PRELIMINARY REPORT:
2023 TAX PREFERENCE PERFORMANCE REVIEWS

Rehabilitated Historic Properties

LEGISLATIVE AUDITOR'S CONCLUSION:

Property owners saved $56.8 million over the past 10 years, primarily in King County and for commercial properties. While preference use has declined, use increased 6% between 2020 and 2022.

July 2023

Executive Summary

Tax exemption for rehabilitated historic properties

The 1985 Legislature enacted a special property tax valuation for rehabilitated historic properties. Owners of qualifying properties may deduct rehabilitation[1] costs from the taxable value of the property for ten years if the costs are at least 25% of the assessed structure's value. The preference applies to both state and local property taxes.

Estimated Biennial Beneficiary Savings $22.7 million (2025-27 biennium)
Tax Type Property Tax RCW 84.26.070

The 2020 Legislature enacted two seven-year extensions of the special valuation. Extensions are available only in cities with populations under 20,000 that are located in distressed counties[2].

The preference achieves the stated public policy objective

In 2020, the Legislature stated the preference was intended to promote historic property revitalization and set a January 1, 2031, expiration date for new applicants. It indicated its intent to extend the expiration date if the number of taxpayers claiming the preference increases.

Objectives (stated)	Results
To promote historic property revitalization.	**Met**. Property owners in 19 counties used the preference and rehabilitated 1,046 historic properties from 2013 to 2022.

[1]Repairing or altering a property so that it preserves significant architectural or cultural features.
[2]Counties with three-year average unemployment rates at least 20% above the state average.

Recommendations

Legislative Auditor's Recommendation: Continue

The Legislature should continue the preference because it is meeting its objective to promote historic property revitalization. JLARC staff will review the preference again prior to the January 1, 2031, expiration date for new applicants and determine whether preference use has increased over time. It will be important that all counties where the preference has been used provide data in order to accurately determine if the objective has been met.

You can find more information in Recommendations.

Commissioners' Recommendation

Available on Citizen Commission website October 2023.

REVIEW DETAILS

1. 10-year special valuation for rehabilitated historic properties

County assessors deduct rehabilitation costs from the assessed values of historic properties for ten years

The Legislature enacted this preference in 1985 in anticipation of the state's 1989 centennial celebration, stating it wanted to "encourage maintenance, improvement, and preservation of privately owned historic landmarks."

The preference reduces the amount of property taxes an owner pays by applying a special valuation to qualifying properties. County assessors deduct the cost of rehabilitation from the assessed value of the qualifying historic structures for ten years. To date, 28 of 39 counties have enacted local ordinances that allow property owners to use the preference.

The preference is available to owners of historic single- and multi-family residential, commercial, and other properties that are listed on either:

- The National Register of Historic Places[3] as an individual property or as part of a National Register Historic District.
- A Local Register of Historic Places established by a Certified Local Government.

[3]The official federal list of districts, sites, buildings, structures, and objects deemed worthy of preservation for their historical significance or "great artistic value."

Local historic preservation commissions must approve rehabilitation projects before county assessors apply the special valuation

A local historic preservation commission must approve rehabilitation projects before the property owner can claim the preference. Rehabilitation means repairing or altering a property so that it preserves significant architectural or cultural features. Rehabilitation work must:

- Be completed within two years before the owner applies for the preference.
- Cost at least 25% of the property's pre-rehabilitation assessed value.

Property owners pay for rehabilitation costs up front, then submit documentation of those costs to the commission. Upon the commission's approval of the rehabilitation work and costs, the county assessor's office subtracts qualified rehabilitation costs from the property's assessed value for the next ten years. The assessor's office will reassess the property value during the ten-year period, but the rehabilitation costs subtracted from the assessed value remain the same.

There is no limit to the number of special valuations a property may have under the preference. A property may have overlapping special valuations for multiple rehabilitation projects that begin and end in different years. If rehabilitation costs are equal to or exceed the total assessed value, an owner may fully eliminate the tax on their property's structures. However, property owners do not receive refunds and they must pay taxes on the value of the land on which the structures are located.

