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[00:00:06] All right. Welcome, everyone, to our March 11, 2025 Budget Committee meeting, and I know Supervisor Herity will not be joining us, but I know we're waiting on a few other board members, but we're going to go ahead and get started. In the interest of time, we do only have one item on the agenda today, and before I introduce Phil Hagen, who's going to walk us through the presentation, just as a reminder, the next Budget Committee meeting is scheduled not long from today. We'll be right back here again on March 25th, 9.30 a.m. in this same room

[00:00:42] to talk about FY 2025 third quarter review and, of course, the FY 2026 to FY 2030 advertised capital improvement program, which is also a thing that we do annually as part of the budget process.

[00:00:57] And so just mark your calendars for March 25th. And with that, I am going to turn to Phil Hagen, the Director of Department of Management and Budget to walk us through a presentation. Welcome. Thank you, Mr. Chairman, and good morning, Board. Today's presentation will provide background on the food and beverage tax ordinance that staff will bring next Tuesday for the Board to consider advertising. As we go through the presentation, we'll be highlighting the decision points that the Board has that they will have if they choose to implement this tax, the two primary decisions being the tax rate as well as the dealer discount rate. We have a panel of experts here at the table to help answer any questions. We have

[00:01:33] Christina Jackson, our Chief Financial Officer, Jay Doshi, our Director of Tax Administration, Tony Castrilli, our Director of Public Affairs, Dan Robinson with the County Attorney's Office, and Albena Asanova, who is our DMB Division Director of Revenue Analysis. So I would note that as we're going through this presentation, I'm going to be referring to this as the food and beverage tax. We're using that terminology to match Virginia code. Certainly this is the same tax that's commonly referred to as either the meals tax or the restaurant tax, and I I guarantee I'll probably call it the meals tax at least once during this presentation.

[00:02:06] So to quickly summarize what has happened to date, the board directed staff as part of its budget guidance last year to review all existing taxing authority and return with recommendations for revenue diversification. The board's budget committee meeting last September, staff presented on the options available, which include the food and beverage tax, which we're discussing today, the admissions tax, the probate tax, and additional flexibility in the rate of the transient occupancy tax.

[00:02:31] The county executive's advertised budget included a 2% increase in the transient occupancy tax rate, but did not assume revenue from any of the other options. However, the county executive did recommend that the board consider advertising a food and beverage tax on March 18th when it takes action to advertise the budget and the other tax rates.

[00:02:50] Advertising a food and beverage tax now will allow the community to consider it in light of the overall budget picture. As the board is aware, the FY2026 advertised budget plan includes nearly $60 million in county agency reductions and proposes a one-and-a-half-cent increase in the real estate tax rate. A food and beverage tax could offset those proposed reductions or tax increases or fund other priorities.

[00:03:12] We're already receiving community input, both in favor of and against a potential food and beverage tax. We have multiple pathways for the community to express their opinions to the board, including an online survey via email and by phone. When we published this presentation last Friday, we had received over 1,500 responses to our public input platform survey.

[00:03:33] at this point we've actually received closer to 2,000 and so we will be providing that input for the board to review as we work through the budget process. Four district budget town halls have been held to date including two in Mount Vernon and then the Sully district town hall as well as the Providence district town halls last night. We do have nine more budget town halls scheduled throughout the season where residents can express their views both on the budget and on the potential food and beverage tax and then public hearings of course, will be held April 22nd, 23rd, and 24th. I wanted to touch very briefly on our overall revenue picture as context for when we talk about diversifying our revenue. As the board is aware,

[00:04:13] 67% or two-thirds of our revenue comes from real estate taxes, with the bulk of that revenue coming from our residential taxpayers. Over 80% of our revenue comes from the combination of real estate taxes and personal property taxes. And so we certainly expect this overall revenue picture to continue, especially as we're projecting constrained revenue growth for the next few fiscal years, and as the real estate tax continues to be that primary lever that we have in order to adjust revenues.

[00:04:42] A food and beverage tax could change this breakdown, though not dramatically. A food and beverage tax at the maximum rate of 6% would equal 3.6% of FY2026 revenues. So then jumping into kind of the what is a food and beverage tax, it's a tax on ready-to-eat food sold at restaurants, as well as

beverages served alongside that food. It does not include groceries. Jay is going to be providing a much more detailed explanation a little bit later in the presentation of what the tax would or would not apply to, really all of that being restricted by Virginia Code, prescribed in Virginia Code. Virginia Code imposes no restrictions on the use

[00:05:21] of the revenue from a food and beverage tax. And so just like the property tax, we would be looking at this as general revenue at the board's ability to determine how that would support the overall budget. And then as we've said previously, we would recommend that any implementation of a food and beverage tax be delayed until no earlier than January 1, 2026. As you'll see later in the presentation, administering the staff will require both staff and IT support for the county. We'll certainly need time in order to stand that up. In addition, we expect that restaurants will need time in order to adapt their own systems in order to implement this tax. So some quick examples here

[00:06:01] of where the tax would and would not apply. On the left we have a meal prepared at a restaurant that would be subject to the tax. Meanwhile, bottom left, the ingredients, the meat and other ingredients purchased at a grocery store would not be subject to the tax. In the middle, beverages when served with food would be taxed when served at a restaurant with a prepared meal. Meanwhile, beverages when purchased alone would not be subject to the tax. And then off to the right, desserts ready to eat and again served at a restaurant as that term is defined would be subject to the tax. However, when sold pre-packaged at the grocery store, certainly not subject to the tax. Again,

[00:06:41] Jay will be providing more detail a little bit later. One of the benefits, really I think the main benefit of the meals tax as compared to other revenue sources is that we estimate that a third of the tax would be paid by individuals that live outside the county. There are a significant number of people that commute into our county on a daily basis, in addition to tourists who come here. They would be paying this tax as they dine at our county restaurants, and so a food and beverage tax would shift some of the overall tax burden from the county off of our residents and

[00:07:16] on to non-residents. The cost of the tax for our residents will depend largely on their dining habits. As just an estimate, we've used data from the BLS Consumer Expenditure Survey which breaks down average U.S. expenditures by household by income range and it includes an estimate of the average amount spent on dining out. We've highlighted here the $100,000 to $150,000 income range as that captures where our median household income is here in the county.

[00:07:51] And so based on that BLS data, we would estimate that a 1% food and beverage tax would cost $49 to a household that is in that income range. Certainly, if you'd like to see the cost of this at other income ranges, this data was included in a budget question.

[00:08:11] It was budget question C9 in the FY2026 budget Q&A package. And so all of the available income ranges are included in there if the board would like to review that. I'll say overall it's difficult to provide a direct comparison to the real estate tax as we know that income and home value don't necessarily go hand-in-hand.

[00:08:30] But what we've put here on the slide is the cost to the taxpayer of a penny on the real estate tax rate for the average residential assessment. And so that is a cost of $79 per penny on the tax rate. Since the food and beverage tax would generate about $35 million annually, whereas a penny on the real estate tax rate generates $33.95 million, It's a pretty fair comparison when we look at actual revenue generated to the county.

[00:08:58] So if the board opts to implement a food and beverage tax, then the tax rate would certainly be the most important decision point that the board has. Virginia Code allows counties to set a food and beverage tax rate of up to 6%, with each percent generating approximately $35 million in gross revenue.

[00:09:19] I'll be talking in just the next couple of slides about the dealer discount, as well as the cost that we have in order to administer this tax. Those will certainly reduce the amount of revenue that we will realize. I'll also note here that this $35 million is the annual revenue that we'll generate. Throughout the rest of the presentation, I'm going to be talking primarily about the FY2026 revenue, which will be a half year.

[00:09:41] And so $17.5 million would be generated in FY2026 per 1% if adopted. So the draft ordinance that we've included as an attachment to the agenda, it includes a clause in it to establish the tax rate for the first year so that if the Board were to adopt this ordinance as part of that action, they would then be adopting the first-year tax rate.

