Loudoun County Preservation and Conservation Coalition
Budget and Finance Committee

Building a Vision for Fiscal Sustainability in Loudoun County

<u>Envisioning Our Fiscal Future</u>

--- Analysis and Recommendations ---

August 26, 2020

PURPOSE

- The Budget Committee of the Loudoun County Preservation and Conservation Coalition has reviewed Loudoun's past fiscal budgets and key policies and practices.

- It has also employed a simplified model to help envision Loudoun's fiscal future over the next 5 - 10 years and prepared a Loudoun Fiscal Health Scorecard to evaluate outcomes.

- Together, these are intended to help inform the public policy dialogue and County policy-making and practices as regards

  - *Risk and sustainability issues* that may arise by continuing on Loudoun's current fiscal path in the coming 2020 decade, and

  - *Actions that may be needed* as part of County fiscal management to help ensure that

    - Loudoun's fiscal balance can be maintained throughout the 2020 decade

    - *And with it,* the Loudoun 2019 Comprehensive Plan can be implemented as designed.

This paper is submitted by the Budget and Finance Committee of the Loudoun County Preservation and Conservation Coalition.

Chair - Jim Hanna
Members – Al Van Huyck, Mitch Diamond and Robert Pollard

Contacts - comments and questions on this paper should be addressed by email to jimhanna12@gmail.com or by phone to 301-717-5889 (Jim Hanna's mobile)

HIGHLIGHTS

Near-term, COVID 19 has demonstrated Loudoun's budgetary resilience to shock and a strong fiscal management capability. Rising online internet activity in response to COVID is also accelerating growth of the County's world class data center industry and will significantly enlarge County tax revenues next year.

But a longer-term fiscal vision paints a picture of uncertainty and vulnerability. The revenue abundance of the past decade will not be repeated in the 2020s as Loudoun's main new revenue drivers at present, data centers and new housing, hit barriers to growth under the location policies of the Loudoun 2019 Comprehensive Plan. Future revenue diversification by the broader business community and other local sources is likely to be modest at best, and it is highly unlikely to replace revenue growth from these two sources.

These revenue trends will not support the County's persistently high public operating expenditure growth rates, about 7% per year over 2016-20, which are well above population growth. Our extrapolation of several long-term trends in revenues and expenditures shows significant deficits within the next five years and large deficits developing in the second half of the decade under any plausible scenario. Even in the most optimistic scenario, early surpluses turn to deficits in the later years of the decade.

To lower fiscal risks, improve budget stability and avoid longer-term deficits, policy adjustments should be adopted <u>soon</u> that bend these trend lines. As first steps, this paper recommends that (1) the FY2022 budget development process include one or more Board – Staff workshops on Loudoun's medium-term fiscal prospects and issues, and (2) this leads to preparation of a FY2022-25 Fiscal Strategy within which annual budgeting can be guided.

We believe that such a strategy should include (a) creation of a reserve fund to capture some of the near-term surge in tax contributions of the data center industry for later use, (b) measures in new housing policy and per resident spending that begin to moderate the growth in County operating expenditures, and (c) a plan to slowly alter the real property taxation practices of the last decade.

Failure to act soon, when conditions are favorable, will progressively limit policy choices and later require more severe, less acceptable steps – such as major cuts in County expenditure levels, large homeowner tax hikes, and having to significantly relax the 2019 Comprehensive Plan locational limits on new residential housing and data centers.

CONTENTS

SUMMARY

COVID Lessons
(pages 10-11)

Strengths. Loudoun's *initial* fiscal response to the COVID shock has highlighted its strong professional management team, conservative annual budgeting practices, sound cash reserve policies, and solid bond market credit rating.

Vulnerabilities. *Near-term,* COVID is likely to generate more stress on budget balances and competition between priorities for funds. *Longer-term,* the deeper uncertainty that it has created - and basic fiscal prudence itself - beg the question: ***where is Loudoun's current high-growth fiscal path leading us, and what vulnerabilities and risks are associated with it?***

Envisioning
(page 12)

To try to respond to this question, we portray Loudoun's current fiscal path over 2021-30 with a simplified model:[1]

- The Base Case - maintains the four core policy drivers outlined in Box 1; the data center industry meets current capacity growth expectations of 8 million ft2, then stabilizes by the mid-2020s per land use under the 2019 Plan; broader business is resilient, apart from retail and office sectors;

- The Upside Case - mainly reflects more robust growth of the data center industry (+60% above Base); and

- Downside Case - depicts slack in the residential housing growth, data center expansion (-25% below Base) and broader business.

To understand where the current path leads us, projected outcomes are shown <u>absent any changes</u> that would be required annually to balance the budget. Projections are intended to be <u>illustrative</u> for discussion purposes - <u>not</u> to be predictive and numerically significant.

> **Box 1 – <u>Loudoun's Current Fiscal Policy Path</u>**
>
> The past five years and current FY2021 budget reflect a path largely determined by **four core policy drivers**:
>
> (1) ***Rapid new housing development*** – at nearly 3% annually over 2016-20, <u>inducing similar rates of public spending</u> to provide new residents with governmental and educational services.
>
> (2) ***High recurrent operating expenditures*** – at nearly 4% annually over 2016-20 *per resident* for both government and LCPS- a persistent trend.
>
> (3) ***Flat real property tax bills*** – by adopting since 2011 an 'equalized' tax rate that produces the same yearly average homeowner tax bill (and falling when inflation-adjusted). This replaced the previous decade's tax policies in which residents shouldered pay-as-you-go the costs of growth.
>
> (4) ***Dependence on data centers for revenue growth*** – progressively replacing the homeowner property tax as the new revenue driver, has provided 50% - 85% of all new General Fund (GF) revenues since 2017. Overall GF revenue growth rates over 2016-20 would have averaged <u>4 percentage points lower</u> (3.7% versus 7.6% per year) without data center taxes.

---

[1] Cases and policy responses are described in more detail in Annexes 1 and 2, and in two separate Working Papers.

Outcomes
(pages 13-15)

__Over 2021-25 - very uncertain revenues and budget balances__. As seen already in actual budget estimations over 2018-2019, data center revenues projections show a *wide range of possibilities*:

- *In 2025, they could reach some $872 million in the Upside Case or $642 million in the Base Case* - $230 million apart - <u>depending</u> upon technological change, expansion strategies, and competition with other sites in the US and overseas to attract data centers;

- Such revenues would *dominate* annual funding growth and present a *high single industry concentration risk* – as they would make up some 70-76% of total <u>new</u> GF revenues; and

- *This could swing budget balance* <u>from</u> *substantial deficits* in the Base and Downside Cases <u>to</u> *moderate surpluses* in the Upside Case.

- ***Absent early policy action, actual data center revenues would dictate whether the Government has to enact substantial spending and/or tax changes, or enjoy surpluses.***

__Over 2026-30 - large budget deficits in all three cases__. Modeling suggests that, absent changes in the four core policies, the current fiscal path would lead to:

- Base and Downside Cases - heavy deficits over 2026-30; and

- Upside Case - *also* heavy deficits over this period, even with the stabilization of a larger industry capacity footprint. ***If surpluses accumulated over 2021-25 were to be reserved for use later, it could improve this outcome to <u>moderate</u> deficit levels.***

Box 2 - Loudoun Fiscal Health Scorecard							
	2021-2025				**2026-2030**		
	Base	**Upside**	**Downside**		**Base**	**Upside**	**Downside**
Projected GF Budget Balance							
Total Revenues – Available less Required (+ surplus/- deficit) ($ MM)	-384	319	-488		-1,196	-1,017	-1,410
Share of Total Required (%)	-3.5%	+2.9%	-4.5%		-9.9%	-6.9%	-11.0%
Expenditure Management							
Annual Operating Expenditures – % Growth p.a. Per Resident	3.9%	3.9%	4.0%		3.9%	3.9%	3.9%
GF Revenue Management							
Total GF Revenues - % Growth p.a.	5.1%	7.7%	4.1%		1.9%	2.2%	1.3%
Data Center Revenues – % Growth p.a. 1/	13.7%	20.7%	12.1%		0.2%	1.6%	0.2%
New Development Dependency 2/							
Data Center Revenues - % Total Annual Incremental GF Revenues 2/	70%	69%	76%		2%	25%	4%
Figures for both 2021-25 and 2026-30 are projections of current fiscal trends without policy corrections to balance annual budgets. GF = General Fund. p.a. = per annum .1/ Data center revenues include real & personal property taxes. 2/ Refers to figures at end of the period.							

Drivers
(pages 16-25)

Projected operating expenditures growth – remains high. New housing-induced demographic spending growth of about 2% per year <u>plus</u> ongoing 4% per resident per year spending growth:

- *Mean that some 6% per year growth translates into high new Dollar demands* - some $170 million per year on average over the next decade – funded mostly from local taxes.

Projected General Fund revenue growth - trending downward. It falls in the Base Case from an average of about 7% per year over 2016-20 to 5% per year over 2021-25; then falls further to about 2% per year over 2026-30. Why?

- *The positive outlook for data center revenue growth represents a relative decline* **-** from its 34 – 36% per year growth over the previous decade to some 14 – 21% over 2021-25;

- *Stabilization of data center capacity <u>mostly eliminates</u> the main new revenue driver* in the budget by the mid-2020s and leaves a major gap in new funding; and

- *Alternatives to diversify revenues are very limited* - even solid growth by the rest of the business community would not begin to take the place of data center revenue growth.

Together, this suggests that maintaining a reasonable GF revenue growth rate, say at 4% per year, would require the County to alter its long-held real property equalized tax practices.

Navigating Our Fiscal Future
(pages 26-29)

The goal is to lower risk, improve budget stability and avoid longer-term deficits – to help achieve this, revenue and expenditure decision-making should be cast within a longer-term context. *The following three initiatives aim to help envelope the annual budget development process within a strategic fiscal framework that points the way to longer-term sustainability.*

1. <u>***Over September – October 2020, expand the scope of the FY2022 budget development process to include initial discussions on medium-term fiscal prospects and issues.***</u>

   - This might be done by (1) broadening the currently planned "computer taxes" agenda item (ref staff memo to FGOEDC of July 14, 2020), and (2) anchoring it with a staff memo that scopes possible longer-term fiscal trends and items for Board discussion.

