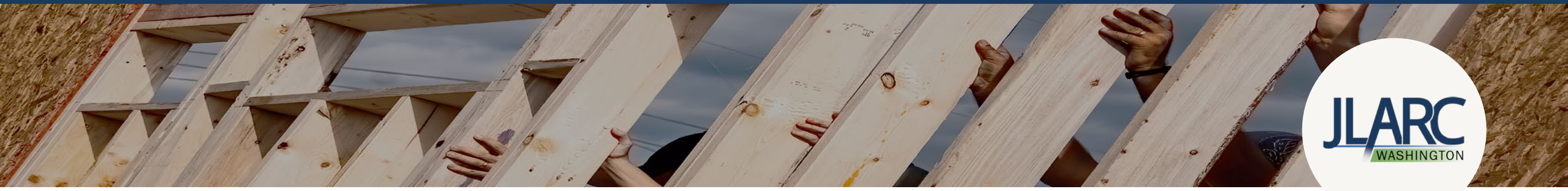

2025 tax preference review: Nonprofit Low-Income Housing Development

Legislative Auditor’s conclusion

Nonprofit developers are building homes for low-income households as the Legislature intended. Focusing the metric on housing outcomes instead of spending would better reflect the Legislature’s objectives.

Key points

- The preference provides a property tax exemption for up to seven years on land that nonprofit developers own and hold for future low-income housing.
- The Legislature aimed to encourage development of affordable homes for low-income households. Through January 2025, developers had sold 333 properties to qualifying households.
- The Legislature intends to continue the preference if developers increase the share of revenues spent on low-income housing. Most developers have not achieved this metric despite an overall increase in spending on low-income housing.
- Metrics such as the number of housing units sold may better capture the Legislature’s intent.
- Department of Revenue (DOR) does not consistently receive documentation from assessors and beneficiaries. Most other nonprofit property tax exemptions require annual renewal, which simplifies administration for DOR.

Tax detail

Tax type:
Property tax

Beneficiary savings:
$1.2 million (calendar years 2028-29)

Expiration date:
December 31, 2027
no new applications

January 1, 2038
expiration

RCW:
RCW 84.36.049

Read the full report: leg.wa.gov/jlarc/audits

Recommendations to the Legislature

1. **The Legislature should determine whether to continue the preference.**
   It provides tax relief and helps developers build homes for low-income households but does not meet the Legislature’s metric for continuation.

2. **If the Legislature chooses to continue the preference, it should consider modifying it.**
   Options could include adopting different performance metrics and requiring annual renewal.

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Developers have built and sold low-income housing

333	$47.7 million	$512,000
Homes sold to qualifying low-income households	spent to develop housing in 2022, compared to $11.7 million in 2016	Beneficiary savings in 2025 on parcels valued at $57.1 million. Half of the parcels will have savings under $651.

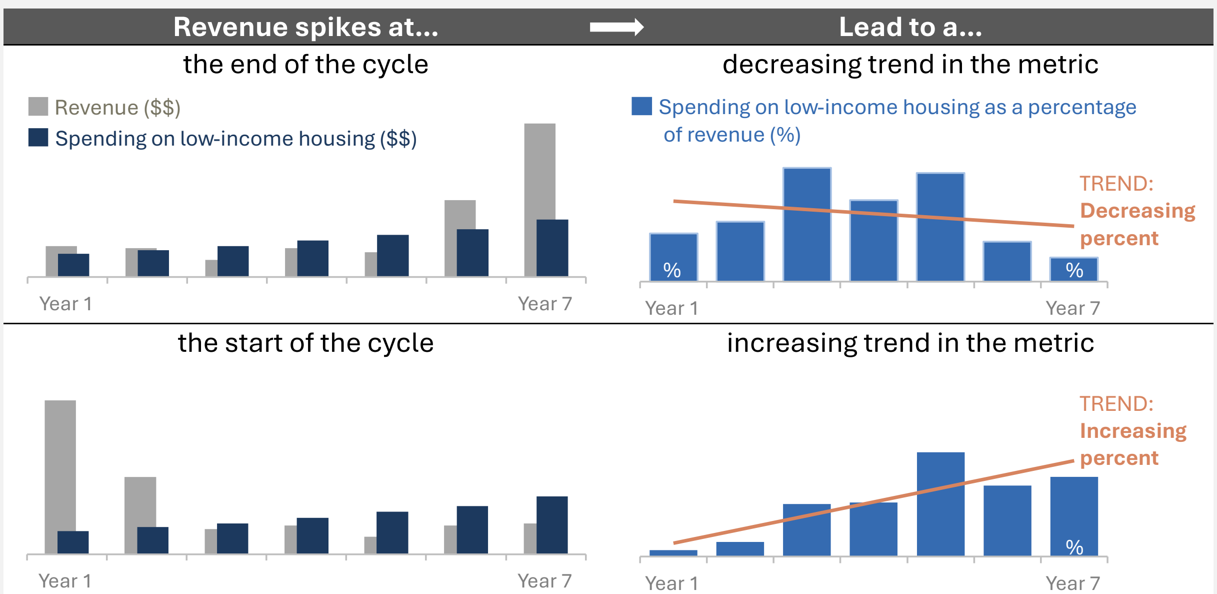
Preference does not meet the Legislature's metric for continuation

- Legislature's performance metric: increase in the percentage of revenue spent on low-income housing.
- Only 10 of 22 developers included in the spending analysis achieved the performance metric.
- Increased spending on development does not mean a developer will meet the performance metric.

Performance metric may not align with the Legislature's objective to encourage additional homeownership opportunities

Variations in revenue can distort the trend used to measure performance

In both graphs, the amount spent on housing increases each year. The timing of the revenue changes the trend.



A more relevant measure of performance may be the number of homes sold using the preference compared to the number of homes sold without the preference.

DOR does not consistently receive documentation from county assessors and nonprofit developers

- DOR's data about exempt parcels was incomplete and often inaccurate. Issues appear to stem from problems with information sharing between DOR, county assessors, and developers.
- Requiring nonprofit developers to renew each year could help DOR to track exempt parcels by more regularly alerting it to subdivisions, sales, and other changes in use.