After the ten-year period ends, the property is taxed on its full assessed value.

Preference users must maintain qualifying structures in good condition

Statute requires property owners to sign an agreement when applying for the preference. The agreement confirms that property owners will:

- Maintain the property in good condition.
- Seek approval from the local historic preservation commission before making more improvements.
- Ensure the property is visible from a public right of way or open it to public access at least one day a year.

If they violate the agreement, the property owners must pay back all past tax savings, along with penalties and interest.

The 2020 Legislature set an expiration date for new applicants and extended the special valuation period for properties located in distressed areas

The 2020 Legislature stated the preference was intended to help revitalize historic properties. It set a January 1, 2031, expiration date for new applicants and indicated its intent to extend the expiration date if the number of taxpayers claiming the preference increases.

The Legislature also permitted property owners in certain areas to apply for two seven-year extensions to the ten-year special valuation period. Extensions are available only for properties located in a city with a population under 20,000 in a distressed county .

- A distressed county has a three-year average unemployment rate at least 20% higher than the state average. As of March 2023, the Employment Security Department identified 15 distressed counties.
- Stakeholders testified in 2020 that the extension was likely available in Aberdeen, Hoquiam, Chehalis, Centralia, Ritzville, Dayton, Shelton, and Kettle Falls.
- To date, four properties have received seven-year extensions: two in Dayton (Columbia County) and one each in Aberdeen and Hoquiam (Grays Harbor County).
- Cities may not grant extensions after January 1, 2057.

2. Property owners saved $56.8 million over 10 years

Between 2013-2022, property owners saved $56.8 million on 1,046 historic properties

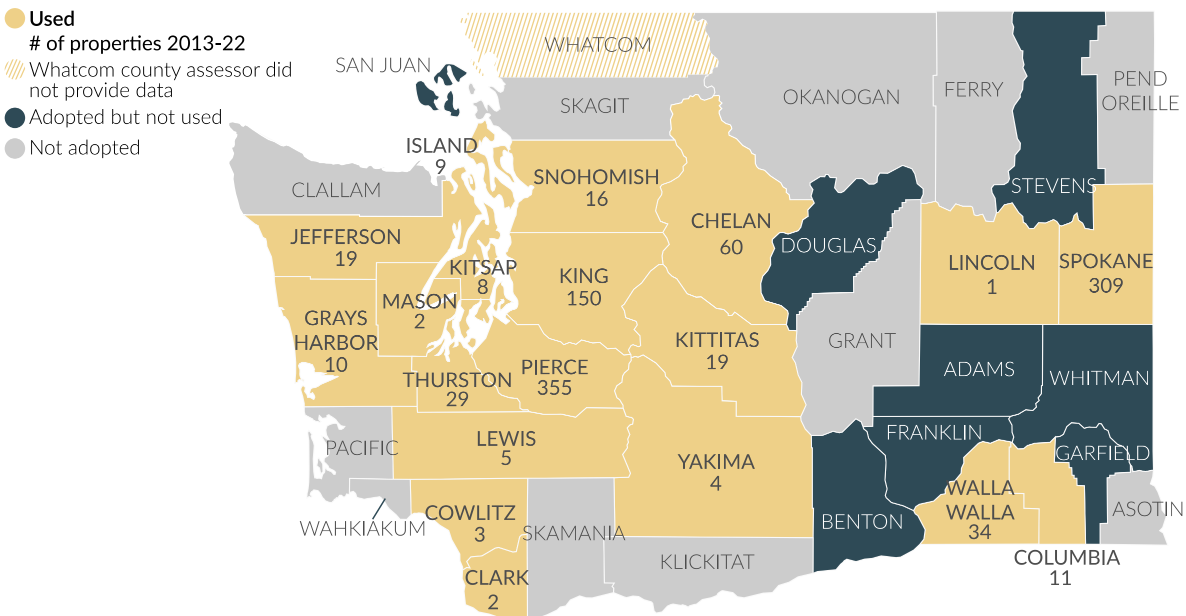
The special valuation is available in 28 of 39 counties

The preference is available to property owners in 28 counties that have enacted an ordinance or passed local rules to allow it. JLARC staff contacted assessors in those counties to determine how many properties have claimed it between 2013 and 2022.

