Fairfax County Revenue Challenges and the Commonwealth of Virginia

Presented on 12/16/25 by

Delegate Vivian Watts, House Finance Chair

To

Fairfax County Board of Supervisors
Legislative Briefing

The Basics:

- Currently, with only 13% of Virginia's population, we pay over 22% of state income taxes and 21% of sales taxes.

For as long as Fairfax County has had high average incomes and low unemployment, its taxpayers have always paid more.

- Virginia spends 90¢ of each income and sales tax dollar in ways that directly benefit residents:
  - 33¢ for Medicaid, Food Assistance, Public Health, Mental Health
  - 32¢ for K-12
  - 13¢ for Public Safety (prisons, law enforcement, courts)
  - 12¢ for Higher Education

Proportionately, we benefit more from the state paying 53% of instate tuition and our courts are busier. But our low crime means fewer state prisoners and a low proportion of our residents qualify for Medicaid and food assistance.

While Fairfax County residents will always pay more, Where Are We Short-changed in State Funding?

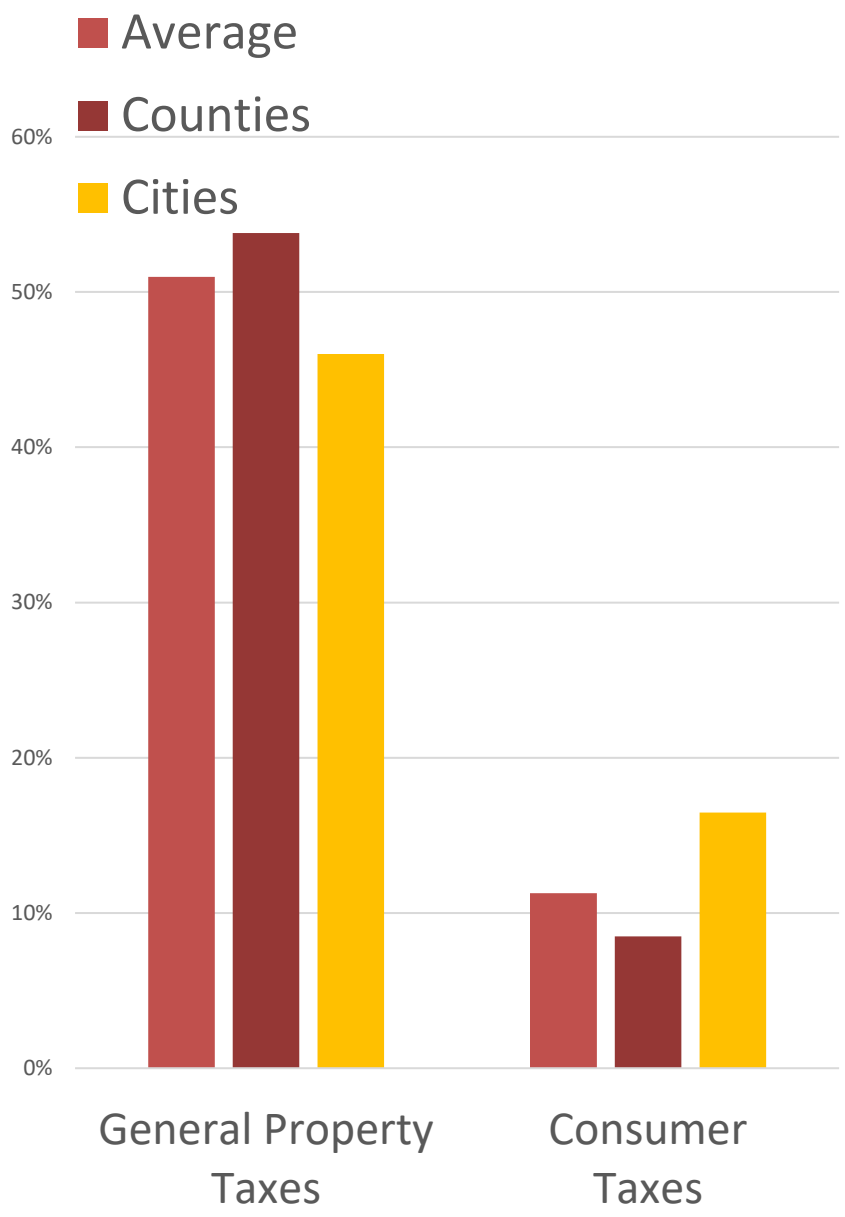
FCPS educates 14.1% of Virginia's students but gets only about 10% of K-12 state funding.

