



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

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June 1, 2019

**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 2018 represents the eleventh 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

2019 Report to the Legislature  
Covering Calendar Year 2018 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 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

\*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
2018	11	19,434,785.63	2,081,333.44	886,886.92

## **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 2018. 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 2018. In total, Gig Harbor has received \$16 million from the HBZ tax.

In 2018, Gig Harbor reported over \$8.5 million in local funds dedicated for development in the HBZ. HBZ funding allowed the extension of Harbor Hill Drive, Ancich Park and Netshed Rehabilitation Project, and Harbor Hill Park and Jerkovich Pier restorations in 2018. The total cost of these projects was over \$4.3 million.

In 2018 the state benefit from the HBZ declined slightly for the first time since 2012. This is most likely due to a very strong construction economy in 2017 and less construction in Gig Harbor in 2018. In summary, the Gig Harbor HBZ created almost \$24 million in state benefit over 11 years. Gig Harbor received \$2 million from the HBZ tax in Calendar Year 2018.

In 2018, the HBZ in Gig Harbor contained the 81 businesses listed on the following pages.

**2018 - New Businesses Located Within Gig Harbor Hospital Benefit Zone**

<b>Firm Name</b>	<b>Physical Address</b>
LABORATORY CORPORATION OF AMERICA	11511 CANTERWOOD BLVD NW
HEADED REINFORCEMENT CORPORATION	11219 BORGEN LOOP
HRB TAX GROUP, INC.	11430 51ST AVE NW
RETAIL REALTY & CONSTRUCTION SERVICES, LLC	3939 BROTHERS COURT
OLSEN, SUSAN JANE	10621 63RD AVE NW
GREENFIELD, JENNIFER D	11541 BUCKHORN PL
A & D LAWN CARE	1607 CRESCENT LAKE DR NW
MAGOSND NATURAL MEDICINE LLC	11505 BURNHAM DR NW
OBIELAND 561 MOUNTAIN VIEW, LLC	9120 WOODWORTH AVE
HANSEN, DONALD HAROLD	11548 PORTAGE PL NW
BRAATEN REAL ESTATE, INC.	11515 BURNHAM DR NW
MARCELLO, GARY A	5901 108TH ST NW
GIG HARBOR BOTOX, LLC	4949 BORGEN BLVD
SOLID SUPPORT COMPANY	8125 BAYRIDGE AVE
WHITNEY ALLEN INC.	9017 N HARBORVIEW DR
MT HWY LLC	9815 SARI LN
DIABETIC SURVIVOR, LLC	10484 SENTINEL DR
CLINE, JOHN DAVID	10340 CLIPPER WAY
MARTIN, SARA ELIZABETH	10341 DRIFTWOOD AVE
ADVANCED SECURITY PARTNERS, LLC	11010 HARBOR HILL DR B401
206 WAYS . . . LLC	5041 MARINER ST
NICOLE SCHAUER PHOTOGRAPHY LLC	4919 BERING ST NW
GIG HARBOR YACHTS LLC	3419 HARBORVIEW DR
HOME 4115, LLC	4115 SAWTOOTH CT
GLOBAL BUSINESS RESOURCES	9014 PEACOCK HILL AVE
DAVIS, MEGAN E	9417 ANCICH CT
KISMET CONSTRUCTION, LLC	6115 WOODHILL DR NW
ORIENMA EDUCATION LLC	4835 BORGEN BLVD
SASSY LASH & SKIN, LLC	8824 N HARBORVIEW DR
PRITCHARD, RHONDA ANN	8024 SEHMEL DR NW
SORGENFREI, JULIE ELAINE	7116 PIONEER WAY STE B
DEFINITE DIAGNOSTICS LLC	5045 MARINER ST
SOUTH SOUND MOVING L.L.C.	8809 STATE ROUTE 16 NW
OUTSIDE THE BOX WOODWORKING, INC.	8719 STATE ROUTE 16 NW
WARNER, RACHEL	8824 N HARBORVIEW DR
CHBA PROPERTIES, LLC	11217 BORGEN LOOP
GIG HARBOR CABINETS LLC	8803 STATE ROUTE 16 NW
SIGNIFICANT SOLUTIONS LLC	8805 N HARBORVIEW DR
COCULA, JORGE ALBERTO	11503 GLACIER PL NW
HARBOR PREP LLC	4835 BORGEN BLVD

