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**SUBSTITUTE SENATE BILL 5571**

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**State of Washington 66th Legislature 2019 Regular Session**

**By** Senate Financial Institutions, Economic Development & Trade (originally sponsored by Senators Randall, O'Ban, Conway, and Holy)

AN ACT Relating to creating a military benefit zone program; adding a new section to chapter 82.14 RCW; and adding a new chapter to Title 39 RCW.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec.**  INTENT. (1) Washington state has the sixth highest regional concentration of military presence in the United States. Military installations have significant importance to the local and state economy.

(2) Joint Base Lewis-McChord is the defense department's premiere military installation on the west coast, the second largest installation in the nation, and the largest in the state. Joint Base Lewis-McChord provides world-class installation support to more than forty thousand active, guard, and reserve service members and about fifteen thousand civilian workers. The base supports sixty thousand family members who live on and outside the base, and nearly thirty thousand military retirees living within fifty miles. Active duty personnel have spouses and children, and together they have over an eight billion dollar impact on the regional economy. Joint Base Lewis-McChord is just one of several military installations in the state.

(3) It is the intent of this state to provide the necessary means to assist communities with significant military installations in supporting and sustaining those installations. It is further the intent to encourage communities to initiate a coordinated program of response and plan of action in advance of future actions of the federal government relating to base realignments and closures. It is critical that communities develop and implement strategies to preserve and protect military installations, which often includes planning for and constructing additional infrastructure.

(4) Declining resources for new infrastructure have increased pressure on cities and counties, and as urban areas have grown near Washington's military installations, a pattern has developed that has not supported the needs of the military for housing, services, and quality of life. Therefore, to support and sustain military installations, local governments located within the vicinity of these facilities need additional funding options to improve infrastructure. To that end, the legislature intends to establish a military benefit zone program.

NEW SECTION. **Sec.**  DEFINITIONS. The definitions in this section apply throughout this chapter unless the context clearly requires otherwise.

(1) "Annual state contribution limit" means five million dollars statewide per fiscal year, plus the additional amounts approved for the demonstration projects in section 14 of this act.

(2) "Approving agency" means the department of commerce.

(3) "Bond" means a bond, note, or other evidence of indebtedness including, but not limited to, a lease-purchase agreement or an executory conditional sales contract.

(4) "Department" means the department of revenue.

(5) "Fiscal year" means the twelve-month period beginning July 1st and ending the following June 30th.

(6) "Local government" means any city, town, or county 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.

(7) "Local property tax allocation revenue" means those tax revenues derived from the receipt of regular property taxes levied on the property tax allocation revenue value and used for military benefit zone financing.

(8) "Local sales and use tax increment" means the estimated annual increase in local sales and use taxes as determined by the local government in the calendar years following the approval of the military benefit zone by the approving agency from taxable activity within the military benefit zone.

(9) "Local sales and use taxes" means local revenues derived from the imposition of sales and use taxes authorized in RCW 82.14.030.

(10) "Military benefit financing" means the use of revenues from local public sources, dedicated to pay the principal and interest on bonds authorized in section 10 of this act and public improvement costs within the military benefit zone on a pay-as-you-go basis, and revenues received from the local option sales and use tax authorized under section 16 of this act dedicated to pay the principal and interest on bonds authorized under section 10 of this act.

(11) "Military benefit zone" means the geographic area adopted by a sponsoring military community and approved by the approving agency, excluding Camp Murray and any other state-owned military department property, from which local sales and use tax increments are estimated and property tax allocation revenues are derived for military benefit zone financing.

(12) "Ordinance" means any appropriate method of taking legislative action by a local government.

(13) "Participating local government" means a local government having a military benefit zone within its geographic boundaries that has taken action as provided in section 6 of this act to allow the use of all or some of its local sales and use tax increments or other revenues from local public sources dedicated for military benefit financing.

(14) "Participating taxing district" means a local government having a military benefit zone within its geographic boundaries that has not taken action as provided in section 6(2) of this act.

(15) "Property tax allocation revenue base value" means the assessed value of real property located within a military benefit zone, less the property tax allocation revenue value.

(16)(a)(i) "Property tax allocation revenue value" means seventy-five percent of any increase in the assessed value of real property in a military benefit zone resulting from:

(A) The placement of new construction, improvements to property, or both, on the assessment roll, where the new construction and improvements are initiated after the military benefit zone is approved by the approving agency;

(B) The cost of new housing construction, conversion, and rehabilitation improvements, when the cost is treated as new construction for purposes of chapter 84.55 RCW as provided in RCW 84.14.020, and the new housing construction, conversion, and rehabilitation improvements are initiated after the military benefit zone is approved by the approving agency;

(C) The cost of rehabilitation of historic property, when the cost is treated as new construction for purposes of chapter 84.55 RCW as provided in RCW 84.26.070, and the rehabilitation is initiated after the military benefit zone is approved by the approving agency.

(ii) Increases in the assessed value of real property in a military benefit zone resulting from (a)(i)(A) through (C) of this subsection are included in the property tax allocation revenue value in the initial year. These same amounts are also included in the property tax allocation revenue value in subsequent years unless the property becomes exempt from property taxation.

