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**ENGROSSED SUBSTITUTE HOUSE BILL 1846**

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**State of Washington 67th Legislature 2022 Regular Session**

**By** House Finance (originally sponsored by Representatives Berg and Ramel)

AN ACT Relating to providing a tax preference for rural and nonrural data centers; amending RCW 82.08.986 and 82.12.986; adding new sections to chapter 82.08 RCW; adding a new section to chapter 82.12 RCW; creating new sections; and providing expiration dates.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec.**  (1) The legislature finds that data centers are a cornerstone for strong internet infrastructure that is critical to the continuing prosperity of Washington's vibrant digital economy.

(2) The legislature further finds that the data center industry is experiencing explosive growth across the nation and the competition among states for data center investments has increased dramatically. A department of commerce study, *2018 State of the Data Center Industry, An Analysis of Washington's Competitiveness*, found that data center growth in rural Washington is at the lower end of the growth rate experienced by other major competitive markets.

(3) The legislature recognizes that rural county data center investments are necessary but insufficient for the state's total economy and competitiveness. Washington is the only state that restricts incentives geographically. As a result, data centers serving urban counties requiring higher performance and that offer colocation services for multiple tenants that foster technology ecosystems are lost to other states, particularly neighboring Oregon.

(4) The legislature further finds that data centers are one of the most energy-intensive building types, consuming 10 to 50 times the energy per floor space of a typical commercial office building. In addition, the legislature finds that it is imperative that the economic expansion of data centers not result in negative environmental impacts to the communities in which the data centers are located. To this end, the legislature encourages data centers to be good environmental stewards for their community through adopting practices to mitigate negative environmental impacts of data centers, such as the use of energy derived from renewable resources, redirecting waste heat for alternative uses, or other industrial symbiosis practices.

(5) The legislature therefore intends to encourage additional investments in data technology facilities through expanding and extending the current sales and use tax exemption for rural county data centers and establishing a sales and use tax exemption pilot program for data centers in counties with populations over 800,000, which will in turn incentivize local economic development, increased local tax revenues, and construction and trade jobs across Washington through the development of additional data center facilities.

NEW SECTION. **Sec.**  (1) This section is the tax preference performance statement for the tax preferences contained in sections 3, 4, 5, and 6, chapter . . ., Laws of 2022 (sections 3, 4, 5, and 6 of this act). This performance statement is only intended to be used for subsequent evaluation of the tax preferences. It is not intended to create a private right of action by any party or be used to determine eligibility for preferential tax treatment.

(2) The legislature categorizes these sales and use tax exemptions on eligible server equipment and eligible power infrastructure equipment at eligible computer data centers as ones intended to: Induce certain designated behavior by taxpayers as indicated in RCW 82.32.808(2)(a); improve industry competitiveness as indicated in RCW 82.32.808(2)(b); create or retain jobs as indicated in RCW 82.32.808(2)(c); and reduce structural inefficiencies in the tax structure as indicated in RCW 82.32.808(2)(d).

(3) It is the legislature's specific public policy objective to:

(a) Maintain and grow the existing data center sector in Washington state, and encourage development of new data center facilities and refurbishment of existing data centers, thereby increasing the competitiveness of Washington's tax structure, which will increase or maintain construction and trade job growth in rural areas, and increase local tax revenue streams.

(b) Improve industry competitiveness and to increase, create, or retain jobs in computer data centers in counties with a population over 800,000, as determined by the April 1, 2021, office of financial management population estimates, thereby increasing family wage jobs. It is the legislature's intent to establish a pilot program that would provide a sales and use tax exemption on eligible server equipment and power infrastructure installed in eligible computer data centers, charges made for labor and services rendered in respect to installing eligible server equipment, and for construction, installation, repair, alteration, or improvement of eligible power infrastructures in order to increase investment in data center construction, leasing, and other investment throughout rural counties and counties with a population over 800,000, as determined by the April 1, 2021, office of financial management population estimates, thereby growing employment in the technology industry while adding real and personal property to state and local property tax rolls, thereby increasing the county tax base.

(4) The legislature intends to extend the expiration date of the tax preference. The joint legislative audit and review committee shall conduct a review and determine if the tax preference is (a) generating capital investment in new computer data centers, refurbished data centers, or existing data centers (e.g., replacement server equipment), (b) generating state and local tax collections from data center investment and operations, and (c) generating or maintaining construction and trade jobs in the state. The review must factor in changing economic conditions.

(5) In order to obtain the data necessary to perform the review in subsection (4) of this section, the joint legislative audit and review committee may refer to any available data source, including data available from the department of revenue regarding rural county property tax assessments and employment data from the employment security department.

**Sec.**  RCW 82.08.986 and 2017 c 135 s 26 are each amended to read as follows:

(1)(a) An exemption from the tax imposed by RCW 82.08.020 is provided for sales to qualifying businesses and to qualifying tenants of eligible server equipment to be installed, without intervening use, in an eligible computer data center to which a valid exemption certificate applies, and to charges made for labor and services rendered in respect to installing eligible server equipment. ((~~Until January 1, 2026, the~~))

(b) This exemption also applies to sales to qualifying businesses and to qualifying tenants of eligible power infrastructure, including labor and services rendered in respect to constructing, installing, repairing, altering, or improving eligible power infrastructure at an eligible computer data center for which an exemption certificate has been issued.

(c) No new exemption certificates may be issued on or after July 1, 2036.

(d) The exemptions provided in this section expire July 1, 2048.

(e) Each calendar year, the department may issue no more than six certificates for data centers which qualify through refurbishment. Certificates are available for refurbished data centers on a first-in-time basis based on the date the application required under this section is received by the department. Each qualifying business may apply for only one certificate for a refurbished data center each calendar year.

(2)(a) In order to ((~~claim the exemption~~)) obtain an exemption certificate under this section, a qualifying business or a qualifying tenant must submit an application to the department for an exemption certificate. The application must include the information necessary, as required by the department, to determine that a business or tenant qualifies for the exemption under this section. The department must issue exemption certificates to qualifying businesses and qualifying tenants. The department may assign a unique identification number to each exemption certificate issued under this section.

(b) A qualifying business or a qualifying tenant claiming the exemption under this section must present the seller with an exemption certificate in a form and manner prescribed by the department. The seller must retain a copy of the certificate for the seller's files.

