



Finance Working Group

A Review of the Loudoun County Approved FY2024 Budget

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On April 4, 2023, Loudoun County's Board of Supervisors approved the FY2024 Budget, which will begin on July 1, 2023. Its key features are presented in Attachment 1 and commentary by the Finance Working Group is summarized below.

Overall - A transition in Loudoun's fiscal policy is way overdue!

*Loudoun's population growth has transitioned steadily from highly developmental to mature. Annual population growth has fallen steadily from 11% in 2001 to 4% in 2015 to 1.5% in 2022, and now approaches the DC Metropolitan Area-wide average of 1.1%. This maturity is also expressed in the 2019 Comprehensive Plan, which calls for a moderate and *balanced growth* approach to Loudoun's future.*

But - County tax and spending policies have yet to make a transition to this balanced growth approach:

- **Spending** - the County is pursuing a 'spend it all' approach to data center revenues. The result is spending growth is twice the rate of the region;
- **Single industry dependence** - on data center industry development is increasing – rising from a reasonable 14% of General Fund revenues in FY2017 to 33% in FY2024;
- **Risk mitigation** - the Board has adopted no measures to manage data center industry revenue volatility and risk; and
- **Tax cuts** - yet, business property tax cuts have been approved for FY2024 that primarily benefit big tech and *increase homeowner taxes to make up for the lost revenue mainly from the data center industry!*

Conclusion:

On balance, County fiscal policies continue to favor narrow development interests at the expense of the broader interests of Loudoun's citizens.

Specifics

1. Spending growth is running at unsustainable rates.

Sharp hikes in both County government and LCPS expenditures at 5.7% for FY2024 continue long-term patterns – yet this year’s budget is labeled as ‘*constrained*’! Loudoun’s annual population growth (1.5% in 2022) accounts only for a small part of this hefty increase. *Spending per resident* is at far higher rate of growth than in neighboring counties. Attenuating this growth rate is a strategic necessity to help rebalance the revenue structure and limit the rise in the average homeowner tax bill.

2. Data center dependence is rising and undermines diversification.

The share of *total* data center revenues in local tax funding (LTF) is about 33%. However, the industry’s real property taxes for FY2024 have jumped substantially and now surpass all other Loudoun business combined. All non-data center Loudoun business taxes – notably office, retail and general commerce – have grown at just 2% yearly on average since 2017, whereas data centers’ business taxes have grown at 28% per year over the same period.

3. Fiscal risk management is inadequate – our reserve and debt guardrails are out of date.

Data center tax revenues are more volatile and risky than the more predictable homeowner property taxes that have formed our tax base for over 250 years. Short-term data center revenue volatility has exceeded that of the 2009 Great Recession, and long-term projections for 2024-26 are now nearly \$500 million less than those of just 2 years ago. *The County needs to update its reserve and debt ratio limits, which were set decades ago before Loudoun’s data center boom.*

4. The revenue rebalancing policy proposal by Staff is in limbo.

Staff recommended in October 2021 that the Board embrace a *tax policy change* to rebalance the shares of real property tax (RPT) and business personal property tax (BPPT) so as to reduce the risks of single industry dependence. The temporary stall in the growth of data center taxes in FY2024, due largely to power constraints and a BPPT tax rate cut, has enabled the share of RPT in total local funding to reach about 53% of total local tax funding against the target of 60%.

This for now meets the spirit of the staff recommendation. However, this ratio will once again fall as power constraints are alleviated and data center capacity grows. *Now is the time for the Board to accept the Staff recommendation, set the approach and timetable to meet the 60% target, and firmly adhere to the proposed revenue rebalancing policy in future budgets.*

5. The homeowner property tax rise is needed to limit further data center dependence.

The average homeowner tax bill will rise about 6% to \$6,047 for FY2024. Fortunately, when inflation-adjusted, *this level remains equivalent to about that of 2014*, and the \$339 average increase is less than 1% of the rise in real property valuation. Keeping real property tax revenues

at least apace with inflation is an important and necessary policy step to stop the unhealthy rise in Loudoun's data center tax dependence and set it on a path to moderation. Reverting to the so-called "equalized tax rate" would only exacerbate the problem.

6. The business personal property tax cut disguises a data center tax giveaway and increase in residential tax burden.

The FY2024 budget includes a decrease in the BPPT rate from \$4.20 to \$4.15 – a first since at least 1987. This tax rate cut has been made with no broader fiscal policy debate or direction by the Board. This cut is small for now – *but, more substantial reductions are likely in coming years in the absence of such debate.*

While this FY2024 cut means a decrease in residents' vehicle property tax, *it also means that data center industry taxes will be cut by nearly \$3 for every \$1 of vehicle tax cut.* For FY2024, the decrease in the BPPT rate represents a tax cut for Loudoun's data center industry of approximately \$6.8 million compared with a cut on vehicles of about \$2.6 million for Loudoun residents.

