Office of the City Manager

MEMORANDUM

DATE: June 22, 2012

TO: Mayor and Council

THRU: Andrew Clinger, City Manager

FROM: Bill Thomas, Assistant City Manager
Peter J. Wallish, Economic Development Administrator

SUBJECT: **Staff Report for Project Jonathan (Item J.11)**

Please find the attached Staff Report for Item J.11 on the June 27, 2012 City Council Agenda.

STAFF REPORT

Agenda Item: **J.11**
Date: **06-27-2012**

To: Mayor and City Council

Thru: Andrew Clinger, City Manager

Subject:
Staff Report (For Possible Action): Discussion, direction, and potential approval of Amendment No. 1 of the Reimbursement Agreement dated June 8, 2011 by and between the City of Reno and Northern Nevada Urban Development and Management Company.

From: Bill Thomas, Assistant City Manger, CMO
Peter Wallish, Economic Development Administrator, CMO

Summary: Staff presents for City Council discussion and possible approval the Amendment No. 1 to Reimbursement Agreement for the Téssera Tourism Improvement District (the "District"). Approval of the proposed agreement will allow Sales Tax Increment ("STI") generated by the District to be made available to Northern Nevada Urban Development & Management Company, LLC ("NNUDMC") for the cost of acquiring certain tenants, including those that might serve as a catalyst to bring other tenants, people, businesses and economic activity to the District. The attached proposed agreement is being presented to Council for approval to assist NNUDMC in attracting and retaining Apple Inc. as a tenant of the Phase 1 District development. All future phases of development will return to City Council for approval prior to construction or implementation.

Previous Council Action: At the June 8, 2011 City Council Meeting, the City Council approved the Reimbursement Agreement for the Téssera District to assist in development and tenant attraction of the District

Discussion: The previously approved Reimbursement Agreement allows the use of a portion of STI generated by the District to be made available to reimburse NNUMDC for the cost of acquiring, improving or equipping, or any combination thereof, any project, within the District. The proposed Amendment is being presented to Council for possible approval will assist NNUDMC in financing of the first phase of development through the generation of tenant lease(s). Additionally, the proposed Amendment covers Phase 1 only, and all future phases of development will return to City Council for approval prior to construction or implementation.

NNUDMC and City staff recognize the overall purpose of the District is to bring economic development to the City of Reno, and in part by attracting new tenants, people, businesses and economic activity to the District. Through this process, NNUDMC has actively sought to secure tenants, including those that might serve as a catalyst to bring other tenants, people, businesses and economic activity to the District. The prospective tenant, Apple, Inc. ("Assignee"), has stated the desire to construct and operate a new data center in unincorporated Washoe County, Nevada at the Reno Technology Park (the "Data Center"), and to establish and open a regional business, purchasing and receiving office (the "Business Office") in the District. Approval of the proposed Amendment will provide reimbursement of STI to NNUDMC or Assignee in order to enable both the Data Center and the acquisition and opening of the downtown Reno Business Office.

The Assignee intends to apply to the Nevada Governor's Office of Economic Development to seek abatement of Nevada Sales and Use Tax except for the 2% sales and/or use tax under Chapter 372 of the Nevada Revised Statutes, and an abatement of a portion of property tax under

Chapter 361 of the Nevada Revised Statutes (the "State Tax Abatements"). In connection with the Data Center, Assignee's agreement to locate the Business Office in the District is contingent on Assignee receiving the State Tax Abatements, as well as reimbursement from the NNUDMC under the Reimbursement Agreement for an amount equal to a portion of sales and use taxes associated with Assignee's purchase of certain tangible personal property delivered to the Business Office, and specifically, computer servers and other equipment. Assignee is also requiring that the Business Office be located in a facility that it deems suitable for retail, and which it may power in whole or in part by renewable energy.

The City and NNUDMC believe that costs incurred in connection with the Amendment and of the acquisition, establishment and opening of the Business Office in the District are desirable and reasonable in order to acquire, equip and improve projects within the District. The acquisition of the Business Office and Data Center will provide economic development benefits to the City of Reno and Washoe County, Nevada. NNUDMC and City recognize that the Business Office will support efforts to attract additional tenants, people, businesses and economic activity to the District which will improve the District and the economy of the City and Washoe County.

To facilitate the project, NNUDMC has conditionally agreed to reimburse Assignee the amount of 75% of the 2% sales or use tax imposed upon and paid by Assignee under Chapter 372 of the Nevada Revised Statutes for Assignee's purchases as described herein.

Staff has included the economic analysis completed by Applied Economics (Attachment A) on behalf of State of Nevada which covers the regional advantages of the Data Center campus. Based upon the analysis, approval of this project would allow for the creation of 35 direct jobs with an average wage of $36.06 per hour, and would also employ 200 independent contractors on a long term basis at an average wage of $19.83 per hour. Below is a Summary of Key Findings.

Summary of Key Findings

Jobs and Income Created	Jobs	Annual Personal Income
Data Center Employees	35 to 41	$2.6 million to $3.1 million
Long-term, independent contractors	200	$8.2 million
Indirect	88	$3.7 million
Total	329	$15.0 million
10 Year Total Output Impact	$342.9 million	
Construction Impact		
Direct Jobs	580	
Indirect Jobs	270	
One-time Economic Impact	$103.2 million	
Capital Investment		
Land and Construction	$14.6 million	
Backbone Infrastructure	$64.6 million	
Equipment	$1.0 billion	
Year One Tax Revenue		
State of Nevada	$1.4 million	
Washoe County/Other Local Govt	$1.7 million	
Washoe County School District	$1.0 million	
Ten Year Tax Revenue		
State of Nevada	$7.1 million	
Washoe County/Other Local Govt	$6.5 million	
Washoe County School District	$2.4 million	

The development of the Data Center will provide the City with 29.17% of the County and other Local Governments Sales Tax. Based on the projections above, it is estimated the City of Reno will receive $1,671,085 over 10 years from construction and operations of the Data Center.

Financial Implications: None.

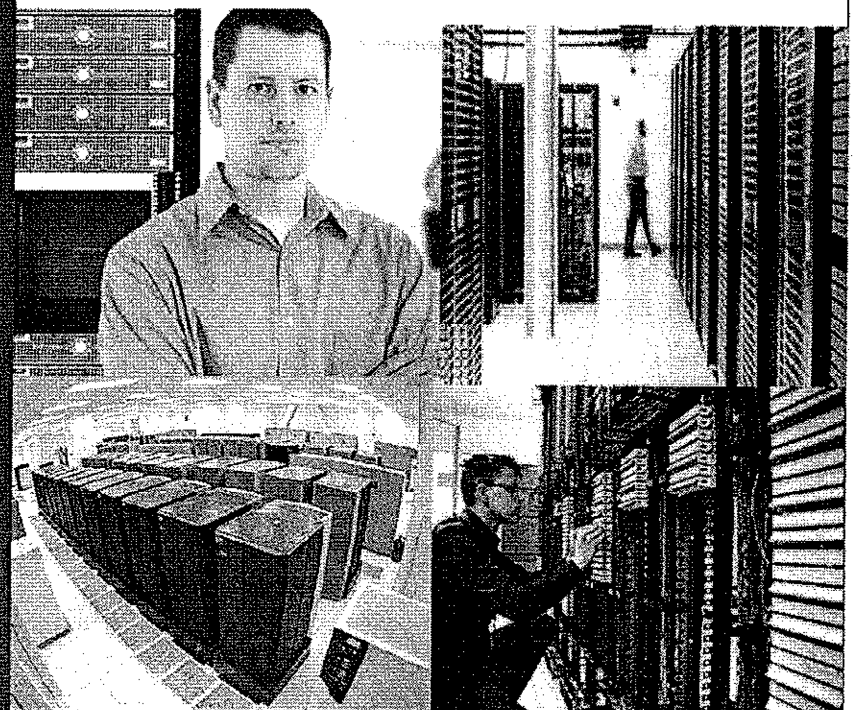
Recommendation: Staff recommends the acceptance and approval of the proposed Amendment No. 1 Reimbursement Agreement Téssera District.

Proposed Motion: I move to accept staff's recommendation.

Attachment A: Economic Impact of Project Jonathan on Washoe County
Attachment B: Amendment No. 1 to Reimbursement Agreement for the Téssera Tourism Improvement District.

Attachment A

Economic Impact of Project Jonathan on Washoe County



Prepared By:

Applied Economics

June 2012

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INTRODUCTION

Applied Economics has been contracted to perform a third party economic analysis of a data center campus in Washoe County, Nevada, referred to as Project Jonathon, in order to quantify the impacts of their operations on the city, county and state relative to the amount of abatements and reimbursements being offered to the company. This analysis is intended to provide a framework for understanding the economic and revenue impacts of the company's proposed location in Washoe County.

The information and observations contained in this report are based on our present knowledge of the components of development, and of the current physical, socioeconomic and fiscal conditions of the affected areas. Estimates made in this analysis are based on hypothetical assumptions, current tax policies, and the current economic structure of the region. However, even if the assumptions outlined in this report were to occur, there will usually be differences between the estimates and the actual results because events and circumstances frequently do not occur as expected. This analysis is based on the best available information and is intended to aid the State of Nevada in quantifying the impacts of Project Jonathan the local economy. In no way will Applied Economics be held responsible or have any liability or be subject to damages as a result of this analysis. This report may be used only for the purposes that it was intended.

Project Summary

Based on the assumptions used in this analysis, the company would initially create 35 direct jobs at an average wage of $36.06 per hour, and would also employ 200 independent contractors on a long term basis at an average wage of $19.83 per hour. They would add 6 more employees within the second four years of operations.[1] Under the pro-forma shown here, the company would purchase land in Washoe County valued at $8.625 million. They would make a $6.0 million investment in buildings and electric feed on that site. They would also invest $64.6 million in backbone infrastructure and related fiber optic and distribution networks to support the data center. In terms of equipment, the analysis assumes they would invest $100.0 million in computer and power equipment each year. The results show the overall impacts of Project Jonathan over the next ten years.

[1] Based on the sales tax abatement terms, the company would be required to meet two of the three following criteria in the second four years of operations in order to qualify for an additional 4 year abatement term: 1) increase full time employment by a minimum of 6 employees or 10%, whichever is greater; 2) expand the project by 20% of the value of depreciated assets; 3) maintain an average wage for employees the higher of either the average state or average Washoe County wage during the abatement period.

IMPACT SUMMARY

The development and operation of Project Jonathan in Washoe County would provide a variety of economic benefits to the region. These benefits, or economic impacts, are derived from expenditures made in the local economy. These economic impacts include direct and indirect jobs, personal income, and economic activity that are generated by the data center project. Project Jonathan would result in a major capital investment in Washoe County as well as generating a sizeable number of new jobs that would provide economic benefits to the region.

