

January 31, 2022

Representative Sean Tarwater, Chair
House Committee on Commerce, Labor and Economic Development
Kansas House of Representatives

Re: Support for **SB 347, *The attracting powerful economic expansion act***

Chairman Tarwater and members of the committee:

NetChoice¹ is a trade association of America's leading online businesses. We engage in tech policy issues in the states, in Washington, and in international internet governance organizations.

We support SB 347 as amended by the Senate last week, but we to encourage you to amend the bill to allow data centers to qualify for the incentives – if they can reach the billion dollar investment threshold.

Data centers of NetChoice members like Amazon, eBay, Expedia, Facebook, Google and many others enable Americans to find information, create and connect, buy and sell, navigate their world, and maintain their memories in stored communications, docs, photos, and videos.

Moreover, data centers helped us cope with COVID lockdowns, as explained in this [2-minute video](#):



Now more than ever, Americans are depending on the Internet to be informed, stay connected, and get their work done.

Whether educating students, connecting with family, working from home, or participating in a virtual medical appointment, it's America's networks and data centers that enable all we're doing online today.²

Data centers are the essential production equipment to deliver these services, so our members are eager to see Kansas join other states trying to attract large enterprise data centers. ***However, over the last several years, no enterprise data center has located in states that impose sales tax burdens on data center equipment.***

Kansas should consider applying to data centers the same sales tax treatment for equipment needed for other capital-intensive industries like manufacturing and agriculture.

Moreover, data centers are recession-proof, with engineering, technician, electrical, and construction jobs at competitive salaries. Where our members have invested in enterprise data centers, they contribute significantly to local taxes and are strong supporters of education and broadband expansion.

¹ NetChoice is a trade association of leading e-Commerce and online businesses, at www.netchoice.org. The views expressed here do not necessarily represent the views of every NetChoice member company.

² Data Center video at <http://netchoice.org/datacenters>

Tech industry facilities and data centers are #1 in terms of capital investments in the US. In PPI's 2021 ranking of *Investment Heroes*, our tech industry invested \$99 billion – more than energy, telecom, pharma, or manufacturing.³

That tech investment trend will continue, with increasing American appetites for cloud storage of data related to multimedia, autonomous vehicles, genomics, AI, and other emerging industries.

2020 US Investment Heroes: Top Nonfinancial Companies by US Capital Expenditure (Millions)

1	Amazon	\$ 33,783
2	Verizon	\$ 16,103
3	AT&T	\$ 15,551
4	Alphabet (Google)	\$ 13,962
5	Intel	\$ 12,502
6	Facebook	\$ 11,761
7	Exxon Mobil	\$ 11,169
8	Microsoft	\$ 11,073
9	Duke Energy	\$ 9,907
10	Comcast	\$ 9,569

Pictured at right is Facebook's data center complex outside of Columbus, Ohio. The initial structure was 970,000 square feet and cost \$750 million, making it the largest commercial project in the city.



Construction brought \$244 million to the local supply chain and 1,200 construction workers earned \$78 million in wages.

Across the street, Google is building a \$600 million, 275,000 SF data center on 440 acres, setting the potential for future expansion

In the nearby states of Iowa and Nebraska, data centers have been major drivers of investment. Here is an excerpt from Mangum Economics' January 2022 draft report, **THE IMPACT OF DATA CENTERS ON THE IOWA ECONOMY:**

Iowa has developed a growing data center sector for the last several years, partially driven by the state's data center incentive programs. Iowa has two dozen data centers in the state, mostly in the Des Moines and Council Bluffs metropolitan areas. Google, Meta Platforms (formerly Facebook), and Microsoft all have extremely large data center campuses in Iowa. We estimate that there are 1,110 people working full time in data centers, and almost 2,400 construction workers building new data centers in the state. Major data center projects under construction in Iowa include:

- Apple's construction of a \$1.3 billion data center in Waukee.
- Meta Platforms' doubling of its current footprint in Iowa to make the Altoona campus the company's largest facility at five million square feet.
- Microsoft's doubling of its current footprint in Iowa with the addition of two new data center campuses in addition to the expansion of an existing project.

