



Impact of Taxes & Incentives on Data Center Locations

DATA CENTER SOLUTIONS GROUP

ECONOMIC INCENTIVES GROUP

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Data center site selection has grown in sophistication over the years as companies are in constant search of reliable, dependable, and cost effective solutions. Whether an enterprise user or a tenant in a colocation facility, most companies choose communities based on four primary drivers—power, telecom, geography, and climate.

- **Power: Cost per kWh, carbon footprint, fuel mix, and infrastructure;**
- **Telecom: Fiber providers, latency;**
- **Geography: Proximity to headquarters or airport locations, population size, labor force, water;**
- **Climate: Environmental risk (i.e. hurricanes, tornadoes, earthquakes, etc), free cooling**

After solving for these primary drivers, communities will remain on the short list based on real estate availability and cost. This holds true for existing colocation facilities or greenfield sites for new construction.

When the box is checked for real estate, taxes and incentives end up swaying the business case or level the playing field for communities on a data center's short list. Taxes and incentives are the only tools a state or community has control over to win data center locations. With this fact in mind, 17 states have customized incentive programs for the data center industry. Typically, the larger the project investment the more important role incentives tend to play in the overall site evaluation.

A QUICK PRIMER ON DATA CENTER TAXES

When developing a Total Cost of Occupancy (TCO) model, one-time and recurring taxes will have a significant impact on long-term costs for a data center. The capital intensive nature of a data center will trigger relatively high sales taxes and property taxes. Property taxes are typically payable for both real estate and personal property (or equipment).

Sales (or use) taxes are incurred on a one-time basis for purchases of building materials, mechanical & electrical equipment, IT equipment, and, in some cases, software. Sales taxes of building materials are due based on the location of purchase. Sales taxes on equipment are due based on the location of delivery. For example, \$10 million of IT equipment delivered to a data center in Columbus, Ohio would have about \$700,000 in sales taxes.

DID YOU KNOW

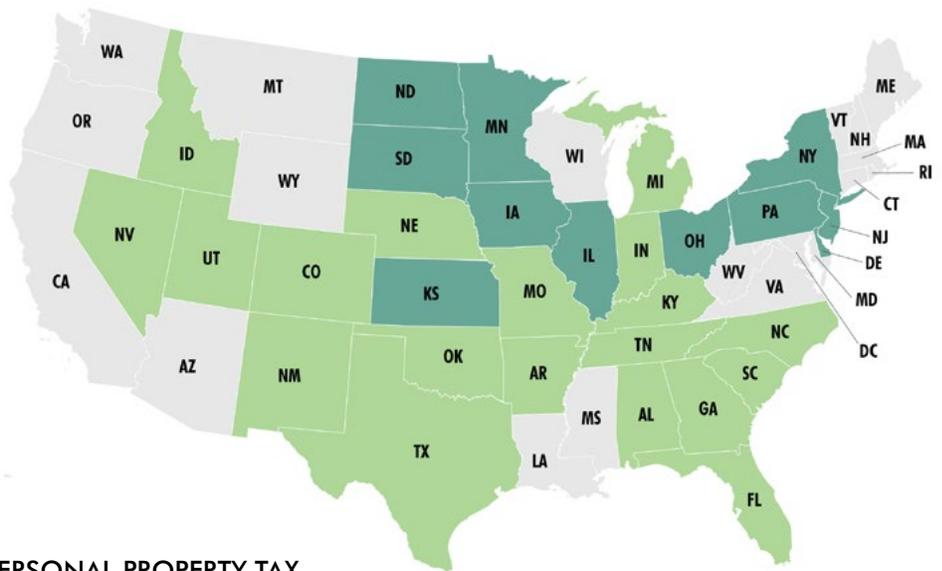
There are five states that automatically do not charge sales tax for any type of purchase. These states include Alaska, Oregon, New Hampshire, Montana, and Delaware.

Real estate taxes are payable on an annual basis for the data center structure. Real estate taxes are a function of building value and the local effective tax rate. For example, a data center valued at \$30 million in suburban Kansas City, Kansas would see real estate taxes total about \$4.6 million over five years (or \$930,000 annually).

Personal property taxes are payable on IT equipment, furniture, or other equipment that is not bolted to the real estate and can be removed. These taxes are paid each year based on original purchase price, depreciation, and the local effective tax rate. For example, \$200 million in IT equipment in suburban Dallas, Texas would yield about \$17 million over a 5-year period. It should be noted that personal property taxes will be due for each cycle of equipment purchases. That is, purchases in 2013 would have personal property taxes from 2013-2017 and purchases in 2017 would have taxes due between 2017 and 2021, for example.

DID YOU KNOW

There are 11 states that automatically do not assess property taxes on equipment and furniture. These states include Delaware, Illinois, Iowa, Kansas, Minnesota, New Jersey, New York, North Dakota, Ohio, Pennsylvania, and South Dakota.



PERSONAL PROPERTY TAX ABATEMENT POTENTIAL

- Statutorily Exempt
- Abatement Potential

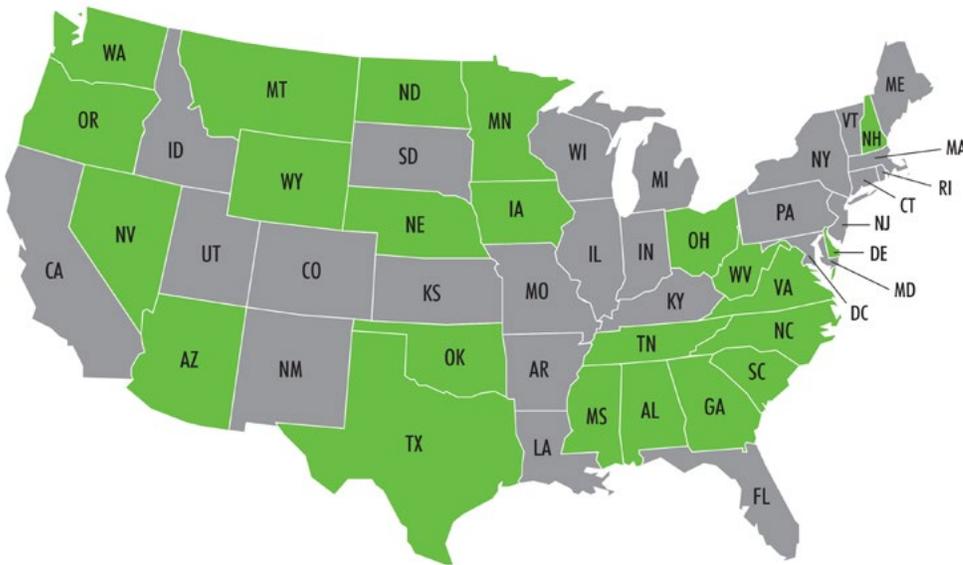
Source: CBRE Economic Incentives Group.

DATA CENTER INCENTIVES

Since 2005, about 17 states have passed legislation to provide customized incentives for data centers. These states provide full or partial exemption of sales taxes for various investment types. The exemptions commonly cover computer (or IT) equipment across the board. Construction, mechanical and electrical equipment, cooling systems, power infrastructure, electricity, and backup fuel are covered to varying degrees by the group of states.

SALES TAX INCENTIVES FOR DATA CENTERS

■ States with incentives (as of July 2013)



MINIMUM THRESHOLDS

State incentive benefits for data centers are not necessarily automatic and have certain hurdles or minimum thresholds. Thresholds are related to capital investment, direct jobs, payroll or salary, and time period. Following are a few examples.

- **Nebraska** provides an enhanced level of incentives for data centers with a minimum of \$200 million in capital investment and 30 direct jobs. The investment minimum can include construction, equipment, and capitalized software. The minimum jobs are direct or badged employees. Contractors are generally not allowed in the calculation. It should be noted the jobs and capital investment targets must be achieved within seven years in order for a company to earn the incentives benefits. The State has an alternative level of incentives with a lower investment threshold of \$37 million.
- **North Carolina** requires a minimum of \$250 million for internet data centers and \$150 million to \$225 million for enterprise data centers within five years. The minimum for enterprise users depends on the county the data center is located. There is no minimum jobs target.

NEW ACTIVITY IN 2012 AND 2013

2012 and 2013 saw activity in eight states either creating new incentives programs or tweaking existing programs to lure data centers.