(b) "Property tax allocation revenue value" includes seventy-five percent of any increase in the assessed value of new construction consisting of an entire building in the years following the initial year, unless the building becomes exempt from property taxation.

(c) Except as provided in (b) of this subsection, "property tax allocation revenue value" does not include any increase in the assessed value of real property after the initial year.

(d) There is no property tax allocation revenue value if the assessed value of real property in a military benefit zone has not increased as a result of any of the reasons specified in (a)(i)(A) through (C) of this subsection.

(e) For purposes of this subsection, "initial year" means:

(i) For new construction and improvements to property added to the assessment roll, the year during which the new construction and improvements are initially placed on the assessment roll;

(ii) For the cost of new housing construction, conversion, and rehabilitation improvements, when the cost is treated as new construction for purposes of chapter 84.55 RCW, the year when the cost is treated as new construction for purposes of levying taxes for collection in the following year; and

(iii) For the cost of rehabilitation of historic property, when the cost is treated as new construction for purposes of chapter 84.55 RCW, the year when such cost is treated as new construction for purposes of levying taxes for collection in the following year.

(17) "Public improvements" means:

(a) Infrastructure improvements within the benefit zone that include:

(i) Street, road, bridge, and rail construction and maintenance;

(ii) Water and sewer system construction and improvements;

(iii) Sidewalks, streetlights, landscaping, and streetscaping;

(iv) Parking, terminal, and dock facilities;

(v) Park and ride facilities of a transit authority;

(vi) Park facilities, recreational areas, and environmental remediation;

(vii) Stormwater and drainage management systems;

(viii) Electric, gas, fiber, and other utility infrastructures; and

(b) Expenditures for any of the following purposes:

(i) Providing environmental analysis, professional management, planning, and promotion within the benefit zone, including the management and promotion of retail trade activities in the benefit zone;

(ii) Providing maintenance and security for common or public areas in the benefit zone; or

(iii) Historic preservation activities authorized under RCW 35.21.395.

(18) "Public improvements costs" means the cost of:

(a) Design, planning, acquisition, including land acquisition, site preparation including land clearing, construction, reconstruction, rehabilitation, improvement, and installation of public improvements;

(b) Demolishing, relocating, maintaining, and operating property pending construction of public improvements;

(c) Relocating utilities as a result of public improvements;

(d) Financing public improvements, including interest during construction, legal and other professional services, taxes, insurance, principal and interest costs on general indebtedness issued to finance public improvements, and any necessary reserves for general indebtedness; and

(e) Administrative expenses and feasibility studies reasonably necessary and related to these costs, including related costs that may have been incurred before adoption of the ordinance authorizing the public improvements and the use of military benefit financing to fund the costs of the public improvements.

(19) "Real property" has the same meaning as in RCW 84.04.090 and also includes any privately owned improvements located on publicly owned land that are subject to property taxation.

(20) "Regular property taxes" means regular property taxes as defined in RCW 84.04.140, except:

(a) Regular property taxes levied by public utility districts specifically for the purpose of making required payments of principal and interest on general indebtedness; and

(b) Regular property taxes levied by the state for the support of common schools under RCW 84.52.065; and

(c) Regular property taxes authorized by RCW 84.55.050 that are limited to a specific purpose. "Regular property taxes" do not include excess property tax levies that are exempt from the aggregate limits for junior and senior taxing districts as provided in RCW 84.52.043.

(21)(a) "Revenues from local public sources" means:

(i) The local sales and use tax amounts received as a result of interlocal agreement, local sales and use tax amounts from sponsoring local governments based on its local sales and use tax increment, and local property tax allocation revenues, which are dedicated by a sponsoring local government, participating local governments, and participating taxing districts, for payment of bonds under section 10 of this act or public improvement costs within the military benefit zone on a pay-as-you-go basis; and

(ii) Any other local revenues, except as provided in (b) of this subsection, including revenues derived from federal and private sources, which are dedicated for the payment of bonds under section 10 of this act or public improvement costs within the military benefit zone on a pay-as-you-go basis.

(b) Revenues from local public sources do not include any local funds derived from state grants, state loans, or any other state moneys including any local sales and use taxes credited against the state sales and use taxes imposed under chapter 82.08 or 82.12 RCW.

(22) "Sponsoring military community" means a city, town, county, or any combination thereof, that adopts a military benefit zone.

(23) "State contribution" means the lesser of:

(a) Five hundred thousand dollars;

(b) The project award amount approved by the approving agency as provided in section 14 of this act;

(c) The total amount of revenues from local public sources dedicated in the preceding calendar year to the payment of principal and interest on bonds issued under section 10 of this act and public improvement costs within the military benefit zone on a pay-as-you-go basis. Revenues from local public sources dedicated in the preceding calendar year that are in excess of the project award may be carried forward and used in later years for the purpose of this subsection (23)(c).

