



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

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

May 18, 2020

**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 2019 represents the twelfth 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

2020 Report to the Legislature

Covering Calendar Year 2019 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

\*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

### 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 2019. 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 2019. In total, Gig Harbor has received \$18 million from the HBZ tax.

In 2019, Gig Harbor reported over \$2.2 million in local funds dedicated for development in the HBZ. HBZ tax revenues funded the Ancich Netshed in 2019.

After the slight decline in the state benefit in 2018, the Gig Harbor HBZ rebounded and had a state benefit near the 2017 amount for 2019. In summary, the Gig Harbor HBZ created over \$24 million in state benefit over 12 years. Gig Harbor received \$2 million from the HBZ tax in Calendar Year 2019.

In 2019, the HBZ in Gig Harbor contained the following 98 businesses:

<b>Firm Name</b>	<b>Physical Address</b>
2122 MILDRED STREET, LLC	3519 HARBORVIEW DR
A BETTER ME, LLC	3226 HARBORVIEW DR
AKISKALIAN, EVAN JOHN	11400 OLYMPUS WAY
ALPHACHEM INTERNATIONAL CORPORATION	9220 MILTON AVE
ALPRIN, SCOTT	8205 DOROTICH ST
ANNE SIDDALL ENTERPRISES, LLC	4801 OLD STUMP DR NW
AUDIENCE BLOOM SERVICES, LLC	10237 SENTINEL LOOP
AWJO, INC	3108 HARBORVIEW DR
BECK, MARCIA L	12213 58TH AVE
BJ'S OFF-ROAD, INC	10421 BURNHAM DR NW
BLONSKI, KRISTA LYNN	10545 SENTINEL DR
BOUNDLESS LOVE ANIMAL WELLNESS LLC	1140 OLYMPIA WAY
CASELEY, MARY VIVIAN	5209 BERING ST NW
CHAMPION GLOBAL LOGISTICS, INC.	10317 DRIFTWOOD AVE
CLICKERY PHOTOGRAPHY, LLC	3024 HARBORVIEW DR
CLUB DEMONSTRATION SERVICES, INC.	10990 HARBOR HILL DR
COLLISION SERVICE REPAIR CENTER, INC.	9808 44TH AVE
COSTA RICA BEAUTY, LLC	8920 FRANKLIN AVE
COSTCO WHOLESALE MEMBERSHIP, INC.	10990 HARBOR HILL DR
DA RYAN, LLC	11515 BURNHAM DR NW
DE VEGA, JEFFREY DEAN	11521 BRISTOL PL NW
DINH LOUIE OPTOMETRY PLLC	10990HARBOR HILL DR
DONKEY CREEK HOLDINGS L.L.C.	10421 BURNHAM DR NW
DUNGER, TANYA	5628 OLD STUMP DR NW
ELECTRIC ATHLETICS, INC.	5021 BLUE PEBBLE CT
EUGENIE & CO. LLC	4245 BOULDER CT
FINN, MATTHEW MICHAEL	8817 PRENTICE AVE
FLONES GONZALEZ, JULIE ANNE	4819 BERING ST NW
FOX ISLAND GROUP LLC	9213 N HARBORVIEW DR
FOX ISLAND TRADING COMPANY L.L.C	3226 HARBORVIEW DR
FRED TEBB & SONS, INC.	9014 PEACOCK HILL AVE
FRUITION PHYSICAL THERAPY, LLC	11515 BURNHAM DR NW
GIG HARBOR GONDOLA LLC	3117 HARBORVIEW DR
GREER MASSAGE, LLC	11515 BURNHAM DR NW
HAGEDORN & ASSOCIATES, LLC	8805 N HARBORVIEW DR
HARBOR CUSTOM DEVELOPMENT, INC.	11505 BURNHAM DR NW
HARBOR FAMILY LAW GROUP, INC.	4264 OVERLOOK CT
HARBOR LIFE CHIROPRACTIC, PC	11515 BURNHAM DR NW
HARBOR MANE LLC	8809 N HARBORVIEW DR