[00:10:02] In subsequent years, the tax rate would be adopted as part of the tax rate resolution, which sets all the tax rates that don't have to be adopted through ordinance. The Board does adopt the tax rate resolution every year when they adopt the budget. Similar to the real estate tax rate, next week when we bring an item to authorize advertisement of food and beverage tax, If the board goes forward with it, they will need to decide on a maximum tax rate in order to advertise, which, similar to the real estate tax rate, will set the limit that the board would be able to consider in May when they vote on the overall budget.

[00:10:39] A second important decision point is the dealer discount. As restaurants will be collecting this tax on the county's behalf, the board has the option of establishing a dealer discount. The dealer discount would allow restaurants to retain a small fraction of the tax collected in order to offset their administration expenses.

[00:11:01] I would note the dealer discount also provides an incentive for restaurants to remit the tax on time to the county. Certainly with this being a trust tax, the restaurants will be collecting it from their patrons. As their patrons visit it, they will have the cash on hand. The dealer discount will only be available when restaurants remit that payment on a timely basis and meet all our due dates.

[00:11:23] And so it certainly is a carrot out there to ensure that they are remitting those on time. The draft ordinance that is included for your review includes an initial discount of 3%, and then it also includes dropping that dealer discount to 1% after two years. Certainly, as with the tax rate, this is a point where we would recommend that the board, in their action next Tuesday, if they choose to advertise this tax, that they establish what they would like to advertise as the maximum dealer discount in order to be considered in that overall advertisement.

[00:12:00] As I mentioned, we'll certainly need some additional resources in order to administer this tax with this tax impacting anywhere from, we estimate, 3,000 to 3,500 individual sellers, certainly restaurants as well as other establishments. We're expecting this to be a significant workload for DTA.

[00:12:19] We're expecting this to be quite a high-touch, a high-interaction tax to make sure that we are working with those establishments, especially as new establishments open that will be subject to the tax, making sure that we work with them, talk through any concerns, and really get to the point where we're ensuring compliance.

[00:12:35] And so what we are seeing as our requirements at this point would be 21 positions, costing a total of $2.8 million. That includes 19 positions within the Department of Tax Administration to work through monthly compliance, sorry, monthly processing compliance as well as collection.

[00:12:52] Again, site visits new businesses. We also expect some resources to positions within the Department of Information Technology. With this being a new tax, this is something that we will need to establish a system in order to actually be able to process the tax within our systems.

[00:13:11] These all, the $2.8 million, this is a full year cost. Even though the tax, as we're recommending, would be no earlier than January 1, 2026, We would ask for a full year of expenditures within 2026 that we can staff up and also based on the significant amount of outreach that we're expecting in that first half of FY2026 if this tax is implemented so that we can reach out to restaurants and really work through this and make sure that they are prepared for when this goes live.

[00:13:42] I'd also just note here that this $2.8 million will be the same level of resources required regardless of the tax rate set. Certainly, no matter whether we go with 1% or 6%, anywhere in between, we're going to be looking at the same level of staff resources necessary.

[00:14:04] And so on this slide, we bring the prior figures from the past few slides together to show that FY2026 impact at different tax rates. I'd note that this slide completely assumes that the dealer discount would be 3% as included in the draft ordinance.

[00:14:20] Certainly on the next slide, we'll show at varying levels of that dealer discount. But here, I wanted to break down all these different items in order to show you the FY2026 revenue. Again, these are half-year figures, though the administration expenses represent full year costs based on needing to staff up in the months prior to implementation.

[00:14:40] I'd also note as we look here at the net revenue impacts, I would remind the board that a penny on the real estate tax rate is equal to $33.95 million, and so while at various levels of a potential food and beverage tax were similar to that, depending on how the board would want to implement this and what kind of offset they were looking at, it might be necessary in order to use a portion of the $5.6 million that was left in reserve for board consideration from the FY2026 budget in order to balance.

[00:15:16] And then, as I said, this slide is bringing together the different options related to tax rate, which could be anywhere from 1% to 6% versus dealer discount. We've included here 1% through 3%. Certainly the dealer discount could be set as high as 5%. But essentially with this table, if the board were looking at a 2% tax rate with a 3% dealer discount, come down to the second row all the way across to the third column far on the right, and that would generate net revenue of $31.15 million. So this chart, this table, we're really looking for this to be an easy way to see kind of what these combinations would mean for county

[00:15:55] revenue in FY2026. And then, of course, we wanted to take a look at what's happening in our region at the other counties and other cities and towns that have implemented a meals tax or a food and beverage tax and so as we look around what we've included here is for one the FY 2025 tax rates of those jurisdictions certainly as we look at the the counties and cities around us four percent is the typical FY 2025 tax rate with the city of Alexandria at five percent the two towns that

[00:16:31] are located within Fairfax, Herndon, and Vienna are at 3.75% and 3% respectively. Loudoun County being the county around us that does not currently have a countywide meals tax. However, similar

to Fairfax County, there are towns within the county that have meals taxes established. We also took a look at what's been proposed for FY2026, where that data has come out already. There's actually quite a bit of movement this year in other localities looking to increase their food and average taxes. City of Alexandria has proposed flat at 5%. Meanwhile, Arlington has proposed

[00:17:07] increasing from 4 to 5%. City of Fairfax from 4 to 6%. I'd note the City of Falls Church has not proposed their budget yet. That'll be coming out later this month. Prince William County holding flat at 4%. Meanwhile, Town of Herndon has just over the course of the weekend proposed 3.75% increasing to 4%. And then I would note with the Town of Vienna, their proposed budget does include a 3% meals tax for FY2026. They currently have a proposal that they've been discussing for a while about potentially increasing their meals tax by 1% for over a 10-year period in order to fund an

[00:17:45] aquatics facility. I believe last I saw, any decision on that has been postponed until August of 2025. So certainly we'll see where that goes. But here I'm going to turn it over to Jay Doshi with DTA to talk through some of the finer points. Thank you, Phil.

[00:18:03] My name is Jay Doshi, I serve as director of the Department of Tax Administration. We were asked to understand more of the food and beverage tax and what it might look like if the board approves an ordinance. So in addition to going over some of the administrative details, I hope to walk you through exemptions, what the tax would apply to, and hopefully be prepared how we plan to do outreach and how we anticipate administering this tax overall.

[00:18:38] First note is what Phil touched on already, which is these are considered trust taxes. So the monies are held in trust by the taxpayers that are subject to collecting the tax, such as a sales and use tax at the state level, such as a transient occupancy tax, an admissions tax if a locality has one.

[00:19:02] We don't. That's a critical difference because from a collection and enforcement standpoint, that makes all the difference overall in terms of the character of those funds and the need to keep them segregated so that the payments can be made on time. Our monthly tax returns and payments will be due by the 20th of the month, assuming the board adopts an ordinance. Penalty equal to 10% would apply, and interest in outstanding taxes would accrue at 5% per annum. Next slide, over.

[00:19:41] the establishments and items that are subject to tax. So this slide here depicts for you the items that are subject to tax. Hot or cold meals at restaurants, made-to-order meals served at deli counters, desserts, ice cream, smoothies that Phil referred to, and beverages, alcoholic or non-alcoholic, sold as part of a meal. Let me highlight that part. If you go to your favorite coffee shop and get your coffee or a chai, then, as Christina does, she's pointing to that,

[00:20:16] then it does not attract a food and beverage tax in counties, given state law. However, if you cross boundary lines and you go to a city or a town, it will attract a meal tax. That's just how state law is constructed. Some of the men, on the right, you see a listing of, and just examples of entities that would be subject to food and beverage tax. We'll get into this later, but we Phil touched on it a little bit. We have a database of BPO licensees that give us a sense of the

[00:20:55] number of businesses that likely would collect the tax. At the other extreme, we work with the health department, and there's a large database of food establishments, as they're called, and somewhere in between, between those numbers, will be the correct number of businesses that are liable for a meals

tax, we will discover as we go along. Why? Because entities that are subject to obtaining a health department permit, such as school cafeterias, college cafeterias, other establishments

[00:21:27] are exempt from a food and beverage tax. So to the right, you see some examples of entities. I'm just going to call out a few amusement parks, bakeries, bars, breweries, cafeterias, coffee shops, restaurants, of course, lunch food, mobile food services, et cetera. So we can take your questions on that as we go along, but it's a fairly extensive list. Want to touch on mandatory

[00:21:57] state exemptions in the next slide? Fantastic. Okay. Grocery items are exempt. The standard here is food for human consumption. I really think immediate human consumption when you're thinking about a food and beverage tax. Vending machines are specifically exempt by state law. Factory sealed beverages that are sold alone are exempt from state law, but if I had that coffee and chose

[00:22:35] to get a croissant with it, there's a food and beverage tax that will apply. Factory sealed beverages sold alone, any discretionary gratuities, but in addition to that, any mandatory gratuities, say you have a mandatory requirement of 20% for a party of 8 or more, the first 20% is exempt from the food and beverage tax. Anything above that would be subject to a food and beverage tax.

