



STATE OF WASHINGTON
DEPARTMENT OF REVENUE
OFFICE OF THE DIRECTOR

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May 23, 2023

TO: Sarah Bannister, Secretary
Washington State Senate

Bernard Dean, Chief Clerk
Washington State House of Representatives

FROM: John Ryser, Acting Director

SUBJECT: Hospital Benefit Zone Financing Program Report

RCW 82.14.470(5) requires the Department of Revenue to issue an annual report on the activity to date for the Hospital Benefit Zone (HBZ) local sales tax program adopted by the Legislature in 2006. This program provides state support for financing of public improvements by local jurisdictions. The improvements must be near a hospital and encourage new and expanded businesses within the zone.

As the report notes, the sole participants include the city of Gig Harbor and Pierce County. They established a single HBZ that includes a portion of the city and a portion of the unincorporated area of the county. To measure future increases in sales tax receipts, the establishment of base year revenues occurred in 2007. The first measurement year for the Hospital Benefit Zone was 2008. Calendar Year 2022 represents the 15th measurement year.

The report is available under "Other reports & studies" on our website at:
<http://www.dor.wa.gov/Content/AboutUs/StatisticsAndReports/Default.aspx>.

If you have questions about this report, please contact Kathy Oline, Assistant Director of Research and Fiscal Analysis, at (360) 534-1534.

Attachment

cc: Members, Senate Ways and Means Committee
Members, House Finance Committee
Members, House Appropriations Committee
David Schumacher, Director, Office of Financial Management
Drew Shirk, Executive Director, Legislative Affairs, Office of the Governor

Hospital Benefit Zone Financing Program

2023 Report to the Legislature
Covering Calendar Year 2022 Activity
Pursuant to RCW 82.14.470



During the 2006 Legislative Session, the Legislature adopted SHB 2670 Chapter 111, Laws of 2006, creating the Hospital Benefit Zone (HBZ) financing program. The program helps local governments finance public improvement projects that encourage private development within the HBZ and support the development of a hospital. The program requires the Department of Health (DOH) to issue a certificate of need for a hospital. The program requires the Department of Revenue (Department) to make a report available to the public and the Legislature by June 1 of each year that includes:

- A list of public improvements undertaken by local governments and financed in whole or in part with hospital benefit zone financing; and
- A summary of information provided to the Department by local governments.

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 continue in the north Gig Harbor area around the new hospital. Tax increment financing in the HBZ helps pay for the cost of infrastructure improvements associated with development around the new hospital.

The city of Gig Harbor established a HBZ, and Franciscan Health Systems built the hospital. The city of Gig Harbor contributes incremental sales tax revenues from the HBZ for public improvements. Pierce County helps finance public improvements within Gig Harbor’s HBZ by contributing incremental sales tax revenues from the HBZ area.

In November 2006, the Department approved Gig Harbor's HBZ. The sales tax location codes for the new zone became effective January 1, 2007.

Program Summary

Once designated an HBZ, under chapter 39.100 RCW, the measurement of incremental increases in certain state and local sales and use tax revenues generated in the HBZ begins. Financing for eligible public improvement projects comes from the incremental local tax revenue and revenue from other local public sources. The state matches the incremental local tax revenue and the revenue from other local public sources.

The local government sponsoring the HBZ receives the state contribution through a local sales and use tax authorized under RCW 82.14.465 (commonly referred to as the “HBZ tax”). This HBZ tax is credited against the state sales and use tax, so the sales and use tax rate borne by the consumer does not increase. Instead, the HBZ tax shifts revenue from the state general fund to the sponsoring local government. To impose the HBZ tax, a local government receives approval from the Department. The tax rate for the HBZ tax may be as high as 6.5 percent. However, the rate must be no higher than what the local government needs to receive its entire annual state contribution. A local government receives in any fiscal year from the state through the HBZ tax the lesser of:

- 1) \$2 million;
- 2) The local matching funds provided by the local government; or
- 3) The incremental state revenue received by the state in the previous year because of economic development within the zone.

Revenue from the HBZ tax pays the principal and interest on bonds issued to finance the public improvements or pays for the local public improvements within the HBZ. The state contribution continues until:

- 1) 30 years from the imposition date of the HBZ tax;
- 2) The eligible public improvements are paid for; or
- 3) The principal and interest on bonds issued to finance the eligible public improvements are retired.

In 2011, the Legislature passed SSB 5525 making the following technical changes to the HBZ program:

- The definition of public improvements expanded to include construction, maintenance, and improvement of state highways that connect to the HBZ, including interchanges.
- Modifications to the public improvements can happen after the local government amends the adopted ordinance and holds a public hearing.
- Local governments levying the HBZ tax are not required to spend the tax revenues in the same fiscal year they receive the revenues.
- Local matching funds may include amounts expended by a hospital in the HBZ and may be applied to one year or carried forward and used in later years.