(c) With respect to computer data centers for which the commencement of construction occurs after July 1, 2015, but before July 1, 2019, the exemption provided in this section is limited to no more than eight computer data centers, with total eligible data centers provided under this section limited to twelve from July 1, 2015, through ((~~July 1, 2025~~)) the effective date of this section. Tenants of qualified data centers do not constitute additional data centers under the limit. The exemption is available on a first-in-time basis based on the date the application required under this section is received by the department.

(d) The exemption certificate is effective on the date the application is received by the department, which is deemed to be the date of issuance. Only purchases on or after the date of issuance qualify for the exemption under this section. No tax refunds are authorized for purchases made before the effective date of the exemption certificate.

(e) Exemption certificates expire two years after the date of issuance, unless construction has been commenced.

(3)(a)(i) Within six years of the date that the department issued an exemption certificate under this section to a qualifying business or a qualifying tenant with respect to an eligible computer data center, the qualifying business or qualifying tenant must establish that net employment ((~~at the~~)) assigned to an eligible computer data center has increased by a minimum of:

((~~(i)~~)) (A) Thirty-five family wage employment positions; or, if lower

((~~(ii)~~)) (B) Three family wage employment positions for each twenty thousand square feet of space or less that is newly dedicated to housing working servers at the eligible computer data center. For qualifying tenants, the number of family wage employment positions that must be increased under this subsection (3)(a)((~~(ii)~~)) (i)(B) is based only on the space occupied by the qualifying tenant in the eligible computer data center.

(ii) After the minimum number of family wage employment positions as required under (a)(i) of this subsection (3) is established, a qualifying business or a qualifying tenant must maintain the minimum family wage employment positions required under (a)(i) of this subsection (3) while the exemption certificate is valid.

(b) In calculating the net increase in family wage employment positions:

(i) The owner of an eligible computer data center, in addition to its own net increase in family wage employment positions, may include:

(A) The net increase, since the date of issuance of the qualifying business's exemption certificate, in family wage employment positions employed by qualifying tenants; and

(B) The net increase in family wage employment positions described in (c)(ii)(B) of this subsection (3).

(ii)(A) Qualifying tenants, in addition to their own net increase in family wage employment positions, may include:

(I) A portion of the net increase in family wage employment positions employed by the owner; and

(II) A portion of the net increase in family wage employment positions described in (c)(ii)(B) of this subsection (3).

(B) The portion of the net increase in family wage employment positions to be counted under this subsection (3)(b)(ii) by each qualifying tenant ((~~must be in proportion to the amount of space in the eligible computer data center occupied by the qualifying tenant compared to the total amount of space in the eligible computer data center occupied by all qualifying tenants~~)) is equal to the net increase in family wage employment positions assigned to an eligible computer data center as described in (b)(ii)(A)(I) and (II) of this subsection (3), multiplied by the percentage of total space within the eligible computer data center occupied by the qualifying tenant. Any combination of qualifying business and qualifying tenant family wage employment positions may meet this requirement.

(C)(I) In the instance of an existing data center facility that was ineligible, regardless of the date of commencement of construction, that later obtains an exemption certificate under this section, the data center may count the existing employment positions that are dedicated to the data center toward the family wage employment position requirements if the employment positions meet the requirements of a family wage employment position as described in (c)(i)(B) and (C) of this subsection (3).

(II) In the instance of the refurbishment of an existing data center that previously qualified under the data center program, the data center may count the existing employment positions dedicated to the data center toward the family wage employment position requirements if the employment positions meet the requirements of a family wage employment position as described in (c)(i)(B) and (C) of this subsection (3).

(c)(i) For purposes of this subsection((~~,~~)):

(A) For exemption certificates issued before the effective date of this section, family wage employment positions are new permanent employment positions requiring forty hours of weekly work, or their equivalent, on a full-time basis ((~~at the~~)) assigned to an eligible computer data center and receiving a wage equivalent to or greater than one hundred fifty percent of the per capita personal income of the county in which the qualified project is located as published by the employment security department. The per capita personal income to be used to determine qualification for any year is the amount that was established for the immediate prior year.

(B) For exemption certificates issued on or after the effective date of this section, family wage employment positions are new permanent employment positions requiring 40 hours of weekly work, or their equivalent, on a full-time basis assigned to an eligible computer data center and receiving a wage equivalent to or greater than 125 percent of the per capita personal income of the county in which the qualified project is located as published by the employment security department. The per capita personal income to be used to determine qualification for any year is the amount that was established for the immediate prior year.

(C) An employment position may not be counted as a family wage employment position unless the employment position is entitled to health insurance coverage provided by the employer of the employment position. ((~~For purposes of this subsection (3)(c), "new~~))

(D) "New permanent employment position" means an employment position that did not exist or that had not previously been filled as of the date that the department issued an exemption certificate to the ((~~owner~~)) qualifying business or qualifying tenant of an eligible computer data center, as the case may be.

(ii)(A) Family wage employment positions include positions filled by employees of the ((~~owner of the eligible computer data center~~)) qualifying business and by employees of qualifying tenants.

(B) Family wage employment positions also include individuals performing work at an eligible computer data center as an independent contractor hired by the owner of the eligible computer data center or as an employee of an independent contractor hired by the owner of the eligible computer data center, if the work is necessary for the operation of the computer data center, such as security and building maintenance, and provided that all of the applicable requirements in (c)(i) of this subsection (3) are met.

(d) ((~~All~~)) (i) For a qualifying business or qualifying tenant that does not meet the requirements of this subsection (3), previously exempted sales and use taxes are immediately due and payable ((~~for a qualifying business or qualifying tenant that does not meet the requirements of this subsection~~)) and any exemption certificate issued to that qualifying business or qualifying tenant under this section is canceled, except as described in (d)(iii) of this subsection (3).

(ii) The department of labor and industries must, at the request of the department, assist in determining whether the requirements of this subsection (3) have been met.

(iii) If the department, with the assistance of the department of labor and industries, finds that a failure to meet the requirements of this subsection (3) is due to circumstances beyond the control of the qualifying business or qualifying tenant including, but not limited to, a declaration of an economic recession, pandemic, or natural disaster affecting data center operations, the department may provide exceptions or extensions to the requirements of this subsection (3).