[00:23:06] Any combination consisting entirely of beverages, grocery items, snack foods sold separately, so if I picked up a 12-pack of my favorite beverage, bread, and a bag of chips as an example, I went to a convenience store, the food and beverage tax would not apply to any of those items.

[00:23:22] All non-factory sealed beverages, including fountain drinks, coffee, et cetera, sold alone. Again, the emphasis being on the sold alone in the food and beverage context. Continuing with the mandatory state exemptions, on the next slide we have, and I'm just going to call out a few here, volunteer fire department, emergency medical service agencies, non-profit churches or religious bodies, and other educational charitable organizations up to a certain threshold if the proceeds are used for certain purposes. Glad to walk you through more detail

[00:23:58] if you like. Public or private grade schools, institutions of higher learning, hospitals, medical clinics, convalescent homes, nursing homes, daycare centers, etc. And sellers at local farmers markets, so long as the annual income does not exceed $2,500. Again, state mandated, rather low limit, but that's what we have. Next slide. We talked about public or private nonprofit organizations which serve the elderly, infirm, and needy individuals where the food is

[00:24:36] part of the package for these individuals. If I have a nursing home and we have a resident where food is part of the package of services, that food will not incur a food and beverage tax.

[00:24:53] Private establishment contract with Commonwealth of Virginia to offer food, food products, etc. Again, more from a service standpoint. Plan overall for industry outreach, and of course, Tony is here to elaborate on that and take your questions.

[00:25:11] We'll work with the OPA. We will develop brochures in multiple languages and develop educational videos if the board approves this food and beverage tax. We will host virtual and in-person town meetings to inform and educate the sellers. This is pretty critical for DTA.

[00:25:29] Enforcement should come much later. education, ensuring that those who are responsible for collecting tax is a critical part of our mission, and we intend to focus on that heavily. We also intend to pull in other DTA staff, depending on the season and other things that are going on. This will be an all-hands-

on-deck effort. We'll conduct outreach by collaborating with associations, such as restaurant associations, chambers of commerce, that may have an interest in sharing information with their constituents and membership. And we will, of course, be performing site visits and having virtual

[00:26:08] meetings as requested. DTA has an online chat feature where you can simply go on the app and request a time that is convenient to you, whether it's a video call or a phone call, no matter what the tax is, we're here to serve you. The health department has a pretty significant involvement with food establishments. We have had discussions, initial discussions with them. We intend to partner with them. Given confidentiality concerns, however, their role will be limited to disseminating information and not necessarily collecting any returns or having any tax account

[00:26:44] specific conversations. Finally, a quick sense of the timeline. If the board so chooses, we would recommend, you want to pick it up? Let's do it. So I think we've discussed a lot of this timeline earlier during the presentation, but certainly what we're recommending would be March 18th, next Tuesday would be when we would bring this item forward for the Board to consider authorizing advertisement of the draft ordinance, certainly incorporating any feedback that we hear from the Board today into what we'll propose as the draft ordinance.

[00:27:22] Then we would be looking towards April 22nd, the first day of the budget public hearings as having the public hearing on the proposed ordinance. We would slot that into that 3 p.m. time slot just before the budget public hearings when we normally talk about the other tax rates that are related to the budget.

[00:27:38] Then looking ahead we'd be looking to have a board decision on the ordinance on May 6th During budget markup and then again January 1 would be the earliest potential effective date that we'd be looking at So that is all that we have for the presentation as we open up to questions and discussion I just kind of remind the board as I said that the main decision points that we have as we look to potential advertisement would be That tax rate as well as the dealer discount rate Certainly, there's a few of the points that aren't mandated by state code that Jay went over that are a potential thing that the board could look at,

[00:28:14] but they would be the details, things like the actual due date, which was recommended the 20th, as well as those penalty and interest rates. Those are certainly baked into the draft ordinance, as we have, but those are things that the board could certainly discuss. And then certainly outside the ordinance, there is the question of overall how this fits into our budget.

[00:28:33] Okay. Thank you very much, Phil, and Jay for that presentation. We're going to open it up to questions, comments from board members. Let me just ask a couple just to make sure before we start the conversation that we're clear on a few things.

[00:28:50] And my first one is for Jay. We all read in pretty good detail all the problems that Richmond had implementing the collections component of a meals tax. were the challenges that they face there part of this trust element of the taxation?

[00:29:10] Was it related to something else? Is there something we need to know about difficulties you might have in collection if we were to go this route based on their experience? Thank you, Mr. Chairman. As you know, that matter didn't just stay within the city. It went all over the General Assembly and became quite an issue.

[00:29:28] Yes, our focus would be to avoid some of the problems that they have seen, And in addition to that, we have been in active conversations with two counties that have implemented the food and beverage tax, Prince William County being the most recent one under the Equal Taxing Authority.

[00:29:48] The challenges ran the gamut from staffing to systems to enforcement to a lack of communication with the impacted businesses, which is critical to any effort.

[00:30:04] So it truly ran the gamut. As best as I know, consultants were hired, and some folks who were working in those areas no longer are serving at the city of Richmond. So it was pretty bad. And more importantly, really, and this is what DTA strives to do, right?

[00:30:23] In the end, how we work with the businesses and individuals involved says everything about how good the county is to do business with. And our goal, obviously, is to continue keeping that relationship as strong as possible.

[00:30:40] Part of the challenge with this tax, so as an example, you know that real estate tax, the collection rate is 99.7 some percent. For personal property and BPOL tax, it ranges in the 96% to 98% range. The feedback we have from the counties on the food and beverage tax is that the compliance rate is likely to range between 75% to 85%.

[00:31:03] So there is, these are in many instances, if they're not chain restaurants, there is a greater propensity for challenges, and there is therefore a greater need for high-touch services that ensure that we're meeting the needs of the restaurants and vice versa.

[00:31:24] Okay. I asked that question because obviously that was a recent implementation. Just wanted to make sure there was nothing that had changed it in state code or some other procedure we should be aware of that would make it more difficult for commissioners of revenue and DTAs to do the collection.

[00:31:42] because clearly these meals tax exist all over Virginia, and some of them have existed for a very long time. This is the first time, you know, we've seen a widespread collection, education, compliance issue, and I just wanted to make sure it wasn't prompted by a recent change in the way in which your offices and others are tasked with doing that.

[00:32:03] So I appreciate that answer. And then let me ask, you know, one other question, and then we'll open it up to others. The revenue piece, if you look at, and this is not a question so much as it is just a statement, if you look at the fiscal impact on page 11, I just want to remind folks, because we're getting a lot of correspondence from people coming in already, which is a good thing.

[00:32:30] But if you look at those figures on the right-hand column that have the net revenue numbers from between 1% and 6%, you're between $14 and $99 million. Just for context, I just want to remind folks that the FCPS transfer request this year was for $268 million more than they received last year.

[00:32:53] And so, yes, this is revenue diversification consistent with our longstanding principles within our legislative process and our legislative document for Richmond. But in terms of this solving a problem that every year we deal with in our budget, which is how much money to fund Fairfax County public schools, this is far from solving that.

