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Presentation for
Pennsylvania State Senate
Community, Economic & Recreational Development Committee

Pennsylvania's Economy – The Reliability of our Technology Infrastructure

April 13, 2021

Chairman Yudichak and members of the committee, NetChoice[1] is a trade association of America's leading online businesses. We engage in tech policy issues in the states, in Washington, and in international internet governance organizations.

We are pleased to present at your informational meeting on *Pennsylvania's Economy – The Reliability of our Technology Infrastructure.* NetChoice members like Amazon, eBay, Expedia, Facebook, Google, Twitter and many others enable Americans to find information, to create and connect, to buy and sell, to navigate their world, and to maintain their memories – in stored communications, docs, photos, and videos.

Moreover, our members have used their data centers to help Americans cope with COVID lockdowns, as explained in this 2-minute video:

Now more than ever, Americans are depending on the Internet to be informed, stay connected, and get their work done.

Whether educating students, connecting with family, working from home, or participating in a virtual medical appointment, it's America's networks and data centers that enable all we're doing online today.[2]

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

[1] NetChoice is a trade association of leading e-Commerce and online businesses, at www.netchoice.org The views expressed here do not necessarily represent the views of every NetChoice member company.

[2] Data Center video at http://netchoice.org/datacenters

Pennsylvania should consider applying to data centers the same sales tax treatment for equipment needed for other capital-intensive industries like mining, manufacturing, and agriculture.

Moreover, data centers are recession-proof, with engineering, technician, electrical, and construction jobs at competitive salaries. Where our members have invested in enterprise data centers, they contribute significantly to local taxes and are strong supporters of education and broadband expansion.

Tech industry facilities and data centers are #1 in terms of capital investments in the US. In PPI's most recent ranking of ***Investment Heroes***, our tech industry invested $70 billion in 2019 – more than energy, telecom, pharma, or manufacturing.[3]

That tech investment trend will continue, with increasing American appetites for cloud storage of data related to multimedia, autonomous vehicles, genomics, AI, and other emerging industries.

2019 U.S. CAPITAL EXPENDITURES (Millions USD)

1	Amazon.com	$19,306
2	AT&T	$18,520
3	Alphabet	$18,037
4	Exxon Mobil	$16,580
5	Verizon Communications	$16,058
6	Intel	$13,416
7	Facebook	$12,457
8	Duke Energy	$11,122
9	Microsoft	$11,073
10	Comcast	$10,467

Consider, for example, some of the data centers locating next door in Ohio. Facebook's initial 970,000 SF center cost $750 million, making it the largest commercial project in the city.

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 SF data center on 440 acres, setting the potential for future expansion.[4]

Much of this is already known to committee members, who may have reviewed Senator Hutchinson's memo for SB 463 and the data center study done by Econsult Solutions.[5]

So, our presentation adds something different – the perspectives of an economic development official and a lawmaker who helped Virginia become the world's leading location for data centers.

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[3] PPI Investment Heroes 2020, at https://www.progressivepolicy.org/blogs/investment-heroes-2020/

[4] Columbus Business First (Apr-2019) *Facebook's New Albany data center will be much bigger than originally planned*"

[5] Senator Scott Hutchinson memorandum (Dec-2020), at https://www.legis.state.pa.us//cfdocs/Legis/CSM/showMemoPublic.cfm?chamber=S&SPick=20210&cosponId=33287

Econsult Solutions Report, *The Economic and Revenue Impact of Data Centers in Pennsylvania* (Jun-2019) at https://econsultsolutions.com/economic-and-revenue-impact-of-data-centers-pa/

Virginia's journey to becoming the world leader for data centers

Most NetChoice members store data where Barbara and Steve live -- Northern Virginia, the world's #1 concentration of data centers. That's where these companies store your emails, documents, photos and videos of your cute kids and grandchildren. Those data centers provide millions in tax revenue and thousands of jobs, serving as the backbone of Virginia's tech industry while helping diversity the state's economy.

A study by Mangum Economics[6] counts these Virginia benefits attributable to data centers in 2018:

45,290 jobs

$ 3.5 Billion in labor income

$10.1 Billion in economic output

Regarding earnings for data center workers, the 2020 Virginia study found that average annual wages in the data center industry doubled to just over $126,000 between 2001 and 2018, growing "almost twice as fast as the average private sector employee in Virginia".

