



STATE OF WASHINGTON
DEPARTMENT OF REVENUE
OFFICE OF THE DIRECTOR

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April 29, 2016

TO: Hunter Goodman, Secretary
Washington State Senate

Barbara Baker, Chief Clerk
Washington State House of Representatives

FROM: Vikki Smith, Director *VJS*

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 in the vicinity of 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 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 Year 2015 represents the eighth measurement year.

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 million from the HBZ tax in 2015 and reported over \$4 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 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 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

Hospital Benefit Zone Financing Program

2016 Report to the Legislature
Covering Calendar Year 2015 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 is being used to pay 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 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.

In 2011, the Legislature passed SSB 5525 making 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 levying the HBZ tax are not required to spend the tax revenues in the same fiscal year the revenues 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

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

*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

Program Results

RCW 82.14.470 requires the following information be reported:

- 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, 2014 and 2015. 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, 2013, 2014, 2015 and 2016. In total, Gig Harbor has received \$10 million from the HBZ tax.

In 2015, Gig Harbor reported over \$4.188 million in local funds dedicated for development in the HBZ. Street improvements, a Lift Station, maritime pier development, park development and two new trail phases were completed in 2015 and funded with HBZ financing. The total cost of these projects was \$2.11 million.

One hundred and eighteen businesses were located in the HBZ in 2015. All businesses are located in Gig Harbor, Washington. The list provided by Gig Harbor is included in the following pages.

In summary, for Calendar Year 2015, the Gig Harbor HBZ generated over \$18 million in state sales and use taxes and Gig Harbor received \$2 million from the HBZ tax.

2015 - New Businesses Located Within Gig Harbor Hospital Benefit Zone

Firm Name	Physical Address
HARBOR CLERICAL	6703 92 ND ST CT NW
CERTIFIED COURT REPORTER	8105 101 ST ST NW
ALL NATURAL CLEANING SERIVCES	4020 101 ST ST CT NW
FLEMING CUSTOM CARPENTRY LLC	7314 102 ND ST CT NW
H.WAYNE SMITHSON	3814 102 ND ST CT NW
TRISH ANDRUS PHOTOGRAPHY	3504 107 TH ST CT NW
TIMOTHY JOHN PLOG	2720 108 TH ST NW
BIRD BATHS & BEYOND	3319 108 TH ST NW
WILLIAMSON DESIGN	6405 111 TH ST NW
FI ARCHITECTURE, INC.	1302 115 TH ST CT NW
SHADI NOLEN ESTHETICIAN SKIN SPECIAL	6303 118 TH ST NW
KIWII INTERACTIVE, LLC	2315 122 ND ST NW
GIG HARBOR GOURMET	2301 122 ND ST NW
JRJ SUPPLY COMPANY	623 122 ND ST CT NW
RHEMA INDUSTRIES	4124 124 TH ST NW
BETTE BENNETT INTERIOR DESIGN	5720 144 TH ST NW
ALCHEMY GRAPHICS INC.	5306 144 TH ST NW
SEIGAL ENTERPRISES, INC.	15709 14 TH AVE NW
HOOVER HOUSE CLEANING	15417 26 TH AVE NW
TENOR COUNSULTING GROUP, LLC	15109 26 TH AVE NW
RYAN THERAPY SERVICES INC.	14812 28TH AVE NW
PACIFIC TRADEWORKS	10621 33 RD AVE CT NW
FINANCIAL SOLUTIONS PLUS	4207 33 RD AVE CT NW
ALICIAHAIR	5358 33 RD AVE NW
THOMAS GONZALEZ	4201 36 TH AVE NW
BURRIS ELECTRIC LLC	9611 40 TH AVE CT NW
COOLCESSORIES.COM	9816 40 TH AVE CT NW
CUTTERS POINT COFFEE	6521 43 RD AVE CT NW
CONTRACTOR'S ROOF SERVICE, INC.	6406 43 RD AVE CT NW
WARRIOR LIFE MARTIAL ARTS, LLC	6515 43 RD AVE CT NW
ANTOINETTE'S INTERIORS	14416 45 TH AVE CT NW
GIG HARBOR HOME MANAGEMENT & CON	13819 51 ST AVE NW
RENAISSANCE COUNSULTING NW	14301 51 ST AVE NW
JOUNGA LEE KIM	11330 51 ST AVE NW
PAPE & SONS CONSTRUCTION, INC	9401 54 TH AVE NW
PENINSULA LACROSSE ASSOCIATION	14209 57 TH AVE NW
JP BUILDING INC.	5110 57 TH AVE NW
WCV WINDOWS	12505 58 TH AVE NW
SERVICES IN SINCERITY	3305 58 TH AVE NW
BRUCE HOWARD DUNN	12912 62 ND AVE NW #B5
REIKI FUR BABIES LLC	6306 62 ND ST NW
STACIASSELL SHOMES & ASSOCIATES, LLC	5406 62 ND AVE NW
WOODLAND SUNRISE	3321 63 RD AVE NW
INTERIOR ESCAPES	11405 65 TH AVE NW
S & L TRUCKING	6517 65 TH AVE NW
KRISTINE'S COURIER SERVICE	8717 66 TH AVE NW
INSPIRE DISCOVERY, LLC	14312 68 TH AVE NW
FOCAL PAINT HARDWOOD FLOORS	7205 85 TH AVE NW
MEDICAL PROFESSOR	6715 94 TH STREET CT NW
BARKLEY LANE INTERIORS LLC	11593 BARKLEY LN NW
DMFORD EP, LLC	8033 BAYRIDGE AVE
SCULPTURE HOSPITALITY OF PUGET SOUND	4944 BERING ST NW

