Factors Affecting the FY 2021 – FY 2026 Amended CIP

Strategic Use of Personal Property Tax Increment

As part of the FY 2022 development process, staff presented its strategy of forecasting personal property tax revenue from computer equipment. This revenue source has been a significant source of growth in the County's budget over the past decade, and the revenue model for FY 2022 projects a considerable increase over the FY 2021 budget. Given the risk associated with forecasting this revenue, an increment of the revenue is programmed into the CIP for one-time purposes. If the revenues do not materialize as predicted, the appropriations funded with these revenues can be more easily undone than if the revenue was budgeted in the General Fund to support operations.

The personal property tax increment for FY 2022 and FY 2023 is based on 50 percent of the "upside" revenue projection[1] and is programmed in projects, the County Renovation program, and the CIP Contingency and County Land Acquisition accounts. The total increment is $23.4 million in FY 2022 and $28.8 million in FY 2023. In FY 2024 through FY 2026, the increment is programmed to balance project expenditures more conservatively (compared to projections), as it is anticipated the County's tax policy for these revenues will have been refined with a balance struck between the capital and operating budgets. This conservative approach for FY 2024 and beyond does not program LTF that may not ultimately be transferred to the CIP in those future years.

This strategy of programming excess personal property tax increment in the CIP began in FY 2020 and continues to be refined as staff gains more understanding of this revenue source and how to model it. Funding is directed toward one-time costs, including for those to fund the renovation, alteration, and renewal program. Renovation projects generally have much shorter project timelines as well as some components that do not have the longer-term life cycle of a new build project, so this type of program generally requires more cash and different, more flexible, financing vehicles. This dedicated source of cash funding will provide the flexibility needed and allow for leveraging of more short-term financing and leases. Dedicating a portion of revenues for land acquisitions, which also have shorter timelines, also provides an opportunity to program an incremental amount of BPPT while providing maximum flexibility.

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FFY
Personal Property Tax Increment	$16,400,000	$23,420,000	$28,830,000	$23,247,000	$13,232,000	$14,235,000	$7,923,000

Projects Identified for Future Development

During the development of the FY 2022 budget, staff presented a refined approach to prioritizing projects in the outyears of the CIP. In addition to the six-year planning period, the CIP also includes a period referred to as the "future fiscal years" (FFY). For budgeting and phasing purposes, the FFY is four years. For planning purposes, however, the CIP document rolls all costs into one FFY figure, as the FFY period is so far into the future that showing costs and schedules by year would give a false sense of precision.

The FFY includes budgets for projects that will begin their appropriations during the six-year period. In the past, the FFY also included budgets for projects that are not slated to receive any appropriations in the six-year period. There are a number of reasons why a project would appear only in the FFY, but the most common reason is that the Board recognized the project as a priority but has not been able to identify funding in the six-year period. Those projects had been shown in the FFY as fully funded by debt and LTF, and sometimes special revenues, but those resources were significantly overleveraged; realistically all those projects could not be funded at the same time.

[1] Further information about the personal property tax forecasts can be found in Volume 1, *Executive Summary* and *General Fund Revenue and Trends.*

To better manage the growth and priorities of the CIP, staff has added a new section entitled *Projects Identified for Future Development.* All projects whose funding was completely within the FFY have been included in this section, so that the FFY included within the funding plan are for projects whose appropriation will or is planned to begin in FY 2021 through FY 2026. The new section of the CIP contains a list of prioritized projects that have been identified by the Board and staff as needing to be added to the CIP during the next biennial process. This list of projects will allow staff to develop future capital budgets more strategically and in a more transparent and data-driven way. During subsequent budget processes, prioritizing these projects will be the basis of capital budget guidance sought from the Board of Supervisors during the fall.

Project Cost Changes and Cost Estimation Methodology

As part of the annual CIP development process, staff regularly reviews and updates cost estimation methodologies, including assumptions for inflation in future years and amounts for project contingencies. Initial cost estimates are based on historical data plus additional costs for any known unique characteristics of a project. The cost of land acquisition, design, and other professional services, and furniture, fixtures and equipment are typically calculated as a general percentage of the "hard" costs when the project is at the beginning stages of development. As the first year of appropriation approaches, that cost is refined. During the project's planning phase (before design or engineering begins), cost estimates are highly uncertain and can vary from 50 percent to 200 percent compared to the final project cost. Estimates are more accurately refined once the design phase begins. Consultants assist in validating or updating cost estimates for projects new to the CIP.