- 19 county assessors provided details about properties that used the special valuation.
- Whatcom County's assessor confirmed that at least one property used the preference but did not provide more detail.
- 8 assessors confirmed the preference had not been used in their counties.

Based on information from the county assessors, JLARC staff determined that 1,046 properties in 19 counties received special valuations with the preference between 2013 and 2022.

Exhibit 2.1: 19 counties provided data on the property owners benefiting from the special valuation



Source: JLARC staff analysis of Department of Archeology and Historic Preservation and county assessor data.

Beneficiaries saved an estimated $8.4 million in 2022

JLARC staff estimate beneficiary property owners saved $8.4 million in property taxes in 2022 with the special valuation. The estimated beneficiary savings for the 2025-27 biennium are $22.7 million.

Unlike most property tax preferences, this preference results in a property tax loss for state and local taxing districts during the ten-year special valuation period, rather than a shift to other taxpayers.

Exhibit 2.2: Beneficiaries statewide are estimated to save $22.7 million in the 2025-27 biennium

Biennium	Calendar Year	Estimated Beneficiary Savings
2011-13 *7/1/11 - 6/30/13*	2013	$4,752,000
2013-15	2014	$4,670,000

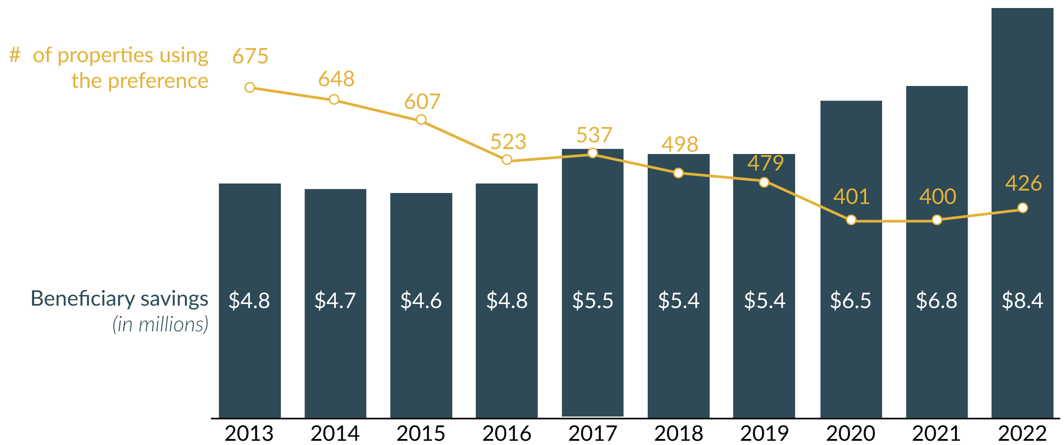
Biennium	Calendar Year	Estimated Beneficiary Savings
7/1/13 - 6/30/15	2015	$4,570,000
2015-17 *7/1/15 - 6/30/17*	2016	$4,806,000
	2017	$5,456,000
2017-19 *7/1/17 - 6/30/19*	2018	$5,422,000
	2019	$5,407,000
2019-21 *7/1/19 - 6/30/21*	2020	$6,528,000
	2021	$6,764,000
2021-23 *7/1/21 - 6/30/23*	2022	$8,387,000
	2023	$8,967,000
2023-25 *7/1/23 - 6/30/25*	2024	$9,587,000
	2025	$10,251,000
2025-27 *7/1/25 - 6/30/27*	2026	$10,960,000
	2027	$11,718,000
	2025-27 biennium	$**22,678,000**

Source: JLARC staff analysis of county assessor property tax data 2013-2022. Future growth is estimated based on average growth in beneficiary savings from 2013-2022 (7%).