[00:33:19] The solution lies in implementation of the recommendations of the JLARC study. And I don't want to beat that dead horse to death here, but the JLARC study continues to point out Fairfax County is underfunded by the state over $580 million.

[00:33:36] schools have requested $268 million. The range on a meals tax revenue generated is between $14 and $99. So I just, there's a lot of numbers out here, but I think for context, very important to understand where this fits in in terms of total revenue into the overall budget picture. And then before I turn to questions, the industry outreach plan on page 19 that you mentioned, I just want want to make sure we understand the timing of that, because it reads like, and maybe it's intentional, and maybe that's one thing we need to talk about as a board. It reads to me like this

[00:34:14] is what would happen from the date the board potentially could implement a meals tax to the implementation of the tax itself. And I guess my question is, what additional outreach are we doing with industry between a potential decision on March 18th to advertise it and adoption of the budget because those are two very distinctive different procedures.

[00:34:36] One is soliciting industry as to whether or not how they feel about the potential of a tax or not. The second is more an education piece that if we were to adopt a tax, this is how industry, this is the information industry needs to know.

[00:34:52] So is there a specific strategy for industry outreach between March 18th if the board advertises Is this for discussion and budget implementation in May, or are we relying on the normal budget outreach tools that we have?

[00:35:09] Chairman McKay, members of the Board of Supervisors, Tony Castrilli, Director of Public Affairs. As you recall when we discussed this the last time at a committee meeting, the Office of Public Affairs has been working in coordination with the Department of Management and Budget and the Tax Administration Office for several months preparing a strategy to share information with the community regarding the implementation in addition to what Phil mentioned at the beginning of the presentation regarding input on the FY26 advertised budget. So two separate strategies would be deployed. But I do think we would need guidance from the Board of Supervisors as to

[00:35:47] the level of engagement following March 18th into implementation or approval in May. But there would be a strategy for both. Okay. I appreciate that. I mean, obviously, there is no activity this board engages in that engenders more community input than the budget process every year, which is why many of us, if we are to discuss this, wanted it discussed in the context of the budget. Not only is that the time of year most people are engaged in paying attention to these matters, but also it helps people understand a little bit more clearly how this fits into the budget deliberations

[00:36:24] of the board. So it's not out there in isolation. It does play a role in the overall budgeting activities that take place here. And so for what it's worth from my standpoint, because potentially if we advertise this as something brand new, it probably requires a little bit more deliberate outreach than just the typical budget outreach. If nothing else, it's just identifying those who are impacted in the county and making sure that they're aware of it. But we can discuss that further. Obviously, it's a moot point today, but it will become a very real point on March 18th if the Board authorizes the advertisement of this with the rest of

[00:37:02] the advertised rates for the budget. So, with that, I'm going to start Q&A, and I'm just going to go down in order, and then we can come back. We've got a little bit of time here. Let me start with Supervisor Alcorn.

[00:37:17] Thank you, Mr. Chairman. Thank you for the presentation, Phil J. Great job pulling this all together. I have a couple of questions. First of all, on slide 13, maybe we call it lucky slide 13, I don't know. I noticed the dealer discounts were a dash for City of Alexandria and Arlington County. Do they not have a dealer discount? And is that because they're older or legacy or something?

[00:37:45] That's correct. We surveyed them, and as of today, they do not have a dealer discount. They've not had one, as best as we know, forever. And does the law require us to provide a dealer discount, or is it an option up to how many percent? It's an option up to 5%, yes, sir.

[00:38:01] Okay. All right. And similarly, on the penalties... Just real quick on that, Supervisor Alcorn, just to clarify one other point, is that you had mentioned a strategy in your recommendation where it could be set at one rate for a period of time and then reduced.

[00:38:18] Is the dealer discount rate set annually as a part of the budget process for the board or what is the actual code tell us in terms of the flexibility? Is that an annual decision that the board makes or do we lock in for a period of time? Mr. Chairman, the dealer discount would be established as part of the ordinance.

[00:38:37] We would not anticipate reopening the ordinance on the annual basis unless there were changes that the board wanted to make. Certainly, if the board wanted to adjust the dealer discount, that would be an amendment to the ordinance, but would not be required on an annual basis since we would anticipate that tax rate being established as part of that tax rate resolution.

[00:38:53] Certainly, the way that the draft ordinance is written is to allow for a higher dealer discount for the initial period. is. We're certainly expecting restaurants to have higher expenses to adapt their IT systems and to start implementation versus once this starts going, they might have lower expenses, which is why we imagined that reduction after two years. The way the draft ordinance is written, program is in that reduction to 1% in the discount after two years without additional action. And that's consistent with the regional norm. In other words, your recommendation is based on what other jurisdictions have done, or it's not based on that, it's just based on instinct?

[00:39:33] So it's just based on the staff recommendation. What you see on slide 13 is what the other jurisdictions have done. Certainly we have some differences there between those that have no discount versus those that have done 2% or 3%. And so certainly there's a range there that we could look at adopting. Okay, thank you.

[00:39:49] Sure. Advisor Alcorn. Okay, thank you. That's a helpful clarification, additional clarification too. So on the penalties, so in the draft ordinance, it's 10% plus interest. Is that specified in state law?

[00:40:06] This is one of the points, one of the places where the board has authority to set the penalty rate. Penalties in general really focus on keeping the focus on timely payment of this trust tax.

[00:40:26] The state's penalty, I might just say, for sales and use tax, just for information, Supervisor Alcorn, is 6% per month up to 30% for state sales and use tax. Wow. Exactly. So I like the first part where it's gradual, but it's really not where we would recommend you get the penalties.

[00:40:47] Okay. That's very helpful. Thank you. And my last question is, and you may not have an answer to this right now, or maybe you do, but there's a lot of, there's some complexity here that, you know, you're

talking about exemptions, combinations, and obviously for anybody found not to be in compliance, there's that penalty.

[00:41:11] Is there in the state law a private right of action for third parties to basically sue for compliance? So I wouldn't call it a private right of action, but state law clearly mentions, and Dan will certainly add to what I may have to say, state law clearly provides that because these are trust taxes, that one, a jurisdiction, could take an action in terms of collection where you could take the position.

[00:41:50] I'm going to read directly from the code. The wrongful and fraudulent use of such collections for other than the remittance of the same shall constitute embezzlement pursuant to 18.2111 and 18.2 Supervisor Walkinshaw would tell us is the criminal penalty code.

[00:42:07] So there's a criminal potential for willful violations. That is correct. Fraudulent, but there's no civil private rights action authorized in the state code. So as such, our general collection powers include taking civil actions at all times.

[00:42:25] This would be no different. Right. And then it's more a matter of us figuring out what the best way is to get to the desired result. But there's no ability under state code for a plaintiff's attorney, say, to basically, you know, say, oh, this restaurant didn't collect it correctly.

[00:42:42] I'm going to sue. That is correct. Sorry. And now I understand this first of your question. Okay. Thank you. As best as I know, that is exactly right. That's right. Okay. Thank you. Okay. Supervisor Stork. Thank you, Mr. Chairman. I think a core part of this, at least from my perspective, is the ensuring that it's fair and equitable and that businesses are competing on a level playing field, which I think is the core of most businesses.

[00:43:09] I just want to know that my competitor has to do what I have to do because my costs at least will be similar to theirs. How does it relate to catering and catering that comes in from another area or catering that's done here out to another area? My understanding of the law is that it's going to depend on where the catering business is located and what the tax rate in that given jurisdiction is, regardless of where the food delivery takes place.

[00:43:39] So the location of the source of the preparation of the food is the core element of that? Correct. And if it goes into an area that has this tax, then that may or may not apply to that particular business, that particular caterer.

[00:43:57] Just to be clear on that, is it where it's prepared or where the physical location of the business is? Because it could be very different. Sometimes caterers are preparing food. Thank you for the clarifying question. It will be the location of the business that sells the food, the restaurant that sells it.