- **Georgia's** data center incentive program was passed in 2005. The program provided a 100% exemption of sales taxes on computer equipment as long as a \$15 million investment was made each year. During 2012, the ex-

emption was expanded to cover sales taxes on construction materials.

- **Virginia's** incentive program for data centers was created in 2008 and amended during 2012. The program allows for a 100% exemption of sales taxes on computer equipment as well as mechanical and electrical equipment. The minimum thresholds include \$150 million in capital investment and 50 new jobs. The 2012 amendments allow for tenants and owners to be qualified data center users. This means that tenants of a colocation facility would be allowed to earn the incentive.
- In 2009, **South Carolina** created a data center incentive. This program provided a 100% exemption of sales taxes on computer equipment. In 2012, the State made three enhancements including: a) Reduce minimum jobs to 25 from 100; b) Lower capital investment to \$50 million from \$300 million; and c) allow exemption of sales taxes on electricity.
- The state of **Indiana** created a new incentive for data centers during 2012. The program allows for a 100% exemption of sales taxes on computer equipment, mechanical & electrical equipment, and power infrastructure. The minimum threshold includes \$10 million of capital investment.
- A new data center incentive program was created in **Alabama** during 2012. This program could potentially provide a 100% exemption of sales on computer equipment, mechanical & electrical, cooling systems, and power infrastructure. The minimum thresholds include 20 new jobs and \$200 million of capital investment.
- The **Nebraska** Advantage program was enhanced to include a large data center option (or tier). The large data center tier requires a minimum of 30

new jobs and \$200 million of capital investment. If these minimums are attained, the program allows for 100% refund of sales taxes on equipment, construction, and capitalized software. Other benefits include a limited refund of employee personal income taxes, 100% refund of real estate taxes paid to the locality, and 100% exemption of personal property.

- The state of **Arizona** entered the data center competition during 2013. The program allows for a 100% exemption of sales taxes on computer equipment, mechanical & electrical equipment, and construction materials. The minimum thresholds include \$50 million of capital investment or \$25 million in smaller counties in the State. In addition, tenants or owners of colocation facilities are eligible for the data center incentive. Eligibility for colocation is based on a minimum investment of \$250 million between 2007 and 2013.
- A new data center incentive program was passed by the **Texas** Legislature in 2013. The program provides a 100% exemption of sales taxes on computer equipment, mechanical & electrical equipment, cooling systems, power infrastructure, electricity, backup fuel, and software. The minimum thresholds include 20 new jobs and \$200 million of capital investment. The sales tax exemption is limited to data center facilities that are 100,000 square feet or larger. Tenants of colocation facilities are eligible for the incentive program.
- The state of **Ohio** amended its data center incentive program that was originally created in 2011. The amendments include: a) allowing tenants of colocation facilities to be eligible; b) lowering payroll threshold to \$1.5 million from \$5 million; and c) allowing minimum thresholds to be covered by tenants and owner of a colocation

facility. Ohio's data center incentive can be up to 100% of sales taxes on construction materials, computer equipment, mechanical & electrical equipment, cooling systems, and power infrastructure. In addition to the minimum payroll, eligible data center users are required to invest at least \$100 million.



FINAL THOUGHTS

Over the past eight years, states have increasingly jumped on to the data center bandwagon. States and communities alike want to increase tax revenues. The light is going off as policymakers realize that data centers can be a significant source of new revenue—sometimes even more so than typical economic development projects like headquarters, manufacturing, or distribution centers. While data centers do not directly create large employment opportunities, they do create a significant amount of high end construction employment for the period of construction which typically is around 24 months. Additionally, these assets once built are a key component to a company's overall operating environment and can create a long term investment in a community. Lastly, data centers tend to group together and it is likely that once a certain geography attracts a big name user others will follow (ie: Colorado Springs, Raleigh, Des Moines, etc).

Data center owner/operators can see sales tax breaks from select state, property tax abatements covering the facility and equipment, and cash grants to offset public infrastructure improvements. As demand for colocation facilities has increased over the years, some states are starting to allow these facilities and tenants to benefit from incentives that otherwise were only for enterprise users.

Companies are using incentives to help lower the long-term total cost of occupancy which only helps secure capital approval for projects. Developers are using incentives in certain markets to help lower the rent structure to compete with colocation facilities throughout the U.S.



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