

NetChoice

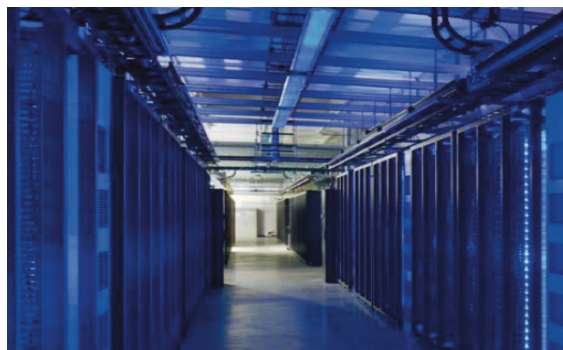
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Presentation for

Pennsylvania State Senate
Committee on Community, Economic & Recreational Development

*Informational meeting
on the economic development opportunities
of the data center industry*



October 22, 2019

Chairman Killion and members of the committee, NetChoice is,¹ a trade association of businesses who share the goal of making the internet safe for free enterprise and for free expression. We work to promote the integrity and availability of the global internet and are significantly engaged in issues in the states, in Washington, DC and in international internet governance organizations.

We are pleased to present at your informational meeting on *the economic development opportunities of the data center industry*. However, NetChoice members (AOL, eBay, Expedia, Facebook, Google, Twitter and many others) don't really think of themselves as the "data center industry." Rather, they're the industry that enables 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.

Data centers are essential production equipment to deliver these services, so our members are eager to see Pennsylvania join other states who believe data centers deserve the same sales tax exemption they have allowed for decades on equipment needed for manufacturing, farming, and mining.

Moreover, data centers are recession-proof, with high-paying tech jobs. Where our companies have invested in enterprise data centers, they contribute significantly to local taxes and are strong supporters of education and broadband expansion. And those investments continue, as our companies add data centers to established campuses such as this Facebook facility near Columbus, 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 planning a \$600 million, 275,000 SF data center on 440 acres, setting the potential for future expansion.²

Much of this is already known to committee members, who have reviewed Senator Hutchinson's memo for SB 471 and also have likely seen the data center study done by Econsult Solutions.³

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.



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

³ Senator Scott Hutchinson memo (Feb-2019), at <https://www.legis.state.pa.us/cfdocs/Legis/CSM/showMemoPublic.cfm?chamber=S&SPick=20190&cosponId=28472>

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 diversify the state's economy.

A study by Mangum Economics⁴ counted these Virginia benefits attributable to data centers in 2016:

43,375 jobs

\$ 3.2 Billion in labor income

\$10 Billion in economic output

In addition, the study found that "Data centers pay wages more than twice the statewide private sector average." From 2000 to 2016 the average annual wage for Northern Virginia data centers more than doubled, from \$63,357 to \$138,345.

In 2016, 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.

But 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.

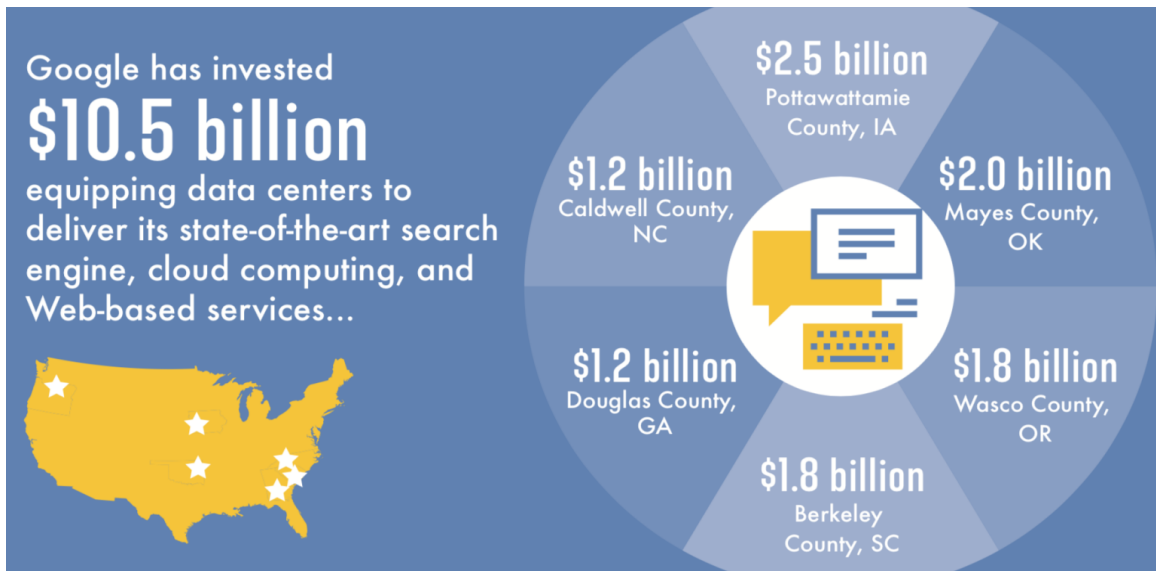
In 2016, the legislation was further updated and provided more certainty for data centers. These bills gained the signatures of Republican Gov. Bob McDonnell and Democratic Gov. Terry McAuliffe. All understood that data centers were the basic infrastructure for innovation, for the future, and for nurturing high-paying jobs. Virginia opened the door to billions of dollars of investments in the form of

