

# SENATE BILL REPORT

## SB 5827

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As of March 31, 2015

**Title:** An act relating to providing a sales and use tax exemption for eligible server equipment installed in certain data centers.

**Brief Description:** Providing a sales and use tax exemption for eligible server equipment installed in certain data centers.

**Sponsors:** Senators Warnick, Mullet, Conway, Hobbs, Litzow, Hatfield, Rivers, Brown, Parlette, Liias, McAuliffe, Habib, Ericksen, Baumgartner, Fain and Hewitt.

**Brief History:**

**Committee Activity:** Ways & Means: 3/25/15.

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Dean Carlson (786-7305)

**Background:** Sales and Use Tax. Retail sales taxes are imposed on retail sales of most articles of tangible personal property, digital products, and some services. A retail sale is a sale to the final consumer or end user of the property, digital product, or service. If retail sales taxes were not collected when the user acquired the property, digital products, or services, then use taxes apply to the value of property, digital products, or services when used in this state. The state, most cities, and all counties levy retail sales and use taxes. The state sales and use tax rate is 6.5 percent. Local sales and use tax rates vary from 0.5 percent to 3 percent, depending on the location.

Sales and Use Tax Exemption for Eligible Server Equipment. In 2010 the Legislature enacted Chapter 1, 2010 Laws 1st sp. s (ESB 6789) which provided a sales and use tax exemption for server equipment and power infrastructure for computer data centers. The exemption was to expire on April 1, 2018. In order to qualify, a data center must be located in a rural county, have at least 20,000 square feet dedicated to housing servers, and have commenced construction between April 1, 2010, and before July 1, 2011. Additionally, within six years of construction, a qualifying business must have created 35 family wage employment positions or three family wage employment positions per 20,000 square feet of space. Construction of a data center includes the expansion, renovation, or other improvements made to existing facilities, including leased or rented space. A family wage employment position is a new full-time position at the qualifying data center requiring 40

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hours of weekly work, or their equivalent, on a weekly basis and the wage must be greater than 150 percent of the county's per-capita income of the county where the qualified data center is located.

The exemption applied to the original server equipment installed after April 1, 2010, and replacement server equipment which replaces servers originally exempt from tax and installed prior to April 1, 2018.

In 2012 legislation was enacted that extended the time for eligible data centers and qualifying tenants of data centers to qualify for the sales and use tax exemption on server equipment and power infrastructure to those that commenced construction between April 1, 2012, and July 1, 2015. The exemption time is extended for eligible replacement server equipment placed in new data centers and for qualifying tenants until April 1, 2020.

**Summary of Bill:** The bill as referred to committee not considered.

**Summary of Bill (Proposed Substitute):** A sales and use tax exemption is provided for eligible server equipment and eligible power infrastructure located in data centers in which construction commences between July 1, 2015, and July 1, 2025. Eligible server equipment affected by this act is equipment installed in a data center built after July 1, 2015, and includes original server equipment and replacement server equipment installed prior to April 1, 2025. The exemption for replacement server equipment continues for eight years. Substations do not qualify as eligible power infrastructure.

Qualifying datacenters are limited to eight from July 1, 2015, to July 1, 2019, and no more than 12 until July 1, 2025, on a first-come, first-served basis.

Buildings that are constructed on or after July 1, 2015, must be a fully enclosed structure with concrete, masonry or weather-resistant exterior walls and must meet state building code.

**Appropriation:** None.

**Fiscal Note:** Available.

**Committee/Commission/Task Force Created:** No.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:** PRO: Extending the sunset will allow us to expand and let other facilities come in. The property taxes are helping to grow city services. The data center industry is very competitive and these will move elsewhere without the incentives. There is little revenue to forego as these data centers will not be built without the incentive. Washington hydro power is attractive but that is not enough incentive alone. Other states are contacting Yahoo for location of data centers. Data centers and data center construction has kept hundreds of electricians employed for over ten years. There are over 1000 construction workers working on these facilities. These wages are spent in the communities and greatly benefit the state. Many contractors still work at the data centers on

the refreshes. This bill will continue to allow data center growth in this state. Six of the top ten property taxpayers in Grant County are data centers.

**Persons Testifying:** PRO: Nicole Grant, Certified Electrical Workers of WA; Joseph Lorenzo, Matthew Hepner, International Brotherhood of Electrical Workers Local 191; Scott Cave, city of Quincy; Chris Yetman, Vantage Data Centers; Pat Boss, Port of Quincy; John Sabey, President, Sabey Data Center Properties; Irene Plenefisch, Microsoft; Brett Illers, Yahoo!; Matthew Kozma, Data Center Manager, Dell Computers.

**Persons Signed in to Testify But Not Testifying:** No one.