- The LCI (Local Composite Index) is supposed to reflect local ability to fund K-12. It is based-on: 50% real estate tax assessments, 10% retail sales, and 40% AGI (adjusted gross income) – even though localities can't tax income.

- NoVa's very high 145% cost of living drives a significant cut in state funding under the LCI.

- For FCPS, salaries and benefits take 85% of budget. The formula shifts the burden of paying competitive salaries almost totally to the locality.

  While State Police stationed in NoVa are paid over 25%, because of the LCI, the state makes less than a 3% adjustment in FCPS salaries.



54% of County revenue comes from R.E. taxes*. 46% of City revenue

Top 10 jurisdictions in dependence on R.E. taxes are

- Surry **Co** 74.4%
- Bath **Co** 68.3%
- Lancaster **Co** 65.8%
- Fairfax **Co** 62.9%
- Arlington **Co** 62.5%
- Alexandria 61.2%
- Fauquier **Co** 60.4%
- Prince William **Co** 59.3%
- Manassas Park 58.8%
- Albemarle **Co** 58.5%

*Includes taxes on Public Service Corporations and Mobile Homes

Consumer taxes include Retail Sales, Restaurant Meals, Tobacco, Hotel and Motel Rooms, and Admission.

Top 10 jurisdictions in dependence on Consumer taxes are

- Williamsburg 42.8%
- Danville 32.6%
- Bristol 30.3%
- Harrisonburg 30.0%
- Fredericksburg 27.4%
- Galax 27.2%
- Winchester 25.3%
- Waynesboro 24.7%
- Henry **Co** 22.7%
- Lynchburg 21.3%

AGI does not measure residents' ability to pay Real Estate Taxes

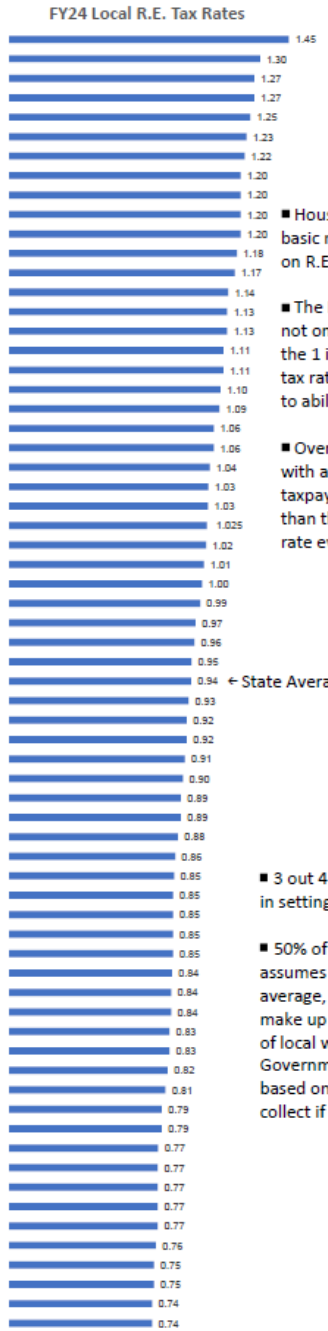
- The LCI uses average AGI. However, 8 out 10 Fairfax County residents have incomes below this average.

- Real estate tax assessed value is not related to the current ability-to-pay of many long-time residents or of the relative ability of the wealthiest.

- The burden on homeowners of high real estate taxes to make up for lack of state K-12 school funding is much higher throughout Virginia's the urban crescent. These localities are home to over half Virginia's population.

- Fairfax County is 19th among the 33 cities and counties having rates from .95 to 1.45.

