

SENATE BILL REPORT

SB 5571

As Reported by Senate Committee On:
Financial Institutions, Economic Development & Trade, February 7, 2019

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

Brief Description: Creating a military benefit zone program.

Sponsors: Senators Randall, O'Ban, Conway and Holy.

Brief History:

Committee Activity: Financial Institutions, Economic Development & Trade: 1/31/19, 2/07/19 [DPS-WM, DNP].

Brief Summary of First Substitute Bill

- Authorizes certain cities and counties to apply and create military benefit zones (MBZ) for the purpose of generating revenues for certain projects and for financing local public improvements within the MBZ.
- Designates one demonstration project to determine the feasibility of the MBZ financing.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, ECONOMIC DEVELOPMENT & TRADE

Majority Report: That Substitute Senate Bill No. 5571 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.

Signed by Senators Mullet, Chair; Wilson, L., Ranking Member; Braun, Das, Ericksen and Hobbs.

Minority Report: Do not pass.

Signed by Senator Hasegawa, Vice Chair.

Staff: Kellee Gunn (786-7429)

Background: Special Purpose Taxing Districts. In Washington, special purpose taxing districts are limited purpose local governments separate from a city, town, or county government. Generally, they perform a single function, though some perform a limited

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number of functions. They provide an array of services and facilities including electricity, fire protection, flood control, health, housing, irrigation, parks and recreation, library, water-sewer service and more recently stadiums, convention centers, and entertainment facilities that are not otherwise available from city or county governments.

Community Financing. Tax increment financing (TIF) is a method of redistributing property tax collections within designated areas to finance infrastructure improvements within these designated areas. Washington State does not have the tools for tax increment financing found in other states. Attempts to authorize the use of state property tax revenue in Washington to finance developments through TIF have been struck down by the voters and the courts. In 2006, the Legislature supplemented this existing TIF legislation with the Local Infrastructure Financing Tool Program.

Military Presence in Washington State. Washington State has a number of military bases and installations, including:

- Fairchild Air Force Base near Spokane;
- Joint Base Lewis-McChord near Lakewood;
- Naval Base Kitsap near Bremerton;
- Naval Station near Everett; and
- Naval Air Station near Oak Harbor.

Summary of Bill (First Substitute): Creating a Military Benefit Zone. Any local government, wholly within two miles of the boundary of Joint Base Lewis-McChord, Naval Base Kitsap, Naval Station Everett, Fairchild Air Force Base, and Naval Air Station Whidbey Island, may establish a MBZ to adopt a local sales and use tax and a property tax. The MBZ may not include areas within those military bases and installations, or Camp Murray and any other state-owned military department property, and is limited to contiguous tracts, lots, pieces, or parcels of land.

No MBZ may have within its geographic boundaries any part of a hospital benefit zone, a revenue development area, an increment area for certain infrastructure projects, any part of an MBZ for the purpose of local revitalization financing, overlap with another MBZ, or any other current or future zone or area used for tax increment financing.

An MBZ cannot contain more than 25 percent of the total assessed value of the taxable real property within the boundaries of the sponsoring military community at the time the MBZ is created.

The boundaries of the MBZ may be changed for the time period when:

- local sales and use taxes of participating local governments are being imposed for the purpose of raising a certain amount of funds;
- raising funds for the purpose of paying bonds issued; or
- public improvement costs within the MBZ on a pay-as-you-go basis for payment of bonds.

Financing Public Improvements. MBZ financing must be used to finance certain public improvements.

A local government using MBZ financing must adopt an ordinance specifying the public improvements to be financed. The MBZ will enter into contracts relating to the development of private improvements within the MBZ and anticipate other improvements through county planning and the local government's comprehensive development plan.

Military benefit financing:

- will not be used to relocate a business from elsewhere in Washington State into the MBZ, unless there is convincing evidence the business will otherwise leave the state;
- will improve the viability of existing businesses in the MBZ; and
- will be used exclusively in areas in need of economic development or redevelopment that would likely not otherwise occur without such financing;

Additionally, it will be used for proposed public improvements likely to increase private investment, employment, generate increases in state and local sales and use tax revenues, and support certain needs of the military population.

A sponsoring military community may incur general indebtedness, including issuing general obligation bonds, to finance public improvements with an MBZ.