## Hospital Benefit Zone Financing Program

## 2018 Report to the Legislature

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<b>Firm Name</b>	<b>Physical Address</b>
STRIKEBAIT, INC	9816 40TH AVENUE CT NW
MORRIS, TODD R	4412 SENTINEL CT
N.W DIAMOND HOMES INC	8509 DAVID DAY DR NW
ZAMORA, KOURTNEY KAYE	4221 HARBORVIEW DR
MAES, STACIE	5803 SEHMEL DR NW
NATZEL, STACY	11505 BURNHAM DR NW
BURNETT REAL ESTATE COMPANY LLC	11515 BURNHAM DR NW
KAYLA NICHOLE MILLER LLC	12604 BURNHAM DR NW
MORGAN, DELAINE DEETTE	3101 JUDSON ST
HFF INCORPORATED	10421 BURNHAM DR NW
BEATEN PATH INVESTMENTS, LLC	4047 MOONLIGHT CT
PERSONALIZED MEDICINE, INC., A CALIFORNIA PROFESSIONAL MEDICAL CORPORATION	9770 44TH AVE NW
JT SCOTT, LLC	11322 BORGEN LOOP
NGUYEN, TU S	4949 BORGEN BLVD
OLIVIER, JACKIE FRANCESCA	3316 HARBORVIEW DR
RICHEY, COLLEEN	10197 SENTINEL LOOP
HARBOR MATERIALS, LLC	11505 BURNHAM DR NW
GALLOPING GERTIES GARAGE LLC	10421 BURNHAM DR NW
NICK BALERA PHOTOGRAPHY LLC	8805 N HARBORVIEW DR
TAUSCHER & ASSOCIATES, INC.	11621 BURNHAM DR NW
FRANCISCAN MEDICAL GROUP	11511 CANTERWOOD BLVD STE 110
FRANCISCAN MEDICAL GROUP	11511 CANTERWOOD BLVD NW
FRANCISCAN MEDICAL GROUP	11511 CANTERWOOD BLVD NW
FRANCISCAN MEDICAL GROUP	11511 CANTERWOOD BLVD NW
FRANCISCAN MEDICAL GROUP	11511 CANTERWOOD BLVD NW
OLYMPIC SPORTS & SPINE PLLC	10550 HARBOR HILL DR NW
BIDLEMAN, MELISSA	8809 N HARBORVIEW DR
ELIZABETH'S DREAM HOMES, INC.	8809 N HARBORVIEW DR
GIG HARBOR HOMES, INC.	11515 BURNHAM DR NW
HARBOR ELITE ATHLETIC TRAINING LLC	3123 56TH ST NW
GIG HARBOR BREWING COMPANY LLC	3155 HARBORVIEW DR
MILLER, TEREISA L	3106 HARBORVIEW DR
ALLSTAR GUITAR LLC	3110 HARBORVIEW DR
HARBOR HOME PROS INC.	8811 N HARBORVIEW DR
SUNSET YACHT & TRAILER SALES LLC	2905 HARBORVIEW DR
JW REAL ESTATE, LLC	3308 HARBORVIEW DR
IGNA GROUP LLC	4107 HARBORVIEW DR
MULLAN LLC	3521 HARBORVIEW DR
CLICKERY PHOTOGRAPHY	3024 HARBORVIEW DR
SPEEDY NOVUS GLASS LLC	3720 HARBORVIEW DR
HAUGEN, ERIC J	2907 HARBORVIEW DR STE J