HOUSE BILL REPORT
HB 2670

As Reported by House Committee On:
Finance

Title: An act relating to financing for hospital benefit zones.

Brief Description: Authorizing hospital benefit zone financing.

Sponsors: Representatives Kilmer, Lantz, Priest, Talcott, Green, Conway, Darneille, Cody, Hinkle, Linville, Flannigan, Miloscia and Moeller.

Brief History:

Committee Activity:

Finance: 1/17/06, 1/25/06 [DPS].

Brief Summary of Substitute Bill

- Creates a new public infrastructure financing tool for local governments to support the development of a new hospital.
- Authorizes a new state-shared tax for local governments to provide up to $2 million annually for the purposes of public infrastructure financing in a hospital benefit zone.

HOUSE COMMITTEE ON FINANCE

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 6 members: Representatives McIntire, Chair; Hunter, Vice Chair; Conway, Ericks, Hasegawa and Santos.

Minority Report: Do not pass. Signed by 5 members: Representatives Orcutt, Ranking Minority Member; Roach, Assistant Ranking Minority Member; Ahern, Condotta and Shabro.

Staff: Mark Matteson (786-7145).

Background:

Community Revitalization Financing. Currently, counties, cities, towns, and port districts are authorized under the Community Revitalization Program to create areas within their boundaries where community revitalization projects are financed by diverting a portion of the regular property taxes imposed by local governments within the area. Community revitalization projects and programs include traditional public infrastructure improvements, such as street and road construction and maintenance, as well as certain specified public services relating to management, analysis, planning, security, and historic preservation within the area.

To create a tax increment area for the purposes of community revitalization financing, the jurisdiction must first receive approval of jurisdictions which in the aggregate impose at least 75 percent of the regular property taxes within the area, as well as approval from any fire district with territory in the area. The jurisdiction must then adopt an ordinance designating the area as a tax increment area and specify the improvements to be financed. Public hearings must be held on the proposed financing of the public improvements. Notice of the hearings must be published in a local newspaper and the copies of the proposed ordinance must be delivered to local officials in affected jurisdictions.

Local governments that utilize community revitalization financing may issue general obligation bonds or revenue bonds to fund the public improvements authorized by the program. Under state law, general obligation bonds are backed by the full faith and credit of the issuing government and may be issued with a maturity of up to 40 years. In contrast, revenue bonds are typically paid out of a dedicated stream of revenue and typically have higher interest-related costs than general obligation bonds. Under the community revitalization program, revenue bonds may be issued with a maturity of up to 30 years.

Sales and Use Tax. There is a 6.5 percent retail sales tax levied by the state on the selling price of tangible personal property and certain services purchased at retail. In general, the tax applies to goods, construction (including labor), repair of tangible personal property, lodging for less than 30 days, telephone service, and participatory recreational activities. There are some state-shared local taxes in which the local tax is credited against the state sales tax, including 2 percent hotel/motel tax upon accommodations by cities and counties. This type of local tax does not represent an additional tax but rather a "sharing" of state receipts with the local jurisdiction.

There is a 6.5 percent use tax on items not subject to the state retail tax. This includes purchases made from out-of-state sellers, purchases from sellers who are not required to collect Washington sales tax, items produced for use by the producer, and gifts and prizes. The tax is measured by the value of the item at the time of the first use within the state, excluding any delivery charges.

Counties and cities may impose several local sales and use taxes at various rates and for various purposes. The tax base is the same as under the state retail sales and use taxes. The most widely utilized local sales and use taxes are the basic tax at a rate of 0.5 percent and an optional tax at a rate of up to 0.5 percent. The basic and optional tax receipts may be used for any general purpose.

Planned improvements in Gig Harbor. Fransiscan Health System received approval from the Washington State Department of Health in May 2004, to build a new 80 bed community hospital in Gig Harbor to meet the health care needs of Gig Harbor, Key Peninsula, and south Kitsap County residents. As part of the approval process, the Department of Health issued a "Certificate of Need." The state Certificate of Need program is intended to allow the development of needed new healthcare services and facilities to promote competition and growth without destabilizing the existing system. The new facility is known as St. Anthony Hospital.