(iv) Any repayment of taxes triggered by the failure of a qualifying business or qualifying tenant to meet the requirements of this subsection (3) must be calculated in proportion to the duration of time for which any applicable requirement was not met.

(v) If the department is notified that a qualifying business or qualifying tenant fails to meet the requirements of this subsection (3), the department may require a qualifying business or qualifying tenant to submit records necessary to determine whether the requirements have been met.

(4) For exemption certificates issued on or after the effective date of this section:

(a) Within three years after being placed in service, the qualifying business operating a newly constructed data center must certify to the department that it has attained certification under one or more of the following sustainable design or green building standards:

(i) BREEAM for new construction or BREEAM in-use;

(ii) Energy star;

(iii) Envision;

(iv) ISO 50001-energy management;

(v) LEED for building design and construction or LEED for operations and maintenance;

(vi) Green globes for new construction or green globes for existing buildings;

(vii) UL 3223; or

(viii) Other reasonable standards approved by the department.

(b) The department may require qualifying businesses and qualifying tenants to submit records necessary to verify the requirements under (a) of this subsection have been met.

(c)(i) For a qualifying business or qualifying tenant that does not meet the requirements of (a) of this subsection (4), all previously exempted sales and use taxes may be immediately due and payable, any exemption certificate issued to that qualifying business or qualifying tenant under this section is canceled, and an additional 10 percent penalty is assessed, except as described in (c)(ii) of this subsection (4).

(ii) If the department finds that a failure to meet the requirements of this subsection (4) is due to circumstances beyond the control of the qualifying business or qualifying tenant including, but not limited to, a declaration of an economic recession, pandemic, or natural disaster affecting data center operations, the department may, at its discretion, provide exceptions or extensions to the requirements of this subsection (4). The department may, at its discretion, coordinate with agencies with relevant expertise to assist in determining whether the requirements have been met.

(5) A qualifying business or a qualifying tenant claiming the exemption under this section is encouraged to take direct steps to adopt practices to mitigate negative environmental impacts resulting from expanded use of data centers, including through:

(a) Coordinating with the industrial waste coordination program established under RCW 43.31.625 to identify and provide technical assistance in implementing industrial symbiosis projects;

(b) To the extent possible, procuring or contracting for power from renewable sources;

(c) Adopting practices to improve the energy efficiency of existing data centers, including through upgrading and consolidating technology, managing data center airflow, and adjusting and improving heating, ventilation, and air conditioning systems; and

(d) Taking actions to conserve, reuse, and replace water. This includes using water efficient fixtures and practices; treating, infiltrating, and harvesting rainwater; recycling water before discharging; partnering with local water utilities to use discharged water for irrigation and other water conservation purposes; using reclaimed water where possible for data center operations; and supporting water restoration in local watersheds.

(6) A qualifying business or a qualifying tenant claiming an exemption under this section or RCW 82.12.986 must complete an annual tax performance report with the department as required under RCW 82.32.534. The report must identify construction firm names and employment levels used for constructing, renovating, refurbishing, or remodeling the data centers.

((~~(5)~~)) (7)(a) ((~~The exemption provided in this section does not apply to:~~

~~(i) Any person who has received the benefit of the deferral program under chapter 82.60 RCW on: (A) The construction, renovation, or expansion of a structure or structures used as a computer data center; or (B) machinery or equipment used in a computer data center; and~~

~~(ii) Any person affiliated with a person within the scope of (a)(i) of this subsection (5).~~

~~(b) If a person claims an exemption under this section and subsequently receives the benefit of the deferral program under chapter 82.60 RCW on either the construction, renovation, or expansion of a structure or structures used as a computer data center or machinery or equipment used in a computer data center, the person must repay the amount of taxes exempted under this section. Interest as provided in chapter 82.32 RCW applies to amounts due under this section until paid in full.~~

~~(6)~~)) The certificate holder may not at any time assign or transfer a certificate without the prior written consent of the department. The department must allow certificate transfers if the certificate holder meets the following requirements:

(i) The certificate assignee or transferee is qualified to do business in the state;

(ii) The assignee or transferee acknowledges the transfer of the certificate in writing;

(iii) The assignee or transferee agrees to keep and perform all the terms of the certificates; and

(iv) An assignment or transfer of the certificate is to an entity that:

(A) Controls, is controlled by, or under common control with, the certificate holder;

(B) Acquires all or substantially all of the stock or assets of the certificate holder; or

(C) Is the resulting entity of a merger or consolidation with the certificate holder.

(b) In the event the assignee or transferee acquires eligible server equipment in a qualifying asset sale under (a)(iv)(B) of this subsection, the purchaser shall be deemed to purchase the eligible server equipment pursuant to the transferred certificate.

(8) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a) "Affiliated" means that one person has a direct or indirect ownership interest of at least twenty percent in another person.

(b) "Building" means a fully enclosed structure with a weather resistant exterior wall envelope or concrete or masonry walls designed in accordance with the requirements for structures under chapter 19.27 RCW. This definition of "building" only applies to computer data centers for which commencement of construction occurs on or after July 1, 2015.

(c) "Certificate of occupancy" means:

(i) For a newly constructed eligible computer data center, the certificate of occupancy issued by a local governing authority for the structure or structures which comprise the eligible computer data center; or

(ii) For renovations of an eligible computer data center, the certificate of occupancy issued by a local governing authority for the renovated structure or structures that comprise the eligible computer data center.

(d)(i) "Computer data center" means a facility comprised of one or more buildings, which may be comprised of multiple businesses, constructed or refurbished specifically, and used primarily, to house working servers, where the facility has the following characteristics: (A) Uninterruptible power supplies, generator backup power, or both; (B) sophisticated fire suppression and prevention systems; and (C) enhanced physical security, such as: Restricted access to the facility to selected personnel; permanent security guards; video camera surveillance; an electronic system requiring passcodes, keycards, or biometric scans, such as hand scans and retinal or fingerprint recognition; or similar security features.

(ii) For a computer data center comprised of multiple buildings, each separate building constructed or refurbished specifically, and used primarily, to house working servers is considered a computer data center if it has all of the characteristics listed in ((~~(c)~~)) (d)(i)(A) through (C) of this subsection ((~~(6)~~)) (8).

