2025 tax preference review:

Nonprofit Low-Income Housing Development

PRELIMINARY REPORT | JULY 2025

Eric Whitaker, **Aline Meysonnat**, research analysts
Pete van Moorsel, tax review coordinator; Eric Thomas, legislative auditor

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

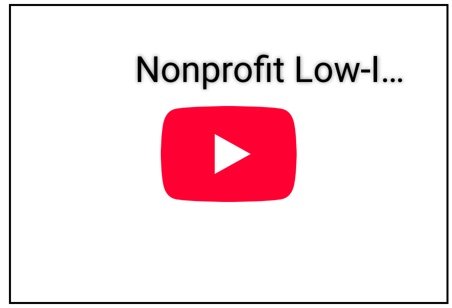
- The preference provides a property tax exemption for up to seven years on land that nonprofit developers own and hold for future low-income housing.
- In 2025, beneficiaries will save $512,000. Half of the parcels will have savings under $651.
- The Legislature aimed to encourage development of affordable 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.

About this preference

Estimated savings: $1.2 million (calendar years 2028-29)	**Tax type:** Property tax	**Expiration date:** December 31, 2027 (no new applications) January 1, 2038 (preference expires)

Executive summary

This tax preference gives eligible organizations a state and local property tax exemption for property that they buy, develop, and resell for low-income housing. This report refers to the organizations as nonprofit developers or developers.



- Exemption lasts for up to seven years without renewal.
- Eligible organizations include nonprofits, qualified cooperative associations, and nonprofits that use a qualified mutual self-help program. This includes, for example, Habitat for Humanity affiliates, community land trusts, and home trusts. More information is in **Appendix A**.

Beneficiaries will save $512,000 in 2025

DOR has granted exemptions for 814 parcels to 30 nonprofit developers. As of March 2025, 293 parcels were exempt from property tax.

In 2025, beneficiaries will save an estimated $512,000 on parcels that have a combined value of $57.1 million. The amount each beneficiary will save varies, due to differences in property values and levy rates. The median per parcel savings will be approximately $651 annually. If a developer maintains the exemption for seven years, it could save approximately $4,600 depending on how property values change.

Parcels, properties, and homes
The preference exempts parcels, which are legally distinct pieces of land.

Nonprofits develop low-income housing or homes on the parcels. Properties refers to the land and these improvements.

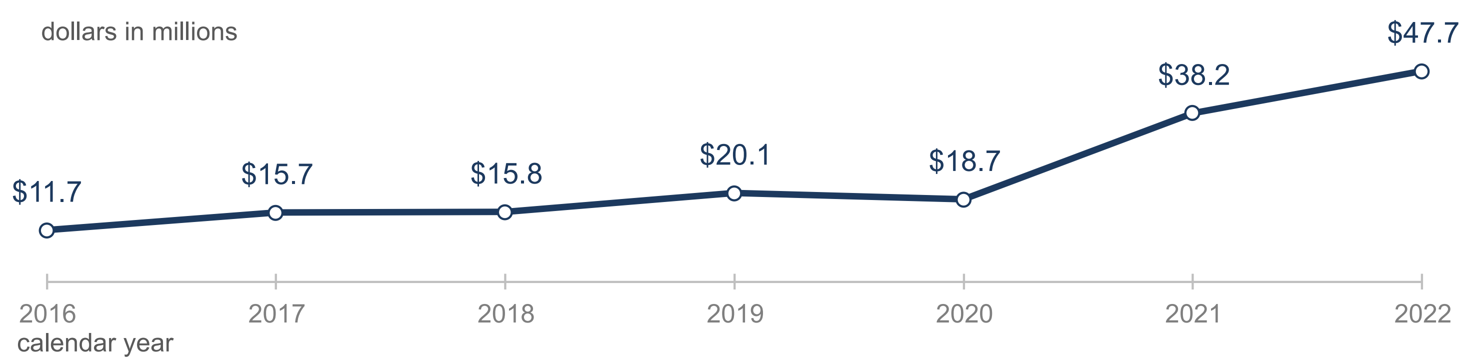
Developers have built and sold low-income housing

The Legislature aimed to encourage development of affordable homes for low-income households.

- Since 2017, developers have sold 333 homes to qualifying low-income households.
- Collectively, developers increased their spending on low-income housing development. In 2016, they spent $11.7 million and in 2022, they spent $47.7 million.

While reported spending increased over the study period, it is unclear how much of the increase is due to building more homes versus other factors such as increases in the cost of labor and materials.

Figure 1: Developers spent $47.7 million on low-income housing development in 2022



Source: JLARC staff analysis of financial reports provided by nonprofit developers.

Preference does not achieve the performance metric for continuation

The Legislature intends to continue the preference if developers meet its metric: an increase in the percentage of revenue that is spent on affordable housing. This is calculated as the amount the developer spends on developing low-income housing divided by its total revenue each year.

In many cases, developers' revenues grew faster than the amount spent on housing development. As a result, only 10 of 22 developers included in the spending analysis achieved the performance metric. **Appendix C** includes the trend for each developer.