(24) "State property tax increment" means the estimated amount of annual tax revenues estimated to be received by the state from the imposition of property taxes levied by the state for the support of common schools under RCW 84.52.065 on the property tax allocation revenue value, as determined by the sponsoring local government in an application under section 9 of this act.

(25) "State sales and use tax increment" means the estimated amount of the annual increase in state sales and use taxes to be received by the state from taxable activity within the military benefit zone in the years following the approval of the military benefit zone as determined by the sponsoring military community in an application under section 9 of this act and updated periodically as required in section 17 of this act.

(26) "State sales and use taxes" means state retail sales and use taxes under RCW 82.08.020(1) and 82.12.020 at the rate provided in RCW 82.08.020(1), less the amount of tax distributions from all local retail sales and use taxes, other than the local sales and use taxes authorized by section 16 of this act for the applicable military benefit zone, imposed on the same taxable events that are credited against the state retail sales and use taxes under RCW 82.08.020(1) and 82.12.020.

(27) "Taxing district" means a government entity that levies or has levied for it regular property taxes upon real property located within a proposed or approved military benefit zone.

NEW SECTION. **Sec.**  LOCAL GOVERNMENT FINANCING. A local government may finance public improvements using military benefit financing subject to all of the following conditions:

(1) The sponsoring military community has adopted an ordinance designating a military benefit zone within its boundaries and specified the public improvements proposed to be financed in whole or in part with the use of military benefit financing;

(2) The public improvements proposed to be financed in whole or in part using military benefit zone financing are expected to encourage private development and increase the quality of life within the military benefit zone and to increase the fair market value of real property and sales tax revenue within the military benefit zone;

(3) The local government has entered into a contract with a private developer relating to the development of private improvements within the military benefit zone or has received a letter of intent from a private developer relating to the developer's plans for the development of private improvements within the military benefit zone;

(4) Private development that is anticipated to occur within the military benefit zone, as a result of the public improvements, will be consistent with the countywide planning policy adopted by the county under RCW 36.70A.210 and the local government's comprehensive plan and development regulations adopted under chapter 36.70A RCW;

(5) The sponsoring military community may not use military benefit zone financing to finance the costs associated with the financing, design, acquisition, construction, equipping, operating, maintaining, remodeling, repairing, and reequipping of public facilities funded with taxes collected under RCW 82.14.048 or 82.14.390;

(6) The governing body of the sponsoring military community must make a finding that military benefit financing:

(a) Will not be used for the purpose of relocating a business from outside the military benefit zone, but within this state, into the military benefit zone unless convincing evidence is provided that the firm being relocated would otherwise leave the state;

(b) Will improve the viability of existing business entities within the military benefit zone; and

(c) Will be used exclusively in areas within the jurisdiction of the local government deemed in need of either economic development or redevelopment, or both, and absent the financing available under this chapter and section 16 of this act the proposed economic development or redevelopment would more than likely not occur; and

(7) The governing body of the local government finds that the public improvements proposed to be financed in whole or in part using military benefit financing are reasonably likely to:

(a) Increase private investment within the military benefit zone;

(b) Increase employment within the military benefit zone;

(c) Generate, over the period of time that the local sales and use tax will be imposed under section 16 of this act, increases in state and local sales and use tax revenues that are equal to or greater than the respective state and local contributions made under this chapter; and

(d) Support the needs of the military for housing, services, and quality of life.

NEW SECTION. **Sec.**  CREATION OF MILITARY BENEFIT ZONE. (1) Before adopting an ordinance creating the military benefit zone, a sponsoring military community must:

(a) Provide notice to all taxing districts that levy a sales and use tax with geographic boundaries within the proposed military benefit zone of the sponsoring military community's intent to create a military benefit zone. Notice must be provided in writing to the governing body of the taxing districts and local governments at least sixty days in advance of the public hearing as required by (b) of this subsection. The notice must include the following information:

(i) The name of the military benefit zone;

(ii) The date for the public hearing as required by (b) of this subsection;

(iii) The earliest anticipated date when the sponsoring local government will take action to adopt the proposed military benefit zone; and

(iv) The name of the contact person with the phone number of the sponsoring local government and mailing address where a copy of an ordinance adopted under section 4 of this act may be sent.

(b) Hold a public hearing on the proposed financing of the public improvements in whole or in part with military benefit financing. Notice of the public hearing must be published in a legal newspaper of general circulation within the proposed military benefit zone at least ten days before the public hearing and posted in at least six conspicuous public places located in the proposed military benefit zone. Notices must describe the contemplated public improvements, estimate the costs of the public improvements, describe the portion of the costs of the public improvements to be borne by military benefit financing, describe any other sources of revenue to finance the public improvements, describe the boundaries of the proposed military benefit zone, and estimate the period during which benefit financing is contemplated to be used. The public hearing may be held by either the governing body of the sponsoring military community, or a committee of the governing body that includes at least a majority of the whole governing body.

