



THE PRINCE GEORGE'S COUNTY GOVERNMENT

Office of Audits and Investigations

September 23, 2020

MEMORANDUM

TO: Robert J. Williams, Jr.
Council Administrator

William M. Hunt
Deputy Council Administrator

THRU: Josh Hamlin
Senior Legislative Budget and Policy Analyst

FROM: Arian Albear
Legislative Budget and Policy Analyst

RE: Policy Analysis and Fiscal Impact Statement
CB-055-2020

CB-55-2020 (Proposed and presented by: The Chair of the Council at the request of the County Executive)

Assigned to the Committee of the Whole

AN ACT CONCERNING QUALIFIED DATA CENTERS – PERSONAL PROPERTY TAX EXEMPTION for the purpose of establishing a personal property tax exemption on the personal property of a Qualified Data Center; defining certain terms; providing for certain amounts of personal property tax exemptions under certain conditions; requiring a certain notice; and generally relating to personal property tax exemptions on qualified data centers.

Fiscal Summary

Direct Impact:

Expenditures: No foreseen additional expenditures related to enactment of CB-55-2020.

Revenues: ~Potentially negative from forgone tax revenue on the personal property tax of existing qualified data centers.
~Potentially positive from real estate and energy taxes paid by the data centers.

Indirect Impact:

Potentially positive.

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Legislative Summary:

CB-55-2020¹, proposed by the Council Chair at the request of the County Executive, was presented on September 9, 2020 to the County Council and referred to the Committee of the Whole. CB-55-2020 is proposed pursuant to enabling legislation from Maryland Senate Bill 397 (2020 Laws of Maryland, Chapter 640) and would allow the County Executive or designee to eliminate and/or reduce the personal property of a Qualified Data Center located within Prince George's County. The exemption and/or reduction is allowed only if such an exemption and/or reduction will result in an overall net positive impact on county tax revenues and the County economy, is in the best interest of the public, and meets certain requirements.

CB-55-2020 would create the following tax breaks for qualified data centers:

- Projects with \$200 million or more of investments and create at least fifteen (15) jobs may qualify for a 15-year personal property tax reduction in assessment as follows:
 - Years one through five – up to 100% reduction in assessment in personal property tax
 - Years six through ten – up to 50% reduction in assessment in personal property tax
 - Years eleven through fifteen – up to 25% reduction in assessment in personal property tax
- Projects with \$50 million or more of investments and create at least five (5) jobs may qualify for a 10-year personal property tax reduction in assessment as follows:
 - Years one through five – up to 90% reduction in assessment in personal property tax
 - Years six through ten – up to 40% reduction in assessment in personal property tax

Additionally, the proposed bill would require the County Executive or their designee to *notify* the County Council within sixty (60) days with the following data points on any agreement between the County and the developers or owners of a qualified data center:

- Name of recipient;
- Number of jobs expected to be created, directly or indirectly, as a result of the construction and operation of the center;
- Amount and duration of the exemption granted; and
- Terms of any commitment for local minority business enterprises and local business enterprises in the construction and operation of the center

Current Law/Background:

Maryland Senate Bill 397, which was passed by that body on March 14, 2020 and was enacted under Article II, § 17(c) of the Maryland Constitution on May 8, 2020, authorizes the County to grant certain tax exemptions to qualified data centers. Section 1 of the Bill provides “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”² and requires a certification of exemption from the Department of Commerce. Section 2, which CB-55-2020 would implement at the County level, allows for county and municipal corporations to reduce or eliminate the percentage of the assessment of personal property on any qualified data center.

¹ [CB-55-2020](#).

² [Maryland SB 397 \(2020 Laws of Maryland, Chapter 640\)](#).

Resource Personnel:

Angie Rodgers, Office of the County Executive

Discussion/Policy Analysis:

Policy Analysis

A “data center” is defined as a building or group of buildings used to house computer systems, computer storage equipment, and associated infrastructure that businesses or other organizations use to organize, process, store, and disseminate large amounts of data. According to the Maryland Department of Commerce, small-size data center projects generally locate in an existing building and create an average of 10 new jobs.³ A medium-size project, on the other hand, “require new construction of approximately 50,000 square feet of space and may create 25 new jobs, on average.”⁴ Large data centers, or *enterprise* data centers from major companies such as Google and Amazon, occupy over 100,000 square feet of space and create over 100 new jobs.⁵

By SB 397 (2020), the Maryland General Assembly amended §7-246 of the Tax-Property Article of the Maryland Code to provide that:

- (b) the governing body of a county or municipal corporation may reduce or eliminate, by law, the percentage of the assessment of any qualified data center personal property used in a qualified data center that is subject to the county or municipal corporation property tax under this title.
- (c)
 - (1) a county or municipal corporation that reduces or eliminates the percentage of assessment of taxable qualified data center personal property under subsection (b) of this section shall submit a copy of the law to the department.
 - (2) if the department receives a copy of the law on or before May 1, the change will be effective for the taxable year following the date the law is enacted.

CB-55-2020 generally implements SB 397, providing that the County Executive or the County Executive’s designee may reduce or eliminate the percentage of the assessment of an eligible qualified data center that is subject to the county’s personal property tax. In order to grant a reduction or exemption, the County Executive or the County Executive’s designee must determine that the qualified data center: meets the requirements of the law; will result in an overall net positive impact on county tax revenues and the Prince George’s County economy; and is in the best interest of the public.