This lost revenue must be replaced by higher homeowner real property taxes in the absence of County spending cuts. This loss of data center computer property tax revenue represents about 1 cent of the Real Property Tax Rate, *or roughly \$70 more in the average homeowner tax bill to be paid mostly by Loudoun residents.*

7. Annual budgeting remains transactional without future policy direction.

Annual budgeting needs to be based within a strategic fiscal policy direction for the next four years that defines sustainable spending levels and reduced revenue dependence on the data center industry. It needs to be supported transparently with risk assessments, stress testing and affordability analysis - and of utmost importance – with a Board consensus on the path forward.

**The Loudoun County Preservation and Conservation Coalition
Finance Working Group**

Key Elements of the Loudoun County Proposed FY2024 Budget¹

1. Expenditures

County operational spending continues on a rapid and unsustainable growth path.

- Proposed appropriations total \$2,906 million for Government and LCPS operations and debt service - about \$156 million *or 5.7% above the FY2023 adopted budget.*
- This increase covers \$14 million in base budget adjustments to continue to provide current services to accommodate population growth, \$27 million in higher employee compensation (6% merit increase and 4% pay scale adjustment), 45 new positions in seven departments to open new capita facilities and support programs, and a local transfer of \$69 million to LCPS.
- This growth is considered '*constrained*' due to a temporary stagnation in data center tax revenue growth. But it is constrained only compared with consistently higher annual *growth rates of 7% - 9% approved by the Board over the past decade.*

Loudoun County Budget Expenditures for FY2023 - FY2024 (US\$ Millions)			
	Adopted	Proposed	
	FY2023	FY2024	Difference
County General Operating Expenditures	791	824	33
School Operating Fund	1,658	1,754	96
Other Operating	50	58	8
Debt Service Appropriations	251	270	19
Total Operating and Debt Appropriations	2,750	2,906	156
% Annual Growth over previous year			5.7%
Capital Appropriations	796	1,266	470
Total Appropriations	3,548	4,174	626
% Annual Growth over previous year 1/			17.6%

Source: Loudoun County FY 2023 Adopted Budget and FY2024 Proposed Budget

¹ Expenditure figures are based on the proposed budget. Approved figures by the Board as of April 4, 2023 are not yet reflected in the absence of posted updates by the County. However, aggregate figures from the proposed budget remain substantially accurate for these reporting purposes.

High expenditure growth is not – not - a consequence of high population growth.

- Contrary to common perception, spending is *not* driven by high population growth. Annual population growth has fallen steadily over the past two decades, from about 19,000 new residents per year in 2001 to just 6,600 in 2022 – that is, from 11% per year to merely 1.5% annual growth in 2022 – *only marginally above the DC Metro Area rate of about 1.1%.*

Loudoun County Population: 2022 Estimate Series											
	2001	2005	2010	2015	2016	2017	2018	2019	2020	2021	2022
Population	188,355	259,146	312,311	368,654	381,214	392,376	402,575	413,000	420,959	426,706	434,326
Annual Growth	18,756	19,023	7,347	13,671	12,560	11,162	10,199	10,425	7,959	6,747	6,620
Annual Growth Rate	11.1%	7.9%	2.4%	3.9%	3.4%	2.9%	2.6%	2.6%	1.9%	1.6%	1.5%

Source: US Census Bureau and Loudoun County Department of Finance and Budget, September 2022.

- Persistent aggressive operational spending growth of over 7% per year – with falling population growth - has led to a rate of *spending per capita that has average 5.6% per year over FY2021-2024.*

Loudoun County – Growth Rate in Total Operational Adopted Budget Appropriations. FY2015-FY2024							
	FY2015	FY2020	FY2021	FY2022	FY2023	FY2024 (Proposed)	Avg FY2021-2024
Total Operational Budget	8.6%	8.5%	7.2%	7.3%	8.7%	5.5%	7.2%
Annual Population Growth	4.0%	2.6%	1.9%	1.6%	1.5%	1.5% (est)	1.6%
Operational Budget Growth per Resident	4.6%	5.9%	5.3%	5.7%	7.2%	4.0%	5.6%

Source: US Census Bureau and Loudoun County Department of Finance and Budget, September 2022.

Operational spending growth by departmental function highlights General Administration.