(iii) A facility comprised of one building or more than one building must have a combined square footage of at least one hundred thousand square feet.

((~~(d)~~)) (e) "Electronic data storage and data management services" include, but are not limited to: Providing data storage and backup services, providing computer processing power, hosting enterprise software applications, and hosting websites. The term also includes providing services such as email, web browsing and searching, media applications, and other online services, regardless of whether a charge is made for such services.

((~~(e)~~)) (f)(i) "Eligible computer data center" means a computer data center:

(A) Located in a rural county as defined in RCW 82.14.370 at the time an application for an exemption under this section is received;

(B) Having at least twenty thousand square feet dedicated to housing working servers((~~, where the server space has not previously been dedicated to housing working servers~~)); and

(C) For which the commencement of construction occurs:

(I) After March 31, 2010, and before July 1, 2011;

(II) After March 31, 2012, and before July 1, 2015; or

(III) After June 30, 2015, and before July 1, ((~~2025~~)) 2035.

(ii) For purposes of this section, "commencement of construction" means the date that a building permit is issued under the building code adopted under RCW 19.27.031 for construction of the computer data center. The construction of a computer data center includes the expansion, renovation, or ((~~other improvements made to~~)) refurbishment of existing facilities regardless of whether the existing facility was previously ineligible and regardless of whether commencement of construction of the existing facility occurred outside of the dates listed in (f)(i)(C)(I) through (III) of this subsection, including leased or rented space. "Commencement of construction" does not include soil testing, site clearing and grading, site preparation, or any other related activities that are initiated before the issuance of a building permit for the construction of the foundation of a computer data center. If no building permit is required for renovation or refurbishment, then the date that renovation or refurbishment begins is the "commencement of construction."

((~~(iii) With respect to facilities in existence on April 1, 2010, that are expanded, renovated, or otherwise improved after March 31, 2010, or facilities in existence on April 1, 2012, that are expanded, renovated, or otherwise improved after March 31, 2012, or facilities in existence on July 1, 2015, that are expanded, renovated, or otherwise improved after June 30, 2015, an eligible computer data center includes only the portion of the computer data center meeting the requirements in (e)(i)(B) of this subsection (6).~~

~~(f)~~)) (g) "Eligible power infrastructure" means all fixtures and equipment owned by a qualifying business or qualifying tenant and necessary for the transformation, distribution, or management of electricity that is required to operate eligible server equipment within an eligible computer data center. The term includes generators; wiring; cogeneration equipment; and associated fixtures and equipment, such as electrical switches, batteries, and distribution, testing, and monitoring equipment. The term does not include substations.

((~~(g)~~)) (h) "Eligible server equipment" means:

(i) For a qualifying business whose computer data center qualifies as an eligible computer data center under ((~~(e)~~)) (f)(i)(C)(I) of this subsection ((~~(6)~~)) (8), the original server equipment installed in an eligible computer data center on or after April 1, 2010, and before January 1, 2026, and replacement server equipment. For purposes of this subsection ((~~(6)(g)~~)) (8)(h)(i), "replacement server equipment" means server equipment that:

(A) Replaces existing server equipment, if the sale or use of the server equipment to be replaced qualified for an exemption under this section or RCW 82.12.986; and

(B) Is installed and put into regular use before April 1, 2018.

(ii) For a qualifying business whose computer data center qualifies as an eligible computer data center under ((~~(e)~~)) (f)(i)(C)(II) of this subsection ((~~(6)~~)) (8), "eligible server equipment" means the original server equipment installed in an eligible computer data center on or after April 1, 2012, and before January 1, 2026, and replacement server equipment. For purposes of this subsection ((~~(6)(g)~~)) (8)(h)(ii), "replacement server equipment" means server equipment that:

(A) Replaces existing server equipment, if the sale or use of the server equipment to be replaced qualified for an exemption under this section or RCW 82.12.986; and

(B) Is installed and put into regular use before April 1, 2024.

(iii)((~~(A)~~)) For a qualifying business whose computer data center qualifies as an eligible computer data center under ((~~(e)~~)) (f)(i)(C)(III) of this subsection ((~~(6)~~)) (8), "eligible server equipment" means the original server equipment installed in a building within an eligible computer data center on or after July 1, 2015, and replacement server equipment. Server equipment installed in movable or fixed stand-alone, prefabricated, or modular units, including intermodal shipping containers, is not "directly installed in a building." For purposes of this subsection ((~~(6)(g)~~)) (8)(h)(iii)((~~(A)~~)), "replacement server equipment" means server equipment that ((~~replaces~~)):

(A)(I) Replaces existing server equipment, if the sale or use of the server equipment to be replaced qualified for an exemption under this section or RCW 82.12.986; or

(II) Replaces existing server equipment in a computer data center that meets the following requirements: Was ineligible before the effective date of this section for the exemptions provided under this section and RCW 82.12.986; has been refurbished; and to which a valid exemption certificate applies; and

(B) Is installed and put into regular use no later than twelve years after the date of the certificate of occupancy or completion of refurbishment of the computer data center.

(iv) For a qualifying tenant who leases space within an eligible computer data center, "eligible server equipment" means the original server equipment installed within the space it leases from an eligible computer data center with an exemption certificate on or after April 1, 2010, ((~~and before January 1, 2026,~~)) and replacement server equipment. For purposes of this subsection ((~~(6)(g)~~)) (8)(h)(iv), "replacement server equipment" means server equipment that:

(A)(I) Replaces existing server equipment, if the sale or use of the server equipment to be replaced qualified for an exemption under this section or RCW 82.12.986; or

(II) Replaces existing server equipment in a computer data center that meets the following requirements: Was ineligible before the effective date of this section for the exemptions provided under this section and RCW 82.12.986; has been refurbished; and to which a valid exemption certificate applies; and

(B) Is installed and put into regular use ((~~before April 1, 2024; and~~

~~(C) For tenants leasing space in an eligible computer data center built after July 1, 2015, is installed and put into regular use no later than twelve years after the date of the certificate of occupancy~~)) no later than 12 years after the date of the certificate of occupancy or completion of refurbishment of the computer data center.