In 2018, data centers made $2.6 billion in capital investments across Virginia, supporting 4,617 jobs, $254 million in labor income, and $670 million in economic output in the state's construction industry.

Moreover, these data centers generate significant tax revenue for local governments. In Loudoun and Prince William Counties, the benefit-to-cost ratio for data centers is more than 8-to-1. For every dollar spent by county governments related to data centers, they realized at least $8 in new tax revenue.

It took a purposeful economic development approach to make this happen.

In the late 1990's, Governor Jim Gilmore appointed Steve to the board of Virginia's economic development agency (Virginia Economic Development Partnership). Virginia was keen to pursue economic development for a growing Internet industry that already had two important anchors in the Commonwealth. America Online was based in Northern Virginia. And the Metro Area Exchange (MAE-East) handled half of American's internet traffic – in a parking garage in Tysons Corner, where Steve's software business was headquartered.

But it soon became clear that Aol and MAE-East was not enough to win the most significant data center location competition of that time. In 2011, Virginia lost out to North Carolina on the construction of a billion-dollar data center that Apple was planning. What tipped the balance in favor of the Tar Heel State was an ongoing commitment to update their sales tax structure to attract data centers.

Apple's decision was a wake-up call that made it clear Virginia had to constantly update its business and tax environment in an increasingly high-stakes competition for the jobs and investments of the 21st century. That's where Virginia Delegate Barbara Comstock rose to the challenge.

In 2012, Barbara served in the Virginia General Assembly and introduced legislation to update the tax code for data centers. A bipartisan, commonwealth-wide coalition, and the leadership of the Northern Virginia Technology Council, resulted in near unanimous passage.

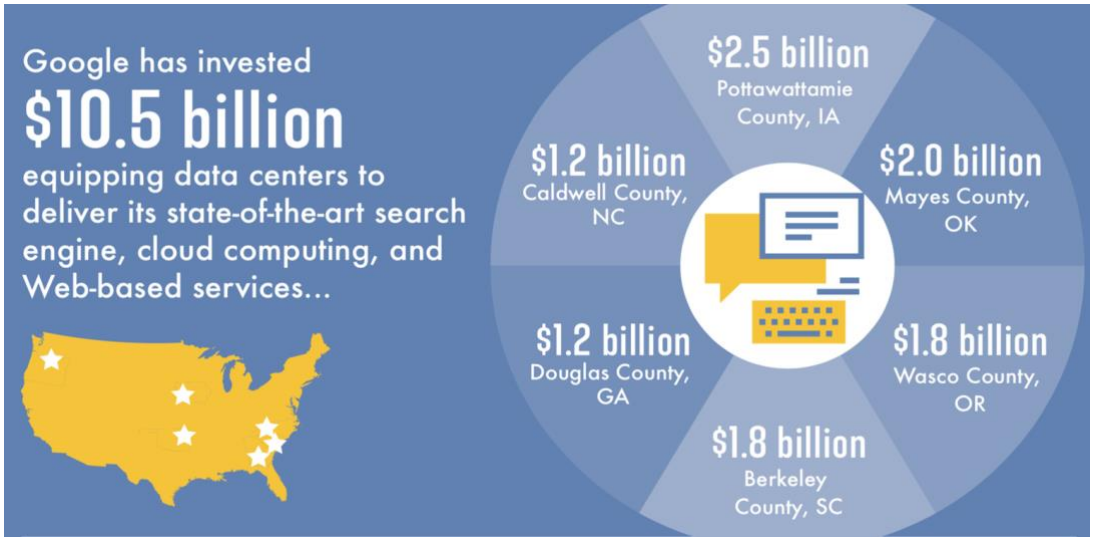
In 2016, the legislation was further updated and provided more certainty for data centers. These bills gained the signatures of Republican Gov. Bob McDonnell and Democrat Gov. Terry McAuliffe. All

