

PRELIMINARY REPORT: 2023 TAX PREFERENCE PERFORMANCE REVIEWS

Historic Ships and Vessels

LEGISLATIVE AUDITOR'S CONCLUSION:

Owners of eleven historic vessels saved an estimated \$21,000 in 2023. It is unclear if the preference met the inferred goal of keeping historic vessels in Washington.

July 2023

Executive Summary

Preference provides a property tax exemption for ships and vessels listed on the state or national historic register

The preference exempts ships or vessels listed on the Washington Heritage Register or the National Register of Historic Places from paying commercial vessel tax, a type of personal property tax.

The preference was enacted in 1986 and does not have an expiration date.

JLARC staff identified 11 vessels listed on the state or national registers that benefit from the preference, located in five cities throughout the Puget Sound.

Stakeholders note that historic vessels in Washington provide educational, tourism, and economic benefits to the state and its citizens.

Estimated Biennial Beneficiary Savings \$22,000 (2025-27 biennium)

Tax Type Property Tax RCW 84.36.080(2)

Preference has no stated objective. Inferred intent is to keep vessels in Washington.

This preference was enacted prior to the requirement for the Legislature to state public policy objectives for new tax preferences. JLARC staff infer the preference is intended to encourage owners of historic ships and vessels to keep their vessels in Washington.

Objective (inferred)	Results
To encourage owners of historic ships and vessels to keep their vessels in Washington.	Unclear. Eleven beneficiary vessels are currently located in Washington. One owner indicated it plans to move its vessel out of state in 2023. It is unclear if the preference created an incentive for other owners to keep their vessels in WA.

Recommendations

Legislative Auditor's Recommendation: Clarify

The Legislature should clarify the preference's public policy objective and identify metrics to measure if it has been achieved.

You can find more information in Recommendations.

Commissioners' Recommendation

Available on [Citizen Commission website](#) October 2023.

REVIEW DETAILS

1. Eleven vessels currently use the preference

Eleven historic vessels are currently exempt from property tax under the preference

Commercially operated vessels¹ are subject to the state personal property tax. In 2021, the Department of Revenue reported 1,594 commercial vessels in Washington.

This preference exempts ships or vessels (collectively referred to as "vessels" in this report) that are listed on the state or national historic register from the commercial vessel tax, a type of personal property tax.

- The Washington Heritage Register is maintained by the Department of Archaeology and Historic Preservation and is the official list of districts, sites, buildings, structures, and objects that are significant in local or state history, architecture, archaeology, engineering, or culture.
- The National Register of Historic Places is the official federal list of districts, sites, buildings, structures, and objects deemed worthy of preservation for their historical significance or "great artistic value."

Commercially operated vessels listed on the registers are automatically provided with the exemption. Vessel owners do not need to take action to claim it.

¹ Vessels used exclusively for commercial fishing or primarily for commercial purposes, such as charter and time-share boats, tugs, and barges.

The preference was enacted in 1986 without a stated public policy objective. The enacting bill's fiscal note identified 14 qualifying historic commercial vessels in 1986. JLARC staff infer the preference is intended to encourage owners of historic vessels to keep those vessels in Washington.

Eleven vessels owned by nonprofits and corporations currently qualify for the preference

JLARC staff identified 11 vessels in Washington that qualify for and currently use the preference. Nine of the 11 vessels are owned by 501(c)(3) nonprofit organizations and two are owned by for-profit corporations. None of the vessels are owned by individuals.

Beneficiary vessels are located at marinas in Bellingham, Friday Harbor, Olympia, Port Townsend, and Seattle.

