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CITY OF QUINCY

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September 9, 2016

To: The Citizen Commission for Performance Measurement of Tax Preferences

From: Jim Hemberry, Mayor *JH*
Tim Snead, Administrator *TS*
Scott Cave, Lobbyist *SC*

Subject: JLARC Preliminary Report: 2016 Tax Preference Performance Reviews; Sales and Use Tax Exemption for Rural Data Centers

The City of Quincy respectfully submits the following comments on the data center sales and use tax exemption analysis conducted by JLARC. Before responding directly to the four questions requested by the Commission, the City wishes to provide some background information. Please refer to the attachment, *Quincy Fiscal View 2004-July 2016*.

Background

The Quincy data center story begins in 2006, when Microsoft and Yahoo purchased property in Quincy for the purpose of constructing data centers. Intuit followed in 2007, and the first cloud computing economic boom occurred in Quincy (see Slide 1). As you can see, Quincy sales tax revenue spiked during the multiyear construction of those three facilities. However, this initial boom subsided in 2008 & 2009 when the state DOR and AGO expressed similar opinions that the data centers didn't qualify for the state's rural county sales and use tax deferral for manufacturing facilities. To encourage data center investment in rural counties, legislation was crafted to provide a data center tax exemption in 2009. When the legislation failed, investment stopped, and sales tax and use tax revenue declined, nearly returning to pre-data center levels.

In March 2010, the legislature considered the exemption issue again, and this time passed a fifteen month exemption (April 1, 2010 to June 30, 2011), which triggered a second cloud computing economic boom of investment and construction, resulting in an increase in annual sales and use tax revenue (see Slide 1). However, when the effort to extend the exemption failed, data center investment ebbed, which is reflected in the muted sales tax revenue generated in 2010 and 2011. Since the exemption was restored in 2012, and extended in 2015, annual sales and use tax revenue has averaged \$4.8 million, which appears to be about \$4.0 million above the historical level adjusted for inflation.

Mayor

Jim Hemberry

Mayor Pro Tempore

Paul Worley

Josey Ferguson

Adam Roduner

Tom Harris

Paul Worley

Councilmembers

David Day

Sonia Padron

David Durfee, Jr.

The City believes the past, current and future new sales tax revenue generated from data center construction should be accounted for in the Commission's review of the JLARC analysis.

3. Do taxes associated with any increased economic activity stimulated by this tax preference exceed the preference's loss of tax revenue?

As noted in response to the first two questions, the City has observed increases in both employment (both construction and at the data centers) and annual sales and use tax revenue that are not accounted for in the JLARC review. The new City sales tax stimulated by this tax preference appears to be about \$4.0 million annually (2012 to 2016 projected as of July). Consequently, the state received in the neighborhood of \$20 million annually during this period. The City would like this additional \$24 million in sales tax revenue included in the Commission's understanding and calculation of overall benefits from data center construction. Combined with the annual property tax base benefit (\$22 million), total annual state and local tax benefits appear to be about \$46 million.

While not all data center development in Quincy has taken advantage of the data center tax preference, the majority of the investment has, and data center operators can choose to site facilities in other states and countries that provide competitive, and at times, overly generous incentives. Consequently, without the data center tax incentive, much of this \$46 million annually in state and local tax revenue would likely have been foregone, along with the family wage-jobs that were created.

4. Does this preference have negative consequences? For example, were other industries, workers, or the environment harmed by activities stimulated by this tax preference?

No negative consequences have been identified. The preference has stimulated private sector investment and construction and data center employment, supporting development and maturation of the cloud computing economic cluster in rural areas of our state. This substantial private sector investment in Quincy has generated new revenue that has been invested into the community through improvements to the Senior Citizen Center, purchase of a ladder truck for the fire district, improvements to parks and ballfields, development of an outdoor amphitheater, library, City Hall, Police Station and animal shelter.

We would further note that the City and Microsoft agreed in 2011 for the City to assume ownership of the company's mineralization (ion exchange) facility, providing the City with the ability to service more customers, and later, convert the facility into a reverse osmosis operation to provide a quality of water necessary for multiple beneficial uses including water for data center cooling towers and aquifer recharge to support Quincy's future water supply. Quincy is located on the arid Columbia Plateau, and like the other 23 cities and towns, is primarily dependent on a declining deep regional ground water system for potable water.