⁴ Mangum Economics, *The Economic and Fiscal Contribution that Data Centers Make to Virginia* (Feb-2018), at <https://www.nvtc.org/news/getnewscontent.php?code=1269>

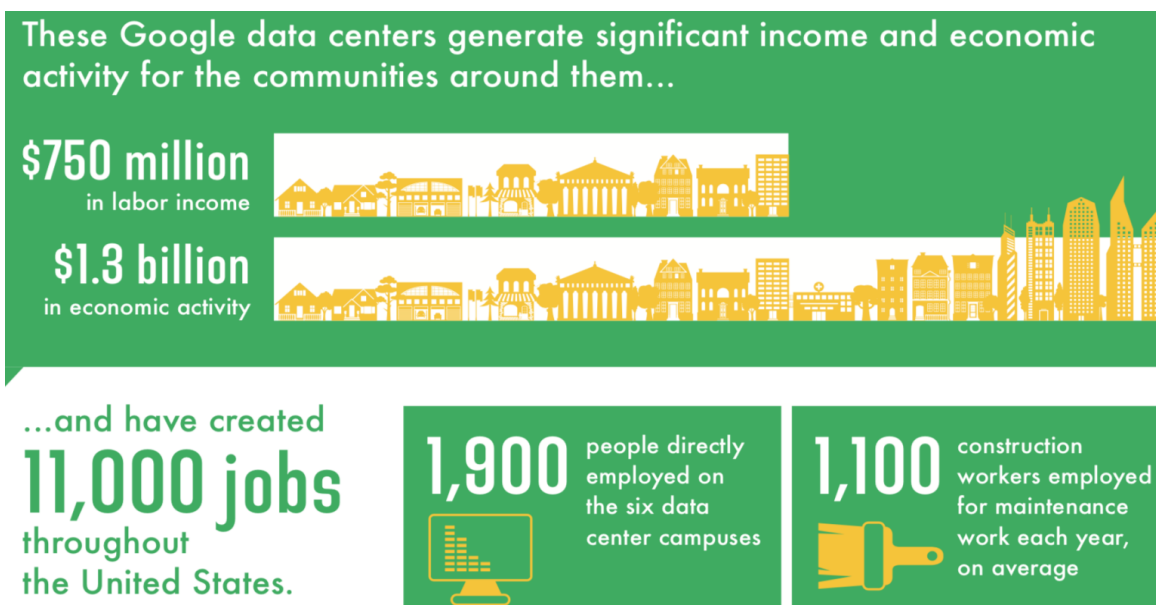
high-tech data processing and hosting centers, and Virginia remains the number one state for data centers—in the world. (see Annex 1 for Barbara Comstock’s Feb-2019 oped describing the full story).

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 recent 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 the Commonwealth of 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 five years, no enterprise data center has located in states that impose their full sales tax burdens on data center server 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

In 2018 alone, data centers generated more than \$250 million in local tax revenue for Loudoun county in Virginia — 85 percent of which comes from personal property taxes on data center equipment. That money supports local schools, law enforcement, and reduced tax increases on families and homeowners. Now these benefits are spreading to counties across Virginia.

For Pennsylvania, Econsult Solutions uses input-output analysis of SB 471 to determine that “Over \$110 million more in net tax revenues in FY 24, even after the tax exemption.”

This second table lists several incremental tax revenue opportunities from data center construction and operation—even after extending extend sales tax production exemptions:

Incremental tax revenue from data centers	Here	Not here
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
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

Idaho’s legislative services embraced this “Here vs Not here” analysis in the Fiscal Note for their data center tax bill earlier this year:

at least 17 other states offer the sales tax exemption for server equipment, and if Idaho does not offer an equivalent exemption, these businesses will very likely locate in states other than Idaho that do provide the exemption.

Accordingly, there is no loss of tax revenue from businesses that would not locate in Idaho without the exemption, and there is likely an increase in revenue from taxes related to the growth these businesses would promote.

