

Testimony of Scott Dunn, Chairman, Fayette County Board of Commissioners

Center for Rural PA Public Hearing on Data Centers Part 2/2

July 29, 2026, 10am

Chairman, members of the committee, thank you for inviting me to speak with you today about data centers.

The primary reason counties have interest in data centers is the potential for increased property tax revenues. As data center development increases — and as Pennsylvania begins to see more interest from this sector — understanding how our tax structure interacts with this industry is essential. My goal today is to outline the key differences between our system and states like Virginia, explain the revenue implications for Pennsylvania counties, and offer a framework that could help modernize how we value these facilities within our constitutional and statutory constraints.

To begin, it's important to recognize that county taxation of data centers, and business taxation more generally, functions very differently in Pennsylvania than it does in Virginia. These differences aren't subtle — they fundamentally shape how much local governments can collect and how data center developers evaluate sites.

The most significant distinction concerns business personal property. In Virginia, counties are permitted to tax the contents of a data center. That includes servers, racks, networking equipment, advanced cooling systems, battery backup infrastructure, and other components that together make up the majority of a data center's investment. In some cases, the equipment inside the building can represent three to five times the value of the structure itself.

Pennsylvania does not allow this kind of taxation. Under current law, counties in PA cannot tax business personal property of any kind. That means the equipment that actually creates the value in a data center — the very reason these facilities exist — is entirely exempt. Pennsylvania counties are limited to taxing only the real estate: the land and the building.

Another structural difference worth noting is that county governments in Virginia have a broader range of responsibilities. Virginia counties fund and operate public schools, they maintain certain local roads, and they provide public safety services, including police, fire, and EMS. These responsibilities require significant local revenue, and Virginia's ability to tax data center equipment is a key part of how they meet those obligations. In Pennsylvania, county governments do not carry those same responsibilities and therefore have a different fiscal structure.

The revenue impact of these differences is substantial. Loudoun County, Virginia — currently the world's largest data center market — reports that roughly two-thirds of its total data center tax revenue comes directly from taxation of the personal property inside the facilities. Only about one-third comes from taxation of land and buildings. If Pennsylvania were to host that same type of development, our counties would receive only the smaller portion of that revenue, because the primary value driver is off-limits for taxation.

This is not simply a policy choice; it is also a constitutional limitation. Article VIII, Section 1 of the Pennsylvania Constitution — the Uniformity Clause — requires that taxes be uniform upon the same class of subjects. Practically speaking, this means Pennsylvania cannot selectively tax only the equipment inside data centers while leaving all other business personal property exempt. Doing so would violate uniformity. And the same constitutional requirement prevents counties from assessing data centers at a higher percentage of market value than other commercial or industrial properties.

Because of this, if a data center is assessed in the same manner as other commercial buildings — typically based on square footage or cost of construction — the result is an assessed value that represents only a very small portion of the actual investment made. The Fayette County Assessment Department estimates that if data centers are valued on a traditional square-foot basis, the assessed value may be as low as 10-20 percent of the overall investment. That is a direct consequence of the fact that the real value of a data center lies not in its physical footprint, but in the electrical and technological capacity it houses.

Data center investment is driven primarily by megawatts. The entire industry models value, capacity, and pricing around available power. Industry standards indicate the investment cost at roughly \$10 million per megawatt. Building size (square footage) and land value are secondary to the facility's energy capability. Yet under our current property assessment model, that central value driver is completely disconnected from the tax base.

Given these constraints — statutory, constitutional, and structural — it is highly unlikely that the tax code can change in a way that enables Pennsylvania counties to tax the equipment inside data centers. That option is essentially off the table. But if Pennsylvania wants a way for counties to maintain an accurate and fair assessment base for these facilities, especially as interest grows, then an alternative approach becomes necessary.

A possible solution would be that Pennsylvania consider developing a property assessment methodology that incorporates megawatt capacity as the basis for valuation. To be clear, this would not tax the equipment. It would instead align the assessed value of the real property with the actual economic scale of the facility. This approach would be conceptually similar to, though not the same as, the income-based approaches used for hotels, self-storage facilities, or other specialized real-estate assets where traditional square-foot valuation does not accurately capture the property's intended use or market value.

A megawatt-based assessment model would ensure that valuations remain uniform, predictable, and constitutionally compliant. It would give counties a fairer and more realistic assessment base, and a clearer understanding of the financial opportunities that a data center project would create. It would create transparency for the data center industry, which increasingly expects tax structures to reflect the operational realities of modern infrastructure, and could eliminate the need to negotiate PILOT agreements.

Thank you for your time, and for your willingness to explore this topic. I hope this overview provides useful context as Pennsylvania evaluates how to handle a rapidly expanding sector with unique valuation challenges. I am glad to stay on and answer any questions as time permits.

NOTES:

Data centers present a more nuanced situation because **megawatt capacity is economically important, but it is still not, by itself, the taxable property or the legal basis for a Pennsylvania real estate assessment.**

Here's how the analysis changes.

Power capacity is a key value driver

Unlike many commercial buildings, the value of a modern data center is heavily influenced by its electrical infrastructure. A 100 MW data center is fundamentally different from a 10 MW data center because the larger facility typically has:

- larger substations,
- more transformers and switchgear,
- greater backup generation,
- more cooling infrastructure,
- more redundant electrical systems,
- greater ability to support high-density computing, including AI workloads.

Because these systems are often permanently affixed to the property, they may be considered part of the taxable real estate, depending on Pennsylvania law and the nature of the equipment.

MW capacity is evidence of market value

Suppose two otherwise identical buildings each contain 500,000 square feet.

- Building A has 10 MW of available power.
- Building B has 150 MW of available power.

The second building would likely command a much higher market price because tenants needing high-performance computing or cloud infrastructure place significant value on available electrical capacity.

An assessor could therefore conclude that the 150 MW property has a substantially higher fair market value.

The important distinction is that the assessment would still be based on **market value**, not on a formula such as:

$$\text{Assessment} = \text{MW} \times \$X$$

Instead, MW capacity is one of several characteristics that influence what buyers would pay.

Income approach

For leased data centers, the income approach is often particularly relevant.

Higher electrical capacity may allow:

- higher rental rates,
- more rentable IT load,
- longer lease terms,
- lower vacancy,
- greater demand from hyperscale tenants.

These factors increase the property's net operating income, which can justify a higher valuation under the income capitalization approach.

Again, the legal basis is the property's market value as reflected by income—not its MW capacity alone.

Cost approach

MW capacity also affects replacement cost.

A 200 MW campus requires significantly more capital investment than a 20 MW campus, including expensive electrical and mechanical infrastructure. Under the cost approach, those permanently installed improvements contribute to the property's value.

Could a county assess “per MW”?

Generally, no.

If a county adopted an unwritten practice such as:

- \$2 million of assessed value per MW, without demonstrating that the resulting assessment reflected fair market value, that methodology could be challenged as inconsistent with Pennsylvania assessment law.

However, if appraisal evidence showed that comparable data centers consistently sold for values closely correlated with available power capacity, MW could serve as a valuation indicator rather than the assessment metric itself.

Source: Fayette Solicitor Jack Purcell