



## DEPARTMENT OF REVENUE

Property Tax Division

## HISTORIC PROPERTY

# GUIDELINE

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### Background

The Arizona State Historic Preservation Act of 1978 authorized a reduction in assessable value for non-income-producing properties listed on the National Register of Historic Places. In 1992, the Legislature amended the property tax assessment procedures for "historic" real property to include income-producing "commercial historic" properties, and provided special valuation procedures for their rehabilitation and preservation under specified conditions. Prior to the 1992 legislation, Legal Class Eight applied to all real property classed as "historic property." The early assessment procedures did not permit those properties to be engaged in any income-producing activity. During the 1992 legislative session, the Legislature created two new legal classes of historic commercial real property (Legal Class Nine and Legal Class Ten).

Pursuant to Laws 1999, Chapter 344, Sections 11, 16, 17, 18 and 61 (effective January 1, 2000), the legal classifications for Historic Property were changed as follows: Legal Class Eight became Legal Class Six, Subclass One; Legal Class Nine became Legal Class Seven; and Legal Class Ten became Legal Class Eight.

Being listed on the National Register of Historic Places is required for all classes of historic real property in order for them to qualify for state tax incentives. Pursuant to Arizona Administrative Code (A.A.C.) R12-8-301.3, the "National Register of Historic Places" means the Nation's "... official list of historic districts, sites, buildings, structures, and objects significant in American history, architecture, archaeology, engineering, or culture." The criteria for determining and verifying the historic status of real property by the State Historic Preservation Office (SHPO) is adopted from the U.S. Department of the Interior, and the National Park Service's publications, "The Secretary of the Interior's Standards for Historic Preservation Projects, Section III, Guidelines, 1983" and "The Secretary of the Interior's Standards for Rehabilitation, National Park Service, 1995."



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The current property tax assessment provisions for real property that is designated as “historic” are found in Title 42 (Taxation), Chapter 12 (Property Classification), Article 3 (Historic Property Classification), A.R.S. §§ 42-12101 through 42-12108. § 42-12101(1) defines “commercial historic property” as real property that meets “... the criteria for classification as class one, paragraph 12 [sic] ... or class four ...” § 42-12101(2) does not define “noncommercial” real property by cross-referencing any other legal classifications. However, by that omission “noncommercial” property is generally understood to mean any real property that would not otherwise be classified as Legal Class One or Legal Class Four.

Although A.R.S. § 42-12101(2)(c) states “... no business or enterprise [may be conducted on the property] with the intent of earning a profit,” it has been determined that property-owning nonprofit entities may engage in various activities that are normally considered to be commercial in nature (e.g., gift shop sales, leasing grounds or buildings for weddings, etc.) without losing their nonprofit status. “Occasional” or “incidental” (or similarly-described) property uses may generate income, but in recent court case decisions they have not been considered to detract from a property-owning entity’s primary nonprofit organizational mission, and therefore do not constitute a “commercial use” as the phrase is generally understood in regard to classifying properties for property tax assessment purposes.<sup>1</sup>

In another departure from typical property tax assessment practices, the SHPO also considers real property classified as Legal Class Four to have “commercial” uses (in the majority of instances, these will most likely be Subclass One residential-rental or Subclass Five “bed and breakfast” property uses). These properties are not considered to have “commercial” uses for any other assessment purposes, which is why they have not been categorized under Legal Class One. Note also that the property uses described by the other six subclasses of Legal Class Four, while not prohibited from being designated as historic, are considered unlikely to obtain historic designation.

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<sup>1</sup> As an example, see 1 CA-TX 07-0007 Tucson Botanical Gardens vs. Pima Co.



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### **Noncommercial Historic Property**

Real property that is used for noncommercial purposes and that is listed in the National Register of Historic Places, either individually or as a contributor within a historic district on the National Register, qualifies for reclassification as noncommercial historic property if it meets the minimum standards of maintenance established "... by rule by the Arizona state parks board," pursuant to A.R.S. § 42-12101(1)(c) and is certified by the State Historic Preservation Officer (see Exhibit 2, page 22). A.R.S. § 42-12102(C) permits a qualified property to retain a Legal Class Six, Subclass One status for fifteen consecutive tax years, with the possibility of succeeding fifteen-year renewal periods if the property's historic status is continued by the SHPO. This category of historic property use consists predominantly of owner-occupied residential use properties (i.e., a taxpayer's primary residence), but other historic properties may qualify provided no business or enterprise is conducted on those properties with the intent of earning a profit.