In addition, during the past decade the City has witnessed a steady population growth and not surprisingly, a steady rise in residential building permits, as well as commercial property development and investment. Combined, these private and public sector investments have put Quincy in a position to experience continued economic expansion and job creation in the near term, including generating millions annually in new sales tax revenues for state and local government.

City of Quincy

Fiscal View

(2004 thru July, 2016)

Annual City Revenue and Levy Rate

*Provided to the Citizen Commission for Performance
Measurement of Tax Preferences*

September 9, 2016

Slide 1 - Sales and Use Taxes

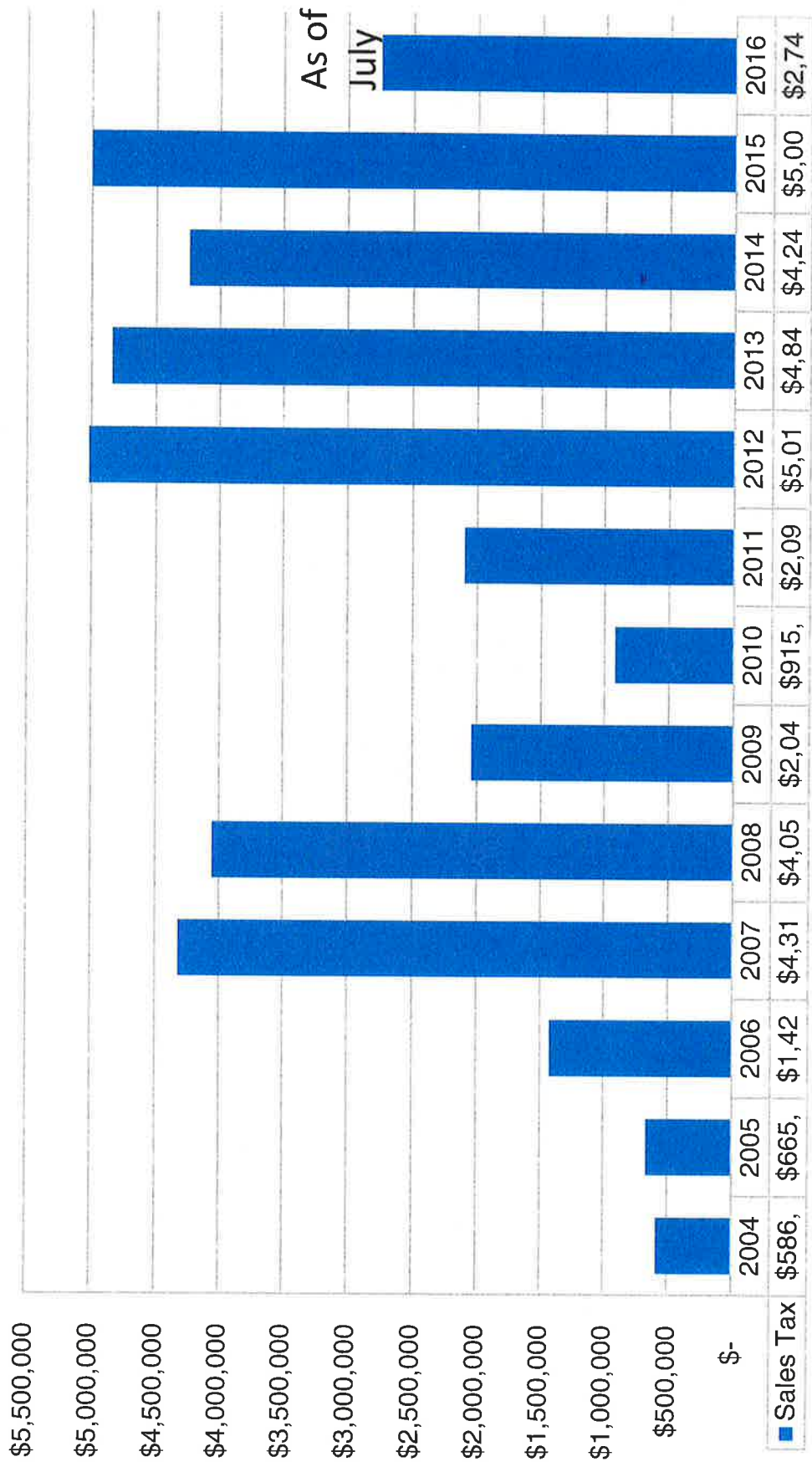
Slide 2 - Property Taxes

Slide 3 - Property Tax Levy Rate

SLIDE 1

CITY OF QUINCY SALES TAX REVENUE

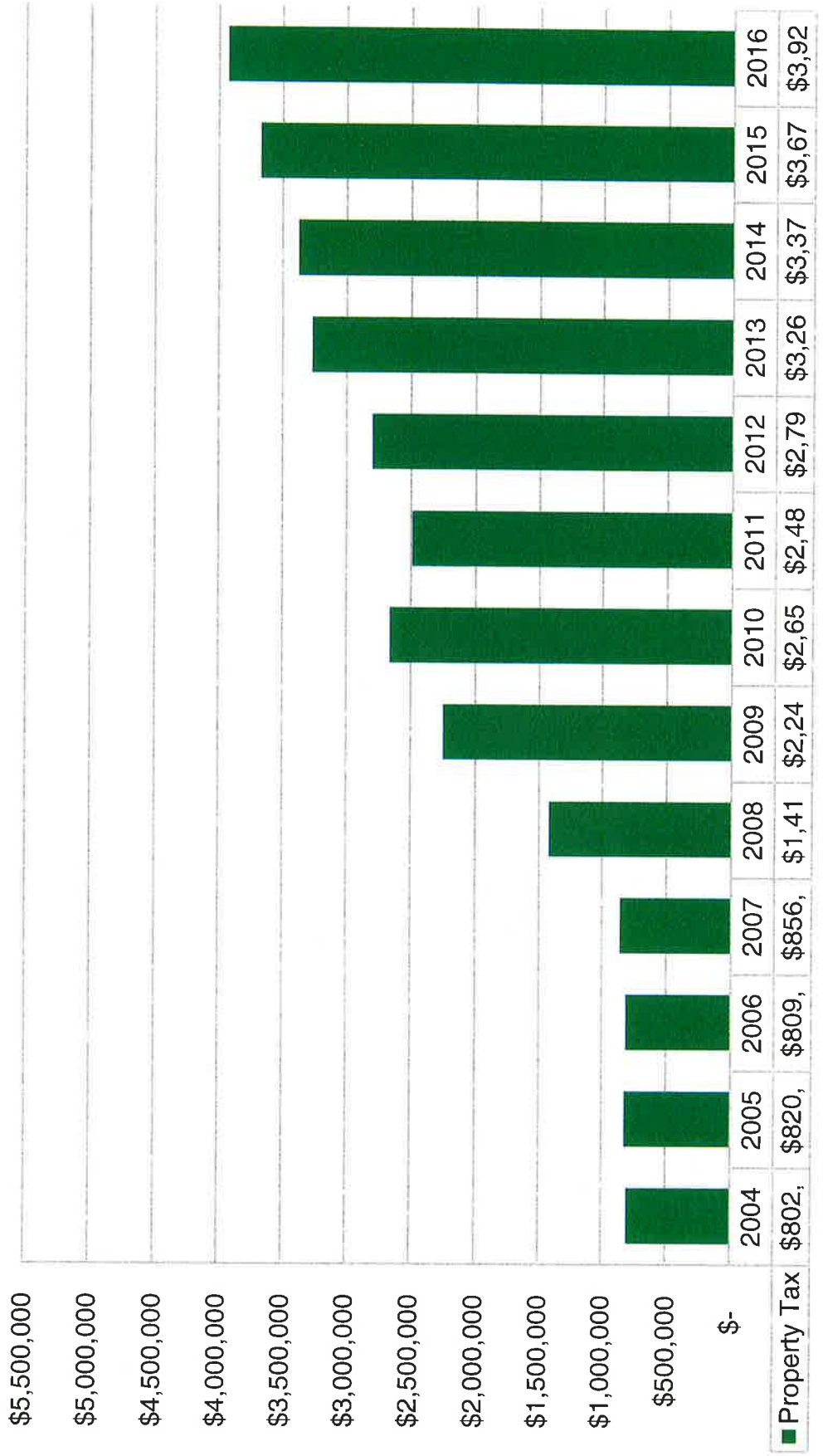
(Annually in dollars)



SLIDE 2

CITY OF QUINCY PROPERTY TAX REVENUE

(Annually in dollars)



SLIDE 3

CITY OF QUINCY PROPERTY TAX LEVY RATE

(Annual rate per \$1,000)