   - ***Such discussions should aim to inform the Board debate on its FY2022 Initial Budget Guidance and to launch work on a FY2022-25 strategic fiscal framework.*** [2]

---

[2] **This step would activate what is already required by Loudoun's Fiscal Policy Guidelines (p3)**: "The County will annually update a long range (3-5 year) financial forecasting system which will include projections of revenues, expenditures, and future costs and financing of capital improvements……."

2. ***By December 2020, present for Board discussion a first draft FY2022-25 Fiscal Strategy.***
   Such a strategy, with extended visioning for 2026-30, should include:

   - ***An operational spending management plan*** that leads to more moderate spending growth rates that will progressive converge with sustainable revenue growth rates.

     o *This plan should recognize new housing development policy as an essential fiscal management tool* to moderate the rate of housing-induced demographic expenditure growth, and focus on how to lower the annual growth in per resident spending.

   - ***A fiscal revenue management plan*** that aims to progressively rebalance the revenue structure and reduce dependence on new development. This effort should focus on:

     o *Updating longer-term reward and risk prospects of the data center industry* – by clarifying jointly with the industry how trends will influence its growth, economic impacts, fiscal revenues and any vulnerabilities under the 2019 Comprehensive Plan [3]

     o *Designing a data center reserve fund* – anticipating the Upside Case with a mechanism to capture this temporary revenue growth surge over 2021-25 and build cash reserves to buffer future shocks, contain spending pressures from revenue abundance, and smooth the transition to the coming era of data center capacity stabilization; and

     o *Defining the "diversified and stable revenue structure"* required by Fiscal Policy (Revenue Policies, p 6) – to point the way to burden-sharing between residents and business, how to manage revenue concentration, and how to set residential tax rates [4]

     Annual strategy updating should become a part of the "long range financial forecasting system" mandated by Fiscal Policy and an integral step in the annual budgeting cycle.

3. ***By December 2020, adopt an expanded set of metrics to establish a Loudoun Fiscal Health Scorecard to better monitor fiscal performance and prospects***

   - Loudoun's Fiscal Policy sets important specific indicators and benchmarks for its debt. Such metrics should be expanded to form a full set for a 'Fiscal Health Scorecard' to enable tracking of its full fiscal performance and direction (see Annex 3 for more on this).

   - Particular attention should be given to (1) aggregate recurrent expenditures, (2) revenue sources and risk levels, and (3) progress toward longer-term sustainability as Loudoun's land use matures.

---

[3] For more, see the Budget Committee's backgrounder - "Working Paper 3: Managing Medium-Term Risks and Rewards – Updating the Role of the Data Center Industry in Loudoun over 2021-2025" of May 2020.
[4] For more, see the Budget Committee's backgrounder - "Working Paper 5: Fiscal Revenue Policies for Sustainability" of May 2020

Envisioning Our Fiscal Future

Envisioning Our Fiscal Future

1. FISCAL LESSONS OF THE COVID 19 SHOCK

Highlights Loudoun's 'first response' fiscal strengths

- A strong professional management team – designed and executed a first response plan - pausing budget growth and preserving current staffing, compensation and core programs

- Conservative short-term budget revenue and expense estimation practices

- Fiscal Policy cash reserve provisions that have enabled smooth cash management

- Channeling Federal emergency funding under the CARES Act on the order of some $100 million that has enabled new County programmatic actions to reach and support residents, particularly through non-profit organizations, and to help stabilize local businesses

- Strong bond market credit rating – reaffirmed by rating agencies - that reflects good fiscal management, Loudoun's underlying high-income tax base and a resilient economy

- The County, as elsewhere, has also been fortunate to see record low interest rates that have helped to support continued positive trends in the local housing market

But exposes its vulnerabilities near-term to budget imbalances

- Even the mild fiscal impact of COVID on Loudoun has exacted a cash drain producing an *unprecedented* thin FY2020 year-end General Fund unassigned balance ($19 million)

- Looking forward, this has created competing needs between rebuilding cash reserves and providing local tax funding for both operating and CIP budgets for FY2021 and FY2022

- As shown by the Great Recession of 2008-10, any further and deeper short-term shocks may lead to wrenching cuts of staffing, compensation and programs, to freezing CIP implementation, to abrupt homeowner tax hikes and downgrades in bond credit rating

And underscores the vulnerabilities longer-term of its fiscal structure

- Loudoun's land use policy for housing development and heavy housing-inducd demographic pressures results in exorbitant, *unsustainable* annual growth rates of operating and debt service expenditures, which are <u>threefold</u> other Metro DC counties

- Loudoun's *unique* high-level dependency on new residential and commercial development, especially a single industry, *providing 60-80% of annual incremental* General Fund revenues and *enabling* decade-long average homeowner property tax cuts

---

As shown by these warning signs, flashing as the FY2021 Budget was adopted in March

- 7% government and LCPS operating budget growth over Fiscal 2020 to extend services to 11,000 new residents each year, raise staff compensation, anticipate Metro operating costs and address unmet housing needs

- A constrained FY2021-2026 CIP that can accommodate few new projects given limitations on local tax funding (LTF) and limited debt capacity

- Having to spend *nearly all* of Loudoun's incremental data center tax revenues - almost $100 million more than FY2020 – to pay for high spending growth

- Despite attempts to continue applying 'equalized' homeowner real property tax practices, having to increase this property tax *for the first time in a decade*

---

2. <u>FUTURE SCENARIOS</u>

Three core scenarios aim to express a likely trend and an upside / downside range

- *Base Case* – the County maintains its current path for residential housing and demographic development, operating and capital expenditures, and its level homeowner real property taxes. Data center capacity grows and stabilizes in the mid-2020s as currently expected. Lower growth impacts are felt by retail, tourism and office business sectors, as well as other tax and non-tax revenues, over 2021-25.

- *Upside Case* – housing, demographic, spending and property taxes per the Base Case. The data center industry generates 60% more capacity against the Base Case and 'densifies' capacity before stabilization in 2026. Broader Loudoun business and other budget revenues recover promptly from 2020 COVID shocks.

- *Downside Case* – housing development and demographic growth are cut back to 70% of the Base Case. The County attempts to maintain its Base Case spending and property tax policies. Data center capacity reaches only 75% of the Base Case, given competition for siting, before stabilization in 2026. Over 2021-25, much of broader business community growth and other budget revenues stagnate, before resuming modest growth in 2026.

Supporting work for these cases and the model can be found as follows

- Annex 1 - fuller summary of these cases, policies and market condition assumptions

- Annex 2 – sketch of sample policy responses to balance the budgets for the three cases

- Annex 3 - description of the "Loudoun Fiscal Health Scorecard" and results

- "Working Paper 1.1 - Envisioning Our Fiscal Future –Detailed Scenario Descriptions" – full outline of the scenarios and specific assumptions

- "Working Paper 1.2 - Envisioning Our Fiscal Future – Model Technical Description" – full description of the model

---

3. FISCAL OUTCOMES

The Analysis - The summary impact of budget revenue and expenditure policies, together with market economic conditions and business, is reflected annually in Loudoun's budget balance…*or imbalance*.

- The core cases extend Loudoun's current fiscal path – as defined primarily by policies and trends over the past five years – in two segments of 2021-25 and 2026-30

- Loudoun's total expenditure appropriations are funded from three main sources - the General Fund – which has funded about two-thirds of total appropriations over the past 20 years, debt (to finance capital spending) and other sources such as the Virginia Commonwealth and the NVTA that primarily fund a portion of the LCPS and CIP.

- The analysis makes the fundamental assumption that debt and 'other' resources will continue to support about one-third of the budget and focuses on the mostly local tax funded (LTF) General Fund.

- The analysis shows what could happen to General Fund budget balance, expenditures and revenues under the model case assumptions *without taking different policy measures* intended to bend the curve toward lower near-term risks and long-term sustainability.
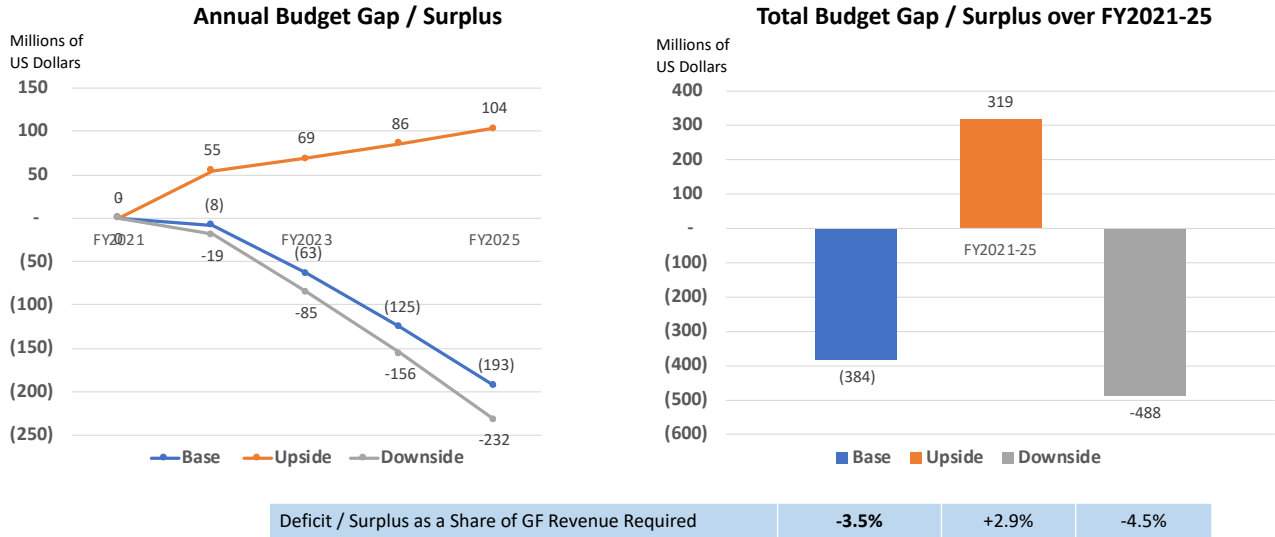

Moderate imbalances over 2021-25

- Loudoun's current fiscal path projected over 2021-25 in the Base Case suggests it would encounter **moderate persistent deficits** aggregating nearly $400 million, or about -3.5% of resources required from the General Fund. The Downside Case generates **deeper deficits** of nearly $500 million over 5 years, or -4.5% of General Fund requirements

