

How Reno landed Apple, one of the biggest prizes in the data center industry

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APPLE DATA CENTER TIMELINE

2009: United Infrastructure Group determines Reno's suitability as a data center location and decides it would be a good idea to build a technology campus in Northern Nevada. The developer starts reaching out to potential tenants after the decision, including Apple.

June 6, 2011: Apple announces its iCloud service at the Apple Worldwide Developers Conference (WWDC). The new online cloud storage service, in addition to continued growth by Apple's popular App Store and iTunes offerings, meant the company needed more data centers to boost its data storage capacity.

February 7, 2012: During a tour of Pacific Cheese Company in Reno, Nevada Governor's Office of Economic Development Director Steve Hill gets a call that Apple representatives are in town and would like to have a meeting in the afternoon. Hill learns that Reno-Sparks is one of several areas Apple is considering for its next data center. Hill also finds out that Gov. Brian Sandoval has met with Apple representatives previously.

June 26, 2012: Apple officially confirms its selection of Reno-Sparks as the site of its next data center and business office after the Washoe County Commission approves tax abatements that would give the company an 85 percent break on its property taxes.

June 27, 2012: The City of Reno approves about \$73 million in tax breaks over the next decade for Apple.

Aug. 1, 2012: Nevada's economic development board endorses the tax break deals for Apple, which will be worth \$89 million.

Source: RGJ research

KEY PLAYERS IN LANDING THE APPLE DATA CENTER

United Infrastructure Group: Developer's decision to build the Reno Technology Park and woo Apple played an important role in landing data center.

Northern Nevada Urban Development Company: Developer's Tessera project in downtown Reno will serve as the site for Apple business center.

Nevada Governor's Office of Economic Development: Director Steve Hill took charge in bringing local entities together to come up with an incentive package for Apple.

Washoe County Commission: Agreed to provide Apple an 85 percent property tax reduction over 10 years.

City of Reno: Approved a sales tax reduction of 75 percent for Apple.

Washoe County School District: Agreed to a waiver of sales tax reimbursements it would normally receive from the Apple development.

Source: RGJ research

Fruit and cheese go hand in hand in many a celebration.

For Steve Hill, it would prove to be the theme for one of the more memorable days of his professional career.

Four months into his new stint as director of the Nevada Governor's Office of Economic Development, Hill was out in early February to celebrate one of the state's success stories — an expansion of Pacific Cheese Co.'s operations in Reno. Little did he know that the biggest success of his young tenure was yet to come.

Midway during Hill's visit to the expanding facility with Gov. Brian Sandoval, his cellphone rang.

"Someone from my office called and said, 'Hey, there are some folks from Apple here in town and they want to get together,'" Hill said. "Obviously, this was a pretty big opportunity. I ended up peeling away from the tour."

The meeting was Hill's first involvement in a deal whose foundations were being carefully laid even before he jumped in.

Much of economic development dealmaking is confidential in nature, and, in the corporate world, Apple is known to especially value secrecy — both for its products and its operations. For example, Hill would later find out that

Sandoval had already met with Apple representatives.

A linchpin for the deal goes back even further. In early 2009, developer Unique Infrastructure Group thought it would be a good idea to build a campus in Northern Nevada to attract data centers. The decision would ultimately culminate in the Reno Technology Park east of Sparks.

It was a bold bet. Nevada did not even crack the top 20 for data center locations among site selectors at the time, said Mike Kazmierski, president and CEO of the Economic Development Authority of Western Nevada.

On paper, however, it all made sense, said Steve Polikalas, Unique Infrastructure Group's attorney.

"UIG identified that the Reno area would be a good fit for a data center because it had a suitable geographic location with certain elements in place that data centers need and want," Polikalas said. "These include access to power and redundancies for that power, access to fiber (optic cable) or 'glass in the ground,' and a safety zone free from high risk of natural or man-made disasters."

Once the group decided to build the campus, it was time to cast its nets to find clients for their facility. In the prized waters of the data center sector, a certain company based in Cupertino, Calif., was easily one of the bigger fish. With the continued growth of services such as iTunes and the App Store, reaching out to Apple two years ago was a no-brainer, Polikalas said.

"The data center project has been reaching out to potential tenants for quite some time," Polikalas said. "Apple's data storage needs are growing as fast as the technology seems to be, and that's a company that's always on top of anybody's wish list."

A taxing issue

Despite Northern Nevada's geographic appeal, serious hurdles remained that could scuttle a deal with Apple.

At the top of the list was something Nevada takes pride in when touting its business-friendly environment: the state's tax structure.

Although Nevada's lack of a corporate income tax is typically an advantage when attracting treasury operations or any business endeavor that reports revenue, it did not have much bearing when it came to data centers.