For the development of the FY 2021 – FY 2026 Adopted CIP, staff re-estimated the majority of projects in the capital budget, following the parameters below.

1. Refining the estimation parameters for select types of projects, using more specific expenditure categories for budgeted projects. The benefit of this change is twofold: it provides additional transparency to the CIP document and allows staff to build and manage more refined project budgets. The revised expenditure categories add important specificity; they include planning; professional services; land/right-of-way acquisition; utility relocation; construction; furniture, fixtures and equipment; owner costs; and contingency. Further categorization includes personnel and payments to other entities.
2. Enhancing year-over-year inflation estimation assumptions. Year-over-year inflation generally are planned at 3 percent for planning, professional services, and owner costs; 5 percent for land acquisition, utility relocation, and furniture, fixtures and equipment; and 5.5 percent for construction. To better adjust for material cost inflation throughout each phase, escalation costs are also averaged at the mid-point in each phase's duration.
3. Increasing project-level contingency budgets. Contingency estimates for transportation-related projects are calculated to be as much as 40 percent of the overall project budget, especially for those projects still in the reconnaissance or planning phases. For non-transportation projects, a contingency of at least 10 percent is assumed where the total budget is under $10 million, and a contingency of at least 5 percent is assumed where the total budget is over $10 million.

The result of the re-estimation effort was a significantly increased overall cost for some projects and limited the ability to add new projects within the six-year period. Staff continues to focus on programming as many additional revenue sources as possible, such as NVTA 70 percent, Smart Scale, and cash proffers, but the overall stress on available local tax funding and debt capacity continues to make it difficult to accommodate new County or School projects or to accelerate existing projects.

Factors Affecting the Adopted CIP

County and School Renovation, Alteration, and Renewal Program

As County and LCPS facilities age and new building construction slows, the County will need to budget greater amounts for renovation, alteration, and renewal of existing structures. To address this need, LCPS and County Government staff have collaborated to develop appropriate budget amounts and methodologies. Although these longer-term projections are based on general industry standards or estimates, staff anticipates that new construction driven by school population growth will likely taper off over the long term and that renovations will continue to increase as a larger share of future LCPS CIP requests. After FY 2030, LCPS anticipates that renovation needs will outpace new construction. Similarly, as new County facilities become operational and are built out, the renovation needs of existing facilities will continue to grow. Loudoun is just beginning to enter this phase of capital planning. Toward the end of the six-year CIP planning period, the need to accommodate continued growth will overlap with the increasing demand for renovation, placing additional pressure on available resources.

While long-term capital maintenance (such as replacements of roofing and other building-related systems, repaving, and mechanical, electrical and plumbing work) is funded through the County and LCPS's respective Capital Asset Preservation Programs (CAPP), more extensive renovations and facility alterations have typically been budgeted as individual projects in the CIP. To maintain, upgrade, or expand existing facilities, projections indicate that approximately $60 million of appropriations will be needed per year for Schools and $12 million per year for County projects.

LCPS and County staff have worked to consolidate various existing and planned renovation and alteration projects, which increase the usability and longevity of existing facilities, into a renovation, alteration, and renewal program. A combination of cash and short- and long-term debt – structured to enable projects to be executed quickly and efficiently – fund this program.

Staff and Contractual Support to County Projects

The FY 2021 – FY 2026 Amended CIP continues to incorporate County staffing and consulting costs related to the development, implementation, and monitoring of the CIP. For County staff who work directly on projects, such as design engineers, land acquisition managers, project managers, and construction/civil engineers, charges are funded through individual project budgets, thereby more accurately reflecting the true cost of a project. The costs of the County's program management consultants (discussed below) are also directly charged to project budgets. Direct staffing and program management charges for FY 2022 total $8.8 million. These charged are supported with cash proffers, debt, and local tax funding. Support positions, including staff who provide more indirect or general CIP support such as budgeting or procurement, are budgeted through a central project, Capital Support Positions, and funded with local tax funding in the amount of $2.5 million for FY 2022.

Program management contractual support was awarded in 2020 to assist in capital project scheduling, project development performance, engineering support, design quality assurance, project oversight (including cost estimating), and providing general staff augmentation to meet schedule and budget goals. As with direct staff costs, the cost of the program management contract is budgeted in individual project budgets.

	FY 2022	FTE
Direct Positions	$5,977,000	47.00
Support Positions	$2,468,000	17.00
Program Management	$2,822,000	0.00
Total	**$11,267,000**	**64.00**