Exhibit 1.1: Eleven beneficiary vessels are located throughout Puget Sound






Image	Vessel name	Description	Location	Link to website
	Arthur Foss	Tugboat exhibited at the Historic Ships' Wharf in Seattle.	Seattle	http://www.nwseaport.org/historic-fleet.html
	Duwamish	Fireboat dedicated to the preservation and interpretation of Seattle's firefighting history. Exhibited at the Historic Ships' Wharf in Seattle.	Seattle	http://fireboatduwamish.com/
	MV Western Flyer	Originally a fishing boat, later sailed by John Steinbeck and Ed Ricketts to the Sea of Cortez.	Seattle	http://westernflyer.org/the-western-flyer-returns-to-the-sea/
	MV Westward	Eight-guest wooden motor vessel available for private cruises.	Friday Harbor	http://pacificcatalyst.com/
	MV Lotus	Power yacht, open for tours, teas, and overnight lodging. Exhibited at the Historic Ships' Wharf in Seattle.	Seattle	http://mvlotus.org/

Image	Vessel name	Description	Location	Link to website
	Relief (also known as Swiftsure)	Oldest lightship in the country. Exhibited at the Historic Ships' Wharf in Seattle.	Seattle	http://www.nwseaport.org/historic-fleet.html
	Sand Man	Tugboat and towboat. Open for tours at events.	Olympia	http://tugsandman.org/
	Schooner Adventuress	Schooner, now used for hands-on youth education.	Port Townsend	http://www.soundexp.org/
	Schooner Martha	Sailing/racing boat, now used for youth education.	Port Townsend	http://schoonermartha.org/
	Virginia V	Steamer, now open for tours, cruises, and special events. Exhibited at the Historic Ships' Wharf in Seattle.	Seattle	http://www.virginiaav.org/
	Zodiac Schooner	160-foot schooner, available as a charter vessel for cruises and events.	Bellingham	http://schoonerzodiac.com/

Source: JLARC staff analysis of Department of Archaeology and Historic Preservation and Department of Revenue data.

Unclear whether preference encourages owners to keep their vessels in Washington

This preference began before the legislative requirement to state a public policy objective for new tax preferences. JLARC staff infer the preference is intended to encourage owners of historic ships and vessels to keep their vessels in Washington.

It is unclear whether the preference has met its inferred goal. Several beneficiaries qualify for other property tax exemptions in addition to this one. Also, some vessels on the historic registers are no longer located in Washington.

One beneficiary reported knowing about the preference

JLARC staff surveyed the owners of beneficiary vessels to determine if they were aware of the preference and how they learned about it. Of the five that responded:

- One did not know about the preference.
- One said their nonprofit knew about the historic vessel preference through a nonprofit board member.
- Three knew about a different property tax exemption for nonprofit museum collections but did not know about this preference.

Five of the 11 beneficiary vessels are part of a nonprofit museum collection, making them eligible for a separate property tax exemption for nonprofit museums and their collections (RCW 84.36.060(1)(a)). Without the historic vessels preference, owners of these vessels would still not pay property tax.

Some commercial vessels on historic registers do not use the preference

The Department of Archaeology and Historic Preservation provided JLARC staff with a list of 26 historic vessels listed on the state or national registers. JLARC staff determined that 11 of these vessels currently benefit from the preference. The remaining 15 have been deconstructed, relocated, or are otherwise ineligible for the preference:

- Nine vessels on the registers have relocated outside the state or have been deconstructed, wrecked, or abandoned.
- One vessel is not used for commercial purposes and is not subject to the commercial vessel tax.
- Four vessels owned by government entities are not subject to property tax.
- One vessel, the Todenskjold, is currently applying for listing on the national register and is not yet a beneficiary of the preference.

2. Beneficiaries estimated to save \$21,000 in 2023

Beneficiaries will save an estimated \$21,000 in 2023. Savings are expected to decrease by 45% in future years.

Beneficiaries are estimated to save \$21,000 in property tax in 2023

The Department of Revenue (DOR) does not maintain values for beneficiary vessels because historic vessel owners are not required to register with DOR to claim this preference. There is no standardized valuation method for determining the value of historic vessels.