Preference use has declined over time, but increased 6% between 2020 and 2022

The preference was enacted in 1985. Data about the preference's use is not available for all years. County assessors provided JLARC staff with information about the number of properties benefiting from the preference for the ten-year period between 2013 and 2022.

Exhibit 2.3: Beneficiary savings have grown during the past ten years. While the overall number of preference users has declined, use increased in the two most recent years.



Source: JLARC staff analysis of county assessor property tax data, 2013-2022. Data does not include Whatcom County.

3. 2022 savings concentrated in King County and commercial properties

In 2022, King County and commercial property owners accounted for the majority of the beneficiary savings. Preference users were distributed across counties and property types.

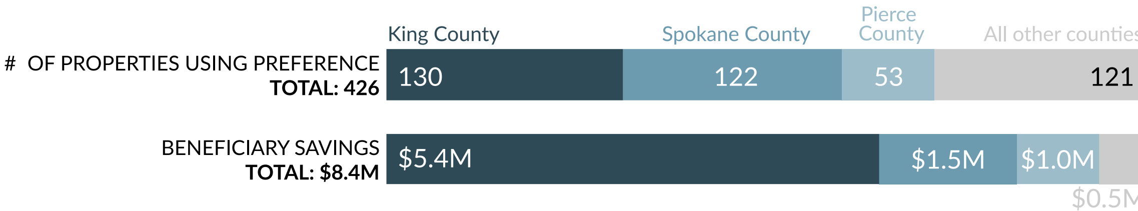
Although the preference is available in 28 counties, most of the 2022 beneficiary savings are for properties located in King County. Statewide, more residential property owners claim the preference, but commercial properties comprise a larger portion of the beneficiary savings.

In 2022, King County property owners received 65% of total savings and preference users were concentrated in King, Spokane, and Pierce counties

The majority of property owners claiming the preference were located in three counties.

- 72% of preference users were located in King, Spokane, and Pierce counties.
- Savings were highest for King County property owners, followed by those in Spokane.

Exhibit 3.1: Properties in King, Spokane, and Pierce counties accounted for most of the preference users and tax savings in 2022



Source: JLARC staff analysis of 2022 county assessor property tax data for King, Pierce, and Spokane counties.

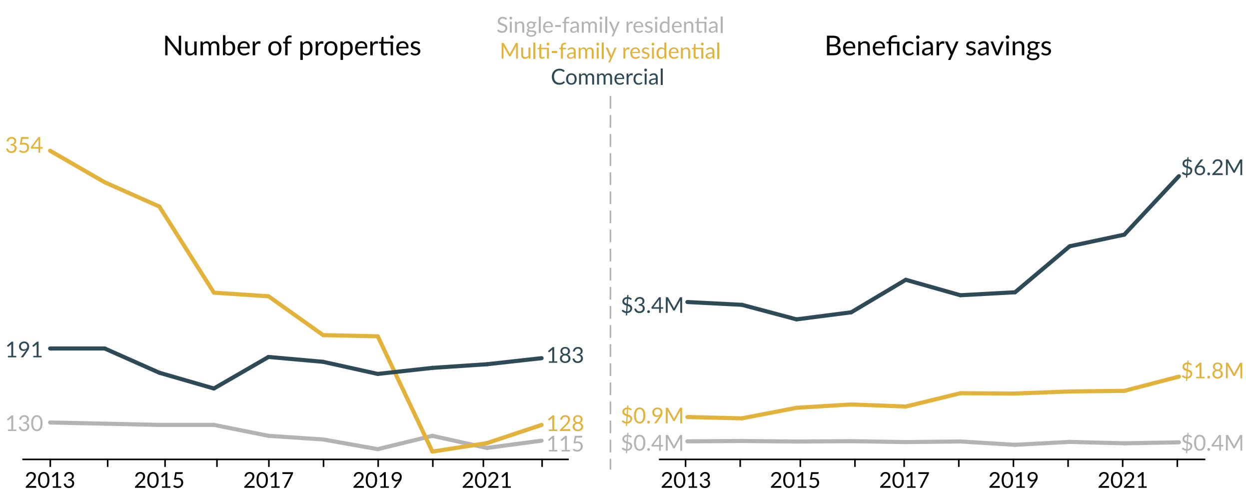
Commercial properties account for 43% of the total properties but 74% of the beneficiary savings in 2022