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

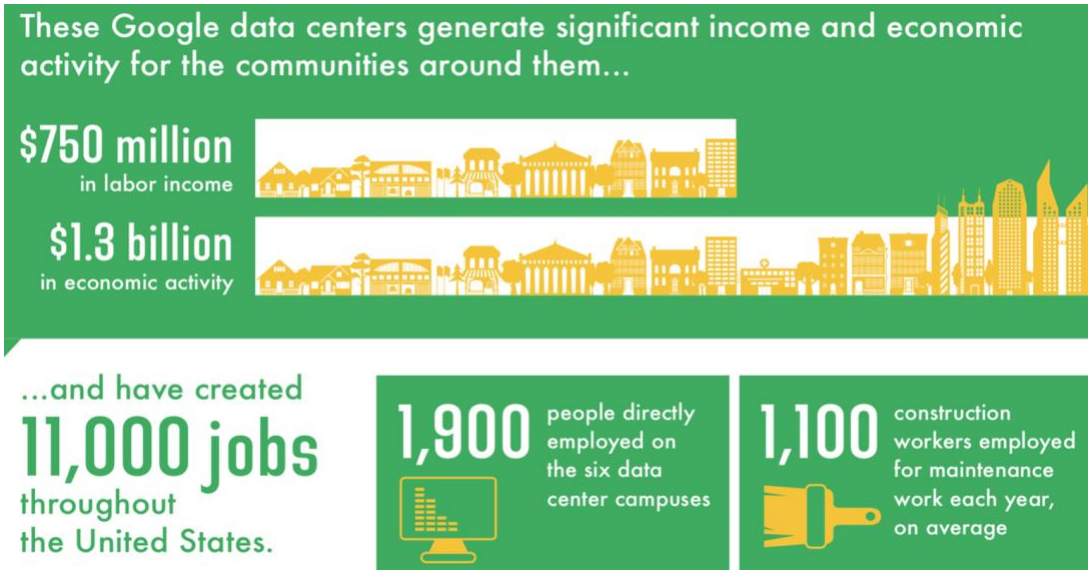
understood that data centers were the basic infrastructure for innovation, for the future, and for nurturing high-paying jobs. Virginia opened the door to billions of dollars of investments in the form of high-tech data processing and hosting centers, and Virginia remains the number one state for data centers—in the world.

Large-scale enterprise data centers are now in several states that extended their sales tax exemptions on manufacturing and production equipment

The experience of Virginia has been repeated in several other states that extended their sales tax policies for manufacturing and production equipment to also apply to data centers. Oxford Economics prepared this infographic to summarize its study of six Google data centers in rural and 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 activity.



Google's announcement that it will double its data center and office footprint in Virginia, coupled with Amazon choosing the commonwealth as its second headquarters, show that Virginia's commitment to creating an attractive technology business climate is delivering results *and* incremental tax revenue.

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, the data centers generate new income and business taxes, sales taxes on non-exempt purchases and electricity, and local property taxes.

For that reason, we encourage Pennsylvania 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 over the last several years, 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 Commonwealth 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
Diversify local economies	+	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
Gross Receipts taxes on electricity & telecommunications	+	0
Sales taxes on electricity	+	0

Incremental tax revenue from data centers	Here	Not here
Sales taxes on non-exempt equipment and supplies	+	0
Lodging taxes for visits by contractors and workers	+	0
Sales taxes on business services	+	0
Local real estate & personal property taxes	+	0

In June of 2019, Virginia's Joint Legislative Audit and Review Commission (JLARC) published its audit report and evaluation of Virginia's tax incentives for data centers, using confidential tax information from data center taxpayers[7]. JLARC concluded that 90 percent of the investment in data centers eligible for the sales tax exemption would *not* have made in Virginia were it not for those tax exemptions. 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.

As Mangum concluded in its 2020 Virginia Study, "*the 'cost' of the State data center incentive is only 10 percent of the amount of State sales tax revenue exempted*." [8] In fact, JLARC's analysis showed that Virginia recovered $1.09 in state tax revenue for every dollar of sales tax that was exempted for data center equipment purchases in 2017.[9]

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, law enforcement. Now these benefits are spreading to counties across Virginia.

