



**Testimony on Technology Infrastructure Reliability
Senate Community, Economic & Recreational Dev**

TUESDAY - 4/13/21

1:00 p.m., 1500 Spring Garden Street, Philadelphia

**Michael Grigalonis, Chief Operating Officer and Executive Vice President, Chester County
Economic Development Council**

Representing the Pennsylvania Economic Development Association (PEDA) as President

Chairman Yudichak, Chairwoman Cappelletti and distinguished Members of the Senate Economic Development Committee, thank you for conducting this important hearing on economic development and technology infrastructure reliability.

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 16 years and have been with the Economic Development Council for 21 years in total. 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.

However, I am here this morning in my role as President of the Pennsylvania Economic Development Association (PEDA) and am joined by our Government Affairs Consultant, Alex Rahn of Wanner Associates.

Background on 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 not only CEDO's but also over 300 individual 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, 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.

While not directly related to the topic of this hearing, I still want to take the opportunity to thank you for your support of Senate Bill 109. As you know, this was the first Act of 2021 and included the COVID Hospitality Industry Recovery Program (CHIRP), which is administered by Certified Economic Development Organizations (CEDOs) such as mine.

CHIRP is an excellent step toward economic recovery and with the long-term viability of the Commonwealth's small business community hanging in the balance, a continued focus on economic development recovery is critical. In fact, PEDDA contends that economic development, as a component of the recovery, should come second only to healthcare practices to counter the COVID-19 pandemic.

PEDDA's Legislative Priorities

The material I provided today includes PEDDA's 2021-2022 Legislative Session Priorities. As you can see, many of our priorities relate back to technology infrastructure reliability including the allocation of funds, whether they be state or federal, to offset the economic damage created by COVID-19.

A strong, bold and meaningful state stimulus package that includes a focus on technology infrastructure reliability is essential to drive the Commonwealth's economy to rebound from the unprecedented challenges of COVID-19. The new programs and strategies we develop as a Commonwealth must be innovative and forward looking. We must look at economic trends and opportunities in a post-COVID world. And, while we should always embrace our heritage industries like manufacturing, agriculture and mining, we must aggressively pursue emerging industries like enterprise data centers.

Our advocacy priorities generally endorse efforts to promote legislation and policies that prioritize and advance economic development. To be clear, PEDDA strongly supports the expansion of the sales and use tax exemptions for data centers and believe this an absolutely essential component of any recovery strategy.

Senate Bill 463

There are a few important points to be made regarding this Senate Bill.

The Bill allows for sales tax exemption on the purchase of computer data center equipment. This exemption would essentially mirror what is currently in place for the manufacturing, agriculture, and mining industries. While we certainly should recognize and support those heritage industries, they are mature industries and have nowhere near the growth potential of computer data centers.

It is also important to point out that the sales tax exemption would only be available if certain investment thresholds are met. And, those thresholds are significant. For Counties with a population under 250,000, the investment must be at least \$75 million. For Counties with a population over 250,000, the investment must be at least \$100 million. Those investments must also generate wages of at least \$1 million. As someone who has been in economic development for 20+ years, I can tell you any project that meets those investment thresholds is significant, rare and would have a massive impact on any community in Pennsylvania.

Why is this Sales Tax Exemption so Important?

- Job creation – both permanent and construction jobs
- Tax ratables for local community and Commonwealth
- Magnet to attract other tech companies
- Needed to remain competitive with neighboring states
- Critical to improve our technology infrastructure
- Signal Pennsylvania's commitment to improving our innovation economy

Sales Tax Exemption and Enterprise Data Centers

We have watched as other states, many of them our neighbors, have enjoyed tremendous success with sales tax exemptions. The fact of the matter is that we are currently at a severe disadvantage when competing against states like Ohio, Virginia, and New York. The reality is that we are not even in the game. In the past 7 years, there have been ZERO data centers that have invested in a state that did not have sales tax exemption of some form. We can no longer afford to sit this game out. We can't develop a Comprehensive COVID recovery strategy that does not allow us economic developers to compete for these game-changing data center projects.

Sales and use tax exemptions are proven, time and time again, to work. 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 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, annually, has been an average of \$1.6 billion.
- Data center jobs in Virginia pay 2x the average of private sector weekly wages.

I testified before this committee two years ago and said that Pennsylvania had an opportunity to be a leader in the Mid-Atlantic. Unfortunately, I think we missed that opportunity. New York, Ohio and Maryland are clearly ahead of us in this industry and we need to pass this legislation just to keep pace.

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. Reliance on cloud computing and the technology infrastructure required to support it has only become more important since the onset of the pandemic. Unquestionably, 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. About half of the 50 states already have strategies and legislation in place to attract data centers.

Data Centers Provide Opportunity for all Communities in PA

Data centers offer an opportunity for all communities in Pennsylvania – Often times, economic development programs and incentives are limited in scope. Maybe they will impact ports, shale regions, urban areas, rural areas, brownfield sites.....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 who has a massive data center in Bluffdale, Utah (pop. 8,000)

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

Data Centers as Infrastructure

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 cannot 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.

Even before the COVID Pandemic, Pennsylvania's innovation economy was declining and stagnant. A sales and use tax exemption for data centers will send a strong signal that the Commonwealth is aggressively trying to improve its position in the Innovation Economy. This fact is well documented in a recent report by the Brookings Institution. Our struggling innovation economic 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 conducted a study that shows PA is 35th in overall fiscal condition.
- PA ranks 33rd in new business creation.
- PA is 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 won't 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.

Conclusion

The members of PEDA are here to help with this and other efforts. We are every legislative district, county and community within Pennsylvania and have the experience and expertise required to help our economy recover from COVID-19. The professionals who comprise PEDA's membership live and work in your districts, counties and communities.

Thank you again for taking time to focus on this important topic and look forward to not only your questions, but also continued focus by your Committee on the importance of economic development and our technology infrastructure.

DRAFT