

Michigan HB 4905 / 4906

SUPPORTING TESTIMONY

March 6, 2024

Sen. Mary Cavanagh, Chair
Finance, Insurance, and Consumer Protection Committee
Michigan Senate

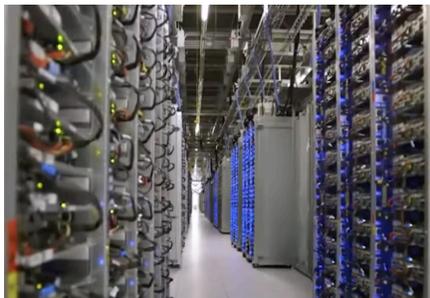
Chair Cavanagh and members of the committee:

NetChoice is a trade association of American online businesses. We are leaders in tech policy in the states, in Washington, in the courts, and in international internet governance organizations.

We are represented in today's hearing by the Hon. Barbara Comstock, who served in the Virginia General Assembly and led legislation to update the sales tax code for data centers. A bipartisan coalition led to nearly unanimous approval and subsequent extensions of the law. Comstock's original law and subsequent extensions gained the signatures of Republican Gov. Bob McDonnell and Democrat Gov. Terry McAuliffe. All understood that data centers were the infrastructure for innovation and for nurturing high-paying jobs. Virginia thereby opened the door to billions in investment in high-tech data processing and hosting centers, and Virginia remains the number one data center location—in the world.

We ask for your support of HB 4905/4906, in order to open Michigan for the large-scale capital investments and job creation that comes from data centers.

Data centers of NetChoice members Amazon, Expedia, Google, and Meta enable individuals and businesses to find information, buy and sell, navigate their world, and maintain their memories in stored communications, documents, photos, and videos. Moreover, data centers help keep us connected, while creating jobs and significant economic impacts in our communities, as explained in [this 2-minute video](#):



Americans depend on the internet to be informed, stay connected, and get their work done.

Data centers create tech jobs, from construction teams and engineers, to technicians and facility managers. These investments boost the local economy, while ensuring a better online experience for Americans everywhere.

Data centers are the essential production equipment to deliver these services, so our members are eager to see Michigan join other states trying to attract large enterprise data centers. However, no large enterprise data center has located in states that impose sales tax on data center equipment.

You may find that surprising, since Michigan enacted a sales and use tax exemption for some types of data centers back in 2016. But, that exemption applied only to “colocation” data centers, where multiple tenants locate their servers in the facility. The present exemption is not available to data centers that are owned and occupied by a single enterprise, such as an auto company or any of the tech firms represented by NetChoice.

The legislation before you today – HB 4905 and 4906 – would make the sales tax exemption available to single-enterprise data centers, but only for new and large facilities that invest at least \$250 million and have annual payrolls of at least \$1 million. The legislation would also extend the sunset for the sales tax exemption from 2035 to 2050, for both co-location and enterprise data centers that qualify.

Why should Michigan want to attract enterprise data centers?

Not every state has the factors that attract data center investment, especially those that already exist in Michigan, such as a deep talent pool, availability of affordable land and reliable energy, proximity to airports, and strong community partners. What’s missing is the same tax treatment for equipment that Michigan already offers for other capital-intensive industries, like manufacturing and agriculture.

Enterprise data centers contribute significantly to local taxes and are strong supporters of education and broadband expansion. The jobs created in fields like engineering, technician, electrical and construction earn competitive salaries.

Tech industry facilities and data centers are #1 in terms of capital investments in the US.

[PPI’s Investment Heroes of 2022 report](#) shows *Information and Data Processing* as the top growth sector for US capital investment, increasing by 720% from 2007. In fact, 4 of the top 6 capital investment companies build data centers (Amazon, Alphabet, Meta, and Microsoft), investing \$94 billion in 2022 – more than energy, telecom, pharma, or manufacturing.¹ This investment trend will continue – in states that make long-term data center investment a possibility.

¹ Progressive Policy Institute, Investment Heroes 2022, at <https://www.progressivepolicy.org/publication/investment-heroes-2022-fighting-inflation-with-capital-investment/>

Pictured here is Meta's data center campus outside of Columbus, Ohio. The initial structure was 970,000 square feet and cost \$750 million.



Construction brought \$244 million to the local supply chain and 1,200 construction workers earned \$78 million in wages.

Across the street, Google is building a \$600 million, 275,000 square foot data center on 440 acres, setting the potential for future expansion.

In states like Iowa, Ohio, Illinois, and Nebraska, data centers have been major drivers of investment. A 2022 report from Mangum Economics, *The Impact of Data Centers on the Iowa Economy*, showed significant results from a growing data center sector, driven by the state's data center incentive programs. Of the more than two dozen data centers, Google, Meta, and Microsoft have large data center campuses in the state.