Gig Harbor Base Year Information

Future calculations of incremental state and local sales and use tax revenues require determining base amounts. For the Gig Harbor HBZ, the base year was Calendar Year 2007. In 2007, taxable activity in the HBZ generated:

- \$4,549,774.73 in state sales and use taxes;
- \$452,358.56 in tax distributions for Gig Harbor; and
- \$241,427.15 in tax distributions for Pierce County.

The distributions for Gig Harbor and Pierce County come from the 0.5 percent basic and 0.5 percent optional local sales and use taxes authorized in RCW 82.14.030. In the years following 2007, state and local sales and use tax revenues within the HBZ are measured against these base year figures to determine the state contribution provided through the HBZ tax.

Gig Harbor Measurement Year Information

Calendar Year 2008 was the first measurement year for the Gig Harbor HBZ. The following table shows annual revenues for the base year and each measurement year within the HBZ.

Calendar Year	Measurement Year	State 6.5% Sales and Use Tax	Gig Harbor*	Pierce County*
2007	Base	\$4,549,774.73	\$452,358.56	\$241,427.15
2008	1	12,630,698.22	1,393,212.25	532,002.85
2009	2	13,157,465.88	1,402,159.62	604,518.24
2010	3	12,453,810.01	1,412,688.50	486,271.60
2011	4	10,746,554.68	1,185,280.38	453,658.22
2012	5	9,237,518.56	969,904.98	438,181.79
2013	6	12,786,090.21	1,325,840.34	624,068.04
2014	7	16,638,369.51	1,834,108.84	702,702.26
2015	8	18,225,233.20	1,973,002.70	807,208.88
2016	9	21,920,400.86	2,407,213.32	935,521.60
2017	10	24,511,207.71	2,718,775.54	1,019,427.58
2018	11	23,984,560.36	2,527,602.27	1,128,314.07
2019	12	24,378,164.96	2,523,549.40	1,194,077.82
2020	13	28,502,110.08	3,093,758.51	1,249,570.57
2021	14	30,214,434.23	3,208,189.81	1,396,276.54
2022	15	30,829,867.93	3,241,150.12	1,456,789.71

*The amounts for Gig Harbor and Pierce County represent the 0.5 percent basic and 0.5 percent optional sales and use tax authorized under RCW 82.14.030

The following table shows the increase in measurement year revenues within the HBZ compared to base year revenues.

Calendar Year	Measurement Year	State Incremental Revenue	Gig Harbor Incremental Revenue	Pierce County Incremental Revenue
2008	1	\$8,080,923.49	\$940,853.69	\$290,575.70
2009	2	8,607,691.15	949,801.06	363,091.09
2010	3	7,904,035.28	960,329.94	244,844.45
2011	4	6,196,779.95	732,921.82	212,231.07
2012	5	4,687,743.83	517,546.42	196,754.64
2013	6	8,236,315.48	873,481.78	382,640.89
2014	7	12,088,594.78	1,381,750.28	461,275.11
2015	8	13,675,458.47	1,520,644.14	565,781.73
2016	9	17,370,626.13	1,954,854.76	694,094.45
2017	10	19,961,432.98	2,266,416.98	778,000.43
2018	11	19,434,785.63	2,081,333.44	886,886.92
2019	12	19,828,390.23	2,071,190.84	952,650.67
2020	13	23,952,335.35	2,641,399.95	1,008,143.42
2021	14	25,664,659.50	2,755,831.25	1,154,849.39
2022	15	26,280,093.20	2,788,791.56	1,215,362.56

Program Results

RCW 82.14.470 requires reporting of the following information:

- The tax allocation revenues, the HBZ tax revenues (taxes under RCW 82.14.465), the local public sources received by the local government during the preceding calendar year, and a summary of how these revenues were expended;
- The businesses known to local governments that have located within the HBZ because of the public improvements undertaken by the local government and financed in whole or part with HBZ financing (see list below); 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.

The earliest Gig Harbor could have imposed the HBZ tax was July 1, 2009. Gig Harbor imposed the HBZ tax on July 1, 2011, at a rate of 0.6 percent.

Local governments are required to submit a report to the Department and the State Auditor by March 1 of each year for activity occurring during the preceding calendar year. Based on those reports, Gig Harbor received \$1,715,683.72 from the HBZ tax in Calendar Year 2011, \$2,284,316.28 from the HBZ tax in Calendar Year 2012 and \$2 million from the HBZ tax in Calendar Years 2013 through 2022. The HBZ tax is limited to \$2 million per *fiscal year* for each qualifying local government. Gig Harbor has received the full \$2 million in revenue from the HBZ tax for Fiscal Years 2012 through 2022. In total, Gig Harbor has received \$24 million from the HBZ tax through December 31, 2022.

