

# 23-05 FINAL 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.

November 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<sup>1</sup> 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.

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<sup>2</sup>.

**Estimated Biennial Beneficiary Savings**  
\$22.7 million (2025-27 biennium)

**Tax Type**  
Property Tax  
RCW 84.26.070

#### 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. | <b>Met.</b> Property owners in 19 counties used the preference and rehabilitated 1,046 historic properties from 2013 to 2022. |

### Recommendations

<sup>1</sup>Repairing or altering a property so that it preserves significant architectural or cultural features.

<sup>2</sup>Counties with three-year average unemployment rates at least 20% above the state average.

## 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

Endorse the Legislative Auditor's recommendation with comment. Housing availability remains an issue in many communities and continuing this preference could retain or add housing stock by utilizing existing buildings. As construction costs continue to rise, the tax preference makes rehabilitating historic buildings more financially viable, encouraging owners to restore these properties. The Legislature may want to extend this preference to include attached dwelling units and detached dwelling units that are associated with existing historic buildings.

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## Committee Action to Distribute Report

On November 29, 2023 this report was approved for distribution by the Joint Legislative Audit and Review Committee.

Action to distribute this report does not imply the Committee agrees or disagrees with the Legislative Auditor recommendations.

## 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](#)<sup>3</sup> 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.

## **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:

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

- 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**

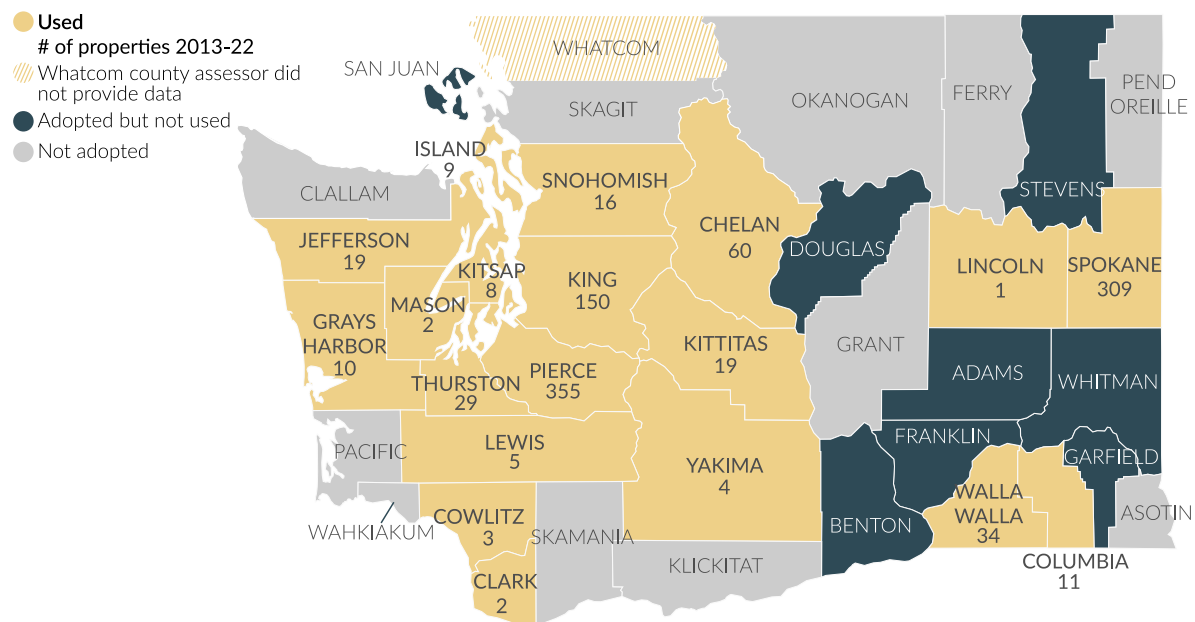
**The special valuation is available in 28 of 39 counties**