States are competing to attract enterprise data centers

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

While Virginia made itself the largest and most active data center market in the nation, with 70 percent of the world’s internet traffic flowing through the state, it’s clear that the landscape for attracting and retaining data centers has changed. Unlike a decade ago when only five states had tax structures that were welcoming to data centers, today that number has grown to 30 and the competition is fierce.

Ohio’s Economic Development Agency approved 40 years of sales tax exemptions for \$2.5 billion in data center investments in just the last 2 years.

Indiana had no sales tax incentives – and no enterprise data centers – until this summer, when their House voted 95-1 and Senate voted 46-0 to allow 50 years of sales tax exemption for data center investments over \$750 million.

Conclusion

Pennsylvania's General Assembly should strongly consider SB 471 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, although the most succinct rationale for SB 471 is from Senator Hutchinson's memo:

“Similar to sales tax exemptions for other industries in the state such as dairying, farming, manufacturing and mining, this incentivizes companies to locate their data centers in Pennsylvania, creating capital investment and high paying jobs as a result”

“It promotes economic growth; fosters Pennsylvania's workforce development through the creation of high-paying, high-tech jobs in computer data centers and related industries. I urge you to support this sales tax exemption for data centers, an industry that represents the future for Pennsylvania.”

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

Richmond Times-Dispatch

Data centers keep Virginia a strong leader in the 21st-century tech economy



By Barbara Comstock – Published Feb 26, 2019

In 2011, Virginia lost out to North Carolina on the construction of a \$1 billion data center that Apple was planning. What tipped the balance in favor of the Tar Heel State was an ongoing commitment to update their tax structure to remain competitive in attracting this 21st-century booming business.

Up until that time, Virginia had been the leader in courting these next-generation businesses and jobs, and this wake-up call made it clear that we had to constantly update the commonwealth's business environment in an increasingly high-stakes competition for the jobs

and investments of the 21st century.

In 2012, I served in the Virginia General Assembly and introduced legislation to update our 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, Del. Tim Hugo, R-Fairfax, further updated the legislation and provided more certainty for growing data centers. These bills gained the signatures of Republican Gov. Bob McDonnell and Democratic Gov. Terry McAuliffe.

Working together, Virginia opened the door to billions of dollars of investments in the form of high-tech data processing and hosting centers, and we remain the No. 1 state for data centers. Google's recent 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 our commitment to creating an attractive technology business climate is delivering results and revenue. Data centers are the backbone of that commitment.

Not only do the high wages in the data center industry offer a large source of state income tax revenue for our state, but these centers also are a driving force in the development of renewable energy resources, new roads, and utility and internet upgrades.

Loudoun County Economic Development Executive Director Buddy Rizer is correct when he asserts that it is not an accident that these high-tech investments are being made in Virginia. Loudoun County is the No. 1 data center market in the world — by a factor of two to three times. Virginia has made a clear choice: to support high-tech data center investments that now attract some of the most advanced technology companies and Fortune 1000 enterprises engaged in the latest in technology.

As of February 2018, the Northern Virginia Technology Council reported that the data center industry had created more than 43,000 new jobs in Virginia, contributing \$3.2 billion in labor income and over \$10 billion in economic output. In 2016 alone, the high-tech industry made \$2.6 billion in capital investments in data centers, creating more than 4,600 new jobs.

In 2018, Loudoun County welcomed more than \$5 billion in investment, and the creation of nearly 1,000 new jobs; and this year alone, data centers will generate more than \$250 million in local tax revenue for the county — 85 percent of which will come from personal property taxes on data center equipment. That is money that goes to supporting the local schools, law enforcement, and has resulted in lowering personal property tax increases on families and homeowners. Now these benefits are spreading to counties across the commonwealth.

While Virginia has made itself the largest and most active data center market in the nation, with 70 percent of the world's internet traffic flowing through our state, make no mistake: The landscape for attracting and retaining data centers has changed. Unlike a decade ago when only five states had tax structures that were welcoming to data centers, today that number has grown to 30 and the competition is fierce.

It is true that Virginia has been a leader in data centers in the past, but we have to stay vigilant to ensure our policies remain strongly competitive to retain this growing industry. Leaders in Richmond, on both sides of the aisle, are to be commended for understanding that data centers are a tremendous opportunity for the entire commonwealth and for their own communities, and that the strong bipartisan policy of Virginia has allowed us to be a technology front-runner, with the workforce to support the economy of the future.

Barbara Comstock is a former U.S. representative from Virginia's 10th District; she also served from 2010–14 in the Virginia House of Delegates, where she was chairwoman of the Science and Technology Committee. She is an adviser to NetChoice, and may be contacted at Barbara@comstockstrategy.com.