Greater Washington Research Center

Research Brief

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Loudoun County Faces Financial Challenges

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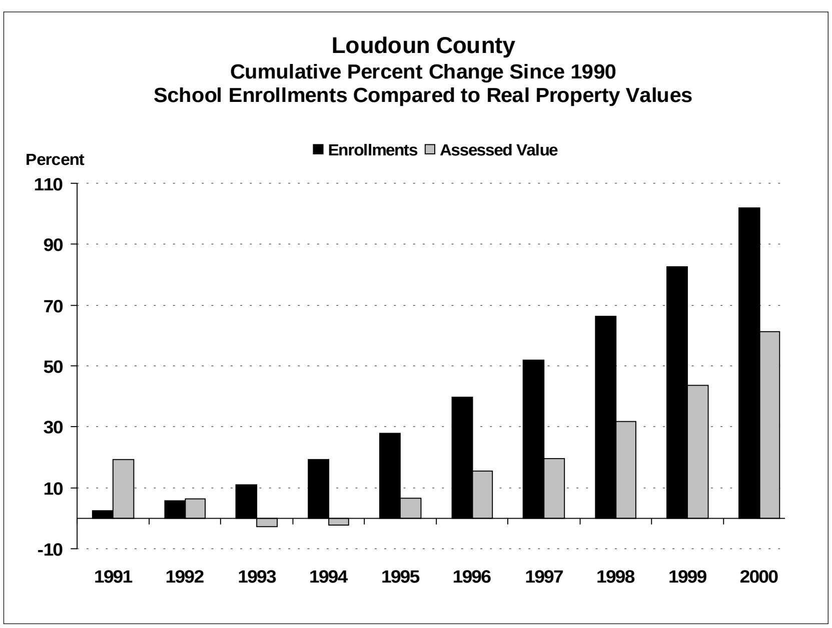
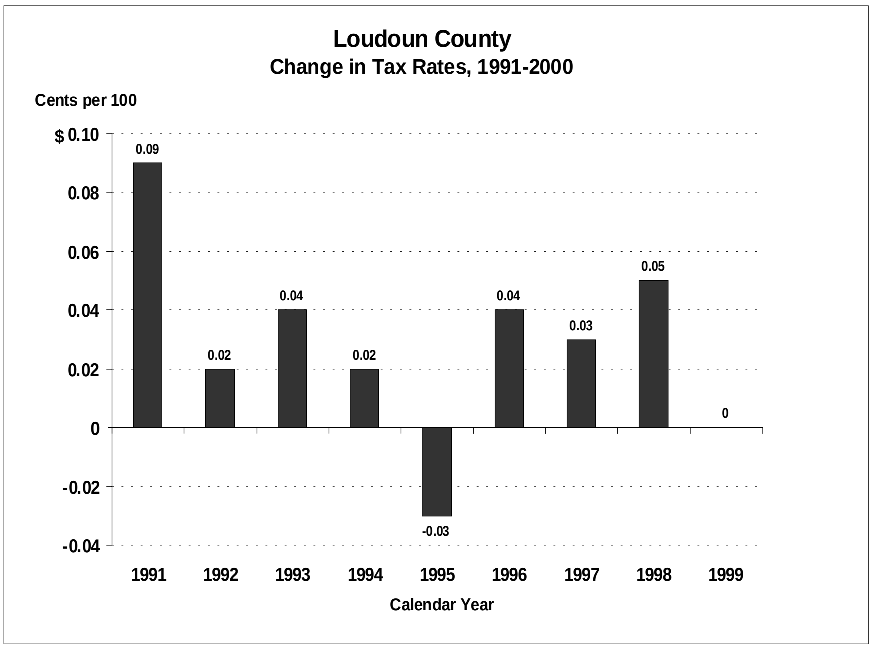
Loudoun County is now the third fastest growing county in the country with population and school enrollments increasing 10 percent annually. Can the county government finance quality services needed to keep up with this explosive growth while maintaining competitive tax rates? This is a recurring question that faces not only Loudoun County, but other fast growing outer suburbs in the Washington area, such as: Stafford, Prince William, Calvert, Frederick, and Charles Counties. While each county has its own unique features, a closer look at Loudoun County may help understand the challenges these counties face, the measures they are using to cope with their problems, and their future outlook.

