SENATE BILL REPORT
SHB 2670

As Reported By Senate Committee On:
Ways & Means, February 27, 2006

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

Brief Description: Authorizing hospital benefit zone financing.

Sponsors: House Committee on Finance (originally sponsored by Representatives Kilmer, Lantz, Priest, Talcott, Green, Conway, Darneille, Cody, Hinkle, Linville, Flannigan, Miloscia and Moeller).

Brief History: Passed House: 2/11/06, 94-1.
Committee Activity: Ways & Means: 2/21/06, 2/27/06 [DP, DNP].

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.
Signed by Senators Prentice, Chair; Zarelli, Ranking Minority Member; Brandland, Pflug, Pridemore, Rasmussen, Regala, Roach, Rockefeller and Thibaudeau.

Minority Report: Do not pass.
Signed by Senator Fraser, Vice Chair, Capital Budget Chair.

Staff: Terry Wilson (786-7433)

Background: The sales tax is paid on each retail sale of most articles of tangible personal property, certain services, and extended warranties. The use tax is imposed on the use of articles of tangible personal property, certain services, and extended warranties when the sale or acquisition has not been subject to the sales tax. The use tax commonly applies to purchases made from out-of-state firms.

The state imposes a general tax of 6.5 percent of the selling price in the case of the sales tax and of the value of the article used in the case of the use tax. An additional sales and use tax of 0.3 percent applies to the sale and use of motor vehicles other than farm tractors or farm vehicles, off-road and non-highway vehicles, and snowmobiles. Cities, counties, and other taxing districts may impose sales and use taxes at various rates. The total state and local sales and use tax rates imposed are between 7 percent and 8.9 percent, depending on the location. For sales of motor vehicles, the rate is between 7.3 percent and 9.2 percent, depending on location.

Franciscan 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 Bill: Counties, cities, and towns may finance certain public improvements within a defined area using revenue generated through a new local 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 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 must make a report available to the public and the Legislature by June 1 of each year, based on information received from participating local governments.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Testimony For: The state granted a certificate of need for a hospital in the Gig Harbor area to serve the entire Kitsap Peninsula. The area needs infrastructure improvements before it can be built. The bill just captures the new sales tax revenues in the area. Local government must match the money. The hospital will increase state revenues which will help offset the general fund cost.

Testimony Against: None.

Who Testified: PRO: Representative Kilmer, prime sponsor; Senator Oke; Budd Wagner, Franciscan Health System; Derek Young, City of Gig Harbor.