

Kansas HB 2450 - an economic development act

Supporting Testimony

March 15, 2023

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

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 ask for your support of House Bill 2450, in order to open Kansas for the large scale capital investments and job creation that comes from data centers.

Data centers of NetChoice members Amazon, eBay, Apple, Expedia, Google, and Meta Platforms 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 help keep us connected, while creating jobs and significant economic impacts in our communities, 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.

Data centers also create tech jobs in the areas where they're built, from construction teams and engineers, to technicians and facility managers. These investments boost the local economy, while ensuring a better online experience for Americans everywhere.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, no enterprise data center has located in states that impose sales tax burdens on data center equipment.***

But why now? Why Kansas? Not every state provides the combination of factors that attract data center investment, especially those that already exist in Kansas, such as a deep talent pool, availability of affordable land and reliable energy, proximity to airports, and strong community partners. What's

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 <https://netchoice.org/kansasdatacenters/>

missing is the same tax treatment for equipment that Kansas already offered for other capital-intensive industries, like manufacturing and agriculture.

Enterprise data centers contribute significantly to local taxes, and are strong supporters of education and broadband expansion. The jobs created in fields like engineering, technician, electrical and construction earn competitive salaries.

Tech industry facilities and data centers are #1 in terms of capital investments in the US. [PPI's Investment Heroes of 2022 report](#) shows *Information and Data Processing* as the top growth sector for US capital investment, increasing by 720% from 2007. In fact, 4 of the top 6 capital investment companies build data centers (Amazon, Alphabet, Meta, and Microsoft), investing \$94 billion in 2022 – more than energy, telecom, pharma, or manufacturing.³ This investment trend will continue to take place in states that make long-term data center investment a possibility.

Pictured here is Meta's data center campus 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. In a January 2022 report from Mangum Economics, *The Impact of Data Centers on the Iowa Economy*, the analysis showed significant results from a growing data center sector, driven by the state's data center incentive programs. Of the more than two dozen data centers, NetChoice members like Google, Meta Platforms and Microsoft all have extremely large data center campuses in the state.

Data center projects under construction will increase data center investment in Iowa by over 50 percent:

- Apple construction of a \$1.3 billion data center
- Meta Platforms doubling of current footprint, making its Altoona campus the company's largest
- Microsoft doubling of its current footprint with the addition of two new data center campuses

Direct economic impact in 2021 for the construction and operation of data centers provided approximately \$934 million in economic output, including 2,400 construction jobs, \$167.2 million in associated construction pay and benefits, 1,100 full-time operational jobs, and \$96.3 million in associated data center operations pay and benefits.

³ Progressive Policy Institute, Investment Heroes 2022, at <https://www.progressivepolicy.org/publication/investment-heroes-2022-fighting-inflation-with-capital-investment/>

There are also notable indirect economic ripple effects, which were estimated in 2021 to be \$3.5 billion, including 14,400 jobs and \$970 million in associated pay and benefits. Plus, for each operational data center job created, an additional 9.8 jobs were supported by the data center in non-construction businesses.

It was further estimated that in 2021, indirect economic activity led to \$107 million in tax revenue collected by the state and \$113 million collected by local governments.

Similarly, the 2022 report from Mangum Economics, *The Impact of Data Centers on the Nebraska Economy*, showed equally impressive economic impacts. NetChoice members Google and Meta Platforms have data center campuses in the state. Major projects under construction in Nebraska include the following, which will double the amount of data center investment in the state:

- Meta Platforms completion of the six-building data center announced in 2018
- The addition of 4 buildings to the campus announced in 2021
- Google completion of a new data center announced in 2019