Summary of Key Findings

Jobs and Income Created	Jobs	Annual Personal Income
Data Center Employees	35 to 41	\$2.6 million to \$3.1 million
Long-term, independent contractors	200	\$8.2 million
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State of Nevada	\$7.1 million
Washoe County/Other Local Govt	\$6.5 million
Washoe County School District	\$2.4 million

The operations of Project Jonathan in Washoe County would provide a variety of economic benefits to the region. Economic impacts measure the effects of economic stimuli, or expenditures, in the local economy. These impacts include direct and indirect jobs, personal income, and economic activity, or output that are generated by Project Jonathan. Indirect impacts are the result of the multiplier effect and capture supported supplier and consumer businesses and their employees that would benefit from this type of facility.

Project Jonathan would make a major capital investment in Washoe County as well as generating a sizeable number of new jobs that would provide economic benefits to the region.

Economic Impacts

- **Overall Operations Impacts.** All total, Project Jonathan could create an economic impact of $342.9 million on Washoe County over the next 10 years. Their operations would directly and indirectly support an estimated 329 jobs (based on 241 direct jobs) and $15.0 million in personal income each year in the county.

- **Jobs and Income.** The facility would directly employ about 35 people with a payroll of $2.6 million annually, increasing to 41 people and a payroll of $3.1 million by 2016. They would also hire 200 contract employees at a cost of $8.2 million. Through the multiplier effect, an additional 88 jobs and $3.7 million in annual payroll could be supported at other local businesses. The additional jobs and payroll at other local businesses stem from direct and indirect impacts of supplier demand created by Project Jonathan and consumer demand created by its employees.

- **Construction Impacts.** About 580 direct construction jobs and 270 additional indirect jobs would be created in Washoe County through the new construction activity associated with the backbone infrastructure, building and site improvements for the data center. This would result in a one-time economic impact of $103.2 million. A total of about $2.8 million in one-time construction sales tax would also be generated during the construction phase. These construction impacts are in addition to the operations impact detailed above.

- **Supported Population.** The 241 jobs and 88 indirect jobs associated with Project Jonathan's operations would support a population (including families) of about 700 people in Washoe County. This estimate assumes that approximately 96 percent of the workforce would be likely to live in the county.

Revenue Impacts

- **Direct Revenue Impacts.** Project Jonathan would also generate significant tax revenues to the county, school district and state in addition to the economic impacts described above. They would generate a modest amount of sales tax on on-going equipment purchases, net of abatements and reimbursements, as well as sales and franchise tax on utility usage, and one-time construction sales tax for a total of $11.3 million over 10 years, net of abatements and reimbursements. The new construction and equipment purchases would result in increased property value that would translate into additional property taxes for the county, school district and state estimated at $3.5 million over 10 years, net of abatements and reimbursements. They would also generate $1.2 million in modified business taxes to the state. All total, the company would generate about $16.0 million in direct revenues the next 10 years.

- **Indirect Revenue Impacts.** In addition to direct revenues, Project Jonathan and its employees would generate indirect property and sales tax revenues through employee spending and property ownership. Indirect revenues are estimated at $8.1 million over 10 years.

- **Value of Abatements and Reimbursements.** Over the 10 year period, the company could generate a total of $24.1 million in direct and indirect revenues in Nevada, net of abatements and reimbursements. The proposed package of abatements and reimbursements would total $89.1 million over 10 years, effectively reducing the company's tax burden by 79 percent. The abatements include an 85 percent personal property abatement for 10 to 30 years, and an abatement of sales and use taxes imposed under Chapters 374, 374A, 376A, 377, 377A and 377B of the Nevada Revised Statutes. Although not a part of the State Economic Development abatements, the applicant will receive a reimbursement of the 75% pledge of an amount equal to the proceeds of the taxes imposed under NRS 372.105 and NRS 372.185 in compliance with the City of Reno Ordinance 6127 dated September 23, 2009 on certain equipment purchases for up to 17 years. *The figures shown in this analysis only include data for the first 10 years.*

Project Jonathan would be an important contributor to the region's economy at a time when job growth and investment is critically needed to spur economic recovery in the state. All of the jobs created by the data center would be net new jobs thereby growing the economy both locally and regionally. The attraction of this company to Washoe County would not only create new quality jobs in the community, but also support a sizeable amount of additional economic activity, jobs and payroll at related local supplier and consumer businesses.

FIGURE 1
PROJECT DESCRIPTION

Year	Jobs	Payroll	Capital Investment		
			Construction	Land	Equipment
2012	235	$10,874,448	$6,000,000	$8,625,000	$100,000,000
2013	235	$10,874,448	$0	$0	$100,000,000
2014	235	$10,874,448	$0	$0	$100,000,000
2015	235	$10,874,448	$0	$0	$100,000,000
2016	241	$11,324,477	$0	$0	$100,000,000
2017	241	$11,324,477	$0	$0	$100,000,000
2018	241	$11,324,477	$0	$0	$100,000,000
2019	241	$11,324,477	$0	$0	$100,000,000
2020	241	$11,324,477	$0	$0	$100,000,000
2021	241	$11,324,477	$0	$0	$100,000,000
Total	241	$111,444,653	$6,000,000	$8,625,000	$1,000,000,000

ECONOMIC IMPACT ANALYSIS

The economic benefits resulting from the attraction of Project Jonathan to Washoe County can be measured in terms of both the one-time construction impacts and on-going operations impacts. These impacts include direct and indirect jobs, personal income and economic activity, or output that would be generated by the project. Indirect impacts are the result of the multiplier effect and capture supported supplier and consumer businesses and employees in Washoe County that would benefit from the new facility.

Construction Impacts

Total personal income, or earnings, from construction and the total increase in economic activity from new construction expenditures are shown in Figure 2. The building and electric feed improvements associated with this project would result in direct construction expenditures of about $6.0 million. Additional backbone infrastructure construction would also be required to support the data center. This would include site prep and improvements as well as the installation of the fiber optic network, power distribution network and security system. The total cost of these items is estimated at $96.1 million. However, the cost of equipment such as the power distribution equipment, that is purchased out of state does not create local economic impacts in terms of jobs and payroll and is excluded. The resulting impacts are based on local costs of $64.6 million.

The multiplier effect of this spending would result in a total increase in economic activity of about $103.2 million throughout the county. The approximately 850 direct and indirect jobs created locally by the construction project could result in close to $44.3 million in personal income over the construction period.

FIGURE 2
CONSTRUCTION IMPACT OF PROJECT JONATHAN
ON WASHOE COUNTY

	Direct			Total		
	Construction Expenditures	Jobs	Personal Income	Output	Jobs	Personal Income
Building Construction	$6,000,000	49	$2,944,297	$8,769,713	72	$3,763,622
Site Prep & Backbone Infrastructure	$27,798,447	228	$13,641,149	$40,630,733	334	$17,437,140
On-Site Fiber Optic Network	$5,000,000	41	$2,453,581	$7,308,094	60	$3,136,351
On-Site Power Distribution Network	$27,000,000	222	$13,249,338	$39,463,707	324	$16,936,298
Security	$4,800,000	39	$2,355,438	$7,015,770	58	$3,010,897
Total	$70,598,447	580	$34,643,803	$103,188,017	847	$44,284,308

Operations Impacts

The on-going economic impacts from the operations of Project Jonathan over the next 10 years are shown in Figure 3. The company would open with about 235 jobs (including independent contractors) and $10.9 million in payroll. By 2016, they would expand to 241 jobs (including independent contractors) and $11.3 million in payroll. Through their local supplier purchases, as well as employee spending, they could create an annual economic impact of $34.8 million, indirectly supporting about 88 additional jobs and $3.7 million in additional personal income in Washoe County.

The multiplier effect of the data center operations on the county would result in a total economic impact of $342.9 million over the next 10 years, based on direct employment of 235 to 241 jobs. Should the number of jobs increase, the economic impacts would increase proportionally.

FIGURE 3
ANNUAL OPERATIONS IMPACT OF PROJECT JONATHAN ON WASHOE COUNTY

	Direct			Total		
	Output	Jobs	Personal Income	Output	Jobs	Personal Income
2012	$23,278,448	235	$10,874,448	$33,454,658	319	$14,396,268
2013	$23,278,448	235	$10,874,448	$33,454,658	319	$14,396,268
2014	$23,278,448	235	$10,874,448	$33,454,658	319	$14,396,268
2015	$23,278,448	235	$10,874,448	$33,454,658	319	$14,396,268
2016	$24,241,805	241	$11,324,477	$34,839,147	329	$14,992,044
2017	$24,241,805	241	$11,324,477	$34,839,147	329	$14,992,044
2018	$24,241,805	241	$11,324,477	$34,839,147	329	$14,992,044
2019	$24,241,805	241	$11,324,477	$34,839,147	329	$14,992,044
2020	$24,241,805	241	$11,324,477	$34,839,147	329	$14,992,044
2021	$24,241,805	241	$11,324,477	$34,839,147	329	$14,992,044
10 Year Total	$238,564,621	241	$111,444,653	$342,853,515	329	$147,537,332

The new jobs generated directly and indirectly by the data center would support a total local population of about 700 people. This includes families of direct employees and independent contractors, as well as families of employees at related supplier and consumer businesses supported through the multiplier effect. This assumes that about 96 percent of the employees will work and live in Washoe County.

The secondary or indirect impacts described here are called multiplier effects. Multiplier effects are a way of representing the larger economic effects on the local economy. The multiplier effects translate an increase in output (loosely defined as sales, less profits) into a corresponding increase in jobs and personal income. In essence, the multiplier effect represents the recycling of local spending. This recycling process creates new business opportunities.

The multipliers used in this analysis are from IMPLAN, a national vendor of economic impact software, and are specific to the Washoe County. Industry specific multipliers for data processing and information services as well as for commercial construction were used in the analysis. The average output multiplier for operations is 1.44. This means that for every $1 million of output created by the company, an additional $440,000 in economic activity is generated in the local economy, along with 4 jobs and about $151,000 in payroll at other local businesses.

Revenue Impacts

In addition to supporting jobs and output at related businesses in the area through multiplier effects, Project Jonathan would also generate state and local tax revenues to Washoe County and other local governments, the school district and the state (Figure 4). All total, the company could generate $24.1 million in new direct and indirect tax revenues in Nevada, net of abatements and reimbursements, over the next 10 years.

Direct Revenues

Total direct property tax revenues are estimated at $3.5 million over the first 10 years of operations, including about $1.5 million to the Washoe County School District, $1.8 million to the county and $221,000 to the state (Figure 4). Direct property taxes are based on the depreciated value of tenant improvements and equipment purchases. There is no abatement on real property. Personal property taxes are net of an 85 percent abatement for 10 years. Additional personal property abatements could apply for up to two more 10 year periods.