((~~(h)~~)) (i) "Qualifying business" means a business entity that exists for the primary purpose of engaging in commercial activity for profit and that is the owner of an eligible computer data center. The term does not include the state or federal government or any of their departments, agencies, and institutions; tribal governments; political subdivisions of this state; or any municipal, quasi-municipal, public, or other corporation created by the state or federal government, tribal government, municipality, or political subdivision of the state.

((~~(i)~~)) (j) "Qualifying tenant" means a business entity that exists for the primary purpose of engaging in commercial activity for profit and that leases space from a qualifying business within an eligible computer data center. The term does not include the state or federal government or any of their departments, agencies, and institutions; tribal governments; political subdivisions of this state; or any municipal, quasi-municipal, public, or other corporation created by the state or federal government, tribal government, municipality, or political subdivision of the state. The term also does not include a lessee of space in an eligible computer data center under ((~~(e)~~)) (f)(i)(C)(I) of this subsection ((~~(6)~~)) (8), if the lessee and lessor are affiliated and:

(i) That space will be used by the lessee to house server equipment that replaces server equipment previously installed and operated in that eligible computer data center by the lessor or another person affiliated with the lessee; or

(ii) Prior to May 2, 2012, the primary use of the server equipment installed in that eligible computer data center was to provide electronic data storage and data management services for the business purposes of either the lessor, persons affiliated with the lessor, or both.

((~~(j)~~)) (k)(i) "Refurbished" or "refurbishment" means a substantial improvement to an eligible computer data center to update or modernize servers, server space, ventilation, or power infrastructure in an eligible computer data center.

(ii) For a qualifying computer data center to be considered refurbished, the qualifying business must certify, in a form and manner prescribed by the department, that the refurbishment of an eligible computer data center is complete. The refurbishment is considered complete on the date that the improved portion of the computer data center is operationally complete and able to be used for its intended purpose.

(l) "Server equipment" means the computer hardware located in an eligible computer data center and used exclusively to provide electronic data storage and data management services, including cloud services, for internal use by the owner or lessee of the computer data center, for clients of the owner or lessee of the computer data center, or both. "Server equipment" also includes computer software necessary to operate the computer hardware. "Server equipment" does not include personal computers, the racks upon which the server equipment is installed, and computer peripherals such as keyboards, monitors, printers, and mice.

(9) This section expires July 1, 2048.

**Sec.**  RCW 82.12.986 and 2015 3rd sp.s. c 6 s 303 are each amended to read as follows:

(1)(a) An exemption from the tax imposed by RCW 82.12.020 is provided for the use by qualifying businesses or qualifying tenants of eligible server equipment to be installed, without intervening use, in an eligible computer data center for which an exemption certificate under RCW 82.08.986 has been issued, and to the use of labor and services rendered in respect to installing such server equipment.

((~~The~~)) (b) Until July 1, 2048, this exemption also applies to the use by a qualifying business or qualifying tenant of eligible power infrastructure, including labor and services rendered in respect to installing, repairing, altering, or improving such infrastructure at an eligible computer data center for which an exemption certificate under RCW 82.08.986 has been issued.

(c) The exemptions provided in this section expire July 1, 2048.

(2) A qualifying business or a qualifying tenant is not eligible for the exemption under this section unless the department issued an exemption certificate to the qualifying business or a qualifying tenant for the exemption provided in RCW 82.08.986.

(3)((~~(a) The exemption provided in this section does not apply to:~~

~~(i) Any person who has received the benefit of the deferral program under chapter 82.60 RCW on: (A) The construction, renovation, or expansion of a structure or structures used as a computer data center; or (B) machinery or equipment used in a computer data center; and~~

~~(ii) Any person affiliated with a person within the scope of (a)(i) of this subsection (3).~~

~~(b) If a person has received the benefit of the exemption under this section and subsequently receives the benefit of the deferral program under chapter 82.60 RCW on either the construction, renovation, or expansion of a structure or structures used as a computer data center or machinery or equipment used in a computer data center, the person must repay the amount of taxes exempted under this section. Interest as provided in chapter 82.32 RCW applies to amounts due under this subsection (3)(b) until paid in full. A person is not required to repay taxes under this subsection with respect to property and services for which the person is required to repay taxes under RCW 82.08.986(5).~~

~~(4)~~)) The definitions and requirements in RCW 82.08.986 apply to this section.

(4) The exemption provided in subsection (1) of this section does not apply to the use of eligible server equipment and eligible power infrastructure, and the labor and services provided in subsection (1) of this section, if first used by qualifying businesses or qualifying tenants on or after July 1, 2048.

(5) This section expires July 1, 2053.

NEW SECTION. **Sec.**  A new section is added to chapter 82.08 RCW to read as follows:

(1)(a) An exemption from the tax imposed by RCW 82.08.020 is provided for sales to qualifying businesses and to qualifying tenants of eligible server equipment to be installed, without intervening use, in an eligible computer data center to which a valid exemption certificate applies, and to charges made for labor and services rendered in respect to installing eligible server equipment.

(b) The exemption also applies to sales to qualifying businesses and to qualifying tenants of eligible power infrastructure, including labor, material, equipment, and services rendered in respect to constructing, installing, repairing, altering, or improving eligible power infrastructure at an eligible computer data center for which an exemption certificate has been issued.

(c) No new exemption certificates may be issued on or after July 1, 2028.

(d) The exemptions provided in this section expire July 1, 2038.

(2)(a)(i) In order to obtain an exemption, a qualifying business must be located in a county with a population over 800,000, as determined by the April 1, 2021, office of financial management population estimates and must submit an application to the department for an exemption certificate. The application must include the information necessary, as required by the department, to determine that a business or tenant qualifies for the exemption under this section. The department must issue exemption certificates to qualifying businesses and qualifying tenants. The department may assign a unique identification number to each exemption certificate issued under this section.

(ii) For the purposes of demonstrating that the requirements of this subsection (2)(a) are met, a qualifying business must submit records of available power for customers at the time of the application for the exemption under this section. The qualifying business must demonstrate that it has a minimum of 1.5 megawatts of available power. The qualifying business must provide requests for proposals, pricing offered, and marketing materials associated with the requirements of this subsection, as required by the department, as supporting documentation that the requirements of this subsection (2)(a) have been met.

(b) A qualifying business or a qualifying tenant claiming the exemption under this section must present the seller with an exemption certificate in a form and manner prescribed by the department. The seller must retain a copy of the certificate for the seller's files.