### **Commercial Historic Property**

For the purposes of both the SHPO's Historic Property program and this guideline, "income-producing" property that is normally classified as Legal Class One or Legal Class Four and that meets the qualifications for reclassification as Legal Class Seven or Legal Class Eight property, and that also meets the program's criteria for historic valuation and assessment, shall be reclassified as "commercial historic property."

As noted above, the commercial historic property legal classification was expanded by 1992 legislation to create two distinct legal classes for commercial historic properties. Legal Class Seven now applies to commercial historic real property that would otherwise meet the criteria for classification in Legal Class One, Subclass Twelve. Legal Class Eight applies to real property that also, as discussed above, would otherwise meet the criteria for classification in Legal Class Four. Special valuation and assessment procedures apply to commercial historic real property that is classified as Legal Class Seven or Legal Class Eight.



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These procedures require the local County Assessor to value a subject property using either the market sales comparison approach, as described in A.R.S. § 42-16051(B)(2), or the cost approach, as described in § 42-16051(B)(3). Either approach uses the year of SHPO application approval as the first (or “base”) year of valuation for real property that has been reclassified as having been designated a historic property. In accordance with A.R.S. § 42-12104(B), the income approach is **not** to be used to value commercial historic property.

As long as an owner continues to operate and maintain the property according to the laws, rules and regulations that govern the Historic Property program, the County Assessor will classify commercial historic property in Legal Class Seven or Legal Class Eight for a maximum period of ten consecutive tax years. Commercial historic real property is not restricted to a single ten-year reclassification and valuation period. Subsequent ten-year periods are possible, if:

1. An owner proposes appropriate new additional investments.
2. All new projects meet SHPO qualifications.
3. A new application for each new project is approved.

### **SHPO Application - Provisions and Qualifications**

Real property owners seeking historic property reclassification and valuation status must complete a State of Arizona Historic Property Tax Verification of Eligibility for Property Tax Reclassification form. This form is available from the County Assessor’s Office or the SHPO.<sup>2</sup> To qualify a property for reclassification and valuation as Legal Class Six, Subclass One (noncommercial historic property), or as Legal Class Seven or Legal Class Eight (commercial historic property), the property owner must file the completed application form with the County Assessor. Within ten days of receiving the application form (hereafter referred to as “Application”), the Assessor shall refer it to the State Historic

<sup>2</sup> A 2007 rule change made by SHPO to the Arizona Administrative Code renamed the application a “Verification of Eligibility” form. Statutes under Title 42 refer to this form as an application.



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Preservation Officer, pursuant to A.R.S. § 42-12102(E). Pursuant to A.R.S. § 42-12103(A), the SHPO, with the assistance of the Arizona Historical Advisory Commission, shall review the application and may view the subject property. The SHPO may approve all, or only part, of the historic property application. At any time before approval, or if any part of the application is denied, the applicant may withdraw the application. Any real property owner whose application is denied may appeal the decision to either the Tax Court or to the Superior Court, pursuant to A.R.S. §§ 42-12103(E) and 12-163(B).

The SHPO will notify both the applicant and the Assessor of the approval or denial of the application on or before August 1.<sup>3</sup> If approved, the SHPO shall certify their determination in writing, stating the facts on which the approval is based, and shall file a copy of the certification within ten days with the Assessor. Pursuant to A.R.S. § 42-12103(B), an application that is not approved by August 1 of a calendar year is considered to be denied for that valuation year and the accompanying tax year.

For each parcel of real property being reclassified, valued and assessed as historic property, the Assessor must enter on the real property tax roll the notation "historic property (potential additional tax)." This information notifies the public that penalty taxes may apply to the property if it ceases to qualify for historic property classification and assessment, as specified in A.R.S. § 42-12107(A) through (F). The SHPO can deny an application if the property fails to meet the program's eligibility requirements. The program excludes any structures or other improvements or any land areas that do not "... contribute to the historic character of the property ..." as described in The National Register of Historic Places.<sup>4</sup> Note also that by statutory definition personal property is excluded from the program.