With the completion of these projects in the next few years, the amount of data center investment in Iowa will increase by more than 50 percent (roughly the equivalent of a 15 percent compound annual growth rate). For comparison, the rate of growth in Northern Virginia (the fastest growing data center

³ PPI Investment Heroes 2021, at <https://www.progressivepolicy.org/publication/investment-heroes-2021/>

market) between 2014 and 2021 has been about 25 percent. The growth in the Dallas-Fort Worth area (the second-fastest growing data center market) has been 10 percent.

Direct Economic Impact: We estimate that in 2021 the construction and operation of data centers in Iowa directly provided approximately:

\$934 million in economic output from construction and operations combined, including:
2,400 construction jobs,
\$167.2 million in associated construction pay and benefits,
1,110 full-time-equivalent onsite operations jobs inside data centers, and
\$96.3 million in associated data center operations pay and benefits.

Total Economic Impact: Taking into account the indirect economic ripple effects that the direct investment generated, we estimate that the total impact on Iowa from data centers in 2021 was:

\$3.5 billion in economic output, including:
14,400 jobs
\$970 million in associated employee pay and benefits
9.8 additional jobs supported by the data center in other non-construction businesses for each operational job inside the data center.

State and Local Tax Revenue: We estimate that in the last year, the indirect economic activity associated with data centers in Iowa led to:

\$107 million in tax revenue collected by the State of Iowa, and
\$113 million collected by local governments.

Here is an excerpt from Mangum Economics' January 2022 draft report, **THE IMPACT OF DATA CENTERS ON THE NEBRASKA ECONOMY:**

Nebraska has developed a growing data center sector for the last several years, partially driven by the state's data center incentive programs. Nebraska has over a dozen data centers in the state, mostly in the Omaha metropolitan area, with some smaller facilities in the Lincoln metropolitan area. The Meta Platforms' (formerly Facebook's) data center campus in Sarpy County is the largest in the state and one of the largest enterprise data center campuses in the country. We estimate that there are 490 people working full time in data centers, and almost 1,200 more construction workers building new data centers in the state. Major data center projects under construction in Nebraska include:

- Meta Platforms' completion of the six-building data center project announced in 2018.
- Meta Platforms' addition of 4 buildings to the campus that it announced in 2021.
- Google's completion of the new data center that it announced in 2019.

With the completion of these projects in the next few years, the amount of data center investment in Nebraska will almost double (the equivalent of a 24 percent compound annual growth rate). For comparison, that is roughly the same rate of growth as in Northern Virginia (between 2014 and 2021).

Direct Economic Impact: We estimate that in 2021 the construction and operation of data centers in Nebraska directly provided approximately:

\$410 million in economic output from construction and operations combined, including:
1,170 construction jobs,
\$65 million in associated construction pay and benefits,
490 full-time-equivalent onsite operations jobs inside data centers, and
\$50 million in associated data center operations pay and benefits.

Total Economic Impact: Taking into account the indirect economic ripple effects that the direct investment generated, we estimate the total impact on Nebraska from data centers in 2021 was:

\$1.4 billion in economic output, including:
5,700 jobs
\$393 million in associated employee pay and benefits
6.3 additional jobs supported by the data center in other non-construction businesses for each operational job inside the data center.

State and Local Tax Revenue: We estimate that in the last year, the indirect economic activity associated with data centers in Nebraska led to:

\$30 million in tax revenue collected by the State of Nebraska, and
\$31.1 million collected by local governments.

To help Kansas lawmakers appreciate what it takes to attract data centers, we'd like to share the perspectives of an economic development official and a lawmaker who helped Virginia become the world's leading location for data centers.

Virginia's journey to becoming the world leader for data centers

Most NetChoice members store data where Barbara and Steve live -- Northern Virginia, the world's #1 concentration of data centers. That's where these companies store your emails, documents, photos and videos of your cute kids and grandchildren. Those data centers provide millions in tax revenue and thousands of jobs and are the backbone of Virginia's tech economy.

