

Special Valuation: A Local Tax Incentive

BACKGROUND

During its 1985 session, the Washington State Legislature determined that as the state approached its centennial year, the preservation of a lasting legacy of historic resources was an important goal. In order to reach this goal, the legislature passed a law which allows a "special valuation" for certain historic properties within the state. The primary benefit of the law is that during the ten year special valuation period, property taxes will not reflect substantial improvements made to the property.

Definition:

"Special Valuation" is the revision of the assessed value of a historic property which subtracts, for up to ten years, such rehabilitation costs as are approved by a local review board.

Prior to the passage of this law, owners restoring historic buildings were subject to increased property taxes once the improvements were made. This had the effect of discouraging some owners from rehabilitating their historically significant structures. The Legislature decided that restoration of these properties would be encouraged if tax relief were available. Property tax relief was selected as a tool which could provide the financial incentives necessary to promote rehabilitation of eligible historic properties. Since passage of this law, nearly fifty local governments have implemented programs which allow their constituents to take advantage of this tax relief.

IMPLEMENTATION

Only local governments which implement the law are eligible to pass

on the tax relief to the public. The local government identifies the types of properties that are eligible for special valuation, and designates a local review board that will review applications.

ELIGIBILITY

To be classified as eligible for special valuation, a property must first meet the following criteria:

1. It must be listed in the National Register of Historic Places, individually, or certified as contributing to the significance of a National Register Historic District. In order to receive a statement that a property is certified as contributing to the significance of a National Register Historic District, a property owner should contact their local government, or the Department of Archaeology and Historic Preservation,

OR 2. It must be listed in the Local Register of Historic Places established by a Certified Local Government,

AND 3. It must be of a class of properties approved by the local government.

Eligible properties which undergo substantial rehabilitation may receive special valuation if the rehabilitation work is approved by the local review

board. The work must have been conducted within two years prior to application, and must be equal in cost to at least 25% of the assessed value of the structure prior to rehabilitation.

REQUIREMENTS

Protection of the Property

Property owners who want to take advantage of special valuation must sign an agreement with the local review board that guarantees they will meet the following standards during the ten-year property tax exemption period:

- The property must be maintained in good condition.
- The owner must obtain approval from the local review board prior to making further improvements.
- The property must be visible from a public right-of-way, or otherwise be made available for public view once every year.

The penalty for violating the agreement or other program requirements is substantial. All back taxes which would otherwise have been owed, interest on back taxes, and a penalty equal to 12% of back taxes and interest may be due.

(Continued on page 8)



The One Pacific Building, 7th & Pacific, Tacoma, WA

(Continued from page 1)

If the property is sold, the new owner must sign BOTH an agreement with the local review board for the duration of the special valuation period AND a Notice of Compliance section of the Excise Tax Affidavit. If the notice of compliance is not signed by the new owner and attached to the real estate excise tax affidavit, all additional taxes calculated pursuant to RCW [84.26.090](#) shall become due and payable by the seller or transferor at time of sale.

Qualified Rehabilitation Expenditures

The total cost of the rehabilitation must be equal to at least 25% of the assessed value of the property, exclusive of land value, prior to rehabilitation. "Qualified rehabilitation expenditures" are expenses chargeable to the project and include improvements made to the building within its original perimeter, architectural and engineering fees, permit and development fees, loan interest, state sales tax and other expenses incurred during the rehabilitation period. Not included are costs associated with acquisition of the property, or the enlargement of the building. The local review board in each jurisdiction determines which expenditures are qualified. Qualified rehabilitation expenditures for special valuation are the same as those for the Federal Investment Tax Credits. (For a detailed explanation, see 26 CFR 1.48-12(c).)

Rehabilitation Standards

In order to be eligible for special valuation, properties must retain their historic character after rehabilitation. The standards used by the local review board in their review and approval of the rehabilitation work are *The Washington State Advisory Council's Standards for Rehabilitation*. The State Advisory Council adopted *The Secretary of the Interior's Standards for Rehabilitation and Guidelines for Rehabilitating Historic Buildings* as their standards.

THE APPLICATION PROCESS

An interested property owner files an application with the assessor's office after the rehabilitation work is completed. The assessor transmits the application to the local review board, which schedules a public meeting to discuss the application.

The board may determine the approval or denial of the application at this meeting, or may request additional information. Once the board has made its determination, the applicant and the assessor will be notified within ten days.

