REPORT TO THE GOVERNOR
AND
66TH LEGISLATIVE ASSEMBLY

BY

THE TASK FORCE
ON THE
SPECIAL ASSESSMENT OF HISTORIC PROPERTY

Oregon State Historic Preservation Office
October 1992

REPORT TO THE GOVERNOR AND 66TH LEGISLATIVE ASSEMBLY
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INTRODUCTION

The special tax assessment for historic property program was established by the Oregon Legislative Assembly in 1975, to bolster historic preservation in Oregon. Under current statute [ORS 358.475-.565], the program's authorization will expire on January 1, 1994. David G. Talbot, former Oregon State Historic Preservation Officer (SHPO) and State Parks and Recreation Department Director, formed the Task Force on the Special Assessment of Historic Property to review the program. The Task Force was asked to report its recommendations on the future of the program to the governor and legislature, for their consideration during the 1993 legislative session. This document represents twelve months of research, public comment, and deliberation by the Task Force and staff of the State Historic Preservation Office.

While the Task Force was charged with addressing the policy issues related to the special assessment program, SHPO staff implemented a technical analysis of the program's economic impacts. That analysis, which was funded in part through a Critical Issues Fund grant from the National Trust for Historic Preservation, appears in Appendix C. The economic analysis findings are also included in this report's Executive Summary.

The ten-member Task Force on the Special Assessment of Historic Property was created in August 1991. In his August 22, 1991, letter to the newly-appointed members of the Task Force, David Talbot defined the mission of the Task Force, asking the group to:

> [E]xamine the current statute and those in other states...look at the program's fiscal impacts on Oregon communities, potential impacts of Measure 5, the effectiveness of statutory provisions such as design review and public visitation... [and] make recommendations for the future direction of the program.

Over the course of the next year, the Task Force met in regular session around the state. Each element of the Task Force mission was addressed in detail. The results of those deliberations are contained in this report.

EXECUTIVE SUMMARY

I. Introduction

The Task Force on the Special Assessment of Historic Property was formed in August 1991, by David G. Talbot, former State Historic Preservation Officer and Director of the Oregon State Parks and Recreation Department. The Task Force was charged with reviewing the Special Assessment of Historic Property program (ORS 358.475-.565) and making recommendations to the Governor and 1993 Legislative Assembly for its future. Legislative authorization will expire on January 1, 1994, unless the legislature acts to continue the program. After studying the program for one year, the Task Force recommends that the program be amended and continued.

The Task Force's report includes an overview of the federal and Oregon historic preservation programs, background on the special assessment program, a discussion of why Oregon's heritage should be preserved, as well as the Task Force's findings and recommendations. Also included is an economic analysis of the program's impacts by the Government Finance Research Center, Washington, DC. The report's conclusions are found in the Executive Summary and in Appendix C.

II. Oregon's Preservation Program:

The National Historic Preservation Act of 1966 (NHPA) and its amendments constitute the most recent and far-reaching federal policy on historic preservation. It authorizes the maintenance and expansion of a National Register of Historic Places, and requires federal agencies and any state or local entity acting with federal funds, licenses, or permits, to consider the impacts of their actions on historic resources. The Act also established a national Advisory Council on Historic Preservation to advise the President and Congress on preservation-related matters.

Most significant for Oregon, however, is the Act's mandate that state governors appoint a State Historic Preservation Officer (SHPO) to administer the federal program in their states. In Oregon, the SHPO is the Director of the State Parks and Recreation Department. The Act directs SHPOs to undertake comprehensive statewide surveys and inventories of historic resources and to prepare statewide plans for their management. The Act also makes federal grants-in-aid available to help fund these activities.

The developing Oregon preservation program was bolstered in 1973, with the passage of Senate Bill 100, which created the Land Conservation and Development Commission (LCDC) and the Department of Land Conservation and Development (DLCD). Statewide land-use planning Goal 5 (Open Spaces, Scenic and Historic Areas, and Natural Resources), adopted by LCDC in 1976, requires that all local governments conduct quantitative and qualitative inventories of open spaces, scenic areas, historic areas (including sites, structures, and objects), and natural resources. Management plans for these resources are then developed, which become part of the local government's comprehensive plan.

In 1983, the Oregon Legislative Assembly adopted the Oregon Historic Preservation Plan (ORS 358.605-.622) , which synthesized state historic resources policy. The statute recognizes the importance of historic preservation in promoting tourism, economic development , and improved quality of life. It also directs the SHPO to: conduct a comprehensive statewide survey and maintain an inventory of historic resources, establish an Oregon State Register of Historic Places, administer federal and state tax incentive programs, administer grants-in-aid, provide information on the economic and social benefits of preservation, provide technical assistance, and carry out other programmatic functions [see Appendix B of the report for the complete text].

The Oregon Historic Preservation Plan and LCDC Goal 5 combine to create a strong planning-based approach to the management of the physical traces of Oregon's heritage. Through this process, over 20,000 historic resources, 16,000 archaeological sites, and 385 historic shipwrecks have been identified. 1,260 resources have been listed in the National Register of Historic Places, and 2,779 have been determined eligible for listing in the Register.

III. The Special Assessment of Historic Property

Oregon's Special Assessment of Historic Property was established in 1975. It provides a 15-year freeze on the assessed value of certified historic property which is maintained in compliance with the Secretary of the Interior's Standards for Rehabilitation, and is open to the public at least one day per year for visitation. New administrative rules, adopted in 1992, formalized SHPO design review authority over interior or exterior alterations, and required that a sign be placed on the property indicating its historic status and participation in the special assessment program.

In order to qualify for the program, a property must first be listed in the National Register of Historic Places, either individually or as a contributing part of an National Register Historic District. The property owner is then eligible to make a separate application to the SHPO for special assessment certification. The county assessor, local government, and the State Advisory Committee on Historic Preservation have an opportunity to comment on the application before the SHPO makes its determination.

Certification may be granted, granted with conditions, or denied. Once certified, the property may begin its 15 years of special assessment.

Properties not fulfilling special condition or statutory requirements may be removed from the program by the SHPO. Owners are then required to pay back property taxes plus a penalty. Owners may also withdraw voluntarily from the program, paying only the back taxes owed.

IV. Why Should We Preserve Oregon's Heritage?

In 1983, the Governor and Legislative Assembly recognized the benefits of historic preservation. In Oregon Revised Statutes (ORS) 358.605, the preamble to the Oregon Historic Preservation Plan, they declared:

"...that preservation and rehabilitation of historic resources are of importance as a prime attraction for all visitors; that they help attract new industry by being an influence in business relocation decisions; and that rehabilitation projects are labor intensive, with subsequent benefits of payroll, energy savings, and are important to the revitalization of deteriorating neighborhoods and downtowns."

Historic preservation has the following benefits for Oregon:

1. **Economic Development through Tourism and Film Promotion**

   • Half of Oregon's counties have selected the tourism industry as their key regional economic development strategy. All industries require resources, and historic resources are an important part of tourism. Visiting historic sites and buildings is a favorite vacation activity. Enjoying Oregon's scenery and shopping in small towns, activities which depend heavily on the preservation of the historic resource base, are also most popular with tourists.

   • Film promotion, which often is dependent on historic properties, streetscapes, and landscapes, brought $23 million into the state in 1991, up from $5.9 million in 1987.

2. **Downtown Development**

   • Rehabilitation of historic property significantly aids in downtown development by encouraging business creation and relocation, stimulation of private investment, and increased property values.

   • A 1987 National League of Cities study revealed that historic preservation incentives were among the most effective and most often-used economic development tools implemented by cities around the country.

3. **Construction**

• Historic preservation projects are labor intensive, both on the professional and building trades levels. Locally-obtained building materials also help stimulate local economies.

• Greater economic benefits accrue to a community from a $1 million investment in historic rehabilitation than an equal amount invested in new construction. More capital stays in the community, more local jobs are created, and household incomes and retail sales see higher increases through rehabilitation projectsthan with new construction.

4. **Improved Quality of Life**

• Historic preservation activity helps foster a "sense of place," a strong relationship between residents and their built environment. The result is community pride, more attractive neighborhoods, and improvement of existing housing stocks.

• In conjunction with Community Development Block Grants from the Department of Housing and Urban Development, the special assessment program has been instrumental in revitalizing residential neighborhoods in Albany, Eugene, Oakland, Astoria, Clackamas County, Roseburg, Springfield, and other communities around the state.

5. **Resource Conservation**

• Rehabilitation of historic property conserves building materials and developable land, promotes livable and economically viable urban areas and downtowns, and helps Oregon cities meet land use planning goals.

• Rehabilitation of existing property for new uses saves local governments money by helping reduce pressures for costly infrastructure expansion into suburban and rural areas.

V. Policy Findings and Recommendations
(Expanded version begins on page 12)

1). **RE-AUTHORIZATION OF THE SPECIAL ASSESSMENT PROGRAM**
Finding:
The special assessment of historic property has been an important incentive, used alone or in combination with other local, state, and federal programs to promote the preservation of historic resources in Oregon.