Application for Project Award. Once a sponsoring military community has created an MBZ, it may apply to the Department of Commerce (Commerce) to determine a project award amount, which includes a state contribution of funds to the up-front financing of public improvement projects. Commerce will consider applications and approve project award amounts within 60 days of receipt of an application. Anything in excess of the annual state contribution limit of \$5 million statewide may not be approved. Commerce must begin accepting applications on August 1, 2019.

A MBZ may establish a demonstration project to determine the feasibility of the MBZ financing tool. Commerce must approve each demonstration project that meets the applicable conditions, limitations, and requirements as follows:

- the city of Lakewood redevelopment project for at least \$1 million dollars; and
- any other demonstration project application submitted by a local government and approved by Commerce.

Demonstration projects must be submitted to Commerce by September 1, 2019. Demonstration project awards are not included in the annual state contribution limit.

Imposition of an Additional Sales and Use Tax. A sponsoring military community approved for a demonstration project award may impose a sales and use tax 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 rate for the new sales and use tax cannot exceed the lesser of:

- the state sales tax rate of 6.5 percent 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 Department of Revenue (DOR), reasonably necessary to receive the project award amount over ten months.

Additional sales and use tax cannot result in a higher total tax being paid on the same taxable event. Tax imposed expires on the date the bonds retire or 25 years after the tax is first imposed, whatever comes first.

The amount of the revenue collected from the additional sales and use tax must be approved by DOR and distributed annually to each local government. The annual distribution will be \$500,000, the project award amount, or the amount dedicated to payment of bonds, whichever is less.

If, during the fiscal year, certain revenue limits are reached, 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.

Local Property Tax Allocation Revenue. Beginning in the second calendar year following creation of a MBZ, a sponsoring local government may receive an additional portion of the regular property taxes levied by it and participating taxing districts. The additional allocation is equal to the regular property taxes imposed on 75 percent of the increased value resulting from new construction or improvements initiated after creation of the MBZ. For construction or improvements that do not consist of an entire building, the additional allocation is based only on the increased value in the first 12 months following creation of the MBZ.

The additional property tax allocations may only be used to finance public improvement costs within the military benefit zone. The additional allocation must cease when no longer obligated to pay the cost of public improvements.

Reporting. Annually, for the first five years, the local governments using MBZ financing must report certain information to Commerce. Commerce is then required to summarize that information to the public and the Legislature annually. After five years, the Joint Legislative Audit Review Committee must do an impact analysis on the effectiveness of MBZ financing.

EFFECT OF CHANGES MADE BY FINANCIAL INSTITUTIONS, ECONOMIC DEVELOPMENT & TRADE COMMITTEE (First Substitute):

- Adds an annual reporting requirement for sponsoring local governments using MBZ financing to the Department of Commerce within the first five years;
- Requires the Commerce to summarize the information reported by the local governments using MBZ financing to the public and the legislature;
- Requires JLARC to do an impact analysis on MBZ financing after five years;
- Excludes Camp Murray and any other state-owned military department property from becoming an MBZ;
- Establishes that no MBZ have within its boundaries any other current or future zone or area used for tax increment financing; and
- Makes technical changes to resolve drafting errors.

Appropriation: None.

Fiscal Note: Available.

Creates Committee/Commission/Task Force that includes Legislative members: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill: *The committee recommended a different version of the bill than what was heard.* PRO: Bremerton is home to Naval Base Kitsap and the shipyard. The naval base brings people into the state and into the Bremerton community. Veterans would like to see investments in their communities that lead to more economic development. This would be a great tool to extend access to broadband and technology. The city of Lakewood is adjacent to JBLM. JBLM is the second largest single employer in the state, behind Boeing. Thousands of people live in Lakewood have a connection to the JBLM. It is not the only military installation in the state. Collectively, these installations are huge economic engines of the state. This bill is about leveraging these economic engines. For Lakewood, there are some areas near JBLM that are under utilized that could benefit from investment. Having this type of investment available would help the state and the communities near these military bases. If this bill were to pass there is an area along I-5, an area of 25 acres called Lakewood Landing, that would be ready to go. As an economic development tool, the MBZ would benefit a number of city and communities.

Persons Testifying: PRO: Senator Emily Randall, Prime Sponsor; Ted Wicorek, Veterans Legislative Coalition; John Caulfield, City of Lakewood, City Manager; Rob Gelder, Kitsap County Commissioner.

Persons Signed In To Testify But Not Testifying: No one.