County assessors categorize real property based on its use. JLARC staff grouped beneficiary properties into three broad categories:

- **Single-family residential**
- **Multi-family residential**, including condominiums, townhouses, and apartments.
- **Commercial**, including hotels, office buildings, retail, and other.

In 2022, 57% of the beneficiary properties were single- or multi-family residential properties and 43% were commercial. However, the beneficiary savings for the commercial properties accounted for 74% of the 2022 beneficiary savings.

Exhibit 3.2: More single- and multi-family residential property owners use the preference, but commercial property owners receive the largest savings



Source: JLARC staff analysis of beneficiary property tax data for 2022 provided by county assessors.

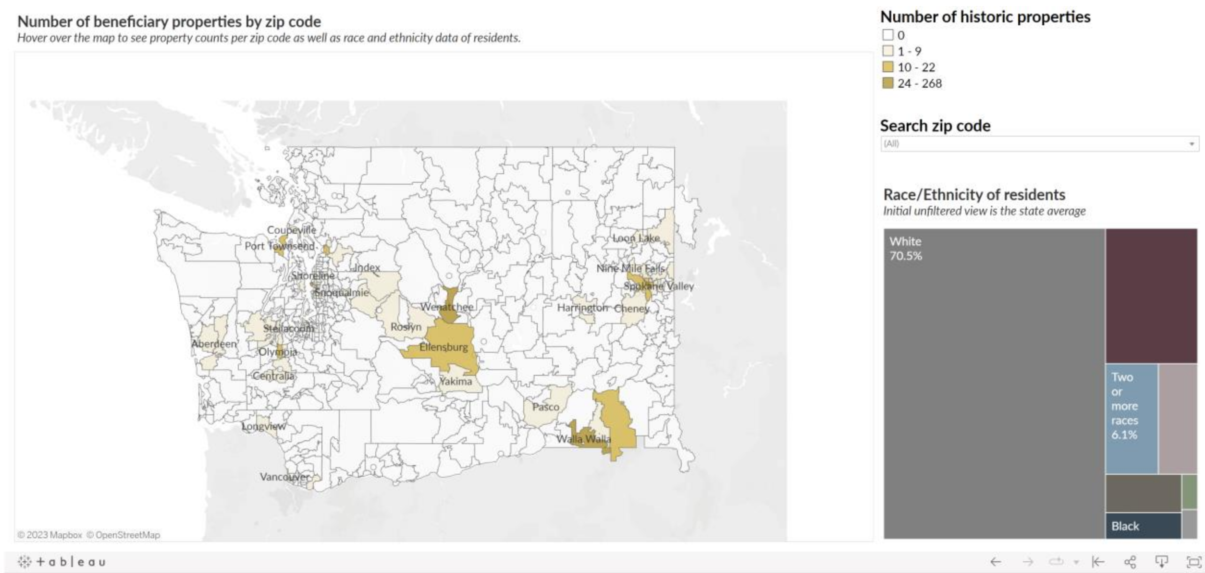
Race and ethnicity data is available for counties and zip codes where beneficiary properties are located

Data about the race and ethnicity of beneficiary property owners is not available. However, the U.S. Census Bureau collects information about the race and ethnicity of residents in each zip code.

JLARC staff determined that 86 of the state's 607 zip codes contain at least one beneficiary property. JLARC staff compiled race and ethnicity data for the resident population in each zip code where one or more properties are located.