Recommendation:
A revised historic preservation property tax incentive program should be enacted by the legislature, based on the findings and recommendations included in this report.

2). **PUBLIC BENEFIT**
Finding:
The following statement was adopted by the Task Force: "Special assessment provides public benefit by encouraging preservation and appropriate rehabilitation of significant historic properties. These historically significant portions of the built environment contain the visual and intellectual record of our irreplaceable cultural heritage. They link us with our past traditions and values, establish standards and perspectives for measuring our present achievements, and set goals for future accomplishments. To the extent that Oregon's Special Assessment encourages the preservation and appropriate rehabilitation of significant historical property, it creates a positive partnership between the public good and private property that promotes economic development; tourism; energy and resource conservation; neighborhood, downtown, and rural revitalization; efficient use of public infrastructure; and civic pride in our shared historical and cultural foundations."

3). **ELIGIBILITY**
Finding:
Retaining the National Register criteria as the basis for program eligibility, coupled with other limiting factors, would have the same effect as the proposal for more restrictive eligibility standards.

Recommendation:
Only properties individually listed on the National Register of Historic Places or designated as primary or secondary contributing resources within a National Register Historic District shall be eligible for the historic preservation property

tax incentive program (see Appendix A for National Register criteria). Properties which are non-contributing in their current condition may be eligible if they are upgraded and re-evaluated by their local landmarks commission.

4). **TAX INCENTIVE**

Finding:

Freezing the assessed value has created two problems. First, deflation of property values causes the frozen value to be higher than the market value, creating a disincentive for historic preservation. Second, inflation of property values causes the frozen value to be far lower than market value.

Recommendation:

The Task Force recommends that the 15-year freeze on assessed value be retained as the program's tax incentive. The incentive is fully justifiable based on the economic benefits of the program since 1975. Indexing, or any other proposal to limit or reduce the incentive would weaken the program's effectiveness in promoting historic preservation and economic development.*

* For discussion of the indexing issue, see pages 15-16.

5). **HISTORIC PRESERVATION PLAN**

Finding:

The Task Force agreed that both the intent of the law and public benefit would be better served by more strenuous preservation, rehabilitation, and maintenance requirements.

Recommendations:

(1) All properties applying for certification to participate in the historic preservation property tax incentive program shall file a preservation plan with the State Historic Preservation Officer (SHPO), proposing treatment for the property's significant historical features. Historic Preservation Plan Guidelines will be developed by administrative rule.

(2) SHPO shall review each property's preservation plan and plan amendments. SHPO approval is required for certification or retention of certification.

(3) Rehabilitation and maintenance made pursuant to the plan must meet the Secretary of the Interior's Standards for Rehabilitation.

(4) Administrative requirements for preservation plans should be simple enough to allow property owners to prepare them on their own.

(5) A covenant shall be placed on the property's deed in order to alert new property owners to the existence of the plan and the requirements of the program.

(6) SHPO may remove a property from the program if the owner fails to comply with the historic preservation plan.

6). PUBLIC VISITATION

Finding:

Public visitation is a program disincentive because of security and enforcement issues. No other state with a similar program requires open house public visitation.

Recommendations:

(1) Property owners shall not be required to open the interior of their property for public visitation.

(2) Historic property owners shall be encouraged to make their properties available for neighborhood or educational group historic property tours.

(3) Property owners shall provide access for SHPO, SHPO designee such as a Certified Local Government, or the State Advisory Committeee on Historic Preservation, to inspect the property.

(4) Properties may be opened for bona fide academic research, as authorized by SHPO, at a time agreeable to the owner.

7). APPLICATION FEES

Finding:

The current application fee of one-tenth of one percent is insufficient to cover the administrative cost of approving preservation plans and conducting design review of alterations and preservation work.

Recommendations:

(1) A non-refundable application fee of one-fifth of one percent (.002%) of the property's real market value at the time of application shall be charged for each property seeking certification to participate in the historic preservation tax incentive program.

(2) Fees should help support SHPO's preservation plan review efforts. The fee should be minimized and should not act as a disincentive.

(3) A staff position (1 FTE) should be funded to review preservation plans and to conduct design review of proposed alterations and preservation projects and to monitor properties in the program.

8). RE-APPLICATION

Finding:

Voluntary removal and reapplication will help the program by allowing participants whose fifteen year benefit has not expired to opt out of the program and re-enter when they are better able to fulfill their preservation plan.

Recommendation:

At any time during the fifteen year period of the benefit, property owners may pay back taxes plus interest (at the rate used by for refunds by the local jurisdiction) plus one percent (1%). They may then re-apply for the program at a later date. Re-application after the expiration of one continuous 15 year benefit is not to be allowed under any other circumstances.

9). SIGNS AND INTERPRETATION

Finding:

(1) Education through signs and interpretive material on historic property is an important public benefit which contributes to the community's sense of place.

(2) Some communities already have standardized signs to promote interpretation and preservation.

Recommendations:

(1) All properties participating in the program shall display signage, approved by SHPO. Signs should not be costly and thereby act as a disincentive.

(2) SHPO should cooperate with local governments which have existing sign programs to avoid duplication of efforts or restrictions.

10). TRANSFER OF PROPERTY TAX BENEFIT

Finding:

Transferability of the benefit to new property owners is important in making certain that the building is preserved.

Recommendation:

Historic preservation tax incentive status may be transferred from owner to owner, providing the new owner continues to implement the approved preservation plan, or requests that the approved plan be amended.

11). **MULTIPLE EXEMPTIONS**

Finding:

Current language in the Special Assessment of Historic Property statute prohibits property owners from benefitting from more than one special assessment or property tax exemption. As written, the statute discourages public entities and non-profit organizations from occupying historic properties.

Recommendation:

Statute should be amended to allow specially assessed historic properties to also qualify for non-profit, public body, current-use exemptions, and farm/forest exemptions.

12). **RETROACTIVITY:**

Finding:

Dramatically changing the special assessment program for those currently participating would be unfair.

Recommendation:

Excepting the elimination of the public visitation requirement, the recommendations for legislation included in this report shall not apply retroactively to historic properties certified for special assessment prior to January 1, 1994.

13). **OREGON OUTREACH**

Findings:

(1) Many of Oregon's important historical resources, identified through LCDC Goal 5 survey and inventory, are located in rural areas or small towns.

(2) These resources are inadequately protected due to shortages of local staff and expertise.

(3) Tourism is a major regional economic development strategy in rural Oregon. Successful tourism initiatives will require preservation and maintenance of the historic resource base.

Recommendations:

(1) The legislature should fund an additional position in the State Historic Preservation Office dedicated to outreach and technical assistance in Oregon communities. The position should be supported by lottery funds due to its role in promoting economic development through preservation.

(2) State Advisory Committee on Historic Preservation members should be encouraged to provide outreach and technical assistance.

VI. Economic Analysis Findings and Conclusions
from Government Finance Research Center report, Appendix C

1). PROGRAM UTILIZATION:

(1) In 1975, Oregon became the first state in the nation to enact a program making use of property tax incentives to encourage the maintenance and restoration of historic properties.

(2) Oregon's special assessment program for historic properties has been utilized throughout the State. Of Oregon's 36 counties, thirteen (36%) contained greater than 1% of the total properties receiving the special assessment. Given the rural and semi-rural nature of most Oregon counties, this represents a high degree of distribution and utilization of the program throughout the state.

(3) There is a high geographic concentration in valuation of properties under special assessment. This concentration occurs in the Portland metropolitan area, and the population centers of the Willamette Valley. Including Multnomah, eight of Oregon's 36 counties accounted for 91.7% of the frozen valuation of special assessment properties in 1991. While there is a high degree of participation in the program throughout the State, the concentration of special assessment property value lies within the more populous portions of the State.

(4) Concentration in valuation is due to higher property values, and a larger number of historically significant properties in urbanized counties, particularly Multnomah County where Portland, the State's largest city, is located. As such, Multnomah County has sustained much of the costs, as well as the benefits, of the program.

2). EFFECT OF THE SPECIAL ASSESSMENT PROGRAM ON LOCAL PROPERTY TAXES (PRE-MEASURE 5):

(1) Statewide, exempt (non-taxable) valuation as a result of the special assessment program totalled approximately $168 million in FY 1991. This represents less than two-tenths of 1% of the total statewide taxable value of $94.32 billion that year.

(2) Prior to Measure 5 (a property tax rate limitation initiative passed in 1990 by Oregon's voters), and before consideration of any benefits which may have

resulted, the program caused a shift of property taxes to other property not receiving the special assessment. In fiscal year (FY) 1991, the "maximum case" tax shift amounted to approximately $5.2 million statewide. (The maximum case tax shift is the total taxes that would have otherwise been collected on exempt value of special assessment properties before consideration of their economic or fiscal benefits caused by the program.)