- The Upside Case paints a different picture – one of *moderate surpluses* – above $300 million over these five years – due primarily to realization of an additional 6 million FT2 of data center capacity and additional 'densification' of existing space capacity above the current *consensus* reflected in the Base Case

- Budget balancing the Base and Downside could be via slowing new housing development and decreases of 1-2 percentage points of annual spending growth…**or** tax increases

- Data center industry assumptions drive most of the Base and Upside Case variation. **The Upside *is not considered an unreasonable possibility.*** What is important here is not so much the exact numbers but ***the magnitude of variation and uncertainty today.***

- It is very noteworthy that this variability in result versus expectation has already been at work over 2018 and 2019, when actual data center revenues were highly to extremely different than budget estimates.[5]

---

[5] See "Quarterly Report/FY 2020 Third Quarter Financial Update" of May 12, 2020, page 9 on Computer Equipment

Budget Balance
Over FY2021-2025 1/

Annual Budget Gap / Surplus

Millions of US Dollars

Total Budget Gap / Surplus over FY2021-25

Millions of US Dollars

Deficit / Surplus as a Share of GF Revenue Required	**-3.5%**	**+2.9%**	**-4.5%**

Sources: Loudoun County Adopted Budgets and projections of the simplified Medium-Term Planning Model, Coalition for Preservation and Conservation.
1/ Figure reflect what could happen under case assumptions without taken corrective policy measures to balance budgets.
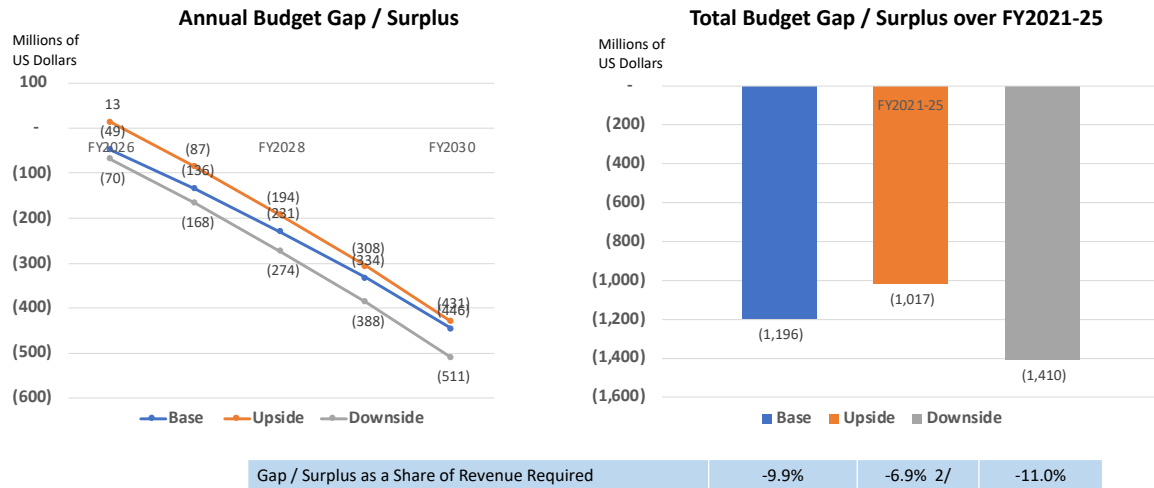

Heavy imbalances over 2026-30

- The analysis extends the fiscal path from 2026 assuming that Loudoun has taken steps as required over 2021-25 to balance its budgets to not distort outcomes from prior deficits

- The Base generates persistent *heavy deficits* accumulating to roughly $1,200 million over the 2026-30 period, or -9% of total General Funds required. The Downside Case generates deeper deficits totaling about $1,400 million, or -11% of GF required.

- Notwithstanding the higher data center industry capacity put in place over 2021-25 in the Upside Case, this best case scenario would still result in *heavy deficits* of about $1,000 million (-6.9% of GF required) **before** application of 2021-25 surpluses and *moderate deficits* (-4.0% of GF required) **after** the application of surpluses over 2021-25.

- Budget balancing for deficits in the Base Case would require not only cutting annual expenditure growth to 2.0% per resident (from 3.9%) but increases in homeowner real property taxes by over 2% per year. In the Upside Case, application of 2021-25 surpluses and cuts to 2.3% per resident spending growth could avoid tax increases. The Downside Case would require both sharp expenditure cuts and tax increases to reach balance.

- Given the sharper deficits that can be expected over 2026-30 from data center stabilization, *anticipating this with mild spending and tax adjustment over 2021-25 will clearly avoid the sharper adjustments needed later.*

Budget Balance
Over FY2026-2030 1/

Annual Budget Gap / Surplus

Millions of US Dollars

	Base	Upside	Downside
FY2026	(49)	13	(70)
	(136)	(87)	(168)
FY2028	(231)	(194)	(274)
	(334)	(308)	(388)
FY2030	(446)	(431)	(511)

Total Budget Gap / Surplus over FY2021-25

Millions of US Dollars

Base	Upside (FY2021-25)	Downside
(1,196)	(1,017)	(1,410)

Gap / Surplus as a Share of Revenue Required	-9.9%	-6.9% 2/	-11.0%

Sources: Loudoun County Adopted Budgets and projections of the simplified Medium-Term Planning Model, Coalition for Preservation and Conservation.
1/ Figure reflect what could happen under case assumptions without taken corrective policy measures to balance budgets.
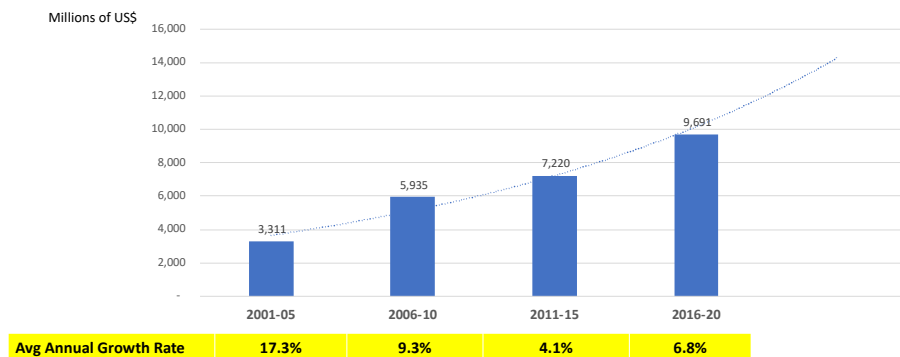2/ Deficit is <u>before</u> application of budget surplus over FY2021-25 in the Upside Case of $319 million.

10

15

4. OPERATING EXPENDITURE MANAGEMENT

High Operating Expenditure Growth Trends Over 2000-2020

- *Persistently high* long-term – not just from the latest staff compensation adjustments
- Growth in transfers to School Fund is prominent by volume
- But growth rates in *both* government and LCPS are comparable and at issue
- ***This spending pattern is DC Metro region outlier not only because of its demographic growth rate, <u>but because of its higher per resident growth metric</u>***

Operational and Debt Service Expenditures
Total Values and Growth Rates over 2000 2020

Millions of US$

	2001-05	2006-10	2011-15	2016-20
Total	3,311	5,935	7,220	9,691
Avg Annual Growth Rate	**17.3%**	**9.3%**	**4.1%**	**6.8%**

Source: Loudoun Annual Adopted Budgets.

7

Government Expenditure Trends, 2015-2019
Cross-County Comparisons – Total and Per Resident

Expenditure Growth Rates for Selected DC Region Counties, 2015-2019	Total Expenditures	Population	Per Resident
Maryland			
Frederick	3.4%	1.1%	2.3%
Montgomery	1.8%	1.0%	0.8%
Virginia			
Arlington	3.0%	1.3%	1.7%
Fairfax	3.6%	0.7%	2.9%
Prince William	3.1%	1.6%	1.5%
Five-County Average	3.0%	1.1%	**1.8%**
Loudoun	6.8%	3.0%	**3.8%**
DIFFERENCE - Loudoun - 5 County Average	3.9%	1.9%	**2.0%**
Source: Individual County budgets, 2011-2019. Refers to fiscal years.			
Figures are for adpoted budget appropriations excluding capital budget,			
except for Frederick and Prince William Cos.			

48

New Housing and Per Resident Spending are Comparable Growth Drivers

New housing-induced demographic growth and systemic spending per resident have been similarly responsible for these growth rates

Operational and Debt Service Expenditures
Growth Rate Drivers – Demographic and Per Resident Spending