FIGURE 4
DIRECT REVENUE IMPACT OF PROJECT JONATHAN
NET OF ABATEMENTS AND REIMBURSEMENTS
ON WASHOE COUNTY AND THE STATE

	School		County and Other Local Govts			State			Total
Year	Property Tax [2]	Sales Tax[1]	Property Tax [2]	Franchise Fees	Sales Tax[1]	Sales Tax[1]	Property Tax [2]	MBT	Direct Revenues
2012	$83,680	$947,414	$102,290	$420,480	$1,138,718	$1,228,780	$12,495	$116,672	$4,050,529
2013	$119,655	$0	$146,266	$560,640	$0	$500,000	$17,867	$116,672	$1,461,100
2014	$141,022	$0	$172,385	$700,800	$0	$500,000	$21,057	$116,672	$1,651,936
2015	$154,429	$0	$188,773	$840,960	$0	$500,000	$23,059	$116,672	$1,823,893
2016	$162,149	$0	$198,210	$981,120	$0	$500,000	$24,212	$121,622	$1,987,312
2017	$165,202	$0	$201,942	$0	$0	$500,000	$24,668	$121,622	$1,013,433
2018	$164,615	$0	$201,225	$0	$0	$500,000	$24,580	$121,622	$1,012,041
2019	$164,249	$0	$200,778	$0	$0	$500,000	$24,526	$121,622	$1,011,174
2020	$163,883	$0	$200,330	$0	$0	$500,000	$24,471	$121,622	$1,010,306
2021	$163,517	$0	$199,883	$0	$0	$500,000	$24,416	$121,622	$1,009,439
Total	$1,482,400	$947,414	$1,812,083	$3,504,000	$1,138,718	$5,728,780	$221,351	$1,196,418	$16,031,164

Note: All figures are in constant 2012 dollars. Analysis assumes 96% of employees live in the Washoe County for the calculation of indirect revenues.

[1] Includes nonrecurring construction sales tax on tenant improvments in first year. This analysis assumes an abatement of sales and use taxes imposed under Chapters 374, 374A, 376A, 377, 377A and 377B of the Nevada Revised Statutes. Although not a part of the State Economic Development abatements, the applicant will receive a reimbursement of the 75% pledge of an amount equal to the proceeds of the taxes imposed under NRS 372.105 and NRS 372.185 in compliance with the City of Reno Ordinance 6127 dated September 23, 2009.

[2] Property tax assumes 85% abatement of personal property.

In addition to property taxes, the company would generate one-time sales taxes from new construction estimated at $2.8 million, plus on-going sales taxes on annual equipment purchases. This analysis assumes an abatement of sales and use taxes imposed under Chapters 374, 374A, 376A, 377, 377A and 377B of the Nevada Revised Statutes. Although not a part of the State Economic Development abatements, the applicant will receive a reimbursement of the 75% pledge of an amount equal to the proceeds of the taxes imposed under NRS 372.105 and NRS 372.185 in compliance with the City of Reno Ordinance 6127 dated September 23, 2009 The remaining portion of sales tax would total about $5.0 million in state revenues over 10 years. All total, the company would directly generate about $7.8 million in state and local sales tax revenues over 10 years, net of abatements.

Other direct revenues include franchise taxes paid to the county on electricity expenditures at a rate of 5 percent totaling $3.5 million over 10 years. There would be no additional franchise tax revenues after the 5th year based on the assumptions used in this analysis. The company would also pay modified business tax to the state estimated at $1.2 million over 10 years. Note that while the company would only be responsible for modified business taxes on its own employees, this estimate includes taxes on independent contractors that would also result in new revenue to the state.

Indirect Revenues

Along with the direct taxes paid by the data center, there are also indirect taxes generated by employees and independent contractors. Using the results from the economic impact analysis, it is possible to estimate indirect tax impacts. All total, the direct and indirect employees associated with this project could generate $8.1 million in indirect revenues over the next 10 years.

Indirect property tax revenues were based on average residential assessed per capita in Washoe County, times the annual supported population, times a property tax rate of 2.7002 percent. Indirect property taxes are estimated at about $179,000 per year to the school district, $219,000 to the county and $27,000 to the state (Figure 5). All total the company would generate about $4.2 million in indirect property tax revenues to all jurisdictions combined over 10 years based on the assumptions used in this analysis.

FIGURE 5
INDIRECT REVENUE IMPACT OF PROJECT JONATHAN
NET OF ABATEMENTS AND REIMBURSEMENTS
ON WASHOE COUNTY AND THE STATE

	School		County and Other Local Govts		State			Total
Year	Property Tax	Sales Tax	Property Tax	Sales Tax	Sales Tax	Property Tax	MBT	Total Indirect Revenues
2012	$174,228	$111,393	$212,976	$133,885	$89,257	$26,016	$41,205	$788,960
2013	$174,228	$111,393	$212,976	$133,885	$89,257	$26,016	$41,205	$788,960
2014	$174,228	$111,393	$212,976	$133,885	$89,257	$26,016	$41,205	$788,960
2015	$174,228	$111,393	$212,976	$133,885	$89,257	$26,016	$41,205	$788,960
2016	$179,404	$116,002	$219,304	$139,426	$92,951	$26,789	$42,911	$816,786
2017	$179,404	$116,002	$219,304	$139,426	$92,951	$26,789	$42,911	$816,786
2018	$179,404	$116,002	$219,304	$139,426	$92,951	$26,789	$42,911	$816,786
2019	$179,404	$116,002	$219,304	$139,426	$92,951	$26,789	$42,911	$816,786
2020	$179,404	$116,002	$219,304	$139,426	$92,951	$26,789	$42,911	$816,786
2021	$179,404	$116,002	$219,304	$139,426	$92,951	$26,789	$42,911	$816,786
Total	$1,773,340	$1,141,585	$2,167,727	$1,372,097	$914,731	$264,794	$422,284	$8,056,558

Note: All figures are in constant 2012 dollars. Analysis assumes 96% of employees live in the Washoe County for the calculation of indirect revenues.

Indirect sales tax revenues include sales taxes from direct employees and independent contractors and employees at supported local businesses. Indirect sales taxes are estimated by multiplying total personal income times 31 percent (share of taxable expenditures), times a residency ratio of 96 percent for the county, times the local sales tax rate.[2] No residency ratio is used for state indirect sales tax. Indirect sales taxes generated to the county, other local governments and school district at estimated at $255,000 per year or $2.5 million over the next 10 years. Finally, revenues to the state are estimated at $93,000 per year, or $915,000 over 10

[2] *According to the Census Bureau Consumer Expenditure Survey, persons in the median income range spend about 31 percent of their income on taxable goods.*

years.[3] All total, the company could generate $3.4 million in indirect sales tax revenues over the next 10 years.

In terms of state modified business tax, direct and indirect employees could generate approximately $422,000 in new revenues over 10 years. For this calculation a rate of 1.17% is applied to total personal income from the economic impacts.

Value of Abatements and Reimbursements

In total, Project Jonathan could generate $24.1 million in direct and indirect tax revenues, net of abatements and reimbursements, to state and local governments in Nevada over 10 years. Figure 6 shows the value of the sales and property tax abatements and reimbursements provided by each jurisdiction. These total $73.1 million at the local level and $16.1 million at the state level over 10 years.

The summary shows the value of an 85 personal tax abatement for 10 years. The sales tax information shows the value of a 75 percent local reimbursement of the amount over 2 percent, and a 75 percent state tax abatement of the remaining 2 percent for 10 years. Under the assumptions shown here, the company's state and local tax burden would be reduced by 79 percent.

FIGURE 6
ABATEMENTS AND REIMBURSEMENTS SUMMARY
PROJECT JONATHAN

	Property			Sales			Total	
Year	County	School District	State	County/Other Local	School District	State	Local	State
2012	$414,031	$338,704	$50,575	$3,125,000	$2,600,000	$1,500,000	$6,477,735	$1,550,575
2013	$662,449	$541,926	$80,920	$3,125,000	$2,600,000	$1,500,000	$6,929,375	$1,580,920
2014	$812,991	$665,079	$99,309	$3,125,000	$2,600,000	$1,500,000	$7,203,069	$1,599,309
2015	$906,810	$741,829	$110,769	$3,125,000	$2,600,000	$1,500,000	$7,373,639	$1,610,769
2016	$964,402	$788,943	$117,804	$3,125,000	$2,600,000	$1,500,000	$7,478,344	$1,617,804
2017	$986,552	$807,063	$120,510	$3,125,000	$2,600,000	$1,500,000	$7,518,616	$1,620,510
2018	$986,552	$807,063	$120,510	$3,125,000	$2,600,000	$1,500,000	$7,518,616	$1,620,510
2019	$986,552	$807,063	$120,510	$3,125,000	$2,600,000	$1,500,000	$7,518,616	$1,620,510
2020	$986,552	$807,063	$120,510	$3,125,000	$2,600,000	$1,500,000	$7,518,616	$1,620,510
2021	$986,552	$807,063	$120,510	$3,125,000	$2,600,000	$1,500,000	$7,518,616	$1,620,510
Total	$8,693,445	$7,111,797	$1,061,928	$31,250,000	$26,000,000	$15,000,000	$73,055,242	$16,061,928

Note: Property taxes include an 85% abatement on personal property. This analysis also assumes an abatement of sales and use taxes imposed under Chapters 374, 374A, 376A, 377, 377A and 377B of the Nevada Revised Statutes. Although not a part of the State Economic Development abatements, the applicant will receive a reimbursement of the 75% pledge of an amount equal to the proceeds of the taxes imposed under NRS 372.105 and NRS 372.185 in compliance with the City of Reno Ordinance 6127 dated September 23, 2009.