A study by Mangum Economics⁴ counts these Virginia benefits attributable to data centers in 2018:

45,290 jobs

\$ 3.5 Billion in labor income

\$10.1 Billion in economic output

Mangum's 2020 Virginia study found that average annual wages in the data center industry doubled to just over \$126,000 between 2001 and 2018, growing "almost twice as fast as the average private sector employee in Virginia".

Moreover, these data centers generate significant tax revenue for local governments. In Loudoun and Prince William Counties, the benefit-to-cost ratio for data centers is more than 8-to-1. For every dollar spent by county governments related to data centers, they realized at least \$8 in new tax revenue.

It took a purposeful economic development approach to make this happen.

In the late 1990's, Governor Jim Gilmore appointed Steve to the board of Virginia's economic development agency (Virginia Economic Development Partnership). Virginia was keen to pursue economic development for a growing Internet industry that already had two important anchors in the State. America Online was based in Northern Virginia. And the Metro Area Exchange (MAE-East) handled half of American's internet traffic – in a parking garage in Tysons Corner, where Steve's software business was headquartered.

But it soon became clear that AOL and MAE-East was not enough to win the most significant data center location competition of that time. In 2011, Virginia lost out to North Carolina on the construction of a

⁴ Jan-2020, Mangum Economics, *THE IMPACT OF DATA CENTERS ON THE STATE AND LOCAL ECONOMIES OF VIRGINIA*, at https://www.nvdc.org/NVTC/Insights/Resource_Library_Docs/2020_NVTC_Data_Center_Report.aspx?zs=doEs91&zl=5cbX5

billion-dollar data center that Apple was planning. What tipped the balance in favor of the Tar Heel State was an ongoing commitment to update their sales tax structure to attract data centers.

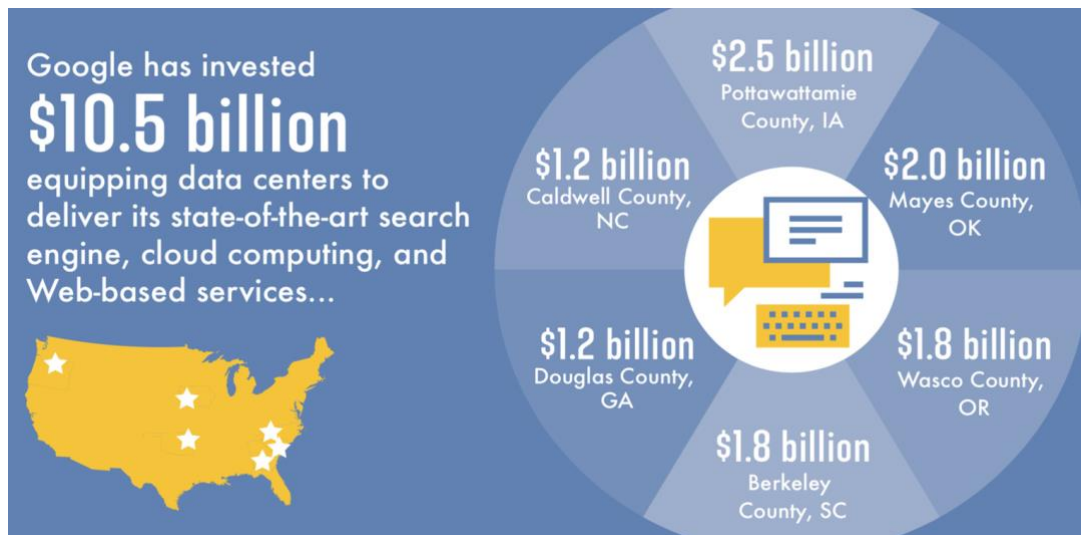
Apple's decision was a wake-up call that made it clear Virginia had to constantly update its business and tax environment in an increasingly high-stakes competition for the jobs and investments of the 21st century. That's where Virginia Delegate Barbara Comstock rose to the challenge.

