




STATE OF WASHINGTON
DEPARTMENT OF REVENUE
OFFICE OF THE DIRECTOR

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June 1, 2014

TO: Hunter Goodman, Secretary
Washington State Senate

Barbara Baker, Chief Clerk
Washington State House of Representatives

FROM: Carol K. Nelson, Director 

SUBJECT: Hospital Benefit Zone Report

RCW 82.14.470(5) requires that the Department of Revenue 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 local jurisdictions' financing of public improvements. The improvements must be in the vicinity of a hospital and encourage new and expanded businesses within the zone.

As the report notes, the city of Gig Harbor and Pierce County are the sole participants. A single HBZ has been established which includes a portion of the city and a portion of the unincorporated area of the county. In order 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 2013 represents the sixth measurement year.

While Gig Harbor could have imposed the HBZ tax effective July 1, 2009, the city first imposed the HBZ tax on July 1, 2011, at a rate of 0.6%. Gig Harbor received \$2 million from the HBZ tax in 2013 and reported \$4.8 million in local funds dedicated for development in the HBZ.

The attached report was prepared by Diana Tibbetts, Tax Policy Specialist, under the direction of Kathy Oline, Assistant Director of Research and Fiscal Analysis. The report is available on our website at: <http://www.dor.wa.gov/Content/AboutUs/StatisticsAndReports/Default.aspx>. If you have questions about this program, please contact Kathy 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

Hospital Benefit Zone Financing Program

Research Report #2014-3

Pursuant to RCW 82.14.470

June 1, 2014



During the 2006 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 1st 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 is being used to pay for the 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. 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 local sales and use 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 is needed for the local government to receive its entire annual state contribution. The total amount a local government receives in any fiscal year from the state through the HBZ tax is 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 as a result 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 may continue 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 is 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 the revenues are received.
- 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

*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 table below 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

Program Results

RCW 82.14.470 requires the following information be reported:

- 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 as a result of the public improvements undertaken by the local government and financed in whole or part with HBZ financing (see attached list); 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 of Revenue 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 2013. 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, 2013 and 2014. In total, Gig Harbor has received \$6 million from the HBZ tax.

In 2013, Gig Harbor reported over \$4.8 million in local funds dedicated for development in the HBZ. Street improvements and new sidewalks were completed in 2013 and funded with HBZ financing. The total cost of these projects was \$1.35 million.

Fifty-five businesses located in the HBZ in 2013. All businesses are located in Gig Harbor, Washington (zip code 98332). The list provided by Gig Harbor is included on the next page.

In summary, for Calendar Year 2013 the Gig Harbor HBZ generated almost \$4.7 million in state sales and use taxes and Gig Harbor received \$2 million from the HBZ tax.

2013 – New Businesses Located Within Gig Harbor Hospital Benefit Zone

Firm Name	Physical Address
CUMULUS MEDIA HOLDINGS INC.	4126 101 ST STREET CT NW
FARM & FRILLS	3916 112TH STREET CT NW
HARBOR GIRLS LAWN SALON	3917 112TH STREET CT NW
LACROIX R & R LLC	3321 114TH ST NW
WATER MEMORIES	3305 114TH ST NW
NARROWS NORTHWEST CONTRACTORS LLC	1220 116TH STREET CT NW
SASEES NURSING AND HOME CARE MANAGEMENT	3711 118TH STREET CT NW
C&KCONSTRUCTION	3706 118TH STREET CT NW
ORCI MARKETING GROUP, LLC	912 125TH STREET CT NW
DNG CONSTRUCTION SERVICES, LLC	1107 144TH ST NW
CHUTES 'N LADDERS LLC	3220 144TH ST NW
CRAVE CATERING	13418 35TH AVENUE CT NW
MICHAEL ZELLER	9910 40TH AVENUE CT NW
NICOLELEE CANDLES ETC LLC	9913 41 ST AVE NW
AEGIS CONSULTING GROUP,LLC	13904 47TH AVE CT NW
GIG HARBOR TIDES SCHOLARSHIP FOUNDATION	11330 51 ST AVE NW
GENERAL NUTRITION CORP	11430 51 ST AVE NW STE 101B
ROOFTOP FILMS & PHOTOGRAPHY	14006 57TH AVE NW
MISTMAKER STUDIO	4621 AMBER CT NW
MATTRESS DISCOUNTERS	5160 BORGEN BLVD NW
DUSTIN SCHULTZ	11286 BORGEN LOOP NW
TAILORED LIVING	5010 BRIDLEPATH DR NW
GIG HARBOR FAMILY WELLNESS CENTER	11505 BURNHAM DR NW
PARADISE THEATRE	9911 BURNHAM DR NW
T & R TRANSPORTERS	9515 BURNHAM DR NW#117
JAKE S CARPENTRY	10024 BURNHAM DR NW UNIT 4B
FRANCISCAN NEPHROLOGY ASSOCIATES-GIG HARBOR	11511 CANTERWOOD BLVD NW STE
HARBOR ROOM SERVICE LLC	4810 CANTERWOOD DR NW
APRIL'S CLEANING SERVICE	4756 CEDAR CT NW
STERILCHEK STERILIZER MONITORING	8909 FRANKLIN AVE
GOURMET BURGER SHOP	4120 HARBORVIEW DR
SALMON RUN PROPERTY MANAGEMENT, LLC	4120 HARBORVIEW DR
PICKERS NORTHWEST	3226 HARBORVIEW DR
JOHN JOSEPH MERCADO	3417 HARBORVIEW DR
LUCKY PENNY COINS AND COLLECTABLES	3226 HARBORVIEW DR
PORT ORCHARD PRODUCE	4101 HARBORVIEW DR
TURNER GLASS WORKS	3226 HARBORVIEW DR
CAKESBYCK	3226 HARBORVIEW DR STE 1
NETSHED NO. 9	3313 HARBORVIEW DR STE 101
WILD FOX SKIN AND LASH LOUNGE	3302 HARBORVIEW DR STE 2
VOODOO VAPORS	3226 HARBORVIEW DR UNIT 9
RECHERISHED BY THE ROOT'S	5120 LEON LN NW
CENTERLINE HARDWOOD FLOORS	8009 MITTS LN
JBC WRITING & CONSULTING	4612 N FOXGLOVE DR NW
GIG HARBOR COMMUNITY GARDENS	8915 N HARBORVIEW DR APT 201
NORA BERHEIM HAIR	8809 N HARBORVIEW DR STE 201
DEVOTED KISS CAFE	8809 N HARBORVIEW DR STE 203
THE COOP	15205 PEACOCK HILL AVE NW
PBBC	14105 PURDY LN NW
CATHIE JEAN JOHNSON	9508 RANDALL DR NW
PET SITTING	9216 RANDALL DR NW APT13
GIG HARBOR TUGBOAT	9815 SARI LN
STASIS CAPITAL LLC	6115 WOODHILLDR NW
CHURCHILL & COMPANY2 LLC	6115 WOODHILL DR NW
OBIELAND PRENTICE, LLC	9120 WOODWORTH AVE