	popu-lation density	State Aid % of K-12 spending	R.E. Tax % of local revenue	Pub Service Corp % of R.E. Tax
Manassas Park*	5,654	64%	59%	1.6%
Portsmouth	2,885	55%	43%	3.9%
Buena Vista	1,013	62%	38%	5.2%
Petersburg	1,503	63%	42%	7.7%
Norfolk	4,470	56%	46%	3.6%
Falls Church	7,646	15%	58%	0.6%
Roanoke City	2,329	50%	40%	4.8%
Colonial Heights**	2,399			
Newport News	2,642	51%	44%	2.9%
Richmond City	3,822	35%	48%	3.1%
Salem	1,721	54%	34%	2.3%
Hampton	2,660	56%	43%	2.6%
Bristol	1,301	60%	25%	1.3%
Manassas	4,326	52%	52%	1.9%
Hopewell**	2,173			
Poquoson	823	53%	57%	1.0%
Alexandria	10,615	19%	61%	1.5%
Lynchburg	1,648	49%	31%	3.4%
Fairfax Co	2,914	27%	62%	2.0%
Suffolk	252	52%	43%	3.3%
Accomack	74	58%	36%	6.3%
Roanoke Co	385	49%	51%	4.1%
Martinsville	1,206	60%	25%	4.5%
Arlington	9,326	17%	61%	1.5%
Franklin*	78	49%	27%	0.6%
Fairfax City	3,806	18%	49%	1.8%
Westmoreland	83	50%	52%	2.2%
Chesapeake	746	47%	48%	3.1%
Galax	828	60%	21%	4.4%
Virginia Beach	1,854	44%	49%	1.5%
Prince William	1,470	49%	57%	2.4%
Charlottesville	4,988	33%	44%	1.6%
Stafford	614	56%	54%	1.9%
Fauquier	114	37%	60%	4.9%
Harrisonburg	3,229	56%	36%	1.2%
Emporia**	812			
Lexington	2,932	53%	30%	3.3%
Chesterfield	915	55%	54%	2.9%
Norton**	488			
Staunton	1,289	50%	38%	4.2%
Southampton	30	60%	39%	10.6%
Loudoun	841	29%	46%	2.7%
Fredericksburg	2,652	38%	32%	1.9%
Albemarle	161	28%	59%	2.3%
Covington	1,018	0%	21%	33.5%
Henrico	1,455	52%	49%	2.6%
Isle of Wight	129	56%	45%	2.6%
King William	67	64%	43%	2.8%
Fluvanna	98	51%	59%	13.2%
Danville	987	62%	16%	3.2%
Radford	1,741	71%	26%	1.5%
Winchester	3,127	39%	33%	2.3%
James City	567	39%	50%	3.0%
Prince George	161	67%	47%	8.7%
Hanover	242	46%	51%	3.7%
Botetourt	62	46%	47%	9.9%
Dinwiddie	56	72%	39%	7.2%
Spotsylvania	365	55%	45%	2.3%
Waynesboro	1,513	51%	32%	4.2%
Caroline	63	56%	45%	11.4%
Scott	40	75%	47%	7.4%
York	686	53%	48%	3.2%
Northampton	57	51%	49%	2.3%
Cumberland	33	62%	43%	9.4%
Orange	110	49%	46%	4.2%
Madison	44	47%	47%	2.1%
Pulaski	104	60%	30%	4.7%



← State Average R.E. Tax rate

- Housing costs have grown faster than any other basic need, even healthcare. Over-dependence on R.E. taxes adds to this burden.

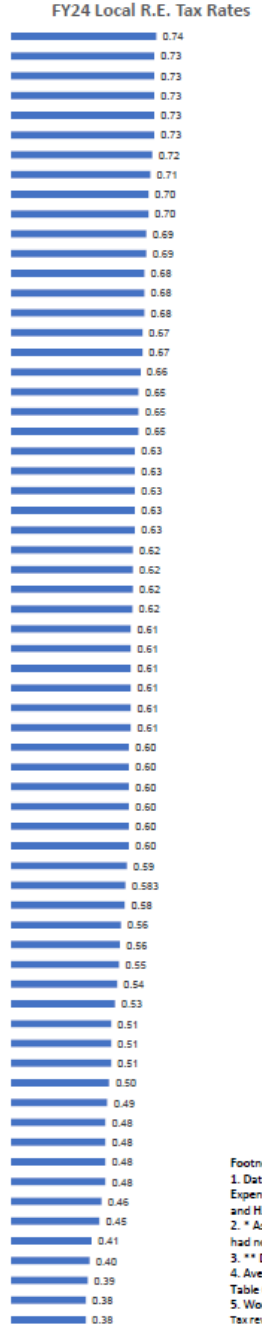
- The R.E. tax is based on current resale value, not on the owner's current income. Especially, the 1 in 4 localities that have pushed their R.E. tax rates to the limit need be able to relate taxes to ability to pay.

- Over half (4.7 million) Virginians live in localities with above average R.E. tax rates. Most of these taxpayers also live in homes valued at far more than the state average, making the higher tax rate even more punitive.

- 3 out 4 localities do not make average effort in setting their R.E. tax rate.

