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SB 397 – Sales and Use Tax and Personal Property Tax – Exemptions – Data Centers

To provide an exemption from the sales and use tax for sales of qualified data center personal property for use at qualified data centers.

Senate Budget & Taxation Committee

Scheduled for hearing on 12 February 2020

Favorable

Potomac Edison, a subsidiary of FirstEnergy Corp., serves about 270,000 customers in all or parts of seven Maryland counties (Allegany, Carroll, Frederick, Garrett, Howard, Montgomery and Washington Counties). FirstEnergy is dedicated to safety, reliability and operational excellence. Its ten electric distribution companies form one of the nation's largest investor-owned electric systems, serving customers in Ohio, Pennsylvania, New Jersey, West Virginia, Maryland and New York.

FirstEnergy requests a Favorable report on SB 397 for the following reasons.

Senate Bill (“SB”) 397 proposes an exemption of the sales and use tax for qualified data center personal property – including computer equipment, software, HVAC and mechanical systems, and equipment necessary for the generation, transformation, transmission, distribution, or management of electricity. Counties designated as Tier 1 (currently including Garrett, Allegany and Washington) could offer these exemptions at lower capital investment thresholds. (Tier 1 counties have the highest sustained unemployment rates when compared to state averages.) This legislation would enable Maryland to be competitive with the other states in the mid-Atlantic that already have incentives for data center operations. Further, data center’s consume high levels of electricity (often dual fed for reliability), and Potomac Edison’s transmission and sub-transmission system is well-suited to accommodate this targeted industry that generates high paying jobs and millions of dollars in personal income and capital investment.

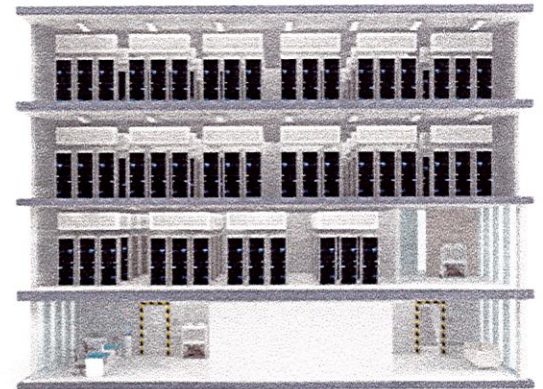
For these reasons, FirstEnergy respectfully requests a **favorable report** on SB 397.

Data Centers:

An Economic Opportunity for Maryland

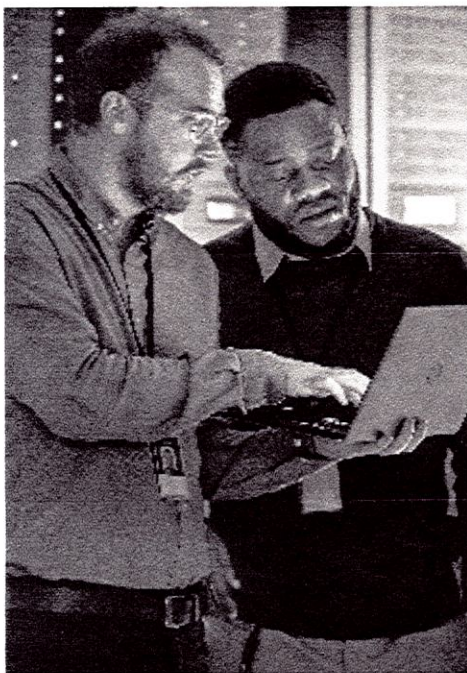
What are data centers?

Data centers are secure facilities that house computer and network equipment that store, process and distribute large amounts of data. **Data centers are considered the foundation of today's booming digital economy and rapidly growing technology sector.** For example, drones and sensors used by farmers to monitor their crops and soil are powered by data centers, as are gene therapies for diseases like cancer.



How do data centers impact the economy?

The economic impact—both direct and indirect—of data centers is substantial. During construction, a typical data center:



- Employs roughly **1,700** workers
- Provides **\$77.7 million** in annual wages for those workers
- Injects **\$243.5 million** into the local economy
- Generates **\$9.9 million** in revenue for state and local governments

Every year thereafter, the same data center:

- Supports roughly **160 local jobs**
- Pays **\$7.8 million** in annual wages
- Injects **\$32.5 million** into the local economy
- Generates **\$1.1 million** in state and local revenue*

In addition, local taxes paid by data centers support schools, law enforcement and local public infrastructure, including the expansion of broadband.

*Tim Day and Nam D. Pham. "Data Centers: Jobs and Opportunities in Communities Nationwide," U.S. Chamber of Commerce Technology Engagement Center, 2017. https://www.uschamber.com/sites/default/files/ctec_datacenterppt_lowres.pdf

How many states provide tax incentives to data centers, and what impact is it having?

Today, 35 states provide data centers with sales-and-use tax exemptions for the purchases of required equipment. ***In fact, in 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.***¹

Our neighbors in Virginia have benefited significantly from the positive tax treatment of qualified data centers. According to a 2019 report from Virginia's Joint Legislative Audit and Review Commission, data center employment and investment have increased as data center incentives have expanded in the state. The same report asserts that each \$1 million of incentive generated 155 jobs, \$26.5 million in state GDP and \$14.6 million in personal income. ***In addition, each dollar of sales tax exemption returned 72 cents to the state—not accounting for the impact to local tax revenue.***²

According to a recent report prepared by Mangum Economics:

- Over the last five years, data centers in VA have experienced employment and wage growth that's four times the statewide, private-sector average.
- Data centers generate significant local tax revenue. In two VA counties, for example, every dollar spent in county expenditures related to the industry brought in more than \$8 in tax revenue.³

However, Virginia is running out of space and companies are looking to its neighbors to determine where to expand. ***Maryland must provide tax incentives to data centers in order to distinguish itself from its neighbors and attract data center business to the state.***

What does Maryland Senate Bill 397 do?

SB 397 provides a sales-and-use tax exemption for the sale of qualified computer technology—including computer equipment, software, servers, routers, connections and other enabling hardware, etc.—for use at a qualified data center.

An individual or corporation is eligible for the exemption if they:

- Invest at least \$2 million in improvements or new construction and create 5 jobs in a Tier 1 county
- Invest at least \$5 million in improvements or new construction and create 10 jobs in all other jurisdictions

SB 397 would level the playing field and attract data center business to Maryland and support the state as a leader in innovation and investment in cyber and information technology.

¹ NetChoice, www.netchoice.org

² "Data Center and Manufacturing Incentives: Economic Development Incentives Evaluation Series," Report to the Governor and the General Assembly of Virginia, Joint Legislative Audit and Review Commission, June 17, 2019, <http://jlarc.virginia.gov/pdfs/reports/Rpt518.pdf>

³ "The Economic and Fiscal Contribution that Data Centers Make to Virginia 2018," Mangum Economics, February 5, 2018, <https://www.mangumeconomics.com/news?offset=1525456928771>