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<sup>3</sup> See Exhibit 1 for the historic property valuation and assessment calendar, pages 20 - 21.

<sup>4</sup> Pursuant to Arizona Administrative Code R12-8-304.C.1, "The Officer shall not certify a historic property that includes within its legal description a building, structure, improvement, or land area that does not contribute to the historical character and that can be excluded by modifying the legal description. If the legal description in an application includes an element or area of this nature, the applicant shall modify the legal description upon notification by the Officer in order to be eligible for certification."



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### Reporting Requirements

Once a property has been accepted into the Historic Property program, the SHPO shall require that the property owner submit a statement to the State Historic Preservation Officer, once every three years, showing that the property has been operated and maintained according to the laws, rules and regulations governing the program. The SHPO also requires that the property owner submit written descriptions and supporting photographs for project approval pursuant to their Standards (pursuant to A.A.C. Rule R12-8-306) prior to the implementation of any rehabilitation project. See Exhibit 2, page 22.

### Disqualifications and Penalties

A property can lose its designation as a qualified historic property under the Historic Property program for any of the following four conditions:

1. Notice to the County Assessor by the SHPO that the property no longer qualifies for the program's property tax benefits.
2. Notice to the County Assessor from the taxpayer to discontinue the historic property classification.
3. A sale or transfer of the property to an ownership that makes it exempt from taxation.
4. Failure to maintain the property in a manner consistent with the minimum standards of maintenance<sup>5</sup> established by rule of the State Parks Board.

A historic property that ceases to qualify under the SHPO program requirements due to conditions 1, 2 or 4 above is subject to the imposition of a penalty. The penalty equals the **lesser** of either fifty percent of the total property tax dollar amount reduction during the years the property was classified as a historic property, or fifty percent of the current market value of the property. The penalty is added to the tax that will be levied against the property on the next property tax roll after it has been disqualified, pursuant to A.R.S. § 42-12107(A).

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<sup>5</sup> See Exhibit 2 for Arizona State Park Board Rules R12-8-306 Minimum Maintenance / Restoration Standards, page 22.



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If historic real property, or any portion of a historic property, ceases to qualify for historic designation, the property owner is required to notify the County Assessor of the change in the property's status prior to January 1 of the next calendar year. The Assessor shall then reclassify the property according to its current use and redetermine its current market value by the use of all applicable standard appraisal methods and techniques.

When real property that was reclassified as historic property becomes disqualified for historic designation, and the property owner fails to notify the Assessor as required by A.R.S. § 42-12106(B), the Assessor must determine the date that the notice should have been issued. The Assessor is then required to notify the property owner by mail (return receipt requested) of the property's disqualification prior to assessing the penalties pursuant to A.R.S. § 42-12107(C).

The County Treasurer shall then add to the tax levied on the property an additional penalty of fifteen percent of the fifty percent penalty for disqualification. The penalties described above apply only to the current fifteen-year qualifying period for a noncommercial historic property assessed in Legal Class Six, Subclass One, or to the current ten-year period for a commercial historic property assessed in Legal Class Seven or Legal Class Eight.

The sale, or any other transfer of ownership, of a property to a new owner, including a transfer by reason of death, shall not disqualify the subject property from being classified and assessed as a historic property as long as the property continues to qualify for historic designation pursuant to A.R.S. § 42-12101. The ten-year qualifying time period limitation would still be applicable for a commercial historic property even though the ownership of the property changed. The fifteen-year qualifying time period, and renewal options, would also still be applicable to a noncommercial historic property.



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Pursuant to A.R.S. § 42-12107(D) and (E), penalties are also not to be imposed on a historic property on the sale or transfer of the property to an ownership that makes that property exempt from property taxation, or if a historic property is destroyed by fire - unless the fire was determined to be the result of an intentional act of the owner (or an agent of the owner, acting on behalf of the owner) - or by an act of God.

