

# HOUSE BILL REPORT

## HB 3163

---

**As Reported by House Committee On:**  
Community & Economic Development & Trade  
Finance

**Title:** An act relating to military improvement zones.

**Brief Description:** Creating a military improvement zone program.

**Sponsors:** Representatives Kelley, McCune, Green, Williams, Morrell and Conway.

**Brief History:**

**Committee Activity:**

Community & Economic Development & Trade: 1/30/08, 2/5/08 [DPS];  
Finance: 2/12/08 [DP2S(w/o sub CEDT)].

**Brief Summary of Second Substitute Bill**

- Directs the Department of Community, Trade and Economic Development (Department) to conduct a pilot Military Improvement Zone Program in two specified areas.
- Creates a Military Improvement Zone Account in the State Treasury into which sales and use tax revenues from affordable housing construction are deposited and distributed to pay for public infrastructure related to the housing development.
- Requires the Department to examine and recommend tools for encouraging affordable and high quality housing and infrastructure.

---

**HOUSE COMMITTEE ON COMMUNITY & ECONOMIC DEVELOPMENT & TRADE**

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 9 members: Representatives Kenney, Chair; Pettigrew, Vice Chair; Bailey, Ranking Minority Member; McDonald, Assistant Ranking Minority Member; Chase, Darneille, Haler, Rolfes and Sullivan.

**Staff:** Meg Van Schoorl (786-7105).

---

*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.*

## **Background:**

"Impacts of the Military Bases in Washington," a 2005 report by the Office of Financial Management, identified more than 100 military installations in the state. The major installations include Ft. Lewis, McChord Air Force Base, Naval Base Kitsap, Keyport Undersea Warfare Center, NW Regional Maintenance Center, Naval Station Everett, Naval Air Station Whidbey, Fairchild Air Force Base, and Yakima Training Center. The report listed some of the direct impacts of the military presence including payroll of uniformed/civilian personnel (\$3.4 billion) and military retiree pensions (\$1.15 billion). Contracts let by major bases in 2003 included \$1.14 billion in in-state purchases, \$530 million in sales by Washington companies to bases, and \$2.9 billion in contracts with the U.S. Department of Defense. Over half of Washington counties experience an impact from base purchasing practices. In 2003 the military wage and salary disbursements made up more than 88 percent of the total disbursements in Island County, 52 percent in Kitsap County, and 29 percent in Pierce County.

---

## **Summary of Substitute Bill:**

### Findings

The Legislature finds that communities surrounding military bases should, but often do not, reflect appreciation of the value of military personnel stationed in our state. Insufficient resources for new infrastructure and patterns of urban development have not supported the military's housing and services needs.

### Military Improvement Zone Pilot Program

The Department of Community, Trade and Economic Development (Department) must conduct a Military Improvement Zone Pilot Program (Pilot Program). Counties or cities may submit applications to designate qualifying areas. To be eligible, an area must:

- (1) be a defined geographic area consisting of a neighborhood or contiguous neighborhoods;
  - (2) demonstrate a need for infrastructure improvement resulting from specified causes; and,
  - (3) be within two miles of not more than two federal military bases with more than 30,000 personnel combined that are wholly contained within census tract 720 or census tract 806.
- The Department must develop Pilot Program guidelines and criteria and provide technical assistance to local governments participating in the Pilot Program. Depending on appropriations available, the Department must provide grants to counties and cities participating in the Pilot Program and must use sales and use tax receipts in the Military Improvement Zone Account only for the public infrastructure projects related to the affordable housing projects. The Department must submit a comprehensive Pilot Program status report by September 30, 2010, followed by a Pilot Program findings and recommendations report by September 30, 2012, to the Governor and appropriate legislative committees. The Pilot Program terminates on June 30, 2013.

### Military Improvement Zone Account, Eligibility and Authorized Use of Distributions

The Military Improvement Zone Account (Account) is created in the State Treasury. Estimated sales and use taxes on tangible personal property, labor, and services used in the construction of military improvement zone affordable housing projects must be deposited in the Account. Distributions of proceeds from the Account must be made annually and may be used by a county or city only for public infrastructure projects required for the affordable housing development to occur. Authorized uses include construction of: streets and roads necessary to serve the military improvement zone, water and sewer systems, and storm water and drainage management systems. Affordable housing means residential housing for rental occupancy which requires payment of monthly housing costs, including utilities other than telephone, of no more than 30 percent of the family's income.

