

BACKGROUND INFORMATION ON THE FAIRFAX COUNTY FY 2026 ADVERTISED BUDGET

On February 18, 2025, Fairfax County Executive Bryan Hill released his FY 2026 Budget proposal (also called the “Advertised Budget”). Fiscal Year 2026 begins on July 1, 2025. Mr. Hill stated that this proposed Budget primarily focuses on pay and benefits for County employees and also includes necessary “adjustments” to address inflationary increases, debt service obligations, state and federal mandates, new facilities, and a few new investments in information technology and affordable housing.

Citing modest revenue growth of 4.2 percent and significant expenditure pressures, Mr. Hill has built his FY 2026 Budget on a proposed 1.5-cent increase in the Real Estate Tax Rate, which would generate \$33.95 million in revenue and would result in an available balance of \$5.62 million for the Board’s consideration. The Budget also proposes a 2 percent increase to the Transient Occupancy Tax, which would bring the rate from 4 to 6 percent and generate just over \$13 million, half of which would be used to support tourism activities.

On March 18, 2025, the Board of Supervisors (with Mr. Herrity absent) unanimously authorized advertising a FY 2026 Real Estate Tax Rate of \$1.14 per \$100 of assessed value, an increase of \$0.015, as proposed by the County Executive. The Board also unanimously authorized advertising a public hearing to consider the addition of a Food and Beverage Tax (*aka* Meals Tax) to the County Code, effective July 1, 2026. The maximum advertised rate for consideration will be 4 percent. Although the special Meals Tax hearing will take place on April 22 at 3 pm, an hour before the first Budget Hearing, Board members have made it clear that, as usual, they expect to hear comments on the Meals Tax and other taxes during the budget hearings.

After hearing the concerns of County residents, the Board of Supervisors will make changes to the FY 2026 Budget and approve it at the “markup” meeting on May 6.

Significantly, the proposed FY 2026 Budget includes targeted reductions of almost \$60 million and 208 positions. About 36 percent of these funding reductions would be in health and human services. In total, Fairfax County has cut spending by approximately \$100 million since FY 2024. About \$38.1 million of these recent cuts were in health and human services agencies. For a complete listing of all County agency reductions, along with impact details and position reductions, go to the Advertised FY 2026 Budget and click on “Agency Reductions.”

<https://www.fairfaxcounty.gov/budget/sites/budget/files/Assets/Documents/fy2026/advertised/overview/Reduction%20Package.pdf>

PROPOSED FUNDING INCREASES IN HEALTH AND HUMAN SERVICES

The proposed Budget also includes a few funding increases for health and human services (HHS). The increases include:

Contract Rate Increases: The proposed FY 2026 Budget includes an increase of \$12.02 million to support contract rate increases for mandated and non-mandated services in health and human services, and for information technology, parks, public safety, and others. Of this total increase, about \$8.6 million supports HHS contract rate increases, including the following:

- Dept. of Family Services (DFS): \$3 million
- Health Dept. (HD): \$751,795

- Dept. of Neighborhood & Community Services (NCS): \$1.5 million
- Community Services Board (CSB): \$1.9 million
- Dept. of Housing & Community Development (HCD): \$971,986

Affordable Housing (HCD): \$8.5 million (the value of ¼ penny from the Real Estate Tax Rate) will be added to the Affordable Housing Development and Investment Fund.

Fair Ridge Shelter and Homeless Services (HCD): An increase of \$3.4 million will support operations at the new Fair Ridge Family Shelter, scheduled to open in April 2025.

Support Coordination (CSB): An increase of \$1.3 million (previously approved as part of the FY 2024 Carryover Review) will provide support coordination services to individuals with developmental disabilities in the community. (offset by Medicaid Waiver Revenue, with net cost of \$251,519)

Lab Facility Maintenance (HD): An increase of \$230,000 will support maintenance of the Health Dept. Laboratory, which performs a full range of medical and environmental testing services.

Camp Fairfax Meals (NCS): An increase of \$875,371 will support the provision of breakfast, lunch, and afternoon snacks at additional Camp Fairfax sites during the summer as a result of the transfer of the Rec-Pac program from the Park Authority to NCS's Camp Fairfax, which offers meals as part of the program.

FUND 30300: AFFORDABLE HOUSING DEVELOPMENT AND INVESTMENT

The Affordable Housing Development and Investment Fund was established in FY 2006 and is designed to serve as a readily available funding source with the flexibility to preserve and promote the development of affordable housing. For fiscal years 2006 through 2009, the Board of Supervisors (BOS) dedicated revenue commensurate with the value of one cent of the Real Estate Tax to the preservation of affordable housing, a major County priority. In FY 2010, in order to balance the budget, the BOS reduced this dedicated funding to a half-cent.