[3] *Reflects state sales tax rate of 2 percent.*

Summary

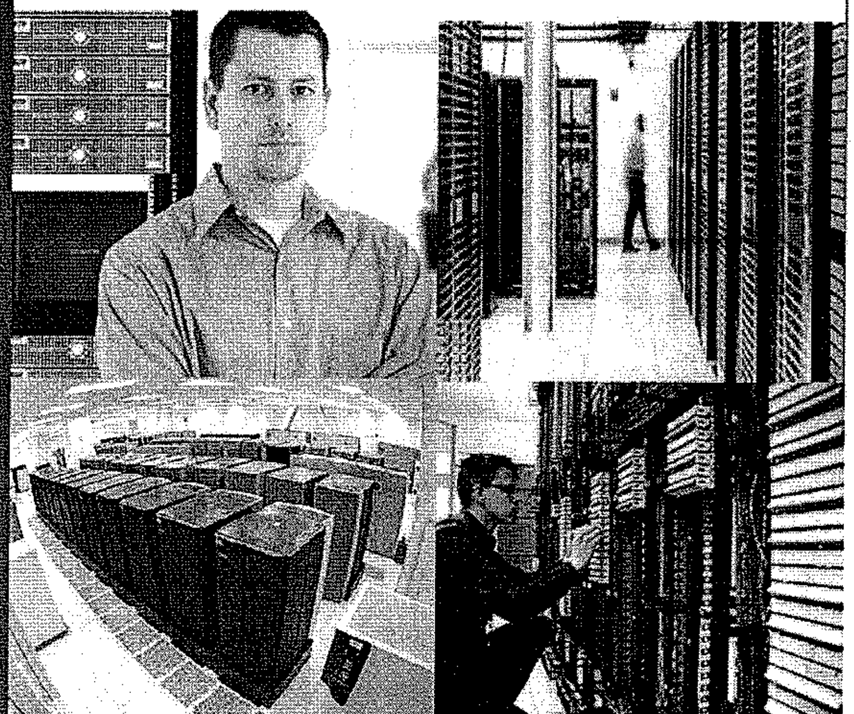
The operations of the data center described in this analysis would create significant economic benefits for Washoe County. The company would not only create new basic jobs and payroll in Washoe County, but would also create additional demand for other local businesses based on supplier purchases and employee spending.

Given the capital intensive nature of their operations, the assumed capital investment of $1.0 billion over 10 years would generate significant tax revenues. In addition to the $1.0 billion capital investment, the company would spend $65 million on the backbone infrastructure to support the data center including site improvements, fiber optic network installation, a power distribution network and a security system. These investments would generate additional construction sales tax revenues.

The data center would generate new local tax revenues to the city, county and school district as well as to the state in the form of increased sales and property taxes. It is also likely that investing in attracting this type of well known company to Washoe County will seed additional related economic development activity locally and throughout the region.

Attachment B

Comparative Tax and Utility Cost Analysis for a Data Center Operation



Prepared By:

Applied Economics

June 2012

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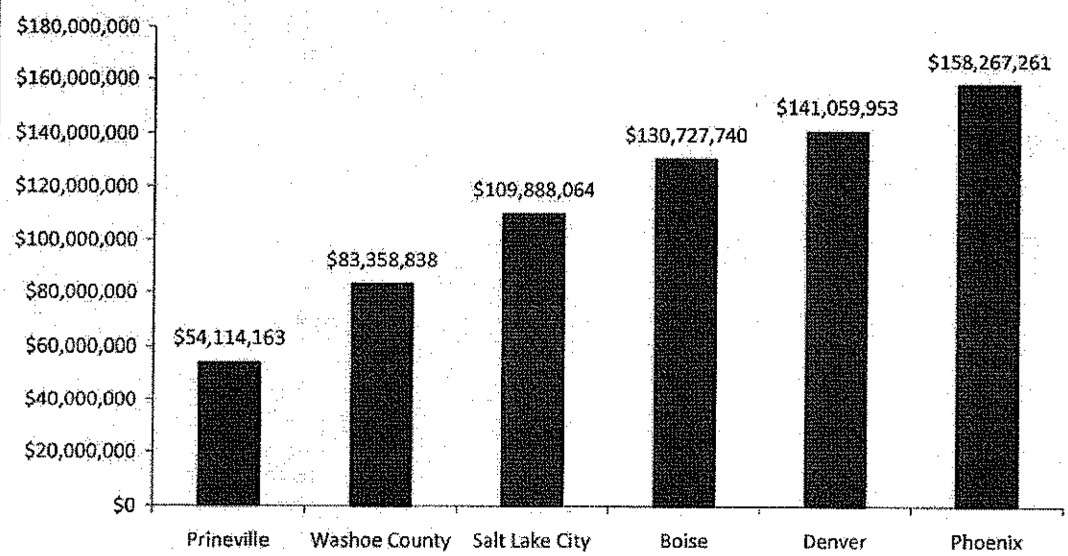
EXECUTIVE SUMMARY

This analysis details comparative net taxes for a data center (herein referred to as Project Jonathan) in six alternative metro area locations. These locations include Washoe County, NV; Denver, CO; Phoenix, AZ; Prineville, OR, Salt Lake City, UT and Boise ID. The results are summarized below.

Net present value taxes and utilities over 10 years are lowest in Prineville at $54.1 million and second lowest in Washoe County at $83.4 million, compared to between $109.9 million and $158.3 million in the other locations (Figure 1).

FIGURE 1
Summary of Net Taxes and Utility Costs
NPV 2012 to 2021



Note: Taxes are shown net of any applicable abatments, reimbursements or other incentives.

- Nevada has no specific incentives targeting data centers; however, other state abatements and reimbursements apply including a personal property tax abatement and a sales tax abatement. The proposed package includes an 85 percent personal property tax abatement and an abatement of sales and use taxes imposed under Chapters 374, 374A, 376A, 377, 377A and 377B of the Nevada Revised Statutes. Although not a part of the State Economic Development abatements, the applicant will receive a reimbursement of the 75% pledge of an amount equal to the proceeds of the taxes imposed under NRS 372.105 and NRS 372.185 in compliance with the City of Reno Ordinance 6127 dated September 23, 2009 on certain equipment purchases for up to 17 years. This would result in Washoe County being the second lowest cost location in terms of taxes and utilities net of abatements and reimbursements.

- The lowest taxes net of incentives would be in Prineville, OR where costs are estimated at $54.1 million over 10 years. Oregon has no sales tax. In addition, they have an aggressive 15 year, 100 percent property tax abatement program that is available in rural enterprise zones, such as Prineville.

- The third lowest tax burden would be in Salt Lake City estimated at $109.9 million. However, Salt Lake has higher taxes net of incentives than Washoe County and Prineville. Salt Lake offers a sales tax exemption as well as lower utility costs.

- Boise, Denver and Phoenix are all at least $47 million more in net present value terms than Washoe County. These areas all offer minimal incentives relative to data centers and, in the case of Phoenix and Denver, also have higher utility costs.

1.0 INTRODUCTION

Applied Economics was retained by the Nevada Commission on Economic Development to provide information and analysis relating to the comparative taxes and utility costs for the construction and operation of a data center. The comparison includes six alternative sites: Washoe County, Denver, Phoenix, Prineville, Salt Lake City and Boise. The purpose of this analysis is to compare operating costs in each location.

1.1 Project Description

As shown in this analysis, the data center would begin operations in 2012. The analysis shows a 10 year time horizon to illustrate the longer term impacts of the project.

- In 2012, this analysis assumes the company would purchase land valued at $8.625 million to construct a $6.0 million facility. They would also need to construct the backbone infrastructure to support the data center, including estimated local expenditures of $64.6 million.
- The data center would open with 35 employees and 200 independent contractors, at an average wage of $22.25 per hour plus benefits. They would add an additional 6 employees by 2016.
- The analysis assumes the company would purchase $100 million in computer and power equipment each year, including replacement expenditures.
- There are no gross receipts or taxable sales associated with this facility because it will serve an internal function for a larger company.
- The company would use a significant amount of electric power estimated at 15 MW and 105,120 MWh in the first year and increasing at a rate of 5MW per year up to 35 MW and 245,280 MWh in the fifth year. After year five they would begin producing their own power through alternative sources. This level of utility usage would result in significant franchise tax revenues for the comparative cities.

Based on the project information shown in Figure 2, this analysis estimates major taxes in each of the alternative locations. The analysis does not include an assessment of every tax, fee or charge that would be levied in each jurisdiction. Rather, it focuses on the major sources of public revenue for each of the alternative sites. Included are modified business taxes, sales taxes, franchise taxes and property taxes. These public revenue sources not only make up the vast majority of the data center's projected non-federal tax liability, they also account for nearly all of the available tax abatement programs, except for those programs related to corporate income taxes and training reimbursements that do not apply in this circumstance.

FIGURE 2
BASIC ASSUMPTIONS
PROJECT JONATHAN

Assumptions	2012	2013	2014	2015	2016	2017 and beyond
Labor, Payroll and Training						
Total Workforce	235	235	235	235	241	241
Regular Employees	35	35	35	35	41	41
Independent Contractors	200	200	200	200	200	200
Payroll ($22.24 per hr average, 3% annual increase)	$10,874,448	$11,200,681	$11,536,702	$11,882,803	$12,745,798	$13,128,172
Benefits	$652,467	$672,041	$692,202	$712,968	$764,748	$787,690
Capital Expenditures						
Computer Equipment	$100,000,000	$100,000,000	$100,000,000	$100,000,000	$100,000,000	$100,000,000
Facilities						
Land	$8,625,000	$0	$0	$0	$0	$0
Construction Costs	$6,000,000	$0	$0	$0	$0	$0
Backbone Infrastructure	$64,598,447	$0	$0	$0	$0	$0
Annual Utility Usage						
Demand (kW)	15,000	20,000	25,000	30,000	35,000	0
Usage (kWh)	105,120,000	140,160,000	175,200,000	210,240,000	245,280,000	0

The information and observations contained in this report are based on our present knowledge of the components of development, and of the current physical, socioeconomic and fiscal conditions of the affected areas. Estimates made in this analysis are based on hypothetical assumptions, current tax policies, and the current economic structure of the region. However, even if the assumptions outlined in this report were to occur, there will usually be differences between the estimates and the actual results because events and circumstances frequently do not occur as expected. This analysis is based on the best available information and is intended to aid the Nevada Governor's Office of Economic Development in comparing taxes and utility costs between Nevada and other competitive states. In no way will Applied Economics be held responsible or have any liability or be subject to damages as a result of this analysis. This report may be used only for the purposes that it was intended.

2.0 COMPARATIVE ANALYSIS OF TAXES AND UTILITIES

2.1 Sales Taxes

Sales taxes in this analysis apply to the purchase of computer equipment, construction materials and electricity. Not all categories of expenditures are taxable in every jurisdiction. The applicable state and local tax rates among jurisdictions vary, ranging from 9.3 percent in Phoenix to 0 percent in Prineville. Net sales taxes over 10 years range from $0 to $89.2 million net present value.