[00:44:16] Yes. If you were employing a third-party organization to prepare the food on your behalf, we have lots of ghost kitchens that are now coming into play in this post-pandemic world. It would be the business that is making the sale and the location of the business that is making the sale.

[00:44:33] So another not hypothetical, because this will be reality, is I'm located in some area of Maryland. I don't know if any of those that don't have or don't have in my headquarters or whatever, but my sales force is located there and they're making calls to to sell and they get businesses and they in turn then prepare that food or that order in an area that has a meals tax what's the impact that is it where i sold

it literally where that exchange that that agreement took place which is let's say it's maryland versus the preparation of that food let's say

[00:45:13] in Fairfax? So by the store, it will be where the sale takes place. So if I have a business in Maryland, the Maryland laws will apply when it comes to a food and beverage tax or a comparable tax. Similarly, if that business was in Arlington, Alexandria, and there was a delivery to Fairfax County, the Arlington, Alexandria rates higher for Alexandria, as an example, will apply. Okay.

[00:45:42] And then the last point was just one that I know that you're very tuned to is ensuring that if we do this, that the compliance rate exceeds 75% or 80% because that in turn creates unfair competition for those who truly want to do the right thing and comply.

[00:46:04] Yes, sir. We expect a transition period for the restaurants as well as for us if the board goes forward with the tax. But hopefully once we settle down, we have higher rates for compliance. Absolutely. Thank you. Supervisor Walkenjohn. Thank you, Mr. Chairman.

[00:46:26] I just want to get to the revenue projection and how confident are we in those estimates? I presume They're based on projected sales tax revenue and the percentage of businesses that this tax would apply to.

[00:46:44] So how confident are we in those projections? And then I presume it's the case, you know, many flaws with the real estate tax, but one of the benefits is assessments occur and we have pretty good confidence in the revenue over the course of the fiscal year.

[00:47:02] It seems to me this is a little bit different in that it's going to be more subject to changes in economic conditions, for example, a regional recession that might occur in the midst of the fiscal year. So how do you think about, one, how confident are we in those projections not having had this tax before?

[00:47:25] And two, how much does it worry you the potential shift in revenue over the course of a fiscal year? So certainly with this being a tax that we've never implemented before, there's a lot of the data that we don't have.

[00:47:41] I mean, we're certainly basing this on what we receive as far as people filings from those businesses that we believe will be subject to the tax, having to make allowances then for things like grocery stores where a portion of their sales is going to be subject to it. I'd say we're reasonably confident in what we've put out here as far as a revenue estimate with, again, that caveat of this is not something that we've put in before, and so we're certainly going to expect some differences when, you know, rubber hits the road and we actually start collecting.

[00:48:11] Certainly, to your point, this is going to be a tax that's going to be more sensitive to the economic cycle than really where, you know, that 80 percent of our core comes from with property taxes. And so that is something that we're going to have to take into account as we go forward in future budget cycles, because we certainly would expect dining out to be one of the first things that begins impacting people during a, you know, slower economic period.

[00:48:37] at it. Different topic, the towns. Just to clarify, a Fairfax County food and beverage tax would not layer on top of a town food and beverage tax. Dana Robinson, Senior Assistant County Attorney.

[00:48:56] Yes, Supervisor Walkinshaw. We are, our tax will apply within the county, but if a town has that tax, it won't apply. So we don't collect a dollar. We won't. I don't believe Clifton has one. Clifton does have

one. Clifton does have one. Okay, so then, yes, they wouldn't apply in any of the towns then.

[00:49:11] Okay, that's correct. Just on the dealer discount process, and there's a budget Q&A that asks about the Arlington Alexandria question, and when Alexandria looked at it recently and considered imposing or offering a dealer discount, they raised concerns about there not being a dealer discount for their transit occupancy tax.

[00:49:39] They pointed out that they had gone many, many years without the dealer discount and have been successful. One of the reasons you cited was that the dealer discount could improve compliance. I guess I'm wrestling with that a little bit because there's a carrot and a stick, right? The stick is the penalties, relatively modest that you outlined, but nonetheless, the penalties for noncompliance. I don't quite understand the way that dealer discount is incentivizing compliance.

[00:50:15] If I'm running a small restaurant and I'm not going to comply, I'm just not going to set the money aside. I'm just not going to, maybe I collect it and keep it for myself. I don't see how the dealer discount incentivizes that. So I'm wrestling with it a little bit. But I guess my bigger question is, did we ask Alexandria whether they have had challenges with compliance more than other jurisdictions that do have the dealer discount? Is their compliance rate lower than Prince William counties or other jurisdictions? Because they don't seem to have felt like the

[00:50:51] lack of a dealer discount had hurt compliance. And they did raise that question of parity with other trust taxes that they collect from other businesses, including some businesses that to whom the food and beverage tax would also apply. Thank you, Supervisor.

[00:51:06] Lots of questions rolled into one question. So first of all, easy enough for me to take as a Q&A, if you would. My predecessor currently serves in a similar capacity in the city of Alexandria. Happy to catch up with him.

[00:51:23] We communicate regularly, and I will get you an answer to that. Second part I would say is you're absolutely correct. your observation is overall in terms of is a dealer discount by itself going to improve compliance? No. It's really a small incentive to pay on time. If I was going to pay on the 20th but felt like I needed to really consider cash flow and maybe pay on the 30th, the dealer discount motivates me. If I'm inclined not to pay, it's not going to happen. And there, that's the other, the carrot and the stick. And that's where the stick comes into play,

[00:52:02] a 10% penalty, absolutely, as well as any potential for criminal prosecution if the money is held for a period of time. It's not going to happen if you're behind just by one month. So absolutely. Does that help? Yes, and maybe, and I'll make this a budget Q&A, but I want to take more time, and some of this might come through or has come through the feedback from industry, but I do want to understand the administrative burden from the perspective of a restaurant, the new and added administrative burden, right? Because obviously they already have administrative burden related

[00:52:40] to taxation, to the Commonwealth of Virginia, to Fairfax County. What is new and different about this that does not fit within their existing systems? So obviously the restaurants will speak for themselves. What I might say to you is this, the dealer discount concept and part of why the Arlington and Alexandrias don't have one. Really, that's when it was needed the most. Today, you have systems that capture receipts, that compute tips, that compute every other tax. And while it may be

[00:53:15] a call to a vendor, it is far simpler than it used to be. If you are a multi-location restaurant, you already have systems. Yes, a tweak will be required. And that's part of why we want to plan for adequate time for the business to comply, but the incremental cost is not substantial.

[00:53:34] If you're a single location business, I think you've got a slightly different calculus, especially if you're really, really small from the standpoint of record-keeping burden and the cost of compliance. So I think that's probably a longer answer, but a more accurate answer to your question. And of course, the restaurant groups will, I'm sure, educate all of us on the burdens and challenges that they may have at their end as well.

[00:54:00] And to that end, as part of the budget Q&A process, I'm looking at the dealer discount rates that are there. And some of these jurisdictions have had a meals tax for a very long time, still have a substantial dealer discount. And so in trying to figure out in our own minds, is dealer discount geared towards helping people get set up and equipped to collect the tax, or is it more incentivizing on-time payments?

[00:54:23] what would be helpful for us to look at is when were those dealer discounts implemented, how long have they been in place, and have they gone down over time for the ones that are up there. I mean, these are jurisdictions, with the exception of Prince William County, these are jurisdictions that have had meals taxes for a long time, and yet they still are sitting there, with the exception of Alexandria and Arlington, with a pretty sizable dealer discount.

[00:54:47] So I think it will help us understand the real purpose behind it to see what people have been doing for a long time with this already and how that has fluctuated over time, if at all. Supervisor Palczyk. Thank you, Mr. Chairman. Well, I was going to start there, but that was exactly my question.

[00:55:04] I wasn't going to start there on talking about the deal at discount. I have to say, you know, looking forward to that information, I am most concerned about our mom-and-pop stores that are going to struggle the most with change, having worked for a very small catering company in sales.

