NetChoice

Steve DelBianco
President, NetChoice

Barbara Comstock
Former Congresswoman,
Advisor to NetChoice

Testimony for

Michigan House of Representatives
Commerce and Tourism Committee

HB 5127 and HB 5128
regarding
Sales & Use Tax on Equipment for Enterprise Data Centers

October 24, 2019

Chairman Marino and members of the committee, NetChoice is a trade association of businesses who share the goal of making the internet safe for free enterprise and for free expression.[1] 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 hearing on HB 5127 and HB 5128, regarding sales & use tax on equipment for enterprise data centers.

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 enterprises 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.

Enterprise data centers are essential production equipment to deliver these services, so our members are eager to have Michigan realize that data centers deserve the same sales tax exemption it has 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, while 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 heard Ohio trumpet its data center wins and benefits to the state economy and treasury.

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*"

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 and diversifying the economy.

A study by Mangum Economics[3] 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 DelBianco 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 showed Virginia had to 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 resulted in near unanimous passage.

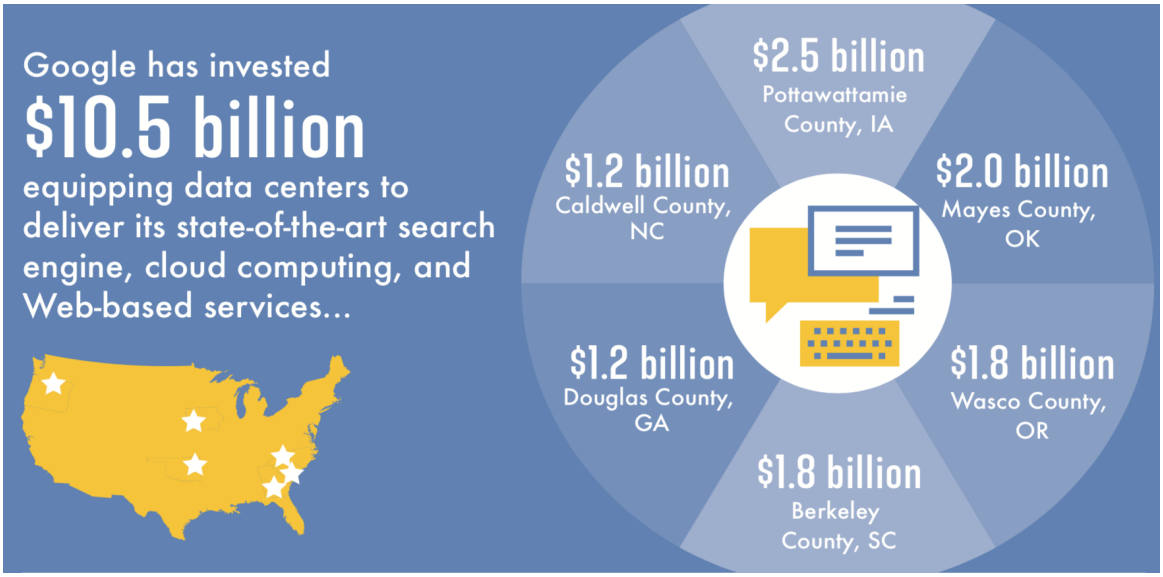
In 2016, the legislation was further updated and provided long-term certainty for data centers. These bills gained the signatures of Republican Gov. Bob McDonnell and Democratic Gov. Terry McAuliffe. All understood that data centers were the basic infrastructure for innovation, for the future, and for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

[3] 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

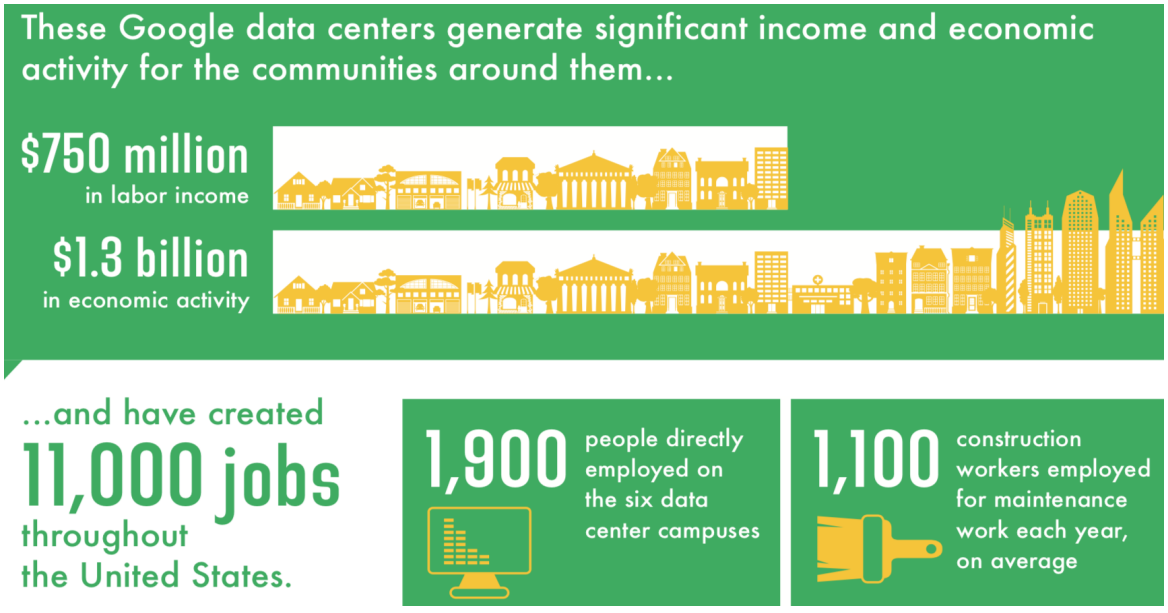
high-tech data processing and hosting centers, and Virginia remains the number one state for data centers—in the world. (see Annex for Barbara Comstock's Feb-2019 op-ed describing the full story).

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 – just through 2016.



Google's recent announcement that it will double its data center and office footprint in Virginia, showing there is continued growth in demand for enterprise data center capacity. It also shows that Virginia's commitment to creating an attractive technology business climate is delivering economic benefits *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 Michigan 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 enterprise data centers. This analysis recognizes the reality that over the last five years, *no large-scale enterprise data center has located in a state that imposes its full sales tax burden on data center equipment*.

Now is the time for Michigan to pursue these prized targets for economic development, especially for rural areas of the state. HB 5127 and HB 5128 extend Michigan's sales tax exemption only to enterprise data centers making new investments over $250 million and creating at least 30 jobs at wages exceeding 120% of the county average.

Moreover, the decision to extend sales tax production exemptions to enterprise data centers would create significant incremental tax revenue. The first table lists several economic benefits that accrue if Michigan 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

Experience in Virginia validates the **Here vs Not Here** approach. In 2018 alone, data centers generated more than $250 million in local tax revenue for Loudoun county— 85 percent of which came 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.

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
Education Property Tax & Personal Property Tax	+	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 data center market in the world, with 70 percent of global 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 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.
>
> Illinois just enacted a 20-year sales tax exemption for data centers with $250 million of investment and 20 jobs at 120% of median county wage.
>
> Pennsylvania is now considering legislation for permanent sales tax exemption for data centers investing over $60 million and with annual payrolls of $1 million.

Conclusion

Michigan's Legislature should embrace HB 5127 and HB 5128 so that the state can compete for hyperscale enterprise data centers – none of which have yet to locate here.

We hope that our experience and results in Virginia are instructive to Michigan, and we look forward to your questions.

Annex 1:

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.