(3) In Multnomah County, exempt (non-taxable) valuations as a result of the special assessment program totalled approximately $133.5 million in 1991. This represents less than seven-tenths of 1% of the county's 1990 total taxable value of $20.2 billion.

(4) The maximum case property tax shift in Multnomah County in FY 1991 was $4.4 million, or 84% of the maximum case property tax shift attributable to the program throughout the State in that year.

(5) Disregarding any benefits from the program, the maximum case tax shift amounted to approximately 21.60 cents per $1,000 in value in MultnomahCounty,followed by Hood River (7.70 cents), Jackson (5.90), Benton (4.50), Clatsop (3.00), Marion (2.20), Linn (1.80), Union (1.50), Deschutes, Josephine and Polk (1.10) each. In other counties for which complete data is available, the maximum case tax shift amounted to less then one cent per $1,000 of valuation.

3). PUBLIC SECTOR BENEFITS FROM INVESTMENT IN, AND APPRECIATION OF, SPECIAL ASSESSMENT PROPERTIES:

(1) In Multnomah County, a total of $219.75 million of major rehabilitation improvements is estimated to have been invested in special assessment properties since the inception of the program. Of this amount, $24.75 million was invested in residential properties, and, $195 million was invested in commercial properties. The average residential special assessment property is estimated to have received $55,000 in major rehabilitation improvements. Commercial properties are estimated, on average, to have received $1.4 million in major rehabilitation improvements.

(2) Net benefits are arrived at for residential properties after accounting for shifted or lost property tax revenue on the cost side, and, direct construction effects and increased property tax revenue on the benefit side. Prior to Measure 5, over a thirty year period, the average residential property in the program in Multnomah County in 1991 would have created a net tax shift of $46,560. With Measure 5, the net tax shift is reduce to $20,610.

(3) Net benefits are arrived at for commercial properties after accounting for shifted or lost property tax revenue on the cost side, and, direct construction effects, recurring employment and business activity effects, and, increased property tax revenue on the benefit side. Prior to Measure 5, over a thirty year period, the average commercial property in the program in Multnomah County in 1991 would have generated a net tax gain of $523,530. Measure 5 causes this to increase to $729,570.

(4) In 1991, special assessment properties in Multnomah County generated combined net State and County Tax revenues of $1.7 million. After Measure 5, combined net revenues increase to $3.1 million annually.

(5) In Multnomah County, between 1985 and 1991, sales prices of single family residential special assessment properties increased at double the rate of non special assessment single family residential properties. This was a result of major improvements and market appreciation.

(6) Higher rates of appreciation experience by single family residential special assessment properties will also cause higher rates of appreciation for other properties located nearby. These higher rates of appreciation have offset a significant portion of the remaining tax shift/loss effect caused by residential special assessment properties.

(7) Commercial property rents for Class A and Class H/Rehab office space in the downtown Portland Central Business District (CBD) have declined over the last five years for which data is available. These declines are a result of an over-supply of upper-end office space.

(8) The oversupply of Class A office space in Portland CBD has had a negative effect on Class H/Rehab rents and values. Class A space appears to be "cannibalizing" some tenants who would have otherwise occupied Class H/Rehab space. Consequently, market supply and demand factor have had a more significant impact on values of historic commercial property Multnomah County than the special assessment program in the most recent period for which data are available.

4). PERFORMANCE OF THE SPECIAL ASSESSMENT PROGRAM FOR PROPERTY OWNERS:

(1) The four greatest factors affecting the performance of the special assessment program for an owner of historic property are: the timing of the application relative to the future real estate cycle; amount of rehabilitation (if

any); property tax rates; and, property assessment practices. As such, it is difficult for some property owners to make an accurate assessment of the program's value for them prior to applying for acceptance into the program.

(2) The value of the special assessment program to property owners is highly variable between, and within, counties. In counties with low or negative appreciation rates, the special assessment program is of limited, or little value, to owners not engaged in substantial rehabilitation of the property.

(3) The special assessment program is most valuable to property owners in counties with moderate to high rates of appreciation, and in all counties to owners engaged in substantial rehabilitation of their properties.

5). EFFECTS OF BALLOT MEASURE 5:

(1) In nearly all cases, Measure 5 will reduce the value of the special assessment program to owners of historic properties. As Measure 5 reduces property taxes for all properties, the value of property tax-based incentives to owners will also be reduced. Over the next few years, there may be a reduction in the number of properties seeking the special assessment due to the lowered value of the incentive. As such, Measure 5 may impede future preservation efforts, particularly for commercial properties, insofar as they rely upon the special assessment program to be economically viable.

(2) Measure 5 will cause the special assessment program (on a maximum case basis) to create a loss of property tax revenue to local taxing jurisdictions. However, as has been demonstrated in Multnomah County, other non-property tax benefits from rehabilitation improvements and ongoing business activity can more than offset this loss to create a net gain in combined state and county revenues.

(3) Disregarding other non-property tax revenue, the amount of the maximum case property tax loss caused by Measure 5 will be significantly less then the maximum case property tax shift caused by the special assessment program prior to Measure 5.

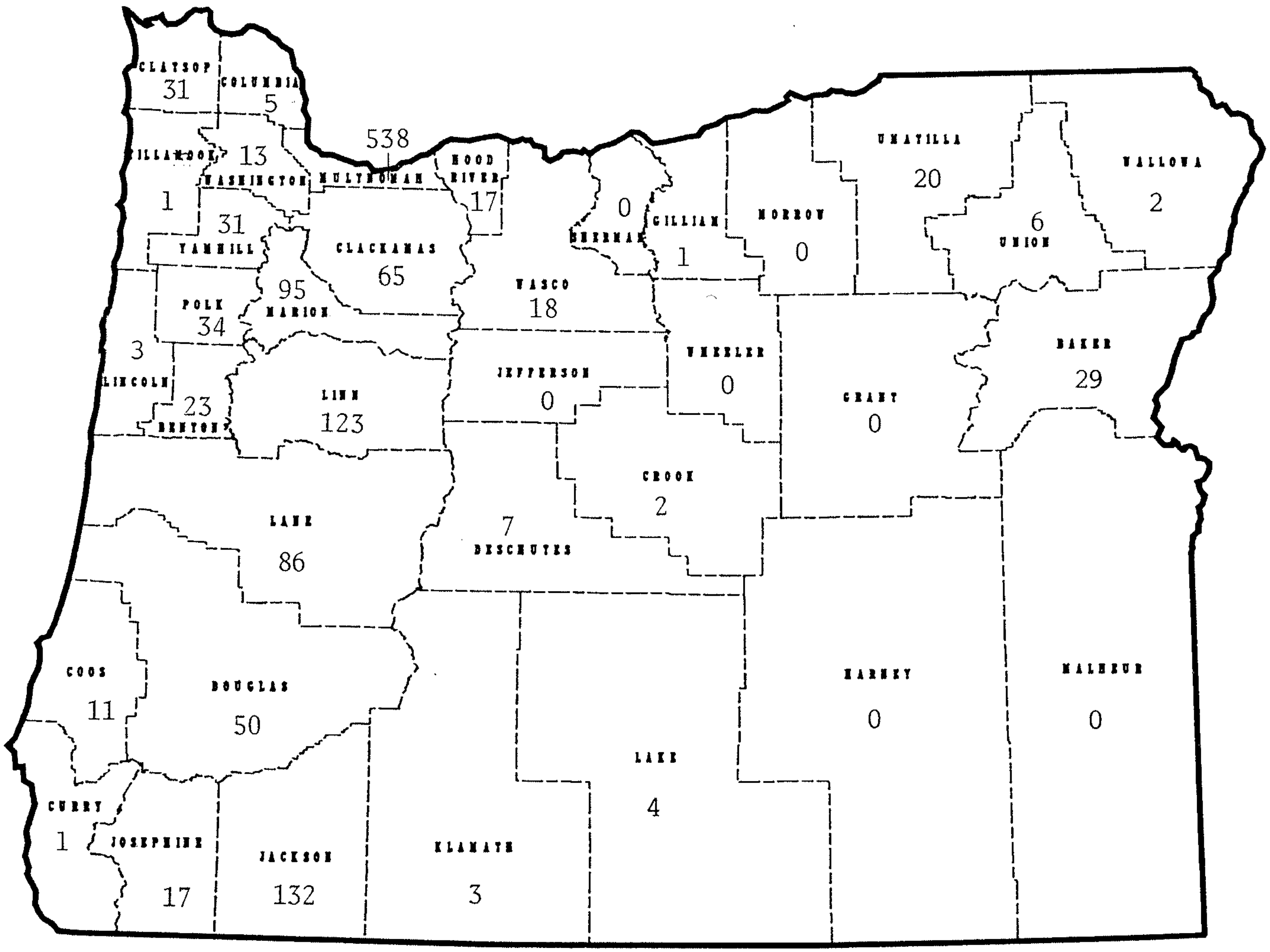
6). PROGRAMS IN OTHER STATES:

(1) As of 1991, twenty-five states had adopted legislation providing special tax incentives for historically significant property.