Instead, the two biggest taxes that affect data centers are sales and property tax — two key sources of revenue that Nevada banks on because it does not tax income.

"Unlike a lot of states that target this sector, what we lacked was the ability to mitigate the tax implications of the enormous spend that data centers make on computers," Polikalas said. "These things are very expensive, and you have states like Oregon where there's no sales tax and they also have tax mitigation legislation specifically for attracting data centers. States like Nebraska and Wyoming have also implemented data center-specific legislation."

Adding to the challenge is the fact that other states — Texas and Utah, for example — have bigger incentive packages than Nevada, said Dennis Donovan, a principal with New Jersey-based site selection firm Wadley Donovan Gutshaw Consulting. Such advantages especially get magnified once a company narrows the site search to its final three to five locations, Donovan said.

"On balance, when you put all these things together, the company will go to the location with the best infrastructure and the lowest cost," Donovan said. "That's what it's all about. So property and sales tax breaks can be very important when closing a deal."

Cautious optimism

Solving the tax equation was where Hill came in.

As the head of the top economic development agency in Nevada, he was responsible for bringing together state and local entities to come up with an offer that would convince Apple to pull the trigger.

A veteran of the construction sector, Hill approached the deal with tempered enthusiasm.

“I come from the concrete industry where we do jobs all the time, and you realize pretty quickly that only one in 10 leads pan out,” Hill said. “Given Apple’s reputation, I admit that I was excited, but you also have to develop the discipline not to get too excited or you end up in an emotional roller coaster.”

With any economic development deal, the first step is to arm yourself with information, Hill said.

The Governor’s Office of Economic Development commissioned Phoenix-based Applied Economics to do an economic impact study as well as a competitive analysis. The latter was especially crucial to see where Nevada stood compared to its potential rivals, Hill said. It was also necessary in order to be able to quickly respond to any request for information from Apple, Hill added.

By the end of February, Hill’s office received Applied Economics’ first draft, which identified two key areas of focus — power costs and tax provisions.

Although energy costs are always a key consideration for any company looking to move or expand into an area, it’s particularly important for power-hungry data centers, Donovan said.

“They don’t want just low-cost electric power but it also has to be reliable,” Donovan said. “They also look at the source of that power and make sure that there is enough to support extra capacity without costs increasing dramatically if it’s needed in the future.”

The site for the proposed data center — Reno Technology Park — currently has access to eight transmission lines as well as renewable energy sources, something that is always a key consideration for Apple.

In the past, power was the area’s biggest Achilles heel when it came to attracting data centers. Power costs, however, have gone down from about 12 cents per kilowatt hour to around 7 cents per kilowatt hour.

Although still a bit high compared to some areas, investments in infrastructure also ensure that Nevada will not see a big increase in utility rates in the future compared to other areas, said EDawn’s Kazmierski.

“Our area has been discounted by this sector for many reasons and the biggest one was the cost of power,” Kazmierski said. “The good news is that NV Energy has really moved to make our power rates more competitive. The renewable energy in our portfolio also isn’t heavily subsidized, so it’s going to be there for a long time.”

Putting it together

The next step was creating an incentive package that was attractive enough for Apple.

Although Nevada does not have an incentive program with the breadth of resources that other areas may have, the restructuring of the state’s economic development system in 2011 helped stock its quiver with more proverbial arrows.

At the center of the restructuring was an increased focus in public-private partnerships, as well as a more regional approach to economic development that would be overseen by the newly minted Governor’s Office of Economic Development.

“By pooling our resources and getting our regional partners in the state, county, city and even the school district together, it was possible for us to provide a level of incentives that put us in a very competitive position with other locations,” said Peter Wallish, economic development administrator of the city of Reno.

The combined efforts yielded a package of three tax abatements.

First, the state offered to reduce Apple's sales tax rate to 2 percent, down from 7.7 percent. The reduction amounts to about \$72.2 million over a decade and could last up to 12 years.

The city of Reno then agreed to let Apple keep two-thirds of the aforementioned 2 percent, reducing its effective tax rate to a half percent.

Apple also was offered a 10-year property tax reduction of 85 percent by the county, which amounts to about \$16.7 million. The reduction can be extended for two more 10-year periods through 2042. The Washoe County School District agreed to a waiver of sales tax reimbursements it would normally receive from the Apple development as well.

Taken as a whole, the incentive package made the region competitive against other prospective sites. As attractive as the package was, however, there still was one city that Nevada's deal could not flat out beat: Prineville in Oregon's Crook County.

Prineville was so attractive that Apple already chose it as the site for an earlier data center, which started construction this year. Facebook also has a data center in the city and is building a second 330,000-square-foot facility as well. Just northeast of Prineville in Morrow County, Amazon is building a data center — its second in the state.

