

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

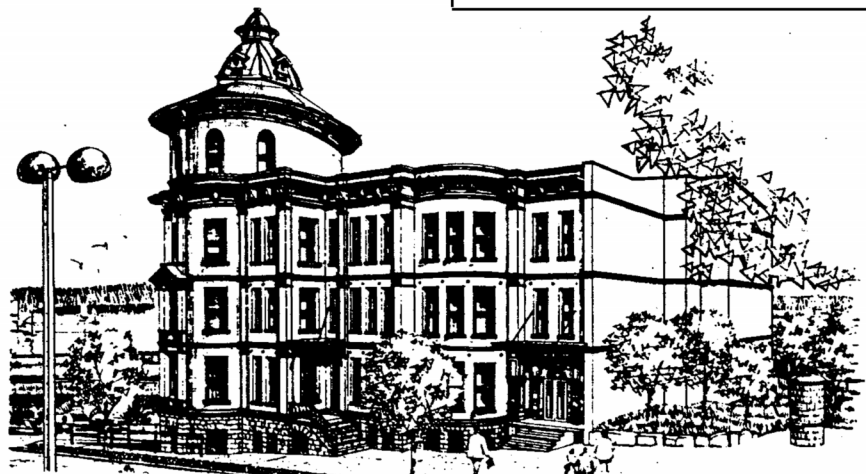
Protection of the Property

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.

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

Special Valuation: For the Applicant

Applications for special valuation will be reviewed, and approved or denied, by a local review board designated by the local government. The board will make their determination at a public meeting, during which the applicant may be present.

It is advisable (and in some communities it is mandatory) for the applicant to consult with the local review board before beginning the rehabilitation work, to ensure that the project will comply with the board's standards.

RESPONSIBILITIES

1. WHILE CONDUCTING THE REHABILITATION, the applicant must:

- a. **MONITOR** rehabilitation work to ensure that it conforms with *The Washington State Advisory Council's Standards for Rehabilitation*
- b. **MAINTAIN** accurate records of project costs, and dates of project work

2. WHEN APPLYING FOR SPECIAL VALUATION, the applicant must **FILE** an application for special valuation with the assessor's office (on the Department of Revenue form) no later than two years after beginning the rehabilitation work considered for special valuation. The application must include as attachments:

- a. The legal description of the property
- b. Comprehensive exterior and interior photographs of the property before and after rehabilitation
- c. Architectural plans or other legible drawings depicting the completed project (if applicable and based on the needs of the local government)
- d. A notarized affidavit attesting to the actual cost of rehabilitation work
- e. A statement from (the appropriate local official) indicating that the property is a certified historic structure if it is located in an historic district

3. IF A PROJECT IS APPROVED, the applicant must:

- a. **SIGN** an agreement with the local review board guaranteeing that during the 10-year period of special valuation he or she shall:
 - **MAINTAIN** the property in safe and sound condition and protect it from the elements, and repair deteriorated or broken exterior features, in compliance with *The Washington State Advisory Council's Standards for Rehabilitation*
 - **OBTAIN** written consent of the local review board prior to making further improvements or alterations to the property
 - **MAKE** the property accessible to the public once each year if it is not normally visible from a public right-of-way
 - **OBTAIN** written consent of the local review board prior to demolishing the property
 - **NOTIFY** the assessor within 30 days if the property becomes disqualified for special valuation, e.g. if the terms of the agreement are violated
- b. **PAY** processing fees (and title search fees, if required) charged by the assessor's office

4. IF THE PROJECT IS DENIED, because the property is determined ineligible for special valuation, the applicant may **APPEAL** the decision of the Local Review Board to Superior Court, or to the legislative authority if local ordinances so provide.

THE APPLICATION PROCESS

Applicant • Submits application to assessor no later than 24 months after beginning date of rehab work to be considered for special valuation

Assessor • 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

Assessor • Records agreement
• Files agreement and application with county recording authority
• Determines special valuation and enters in tax rolls (as a separate value from normal assessed value)

5. IF THE PROJECT IS LATER DISQUALIFIED for special valuation, or in the event of any dispute, the applicant may **APPEAL** to the County Board of Equalization.

6. IF THE PROPERTY IS SOLD, and the new owner desires continuation of the special valuation, he or she must **SIGN** both an agreement with the local review board ensuring that the 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

- Application for special valuation must be made no later than 24 months after the beginning date of the rehabilitation work.
- October 1 is the deadline for applications when special valuation is desired for the following year. NOTE: due to the lag in property tax payments, the tax reduction will appear one -year after special valuation designation, and it applies until the year following the end of the 10-year special valuation period.

PHASED PROJECTS

Properties which are rehabilitated in phases may receive special valuation for each phase, provided that qualified rehabilitation 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.

Special Valuation: For the Local Government

The action of the local government is the first step in implementing the special valuation program in each jurisdiction, thus allowing its constituents the potential to realize substantial tax savings. Since passage of the law, approximately fifty local governments have implemented the special valuation program.

RESPONSIBILITIES

WHEN ESTABLISHING THE SPECIAL VALUATION PROGRAM for the jurisdiction, the local government must:

- 1. IMPLEMENT** the special valuation law through ordinance or administrative rule
- 2. IDENTIFY** one or more classes of historic properties in the community which are eligible for special valuation
- 3. DESIGNATE** a local review board to review the application, and approve or deny properties for special valuation
- 4. APPOINT** members to the local review board

IMPORTANT CONSIDERATIONS

- Once the local government has identified a class of eligible historic properties, it may amend the criteria defining the class at any time. However, if the new criteria are more restrictive than the previous criteria, the new criteria may not take effect for a period of two years following October 1 of the year in which the change is made. Amendments to the criteria will not disqualify properties already subject to special valuation.
- The law permits multiple local governments within the same county to jointly designate, under an interlocal agreement, a single local review board to administrate the program.