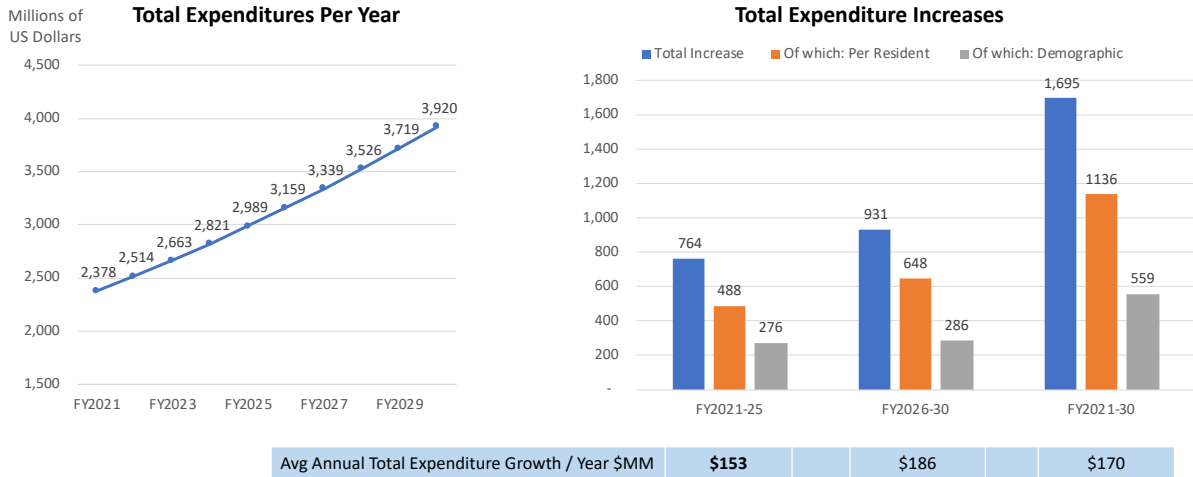| Total Avg Annual Growth Rate	17.3%	9.3%	4.1%	6.8%		6.9%
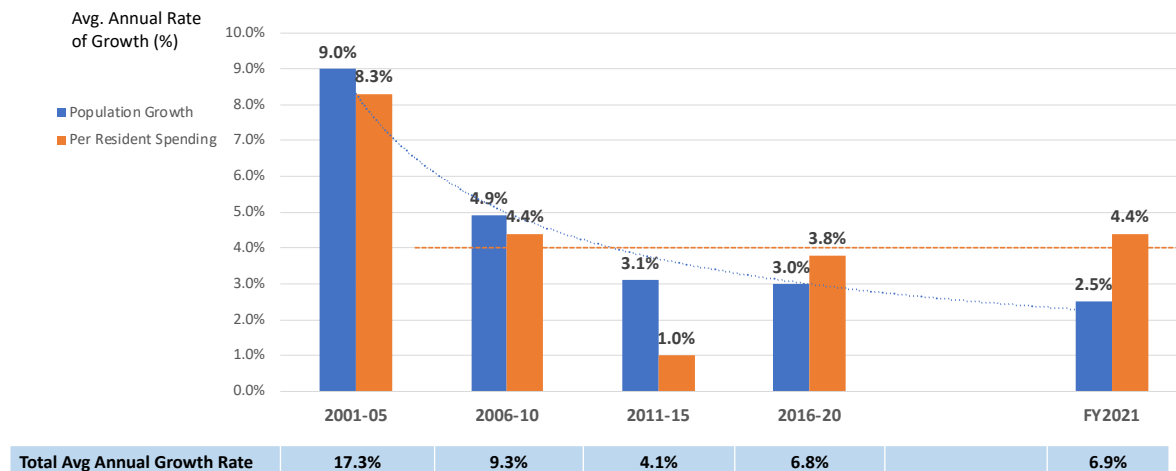
Source: Loudoun Annual Adopted Budgets.

5

Continuing Such Spending Over 2021-30 Means High, Unsustainable New Dollar Demands

- Maintaining this per resident expenditure growth posture combined with a robust new housing development policy leads year-to-year to the requirement of a 'revenue lift' over the next 10 years of about $1,700 million, or an average of *$170 million more per year,* to be paid for mostly by local tax funding

- Over $ 1 billion of this would be required by per resident spending ($488 million over FY2021-25 and $648 million over FY2026-30). Over $ 500 million would be derived from new housing-induced demographic spending requirements. *These projections do not even consider uncertain cost contingencies, such as those that the County may be required of the County for Metro Rail.*

- Continuing into the future this current operational expenditure growth path cannot be sustained by revenue growth longer-term, which may struggle to reach 4% per year over FY2026-30 and in the Downside Case over FY2021-25

- ***Clearly, new housing policy is not only key in TPA and RPA land use objectives, but an essential tool in aggregate fiscal management in order to markedly lower the demographic expenditure growth rates and control impending budget deficits.***

Operational and Debt Service Expenditures
Projected Values and Annual Growth Over FY2021-30

Total Expenditures Per Year

Millions of US Dollars

Total Expenditure Increases

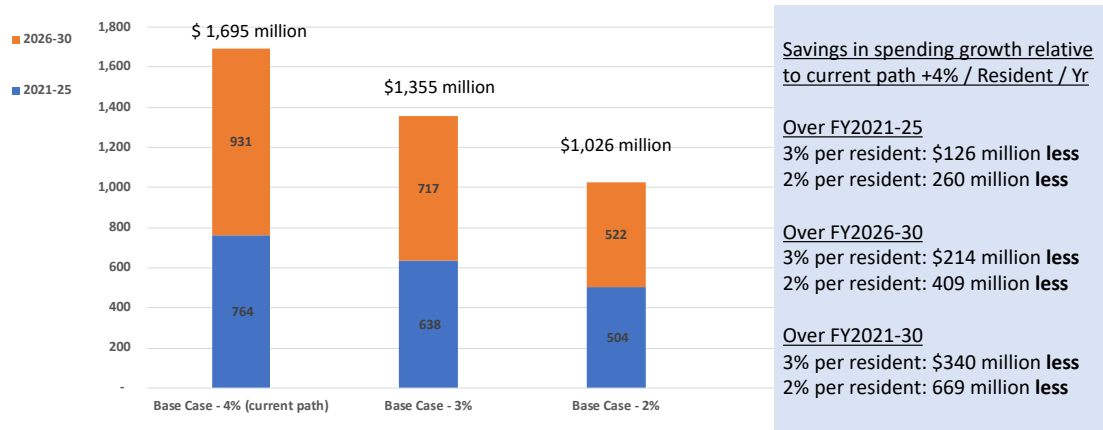| Avg Annual Total Expenditure Growth / Year $MM	**$153**	$186	$170

Sources: Loudoun County Adopted Budgets and projections of the simplified Medium-Term Planning Model, Coalition for Preservation and Conservation..

16

Reducing Per Resident Spending Growth Over 2021-30 is Also a Powerful Tool

Per resident spending management will also be important policy tool for budget management. *Projections reflect a reduction of 1-2 percentage points in per resident spending growth has would have the potential to produce savings aggregating some $300-700 million over 2021-30.*

Total Operational Expenditure Growth Sensitivity Impacts of Lower Per Resident Spending, 2021-30

Savings in spending growth relative to current path +4% / Resident / Yr

Over FY2021-25
3% per resident: $126 million **less**
2% per resident: 260 million **less**

Over FY2026-30
3% per resident: $214 million **less**
2% per resident: 409 million **less**

Over FY2021-30
3% per resident: $340 million **less**
2% per resident: 669 million **less**
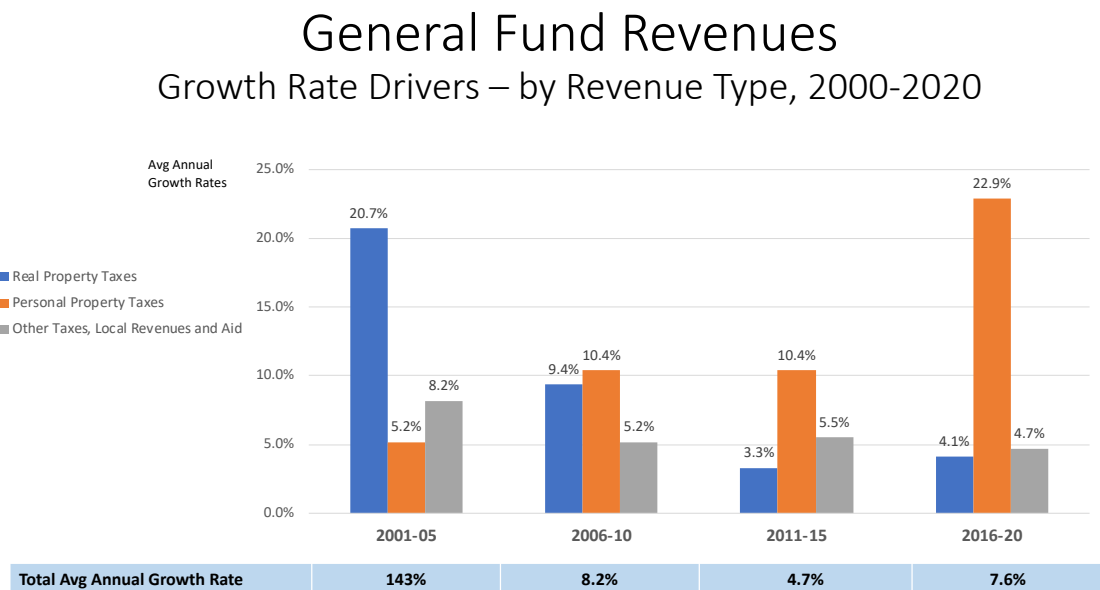
18

5. REVENUE MANAGEMENT

General Fund Revenue Policies Have Headed in a Perilous Direction Over 2000-2020

The BOS has, de facto or deliberately, dramatically shifted polices from resident-based funding to single-source funding:

- From a *steady real property tax rate and revenue increases* through FY2009, through which homeowners shouldered the cost of growth;

- Then, *relatively balanced growth* following the Great Recession from real property, personal property and non-property taxes plus local revenues and outside aid; and

- *And now, the persistent elimination (and actually reduction when inflation-adjusted) in the growth in the average tax bill* from existing homeowners since 2011 - simultaneous compensated by the rise in data center industry dependence.

It is understandable that increasing the business share of taxation may be viewed as positive. ***However, this trend has been almost entirely due to growth of a single, concentrated industry***.

More importantly, these conditions cannot be expected to be replicated - data center growth and new housing development will flatten progressively, probably by the mid-2020s.

General Fund Revenues
Growth Rate Drivers – by Revenue Type, 2000-2020

| Avg Annual Growth Rates				
	2001-05	2006-10	2011-15	2016-20
Real Property Taxes	20.7%	9.4%	3.3%	4.1%
Personal Property Taxes	5.2%	10.4%	10.4%	22.9%
Other Taxes, Local Revenues and Aid	8.2%	5.2%	5.5%	4.7%
Total Avg Annual Growth Rate	**143%**	**8.2%**	**4.7%**	**7.6%**

Source: Loudoun Annual Adopted Budgets.

