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## Is state spending to entice data farms worth it?

Some say costs far outweigh economic benefits; others say Iowa gains important prestige.

By *DONNELLE ELLER*

Ask restaurant owner Matt Johnson what Google brings to Council Bluffs, and he points to the online search engine giant's laptop donations to local schools and free wireless service to the historic business district and parks.

But eventually the Council Bluffs native pulls out stickers of a black squirrel, the city's mascot, hunched over an acorn. The stickers initially were created as kind of a joke, says Johnson, but now they're on cars everywhere. It's a sign of community pride, something that's been missing from the overlooked blue-collar river town for a while.

"We live in the shadow of Omaha and Des Moines. But when a worldwide company like Google chooses your city, the pride goes way up," said Johnson, who owns Barley's Bar and Grill with his wife, Jill, near downtown Council Bluffs.

Iowa is competing with Nebraska for a \$1.2 billion data center that would house computer servers in as much as 1 million square feet, a facility so large that West Des Moines' Jordan Creek mall could nearly sit inside it.

But Nebraska is ramping up its state incentives, which raises the question for Iowa: Do the benefits outweigh the costs to lure the projects?

Economic development leaders contend the jobs, large capital investment and cachet that names like Google — and now Microsoft in West Des Moines — bring to Iowa far outweigh the millions of dollars the companies have received in tax breaks and other incentives.

Google created 200 jobs that pay an average of \$52,000 annually, and Microsoft's 25 jobs will pay about \$48,000.

The exact tab for the tax breaks that lured them isn't public, but critics point to estimated costs that work out to tens of thousands of dollars per job.

"There's a certain amount of prestige that comes with those projects. They send a message to the international marketplace that you need to rethink Iowa," said Debi Durham, the state's economic development leader, who feels confident Iowa will remain competitive against Nebraska's incentives.

A New Jersey corporate site selection consultant says Iowa and Nebraska are competing fiercely for the mega data center. "Nebraska is really trying to tip the scales in its favor. This incentives package is gaining some attention. But it's tough to say which state is better," said John Boyd Jr. of the Boyd Co., who calls the data center industry the "biggest generator of high-paying tech jobs in the Midwest."

David Swenson, an economist at Iowa State University, said Iowa officials overestimate the impact that data farms have on a region. "All of the technology needed to run those centers is largely produced somewhere else," Swenson said. "The only things those centers need are cheap electricity and water.

"What companies spin off of a data farm? They're great big warehouses that hum," he said, adding that the large investment in computers and technology requires little staffing. "What you want is projects with R&D, innovation and invention."

## Size of incentives isn't made public

One of the problems with incentives for data centers is getting a firm grip on how much the state is providing to companies.

The state's Legislative Services Agency estimated in 2007 that tax breaks on computers, cooling racks, energy and other costs would hit \$33 million this year for data centers the size of Google's. The company's investment is estimated at \$600 million to \$800 million.

After creating the legislation for large data centers, lawmakers later adjusted the tax breaks to help Microsoft build a \$100 million data center in West Des Moines and to help smaller data center projects across the state.

How much data centers actually receive in benefits isn't available to the public. The Iowa Department of Revenue says the tax information is confidential under state law.

"The subsidies the state of Iowa has dedicated to firms, especially in advanced manufacturing and technology, have appeared for several years to be excessive, relative to the jobs created," Swenson said. "The more capital intensive these firms are, the greater the disparity between job creation and the value of those incentives.

"There's a lot of money being given to firms that flat out don't need it," he said.

Google also snagged about \$8.2 million in property tax abatement over 16 years from Council Bluffs, and the state provided an estimated \$1.4 million in tax credits. Google turned down nearly \$1 million more in incentives that the state offered through a program that helps cities on Iowa's border better compete with neighboring states.

"I don't know how to answer the question of whether it is too much," says Sen. Mike Gronstal, D-Council Bluffs. "You can always say it's too much or figure out a way to say we ought to do more for these kinds of high-skill, high-wage jobs.

