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TO: Senate Committee on Commerce
FROM: Bob Johnson
Shareholder
Polsinelli PC
SUBJECT: Testimony in Support of SB545
DATE: March 20, 2024

Members of the Committee:

Thank you for the opportunity to testify before this Committee in support of SB545. I am a Shareholder in a Kansas City-based national law firm with over 1,000 attorneys in offices in 23 cities from California to New York. My practice focuses upon economic development projects around the country and region, emphasizing in projects throughout Kansas. Polsinelli's diverse client base, national footprint, and wide-ranging areas of practice have provided me a lens through which to understand what is required to attract and retain the most competitive economic development projects in advanced technology, advanced manufacturing, research and development, and other highly sought after fields. In particular, it is critical that companies have access to the infrastructure needed to thrive in Kansas. For the most innovative companies, that means data storage infrastructure in close proximity to their facilities.

Data centers themselves are not major job producers. While data center jobs are high-skilled and well-paying, it is not the jobs located at the data center itself that should be the primary focus. Rather, the buildout of hyperscale data centers will position Kansas to attract the companies that rely on these data centers as the "brain" of the future economy. Large users of data benefit by being located in close proximity to where their data is stored. Since latency increases the farther a user is from the servers in which that data is housed, it is critical for our nation's most innovative technology companies to be located near hyperscale data centers. Indeed, with the expectation that artificial intelligence will play a fundamental role in tomorrow's economy, location near a company's servers will be essential for companies in nearly all of the innovative industries we will seek to attract, maintain, and grow in Kansas. Given the floor set by SB545 of \$600 million of capital investment by any eligible firm, it is exactly those major data centers needed by large data users this bill will incentivize.

There are no hyperscale data centers in states that have not already passed a sales tax exemption similar to that contained within SB545. The many states that have passed similar exemptions, such as Missouri, Oklahoma, Iowa, and others, have already attracted major capital investments for large data center campuses housing servers for our nation's foremost technology firms. A sales tax exemption is a make-or-break requirement for technology companies and data center operators because of the constant reinvestment in equipment necessary to run these centers. As AI and cloud computing continue to grow evermore central to our economy in the coming decade, the demand for more server space and newer technologies by Microsoft,

March 19, 2024

Page 2

Amazon, Google, Meta, Apple, and many other emerging technology leaders will escalate. This increase in demand for sophisticated cooling technology and other investment in the inner-workings of a data center will require a sales tax exemption in order to make development and long-term operation of hyperscale data center projects pencil.

Demand far exceeds supply for data center development nationwide, a trend which will only accelerate as artificial intelligence and cloud computing demand increasing computing power in the decades to come. That demand has already crowded around our nation's population centers, but astronomical land prices near cities where large users are currently concentrated has made developing new data centers in those areas cost prohibitive. The time is now for Kansas to capitalize on the trend of data center development migrating away from coastal markets to places with strong infrastructure, a skilled workforce, and a more reasonable cost structure. We have all of those economic development pillars in Kansas, and if we build the data storage infrastructure, the headquarters of the innovative companies we seek to attract will follow. Our regional competitors have recognized this and incentivized large data centers that are open or under construction. Adoption of SB545 will ensure that Kansas is no longer left out of consideration for attraction of data centers and, critically, the end users who need to store vast amounts of data.

Without SB545, it is exceedingly unlikely there will be significant data center development in Kansas, certainly of the scope that is required for eligibility pursuant to this legislation. Thus, without SB545, the sales tax that is exempted by this statute would not otherwise materialize, nor would the positive benefits of building major data centers referenced in my previous testimony. As a result, SB545 is a narrowly tailored, well-designed tool to attract development that will bring more innovative companies, direct and indirect income, sales, and property tax revenues, and highly skilled jobs. Data centers are the "brain" of the future economy, and the time is now to seize on the significant current demand for growth in this industry so that Kansas is not left behind. The benefits of passing SB545 into law will be profound and lasting for the Kansas economy for decades to come.

Thank you again for the opportunity to appear before you in support of SB545.

RCJ: