

Cities' efforts could secure data center

Nebraska and Iowa are battling fiercely for a \$1.2 billion data center, but it could be local communities that tip where the project lands, experts say.

A central Iowa city still is among the state's finalists, sources say, although Waterloo, which made the short list, is no longer in the running; neither is Waukee.

Kearney in central Nebraska is believed to be the leading contender in that state.

"It could come down to local property tax abatements" given the tight match between the neighboring states, said John Boyd Jr., a New Jersey consultant that helps companies decide where to locate data centers.

In Iowa, many cities consider property tax breaks for a large capital- or jobs-intensive project, often using tax increment financing to fund them. They also invest in roads, water and other

infrastructure, with the notion that the improvements help other businesses as well.

In Kearney, Mayor Stan Clouse said the city has invested aggressively in creating a business-ready tech site. It's unlikely, however, the city would reverse course and dig deeply for incentives. "We won't write a check to get a company to come to our community," he said.

"We do what we do best, and that's putting in infrastructure and do whatever we can to make sure that company is successful. We pay for things as we go, rather than take on a lot of debt. It's a different approach to economic development."

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The unidentified company behind the mega data center would bring up to 100 high-paying information technology jobs.

“Iowa and Nebraska are battling for the biggest fish out there right now,” said Joel Waterfield, a director of state and local tax practices at Grant Thornton, an international accounting firm.

Experts say the company, likely a major national business to require such a big facility, is poring over state and local information on site suitability, long-term operating costs that include power and water rates, and work force availability in the days leading up to a decision. It’s difficult to know which will factor heaviest in the decision.

An announcement could come next month.

The business is “firming up its business case for the final sites,” said John Lenio, managing director of the CB Richard Ellis Economic Incentives Group in Phoenix. That examination will include incentives from state and local governments, he said. “They’re comparing State 1 and State 2

... and doing similar due diligence for the last two or three sites.”

This year, Nebraska put into place new perks that mostly match Iowa’s incentive program for data centers. Companies like Google and Microsoft, both companies with large Iowa data centers, pay no sales or use tax on equipment and computer purchases, no property tax on equipment or computers, and no sales tax on electricity.

Companies also can get tax credits after hitting certain capital investment and job creation targets to qualify for incentives.

“The changes we made for the incentives package, the modifications, brings us into

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parity with Iowa,” said Catherine Lang, Nebraska’s economic development leader. “The structure of our incentives are different, but it levels the playing field between the two states.”

Iowa has been successful with its approach. California-based Google announced last week it would build a second data center in Council Bluffs, this one \$300 million, bringing its Iowa investment to \$900 million. Microsoft is opening a \$100 million center in West Des Moines.

Yahoo! opened a \$100 million data center in La Vista, outside Omaha, in 2010. And it’s looking to open a nearby factory that would provide equipment for the data center. Another smaller data center project, about \$200 million, has been discussed as possibly locating in the Omaha metro.

“Iowa’s incentives package is one of the more aggressive in the country,” along with states like North Carolina and Oregon, said Lenio, a consultant who helps companies determine the best site for their expansions.

But competition is growing. Since 2005, 15 states have created incentives that target data centers, he said. Several states have added incentives this year, including Alabama.

“We’re seeing a homogenization of incentives,” said Boyd, the New Jersey consultant. “States have had to fast-track incentives to catch up with Iowa” and other states that offered data center incentives early.

Iowa’s exemption on sales and franchise taxes on power that data centers use could give the state a slight edge.

The Nebraska Public Power District — the state’s largest utility — gained legislative clarification

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this year that lets it discount its power rates about 20 to 30 percent for large expanding electrical users for five years. But the legislation has no provision for a sales tax exemption on power, officials say.

Boyd said sales tax exemptions on power, along with computers that must be regularly replaced, save companies millions of dollars annually.

“Google’s data center in Council Bluffs uses enough power for almost 5,000 homes,” he said. “You can imagine the significant energy bill that Google has to pay each month.”

Data centers have been considered an economic development trophy since the onset of the recession. The industry has grown as consumers increasingly download music and movies and use social media, and as companies store information in the cloud rather than on-site servers.

“I see a lot more data centers in the future,” said Waterfield, the Grant Thornton consultant. “We’re on the front end of the wave, not

the back end.”

Lenio said even with hefty incentives, and “few belly buttons” or employees, super large data centers make economic sense for many states. In addition to attracting business services, “the personal income taxes created directly from the construction jobs is huge,” Lenio said.

“That gets recirculated into the economy for a couple of years. It’s a lot of Bud Lite and jeans at Dillard’s,” he said.

Still, the incentives can be costly: In Nebraska, a \$1 billion-plus data center project is expected to drive about \$26 million into the state coffers the first year after construction begins. But it turns

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negative for nine years, from \$4.1 million to \$17.3 million annually, as the corporation starts using its tax credits.

By fiscal year 2025, the project will generate about \$9 million in state revenue, Nebraska fiscal leaders estimate.

Iowa's Legislative Services Agency estimated in 2007 that tax breaks for a project Google's size would hit \$33 million this year.

Google, which opened in 2009, has said it expects to pay \$65 million in state and local sales and property taxes over 15 years. It also projects paying \$6 million in sales tax on building materials over two years and hundreds of thousands of dollars in electricity franchise fees, payroll and other taxes.

Smart companies weigh heavily local factors such as work force, where Iowa rates high, Boyd said. He pointed to the information security certification at Iowa State University's computer science program.

Clouse, the Kearney mayor, said the city of about 30,000 residents

has been preparing for a project like the \$1 billion data center for years.

Its new 165-acre tech park has streets, water and all the fiber and power needed to feed a high-tech facility. "The site is ready," said Clouse, who declined to field direct questions about the big data center project that lawmakers have said is focused on Kearney. "We feel we've got a lot to offer, as does every community in Iowa, Nebraska, Ohio, Illinois, Kansas."

He believes the community's low tax rate, strong work force fueled by the University of Nebraska-Kearney and quality community will be enough to attract a solid tech company.

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“We want to create good, high-paying tech jobs” that will help bring our kids home, Clouse said.

How the states stack up

NEBRASKA

- Nebraska awards its incentives in tiers, providing richer incentives as capital investment and job creation grow. Lawmakers modified tier two, adding a second level for data centers, requiring \$200 million in investment and 30 employees.
- The state provides tax credits based on capital investment and strong employee wages; it also provides a sales tax refund. Property tax and personal property tax also would be exempted for 10 years.
- The state added similar incentives for factories that produce equipment for data centers.

IOWA

- Iowa provides economic incentives for both large data centers, with capital investment of \$200 million or more, and smaller projects. Iowa's incentives also are tiered, based on investment.
- The state has no sales or use tax on equipment and computer purchases; no property tax on equipment or computers; and no sales tax on power.
- Iowa also may provide tax credits for projects that create high-paying jobs, or with large capital investment and research activities.

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