HB 1389 – Keeping Colorado in the Tech Game

Why Data Centers are Crucial for Colorado

Data Center Coalition

Organizations supporting encouraging the retention and growth of Data Centers in Colorado through the development of a sophisticated tax framework include, as of March 14, the following:

Aurora Chamber of Commerce
Black Hills Corporation
Colorado Technology Association
Colorado Springs Utilities
Denver South Economic Development Partnership
Hosting.com
Niobrara Data Center and Energy Park
Visa
Coalition for a Connected West
Colorado Association of Commerce and Industry
Colorado Springs Regional Business Alliance
Critical Facilities Technology
Hewlett Packard
IBM Corporation
Northern Colorado Legislative Alliance
Xcel Energy

Data Centers provide the life-blood for business and industry. Nearly all Fortune 1000 companies utilize data centers for their operations. As Colorado competes for new jobs in the technology sector, its natural and manmade amenities – its abundant power, fiber, infrastructure and geo-stability – create a strong foundation to propel itself into the top tier for attracting data center.

A sophisticated tax framework that recognizes the initial and on-going capital-intensive nature of Data Centers is one of the most critical factors in determining where Data Centers are located. This type of tax framework is currently lacking in Colorado.

House Bill 1389's Purpose

The bill provides data center developers with additional incentive to invest in Colorado by allowing qualified new and refurbished data centers an exemption from the Colorado sales tax for information technology equipment purchased for the data center.

Details on the Exemption

Qualified data centers include:

(1) New facilities that are 25,000ft^2 and greater and where an investment of $30M or more is made within a 60-month period, and
(2) Substantially refurbished buildings over 25,000ft^2 that have been rebuilt or modified to accommodate a data center. A qualified refurbished facility must invest at least $15M within a 24 month period.
(3) Qualification and approval will be determined by OEDIT and the Economic Development Commission.

Exemptions are effective for purchases made after June 30, 2014.

Data Center Benefits to the Colorado Economy

A CBRE report, done for the state of Texas, estimated the economic effects of the investment of a singular data center facility between $500M (for a small data center facility) to $1.7B (for a large facility) over 10 years.

Ancillary jobs

The jobs created by data centers have a demonstrated multiplier effect: "each job in an innovation industry creates five additional jobs indirectly."

Based on research conducted by the Arizona Datacenter Coalition, a datacenter of 100,000ft^2 will create on average over 160 direct and indirect jobs.

Property Taxes

A fully completed and utilized 50,000 ft^2 datacenter could generate approximately 12,000,000–15,000,000 in real and personal property tax over a 5 year period at a tax rate of 12%. In an average jurisdiction, 50–70% of these dollars are directed to the school district.

Furthermore, equipment inside data centers is typically replaced or upgraded every three to five years on a rotating basis, meaning property tax revenue remains consistent and is steadily generated for the lifetime of the data center. Data centers don't move or shut down, either—a GTE data center built in San Angelo, Texas, in the 1980s is still used by USAA as a backup center for its newer facilities.

High Infrastructure Development, Low Wear and Tear

Because data centers are indispensable to their customers, electrical service to the building must be nearly seamless. The 88GWh annual demand a $100M facility generates often means additional expenditures for electrical infrastructure buildout, which generates tax dollars and construction jobs, and spurs further infrastructure development. Despite their large energy demands, however, data centers put relatively little load on surrounding public infrastructure like water, roads, and schools.

Broadband Rollout

The fiber optic backhaul data centers need provides a foundation on which other industries and companies can establish their presence on the Internet. In South Bend, Indiana, for instance, a commercial park has sprung up as a result of a local data center's backbone connection to the Internet. That data center has also enhanced nearby Notre Dame University's connectivity and enhanced the e-business of a local manufacturer.

Will Tax Incentives Influence Data Center Construction?

Tax incentives not only lower the cost of doing business for a data center operator, but also demonstrate a state's commitment to advanced computing technologies. In 2012, Virginia passed its own tax incentive for data centers. Since then, the state has seen 17 new data centers, one of which represents a $900M investment.