To determine the beneficiary savings, JLARC staff contacted beneficiary vessel owners to obtain the most recent insurance value estimates for their vessels. Owners provided values for six of the 11 vessels. For the five remaining vessels, JLARC staff used the estimated vessel values from DOR's 2020 Tax Exemption Study. Those values were based on DOR staff's 2008 conversations with a founder of the Center for Wooden Boats in Seattle.

JLARC staff estimate that the 11 beneficiary vessels have a combined value of \$9.6 million. The state property tax levy rate for vessels in 2023 is \$2.15 per \$1,000 of vessel value. The estimated beneficiary savings for calendar year 2023 is \$21,000. For comparison, DOR lists 1,594 commercial vessels statewide, with an estimated total value of \$406 million and a total property tax due of \$1 million in 2022.

Estimated beneficiary savings are expected to decline in future years

JLARC staff estimate that beneficiary savings will decline in 2024 onward due to changes to tax rates and the departure of one beneficiary vessel:

- DOR forecasts that the state property tax levy rate will decrease in the future.
- The M/V Western Flyer, which accounts for \$8,600 of the 2023 estimated beneficiary savings, is scheduled to relocate to California after restoration work is completed in Washington. JLARC staff estimate this will result in a 45% decrease in estimated beneficiary savings beginning in 2025.

Exhibit 2.1: Future beneficiary savings are estimated to decline due to expected property tax rate decreases and the departure of one vessel

Biennium	For taxes due in	Estimated vessel values	Estimated beneficiary savings
2021-23 7/1/21 - 6/30/23	2022	\$9,556,000	\$24,000
	2023	\$9,556,000	\$21,000
2023-25 7/1/23 - 6/30/25	2024	\$9,556,000	\$20,000
	2025	\$5,556,000	\$11,000
2025-27 7/1/25 - 6/30/27	2026	\$5,556,000	\$11,000
	2027	\$5,556,000	\$11,000
2025-27 biennium			\$22,000

Source: JLARC staff analysis of insurance value estimates provided by vessel owners and estimated vessel values used in Department of Revenue tax exemption studies. Future estimated state property tax levy rates provided by the Department of Revenue.

Based on Washington's property tax system, eliminating the preference would result in a shift of tax burden between property owners, but would not increase revenue for the state.

3. Historic vessels benefit the state

Historic vessels in Washington provide educational, tourism, and economic benefits to the state and its citizens

Stakeholders note that Washington gains educational, tourism, and economic benefits from the beneficiary vessels.

- Beneficiary vessels provide opportunities to learn about Washington's maritime history and opportunities to view, tour, or sail on a historic vessel. Five beneficiary vessels are part of museum exhibits that highlight the vessels' historical significance at the Historic Ships' Wharf in Seattle.
- Some beneficiary vessels can be viewed or toured at community or regional tourism events such as Olympia's Harbor Days or Port Townsend's Wooden Boat Festival.
- Beneficiary vessels provide ongoing work for Washington's shipbuilding and repair industry. One beneficiary vessel has been undergoing repairs and renovations at Washington facilities since June 2015. Stakeholders and vessel owners note these vessels require continual upkeep and maintenance.
- Congress designated Washington's saltwater shoreline as the Maritime Washington National Heritage Area in 2019. Some of the beneficiary vessels are identified in the feasibility study that preceded creation of the heritage area.
- Nonprofit vessel owners told JLARC staff their organizations provide educational and maritime experiences to school groups, youths from historically disadvantaged communities, and other groups that may not have frequent access to maritime experiences.

Few other state and federal incentives are available to preserve historic vessels

Vessel owners told JLARC staff that maintenance of historic vessels is ongoing and costly. Department of Archaeology and Historic Preservation staff noted that while they are not aware of any other incentives specifically for historic vessels, a small number of opportunities exist to encourage preservation of historic vessels:

- The National Park Service administers Save America's Treasures grants and Maritime Heritage grants.
- The Washington State Historical Society administers State Heritage Capital Projects Fund grants.