(c)(i) The exemptions provided in this section are limited to qualifying businesses or tenants, and the department is authorized to approve:

(A) Six applications to obtain the exemptions for qualifying businesses in the first calendar year of the exemption; and

(B) Six applications to obtain the exemptions for qualifying businesses in each year, calendar year three through calendar year six, of the exemption.

(ii) The exemption is available on a first-in-time basis based on the date the application required under this section is received by the department.

(d) The exemption certificate is effective on the date the application is received by the department, which is deemed to be the date of issuance. Only purchases on or after the date of issuance qualify for the exemption under this section. No tax refunds are authorized for purchases made before the effective date of the exemption certificate.

(e) Exemption certificates expire two years after the date of issuance, unless construction has been commenced.

(f) A qualifying tenant must contract for a minimum electrical capacity of 150 kilowatts for server and computer equipment in a qualifying business. Tenants that previously qualified under RCW 82.08.986 or 82.12.986 must reapply if they intend to expand into a qualifying business.

(3)(a)(i) Within six years of the date that the department issued an exemption certificate under this section to a qualifying business or a qualifying tenant with respect to an eligible computer data center, the qualifying business or qualifying tenant must establish that net employment assigned to an eligible computer data center has increased by a minimum of three family wage employment positions for each incremental increase of 20,000 square feet of space that is newly dedicated to housing working servers at the eligible computer data center. For qualifying tenants, the number of family wage employment positions that must be increased under this subsection (3)(a)(i) is based only on the space occupied by the qualifying tenant in the eligible computer data center.

(ii) After the minimum number of family wage employment positions as required under (a)(i) of this subsection (3) is established, a qualifying business or a qualifying tenant must maintain the minimum family wage employment positions required under (a)(i) of this subsection (3) while the exemption certificate is valid.

(b) In calculating the number of family wage employment positions:

(i) The owner of an eligible computer data center, in addition to its own net increase in family wage employment positions, may include:

(A) The net increase, since the date of issuance of the qualifying business's exemption certificate, in family wage employment positions employed by qualifying tenants; and

(B) The net increase in family wage employment positions described in (c)(ii)(B) of this subsection (3).

(ii)(A) Qualifying tenants, in addition to their own net increase in family wage employment positions, may include:

(I) A portion of the net increase in family wage employment positions employed by the owner; and

(II) A portion of the net increase in family wage employment positions described in (c)(ii)(B) of this subsection (3).

(B) The portion of the net increase in family wage employment positions to be counted under this subsection (3)(b)(ii) by each qualifying tenant is equal to the net increase in family wage employment positions assigned to an eligible computer data center as described in (b)(ii)(A)(I) and (II) of this subsection (3), multiplied by the percentage of total space within the eligible computer data center occupied by the qualifying tenant. Any combination of qualifying business and qualifying tenant family wage employment positions may meet this requirement.

(c)(i) For purposes of this subsection:

(A) For exemption certificates issued on or after the effective date of this section, family wage employment positions are new permanent employment positions requiring 40 hours of weekly work, or their equivalent, on a full-time basis assigned to an eligible computer data center and receiving a wage equivalent to or greater than 125 percent of the per capita personal income of the county in which the qualified project is located as published by the employment security department. The per capita personal income to be used to determine qualification for any year is the amount that was established for the immediate prior year.

(B) An employment position may not be counted as a family wage employment position unless the employment position is entitled to health insurance coverage provided by the employer of the employment position.

(C) "New permanent employment position" means an employment position that did not exist or that had not previously been filled as of the date that the department issued an exemption certificate to the qualifying business or qualifying tenant of an eligible computer data center, as the case may be.

(ii)(A) Family wage employment positions include positions filled by employees of the qualifying business and by employees of qualifying tenants.

(B) Family wage employment positions also include individuals performing work at an eligible computer data center as an independent contractor hired by the owner of the eligible computer data center or as an employee of an independent contractor hired by the owner of the eligible computer data center, if the work is necessary for the operation of the computer data center, such as security and building maintenance, and provided that all of the requirements in (c)(i) of this subsection (3) are met.

(d)(i) For a qualifying business or qualifying tenant that does not meet the requirements of this subsection (3), all previously exempted sales and use taxes immediately due and payable, and any exemption certificate issued to that qualifying business or qualifying tenant under this section is canceled, except as described in (d)(iii) of this subsection (3).

(ii) The department of labor and industries must, at the request of the department, assist in determining whether the requirements of this subsection (3) have been met.

(iii) If the department, with the assistance of the department of labor and industries, finds that a failure to meet the requirements of this subsection (3) is due to circumstances beyond the control of the qualifying business or qualifying tenant including, but not limited to, a declaration of an economic recession, pandemic, or natural disaster affecting data center operations, the department may provide exceptions or extensions to the requirements of this subsection (3).

(iv) Any repayment of taxes triggered by the failure of a qualifying business or qualifying tenant to meet the requirements of this subsection (3) must be calculated in proportion to the duration of time for which any applicable requirement was not met.

(v) If the department is notified that a qualifying business or qualifying tenant fails to meet the requirements of this subsection (3), the department may require a qualifying business or qualifying tenant to submit records necessary to determine whether the requirements have been met.

(4) For exemption certificates issued on or after the effective date of this section:

(a) Within three years after being placed in service, the qualifying business operating a newly constructed data center must certify to the department that it has attained certification under one or more of the following sustainable design or green building standards:

(i) BREEAM for new construction or BREEAM in-use;

(ii) Energy star;

(iii) Envision;

(iv) ISO 50001-energy management;

(v) LEED for building design and construction or LEED for operations and maintenance;

(vi) Green globes for new construction or green globes for existing buildings;

(vii) UL 3223; or

(viii) Other reasonable standards approved by the department.

(b) The department may require qualifying businesses and qualifying tenants to submit records necessary to verify the requirements under this subsection (4) have been met.

(c)(i) For a qualifying business or qualifying tenant that does not meet the requirements of this subsection (4), all previously exempted sales and use taxes are immediately due and payable, any exemption certificate issued to that qualifying business or qualifying tenant under this section is canceled, and an additional 10 percent penalty is assessed, except as described in (c)(ii) of this subsection (4).