**Firm Name**

HARDWICK, JOE R  
HEDRICK, PHILIP R  
HENRY EARL ESTATES, LLC  
HERITAGE DISTILLING COMPANY, INC.  
HERITAGE DISTILLING COMPANY, INC.  
HERITAGE DISTILLING COMPANY, INC.  
HERONS KEY RESIDENTS ASSOCIATION  
HONIKER, DAVID ALLEN  
HOW DOES YOUR GARDEN GROW, INC.  
JAKE'S FIREWORKS INC.  
KAS TRAVEL DESIGN, LLC  
KIM, JOUNGA LEE  
KING GENERAL CONTRACTING INC  
KISH, RACHEL ARIEL  
KLADE, LOIRE  
KLEVEN REALTY, LLC  
KNAPP, ANNE M  
LAWSON, LORI CATHERINE  
LEDWICK, INC.  
LUX AND TIME LLC  
MEAD, JENNIFER  
MOD SUPER FAST PIZZA, LCC  
NATIONAL NETWORK FOR ORAL HEALTH ACCI  
NICHIPOR, MARINA  
NORTHWEST YACHTNET, L.L.C.  
ONO-LEGENER, MEGAN TOMIKO  
OPPORTUNUS WEALTH MANAGEMENT LLC  
ORCA, A LITERARY REVIEW, LLP  
ORIENMA FOUNDATION LLC  
POINT FOSDICK WATER CO., INC.  
PORTOMED LLC  
PREDIGEN, INC.  
PRENEED ADVANTAGE LLC  
PUGET SOUND VISION CARE PC  
REID, BARBARA ANN  
REITERIWS LLC  
REVOLUTION: BIRTH & POSTPARTUM  
RIDING IN CIRCLES LLC  
ROOM WITH A VIEW CONSULTING, INC.  
RPM HEALTH SERVICES, INC.  
RUBEL, KIRA MESHAWN  
SANDERS, ESTHER M  
SCHULTZ, ANNA  
SOUTH SOUND PROPERTIES NW LLC  
SPINOFF, LLC

**Physical Address**

9421 BURNHAM DR NW  
9813 41ST AVE  
3226 HARBORVIEW DR  
4021 HARBORVIEW DR  
10421 BURNHAM DR NW BLG 1  
10421 BURNHAM DR NW BLG 2  
4340 BORGEN BLVD  
10313 DRIFTWOOD AVE  
10421 BURNHAM DR NW  
10990 HARBOR HILL DR  
11865 ARROWHEAD DR  
11330 51ST AVE NW  
5909 SEHMEL DR NW  
10295 SENTINEL DR  
3859 BROTHERS CT  
5225 BERING ST NW  
8914 PRENTICE AVE  
10679 ECHO ROCK PL  
5038 MARINER ST  
4450 COPPER CT  
4227 BURNHAM DR  
4726 BORGEN BLVD  
4963 ADMIRAL ST  
3302 HARBORVIEW DR  
2905 HARBORVIEW DR  
11248 BORGEN LOOP  
5022 BLUE PEBBLE CT  
6516 112TH STREET CT NW  
4835 BORGEN BLVD  
5220 BALTIC ST NW  
9211 GOODMAN AVE  
11010 HARBOR HILL DR NW  
11544 BUCKHORN PL  
11400 51ST AVE  
3302 HARBORVIEW DR  
3889 HARBORVIEW DR  
11505 BURNHAM DR NW  
3812 MOUNTAINVIEW PL  
10892 YONDER LN  
10892 YONDER LN  
3615 HARBORVIEW DR  
8824 N HARBORVIEW DR  
11286 BORGEN LOOP  
3417 HARBORVIEW DR  
8809 N HARBORVIEW DR

**Firm Name**

SUMMIT HOME REAL ESTATE LLC  
SUNSHINE RUNNING AND YOGA, LLC  
SWITCH  
SWYFT, INC.  
T&B, INC.  
TETHERED – ROV SERVICES & MORE  
WCV WINDOWS INC  
WEST SOUND EXECUTIVE REALTY INC.  
WEST SOUND PROPERTIES, INC.  
WEYAND, ELMER WAYNE  
WORLD VETS  
YOUNG, MICHELLE JOELLEN  
ZENZIO INCORPORATED  
ZENZIO INCORPORATED

**Physical Address**

4757 AMBER CT NW  
10151 SENTINEL LOOP  
3308 HARBORVIEW DR  
11330 51ST AVE NW  
4949 BORGES BLVD  
3419 VERNHARDSON ST  
12505 58TH AVE NW  
11515 BURNHAM DR NW  
11515 BURNHAM DR NW  
2905 HARBORVIEW DR  
9711 MOLLER DR NW  
10654 SUNDIAL LN  
11010 HARBOR HILL DR NW  
11010 HARBOR HILL DR B405