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Committee: Ways and Means

Testimony on: HB 905 “Sales and Use Tax Exemption – Qualified Data Center Personal Property – Eligibility”

Position: Support

Hearing Date: February 29, 2024

The Maryland Chapter of the Sierra Club supports HB 905, “Sales and Use Tax Exemption – Qualified Data Center Personal Property – Eligibility.” The Act would alter the definition of a “qualified data center” for eligibility for an exemption from the sales and use tax for certain qualified data centers. To be eligible, data centers would be required to install battery energy storage including the equivalent of at least 5% of the backup power generation capacity required by a data center; incorporate clean energy through on-site solar energy generation and the purchase of wind-based generators or solar renewable energy credits; employ registered apprentices to perform at least 12.5% of total work hours; and pay certain prevailing wages.

Sierra Club recognizes that the growing data center industry provides an opportunity for economic growth in Maryland, and welcomes a conversation on the appropriate regulatory design to facilitate sustainable development. However, it is critical to recognize and respond to the potential significant adverse climate, environmental, and health impacts of inadequately managed and unmitigated data center development.

Maryland should establish and affirm clear regulatory safeguards to manage the growth and impact of this rapidly growing industry. Maryland has the chance to get it right from the start, rather than playing catchup like neighboring Virginia, which is facing the prospect of skyrocketing electricity rates, new power plants, and significant public unrest. **HB 905 represents a first step in the right direction, especially with its focus on procurement of clean, renewable energy and provisions on prevailing wages.**

Clean Energy Generation. The magnitude of energy use by data centers will present a significant new hurdle to Maryland’s ability to meet its statutory mandates under the Climate Solutions Now Act—which requires a 60% reduction in greenhouse gas emissions by 2031 and net-zero carbon emissions by 2045¹—while also threatening Governor Moore’s ambition of ensuring that “Maryland generates 100% clean energy by 2035.”² The data center industry is rapidly growing and will drive unprecedented increases in electricity demand. While data centers currently use approximately 9.7 GW of power nationally, their demand for electricity is expected

¹ Md. S.B. 528 (2022).

² See Wes Moore for Maryland, *Maryland’s Climate, Our Economic Future*, <https://wesmoore.com/issues/climate/>.

Founded in 1892, the Sierra Club is America’s oldest and largest grassroots environmental organization. The Maryland Chapter has over 70,000 members and supporters, and the Sierra Club nationwide has over 800,000 members and nearly four million supporters.

to triple to 27 GW in the next few years.³ This increased energy demand will mean more climate pollution in Maryland and risks negating the state's greenhouse gas savings from our energy efficiency programs and renewable energy development. For example, in Virginia, Dominion Energy is seeking to build significant gas capacity in the near future to meet a 10 GW growth in projected energy demand, due to data centers, by 2035.⁴ Ensuring that data centers meet their electricity demand through net-new renewable energy generation is one way to mitigate these climate impacts.

HB 905 establishes ambitious but achievable renewable energy goals that ensure that data center growth contributes to in-state renewable energy generation. Specifically, qualified data centers must incorporate on-site solar energy generation "to the extent practicable" and ensure that at least 15% of their energy demand is met through additional renewable energy, either through a long-term contract with a Maryland offshore wind energy business or through the purchase of Maryland solar renewable energy credits. These provisions will help new data centers in Maryland mitigate their impact on overall energy demand and ensure that Maryland continues on a path to meet mandated State climate goals.

Prevailing Wage. HB 905 would require "all contractors and subcontractors hired for the construction or maintenance of the data center to pay the prevailing wage as determined by the Maryland Department of Labor." Sierra Club supports establishing this prevailing wage for large projects when companies are receiving financial support. The Sierra Club, nationally and in Maryland, is committed to the principles of equity, justice, and inclusion, and supports placing these principles at the center of environmental initiatives. These principles include respecting and supporting the rights of workers, their ability to have good jobs, earn a decent living, and enjoy occupational health and safety protections. It is critical that the economic growth opportunities of data centers in Maryland are shared with those who play an important role in the labor behind that growth.

HB 905 represents an important first step in establishing smart regulatory safeguards for the growing data center industry. The Maryland Chapter of the Sierra Club urges a favorable report.

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³ See Cushman & Wakefield, *Americas Data Center Update* (Oct. 2023), <https://cw-gbl-gws-prod.azureedge.net/-/media/cw/global/insights/2023/americas-oct-2023-data-center-update.pdf?rev=6999a6eb9c364977b49720739abaf564>.

⁴ Dominion Energy, *Economic Development*, <https://economicdevelopment.dominionenergy.com/va/key-industries/data-centers/>.