Exhibit 3.3: Race and ethnicity by zip code for areas where beneficiary properties are located

Click the image to open an interactive map in Tableau



Source: JLARC staff analysis of county assessors' records on beneficiary properties and 2020 U.S. Census Bureau zip code level detail on residents' race and ethnicity. Beneficiary properties include single- and multi-family residential properties and commercial properties.

4. Applicable statutes

RCW 84.26.070 and RCWs 84.26.010 through 84.26.030

RCW 84.26.070

Valuation.

1. The county assessor shall, for ten consecutive assessment years following the calendar year in which application is made, place a special valuation on property classified as eligible historic property.
2. The entitlement of property to the special valuation provisions of this section shall be determined as of January 1. If property becomes disqualified for the special valuation for any reason, the property shall received the special valuation for that part of any year during which it remained qualified or the owner was acting in the good faith belief that the property was qualified.
3. At the conclusion of special valuation, the cost shall be considered as new construction.
4.
    a. A property is eligible for two seven-year extensions of the special valuation if:
        i. The property is located in a county that is listed as a distressed area as reported by the state employment security department and the city is under twenty thousand in population; and
        ii. The property continues to meet the criteria provided in RCW 84.26.030.

    b. Extensions must be applied for by the owner, upon forms prescribed by the department of revenue and supplied by the county assessor, at least ninety days prior to the expiration of the special valuation.

    c. All extensions must be reviewed by the local review board and may be approved or denied at the local review board's discretion.

    d. No extension may be provided under this subsection on or after January 1, 2057.

[2020 c 91 § 1; 1986 c 221 § 5; 1985 c 449 § 7.]

Notes:

Tax preference performance statement—2020 c 91 §§ 1 and 2:

1. This section is the tax preference performance statement for the tax preference contained in sections 1 and 2, chapter 91, Laws of 2020. This performance statement is only intended to be used for subsequent evaluation of the tax preference. It is not intended to create a private right of action by any party or to be used to determine eligibility for preferential tax treatment.
2. The legislature categorizes this tax preference as one intended to provide tax relief for certain businesses or individuals as provided in RCW 82.32.808(2)(e).
3. It is the legislature's specific public policy objective to promote the revitalization of historic properties.
4. If the review finds that the number of taxpayers claiming this preference increases, then the legislature intends to extend the expiration date of this tax preference.
5. In order to obtain the data necessary to perform the review in subsection (4) of this section, the joint legislative audit and review committee may refer to any data collected by the state." [2020 c 91 § 3.]

RCW 84.26.010

Legislative findings.

The legislature finds and declares that it is in the public interest of the people of the state of Washington to encourage maintenance, improvement, and preservation of privately owned historic landmarks as the state approaches its Centennial year of 1989. To achieve this purpose, this chapter provides special valuation for improvements to historic property.

[1985 c 448 § 1.]

RCW 84.26.020

Definitions.

Unless the context clearly requires otherwise, the definitions in this section apply throughout this chapter.

1. "Historic property" means real property together with improvements thereon, except property listed in a register primarily for objects buried below ground, which is:
    a. Listed in a local register of historic places created by comprehensive ordinance, certified by the secretary of the interior as provided in P.L. 96-515; or
    b. Listed in the national register of historic places.

2. "Cost" means the actual cost of rehabilitation, which cost shall be at least twenty-five percent of the assessed valuation of the historic property, exclusive of the assessed value attributable to the land, prior to rehabilitation.
3. "Special valuation" means the determination of the assessed value of the historic property subtracting, for up to ten years, such cost as is approved by the local review board.
4. "State review board" means the advisory council on historic preservation established under chapter 27.34 RCW, or any successor agency designated by the state to act as the state historic preservation review board under federal law.
5. "Local review board" means a local body designated by the local legislative authority.
6. "Owner" means the owner of record.
7. "Rehabilitation" is the process of returning a property to a state of utility through repair or alteration, which makes possible an efficient contemporary use while preserving those portions and features of the property which are significant to its architectural and cultural values.

[1986 c 221 § 1; 1985 c 449 § 2.]