(2) Of the twenty-five states, twenty made the incentive available through local property taxes, while five made the incentive available through state income taxes.

(3) Along with Oregon, only Montana and Louisiana offer a property tax incentive in the form of a freeze on assessment. Most other states offering property tax incentive do so in the form of an abatement of some portion of the original value, the rehabilitation value, or both.

NUMBER OF SPECIALLY ASSESSED PROPERTIES
By County: 1992



The Oregon Historic Preservation Program

In the late 1950s, the federal government made a series of grants to state and local governments for the improvement of transportation systems and to encourage "renewal" in the nation's blighted urban cores. These actions, in effect, loosed the bulldozer and wrecking ball in American cities. As land was cleared for new transportation routes, low-income housing, and commercial development, countless historic landmarks were lost and many cities were left with their historic fabric in disarray.

During the early 1960s, the public began recognizing the importance of natural and historic conservation, and questioned federal policies which put natural and historic resources at risk. In 1966, the federal government responded to those concerns when President Lyndon B. Johnson signed the National Historic Preservation Act (Public Law 89-665).

The National Historic Preservation Act of 1966 (NHPA) established federal policy that recognized the importance of historic preservation. First, the Act authorized the Secretary of the Interior, through the National Park Service, to expand and maintain a National Register of Historic Places. Second, the Act required federal agencies and any state or local entity acting with federal funds, licenses, or permits, to consider the historic preservation impacts of their actions and projects. Third, the Act created a Advisory Council on Historic Preservation to advise the President and Congress on matters relating to historic preservation and to comment on federally licensed and assisted undertakings affecting historic resources.

More significantly for Oregon, the Act institutionalized historic preservation on the state level, as it did nationwide. It required that the governor appoint a State Historic Preservation Officer (SHPO) to administer historic preservation programs implementing the Act. In Oregon, the SHPO is the director of the State Parks and Recreation Department (which was a division of the Oregon Department of Transportation until 1990). The Act further required that the States undertake comprehensive statewide surveys and inventories of historic sites and prepare statewide plans for managing cultural resources. Annual federal grants-in-aid to the states were provided to help them carry out the NHPA's mandates. In Oregon, SHPO passes approximately 70% of its apportionment through to local governments.

While the basic elements of the 1966 law essentially remain in place today, the Act was amended in 1976 by Public Law 94-422 and in 1980 by Public Law 96-515. Among other requirements, the amendments served to expand local participation and control in the program and to increase the federal share of matching grants for survey and planning.

The creation of a State Historic Preservation Office and the commitment of federal funds for implementing preservation activities strengthened historic preservation in Oregon. Further development of the program came in 1973, when Senate Bill 100 established Oregon's comprehensive statewide land use planning program, the Land Conservation and Development Commission (LCDC), and the Department of Land Conservation and Development (DLCD). By 1976, LCDC had adopted a series of 19 statewide land use planning goals. Among these was Goal 5, which requires that local land use plans to conserve open spaces, as well as scenic, natural, and historic resources [see Appendix B].

Goal 5(3)(i) calls for the quantitative and qualitative inventory of open spaces, scenic areas historic areas, sites, structures, and objects. Under the LCDC approach, local governments are required to inventory historic resources and develop management plans for their protection. These become part of a local government's comprehensive plan. Historic (or cultural) resources include not only individual houses and structures, but also archaeological sites, districts or groupings of buildings, landscapes, objects, and linear features such as trails, roads, or canals. Historic preservation ordinances are then adopted to protect significant historic landmarks.

The NHPA and Goal 5 combine to create a state and federal program which systematically identifies, evaluates, records, and protects historic resources throughout the state. This survey and inventory process has led to the identification of over 20,000 historic resources, 16,000 prehistoric or archaeological sites, and 385 historic shipwrecks. Of those identified resources, 1,260 have been listed in the National Register of Historic Places, and 2,779 have been determined eligible for listing in the National Register.

In 1983, the 62nd Oregon Legislative Assembly adopted the Oregon Historic Preservation Plan (ORS 358.605-.622). The Plan synthesized state policy toward historic preservation and sets forth the many duties of the State Historic Preservation Officer and staff. Statute directs SHPO to: conduct a comprehensive statewide survey of historic resources; prepare a comprehensive statewide historic preservation plan; maintain a statewide inventory of historic properties; create an Oregon State Register of Historic Properties; nominate properties to the National Register of Historic Places; administer state and federal tax incentives for the preservation of historic properties; provide information on federal and state tax benefits for preservation projects; administer grants-in-aid; provide information on the economic and social benefits of developing historical and cultural resources; provide technical assistant; and carry out other programmatic functions [a complete list is included in ORS 358.612, Appendix B].

Special Assessment of Historic Property Program

The special assessment of historic property was adopted in 1975 to supplement and strengthen Oregon's historic preservation program. The combined regulatory approach of the NHPA and LCDC has been effective in identifying and protecting resources. Until these laws were enacted, historic preservation activities had been largely reactive, responding to the threatened destruction of historic resources.

However, there are limits to the ability of the regulatory approach to protect historic resources. Rarely does the strongest historic preservation ordinance include well-defined demolition restrictions, and grant funds for preservation work is limited. In view of such limitations, incentives for property owners were seen as an important way to encourage preservation.

The special assessment program is among several effective ways to achieve preservation. Providing tax incentives for property owners can encourage them to follow historic preservation guidelines. Aided by incentives, property owners can maintain, rehabilitate, restore, or develop new uses for historic properties, bringing many public benefits to their communities.

With regard to income-producing structures, the special assessment works in tandem with the federal Rehabilitation Investment Tax Credit (RITC) for historic property. The federal historic preservation tax credit program was created in 1976, and improved by the Economic Recovery Tax Act of 1981. Until it was weakened by the Tax Reform Act of 1986, the RITC was responsible for approximately $150 million of investment in rehabilitation and adaptive re-use of National Register historic properties in Oregon, most noticeably in Portland's downtown area. Amendments to the law have made the larger projects much less attractive to investors, leaving the special assessment program as the chief historic preservation tax incentive program available in the state.

In order to participate in the special tax assessment for historic property program, a property must be nominated for listing in the National Register of Historic Places by the SHPO through the State Advisory Committee on Historic Preservation (SACHP), and then approved for listing in the Register by the National Park Service, in Washington, D.C. Listing in the National Register does not automatically confer the special assessment to the property owner. A separate application for special assessment, accompanied by an application fee of one-tenth of one percent of the assessed value of the property, must be submitted to the State Historic Preservation Officer. The SHPO may then approve, approve with conditions, or deny the property's application, based on established criteria. If accepted, the property receives certification, the county assessor is notified, and the assessed value of the property is "frozen" for 15 years. During this period, the owner must open the property for public visitation at least one day per year, display a sign indicating that the property is listed in the National Register and is participating in the special assessment program, and submit to design review by SHPO of any proposed alterations.

Legislative authorization of the special assessment program for historic property expires on January 1, 1994. The legislative record indicates that the legislature was interested in a review of the program prior to its sunset, in order to consider its reauthorization.

Why Should Oregon's Heritage Be Preserved?

The Governor and Oregon Legislative Assembly recognized the benefits of historic preservation in Oregon Revised Statute 358.605, adopted in 1983. The statute's declaration of state policy toward historic resources embodied the principles of preservation set forth in the National Historic Preservation Act of 1966. Rather than an attempt to freeze time and halt progress, historic preservation is recognized as a dynamic concept for promoting economic development, resource conservation, and quality of life while preserving and protecting our communities' defining physical and cultural elements. The statute states:

(1) The Legislative Assembly declares that the cultural heritage of Oregon is one of the state's most valuable and important assets; that the public has an interest in the preservation and management of all antiquities, historic and prehistoric ruins, sites, structures, objects, districts, buildings, and similar places or things for their scientific and historic information and cultural and economic value; and that the neglect, desecration, and destruction of cultural sites, structures, places and objects result in an irreplaceable loss to the public.

(2) The Legislative Assembly finds that preservation and rehabilitation of historic resources are of importance as a prime attraction for all visitors; that they help attract new industry by being an influence in business relocation decisions; and that rehabilitation projects are labor intensive, with subsequent benefits of payroll, energy savings, and are important to the revitalization of deteriorating neighborhoods and downtowns.

(3) It is, therefore, the purpose of this state to identify, foster, encourage and develop the preservation, management and enhancement of structures, sites and objects, of cultural significance within the state in a manner conforming with, but not limited by, the National Historic Preservation Act of 1966 (P.L. 89-665; 16 U.S.C. 470).

