FINAL BILL REPORT
SHB 2670

C 111 L 06
Synopsis as Enacted

Brief Description: Authorizing hospital benefit zone financing.

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

House Committee on Finance
Senate Committee on Ways & Means

Background:

Community Revitalization Financing. 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 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 from 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. A complimentary 6.5 percent use tax is imposed on items and services that are otherwise taxable under the state retail tax but for which the tax has not been paid. 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 for most local taxes 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.

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 diversion of state receipts to the local jurisdiction.

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.

Summary:

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 participate in hospital benefit zone financing. 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 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 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 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. 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 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. 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 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.

Votes on Final Passage:

House	94	1
Senate	46	2

Effective: July 1, 2006