

## States Set Tax Breaks To Lure Big Tech Data Centers

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Facebook employees like Amir Michael (above in a photo taken last year) have a lot of shuffling to do in managing data centers, including a \$450... [View Enlarged Image](#)

States are angling to land the big fish amid a data center boom.

**Facebook (FB)**, **Apple (AAPL)**, **Google (GOOG)** and other tech companies are building huge centers that pack tens of thousands of computer servers, dishing out Internet content and "cloud" services.

Many states are stepping up efforts to lure big-name techs, offering to slash property taxes and scrap sales taxes on servers and other data center gear, among other perks.

Facebook, which Piper Jaffray says has 11 U.S. data centers, reportedly earned \$2.8 million in tax breaks in Oregon in 2010. To keep the state attractive to Facebook, Oregon in early 2012 rushed to approve a bill that exempted Facebook from state property taxation.

Other states also are stepping up efforts to lure big-name tech companies.

The public relations prize for luring a cutting-edge tech firm doesn't necessarily translate into many jobs, though local communities hope for follow-on gains.

Oregon and North Carolina have been catching some big fish.

Apple is reported to be set to build a new data center in Prineville, Ore., near a facility that Facebook opened last year. Google and Amazon also have built server farms in Oregon, where electricity rates are relatively low.

Facebook by midyear is expected to open a \$450 million data center in Forest City, N.C. Apple, Google and several other tech companies already operate centers in the state.

The battle to attract data centers is moving from the coasts to the heartland. Iowa, which already has Google and **Microsoft (MSFT)**, is vying with Nebraska for "Project Edge," a \$1.2 billion data center planned by an undisclosed company.

"Every state wants to say they are the home of Facebook, Google and Microsoft," said Joel Waterfield, a director for state and local tax practices at accounting firm Grant Thornton. "It's like trying to sign Peyton Manning to your football team. There are only a handful of those large companies, and every state wants them."

He says 21 states are offering data center tax breaks.

"From a public relations standpoint, this is a company a lot of people want," Debi Durham, an Iowa state official, told AP in February, referring to Project Edge.

Jobs from data centers themselves are few, with most centers needing a staff of just 50 to 200 people. But states hope they draw in high-paying tech companies and create a hub of suppliers and support systems.

The data center battle goes beyond high-tech trophies.

Many states aim to attract other industries — such as financial services, health care and energy — with data center buildouts, says John Boyd Jr., a New Jersey-based corporate site selection consultant. Such states include Alabama, Missouri, Wyoming and North Dakota, he says.

"Engineering tax climates and creating incentives for the data center industry is becoming the second war among the states," Boyd said.

Boyd says 110 million square feet of new data center space in the U.S. will be built by 2015.

### Midwest Making Gains

The Midwest is emerging as an attractive location, he says.

In Nebraska, where **Yahoo** (YHOO) already has an Omaha-area data center, lawmakers have passed tax measures aimed at bringing Project Edge to more-rural Kearney. The unnamed company behind Edge is expected to decide between Iowa and Nebraska soon.

While tax incentives might help sway some data center builders, they're just one factor. Many companies prefer to build centers near major Internet user hubs, to avoid any electronic lag. Google's centers process Web searches, store email and whisk YouTube videos to mobile phone users. Wall Street firms that process stock trades want servers close to Internet highways and market exchanges.

New York City, Chicago, Los Angeles, Dallas and San Francisco are still the most popular sites for big companies, according to a survey by **Digital Realty Trust** (DLR), which builds data centers and leases space.

Energy costs also are key because of the power needed to cool vast server farms. A Piper Jaffray report estimates that Facebook's Forest Center data center will house more than 37,000 servers.

Cheap hydro power gives Washington and Oregon an edge. North Carolina, which has vied with Virginia for some big data centers, has prospered by getting local utility **Duke Energy** (DUK) to offer competitive pricing, says Waterfield.

"The states that are the most successful can parlay state-level, local and power company incentives onto the same sheet of music," he said.

Digital Realty and **DuPont Fabros** (DFT), another company that offers large building shells with basic power and cooling, have benefited. But they don't get the same tax breaks as Internet giants that build their own data centers.

"States value the cachet of bringing Apple, companies with global recognition, to their backyard," said Christopher Lucas, an analyst at Robert W. Baird.