



STATE OF WASHINGTON  
**DEPARTMENT OF REVENUE**  
OFFICE OF THE DIRECTOR

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May 31, 2018

**TO:** Brad Hendrickson, Secretary  
Washington State Senate

Bernard Dean, Chief Clerk  
Washington State House of Representatives

**FROM:** Vikki Smith, Director *VKS*

**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 local jurisdictions' financing of public improvements. 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. 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 2017 represents the tenth measurement year.

The report is available 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

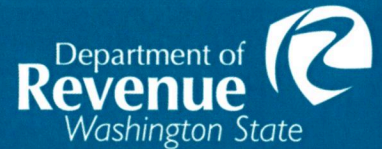
cc: Members, Senate Ways and Means Committee  
Members, House Finance Committee  
Members, House Appropriations Committee  
David Schumacher, Director, Office of Financial Management  
Drew Shirk, Executive Director, Legislative Affairs

# Hospital Benefit Zone Financing Program

2018 Report to the Legislature

Covering Calendar Year 2017 Activity

Pursuant to RCW 82.14.470



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 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 pays 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 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 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 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

\*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
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

### **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 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 Years 2013 through 2017. 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 2017. In total, Gig Harbor has received \$14 million from the HBZ tax.

In 2017, Gig Harbor reported over \$8.5 million in local funds dedicated for development in the HBZ. The design and construction of a public works operations center, property acquisition and extension of Harbor Hill, Ancich Park development and netshed were completed in 2017 and funded with HBZ financing. The total cost of these projects was \$2.1 million.

In summary, for Calendar Year 2017, the Gig Harbor HBZ generated almost \$2.6 million in state sales and use taxes and Gig Harbor received \$2 million from the HBZ tax.

In 2017, 108 businesses were located in the HBZ in Gig Harbor, Washington. Gig Harbor provided the list of businesses on the following pages.



**2017 - New Businesses Located Within Gig Harbor Hospital Benefit Zone**

<b>Firm Name</b>	<b>Physical Address</b>
MCINTYRE WOODWORKS AND CONSTRUCTION LLC	1620 CRESCENT LAKE DR NW
BYTEIT SYSTEMS	5216 BALTIC ST NW
MATTRESS FIRM INC #508010	5160 BORGEN BLVD NW
MATTRESS FIRM INC #508024	4784 BORGEN BLVD NW STE A
THE HELSDON LAW FIRM, PLLC	12419 6 <sup>TH</sup> AVENUE CT NW
GIG HARBOR ACUPUNCTURE AND HOLISTIC HEALTH LLC	11812 17 <sup>TH</sup> AVE CT NW
MORRIS MANAGEMENT PARTNERS, INC.	12223 58 <sup>TH</sup> AVE NW
TARACUDA DESIGN	5914 123 <sup>RD</sup> ST NW
FLOURISH AND DUST	10295 SENTINEL DR
PACIFIC ASSET COMPANY	6115 WOODHILL DR NW
TERESA Z WHITE	5802 122 <sup>ND</sup> ST NW
DISCOVERY VILLAGE	4835 BORGEN BLVD NW #1
GIG HARBOR EYE CARE	4949 BORGEN BLVD NW STE 107
HULST LEGAL, PLLC	3202 HARBORVIEW DR STE 203
DRONE WOLF NORTHWEST	11383 KINGLET LN NW
1522.COM, INC	11400 OLYMPUS WAY APT L203
POWERHOUSE253	8918 RANDALL DR NW
UPC	9011 66 <sup>TH</sup> AVE NW
PACIFIC ASSET MANAGEMENT, LLC	4320 HARBORVIEW DR
WIBERG REALTY GROUP LLC	11515 BURNHAM DR NW
APERIO INVESTMENT MANAGEMENT LLC	5022 BLUE PEBBLE CT
DEL MAR HARBOR VIEW LLC	8808 FRANKLIN AVE
PIER 1 IMPORTS #1150	5160 BORGEN BLVD
NORTHWEST INVESTMENT HOLDINGS LLC	3419 HARBORVIEW DR STE 101
SAPICO	11491 BUCKHORN PL
BOKO INC	5220 BALTIC ST NW
ALL-WATERS FLY FISHING	8016 MITTS LN #A
CULLITON	9110 69 <sup>TH</sup> AVE NW
LOOKING BACK PRODUCTIONS, INC.	9810 43 <sup>RD</sup> AVE CT NW
SPIRO'S PIZZA & PASTA	3108 HARBORVIEW DR
LYNN KOVACEVICH RENNE, DPM	10323 DRIFTWOOD AVE
NATURAL CLEANERS	4949 BORGEN BLVD NW #B-103
GSR RENOVATION, LLC	3502 HARBORVIEW DR
DAVID WHITE CONSTRUCTION LLC	3926 101 <sup>ST</sup> STREET CT NW
THE CLUB @ THE BOATYARD	3117 HARBORVIEW DR
RACHEL MENG LMT	3417 HARBORVIEW DR
URBAN PATINA	3226 HARBORVIEW DR STE 4
TACOMA SCREW PRODUCTS, INC	10421 BURNHAM DR NW
TOWSURFER.COM	11400 OLYMPUS WAY APT R204
GEN-PRO LLC	8825 FRANKLIN AVE
DRONE IMAGERY NORTHWEST	8801 STATE ROUTE 16 NW UNIT G
LUCKY TRUNSPORT	6615 87 <sup>TH</sup> ST NW
NORTHWEST MASONRY	14223 56 <sup>TH</sup> AVE NW
LIVING THE GIG, LLC	11411 KINGLET LN NW
NWCC	11308 TAYLOR PL
PAWS, CLAWS, AND HOOVES, LLC	7321 108 <sup>TH</sup> ST NW
R&O CONSTRUCTION COMPANY	11400 51 <sup>ST</sup> AVE NW
HG AUTO SALES LLC	14023 PURDY DR NW
HERON'S KEY	4340 BORGEN BLVD NW
GIG HARBOR MAINTENANCE AND SERVICES	6303 118 <sup>TH</sup> ST NW
WILD BIRDS UNLIMITED OF GIG HARBOR WA	3120 HARBORVIEW DR
IVANNA MIRTO ART STUDIO	3226 HARBORVIEW DR STE 1
DISTRIBUTION NETWORK ASSOCIATES, LLC	11400 OLYMPUS WAY APT F204
RICHARD HALLETT CONSTRUCTION LLC	11282 BORGEN LOOP
BRACERA APARTMENTS	11400 OLYMPUS WAY