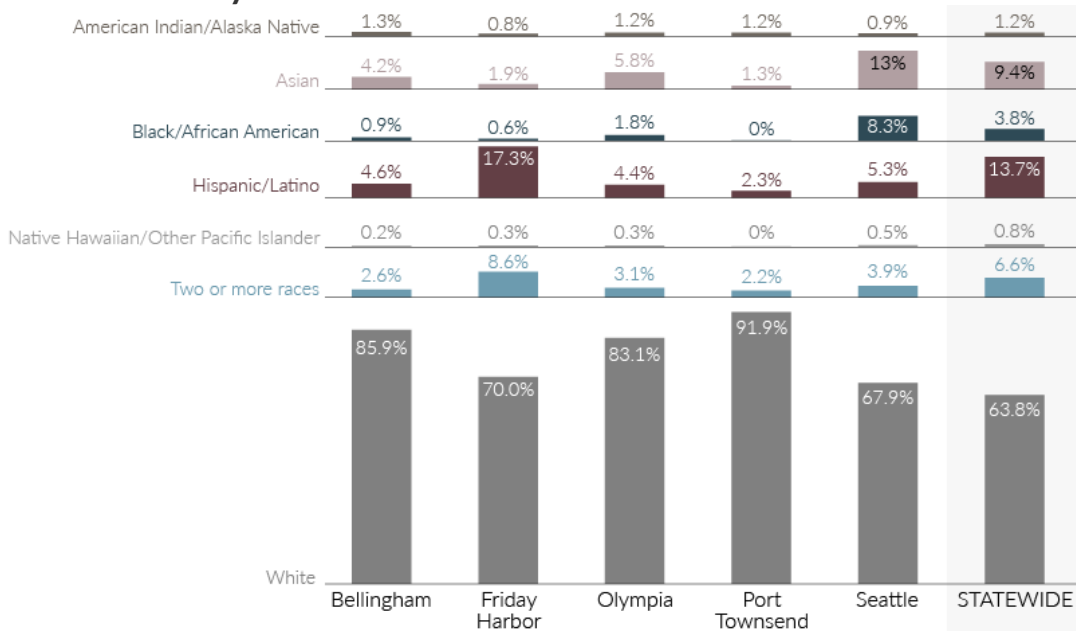
Two of the five cities in which vessels are located have a higher percentage of people identifying as Asian, Black/African American, or Hispanic/Latino than the statewide average

Nine of the 11 beneficiary vessels are owned by 501(c)(3) nonprofit organizations that are classified by the Internal Revenue Service as historic museums or organizations, educational organizations, or marine science-affiliated organizations. Two beneficiary vessels are owned by for-profit corporations. None are owned by individuals.

Beneficiary vessels are located in five communities along Puget Sound. Using U.S. Census data to determine the racial and ethnic composition of these communities, JLARC staff found that:

- Seattle, home to five vessels, has a greater concentration of people identifying as Asian or Black/African American than the statewide average.
- Friday Harbor, with one beneficiary vessel, has a greater concentration of people identifying as Hispanic/Latino than the statewide average.
- All five cities have a higher percentage of the population identifying as White than the statewide average.

Exhibit 3.1: JLARC staff analyzed race and ethnicity detail for the five cities where beneficiary vessels are located



Source: JLARC staff analysis of 2020 U.S. Census Bureau race and ethnicity data for five cities and Washington State.

Race and ethnicity data about vessel owners is limited

JLARC staff reached out to the ten owners of beneficiary vessels (eight nonprofit 501(c)(3) organizations and two corporations) to ask about the race and ethnicity of their boards and their whether their missions focus on specific racial and ethnic communities.

Five nonprofit organizations representing six of the 11 vessels responded. Four reported that all of their board members identify as White.

In response to questions about the nonprofits' missions:

- Three noted their missions are focused on preservation and history, and that they reach out across ethnic, age, and gender lines to appeal to all.
- Another noted their focus is on sailing activities for local public school students.
- One stated they focus on providing experiential education to underserved youth, noting that most of the students served to date are from majority Hispanic/Latino school districts.

