



STATE OF WASHINGTON
DEPARTMENT OF REVENUE
OFFICE OF THE DIRECTOR

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May 18, 2021

TO: Brad Hendrickson, Secretary
Washington State Senate

Bernard Dean, Chief Clerk
Washington State House of Representatives

FROM: Vikki Smith, Director *Vikki Smith*

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 2020 represents the thirteenth 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, Office of the Governor

Hospital Benefit Zone Financing Program

2021 Report to the Legislature
Covering Calendar Year 2020 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 cost 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 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

*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

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 2020. 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 2021. In total, Gig Harbor has received \$20 million from the HBZ tax through December 31, 2020.

In 2020, Gig Harbor reported over \$1.1 million in local funds dedicated for development in the HBZ. HBZ tax revenues funded roadway improvements to Harborview and Burnham Drives and landscaping improvements to Hill Drive in 2020.

**After the slight decline in the state benefit in 2018, the Gig Harbor HBZ rebounded and had a state benefit near the 2017 amount. In 2020, the state benefit increased by over \$4 million. In summary, the

Gig Harbor HBZ created over \$28.5 million in state benefit over 13 years. Gig Harbor received \$2 million from the HBZ tax in Calendar Year 2020.

In 2020, the HBZ in Gig Harbor contained the 93 businesses listed on the following pages.

2020 - New Businesses Located Within Gig Harbor Hospital Benefit Zone	
Firm Name	Physical Address
SCRUBBLES AND COMPANY	2224 87TH STREET CT NW
REDBOX AUTOMATED RETAIL, LLC	8918 PRENTICE AVE
WELLS, ASHLEY PAIGE	3507 ROSS AVE
RALSTON, LORRAINE MARCA	4101 HARBORVIEW DR
SELLEN CONSTRUCTION CO., INC.	3808 HARBORVIEW DR
LAIRD PHYSICIAN SERVICES PLLC	5801 108TH ST
LANGLOW, NICOLE DANIELLE	9142 28TH AVENUE CT NW
THE DELTA RESOURCE GROUP, LLC	3417 HARBORVIEW DR
206 WAYS . . . LLC	11505 BURNHAM DR
DRUKER, MARLENE	9014 PEACOCK HILL AVE
CHUTES 'N LADDERS LLC	9803 44TH AVE NW
ANDRADE'S, INC.	12913 43RD AVENUE CT NW
BRENNER, MICHELLE N	10796 MERCURY LN
HARBOR FAMILY LAW GROUP, INC.	9017 PEACOCK HILL AVE
OCCUPATIONAL YOGA THERAPY LLC	10484 SENTINEL DR
GREGOR, JARISA NICOLLE	11515 BURNHAM DR
MITCHELL, KATHE	9120 WOODWORTH AVE
HARBOR CUSTOM DEVELOPMENT, INC.	3811 101ST STREET CT
M2 RESOURCE CONSULTING, INC.	11400 OLYMPUS WAY
ORIENMA EDUCATION LLC	3226 HARBORVIEW DR
GURLEY, RUSS ROY	11841 ARROWHEAD DR
HARBOR CROSS CONSTRUCTION, INC.	11515 BURNHAM DR
TACOMA SCREW PRODUCTS, INC.	11515 BURNHAM DR
SUMMIT HOME REAL ESTATE LLC	10602 78TH AVE NW
COSTA RICA BEAUTY, LLC	9301 N HARBORVIEW DR
GULLICKSON, BROOK LYN	2326 83RD ST NW
BJ'S OFF-ROAD, INC	4310 NORTH FOXGLOVE DR NW
RESTORE, LLC	9829 PEACOCK HILL AVE
COBA CONSTRUCTION, LLC	11468 PACIFIC AVE
BLASDEL ENTERPRISE LLC	11505 BURNHAM DR
BENTSEN REGULATORY AND CLINICALS CONSULTING LLC	4221 HARBORVIEW DR
LIBERTY NW, LLC	11505 BURNHAM DR
1522.COM, INC.	8811 N HARBORVIEW DR
JONES, SYLWIA DOBROMILA	6422 144TH ST NW
JP MORGAN CHASE BANK, N.A.	5420 143RD STREET CT NW
KAS TRAVEL DESIGN, LLC	9126 PRENTICE AVE