**Firm Name**

OLYMPIC REMODEL  
CRAFTWELLS  
FACHELLE INC.  
DYNA-FLOW, LLC  
FCR DENTAL LABORATORIES, LLC  
IMAGES BY MJ  
GLASS COMMUNICATIONS  
BRIAN ANDERSON  
BRIX 25 RESTAURANT  
AIN'T IT NICE, L.L.C. (DOING BUSINESS AS AINT IT NICE)  
KLEVEN HOMES, INC.  
EXPRESS PICKUP & DELIVERY TRANSPORTATION SRVCS  
SPIRIT, SOUL AND BODY COACHING COMPANY LLC  
HELPING HAND HOUSEKEEPING  
SOUND CLINICAL MEDICINE, PS  
WESTSHORE MARINA  
HEMLEY'S SPETIC TANK CLEANING, INC.  
HARBOR YACHT DETAIL  
APPLIED ANESTHESIA  
GREEN COTTAGE PETS  
HWM, LLC  
HEARTHSTONE WEALTH MANAGEMENT  
HOMER SMITH LLC  
MCBECKLANDS LTD INC  
TRICORE DEVELOPMENT LLC  
KAREN'S CREATIONS  
DL FOWLER  
OBIELAND 11593 BARKLEY LANE, LLC  
PAPE & SONS CONSTRUCTION, INC.  
ELEMENTAL PROPERTIES, LLC  
JOSEPH PONEPINTO  
GORDON S. EVANS  
SECOND WAVE  
PULLMAN VS. PAXTON PRODUCTIONS  
HARBOR ESTHETICS BY JESSICA D  
GAMACHE/HENDRICKS LLC  
EARTH CRAFTERS  
SCRUBBLES & COMPANY  
FRANCISCAN ENDOCRINE ASSOCIATES @ GIG HARBOR  
SKY EXPRESS GROUP CO  
PSYCHIC BOUTIQUE  
THE HARBOR GROUP LLC  
TRISH ANDRUS PHOTOGRAPHY  
PT. RICHMOND CONTRACTOR AND INTERIOR DESIGNER  
JM LOCKARD LLC/MARIA RACZYNSKA  
KELLER & WYNN COMMERCIAL PARTNERS  
CHRISTINE DANIELSON  
MIA LASH & BROW LOUNGE  
LAURA RAWLS  
STRONG ARROW CONSULTING  
CYRUS JACKSON LLC  
ELITE ENTERPRISES  
SOUND NOTARY SERVICE, LLC

**Physical Address**

11294 BORGEN LOOP  
10325 DRIFTWOOD AVE  
14022 42<sup>ND</sup> AVENUE CT NW  
9421 WOODWORTH AVE  
3908 155<sup>TH</sup> ST NW  
8020 SEHMEL DR NW  
10915 61<sup>ST</sup> AVE NW  
11308 TAYLOR PL  
3315 HARBORVIEW DR  
11227 BORGEN LOOP  
5225 BERING ST NW  
10544 SENTINEL DR  
11314 67<sup>TH</sup> AVE NW  
8121 86<sup>TH</sup> AVE NW  
4340 BORGEN BLVD NW  
3815 HARBORVIEW DR  
9303 BUJACICH RD  
3815 HARBORVIEW DR SLIP A6  
4219 BOULDER CT  
3028 HARBORVIEW DR  
3010 HARBORVIEW DR STE 202  
3010 HARBORVIEW DR STE 202  
3010 HARBORVIEW DR STE 202  
3120 HARBORVIEW DR  
2711 108<sup>TH</sup> ST NW  
5132 BALTIC ST NW  
11524 CARTIER LN NW  
9120 WOODWORTH AVE  
9401 BUJACICH ROAD STE 1A  
11010 HARBOR HILL DR NW #B456  
6516 112<sup>TH</sup> STREET CT NW  
8908 86<sup>TH</sup> AVE NW  
3720 HARBORVIEW DR  
10520 SENTINEL DR  
9620 WOODWORTH AVE  
5013 MARINER ST  
5800 SOUNDVIEW DRIVE STE B106  
8801 STATE ROUTE 16 NW UNIT C  
11511 CANTERWOOD BLVD NW STE 100  
10548 SENTINEL DR  
3100 HARBORVIEW DR  
2915 HARBORVIEW DR  
3504 107<sup>TH</sup> STREET CT NW  
13012 PT. RICHMOND DR. NW  
12610 BURNHAM DR NW UNIT 6  
11515 BURNHAM DR NW  
3906 101<sup>ST</sup> STREET CT NW OFC  
4949 BORGEN BLVD STE 105  
10550 HARBOR HILL DR  
11400 OLYMPUS WAY APT J101  
8212 DOROTICH ST  
14305 41<sup>ST</sup> AVE NW  
9216 RANDALL DR NW APT 18