

HOUSE BILL REPORT

HB 2283

As Reported by House Committee On:
Finance

Title: An act relating to providing sales and use tax exemptions to eligible data centers located in a rural county as defined in RCW 82.14.370(5).

Brief Description: Providing sales and use tax exemptions to eligible data centers located in a rural county as defined in RCW 82.14.370(5).

Sponsors: Representatives Santos, Armstrong, Condotta, Ericks, Ormsby and Kelley.

Brief History:

Committee Activity:

Finance: 2/27/09, 3/2/09 [DPS].

Brief Summary of Substitute Bill

- Provides a sales and use tax exemption for 50 percent of the state sales tax on server equipment, and temperature, climate, and power infrastructure for use in a computer data center located in a rural county.
- Places the remaining 50 percent of the state sales tax into the Green Industries Job Training Account.
- Requires an annual report detailing wages, employment, and employer-provided health and retirement benefits.
- Requires a business claiming the sales and use tax exemption to pay prevailing wages and use apprentices for at least 15 percent of labor hours during installation of the equipment.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Conway, Ericks, Santos and Springer.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Minority Report: Do not pass. Signed by 3 members: Representatives Orcutt, Ranking Minority Member; Parker, Assistant Ranking Minority Member; Condotta.

Staff: Jeffrey Mitchell (786-7139)

Background:

Retail sales and use taxes are imposed by the state, most cities, and all counties. Retail sales taxes are imposed on retail sales of most articles of tangible personal property and some services. The state tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 2.5 percent depending on the location.

Summary of Substitute Bill:

A sales and use tax exemption is provided for 50 percent of the state sales tax on server equipment, and temperature, climate, and control infrastructure used in a computer data center located in a rural county. The exemption is taken in the form of a refund. The remaining 50 percent of the state sales tax is placed into the Green Industries Job Training Account.

A business must submit an application to the Department of Revenue (DOR) to claim the exemption. The DOR will not issue refunds before April 1, 2010, and total refunds will not exceed \$20 million. The exemption ends July 1, 2011.

To qualify, the equipment and infrastructure must be installed at a data center with at least 20,000 square feet of floor space and be located in a rural county. The exemption applies to the equipment purchased for a data center constructed or refurbished after July 1, 2009. The exemption also applies to labor and services rendered in respect to installing server equipment and installing, constructing, repairing, altering, or improving temperature, climate, and control infrastructure. A data center must have a certificate of occupancy prior to July 1, 2011, to qualify for the exemption.

A business must demonstrate increased employment in the state equal to or in excess of 35 family wage jobs within six years after the server equipment is installed at the computer data center. Within six years after a computer data center becomes operational, a business must demonstrate that expenditures related to the data center equal or exceed \$200 million. A business claiming the sales and use tax exemption must pay prevailing wages and use apprentices for at least 15 percent of the labor hours used for the installation of the server equipment, and temperature, climate, and control infrastructure.

A business claiming the sales and use tax exemption must file an annual report detailing wages, employment, employer-provided health and retirement benefits, employment levels, and the amount spent on capital expenditures and other expenditures related to the data center. A tax preference review by the Joint Legislative Audit and Review Committee will be done by January 1, 2011.

Substitute Bill Compared to Original Bill:

The substitute bill converts the exemption into a refund, reduces the exemption to a 50 percent exemption, and deposits sales and use taxes collected on the remaining 50 percent into the Green Industries Jobs Training Account. Refunds before April 1, 2010 are not allowed and the total amount of refunds is limited to \$20 million. Apprenticeship utilization must be of at least 15 percent of total labor hours used for the installation of the server equipment, and temperature, climate, and control infrastructure. The exemption ends on July 1, 2011. Reporting requirements are aligned with uniform accountability language in the DOR administrative bill. To qualify for the exemption, construction or refurbishment must begin after July 1, 2009, and a certificate of occupancy must be acquired by July 1, 2011. A tax preference review by the Joint Legislative Audit and Review Committee will be done by January 1, 2011.

Appropriation: None.

Fiscal Note: Requested February 23, 2009.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) This legislation promotes the concept of one Washington. Construction of a data center requires over 600,000 hours or about 300 high-wage jobs. In addition, 35 to 50 on-going, high paying, full-time jobs with full benefits are created. If the Legislature cannot advance this bill a continuation of these investments in Washington will not be seen. This is a win for the State of Washington, our rural counties, cities, and Washington residents. This bill is a starting point. It is a balance between the need to create jobs now, and it reflects the current fiscal issues. Yahoo! has built two data centers in Washington, and is looking to expand in central Washington, but needs help with the current tax environment to compete with other locations. The data centers have opened up local job opportunities in the high tech field. The current data centers have created improvements in public infrastructure. The construction of these data centers have provided good construction jobs especially when jobs are hard to find.

(Opposed) None.

Persons Testifying: Representative Santos, prime sponsor; Scott Hazlegrove, Kevin Timmons, and Peter Shelton, Yahoo!; and Neil Sidho, Electrical Workers #191.

Persons Signed In To Testify But Not Testifying: None.