



League of Women Voters of Falls Church

Information Paper: Falls Church City Budget and Spending

PURPOSE: Present facts and context that shape a discussion about the City's budget and spending.

AUDIENCE: All Falls Church citizens with an interest in the City's budget and spending.

1. Governance of Falls Church City

The Falls Church City Charter provides for a Council-Manager form of government. Policy is made and laws enacted by the City Council. The City Manager serves as the Chief Executive Officer and is selected by the Council. The Mayor and Vice Mayor are elected by the City Council from among their members and serve two-year terms.

Falls Church became an independent city in 1948, separating from Fairfax County primarily to obtain control of its own schools. The City's independence necessitates an infrastructure that includes the same public services beyond schools that are provided by larger cities and counties: local government, parks and recreation, police, a library, sewers, a storm water system, and so forth. Such infrastructure carries with it fixed costs that must be spread across the City's small population (13,500) and small area (2 square miles).

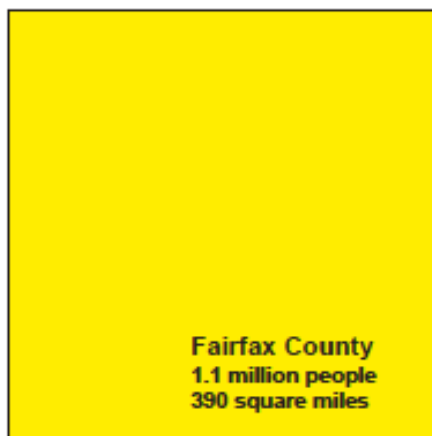
Neighboring jurisdictions can spread these costs over larger populations and collect taxes on more square miles of real estate, both residential and commercial. Examples include Arlington County: approximately 227,000 people and 26 square miles; Fairfax County: about 1.1M people and 390 square miles; and the City of Alexandria: approximately 150,000 people and 15 square miles. In Falls Church 24.1% of the land is zoned commercial. The proportion is similar in Fairfax County. In Arlington it is 30% and in Fairfax City 35%.

Until recently Falls Church received revenue from its own water system. Following World War II the City established a Falls Church Water System by buying water from the Dalecarlia Aqueduct in Washington, D.C. and running it through pipes and water towers the City built. The system grew until it served all the water customers

in the City plus some 120,000 water customers in Fairfax County, including the Tyson's Corner Mall. Each year a "dividend" or Return on Investment was issued and transferred from the Water Fund to the General Fund.

"You are entitled to your opinion. But you are not entitled to your own facts."

—Daniel Patrick Moynihan



Arlington County
227,000 people
26 square miles



City of Alexandria
150,000 people
15 square miles

Falls Church City
13,500 people
2 square miles

On January 3, 2014, after lengthy negotiations with Fairfax County, and approval by Falls Church voters in a November, 2013, referendum, the Water System was sold to Fairfax Water. The City received \$40 million (\$20.5 million net) and a boundary adjustment that brought 38.4 acres of land within the City limits.

The Dillon Rule, which the Virginia Supreme Court adopted in 1896, is a legal principle that states local governments in Virginia have limited power and can pass ordinances only in areas where the Virginia General Assembly has granted clear authority. Although there are additional provisions to the rule, the result is that localities can only increase revenue to fund services through specific types of taxes. City governments can raise or lower taxes on meals, business licenses, cigarettes, personal property (cars, mobile homes, boats, etc.), real property, and consumer utilities. The Real Property Tax accounts for approximately 60% of City revenues (most jurisdictions have a similar ratio). This is the tax rate that garners the most attention each year when the budget is considered.

The Falls Church real property tax rate includes items that are separate charges in neighboring jurisdictions. For example, Fairfax charges separately for leaf collection and a refuse fee and imposes a real estate tax of \$0.125 on all commercial property.

2. How the Falls Church Budget is Constructed

The City budget actually consists of three budgets (not including utility or other special purpose funds):

Capital Fund Budget. The Capital Improvement Plan (CIP) is a five-year estimate of expenditures for structures, equipment and other facilities with a long-term useful life. Each department, commission, and board submits through the City Manager to the Planning Commission a detailed list of all immediate and long-term capital improvements falling within its jurisdiction, together with estimates of cost and its recommendation as to priority and timing. The Planning Commission correlates these proposals and submits annually to the City Manager its recommended program of Capital Improvements. The City Manager submits to the Council an ordinance making appropriations necessary for financing the capital improvement projects for the coming fiscal year and providing for any necessary revenues. Only the proposals in the first year of each Capital Budget, when adopted, are assured. Since funds are allocated for these projects specifically, the remaining four years are a long-range plan subject to revision.