Sales taxes in Nevada are based on a 7.725 percent rate in Washoe County. State and local sales taxes apply to construction materials (65% of $6 million building cost), equipment purchases ($1.0 billion over 10 years) and electricity costs which vary by location. There is no abatement on construction sales tax. The Sales and Use Tax Abatement imposed under Chapters 374, 374A, 376A, 377, 377A and 377B of the Nevada Revised Statutes eliminates all but the 2.0 percent state tax on equipment purchases for four years based on an initial investment of $400 million. Although not a part of the State Economic Development abatements, the applicant will receive a reimbursement of the 75% pledge of an amount equal to the proceeds of the taxes imposed under NRS 372.105 and NRS 372.185 in compliance with the City of Reno Ordinance 6127 dated September 23, 2009 on certain equipment purchases for up to 17 years. The abatement and reimbursement may be extended for two additional four year periods beyond the initial four year period based on the company meeting two of the following three criteria: increasing the value of its depreciable assets by 20 percent during the subsequent four year term; increasing employment by 6 people or 10 percent; or maintaining an average wage above either the state or county average. This analysis assumes the company increases employment and maintains above average wages. The equipment sales tax abatement and reimbursement reduces the net tax liability over a 10 year period to $12.6 million in Washoe County over 10 years. It is important to note that the abatement could continue for two more years beyond the 10 year period shown. The reimbursement expires in 2029.

A sales tax rate of 6.52 percent in Denver is applied to equipment purchases, construction costs and electricity costs. The net present value tax liability over 10 years is estimated at $62.9 million, primarily due to the large continuing volume of replacement equipment purchases. No specific programs are available that would provide sales tax reductions for this project.

State and local sales taxes of 9.3 percent in Phoenix are applied to electricity costs, equipment costs and construction materials. Manufacturing equipment is exempt from sales tax in Arizona, but not data center equipment. The unabated tax liability over a 10 year period is estimated at $89.2 million in net present value terms. No specific programs are available that would provide sales tax reductions for this project.

In Prineville, OR, which is the location of a new Facebook data center, there are no sales or other taxes that would apply to equipment purchases or construction.

In Salt Lake City, a state and local sales tax rate of 6.85 percent would apply to construction materials, equipment purchases and electricity costs. There is an additional 6 percent municipal energy tax in Salt Lake City, which is included in the franchise tax section. All total, this would result in a tax liability of $61.5 million net present value over 10 years. The Web Portal Exemption, which may apply to this project, would offset all sales taxes on equipment purchases through 2014, resulting in a net tax liability of $42.1 million. The exemption applies to equipment with at least a 3 year life that is purchased for a new or expanding web search portal (NAICS 518212) before June 30, 2014.

Boise has a 6.0 percent state sales tax and no local sales tax. This tax would apply to construction materials and equipment purchases. Electricity is exempted from sales tax in Idaho. The result would be a tax liability of $53.9 million over 10 years. The data center would qualify for a 25 percent construction sales tax rebate through the Idaho Business Advantage program that would reduce their liability by $668,000 in net present value terms. This program would require the company to invest at least $500,000 in new facilities and create at least 10 jobs paying $40,000 or more.

FIGURE 3
SALES TAX COMPARISON
PROJECT JONATHAN

Assumptions

Sales tax calculation includes purchases of computer equipment ($100 million per year), electricity (varies by location) and construction materials (65% of $6,000,000 building cost). Exemptions of specific items vary by state. If equipment is purchased out of state, it is assumed that use tax will be paid locally. Effective Tax Rates: Washoe County 7.725%; Denver 6.52%; Phoenix 9.3%; Prineville 0%; Salt Lake City 6.85%; Boise 6%

	NPV	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Washoe County, NV											
no abatement	$74,237,499	$11,919,566	$8,591,189	$8,807,736	$9,024,283	$9,240,830	$7,725,000	$7,725,000	$7,725,000	$7,725,000	$7,725,000
Sales and Use Tax Abatement[1]	($48,835,411)	($5,725,000)	($5,725,000)	($5,725,000)	($5,725,000)	($5,725,000)	($5,725,000)	($5,725,000)	($5,725,000)	($5,725,000)	($5,725,000)
City of Reno reimbursement	($12,795,304)	($1,500,000)	($1,500,000)	($1,500,000)	($1,500,000)	($1,500,000)	($1,500,000)	($1,500,000)	($1,500,000)	($1,500,000)	($1,500,000)
Net Tax Due	$12,606,783	$4,694,566	$1,366,189	$1,582,736	$1,799,283	$2,015,830	$500,000	$500,000	$500,000	$500,000	$500,000
Denver, CO											
no abatement	$62,915,889	$10,094,537	$7,296,767	$7,490,958	$7,685,150	$7,879,342	$6,520,000	$6,520,000	$6,520,000	$6,520,000	$6,520,000
Phoenix, AZ											
no abatement	$89,188,955	$14,325,329	$10,310,203	$10,562,754	$10,815,305	$11,067,856	$9,300,000	$9,300,000	$9,300,000	$9,300,000	$9,300,000
Prineville, OR											
no abatement[2]	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Salt Lake City, UT											
no abatement	$61,483,730	$9,993,396	$6,850,000	$6,850,000	$6,850,000	$6,850,000	$6,850,000	$6,850,000	$6,850,000	$6,850,000	$6,850,000
Web Portal Exemption[3]	($19,375,988)	($6,850,000)	($6,850,000)	($6,850,000)	$0	$0	$0	$0	$0	$0	$0
Net Tax Due	$42,107,742	$3,143,396	$0	$0	$6,850,000	$6,850,000	$6,850,000	$6,850,000	$6,850,000	$6,850,000	$6,850,000
Boise, ID											
no abatement	$53,854,362	$8,753,339	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000
Construction tax rebate[4]	($668,286)	($688,335)	$0	$0	$0	$0	$0	$0	$0	$0	$0
Net Tax Due	$53,186,076	$8,065,005	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000	$6,000,000

[1] This analysis also assumes an abatement of sales and use taxes imposed under Chapters 374, 374A, 376A, 377, 377A and 377B of the Nevada Revised Statutes. Although not a part of the State Economic Development abatements, the applicant will receive a reimbursement of the 75% pledge of an amount equal to the proceeds of the taxes imposed under NRS 372.105 and NRS 372.185 in compliance with the City of Reno Ordinance 6127 dated September 23, 2009. Abatement excludes construction materials. Initial abatement is for 4 years. Company may apply for reinstatement for two additional 4 year periods if they expand the value of depreciated assets by 20 percent during the next 4 year period or increase employment by a minimum of 6 or 10 percent and maintain wage levels above the state or county avg.

[2] Oregon has no state or local sales tax.

[3] Sales tax exemption for equipment having an economic life of three or more years purchased for a new or expanding web search portal (NAICS 518212) during the period from July 2010 to June 2014.

[4] Idaho Business Advantage is available to companies that invest at least $500,000 and create at least 10 jobs paying $40,000 or more. A 25% rebate is available on all sales and use tax that the taxpayer or its contractors actually paid for any property constructed, located or installed within the project site during the project period. Electricity is exempted from sales tax in Idaho.

2.2 Property Taxes

All the states included in this analysis impose a tax on real and personal property. Note that real property taxes shown here only reflect the value of the new building, not the value of the land or the backbone infrastructure. The assessment ratios and tax rates vary by state. For comparison purposes, effective property tax rates were calculated by multiplying the assessment ratio by the mill rate in each of the selected cities. Effective tax rates varied from a low of 0.95 percent in Washoe County to a high of 2.04 percent in Denver. Personal property is depreciated using standard schedules for computer equipment prescribed by each state. Real property is not depreciated.

The extent of abatements available varies considerably from state to state. The amount of property taxes due after abatements and exemptions would be lowest in Prineville at an estimated $0 net present value over 10 years (Figure 7). Tax burdens in other locations range from $3.0 million net present value over 10 years in Washoe County, to $41.4 million in Boise.

Depreciated personal property and real property in Nevada are assessed at 35 percent and a mill rate of 2.7002 percent is applied for Washoe County. This results in an unabated real and personal property tax liability of about $17.2 million net present value over 10 years. The company could be eligible for a personal property tax abatement of 85 percent for up to 30 years. The initial abatement would be for 10 years based on an investment of at least $1 billion in personal property and operating expenses. Two 10 year optional extensions could apply if the company made an additional investment of at least $500 million in personal property and operating expenses during those periods. The result over the first 10 years would be a net property tax of $3.0 million net present value.

In Colorado all property is assessed at 29 percent of value. A mill rate of 7.0424 percent is applied resulting in an unabated real and personal property tax of $20.5 million net present value over 10 years. Local governments can abate personal property taxes at up to 50 percent for 10 years. The resulting net real and personal property tax liability in Denver would be $10.7 million net present value over 10 years.

Personal property in Phoenix is depreciated using standard schedules prescribed by the state. Note that Arizona has a five year accelerated depreciation schedule that also applies and significantly reduces the taxable value of personal property. Depreciated property is assessed at a ratio of 18 to 21 percent, and a mill rate of 9.18 percent is applied.[1] The resulting unabated real and personal property tax liability in Phoenix would be $6.4 million net present value over 10 years. There are no property tax abatement programs in Arizona that would apply to this project.

In Oregon, all real and personal property is assessed at 100 percent of value and a mill rate of 1.39 is applied. This results in an unabated real and personal property tax liability of $14.3

[1] The assessment ratio for commercial and industrial property in Arizona is being reduced from 21% to 18% between 2012 and 2016.

million over 10 years. Oregon allows for real and personal property tax abatement in enterprise zones. The normal term in urban enterprise zones is 3 to 5 years, while the abatement term in rural enterprise zones can be extended for up to 15 years. To qualify, the business must hire a minimum number of full-time employees to be maintained during the tax abatement period. A minimum of 10 new employees suffices in most zones if the capital investment exceeds $200 million. Average annual wages including benefits must be at least 150% of the county average wage. Total investment costs need to be greater than 0.5% of a county's total real market value by the end of the year when operations begin, generally between $1 million and $25 million, depending on the location. This analysis also assumes property is not centrally assessed, per SB1532, and qualifies for enterprise zone tax abatements. The net result is a property tax liability of $0 net present value over 10 years. There would be no property taxes for an additional 5 years beyond the period shown in Figure 4.

In Utah, all property is assessed at 100 percent of value. A mill rate of 1.2932 percent is applied to real and personal property. The resulting unabated real and personal property tax liability in Salt Lake would be $15.3 million net present value over 10 years. No specific programs are available that would provide property tax reductions for this project.

Property in Idaho is also assessed at 100 percent of value. A mill rate of 1.634 was used for real and personal property in Boise. The resulting unabated real and personal property tax liability in Boise would be $41.4 million net present value over 10 years. The personal property tax liability in Idaho is higher than in the other locations because the depreciation schedule on computer equipment extends out for 7 years, versus the 4 to 5 year schedules that apply in most other states. No specific programs are available that would provide property tax reductions for this project.

FIGURE 4
PROPERTY TAX COMPARISON
PROJECT JONATHAN

Assumptions

Value of New Equipment: $100 million per year; Value of New Buildings: $6,000,000. Useful life of machinery and equipment - 4 to 6 years. Real property has not been depreciated in this calculation.