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**

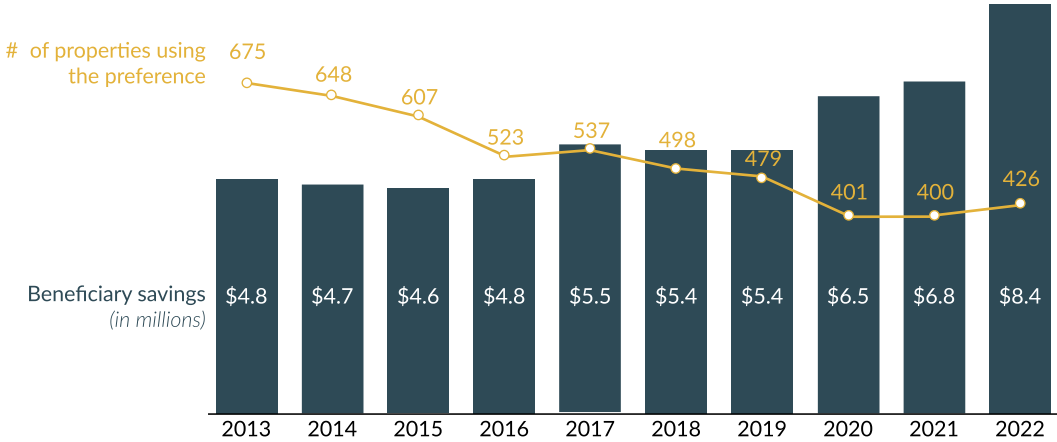
| Biennium                    | Calendar Year    | Estimated Beneficiary Savings |
|-----------------------------|------------------|-------------------------------|
| 2011-13<br>7/1/11 - 6/30/13 | 2013             | \$4,752,000                   |
| 2013-15<br>7/1/13 - 6/30/15 | 2014             | \$4,670,000                   |
|                             | 2015             | \$4,570,000                   |
| 2015-17<br>7/1/15 - 6/30/17 | 2016             | \$4,806,000                   |
|                             | 2017             | \$5,456,000                   |
| 2017-19<br>7/1/17 - 6/30/19 | 2018             | \$5,422,000                   |
|                             | 2019             | \$5,407,000                   |
| 2019-21<br>7/1/19 - 6/30/21 | 2020             | \$6,528,000                   |
|                             | 2021             | \$6,764,000                   |
| 2021-23<br>7/1/21 - 6/30/23 | 2022             | \$8,387,000                   |
|                             | 2023             | \$8,967,000                   |
| 2023-25<br>7/1/23 - 6/30/25 | 2024             | \$9,587,000                   |
|                             | 2025             | \$10,251,000                  |
| 2025-27<br>7/1/25 - 6/30/27 | 2026             | \$10,960,000                  |
|                             | 2027             | \$11,718,000                  |
|                             | 2025-27 biennium | <b>\$22,678,000</b>           |

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.**

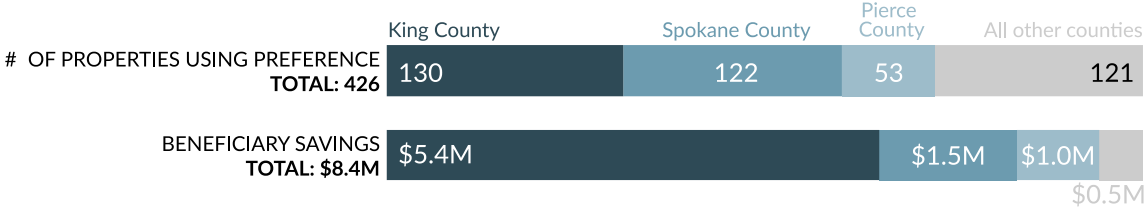
Although the preference is available in 28 counties, most of the 2022 beneficiary savings are for properties located in King County. Statewide, more residential property owners claim the preference, but commercial properties comprise a larger portion of the beneficiary savings.

