

# HOUSE BILL REPORT

## HB 2635

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**As Reported by House Committee On:**  
Community Development, Housing & Tribal Affairs  
Finance

**Title:** An act relating to creating a military benefit zone program.

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

**Sponsors:** Representatives Kilduff, Muri, Sawyer, Kirby and Young.

**Brief History:**

**Committee Activity:**

Community Development, Housing & Tribal Affairs: 1/23/18, 1/25/18 [DPS];  
Finance: 2/5/18 [DPS(CDHT)].

**Brief Summary of Substitute Bill**

- Allows sponsoring communities within two miles of Joint Base Lewis-McChord (JBLM) to create Military Benefit Zones (MBZs), to allow for certain financing options for public improvements that meet certain requirements.
- Allows communities that create an MBZ to issue bonds for the financing of public improvement projects within the MBZ boundaries.
- Allows communities that create MBZs to apply to the Department of Commerce for a project award, the amount of which may then be collected through an additional sales and use tax credited against state sales and use tax.
- Allows other cities, towns, and counties within two miles of JBLM that have an MBZ within their boundaries to enter into interlocal agreements with sponsoring communities to dedicate revenue from their local sales and use tax to public improvement projects within the MBZ boundaries.

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**HOUSE COMMITTEE ON COMMUNITY DEVELOPMENT, HOUSING & TRIBAL AFFAIRS**

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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.*

**Majority Report:** The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives Ryu, Chair; Macri, Vice Chair; Barkis, Ranking Minority Member; McCabe, Assistant Ranking Minority Member; Jenkin and Reeves.

**Staff:** Travis Yonker (786-7383).

**Background:**

Joint-Base Lewis McChord (JBLM) is located in Pierce County and borders Thurston County, adjacent to such cities as DuPont, Lakewood, Parkland, and Spanaway. JBLM has more than 40,000 service members and about 15,000 civilian workers. In addition, JBLM supports 60,000 family members, living within JBLM and in the surrounding communities, and another 30,000 retirees living in the region.

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**Summary of Substitute Bill:**

Communities within two miles of the boundaries of JBLM may participate in the Military Benefit Zone Program (Program) aimed at providing funding options to those communities to complete certain public improvement projects.

Creation of a Military Benefit Zone.

A sponsoring military community, defined as a city, town, county, or combination thereof, may create a Military Benefit Zone (MBZ) through adoption of an ordinance. Before adopting such an ordinance, the sponsoring military community must provide notice to all taxing districts that impose a local sales tax within the boundaries of the proposed MBZ of the sponsoring military community's intention to create an MBZ. The sponsoring military community must also hold a public hearing.

The MBZ may not share any geographic area with certain other benefit zones or development areas, and must be comprised of contiguous tracts of land, without islands of property, wholly within two miles of JBLM. The MBZ may not contain more than 25 percent of the total assessed value of the taxable real property in the sponsoring military community.

Once an MBZ is created, the sponsoring military community may authorize the use of local military benefit financing, defined as revenues from local public sources or additional sales and use tax dedicated to pay for bonds, to finance public improvement projects within the MBZ.

Issuance of General Obligation Bonds.

A sponsoring military community that establishes an MBZ may, through ordinance, incur general indebtedness, including issuing general obligation bonds, to finance the public improvements within the MBZ and retire the indebtedness from the local military benefit financing it receives, subject to certain requirements. The bonds may be payable from other tax revenues, the full faith and credit of the sponsoring military community, income from the public improvements, as well as contributions, grants, and non-tax money available to the local government.

A sponsoring military community may establish a special fund, into which it pays annually a fixed proportion or amount of additional sales and use tax imposed as part of the program until the issued bonds are paid in full.

Application for Project Award.

Once a sponsoring military community has created an MBZ, it may apply to the Department of Commerce (COM) to determine a project award amount, which includes a state contribution of funds to the up-front financing of public improvement projects. The application must include specific information related to any anticipated imposition of local sales and use tax or any anticipated issuance of bonds.

The COM will consider applications and approve project award amounts based on the availability of a state contribution and cannot exceed the annual state contribution limit, which is set at \$5 million statewide plus amounts approved for certain pilot projects. Once project awards reach the annual state contribution limit, no more applications will be accepted.

The COM must begin accepting applications on June 1, 2018. The COM will approve pilot projects submitted by September 1, 2018, to determine the feasibility of military benefit financing, specifically including one pilot project in the City of Lakewood that must be approved for at least \$1 million.

Imposition of an Additional Sales and Use Tax.

Any local government, defined as any city, town, or county within two miles of JBLM that has been approved for a project award may, through ordinance, impose a sales and use tax in addition to other taxes authorized by law for the sole purpose of paying debt service on bonds issued for financing public improvements. The revenue from the additional sales and use tax is credited against the state sales and use tax to which the state would otherwise be entitled to receive. The additional sales and use tax is collected by the Department of Revenue (DOR), who then distributes such revenue, subject to certain possible limitations, to the applicable local government.

The additional sales and use tax rate cannot exceed the lesser of:

- the state sales tax rate less the aggregate rate of various other types of local sales and use tax imposed by any taxing authority on the same taxable event; or
- the rate as determined by the local government, in consultation with the DOR, reasonably necessary to receive the project award amount over 10 months.

Thus, the additional sales and use tax cannot result in a higher total sales or use tax being paid on the same taxable event. Further, the additional sales and use tax expires at the earlier of:

- the date that the bonds are retired; or
- 25 years after the tax is first imposed.

The DOR will approve the amount of the revenue collected from the additional sales and use tax that will be distributed annually to each local government, which annual distribution will

be the lesser of the state contribution, the project award amount, or the amount dedicated to payment of bonds.