If the application is filed with the assessor's office before October 1 and approved by the board, special valuation goes into effect the following year.

DEADLINES TO REMEMBER

Application for special valuation must be made no later than 24 months after the beginning of the rehabilitation work documented for special valuation.

October 1 is the deadline for applications when special valuation is desired for the following year.

PARTICIPATING JURISDICTIONS

At the time of this publication, the following cities and counties have implemented the special valuation program:

Aberdeen	Everett	Port Townsend
Anacortes	Gig Harbor	Pullman
Auburn	Harrington	Puyallup
Bainbridge	Issaquah	Ritzville
Island	Kenmore	Roslyn
Bellingham	Kennewick	Seattle
Black	Kettle Falls	Shelton
Diamond	King County	Shoreline
Bothell	Kirkland	Skykomish
Camas	La Center	Snohomish Cty
Carnation	Lacey	Snoqualmie
Centralia	Lakewood	Spokane City/Cty
Chehalis	Langley	Steilacoom
Cheney	Longview	Tacoma
Cle Elum	Marysville	Thurston County
Clark County	Mason County	Tumwater
Colfax	Newcastle	Vancouver
Colville	North Bend	Walla Walla
Concrete	Olympia	Wenatchee
Dayton	Pasco	Woodinville
Edmonds	Pierce County	Yakima
Ellensburg	Pomeroy	

Technical assistance in implementing the special valuation program is available to local governments from the Department of Archaeology and Historic Preservation.

IMPORTANT CONSIDERATIONS

- In order for a historic property to be eligible for special valuation, it must have been substantially rehabilitated within 24 months prior to the date of application.
- In order for a phased rehabilitation to be eligible, each phase of the rehabilitation must cost at least 25% of the assessed value of the property, exclusive of land value, prior to commencing that phase of work. Work on each phase must have been completed within 24 months prior to the date of application for special valuation for that phase.
- Improvements must be consistent with the historic character of the building. During the ten-year period of special valuation, additional improvements to the property are also subject to compliance with the *Washington State Advisory Council's Standards for Rehabilitation*.
- The property must be maintained in good condition as long as the special valuation is in effect.
- Special valuation may apply to a wide range of properties, at the discretion of the local government in each jurisdiction.
- Applications may be submitted at any time, however the deadline is October 1 when special valuation is desired for the following year. Reduction in property taxes appears one year after special valuation designation and applies until the year following the end of the ten-year period of special valuation.
- Property owners who receive special valuation for a rehabilitation project may also apply for the Federal Investment Tax Credits for the same project.

FOR INFORMATION

For further information about the special valuation program, contact:

Department of Archaeology and Historic Preservation
1063 S. Capitol Way, Suite 106
PO Box 48343
Olympia, Washington 98504-8343
360-586-3074
www.dahp.wa.gov

Special Valuation: For the Local Review Board

It is helpful for the local review board to meet with an applicant for special valuation **before** the rehabilitation work begins, and to review their project to ensure that it complies with *The Washington State Advisory Council's Standards for Rehabilitation*, as well as any additional local standards. This preliminary meeting is mandatory in some communities, and is suggested as a first step in the special valuation process which may avoid conflicts later.

RESPONSIBILITIES

1. UPON RECEIPT OF AN APPLICATION from the assessor, the local review board must:

- a. **SCHEDULE** a public meeting at which the application will be approved or denied
- b. **DETERMINE** eligibility of the property for special valuation based on the following criteria:
 - Is the property historic?
 - Is it included within a class of historic properties determined eligible for special valuation by the local government?
 - Will the rehabilitation work comply with the State Advisory Council's Standards by not adversely affecting those elements qualifying the property as historically significant?
- c. **REVIEW** the applicant's documentation of qualified rehabilitation expenditures to assure that they were at least 25% of the assessed value of the property, exclusive of land value, prior to rehabilitation

2. IF THE PROPERTY IS DETERMINED ELIGIBLE for special valuation, the local review board must:

- a. **PREPARE** and enter into an agreement (on behalf of the local government) with the applicant. The agreement must guarantee that certain minimum standards (listed below) are met during the 10-year period of special valuation
- b. **APPROVE** the application upon execution of the agreement with the applicant
- c. **TRANSMIT** copies of the application, agreement and certification statement (if applicable) to the assessor's office for recording
- d. **NOTIFY** the Washington State Advisory Council of the application approval
- e. **MONITOR** the property during the 10-year special valuation period to assure continued compliance with the requirements of the special valuation program

3. IF THE PROPERTY IS DETERMINED INELIGIBLE for special valuation, the local review board must:

- a. **ADVISE** the applicant of the reason(s) for denial
- b. **EXPLAIN** that the applicant may appeal the decision to Superior Court

4. IF AN APPROVED PROPERTY IS LATER

DISQUALIFIED, due to either the owner's failure to comply with the terms of the agreement, **OR** to a loss of historic value due to alterations, the local review board must **NOTIFY** the owner, the assessor and the Washington State Advisory Council of the disqualification.