Firm Name	Physical Address
THE HARBOR PEARL, LLC	11554 ARROWHEAD DR
COLLISION SERVICE REPAIR CENTER, INC.	8822 N HARBORVIEW DR
EVERGREEN SECURITY SPECIALISTS, L.L.C.	11515 BURNHAM DR
HOME DEPOT U.S.A., INC.	3818 MOUNTAINVIEW PL
WHITE, LAWRENCE PATRICK	3976 SAWTOOTH CT
WASHINGTON WATER SERVICE COMPANY	10421 BURNHAM DR
THE WEATHERED COTTAGE LLC	11407 66TH AVE
ELEGANCE AESTHETICS, PLLC	11371 KINGLET LN
FRANCISCAN MEDICAL GROUP	4949 BORGEN BLVD
FRANCISCAN MEDICAL GROUP	8824 N HARBORVIEW DR
FRANCISCAN MEDICAL GROUP	5120 LEON LN NW
HENDERSON BAY CONSTRUCTION, INC.	3815 VERNHARDSON ST
THE MATTRESS STORE LLC	3417 HARBORVIEW DR
FRANCISCAN MEDICAL GROUP	3308 HARBORVIEW DR
FRANCISCAN MEDICAL GROUP	4012 ATHENA CT
FRANCISCAN MEDICAL GROUP	8805 N HARBORVIEW DR
FRANCISCAN MEDICAL GROUP	12027 45TH AVENUE CT NW
FRANCISCAN MEDICAL GROUP	3226 HARBORVIEW DR
FRANCISCAN MEDICAL GROUP	9820 HARBORVIEW PL
CEDARLAND GROUP, LLC	3615 HARBORVIEW DR
ONE STOP RENOVATION NETWORK LLC	4072 SAWTOOTH CT
BOMAN, ROBERT ALAN	3504 ROSS AVE
CONTOUR ENGINEERING LLC	3306 HARBORVIEW DR
TARGET CORPORATION	4234 OVERLOOK CT
FRANCISCAN HEALTH SYSTEM	6303 147TH STREET CT NW
BG RETAIL, LLC	11330 51ST AVE NW
ILCGH	14205 51ST AVE NW
TURNBULL, TESSA	9323 PEACOCK HILL AVE
PENINSULA ART LEAGUE	9510 MILTON AVE
CASCADE BUILDING ENVELOPE SOLUTIONS, LLC	11106 61ST AVE
WILD ROOTS WELLNESS, NFP	1315 115TH STREET CT NW
CTC ENTERPRISE VENTURES CORPORATION	11511 CANTERWOOD BLVD
KLADE, LOIRE	9422 RANDALL DR
PAUL HAUGEN CONSTRUCTION LLC	3705 114TH ST NW
PANDA EXPRESS, INC.	11010 HARBOR HILL DR
FLONES GONZALEZ, JULIE ANNE	714 130TH STREET CT NW
LADIES AUXILIARY TO THE FRATERNAL ORDER OF EAGLES, AERIE 2809	7316 82ND STREET CT NW
DEMOTT, DANIELLE	5110 N FOXGLOVE DR NW
NANCY'S LONGARM QUILTING LLC	10692 ROCKY PEAK PL
CRESCENT VALLEY PLUMBING, LLC	10648 ROCKY PEAK PL

Firm Name	Physical Address
POLO, ARTHUR	10311 DRIFTWOOD AVE
GIG HARBOR YACHT CLUB JUNIOR SAIL	3621 VERNHARDSON ST
APODACA, ZACHARY COLE	4002 102ND STREET CT
PENINSULA HIGH SCHOOL BAND BOOSTER CLUB	11400 OLYMPUS WAY
CARL & JUANITA HIGBY FOUNDATION	15008 27TH AVE NW
GIG HARBOR BOATSHOP	10512 78TH AVE NW
STUART ROBERT E MD	2813 HARBORVIEW DR
HULST LEGAL, PLLC	3202 HARBORVIEW DR
3108 HARBORVIEW, LLC	3108 HARBORVIEW DR
ECLECTIC WINE AND ART LLC	3106 HARBORVIEW DR
ALBON ENTERPRISES, LLC	3120 1/2 HARBORVIEW DR
SOUND YACHT SALES LLC	3215 HARBORVIEW DR
R2K2 ENTERPRISES, LLC	3210 HARBORVIEW DR
ROUTLEY ENGINEERING INC	3202 HARBORVIEW DR
LINCOLN MUSIC LLC	3110 HARBORVIEW DR
TLB EVENTS, LLC	3126 HARBORVIEW DR
CUTTY SARK INTIMATES LLC	3024A HARBORVIEW DR