#### **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.

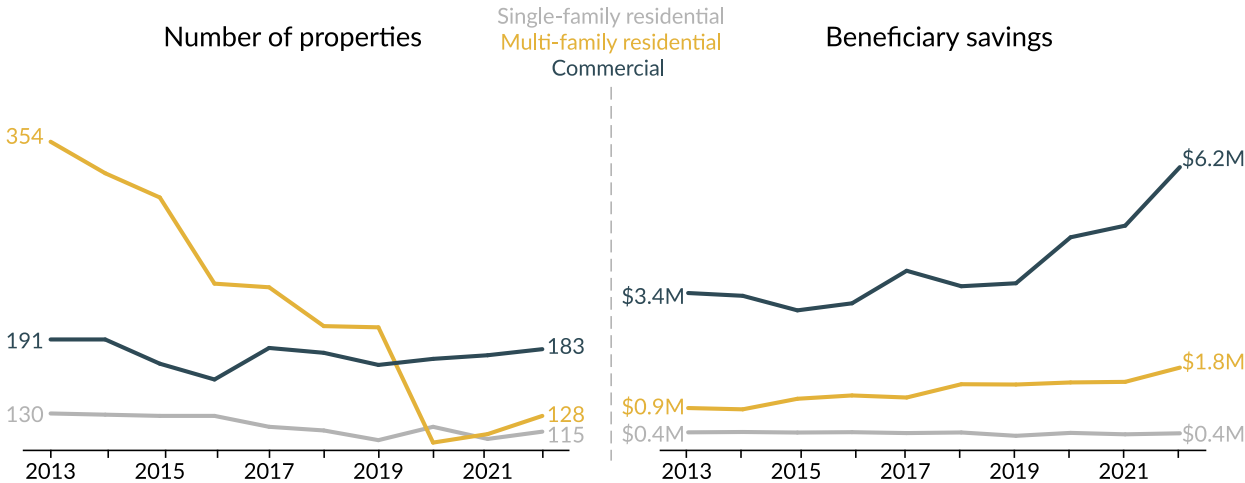
### Commercial properties account for 43% of the total properties but 74% of the beneficiary savings in 2022

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.



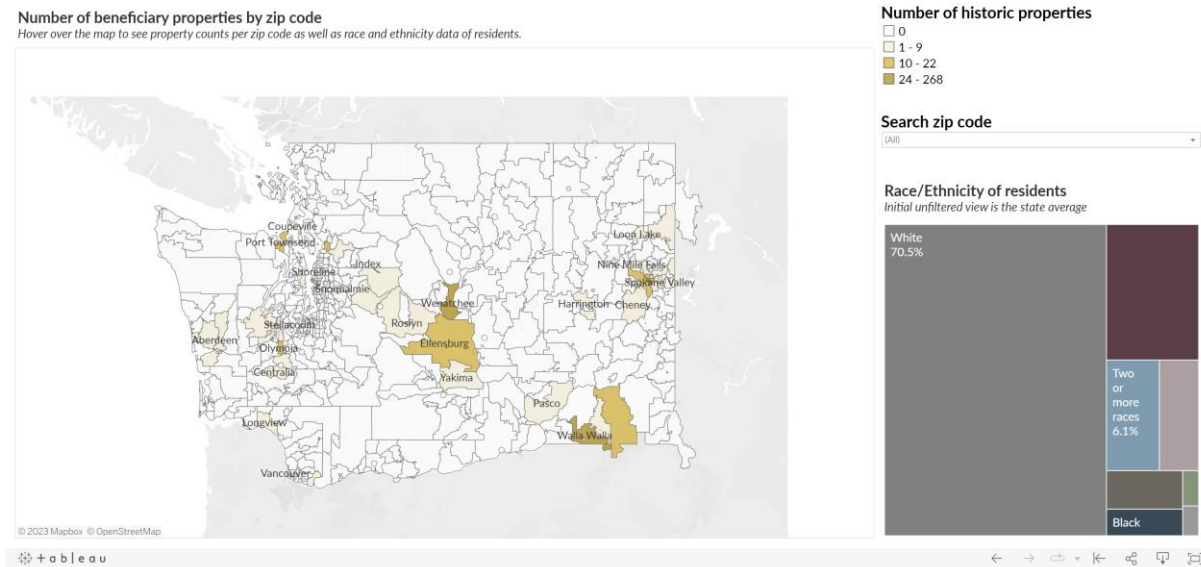
## Race and ethnicity data is available for counties and zip codes where beneficiary properties are located

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 met 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



106 11th Ave SW, PO Box 40910, Olympia, WA 98504-0910 | (360) 786-5171  
jlarc@leg.wa.gov | www.citizen taxpref.wa.gov | @WALegAuditor

November 2, 2023

|  |   |
|--|---|
| The Honorable Senator June Robinson        | The Honorable Representative Timm Ormsby    |
| The Honorable Senator Lynda Wilson         | The Honorable Representative Chris Corry    |
| The Honorable Senator Marko Lias           | The Honorable Representative April Berg     |
| The Honorable Senator Curtis King          | The Honorable Representative Cyndy Jacobsen |
| The Honorable Senator Jake Fey             | The Honorable Representative Cindy Ryu      |
| The Honorable Representative Andrew Barkis | The Honorable Representative Mike Volz      |

Re: 2023 Tax Preference Reviews

Dear Senators and Representatives:

I am pleased to be forwarding to you the comments that the Citizen Commission for Performance Measurement of Tax Preferences **unanimously adopted for this year's review of tax preferences**. Our comments are informed by JLARC staff work, public testimony, and our professional knowledge of Washington's tax structure.