But "when you've got 200 people making \$50,000-\$60,000 a year, it's a pretty good impact," said the Senate majority leader.

Experts say the data farm positions range from computer engineers to IT networking technicians and electricians.

Gronstal said he sought legislation to provide data centers with the incentives traditional manufacturers received. Most agree, though, that manufacturers, even modern plants with large investment in equipment, typically create more good-paying jobs than data centers.

## Need for power fuels data boom

Data centers are a growing industry at a time when the economy remains sluggish.

Companies like Google, Facebook and Amazon are building more of them as demand increases for new Internet services and the industry shifts to cloud computing services.

"Internet use is staggering, just staggering, and it's just going up," said Jack Pouchet, director of energy initiatives at Emerson Network Power in Ohio. The company operates its own data center in Marshalltown, where its parent company operates a factory.

"In North America, the No. 1 use of Internet bandwidth in the evening is streaming video from Netflix," he said. He expects the demand for data centers to grow 18 to 22 percent a year.

Iowa's law exempts property taxes on computers, server cooling racks and other equipment used inside the data center.

For example, Google's \$600 million-plus project is assessed at about \$22 million.

Data centers also can avoid sales tax on the tremendous power needed to run the centers. A facility the size of Google needs about as much energy as a small city, and a \$1.2 billion facility could use as much electricity as a large city, Pouchet says.

The sales tax exemption has been less beneficial to Google in Council Bluffs, where the city assesses a franchise fee on utility users instead of a sales tax. But that could change with possible expansions.

Council Bluffs is looking at an ordinance that would cut costs for high-volume electricity users. The city would cap the fee at \$400,000 annually for the first five years, and then the cap would rise to \$500,000 annually over the next 15 years.

Richard Wade, Council Bluffs' city attorney, said Google would have to build four more data centers that are equal in size to the existing facility to benefit from the proposed cap.

"To have any impact, Google would have to invest a whole lot of money down here," he said.

Google said when it announced the Council Bluffs project that it expected to pay \$65 million in state and local sales and property taxes over 15 years, as well as \$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.

"Google's first phase is 57 acres," said Council Bluffs Mayor Tom Hanafan. "They own 1,000 acres. Who knows what they're going to do with 1,000 acres? If a meat processor comes to town, it will make hot dogs the same way 10 years from now as it does today. ... But in the world of technology, it changes all the time. I look at it as an opportunity for the future."

## Mixed view on role as jobs magnet

Durham, the state's economic development leader, said the incentives to data centers are helping build Iowa's tech industry.

Boyd, the New Jersey consultant, agrees: "Over the past year or so, we've spent a lot more time thinking about Iowa, talking about Iowa, a lot more calls to our office from companies interested in expanding in Iowa."

Some big companies are looking at data centers differently as well.

"With all of these federal mandates, banks like Wells Fargo and Chase are consolidating their data centers with their billing operations," Boyd said.

But some tech insiders say the data centers have yet to attract a lot of new high-tech jobs that would want to take advantage of the same infrastructure the giants use.

Doug Jacobson, an Iowa State University professor of electrical and computer engineering, said he sees more students coming into computer science programs. But he still sees too many graduates leave Iowa for more promising tech jobs elsewhere.

"A data center will have a small number of high-skilled workers, and then some lesser number of very technically competent workers. But if you look at what a Silicon Valley draws, there are a lot more master's, Ph.D.s. A data center doesn't draw that," Jacobson said. "It's a whole pay-grade difference in talent."

Leann Jacobsen, president of the Technology Association of Iowa, said the recession has slowed some of that high-tech development. As the economy improves, she sees more technology jobs being created.

"A couple years ago, there weren't a lot of states that could say we have Google, Microsoft and IBM expanding" here, said Jacobsen. "That publicity and recognition will lead to other technology companies thinking about Iowa when they consider expansions."