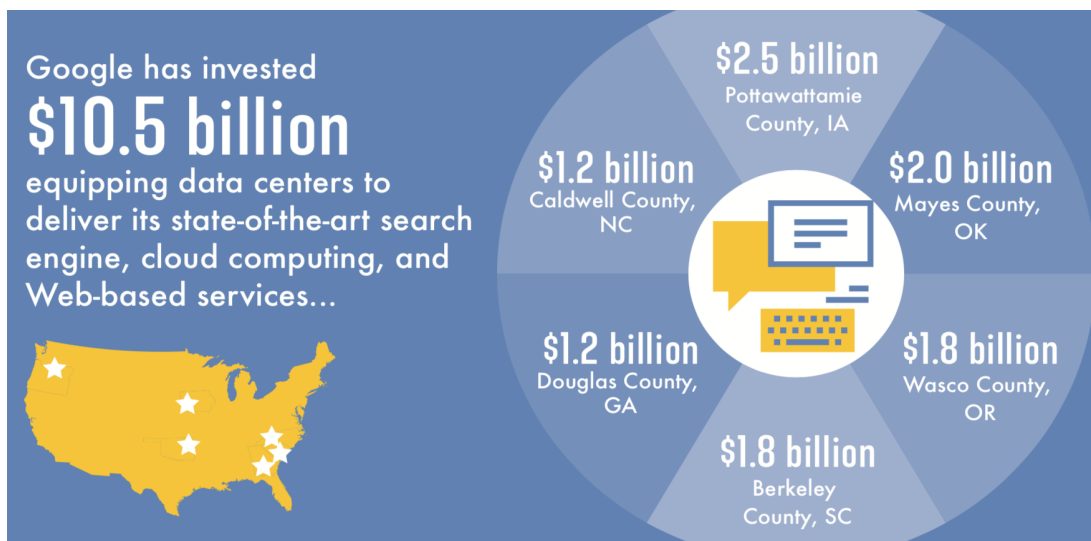
Direct economic impact in 2021 for the construction and operation of data centers provided \$410 million in economic output, including 1,170 construction jobs, \$65 million in construction pay and benefits, 490 full-time operational jobs, and \$50 million in associated data center operations pay and benefits.

There are also notable indirect economic ripple effects, estimated in 2021 to be \$1.4 billion, including 5,400 jobs and \$393 million in associated pay and benefits. Plus, for each operational data center job created, an additional 6.3 jobs were supported by the data center in non-construction businesses.

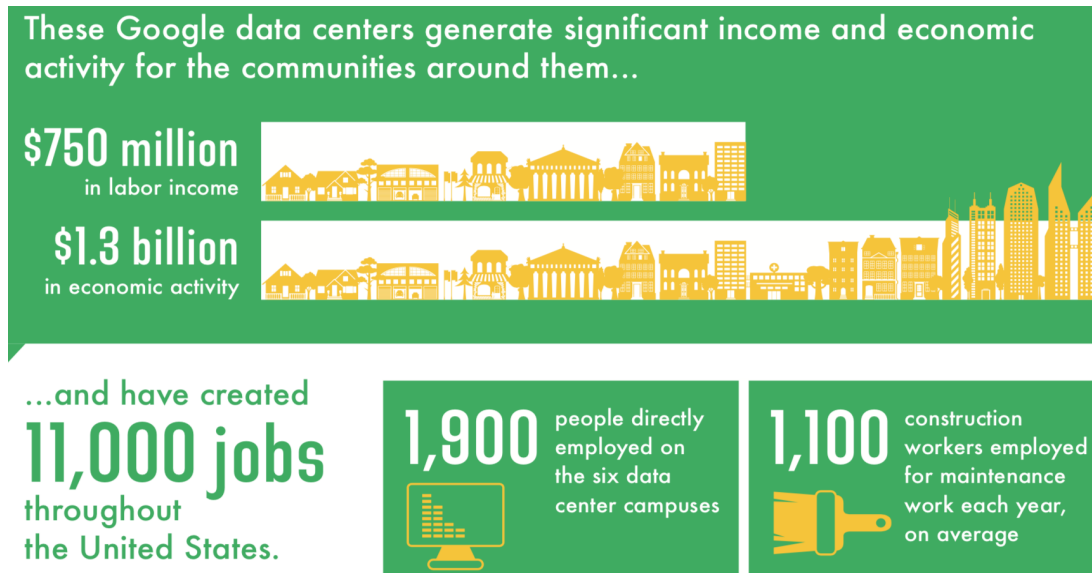
It was further estimated that in 2021, indirect economic activity led to \$30 million in tax revenue collected by the state and \$31.1 million collected by local governments.

