

Testimony before the Senate Economic Development Committee
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Demand for data centers – the facilities that house the computers and equipment that power the information needs of the modern economy – is exploding as data needs and use grow. States are competing to attract data centers to their jurisdictions, using tax incentives to entice data center operators. Pennsylvania should be a strong location for data centers. PA has large data users – large business and university research communities; proximity to major business and government centers; low electricity costs; temperate weather; and a strong workforce fueled by our colleges and universities.

But Pennsylvania is falling behind. Since 2008, 25 states have created new tax incentives to attract data center investment. Most offer some form of sales and use tax exemption for computer equipment and technology. Pennsylvania’s current exemption is a rebate capped at \$5 million per year, as compared to unlimited in leaders like Virginia. Incentives have been cited as a driving factor in recent data center location decisions. Since 2008, PA’s share of data center industry employment has shrunk from 3.8 percent to 2.8 percent.

Current and Proposed Incentives for PA

Under existing law – Act 84 of 2016 – PA provides a limited sales tax refund for computer data center equipment. Eligibility requires a minimum payroll of \$1 million per year or, within first 4 years of certification, capital investments of \$25 to \$50 million (depending on county size), with a cap of \$5 million allocated pro-rated for eligible applicants.

Under the proposed legislation – SB 471 / HB 1088 – there would be a standard exemption for computer data center equipment for eligible centers and their tenants. Eligibility for the exemption requires a minimum payroll of \$1 million per year, and within first 4 years of certification, capital investments of \$35 to \$60 million (depending on county size). There would be no cap on the exemption, so exemptions would be applied through a standard exemption certificate.

The Bottom Line: Direct, Indirect, and Induced Impacts

ESI modeled two scenarios: A Status Quo Growth Scenario, which assumes PA grows at same rate as projected US industry growth; and a New Exemption Growth Scenario, which assumes PA employment grows at 16 percent annual rate (based on revenue growth implied by PA Dept. of Revenue in fiscal note

for SB 471). The New Exemption Growth Scenario also assumes 4 million square feet of new data centers built by 2024, based on the same growth rate.

Economic Impact of Different Operation Scenarios

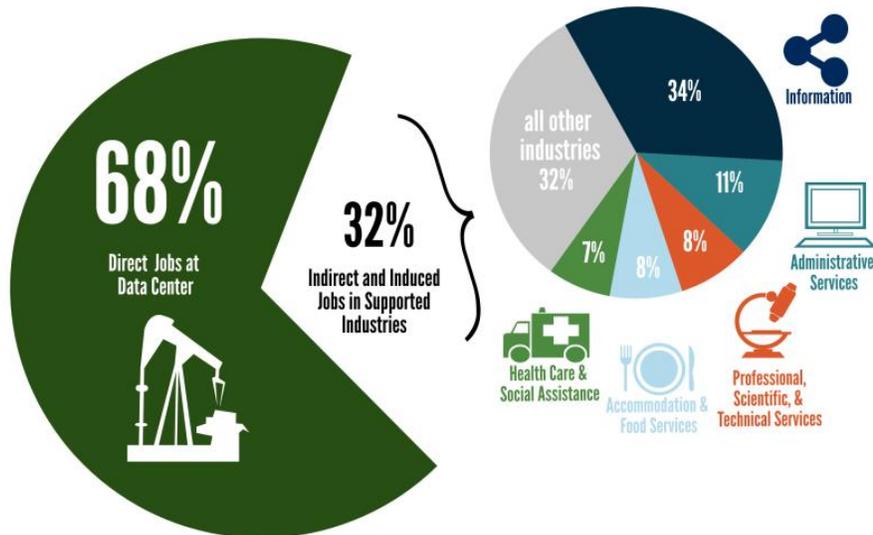
Impact of Operations	Existing Operations, 2019	Scenario 1: New Exemption Growth Scenario, 2024	Scenario 2: Status Quo Growth Scenario, 2024
Direct Output (\$M)	\$2,713	\$5,856	\$2,887
Indirect and Induced Output (\$M)	\$3,126	\$6,747	\$3,326
Total Output (\$M)	\$5,839	\$12,603	\$6,213
Annual Employment Supported	30,000	65,000	32,072
Employee Compensation (\$M)	\$1,913	\$4,128	\$2,035

Source: IMPLAN (2015)

By 2024, under the New Exemption Growth Scenario as compared to the Status Quo Growth Scenario, PA would gain:

- Over 33,000 more total jobs, including 10,000 more jobs in the sector
- Over \$6 billion more in total output
- Over \$2 billion more in total wages
- Over \$110 million more in net tax revenues in FY 24, even after the tax exemption

Employment Impact of Data Center Operations; Direct, Indirect and Induced



Senate Economic Development Committee

Given these estimates, even a much smaller growth rate of the industry or construction of new centers would result in a net positive revenue position for the state, along with employment and spending growth.

Additional Impacts

In addition to the significant economic impact, the expansion of data centers in PA will have additional community and economic impacts, including:

- Diversification of local economies
- Investments in human capital
- Improvements to the electric grid
- Innovations in energy efficiency
- Increased broadband access
- Increased county, municipal, and school district property taxes