As noted above, CB-55 would require the County Executive or their designee to notify the County Council within sixty (60) days with the following data points on any agreement between the County and the developers or owners of a qualified data center:

³ Maryland SB 397 (2020), [Fiscal and Policy Note](#).

⁴ [Id.](#)

⁵ [Id.](#)

- Name of recipient;
- Number of jobs expected to be created, directly or indirectly, as a result of the construction and operation of the center;
- Amount and duration of the exemption granted; and
- Terms of any commitment for local minority business enterprises and local business enterprise in the construction and operation of the center.

Issues for Committee Consideration:

- Does granting the Executive or Executive's designee the *discretion* to reduce or eliminate the County personal property tax on a qualified data center comport with the State law's authorization to "reduce or eliminate, by law, the percentage of the assessment of any qualified data center personal property used in a qualified data center that is subject to the county or municipal corporation property tax?"
- Is the notification of, rather than the approval by, the Council sufficient control over the exercise of the discretion that Bill would grant?
- Finally, should the Bill require, at short- and long-term analyses of whether the tax breaks given to the large data centers of major corporations is generating a net positive impact for the County.

Fiscal Impact:

Direct Fiscal Impact

Enactment of CB-55-2020 will have a potentially negative fiscal impact due to the loss of personal property tax revenue if there are any qualifying data centers currently in the County paying property taxes. For illustrative purposes, the Maryland Department of Legislative Services estimates that "for every \$2.0 million in qualified data personal property that is eliminated, local personal property tax revenue will decrease by approximately \$63,400, assuming a weighted average local personal property tax rate of \$3.1675."⁶

However, inasmuch as the personal property tax exemption for data centers serves to bring businesses and grow the County's commercial tax base, there will be a positive direct fiscal impact to the County. The underlying assumption with the above hypothesis is that data centers would not move into Prince George's County without such tax break incentives. A study of Virginia's Joint Legislative Audit and Review Commission (JLARC) found that 90% of the data center investments made by companies would not have occurred without the incentive.⁷ Additionally, if employees hired by the jobs created by these data centers move into and buy property in the County, there would be an increase in real property tax revenue.

Attachment 1⁸ and Attachment 2⁹ to CB-55-2020, pages 13 and 14 from a larger report¹⁰ by Magnum Economics, a private consulting firm, use the IMPLAN model to calculate potential economic benefits of bringing a large data center to the County. Taken directly from the attachments mentioned above, Table 13 below summarizes the estimated one-time economic and fiscal impacts on the County from the construction phase of a large data center. Because the calculations below are to reflect a large data center, such as one

⁶ Maryland SB 397 (2020), [Fiscal and Policy Note](#).

⁷ Maryland Chamber Foundation. [Potential Impact of Large Data Center Development in Maryland](#), 2020. Page 23.

⁸ CB-55-2020 [Attachment 1](#).

⁹ CB-55-2020 [Attachment 2](#).

¹⁰ Maryland Chamber Foundation: [Potential Impact of Large Data Center Development in Maryland](#), 2020.

owned by Amazon, it is important to note that for small centers that move into an existing building, there would be no construction phase.

Table 13: Estimated One-Time Economic and Fiscal Impact on Prince George's County from Construction of a Hypothetical Large Data Center (2020 dollars)

Economic Impact	Employment	Labor Income	Output
1 st Round Direct Economic Activity	990	\$79,700,000	\$162,900,000
2 nd Round Indirect and Induced Economic Activity	350	\$17,600,000	\$55,900,000
Total Economic Activity	1,330	\$97,300,000	\$218,800,000
Fiscal Impact			
Local Tax Revenue			\$3,000,000
State Tax Revenue			\$2,000,000

Table 14 below summarizes the estimated annual economic impact on the County from on-going operations.

Table 14: Estimated Annual Economic Impact on Prince George's County from the On-going Operation of a Hypothetical Large Data Center (2020 dollars)

Economic Impact	Employment	Labor Income	Output
1 st Round Direct Economic Activity	25	\$2,800,000	\$18,500,000
2 nd Round Indirect and Induced Economic Activity	82	\$3,400,000	-\$14,200,000
Total Economic Activity	107	\$6,200,000	\$32,700,000

Table 15 below summarizes the estimated annual fiscal impact on the County from on-going operations. As the table captures an annual snapshot of estimated fiscal impact, the 40% assessment on personal property tax reflect a middle ground of the proposed legislation where it would be 0% for the first five (05) years, 50% for years six (06) through ten (10), and 75% for years eleven (11) through fifteen (15).

Table 15: Estimated Annual Fiscal Impact on Prince George's County from the On-going Operation of a Hypothetical Large Data Center (2020 dollars)

Revenue Source	Tax Base	Assessment	Tax Rate	Annual Revenue
Real Estate	\$215,000,000	100% ¹⁸	\$1.00 per \$100 ¹⁹	\$2,150,000
Personal Property	\$250,000,000	40% ²⁰	\$2.50 per \$100 ²¹	\$2,500,000
Energy	96,732,000 kWh ²²		\$0.00969	\$937,000
Total Annual Revenue				\$5,587,000

Indirect Fiscal Impact

The addition of data centers will increase the County's reputation as a regional data center and may attract related businesses to the area. Depending on the size and number of data centers and net new jobs created, the County will see an increase in restaurant and other auxiliary businesses that are created to support the new activity.

Effective Date of Proposed Legislation:

Forty-five (45) calendar days after it becomes law.

If you require additional information, or have questions about this fiscal impact statement, please reach me via phone or email.