[00:55:21] I know just how much work goes into trying to figure out doing the right thing and getting it right, and especially when there are language barriers. So I'm comfortable, and I did want to confirm, it does say in our ordinance, that we will start at the 3% and in 2028 go down to 1%.

[00:55:38] I want to confirm that is in the ordinance draft we are looking for for next week. That's correct. Okay. It is, but it's entirely discretionary for the board to decide. It is what's a placeholder in the draft, but we ultimately have to take that decision.

[00:55:53] Yeah, but I want to clarify, we don't have to come back in 2028. We're able to pass something that already has a reduction. Okay, thank you. There's been a lot out there, so I just want to make sure I cut it out. A couple of very minute questions and then my thoughts. So going back to the exemptions, I'm looking at the ordinance.

[00:56:15] E, I think it's pretty clear. For F, it only states churches, not all faith communities, which in E, it does state nonprofit churches or other religious bodies. I just want to confirm that, is that implied that all religious body or only churches are exempt in F on, I don't have a page.

[00:56:36] And you're in the ordinance. Section 4, exemptions from tax, line 252. And this is in the ordinance itself. In the ordinance itself. I think it's in our description, but I just wanted to confirm the legality. Supervisor Palachuk, Daniel Robinson again.

[00:56:53] So the language we took there is directly from the Virginia Code, so we didn't have any flexibility on that. Because this is an exemption, I think that it would have to be construed narrowly under tax law. And so I think for that exemption, it would be a church, not just any religious body.

[00:57:11] And I guess to clarify, when these are state mandated, we have no authority to increase those exemptions? Correct. We're limited to the specific authority that we're given in this statute. And so while we have to exempt them, we also have to impose the tax on the class of businesses in this case that the state law allows us to.

[00:57:35] So it's a permissive authority, but also it restricts what we can do because we're strictly limited to what's in this statute. And just to clarify, I mean, the one before that is the more critical one, but this one really is just, I mean, most are not charging to serve meals, but this is if they were going to charge to serve meals.

[00:57:58] And I assume if we haven't, that we can include this. I think limiting it only to churches, to me, is not appropriate. But I guess that has to go into our legislative agenda. Unfortunately, I think the way that this is written, we are limited to just churches for that exemption.

[00:58:19] So yes. You know, one thing that would be helpful and Supervisor Pouchek, you know, raises a question I hadn't thought of before, which is in this draft ordinance, can staff highlight for us where there's a discretionary point where you made a judgment call versus what's included in statute?

[00:58:34] I think it's only a few things. My guess is you pulled this straight out of Virginia statute and the only discretionary parts are likely the rate and the dealer discount. But if we could see that clearly so that we understand where there's flexibility or where there might be a challenge down the road, I think that would be helpful to us.

[00:58:50] And, frankly, we move forward advertising that's helpful to the public, too, to understand what's in the county's authority to be flexible with and what we're not able to be flexible with. Would that be an easy task to do? Yes, we could get that to you.

[00:59:06] Okay, great. I'm not done yet. Yeah, can I finish? Is that okay? Okay, go ahead. But I do have a few others. I want you to continue those, but have you checked with Arlington? Have you checked with any of the 55 of 95 counties, whether or not they've ever tried to exempt a synagogue or a mosque?

[00:59:27] Or are you just reading that off of a textualist interpretation here? Because this is so prevalent across the Commonwealth. It's entirely possible that we have other cities, counties, towns that have offered that exemption. Certainly.

[00:59:43] So I would say with respect to cities and towns, they have a different authority from us, so they're not quite as limited. I have not personally spoken with representatives of Arlington or another jurisdiction. I will note that the enabling authority has changed over the years since Arlington implemented it, so it could be that if they are different, they may be grandfathered.

[01:00:03] And certainly these are all matters of interpretation to some extent that as time goes on, I'm sure that DTA will be reviewing things and decisions will be made if something arises. Sure. And I apologize for interrupting, and I want to have the rest of your questions. I just wanted to make that point that we should be asking the other counties and other jurisdictions, because this is so prevalent all across the Commonwealth.

[01:00:28] All right. Thank you. Thank you. And I was going to continue with, when we say Arlington, I believe they were exempt as a city county from the referendum, if I'm not mistaken. So I am curious when we talk about Arlington, which kind of, as you know, Virginia is the only state in the whole country that has cities outside of counties, which makes us quite unique. So if we could, when you talk to Arlington, understand are they following these or are they under the city legislation? I can talk to their attorney and see if they recall what they enacted it in under back then. But yeah, Okay, thank you.

[01:01:06] I mean, clearly, I'm not going to let the state not doing the right thing be a reason we don't do the right thing, but that would be helpful. And then just another point of clarification. Again, I understand you took this straight from the state, but on that same part of the code, line 284, when it mentions private establishments that contract with the appropriate agency of the Commonwealth of Virginia, I assume county agencies are not included within Commonwealth of Virginia agencies, correct?

[01:01:39] So say our Department of Housing would not be included in that? I think we could look in, sorry about that, for that specific question, I mean, we could look into that. I don't think there would be the appropriate agency of the Commonwealth on that specific subsection.

[01:01:56] Whether there would be some other exemption that might apply might be a different question. Okay. That would be helpful, especially as we go into year one, if there are, I think, changes that we need to request that would be helpful. As you know, I believe most, if not all, who have had the ability for many years have been doing this separately, but as new counties come forward, I think us looking at this and maybe even our regional commission, whose director is here today, would be interested in that.

[01:02:22] And then one other question, I believe, and I've had conversations with many of our industry folks. I understand no one wants to apply a single industry tax. As you know, we are a Dillon Rule state. We are pretty limited to our authorities, including taxing authority. Can you remind me, and I guess this is for Jay, right now our biggest tax is from the real estate tax.

[01:02:44] How many single industry taxes do we currently have on our homes, on our real estate? Depends on how far you want to go, but if we're talking about real estate, certainly we have a tax on real estate and the owners of real estate, and that's where the distinction is, not the real estate industry, but the owners of real estate.

[01:03:07] If you look at personal property taxes, arguably automobile industry, if you look at a titling tax with the DMV when you purchase a vehicle, certainly on the automobile industry, and then there's a variety of taxes at the state level.

[01:03:25] The state has some 30 excise taxes that apply to egg, corn, sheep, what have you, and they're all single industry taxes if one terms them that way. Thank you. And then just one more point of clarification, looking back at slide number seven, I want to be clear at the bottom there, I'll make sure I'm understanding this correctly, it says that based on borough of labor statistics, the 1% food and beverage tax on a household income of 100 to 149.999 would be approximately $49.07, and that one penny on the real estate

[01:04:04] tax rate equals 79.42. So am I reading that correctly, that 1% on the food tax is roughly half of one penny on the real estate tax? So I would say really this impact on the resident, it actually kind of aligns with the idea of about a third of this being paid by non-residents.

[01:04:28] And so it's about that same discount here. Certainly, again, I'd stress that there's not necessarily a complete apples-to-apples comparison between that average assessed value versus that, you know, median household income spending on dining. But certainly that's the closest comparison that we could come up with.

[01:04:47] Okay. And I appreciate that. And finally, I know this is really rough, but as we try to find more ways to diversify our income, I think the U.S. Bureau of Economic Analysis shows that food consumed at home versus the outside has grown even through and past the pandemic. And I know when we heard from Tyson's, not from our Department of Economic Initiatives, I think in Tyson's about half of restaurant, or maybe you had said this, was from outside. So as we continue to grow, knowing that we don't have cities, Tyson's is called a city, but it's part of the county, we really need to find ways to take a little bit of the burden off of our homeowners. So I'm

[01:05:25] supportive of moving forward. One quick afterthought, with your permission, Mr. Chairman. Supervisor Palcic, I just remembered that even the transient occupancy tax as well as an admissions tax. Now, people would term them single industry tax.

