



Testimony for the Expansion of the Sales and Use Tax for Data Centers

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Economic Development Council**

**Representing the Pennsylvania Economic Development Association (PEDA) as Treasurer and
Incoming President**

Distinguished Members of the Senate Community, Economic, and Recreational Development Committee, my name is Michael Grigalonis, Chief Operating Officer and Executive Vice President for the Chester County Economic Development Council. I have served in this capacity for 15 years and have been with the Economic Development Council for a total of 20 years. I also serve as the lead for the Southeastern Pennsylvania PREP Partners and the Southeastern PA Engage Program – two regional, collaborative programs funded by the PA Department of Community and Economic Development (DCED). However, I'm here this morning in my role as Treasurer and Incoming President of the Pennsylvania Economic Development Association (PEDA).

PEDA is the statewide association of local, state, private and non-profit economic development professionals.

PEDA's mission is to promote sound economic development policies, to provide leading-edge economic development education and to nurture an effective statewide economic development network that fosters the economic growth of the Commonwealth.

PEDA's membership is comprised of approximately 300 economic development professionals representing the various economic development delivery systems that exist in the Commonwealth. This membership includes Economic Development Corporations (EDCs), Local Development Districts (LDDs), Small Business Development Centers (SBDCs), Ben Franklin Technology Partners (BFTP) and Industrial Resource Centers (IRCs). It also includes county and regional economic developers, state government economic development employees, workforce development professionals, utility and transportation executives, industrial

development authority directors, operators of industrial and technology incubators, chamber of commerce executives, municipal directors of community and economic development, engineering and construction executives, economic development finance professionals, commercial and industrial developers and local, county and state elected officials.

With that as introduction, let me begin my formal comments by thanking you for conducting this hearing and for allowing us an opportunity to communicate why we strongly support the expansion of the sales and use tax exemptions for data centers. We've watched as other states have enjoyed tremendous success and are excited that similar programs are being considered for Pennsylvania.

In the spring of 2019, PEDDA voted to formally voice its support of the expansion of the sales and use tax exemption. At PEDDA, we have a stringent process for determining what bills, policies and legislation we will support. The Advocacy Committee fully vets the issues that are presented by PEDDA members throughout the Commonwealth. If the Advocacy Committee votes to recommend that we be supportive, the recommendation must then be approved by the Executive Committee and, finally, the full Board of Directors. If an issue makes it through our process and we want to take action, our support typically comes in the form of a letter to the appropriate leaders in Harrisburg. In rare cases, our support is bolstered with testimony as we are doing this morning. So, given this stringent process, my presence here this morning begs the question of why PEDDA has chosen to support this effort so aggressively.

Please allow me to share my perspective on why PEDDA has chosen to be so active with this effort.

Sales and Use Tax Exemptions are Proven to Work

My colleague, Steve Wray, just provided some convincing analysis regarding the potential economic impact of data centers. I won't repeat the numbers, but do want to emphasize that our enthusiasm for the potential impact of this sales tax exemption is based on more than just economic equations and modeling. There are many examples of states that have adopted similar policies and legislation and experienced tremendous success. The best example, and the example closest to PA, geographically, is Virginia:

- In Virginia, data centers were responsible for supporting 43,000 direct and indirect jobs and \$3.2 billion in labor income during 2016.
- Since 2009, statewide capital investment by data centers in Virginia has averaged \$1.6 billion, **annually**.
- Data center jobs in Virginia pay 2x the average of private sector weekly wages.

PA has an Opportunity to be a Leader in the Mid-Atlantic.

The data center industry is huge and growing. In 2018, Microsoft, Alphabet, Amazon and Facebook invested a combined \$40 billion in data centers. Similarly, at the start of 2019, Google announced that it planned to invest \$13 billion in data centers. Investment in data centers will continue to grow and, unfortunately, Pennsylvania is currently at a significant disadvantage in its ability to compete for these projects. Nearly 30 states already have strategies and legislation in place to attract data centers.

Fortunately, there is a silver lining and an opportunity. Of the nearly 30 states that have legislation designed to attract data centers, none are in the mid-Atlantic. The nearest state with a sales and use tax exemption in place is Virginia. PA has the opportunity to position itself as technology leader in the mid-Atlantic.

Data Centers offer an Opportunity for all Communities in Pennsylvania

Often times, economic development programs and incentives are limited in scope. Maybe they'll impact ports, shale regions, urban areas, rural areas, brownfield sites, etc., but data centers can be located virtually anywhere in Pennsylvania. As evidence, consider these locations for 4 of Google's data centers:

- Midlothian, Texas (pop. 25,000)
- Berkeley County, South Carolina (rural County north of Charleston)
- Council Bluffs, Iowa (pop 62,000)
- Lenoir, North Carolina (pop 18,000)

Or how about the locations of these 2 Facebook data centers?

- Prineville, Oregon (pop. 10,000) - largest data center in the U.S.
- Forest City, North Carolina (pop. 7,200)

Or the NSA, which has a massive data center in Bluffdale, Utah (pop. 8,000)?

An expansion of the sales and use tax exemption will allow economic development leaders across PA to compete in this exploding marketplace.

Data Centers are the Infrastructure of the Digital Economy.

As economic developers, we often talk about the importance of infrastructure. Whether that be roads, water, sewer, trails or broadband, you can not drive economic growth without adequate

infrastructure. Data centers are the infrastructure for the digital economy and, currently in Pennsylvania, our infrastructure is inferior. A sales and use tax exemption will allow us to bolster our technology infrastructure so we can compete on a national and global level.

Pennsylvania Must Send a Strong Signal that it is Aggressively Trying to Improve its Position in the Innovation Economy.

PA's innovation economy is declining and, at best, middle of the pack. This fact is well documented in a recent report by the Brookings Institution. Our struggling innovation economy is also evidenced by the following:

- Brookings ranks PA 24th in tech-focused industries with a STEM workforce.
- The Kaufman Foundation ranks PA 19th in Growth Entrepreneurship and 23rd in start-up activity.
- PA ranks 36th in overall employment growth.
- George Mason University ranks PA 35th in overall fiscal condition.
- PA ranks 33rd in new business creation.
- PA ranks 42nd in employment change in high tech sectors.
- PA ranks 28th in terms of the percentage of residents who have broadband at home.

We are also middling in areas like Venture Capital investment and patents filed.

Our innovation economy needs a jolt. An expansion of the sales and use tax exemption, alone, is not a cure all of our ills, however, it will send a strong signal to residents, competing states, tech entrepreneurs, business leaders, site selectors and more that PA is serious about changing perceptions of a rust-belt state, is serious about reversing the trends and is serious about becoming a leader in the Innovation Economy.

Thank you very much for your time and for your interest in this important issue.