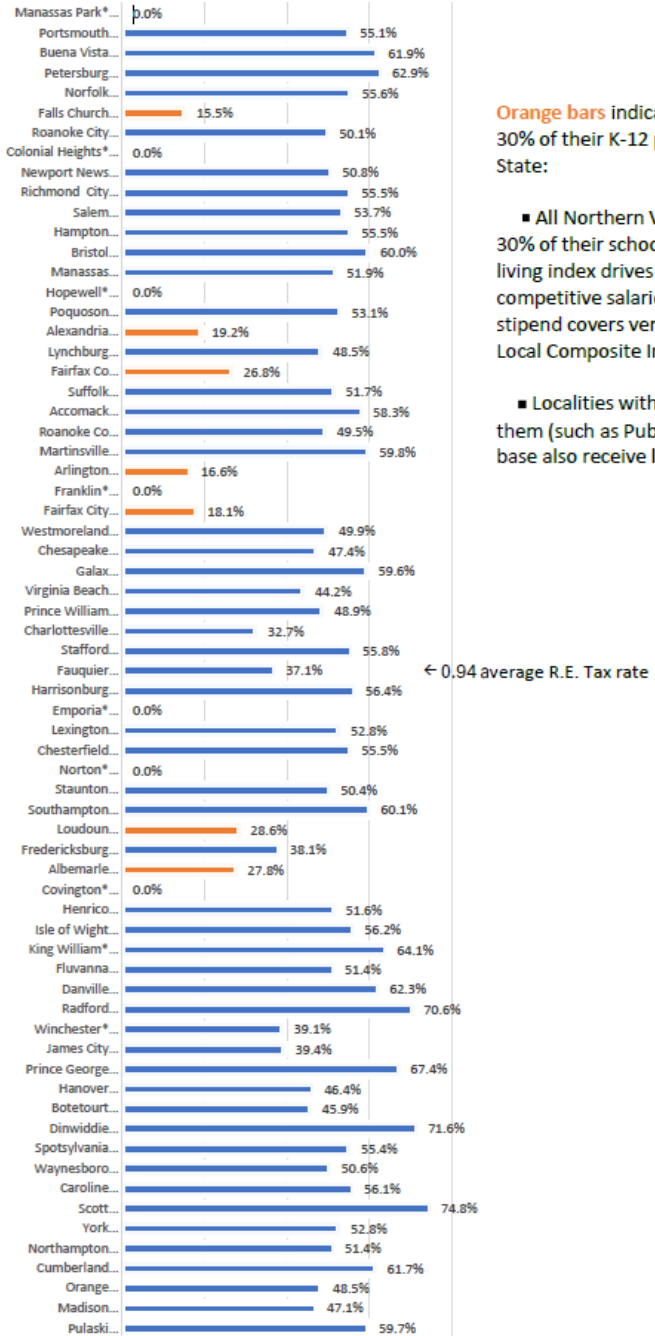
- 50% of the State School Funding formula assumes a locality's R.E. tax rate is at the state average, before it increases state funds to make up for lack revenue at that rate because of local wealth. The Commission on Local Government Fiscal Stress assessment also is based on how much revenue a locality could collect if it taxed at state averages.