Data center projects under construction will increase data center investment in Iowa by over 50 percent:

- Apple constructing a \$1.3 billion data center
- Meta Platforms doubling of current footprint, making its Altoona campus the company's largest
- Microsoft doubling its current footprint with two new campuses

In Iowa, direct economic impact in 2021 for the construction and operation of data centers was \$934 million, including 2,400 construction jobs, \$167 million in construction pay and benefits, 1,100 full-time operational jobs, and \$96 million in data center operations pay and benefits.

There are also notable indirect economic ripple effects, estimated in 2021 to be \$3.5 billion, including 14,400 jobs and \$970 million in pay and benefits. Plus, for each operational data center job created, an additional 9.8 jobs were supported by the data center in non-construction businesses.

It was further estimated that in 2021, indirect economic activity led to \$107 million in tax revenue collected by the state and \$113 million collected by local governments.

Potential Impact of Hyperscale Data Development in Michigan

While Michigan has no enterprise data centers to report on at this point, NetChoice asked Mangum Economics to estimate the economic and tax benefits *if* the state were able to attract these new investments². In their 2020 report, Mangum estimated that if one new enterprise data center were to

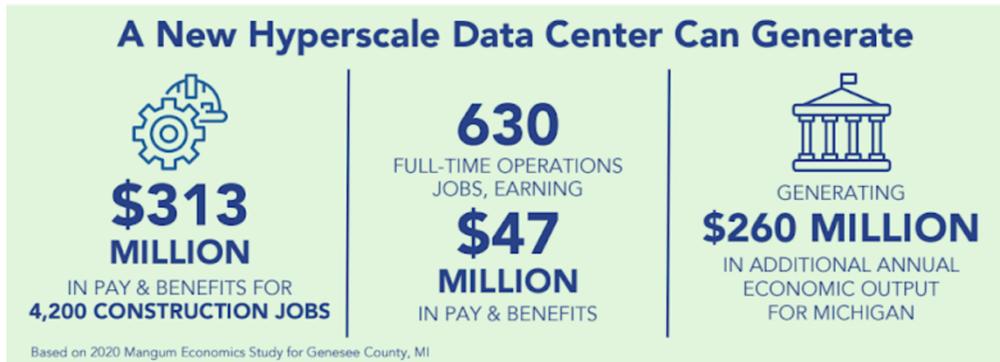
² Potential Impact of Hyperscale Data Development in Michigan, Mar-2020, by Mangum Economics, <https://drive.google.com/file/d/1ZL-XPVVyalcuMLnvKx4jlfpx-ckI3000/view?usp=sharing>

locate in Michigan, the state could see significant new economic benefits during construction and operation:

A simple sales and use tax exemption on data center equipment would make Michigan competitive for billions in investment and well-paying data center jobs.

Data centers are the infrastructure backbone of the 21st century economy.

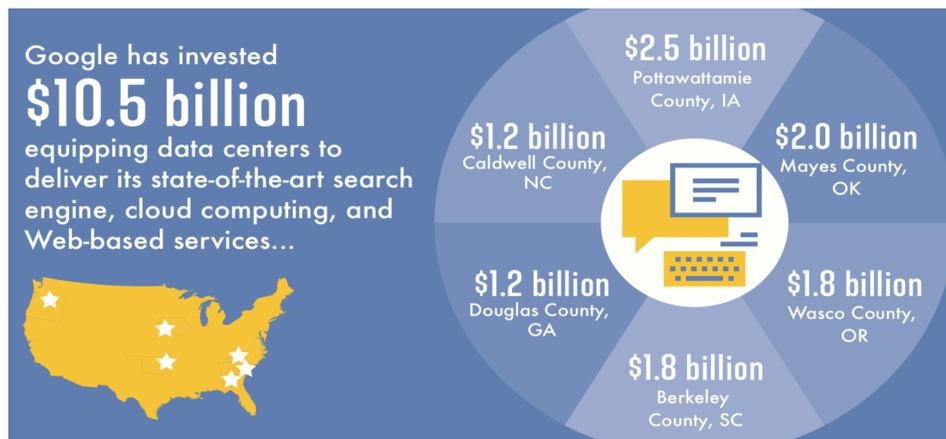
Everything that uses the internet - from the cars we drive to businesses that manufacture, create, and sell goods and services - requires data centers to work. Data centers bring powerful benefits to the states and local communities where they are located through new jobs, new tax revenue and new investment.