17

Data Center Taxes Dominate General Fund Revenue Growth

- High capacity growth rates of an incipient data center industry produced relatively small effects on revenue over 2011-15. *Continuing capacity growth rates for a now large industry in Loudoun produced a **dominant effect** on revenue growth over 2016-20*

- *In the absence of data center industry revenue,* total General Fund revenue growth would be about 3.7% per year, *or **some 4 percentage points less than with them.***

General Fund Revenues
Growth Rate Drivers – by Payor Group over 2010-2020
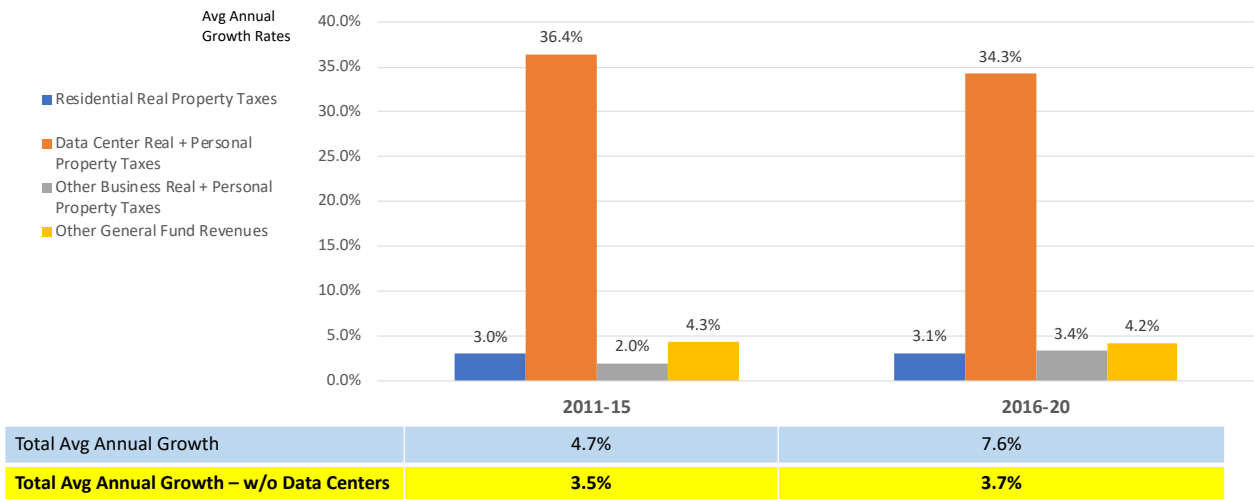
	2011-15	2016-20
Total Avg Annual Growth	4.7%	7.6%
Total Avg Annual Growth – w/o Data Centers	**3.5%**	**3.7%**

Source: Loudoun Annual Adopted Budgets, Commissioner of the Revenue and author's estimates.
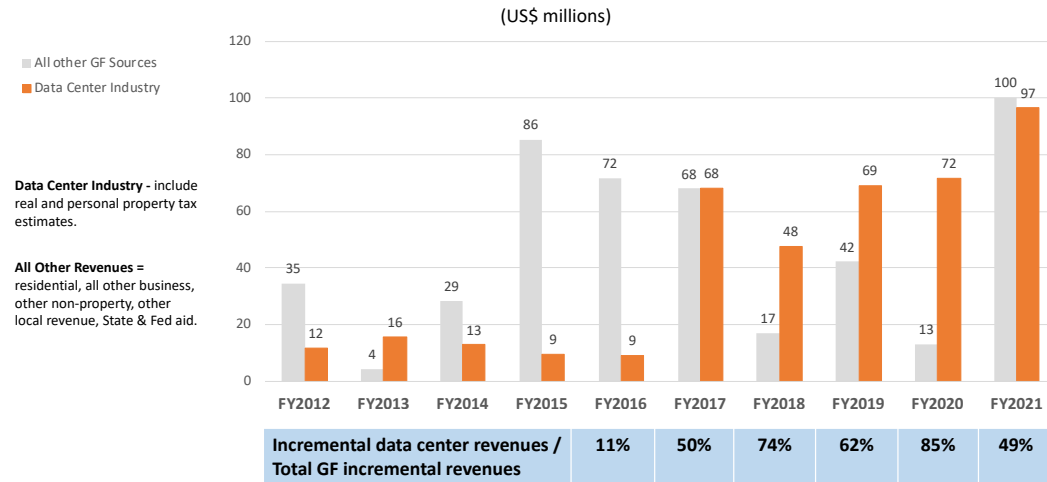
18

And Now Present an Annual Funding Concentration Risk

- The annual incremental Dollar value of data center taxes *by FY2017 reached well over half - between 50% and 85% - of total GF incremental revenue growth.*

- This creates a high annual funding / refunding exposure risk to meet the persistent and high yearly growth in expenditure appropriations.

General Fund Revenues

Annual Dollar Value Growth – Data Centers and All Other Sources over FY2011 - FY2021

(US$ millions)

Incremental data center revenues / Total GF incremental revenues	11%	50%	74%	62%	85%	49%

Data Center Industry - include real and personal property tax estimates.

All Other Revenues = residential, all other business, other non-property, other local revenue, State & Fed aid.

Sources: Loudoun County Adopted Budgets and projections of the simplified Medium-Term Planning Model, Coalition for Preservation and Conservation..
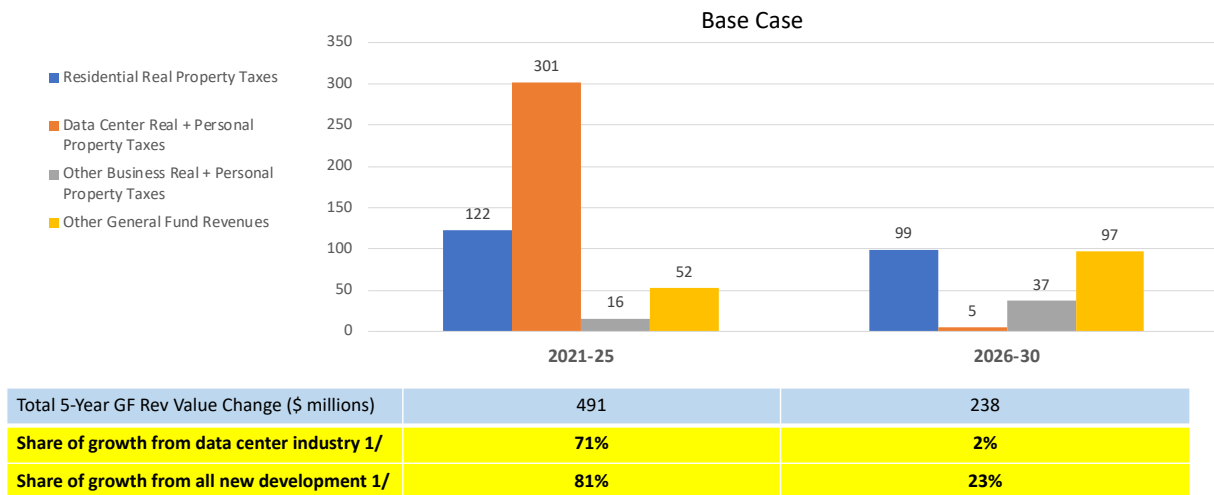
20

A Risk That Will Intensify Further Data Center Revenue Dependence Over 2021-25

- Major imbalances in revenue sources would continue - 71%(Base) to 75% (Upside) of the total annual <u>growth</u> in revenue ($301 million of $491 million) over FY2021-25 - would be derived from the <u>increase</u> in data center industry capacity.

Total General Fund Revenues
Incremental Value – by Entity and Market, 2021-2030

Base Case

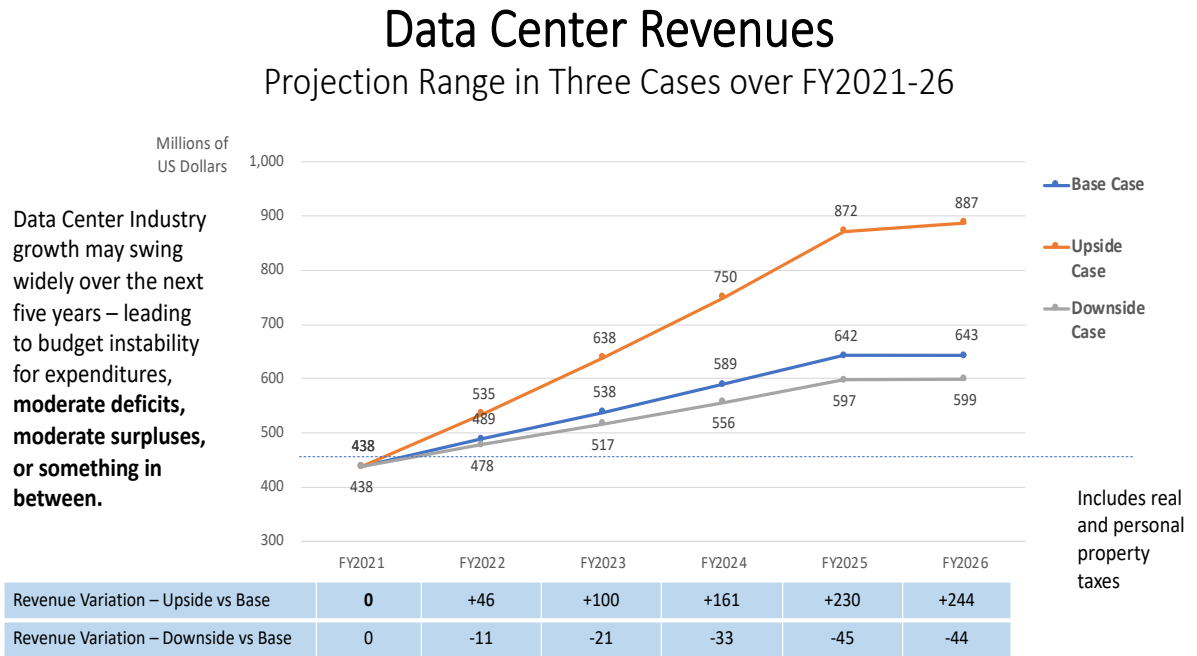|	2021-25	2026-30
Total 5-Year GF Rev Value Change ($ millions)	491	238
Share of growth from data center industry 1/	71%	2%
Share of growth from all new development 1/	81%	23%

Source: Author's estimates.   1/ Figures are for end of 5-year period.

