Factors Affecting the FY 2021 – FY 2026 Proposed CIP

Four key factors are expected to affect the FY 2021 – FY 2026 Proposed CIP: 1) changes in how project costs are estimated; 2) the emerging need for renovation, alteration, and renewal of existing County and School facilities; 3) adjustments in Loudoun County Public Schools' (LCPS) funding requests; and 4) a revised Metrorail Silver Line funding schedule.

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 FY 2021 – FY 2026 Proposed CIP, several key changes have been made: 1) Refining the estimation parameters for select types of projects, using more specific expenditure categories for budgeted projects (for those that have been re-estimated for FY 2021). 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 summaries are as follows: 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 computed to the mid-point in each phase's duration. 3) 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 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.

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 been collaborating 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 – will fund this program.

For many years, as the data center industry has grown in Loudoun, business personal property tax (BPPT) revenue has grown significantly and currently accounts for approximately 13 percent of the County's total revenues. This makes the County highly dependent on this revenue source, and so accurate projections of the revenue are critically important. BPPT revenue growth exceeded forecasts for the past several years and while staff anticipates the excess to be less beginning in FY 2020, generally this trend is expected to continue. To address this, and to bring our budget appropriations more in line with revenue, staff recommended to the Board in advance of the FY 2020 budget that a portion of this revenue be used in the capital budget. The main reason for this is that if the staff's forecast is too aggressive in any given year or should revenues decline, staff are better able to address the decline in the capital budget than in the operating budget.

In continuing with the strategy that began in FY 2020, the six-year CIP reflects programming of a portion of BPPT revenue in the capital budget 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. For FY 2021, this program will provide approximately $15.4 million for renovation projects.

Dedicating a portion of BPPT revenues for land acquisitions, which also have shorter timelines, also provides an opportunity to program an incremental amount of BPPT while providing maximum flexibility. In FY 2021, $1 million of BPPT revenue has been programmed for County land acquisition. As with renovation project programming, if BPPT revenue declines due to market or economic changes, staff could more readily scale expenditures tied to this revenue, programmed for one-time purposes of land acquisition and renovations rather than for ongoing operating expenditures in the General Fund. Staff believes this is a prudent and conservative use of the additional expected incremental increase in BPPT revenue and builds on last year's decision to conservatively program its use in the CIP. In total, $16.4 million of BPPT revenue has been programmed in the CIP for the renovation, alternation, and renewal program and for County land acquisition.

LCPS Funding Requests

The Loudoun County School Board's Adopted CIP for FY 2021 – FY 2026 requests funding totaling $931.0 million. Of this amount, the County's FY 2021 – FY 2026 Proposed CIP includes funding totaling $805.4 million in the six-year CIP timeframe, with funding requests totaling approximately $888.1 million in future fiscal years. The LCPS Board's request includes the acceleration of ES-32 (Dulles South) from FY 2026 to FY 2023, while ES-34 (Dulles North) has moved from FY 2024 to FY 2026. The LCPS School Security Improvements project, which would provide significant modifications of interior space and enhanced entry security systems for all schools, has been expanded, with $64.3 million added between FY 2021 – and FY 2023. Other changes include: 1) a reduction for HS-14 land, budgeted at $20.0 million in FY 2022, based on potential co-location on recently purchased land for MS-14; 2) removal of the Support Services Warehouse project with design scheduled in FY 2026, since existing warehouse space has been identified; 3) the FY 2025 – FY 2026 renewal and renovation

Factors Affecting the Proposed CIP

budget has been reduced by $10.0 million each year for future discussion on accommodating the increasing renovation needs in future CIP budgets; and 4) $80.0 million for land banking ($20.0 million each year beginning in FY 2023) has been deferred for additional discussion regarding the inclusion of this request in future CIP budgets. Based on the County's 2019 Comprehensive Plan, LCPS has accelerated new school construction with most new construction scheduled between FY 2021 and FY 2030. This acceleration of construction requires accelerated land acquisition funding to acquire school sites. Finding developable land at a reasonable cost in areas of high growth is a challenge. The County's Land Acquisition Fund includes additional funding of approximately $46.9 million in the six-year period to acquire land for future school construction.

Metrorail Capital Contributions and NVTA Funding

The Silver Line Phase 2 opening date has been revised; operations are expected to begin no earlier than July 1, 2020, after the start of FY 2021. In March 2019, the Washington Metropolitan Area Transit Authority (WMATA) Board adopted its FY 2020 – FY 2025 Capital Improvement Program that updates Loudoun County's share of capital funding for Metrorail/Silver Line Phase 2 service to a total of $22.4 million, with the first year of Loudoun County contributions commencing in FY 2021 for $3.0 million. This total is lower than originally projected. The County will meet its capital funding obligations through the use of NVTA 30 percent local funds. These funding levels are subject to revision and will be updated as forecasts for the County's share of NVTA 30 percent funds are updated through future CIP processes.

Unlike the operating contribution to WMATA, which begins *before* actual operation of the Silver Line begins in the County, the capital contribution payment does not begin until *after* operational service of the Silver Line commences in the County. Operational service of the Silver Line is not anticipated to begin until after the beginning of FY 2021.

Staff and Contractual Support to County Projects

The FY 2021 – FY 2026 Proposed 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. For FY 2021, staffing charges for active projects previously authorized total $2.2 million; staffing charges for projects beginning in FY 2021 total $3.1 million. Support positions, including staff who provide more indirect or general CIP support such as budgeting or procurement, are budgeted through a central project fund, Capital Support Positions, in the CIP with funding from the General Fund.

Furthermore, program management contractual support will be procured in FY 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 will be charged to individual project budgets beginning in spring FY 2020.

In previous capital budgets, CIP-related staff costs were funded through a transfer of local tax funding from the General Fund. For FY 2021, appropriations for new and prior appropriated individual project budgets include proffer interest for CIP- related direct staff costs, thereby reducing local tax funding transfers from the General Fund to the CIP.