(ii) If the department finds that a failure to meet the requirements of this subsection (4) is due to circumstances beyond the control of the qualifying business or qualifying tenant including, but not limited to, a declaration of an economic recession, pandemic, or natural disaster affecting data center operations, the department may, at its discretion, provide exceptions or extensions to the requirements of this subsection (4). The department may, at its discretion, coordinate with agencies with relevant expertise to assist in determining whether the requirements of this subsection (4) have been met.

(5) A qualifying business or a qualifying tenant claiming the exemption under this section is encouraged to take direct steps to adopt practices to mitigate negative environmental impacts resulting from expanded use of data centers, including through:

(a) Coordinating with the industrial waste coordination program established under RCW 43.31.625 to identify and provide technical assistance in implementing industrial symbiosis projects;

(b) To the extent possible, procuring or contracting for power from renewable sources;

(c) Adopting practices to improve the energy efficiency of existing data centers, including through upgrading and consolidating technology, managing data center airflow, and adjusting and improving heating, ventilation, and air conditioning systems; and

(d) Taking actions to conserve, reuse, and replace water. This includes using water efficient fixtures and practices; treating, infiltrating, and harvesting rainwater; recycling water before discharging; partnering with local water utilities to use discharged water for irrigation and other water conservation purposes; using reclaimed water where possible for data center operations; and supporting water restoration in local watersheds.

(6) Qualifying businesses and tenants must claim an exemption under this section in the current tax year when the taxes would have been due unless an extension is filed with the department.

(7) A qualifying business or a qualifying tenant claiming an exemption under this section must complete an annual tax performance report as required in RCW 82.32.534. The report must identify construction firm names and employment levels used for constructing, renovating, refurbishing, or remodeling the data centers.

(8)(a) The certificate holder may not at any time assign or transfer a certificate without the prior written consent of the department. The department must allow certificate transfers if the certificate holder meets the following requirements:

(i) The certificate assignee or transferee is qualified to do business in the state;

(ii) The assignee or transferee acknowledges the transfer of the certificate in writing;

(iii) The assignee or transferee agrees to keep and perform all the terms of the certificates; and

(iv) An assignment or transfer of the certificate is to an entity that:

(A) Controls, is controlled by, or under common control with, the certificate holder;

(B) Acquires all or substantially all of the stock or assets of the certificate holder; or

(C) Is the resulting entity of a merger or consolidation with the certificate holder.

(b) Information submitted on the tax performance report is not subject to the confidentiality provisions of RCW 82.32.330 and may be disclosed to the public upon request, except as provided otherwise in RCW 82.32.330.

(9) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a) "Affiliated" means that one person has a direct or indirect ownership interest of at least 20 percent in another person.

(b) "Building" means a fully enclosed structure with a weather resistant exterior wall envelope or concrete or masonry walls designed in accordance with the requirements for structures under chapter 19.27 RCW.

(c) "Certificate of occupancy" means:

(i) For a newly constructed eligible computer data center, the certificate of occupancy issued by a local governing authority for the structure or structures which comprise the eligible computer data center; or

(ii) For renovations of an eligible computer data center, the certificate of occupancy issued by a local governing authority for the renovated structure or structures that comprise the eligible computer data center.

(d)(i) "Computer data center" means a facility comprised of one or more buildings, which may be comprised of multiple businesses, constructed or refurbished specifically, and used primarily, to house working servers, where the facility has the following characteristics: (A) Uninterruptible power supplies, generator backup power, or both; (B) sophisticated fire suppression and prevention systems; and (C) enhanced physical security, such as: Restricted access to the facility to selected personnel; continuous on-site security guards; video camera surveillance; an electronic system requiring passcodes, keycards, or biometric scans, such as hand scans and retinal or fingerprint recognition; or similar security features.

(ii) For a computer data center comprised of multiple buildings, each separate building constructed or refurbished specifically, and used primarily, to house working servers is considered a computer data center if it has all of the characteristics listed in (d)(i)(A) through (C) of this subsection (9).

(iii) A facility comprised of one building or more than one building must have a combined square footage of at least 100,000 square feet.

(e) "Electronic data storage and data management services" includes, but is not limited to: Providing data storage and backup services, providing computer processing power, hosting enterprise software applications, and hosting websites. The term also includes providing services such as email, web browsing and searching, media applications, and other online services, regardless of whether a charge is made for such services.

(f) "Eligible computer data center" means a computer data center having at least 20,000 square feet dedicated for housing working servers. Movable or fixed stand-alone, prefabricated, or modular units, including intermodal shipping containers, do not qualify as "eligible computer data centers."

(g) "Eligible power infrastructure" means all fixtures and equipment owned by a qualifying business or qualifying tenant and necessary for the transformation, distribution, or management of electricity that is required to operate eligible server equipment within an eligible computer data center. The term includes generators; wiring; cogeneration equipment; and associated fixtures and equipment, such as electrical switches, batteries, and distribution, testing, and monitoring equipment. The term does not include substations.

(h)(i) "Eligible server equipment" means for a qualifying business whose computer data center qualifies as an eligible computer data center, the original server equipment installed in an eligible computer data center on or after the effective date of this section, and replacement server equipment.

(ii) For purposes of this subsection (9)(h), "replacement server equipment" means server equipment that:

(A) Replaces existing server equipment, if the sale or use of the server equipment to be replaced qualified for an exemption under this section or section 6 of this act; and

(B) Is installed and put into regular use within 10 years of the effective date of this section.

(iii) For a qualifying tenant who leases space within an eligible computer data center, "eligible server equipment" means the original server equipment installed within the space it leases from an eligible computer data center with an exemption certificate on or within 10 years of the effective date of this section, and replacement server equipment. For purposes of this subsection (9)(h)(iii), "replacement server equipment" means server equipment that:

(A)(I) Replaces existing server equipment, if the sale or use of the server equipment to be replaced qualified for an exemption under this section or section 6 of this act and is installed and put into regular use before July 1, 2027; or

(II) Replaces existing server equipment in a computer data center that meets the following requirements: Was ineligible before the effective date of this section for the exemptions provided under this section and section 6 of this act; has been refurbished; and to which a valid exemption certificate applies; and

(B) Is installed and put into regular use no later than 12 years after the date of the certificate of occupancy or completion of refurbishment of the computer data center.