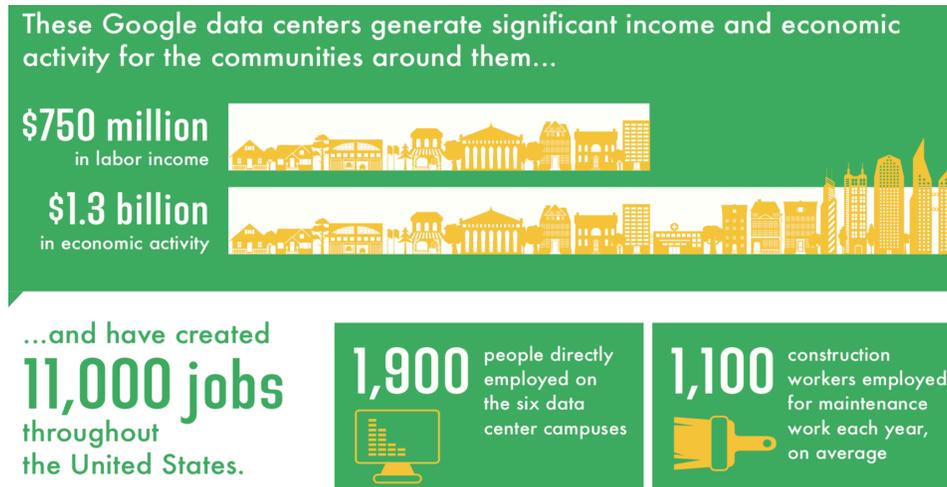
Based on studies of several states with large data center industries, Mangum has recently described the broader benefits, too:

Research has shown that data centers share the pool for high-tech labor with industries such as architecture, engineering, computer system design, software, telecommunications, scientific research & development, and technical consulting. The existence of a vibrant data center market helps to attract talent that supports all of these industries.

Hyperscale data centers are in several states that extended their sales tax policies on manufacturing to include data centers. Oxford Economics prepared this infographic for its study of six Google data centers in suburban counties in Iowa, Oklahoma, Oregon, South Carolina, Georgia, and North Carolina.



Oxford also studied the broader income and economic activity effects of those six Google data centers, finding \$750 million in labor income and \$1.3 billion in economic activity.



Enterprise data centers bring Incremental economic benefits and incremental tax revenue

Not only do high wages in the data center industry offer a vital new employment option, but these centers also are a driving force in the development of renewable energy resources and upgrades to utilities and internet infrastructure. Moreover, data centers generate new income and business taxes, sales taxes on non-exempt purchases, and local property taxes.

For that reason, we encourage Michigan to adopt a “**Here vs Not here**” analysis of whether to extend its sales tax exemptions for manufacturing, farming, and mining production equipment to also apply to data centers. This analysis recognizes the reality that no enterprise data center has located in states that impose sales tax burdens on data center equipment.

Therefore, the decision to extend sales tax production exemptions still generates incremental tax revenue—despite the sales tax exemption on data center equipment. The first table lists several economic benefits that accrue if the state is successful in attracting large enterprise data centers:

Incremental economic benefits of data centers	Here	Not here
Income & spending by construction workers & contractors	+	0
Income & spending by data center employees	+	0
Revenue for local suppliers, contractors, lodging, and restaurants	+	0
High-tech training and experience for workforce	+	0
Make the state more attractive for tech business and education	+	0

This second table lists several incremental tax revenue opportunities from data center construction and operation—even after establishing a data center exemption:

Incremental tax revenue from data centers	Here	Not here
Personal income taxes paid by employees and contractors	+	0
Corporate income taxes from data center operators & contractors	+	0
Sales taxes on non-exempt equipment and supplies	+	0
Sales tax on electricity used by the data center	+	0
Sales taxes on services related to tangible personal property	+	0
Local real estate & personal property taxes	+	0

In 2019, Virginia’s Joint Legislative Audit and Review Commission (JLARC) published its evaluation of Virginia’s tax incentives for data centers, using confidential tax information from data center taxpayers³. JLARC concluded that 90 percent of the investment in data centers would *not* have occurred in Virginia were it not for those tax exemptions. Instead, those investments would have been made in other states that give data center equipment the same tax exemptions long given on equipment used in manufacturing and agriculture.

Over a ten-year period, JLARC’s analysis showed that the commonwealth of Virginia recovered 75 cents in state tax revenue for every dollar of sales tax that was exempted for data center equipment.⁴

And after considering *local* taxes, Mangum concluded in its 2020 Virginia Study that, “the ‘cost’ of the State data center incentive is only 10 percent of the amount of State sales tax revenue exempted.”⁵ At the local level, data centers generated more than \$300 million in local tax revenue for Loudoun County, Virginia in 2019. That money reduces everyone else’s property taxes while supporting local schools and law enforcement, for example. Now these benefits are spreading to counties across Virginia.

³ Joint Legislative Audit and Review Commission (JLARC), *Data Center and Manufacturing Incentives, Economic Development Incentives Evaluation Series*. 17-Jun-2019.

⁴ JLARC Evaluation, Appendix N: Results of economic and revenue impact analysis, at http://jlarc.virginia.gov/pdfs/oversight/ED_initiatives/datacenters_Appendix%20N.pdf

⁵ Jan-2020, Mangum Economics, *THE IMPACT OF DATA CENTERS ON THE STATE AND LOCAL ECONOMIES OF VIRGINIA*, p.24, at https://www.nvtc.org/NVTC/Insights/Resource_Library_Docs/2020_NVTC_Data_Center_Report.aspx?_zs=doEs91&_zl=5cbX5

