to rise at the rate of inflation (1.63%) plus the rate of increase in the student population, the saving is $11M for labor and $14M for materials and supplies. The County is offering $18M less than the schools requested, so $18M of these savings is already claimed. If the increase in the number of employees is held equal to the increase in number of students, $12M more can be saved. Another $44M could be saved if a $2000 deductible is required for the health insurance policies, thereby bringing the total saving, above what the County has required, to $63M. Longer term, more savings are possible. Reverting to the pre-2001 version of the ERFC (ERFC Legacy) pension plan would eventually save $206M per year. ERFC2001 was introduced during the housing bubble, when the County was flush with money, and was retained when the bubble burst.

To bring the County budget within the limits of the increase in household income, $50M must be saved. Labor costs are budgeted to rise 2.4% for the non-school employees ($18M). A four-month delay keeps the raise equal to the increase in household income. It saves $6M. The 4% minimum cost-of-living increase (COLA) for retirees should be eliminated, saving $4M. Around 2012, the reserve allowance for litigation was increased from $5M to $30M, but is now spread among the agencies. Reducing this to $15M saves $15M. The savings cited in the foregoing paragraph permit the County's transfer to the school system to be reduced $17M so the total is $35M less than the schools requested. The total of these savings is $43M. Adding a $2,000 deductible to the health-care benefit would save $22M[1]. Longer term reductions can address the benefits, which amount to 53% of salary as compared to 30% in the private sector. The DROP program, introduced during the housing bubble and retained after the burst, enables employees to receive their pension into an escrow account while they work for their last three years. At the end of the three years, they are handed a check, on average, for $250,000. DROP is a legal way of allowing County employees to receive their pension while still working. Dropping DROP saves $33M per year. Raising the age at which retirement benefits start to age 66 would save another $150M per year. Also long term would be the elimination of $111M in interest costs if the County used a pay-as-you-go system instead of bonds.

The near-term savings fall $7M short of the needed $50M saving; however, this $7M could also easily be absorbed by the $83M starting balance or the $111M in reserved funds. So the County can indeed reduce the budget so householders are not more heavily burdened this year than they were last year.

County and school employees are paid slightly more than their private-sector counterparts. With their standard one-step annual raises, they are pulling away. When benefits are included, County and school employees are already paid 20% more than their private-sector counterparts. The salaries and benefits are so great that the county has more than ten times the number of jobs applicants than job openings -- 10,000 applicants for 1,000 jobs by people that have graduated from Virginia colleges and universities.

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.

We can expect that the supervisors will try to keep the tax increase small, waiting to raise taxes until after the November 2015 election. We can hope that the supervisors will not try to buy county- and school-employee votes by giving them the proposed budget's large salary increase while maintaining the overly generous benefits.

[1] The numbers in this narrative are supported by an accompanying Excel workbook. We would welcome substantiated corrections by the County and Fairfax County Public School system.

In short:

By increasing taxes more than household income increases, people somewhat below the median income leave the county. The IRS has shown that the result has been the net loss of $6B in household income since 2001. That is 15% of the total household income. These left but welfare people entered. The American Community Survey shows the changes in the income distribution. In addition, the County has hired more people to handle the greater welfare demand. Raising taxes faster than household income is an attack on the middle class. It drives the middle class out of the county. The highly regarded economist Victor Davis Hanson of Stanford University has documented the process. Don't raise taxes more than the household income increases unless you want the county to have a few extremely wealthy people being taxed to support a large number of people on welfare.

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	$36,272,053
Long-term reductions	
Require $2000 deductible in health insurance	$44,000,000
Return ERFC to legacy version	$206,442,870
TOTAL	$250,442,870

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	$43,038,714
Long-term reductions	
Require $2000 deductible in health insurance	$22,156,200
Terminate the DROP program	$33,274,856
Raise the age at which retirement benefits start	$150,413,135
TOTAL	$205,844,191

Contingency Funds in County Budget

The adopted budget is frequently 1% below the advertised	$38,134,785
Starting balance (not needed in reduced budget)	$83,301,192
Managed reserve (typically 3% of the budget)	$111,490,919
TOTAL	$232,926,896

Appendix A: Computation of Budget Savings

Parameters

Inflation (extrapolation from 2013 to 2014)	1.63%	See tab "Household income"
Ratio of household income increase to inflation	96.80%	See tab "Household income"
Average household income increase	1.57%	The product of the two foregoing items

	Pct increase	Increase	2016	2015	
Student population	0.71%	1,319	188,104	186,785	FCPS Proposed Budget, Pg 17
Number of employee positions	1.52%	356	23,799.30	23,443.70	Pg 207