In addition to the hospital, the north Gig Harbor area is also the site of the development of a new business park and retail complex, including a new Costco location.

Traffic analysis of the planned developments in the north Gig Harbor area indicates that the expected traffic will result in the violation of Growth Management Act requirements with respect to transportation concurrency. These requirements hold that, as a condition for development approval, transportation improvements or strategies must be made within six years of the proposed development completion in order to maintain the level-of-service adopted in the local comprehensive plan. If a violation occurs, the city may not issue permits for construction until a proposed remedy is in place.

Summary of Substitute Bill:

Counties, cities and towns may finance certain public improvements within a defined area using revenue generated through a new sales and use tax, up to $2 million per project per year, credited against the state sales and use tax, and matched with an equivalent amount of local resources. The defined area, called a benefit zone, must include a hospital that has received a certificate of need.

The public improvements that may be financed with hospital benefit zone financing include the same infrastructure projects for which community revitalization financing may be used, such as street construction and park facility improvements.

Conditions under which hospital benefit zone financing may be utilized are enumerated. Several are analogous to those under the community revitalization program, concerning the adoption of an ordinance, the expectation that the improvement will encourage private development, and the expectation that any related private developments will be consistent with the local comprehensive plan. In addition, in order to use hospital benefit zone financing, the public development must be expected to support a hospital that has received a certificate of need, as well as to increase private investment, employment, and local retail sales and use taxes within the zone.

To create a benefit zone, a local government must obtain a written agreement from another local government that imposes local sales and use tax within the zone, if the other local government opts to allocate excess sales and use tax revenues for the purposes of the bill. The sponsoring jurisdiction must hold a public hearing on the proposal and provide notification of the proposal through a local newspaper. The jurisdiction must then adopt an ordinance establishing the zone, with a description of the physical boundaries, expected costs of the improvements and estimates of expected tax revenue for the resources allocated to the purpose of hospital benefit zone financing.

A local government that creates a hospital benefit zone may allocate excess excise taxes received by it from taxable activity within the zone for the purposes of financing public improvements. The excess excise tax is the amount of local sales and use taxes received by a local government within the zone over and above the amount received there during the base year. The base year is the calendar year immediately after the creation of the zone and the measurement year is a calendar year, beginning with the calendar year following the base year, that is used annually to measure the amount of excess excise taxes required to be used to finance the public improvement costs. If a local government demonstrates that no retail activity occurred in the area represented by the zone in the 12 months before the creation of the zone, then all local sales and use taxes collected in the calendar year after the zone was created are considered excess excise taxes.

A local government that utilizes hospital benefit zone financing and receives approval from the Department of Revenue (Department) may impose a new local sales and use tax. The tax is imposed at a 6.5 percent rate and is credited against the full amount of the state sales tax; consumers will not see an additional tax, rather tax receipts will shift from the state to local governments. The tax may be first imposed on July 1, 2007. Imposition of the tax is contingent upon receipt of local excess excise taxes in the prior calendar year, and the tax may no longer be imposed when the bonds that are issued are retired. The tax must be suspended each fiscal year when the amount collected during the fiscal year equals either the amount of local matching funds (including local excess excise taxes), the amount of state sales and use taxes collected in the measurement year over and above the amount in the base year, or $2 million. Money from the new local tax must be used for the sole purpose of principal and interest payments on bonds issued for an eligible public improvement within the zone and must be matched with an amount from local public sources dedicated through December 31 of the previous calendar year. Local public sources can include private monetary contributions as well as excess excise taxes.

The Department must approve the amount of the sales and use tax that an applicant may impose, but no more than $2 million per applicant. The aggregate statewide limit for credit against the state sales and use tax is $2 million per year.