4. Applicable statutes

RCW 84.36.080(2) and RCW 84.36.060(1)(a)

Certain ships and vessels.

RCW 84.36.080(2)

1. All ships and vessels which are exempt from excise tax under RCW 82.48.020(2) and excepted from the registration requirements of RCW 82.02.570(10) shall be and are hereby made exempt from all ad valorem taxes, except taxes levied for any state purpose.
2. All ships and vessels listed in the state or federal register of historical places are exempt from all ad valorem taxes.

[2011 c 171 § 126; 2000 c 103 § 24; 1998 c 335 § 5; 1998 c 229 § 1; 1983 2nd ex.s. c 3 § 51; 1983 c 7 § 23; 1961 c 15 § 84.36.080. Prior: 1945 c 82 § 1; 1931 c 81 § 1; Rem. Supp. 1945 § 11111-2.]

Art, scientific and historical collections and property used to maintain, etc., such collection - Property of associations engaged in production and performance of musical, dance, artistic, etc., works - Fire engines, implements, and buildings of cities, towns, or fire companies - Humane societies.

RCW 84.36.060(1)(a)

1. The following property is exempt from taxation:
 - a. All art, scientific, or historical collections of associations maintaining and exhibiting such collections for the benefit of the general public and not for profit, together with all real and personal property of such associations used exclusively for the safekeeping, maintaining and exhibiting of such collections;

- b. All the real and personal property owned by or leased to associations engaged in the production and performance of musical, dance, artistic, dramatic, or literary works for the benefit of the general public and not for profit, which real and personal property is used exclusively for this production or performance;
 - c. All fire engines and other implements used for the extinguishment of fire, and the buildings used exclusively for their safekeeping, and for meetings of fire companies, as long as the property belongs to any city or town or to a fire company; and
 - d. All property owned by humane societies in this state in actual use by the societies.
2. To receive an exemption under subsection (1)(a) or (b) of this section:
- a. An organization must be organized and operated exclusively for artistic, scientific, historical, literary, musical, dance, dramatic, or educational purposes and receive a substantial part of its support (exclusive of income received in the exercise or performance by such organization of its purpose or function) from the United States or any state or any political subdivision thereof or from direct or indirect contributions from the general public.
 - b. If the property is not currently being used for an exempt purpose but will be used for an exempt purpose within a reasonable period of time, the nonprofit organization, association, or corporation claiming the exemption must submit proof that a reasonably specific and active program is being carried out to construct, remodel, or otherwise enable the property to be used for an exempt purpose. The property does not qualify for an exemption during this interim period if the property is used by, loaned to, or rented to a for-profit organization or business enterprise. Proof of a specific and active program to build or remodel the property so it may be used for an exempt purpose may include, but is not limited to:
 - i. Affirmative action by the board of directors, trustees, or governing body of the nonprofit organization, association, or corporation toward an active program of construction or remodeling;
 - ii. Itemized reasons for the proposed construction or remodeling;
 - iii. Clearly established plans for financing the construction or remodeling; or
 - iv. Building permits.
3. The use of property exempt under subsection (1)(a) or (b) of this section by entities not eligible for a property tax exemption under this chapter, except as provided in RCW 84.36.805, nullifies the exemption otherwise available for the property for the assessment year.

[2014 c 99 § 10; 2009 c 58 § 1; 2003 c 121 § 1; 1995 c 306 § 1; 1981 c 141 § 1; 1973 2nd ex.s. c 40 § 5; 1961 c 15 § 84.36.060. Prior: RCW (10/5/2022 1:19 PM) [1] 1955 c 196 § 8; prior: 1939 c 206 § 8, part; 1933 ex.s. c 19 § 1, part; 1933 c 115 § 1, part; 1929 c 126 § 1, part; 1925 ex.s. c 130 § 7, part; 1915 c 131 § 1, part; 1903 c 178 § 1, part; 1901 c 176 § 1, part; 1899 c 141 § 2, part; 1897 c 71 §§ 1, 5, part; 1895 c 176 § 2, part; 1893 c 124 §§ 1, 5, part; 1891 c 140 §§ 1, 5, part; 1890 p 532 §§ 1, 5, part; 1886 p 47 § 1, part; Code 1881 § 2829, part; 1871 p 37 § 4, part; 1869 p 176 § 4, part; 1867 p 61 § 2, part; 1854 p 331 § 2, part; RRS § 11111, part. Formerly RCW 84.40.010.]

