Date of Meeting: June 1, 2022

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BOARD OF SUPERVISORS
TRANSPORTATION AND LAND USE COMMITTEE
INFORMATION ITEM

SUBJECT: **Data Center Financial Considerations**

ELECTION DISTRICT: Countywide

STAFF CONTACT(S): John Sandy, Finance and Budget
Tim Hemstreet, County Administrator

PURPOSE: The purpose of this item is to transmit a previously distributed memorandum responding to questions submitted by a member of the Board of Supervisors (Board) concerning the relationship between land use policy decisions regarding data centers and tax revenue policy.

BACKGROUND: On April 14, 2022, Supervisor Buffington submitted a series of questions about land use policy regarding data centers, under discussion with the Transportation and Land Use Committee (TLUC), and the previously proposed tax revenue policy presented by the Department of Finance and Budget during the FY 2023 budget development process.[1]

In anticipation of the continued discussion on data centers at the TLUC meeting on June 1, 2022, the responses to Supervisor Buffington's questions, which were distributed to Supervisor Buffington and the Board on May 12, 2022, are included as Attachment 1.

ISSUES: As explored in the memorandum (Attachment 1), staff believes the best way to reconcile land use policy related to data center development, with financial concerns of tax revenue policy, is to focus future development on those parcels that align with the Board's vision regarding the best locations for data centers. Data centers generate significant real and business personal property tax revenue, and the intent of staff's recommended tax revenue policy is to bring balance to the General Fund revenue tax base. This balance should be accomplished with both the relationship between the real property tax rate to the rest of the General Fund's local taxes while understanding that it is to the County's fiscal benefit to continue to leverage the County's competitive advantage in attracting and retaining data center development.

FISCAL IMPACT: There are no fiscal impacts associated with this Information Item.

ATTACHMENT(S):

1. Memorandum: Data Center Fiscal Questions and Answers, May 12, 2022

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[1] October 12, 2021, Finance/Government Operations and Economic Development Committee, Item 13: FY 2023 Budget Development: General Fund Tax Revenue Policy

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Memorandum

Date:	May 12, 2022
To:	Supervisor Tony Buffington
From:	Tim Hemstreet, County Administrator Tim Hemstreet Digitally signed by Tim Hemstreet Date: 2022.05.12 18:55:53 -04'00'
Subject:	Data Center Related Fiscal Questions and Answers

The purpose of this memorandum is to respond to your inquiries regarding land use and fiscal policy for data centers in anticipation of the upcoming Transportation/Land Use discussion on June 1, 2022. An interdepartmental team of staff from the departments of Finance and Budget, Economic Development, Planning and Zoning, and County Administration worked on these responses.

Questions and Answers

Q1: How should the Board of Supervisors reconcile land use policy related to data center development while also taking into consideration the financial concerns with tax revenue policy?

A1: Staff estimates that in Fiscal Year ("FY") 2022, data centers will generate $575 million in General Fund local tax revenue, including real property taxes, business personal property taxes on computer equipment as well as furniture and fixtures, and business license taxes. This equates to 31 percent of the FY 2022 Adopted Budget for the General Fund.

In comparison, the total land area for currently occurring data center development is less than 1.5% of total land area in the County. Data centers are an extremely efficient use of land from a fiscal standpoint and this comparison illustrates that data centers occupy a small share of land in the County.

Staff believes that the best way to reconcile land use policy related to data center development with the financial concerns of tax revenue policy is to focus future development on those parcels that align with the Board's vision regarding the best locations for data centers. This effort is currently underway at the Board level.

The industry has evolved rapidly and there are continued community concerns with industry practices related to design and aesthetics. While the industry has made improvements with mitigating visual impacts using berms and vegetation within building setbacks, and other methods of designing buildings that visually blend into or complement their surroundings, more effort is needed in this area.

Staff generally does not believe there is a tangible benefit for the County to limit the right to develop data centers on land that is already zoned for low density office or industrial uses. Due to the current location of power infrastructure, it makes sense for the County to discourage data center development in most areas near Route 7 that are east of Belmont Ridge Road unless it can clearly be shown that development would not trigger the need for construction of new power infrastructure. Since these areas near Route 7 lack the power infrastructure to support data centers, the business personal property tax forecast does not anticipate these areas being developed as data centers. The decision to prevent such development in these areas would be consistent with the revenue forecast.

