



On America's plains, a war for server farms

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Local press in Nebraska and Iowa has been abuzz over the fate of a server farm, a \$1.5 billion project that would almost certainly rank as one of the nation's largest.

By Erika Fry, reporter

FORTUNE -- For the past year, there's been high-tech parlor game playing out in an unlikely place: the American plains. Local press in Nebraska and Iowa has been abuzz over the fate of a server farm -- yes, a *server* farm -- a \$1.5 billion project that would almost certainly rank as one of the nation's largest.



Code-named "Project Edge" in Nebraska and "Project Catapult" in Iowa by their respective economic development agencies, the site-selection process, which has haltingly revolved around two large parcels of land in Kearney, Nebraska and Altoona, Iowa, has been shrouded in secrecy. "I'd never seen anything like this," says Michael Morgan, Kearney's City Manager, who has two decades of economic development experience. "They wanted to know well over 100 factors -- the air temperature, the humidity, how the water moved underground, how much the water moved underground, the amount of dust in the air." A year later he still doesn't know who exactly he's been dealing with.

Rumors, due the project's size and scale, are that the mystery company is Facebook (**FB**) or Apple (**AAPL**). Last week's news may point to Amazon (**AMZN**), which made an **unusual \$3 billion bond offering** early last week. Revelation of the mystery company and the winning site is expected in the coming weeks.

The project would come as a sort of cherry-on-top for either state, both of which have worked hard and fast (legislatively speaking) to win the data centers crucial to tech giants in recent years. Iowa has already landed Microsoft (**MSFT**) and Google (**GOOG**). Nebraska has Yahoo (**YHOO**). This isn't your granddaddy's flyover country, anymore.

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The race for data centers is a nationwide phenomenon, but perhaps nowhere has the contest for facilities been as fierce as in the heartland, where states are eager to lure tech, both to modernize their economies and shed their ag-state images. "For people who are way outside Silicon Valley, this is about as close as they can come to claiming they're somehow connected to technology or that dimension of economic growth," says David Swenson, an economist at Iowa State University.

In some ways, the facilities, which house the hundreds of thousands of computers needed to power the Internet, are a natural fit. Both Iowa and Nebraska tout their abundance of cheap land and power, as well as their lack of natural disasters. Continuity of operations is a big deal for data centers. Midwestern work ethic, Iowa's wind-energy industry, and Nebraska's natural aquifer are also offered up as advantages.

To make their case clearer, both states offer a robust -- and after the arms race for Project Edge, nearly identical -- package of incentives for data centers that include job and investment credits, and breaks on property as well as sales and use taxes on equipment and electricity. "These are clearly the trophy projects of our day," says John Boyd, principal at The Boyd Company, a New Jersey-based corporate location firm, for which data center site selection is the fastest growing area of business. "These are capital-intensive projects and huge generators of property taxes. They also bring enhanced image and prestige to these places."

Case in point, Council Bluffs, Iowa and its mayor Tom Hanafan, who admits to receiving something akin to rock star status in Iowa's mayoral circles. "When I travel around the state, they're like, 'How did you do that?'"

Council Bluffs got Google, which opened Iowa's first big brand-name data center, a 57-acre, \$600million investment, in

2009. He acknowledges he did nothing special. The company liked the city's geography, the proximity it offered to a new coal power plant, and those incentives, which were first crafted for Google's sake -- at the time, it was not known the company was Google -- and rushed through the Iowa legislature in 2007. Council Bluffs ranks as the least expensive place to operate a data center in an index of 39 cities, calculated by the Boyd Company.

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While Hanafan says there was some initial apprehension in the community about Google -- "the company is pretty guarded and secretive, they have this vast building with a small sign" -- the company has quickly proven itself a model corporate citizen. Hanafan says Google has "Wifi-ed" a number of Council Bluffs' public spaces, donated data management services to local schools and businesses, and brought unprecedented popularity to Council Bluff's Iowa Western Community College, which has a technology partnership with Google.

The company also expanded their operations twice, bringing the company's total investment in the state to \$1.1 billion. This month, it also announced a \$75 million investment in an Iowa wind farm.

Yet for all this, Google hasn't created all that many jobs in Iowa, a fact that leads some to argue that the efforts to attract data centers -- or at least to ply the Google's of the world with government incentives -- is misguided. "Iowa is ceding hundreds of millions of dollars in state and local incentives to underwrite firms that are going to hire 100 people. It makes absolutely no sense at all from a fiscal or economic development point of view," says Swenson of Iowa State.

Economic development officials contend data centers provide good jobs, even if they are few, and indirectly create many others in construction and maintenance. Tina Hoffman, Communications Director of Iowa's Economic Development Authority adds that centers tend to "cluster", and beyond the tangible economic benefits, there's a "coolness factor" to having a Google in the state that has stirred interest in Iowa's tech industry. "People who aren't from here don't necessarily think of us as a high-tech mecca. This does help to change the perception." She notes Iowa is home to Dwolla, a people payments start-up, and the birthplace if not headquarters of Pinterest founder Ben Silbermann. (Not to mention celebrity tech investor and Twitter acolyte Ashton Kutcher).

Swenson disputes the effectiveness of this strategy, saying data center jobs are production-focused and unlikely to have a "springboard effect" to innovative tech development in the state. For that, the bio-medical or agricultural fields would provide more fertile ground, he says. He also suggests the region has gotten carried away in their lust for brand name tech. "These things are great big electrified heat-generating boxes that employ a few people at OK money, and that's about it. But boy do they fight to get them."

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Aside from the incentives, economic development staff from both states and a number of others put in lots of time peddling their data center potential. They attend data center trade shows, and according to Boyd, develop sleek "Madison Avenue"-worthy campaigns.

In an effort to get an edge, Nebraska has brought in engineers and consultants to assess properties and prep them to be "shovel-ready" data center sites. The state has invested in four such properties including the 165-acre site at Kearney's Tech oNE Crossing technology park that was under consideration for Project Edge. Kearney and the state have spent \$2 billion to ready the property, which Morgan, Kearney's City Manager says is so ready, a company could have a permit and be building within a week.

Tim O'Brien, Business Development Manager for Nebraska's Department of Economic Development sees these expenditures as a necessary "opportunity cost." "You need them to be competitive, which will pay off in the long run." Council Bluffs may be a useful case study, and so far city leaders seem pleased by the 'Google effect'. "It's more than just jobs. It definitely put us on the radar screen of other companies," says Bob Mundt, President and CEO of Council Bluff's Chamber of Commerce. "We're not just cornfields anymore."

The mystery company behind Project Edge is sure to bring a similar effect to its new home, which if recent reports are to be believed, is Altoona, Iowa, a Des Moines suburb known statewide as the home to Adventureland theme park and Prairie Meadows, a horse track and casino. (Altoona also lies just south of Interstate 80 along which many fibre optics are routed.)

Out in Kearney, City Manager Morgan hasn't heard either way about the fate of the project, but he says his city is already meeting with other companies about their shovel-ready site. He's certain they'll have a crop of data centers soon.