In 2012, Barbara served in the Virginia General Assembly and introduced legislation to update the tax code for data centers. A bipartisan, state-wide coalition, and the leadership of the Northern Virginia Technology Council, resulted in near unanimous passage.

In 2016, the legislation was further updated and provided more certainty for data centers. These bills gained the signatures of Republican Gov. Bob McDonnell and Democrat Gov. Terry McAuliffe. All understood that data centers were the basic infrastructure for innovation, for the future, and for nurturing high-paying jobs. Virginia opened the door to billions of dollars of investments in the form of high-tech data processing and hosting centers, and Virginia remains the number one state for data centers—in the world.

Large-scale enterprise data centers are now in several states that extended their sales tax exemptions on manufacturing and production equipment

The experience of Virginia has been repeated in several other states that extended their sales tax policies for manufacturing and production equipment to also apply to data centers. Oxford Economics prepared this infographic to summarize its study of six Google data centers in rural and suburban counties in Iowa, Oklahoma, Oregon, South Carolina, Georgia, and North Carolina.



Oxford also studied the broader income and economic activity effects of those six Google data centers, finding \$750 million in labor income and \$1.3 billion in activity.



...and have created
11,000 jobs
throughout
the United States.



Google’s announcement that it will double its data center and office footprint in Virginia, coupled with Amazon choosing the commonwealth as its second headquarters, show that Virginia’s commitment to creating an attractive technology business climate is delivering results *and* incremental tax revenue.

Enterprise data centers bring incremental economic benefits and incremental tax revenue

Not only do high wages in the data center industry offer a vital new employment option, but these centers also are a driving force in the development of renewable energy resources and upgrades to utilities and internet infrastructure. Moreover, the data centers generate new income and business taxes, sales taxes on non-exempt purchases and electricity, and local property taxes.

For that reason, we encourage Kansas to adopt a “**Here vs Not here**” analysis of whether to extend its sales tax exemptions for manufacturing, farming, and mining production equipment to also apply to data centers. This analysis recognizes the reality that over the last several years, no enterprise data center has located in states that impose sales tax burdens on data center equipment.

Therefore, the decision to extend sales tax production exemptions still generates incremental tax revenue—despite the sales tax exemption on data center equipment. The first table lists several economic benefits that accrue if the State is successful in attracting large enterprise data centers:

Incremental economic benefits of data centers	Here	Not here
Income & spending by construction workers & contractors	+	0
Income & spending by data center employees	+	0
Revenue for local suppliers, contractors, lodging, and restaurants	+	0
High-tech training and experience for workforce	+	0
Make the state more attractive for tech business and education	+	0
Diversify local economies	+	0

This second table lists several incremental tax revenue opportunities from data center construction and operation—even after establishing a data center exemption:

Incremental tax revenue from data centers	Here	Not here
Personal income taxes paid by employees and contractors	+	0
Corporate income taxes from data center operators & contractors	+	0
Sales taxes on electricity	+	0
Sales taxes on non-exempt equipment and supplies	+	0
Lodging taxes for visits by contractors and workers	+	0
Sales taxes on services related to tangible personal property	+	0
Local real estate & personal property taxes	+	0

In June of 2019, Virginia’s Joint Legislative Audit and Review Commission (JLARC) published its audit report and evaluation of Virginia’s tax incentives for data centers, using confidential tax information from data center taxpayers⁵. JLARC concluded that 90 percent of the investment in data centers eligible for the sales tax exemption would *not* have made in Virginia were it not for those tax exemptions. Those investments would have been made in other states that give data center equipment the same tax exemptions long given on equipment used in manufacturing and agriculture.

As Mangum concluded in its 2020 Virginia Study, “the ‘cost’ of the State data center incentive is only 10 percent of the amount of State sales tax revenue exempted.”⁶ In fact, JLARC’s analysis showed that Virginia recovered \$1.09 in state tax revenue for every dollar of sales tax that was exempted for data center equipment purchases in 2017.⁷

At the local level, data centers generated more than \$300 million in local tax revenue for Loudoun county, Virginia in 2019. That money reduces everyone else’s property taxes while supporting local schools, law enforcement. Now these benefits are spreading to counties across Virginia.