Q2: If the Board were to continue the current tax revenue policy regarding the county staff recommended data center/non-data center revenue split percentage, would the Board be correct if it's understanding of the policy's impact was the following:

Approval of additional data centers continues to positively benefit the county from a revenue perspective.

A2. Yes. Data centers are high-value properties, comprising $11.79 billion in assessed value for Tax Year ("TY") 2022, accounting for approximately half of the value of all commercial properties in the County and approximately 10 percent of the taxable real property portfolio. From real property taxes alone, data centers are estimated to generate $105.5 million in General Fund tax revenue for TY 2022, the equivalent of almost nine cents of the real property tax rate.

Data centers are also a major component of the Route 28 Special Improvements Tax District and the Metrorail Service District. Real property assessments for data centers comprise 58 percent of each of these districts, resulting in another $21.2 million in special tax district revenues. When General Fund and special tax districts are combined, data centers are estimated to generate $126.6 million in real property tax revenue for TY 2022. This represents a growth rate of 390 percent since TY 2016.

A 2022 study from the Northern Virginia Technology Council found that data centers in Loudoun County have a 13.2 fiscal impact ratio, meaning that they pay $13.20 of local property taxes for every $1.00 of public services associated with them being in Loudoun County. Growth in the data center footprint is beneficial to the County as commercial properties generally require less government services than residential and data centers are some of the most valuable non-residential properties.

Under the staff's suggested tax revenue policy of maintaining a minimum of 51.5% of General Fund Revenue from real property tax revenue, as the real property portfolio grows because of new development, the level at which personal property tax revenue grows can also increase. Absent any growth in real property tax revenues, personal property tax revenues (including business personal property and vehicle taxes) must remain flat to remain in compliance with the tax policy recommendations. To increase the ratio of real property taxes to total local tax revenues, absent development, the personal property tax rate would need to be reduced.

Q3: From a revenue perspective, the Board should not be worried that approval of additional data centers will negatively impact the county.

A3: Correct, while each new data center brings an influx of tax revenue from personal property taxes on the equipment, in most locations data centers are paying more in real property taxes than would any other type of development that could be expected to go on the same site. As noted earlier, data centers account for almost 50 percent of the commercial property portion of the real property portfolio, generating an estimated $105 million in General Fund real property taxes for TY 2022.

Q4: Approval of additional data centers will likely result in lower residential tax increases than the increases that could be necessary if the Board were to stop approving additional data centers.

A4. Yes, and without the revenue from the data centers, to deliver the same level of services, residents would have faced higher taxes bills over the past several years. Looking at TY 2022 as an example, data centers are estimated to generate $630 million in General Fund Tax revenue, most of which comes from business personal property taxes. Assuming the same level of service, without this industry, the real property tax would have needed to be $1.430 per $100 of assessed value compared to the TY 2022 adopted rate of $0.895 per $100 of assessed value.

As noted earlier, data centers are also key components of the special tax districts, comprising 58% of both the Route 28 Special Improvements District and the Metrorail Service District. In part due to this growth, the tax rate for the Route 28 Special Improvements District was reduced from 18 cents to 17 cents for TY 2020. The revenues generated by the Metrorail Service District serve as a funding source for the debt incurred to bring Metrorail to Loudoun. Absent the growth in the data center industry, it is possible the County would have needed to activate the smaller tax districts by now to cover the annual debt service costs or dedicated General Fund tax dollars for this purpose.

For TY 2018 – TY 2022, data centers are estimated to have generated over $2.218 billion in County tax revenues. For comparison purposes, the appropriation for the General Fund for FY 2022 was

$2.089 billion. It is important to maintain a stable and predictable business environment for this valuable sector including promoting the necessary conditions needed for their continued investment in computer equipment and refreshment of it. Data centers in many cases require additional land for buildings to build out their entire planned architecture as part of their overall business plan. Finally, data centers also produce low demands on local government services and offer continued growth to not only business personal property taxes but also real property taxes.

C: Board of Supervisors
Leo Rogers, County Attorney
Valmarie Turner, Assistant County Administrator
John Sandy, Chief Financial Officer/Assistant County Administrator
Buddy Rizer, Director of Economic Development
Joe Kroboth, Director of Transportation and Capital Infrastructure
James David, Director of Planning and Zoning
Megan Bourke, Acting Deputy Chief Financial Officer, Finance and Budget
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