



City of Denton

City Hall
215 E. McKinney Street
Denton, Texas
www.cityofdenton.com

AGENDA INFORMATION SHEET

DEPARTMENT: Economic Development

ACM/CFO: David Gaines

DATE: June 14, 2021

SUBJECT

Receive a report, hold a discussion, and give staff direction regarding a proposed high-performance computing operation on leased property at the Denton Energy Center under development by Tenaska.

BACKGROUND

Transaction Description

Denton Municipal Electric has been working with Tenaska to identify potential sites on the DME transmission system with sufficient electrical capacity to meet the demands of their customer, a data center owner and operator. Available electrical capacity and the ability to bring the operation online in the 4th quarter of 2021 limits potential sites for consideration, leading the project to pursue development at the Denton Energy Center (DEC) site and enter into a purchase power agreement (PPA) with DME. The proposed transaction between DME and Tenaska is subject to a non-disclosure agreement (NDA) which include the commercial terms of the PPA that will be entered into by the company and DME. Under Texas statutes, such commercial terms in a PPA are specifically exempted from the Texas Open Meetings Act and Texas Public Information Act pursuant to the public power exception.

Company

Tenaska is a privately held, leading developer and operator of electric generation plants and collocated load, natural gas marketing/trading and provision of energy management services in North America with annual gross operating revenues of \$7.7 billion and \$3.7 billion in assets. Their businesses include Natural Gas Marketing, Power Marketing, Energy Solutions, Strategic Development and Acquisitions and Engineering and Operations.

Project

Tenaska and its customer plan to construct a large high-density computing facility on 31 acres of land at the DEC site through a land lease with the City. Tenaska and its customer will develop a modular data mining campus that will offer high performance computing applications in blockchain, cryptocurrency mining, artificial intelligence, machine learning, and DNA mapping.

To allow for private development on the site, DME has initiated zoning reclassification from Public Facility (PF) to Light Industrial (LI). The proposed project consists of modular (semi-truck sized) units that will be constructed in three phases over the next nine months. These high-density computing units have very large electrical demands and the surplus capacity available at DME's Jim Christal substation (adjacent to the DEC) can meet the requirements without significant infrastructure improvements.

Incentive Application and Other Considerations

Tenaska has not requested any economic development incentives and does not qualify for DME's economic growth rider due to the size of the electrical demands. Instead, the project will require a negotiated power purchase agreement with DME that will contain the commercial terms of the transaction and will be brought to the Public Utility Board (PUB) and the City Council for recommendation and approval respectively. DME and Economic Development will review the proposed commercial terms with City Council in closed session consistent with the NDA. All electric supplied to the proposed facility will be renewable consistent with provisions of the Denton Renewable Resource Plan.

POLICY CONSIDERATIONS

Since this project is not requesting any incentives under the City's Policy for Tax Abatements and Incentives, no analysis related to the policy criteria have been conducted. However, this project is in alignment with the City's Economic Development Strategic Plan. Applicable sections of the Strategic Plan are below.

Attract New Investment - 2A.2 (Connected Denton)

Recruiting new businesses should remain a top priority for the City's economic development team. The City has a track record of success with business attraction, and efforts can be strengthened by focusing on external marketing and cultivating relationships in critical sectors.

2A.1.4 Provide incentives and/or grants to existing companies to assist with business expansion and help retain these valuable assets in Denton.

Staff Analysis: While this project is not requesting traditional incentives, the project does require a negotiated PPA, a lease for the use of City property, access to renewable energy, and a highly reliable electric system. Denton's ability to meet these needs allow for this project to locate here.

Target Environmentally Conscious Businesses - 2C.2 (Sustainable Denton)

Denton has an opportunity to target environmentally conscious businesses that are attracted to the community's sustainability and conservation efforts. The community's commitment to and actions toward sustainability will make Denton a national, and even a global leader, in sustainable growth and green development.

2C.2.1 Identify businesses that are high electricity users, such as data centers. DME's competitive rates and the ability to power businesses using 100 percent renewables is a good marketing opportunity for both the company and for Denton.

Staff Analysis: Data centers and similar operations were called out in the Strategic Plan as high impact recruitments that should be pursued. This project is in alignment with that objective.

Application Fiscal Information

This project includes the investment in new equipment and the construction of a new facility. The site is currently zoned Public Facility and contributes no property taxes. The market value of the land proposed to be leased to Tenaska is \$1.2 million. Lease rates will be structured consistent with competitive land lease rates in Denton and the lease terms and conditions will be part of the PPA. Total investment at the completion of phase III is estimated at \$247 million. In total, the project is expected to increase the taxable value of this site to a total estimated taxable value of \$248.2 million. Based on staff analysis, the increase in taxable value will generate an estimated \$1.45 million in additional annual property tax revenue to the City of Denton.