To be eligible for the distribution, a city or county must submit an application prior to the initiation of the construction of the affordable housing project. The local government must verify the project's location in a designated military improvement zone; that the project's completion date is consistent with Department requirements; that the proceeds will be used for the infrastructure required for the development to occur; that at least 25 percent of the housing units qualify as affordable housing; and that the developer and local government have made a development agreement containing prescribed elements. The Department must rule on the application within 45 days of its receipt. The local government must submit an expenditure plan specifying the intended use of the proceeds within 120 days of submitting the application. The Department must notify the local government of expenditure plan deficiencies within 90 days of submittal.

### Examination of Land Use Tools

The Department is directed to examine land use tools and funding options that encourage high quality development of neighborhoods around military bases, affordable housing for military personnel, and infrastructure consistent with the highest health, safety and welfare standards. The Department must report findings and recommendations to the Governor and appropriate legislative committees by January 30, 2009.

### **Substitute Bill Compared to Original Bill:**

The substitute bill removes the requirement that the Department establish a Military Improvement Zone (MIZ) Program effective January 1, 2013. However, the substitute bill retains creation and operation of a MIZ Pilot Program within the Department until the Program's termination on June 30, 2013. The substitute bill requires that to be eligible for designation as MIZ, an area must be within two miles of not more than two federal military bases, having over 30,000 personnel, and located within either census tract 720 or census tract 806. The required minimum percentage of affordable housing units in a project is increased from 15 percent to 25 percent.

---

**Appropriation:** None.

**Fiscal Note:** Available on original bill.

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

**Staff Summary of Public Testimony:**

(In support) Areas surrounding military installations should reflect appreciation of the armed forces and the value of the sacrifice of military personnel. However, census tract 720, the area around Ft. Lewis, Madigan Hospital, and McChord Air Force Base, is well below the federal poverty level. Housing that was once affordable is now mostly substandard. Tillicum is a town with tremendous potential that has been passed by. Everyone in the town has a role to play in revitalizing the community, but its dilapidated conditions, and lack of sewers and sidewalks require help from the outside. Over the next five or six years, Ft. Lewis is expected to receive an additional 35,000 troops, adding to the pressure for affordable housing in the surrounding areas. In the federal Defense Base Closure and Realignment Commission (BRAC) process, there is significant consideration given to quality of life for military personnel. Taxpayers in the City of Lakewood are investing in infrastructure through a surcharge on their sewer utility bills to repay a \$7.5 million Public Works Trust Fund loan to extend a sewer line. Private development of affordable housing can be spurred once the sewer line is complete. If the requirement that at least 15 percent of a development be affordable housing is too low, the percentage can be changed.

(Oppose) None.

**Persons Testifying:** Representative Kelley, prime sponsor; Doug Richardson, Mayor for City of Lakewood; David Anderson, Tillicum Property Owners Association; and Derek Young, Gordon Thomas Honeywell - City of Lakewood.

**Persons Signed In To Testify But Not Testifying:** None.

---

**HOUSE COMMITTEE ON FINANCE**

**Majority Report:** The second substitute bill be substituted therefor and the second substitute bill do pass and do not pass the substitute bill by Committee on Community & Economic Development & Trade. Signed by 8 members: Representatives Hunter, Chair; Hasegawa, Vice Chair; Orcutt, Ranking Minority Member; Condotta, Assistant Ranking Minority Member; Conway, Ericks, McIntire and Roach.

**Minority Report:** Do not pass. Signed by 1 member: Representative Santos.

**Staff:** Don Taylor (786-7388).

**Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Community & Economic Development & Trade:**

Restricts the diversion of retail sales/use tax to the tax paid on affordable housing units, not the entire housing project.

**Appropriation:** None.

**Fiscal Note:** Not requested.

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

**Staff Summary of Public Testimony:**

(In support) Our military personnel are giving great sacrifices to the country; it is the least that we can do as a nation to assure that members of the military and their families have adequate housing near their assigned military bases. The two census tracts selected for the pilot program contains areas of substandard housing. This incentive will materially help to stimulate construction of better affordable housing facilities near major military bases.

(Opposed) None.

**Persons Testifying:** Derek Young, City of Lakewood.

**Persons Signed In To Testify But Not Testifying:** None.