



STATE OF WASHINGTON
DEPARTMENT OF REVENUE
OFFICE OF THE DIRECTOR

P.O. Box 47454 • Olympia, Washington 98504-7454 • (360) 534-1600 • FAX (360) 534-1606

June 1, 2013

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

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 (HBZ) local sales tax program, which was 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 years 2009, 2010, 2011, and 2012 represent the second, third, fourth and fifth measurement years, respectively.

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 \$2,284,316.28 from the HBZ tax in 2012 and reported \$2.1 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 also 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



STATE OF WASHINGTON
DEPARTMENT OF REVENUE

Research Report #2013-2

**HOSPITAL BENEFIT ZONE FINANCING PROGRAM
RCW 82.14.470**

**Department of Revenue
June 1, 2013**

This report summarizes the Calendar Year 2012 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 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.

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 pay for the 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. 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 of Revenue (DOR) approved Gig Harbor's HBZ. The sales tax location codes for the new zone became effective January 1, 2007.

Program Summary

Once an area is designated as an HBZ under chapter 39.100 RCW, the measurement of incremental increases in certain state and local sales and use tax revenue 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 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 receives 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. 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.

The 2011 Legislature passed SSB 5525, which made 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 that levy the HBZ tax are not required to spend the tax revenues in the same fiscal year that they 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.

Program Results

RCW 82.14.470 requires the following information to be included in this report:

- 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; 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 1st 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 and \$2,284,316.28 from the HBZ tax in Calendar Year 2012. 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 both Fiscal Years 2012 and 2013. In total, Gig Harbor has received \$4 million from the HBZ tax.

In 2012, Gig Harbor reported over \$2.1 million in local funds dedicated for development in the HBZ. Arterial overlays and pavement improvement projects began in 2012 and were funded with HBZ financing. The total cost of these projects so far is over \$1.2 million.

As a result of the public improvements, the following businesses located in the HBZ in 2012:

- Gig Harbor Chiropractic and Massage;
- Washington Clinical Research and Consulting; and
- Hygiene Direct.

Additionally, as a result of the public improvements, the firm Metegenics has expanded.

In summary, for Calendar Year 2012 the Gig Harbor HBZ generated almost \$4.7 million in state sales and use taxes and Gig Harbor received nearly \$2.3 million from the HBZ tax.

Gig Harbor Base Year Information

Future calculations of incremental state and local sales and use tax revenues require base amounts to be determined. In the Gig Harbor HBZ, the base year was Calendar Year 2007. In 2007, the state received \$4,549,774.73 in state sales and use taxes from taxable activity in the HBZ. Additionally, Gig Harbor received \$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 from taxable activity in the HBZ and Pierce County received \$241,427.15. 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

*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