During the following years, the Board identified additional local resources which were allocated for affordable housing at quarterly budget reviews as one-time funding (**not baseline**). In 2022, the Board increased the affordable housing production goal from 5,000 units (which they committed to in FY 2021) to 10,000 units by 2034. In FY 2023 the BOS dedicated an additional half-cent on the Real Estate Tax to Fund 30300, bringing the total allocation to one cent. In its Budget Guidance for FY 2026, the Board remained "steadfast in its resolve to add recurring baseline funding for this initiative with the goal of reaching a total investment of two pennies on the Real Estate Tax rate by FY 2027" and encouraged the County Executive to add recurring resources in FY 2026. In his proposed FY 2026 Budget, Bryan Hill has added \$8.49 million, or the value of ¼ penny on the Real Estate Tax rate to this fund. This brings the total dedicated tax revenue to 1 ¼ cents.

Since the creation of the Housing Blueprint in FY 2013, the fund has provided approximately \$181 million for affordable housing in Fairfax County. A total of \$48.6 million is included for FY 2026, with \$42.4 million from Real Estate Tax revenue (the dedicated 1 ¼ cents) and \$6.2 million from property cash flow and housing loan repayments.

In FY 2026, the funding will be allocated as follows:

- \$1.2 million for Affordable/Workforce Housing
- \$150,000 to study future development sites at the Centreville Commuter Lot and the Chantilly Library
- \$200,000 for Crescent Redevelopment
- \$100,000 for Development of Housing at Rte 50 and West Ox
- \$50,000 for East County
- \$37.7 million for the Housing Blueprint Project
- \$50,000 for Innovation
- \$900,000 for Planning and Needs Assessments
- \$3 million for the Rental Subsidy and Services Program
- \$500,000 for WDU Acquisitions
- \$4.9 million for Wedgewood Debt Service

REVENUE

FY 2026 General Fund revenues are projected to be \$5.7 billion, an increase of \$228 million or 4.2 percent over the *FY 2025 Revised Budget Plan*, which contains the latest FY 2025 revenue estimates. The FY 2026 revenue increase is primarily due to an increase of \$231 million, or 6.5 percent, in Real Estate Tax revenue as a result of a 5.34 rise in the Real Estate assessment base, as well as a 1.5-cent increase in the proposed Real Estate Tax Rate from \$1.125 per \$100 of assessed value in FY 2025 to \$1.14 in FY 2026. If this increased tax rate is adopted, the average tax bill would increase by about \$638.39.

The proposed FY 2026 Budget is balanced on a Real Estate Tax Rate of \$1.14 per \$100 of assessed value. That is also the tax rate advertised by the Board. The projected value of a penny on the proposed Real Estate Tax Rate is \$33.95 million in revenue in FY 2026. Each penny change in the tax rate equals \$79.42 on a taxpayer's bill.

While real estate taxes comprise 66.6 percent (\$3.8 billion) of General Fund receipts, there are additional important County revenue sources such as the personal property tax, the sales tax, and state and federal funding. For FY 2026, the County is projected to receive \$122.7 million from the Commonwealth of Virginia (2.1 percent of General Fund receipts) and \$44.9 million from the federal government (0.8 percent of General Fund receipts). The County is also projected to receive another \$66.3 million in federal grant funding in FY 2026.

A 2 percent increase in the Transient Occupancy Tax has also been proposed for FY 2026, which would bring in an additional \$13.3 million in revenue, half of which would support tourism activities.

On March 18, the Board of Supervisors (with Mr. Herrity absent) unanimously voted to authorize the advertisement of the increases in the Transient Occupancy Tax and the Real Estate Tax Rate proposed by the County Executive. An advertised tax rate is a ceiling or maximum. For example, it would not prevent the Board from approving a lower Real Estate Tax Rate when it adopts the FY 2026 Budget, but the Board could not adopt one higher than \$1.14. Since the value of each penny on the Real Estate Tax Rate is \$33.95 million, if the Board were to adopt a lower tax rate, each penny reduction would reduce revenue by \$33.95 million.

In presenting his proposed FY 2026 Budget, the County Executive recommended that the Board authorize the advertisement of an ordinance to implement a Food and Beverage Tax (*aka* Meals Tax). On March 18, the Board unanimously voted to advertise consideration of adding a Food and Beverage Tax (*aka* Meals Tax) to the County Code, with a maximum rate of 4 percent. The new tax would start on January 1, 2026, and the County would receive about \$65.1 million in revenue in FY 2026 (6 months of implementation). A 3 percent Meals Tax Rate would generate about \$48.1 million.

In September 2024, at the Board's request, staff presented information outlining the County's limited options to diversify its revenue sources. One of the options that has aroused community interest is a Meals Tax. With the exception of Loudoun County, all surrounding jurisdictions, including the Towns of Vienna and Herndon, currently impose a Meals Tax. Proponents of the tax see it as an effective way to reduce dependence on real estate taxes and also as a source of new funding for additional investments. Opponents are often against any new taxes and also argue that a meals tax would unfairly affect low-income and middle-income families and would be likely to reduce tourism.

