

P-907C



**Gray & Osborne, Inc.**

CONSULTING ENGINEERS

May 21, 2015

Mr. Steve Wall, P.E.  
Public Works Director  
City of Camas  
616 NE Fourth Avenue  
Camas, Washington 98607

SUBJECT: SCOPE OF WORK AND FEE PROPOSAL, CLASS A BIOSOLIDS  
TAX EXEMPTION ASSISTANCE  
CITY OF CAMAS, CLARK COUNTY, WASHINGTON  
G&O #20155.58

Dear Mr. Wall:

We are pleased to provide our Proposal for Professional Engineering Services for Class A Biosolids Tax Exemption Assistance. We propose to assist the City in obtaining the tax refunds for which it is eligible.

House Bill 1347 is legislation that took effect April 11, 2011. The portion of the bill that the City is interested in provides a tax exemption for the purchase of equipment and labor utilized in the production of Class A or Exceptional Quality (EQ) biosolids. As indicated in the house bill, the "biosolids manufacturing process" and point at which the tax exemption applies is "where Class "B" biosolids undergo additional processing to achieve Class "A" or EQ standards." The tax exemption applies to machinery and equipment that is used directly in the process of creating Class A biosolids. Processing equipment such as pumps, blowers, drying equipment, and conveyors are examples of equipment eligible for the exemption. The exemption also applies to the charges for labor and services rendered for installation, repair, cleaning, altering, or improving the equipment.

Buildings and building fixtures, such as heating systems, plumbing, air conditioning, and building electrical systems that are not used directly in the biosolids manufacturing process, remain subject to tax and are not eligible for the exemption. The tax exemption does not include equipment with a useful life of less than 1 year or hand tools.

This tax exemption applies to new projects and retroactively. Expenditures which have taken place within 4 years of the request are eligible for the exemption.

To obtain the exemption, the purchaser (City) must fill out the Manufacturer's Sales and Use Tax Exemption Certificate, give it to the seller, and keep a copy for its records. The

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seller would either omit the tax from a new purchase or refund it from a previous purchase. There are additional procedures to follow if the seller will not or cannot make good on the exemption. The purchaser could then pursue a refund directly from the State.

The Manufacturer's Sales and Use Tax Exemption Certificate and a copy of House Bill 1347 are attached.

To meet the requirements for the exemption, at least 50 percent of the biosolids must be sold to meet the majority use threshold. State and local sales tax is collected for all biosolids sold. State and local use tax (which is the same rate as state and local sales tax) is due for any remaining biosolids that are not sold. Biosolids not sold would include product used on site, or given away or used elsewhere in the City. The use tax is based on the retail sales price.

There is no minimum selling price requirement for Class A biosolids per the statute. However, the use tax (for any product not sold) is based on the fair-market retail sales price of the product, presumably the market price for the biosolids which are sold.

The general engineering services tasks we propose to perform include completing tax exemption and refund forms, providing calculations for the exemption and refund tabulation, and providing a letter of justification to the Washington State Department of Revenue for the City's signature.

The total cost for engineering services described is \$4,668. Please refer to the enclosed Exhibit B, which provides a detailed summary of the engineering costs. If you find this proposal acceptable, please sign the contract amendment authorization statement at the bottom of this letter, and return one copy to us. A second copy of this letter is provided for this purpose. Please call Eric Nutting or me if you wish to discuss this request or if you need additional information.

Sincerely,

GRAY & OSBORNE, INC.

Jay Swift, P.E.

JLS/hhj  
Encl.

cc: Mr. Bob Busch, WWTF Superintendent, City of Camas



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**CITY OF CAMAS – CLASS A BIOSOLIDS TAX EXEMPTION ASSISTANCE**

I hereby authorize Gray & Osborne, Inc. to proceed with the engineering work as described herein and under the terms and conditions of our current On-Call Water and Wastewater Engineering Services Contract dated December 2, 2013, for a cost not to exceed \$4,668 which is specifically stated and further referenced herein.