Effective Tax Rates: Washoe County 0.9451%; Denver 2.042%; Phoenix 1.9278%; Prineville 1.39%; Salt Lake City 1.2932%; Boise 1.634%

Personal Property	NPV	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Washoe County, NV											
no abatement [1]	$16,675,268	$945,070	$1,512,112	$1,855,739	$2,069,892	$2,201,352	$2,251,913	$2,251,913	$2,251,913	$2,251,913	$2,251,913
85% abatement for 10 yrs [2]	($14,173,978)	($803,310)	($1,285,295)	($1,577,379)	($1,759,408)	($1,871,149)	($1,914,126)	($1,914,126)	($1,914,126)	($1,914,126)	($1,914,126)
Net Tax Due	$2,501,290	$141,761	$226,817	$278,361	$310,484	$330,203	$337,787	$337,787	$337,787	$337,787	$337,787
Denver, CO											
no abatement	$19,407,727	$990,514	$1,703,683	$2,139,509	$2,397,043	$2,535,715	$2,674,387	$2,674,387	$2,674,387	$2,674,387	$2,674,387
Local Tax Abatement [3]	($9,703,863)	($495,257)	($851,842)	($1,069,755)	($1,198,521)	($1,267,857)	($1,337,193)	($1,337,193)	($1,337,193)	($1,337,193)	($1,337,193)
Net Tax Due	$9,703,863	$495,257	$851,842	$1,069,755	$1,198,521	$1,267,857	$1,337,193	$1,337,193	$1,337,193	$1,337,193	$1,337,193
Phoenix, AZ											
no abatement [4]	$5,518,944	$240,811	$482,693	$674,855	$708,993	$710,504	$751,814	$751,700	$751,683	$751,697	$751,819
Prineville, OR											
no abatement	$13,632,138	$806,200	$1,251,000	$1,515,100	$1,654,100	$1,751,400	$1,848,700	$1,848,700	$1,848,700	$1,848,700	$1,848,700
Rural Enterprise Zone [6]	($13,632,138)	($806,200)	($1,251,000)	($1,515,100)	($1,654,100)	($1,751,400)	($1,848,700)	($1,848,700)	($1,848,700)	($1,848,700)	($1,848,700)
Net Tax Due	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Salt Lake City, UT											
no abatement	$14,590,046	$801,784	$1,396,656	$1,668,228	$1,784,616	$1,875,140	$1,965,664	$1,965,664	$1,965,664	$1,965,664	$1,965,664
Boise, ID											
no abatement	$40,579,699	$1,634,000	$3,104,600	$4,232,060	$5,049,060	$5,555,600	$5,800,700	$5,800,700	$5,800,700	$5,800,700	$5,800,700

FIGURE 4
PROPERTY TAX COMPARISON
PROJECT JONATHAN

Real Property											
	Washoe County, NV										
	NPV	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
no abatement	$483,698	$56,704	$56,704	$56,704	$56,704	$56,704	$56,704	$56,704	$56,704	$56,704	$56,704
	Denver, CO										
	NPV	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
no abatement	$1,045,272	$122,538	$122,538	$122,538	$122,538	$122,538	$122,538	$122,538	$122,538	$122,538	$122,538
	Phoenix, AZ										
	NPV	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
no abatement	$882,079	$115,668	$110,160	$104,652	$104,652	$99,144	$99,144	$99,144	$99,144	$99,144	$99,144
	Prineville, OR										
	NPV	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
no abatement	$711,419	$83,400	$83,400	$83,400	$83,400	$83,400	$83,400	$83,400	$83,400	$83,400	$83,400
Rural Enterprise Zone[6]	($711,419)	($83,400)	($83,400)	($83,400)	($83,400)	($83,400)	($83,400)	($83,400)	($83,400)	($83,400)	($83,400)
Net Tax Due	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	Salt Lake City, UT										
	NPV	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
no abatement	$661,875	$77,592	$77,592	$77,592	$77,592	$77,592	$77,592	$77,592	$77,592	$77,592	$77,592
	Boise, ID										
	NPV	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
no abatement	$836,301	$98,040	$98,040	$98,040	$98,040	$98,040	$98,040	$98,040	$98,040	$98,040	$98,040

FIGURE 4
PROPERTY TAX COMPARISON
PROJECT JONATHAN

TOTAL

Washoe County, NV

	NPV	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
no abatement[1]	$17,158,966	$1,001,774	$1,568,816	$1,912,444	$2,126,597	$2,258,056	$2,308,617	$2,308,617	$2,308,617	$2,308,617	$2,308,617
5% pers. abatement for 10 yrs[2]	($14,173,978)	($803,310)	($1,285,295)	($1,577,379)	($1,759,408)	($1,871,149)	($1,914,126)	($1,914,126)	($1,914,126)	($1,914,126)	($1,914,126)
Net Tax Due	$2,984,989	$198,465	$283,521	$335,065	$367,188	$386,907	$394,491	$394,491	$394,491	$394,491	$394,491

Denver, CO

	NPV	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
no abatement	$20,452,999	$1,113,051	$1,826,221	$2,262,047	$2,519,581	$2,658,252	$2,796,924	$2,796,924	$2,796,924	$2,796,924	$2,796,924
Local Tax Abatement[3]	($9,703,863)	($495,257)	($851,842)	($1,069,755)	($1,198,521)	($1,267,857)	($1,337,193)	($1,337,193)	($1,337,193)	($1,337,193)	($1,337,193)
Net Tax Due	$10,749,135	$617,795	$974,379	$1,192,292	$1,321,059	$1,390,395	$1,459,731	$1,459,731	$1,459,731	$1,459,731	$1,459,731

Phoenix, AZ

	NPV	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
no abatement[4]	$6,401,023	$356,479	$592,853	$779,507	$813,645	$809,648	$850,958	$850,844	$850,827	$850,841	$850,963

Prineville, OR

	NPV	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
no abatement	$14,343,557	$889,600	$1,334,400	$1,598,500	$1,737,500	$1,834,800	$1,932,100	$1,932,100	$1,932,100	$1,932,100	$1,932,100
Rural Enterprise Zone[5]	($14,343,557)	($889,600)	($1,334,400)	($1,598,500)	($1,737,500)	($1,834,800)	($1,932,100)	($1,932,100)	($1,932,100)	($1,932,100)	($1,932,100)
Net Tax Due	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

Salt Lake City, UT

	NPV	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
no abatement	$15,251,921	$879,376	$1,474,248	$1,745,820	$1,862,208	$1,952,732	$2,043,256	$2,043,256	$2,043,256	$2,043,256	$2,043,256

Boise, ID

	NPV	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
no abatement	$41,416,000	$1,732,040	$3,202,640	$4,330,100	$5,147,100	$5,653,640	$5,898,740	$5,898,740	$5,898,740	$5,898,740	$5,898,740

[1] Personal property is depreciated using a schedules provided by state or local assessor's offices in each county based on a three or five year life. Schedule assume that property is disposed after six years.

[2] Personal property abatement is available for an initial 10 year term plus two optional ten year periods. An initial investment of $1 billion is required for first 10 year term. Each optional 10 year term requires an additional investment of $500 million.

[3] House Bill 02-1399 enable local governments, at their discretion, to provide property tax credits or incentive payments based on the amount of increased property taxes for qualifying new business activity in their jurisdictions. This bill allows for an incentive of up to 50 percent on personal property for 10 years.

[4] No abatement scenario includes accelerated depreciation. Personal property in Arizona is subject to accelerated depreciation on top of the normal depreciation schedule. The rates are 25% in year 1, 46% in year 2, 62% in year 3 and 78% in year 4 and 94% in year 5.

[5] Rural Enterprise zones offer 100% property tax abatements for up to 15 years. To qualify, the business must hire a minimum of new, full-time employees (10, 35, 50 or 75 jobs, depending on location) to be maintained during the tax abatement period. (A minimum of 10 new employees suffices in most relevant zones, if the investment exceeds $200 million.) Average annual wages including benefits must be at least 150% of the county average wage. Total investment costs need to be greater than 1% (or .5% if more than 10 miles from Interstate 5) of a county's total real market value by the end of the year when operations begin, generally between $1 million and $25 million, depending on the location. Analysis assumes property is not centrally assessed per SB1532 and qualifies for enterprise zone incentives.

2.3 Utility Costs and Franchise Taxes

Data centers are large utility users at a high load factor and thus utility costs are a sizeable portion of overall operating costs. The cost of electricity varies widely among the comparative areas, with the lowest cost power available in Idaho and the highest power costs in Denver. In addition to the basic cost of electricity, many locations also impose a franchise tax based on total electricity sales. Although franchise taxes are paid by the utility, the cost is ultimately passed on to the consumer. Franchise tax rates range from zero percent in Denver to 6 percent in Salt Lake City. Franchise taxes apply in addition to any sales tax on utilities.

In Washoe County, the estimated cost of utilities would be the second highest at an average of 8 cents per kilowatt hour (kwh) and a net present value of $63.4 million over 10 years (although there are no utility costs after the fifth year). The franchise fees of 5 percent in Washoe County would add an additional $3.2 million net present value, resulting in the highest franchise fees among the comparative areas. The company may decide after year 5 to build a substation and take service at the transmission level, although this option is not included in the analysis. This option would require greater than 5MW load, greater than 85% load factor, and service from a 60kV line or greater. The result would be a drop in the rate for NV Energy from 8 cents per kWh shown above to 6.94 cents and a corresponding decrease in franchise fees.

Denver has the highest utility cost at an average cost of 8.5 cents per kwh, but has no franchise tax on utilities. Nonetheless, the high utility costs place Denver as the highest cost location for utilities and franchise taxes combined.

Phoenix also has relatively high utility costs at a total of $61.4 million net present value, based on an average cost of 7.75 cents per kWh. The city imposes a franchise tax of 2 percent resulting in an additional cost of $1.2 million net present value. Phoenix ranks third highest for utilities and franchise taxes combined.

Prineville is about in the middle in terms of utility costs at an average of 6.5 cents per kwh, which is less than Denver, Phoenix and Washoe County, but slightly more than Salt Lake or Boise. Net present value utility costs in Prineville are estimated at $51.5 million. The city has a 5 percent franchise tax that would add a total of $2.6 million net present value. Overall, Prineville ranks 4th highest for utilities and franchise taxes combined.

Salt Lake has relatively lower utility costs at an average of 6.25 cents per kwh, but the highest municipal energy tax at 6 percent. The combination results in a total net present value cost of $52.5 million. Salt Lake ranks second lowest in terms of comparative costs.