Findings—Intent—Tax preference performance statement—Does not apply—2014 c 99: See notes following RCW 84.36.020.

Applicability—1995 c 306: "The [This] act is effective for taxes levied for collection in 1995 and thereafter." [1995 c 306 § 2.]

Effective date—1995 c 306: "This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and shall take effect immediately [May 9, 1995]." [1995 c 306 § 3.]

Applicability, construction—1981 c 141: "This act shall apply to taxes payable in 1982 and in subsequent years and shall be strictly construed." [1981 c 141 § 6.]

RECOMMENDATIONS & RESPONSES

Legislative Auditor's Recommendation

Legislative Auditor's Recommendation: Clarify

The Legislature should clarify the preference's public policy objective and identify metrics to measure if the objective has been achieved.

Depending on the objective, metrics might include maintaining the number of historic vessels in state as of a certain date, increasing the number of historic vessels on national or state registers, or increasing educational opportunities.

Legislation Required: Yes.

Fiscal Impact: Depends on legislation.

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.

MORE ABOUT THIS REVIEW

Study questions

Click image to view PDF of proposed study questions



PROPOSED STUDY QUESTIONS

Historic Ships and Vessels

UPDATED: December 2022

State of Washington Joint Legislative Audit and Review Committee

JLARC will review a property tax exemption for historic ships and vessels

The 1986 Legislature enacted a property tax exemption for all ships and vessels listed on the state or national register of historic places. The tax preference has not been modified since enacted.

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

Inferred objective to encourage preservation of historic vessels in Washington

The preference was enacted before the Legislature required public policy objectives for new tax preferences. JLARC staff infer it was intended to encourage historic ship and vessel preservation in the state.

This study will address the following questions:

1. To what extent has the preference been used? Has the number of historic ships and vessels listed on the state or national register increased since the preference was enacted?
 - 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 vessels are located?
 - c. How do beneficiaries using the preference learn about it?
2. Are there other state or federal incentives available to preserve historic ships and vessels?
3. Where are the ships and vessels using the preference located? Are there benefits to the public?
4. What are the estimated beneficiary savings?


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.

Study timeframe

Preliminary Report: July 2023 Proposed Final Report: December 2023

Study team

Team Lead	Dana Lynn	(360) 786-5177	dana.lynn@leg.wa.gov
Research Analyst	Ryan McCord	(360) 786-5186	ryan.mccord@eg.wa.gov
Project Coordinator	Eric Thomas	(360) 786-5182	eric.thomas@leg.wa.gov
Legislative Auditor	Keenan Konopaski	(360) 786-5187	keenan.konopaski@leg.wa.gov



JLARC Study Process

Study Mandate Budget, legislation, committee direction	Proposed Study Questions	Legislative Auditor's Preliminary Report	For Tax Preferences: • Citizen Commission meeting • Public testimony • Commission adopts comments	Legislative Auditor's Proposed Final Report Agency response included	Final Report Option to append committee comment
<p>○ Committee votes to distribute completed audit</p>					

JOINT LEGISLATIVE AUDIT & REVIEW COMMITTEE | 106 11th Ave SW, Olympia, WA 98501 | Email: JLARC@leg.wa.gov | Phone: (360) 786-5171

Washington Joint Legislative Audit and Review Committee
 106 11th Ave SW, Suite 2500
 PO Box 40910
 Olympia, WA 98504-0910

Phone: 360-786-5171
 Email: JLARC@leg.wa.gov