The Citizen Commission consists of five voting members appointed by each of the four caucuses and the Governor's office and represent a broad range of ideologies and professional backgrounds. Members include a retired tax attorney and CPA, the president of the Edmonds Education Association, a University of Washington public policy professor, a retired K-12 teacher, and myself, the Chief Economist at Avista. Notably, reviews this year included:

#### Five Legislative Auditor recommendations that require legislative action:

- A review of [Interstate Transportation Tax Preferences](#), in which the Legislative Auditor recommends **clarifying** the objectives. The four preferences are no longer necessary to comply with the Constitution, but the Legislature may have other objectives. The preferences make Washington's commercial transportation industry more competitive. They support more freight traffic at ports and higher employment in transportation and freight-dependent industries.
- A review of a preference for [Rural County and CEZ New Jobs](#), in which the Legislative Auditor recommends **continuing and clarifying the preference**. Beneficiaries created over 1,000 jobs in rural counties, but use continues to decline. The preference's wage threshold has not been updated since 1997.
- A review of a preference for [International Services](#), in which the Legislative Auditor recommends **terminating the preference**. Use of the preference is 99% lower than originally expected and it has not met the goal of attracting and retaining jobs.

#### COMMISSION MEMBERS

**Dr. Grant Forsyth, Chair**  
Avista Corp.

**Andi Nofziger-Meadows, Vice Chair**  
Edmonds Education Association

**Ronald Bueing**

**Dr. Sharon Kioko**  
Evans School of Public Policy and Governance  
University of Washington

**James Orr**

#### NON-VOTING MEMBERS

**Senator Mark Mullet**  
Chair, Joint Legislative Audit & Review Committee

**Pat McCarthy**  
State Auditor

- A review of a [Hazardous Substance Tax Exemption for Pesticides Sold Out of State](#), in which the Legislative Auditor recommends **continuing and modifying the preference**. It improves industry competitiveness, but the increase in total hazardous substance tax revenue is likely not due to the preference.
- A review of a preference for [Historic Ships and Vessels](#), in which the Legislative Auditor recommends **clarifying the objective**. It is unclear if the preference met the inferred goal of keeping historic vessels in Washington. Owners of eleven historic vessels saved an estimated \$21,000 in 2023.

One Legislative Auditor recommendation that does not require legislative action:

- A review of a preference for [Rehabilitated Historic Properties](#), in which the Legislative Auditor recommends **continuing the preference** because it is meeting its objective to promote historic property revitalization. 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.

The Commission endorses all of the Legislative Auditor's recommendations. **The full text of the Commission's comments is attached and will be added to JLARC's proposed final reports in November.** Summaries of the JLARC staff's analysis and recommendations and brief videos of each review are available [here](#).

As Chair of the Citizen Commission, I would be pleased to discuss the Commission's position and comments with you and any interested legislators. These reviews provide valuable information as the Legislature considers whether individual preferences are meeting policy objectives. Please feel free to contact me ([grant.forsyth@leg.wa.gov](mailto:grant.forsyth@leg.wa.gov)) or the Legislative Auditor, Eric Thomas ([eric.thomas@leg.wa.gov](mailto:eric.thomas@leg.wa.gov) or 360-786-5182).

Sincerely,



Grant D. Forsyth, Chair  
Citizen Commission for Performance Measurement of Tax Preferences

## Commissioners' Recommendation

The Commission endorses the Legislative Auditor's recommendation with comment. Housing availability remains an issue in many communities and continuing this preference could retain or add housing stock by utilizing existing buildings. As construction costs continue to rise, the tax preference makes rehabilitating historic buildings more financially viable, encouraging owners to restore these properties. The Legislature may want to extend this preference to include attached dwelling units and detached dwelling units that are associated with existing historic buildings.



# DOR and OFM Response



## STATE OF WASHINGTON

September 11, 2023

Eric Thomas, Legislative Auditor  
Joint Legislative Audit and Review Committee  
PO Box 40910  
Olympia, WA 98504-0910

Dear Mr. Thomas:

The Office of Financial Management and the Washington State Department of Revenue have reviewed the Joint Legislative Audit and Review Committee's (JLARC) preliminary report on the 2023 tax preference performance reviews. This year's report includes six recommendations in six separate tax reports provided on preferences for interstate transportation, creating jobs in rural counties and CEZs, international business services, storing pesticides sold out of state, historic vessels, and rehabilitating historic properties.