(2) To create a military benefit zone, a sponsoring military community must adopt an ordinance establishing the military benefit zone that:

(a) Describes the public improvements to be made in the military benefit zone;

(b) Describes the boundaries of the military benefit zone, subject to the limitations in section 5 of this act;

(c) Estimates the cost of the proposed public improvements and the portion of these costs to be financed by military benefit financing;

(d) Estimates the time during which local property tax allocation revenues, and other revenues from local public sources, such as amounts of local sales and use taxes from participating local governments, are to be used for military benefit zone financing;

(e) Provides the date when the use of local property tax allocation revenues will commence and a list of the participating taxing districts and the regular property taxes that must be used to calculate property tax allocation revenues;

(f) Finds that all of the requirements in section 3 of this act are met;

(g) Provides the anticipated rate of sales and use tax under section 16 of this act that the local government will impose if awarded a state contribution under section 9 or 14 of this act; and

(h) Provides the anticipated date when the criteria for the sales and use tax in section 16 of this act will be met and the anticipated date when the sales and use tax in section 16 of this act will be imposed.

(3) Upon creation of a military benefit zone, the sponsoring military community must deliver a certified copy of the adopted ordinance to the department and the governing body of each participating local government.

NEW SECTION. **Sec.**  LIMITATIONS ON MILITARY BENEFIT ZONES. The designation of a military benefit zone is subject to the following limitations:

(1) No military benefit zone may have within its geographic boundaries any part of a hospital benefit zone under chapter 39.100 RCW, any part of a revenue development area created under chapter 39.102 RCW, any part of an increment area under chapter 39.89 or 39.104 RCW, any part of a military benefit zone under this chapter, or any other current or future zone or area used for tax increment financing;

(2) No military benefit zone may overlap boundaries with another military benefit zone;

(3) A military benefit zone must be 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;

(4) A military benefit zone may not include areas within Joint Base Lewis-McChord, Naval Base Kitsap, Naval Station Everett, Fairchild Air Force Base, Naval Air Station Whidbey Island, Camp Murray, and any other state-owned military department property;

(5) A military benefit zone is limited to contiguous tracts, lots, pieces, or parcels of land without the creation of islands of property not included in the military benefit zone;

(6) The boundaries may not be drawn to purposely exclude parcels of land where economic growth is unlikely to occur;

(7) The public improvements financed through bonds issued under section 10 of this act must be located in the military benefit zone;

(8) A military benefit zone cannot contain more than twenty-five percent of the total assessed value of the taxable real property within the boundaries of the sponsoring military community at the time the military benefit zone is created;

(9) The boundaries of the military benefit zone may not be changed for the time period that local sales and use taxes of participating local governments, and the local sales and use tax under section 16 of this act are used to pay bonds issued under section 10 of this act and public improvement costs within the military benefit zone on a pay-as-you-go basis, as provided under this chapter; and

(10) A military benefit zone must be geographically restricted to the location of the public improvement and adjacent locations that the sponsoring military community funds to benefit neighborhoods nearest the state's military bases, and infrastructure consistent with the highest public health, safety, and welfare standards in a manner supportive to Joint Base Lewis-McChord, Naval Base Kitsap, Naval Station Everett, Fairchild Air Force Base, and Naval Air Station Whidbey Island.

NEW SECTION. **Sec.**  INTERLOCAL AGREEMENTS. (1) A participating local government must enter into an interlocal agreement as provided in chapter 39.34 RCW to participate in military benefit financing with the sponsoring military community.

(2)(a) If a local government that imposes a sales and use tax under RCW 82.14.030 does not want to participate in the military benefit financing of public improvements in a military benefit zone, its governing body must adopt an ordinance and notify the sponsoring military community that the taxing authority will not be a participating local government.

(b) The local government must provide a copy of the adopted ordinance and the notice to the sponsoring military community creating the military benefit zone before the anticipated date that the sponsoring military community proposes to adopt an ordinance creating the military benefit zone as provided in the notice required by section 4(1)(a) of this act.

NEW SECTION. **Sec.**  LOCAL PROPERTY TAX ALLOCATION REVENUES. (1) Commencing in the second calendar year following the creation of a military benefit zone by a sponsoring local government, the county treasurer must distribute receipts from regular taxes imposed on real property located in the military benefit zone as follows:

(a) Each participating taxing district and the sponsoring local government must receive that portion of its regular property taxes produced by the rate of tax levied by or for the taxing district on the property tax allocation revenue base value for that military benefit zone financing project in the taxing district; and

(b) The sponsoring local government must receive an additional portion of the regular property taxes levied by it and by or for each participating taxing district upon the property tax allocation revenue value within the military benefit zone. However, if there is no property tax allocation revenue value, the sponsoring local government may not receive any additional regular property taxes under this subsection (1)(b). The sponsoring local government may agree to receive less than the full amount of the additional portion of regular property taxes under this subsection (1)(b) as long as bond debt service, reserve, and other bond covenant requirements are satisfied, in which case the balance of these tax receipts must be allocated to the participating taxing districts that levied regular property taxes, or have regular property taxes levied for them, in the military benefit zone for collection that year in proportion to their regular tax levy rates for collection that year. The sponsoring local government may request that the treasurer transfer this additional portion of the property taxes to its designated agent. The portion of the tax receipts distributed to the sponsoring local government or its agent under this subsection (1)(b) may only be expended to finance public improvement costs associated with the public improvements financed in whole or in part by military benefit zone financing.