(i) "Qualifying business" means a business entity that exists for the primary purpose of engaging in commercial activity for profit and that is the owner of an eligible computer data center. The term does not include the state or federal government or any of their departments, agencies, and institutions; tribal governments; political subdivisions of this state; or any municipal, quasi-municipal, public, or other corporation created by the state or federal government, tribal government, municipality, or political subdivision of the state.

(j) "Qualifying tenant" means a business entity that exists for the primary purpose of engaging in commercial activity for profit and that leases space from a qualifying business within an eligible computer data center. The term does not include the state or federal government or any of their departments, agencies, and institutions; tribal governments; political subdivisions of this state; or any municipal, quasi-municipal, public, or other corporation created by the state or federal government, tribal government, municipality, or political subdivision of the state.

(k)(i) "Refurbished" or "refurbishment" means a substantial improvement to an eligible computer data center for which a certificate of occupancy is not issued. Such an improvement must update or modernize servers, server space, ventilation, or power infrastructure in an eligible computer data center.

(ii) For a qualifying computer data center to be considered refurbished, the qualifying business must certify, in a form and manner prescribed by the department, that the refurbishment of an eligible computer data center is complete. The refurbishment is considered complete on the date that the improved portion of the computer data center is operationally complete and able to be used for its intended purpose.

(l) "Server equipment" means the computer hardware located in an eligible computer data center and used exclusively to provide electronic data storage and data management services for internal use by the owner or lessee of the computer data center, for clients of the owner. For the purposes of this subsection, "electronic data storage and data management services" include, but are not limited to: Providing data storage and backup services, providing computer processing power, hosting enterprise software applications, and hosting websites. The term also includes providing services such as email, web browsing and searching, media applications, and other online services, regardless of whether a charge is made for such services. "Server equipment" also includes computer software necessary to operate the computer hardware. "Server equipment" does not include personal computers, the racks upon which the server equipment is installed, and computer peripherals such as keyboards, monitors, printers, and mice, unless used within the eligible computer data center.

(10) This section expires July 1, 2038.

NEW SECTION. **Sec.**  A new section is added to chapter 82.12 RCW to read as follows:

(1) An exemption from the tax imposed by RCW 82.12.020 is provided for the use by qualifying businesses or qualifying tenants of eligible server equipment to be installed, without intervening use, in an eligible computer data center, and to the use of labor and services rendered in respect to installing such server equipment. The exemption also applies to the use by a qualifying business or qualifying tenant of eligible power infrastructure, including labor and services rendered in respect to installing, repairing, altering, or improving such infrastructure.

(2) The exemption provided in this section does not apply to any person for whom the exemption under section 5 of this act does not apply.

(3) A qualifying business or a qualifying tenant claiming an exemption under this section must complete an annual tax performance report as required in RCW 82.32.534. The report must identify construction firm names and employment levels used for constructing, renovating, refurbishing, or remodeling the data centers.

(4) The definitions and requirements in section 5 of this act apply to this section.

(5) The exemption provided in subsection (1) of this section does not apply to the use of eligible server equipment and eligible power infrastructure, and the labor and services provided in subsection (1) of this section, if first used by qualifying businesses or qualifying tenants on or after July 1, 2038.

(6) This section expires July 1, 2043.

NEW SECTION. **Sec.**  A new section is added to chapter 82.08 RCW to read as follows:

From the effective date of this section, in order to obtain the exemption provided in RCW 82.08.986 or section 5 of this act, a qualifying business or qualifying tenant must certify to the department that, for new construction work to be performed on the site of the computer data center, the computer data center receiving an exemption under RCW 82.08.986 or section 5 of this act will be constructed by the prime contractor and its subcontractors in a way that includes community workforce agreements or project labor agreements and the payment of area standard prevailing wages and apprenticeship utilization requirements, provided the following apply:

(1) The owner and the prime contractor and all of its subcontractors regardless of tier have the absolute right to select any qualified and responsible bidder for the award of contracts on a specified project without reference to the existence or nonexistence of any agreements between such bidder and any party to such project labor agreement, and only when such bidder is willing, ready, and able to become a party to, signs a letter of assent, and complies with such agreement or agreements, should it be designated the successful bidder; and

(2) It is understood that this is a self-contained, stand-alone agreement, and that by virtue of having become bound to such agreement or agreements, neither the project contractor nor the subcontractors are obligated to sign any other local, area, or national agreement.

NEW SECTION. **Sec.**  (1) The department of commerce shall contract with the Pacific Northwest national laboratory to:

(a) Evaluate Washington's current and future electric grid resilience and reliability based on current and projected electric energy production, the state's ability to produce energy in state, Washington's reliance on energy production outside of the state, and its energy grid interdependence with other western states;

(b) Identify key grid resilience and reliability challenges that could emerge under multiple future scenarios given adoption of new energy technologies, changes in residential and industrial energy demand, and changes in energy production and availability from both in and out-of-state sources;

(c) Study the impact to the future electric grid resulting from the growth of the information technology sector, including the impact of increased data center energy demand from the tax exemptions provided in RCW 82.08.986 or section 5 of this act;

(d) Review and incorporate existing models, data, and study findings including, but not limited to, the "Washington 2021 state energy strategy and the 2021 northwest power plan," to ensure a duplication of efforts does not occur and to highlight modeling gaps related to regional grid resilience planning;

(e) Convene an advisory group to inform scenario development and review results, which may include representatives from the Washington State University Pacific Northwest national laboratory advanced grid institute, utilities and transportation commission, relevant legislative committees, energy producers, utilities, labor, environmental organizations, tribes, and communities at high risk of rolling blackouts and power supply inadequacy; and

(f) Develop recommendations for enhancing electric grid reliability and resiliency for Washington that includes considerations of affordability, equity, and federal funding opportunities.

(2) The department of commerce shall report by December 1, 2022, in compliance with RCW 43.01.036, the Pacific Northwest national laboratory's findings and recommendations to the appropriate committees of the legislature concerning electric grid resilience and reliability evaluated in subsection (1) of this section.

(3) This section expires December 1, 2023.

NEW SECTION. **Sec.**  If specific funding for the purposes of section 8 of this act, referencing section 8 of this act by bill or chapter number and section number, is not provided by June 30, 2022, in the omnibus appropriations act, section 8 of this act is null and void.

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