	popu-lation density	State Aid % of K-12 spending	R.E. Tax % of local revenue	Pub Service Corp % of R.E. Tax
Smyth	64	63%	25%	13.3%
Alleghany	33	65%	29%	12.5%
Essex	41	49%	48%	3.1%
Greene	137	55%	45%	2.4%
Page	75	57%	42%	3.6%
Patrick	35	66%	42%	4.5%
Louisa	82	39%	60%	24.2%
Surry*	23	18%	74%	66.1%
Montgomery	263	50%	53%	4.5%
Richmond Co	48	61%	45%	7.7%
Powhatan	122	44%	54%	2.1%
Wise	87	64%	46%	40.4%
Giles	46	70%	28%	7.9%
King George	154	54%	42%	2.7%
Rockingham	101	52%	45%	3.2%
Greensville	37	49%	41%	58.2%
New Kent	122	49%	42%	4.6%
Charles City	35	33%	41%	11.7%
Brunswick	27	50%	48%	38.8%
Floyd	39	59%	45%	3.7%
Nelson	31	32%	54%	4.4%
Appomattox	50	74%	41%	7.3%
Augusta	81	54%	42%	4.4%
Craig	15	63%	50%	4.2%
Lancaster	81	24%	65%	2.7%
Russell	53	69%	31%	15.7%
Williamsburg	1,753	37%	32%	2.4%
Charlotte	24	62%	32%	8.0%
Pittsylvania	61	62%	38%	8.7%
Lee**	50			
Amherst	66	57%	31%	4.8%
Franklin	965	52%	45%	2.0%
Middlesex	83	32%	53%	4.3%
Northumberland	61	25%	62%	1.6%
Rappahannock	28	24%	51%	2.7%
Rockbridge	38	43%	36%	8.9%
Bath	8	18%	64%	55.4%
Bland	17	63%	23%	16.5%
Clarke	88	39%	49%	2.7%
Dickenson	41	61%	31%	7.6%
Shenandoah	88	53%	44%	4.8%
Washington	96	57%	32%	4.6%
Carroll	61	55%	30%	5.6%
Gloucester	180	47%	42%	3.1%
Tazewell	75	60%	29%	7.6%
Mathews	97	38%	55%	1.3%
Henry	127	63%	20%	7.4%
Buckingham	29	58%	47%	20.3%
Grayson	34	51%	38%	3.3%
Goochland	94	21%	48%	2.5%
Frederick	233	48%	33%	3.0%
Prince Edward	63	51%	33%	7.4%
Wythe	61	59%	27%	11.6%
Halifax	40	64%	33%	23.5%
Warren**	194			
Highland	5	46%	54%	3.0%
King & Queen	21	54%	36%	5.2%
Nottoway	50	56%	31%	8.5%
Sussex	21	48%	27%	10.1%
Culpeper	145	61%	35%	3.9%
Campbell	111	62%	35%	7.6%
Bedford	106	59%	44%	2.8%
Mecklenburg	48	51%	20%	6.0%
Buchanan	38	66%	20%	6.5%
Amelia	38	58%	30%	3.2%
Lunenburg	28	66%	26%	4.6%



Footnotes:
1. Data from "Comparative Report of Local Government Revenues and Expenditures" for FY24, Virginia Auditor of Public Accounts, Exhibits B, B1, B2, C6, and H.
2. * Astrisk indicates FY23 data was used for localities whose FY24 information had not been received by Auditor for inclusion as of September 1, 2025.
3. ** Double astrisk indicates information not received for both FY24 and FY23.
4. Average .94 R.E. tax rate from "Virginia Tax Annual Report Fiscal Year 2024," Table 6.1.
5. Working draft compiled by Delegate Watts 11/29/25 pending Virginia Department of Tax review.

FY24 State Categorical Aid % of Local School Budgets (in order of local R.E. Tax rates)

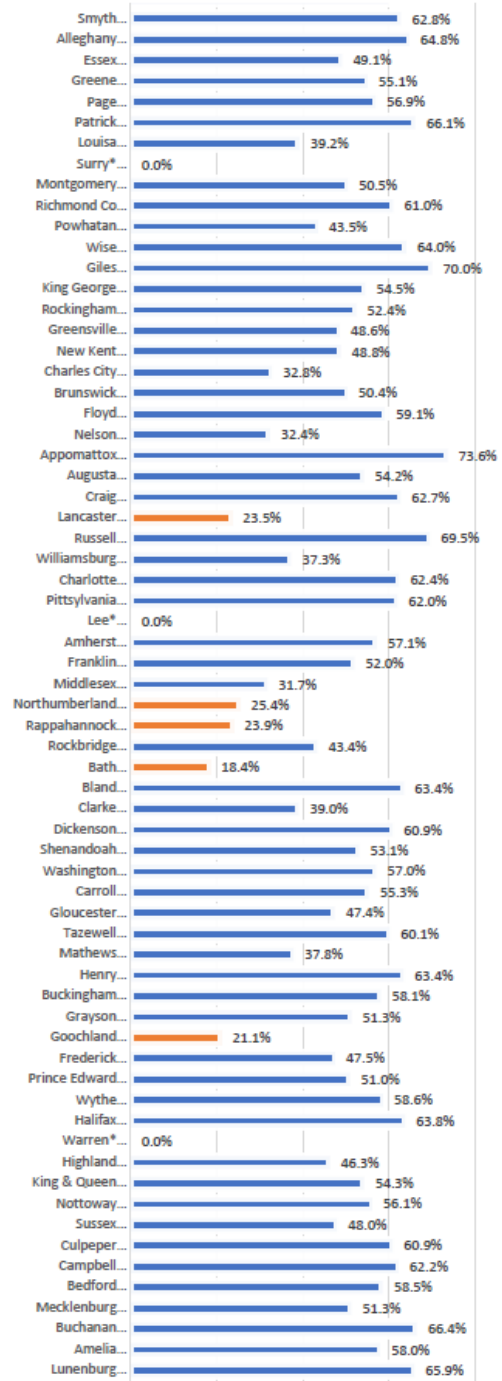


← 0.94 average R.E. Tax rate

Orange bars indicate localities that receive less than 30% of their K-12 public school budget from the State:

- All Northern Virginia localities receive less than 30% of their school budget. The 145% NoVa cost of living index drives up school budgets to pay competitive salaries. The state cost to compete salary stipend covers very little because it is reduced by the Local Composite Index (LCI) to less than 5%.

- Localities with high value properties located in them (such as Public Utilities) that are in the local tax base also receive less state funding.



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No one gets everything they want in changing how funds are allocated

- Two top changes to better reflect Fairfax County needs are
  - not applying LCI to Cost to Compete salary adjustments
  - direct per student funding of special needs (ID/DD, At-Risk, and EL)
- Ultimately, it needs to be recognized the LCI measure of ability-to-pay does not reflect local authority to tax.

  Even with transportation funds better targeted to meet urban needs, eventually, state funding was supplemented with new dedicated transportation funding raised locally and used locally.

What is the potential for increased state funding for K-12?

- The magnitude of state underfunding of K-12 documented by JLARC is so great that it requires major new state revenue.

- Historically, JLARC's K-12 state funding analysis is parallel to JLARC's comprehensive analysis of transportation under-funding and formula provisions that didn't direct funds to needs. **Taxes were only raised after changes were made in how they would be used**.

- However, federal funding cuts may become so severe that there may be political support to raise state revenue to fund gutted essential services.

Revenue Impacts of Major Known Federal Actions

Virginia must balance state budget, while dealing with:

Healthcare cuts

- Provider Tax Credit support of health insurance
- Hospital provider tax Medicaid subsidy
- Must spend to get error rate down
- Nursing homes

SNAP cuts

- $.5 B potentially
- School meals

K-12 cuts

- ID/DD
- At Risk, ESL, DEI conditions

(Federal funding is up to 25% of local schools –13% on average)

Lower tax revenue

1/4 of VA economy is federal spending

- lost Fed jobs with twice tax impact
- Port and Agriculture losses
- Immigrant tax losses TBD

Critical On-going

- Housing
- JLARC K-12
- Mental Health
- Skilled worker shortages
- College affordability
- Nursing homes

High Profile Tax Conformity

Child Tax Credit
Business Expensing
Tips and Overtime
Standard Deduction

Tax Options in Play? "It's a Mystery …"