(2) The county assessor must determine the property tax allocation revenue value and property tax allocation revenue base value. This section does not authorize revaluations of real property by the assessor for property taxation that are not made in accordance with the assessor's revaluation plan under chapter 84.41 RCW or under other authorized revaluation procedures.

(3) The distribution of local property tax allocation revenue to the sponsoring local government must cease when local property tax allocation revenues are no longer obligated to pay the costs of the public improvements. Any excess local property tax allocation revenues, and earnings on the revenues, remaining at the time the distribution of local property tax allocation revenue terminates, must be returned to the county treasurer and distributed to the participating taxing districts that imposed regular property taxes, or had regular property taxes imposed for it, in the military benefit zone for collection that year, in proportion to the rates of their regular property tax levies for collection that year.

(4) The allocation to the military benefit zone of that portion of the sponsoring local government's and each participating taxing district's regular property taxes levied upon the property tax allocation revenue value within that military benefit zone is declared to be a public purpose of and benefit to the sponsoring local government and each participating taxing district.

(5) The distribution of local property tax allocation revenues under this section may not affect or be deemed to affect the rate of taxes levied by or within any sponsoring local government and participating taxing district or the consistency of any such levies with the uniformity requirement of Article VII, section 1 of the state Constitution.

NEW SECTION. **Sec.**  PUBLIC IMPROVEMENT FINANCING. A sponsoring military community may use annually local sales and use tax amounts equal to some or all of its local sales and use tax increments to finance public improvements in the military benefit zone. The amounts of local sales and use tax dedicated by a participating local government must begin and cease on the dates specified in an interlocal agreement authorized in chapter 39.34 RCW. Sponsoring military communities and participating local governments are authorized to allocate some or all of their local sales and use tax increments to the sponsoring military community as provided by section 6 of this act.

NEW SECTION. **Sec.**  APPLICATION PROCESS—APPROVAL OF PROJECT AWARDS BY THE APPROVING AGENCY. (1) Prior to applying to receive a state contribution, a sponsoring military community must adopt a military benefit zone within the limitations in section 5 of this act and in accordance with section 4 of this act.

(2)(a) As a condition to imposing a sales and use tax under section 16 of this act, a sponsoring military community must apply and be approved for a project award amount. The application must be in a form and manner prescribed by the approving agency and include, but not be limited to:

(i) Information establishing that over the period of time that the local sales and use tax will be imposed under section 16 of this act, increases in state sales and use tax revenues as a result of public improvements in the military benefit zone will be equal to or greater than the respective state and local contributions made under this chapter;

(ii) Information demonstrating that the sponsoring military community will meet the requirements necessary to receive the full amount of state contribution it is requesting on an annual basis;

(iii) The amount of state contribution it is requesting;

(iv) The anticipated effective date for imposing the tax under section 16 of this act;

(v) The estimated number of years that the tax will be imposed;

(vi) The anticipated rate of tax to be imposed under section 16 of this act, subject to the rate-setting conditions in section 16(3) of this act, should the sponsoring military community be approved for a project award; and

(vii) The anticipated date when bonds under section 10 of this act will be issued.

(b) The approving agency must make available electronic forms to be used for this purpose. As part of the application, each applicant must provide to the department a copy of the adopted ordinance creating the military benefit zone as required in section 4 of this act, copies of any adopted interlocal agreements from participating local governments, and any notices from taxing districts that elect not to participate.

(3)(a) Project awards must be determined based on:

(i) The availability of a state contribution;

(ii) Whether the sponsoring military community would be able to generate enough tax revenue under section 16 of this act to generate the amount of project award requested;

(iii) The number of jobs created;

(iv) The fit of the expected business creation or expansion within the region's preferred economic growth strategy;

(v) The speed with which the project can begin construction;

(vi) The extent to which the project leverages nonstate funds; and

(vii) The benefit of the project to the quality of life for military personnel and families.

(b) The total of all project awards may not exceed the annual state contribution limit.

(c) If the level of available state contribution is less than the amount requested by the next available applicant, the applicant must be given the first opportunity to accept the lesser amount of state contribution but only if the applicant produces a new application within sixty days of being notified by the approving agency and the application describes the impact on the proposed project as a result of the lesser award in addition to new application information required in subsection (2) of this section.

(d) Applicants that are not approved for a project award due to lack of available state contribution must be retained on file by the approving agency.

(e) Once total project awards reach the amount of annual state contribution limit, no more applications will be accepted.

(f) If the annual contribution limit is increased by additional funds available for applicants, applications will be accepted again as described in subsection (5) of this section.

(4) The approving agency must notify the sponsoring military community of approval or denial of a project award within sixty days of the approving agency's receipt of the sponsoring military community's application. Determination of a project award by the approving agency is final. Notification must include the earliest date when the tax authorized under section 16 of this act may be imposed, subject to conditions in chapter 82.14 RCW. The project award notification must specify the rate requested in the application and any adjustments to the rate that would need to be made based on the project award and rate restrictions in section 16 of this act. The department of commerce must consult with the department in determining the amount of a project award.