Boise is the lowest cost location in terms of utility costs at 4.5 cents per kWh, resulting in a total net present value cost of only $35.7 million. Their franchise fee of 1.25 percent adds an additional $446,000 over the 10 year period. Boise is the most cost competitive location overall.

FIGURE 5
ELECTRIC COST AND FRANCHISE TAX COMPARISON
PROJECT JONATHAN

Assumptions

Based on monthly electric usage of 15 MW / 105,120,000 kwh (80% load) in the first year and adding 5MW per year at 86% load through year 5. Effective FranchiseTax Rates: Washoe County 5%; Denver 0%; Phoenix 2%; Prineville 5%; Salt Lake City 6%, Boise 1.25%.

	NPV	2012	2013	2014	2015	2016	2017 to 2021
Washoe County, NV							
Electric Cost (NV Energy)[1]	$63,430,521	$8,409,600	$11,212,800	$14,016,000	$16,819,200	$19,622,400	$0
Franchise Fee	$3,171,526	$420,480	$560,640	$700,800	$840,960	$981,120	$0
Denver, CO							
Electric Cost (Public Svc Co of CO)	$67,394,929	$8,935,200	$11,913,600	$14,892,000	$17,870,400	$20,848,800	$0
Franchise Fee	$0	$0	$0	$0	$0	$0	$0
Phoenix, AZ							
Electric Cost (APS)	$61,448,317	$8,146,800	$10,862,400	$13,578,000	$16,293,600	$19,009,200	$0
Franchise Fee	$1,228,966	$162,936	$217,248	$271,560	$325,872	$380,184	$0
Prineville, OR							
Electric Cost (Pacific Power & Light)	$51,537,298	$6,832,800	$9,110,400	$11,388,000	$13,665,600	$15,943,200	$0
Franchise Fee	$2,576,865	$341,640	$455,520	$569,400	$683,280	$797,160	$0
Salt Lake City, UT							
Electric Cost (Pacificorp)	$49,555,095	$6,570,000	$8,760,000	$10,950,000	$13,140,000	$15,330,000	$0
Municipal Energy Tax	$2,973,306	$394,200	$525,600	$657,000	$788,400	$919,800	$0
Boise, ID							
Electric Cost (Idaho Power)	$35,679,668	$4,730,400	$6,307,200	$7,884,000	$9,460,800	$11,037,600	$0
Franchise Fee	$445,996	$59,130	$78,840	$98,550	$118,260	$137,970	$0

[1]Project Jonathan may decide after year 5 to build a substation and take service at transmission level. This would require greater than 5MW load, greater than 85% load factor, and service from a 60kV line or greater. The result would be a drop in the rate for NV Energy from 8 cents per kwh shown above to 6.94 cents.

2.4 Modified Business Taxes

All locations included here, outside of Nevada, levy corporate income taxes. However, this analysis assumes these taxes would not apply since this is an internal data center for a specific company. In Nevada, the modified business tax, which is payroll based, would still apply.

The resulting modified business tax liability is included in Figure 6. Although the company would only technically be responsible for taxes on their own employees, taxes on independent contractor payroll is also included in the analysis. Modified business tax calculations for Washoe County are based on payroll net of health care costs (6 percent of payroll) times 1.17 percent of the amount over $250,000.[2] No abatement of modified business tax would apply in this case. The unabated modified business tax liability in Nevada would be $1.2 million net present value over 10 years.

[2] The six percent deduction for health care costs is based on national survey data from the Bureau of Labor Statistics. Actual health care costs will vary.

3.0 SUMMARY OF RESULTS

A summary of the value of net taxes by type in each location is shown in Figure 6. Note that total tax net of abatements and reimbursements at the bottom of the figure includes utility costs.

FIGURE 6
SUMMARY OF TAX REVENUES, ABATEMENTS AND REIMBURSEMENTS BY TAX TYPE
PROJECT JONATHAN

	Washoe County	Denver	Phoenix	Prineville	Salt Lake City	Boise
Sales Tax Savings						
Sales and Use Tax Abatement & Reimbursement	($61,630,715)	$0	$0	$0	$0	$0
Web Portal Exemption	$0	$0	$0	$0	($19,375,988)	$0
Construction Sales Tax Rebate	$0	$0	$0	$0	$0	($668,286)
NPV Sales Tax Due After Abatements and Reimbursements (2012-2021)	*$12,606,783*	*$62,915,889*	*$89,188,955*	*$0*	*$42,107,742*	*$53,186,076*
Property Tax Abatements						
85% Personal Abatement for 10 yrs	($14,173,978)	$0	$0	$0	$0	$0
Local Tax Abatement	$0	($9,703,863)	$0	$0	$0	$0
Rural Enterprise Zone	$0	$0	$0	($14,343,557)	$0	$0
NPV Property Tax After Abatements (2012-2021)	*$2,984,989*	*$10,749,135*	*$6,401,023*	*$0*	*$15,251,921*	*$41,416,000*
NPV Modified Business Tax (2012 -2021)	*$1,165,018*	*$0*	*$0*	*$0*	*$0*	*$0*
NPV Utility Cost and Franchise Fee (2012 - 2021)	*$66,602,047*	*$67,394,929*	*$62,677,284*	*$54,114,163*	*$52,528,400*	*$36,125,664*
Total Abatements and Reimbursements	**($75,804,693)**	**($9,703,863)**	**$0**	**($14,343,557)**	**($19,375,988)**	**($668,286)**
Total Taxes After Abatements and Reimbursements	**$83,358,838**	**$141,059,953**	**$158,267,261**	**$54,114,163**	**$109,888,064**	**$130,727,740**

Note: Abatement and reimbursement totals may be for multiple years. See backup documents on each program for details.
Arizona also has a $25 million discretionary closing fund for basic industries paying above the county median wage and paying 65% of health benefits.

The lowest tax and utility cost liability would be in Prineville at $54.1 million over 10 years, primarily due to the lack of a sales tax and the aggressive property tax abatement program available in Rural Enterprise Zones. Note that in an urban zone, the property tax abatement would be about 67 percent less due to the shorter term of 5 years versus 15 years.

A location in Washoe County would result in the second lowest net present value tax liability over 10 years of $83.4 million, based on the proposed incentive package. Nevada is offering a relatively aggressive personal property tax abatement, as well as abating most of the sales tax on equipment. The results are shown for 10 years only, although both of these programs could be extended beyond 10 years if the company meets certain criteria. These abatements also help to offset the high utility cost in Nevada.

The highest tax location would be Phoenix at $158.3 million in net taxes. Unabated sales and utility costs are quite high in Phoenix and there are no specific incentives to reduce those costs.

The next highest tax location would be in Denver at $141.1 million in net taxes, with the highest utility costs and no sales tax abatement program. Denver does offer a 10 year, 50 percent personal property tax abatement.

Boise is also a relatively high cost location at $130.7 million where, despite the very low utility costs, there is no abatement on equipment sales tax or property tax. Additionally, property taxes are significantly higher due to the depreciation schedule on personal property.

Salt Lake City ranks third behind Washoe County. However, there is still a $26.5 million net present value difference in net taxes in Salt Lake, at $109.9 million, versus Washoe County at $83.4 million over 10 years. Salt Lake City does not offer any property tax abatement, although utility costs are very competitive and they offer a sales tax exemption on computer equipment.

Overall, the proposed abatements in Washoe County result in a competitive tax environment for the company. The primary difference between Washoe County and Prineville, the lowest cost locations, is the lack of sales tax in Oregon and lower utility costs which result in a difference of about $29.2 million in net present value terms over 10 years. It should be noted that this analysis does not consider wage and other operating cost differences that may also impact the company.

ATTACHMENT B

AMENDMENT NO. 1 TO REIMBURSEMENT AGREEMENT
Téssera District

THIS AMENDMENT NO. 1 TO REIMBURSEMENT AGREEMENT (Téssera District) dated ___ of ____________, 2012 (the "Amendment"), is entered into by and between **NORTHERN NEVADA URBAN DEVELOPMENT & MANAGEMENT COMPANY, LLC**, a Nevada limited liability company ("Developer" or "Assignor"), and **THE CITY OF RENO**, a Nevada municipal corporation ("City"). Developer and City are hereinafter referred to as the "Parties."

RECITALS

WHEREAS, on August 19, 2009, the City and Washoe County School District ("WCSD") entered into the Reimbursement Agreement (Téssera District) in accordance with NRS 271A.120(1) (the "WCSD Agreement"), which includes, among other things, a computation of mitigation amount (the "Mitigation Amount") based on a portion of an amount generated by the Local School Support Tax under Chapter 374 of the Nevada Revised Statutes ("LSST"); and

WHEREAS, the Reimbursement Agreement dated June 8, 2011 between Developer and the City (the "Reimbursement Agreement") sets forth the terms and conditions under which Developer will receive reimbursement from City for the cost of acquiring, improving or equipping, or any combination thereof, projects within the Tourism Improvement District No. 2009 (Téssera) in downtown Reno (the "District"), as created on September 23, 2009, by Ordinance No. 6727 (the "Ordinance"); and

WHEREAS, the Reimbursement Agreement was entered into by the City pursuant to its authority under NRS 271A.120(1)(b), specifically, "to reimburse [an] entity or person for the cost of acquiring, improving or equipping, or any combination thereof, any project, which may contain such terms as are determined to be desirable by the governing body of the municipality, including the payment of reasonable interest and other financing costs;" and

WHEREAS, Developer and City recognize that the overall purpose of the project is to bring economic development to the City of Reno and Washoe County in part by attracting new tenants, people, businesses and economic activity to the District; and

WHEREAS, Developer has actively sought to secure tenants, including those that might serve as a catalyst to bring other tenants, people, businesses and economic activity to the District; and

WHEREAS, Developer has found a prospective tenant, Apple Inc. ("Assignee"), which wants to construct and operate a new data center in unincorporated Washoe County, Nevada at the Reno Technology Park (the "Data Center"), and to establish and open a purchasing and receiving office (the "Business Office") in the District; and

WHEREAS, Assignee intends to apply to the Nevada Governor's Office of Economic Development to seek abatement of Nevada Sales and Use Tax except for the 2% sales and/or use tax under Chapter 372 of the Nevada Revised Statutes, and an abatement of a portion of property tax under Chapter 361 of the Nevada Revised Statutes (the "State Tax Abatements"); and

WHEREAS, in connection with the Data Center, Assignee's agreement to locate the Business Office in the District is contingent on Assignee receiving the State Tax Abatements, as well as reimbursement from the Developer for an amount equal to a portion of sales and use taxes associated with taxable transactions of Assignee within the District including purchases of tangible personal property, such as computer servers and other equipment; and

WHEREAS, Assignee is also requiring that the Business Office be located in a facility that it deems suitable for its purposes; and

WHEREAS, the City and Developer believe that costs incurred in connection with this Amendment and of the acquisition, establishment and opening of the Business Office in the District are desirable and reasonable in order to acquire, equip and improve projects within the District; and

WHEREAS, the acquisition of the Business Office and Data Center will provide economic development benefits to the City of Reno and Washoe County, Nevada; and

WHEREAS, Developer and City recognize that the Business Office will support efforts to attract additional tenants, people, businesses and economic activity to the District which will improve the District and the economy of the City and Washoe County; and

WHEREAS, Developer has conditionally agreed to reimburse Assignee the amount of 75% of the 2% sales or use tax imposed upon and paid by Assignee under Chapter 372 of the Nevada Revised Statutes minus the amount of the collection cost computed in the manner provided by NRS 271A.070(1)(c)(1) for Assignee's taxable transactions within the District; and

WHEREAS, Developer and City now desire to amend the terms of the Reimbursement Agreement as more particularly set forth below:

NOW, THEREFORE, in consideration of the premises and the mutual covenants set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto hereby agree as follows:

1. Recitals. The Parties acknowledge and agree that the Recitals set forth above are true, accurate and correct, and are incorporated herein by this reference and made a material part of this Agreement.

