



TO: Ways and Means
FROM: Mary Beth Tung – Director, MEA
SUBJECT: HB1339 – Sales and Use Tax and Personal Property Tax – Exemptions – Data Center
DATE: March 6, 2020

MEA Position: FAVORABLE

Explanation

House Bill 1339 will provide an exemption from the sales and use tax for sales of data center equipment for use at qualified data centers that meet the requirements of the program. To qualify, data centers must apply to the Maryland Department of Commerce for an exemption certificate. The bill also authorizes a county or municipality to reduce or eliminate the assessment of personal property used in 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, the MEA program has helped create 4,304 jobs hours. 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 requests. The 2020 Data Center Program has a \$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. To assist, MEA has issued grant awards to eleven 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 House Bill 1339 a **favorable report** as submitted.