25

21

However, Data Center Revenue Levels are Very Uncertain Over 2021-2025

Projections suggest that the data center revenue range could vary by in excess of $ 50 million in FY2022 and could *grow dramatically to $275 million by FY2025* given

- Ongoing rapid tech change, like densification" and AI in small high-density centers
- Varying expansion strategies - building up in place or spreading out - "far enough to be safe, near enough to be fast"
- Growing competition among sites the US and overseas to attract data centers

Data Center Revenues
Projection Range in Three Cases over FY2021-26

Millions of US Dollars

Data Center Industry growth may swing widely over the next five years – leading to budget instability for expenditures, **moderate deficits, moderate surpluses, or something in between.**

Includes real and personal property taxes

Base Case — Upside Case — Downside Case

FY2021: 438, 438
FY2022: 535, 489, 478
FY2023: 638, 538, 517
FY2024: 750, 589, 556
FY2025: 872, 642, 597
FY2026: 887, 643, 599

	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Revenue Variation – Upside vs Base	**0**	+46	+100	+161	+230	+244
Revenue Variation – Downside vs Base	0	-11	-21	-33	-45	-44

Sources: Loudoun County Adopted Budgets and projections of the simplified Medium-Term Planning Model, Coalition for Preservation and Conservation..
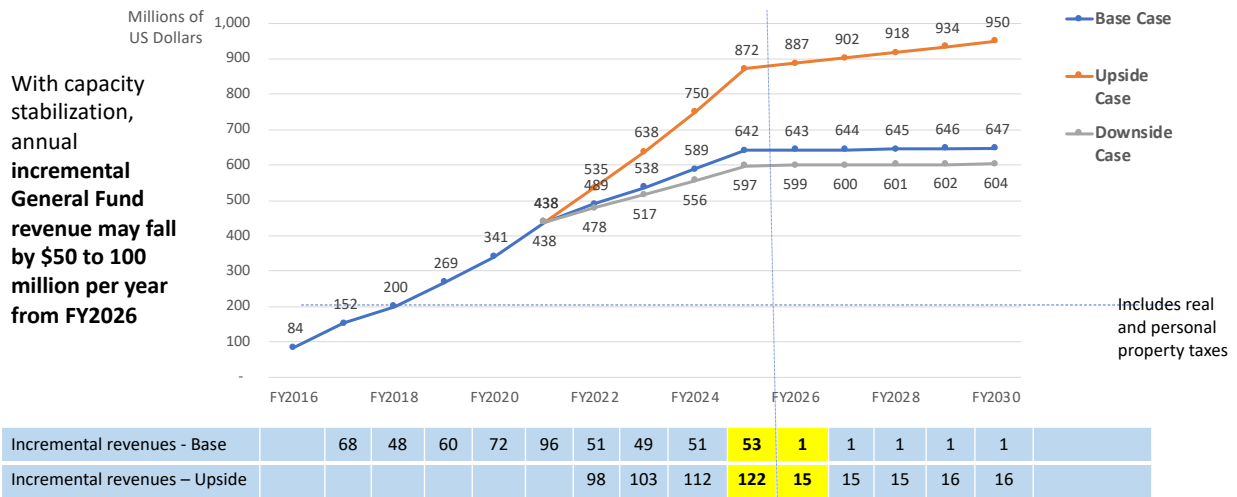
28

And Its Capacity Stabilization Will Leave Large Annual Revenue Gaps by the Mid-2020s

- <u>Incremental</u> data center industry revenue falls to near zero over 2026-30 in the Base Case and in the Upside Case, after adding $531 million to revenues over FY2021-25, would add only an estimated $77 million over FY2026-30 mainly from revalued equipment

- Depending upon how stabilization actually occurs, Loudoun's General Fund could potentially face *a decline by $50 million (Base) - $100 million (Upside) per year in annual incremental revenue* and risk the need for abrupt reductions in expenditures.

Data Center Revenues
Projected Revenue Impacts of Capacity Stabilization – Three Case Scenarios

With capacity stabilization, annual **incremental General Fund revenue may fall by $50 to 100 million per year from FY2026**

Includes real and personal property taxes

Incremental revenues - Base			68	48	60	72	96	51	49	51	**53**	**1**	1	1	1	1
Incremental revenues – Upside								98	103	112	**122**	**15**	15	15	16	16

## Data Center Uncertainties Will be Mirrored in the Total General Fund Revenue Outlook

- This range of data center tax revenues for Loudoun are almost certain to have important consequences for budget balance and stability, expenditure management and revenue development dependence.

- Absent strong corrective policy action in anticipation of this – the model suggests that the potential swing between Upside and Downside Cases could amount cumulatively to some $ 954 million over FY2021-25 and to $2,425 million over FY2026-30.

- On an annual basis, this range will make the difference between the Loudoun County Government running moderate General Fund balance deficit (Base Case), a moderate surplus (Upside Case), or a serious deficit (Downside Case).

Which, Overall, Shows Revenue Growth Diminishing Markedly Over 2020-2030

- General Fund revenues in the Base Case rise on average at about 5.1% per annum, or ***nearly 2 percentage points less than the 6.9% p.a. pace of 2016-2020***. They fall sharply over 2026-30 to an annual average of 1.7% growth in total revenues, due to the:

  o slowing rate of expansion of data center capacity – about 14% per year over 2021-25 versus 34% p.a. over 2016-20 and a stabilization of industry capacity from 2026;

- o weak growth in residential and business real property taxes with the *continued application of the equalize tax rate*; and

- o the market softening effects of COVID on the broader business community and slower growth in other local, state and federal revenues over 2021-25.

- ***In the Upside Case, buoyant growth would continue at 7.7% per year over 2021-25 per recent rate***, but would fall sharply over 2026-30 to 2.2% with data center capacity stabilization and the absence of revenue diversification

Total General Fund Revenues
Growth Rate Drivers – by Entity and Market, 2021-2030

Base Case

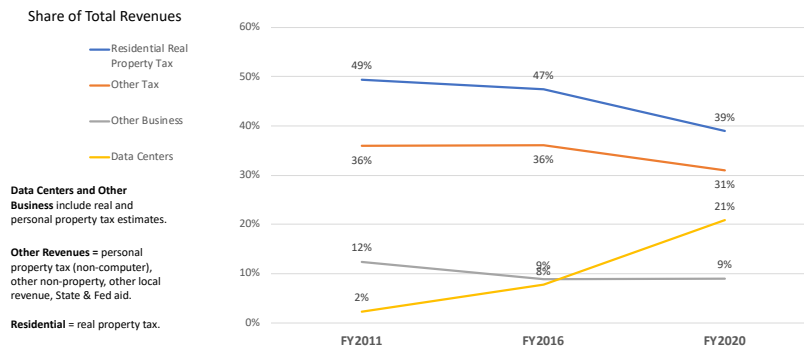

Total Avg Annual Growth	5.1%	1.7%
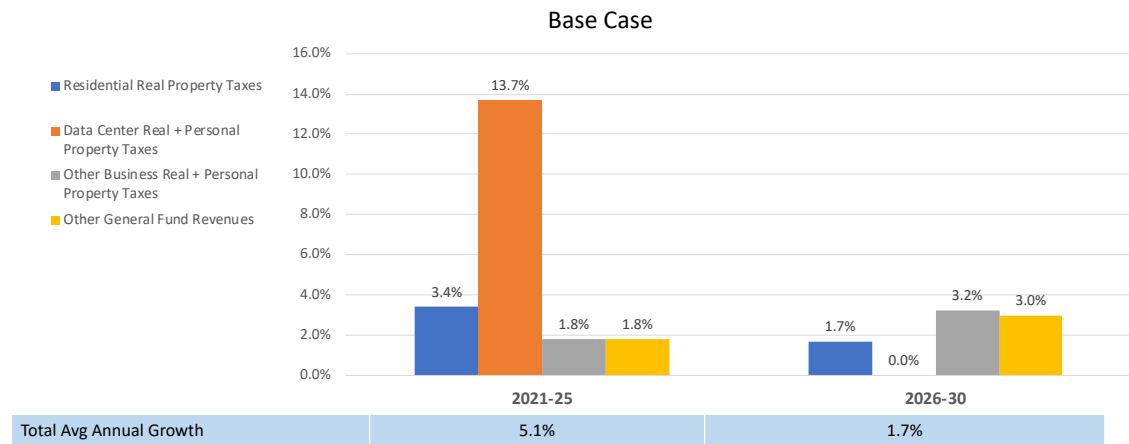
Source: Projections of the Simplified Medium-Term Planning Model, Coalition for Preservation and Conservation..

The Past Has Strongly Skewed Revenue Concentration

- Loudoun's Fiscal Policy calls for the County to "maintain and monitor a diversified and stable revenue structure to shelter it from short-run fluctuations in any one revenue source" (Revenue Policies, Section 3).

- Eliminating the average tax bill increases from existing homeowners and relying mainly on the rise of the data center industry - have together *produced a sharp change the composition of the overall General Fund portfolio of revenues over the decade*

- *The single data center industry source rising from 2% to 21%, while the highly diversified residential property payor fell from 49% to 39%*

General Fund Revenues
Portfolio Composition – by Payor Group over 2010-2020

Share of Total Revenues

- Residential Real Property Tax
- Other Tax
- Other Business
- Data Centers

Data Centers and Other Business include real and personal property tax estimates.

Other Revenues = personal property tax (non-computer), other non-property, other local revenue, State & Fed aid.
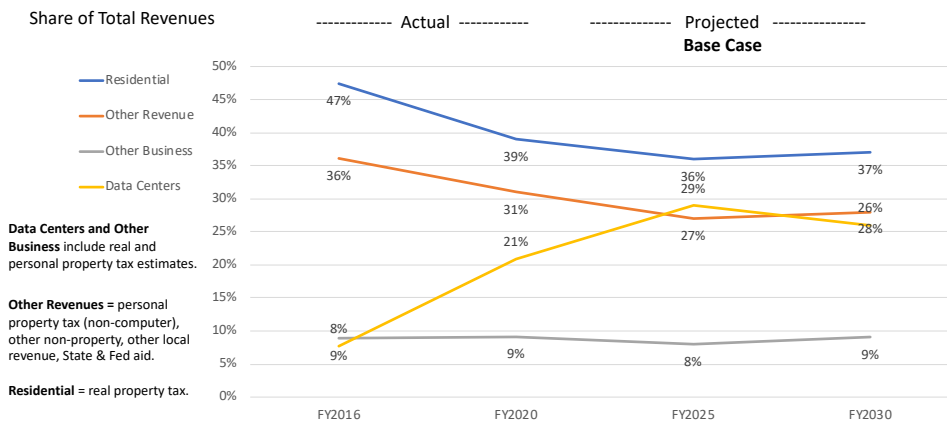
Residential = real property tax.