2. Ratification; Inconsistent Provisions. As amended hereby, the Reimbursement Agreement is ratified and confirmed and shall continue in full force and effect. All capitalized terms used but not expressly defined herein shall have the meanings ascribed thereto in the Reimbursement Agreement. Except as expressly provided in this Amendment, all terms, covenants, conditions and provisions of the Reimbursement Agreement shall be and remain in full force and effect as written unmodified hereby. Notwithstanding the foregoing, the provisions of this Amendment shall prevail over any inconsistent provisions set forth in the Reimbursement Agreement.

3. Condition Precedent. Unless waived in a written notice jointly signed by the Parties, this Amendment shall be effective and the Parties shall be bound by all its terms and conditions on the date when WCSD has provided the City a duly authorized

and executed acknowledgement substantially in the form set forth in Exhibit A (the "Effective Date").

4. Cost. The City finds that Developer's cost of acquiring Assignee as a tenant to establish and open the Business Office in the District is a reimbursable cost of "acquiring, improving or equipping, or any combination thereof" the project pursuant to NRS 271A.120(1)(b), the Ordinance, and the Reimbursement Agreement as amended by this Amendment. Moreover, after subtracting out the collection cost computed in the manner provided by NRS 271A.070(1)(c)(1) from the aggregate amount of sales and use taxes paid by Assignee under Chapter 372 of the Nevada Revised Statutes attributable to taxable transactions by Assignee within the District (the "Assignee Maximum Reimbursement Amount") may be paid to Developer, or directly to Assignee, as a reimbursable cost of acquiring Assignee as a tenant (the "Allowable Costs").

5. Assignment. Concurrent with Assignee's and Developer's execution of the lease for the Business Office, Developer shall execute an assignment in a form reasonably acceptable to Assignee and Developer which assigns, transfers and conveys all of its rights and interests to receive from the City the reimbursement of the Allowable Costs up to the Assignee Maximum Reimbursement Amount to Apple Inc. as computed under the Reimbursement Agreement as amended by this Amendment

6. Approval of Acceptance of Assignment.

a. The City consents to Developer assigning its right of reimbursement under the Reimbursement Agreement as amended by this Amendment to Assignee for Allowable Costs up to the Maximum Reimbursement Amount (the "Assignment").

b. Upon the execution and delivery of (i) the Assignment, and (ii) an Acceptance of Assignment substantially in the form of Exhibit B, and subject to Assignee's continuing obligation to provide documentation showing the payment of taxes imposed under Chapter 372 of the Nevada Revised Statutes for transactions in the District, the City agrees to directly reimburse Assignee for all Allowable Costs up to the Maximum Reimbursement Amount.

7. Representations and Warranties. Assignor represents and warrants to City that:

a. Assignee has registered with the Department of Taxation and will comply with sales and use tax accounting practices and procedures for businesses located within tourism improvement districts. The City shall not have any obligation to pay the Developer or Assignee for any sales and use tax not reported, underreported or misreported to the Department of Taxation in the District by the Assignee.

b. Assignee acknowledges that this Amendment is not secured by or payable from the general fund of the City, the power of the City to levy ad valorem property taxes, or any source other than any money pledged pursuant to NRS 271A.070 and distributed to the City with respect to the District, any revenue received by the City from any revenue-producing projects in the District, or any combination thereof. This Amendment shall never become a general obligation of the City or a charge against its general credit or taxing powers, or a debt of the City for purposes of any limitation on indebtedness.

8. Acknowledgement of Developer's Continuing Rights; No Further Obligation.

a. Notwithstanding the foregoing, City and Developer acknowledge and agree that Developer may seek reimbursement for reasonable costs incurred for other aspects of the projects in the District other than the Maximum Reimbursement Amount set forth herein if funds are available after the reimbursement to Assignee.

b. City agrees that Developer is relieved of any further obligation to comply with Sections 7, 10(f), and 11 of the Reimbursement Agreement as it relates to the Assignment.

IN WITNESS WHEREOF, the parties have executed this Amendment on this _____ day of ________________, 2012.

DEVELOPER:

NORTHERN NEVADA URBAN DEVELOPMENT & MANAGEMENT COMPANY, LLC

By: ________________________________
Nicholas J. Pavich, Manager

CITY OF RENO

By: ________________________________
Robert A. Cashell, Sr., Mayor

ATTEST

By: ________________________________
City Clerk

APPROVED AS TO FORM

By: ________________________________
City Attorney's Office

Exhibit A:

ACKNOWLEDGEMENT AND WAIVER

WHEREAS, reference is made to: (i) the Reimbursement Agreement (Téssera District) dated June 8, 2011 between the City of Reno and Nevada Urban Development & Management Company, LLC (as amended or supplemented from time to time, the "Reimbursement Agreement"); (ii) Amendment No.1 to Reimbursement Agreement (Téssera District) dated ___ of _______________, 2012 (the "Amendment"); and, (iii) the Reimbursement Agreement dated August 19, 2009 between the City of Reno and Washoe County School District (as amended or supplemented from time to time, the "WCSD Reimbursement Agreement"). Capitalized terms used in this Acknowledgement without definition shall have the meanings ascribed to such terms in the WCSD Reimbursement Agreement, Reimbursement Agreement and the Amendment; and,

WHEREAS, the WCSD Reimbursement Agreement requires the City to pay WCSD a Mitigation Amount to lessen the impact of Local School Support Tax ("LSST") redirected from WCSD to fund projects within the District;

WHEREAS, if the Governor's Office of Economic Development grants Apple Inc. an abatement of Nevada Sales and Use Tax except for the 2% sales and/or use tax under Chapter 372 of the Nevada Revised Statutes Apple Inc. will not pay LSST with respect to Apple Inc. purchases within the District; and,

WHEREAS, under the Amendment, Apple Inc. will receive 75% of the remaining 2% of sales and use taxes paid by Apple Inc. pursuant to Chapter 372 of the Nevada Revised Statutes less the collection cost computed in the manner provided by NRS 271A.070(1)(c)(1) and allocated to taxable transactions by Apple Inc. within the District (the "Project");

WHEREAS, the acquisition of the Business Office and Data Center will provide economic and fiscal benefits to the City of Reno and Washoe County, Nevada, and will serve as a catalyst to attracting other tenants, people, businesses and economic activity to the District.

NOW, THEREFORE, the undersigned, being the duly authorized representative of the Washoe County School District ("WCSD"), acknowledges and agrees that WCSD releases and waives all rights, causes of action and claims it has or may have in the future against the City, Developer, and their respective officers, beneficiaries, employees, agents, attorneys, representatives, legal successors and assigns arising out of or in connection with the City's payment of the Mitigation Amount under the WCSD Reimbursement Agreement as it relates to the Project.

Dated this _____ day of ___________, 2012.

____

Name:
Title:

Exhibit B:

ACCEPTANCE OF ASSIGNMENT

Reference is made to: (i) the Reimbursement Agreement (Téssera District) dated June 8, 2011 between the City of Reno and Nevada Urban Development & Management Company, LLC (as amended or supplemented from time to time, the "Reimbursement Agreement";) and (ii) Amendment No.1 to Reimbursement Agreement (Téssera District) dated ___ of _______________, 2012 (the "Amendment"). Capitalized terms used in this Acceptance without definition shall have the meanings ascribed to such terms in the Reimbursement Agreement and the Amendment.

City hereby consents to the assignment of Developer's right of reimbursement to Assignee for Allowable Costs up to the Maximum Reimbursement Amount described in the Amendment.

Assignee's acceptance of the assignment by Developer under the Amendment is contingent on Assignee receiving the State Tax Abatements. Upon the satisfaction of the contingency, in consideration for City's consent to the assignment, Apple Inc.:

1. acknowledges and represents that it is registered with the Department of Taxation and agrees to comply with sales and use tax accounting practices and procedures for businesses located within tourism improvement districts;

2. agrees to provide quarterly documentation showing payment of taxes imposed under Chapter 372 of the Nevada Revised Statutes for transactions in the District;

3. acknowledges that the Agreement is not secured by or payable from the general fund of the City, the power of the City to levy ad valorem property taxes, or any source other than any money pledged pursuant to NRS 271A.070 and distributed to the City with respect to the District, any revenue received by the City from any revenue-producing projects in the District, or any combination thereof. Moreover, the Agreement shall never become a general obligation of the City or a charge against its general credit or taxing powers, or a debt of the City for purposes of any limitation on indebtedness;

4. agrees that the Agreement shall be interpreted and enforced under the laws of the State of Nevada. Jurisdiction for all matters triable before a state court shall be in the Second Judicial District of the State of Nevada; and,

5. accepts the assignment of Developer's rights to receive reimbursement from the City as contemplated in the Amendment.

All notices and other communications to be given to Assignee may be given in writing, depositing the same in the United States mail, postage prepaid and addressed to the Assignee or by facsimile, as follows:

Assignee: Apple Inc.
1 Infinite Loop, MS-3TX
Cupertino, California 95014
Attn: Terry Ryan
Fax: (408) 974-6002

With a Copy to	Dan R. Reaser William J. McKean Lionel Sawyer & Collins 1100 Bank of America Plaza 50 West Liberty St. Reno, Nevada 89501 Fax: (775) 788-8682

Assignee may change its address for notice by written notice to the other Parties at any time.

Dated this ____ day of _______________, 2012

APPLE INC.	**CITY OF RENO**
By: ____________________________ Its: ____________________________	By: ________________________ Robert A. Cashell, Sr., Mayor
	ATTEST:
	By: ________________________ City Clerk