Coping With Growth in the 1990s

Over the five years from 1995 to 2000, Loudoun County estimates its population increased 53,000, or over 47 percent, and there is no immediate slowing projected. Rapid growth is not new to Loudoun County. Even over the preceding five years from 1990 to 1995, during a significant economic slow-down, the county population increased over 30 percent. Coping with growth of this magnitude has not been easy because the increased population did not translate into increased property taxes, the only significant tax local governments have in Virginia. Property tax values declined 18 percent from $10.6 billion in 1991 to $8.7 billion in 1993, and did not recover to the 1991 level until 1997.



The decrease in taxable values over several years, coupled with the continued growth in population and school children, required a 30 percent increase in the property tax rate from $0.85 per $100 of value in 1990 to $1.11 in 1998. Fortunately, the currently booming economy is causing the calendar year 1999 property values to be over 12 percent higher than 1998 values and no additional tax increases were necessary in 1999. Overall, the county budgets have been kept in balance in the 1990s and there was a $40.9 million unreserved general fund surplus at the beginning of 1999. This surplus represents about 15 percent of current annual revenues and will help cushion any future budget crises. The county recently received an upgrade in its bond ratings to strong investment grades.



Looking Ahead

The fiscal decline of the early 1990s followed by the current economic boom makes it difficult to project the immediate fiscal future of the county with confidence, but several financial challenges that will face the county are clear. The county must immediately build and staff a growing number of new schools. School enrollments have more than doubled between 1990 and 2000. Enrollments are currently growing at about 10 percent annually. As a result of this growth, scheduled spending for school construction is $75 million in 2000, $89 million in 2001, and $91 million in 2002, for a three-year total of $255 million. Another $67 million is planned for non-school projects.

The construction funding will come primarily from general obligation bonds. At the end of 1998, the county had $167.8 million in bonds outstanding, an amount equal to over $1,200 per capita. By 2002, outstanding debt, based on the spending schedule, is projected to increase to $558.8 million, or almost $3,000 per capita. The amount of debt, however, is not as important as the burden it places on the county's budget for interest and principal repayments and for staffing the new facilities. Debt service payments of $27.5 million in 1999 are projected to increase $50.4 million to $77.9 million in 2003.

Staffing the new schools and providing for other operating expenses for the 16,694 additional students expected in 2003 compared to 1999 will require $113.4 million additional based on 1999 per pupil costs, without providing for inflation or improvements. The non-school operating budget has increased an average of about $12 million annually in recent years. If this growth continues, it will require an additional $48 million by 2003 compared to 1999. Putting debt service, school operating, and non-school expenditures together could result in the county's 2003 budget being $211.4 million higher than the 1999 budget.

The county's budgeted fiscal year 1999 revenue from all sources is $315.4 million. This means that revenues will need to increase by about 67 percent over the four years from 1999 to 2003 to meet the budget costs projected above. The county is off to a good start in its fiscal year 2000 budget with an estimated 14.5 percent increase in property tax revenues and substantial increases in state aid. Total revenues for 2000 are budgeted to increase by $42.4 million or over 15 percent. If similar increases occur in subsequent years, revenues could increase by about $190 million between 1999 and 2003, or only $21 million short of the $211 million budget increase projected above.

Loudoun County Revenues

	1999	2000	Percent Change
Property Taxes	$184,065	$210,689	14.5%
Non-property Taxes	36,270	41,342	14.0%
Other Revenues	25,740	28,207	9.6%
State Aid	15,911	21,081	32.5%
Federal Aid	4,013	4,280	6.7%
State Aid, School	46,430	54,710	17.8%
Federal Aid, School	2,981	3,041	2.0%
Total	**$315,410**	**$363,350**	**15.2%**

As the county balances its budget over the next several years, it may again have to consider increased tax rates. Closing a $21 million gap in 2003 would require the equivalent of a $0.10 per $100 increase in the real estate tax rate if the tax base continues to grow at the 1999 rate. The resulting $1.21 rate would leave the county well below the current highest rate in the suburban Washington area in 1998 (Prince William County at $1.36). Other alternatives include delaying some construction spending, trimming services, or using some of its accumulated surplus instead of issuing bonds for construction.

Conclusion

Based on the current outlook, Loudoun County should be able to cope with its immediate financial needs, but it will have to make some difficult budget choices. Does this mean that suburban governments can successfully meet fiscal demands placed on them by rapid growth? Probably, but only if residents and businesses are willing to accept higher taxes, limited or delayed service improvements, and only if the local economy continues to prosper.