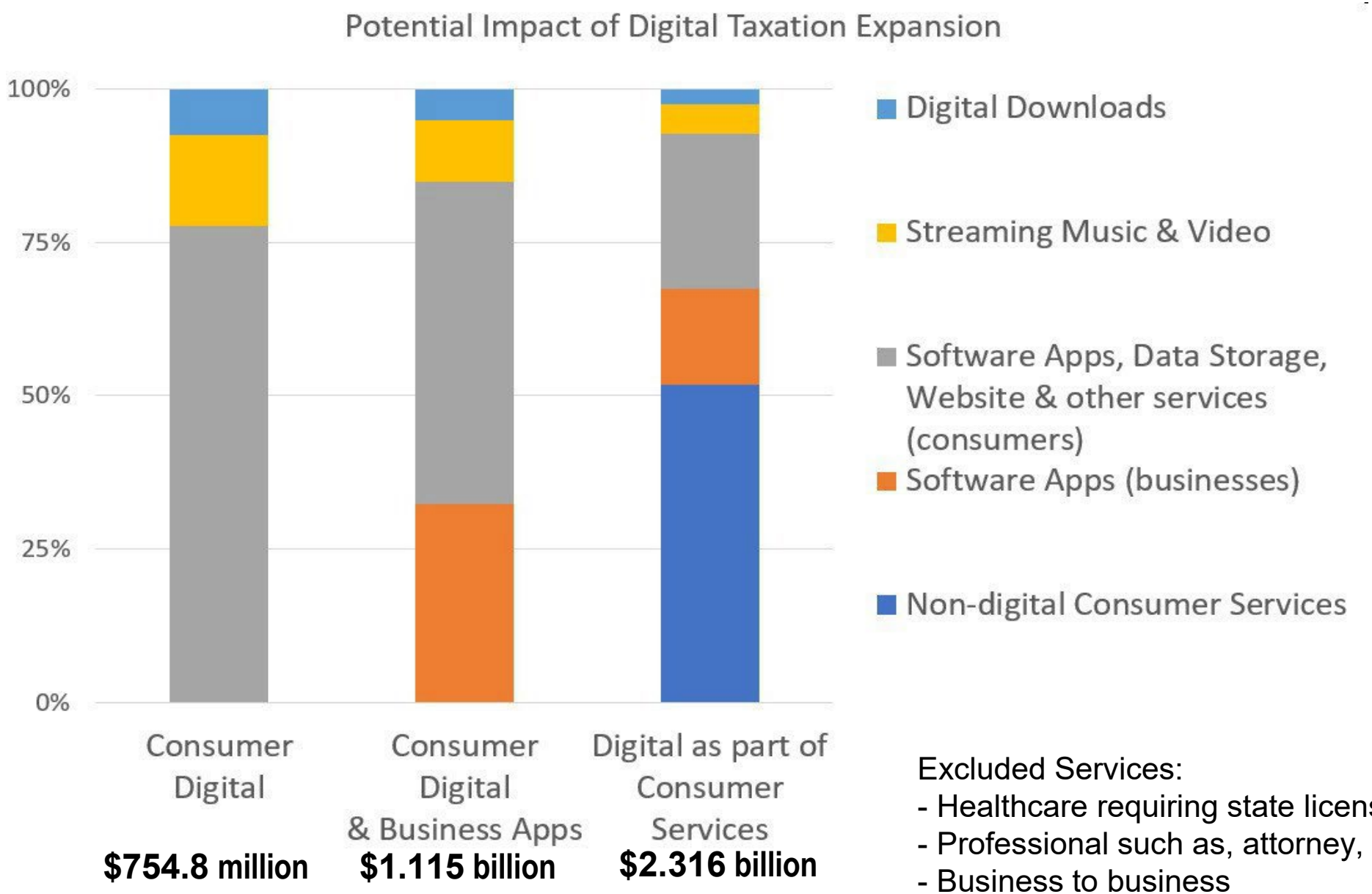
- A tax on consumer services could increase state and local general revenue as well as transportation and sales taxes enacted for specific uses.
- Local 1-cent sales tax for school construction referendum option for all localities (as in SB1307) could provide R.E. tax relief.
- New upper income tax brackets could increase state General Fund revenue. Raising standard deduction to address inflation would reduce the state GF.
- Local option surcharge on state income tax (MD's is 3.4 percent) or local option upper bracket could relieve real estate tax.

Sales Tax Reform

- Virginia is over-reliant for the state general fund on individual income tax (70%) and for local budgets on the real estate tax.
- The broader its tax base, the less vulnerable a government is to economic downturns in any given sector.
- The average state raises about $1.50 from general sales for every $2 from individual income taxes. Virginia raises less than 50-cents.

(VA: FY25$21.9B vs $4.8B. U.S. average in 2021: $504B vs $370B according to Tax Policy Center Urban Institute Brooking Institution.)

- Since 1970, average household spends more on services than goods. Services are now 2/3 of consumer spending.
- Out-of-date provisions create loopholes and an uneven economic playing field.
- Eliminating local food tax remains a target in reform.



Excluded Services:
- Healthcare requiring state licensure or permit
- Professional such as, attorney, accountant, real estate
- Business to business
- Construction/trades requiring permit
- Home services not obtained through third party.

Revenue estimates are for the total revenue generated. Expanding the sales tax base applies to all sales taxes enacted in Virginia; therefore, the revenue would be split and approximately

- 38% would go to the **state** General Fund for appropriation;