Chris Russell, Google's data center operations manager, said the company has filled all but about a dozen jobs with local residents.

Russell said the company is reaching out to the community in areas that are important to it, such as education, connecting residents to the Internet, and helping small businesses and nonprofits become more tech savvy.

Those efforts are creating fans in this town of about 62,000.

Barley's owner Jill Johnson said she can't remember a company throwing a street party like Google's unveiling last fall of the city's wireless Internet connection in the historic 100 West Broadway business district. Google gave the city a \$150,000 grant to create free wireless hot spots across the city, and at the party it gave away coupons for free food and provided music and beverages.

"They went all out," she said.

"It feels good that Google wants to be part of our community," she said. "It's a big compliment for us. We are a good community, and I don't think many people realize that."

## Additional Facts

Why Iowa?

Big tech companies like Iowa because it has reliable, inexpensive energy, talented workers and available land without the threat of hurricanes and earthquakes. But the state also can show off its healthy budget.

"The new reality of doing business in 2012 is that companies are putting more value in states that are fiscally well-managed," John Boyd Jr., a New Jersey corporate site selection consultant. "They're tired of rising taxes, mismanagement of state government, and every year having a fiscal crisis."

Besides Google, these companies have received public money:

**IBM** decided to locate a tech center in Dubuque in 2009, pledging to invest about \$100 million and employ 1,300 workers. The state agreed to provide a \$12 million forgivable loan, \$8.5 million in job training for workers, and \$2 million in tax incentives and other assistance. Altogether, city and state leaders are providing about \$52 million in incentives for the project.

**MICROSOFT** scaled back its \$600 million investment in West Des Moines to about \$100 million as the recession hit. The company is expected to create 25 to 50 jobs. The state agreed to provide Microsoft about \$130,000 in tax credits, and the city promised \$8 million in road improvements plus about \$3.05 million in financial incentives over 15 years. State transportation leaders provided about \$3.4 million to help with the road improvements.

### How Council Bluffs has benefited from Google Schools

David Fringer, the Council Bluffs school district's information technology director, said Google gave the school 500 laptop Chromebooks to test, making it one of five districts nationally to first use the product.

Teachers and students like the laptops so much, the district is buying about 2,800 more and nearing its goal of providing each high and middle school student with their own laptop.

The district was already using Google Apps for Education, a program that saves the systems "tens of thousands of dollars a year," said Fringer.

"Students react to Googlers like they're rock stars," said Fringer. "They're still the nerd herd, but they're so passionate and engaging about tech that they really connect with students."

Google gave Iowa Western Community College \$100,000 to create an enterprise computer center that gives students hands-on experience working with data center technology, says John Magill, a computer information professor at the school. "The entire room is set up so you can manage and set up your own network," he said.

### Connecting

Google is partnering with Iowa Western Community College and the University of Nebraska-Omaha to have interns set up computer networks, launch Web pages and provide other technical assistance to nonprofits, small businesses and entrepreneurs that otherwise wouldn't be able to afford it. For more information, go to [www.enteritech.org](http://www.enteritech.org).

Google, opening about the same time as Council Bluffs' new Boys and Girls Club, gave the group

about 50 computers for students and staff, said Kelly Sears, senior marketing executive. And “we just got another round of additional computers — 15 to 20 laptops for a mobile tech lab,” said Sears.

### **Renewable energy**

Google signed a 20-year agreement with NextEra to purchase wind energy in Iowa and Oklahoma. The power goes back to the grid and supports renewable energy, said Chris Russell, operations manager of the Council Bluffs data center. The company’s investment in clean renewable energy is closing in on \$1 billion.

City leaders say Google also is weighing the use of gray water from the wastewater treatment center to cool servers and reduce the environmental impact, a model that’s being tested in Belgium. Russell said the company is still weighing whether to pursue the project in Iowa.

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