We appreciate JLARC's thorough analysis and the detailed review provided by the Citizen Commission for Performance Measurement of Tax Preferences. A system that provides for a continuous review of state tax preferences is critical to ensure that the state of Washington maintains a fair and equitable tax system.

While we have no specific comments on the 2023 preliminary report, we continue to support JLARC's recommendations for the inclusion of performance statements and public policy objectives for all tax preferences where they do not exist in statute today. We also have reviewed your new racial equity analysis for this report and recognize the challenges you had in obtaining robust race and ethnicity data. As you requested, OFM will schedule a meeting with JLARC and the Equity Office to discuss ways in which you might obtain better data for this review in the future.

Thank you for the opportunity to review this material and the recommendations made by JLARC and provide comments.

Sincerely,

Handwritten signature of David Schumacher.

David Schumacher, Director  
Office of Financial Management

Handwritten signature of Drew Shirk.

Drew Shirk, Director  
Department of Revenue

cc: Nona Snell, Budget Director, OFM  
Rachel Knutson, Senior Budget Advisor, OFM  
Kathy Oline, Assistant Director for Research & Fiscal Analysis, DOR

# DAHHP Response



Allyson Brooks Ph.D., Director  
State Historic Preservation Officer

August 14, 2023

Eric Thomas, Legislative Auditor  
106 11th Ave SW, PO Box 40910  
Olympia, WA 98504-0910

Dear Mr. Thomas,

Thank you for providing us with your recommendations on the special valuation program for the rehabilitation of historic properties. We certainly agree with the recommendation that the program should continue and possibly even be improved. The current incentive supports the maintenance and rehabilitation of historic buildings and encourages investment in our communities. This is not only critical for the historic fabric of our state but minimizes the detrimental effects of the increased assessed value stemming from the conservation of our historic resources. The incentive has proven invaluable in assisting with the creation of new and additional living units within existing historic buildings.

For commercial properties, the program is critical for the economy as it ensures that commercial historic structures can remain economically viable. This prevents the abandonment and underutilization of buildings and supports businesses and jobs. The program has been particularly effective in stimulating investment in established downtowns and Main Streets across the state.

The special valuation program could make important improvements to the development of new housing units by extending its eligibility to ADUs and DDUs associated with existing historic buildings and districts. Increasing the density of rental units in existing buildings adds crucial housing stock to our communities while making use of the high-quality construction of older buildings.

As we modernize Washington's communities to meet the threats of earthquakes, wildfires, and sea level rise, Special Valuation offers property owners the possibility to lower the financial cost of meeting these challenges. Retrofitting an unreinforced masonry structure, replacing an aging roof, or raising a building out of a flood zone all come at significant costs to owners. Reducing the assessed tax value of a building helps divert a portion of the cost associated with these projects.

By incentivizing the maintenance and rehabilitation of historic properties, we are diverting excess materials from our landfills and minimizing the release of additional carbon associated with new construction. Special Valuation can be used for improving the energy efficiency of older buildings while sequestering the high-value carbon of wood frame buildings.

While we appreciate that only 11 ships have used the Historic Vessel Tax Credit, in 2019, Congress designated the coastline of Washington State as a Maritime Washington National Heritage Area. As a recent heritage initiative, the National Heritage Area could benefit from the continuance of this tax

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State of Washington • **Department of Archaeology & Historic Preservation**  
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# Study questions

Click image to view PDF of proposed study questions



## 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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### Study timeframe

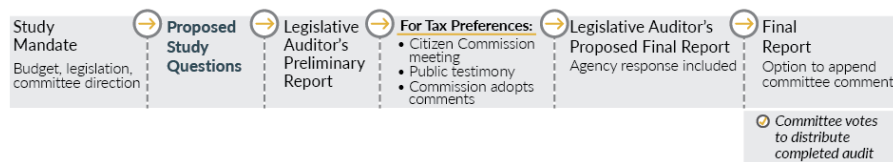
Preliminary Report: July 2023





Proposed Final Report: December 2023

### Study team

|                            |                  |                |  |
|----------------------------|------------------|----------------|--|
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### JLARC Study Process



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