

**Stafford County
Board of Supervisors Meeting
Agenda Item Report
Meeting Date: March 19, 2019
PUBLIC HEARINGS**

Subject:

ECONOMIC DEVELOPMENT; CONSIDER AN ORDINANCE TO CREATE A SEPARATE TANGIBLE PERSONAL PROPERTY TAX CLASSIFICATION APPLICABLE TO DATA CENTERS

Proposed Ordinance 019-23

BACKGROUND SUMMARY: Approves separate tax classification.

Recommended Action:

Approve proposed Ordinance 019-23, which would provide a separate tax classification for computer equipment and peripherals used in a data centers.

Committee/Commission Recommendation:

Finance, Audit, and Budget Committee

Strategic Plan:

Vibrant Business Community

Fiscal Impact:

To be determined when the CY 2019 tax rates are approved.

District:

Overview:

In the 2015 Economic Development Strategic Plan, the Board identified technology companies including data centers as one of its target sectors. Research done by the Economic Development Department indicates that the tax rate for data centers in Stafford is not competitive with its peer localities that are also vying for these businesses. The separation of a tax classification for computer equipment and peripherals used in a data center would allow the Board to consider and set a tax rate that would encourage the investment by these companies to the County to increase its tax base.

Discussion/Analysis:

In 2018, the General Assembly created a new tax classification which allows localities to set a lower tax rate for certain distribution companies. Virginia Code § 58.1-3506(A)(43) designates a separate classification for computer equipment and peripherals used in a data center. The local governing body

may enact a lower tax rate for this classification.

Reducing the tax burden on computer equipment for data centers would potentially bring in businesses that create jobs and increase overall tax revenues. The amount of revenue increase from a single data center campus would be very beneficial to the County. There is currently only one small business that could qualify for this classification. Therefore, any loss in current revenues would be minimal.

Attachments:

1. Attachment 1 - Proposed Ordinance O19-23
2. Attachment 2 - R19-52 (PH Authorization)
3. Attachment 3 - Data Center Tax Classification PPT

Summary/Conclusion:

The creation of a tax classification for computer equipment and peripherals used in a data center would allow the Board to set a tax rate during the budget process to attract a target industry sector to Stafford County. Staff recommends approval of proposed Ordinance O19-23, which creates a separate tangible personal property tax classification applicable to data centers.

Reviewed By:

Rysheda McClendon, County Attorney (Legal Review Only)
Thomas C. Foley, County Administrator

PROPOSED

BOARD OF SUPERVISORS
COUNTY OF STAFFORD
STAFFORD, VIRGINIA

ORDINANCE

At a regular meeting of the Stafford County Board of Supervisors (the Board) held in the Board Chambers, George L. Gordon, Jr., Government Center, Stafford, Virginia, on the 19th day of March, 2019:

MEMBERS:

Gary F. Snellings, Chairman
L. Mark Dudenhefer, Vice Chairman
Meg Bohmke
Jack R. Cavalier
Thomas C. Coen
Wendy E. Maurer
Cindy C. Shelton

VOTE:

On motion of , seconded by , which carried by a vote of , the following was adopted:

AN ORDINANCE TO CREATE A SEPARATE TANGIBLE PERSONAL
PROPERTY CLASSIFICATION FOR COMPUTER EQUIPMENT AND
PERIPHERALS USED IN DATA CENTERS

WHEREAS, the Board identified technology companies, including data centers, as one of its target sectors in the 2015 Economic Development Strategic Plan; and

WHEREAS, the current tangible personal property tax rate for computer equipment related to data centers is not competitive with the County's comparable peer localities; and

WHEREAS, the General Assembly authorized the creation of a separate classification of tangible personal property for computer equipment and peripherals used in a data center pursuant to Virginia Code § 58.1-3506(A)(43); and

WHEREAS, the Board desires to set this new classification to attract data centers to Stafford County to create jobs and increase overall tax revenue; and

WHEREAS, it is the intent of the Board to create and establish a new tangible personal property tax classification for computer equipment and peripherals used in a data center; and

WHEREAS, the Board may consider a lower tax rate for such new classification during its consideration of the CY2019 tax rates;

NOW, THEREFORE, BE IT ORDAINED by the Stafford County Board of Supervisors on this the 19th day of March, 2019, that the following tax classification be and it hereby is created:

<u>Classification</u>	<u>Rate Per One Hundred Dollars of Assessed Val uation</u>
<u>Computer equipment and peripherals used in a data center (Section 58.1-3506(A)(43), Code of Virginia (1950), as amended.)</u>	CY2019 TBD