Source: Loudoun Annual Adopted Budgets, Commissioner of the Revenue and author's estimates.

19

But There is No Revenue Diversification in Sight

- Continued growth in concentration of data center revenues approaching 30% (Base Case) to 34% (Upside Case) by 2025*. **Even in the absence of added capacity from 2026 – a continued high exposure to this industry at 28% - 33% of total revenues through 2030*;*

- Total residential real property taxes fall from 39% in FY2020 to 36% (Base) to 32% (Upside) of total GF revenues by 2025, stabilizing thereafter to FY2030;

- *The broader business community would not be able to make any meaningful (and possibly <u>no</u>) contribution to the diversification of County General Fund revenues over the next 10 years **in either Base or Upside Cases,** let alone supplant any significant downturn in data center revenues, even assuming continued buoyant growth*

General Fund Revenues
Continued Rising Portfolio Dependence on Data Centers & No Diversification

Share of Total Revenues

------------- Actual ------------   -------------- Projected ----------------
Base Case

- Residential
- Other Revenue
- Other Business
- Data Centers

Data Centers and Other Business include real and personal property tax estimates.

Other Revenues = personal property tax (non-computer), other non-property, other local revenue, State & Fed aid.

Residential = real property tax.

Sources: Loudoun County Adopted Budgets and projections of the simplified Medium-Term Planning Model, Coalition for Preservation and Conservation..

23

25

6. <u>RECOMMENDATIONS</u>

Ongoing top-priority attention needs to be given, of course, to short-term COVID-responsive fiscal management, such as work to

- Absorb increased cost to refit LCPS for the 2020 school year
- Continue support for NGO social services and ongoing Loudoun business
- Manage year-end property tax revenue collections and assessments for January 2021.

In addition, with the model's depiction of the widely different fiscal future that might unfold in Loudoun, a number of steps should be taken to strengthen fiscal planning, policies and practices

---

6.1 Expand over September-October 2020 the scope of the FY2022 budget development process to include initial discussion on medium-term fiscal prospects and issues. This would entail:

- A decision to broaden the current item to be discussed by the Board in the Fall on "computer taxes" (see memo of 7/14/20 to the Finance Committee) to also focus on (a) a longer time horizon of 2025 and beyond, and (b) a broader scope of revenue and expenditure trends. This could be undertaken, for example, in one or more Board "fiscal envisioning" workshops in October 2020;

- For such a workshop (s), preparation by staff in consultation with Board members of a memorandum that scopes possible fiscal trends and items for Board discussion;

- Such discussions would aim to (a) inform debate and Board decisions in its Initial Budget Guidance for FY2022, and (b) launch work on a 2022-2025 strategic fiscal framework with Board adoption of a content outline and a requests staff to prepare a *first draft* for its consideration by about December 2020.

6.2 Prepare by December 2020 a first draft FY2022-25 Fiscal Strategy to guide annual budgeting

The wide range of fiscal uncertainty and the coming stabilization of data center industry revenues call for encapsulating short-term budgeting within a medium-term fiscal strategy

- Loudoun's "Fiscal Policy" is not a defined fiscal strategy to navigate the coming 5 years and 10 years in a fashion to lower fiscal risks and achieve long-term sustainability

- *The de facto* strategy of recent years appears to be to run a high growth expenditure path funded by a combination of robust 'good-fortune' data center development and consistent flat average homeowner tax bills using the 'equalized' tax rate

- A well-articulated fiscal strategy for 2021-25, with extended visioning for 2026-30 should be adopted to lower risk and achieve fiscal sustainability within the Loudoun 2019 Comprehensive Plan – modeling suggests that it should have

    o operational spending management plan that begins to moderate Dollar demands and growth rates targeted to converge with sustainable revenues growth rates

    o a fiscal revenue management plan to begin to rebalance the revenue structure and reduce new development dependence

---

6.21 Update Reward and Risk Prospects of Loudoun's Data Center Industry [6]

- Update for the BOS and broader Loudoun community, and as a joint exercise with industry representatives, the medium-term prospects of the data center industry to help maintain its benefits and limit risks for the County

- It should strengthen the common understanding in particular of data center industry trends, how technological factors might influence industry size and location, Loudoun's vulnerabilities in site competition in US and overseas markets, and the limits to data center growth in Loudoun.

- It should also help improve the reliability of industry short- and medium-term tax revenue estimates for Loudoun's budgeting purposes

---

6.22 Manage the Upside Case Potential - Establish a Data Center Reserve Fund

- Such a Fund could help preserve these temporary and unique revenues for the purposes of

    o reinforcing cash reserves in the face of near-term revenue uncertainty
    o compensating later for the stabilization of data center industry revenues

- It would also support good fiscal management by helping to

    o Avoid setting spending levels based on the full use of industry revenue and increasing even further the growth rate in operating expenditures
    o constrain the unhealthy temptation to reduce other tax revenue sources

---

[6] See the Budget Committee's "Working Paper 3: Managing Medium-Term Risks and Rewards – Updating the Role of the Data Center Industry in Loudoun over 2021-2025" of May 2020

6.23 Adopt a Medium-Term Revenue Management Plan Under Existing Fiscal Policy[7]

- General Fund revenues are derived from a mix of real property taxes, personal property taxes, sales and use taxes, fee for services and other local revenues from a variety of residential and business sources

- Existing Fiscal Policy requires that "The County will maintain and monitor a diversified and stable revenue structure to shelter it from short-run fluctuations in any one revenue source."

- However, Loudoun now lacks a defined and transparent medium-term fiscal revenue management plan to give clarity to this Policy requirement

- Formulate and adopt a medium-term fiscal revenue management plan that will establish

  o Revenue burden-sharing guides between residents and business
  o Set clear and transparent guidelines for homeowner real property taxation
  o How to handle single source revenue concentration (data center industry)
  o How to rebalance and diversify the County's skewed sources of fiscal revenue
  o How to mitigate and reduce new development dependency over the 2020s

---

6.24 Activate the Yearly Medium-Term Forecasting as Required by Fiscal Policy

Medium-term forecasting and analysis are already required by Loudoun's Fiscal Policy and this step would in essence activate this requirement.[8]

- Loudoun's existing Fiscal Policy states that "The County will annually update a long range (3-5 year) financial forecasting system which will include projections of revenues, expenditures, and future costs and financing of capital improvements and other projects that are included in the capital budget and the operating budget." ("Guidelines, p.3)

- While this is done for the six-year CIP – which only accounts for 15-20% of annual expenditure appropriations – it is not done otherwise.

- By all public indications, it is not being done for the remainder of the fiscal management. The "Forecasting" section of the annual budget (e.g., p R-34 of the FY2021 Budget) does not address this need, but only explains estimates applying to that year's budget.

---

[7] See the Budget Committee's "Working Paper 5: Fiscal Revenue Policies for Sustainability" of May 2020.
[8] Fiscal Policy Guidelines (p3) state "The County will annually update a long range (3-5 year) financial forecasting system which will include projections of revenues, expenditures, and future costs and financing of capital improvements and other projects that are included in the capital budget and the operating budget."

6.3 Adopt a set of Loudoun Fiscal Health and Sustainability Metrics

- Loudoun's Fiscal Policy specifies a set of indicators and benchmarks for its _debt_ – while very important, this in no way captures tracking of full fiscal performance

- Loudoun should expand its fiscal metrics to form a complete "fiscal dashboard" of core "Fiscal Health and Sustainability Metrics"

- They should focus on aggregate recurrent expenditures, revenue sources, fiscal risk levels and longer-term sustainability. Examples are found in Annex 3

- While these metrics should be 'home grown' to fit its unique character Loudoun, they should also be informed by a set of referential benchmarks that reflect fiscal performance trends of other counties in the DC Metro area and elsewhere

Three Core Scenarios – Summary Descriptions

The paper envisions through three scenarios what Loudoun's fiscal future might look. Thumbnail summaries are presented below.   A full description may be found in "WP 1.1 Envisioning Our Fiscal Future – Detailed Scenario Descriptions".

The Cases

- **The Base Case -** The County attempts to maintain its current path for residential housing and demographic development, fiscal operating expenditures, the 2021-26 CIP, and provide the "equalized rate" to keep level the average homeowner real property tax bill. Loudoun experiences substantial economic resilience in residential and business markets following the COVID shocks of March – June 2020. Data center industry capacity meets current growth expectations over 2021-25 and stabilizes thereafter as space runs out. Lower growth impacts are felt over 2021-25 mainly by retail, tourism and office business sectors and residential housing prices at a slightly lower rate than the past, before resuming past levels in FY2026. General Fund revenues from other sources, like sales and use taxes, BPOL, charge for service and external aid, also grow a bit more slowly than in the past.

- **The Upside Case -** The County continues to maintain its current path for residential housing and demographic development, fiscal operating and capital expenditures, and the equalized real property tax rate. Loudoun experiences full economic resilience following the COVID shocks with expansion continuing as per the past five years across broad Loudoun business markets. The data center industry generates about 60% <u>more</u> capacity against Base Case expectations and 'densifies' that capacity before stabilization in 2026. General Fund revenues from other sources maintain their past modest growth.

- **The Downside Case -** The County cuts back on residential housing and demographic development to about 70% of the Base Case. It attempts to maintain fiscal operating and capital expenditures, and the equalized real property tax rate. In the face of persistent COVID impacts, the Loudoun economy loses strength over 2021-25 – residential housing prices fall at -3% p.a. and growth of much of the broader business community stagnates, before both resume modest growth thereafter.   Loudoun also loses siting competitiveness for the data center industry and capacity reaches only 75% of the Base Case. Growth in General Fund revenues from other sources also stagnates.

Specific policies and market conditions

- **Expenditures**. The average *operational expenditure* growth posture for government and LCPS operations is maintained over the next 5 and 10 years. They reflect consistent growth of about 4% per resident per year, at varying rates among governmental functions (general administration growing the fastest at 6%, health and welfare and parks and rec at 4% and public safety and judicial administration at 3%). *Capital appropriations* continue

their robust growth at 10% per resident per year. Expenditures also grow with demographic increases at the rate of expansion of new residents and school enrollees.

