

Caroline County, Virginia

Potential Revenue Impact of Data Center Developments



October 30, 2023

Background



- Davenport & Company LLC (“Davenport”) has served as the Financial Advisor to Caroline County (the “County”) for more than 20 years, and provides assistance to County Staff with Capital Planning, Rating Agency Interaction, and Debt Issuances, among other tasks.

- Davenport has worked with County Staff to analyze potential Real and Personal Property tax revenues that data center developments could provide to the County.

- The analysis herein outlines Davenport’s estimated gross revenue impacts related to Real and Personal Property Taxes under three hypothetical scenarios.
 - *Note: Projections shown herein represent estimated gross Real and Personal Property tax revenues, and do not take into account any incentives, which could potentially be negotiated between the County and potential developers.*



General Assumptions

A. Scenarios Analyzed:

- 1) 100,000 square feet of Data Center Development.
 - *Note: 250,000 square feet less than the McKesson Distribution Facility on Route 207.*
- 2) 500,000 square feet of Data Center Development.
- 3) 1 million square feet of Data Center Development.

B. Buildout Timing: Scenarios 2 and 3 assume additional square footage of Data Center Development (as noted above) is added at the rate of 100,000 square feet per year.

C. Tax Rates: This analysis assumes the following tax rates are held constant for the entire projection period:

- 1) **Real Estate Tax Rate:** 77¢ per \$100 Assessed Value.
 - 2) **Personal Property Tax Rate:** \$1.25 per \$100 Assessed Value. (Note: Personal property in the form of network and server equipment is assumed to depreciate at an accelerated depreciation schedule).
- *Note: Projections shown herein represent estimated gross Real and Personal Property tax revenues, and do not take into account any incentives, which could potentially be negotiated between the County and potential developers.*



Summary Revenue Impact – Real Property

- The following cash flows represent estimated revenues received via Real Property taxes only.

Scenario 1 - 100,000 sq. ft.	
Year	Estimated Gross Real Prop. Tax Revenues
1	\$501,269
2	501,269
3	501,269
4	501,269
5	541,371
6	541,371
7	541,371
8	541,371
9	584,680
10	584,680
11	584,680
12	584,680
13	631,455
14	631,455
15	631,455
16	631,455
17	681,971
18	681,971
19	681,971
20	681,971
Total	\$11,762,987

Scenario 2 - 500,000 sq. ft.	
Year	Estimated Gross Real Prop. Tax Revenues
1	\$501,269
2	1,002,539
3	1,503,808
4	2,005,077
5	2,706,854
6	2,706,854
7	2,706,854
8	2,706,854
9	2,923,402
10	2,923,402
11	2,923,402
12	2,923,402
13	3,157,274
14	3,157,274
15	3,157,274
16	3,157,274
17	3,409,856
18	3,409,856
19	3,409,856
20	3,409,856
Total	\$53,802,241

Scenario 3 - 1 million sq. ft.	
Year	Estimated Gross Real Prop. Tax Revenues
1	\$501,269
2	1,002,539
3	1,503,808
4	2,005,077
5	2,706,854
6	3,248,225
7	3,789,596
8	4,330,966
9	5,262,124
10	5,846,805
11	5,846,805
12	5,846,805
13	6,314,549
14	6,314,549
15	6,314,549
16	6,314,549
17	6,819,713
18	6,819,713
19	6,819,713
20	6,819,713
Total	\$94,427,918

Note: Assumes real property values increase 2% annually, and growth is realized every 4 years. All estimates are preliminary, subject to change. Actual results may vary substantially from these estimates.



Summary Revenue Impact – Personal Property

- The following cash flows represent estimated revenues received via Personal Property taxes only.

Scenario 1 - 100,000 sq. ft.	
Year	Estimated Gross Personal Prop. Tax Revenues
1	\$ -
2	945,896
3	1,327,228
4	895,716
5	543,258
6	336,363
7	124,563
8	459,591
9	659,688
10	425,795
11	239,787
12	126,308
13	12,828
14	375,475
15	629,327
16	411,739
17	230,416
18	121,622
19	12,828
20	375,475
Total	\$8,253,905

Scenario 2 - 500,000 sq. ft.	
Year	Estimated Gross Personal Prop. Tax Revenues
1	\$ -
2	945,896
3	2,273,124
4	3,168,840
5	3,712,098
6	4,048,462
7	3,227,129
8	2,359,492
9	2,123,464
10	2,006,001
11	1,909,425
12	1,911,169
13	1,464,406
14	1,180,193
15	1,383,724
16	1,555,677
17	1,659,785
18	1,768,579
19	1,405,933
20	1,152,081
Total	\$39,255,480

Scenario 3 - 1 million sq. ft.	
Year	Estimated Gross Personal Prop. Tax Revenues
1	\$ -
2	945,896
3	2,273,124
4	3,168,840
5	3,712,098
6	4,048,462
7	4,173,025
8	4,632,616
9	5,292,304
10	5,718,100
11	5,957,887
12	5,138,298
13	3,823,898
14	3,303,657
15	3,389,726
16	3,465,102
17	3,570,954
18	3,232,986
19	2,586,126
20	2,535,805
Total	\$70,968,904

Note: Assumes computer equipment is taxed pursuant to an accelerated depreciation schedule. All estimates are preliminary, subject to change. Actual results may vary substantially from these estimates.



