May 28, 2009

TO: Tom Hoemann, Secretary
Washington State Senate

Barbara Baker, Chief Clerk
Washington State House of Representatives

FROM: Cindi L. Holmstrom, Director

SUBJECT: HOSPITAL BENEFIT ZONE REPORT

This report is submitted to the Legislature pursuant to RCW 82.14.470(5). It contains a brief summary of the activity to date for the hospital benefit zone local sales tax which was adopted by the Legislature in 2006. This program is intended to provide state support for local jurisdictions in conjunction with financing of public improvements in the vicinity of a hospital in order to encourage the location and expansion of businesses within the zone.

As noted in the report, the city of Gig Harbor and Pierce County are the sole participants. A single hospital benefit zone has been established which includes a portion of the city and the unincorporated area of the county. Establishment of the base year revenues, against which future increases of sales tax receipts will be measured, was complete in 2007. The first measurement year for the hospital benefit zone was complete in 2008. The participating local governments do not plan to impose the local sales tax, which is eligible to be credited against the state tax this year.

The report was prepared by our Research Division under the direction of Kathy Oline, Assistant Director. If you have questions about this program, please contact Kathy at (360) 570-6076.

cc: Members, Senate Ways and Means Committee
        Members, House Finance Committee
        Victor Moore, Director, OFM

Research Report #2009-1

Hospital Benefit Zone Financing Program
Annual Report from the Department of Revenue
June 2009

This report summarizes the Calendar Year 2008 activity of the hospital benefit zone (HBZ) financing program as required by RCW 82.14.470. Chapter 111, Laws of 2006 (SHB 2670) created HBZ financing. The program helps local governments finance public improvement projects that are intended to encourage private development within the HBZ and to support the development of a hospital. The program is available only when a hospital has received a certificate of need from the Department of Health (DOH).

Program Use

The Gig Harbor Hospital Benefit Zone is the only approved HBZ.

Project History

Franciscan Health Systems received approval from the DOH in May 2004 to build an 80-bed community hospital in Gig Harbor to serve the people of Gig Harbor, Key Peninsula, and south Kitsap County. DOH issued a "certificate of need" as part of the approval process. The hospital opened March 17, 2009. Infrastructure improvements are needed and planned for the north Gig Harbor area around the new hospital. Tax increment financing in the HBZ will be used to pay for initial costs of infrastructure improvements associated with development around the new hospital.

The city of Gig Harbor established an HBZ, and Franciscan Health Systems built the hospital. Along with the city of Gig Harbor, Pierce County, through an interlocal agreement, has agreed to help finance public improvements within Gig Harbor's HBZ by contributing some of its incremental sales tax revenues generated within the HBZ area.

In November 2006 the Department of Revenue (DOR) approved Gig Harbor's HBZ and implemented the local tax location codes for the new zone effective January 1, 2007.

Program Summary

Once an area is designated as an HBZ under Chapter RCW 39.100, incremental increases in certain state and local sales and use tax revenue generated in the HBZ are measured. The incremental local tax revenue, along with revenue from other local public sources, is used to pay for eligible public improvement projects. The incremental local tax revenue and local revenue from other local public sources is also matched with a state contribution of money.

State money is received by the local government sponsoring the HBZ through a local sales and use tax under RCW 82.14.465 (commonly referred to as the "HBZ tax"). This local sales and use tax is credited against the state sales and use tax so it does not increase the sales and use tax rate borne by the consumer. Instead, the HBZ tax shifts revenue from the state general fund to the sponsoring local government. To impose the HBZ tax, a local government must receive approval from DOR. The tax rate for the HBZ tax may be as high as 6.5 percent. However, the rate must be no higher than what is needed for the local government to receive its entire annual state contribution of money. The total amount that a local government can receive from the state in any fiscal year through the HBZ tax is limited to the lesser of: 1) $2 million, 2) the amount of local matching funds provided by the local government, or 3) the amount of incremental state revenue received by the state in the previous year as a result of economic development within the zone.

Revenue from the HBZ tax can be used to pay principal and interest on bonds issued to finance the public improvements as well as direct payment of costs of local public improvements within the HBZ. The state contribution of money may continue for no more than 30 years from the date the HBZ tax is first imposed, until the state money is no longer needed to pay for the eligible public improvements, or when principal and interest on bonds issued to finance the public improvements are retired, whichever is sooner.

Gig Harbor Base Year Information

The base year in which base amounts are determined for future calculations of incremental state and local sales and use tax revenues in the Gig Harbor HBZ was complete at the conclusion of Calendar Year 2007. In 2007 the state received $4,549,774.73 in state sales and use tax on taxable activity generated within the HBZ area. Additionally, $452,358.56 in tax distributions from the 0.5 percent basic and 0.5 percent optional local sales and use taxes authorized in RCW 82.14.030 on taxable activity in HBZ was received by the city of Gig Harbor and $241,427.15 was received by Pierce County. State and local sales and use tax revenues generated within the HBZ in

future years will be measured against these base year figures and will be used to determine the amount of HBZ funding that can be provided by the state through the HBZ tax.

Gig Harbor Measurement Year Information

Calendar Year 2008 was considered the first measurement year for the Gig Harbor HBZ. In 2008 the state received $12,630,698.22 in state sales and use tax on taxable activity within the HBZ area. The local 0.5 percent basic and 0.5 percent optional local sales and use taxes authorized in RCW 82.14.030 generated $1,393,212.25 for Gig Harbor and $532,002.85 for Pierce County. When compared to the base year, the 2008 measurement year revenues for the state of Washington, Gig Harbor, and Pierce County increased as follows:

State of Washington $8,080,923.49
Gig Harbor $ 940,853.89
Pierce County $ 290,575.70

RCW 39.100 requires the following information to be included in this report:

- The amount of tax allocation revenues, taxes under RCW 82.14.465, and local public sources received by the local government during the preceding calendar year and a summary of how these revenues were expended;
- The names of any businesses known to local government that have located within the HBZ as a result of the public improvements undertaken by the local government and financed in whole or part with HBZ financing; and
- A list of public improvements undertaken by the local government and financed in whole or in part with HBZ financing and a summary of the report submitted by participating local governments.

Gig Harbor will not have information in the above categories until the HBZ tax has been imposed. The earliest Gig Harbor may impose the HBZ tax is July 1, 2009. Gig Harbor does not plan to impose the HBZ tax at this time. Current economic conditions have slowed development. To date, no public improvements have been undertaken and no new businesses have relocated in the HBZ.