



BILL SUMMARY

Data Centers Incentives HF 824

Status of Bill: House Floor (Passed Ways and Means 25-0)
Committee: Passed Economic Growth 20-0
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Background:

The bill provides property and sales tax exemptions for certain machinery, equipment and related items to encourage data centers to locate in Iowa. Iowa law already exempts the sale or rental of computers, machinery, and equipment used in manufacturing and computers used to process or store data by insurers, financial institutions, and other commercial enterprises. In addition, agricultural machinery and equipment is exempt from sales taxes. Therefore, the exemptions in this bill are consistent with longstanding state policy

Current tax incentives specifically targeted to internet and data center businesses:

1. A full sales tax exemption for certain web-search portal businesses. This exemption applies to the sales price on the computers and other related equipment necessary to operate such businesses. Businesses have to invest more than \$200M and purchase, option, or lease land in the state for the project before December 31, 2008.
2. A property tax exemption for certain web-search property. This exemption applies to property other than land and buildings, including computers and related equipment, but the property has to be utilized by a business that qualifies for the web-search portal exemption.
3. A sales tax refund for certain information technology facilities. The sales tax refund applies to the sales price on fuel and electricity used to operate an IT facility. To qualify, a business has to have a certain industry classification code particular to IT facilities, has to make an investment of \$1M, and must have a facility that meets LEED design standards.

However, current language policy is complex and each industry is a bit different. The Legislature passed HF 912 in 2007 to clarify these exemptions the computers and related equipment used by the Google web portal facility that located in Council Bluffs, so as to avoid the potential of interpretation disputes that could arise later with the Iowa Department of Revenue. The Legislature passed similar legislation in 2008 (HF 2223) to clarify these exemptions for the Microsoft web portal facility that intends to locate in Dallas County. This bill, in a similar manner, clarifies these exemptions for other types of data processing centers language.

HF 824 creates incentives for data center businesses modeled on existing incentives for web-search portals and IT facilities. These firms have national and international markets and the ability to locate outside Iowa if there are no incentives to locate here. Iowa has operations of differing magnitude, from data centers that use less than one megawatts of power to centers such as Google that use hundreds of megawatts of power. The large scale Google projects occur less frequently. Smaller data centers are

more “mobile” in the locations that can support their utility needs. There is also other assets to offer more flexibility with projects that would consider rural and urban areas. Also, with the stimulus federal funds focusing on rural broadband, opportunities in this area for rural areas should increase over time.

According to the Department of Economic Development (DED), no other state currently has a refund of this nature specifically for data centers. A refund also would allow the Department of Revenue to track the “cost” more easily and the company will not get a state benefit unless the company invests.

BILL SUMMARY, HF 824

The bill provides a sales tax refund on the sale price or rental of computers and equipment that are necessary for the maintenance and operation of data centers. This would include the sales price of backup power generation fuel and the sales price on the electricity purchased by a data center.

The bill provides a graduated scale of incentives based on the relative size of the investment a business makes in the state. The data center is required to have a physical location in the state of at least 5,000 aggregate square feet. Data center and data center business are defined in the bill. The data center business, at all incentive levels, is required to comply with the sustainable design and construction standards established by the state building code commissioner, but the LEED requirements are eliminated. The property tax exemption does not include land or buildings.

1. Large investments on the scale of a Microsoft or Google qualify for similar incentives: a full sales tax exemption and a property tax exemption on equipment and electricity. The exemption is now available for a "data center business" instead of the more narrowly focused "web search portal business," but the minimum investment amount remains \$200M.
2. Medium sized investments, a business investing more than \$5 million in a rehabilitated building or \$10 million in new construction, but less than \$200 million, is eligible for a 50% sales tax refund. The refund is available for varying periods of time, with the length of time determined by the amount of the investment:
 - A. If the investment is at least \$136 million but less than \$200 million, the refund period is seven years.
 - B. If the investment is at least \$73 million but less than \$136 million, the refund period is 10 years.
 - C. If the investment is at least \$5 million for a rehabilitated building or at least \$10 million for new construction, but less than \$73 million, the refund period is 15 years.
3. Smaller investments also qualify for a 50% refund, but the refund does not include equipment. Smaller investments are only eligible for 5 years of refunds, but the minimum investment is \$1M.

The refund for a business investing more than \$5 million in a rehabilitated building or \$10 million in new construction, but less than \$200 million, covers the same items as the sales tax exemption available to businesses investing more than \$200 million. To qualify for the refund, a data center business must have a physical location in the state that is at least 5,000 square feet and must comply with the sustainable design and construction standards set by the state building code commissioner.

A business investing at least \$1 million but less than \$5 million for a rehabilitated building or \$10 million for new construction is also eligible for a 50 percent refund, but the refund period is five years and the refund covers the sales price of fuel and electricity, but does not cover the computers and related equipment included in the refund for larger investments.

State funding of local property tax exemptions will not apply to the property tax exemption for data center businesses. This is similar to the existing exemptions for web search portal businesses, which also except web search property tax exemptions from the state funding requirement. The sales and use tax refunds provided in the bill apply to sales and use taxes paid on or after July 1, 2009.

DED estimates that with 5 projects there will be potential tax revenue of \$5.076 million, and a sales tax refund of \$4.698 million, so they claim a net gain of \$378,000. The 5 firms according to DED will create 270 new jobs, paying \$54,400 average salaries, and will generate \$944,000 in personal income taxes and sales taxes annually.