1. Tourism Promotion and Development

With Oregon's small town and rural economies in transition, tourism is becoming an important component of economic development planning. Tourism has been selected as the key industry in the regional strategies of nearly one-half of Oregon's 36 counties. These are: Baker, Clackamas, Clatsop, Curry, Douglas, Gilliam, Grant, Hood River, Jackson, Josephine, Malheur, Multnomah, Sherman, Tillamook, Wasco, Washington, and Wheeler Counties. A 1988 study by the National Tour Association found that visiting historic sites and structures (known as "heritage tourism") was the favored form of vacation touring among Americans 55 and older; the largest and most economically significant demographic group for tourism. A 1989 survey of visitors to Oregon, conducted for the Tourism Division of the Oregon Economic Development Department, revealed that among the top activities for tourists in Oregon were: enjoying the state's scenic beauty (79.6% of visitors surveyed), shopping in small towns (51.0%), and visiting historic sites and areas (44.8%). Historic preservation is a key part of each of these experiences.

Several Oregon communities, such as Albany, Astoria, Baker City, Jacksonville, and Oregon City, have embraced historic preservation and heritage tourism as they seek to develop and diversify their local economies. Contrary to the view that tourism-related employment means only low-wage, substandard jobs, tourism opens many opportunities for small businesses development. "Employment and Proprietor Income in the Oregon Visitor Industry," a 1989 survey conducted for the State Tourism Division, found that only 10.5% of tourism-related jobs were minimum wage. Many new jobs created by tourism are in the form of sole proprietorships, from which the median annual income in 1988 was $32,000.

All industries require a resource base. Heritage tourism requires well-preserved historic buildings, districts, and landscapes. Historic preservation tax incentives help to preserve and develop that resource base by discouraging demolition and encouraging investment and re-use.

For example, retaining and enhancing an historic "Main Street" atmosphere has proved to be an attractive and successful tourism strategy. Preservation and rehabilitation of historic structures and features is essential to defining a town's unique character, and provides the small town shopping experience that tourists (and residents) want.

Tourists who enjoy Oregon's scenic beauty may do so in part because of historic preservation. Cultural landscapes, whether historic mining districts in rugged northeastern Oregon, or historic farming areas in the pastoral Willamette and Tualatin Valleys, illustrate the important interrelationships between the legacy of human activities and the natural world. In addition to the special assessment for historic property, other programs and incentives promote scenic Oregon. Federal land management agencies, such as the Bureau of Land Management and the Forest Service, have established "scenic byway" tour routes which focus as heavily on historical resources along the route as on the scenery itself. Similar driving tour initiatives are being carried out by the Oregon Department of Transportation, Oregon State Parks and Recreation Department, and county governments.

Historic sites and museums also contribute to heritage tourism, and may require federal, state, or local assistance and support in order to operate. When these resources are held in private ownership, historic preservation tax incentives can be used to encourage the site's protection from adverse development which would destroy historic features, and can also be used in promoting the leasing of space to not-for-profit museum or historical societies.

Film promotion, another element of Oregon's economic development strategy, is served by historic preservation. In addition to outstanding natural scenery, filmmakers often require historic landscapes, streetscapes, or structures to serve as backdrops for their films. While care must be taken to minimize their impact on historical resources, promotion of historic Oregon for filming locations can be a successful economic development strategy. Local and out-of-state filmmakers' decisions to produce films and commercials in Oregon directly brought $23 million into the state in 1991. That figure has grown from $5.9 million in 1987, when record-keeping began.

2. Downtown Development

The National Trust for Historic Preservation's National Main Street Center and the Oregon Downtown Development Association (which applies historic preservation principles in promoting economic development) have been successful with assisting in revitalizing businesses and downtown areas in Oregon. Rehabilitating historic properties significantly aids in downtown development by encouraging business creation and relocation, stimulation of private investment, and increased property values.

Incentives often make possible the rehabilitation of important yet deteriorated properties that might otherwise be lost. Frequently, lower rent costs in these buildings can help promote start-up industries and a diversity of downtown tenants, providing a mix of newly-formed businesses, not-for-profit organizations, and residential units. Large historic properties can also be rehabilitated for mixed-use development, which also contributes to downtown density, diversity, and economic stability.

Downtown development organizations and city planners consider historic preservation tax incentives, such as the federal Rehabilitation Investment Tax Credit (RITC) and the Oregon special assessment, an important part of the package of tools essential for making development projects successful. Tools and Targets: The Mechanics of City Economic Development, a 1987 study by the National League of Cities, reached the same conclusion. Dr. Ann Bowman of the University of South Carolina surveyed mayors and economic development professionals in 320 small and large cities nationwide. She found that historic preservation is used widely in promoting economic development:

- Of 45 economic development tools used in surveyed communities (including infrastructure development, land acquisition, and business relocation), historic preservation was the 7th most often cited. Respondents indicated that preservation was used as a cost reduction technique.

- Economic development officials were asked what they thought were the most successful economic development cities. Of the 20 cities identified, 15 of them are among the cities with the greatest amount of historic preservation activity.

- Mayors were asked to identify the major target of their economic development activities. Downtowns were the top response, edging out targets such as industrial areas, retaining and expanding business, and attracting new business. Downtown areas were also the areas in which cities experienced the greatest economic development success.

3. Construction

Construction work associated with historic preservation projects stimulates the local economy. Historic rehabilitation is labor intensive, on both the professional and building trades levels, and their use of locally-obtained building materials further enhances local payrolls and tax revenues. During the recessionary early 1980s, the federal Investment Tax Credit for historic preservation and the special assessment combined to prompt about $150 million in rehabilitation investment in Portland alone. Since the Tax Reform Act of 1986, which weakened the Investment Tax Credit program, historic preservation-related construction has declined dramatically. However, Oregon has fared better than most other states. Oregon continues to have a strong program, although total dollar value of rehabilitations has dropped substantially.

The economic benefits of historic preservation projects are illustrated by Don Rypkema in the National Trust for Historic Preservation's Information Brief #53, "The Economics of Rehabilitation." Mr. Rypkema is a nationally-recognized real estate and development expert who has assisted some Oregon communities in their downtown development planning. Mr. Rypkema applied the U.S. Department of Commerce's Regional Input-Output Modeling System (RIMS) to examine the comparative multiplier effects on local economies of equal investments of $1,000,000 in both historic rehabilitation construction work and new construction. Mr. Rypkema found rehabilitation to have the following advantages over new construction:

- $120,000 more dollars will initially stay in the community;

- Five to nine more construction jobs will be created;

- 4.7 more new jobs will be created elsewhere in the community;

- Household incomes in the community will increase $107,000 with rehabilitation; and

- Retail sales in the community will increase $142,000 with rehabilitation--$34,000 more than with new construction.

4. Improved Quality of Life

Several Oregon communities have found that participation in an historic preservation program has helped develop their "sense of place"; a strong relationship between residents and their built environment. The result is community pride, attractive neighborhoods, improved housing stock, and increased property value.

The inherent value of a sense of community as represented in many historic residential districts is also becoming the model of the future in town planning. A landmark example is the new town of Seaside, Florida, which was successfully modeled and designed to resemble a turn-of-the-century American small town. This was reflected in the street system, architecture, and support services provided to residents. Since its construction nearly ten years ago, Seaside has become a model, if not a standard for many new town plans across the country.

The special assessment program, working in conjunction with Community Development Block Grants from the U.S. Department of Housing and Urban Development, and local revolving loan funds, have improved low- and moderate-income neighborhoods in Albany, Eugene, Astoria, Clackamas County, Oakland, Roseburg, and other communities. These successful programs show that historic preservation tax incentives have succeeded in encouraging investment in historic buildings and have made Oregon a better place to live and work.

5. Resource Conservation

Rehabilitation and adaptive re-use of historic properties represents conservation of building materials and developable land, two resources that are continuing to rise in cost and scarcity. Preservation helps keep downtown areas livable and economically viable, which is vital if Oregon communities are to achieve land use planning goals to contain urban growth, protect resource lands, and improve transportation systems. Preserving livable downtown areas through adaptive re-use of historic urban properties represents savings to local government by easing pressures for expanding costly services and infrastructure into suburban and rural areas.

Legislative History of the Special Assessment of Historic Property

Following World War II, the property tax system provided a disincentive for historic preservation. Tax policy sought to encourage new construction and development by assessing property as if it were being put to its "highest and best" economic use, regardless of its current actual use. An historic building or house which occupied high-value commercial land was assessed as if it were the site of a new commercial building rather than its current use as a home, small business, or professional office. Even if the owner wished to preserve and rehabilitate the property, the property tax assessments might still be higher than the income-producing potential of the building.

Besides the "highest and best use" assessment policy, there were additional property tax disincentives to historic preservation. Owners who made significant investments in the rehabilitation of their historic property could expect an increase in their next property tax assessment because their investment increased the value of their property. The tax system imposed an economic hardship on private citizens who did their part to promote local, state, and federal historic preservation policy. The burden was especially heavy for homeowners of modest means and the owners of small businesses, two groups who represent the largest share of historic property owners.