TCF:mts;jh

R19-52

BOARD OF SUPERVISORS
COUNTY OF STAFFORD
STAFFORD, VIRGINIA

RESOLUTION

At a regular meeting of the Stafford County Board of Supervisors (the Board) held in the Board Chambers, George L. Gordon, Jr., Government Center, Stafford, Virginia, on the 19th day of February, 2019:

<u>MEMBERS:</u>	<u>VOTE:</u>
Gary F. Snellings, Chairman	Yes
L. Mark Dudenhefer, Vice Chairman	Yes
Meg Bohmke	Yes
Jack R. Cavalier	Yes
Thomas C. Coen	Yes
Wendy E. Maurer	Yes
Cindy C. Shelton	Yes

On motion of Mr. Dudenhefer, seconded by Mrs. Maurer, which carried by a vote of 7 to 0, the following was adopted:

A RESOLUTION AUTHORIZING THE COUNTY ADMINISTRATOR TO ADVERTISE A PUBLIC HEARING TO CONSIDER AN ORDINANCE TO CREATE A SEPARATE TANGIBLE PERSONAL PROPERTY CLASSIFICATION FOR COMPUTER EQUIPMENT AND PERIPHERALS USED IN DATA CENTERS

WHEREAS, the Board identified technology companies, including data centers, as one of its target sectors in the 2015 Economic Development Strategic Plan; and

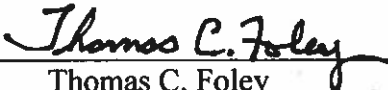
WHEREAS, the Board desires to consider this new classification as a means to attract data centers to the County to create jobs and increase its overall tax revenue; and

WHEREAS, the General Assembly authorized the creation of a separate classification of tangible personal property for computer equipment and peripherals used in a data center pursuant to Virginia Code § 58.1-3506(A)(43); and

WHEREAS, the current tangible personal property tax rate for computer equipment related to data centers is not competitive with its comparable peer localities;

NOW, THEREFORE, BE IT RESOLVED by the Stafford County Board of Supervisors on this the 19th day of February 2019, that the County Administrator be and he hereby is authorized to advertise a public hearing to consider creating a separate tangible personal property classification for computer equipment and peripherals used in a data center, pursuant to proposed Ordinance O19-23.

A Copy, teste:


Thomas C. Foley
County Administrator

TCF:mts

Data Center Tax Classification

March 19, 2019

- Data Centers are one of Stafford County's Targeted Sectors
- Data Centers are generally large facilities with highly valuable business personal property
- Data Centers can be segregated in regards to the business personal property tax pursuant to the Code of Virginia Title 58.1-3506 (A)(43) for tax rate purposes and a separate depreciation schedule should be created pursuant to 58.1-3503 (A)(17)

- Significant new infrastructure in Virginia is expected to increase the demand for Data Center locations in the Commonwealth
- In 2014, the benefit/cost ratio for the data center industry was 9.5 in Loudoun County and 4.3 in Prince William County.
 - This means that for every \$1.00 in county expenditures in this sector it generated approximately \$9.50 and \$4.30 in tax revenue to Loudoun and Prince William, respectively.
 - *(Taken from a Northern Virginia Technology Council (NVTC) 2016 data center report prepared by Magnum Economics)*
- Across the Commonwealth in 2016 , Data Center investments supported 4,617 jobs.

➤ Fredericksburg Regional Approach

- As a region (FRA) jurisdictions have agreed that we would like to compete with surrounding regions
- General agreement is that appropriate level of taxation should be an *effective tax rate* of \$0.625.
- The effective tax rate is the actual rate the taxpayer will pay when the depreciation schedule is taken into account.

The desired method of achieving the effective rate is setting a nominal tax rate of \$1.25 with the following depreciation schedule:

		Eff. Rate
Year 1	50%	\$ 0.625
Year 2	35%	\$ 0.438
Year 3	20%	\$ 0.250
Year 4	10%	\$ 0.125
Year 5	5%	\$ 0.063

The Commissioner's of Revenue from Caroline, King George, Spotsylvania, Fredericksburg and Stafford have all signed an MOU in support of the above depreciation schedule

To Proceed:

- Board establishes the separate classification
- Board sets tax rate in April and Commissioner of Revenue sets the depreciation schedule
- ED&T will continue and expand Stafford County's marketing to Data Centers