



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

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May 24, 2011

**TO:** Tom Hoemann, Secretary  
Washington State Senate

Barbara Baker, Chief Clerk  
Washington State House of Representatives

**FROM:** Suzan DelBene, Director *SD*

**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 local sales tax, which was adopted by the Legislature in 2006. This program is intended to provide state support for local jurisdictions in conjunction with financing of public improvements in the vicinity of a hospital in order to encourage the location and expansion of businesses within the zone.

As noted in the report, the city of Gig Harbor and Pierce County are the sole participants. A single hospital benefit zone has been established which includes a portion of the city and the unincorporated area of the county. Establishment of the base year revenues, against which future increases of sales tax receipts will be measured, was complete in 2007. The first measurement year for the hospital benefit zone was complete in 2008, the second measurement year was complete in 2009, and the third measurement year was complete in 2010. The participating local governments plan to impose the local sales tax which is credited against the state tax on July 1, 2011.

The report was prepared by our Research and Legislative Analysis Division under the direction of Mark Craig, Assistant Director. If you have questions about this program, please contact Mark at (360) 534-1534.

cc: Members, Senate Ways and Means Committee  
Members, House Ways and Means Committee  
Marty Brown, Director, OFM



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*Research Report #2011-1*

**Hospital Benefit Zone Financing Program  
Annual Report from the Department of Revenue  
June 2011**

This report summarizes the Calendar Year 2010 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 are intended to encourage private development within the HBZ and to support the development of a hospital. The program is available only when a hospital has received a certificate of need from the Department of Health (DOH).

**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 city of Gig Harbor established an HBZ. In November 2006 the Department of Revenue (DOR) approved Gig Harbor's HBZ and implemented the local tax location codes for the new zone effective January 1, 2007. The boundaries of the HBZ include only part of the city of Gig Harbor and extend into unincorporated Pierce County.

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 be used to pay for initial costs of infrastructure improvements associated with development around the new hospital.

Along with the city of Gig Harbor, Pierce County, through an interlocal agreement, has agreed to help finance public improvements within Gig Harbor’s HBZ by contributing some of its incremental sales tax revenues generated within the HBZ area.

## **Program Summary**

Once an area is designated as an HBZ under chapter 39.100 RCW, incremental increases in certain state and local sales and use tax revenue generated in the HBZ are measured. The incremental local tax revenue, along with revenue from other local public sources, is used to pay for eligible public improvement projects. The incremental local tax revenue and local revenue from other local public sources is also matched with a state contribution of money.

State money is received by the local government sponsoring the HBZ through a local sales and use tax 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 must receive 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 of money. The total amount that a local government can receive in any fiscal year from the state through the HBZ tax is limited to the lesser of: 1) \$2 million, 2) the amount of local matching funds provided by the local government, or 3) the amount of 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 can be used to pay principal and interest on bonds issued to finance the public improvements as well as direct payment of costs of local public improvements within the HBZ. The state contribution of money may continue for no more than 30 years from the date the HBZ tax is first imposed, until the state money is no longer needed to pay for the eligible public improvements, or when principal and interest on bonds issued to finance the public improvements are retired, whichever is sooner.

The 2011 Legislature passed SSB 5525 which makes some 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.

## **Gig Harbor Base Year Information**

The year in which base amounts were determined for future calculations of incremental state and local sales and use tax revenues in the Gig Harbor HBZ was Calendar Year 2007. In 2007, the state received \$4,549,774.73 in state sales and use tax on taxable activity generated within the HBZ area. Additionally, \$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 on taxable activity in the HBZ was received by the city of Gig Harbor, and \$241,427.15 was received by Pierce County. State and local sales and use tax revenues generated within the HBZ in the years following 2007

are measured against these base year figures and are used to determine the amount of HBZ funding that can be provided by the state through the HBZ tax.

### **Gig Harbor Measurement Year Information**

Calendar Year 2008 was the first measurement year for the Gig Harbor HBZ. In 2008, the state received \$12,630,698.22 in state sales and use tax on taxable activity within the HBZ area. The local 0.5 percent basic and 0.5 percent optional local sales and use taxes authorized in RCW 82.14.030 generated \$1,393,212.25 for Gig Harbor and \$532,002.85 for Pierce County. When compared to the base year, the 2008 measurement year revenues for the state of Washington, Gig Harbor, and Pierce County increased as follows:

State of Washington	\$8,080,923.49
Gig Harbor	\$940,853.89
Pierce County	\$290,575.70

Calendar Year 2009 was considered the second measurement year for the Gig Harbor HBZ. In 2009, the state received \$13,157,465.88 in state sales and use tax on taxable activity within the HBZ area. The local 0.5 percent basic and 0.5 percent optional local sales and use taxes authorized in RCW 82.14.030 generated \$1,402,159.62 for Gig Harbor and \$604,518.24 for Pierce County. When compared to the base year, the 2009 measurement year revenues for the state of Washington, Gig Harbor, and Pierce County increased as follows:

State of Washington	\$8,607,691.15
Gig Harbor	\$949,801.06
Pierce County	\$363,091.09

Calendar Year 2010 was considered the third measurement year for the Gig Harbor HBZ. In 2010, the state received \$12,453,810.01 in state sales and use tax on taxable activity within the HBZ area. The local 0.5 percent basic and 0.5 percent optional local sales and use taxes authorized in RCW 82.14.030 generated \$1,412,688.50 for Gig Harbor and \$486,271.60 for Pierce County. When compared to the base year, the 2010 measurement year revenues for the state of Washington, Gig Harbor, and Pierce County increased as follows:

State of Washington	\$7,904,035.28
Gig Harbor	\$960,329.94
Pierce County	\$244,844.45

The large jump in retail activity from 2007 to subsequent years can be attributed to significant development with the addition of large retail stores within the HBZ.

Chapter 39.100 RCW requires the following information to be included in this report:

- The amount of tax allocation revenues, taxes under RCW 82.14.465, and local public sources received by the local government during the preceding calendar year and a summary of how these revenues were expended;
- The names of any businesses known to local government 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.

Gig Harbor will not have information in the above categories until the HBZ tax has been imposed. The earliest Gig Harbor could have imposed the HBZ tax was July 1, 2009. Gig Harbor plans to impose the HBZ tax July 1, 2011. Gig Harbor reported \$25.7 million in local funds dedicated for development in the HBZ.