Items covered by the proposed Meals Tax would include hot or cold meals served at restaurants, made to order meals served from deli counters at grocery and convenience stores, desserts (including ice cream and smoothies), and beverages of all kinds served as part of a meal.

The County Executive has pointed out that a significant portion of the Meals Tax revenue would be paid by non-Fairfax County residents, since about 34 percent of expenditures on meals are generated by visitors to the County. He has suggested that the revenue could be invested in County priorities or could be used to eliminate the need for a Real Estate Tax Rate increase in the proposed budget.

The proposal for a Meals Tax in Fairfax County has been debated for years. It has been put to referendum twice, in 1992 and in 2016, and was defeated both times. A change in state law in 2020 allows Fairfax County to enact a Meals Tax without a referendum. For more information on the Meals Tax, including details about meals taxes in nearby jurisdictions and sellers (like non-profits) that are exempted from the tax, please go to:

https://www.fairfaxcounty.gov/budget/sites/budget/files/Assets/documents/budget%20committee%20meeting/2025/mar-11/2025_Mar_11_BudgetComm_Food_and_Beverage.pdf

BUDGET ISSUES

Real Estate Tax Burden: All Board members have expressed their concerns about the increased tax burden on county residents due to continuing significant increases in assessments. They are united in feeling that the tax burden is creating an affordability issue for both homeowners and tenants, even before any Real Estate Tax Rate increases. If Board members wish to reduce the increased Real Estate Tax that was used to balance the proposed FY 2026 Budget, it is possible that they would have to make additional funding cuts, since the available balance (unallocated funding) is only \$5.62 million. A new source of revenue—the Meals Tax—could help the Board balance the budget without additional cuts and could even enable them to reduce Real Estate taxes. Board members will be extremely interested in hearing whether or not the community supports the Meals Tax before they make their final budget decisions.

Fairfax County Public Schools (FCPS): The proposed FY 2026 Budget includes an increase to the School Operating Fund of \$118.6 million and a \$6.7 million increase to fully fund required adjustments for School Debt Service. This results in transfers to FCPS totaling \$2.9 billion, an increase of \$125.34 million, or 4.46 percent, over the FY 2025 Adopted Budget. The 4.46 percent increase is consistent with the County General Fund growth rate of 4.46 percent. Transfers to FCPS make up 51.5 percent of County General Fund disbursements.

However, the Superintendent and the School Board have requested an increase of \$268.26 million, or 10.4 percent over the FY 2025 transfer, the largest school operating increase request, in terms of dollars, in history. The County Executive explained that fully funding the FCPS request would require an additional \$149.62 million, equivalent to another 4.5 cents on the Real Estate Tax Rate, above the 1.5-cent increase that he used to balance his proposed Budget. He said that proposing a school operating transfer less than the requested amount was a difficult decision, but a necessary one in a very tight budget year.

The County provides support for FCPS outside of the General Fund transfers. In FY 2026 \$150.5 million is included in the proposed Budget for programs such as Head Start, School Health, School Resource Officers, behavioral health services, field maintenance, and recreational programs. However, the County Executive has proposed several significant reductions in these programs—the elimination of the Middle School After-School program (NCS) and the elimination of School Crossing Guards at FCPS high schools (Police Dept.).

Economic, Social, and Political Uncertainties: As the County Executive pointed out in his message to the Board and the community, the budget was released in a “time of great uncertainty for our region, as the presidential administration has signaled its desire, and begun taking actions, to significantly reshape the federal government, including its workforce.” According to Chairman McKay, there are over 80,000 County residents who are federal employees, with more than 28,000 federal positions located within Fairfax County. Additionally, Fort Belvoir employs more than 45,000 individuals, including military personnel, civilians, and contractors. The full impact of these actions on workers and on federal programs that currently meet the needs of our community is still to be reckoned with. Mr. Hill also pointed out that the economic impacts of other presidential actions have yet to be realized, and factors like inflation and consumer confidence always affect our local community. He ended by saying: “It will be imperative for us to continually monitor actions at the federal level to determine if any updates to our revenue projections are necessary.”

FY 2026 HHS STRATEGIC ALLOCATION OF RESOURCES (StAR) PLAN

Like the FY 2025 StAR Plan, the FY 2026 version is organized by the community outcome areas of the Countywide Strategic Plan. The items in the FY 2026 StAR Plan include the few new requests that received funding in the FY 2026 Budget and all the HHS funding reductions in the proposed Budget. Unlike the FY 2025 Plan, it does not include requested items that did not receive funding. It does not include services provided by the community’s non-profit agencies, nor does it include HHS capital funding needs.

You can find the StAR Plan by going to:

<https://www.fairfaxcounty.gov/health-humanservices/resourceplan>