- Spending growth by departmental function reveals prominent expansion of General Government Administration – medium-term growth averaged 11.6% over FY2019-23 and 6.6% for FY2024.

Loudoun County Government Expenditures		
Annual Growth Rates by Departmental Function		
	FY2024	FY2019-23
	Proposed	5-Year Avg
General Government Administration	6.6%	11.6%
Public Safety and Judicial Administration	5.5%	8.0%
Health and Welfare	8.1%	10.5%
Parks, Recreation and Culture	1.5%	8.8%
Community Development	6.0%	4.7%
County Total of Departments	5.7%	8.8%
County Total (includes non-departmental)	4.8%	8.4%

Sources: Loudoun County adopted budgets, FY2019-2023 and proposed FY2024 budget.

Capital spending rises sharply in the FY2023-28 and doubles the debt since FY2019-24.

- The amended six-year CIP for FY2023-28 totals \$3.6 billion, about \$1.2 billion or 46% higher than the FY2019-24 Program.
- Within this total, priority shifts are visible with significant growth in school capital investment, rising steadily from 21% in the FY2019-26 Program to 29% in FY2023-28.
- Funding of the total FY2023-28 CIP reflects a growing reliance on debt that has *jumped substantially* above the 2019-24 program from 48% to 62% of total sources. This reflects the declining availability of non-County revenues – federal and state NVTA aid and proffers.
- Contrary to general impressions, *proffers* continue to represent a negligible portion of the CIP funding, amounting to only \$160 million or 4% of the six-year Plan.

Loudoun County Capital Improvement Program – FY2019-2024 to FY2023-2028 (US\$ millions)							
	Six-Year Program				Annual CIP Appropriations		
	FY2019-2024	FY2021-2026 1/	FY2023-2028 1/	FY23-28 - FY21-26	FY2022	FY2023	FY2024
Expenditures							
General County Projects	724	1,166	1,260	94	165	241	291
Transportation Projects	1204	1,173	1,279	106	93	189	216
Schools	522	830	1,043	213	164	142	122
Total CIP	2,450	3,169	3,582	413	422	571	629
Annual Growth Rate		+29%	+13%			+35%	+10%
Spending Composition							
• County / Total	30%	37%	35%				
• Transport / Total	49%	37%	36%				
• Schools / Total	21%	26%	29%				
Funding Sources							
Local Tax Funding (LTF)	526	840	896	56	151	157	121
Debt	1,179	1,864	2,228	364	216	203	296
Inter-governmental aid	675	269	298	29	17	20	74
Proffers and other	60	196	160	-36	38	43	38
Total Funding	2,450	3,169	3,582	413	422	423	529
• LTF / Total	21%	27%	25%		36%	37%	23%
• Debt / Total	48%	59%	62%		51%	48%	56%
• Aid,other / Total	31%	14%	13%		13%	15%	21%

Sources: Adopted FY2020 Budget and Proposed FY2022 Budget. 1/ Includes amendments approved in FY2022 and FY2024.

2. Revenues and Tax Rates

The real property tax base continued in 2022 to rise significantly due to residential housing and to a sharp rise in data center valuation that eclipses change in other Loudoun business.

- The County’s real property tax base rose last year by 15%, partly from a buoyant 11% rise in the revaluation of existing residential and commercial property values and a 4% rise development (mainly new construction). The growth in commercial and industrial property values continued to be dominated by a phenomenal 56% rise in data center valuation - versus 9% for all other Loudoun business. The data center industry *now accounts for over one-half (51%) of the business tax base – up from one-third just two years ago!*

Countywide Taxable Commercial Real Property Trends over 2021-2023						
	Valuation (billions of \$)			Growth	Composition	
	2021	2022	2023	2021 to 2024	2021	2023
Data Centers	7.7	11.8	18.4	+139%	34%	51%
Other Business 1/	14.7	15.9	17.4	+18%	66%	49%
Total Taxable	22.4	27.7	35.8	+60%	100%	100%

Source: 2022 Real Property Assessment Update. 1/ Includes multi-family, flexi industrial, retail, office, general commercial, land and hotel.

The average homeowner tax bill will rise by about 6% in 2023 – but is still a lower level than 2014 value when inflation-adjusted - and it is a tiny fraction of increasing home values.

- The proposed real property tax rate proposed for FY2023 is \$0.875 per \$100 of assessed value. This average homeowner’s tax bill would rise by \$339 to \$6,047.
- The hike in the average homeowner real property tax in relation to the growth in homeowner assessed valuation will be less than 1% of the increase in valuation.