(5) The department of commerce must begin accepting applications and approving project awards under this section on and after August 1, 2019. The department of commerce must notify the department of all approved project awards under this section. The department of commerce must also provide to the department any information necessary to implement the tax authorized under section 16 of this act.

NEW SECTION. **Sec.**  ISSUANCE OF GENERAL OBLIGATION BONDS. (1) A sponsoring military community creating a military benefit zone and authorizing the use of local military benefit financing may incur general indebtedness, including issuing general obligation bonds, to finance the public improvements and retire the indebtedness in whole or in part from local military benefit financing it receives, subject to the following requirements:

(a)(i) The ordinance adopted by the sponsoring military community creating the military benefit zone and authorizing the use of local military benefit financing indicates an intent to incur this indebtedness and the maximum amount of this indebtedness that is contemplated; and

(ii) The sponsoring military community includes this statement of intent in all notices required by section 4 of this act; or

(b) The sponsoring military community adopts a resolution, after opportunity for public comment, that indicates an intent to incur this indebtedness and the maximum amount of this indebtedness that is contemplated.

(2) The general indebtedness incurred under subsection (1) of this section may be payable from other tax revenues, the full faith and credit of the sponsoring military community, and nontax income, revenues, fees, and rents from the public improvements, as well as contributions, grants, and nontax money available to the local government for payment of costs of the public improvements or associated debt service on the general indebtedness.

(3) In addition to the requirements in subsection (1) of this section, a sponsoring military community creating a military benefit zone and authorizing the use of local military benefit financing may require any nonpublic participants to provide adequate security to protect the public investment in the public improvement within the military benefit zone.

(4) As may be provided by a trust indenture or mortgage issued pursuant thereto or by an ordinance, bonds issued under this section must:

(a) Be authorized by ordinance of the sponsoring military community and may be issued in one or more series and must bear a date or dates;

(b) Be payable upon demand or mature at a time or times;

(c) Bear interest at a rate or rates;

(d) Be in a denomination or denominations;

(e) Be in the form of either coupon or registered as provided in section 3 of this act;

(f) Carry conversation or registration privileges;

(g) Have a rank or priority;

(h) Be executed in a manner;

(i) Be payable in a medium of payment, at a place or places, and be subject to terms of redemption with or without premium;

(j) Be secured in a manner; and

(k) Have any other characteristics.

(5) The sponsoring military community may:

(a) Annually pay into the special fund established pursuant to this section a fixed proportion or a fixed amount of any revenues derived from taxes imposed under section 16 of this act, such payment to continue until all bonds payable from the fund are paid in full. Revenues derived from taxes imposed under section 16 of this act are subject to the use restriction in section 15 of this act; and

(b) Issue revenue bonds payable from any or all revenues deposited in the special fund established pursuant to this section.

(6) In case any of the public officials of the sponsoring military community whose signatures appear on any bonds or any coupons issued under this chapter cease to be the officials before the delivery of the bonds, the signatures must, nevertheless, be valid and sufficient for all purposes, the same as if the officials had remained in office until the delivery. Any provision of any law to the contrary notwithstanding, any bonds issued under this chapter are fully negotiable.

(7) Notwithstanding subsections (4) through (6) of this section, bonds issued under this section may be issued and sold in accordance with chapter 39.46 RCW.

NEW SECTION. **Sec.**  USE OF TAX REVENUE FOR BOND REPAYMENT. A sponsoring local government that issues bonds under section 10 of this act to finance public improvements may pledge for the payment of such bonds all or part of any revenues derived from taxes imposed under section 16 of this act and held in connection with the public improvements. All of such tax revenues are subject to the use restriction in section 15 of this act.

NEW SECTION. **Sec.**  LIMITATION ON BONDS ISSUED. The bonds issued by a local government under section 10 of this act to finance public improvements do not constitute an obligation of the state of Washington, either general or special.

NEW SECTION. **Sec.**  ADMINISTRATION BY THE DEPARTMENT OF REVENUE AND THE DEPARTMENT OF COMMERCE—ADOPTION OF RULES. The department and the department of commerce may adopt any rules under chapter 34.05 RCW that the departments consider necessary for the administration of this chapter.

NEW SECTION. **Sec.**  MILITARY BENEFIT FINANCING DEMONSTRATION PROJECTS. (1) In addition to a competitive process, demonstration projects are designated to determine the feasibility of the military benefit zone financing tool.

(2) Notwithstanding section 9 of this act, the approving agency must approve each demonstration project that meets the applicable conditions, limitations, and requirements provided in this chapter as follows:

(a) The city of Lakewood redevelopment project must be approved for at least one million dollars; and

(b) Any other demonstration project application submitted under this section by a local government.

(3) Local government sponsors of demonstration projects under this section must submit to the approving agency by no later than September 1, 2019, documentation that substantiates that the project has met the applicable conditions, limitations, and requirements provided in this chapter.