[01:05:43] I personally don't because it's a tax on me when I choose to consume a meal, go to a restaurant, or rent a hotel or motel room. So it is, while that industry is the pass-through entity, the tax is on the ultimate consumer and is collected as such from the time the transaction takes place.

[01:06:06] And to that, I just want to thank you and appreciate starting with education and looking at how to try to support through education and through the dealer's discount, especially our smaller, small businesses. So thank you. Thank you. DTA serves you in 25 languages on any given day of the week, and we intend to continue doing that.

[01:06:23] You have more than I have, thank you. Yes, ma'am. Supervisor Lusk. Thank you, Mr. Chairman. Let me start by saying I appreciate the presentation and all the information that's provided here. I raised this point before, and I still have some concern about the lower-income residents and the impact that this tax will have on them.

[01:06:43] And I appreciate what you delineated on slide 7 as it relates to the average cost and the point that was just made by Supervisor Palchak at $4,907. But what I'm thinking about in the previous budget question that I asked, you provided that the impact is lower at the lower income levels, and that makes sense.

[01:07:05] But something I'm still not so clear on is if we take the total cost of the increases or decreases to the residents at different income levels, assuming that all the revenue is pushed towards tax relief.

[01:07:27] I'm just trying to understand what would that mean specifically to those residents who are renters. They don't own property in Fairfax County. And so thinking about kind of how would that affect them from a taxing standpoint.

[01:07:46] So I know you probably can't answer this here, but I acknowledge that we have about a third of our residences as renters. And just thinking about if we're going to use this as an offset, it might not have the same impact. for them and just try to understand what the impact would be for them specifically.

[01:08:06] We might need to come back to you with some more information on that. I would just think, you know, conceptually with a renter, we would see those real estate taxes passed on through their rent.

You know, I think certainly if we were looking at an overall increase in taxes on that complex or whatever property they're renting, they would see that passed on in the future.

[01:08:28] You know, certainly a food and beverage tax they would be paying directly at the restaurant. So I'd expect they'd still hopefully see some sort of offset of perhaps rent not going up as much if this is an offset to real estate taxes. I think that's going to depend on their situation though. It's not going to be as direct as with a homeowner.

[01:08:45] No, no, understood. But just trying to get a sense of if there's a way for you to project out what that might look like just for the average renter. Because I just, I'm really thinking about them as we're making this decision as well. And then second, I appreciate the point the chairman made and also Supervisor Palchek on the dealer discount because I was really trying to figure out like over time what did the other zurexdictions do? Did they have a similar protocol as us? Did they set a rate and then reduce it? And if they did, over what period of time? Just basically being able to see what that looks like might be helpful for us as we make the decision here.

[01:09:21] And then on slide 17, when I was looking at the state exemptions, I was thinking about if a food truck is located at a nonprofit event, would that food truck then be subject to a meals tax?

[01:09:47] Because I think we're trying to give some exemptions here for fire departments and others, nonprofit churches and other religious bodies, and just trying to think about if they're hosting a food truck on their property, would that then be exempt from the meals tax?

[01:10:03] An initial reaction is all I might provide you at this stage, because there are nuances, and you can see that this is a question where nuances. So I think that as I would analyze that, to me, the question would be, is the nonprofit selling and serving the food?

[01:10:23] Right. And the food truck is simply a vehicle or a mechanism? Yes. Or is the food truck owner selling the meal at a nonprofit's location? Got it. That may make a difference. Okay.

[01:10:39] That's helpful. No, I appreciate that disclaimer. And then I'll just say, again, tough budget year. We've got to figure out what we can do. And I just appreciate the opportunity for us to consider this food and beverage tax.

[01:10:54] And I'll be one of the folks, I think, who said this many, many months ago, that this is something that should be considered. And I appreciate that you've been able to bring it forward. So thank you, Mr. Chairman. Thank you. Supervisor Jimenez. Thank you, Mr. Chairman, and thank all of you for this presentation.

[01:11:11] very helpful as we start forming our collective thoughts around the budget. One point of clarification, I think it's not just for me, but I think it's just good to say out loud, if we do, which we don't know yet, if we do move forward on a percentage of a meal tax, can a part of that percentage be allocated, for example, specifically to alleviate the real estate tax? So certainly, as we discussed, the food and beverage tax, there are no restrictions on the board's use of those revenues. Certainly, it would be up to this body to determine how you would like

[01:11:51] to use those revenues. And certainly, this coming forward as part of the budget process provides you the most context that we'll have as far as what the other needs are for that revenue. I appreciate it. I think it's good just for everyone to kind of hear that out loud. Two last things. One, do any

of the other jurisdictions that have a meals tax currently use any percentage to, for example, alleviate their real estate tax or maybe it goes somewhere else? I know one example because I lived

[01:12:22] in Henrico County at the time they went with the ordinance. They, and this again, back to Phil's point, there are no restrictions in the law, but the board decided at that time that should the meal stacks pass in a referendum that all of the proceeds would go to construction and renovation of schools.

[01:12:48] Whether that meant changes in additional funding sources for the schools or not, I could not tell you, but they did take that public stance. I appreciate that. And just one last thing, just to comment again on what Supervisor Laskin-Palchik said, I think it's extremely important if this does move forward for us to meet community-only owners, small business owners, where they're at. Because as mentioned, there could be a lot of language barriers. So we need to make sure that we're going to where they're at and making sure that they understand this process. So thank you very much. Thank you. Supervisor Behrman.

[01:13:27] Thank you, Mr. Chairman. Quick question that builds on a question of Supervisor Palchek. How many classes of B poll taxes do we have? We have a variety of ordinances that have specific rates attached to them based on the business or profession someone is engaged in. So if we were talking about quote-unquote single industry taxes, a number of our BPOL taxes are classified to certain types of businesses. Do you know how many different classes of BPOL taxes we have?

[01:13:59] I don't know offhand, but it's in the dozens. And you're right, this one is actually paid by the business as opposed to being paid by the industry. So what you're saying is we have By custom, sorry. We currently have dozens of single industry taxes within the county.

[01:14:16] I hadn't thought of it that way, but thank you. Yes, sir. How many counties are there in Virginia? Do you know? We have all told the numbers changed as a couple have reverted to town status, but we have 90-some counties in the Commonwealth.

[01:14:34] And how many of those counties have meals taxes? I'm a little more prepared than I was to answer the correct county question the last time. Does that count Arlington or not? Arlington technically is a county, and I count that, but I'll let you answer the question.

[01:14:53] So we have relied on a Weldon Cooper at the University of Virginia survey, and they have surveyed the tax rates. And in general, as I scan through this list, I see that almost all localities have a meal tax.

[01:15:20] I'm happy to share that with the board or a link, or we can take it as a budget question. But I would say roughly, if I do a quick scan, roughly 85% to 90% of the counties appear to have a meal tax or food and beverage tax as it is probably.

[01:15:38] So let's do that as a Q&A. Yes, sir. Sure. You know, we've been so focused on the region and how we and Loudon are an outlier in the region, but not necessarily on the state. So let's make sure we include that as a budget Q&A. Supervisor Bierman. I'll include this budget Q&A. I do know that 55 of 95 counties have a county-level meals tax.

[01:15:58] I know that at least 32 of 38 cities have a meals tax. I know that at least 33 of the towns have a meals tax. I know that those meals taxes are all over the Commonwealth of Virginia in very, very different places from Arlington County on down.

[01:16:17] I don't know whether they spiced their food in Bland County, Virginia, but I do know that they taxed their meals. I also know that they voted 84 percent for Donald Trump. This is a bipartisan thing all across the Commonwealth of Virginia. So I wanted to ask that question because I certainly hear and understand some of the challenges that we have been brought up in implementing this tax and implementing this option for revenue diversification.