Idaho’s legislature adopted a “Here vs Not here” analysis in the Fiscal Note for its 2020 law:

Passage of this legislation will have a positive impact on the general fund.

Though this bill allows a sales and use tax exemption, this legislation is prospective and is intended to attract business investment not already present in the state of Idaho.

⁵ Joint Legislative Audit and Review Commission (JLARC), *Data Center and Manufacturing Incentives, Economic Development Incentives Evaluation Series*. 17-Jun-2019.

⁶ Jan-2020, Mangum Economics, *THE IMPACT OF DATA CENTERS ON THE STATE AND LOCAL ECONOMIES OF VIRGINIA*, p.24, at https://www.nvtc.org/NVTC/Insights/Resource_Library_Docs/2020_NVTC_Data_Center_Report.aspx?zs=doEs91&zl=5cbX5

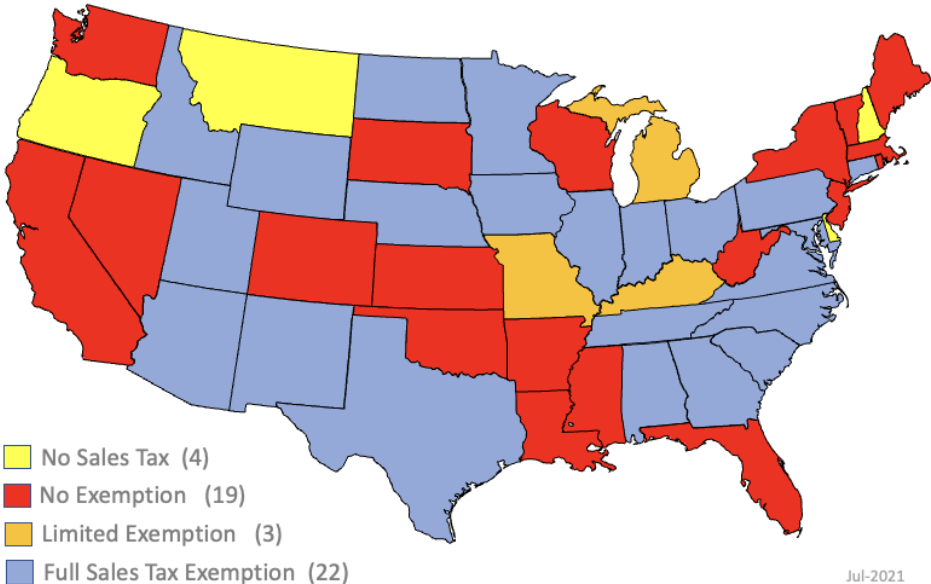
⁷ JLARC Evaluation, Appendix N: Results of economic and revenue impact analysis, at http://jlarc.virginia.gov/pdfs/oversight/ED_initiatives/datacenters_Appendix%20N.pdf

*Business investment of two hundred and fifty million dollars (\$250,000,000) or more will create new jobs, not only to directly support the data centers, but also in construction jobs and indirect jobs.*⁸

States are competing to attract enterprise data centers

While Virginia adopted policies to become the largest data center market in the nation, it's clear that the landscape for attracting data centers has changed. Unlike a decade ago when only five states had tax structures that were welcoming to data centers, today there are 31 states with sales tax exemptions, as seen in the map below:

Sales Tax Exemptions for Hyperscale Data Centers



Kansas's General Assembly should strongly consider amending SB 347 so that the state can compete for the hyperscale enterprise data centers that have yet to locate here.

We thank you for your consideration and look forward to your questions.

Steve DelBianco
President & CEO, NetChoice

Barbara Comstock
Former Congresswoman and Virginia Legislator, and
Advisor to NetChoice

⁸ Feb-2020, Statement of Purpose and Fiscal Note for Idaho House Bill 521, at <https://legislature.idaho.gov/wp-content/uploads/sessioninfo/2020/legislation/H0521SOP.pdf>