"When we got our competitive analysis back, that was the area that, from a financial standpoint, was cheaper than Nevada regardless of what package we put together," Hill said. "Some of it involves energy cost. Some of it was tax structure."

Keeping it in house

With Nevada's best offer on the table, the rest was in Apple's hands.

Besides dealing with the uncertainty surrounding Reno-Sparks' chances of landing Apple, the parties involved also had to make sure word of a potential Apple deal did not leak out — a giant task given the company's high profile.

Back in May, for example, U.S. Senate Majority Leader Harry Reid reportedly told a visiting group from Nevada that he was helping bring Apple to the state. At the time, a spokesperson for Reid responded to a query from the Reno Gazette-Journal by saying that the senator "is not going to comment on private meetings and conversations."

"As amazing a possibility as this was, you have to make sure you keep everything under wraps out of respect for the company and all our regional partners who have been working with the developer to bring Apple to the region," Wallish said. "You don't want to do anything that would diminish the opportunity of them coming here."

It was around March that Hill finally started thinking that Nevada was in good position to land Apple's new data center. Hill believes Northern Nevada's proximity to Silicon Valley was one advantage the region had over its competitors.

"By then, we started talking about details of the agreement and not just going, 'Hey, this doesn't work,'" Hill said. "It really seemed to be heading toward a conclusion as opposed to a more scattered approach."

Unique Infrastructure Group declined to discuss the specifics of the developer's deal with Apple. Apple also did not respond to requests for comment.

It's a deal

By early June, all parties involved in bringing Apple's data center to Nevada were finally able to exhale. Apple informed all parties that it has chosen Northern Nevada as the site of a new data center and business purchasing facility. Two weeks later, Apple confirmed the deal publicly.

“We hope to build Apple’s next data center in Reno to support Apple’s iTunes Store, App Store and incredibly popular iCloud services,” said Apple spokesperson Kristin Huguet.

The deal meant 35 full-time and 200 long-term contractor positions, as well as 500 temporary construction jobs. Apple also will invest about \$1 billion in the community over 10 years.

The deal was described as a major coup for an area that is not traditionally known as a heavyweight in the data center sector. It also could be the deal that helps solidify Nevada’s position as a key data center player, along with Switch Communications’ 2.2 million-square-foot facility in Southern Nevada and NJVC’s new 20,000-square-foot data center in Reno.

The Apple announcement, for example, immediately paid dividends for another industrial park, the Tahoe-Reno Industrial Center, which was trying to add two other data centers into its fold. After working on those two prospects for a couple of years, both deals suddenly were accelerated after Apple’s announcement, said Len Gilman, who oversees sales, site selection and marketing for the Tahoe-Reno Industrial Center.

“The two groups were actually trying to find the proper capital, and this was a relatively new location for data centers as far as the banks were concerned,” said Gilman, who declined to name the clients. “They were trying to justify this location to the banks, who were being cautious because the area did not have a brand anchor. With Apple coming in, however, the money was suddenly turned loose.”

Remaking area's image

Gilman expects both projects to be constructed within the next two years. For those involved in the Apple deal, the impact of the company’s decision to pick Northern Nevada justified the incentive package that was put together.

“Without these incentives, there was a very high possibility that Apple would go to another location,” Wallish said. “You have to give up some or you get nothing, and what we got back in return are jobs and a \$1 billion investment by Apple.”

The opinion was seconded by site-selection expert Donovan, who said incentives are an integral part of any effort to attract companies such as Apple. Nevada actually did quite well compared to other data center deals from the past, he added. Google, for example, received more than \$100 million in incentives for a similar facility in North Carolina, Donovan said.

“You gotta pay to play, and Nevada did good enough without giving away the store,” Donovan said. “Other communities offered considerably more to companies such as Google, Yahoo and Oracle for their data centers.”

For Polikalas, the Apple deal represents the perfect example of good things that can happen when the private and public sectors work together.

“All levels of government truly came together despite their differences and worked with private entities to make this happen,” Polikalas said. “There was no dissension or internal strife. It’s something that the state can be proud of.”

Meanwhile, the importance of hooking a catch as big as Apple cannot be overstated, said EDawn’s Kazmierski. The impact on the region’s image alone — a key challenge in selling Northern Nevada to out-of-state businesses — is significant, Kazmierski said.

“This is one of those occurrences that only happens once every 15 years or so,” Kazmierski said. “To get a top 10 major company to make a major commitment to your region is really pretty rare because you just have so many obstacles. This helps us get over the hurdle of just being a small town.

“It turns us into a player, not just for data centers but other sectors as well.”



Burning Man Saturday



Burning Man Friday



Mug shots



Prostitution sting

Northern Nevada:
Cougar Town: We
can't make this stuff
up! (Reno
Gazette-Journal)

• Trump: If Things
Don't Change Soon "We're Not Going To

Make It." (Money Morning)