During the fiscal year, if either: (a) revenue from the additional sales and use tax reaches the amount of annual distributions approved by the DOR for a particular local government; or (b) the amount of revenue from all additional sales and use taxes distributed to all sponsoring local governments reaches the annual state contribution limit, the DOR will stop distributing revenue to the applicable local government until the beginning of the next fiscal year. The state is entitled to retain any excess revenue as part of the State General Fund.

#### Other Participating Local Governments.

Other local governments that have an MBZ within their geographic boundaries, may also participate in military benefit financing along with the sponsoring military community by entering into an interlocal agreement with such community, after which the other participating local government may dedicate local sales and use tax amounts to finance public improvements within an MBZ.

If a local government with an MBZ within its geographic boundaries does not want to participate in military benefit financing, that local government must adopt an ordinance and notify the sponsoring military community that it will not be a participating local government, and provide notice of such ordinance to the sponsoring military community prior to that community's adoption of the ordinance creating the MBZ.

#### Financing of Public Improvements.

A local government may finance public improvement projects within the MBZ using military benefit financing subject to the following conditions:

- the sponsoring military community must adopt an ordinance specifying the public improvements within the MBZ to be financed through military benefit financing;
- the public improvements must be expected to encourage private development and increase the quality of life and to increase fair-market value of real property and sales tax revenue within the MBZ;
- the local government must enter into a contract with, or have received a letter of intent from, a private developer relating to the development of private improvements within the MBZ;
- the anticipate private development will be consistent with the countywide planning policy adopted by the county and the local government's comprehensive development plan;
- the sponsoring military community may not use military benefit financing to finance the costs related to certain improvements in a public facilities district;
- the governing body of the sponsoring military community must make a finding that military benefit financing: (a) will not be used to relocate a business from elsewhere in Washington into the MBZ unless there is convincing evidence the business will otherwise leave Washington; (b) will improve the viability of existing businesses in the MBZ; and (c) will be used exclusively in areas in need of economic development or redevelopment that would likely not otherwise occur without such financing; and
- the governing body of the local government must find that the proposed public improvements are likely to: (a) increase private investment within the MBZ; (b) increase employment within the MBZ; (c) generate increases in state and local sales

and use tax revenues; and (d) support the needs of the military for housing, services, and quality of life.

**Substitute Bill Compared to Original Bill:**

The substitute bill clarifies that "local governments" rather than cities and counties, which have been approved for a project award, may impose a sales and use tax. The substitute bill also clarifies that certain sections be codified under Title 39 RCW instead of Title 82 RCW, and makes other technical corrections to section and term references.

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**Appropriation:** None.

**Fiscal Note:** Preliminary fiscal note available.

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

**Staff Summary of Public Testimony:**

(In support) This bill allows for the financing of infrastructure in the vicinity of JBLM. It promotes economic development, increases private investment, employment, and the quality of life for the residents near JBLM. This would help Washington be more desirable and score better in economic vitality if the military ever considers scaling down at JBLM. This bill creates a win-win situation for the communities around JBLM and for the state.

(Opposed) None.

**Persons Testifying:** Representative Kilduff, prime sponsor; Representative Muri; Ted Wicorek, Veterans Legislative Coalition; John Caulfield and Shelly Helder, City of Lakewood.

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

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**HOUSE COMMITTEE ON FINANCE**

**Majority Report:** The substitute bill by Committee on Community Development, Housing & Tribal Affairs be substituted therefor and the substitute bill do pass. Signed by 7 members: Representatives Lytton, Chair; Orcutt, Assistant Ranking Minority Member; Dolan, Pollet, Springer, Wilcox and Wylie.

**Minority Report:** Do not pass. Signed by 3 members: Representatives Nealey, Ranking Minority Member; Condotta and Stokesbary.

**Minority Report:** Without recommendation. Signed by 1 member: Representative Frame, Vice Chair.

**Staff:** Richelle Geiger (786-7139).

**Summary of Recommendation of Committee On Finance Compared to Recommendation of Committee On Community Development, Housing & Tribal Affairs:**

No changes were recommended.

**Appropriation:** None.

**Fiscal Note:** Available.

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

**Staff Summary of Public Testimony:**

(In support) Joint Base Lewis-McChord (JBLM) is the second largest employer in the state, generates approximately \$50 million in annual economic activity, and is home to both service members and civilians. The area around the base has a high poverty rate, and many families in the region are food insecure. The objective of this bill is to promote economic development, increase employment opportunities, and improve the quality of life in the area surrounding the base.

These efforts would also help protect the base against potential closure under the federal Base Realignment and Closure process. Economic vitality is a consideration used to make decisions about which bases to close across the country. Other states offer MBZ programs to help support the economies surrounding military bases as well.

Additionally, the program would support our military families by providing more housing options and services. In the long term, providing more housing and services near JBLM could reduce commute times on Interstate 5.

The two primary tools in this bill are to provide local authorities with bonding capacity to finance public improvement projects and the local sales and use tax credit to retire those bonds.

Under this bill, public improvement projects must meet a number of requirements, including increasing private investment and employment within the MBZ. Additionally, the project must increase sales tax revenue in the MBZ, of which the state is the greatest beneficiary.

Economic development districts have a successful track record in Washington. The Local Infrastructure Financing Tool Program, the Local Revitalization Financing Program, and Hospital Benefit Zones have encouraged economic development and investment in our state, but the programs are no longer accepting applications.

(Opposed) None.

**Persons Testifying:** Representative Kilduff, prime sponsor; and Shelly Helder, City of Lakewood.

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