In 2022, Gig Harbor reported over \$3.2 million in local funds dedicated for development in the HBZ. HBZ tax revenues funded Hwy 16 improvements, the Stinson-Harborview roundabout, Gig Harbor North Shaw property, a sports complex, and the Community Paddlers dock in 2022.

In 2022, the state benefit increased by over \$615,000. Over 15 years, the Gig Harbor HBZ created over \$30.8 million in state benefit. Gig Harbor received \$2 million from the HBZ tax in Calendar Year 2022.

Gig Harbor provided the following list of businesses that were added during Calendar Year 2022.

2022 - New Businesses Located Within Gig Harbor Hospital Benefit Zone	
Firm Name	Physical Address
AGA GIG HARBOR	9672 BUJACICH RD BLDG D STE A & B
OLSON CONCRETE, INC.	11515 BURNHAM DRIVE NW STE 104A
ARRQ LEGACY LLC	11010 HARBOR HILL DR #B107
ROBERT WILES REAL ESTATE LLC	3619 ROSS AVE
SUSANNES BAKERY	3411 HARBORVIEW DR
GRINNING COCONUT	11010 HARBOR HILL DR STE B 406
WILLIAMS TREE AND STUMP REMOVAL LLC	1134 143 RD ST NW
R STORIE	11430 51 ST AVE NW STE 101B
JSP SILVERDALE LAND, LLC	9672 BUJACICH RD BLDG D STE G & H
STRATEGIC CONSULTING SOLUTIONS LLC	11010 HARBOR HILL DR STE B155
KARELIA STUDIO	11515 BURNHAM DR #104E
RND RENTALS	3825 FENNIMORE ST
RETROUVERE LLC	8921 FRANKLIN AVE
COLVOS LAW	9017 ½ PEACOCK HILL AVE FL 2 ND
BEAUTY MEETS BOSS, LLC	9324 PEACOCK HILL AVE
MORSO	9014 PEACOCK HILL AVE STE 100B/C
MCGILL ELECTRIC	9508 WOODWORTH AVE
MATT ORLANDO MEDIA	9123 WOODWORTH AVE
PLANLED	9916 PEACOCK HILL AVE BLDG B
SDPLEX U.S.A. INC.	9916 PEACOCK HILL AVE BLDG B
SISU HEALTHPC	9916 PEACOCK HILL AVE BLDG A
CELLAR DOOR	4221 HARBORVIEW DR STE 200
OLD LADY PAINTS	8210 STINSON AVE
BAYRIDGE LLC	8101 BAYRIDGE AVE
HARBORNEST	3311 HARBORVIEW DR
HARBOR MERMAID	3310 HARBORVIEW DR
TICKLED PINK	3306 HARBORVIEW DR
CSA PROPERTIES LLC	3526 HARBORVIEW DR
CSA PROPERTIES LLC	3526 HARBORVIEW DR
CSA PROPERTIES LLC	3526 HARBORVIEW DR
CROSSCOUNTRY MORTGAGE, LLC	4021 HARBORVIEW DR

VICI TRANSITION, INC.	9515 N HARBORVIEW DR
DILIGENT ENTERPRISES, LLC	9315 N HARBORVIEW DR
DILIGENT ANESTHESIA, P.S.	9315 N HARVORVIEW DR
ONE STOP RENOVATION NETWORK	3615 HARBORVIEW DR STE C
HART STUDIO	8811 N HARBORVIEW DR
ECOLUDO	9216 RANDALL DR NW APT 30
THE SECOND RIDE	3226 HARBORVIEW DR STE 5
ECHELON RADIOLOGY, PLLC	3519 HARBORVIEW DR APT 1
ALL LIVING THINGS PLANT DÉCOR	11803 ARROWHEAD DR
A LA NODE	10218 SENTINEL LOOP
HOME & HARBOR DESIGN CO.	10250 SENTINEL LOOP
MCLEAN TRADING	10250 SENTINEL LOOP
AMY WHITE	10478 SENTINEL DR
OLYMPIC SHIELD HOME INSPECTIONS, LLC	10530 SENTINEL DR
DAISY IF YOU DO PRODUCTIONS LLC	3888 SENTINEL DR
SUNSHINE AND SELLING HOUSES	3844 ATHENA CT
NW TRANS LLC	3953 APOLLO WAY
KELLETURE LLC	4011 APOLLO WAY
MONSTERS AND MINIONS	3866 APOLLO WAY
DAILEY CLINICAL CONSULTING LLC	4079 SAWTOOTH CT
SOUND ADVISORS TAX ACCOUNTING	10796 MERCURY LN
PB PURSUITS, LLC	10664 ROCKY PEAK PL
ROCKY SHORES DESING/BUILD LLC	10677 ROCKY PEAK PL
FRANKIE & POSY	10320 DRIFTWOOD AVE
MARCH CONSULTING SERVICES LLC	10305 DRIFTWOOD AVE
PATIENT CHOICE LLC	4556 COPPER CT
ERICKSON LEADERSHIP BY DESIGN	5020 93 RD ST
GWEN GILLIAM HOMES, LLC	11264 BORGEN LOOP
RISE UP COACHING SOLUTIONS LLC	11284 BORGEN LOOP
GRIZZLY HIDEAWAY	4757 AMBER CT
HARBOR HILL DENTISTRY	4904 BORGEN BLVD STE A
JOHN A. HODGES DDS & DANIEL LEE DDS, PLL	11511 CANTERWOOD BLVD STE 120
RUDY GARCIA	11521 BUCKHORN PL
NAILS ESSENTIAL	4784 BORGEN BLVD STE F
PITA PIT	4784 BORGEN BLVD STE D
SONIAS SONS	9803 SUNRISE BEACH DR NW
GREAT CLIPS	11430 51 ST AVE STE 105
REBEL COFFEE CO	4945 CORNELIA CT
WAGNER WOODEN BOATS	4974 OCEANIA ST
WORLDWIDE ADMINISTRATIVE SERVICES	11515 OLYMPUS LOOP
DC SOLUTIONS LLC	4564 OLYMPUS LOOP