RCW 84.26.030

Special valuation criteria.

Four criteria must be must for special valuation under this chapter. The property must:

1. Be an historic property;
2. Fall within a class of historic property determined eligible for special valuation by the local legislative authority;
3. Be rehabilitated at a cost which meets the definition set forth in RCW 84.26.020(2) within twenty-four months prior to the application for special valuation; and
4. Be protected by an agreement between the owner and the local review board as described in RCW 84.26.050(2).

[1986 c 221 § 2; 1985 c 449 § 3.]

Legislative Auditor's Recommendation

Legislative Auditor's Recommendation: Continue

The Legislature should continue the preference because it is meeting its objective to promote historic property revitalization. JLARC staff will review the preference again prior to the January 1, 2031, expiration date for new applicants and determine whether preference use has increased over time. It will be important that all counties where the preference has been used provide data in order to accurately determine if the objective has been met.

Legislation Required: No

Fiscal Impact: None.

Letter from Commission Chair

Letter from Commission Chair will be included in the proposed final report, planned for November 2023.

Commissioners' Recommendation

Commissioners' recommendation will be included in the proposed final report, planned for November 2023.

Agency Response

Agency response(s) will be included in the proposed final report, planned for November 2023.

Study questions

Click image to view PDF of proposed study questions

Washington JLARC

PROPOSED STUDY QUESTIONS
Rehabilitated Historic Properties

State of Washington Joint Legislative Audit and Review Committee — UPDATED: December 2022

JLARC will review a tax preference for rehabilitated historic properties

The 1985 Legislature enacted a special property tax valuation for eligible rehabilitated historic properties. Qualifying property owners may deduct rehabilitation costs from the taxable value of the property for 10 years, if the rehabilitation costs are at least 25% of the assessed value. The preference applies to both state and local property taxes.

The 2020 Legislature enacted two seven-year extensions of the special valuation. The extensions are only available in cities with populations under 20,000 in distressed areas (counties with unemployment levels at least 20% above the state average unemployment level for the prior three years).

This preference is included in the 10-year review schedule set by the Citizen Commission for Performance Measurement of Tax Preferences.

Stated intent is to encourage property owners to revitalize historic properties

In 2020 the Legislature stated the preference was intended to promote revitalization of historic properties. If a review finds that the number of taxpayers claiming the preference increases, the Legislature intends to extend the expiration date. The 2020 legislation closed the preference to new applicants on January 1, 2031, and set a January 1, 2057 expiration date.

This study will address the following questions:

1. To what extent has the preference been used statewide and in each county?
    a. What are the racial and ethnic characteristics of the beneficiaries using the tax preference?
    b. What are the racial and ethnic characteristics of communities where the exempt properties are located?
    c. How do beneficiaries using the preference learn about it?
2. What types of buildings do beneficiaries rehabilitate with the preference? Are there benefits to the public?
3. What are the estimated beneficiary savings?
4. How do the costs of rehabilitating historic properties compare to the beneficiary savings? How much would property taxes have increased for rehabilitated properties without the preference?

In accordance with RCW 44.28.076, JLARC staff determined there are racial equity considerations for this study and they are included in the study questions above.

JOINT LEGISLATIVE AUDIT & REVIEW COMMITTEE
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PROPOSED STUDY QUESTIONS | Rehabilitated Historic Properties 2

Study timeframe

Preliminary Report: July 2023 **Proposed Final Report:** December 2023

Study team

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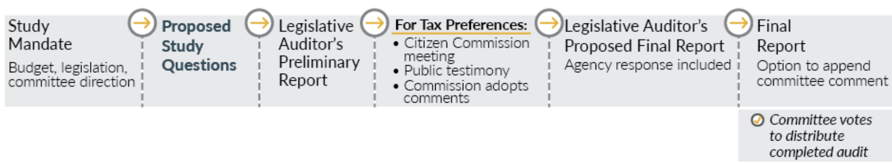
JLARC Study Process



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