(4) Within ninety days of submitting the documentation required under subsection (3) of this section, the approving agency must approve a demonstration project that has met the conditions, limitations, and requirements under this chapter.

(5) Local government sponsors of demonstration projects may elect to decline the project awards as designated in this section, and may elect instead to submit applications according to the process described in section 9 of this act.

NEW SECTION. **Sec.**  Moneys collected from the taxes imposed under section 16 of this act may be used only for the purpose of paying debt service on bonds issued under the authority in section 10 of this act.

NEW SECTION. **Sec.**  A new section is added to chapter 82.14 RCW to read as follows:

(1) Any sponsoring military community that has been approved for a project award under section 9 or 14 of this act may impose a sales and use tax under the authority of this section in accordance with the terms of this chapter. Except as provided in this section, the tax is in addition to other taxes authorized by law and must be collected from those persons who are taxable by the state under chapters 82.08 and 82.12 RCW upon the occurrence of any taxable event within the taxing jurisdiction of the sponsoring military community.

(2) The tax authorized under subsection (1) of this section is credited against the state taxes imposed under RCW 82.08.020(1) and 82.12.020 at the rate provided in RCW 82.08.020(1). The department must perform the collection of such taxes on behalf of the sponsoring military community at no cost to the sponsoring military community. The taxes must be distributed to sponsoring military communities as provided in RCW 82.14.060.

(3) The rate of tax imposed by a sponsoring military community may not exceed the lesser of:

(a) The rate provided in RCW 82.08.020(1), less:

(i) The aggregate rates of all other local sales and use taxes imposed by any taxing authority on the same taxable events;

(ii) The aggregate rates of all taxes under RCW 82.14.465, 82.14.475, 82.14.510, and this section that are authorized but have not yet been imposed on the same taxable events by a sponsoring military community that has been approved to receive a state contribution by the department, the department of commerce, or the community economic revitalization board under chapter 39.104, 39.100, or 39.102 RCW; and

(iii) The percentage amount of distributions required under RCW 82.08.020(5) multiplied by the rate of state taxes imposed under RCW 82.08.020(1); and

(b) The rate, as determined by the sponsoring military community in consultation with the department, reasonably necessary to receive the project award under section 9 or 14 of this act over ten months.

(4) The department, upon request, must assist a sponsoring military community in establishing its tax rate in accordance with subsection (3) of this section. Once the rate of tax is selected through the application process and approved under section 9 or 14 of this act, it may not be increased.

(5)(a) No tax may be imposed under the authority of this section before:

(i) July 1, 2020;

(ii) July 1st of the second calendar year following the year in which the application was approved under section 9 or 14 of this act;

(iii) The state sales and use tax increment and state property tax increment for the preceding calendar year equals or exceeds the amount of the project award approved under section 9 or 14 of this act; and

(iv) Bonds have been issued according to section 10 of this act.

(b) The tax imposed under this section expires the earlier of the date that the bonds issued under the authority of section 10 of this act are retired or twenty-five years after the tax is first imposed.

(6) An ordinance or resolution adopted by the legislative authority of the sponsoring military community imposing a tax under this section must provide that:

(a) The tax will first be imposed on the first day of a fiscal year;

(b) The cumulative amount of tax received by the sponsoring military community, in any fiscal year, may not exceed the amount approved by the department under subsection (10) of this section;

(c) The department must cease distributing the tax for the remainder of any fiscal year in which either:

(i) The amount of tax received by the sponsoring military community equals the amount of distributions approved by the department for the fiscal year under subsection (10) of this section; or

(ii) The amount of revenue distributed to all sponsoring and cosponsoring local governments from taxes imposed under this section equals the annual state contribution limit;

(d) The tax will be distributed again, should it cease to be distributed for any of the reasons provided in (c) of this subsection, at the beginning of the next fiscal year, subject to the restrictions in this section; and

(e) The state is entitled to any revenue generated by the tax in excess of the amounts specified in (c) of this subsection.

(7) If a sponsoring military community receives approval for more than one military benefit zone within its jurisdiction, the sponsoring military community may impose a sales and use tax under this section for each military benefit zone.

(8) The department must determine the amount of tax receipts distributed to each sponsoring military community imposing a sales and use tax under the authority of this section and must advise a sponsoring military community when tax distributions for the fiscal year equal the amount determined by the department in subsection (10) of this section. Determinations by the department of the amount of tax distributions attributable to a sponsoring military community are not appealable. The department must remit any tax receipts in excess of the amounts specified in subsection (6)(c) of this section to the state treasurer who must deposit the money in the general fund.

(9) If a sponsoring military community fails to comply with section 17 of this act, no tax may be distributed in the subsequent fiscal year until such time as the sponsoring military community complies and the department calculates the state contribution amount according to subsection (10) of this section for the fiscal year.

