FINAL BILL REPORT
SB 5512

C 266 L 07
Synopsis as Enacted

Brief Description: Modifying financing provisions for hospital benefit zones.

Sponsors: Senators Kilmer, Regala, Hobbs, Eide, Pridemore and Rasmussen.

Senate Committee on Ways & Means
House Committee on Finance

Background: Sales and Use Taxes: The sales tax is paid on each retail sale of most articles of tangible personal property and certain services. The use tax is imposed on items and services that are otherwise taxable under the sales tax, but for which the sales tax has not been paid. The state sales tax rate is 6.5 percent of the selling price. The rate of the state use tax is also 6.5 percent. Cities, counties, and other taxing districts may impose sales and use taxes at various rates. The combined state and local rate for both sales and use taxes varies from 7 percent to 8.9 percent, depending on the location.

Tax Increment Financing: In general, tax increment financing is a method of redistributing increased tax revenues within a geographic area resulting from a public investment to pay for the bonds required to construct the project. Several tax increment financing programs are already authorized by state law: local property tax receipts derived from community revitalization projects (Chapter 39.89 RCW), and local sales tax receipts from downtown or neighborhood commercial district revitalization projects (Chapter 35.100 RCW).

Hospital Benefit Zones: In 2006, the Legislature authorized counties, cities and towns to finance public improvements in a defined area with a new form of tax increment financing. The defined area, called a benefit zone, must include a hospital that has received a certificate of need. Local governments may establish a hospital benefit zone (HBZ) to finance public infrastructure improvements. Revenue for the projects is 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. Eligible public improvement projects include streets, water and sewer systems, parking facilities, sidewalks and street lighting, and parks.

Excess Excise Tax: A local government that creates a HBZ may allocate excess excise taxes received 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 to be used to finance the public improvement costs.

New Local Tax: The new local tax rate can be as high as the state sales and use tax rate (6.5 percent), and the receipts are credited against the state tax. Thus, this mechanism shifts the state tax derived from the investment and the increased retail activity within the zone to the local jurisdiction for use in financing public improvements. The local sales and use tax does not increase the rate of tax paid by consumers but instead shifts the state sales and use tax to the local government.

Money from the new local tax must be used for the sole purpose of principal and interest payments on revenue bonds issued for an eligible public improvement within the zone and must be matched with an amount from local public sources. Local public sources can include private monetary contributions as well as excess excise taxes.

Maximum Credit Against the State Tax: A local government that utilizes HBZ financing and receives approval from the Department of Revenue (DOR) may impose a new local sales and use tax. DOR 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 tax must be suspended each fiscal year when the amount collected during the fiscal year equals either the amount of local excess excise taxes, and after local matching funds, 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. State money is contributed for no more than thirty years from the date the local tax is first imposed or until the bonds are paid off, whichever is sooner.

Annual Report: The local government utilizing the new sales and use tax must file an annual report with DOR 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. DOR 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.

Summary: Changes are made to clarify the legislative intent, to allow additional flexibility for the use of revenues, to add boundary requirements, and to provide technical corrections.

Intent Section: The legislative intent section explains that the new tax is credited against the state portion of the sales and use tax, rather than an increase in the rate of the state and local sales and use tax that consumers pay.

Use of Revenue: A local government with an approved HBZ may use tax increment financing revenues for payment of other bonds used to pay for public improvements within the HBZ (issued under separate local authority) and also to pay the cost of public improvements directly (pay-as-you-go), rather than limiting revenues to payment of the principal and interest on the revenue bonds.

Boundary Formation and Requirements: Any challenge to the formation of a HBZ must be brought within sixty days of its formation or July 1, 2007, whichever is later. A local government cannot create a new HBZ within a geographic area of an existing HBZ or a revenue development area (Chapter 39.102 RCW). Further, the boundaries of a HBZ must not change for the life of the program.

Changes related to the Tax Rate and the Credit Against the State Tax: The rate of local tax imposed must be no higher than what is reasonably necessary for the local government to receive its entire annual state contribution. Local public sources do not include funds derived from state loans, state grants, other local taxes credited against state taxes, and any other state funds. No more than $2 million in local tax under RCW 82.14.465 can be credited against the state in any fiscal year. It is clarified that the $2 million dollar annual state contribution limit is measured on a fiscal year basis. DOR will cease to distribute the local tax when it has reached the state contribution limit. The expiration of the new tax authority is modified to provide that the tax expires the earlier of the date when: (1) tax allocation revenues are no longer needed for public improvements in the HBZ; (2) the bonds issued under the authority of the HBZ program (if issued at all) are retired; or (3) thirty years after the tax is first imposed.

Annual Report: A local government does not need to make detailed employment information as part of the requisite annual HBZ report. A local government must provide a copy of its HBZ annual report to the State Auditor. In addition, technical changes are made.

Votes on Final Passage:

Senate	48	0	
House	96	0	(House amended)
Senate	49	0	(Senate concurred)

Effective: July 1, 2007