In 1975, the legislature addressed the issue of historic preservation tax incentives through House Bill 2476. Introduced by Rep. Brad Morris, the bill proposed that the owners of historic property be granted a fifteen-year freeze on the assessed true cash value of their property. Legislative committee members envisioned that frozen value would protect the owner from increases in value due to rehabilitation improvements. They based their proposal on relatively stable property values in the mid-1970s, not expecting the deflation of property values in rural Oregon in the early 1980s and the late 1980s' rapid inflation of values in the Portland metropolitan area. The bill received widespread support in the legislature and passed 57-2 in the House of Representatives and 27-2 in the Senate. It was signed by Governor Robert Straub on June 30, 1975.

In 1981, the legislature adopted Senate Joint Resolution 18, sponsored by Senator Ted Kulongoski, which created an interim legislative task force on historic preservation. The task force met during the interim and advanced several proposals for improving historic preservation in Oregon. The task force's recommendations for amendments to the special assessment program were incorporated in SB 279 during the 1983 legislative session. On votes of 25-1 in the Senate and 57-1 in the House of Representatives, the legislature adopted the following changes:

- Application for the special assessment must be made to the State Historic Preservation Officer, rather than to the county assessor.

- Property owners may make preliminary applications for classification as historic property. If made prior to the end of the calendar year, the property may qualify for the special assessment as long as it is placed on the National Register by the following

March 15. The special assessment would be available in the tax year following the year in which application was made.

- A non-refundable fee of one-tenth of one percent of the property value must be paid for all new properties applying for special assessment. These monies are to be transferred to the Oregon Property Management Account.

- Procedures by which a property may be removed from the program were expanded.

- The county assessor, as well as the property owner, may request a hearing before the State Advisory Committee on Historic Preservation (SACHP) concerning approval or disapproval of an application.

- Owners may remove their property from the special tax assessment program, repay all back taxes without penalty, and reapply again in the future for the full fifteen years.

- New construction on property classified as historic and receiving special assessment, shall be assessed at its true cash value, but historically accurate reconstructions may be classified by the SHPO as not being new construction.

The 1975 act scheduled the program for sunset on January 1, 1986. With SB 279, the 1985 legislature extended the special assessment program through December 31, 1993, in order that the program might be evaluated after the first group of properties under the freeze had completed their 15 years. The extension passed 29-0 in the Senate and 40-2 in the House.

During the late 1980s, property values in the Portland metropolitan area increased dramatically. In November 1990, voters approved Ballot Measure 5, which amended the Oregon Constitution's property taxation provisions. The ballot measure sought to provide property tax relief to businesses and homeowners by limiting millage rates to \$15/\$1000, with \$10/\$1000 of property value for local government and \$5/\$1000 for school support. In many communities, the Measure 5 maximum millage rates represent significant reductions in the local government's revenue generating capacity.

Since 1975, the special assessment for historic property program had not affected local government revenues. Revenues foregone due to a property's enrollment in the program were recouped by increasing the tax rates across the taxing jurisdiction. Thus, the special assessment was paid for by other taxpayers, who experienced a property tax increase of a few cents (or frequently a fraction of a cent) per \$1000 of property value. By limiting the millage rates of local governments below their current levels, Measure 5 resulted in elimination of the ability to make up revenues through a tax shift in those taxing districts whose levies had exceeded the Measure 5 cap. Revenues foregone due to special assessment are now lost to local governments. The amount of the loss varies widely statewide.

Technical amendments were made to the special assessment program in 1991, when the legislature adopted HB 2550 to make revenue-related language in the Oregon

Revised Statutes conform with Measure 5 (ORS 358.505). In the special assessment statute, references to "true cash value" were replaced with "real market value." The beginning frozen value of a participating property was changed from "true cash value" to "assessed value." HB 2550 changed the effective date from January 1 to July 1, to coincide with the new property tax year. Finally, the technical corrections bill allowed owners of specially-assessed historic property to receive the Measure 5 tax relief in addition to the value freeze by requiring assessors to tax the lesser of the real market value or the partially exempt value of the property.

Beginning in the autumn of 1990, public interest arose over the special assessment program and its impacts. The public became concerned about the National Register of Historic Places listing and subsequent certification for special assessment of "high-end" properties in Portland's West Hills. Program critics contended that these properties were of questionable historic or architectural significance, were not threatened with demolition nor in need of rehabilitation, and were not being made open to the public, as required by administrative rule. Pointing out that special assessment of these properties would burden other taxpayers and local government, there were calls for limitations on the National Register and the special assessment program. In response, the State Historic Preservation Officer promulgated amendments to the administrative rule which tightened the open house requirements, strengthened design review of proposed alterations, and required signs identifying specially assessed historic properties.

METHODOLOGY:

The Task Force on the Special Assessment of Historic Property was formed in August 1991. Members were selected from a diversity of backgrounds, views, and statewide geographic representation. The Task Force held its first meeting in Salem on September 19, 1991, and began to clarify its task and adopt a process for decision-making. The Task Force agreed to use a modified consensus decision-making model, which would employ a vote count if consensus could not be reached on an issue.

The Task Force solicited public comment on the historic property special assessment program in a series of regional public meetings held in Portland, Albany and Roseburg between October 1991, and January 1992. All meetings of the Task Force were announced by statewide press release and notice mailed to local governments, landmarks commissions, and constituent groups. SHPO staff also contacted local media to arrange coverage of Task Force meetings and the special assessment program. Participants at the public meetings covered a range of interests, including: interested citizens, local government elected officials, planning and community development department staffs, county assessors, downtown associations, Oregon Department of Revenue staff, Legislative Revenue Office staff, owners of specially-assessed property, and representatives of local landmarks commissions. All Task Force correspondence and communications were shared at group meetings and entered into the record. Each meeting's minutes were recorded and transcribed for distribution and concurrence at the group's following meeting.

Beginning in Roseburg on January 14, 1992, and continuing through meetings at Salem in February, and Portland in March, the Task Force held facilitated work sessions to evaluate the program and its statute (ORS 358.475-.565). These work sessions generated consensus on recommendations that were incorporated into this report.

Paralleling the activities of the Task Force, and funded in part by a matching grant from the Critical Issues Fund of the National Trust for Historic Preservation, the Government Finance Research Center (GFRC), of Washington, D.C., conducted an economic analysis of the historic property special assessment program for the Oregon SHPO. GFRC compared the fiscal impact of the special assessment in Lane, Linn, and Multnomah Counties. While GFRC provided data to the Task Force, both projects were conducted independently. The GFRC report is included in Appendix C.

Staff prepared a draft report, which the Task Force met to discuss and revise on April 17. A meeting was held on May 8 to approve the draft to be put forward for public review and comment.

The public review draft of the Task Force report was released on May 18, 1992, and a draft of the economic impact and fiscal analysis was made available in July. The public comment period ended on August 3, 1992. The Task Force met on August 10 and 17 to consider the public comments and adopt final recommendations.

FINDINGS AND RECOMMENDATIONS OF THE TASK FORCE ON SPECIAL ASSESSMENT OF HISTORIC PROPERTY

During its investigations and deliberations, the Task Force addressed several issues relating to the special assessment program. This section discusses those issues and lists findings and recommendations. When resolution of issues by consensus could not be reached, a voice vote was taken. The text below reflects differences of opinion on substantive issues, particularly indexing (see Tax Incentive, page 15).

RE-AUTHORIZATION OF THE SPECIAL ASSESSMENT PROGRAM

Issue:
The legislative authorization for the program expires on January 1, 1994. The Task Force was asked to make recommendations on the future of the program: whether it should be left to sunset, be re-authorized, or be re-authorized with amendments. Public comment was sought to help the task force address this issue.

Finding:
The special assessment for historic property has been an important incentive, used alone or in combination with other local, state, and federal programs to promote the preservation of historic resources in Oregon.

Recommendation:
A revised historic preservation property tax incentive program should be enacted by the legislature, based on the findings and recommendations included in this report.

Discussion:
The Task Force felt that an historic preservation property tax incentive was an integral part of Oregon's comprehensive statewide historic preservation program as mandated by Oregon statute (ORS 358.605), LCDC Goal 5, and the National Historic Preservation Act of 1966 (P.L. 89-665). The 1975 special assessment act was one of the first in the nation, and served as a model for several states. After 17 years it was felt, the Department felt that the program should be re-examined. After the final Task Force meeting on August 17th, one member wrote a minority opinion about re-authorization, which stated, in brief, that the program should be allowed to sunset absent "radical" changes.

PUBLIC BENEFIT

Issue:
The task force was charged with assessing the public benefits derived from an historic preservation tax incentive program. Current statute refers to public benefit, but does not define it explicitly. Local governments were queried, public comments solicited

at Task Force meetings, and SHPO staff was asked to express its view of what constitutes "public benefit" as it relates to the program. Task Force members were asked to submit a brief statement outlining their views of the subject. In Albany, the Task Force agreed on a statement of public benefit, which they felt best summarized the issues put forth by Task Force members, the public, and staff.