Fairfax County Public Schools—FY 2016 Proposed Budget

Target saving to meet County transfer

Transfer from County	$1,825,153,345	See tab "County"
Transfer requested by FCPS	$ 1,843,783,456	FCPS Proposed Budget, Pg 199
Savings required to meet reduced County transfer	$ 18,630,111	

Potential Savings

Proposed budget	**Pct increase**	**Increase**	**2016**	**2015**	
Public School Operating (School Transfer Fund)	2.29%	$ 40,459,526	$ 1,843,783,456	$ 1,769,098,393	Pg 199
Primary areas for savings:					
REGULAR SALARIES - CONTRACTED Total	3.04%	$ 42,975,710	$ 1,457,243,788	$ 1,414,268,078	Pg 202
MATERIALS AND SUPPLIES Total	20.13%	$ 15,984,398	$ 95,408,511	$ 79,424,113	Pg 203
Total of salaries and materials		$ 58,960,108			

Potential savings by reducing increases

If we allow for an increase that matches the increase in household income (or rate of inflation) plus student population:

REGULAR SALARIES - CONTRACTED Total	2.29%	$ 32,418,851	$ 1,446,686,929	$ 1,414,268,078
MATERIALS AND SUPPLIES Total	2.34%	$ 1,862,260	$ 81,286,373	$ 79,424,113
Total		$ 34,281,111		
Savings		$ 24,678,997	= 58,960,108 minus 34,281,111	

Potential savings by increasing positions only to match increase in student population

	Pct increase	Increase	2016	2015
Current plan	1.52%	356	23,799.30	23,443.70
If increased by the percent increase in students	0.71%	166	23,609.25	23,443.70
Saving at average salary of $61,000 per year		190	$ 11,593,055	

Achieving the labor part of the target savings by delaying the step increases

			2015 payroll	
Assumed step increase (same as schools)	2.40%	$ 33,942,434	$ 1,414,268,078	Pg 202
To match increase in household income	1.57%	$ 22,274,568		
Saving		$ 11,667,866		
Saving by delaying 2.40% increase by 4 months		$ 11,314,145	4 month delay	

Total immediate savings	$ 36,272,053

Longer-term Savings

	Pct increase	Increase	2016	2015	
Health Benefit paid by employer	-3.75%	$ (8,682,525)	$ 222,560,105	$ 231,242,630	Pg 113
Health Benefit paid by employees	-12.10%	$ (8,491,834)	$ 61,673,489	$ 70,165,323	Pg 113
Percent by employees			22%	23%	
Number of employees			23,799.30	23,443.70	
Amount paid per employee			$ 2,591	$ 2,993	this is much lower than Kaiser for a family

Saving by making health benefit have a deductible of	$2,000		
Number of employees	22,000		
Savings per year if all spend more than the deductible	$44,000,000	would increase amount by employee to	37%

ERFC (Supplementary pension)	**Pct increase**	**2016**	**2015**	Age start	Age end	years paid	
ERFC under current plan (ERFC 2001)	4.64%	$75,984,671	$72,612,398	58	83	25	Pg 203
ERFC if reverts to Legacy (stop pay when SSI starts)	-68.00%	$23,235,967	$72,612,398	58	66	8	
Saving if implemented immediately with today's retirees		$52,748,704					

The full $ 72,612,398 might be saved if the return on investments is sufficient.
See Page 118 of the FY2006 FCPS budget document. Investment income frequently exceeds the payout.

Eventual ERFC saving per year

If we assume that employees work 30 years	Current plan	Legacy plan	Eventual saving
Number of employees	23,799.30	23,799.30	
Number retiring per year = 1/30	793	793	
Current total salary cost	$ 1,457,243,788	$ 1,457,243,788	
Average salary	$ 61,231	$ 61,231	
ERFC Benefit (same annual amount as SSI)	25%	25%	this is an estimate of the average
Annual Benefit to employee	$ 15,308	$ 15,308	
Number of years paid	25	8	
Number of retired employees collecting ERFC each year	19,832.75	6,346.48	
Payout per year	$ 303,592,456	$ 97,149,586	
Savings per year when fully implemented	$ 206,442,870		

Because those currently retired are fewer than 793, the current payout is less than it would be eventually. We estimate the number of current recipients as:

Current payout per year	$ 203,081,017	Page 118
Benefit	$ 15,308	25% of average salary
Number receiving the benefit	13,267	=payout/benefit
Number of age brackets (1 year in each)	25	
Average number per age bracket of one year	531	

This value is less than the 793 because the total number of employees was less in previous years.