REISINGER, DANIEL L	4506 OLYMPUS LOOP
HAIR BY GABBY	12516 59 TH AVE
STEPHANIE F HUDDLESTON	12222 59 TH AVE
LIGHTHOUSE MARINE GIG HARBOR, LLC	5926 SEHMEL DR STE A
BECK ENGINEERING, INC.	9684 BUJACICH RD
R3EWATE WA	9644 BUJACICH RD STE H
GLOBAL LOGISTICS EXPRESS	9644 BUJACICH RD STE C
GLOBAL LOGISTICS EXPRESS	9644 BUJACICH RD STE C
SJ MAKEUP ARTISTRY	11515 BURNHAM DR
ALEIGH STEWART AESTHETICS	11515 BURNHAM DR
PICKET FENCE THERAPY	11515 BURNHAM DR
ESTHETICS BY PILAR	11515 BURNHAM DR
KATHY ANN RYAN, MA, LMHC, PLLC	6201 SEHMEL DR NW
ROGERS INVESTMENTS LLC	11611 70 TH AVE NW
THIRD HOUSE OF KOMACHIN	6115 WOODHILL DR
RONNIE GLOVER PHOTOGRAPHY	6524 WOODHILL DR
J&A SALES	13404 GOODNOUGH DR NW
GOLDEN RULE COFFEE COMPANY	10807 63 RD AVENUE CT NW
RAYNITA IS FAB	6417 115 TH STREET CT
CLUB PILATES TACOMA	11412 66 TH AVE
CLUB PILATES TACOMA	11412 66 TH AVE
CLUB PILATES TACOMA	11412 66 TH AVE
GOLD MIC BRANDS	11400 OLYMPUS WAY APT D303
MONAS PICNIC AND BOUQUETS	11400 OLYMPUS WAY APT H102
MARTHA E. K. BELTZ	11400 OLYMPUS WAY APT J201
PRO SPORT ORTHOPEDICS	5160 BORGES BLVD STE 101
THE HARBOR AFH LLC	10306 38 TH AVENUE CT
THE HARBOR AFH LLC	10306 38 TH AVENUE CT
THE HARBOR AFH LLC	10306 38 TH AVENUE CT
THE COZY KITTY	10305 38 TH AVENUE CT
SULLIVAN PROPERTIES, LLC	5312 CANTERWOOD DR NW
THE UPS STORE #6838	11010 HARBOR HILL DR STE B
ONE STOP INSTALLATION LLC	11010 HARBOR HILL DR STE B
SENTINEL ACCOUNTING & TAXES LLC	3414 108 TH ST NW
MFS INDUSTRIES	3808 157 TH STREET CT NW
RAINIER HYPERBARIC	11505 BURNHAM DR
THIRD WIND	1611 115 TH STREET CT NW OFC
VIBRANT HEALTH SOLUTIONS	11516 CARTIER LN
ESCAPE ENVY	5026 BERING ST
BRIGID	5148 BALTIC ST
FLYNN HOLDINGS LLC	2907 HARBORVIEW DR STE D

ALINDA MORRIS INTERIOR DESIGN LLC	3016 HARBORVIEW DR
SALTWATER HOMES, LLC	3111 HARBORVIEW DR STE 200A
PSYCHIC BOUTIQUE – ENERGY MEDICINE	3100 HARBORVIEW DR
TWEET VOICE STUDIO	3100 HARBORVIEW DR STE C
BENJAMIN PARTNERS	3100 HARVORVIEW DR STE C