Finding:
The following statement was adopted by the Task Force: "Special assessment provides public benefit by encouraging preservation and appropriate rehabilitation of significant historic properties. These historically significant portions of the built environment contain the visual and intellectual record of our irreplaceable cultural heritage. They link us with our past traditions and values, establish standards and perspectives for measuring our present achievements, and set goals for future accomplishments. To the extent that Oregon's Special Assessment encourages the preservation and appropriate rehabilitation of significant historical property, it creates a positive partnership between the public good and private property that promotes economic development; tourism; energy and resource conservation; neighborhood, downtown, and rural revitalization; efficient use of public infrastructure; and civic pride in our shared historical and cultural foundations."

Subsequent to the Albany meeting's description of public benefit, the Task Force heard additional public testimony and received the results of an economic analysis of the program. Based on those new sources, it was agreed that the program had produced economic benefits to the public. Through rehabilitation, the program has increased the value of both participating properties and neighboring properties. As documented in the Government Finance Research Center's economic and fiscal analysis of the program, the special assessment has increased property values over the long term and has encouraged labor-intensive rehabilitation and maintenance projects. The program's public benefits appear to have exceeded its public costs.

Recommendation:
The public benefit statement in the finding should be incorporated in any future or revised legislative action on the special assessment.

ELIGIBILITY

Issue:
The task force was charged with reviewing the issue of eligibility for the special assessment. With the decision to recommend a revised tax incentive program for historic properties, eligibility standards needed to be established. Several options were presented:

(1) Create a new Oregon register of historic places to determine eligibility for the program. Determinations would be made by a newly-created commission using new

criteria developed for the program, which would be more demanding than the federal criteria used for the National Register of Historic Places (the current standard). The objective of the new commission, criteria, and eligibility standards would be to limit the number of properties participating in the program.

(2) Limit the number of each type of property in the program, based on style, architect, or historical significance. Once that number of properties of each category had been reached, no more could be certified until openings were created by properties leaving the program.

(3) Retain listing on the National Register of Historic Places as the standard for eligibility.

(4) Use local historic resource inventories created pursuant to LCDC Goal 5 to qualify properties for the program. In most states that use a state register, that register is comprised of all the state's National Register properties and locally-designated properties. The latter are considered important locally, but may not meet National Register criteria. Not all communities have completed their inventories.

Finding:
Retaining the National Register criteria as the basis for program eligibility, coupled with other limiting factors, would have the same effect as the proposal for more restrictive eligibility standards.

Recommendation:
Only properties individually listed on the National Register of Historic Places or designated as primary or secondary contributing resources within a National Register Historic District shall be eligible for the historic preservation property tax incentive program (see Appendix A for National Register criteria). Properties which are non-contributing in their current condition may be eligible if they are upgraded and are re-evaluated by their local landmarks commission in consultation with the SHPO.

Discussion:
The options noted in the Issues section indicate the wide range of opinions about eligibility standards. There was considerable discussion on the link between the National Register of Historic Places and the special assessment program. Some members felt that the Register's current focus on "local" significance allowed too many properties to be listed, and consequently to be eligible for the program. Option (1) was seen as not practicle given the Measure 5 climate of reducing rather than expanding state bureaucracy. Option (2) was seen as too exclusive, and Option (4) as too inclusive. Subsequent to the August 17th final meeting, one member expressed a minority opinion that local taxing districts should have the authority to approve or deny special assessment benefits.

TAX INCENTIVE

Issue:

In recommending the continuation of the state historic preservation tax incentive program, the task force's mission required that the nature of the proposed tax benefit be defined. Members heard public comment and examined tax incentive programs from other states. Both the type of incentive and its duration were addressed. The Oregon Association of County Assessors and others recommended that assessed value should be "indexed," allowing it to rise and fall with market conditions, rather than be "frozen," which locks in the assessed value for the duration of the program.

Finding:

Freezing the assessed value has created two problems. First, deflation of property values causes the frozen value to be higher than the market value, creating a disincentive for historic preservation. Second, inflation of property values causes the frozen value to be far lower than market value.*

* Subsequent to the August 17th final meeting, a minority position on the indexing issue was submitted by five task force members. Two of the five did not attend the final meeting. Their recommendations included two additions to the Findings. One asserted that freezing the assessed value does not encourage rehabilitation or restoration. The other reiterated the fact that the program results in loss of revenue to taxing districts which have reached the Measure 5 limit.

Recommendation:

<u>As adopted by a simple majority at the final meeting:</u>

The Task Force recommends that the 15-year freeze on assessed value be retained as the program's tax incentive. Retention of the incentive is fully justified based on the economic benefits of the program since 1975. Indexing, or any other attempt to limit the incentive would weaken the program's effectiveness in promoting historic preservation and economic development in the state.

<u>The former recommendation, as deleted by a simple majority at final meeting:</u>

Properties certified for participation in the program shall be taxed at their real market value as of the last assessment date in effect at the time of application. After the first tax year following certification, the property's value will be adjusted annually by the county assessor, using trending information based on real estate market studies. The value of improvements made pursuant to the property's preservation plan shall not be subject to property taxation for a period of fifteen (15) years. At the end the tax incentive period, the property shall return to the tax rolls at full value.

Discussion:
Indexing was seen as a way to solve the problem of deflation, which left specially-assessed properties in Albany with frozen values higher than the market, and the problem in Portland, where many frozen values were far below market values. Indexing was seen as a way to eliminate the practice of using the program as a hedge against inflation, since applicants wouldn't derive benefit from the program unless capitol investment was made in the property. Indexing uses real estate market analysis to determine rates of property value inflation or deflation, in order to keep specially-assessed values in line with market trends. The concept was supported by the Association of County Assessors, local governments, and others. There was however, a great deal of uncertainty expressed by indexing opponents about the effect of indexing on the program, given that not all taxing districts are subject to the same market conditions. Many felt that the reductions in tax savings due to Measure 5, coupled with the indexing and other more stringent program proposals, would effectively "kill" the program.

At the final meeting in Salem, the Task Force received written and oral public testimony, as well as the latest draft of the results of the fiscal and economic impact analysis prepared by the Government Finance Research Center. The data presented in the report indicated that the special assessment program, as it has existed since 1975, had successfully encouraged rehabilitation of historic property, even though that was not a program requirement. The report also indicated that the program has also helped pay for itself through increased value of participating and neighboring properties. Testimony was also presented that indexing of the incentive would limit its appeal to property owners, thus jeopardizing its ability to encourage historic preservation and economic development, especially outside the Willamette Valley. The Task Force took a vote on whether to drop indexing and recommend the retention of the 15-year freeze on assessed value as it stands. After considerable discussion, the indexing recommendation was dropped on a simple majority vote, with one abstention. Subsequent to the August 17th meeting, six Task Force members expressed an opinion that the indexing proposal should again be recommended to the Governor and Legislature. One opinion was expressed by letter, the other five came from the group minority position referenced above.

HISTORIC PRESERVATION PLAN
Issue:
In addressing the issues of owner responsibilities and rehabilitation requirements set forth in the mission statement, the Task Force looked at the existing statutory requirements. The existing special assessment law requires only that participating properties be maintained, and it was pointed out that not requiring rehabilitation has resulted in some property owners keeping their buildings in poor or deteriorating condition.

Finding:
The Task Force agreed that both the intent of the law and public benefit would be better served by more strenuous preservation, rehabilitation, and maintenance requirements.

Recommendations:
(1) All properties applying for certification to participate in the historic preservation property tax incentive program shall file a preservation plan with the State Historic Preservation Officer (SHPO), proposing treatment for the property's significant historical features. Historic Preservation Plan guidelines will be developed by administrative rule.

(2) SHPO shall review each property's preservation plan and plan amendments. SHPO approval is required for certification or retention of certification.

(3) Rehabilitation and maintenance made pursuant to the plan must meet the Secretary of the Interior's Standards for Rehabilitation.

(4) Administrative requirements for preservation plans should be simple enough to allow property owners to prepare them on their own.

(5) A covenant shall be placed on the property's deed in order to alert new owners to the existence of the plan and the requirements of the program.

(6) SHPO may remove a property from the program if the owner fails to comply with the historic preservation plan.

PUBLIC VISITATION

Issue:
The public visitation requirements in the 1975 special assessment statute have been a recent source of contention. In 1983, a statewide task force recommended eliminating the provision, as had been done in other states. However, this did not occur and in 1991, enforcement of the public visitation requirement became a public issue.

Finding:
(1) Requiring public visitation in the form of an open house can create security problems for the property owner, can damage the historic resource, and hence is a potential disincentive to participation in the historic preservation program.

(2) Mandatory public visitation requirements impose a substantial administrative and enforcement burden on limited SHPO staff that is not justifiable in terms of public benefit.

(3) No other state currently requires public visitation through an open house. Those states which did (such as Arizona) removed the requirement from their statutes.

Recommendations:

(1) Property owners shall not be required to open the interior of their property for public sightseeing.

(2) Historic property owners shall be encouraged to make their properties available for neighborhood or educational group historic property tours.

(3) Property owners shall provide access for SHPO, a SHPO designee such as a Certified Local Government, or the State Advisory Committee on Historic Preservation to inspect the property.