Real Estate Taxes in Region

2015 (Proposed as of April 24)

Real Estate Tax Rates	TY2015	Extras	Comparable Tax Rate
Manassas Park City	\$1.650		\$1.650
Purcellville Town	1.395		1.415
Manassas City	1.368		1.368
Herndon Town	1,355		1,355
Vienna Town	1.319		1.319
Leesburg Town	1.318		1.338
Falls Church City	1.315/1.305		1.315/1.305
Prince William County	1.192	0.010	1.202
Loudon County	1.135	0.050	1.205
Fairfax County	1.090	0.108	1.199
Fairfax City	1.040	0.010	1.050
Alexandria City	1.043	0.063	1.108
Arlington County	0.996	0.058	1.054
AVERAGE	1.25	0.05	1.28

General Fund Budget. The City Manager prepares a budget to include all of the costs required to run the City and recommends a tax rate for the ensuing fiscal year (July 1-June 30.) Currently one cent added to the tax rate produces \$372,600 in revenue. By law the budget must be balanced. Budget ordinances are prepared and are adopted after public hearings and Council discussion. The City contracts out to neighboring localities, such as Arlington County and Fairfax County, some functions that are not efficient to provide internally, including jails, Commonwealth's Attorney, Circuit Court, Fire and E-911 services, health services, family services, and social services.

School Budget. The Superintendent of Schools prepares a budget for school needs and presents it to the elected Falls Church City School Board. The Board holds hearings and, after making whatever changes it deems necessary, forwards the budget to the City Council. The School Budget request becomes a line item in the City Budget. The City Council can only make adjustments in the total funds requested by the School Board (the School Transfer). Responsibility for how the money is allocated remains with the Board.

3. Expenses in the Annual Budget that Are Difficult to Control

■ The cost of capital improvement projects can be covered through two pathways: bonding or current year cash. If bonded, repayment of the bond plus interest is an obligation in annual budgets (\$1 million in debt requires \$80,000 in annual debt service).

■ Independent localities have to maintain a certain reserve in order to preserve a good credit rating, which enables the City to obtain a more favorable rate in the bond market when raising money through bonds. The municipal reserve recommended by the Government Finance Officers Association (GFOA) is 17% of the operating budget or two months of city expenditures. Currently the City's reserve is at 18.5% of the operating budget, or \$14,274,680. The City's policy calls for a reserve that is a minimum 12% and a target 17% of annual expenditures.

■ One fixed expense is actually going down. Last year the City put \$9.2 million into the pension plan for City employees to ensure the plan remains 100% funded. This action is projected to reduce the amount the City owes to the pension plan by approximately \$650,000 annually, depending on annual investment returns.

4. School Budget Specifics

The Falls Church City School transfer comprises 47% of the City's total expenses for FY2016. Historically this number accounts for between 45% and 48% of the annual operating budget. In Fairfax County, it is 53%; in Arlington County, 39%; in Alexandria it is 57%. These numbers are difficult to compare for a variety of reasons – for

example, some jurisdictions may include debt service on school capital projects in the school side of this ratio where others (including the City) do not.

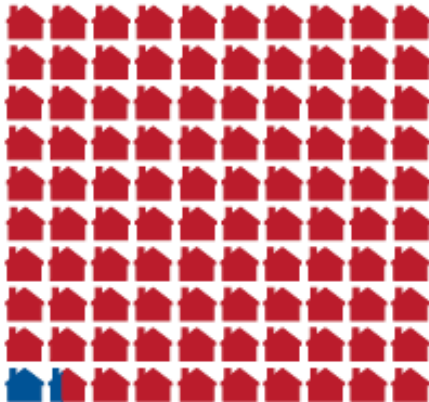
The local tax-supported cost of educating one student in the Falls Church City School System is approximately \$14,900 annually. The size of the student population in the City has been growing, reaching a record 2,565 at the start of the 2015-2016 school year. Schools are required to educate all children residing in the City.

School age population (ages 5-17) is a higher percentage of total population in Falls Church than in neighboring jurisdictions. Figures from the 2010 census are: Falls Church – 18.4%; Arlington – 11%; Fairfax County – 17%; Alexandria – 10%.

In addition to the City transfer, the school budget includes state and federal funding sources. In Falls Church these are minimal. Other localities in Virginia receive more help paying for school expenses than does Falls Church. This is because of Virginia's application of a Local Composite Index (LCI), which determines a school division's ability to pay for education.

The LCI is calculated using three indicators of a locality's ability to pay: True value of real property (weighted 50 percent); adjusted gross income (weighted 40 percent), and taxable retail sales (weighted 10 percent). The calculation results in an "Ability to Pay" index—a low index indicating greater need for assistance from the Commonwealth, and a high index indicating a lesser need for help. Using this formula, the City's rating is 0.80; as a result, Falls Church receives a comparatively small amount of school funding from the Commonwealth in comparison with some of our neighbors (Loudoun County: 0.57; Fairfax County: 0.67). This difference means that if Falls Church had the same LCI as Loudoun County, the real property tax rate would be 10 cents lower; if we had the same LCI as Fairfax County, the rate would be 5 cents lower.

SUMMARY: Falls Church City's budget and spending are rooted in its founding as a city dedicated to world class schools, a goal it has achieved in the course of 67 years. Independence, however, has come at a price. Falls Church depends on real estate taxes, receives little financial assistance from Virginia, and has fewer revenue sources than its neighbors. These factors shape the annual budget discussion.



A house with a value of \$1 million generates \$13,000 in annual taxes.

The League of Women Voters of Falls Church is not expressing an opinion about any aspect of the City's spending or development plans in this publication. Our intent is to present content that will enable interested citizens to be aware of the factors influencing the decisions made by the City Council in adopting the budget and setting the Tax Rate.



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