- **Residential housing development** – *Base and Upside Cases*: new housing development in Loudoun maintains its past five-year path post-COVID given low inventories, continued strength in professional and technical service professions, the bolstered stay at home telework movement, and favorable mortgage interest rates. New units total about 3,500 per year over FY2021-25 and 2,800 units over FY2026-30. Existing and new housing prices rise at 1.5% per year over FY2021-25 in the Base Case and 2.5% per year in the Upside Case (past five-year average); both cases rise at 2.5% per year from 2026. *Downside Case*: the rate of new housing building falls to about 70% of the Base and Upside Case and existing and new home prices fall by 3% per year over FY2021-25, then rise at 1% per year from 2026.

- **Data center industry** – All cases begin with capacity at 21.5 million ft2 in FY2021. *Base Case:* data center industry capacity grows by 8 million ft2 over FY2022-25 then stabilizes in FY2026.   *Upside Case:* the data center industry capacity grows by 13 million ft2 over 2022-25 and "densification" of computing capacity per unit area of 5% p.a. over FY2021-25. Data center industry capacity stabilizes in FY2026 and densification grows at 2% p.a. *Downside Case:* data center industry capacity development stalls against current projections and adds 6 million ft2 over FY2022-25 as some operator plans go unfulfilled given new technological solutions for data storage (e.g., "Colocation Goes to Space" [9]), and some firms leave Loudoun for more competitive operating locations. It stabilizes in 2026.

- **Broader business community** - the broader business community (with the resurgence of office, retail, accommodations and general commerce) and "other" fiscal revenues substantially return to the pre-COVID trends of 3-6% p.a. growth. *Downside Case:* The local business community experiences a long "U-shaped" recession over FY2021-25 with weaker near-term market conditions and high un- and under-employment. Growth in flex industrial is 4% per year, but stagnates for office, retail, hotel and general commerce sectors while agriculture rises at 1% per year. These sectors recover slowly over FY2026-30 at 1% per year.

- **Other General Fund revenues –** sales and use tax, BPOL, charge for service, and external aid from Virginia state and federal- *Base Case:* they rise 1% per year over 2021-25 and 3% thereafter; *Upside Case*: at 3% per year from FY2021; *Downside Case*: aggregate growth of these other revenue sources stagnates.

- **Real property tax rates** – The Board attempts to continue the application of equalized real property tax rates in all three cases. They are adjusted so that the average homeowner tax bill remains at or near the nominal $5,272 of FY2021. In such case, the ***inflation-adjusted average tax bill falls to $4,444 by 2030 and to $3,718 by 2040.*** The Board also maintains the personal property tax rate at $4.20.

---

[9] https://mail.google.com/mail/u/0/#inbox/FMfcgxwJWXcxnfZMNVSXSzHwdFDpgsfr

Sample Policy Responses

The Base Case

FY2021-25

To address <u>moderate budget</u> <u>deficits</u> totaling $384 million (-3.5% of GF requirements)

- **Constrain new housing developments requiring BOS permits –** applying the more even housing development profile in the Downside here *would produce a decline in the deficit of about $100 million over five years* – netting the effect of a loss in property tax revenues against the reduction in demographic expenditures.

- **Operational expenditures** - adjust downward by 1.0 % points p.a. in annual expenditure appropriations growth per resident (from 3.8% to 2.8%) across the board over FY2021-25 (LC government departments, LCPS and CIP appropriations). This would produce additional net a savings of $284 million over the 5-year period and *eliminate the deficit.*

FY2026-30

To address <u>heavy budget</u> <u>deficits</u> totaling $1,196 million (-9.9% of GF requirements)

- **Constrained new housing development –** the accumulated deficits of this era would result under the continued housing development profile applied above over 2021-25.

- **Operational expenditures –** the government decides to continue to apply the per resident growth rate of 2.8% of FY2021-25. This would reduce the five-year deficit to $622 million (-4.9% of GF requirements). A further reduction to a long-term sustainable 2.0% per resident growth cuts the deficit to $427 million (-3.4%).

- **Real property tax revenues** – it adjusts the real property tax rate so that the average homeowner tax bill rises at 2.4% per year over FY2026-30, or 0.4% p.a. inflation-adjusted, to eliminate the deficit.

The Upside Case

FY2021-25

To deal with the potential for a <u>moderate surplus</u> in the budget balance of $319 million (+2.9% of GF requirements)

- The Government establishes a Data Center Reserve Fund and banks this surplus

To address the <u>strong budget</u> <u>deficits</u> totaling $ 1,017 million (-6.9% of GF requirements)

- **Apply the surplus** - the government applies the $319 million surplus of the 2021-25 period as deficits arise, leaving a five-year deficit of $688 million (4% of GF required)

- **Operational expenditures** - then, it reduces operational spending downward by 1.8% percentage points per resident from 3.8% to 2.3%, *eliminating the deficit*

The Downside Case

FY2021-25

To address <u>strong budget deficits</u> totaling $488 million (-4.5% of GF requirements)

- **Operational expenditures** – applying the same adjust downward in the Base Case by 1.0% percentage points in annual expenditure appropriations growth per resident (from 3.8% to 2.8%) would reduce the deficit over the five-year period to about $184 million (-1.8% of GF requirements).

- A further annual expenditure growth reduction by 0.6% p.a. over FY2021-25 to an average annual 2.2% growth per resident would *completely eliminate the five-year deficit.*

FY2026-30

To deal with <u>heavy budget</u> <u>deficits</u> totaling $1,410 (-11.0% of GF requirements)

- **Operational expenditures –** the Government applies all of the expenditure controls of FY2021-25 period, yielding 2.2% per resident over the period and lowering the deficit to $753 million (-6.2% of GF requirements).

- **Real property tax revenues** – to cure the remaining deficits *requires strong real property tax rate hike* that raises the average homeowner tax bill at 4.1% per year on average over FY2026-30, which would be 2.1% per annum when inflation-adjusted.

    Were the government to have begun in the previous 2021-25 period to very modestly adjust the homeowner tax bill upward, this tax increase would have been far more mild: applying only a 1.5% p.a. increase over 2021-25 (-0.5% inflation-adjusted) would have required a 2.1% p.a. (0.1% inflation-adjusted) homeowner tax bill hike over FY2026-30.

Loudoun Fiscal Health Scorecard

Dashboard Metrics to Assess Loudoun Fiscal Risks and Sustainability

Loudoun County's Fiscal Policy includes a variety of budgeting rules and guides - such as paying for recurring expenditures with recurring revenues, funding at least 10% of the CIP with local taxes, and maintaining adequate fiscal reserves.

The Policy specifically includes highly useful monitoring indicators for its *indebtedness* program, which supports implementation of the Capital Investment Program (CIP). They apply notably to net tax supported debt outstanding in relation to real property taxable valuation and debt service in relation to total expenditure appropriations.

But, annual CIP expenditure appropriations are only some *15-20% of the total budget.*

Additional standard fiscal indicators for the operating budget and the overall fiscal picture are needed, as an integral part of the County's annual budgeting process, to assess current and future projected fiscal trends for near-term risks and longer-term sustainability risk.

The following 10 indicators in 5 categories could form core **Loudoun Fiscal Health Metrics**:

1. **Short- and Medium-term Projected Budget Balance**

   • General Fund revenues – available less required (surplus or deficit)

2. **Expenditure Management**

   • Annual operating and debt service expenditures - growth per annum per resident

3. **General Fund Revenue Management**

   • Total General Fund revenues - % growth per annum
   • Data center industry real and personal property taxes – % growth per annum
   • Average homeowner real property tax bill - level and % growth per annum
   • Total General Fund revenues - % concentration by payor group

4. **New Development Dependency**

   • Share of data center industry revenues in total annual incremental GF revenues
   • Share of all new development revenues in total annual incremental GF revenues
   • Share of data center industry revenues in total operating and debt service expenditures

5. **Debt Dependency**

   • Annual debt service payments – share of total expenditure appropriations

		Loudoun Fiscal Health Scorecard						
		Dashboard Metrics to Assessing Loudoun Fiscal Risks and Sustainability under Three Scenarios						
		Actual	**2021-2025**			**2026-2030**		
		2016-20	**Base**	**Upside**	**Downside**	**Base**	**Upside**	**Downside**
1.	**Projected GF Budget Balance**							
•	Total Revenues – Available less Required (+ surplus/- deficit) ($ MM)		-384	319	-488	-1,196	-1,017	-1,410
•	Share of Total Required (%)		-3.5%	+2.9%	-4.5%	-9.9%	-6.9%	-11.0%
2.	**Expenditure Management**							
•	Annual Operating Expenditures – % Growth p.a. Per Resident	3.9%	3.9%	3.9%	4.0%	3.9%	3.9%	3.9%
3.	**GF Revenue Management**							
•	Total GF Revenues - % Growth p.a.	6.6%	5.1%	7.7%	4.1%	1.9%	2.2%	1.3%
•	Data Center Revenues – % Growth p.a. 2/	34.3%	13.7%	20.7%	12.1%	0.2%	1.6%	0.2%
•	Avg Homeowner Tax Bill – US $ Level and Avg Growth p.a.	$ 5,272	0%	0%	0%	0%	0%	0%
•	Total GF Revenues – % Concentration by Payor Group 1/							
	o Residential	39%	36%	32%	37%	37%	31%	38%
	o Data Centers	19%	29%	33%	28%	26%	33%	26%
	o Other Business	9%	8%	8%	8%	9%	9%	9%
	o Other	32%	27%	27%	27%	28%	27%	27%
4.	**New Development Dependency 1/**							
•	Data Center Revenues - % Total Annual Incremental GF Revenues 2/	54%	70%	69%	76%	2%	25%	4%
•	All New Dev. Revenues - % Total Annual Incremental GF Revenues	60%	84%	84%	90%	36%	60%	47%
•	Data Center Revenues - % Total Operating Expenditures 2/	10%	22%	24%	20%	20%	26%	20%
5.	**Debt Dependency 1/**							
•	Annual Debt Service Payments - % Total Expenditures	7.7%	7.6%	7.6%	7.8%	7.9%	7.3%	8.1%

Figures for both 2021-25 and 2026-30 are projections of current fiscal trends without policy corrections to balance annual budgets.
GF = General Fund.   p.a. = per annum
1/ Refers to figures at the end of the period.   2/ Data center industry revenues include real and personal property taxes.