2015 - New Businesses Located Within Gig Harbor Hospital Benefit Zone

Firm Name	Physical Address
LUCREZIA SCHULER PHOTOGRAPHY	11227 BORGEN LOOP
NATURAL CLEANERS	4949 BORGEN BLVD NW
SPANKY BURGER	4726 BORGEN BLVD NW
SLEEP TRAIN INC	4784 BORGEN BLVD NW
SLEEP TRAIN INC	5160 BORGEN BLVD NW
THE BARBER'S ROOM LLC	4949 BORGEN BLVD STE 104A
FAMOUS FOOTWEAR #2221	5151 BORGEN BLVD NW
SAVVY ENDEAVORS	11320 BORGEN LOOP
HARBOR CUSTOM HOMES, LLC	11515 BURNHAM DR NW
MAX CORP	11722 BURNHAM DR NW
MOVEMENT MORTGAGE, LLC	11515 BURNHAM DR NW
RORE, INC.	11505 BURNHAM DR NW
M BURSON INC.	11515 BURNHAM DR NW
ALLSTATE YACHT SALES LLC	11621 BURNHAM DR NW
BAINBRIDGE LIVING, LLC	11515 BURNHAM DR NW
BELLA VITA CHIROPRACTIC, LLC	11505 BURNHAM DR NW
SALLY JO THERAPEUTIC MASSAGE	11511 CANTERWOOD BLVD #210
HARBOR LAWN & HOME SERVICES	4815 CANTERWOOD DR NW
FRANCISCAN PULMONARY ASSOCIATES	11311 CANTERWOOD BLVD NW
HAWAII JOE'S SHAVE ICE	1415 CASCADE PL NW
LARRY KALAHIKI INSURANCE AGENCY	4772 CEDAR CT NW
SASQUATCH PAINTING	10021 CRESCENT VALLEY DR NW
AMAZING WEDDINGS	8921 FRANKLIN AVE
CLOTHING BY VOCO	12615 HALLSTROM DR NW
JOHAN BESTER	4102 HARORVIEW DR
KELCI BRIGHT	3226 HARBORVIEW DR STE 1
HARBOR HOME PAINTING	3226 HARBORVIEW DR STE 4
MODERN POSH	3306 HARBORVIEW DR
NEW YORK NAILS SPA	3409 HARBORVIEW DR
THE WEATHERED COTTAGE LLC	3306 HARBORVIEW DR
LUCCA'S LANDING LCC	3521 HARBORVIEW DR
HARBOR PLACE MARINA INVESTORS LLC	3513 HARBORVIEW DR
HARBOR HOME CREATIONS	3226 HARBORVIEW DR STE 4
GRAPHICALDATA, INC.	3225 HARBORVIEW DR
GIG HARBOR MARINA AND BOATYARD	3117 HARBORVIEW DR
ATKISSON LAW, PLLC	3202 HARBORVIEW DR
JW @ THE BOATYARD	3117 HARBORVIEW DR
GIG HARBOR GONDOLA	3117 HARBORVIEW DR
NORTH WEST MARITIME ACADEMY, LLC	3117 HARBORVIEW DR
JESSE THOMAS CONSULTING	3202 HARBORVIEW DR
SKANSIE NET SHED	3207 HARBORVIEW DR
HARBORVIEW MARINE SURVEY	8913 N HARBORVIEW DR
SHAKA SHAVE ICE	11400 OLYMPUS WAY APT M102
BLUER SKIES PUBLISHING, LLC	11400 OLYMPUS WAY APT C104
LAYMANCE TRADING PPT	11400 OLYMPUS WAY APT A104
AZIMUTH OFFSHORE	9416 PEACOCK HILL AVE
KIM PAX PARTNERSHIP	14903 PEACOCK HILL AVE NW
FATHER & SON WINDOW CLEANING	9417 PEACOCK HILL AVE
CRAFT BARREL SUPPLY, LLC	11548 PORTAGE PL NW
GLOBAL SECURITY ADMINISTRATION	9209 RANDALL DR NW
DM DESIGN+BUILD	8905 RANDALL DR NW
AUNE CONSTRUCTION LLC	5513 ROSEDALE ST NW

2015 - New Businesses Located Within Gig Harbor Hospital Benefit Zone

Firm Name	Physical Address
GRADDON CONSULTING AND RESEARCH	4203 ROSEDALE ST NW
PAM'S PEARLS	3303 ROSS AVE
MALICH MESSAGES, LLC	3515 ROSS AVE
HARBOR STEEL FABRICATION LLC	5926 SEHMEL DR NW
HARBOR CROSS CONSTRUCTION, INC.	5909 SEHMEL DR NW
RHONDA RIEGEL	10217 SENTINEL LOOP
ASPECT TV & ELECTRONICS, INC.	8801 STATE ROUTE 16 NW
THE CRITTER CLIPPERS	7116 STINSON AVE STE B312
LACCATO	7282 STINSON AVE STE E-1
VECTORFP ENGINEERING LLC	4418 TOWHEE DR NW
FAT TAIL TRADING COMPANY, LLC	6115 WOODHILL DR NW
PELICAN CAPITAL, LLC	6115 WOODHILL DR NW
GARNAN PROPERTIES	9210 WOODWORTH AVE
MCGILL ELECTRIC	9508 WOODWORTH AVE