The local government that utilizes the new financing tool may issue revenue bonds to pay for the public improvements. The terms and conditions are the same as for the revenue bond authority under community revitalization financing.

The local government utilizing the new sales and use tax must provide an annual report to the Department by March 1 of each year. The report must include an accounting of revenues allocated for the purposes of the program, as well as business, employment, and wage information pertaining to the benefit zone. The Department shall make a report available to the public and the Legislature by June 1 of each year, based on information received from participating local governments.

Substitute Bill Compared to Original Bill:

Excludes port districts from being eligible to participate. Clarifies the definition of public improvement costs to refer to the costs of any type of indebtedness, rather than just general indebtedness. Changes the timing of the base year for the purposes of measuring the excess local excise tax amount in subsequent years, from the calendar year before the benefit zone was created, to the calendar year after the zone was created. Allows the entire amount of local and state sales and use taxes collected in the year after the benefit zone was created to be utilized for matching purposes, if no retail taxable activity occurred in the benefit zone in the twelve months prior to its creation.

Appropriation: None.

Fiscal Note: Available..

Effective Date of Substitute Bill: The bill takes effect on July 1, 2006.

Testimony For: This is intended to help an area get the health care it needs. The need has been clear for a long time. Elderly persons have lived in some fear that if an emergency occurs such that they needed to get to a hospital quickly, they could get stuck in traffic on the Narrows bridge. This is expected to be an economic development boost, as well, and should bring in 450 new jobs. The bad news is that traffic analysis of the development indicates a likely transportation concurrency failure. The needed interchange will cost between $25 and $40 million. The urgency for resolving this means that the long process of getting transportation funding won't work, and local option taxes are not realistic. The hospital is planned in a commercial area, and retail sales activity will grow. The local government must provide a match, and the state exposure is capped. The purpose is limited to public infrastructure and to areas where a certificate of need has been issued.

The Franciscan Health System appreciates what it takes to serve the body, mind, and spirit. Five years ago we looked at the needs of Key Peninsula. At the time, there were over 3,500 emergency transportation trips across the Narrows Bridge annually. St. Joseph's hospital in Tacoma is the second busiest in the state. The Kitsap Peninsula has the largest population base without an acute care hospital. The Department of Health (DOH) certificate of need process requires the identification of a site and demonstration of need. The DOH received over 700 letters of support for the proposed 80 bed facility. The DOH approved the certificate in record time. In the14 months after the certificate of need was issued, traffic analysis has shown that there is a significant problem on the intersection with State Route 16. The city then required an environmental impact statement, and things have ground to a halt.

It is unfortunate for St. Anthony's that only one-third of the expected traffic would be contributed by the hospital. Since the certificate of need was issued, budgeted costs have increased by $13 million. Construction must start this year or else Franciscan could withdraw their support. Time is not our friend.

St. Anthony's will contribute more than its fair share. Construction and making things operational will take two years after ground is first broken. The physicians who provide emergency care and live on Key peninsula must currently cross the Narrows to get to their jobs.

There are many young families with babies on the peninsula, and many seniors. Key Peninsula is 17,000 persons and growing at 10 percent annually.

The entire membership of the Gig Harbor Chamber of Commerce does not often all agree, but they do here. People need access to emergency care. There are many low-income persons here. Trying to get to a hospital is a problem, and there is not adequate public transportation in the area. We are not strangers for paying for transportation needs - we expect to have to pay tolls to help pay for the new bridge.

Ninety percent of the people I talked to when running for election were supportive of this issue. It has regional importance.

Testimony Against: None.

Persons Testifying: Representative Kilmer, prime sponsor; Laure Nichols, Franciscan Health System; Mary Mazer, Julie Tappero, Gig Harbor Chamber of Commerce; Chuck Hunter, Gig Harbor Mayor; and Gretchen Swayze Wilbert, former Gig Harbor Mayor.

Persons Signed In To Testify But Not Testifying: None.