These examples from Iowa and Nebraska are a snapshot of states that have added data center economic development programs and experienced strong economic impacts, increased revenue and job creation.

Large-scale enterprise data centers are now in several other states that extended their sales tax policies on manufacturing and production equipment. Oxford Economics prepared the following 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.



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 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 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 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 2019, Virginia’s Joint Legislative Audit and Review Commission (JLARC) published its audit and evaluation of Virginia’s tax incentives for data centers, using confidential tax information from data center taxpayers⁴. JLARC concluded that 90 percent of the investment in data centers eligible for the exemption would *not* have occurred in Virginia were it not for those tax exemptions. Instead, 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.”⁵ 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 2017.⁶

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 Idaho.

⁴ Joint Legislative Audit and Review Commission (JLARC), *Data Center and Manufacturing Incentives, Economic Development Incentives Evaluation Series*. 17-Jun-2019.

⁵ 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

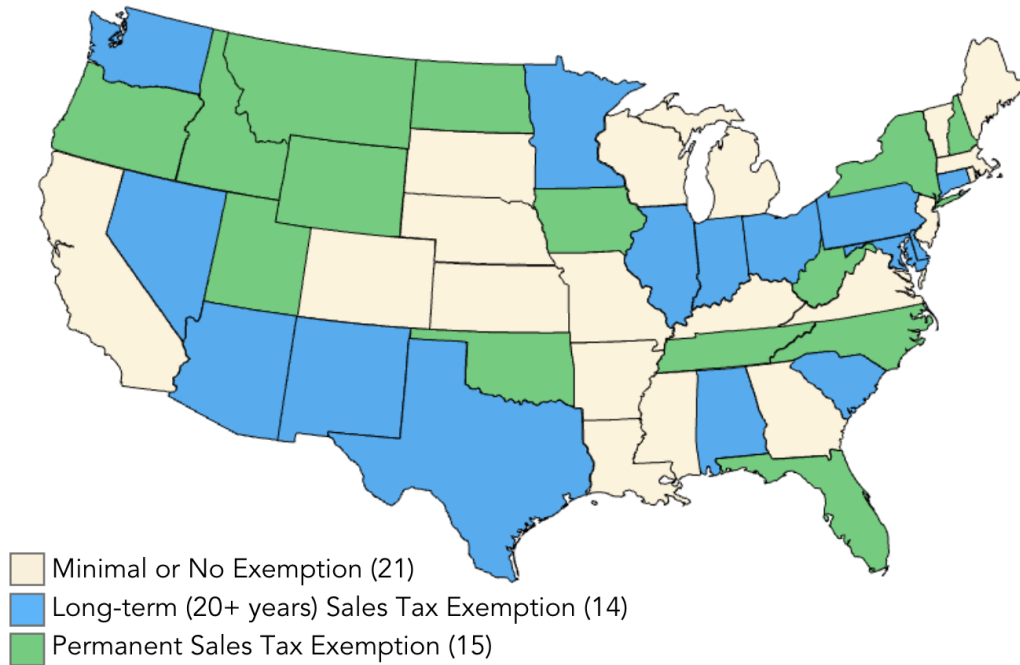
⁶ JLARC Evaluation, Appendix N: Results of economic and revenue impact analysis, at http://jlarc.virginia.gov/pdfs/oversight/ED_initiatives/datacenters_Appendix%20N.pdf

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. ⁷

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 32 states with sales tax exemptions, as seen in the map below:

Sales Tax Exemptions for Hyperscale Data Centers



The Kansas Legislature should strongly consider adopting HB 2450 so the state can compete for the hyperscale enterprise data centers that have yet to locate here, and thereby enjoy the jobs and significant economic impacts that come with them.

Sincerely,
Steve DelBianco
President & CEO, NetChoice

⁷ 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>