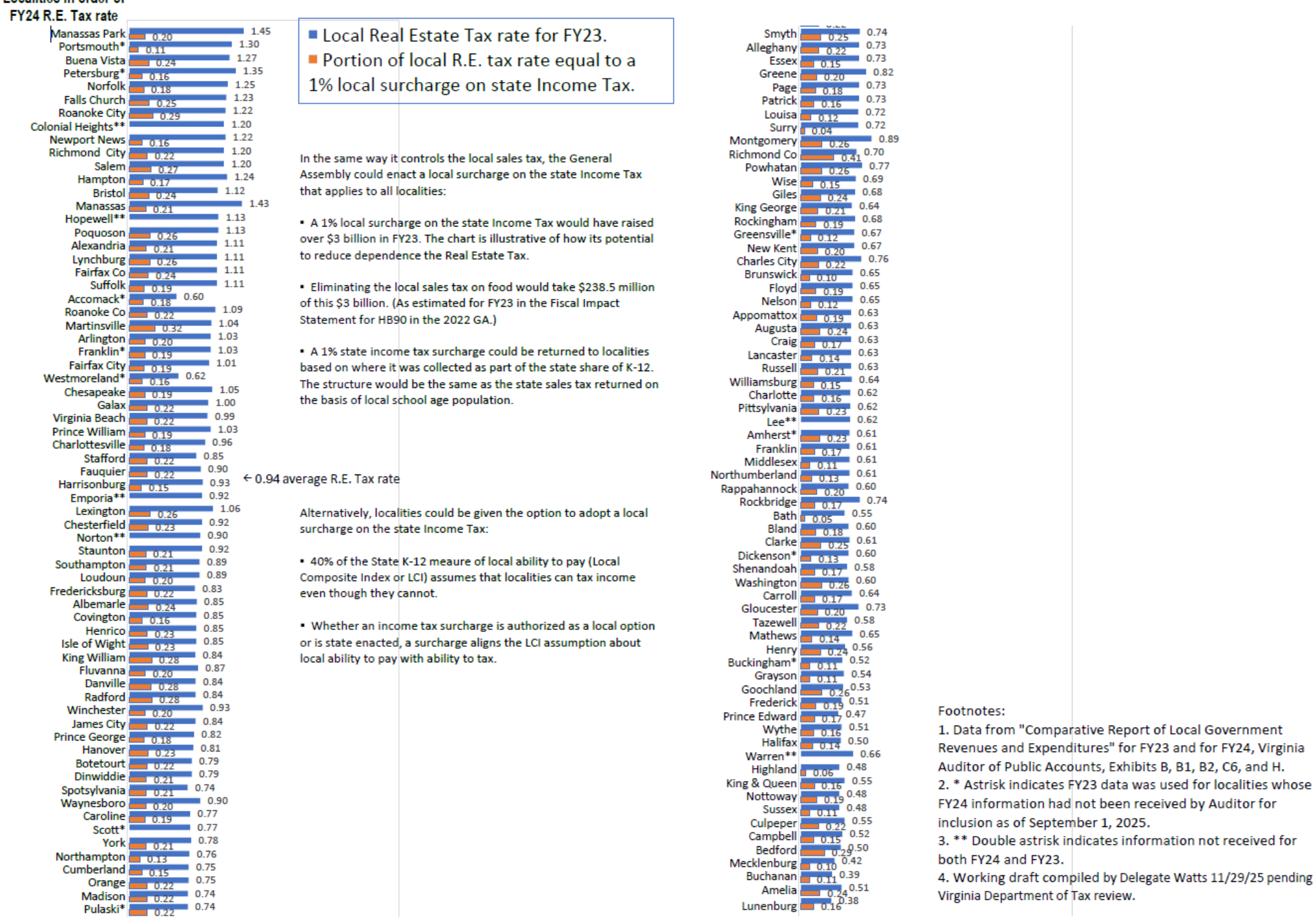
- 23% is the 1-cent **local** sales tax;

- 16% is allocated to localities based on **school-age population**;

- 14% is the 0.05-cent **state transportation** tax;

- 7% is **regional transportation** authority taxes; and

- 1% are **voter-approved local** sales taxes for school bonds or tourism.



In the same way it controls the local sales tax, the General Assembly could enact a local surcharge on the state Income Tax that applies to all localities:

- A 1% local surcharge on the state Income Tax would have raised over $3 billion in FY23. The chart is illustrative of how its potential to reduce dependence the Real Estate Tax.
- Eliminating the local sales tax on food would take $238.5 million of this $3 billion. (As estimated for FY23 in the Fiscal Impact Statement for HB90 in the 2022 GA.)
- A 1% state income tax surcharge could be returned to localities based on where it was collected as part of the state share of K-12. The structure would be the same as the state sales tax returned on the basis of local school age population.

Alternatively, localities could be given the option to adopt a local surcharge on the state Income Tax:

- 40% of the State K-12 meaure of local ability to pay (Local Composite Index or LCI) assumes that localities can tax income even though they cannot.
- Whether an income tax surcharge is authorized as a local option or is state enacted, a surcharge aligns the LCI assumption about local ability to pay with ability to tax.

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