[01:16:48] But I just want to be clear that there are lots of places all across the Commonwealth of Virginia that are already doing it. I would also note that in most towns and cities, it is not done and has never been done by referendum. They have done that with their own legislative bodies, just like our legislative body here. I also will point out that this really is more than anything about revenue

[01:17:18] diversification. Right now, we have, I believe, about 66 percent of our budget is all on property taxes, and 75 percent of that is on residential property taxes. We would want to diversify our revenue streams. It makes us actually stronger and safer as a county going into more challenging economic times. So lastly, though, I want to confirm, County Executive Brian Hill isn't here today, but I believe that in his budget presentation, and you can confirm this,

[01:17:55] Ms. Jackson, Mr. Hagen, but if we were to put in place a 4% meals tax, and all of the proposed cuts that have been made were made, and everything else stayed even in the budget, it's predicted that we could also bring down the residential property tax rate by a half a penny. Is that correct? That's correct. Okay. Thank you. No further questions. Thanks. Thank you. Supervisor Beerman. Supervisor Smith. Thank you. I appreciated the part of the discussion about the dealer

[01:18:33] discount rate, so I'll be looking forward to getting that information to understand it more. I wanted to go to the ordinance because of the discussion that occurred between churches and other religious institutions. So in E in that section, F3115, there it does reference non-profit churches or other religious bodies, right?

[01:18:55] But in F, it just says churches. But to me, the key word is sold. I know we have a number of religious institutions that provide food for free to their congregation. And so just I want to confirm, because I think the discussion might get people concerned about practices they have where they provide food for free to their congregation.

[01:19:16] So if you could provide any clarity to me about that, I'd appreciate it. Supervisor Smith, just to clarify the question. So are you asking whether it only applies if the food is sold and not whether it's just given to them? Yes. The tax itself only applies if the food is sold.

[01:19:33] The tax rate is applied to the sales price, essentially. So if it's given to them, there would be no tax. I just wanted to make sure we got that out there in case people started being concerned that they'd be taxed for something when they give away food. Thank you. Okay. And I think there will likely be a number of those technical questions.

[01:19:51] And as Jay has mentioned, over time, some interpretations that have had to be made in other jurisdictions to try to bring some clarity to that. Because I can read the ordinance and come up with 15 of my own questions where it seems gray to me.

[01:20:08] And that's why I was asking one of the things, just to make sure when we're looking at the ordinance, we can see a version that has what in there is discretionary and what is required. Because

obviously, if it's something in state code, that would have to be something other people would have to fix to provide us that flexibility.

[01:20:24] If it's something we are given the outright flexibility to decide ourselves, we want to know where those areas are. And my guess is there's not many of those. In fact, my guess is it's probably limited almost to the rate and the dealer discount components, but just seeing is believing, and I think it's appropriate for us to see that.

[01:20:45] So just to be clear on where we are, because we'll walk out of this room and a lot of things will be said that aren't true, a lot of things will be said that are true, but right now this committee meeting was for us to discuss the nuts and bolts of the proposed ordinance, Also, to ask any questions we've had, which, you know, we've had a good, robust conversation here.

[01:21:08] But March 18th is the day that we authorize the advertised tax rate for the purposes of the budget. And if we are going to advertise this and then also the ceiling of the rate, both the ceiling for the rate and the ceiling for the dealer discount, would have to be advertised as part of the actions that we take as a board on March 18th.

[01:21:33] And so it's been pretty clear to me in talking to my colleagues that there's an agreement that we need to include the meals tax in the advertisement so that we can continue to have this conversation with the community. There's always a lot of confusion when we advertise something.

[01:21:49] What is the difference between an advertisement and an enactment? The advertisement is to set a stage to have a further conversation. If we were not to advertise this on March 18th, we could consider it at any point in time, but we would lose the advantage of having the discussion in the context of the budget, which I think would be a big mistake.

[01:22:09] I think it would be a transparency mistake. I think it would be a mistake in terms of the solutions that we need to come up with to solve this year's budget, and I think would present other challenges. So it's clear to me that there's a consensus to advertise this. What is unclear to me and what I need to hear from folks so that we can try to bring forward a general consensus motion on March 18th is, as we do every year, you know, what is the real estate tax rate that people want to advertise?

[01:22:38] What is the meals tax ceiling that people want to advertise? And if you support a dealer discount, what would be the ceiling on the dealer discount that you would like to advertise? Again, these are ceilings. This is not locking anyone in. So I just want to be clear on that. If you tell me, you know, I would support a ceiling of 4%, but I would never vote for a meals tax period, but I want to have the conversation or I would support a ceiling of 4%, but I'm stuck at 3%. That's fine. Those are questions we need to have answered as we go through the budget process and hear from the community and hear from industry.

[01:23:14] What I need to know by March 18th is what is the ceiling you want to base a discussion off of, because that's what we would be doing on March 18th. And there's always, and doing this for, this is the 17th budget I've been in, and every year there's always confusion about the advertised rate and the adopted rate.

[01:23:34] The advertised rate would be the highest maximum rate we could charge on real estate as a part of this year's budget, the advertised rate that we would potentially set in place for the meals tax is the highest rate. So the board can come down on that rate. By the time we adopt our budget, we cannot

increase it. Same with the dealer discount. So I just want to make sure all those technical components are clear from folks. So for us to have a consensus motion, I need to hear from you what your ceilings are on those things. And And I know that people want to have this conversation.

[01:24:10] I personally think it's a conversation worth having. It's been a while since we've had it with our community. We've never had it this way, as was mentioned by several of my colleagues in the past. This has been a referendum discussion, which is a different type of discussion than we're having here, which is how does this fit in to our budget here in Fairfax County.

[01:24:30] And so I do think the conversation is warranted, especially with the challenges that our residential real estate taxpayers are having. Finally, I want to point out something that's obvious, and nobody has said it here today, but I just want to remind everyone, restaurants pay real estate taxes.

[01:24:48] A lot of restaurants pay a lot of real estate taxes and escalating rents based on real estate tax rates. And so if we are trying to look at revenue diversification in the context of trying to ease the burden on residential tax rates, it is on all tax rates, residential and commercial, and restaurants pay those.

[01:25:10] And they pay a lot of money in rent, and if they own their property, they pay a lot of money in real estate taxes. And so they are not exempted from real estate taxes. So if we are able to do something that relieves some of the tax burden on real estate generally, that also has an impact on restaurants as well.

[01:25:27] So I just want to make sure everybody knows that, that they're part of our real estate taxpayers in Fairfax County. With that said, yes. Final comment? Sorry to interrupt, Chairman. One thing, when you were talking about the advertisement, I do think it would be good if you potentially might not want the dealer discount at all in the final ordinance, that you also let us know that before we advertise.

[01:25:46] so basically like because the rate obviously there would be some rates but i think the discount if you think if there's any possibility that you don't want it let us know that so we could include that aspect of the advertisement and draft ordinance as well and and that's what i want to hear from folks what the ceiling is and the ceiling might be zero uh for some of you and if that's the case that's fine i at least you know want to be able to hear that because again these are establishing ceilings here and so i do need to hear that from you in the next couple days though

[01:26:12] So that on March 18th, when we do all the authorizations for the public hearings, that we have already come up with a consensus recognizing that there will be variables on the board and that we are not setting in place a meals tax and we are not setting in place a rate.

[01:26:29] We are merely setting in place a ceiling for the purpose of conversation. And so that's what I need to hear from you in the next couple of days so that we're ready to go on March 18th with what we want to do to further this conversation with the public, with industry, with all of our stakeholders.

[01:26:45] And so with that, unless there's any further information, yes, Phil. MR. I'll just take a moment to point out I apologize for the late addition to the meeting agenda, but we did have the letter from the Information Technology Policy Advisory Committee. They do submit a letter each year with their comments on the budget that was added to the agenda just for the Board's review.

[01:27:03] Okay. Thank you, Phil. And as I mentioned at the beginning meeting, our next meeting of the Budget Committee is scheduled for March 25th at 9:30 here, back in the conference room. Remind

everybody, we have a really important meeting here that's supposed to start in one minute. So if we can start it in two or three minutes, we'll take a quick two to three minute break, and then we have a meeting at 11 o'clock. If you're interested in the county budget, this next meeting is directly tied to that.