MINIMUM STANDARDS FOR A SPECIAL VALUATION AGREEMENT

During the 10-year period of special valuation, the property owner shall:

- a. **MAINTAIN** the property in safe and sound condition and

THE APPLICATION PROCESS

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| Applicant | <ul style="list-style-type: none"> • Submits application to assessor no later than 24 months after beginning date of rehab work to be considered for special valuation |
| Assessor | <ul style="list-style-type: none"> • Reviews application for completeness • Verifies legal owner and legal description • Submits application to local review board within 10 working days |

Local Review Board

- Reviews application and attachments
- Determines approval or denial of application no later than December 31 of application year
- If application is approved, notifies applicant, assessor, and State Advisory Council within ten days
- Executes agreement with applicant
- Returns application to assessor

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| Assessor | <ul style="list-style-type: none"> • Records agreement • Files agreement and application with county recording authority |
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protect it from the elements, and repair deteriorated or broken exterior features, in compliance with *The Washington State Advisory Council's Standards for Rehabilitation*.

- b. **OBTAIN** written consent of the local review board prior to making further improvements or alterations to the property
- c. **MAKE** the property accessible to the public once each year if it is not normally visible from a public right-of-way
- d. **OBTAIN** written consent of the local review board prior to demolishing the property
- e. **NOTIFY** the assessor within 30 days if the property becomes disqualified for special valuation, e.g. if the terms of the agreement are violated

IF THE PROPERTY IS SOLD

If an approved property is sold, and the new owner desires continuation for the special valuation, he must **SIGN** both an agreement with the local review board ensuring that program requirements will be satisfied for the duration of the special valuation period AND a Notice of Compliance section of the Excise Tax Affidavit. If the notice of compliance is not signed by the new owner and attached to the real estate excise tax affidavit, all additional taxes calculated pursuant to RCW [84.26.090](#) shall become due and payable by the seller or transferor at time of sale.

IMPORTANT DEADLINES

- An application for special valuation must be approved or denied before December 31 of the year in which the application is made.
- Within 10 days of approving an application for special valuation, the local review board must notify the applicant and the assessor of their decision and must transmit copies of the application and its attachments, and the agreement, to the assessor's office.

PHASED PROJECTS

Properties which are rehabilitated in phases may receive special valuation for each phase, provided that qualified rehab expenditures for each phase exceed 25% of the assessed value of the property, exclusive of land value, at the time that phase began. Each phase is treated as though it were a separate project, and is subject to all requirements of the special valuation program.

How the Application Process Works:

APPLICANT: • Submits application to the assessor no later than 24 months after beginning date of the rehabilitation work to be considered for Special Valuation.

ASSESSOR: • Reviews application for completeness.
• Verifies legal owner, legal description, etc.
• Submits application to local review board within ten working days.

LOCAL REVIEW BOARD: • Reviews application and attachments.
• Determines approval or denial of application no later than December 31st of application year.
• If application is approved, notifies applicant, assessor, and State Advisory Council within ten days.
• Executes agreement with applicant.
• Returns application to assessor.

ASSESSOR: • Records agreement.
• Files application, agreement and certification statement (if applicable) with the county recording authority.
• Determines special valuation and enters in tax roles separately from the normal assessed value.

HOW ELIGIBLE PROPERTIES ARE DEFINED

To be eligible for special valuation, a property must be:

1. Listed in the National Register of Historic Places, individually or certified as contributing to the significance of a National Register Historic District.

OR

2. Listed in the Local Register of Historic Places established by a Certified Local Government (for more information about the Certified Local Government Program, contact the CLG Coordinator at 360-586-3074).

AND

3. It must be of a class of historic properties approved by the local government.

Note: The local government in each community determines which classes of historic properties are eligible for special valuation, and may elect to exclude some classes of property from the program.