



Maryland

Energy Administration

Larry Hogan, Governor
Boyd K. Rutherford, Lt. Governor
Mary Beth Tung, Director

TO: Economic Matters
FROM: Mary Beth Tung – Director, MEA
SUBJECT: SB0397 – Sales and Use Tax and Personal Property Tax – Exemptions – Data Center
DATE: February 5, 2020
CONTENTS: Written Testimony in Support of

MEA Position: FAVORABLE

Explanation

Senate Bill 397 will provide an exemption from the sales and use tax for certain sales of certain qualified data center personal property for use at certain qualified data centers under certain circumstances; requiring an individual or corporation to apply to the Maryland Department of Commerce for an exemption certificate for the exemption; authorizing the governing body of a county or municipal corporation to reduce or eliminate the assessment of certain personal property used in certain qualified data centers.

Justification

MEA's Data Center Program is now in its fourth iteration since its inception in 2017. Through the first two years of the program MEA has created 4,304 jobs hours since 2017. That is about 2 Full Time Equivalent Employees. MEA is still awaiting final numbers for the 2019 program and the 2020 program is now in the application review phase. The 2020 Data Center Program Received 6 applications totaling over \$1.7 million in program ask. The 2020 Data Center Program has up to \$500,000 in program budget for FY2020. This shows a healthy demand for Data Centers in Maryland.

MEA supports the proposed legislation's exemption of sales and use tax for certain qualified data center personal property for use at certain qualified data centers. Maryland has been lagging behind neighboring states and commonwealths in attracting and developing new data centers. One reason for this has been energy costs, MEA has been actively working to address this issue and offer solutions. As such, MEA has issued grant awards to ten data centers to implement energy efficiency measures to offset higher energy costs here in Maryland. Unlike traditional industries, data centers tend to scale often and rapidly. This means equipment is purchased and replaced

multiple times during the lifecycle of the facility with computer equipment often being replaced every 18-36 months. For example, a large scale data center may need to replace \$10 million in equipment every two years, resulting in a \$600,000 sales and use tax burden.

Because of this, thirty-five other states have already enacted exemptions and abatements like the ones in this bill to attract and retain higher paying data center jobs and related economic activity. Data center construction typically employs roughly 1,700 workers, with \$77.7 million in annual wages for the workers. Data Centers can inject \$243.5 million into the local economies and generate \$9.9 million in revenue for state and local governments. Each year afterward they can support 160 local jobs, pay \$7.5 million in annual wages, inject \$32.5 million into the local economy, and generate \$1.1 million in state and local revenue.

According to a 2019 report from Virginia's Joint Legislative Audit and Review commission, data center employment has increased as data center incentives have expanded in the state. The same report asserts that each \$1,000,000 of incentives have generated 155 jobs, \$26.5 million in state GDP and \$14.6 million in personal income.

For these reasons, MEA requests you to give Senate Bill 397 a favorable report without amendments