Summary Revenue Impact – Real and Personal Property

- The following cash flows represent estimated revenues received via Real and Personal Property taxes only.

Year	Scenario 1 - 100,000 sq. ft.			Scenario 2 - 500,000 sq. ft.			Scenario 3 - 1 million sq. ft.		
	Gross Real Prop. Tax Revenues	Gross Personal Prop. Tax Revenues	Total	Gross Real Prop. Tax Revenues	Gross Personal Prop. Tax Revenues	Total	Gross Real Prop. Tax Revenues	Gross Personal Prop. Tax Revenues	Total
1	\$501,269	\$ -	\$501,269	\$501,269	\$ -	\$501,269	\$501,269	\$ -	\$501,269
2	501,269	945,896	1,447,166	1,002,539	945,896	1,948,435	1,002,539	945,896	1,948,435
3	501,269	1,327,228	1,828,497	1,503,808	2,273,124	3,776,932	1,503,808	2,273,124	3,776,932
4	501,269	895,716	1,396,985	2,005,077	3,168,840	5,173,917	2,005,077	3,168,840	5,173,917
5	541,371	543,258	1,084,629	2,706,854	3,712,098	6,418,952	2,706,854	3,712,098	6,418,952
6	541,371	336,363	877,734	2,706,854	4,048,462	6,755,316	3,248,225	4,048,462	7,296,686
7	541,371	124,563	665,934	2,706,854	3,227,129	5,933,983	3,789,596	4,173,025	7,962,621
8	541,371	459,591	1,000,962	2,706,854	2,359,492	5,066,346	4,330,966	4,632,616	8,963,583
9	584,680	659,688	1,244,369	2,923,402	2,123,464	5,046,867	5,262,124	5,292,304	10,554,429
10	584,680	425,795	1,010,476	2,923,402	2,006,001	4,929,404	5,846,805	5,718,100	11,564,904
11	584,680	239,787	824,467	2,923,402	1,909,425	4,832,827	5,846,805	5,957,887	11,804,691
12	584,680	126,308	710,988	2,923,402	1,911,169	4,834,571	5,846,805	5,138,298	10,985,102
13	631,455	12,828	644,283	3,157,274	1,464,406	4,621,681	6,314,549	3,823,898	10,138,447
14	631,455	375,475	1,006,930	3,157,274	1,180,193	4,337,467	6,314,549	3,303,657	9,618,206
15	631,455	629,327	1,260,782	3,157,274	1,383,724	4,540,999	6,314,549	3,389,726	9,704,275
16	631,455	411,739	1,043,194	3,157,274	1,555,677	4,712,951	6,314,549	3,465,102	9,779,651
17	681,971	230,416	912,387	3,409,856	1,659,785	5,069,642	6,819,713	3,570,954	10,390,667
18	681,971	121,622	803,593	3,409,856	1,768,579	5,178,436	6,819,713	3,232,986	10,052,698
19	681,971	12,828	694,800	3,409,856	1,405,933	4,815,789	6,819,713	2,586,126	9,405,839
20	<u>681,971</u>	<u>375,475</u>	<u>1,057,446</u>	<u>3,409,856</u>	<u>1,152,081</u>	<u>4,561,937</u>	<u>6,819,713</u>	<u>2,535,805</u>	<u>9,355,518</u>
Total	\$11,762,987	\$8,253,905	\$20,016,891	\$53,802,241	\$39,255,480	\$93,057,721	\$94,427,918	\$70,968,904	\$165,396,822

Note: Assumes real property values increase 2% annually, and growth is realized every 4 years. Assumes computer equipment is taxed pursuant to an accelerated depreciation schedule. All estimates are preliminary, subject to change. Actual results may vary substantially from these estimates.



Key Takeaways

- Davenport’s preliminary analysis illustrates that data center investment within the County has the potential to provide considerable tax revenues.

- The following trends were identified with regard to potential tax revenues:
 - Of the estimated tax revenues generated, Real Property tax revenues will likely be more stable and predictable year-over-year.

 - Conversely, estimated Personal Property tax revenues generated from computer equipment have the potential to fluctuate more significantly year-over-year due to market need, computer hardware replacement cycles, and accelerated depreciation schedules.

- These trends are subject to change, and the actual economic benefit will depend upon the timing, magnitude of investment, negotiated incentives, and a multitude of other factors.



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