Scott Higgins  
Name (Print)

Mayor  
Title

[Handwritten Signature]  
Signature

July 20, 2015  
Date

## EXHIBIT B

### ENGINEERING SERVICES SCOPE AND ESTIMATED COST

#### *City of Camas - Class A Biosolids Tax Exemption Assistance*

Tasks	Principal Hours	Project Manager Hours	Project Engineer Hours
General Engineering Services		6	18
Correspondence		1	6
Quality Assurance/Quality Control	0.5	0.5	4
Hour Estimate:	0.5	7.5	28
Fully Burdened Billing Rate Range:*	\$112 to \$176	\$115 to \$176	\$110 to \$142
Estimated Fully Burdened Billing Rate:*	\$160	\$145	\$125
Fully Burdened Labor Cost:	\$80	\$1,088	\$3,500

Total Fully Burdened Labor Cost: \$ 4,668

**TOTAL ESTIMATED COST: \$ 4,668**

\* Actual labor cost will be based on each employee's actual rate. Estimated rates are for determining total estimated cost only. Fully burdened billing rates include direct salary cost, overhead, and profit.

# FINAL BILL REPORT

## HB 1347

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Synopsis as Enacted

**Brief Description:** Concerning sales and use tax exemptions for certain property and services used in manufacturing, research and development, or testing operations, not including changes to RCW 82.08.02565 and 82.12.02565 that reduce state revenue.

**Sponsors:** Representatives Hunter and Orcutt; by request of Department of Revenue.

**House Committee on Ways & Means**  
**Senate Committee on Ways & Means**

### **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 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 property, digital products, or services were acquired by the user, then use taxes apply to the value of most tangible personal property and digital products and some services when used in this state. The state sales and use tax rate is 6.5 percent. Local tax rates vary from 0.5 percent to 3.0 percent, depending on the location. The average local tax rate is 2 percent, for an average combined state and local tax rate of 8.5 percent.

A retail sales and use tax exemption applies to new or replacement machinery and equipment (M&E) used in a manufacturing or research and development operation by a manufacturer or processor for hire. The exemption also applies to services, such as installation or repair services, rendered with respect to the M&E. The exemption applies to industrial fixtures and devices as well as pollution control equipment that is used in the manufacturing operation. The exemption does not apply to short-lived tools, hand tools, and consumable supplies.

King County is constructing a new regional wastewater treatment plant, called Brightwater. Construction started in 2006. The treatment plant is anticipated to begin operations in 2012. Brightwater will serve portions of King and Snohomish counties. The new facilities will include a treatment plant, conveyance (pipes and pumps taking wastewater to and from the plant), and a marine outfall. King County filed a refund lawsuit claiming it is entitled to the M&E exemption for the M&E installed at Brightwater. The amount of the refund request is approximately \$23 million, not including interest.

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*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.*

As part of the wastewater treatment process, many treatment plants produce exceptional quality biosolids that contain almost no pathogens. These exceptional grade biosolids can be used as commercial fertilizer.

Two state universities are claiming the exemption for M&E used as part of a technological research and development operation.

**Summary:**

The sales and use tax exemption for machinery and equipment (M&E) is clarified to only apply with respect to businesses that are taxed under the manufacturing category for business and occupation tax. The exemption does not apply to M&E used for activities within the purview of a utility business, i.e., distributing electricity, providing water and sewer services, distributing natural gas, etc. However, M&E used by a wastewater treatment facility to process class B biosolids into biosolids meeting class A or exceptional quality standards would qualify for the exemption. It is also clarified that the M&E exemption does not apply to the state and its departments and institutions.

A stand-alone sales and use tax exemption for M&E is provided for public research institutions using the M&E as part of a research and development operation. The exemption also applies to installation, repair, and other services related to the M&E. The following institutions would be eligible for the exemption: University of Washington, Washington State University, Western Washington University, Central Washington University, Eastern Washington University, and The Evergreen State College. Any public research institution claiming the exemption is required to file an annual survey with the Department of Revenue providing employment-related information for the prior calendar year, the general areas of research and development where exempt M&E is used, and the amount of the tax exemption claimed in the prior calendar year.

The act applies retroactively to open assessment periods as well as prospectively.

**Votes on Final Passage:**

House	97	0
Senate	47	0

**Effective:** April 11, 2011