



STATE OF WASHINGTON
DEPARTMENT OF REVENUE
OFFICE OF THE DIRECTOR

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May 19, 2022

TO: Sarah Bannister, 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 2021 represents the fourteenth 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

2022 Report to the Legislature
Covering Calendar Year 2021 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 helps pay for the cost of infrastructure improvements associated with development around the new hospital.

The city of Gig Harbor established a 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 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
2021	14	30,214,434.23	3,208,189.81	1,396,276.54

*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
2021	14	25,664,659.50	2,755,831.25	1,154,849.39

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 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 2021. 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 \$22 million from the HBZ tax through December 31, 2021.

In 2021, Gig Harbor reported over \$1.5 million in local funds dedicated for development in the HBZ. HBZ tax revenues funded Harbor Hill Drive extension, pedestrian improvements to Gig Harbor North, and interchange improvements to Hwy 16 in 2021.

In 2021, the state benefit increased by almost \$2 million. Over 14 years, the Gig Harbor HBZ created over \$30.2 million in state benefit. Gig Harbor received \$2 million from the HBZ tax in Calendar Year 2021.

In 2021, the HBZ in Gig Harbor added 95 new businesses. The businesses are listed in the following table.

2021 - New Businesses Located Within Gig Harbor Hospital Benefit Zone	
Firm Name	Physical Address
SOUND MARKET SOLUTIONS, INC.	9911 40TH AVENUE CT
CHRISTOPHER PALLIS, INC.	11010 HARBOR HILL DR
OLYMPIC NOTARY SERVICES	10477 SENTINEL DR
RAINIER MEDICAL	11010 HARBOR HILL DR
GIG HARBOR 2 FOURSQUARE CHURCH	8502 SKANSIE AVE
GIG HARBOR RV RESORT	9515 BURNHAM DR
COMCAST CABLE COMMUNICATIONS MGMT, LLC	5216 POINT FOSDICK DR
OKAMI ENGINEERING, PLLC	11229 BORGES LOOP
HAWKINS, SUSAN BERTHA	11400 OLYMPUS WAY
VOLUME ROASTING CORPORATION	4988 ADMIRAL ST
EVERYDAY LIVING, LLC	4512 OLYMPUS LOOP
DERRON-ENTREPOT, LLC	11230 TAYLOR PL
NVA HARBOR VETERINARY MANAGEMENT LLC	4225 BURNHAM DR
ALSTAR EXCAVATING LLC	3815 102ND STREET CT
AMAZING GRACE CHARTERS, LLC	9017 N HARBORVIEW DR
SOLD BY SARNO LLC	11400 OLYMPUS WAY
PENINSULA SPEECH THERAPY, LLC	3903 PLUME LN
WILSONS WAGONG LLC	9123 WOODWORTH AVE
ANACAPA LLC	11606 64TH AVE
HARBOR CASE CO	11858 ARROWHEAD DR
MST PROPERTY HOLDINGS	10421 BURNHAM DR
KC INSPECTIONS	11761 ARROWHEAD DR
ABC PAWN	11237 BORGES LOOP
PETR N DOROKHOV	3953 APOLLO WAY
GIG HARBOR UPHOLSTERY LLC	9401 BUJACICH RD
CHEEN JUNG MOM	11237 BORGES LOOP
BFHULSCHER	10269 SENTINEL LOOP
MS. BEA'S BUNGALOW	3311 ROSS AVE
PERFECT BALANCE PHOTOGRAPHY	9014 PEACOCK HILL AVE
HERITAGE DISTILLING COMPANY, INC.	9668 BUJACICH RD
GIG HARBOR PENINSULA FISH	4425 BURNHAM DR
BOARD AND VINE CO	10327 DRIFTWOOD AVE
GREYDEN P GROUP	11533 HUDSON LN
WANDA TOWNSEND LLC LEADERSHIP UNLEASHED	5051 ADMIRAL ST
GREATER GOOD RETOUCHING	6504 115TH STREET CT
HOYLE AND SPRUCE, LLC	11533 HUDSON LN