(4) Properties may be opened for bona fide academic research, as authorized by SHPO, at a time agreeable to the owner.

APPLICATION FEES

Issue:

An application fee has been part of the program since 1983. There was concern over whether the current fee of one-tenth of one percent would be adequate to offset administrative costs, the use to which the fees are currently dedicated.

Finding:

The current application fee (one-tenth of one percent) is insufficient to cover the administrative cost of approving preservation plans and conducting design review of alterations and preservation work.

Recommendations:

(1) A non-refundable application fee of one-fifth of one percent (.002%) of the property's real market value at the time of application shall be charged for each property seeking certification to participate in the historic preservation tax incentive program.

(2) Fees should help support SHPO's preservation plan review efforts. The fee should be minimized and should not act as a disincentive.

(3) A staff position (1 FTE) should be funded to review preservation plans and to conduct design review of proposed alterations and preservation projects, and to monitor properties in the program.

HISTORIC PROPERTY VALUE CAP

Issue:

Some members felt that there should be a limit on the maximum value of properties participating in the program. They proposed that a county-wide, county-by-county property tax millage rate cap be established. Once a county reached the cap, no more historic properties would be eligible to apply for the preservation tax incentive until an equal value of property has exited the program. A local-option cap was also suggested.

Finding:

Task Force recommendations for changes to the tax incentive program obviate the need for a cap by requiring more work from property owners and by reducing the economic value of the incentive. *

* This finding assumed the adoption of the indexing proposal, which was rejected at the last Task Force meeting on August 17th.

Recommendation:

No cap should be placed on the number or value of properties participating in the program. Limitation should be achieved by making the program attractive only to those who will make investments and provide public benefits.*

* This recommendation assumed the adoption of the indexing proposal, which was rejected at the last meeting.

Discussion:

Supporters of the measure stated that a cap was essential for the program to survive sunset and legislative review. It was the proponents' view that the current program had too many participating properties in Multnomah County, which has the state's highest frozen value of historic property, which could cause a loss of local property tax revenues. They were concerned that the new program being advanced by the task force would allow many more properties into the program and cause a greater loss of revenue. They felt the public perception was that the program cost more than the public benefits it generated. They argued that most counties would never reach the cap and be forced to limit their program, but that local governments should decide how much they are willing to pay for historic preservation. It was felt that this was a state program paid for by local government and that local governments should have more control.

Opponents of the value cap proposal argued that the approach of the proposed program obviated the need for limitations. Increased application fees, required preservation plans, and the effects of Measure 5 would reduce the number of applicants. Promoting rehabilitation allows local government to increase revenues over the long run through property values increased through rehabilitation. The proposed program's requirement of preservation work would guarantee that rehabilitation occurs, with all its local economic and social benefits. Opponents of the value cap proposal also argued that a cap would create a first-come, first-served situation in which the first rather than the most significant rehabilitation projects would receive support. They further pointed out that other special assessments, such as those for farm and forest land dwarf the historic preservation special assessment and are not capped. The case for the program was strong enough to gain legislative support without resorting to a cap as a "packaging" tool which undermines the philosophical foundation of the program.

There was little support for this proposal expressed by members of the Task Force at the April 17 meeting, but the issue was held over for discussion and decision until the meeting on May 8. Consensus could not be reached on the issue, and a vote was taken, consistent with the Task Force's decision-making model. On a 5-3 vote, with one abstention, the Task Force decided against adopting the value cap proposal.

RE-APPLICATION

Issue:
Since amended in 1983, a few owners of specially-assessed property owners have removed their property from the program, paid the back taxes, and re-applied for the benefit at a later date, when the tax freeze might be more advantageous.

Finding:
Voluntary removal and reapplication will help the program by allowing participants to opt out of the program and re-enter when they are better able to fulfill their preservation plan.

Recommendation:
At any time during the fifteen year period, property owners may pay back taxes plus interest (at the rate used for refunds by the local jurisdiction) plus one percent (1%) They may then re-apply for the program at a later date. Re-application after the expiration of one continuous 15 year benefit is not to be allowed under any other circumstances.

Discussion:
It was felt that allowing repayment of back taxes plus interest would eliminate any negative revenue impacts while allowing postponement of participation until a later date when preservation work could be successful.

SIGNS AND INTERPRETATION

Issue:

The current program had no provision for signs indicating that a property is listed in the National Register until the administrative rule was amended to require them in March 1992. Should the recommendation for a new historic preservation property tax incentive program include requirements for signs and other interpretive material?

Finding:

(1) Education through signs and interpretive material on historic property is an important public benefit which contributes to the community's sense of place.

(2) Some communities already have standardized signs to promote interpretation and preservation.

Recommendations:

(1) All properties participating in the program shall display signage, approved by SHPO. Signs should not be costly and thereby act as a disincentive.

(2) SHPO should cooperate with local governments which have existing sign programs to avoid duplication of efforts or restrictions.

TRANSFER OF PROPERTY TAX BENEFIT

Issue:

Should a property continue to be eligible for participation in the property tax incentive program when it is sold to another owner?

Finding:

Transferability of the benefit to new property owners is important in making certain that the building is preserved.

Recommendation:

Historic preservation tax incentive status may be transferred from owner to owner, providing the new owner continues to implement the preservation plan, or provides an approved amended plan.

Discussion:

Concern was raised that owners who bought specially assessed property might enjoy the tax benefit while doing nothing to maintain or rehabilitate the property.

MULTIPLE EXEMPTIONS:

Issue:

Multnomah County Chair Gladys McCoy contacted the Task Force regarding the Special Assessment program's limitation of one exemption to property owners. She stated that the limitation prevented the use of the public body exemption, and thereby made historic properties less attractive to public agencies. Similar problems were encountered with non-profit organizations who were discouraged from occupying participating historic property, because they could not use their non-profit exemption. Non-profit organizations purchasing specially assessed historic property for their use must also re-pay all back taxes before they are allowed to claim their non-profit exemption.

Finding:

Current language in the Special Assessment of Historic Property statute prohibits property owners from benefitting from more than one special assessment or property tax exemption. As written, the statute discourages public entities and non-profit organizations from occupying historic properties.

Recommendation:

Statute should be amended to allow specially assessed historic properties to qualify also for non-profit, public body, current-use exemptions, and farm/forest exemptions.

RETROACTIVITY:

Issue:

If adopted by the legislature, should the changes proposed in this report be made retroactive to those properties participating in the program prior to January 1, 1994?

Finding:

Dramatically changing the special assessment program for those currently participating would be unfair.

Recommendation:

Excepting the elimination of the public visitation requirement, the recommendations for legislation included in this report shall not apply retroactively to historic properties certified for special assessment prior to January 1, 1994.

OREGON OUTREACH

Issue:

Oregon's smaller and rural communities are unable to fully participate in the state's historic preservation program due to lack of local staff and expertise.

Findings:

(1) Many of Oregon's important historical resources, identified through LCDC Goal 5 survey and inventory, are located in rural areas or small towns.

(2) These resources are inadequately protected due to shortages of local staff and expertise.

(3) Tourism is a major regional economic development strategy in rural Oregon. Successful tourism initiatives will require preservation and maintenance of the historic resource base.

Recommendations:

(1) The legislature should fund an additional position in the State Historic Preservation Office dedicated to outreach and technical assistance in Oregon communities. The position should be supported by lottery funds due to SHPO's role in promoting economic development through preservation.

(2) State Advisory Committee on Historic Preservation members should be encouraged to provide outreach and technical assistance.

ISSUES FOR FURTHER CONSIDERATION

The following issues were beyond the scope of the Task Force, but emerged from discussions and public hearings as ideas that deserve more investigation and development, particularly if the indexing proposal was accepted.

REVOLVING LOAN FUND:

A revolving loan fund for historic preservation would be helpful to homeowners and small business owners of modest means, helping them rehabilitate and maintain their historic properties. Loan money might be used to fund priority or emergency projects, especially those necessary to protect the structural and historic integrity of the property. Preferences might be given for stabilization projects such as repairing roofs and correcting foundation problems, rather than for putting on the finishing touches and detail work. "Seed money" could be supplied through the legislature by several biennial lottery appropriations. Eligibility might be broadened, to include all locally-designated landmarks under Goal 5.

HISTORIC PRESERVATION INCOME TAX CREDIT FOR HOMEOWNERS AND SMALL BUSINESSES:

Provide an income tax credit to the property owner for the equivalent of 10% of the cost of rehabilitation/maintenance work. If the amount of the credit were larger than the owner's income tax liability, the balance of the credit could be carried forward up to five years. Such a program would require substantial investment to qualify for tax credit. A new statute would be required.

ONE-TIME CORPORATE INCOME TAX CREDIT FOR HISTORIC PRESERVATION:

Provide a tax credit equal to a percentage of investment in certified rehabilitation work. Require substantial investment equal to or greater than 100% of the value of the property prior to rehab. Existing statutes would need to be changed to adopt this program. The program would work similar to the federal Investment Tax Credit program.