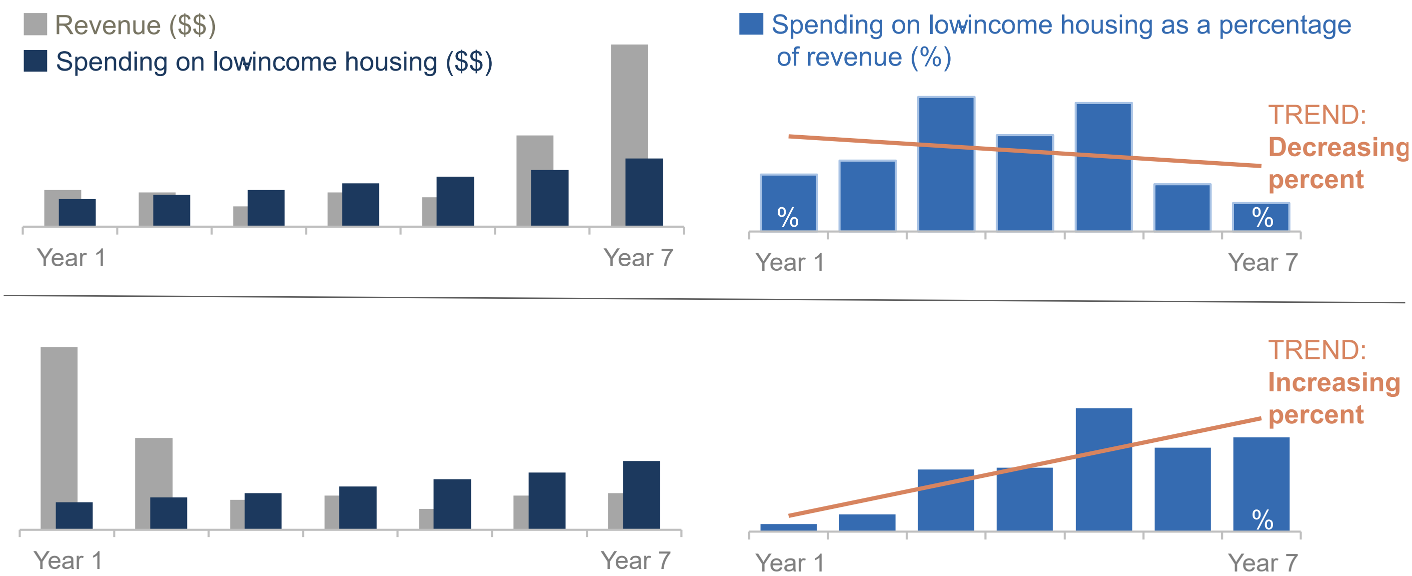
Performance metric may not align with the Legislature's objective to encourage additional homeownership opportunities

Increased spending on development does not mean a developer will meet the performance metric. This is because single-year revenue or spending changes can affect the ratio of spending to revenue. For example, revenue from a large grant may overwhelm spending in a particular year. Or a developer may accrue expenses and report them only when it sells the property. Such spikes in revenue or spending can distort the trend of the performance metric depending on when they occur.

Example: Variations in revenue can distort the trend used to measure performance

In both examples, the amount spent increases each year.

- In the top graphs, revenue spikes at the end of the cycle (left), so there is a decreasing trend in spending as a percentage of revenue (right).
- In the bottom graphs, revenue spikes at the start of the cycle (left), so there is an increasing trend in spending as a percentage of revenue (right).



Other performance metrics may better reflect legislative intent

Considering the Legislature's policy goal of providing additional homeownership opportunities to low-income households, 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 assessors and beneficiaries

Joint Legislative Audit and Review Committee (JLARC) staff noted that DOR's data about exempt parcels was incomplete and often inaccurate. These data issues appear to stem from problems with information sharing between DOR, county assessors, and nonprofit developers.

For example, assessors and developers do not routinely notify DOR when a large parcel is subdivided into smaller parcels. This results in an undercount of exempt parcels and incomplete appraisal information. Also, some developers did not give required documents to DOR when they sold properties. This means DOR did not have the data to verify that all homebuyers met the preference's low-income qualifications.

DOR reports that as of February 2025, it believes it had received all notices of occupancy for previously sold parcels and was updating its database.

Unlike most other property tax exemptions, this preference does not require annual renewal. Requiring developers to renew each year could help DOR to track exempt parcels by more regularly alerting it to subdivisions and sales.

Legislative Auditor's recommendations

1. **The Legislature should determine whether to continue the preference.**
   - It provides tax relief and helps developers to build homes intended for low-income households.
   - However, it does not meet the criteria for the Legislative Auditor to recommend continuing the preference.
2. **If the Legislature chooses to continue the preference, it should consider modifying it.**

   Options may include:

   - Adopting performance metrics that better align with the objective of providing additional homeownership opportunities for low-income households. It may wish to work with nonprofit developers in doing so.
   - Requiring nonprofit developers to renew the preference annually, like most other nonprofit property tax exemptions. This may help facilitate more consistent communication between DOR, county assessors, and developers. It could also help alleviate data collection and reporting challenges that complicated this review.

You can find additional information in the **Recommendations section**.

Commission recommendation

To be included in proposed final report.