THE APPLICATION PROCESS

- Applicant**
- Submits application to assessor no later than 24 months after beginning date of rehab work to be considered for special valuation

- Assessor**
- 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

Assessor

- Records agreement
- Files agreement and application with county recording authority
- Determines special valuation and enters in tax rolls (as a separate value from normal assessed value)

Special Valuation: For the Assessor

The assessor's role in the special valuation program is limited to processing the application forms and maintaining records of special valuation assessments for properties approved by the local review board. The assessor maintains two separate values on the tax rolls - the special valuation and the normal assessed value - for affected properties.

RESPONSIBILITIES

1. **UPON RECEIPT OF AN APPLICATION**, the assessor must:
 - a. **RECORD** the date of receipt
 - b. **REVIEW** the application for completeness:
 - Verify the legal owner
 - Verify the legal description
 - Verify the legal description and parcel or tax account number
 - c. **TRANSMIT** the application and attachments to the local review board within 10 days of receipt
2. **UPON RECEIPT OF AN APPROVED APPLICATION** and agreement from the local review board, the assessor must:
 - a. **RECORD** the application, agreement, and certification statement (if applicable)
 - b. **TRANSMIT** copies to the county recording authority
 - c. **DETERMINE** the special valuation:
 - The total assessed value of the property (including improvements and land), minus the qualified rehabilitation expenditures, equals the special valuation. This special valuation will change to reflect changes in the total assessed value, and will be in effect for 10 years.
 - d. **ENTER** the determined special valuation on the tax rolls separately from the normal assessed value
 - e. **CHARGE** processing fees to the applicant, as necessary, in addition to any fees associated with a title search (these fees shall be payable to the county auditor or county recorder)
 - f. **INDICATE** the special valuation on the yearly tax statement
 - g. **RETAIN** copies of all documents
 - h. **REVALUE** properties on the regular revaluation cycle, deducting the cost therefrom to determine the taxable value
3. **UPON TERMINATION** of the 10-year special valuation period, the assessor must:
 - a. **REVALUE** the property without consideration for special valuation
 - b. **ENTER** the new value on the tax roles
4. **IF THE TERMS OF THE AGREEMENT** are violated, **OR** the property is disqualified for special valuation, the assessor must:
 - a. **LEVY** the back taxes (which otherwise would have been due) plus interest and penalty:
 - Rehabilitation costs times the levy rate for the elapsed portion of the year,
 - Plus interest (from April 30) normally charged on delinquent tax bills
 - Plus an additional 12% penalty.

(For additional information, see WAC 458-15-090)

THE APPLICATION PROCESS

- Applicant**
- Submits application to assessor no later than 24 months after beginning date of rehab work to be considered for special valuation

- Assessor**
- 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

- Assessor**
- Records agreement
 - Files agreement and application with county recording authority

THE TIME LAG

Due to the lag in property tax payments, special valuation status will precede, by one year, the reduction of taxes due on affected properties. Thus the reduced tax will apply until the year following the end of the 10-year special valuation period.

IMPORTANT DEADLINES

- Application for special valuation must be made no later than 24 months after the beginning date of the rehabilitation work. The project can begin prior to the 24 month period, however, only qualified rehabilitation work done within the 24 month period can be tallied.
- October 1 is the deadline for applications when special valuation is desired for the following year.

PHASED PROJECTS

Properties which are rehabilitated in phases may receive special valuation for each phase, provided that qualified rehabilitation 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.

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 |
|-----------------|---|

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.

The Timetable

**WITHIN 2 YEARS PRIOR TO
DATE OF APPLICATION:**

- Rehabilitation work begun and completed. The rehabilitation does not necessarily have to have been started during the 24 month period, however, only costs incurred during the 24 months prior are eligible.

**BEFORE OCTOBER 1 (IF
SPECIAL VALUATION IS
DESIRED FOR FOLLOWING
YEAR):**

- Applicant submits application.

WITHIN 10 WORKING DAYS:

- Assessor completes review and submits application to local review board.

BEFORE DECEMBER 31:

- Local Review Board approves (or denies) application and executes agreement.

**WITHIN 10 DAYS OF ISSUING
THEIR DECISION:**

- Local Review Board submits approved application and agreement to assessor; assessor records documents.

FIRST YEAR - JANUARY 1:

- Special valuation effective.

**SECOND YEAR THROUGH
ELEVENTH YEAR:**

- Taxes reflect special valuation.

TENTH YEAR:

- Special valuation ends.

TWELFTH YEAR:

- Taxes reflect revaluation of property following end of special valuation.

DETERMINING SPECIAL VALUATION

The amount of property tax you will pay is based on the special valuation of your property. Special valuation is simply a value, for property tax purposes, which is calculated by subtracting qualified rehabilitation expenditures from the total assessed value of the property. Your property tax may change from year to year because of changes in the assessed value, but the qualified rehabilitation expenditures will continue to be deducted from the new assessment for the full ten-year period of special valuation.

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.

(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.
- A property is eligible for two seven-year extensions of the special valuation if: The property is located in a county that is listed as a distressed area as reported by the state employment security department; and the city is under twenty thousand in population; and the property continues to meet the criteria provided in RCW 5 84.26.030.

FOR MORE INFORMATION

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