Property Tax Analysis		
Project	Estimated Increase in Valuation	City Revenue Estimate (100%)
Land *	\$1,200,000	\$7,085
Improvements	\$15,000,000	\$88,568
BPP	\$232,000,000	\$1,369,853
Total Valuation	\$248,200,000	\$1,456,507

**Estimated based on comps*

Wage & Employment Summary

A summary of the applicant's job and wage information is outlined in the table below. The project will bring or create a total of 33 jobs over the life of the project. The weighted average wage of all positions is \$51,151 with a total estimated annual payroll of \$1.82 million over the term from new positions. That generates an estimated ten-year cumulative payroll total of \$18.2 million. The weighted average wages exceed both the Denton County average and median wages in the amount of \$48,818 and \$43,287, respectively.

Jobs Relocated / Created & Payroll					
Job Type	Year 1	Year 2	Year 3	Year 4	Year 5
Director of Site Operations	1				
Technical Support Technician I	8	6			
Technical Support Technician II	4	2			
Technical Support Supervisor	1	1			
Maintenance Support Technician I	3	1			
Maintenance Support Technician II	2				
Maintenance Support Supervisor	1	1			
Logistics	1	1			
Total New Jobs	21	12			
Cumulative Jobs	21	33	33	33	33
Estimated New Payroll	\$1,185,000	\$635,000	\$0	\$0	\$0
Cumulative Payroll	\$1,185,000	\$3,005,000	\$4,825,000	\$6,645,000	\$8,465,000

Wage Data		
Job Type	Avg Wage by Job Type	Total Positions
Director of Site Operations	\$130,000	1
Technical Support Technician I	\$45,000	14
Technical Support Technician II	\$60,000	6
Technical Support Supervisor	\$70,000	2
Maintenance Support Technician I	\$45,000	4
Maintenance Support Technician II	\$60,000	2
Maintenance Support Supervisor	\$75,000	2
Logistics	\$55,000	2
Total Jobs		33
Total Annual Payroll		\$1,820,000
Avg. Annual Wage		\$55,151
Number (Percent) Above Denton County Median		33 (100%)
Number (Percent) Above Denton County Average		15 (45%)

REQUEST BY TENASKA

On behalf of the project, Tenaska has been negotiating a non-binding term sheet over the last several weeks. Given the site characteristics of the 31 acres at the DEC and the availability of sufficient electrical capacity to meet the three phases of development, Tenaska has requested a 120-day exclusivity period with DME for the site and electrical capacity. During the 120 days, DME and Tenaska will complete the PPA negotiation and bring forward a proposed PPA for consideration by the PUB and City Council.

RECOMMENDATION

Economic Development and DME recommend approval of the 120-day exclusivity period as this potential customer provide significant economic benefits to DME customers and the city.

Project Benefits

Staff conducted significant analysis on the information provided by the company to determine both qualitative and quantitative public benefits. Staff also used an economic impact analysis model to quantify the economic impact of the project (excluding any direct benefit from utility system revenue as that information is protected by the NDA).

Qualitative Benefits

- Quality jobs created and investment in human capital.
- Pipeline for university training programs and reduction of brain drain.
- Recruitment of a data center operation as stated in the Economic Development Strategic Plan.
- Diversify tax base.
- Brings property back onto tax rolls that is currently exempt and non-revenue producing.

Quantitative Benefits

- Economic Impact Model:
 - Total 10-year net economic benefits direct to City: \$9,876,444 (excludes any data points subject to NDA)
 - 10-year property tax revenue (net of depreciation): \$8,718,558
 - Job Creation:
 - 33 direct new jobs created with average wage of \$51,151

- Spinoff: 50.5 indirect jobs generated by the new jobs with average wages of \$29,079
- Additional revenues generated for DISD, DCTA, and Denton County.
 - Estimated 10-year total: \$10,999,853
- Additional franchise fees to City – Subject to NDA
- Additional Return on Investment (DME) – Subject to NDA
- DME Revenues and fees – Subject to NDA

PRIOR ACTION/REVIEW (Council, Boards, Commissions)

None – Planning and Zoning reclassification scheduled for June 23, 2021

EXHIBITS

1. Agenda Information Sheet
2. Presentation

Respectfully submitted:
 Jessica Rogers
 Director of Economic Development

Terry Naulty
 DME Assistant General Manager

Bill Shepherd
 DME Executive Manager of Business Services