(10)(a) For each fiscal year that a sponsoring military community imposes the tax under the authority of this section, the department must approve the amount of taxes that may be distributed to the sponsoring military community. The amount approved by the department under this subsection is the lesser of:

(i) The state contribution;

(ii) The amount of project award granted as provided in section 9 or 14 of this act; or

(iii) The total amount of revenues from local public sources dedicated or, in the case of carry forward revenues, deemed dedicated in the preceding calendar year, as reported in the required annual report under section 17 of this act.

(b) A sponsoring military community may not receive, in any fiscal year, more revenues from taxes imposed under the authority of this section than the amount approved annually by the department.

(11) The amount of tax distributions received from taxes imposed under the authority of this section by all sponsoring military communities is limited annually to not more than the amount of annual state contribution limit.

(12) The definitions in section 2 of this act apply to this section subject to subsection (13) of this section and unless the context clearly requires otherwise.

(13) The definitions in this subsection apply throughout this section unless the context clearly requires otherwise.

(a) "Local sales and use taxes" means sales and use taxes imposed by cities, counties, public facilities districts, and other local governments under the authority of this chapter, chapters 67.28 and 39.--- RCW (the new chapter created in section 19 of this act), or any other chapter, and that are credited against the state sales and use taxes.

(b) "State sales and use taxes" means the taxes imposed in RCW 82.08.020(1) and 82.12.020.

NEW SECTION. **Sec.**  REPORTING REQUIREMENTS. (1) A sponsoring local government receiving a project award under sections 9 and 14 of this act must provide a report to the department by March 1st of each year for the first five years beginning March 1st after the project award has been approved. The report must contain the following information:

(a) The amounts of local property tax allocation revenues received in the preceding calendar year broken down by sponsoring local government and participating taxing district;

(b) The amount of state property tax allocation revenues estimated to have been received by the state in the preceding calendar year;

(c) The amount of local sales and use tax and other revenue from local public sources dedicated by any participating local government used for the payment of bonds under section 10 of this act and public improvement costs within the military benefit zone area on a pay-as-you-go basis in the preceding calendar year;

(d) The amount of local sales and use tax dedicated by the sponsoring local government, as it relates to the sponsoring local government's local sales and use tax increment, used for the payment of bonds under section 10 of this act and public improvement costs within the military benefit zone area on a pay-as-you-go basis;

(e) The amounts, other than those listed in (a) through (d) of this subsection, from local public sources, broken down by type or source, used for payment of bonds under section 10 of this act or public improvement costs within the military benefit zone area on a pay-as-you-go basis in the preceding calendar year;

(f) The anticipated date when bonds under section 10 of this act are expected to be retired;

(g) The names of any businesses locating within the military benefit zone as a result of the public improvements undertaken by the sponsoring local government and financed in whole or in part with military benefit zone financing;

(h) An estimate of the cumulative number of permanent jobs created, including jobs providing employment to veterans, in the military benefit zone area as a result of the public improvements undertaken by the sponsoring local government and financed in whole or in part with military benefit zone financing;

(i) An estimate of the average wages and benefits received by all employees of businesses locating within the military benefit zone area as a result of the public improvements undertaken by the sponsoring local government and financed in whole or in part with military benefit zone financing;

(j) A list of public improvements financed by bonds issued under section 10 of this act and the date on which the bonds are anticipated to be retired;

(k) That the sponsoring local government is in compliance with section 3 of this act;

(l) At least once within the first three years, updated estimates of the amounts of state and local sales and use tax increments estimated to have been received since the approval of the project award under section 9 of this act;

(m) The amount of revenues from local public sources that:

(i) Were expended in prior years for the payment of bonds under section 10 of this act and public improvement costs within the military benefit zone on a pay-as-you-go basis in prior calendar years that were in excess of the project award amount for that year and are carried forward for dedication in future years;

(ii) Are deemed dedicated to payment of bonds or public improvement costs in the calendar year for which the report is prepared; and

(iii) Remain available for dedication in future years; and

(n) The amount of housing units, both single-family units and multifamily developments, available within the zone for the prior calendar year;

(o) Any other information required by the department, including input from the joint legislative audit and review committee, to enable the department to measure the overall economic impact of military benefit zone financing and fulfill its duties under this act.

(2) In compliance with RCW 43.01.036, the department must make a report available to the public and the legislature by June 1st of each year. The report must include a summary of the information provided to the department by sponsoring local governments under subsection (1) of this section.

NEW SECTION. **Sec.**  (1) The joint legislative audit and review committee, at the end of the five-year reporting period required in section 17 of this act, must provide a final report, in compliance with RCW 43.01.036, to the appropriate committees of the legislature by September 1st of that year. The joint legislative audit and review committee must conduct an impact analysis on military benefit zone financing and in doing so, must consult with the relevant agencies including the department of commerce. The impact analysis must include:

(1) Employment changes in the military benefit zone area;

(2) Property tax changes in the military benefit zone area;

(3) Sales and use tax changes in the military benefit zone area;

(4) Property value changes in the military benefit zone area; and

(5) Changes in housing and existing commercial activities based on the impact analysis.

NEW SECTION. **Sec.**  Sections 1 through 15, 17, and 18 of this act constitute a new chapter in Title 39 RCW.

**--- END ---**