Loudoun County – Net Impact of Change in Homeowner Real Property Tax				
	2022	2023	\$	%
Change in average home valuation	\$ 641,300	\$ 691,100	\$ 49,800	7.7%
Change in average homeowner tax bill	\$ 5,708	\$ 6,047	\$ 339	5.9%
Net Valuation gain after tax increase			\$49,461	
Increase in tax / Increase in home valuation				0.6 %

Source: Loudoun County proposed FY2024 budget.

Data center industry business property tax revenues (BPPT) will fall for the first time ever – in part, due to a \$7 million tax cut. But their concentration in the revenue structure remains high – and will rise further absent policy change.

- Data center BPPT estimates will fall from \$576 million to \$560 million, from a combination of depreciation of existing computer equipment, power transmission constraints, slower fill rates in new structures and – particularly - the decrease in the BPPT rate from \$4.20 to \$4.15.

The decrease in the BPPT rate on computer equipment represents a tax cut for Loudoun’s data center industry of approximately \$6.8 million for FY2024. This compares with a cut in BPPT taxes on vehicles of about \$2.6 million for all Loudoun residents. This loss of data center computer property tax revenue represents about 1 cent of the Real Property Tax Rate, ***or \$70 more in the average homeowner tax bill to be paid mostly by Loudoun residents.***

Combining BPPT taxes of the data center industry with its estimated real property taxes on structures and fixtures will bring total BPPT and RPT industry taxes to about \$719 million - *marginally above FY2023 and maintaining a high 33% of total local tax funding.*

Loudoun County - Trends in Data Center Real Property and Personal Property Taxes, FY2016-2024 (US\$ millions)									
	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Data center real property 1/	20	22	27	35	52	72	77	111	159
Data center personal property	83	151	195	258	313	395	550	576	560
Total data center revenues	103	173	222	293	365	467	627	687	719
Other – RPT, BPPT, non-tax	1,061	1,046	1,208	1,228	1,197	1,259	1,246	1,337	1,439
Total Local Tax Funding (LTF)	1,164	1,219	1,428	1,521	1,562	1,726	1,874	2,024	2,158
% Data center revenues / LTF	9%	14%	16%	19%	23%	27%	33%	34%	33%
Sources: Adopted Budgets of FY2016-2022 and Proposed FY2023 Budget. 1/ Committee estimate.									

Annual increases in data center revenue for FY2024 will only account for an estimated 24% of total additional tax local funding, down from between 62% and 100% since FY202 – but will reassert themselves in subsequent fiscal years without strong economic diversification.

- The remainder in FY2024 will be sourced primarily from the increase in residential and commercial real property taxes.
- *This leveling off of data center revenue growth is likely to only be a ‘pause’ due largely to temporary constraints on Dominion Energy power transmission and substation expansion.*

Loudoun County – Sources of Growth in General Fund Revenues, FY2016-2023 (US\$ millions)								
	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Data center real & property taxes	70	49	71	73	102	160	60	32
All other GF revenue sources 1/	-15	160	22	-32	62	-12	90	102
Total annual increase in LTF	55	209	93	41	164	148	150	134
% Data center share of total GF revenue growth 2/		>100%	23%	76%	>100%	62%	>100%	24%
1/ Includes residential real property taxes, other personal property taxes, other non-property taxes, other local revenues and state and federal aid. 2/ “>100%” indicates that data center revenues compensated for net decrease in other General Fund revenues. Sources: Adopted Budgets of FY2016-2020 and Proposed FY2021 Budget and author’s estimates.								

3. County debt

Debt service appropriations will rise nearly 8% in FY2024 and debt financing of the 2023-28 CIP will total \$2,228 million.

- Debt service for FY2024 will rise to \$270 million, about \$19 million above the current year payments. It is expected to rise at about 8% per year on average through the coming six-year CIP to reach about \$342 million in FY2028.
- Debt ratios projected for the FY2024 budget are within current Loudoun Fiscal Policy targets. Projections parameters through FY2028, including total County expenditure growth (5% per year), appear reasonable.
- *However, more conservative property value, personal income and public expenditure assumptions would be appropriate given the higher risks of data center industry revenues.*

Loudoun County – Debt Ratio Estimates for FY2024 – FY2028			
	FY2024	FY2028	FP Guide
Debt to estimated property value	1.4%	1.6%	<3%
Debt to per capita income	4.6%	5.4%	<8%
Debt service to total expenditures	7.0%	7.8%	<10%
Source: data from Loudoun County proposed FY2024 budget.			

Prepared by:

**The Finance Working Group of the
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