Idaho's legislature adopted this "Here vs Not here" analysis in the Fiscal Note for HB 521, signed into law last year:

> *Passage of this legislation will have a positive impact on the general fund.*
>
> *Though this bill allows a sales and use tax exemption, this legislation is prospective and is intended to attract business investment not already present in the state of Idaho.*
>
> *Business investment of two hundred and fifty million dollars ($250,000,000) or more will create new jobs, not only to directly support the data centers, but also in construction jobs and indirect jobs.* [10]

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

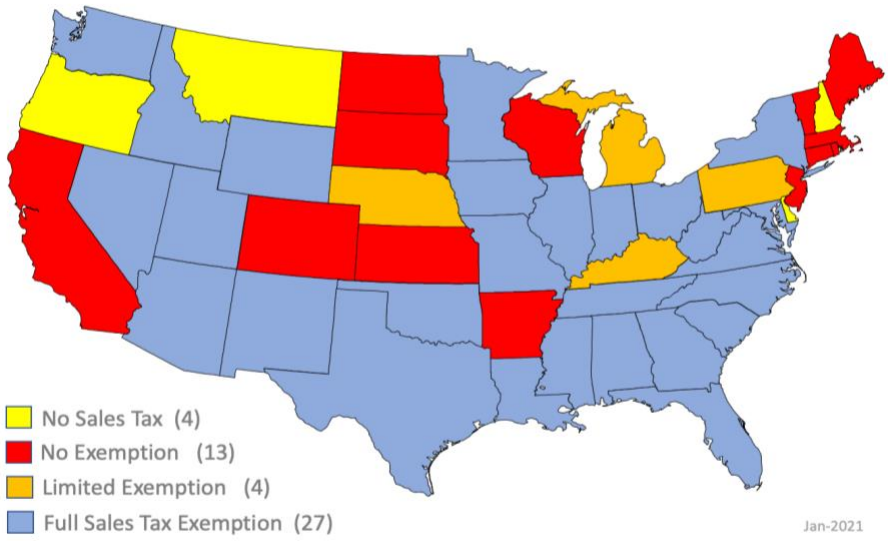
[8] Jan-2020, Mangum Economics, *THE IMPACT OF DATA CENTERS ON THE STATE AND LOCAL ECONOMIES OF VIRGINIA*, p.24, at https://www.nvtc.org/NVTC/Insights/Resource_Library_Docs/2020_NVTC_Data_Center_Report.aspx?_zs=doEs91&_zl=5cbX5

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

[10] Feb-2020, Statement of Purpose and Fiscal Note for Idaho House Bill 521, at https://legislature.idaho.gov/wp-content/uploads/sessioninfo/2020/legislation/H0521SOP.pdf

States are competing to attract enterprise data centers

While Virginia adopted policies to become the largest data center market in the nation, it's clear that the landscape for attracting data centers has changed. Unlike a decade ago when only five states had tax structures that were welcoming to data centers, today there are 31 states with sales tax exemptions, as seen in the map below:



Consider these quotes from the county manager where Apple built that data center in North Carolina:

> *"I highly recommend it — take 'em if you can get 'em. Otherwise, send them to us.*"
>
> *"It's our single biggest taxpayer, generating revenue to the county of almost $1.5 million and employing 400 or 500 people.*
>
> *It was as close to a no-brainer as you get in this business.*"

Mick Berry
Manager,
Catawba County, NC

Conclusion

Pennsylvania's General Assembly should strongly consider SB 463 so that the Commonwealth can compete for the hyperscale enterprise data centers that have yet to locate here.

Our experience and excellent results in Virginia are instructive, and the most succinct rationale is from Senator Hutchinson's memorandum for SB 463:

> "Existing tax policy has limited the growth for existing colocation data centers whose efforts to attract tenants are challenged with neighboring states offering such exemptions. At the same time, Pennsylvania has not been able to attract a single large-scale data center, which are instead choosing to invest billions of dollars in Ohio and Virginia.
>
> "Similar to sales tax exemptions for other industries in the state such as farming, manufacturing, and mining, this attracts companies to locate their data centers in Pennsylvania, creating capital investment and high-paying jobs as a result."

We thank you for your consideration and look forward to your questions.