



Larry Hogan | Governor
Boyd Rutherford | Lt. Governor
Kelly M. Schulz | Secretary of Commerce

DATE: February 12, 2020 **COMMITTEE:** Senate Budget & Taxation
BILL NO: Senate Bill 397
BILL TITLE: Sales and Use Tax and Personal Property Tax – Exemptions – Data Centers
POSITION: Support

The Maryland Department of Commerce (Commerce) supports Senate Bill 397 – Sales and Use and Personal Property Tax – Exemptions – Data Centers.

Bill Summary:

Senate Bill 397 creates tax incentives for a data center to invest in a facility in the State. The primary incentive is an exemption of the Sales & Use Tax for purchases of equipment for data center. The exemption lasts for a period of ten years. To receive the exemption, applicants must create at least five new jobs and invest at least \$5 million in qualified equipment (\$2 million if the project is in a Tier 1 county or an Opportunity Zone). The tax exemption is administered by the Department of Commerce.

A second feature of the bill authorizes counties and municipalities to reduce or eliminate qualified data center equipment from the Business Personal Property Tax. Many counties have this tax, although some do not.

Background:

There are generally two types of stand-alone data center operations. The first includes a facility operated by a corporate entity to host their own data. A Maryland example of this is T. Rowe Price’s data center located in Washington County. The second is a facility operated by a third party to host others’ data. Examples of these include Byte Grid’s Silver Spring center, and Amazon Web Services’ (AWS) cloud hosting centers in Northern Virginia. Employment and capital expenditure vary across both of these types of data centers, but the most sought after are those such as AWS, which are most often, configured as multi-building campuses. As an example, a recent business attraction opportunity required about 50 acres upon which the operator would build 3-5 buildings, each consisting of 35-40 employees with average salary of \$80,000. Capital costs were approximately \$200 million, with nearly 75% of that being servers, cooling systems and energy management.

Data Centers are significantly impacted by sales and use taxes not only at time of initial construction, but also when the computing technology needs to be updated. These updates happen rapidly and are costly. Equipment is purchased and replaced multiple times during the lifecycle of the facility. Computing equipment is replaced every 2-5 years. For example, a data center may replace \$20 million in equipment every 24 months.

Rationale:

Commerce supports Senate Bill 397 to make Maryland competitive in attracting a significant portion of the Data Center industry. An example of this is Google's announcement last year that they will be investing a total of \$13B in new data centers or the expansion of existing data centers in seven states. All seven states, Nebraska, Nevada, Ohio, Texas, Oklahoma, South Carolina, and Virginia offer industry specific tax incentives, of which several offer a sales tax exemption on equipment. Many companies will not consider a region without a sales tax exemption. Jurisdictions exempting the business personal property from taxation are also attractive locations.

Data centers represent extremely large investments for businesses. Many states now offer tax incentives specifically tailored to data centers in order to compete for projects. Incentives in other states typically include an exemption of the state Sales & Use Tax. Eligibility requirements include job creation, capital investment and above-average wage rates.

Data centers are increasingly seen as a positive form of infrastructure that help support other forms of business investment. Businesses seeking fast connections to data centers consider proximity to data centers as a positive attribute when considering where to locate.

Maryland can be attractive for "secondary" data centers. With the world's largest concentration of data centers in Northern Virginia, Maryland's proximity to "primary" data centers in Virginia is a selling point for locating a secondary data center. The secondary data center provides the primary data center with advantages of redundancy and scale.

A report from the US Chamber of Commerce shows a large data center (30 MW plus of energy usage) can add \$32.5 million in economic activity and an additional \$9.9 million in revenue for both local and state governments during the construction phase. During construction, an average of over 1,600 local workers earn a total of \$77.7 million in wages. Current average annual salary for Maryland Data Centers is approximately \$105,000.

This bill provides a foundation for Maryland counties to build upon. Commerce looks forward to working with interested counties in attracting new businesses and jobs to the State.

Commerce respectfully requests a favorable report on Senate Bill 397.