Firm Name	Physical Address
BLUE BALLARD	3514 ROSS AVE
TOMMYWALL SYSTEMS, LLC	5018 MARINER ST
NGUYEN, TAN	4949 BORGEN BLVD
BUBBA TWO ECHO ROCK, LLC	4484 OLYMPUS LOOP
EA HOLDINGS, LLC	11400 OLYMPUS WAY
DIAMOND MAXIMUS	9421 BURNHAM DR
QUALITY CONTACT SOLUTION, INC	5144 BALTIC ST
AESTHETIC SMOKEWARE, LLC	3517 VERNHARDSON ST
STEFFYDDS S.C.	5021 BLUE PEBBLE CT
ACCESSIBLE ANALYTICS	11103 ECHO ROCK PL
SPADONI ASPHALT MAINTENANCE	11010 HARBOR HILL DR
BAKING THIS SIMPLE	5121 BERING ST
DAILEY, RYAN	4079 SAWTOOTH CT
PACIFIC RIDGE CMS, LLC	11505 BURNHAM DR
ROOF RENEW LLC	9421 BURNHAM DR
WOK TERIYAKI	11430 51ST AVE
RCW 23.95.525	9515 BURNHAM DR
CEDARLAND FOREST RESOURCES LLC	8805 N HARBORVIEW DR
M. PIOLI INTERIORS & SPECIAL EVENTS	9819 43RD AVE
GRANDMA THAI HUT CUISINE LLC	4116 HARBORVIEW DR
CRACKYOURBACKJACK, INC.	4539 OLYMPUS LOOP
LISE KRISTIANSEN CONSULTANCY	3918 FULLER ST
CINCINNATUS, LLC	3302 HARBORVIEW DR
MCCANN, JESSICA MARYA	8809 N HARBORVIEW DR
IMPULSIVE ESCAPE LLC	12014 61ST AVENUE CT
55 FATHOMS PUBLISHING	6516 112TH STREET CT
WRITERKATHY	5905 123RD ST
DARK SIDE OF LIGHT WINDOW TINTING	11459 CARTIER LN
ROW HOME RENTALS, L.L.C.	3507 ROSS AVE
NORTH HARBOR APPRAISAL LLC	11390 HONEYSUCKLE LN
HARBOR ANIMAL HOSPITAL	4225 BURNHAM DR
MC INDIGO UCC GIG HARBOR NORTH	4784 BORDEN BLVD
YMCA OF PIERCE AND KITSAP COUNTY PIONEER ELEMENTARY SCHOOL	8502 SKANSIE AVE
PNW AERONAUTICAL	12622 BURNHAM DR
THE CHRISTMAS SHOPS AT GIG HARBOR LLC	4102 HARBORVIEW DR
HUSAIN, MICHELLE	3505 ROSS AVE
GIG HARBOR THAI CUISINE	8825 N HARBORVIEW DR
RECTOR CONSULTING LLC	4255 OVERLOOK CT
PICKLEPIRATEPAPER	11010 HARBOR HILL DR
C S FLOORS	8803 STATE ROUTE 16 W
LAZAR PERSONAL FITNESS & TRAINING	3928 SAWTOOTH CT
HCDI MIRA LLC	11505 BURNHAM DR

Firm Name	Physical Address
HCDI WYNDSTONE LLC	11505 BURNHAM DR
HAIR BY HANNAH COOPER LLC	8809 N HARBORVIEW DR
VENOM PEST CONTROL LLC	9617 JACOBSEN LN
LAW OFFICE OF KIRA M. RUBEL, PLLC	3615 HARBORVIEW DR
ROOF RENEW NW	9421 BURNHAM DR NW
BLOCK ENTERPRISES	4557 OLYMPUS LOOP
MOSLEY HEALTH AND WELLNESS, PLLC	12120 61ST AVENUE CT
NGUYEN, VAN PHAT	4949 BORGEN BLVD
O'SULLIVAN FAMILY, LLC	2807 HARBORVIEW DR
MODERN MTN MAMA	2813 HARBORVIEW DR
7 SEAS BREWING	2905 HARBORVIEW DR
AERIE ADVISORY GROUP LLC	3025 HARBORVIEW DR
PROVISION	3025 HARBORVIEW DR
PSYCHIC BOUTIQUE	3100 HARBORVIEW DR
LOST STAR TABLETOP GAMING OUTFITTER LLC	3106 HARBORVIEW DR
KTM KOLSCH TRANSACTION MANAGEMENT	3100 HARBORVIEW DR
RFG FINANCIAL PLANNING	3202 HARBORVIEW DR