Special Valuation: A Local Tax Incentive Program

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.

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, over thirty-five 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 the tax relief to the public. The local government identifies the types of properties that are eligible for special valuation, and designs 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 Washington State Office 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

(Continued on page 4)
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.

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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.

**The Timetable**

**WITHIN 2 YEARS PRIOR TO DATE OF APPLICATION:**
- Rehabilitation work begun and completed.

**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**

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(Continued from page 1)

and interest may be due.

If the property is sold, the new owner must sign an agreement with the local review board ensuring that program requirements will be satisfied for the duration of the special valuation period, or the seller may be subject to the penalties discussed above.

**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.

**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:

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<th>Auburn</th>
<th>Newcastle</th>
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<td>Bellingham</td>
<td>North Bend</td>
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<td>Black Diamond</td>
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<td>Snoqualmie</td>
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<td>Kenmore</td>
<td>Spokane City/County</td>
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<td>Kennewick</td>
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<td>King County</td>
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<td>Kirkland</td>
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<td>La Center</td>
<td>Tumwater</td>
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<td>Lacey</td>
<td>Vancouver</td>
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<td>Longview</td>
<td>Walla Walla</td>
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<td>Marysville</td>
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Technical assistance in implementing the special valuation program is available to local governments from OAHP.

**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:

Office of Archaeology and Historic Preservation
1063 S. Capitol Way, Suite 106
PO Box 48343
Olympia, Washington 98504-8343
360-586-3074
www.oahp.wa.gov
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 ownership changes without indication that the new owner will sign an agreement to meet the program requirements for the duration of the special valuation period, 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

THE APPLICATION PROCESS

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          | • 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                                               |

- Plus an additional 12% penalty.

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

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.
- 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.
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 on.

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 for Rehabilitation 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) were 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
   b. **EXPLAIN** the applicant of the reason(s) for denial
   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

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**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 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 thirty-five 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 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.

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|              | - Determines special valuation and enters |
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 project. 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
   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 to the decision of the Local Review Board to Superior Court, or the County Board of Equalization.

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, her or she must SIGN an agreement with the local review board ensuring that the program requirements will be satisfied for the duration of the 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.
- 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.

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