### **Valuation and Assessment of Noncommercial Historic Property (A.R.S. § 42-12104)**

The County Assessor should value noncommercial historic real property at its current market value in the same manner as any other similar use properties - by using all applicable standard appraisal methods and techniques. The Assessor uses January 1 through August 1 of the calendar year in which the property received SHPO program eligibility approval as the "base" year for property tax valuation purposes (e.g., the 2009 valuation year / 2010 tax year assessment cycle). Noncommercial historic properties should be classified as Legal Class Six, Subclass One property, which has a five percent assessment ratio.

### **Valuation and Assessment of Commercial Historic Property (A.R.S. § 42-12104)**

The assessment of commercial historic real property is more complicated, and valuation is limited to the market sales comparison and cost approaches to value. As noted previously, commercial historic property is classified as either Legal Class Seven or as Legal Class Eight. Legal Class Seven consists of property that would otherwise be classified as Legal Class One, Subclass Twelve and which is also qualified for historic designation.

Legal Class Seven historic properties have a "base" value, which utilizes the same assessment ratio percentage applied to Legal Class One properties for the current valuation year. A one percent assessment ratio is applied to the "historic renovation" value, which is based on modifications intended to restore and rehabilitate a historic property as approved by the SHPO. The basic mechanics of both "base" and "historic renovation" valuations will be explained in more detail below.





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Legal Class Eight consists of real property that would otherwise be classified as Legal Class Four and which is qualified for historic designation. Similar to Legal Class Seven, all Legal Class Eight historic property modifications intended to restore and rehabilitate a historic property as approved by the SHPO are assessed with a one percent assessment ratio. However, the Legal Class Eight “base” value utilizes a ten percent assessment ratio, which is the same assessment ratio utilized by Legal Class Four.

The State Historic Preservation Office will notify the local County Assessor in writing when a historic commercial property owner has notified the SHPO of the completion of any approved rehabilitation project. The SHPO will send a notification of a project’s completion to the County Assessor on the form entitled, “State Historic Property Tax Program: State Historic Preservation Office Review of Plans and Completed Projects.” The SHPO does not provide the Assessor with an approved lump sum dollar amount representing the restoration or rehabilitation costs for the property.

When a commercial historic property is accepted into the SHPO program, the County Assessor must determine the “base” value for the land and for the improvements. Any rehabilitation work that is done prior to the historic certification of the property is **not** eligible for retroactive adjustments to value. To qualify for consideration in this program, the SHPO must approve any modifications that are to be made during the ten-year period prior to the start of their construction. For commercial historic properties, the Assessor must determine a “base” value for the land and improvements and assess the increased “historic renovation” value of those improvement modifications that are intended to restore or rehabilitate a historic property at one percent for up to ten years. The one percent assessment ratio applies only to the percentage of value attributable to the modifications intended to restore or rehabilitate a historic property, as approved by the State Historic Preservation Officer. The “base” assessed value is determined utilizing the current valuation year’s Legal Class One or Legal Class Four assessment ratio, as applicable.



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The Assessor must determine the current market value of the land, and must also record and maintain a separate “base” improvement value. In addition to the base improvement value, the value associated with the restoration and rehabilitation of a commercial historic property must also be separately recorded and maintained. The land value may fluctuate with corresponding market values. It is included as part of the “base” value of the property. Additionally, the Assessor may increase the “base” improvement value allocation if a property owner exceeds the minimum standards for historic preservation by upgrading a property beyond the approved scope of work. The SHPO will notify the Assessor of any nonqualifying upgrades. The values of these nonqualifying upgrades are added to the “base” improvement value.

### **The Three Basic Components of a Commercial Historic Property’s Value**

The County Assessor must maintain the following three categories of values for every commercial historic property:

1. **“Base” land value.** The initial “base” land value is the land value in the valuation year in which the original application was approved by the SHPO. The “base” land value may change in subsequent years if market values fluctuate downward or upward. Regardless of land value changes, the current valuation year’s land value is always considered part of the “base” value that is assessed as a commercial historic property.
2. **“Base” improvement value.** The “base” improvement value represents the value of the improvements **prior** to any restoration and rehabilitation work being completed. As with the land value, the “base” improvement value and the historic improvement value could fluctuate because of market influences. Changes in market values would dictate what percentage of the improvement’s value is subject to the commercial historic “base” values in subsequent years. Improvements added to the property



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which are beyond the scope of the approved standards for historic preservation do not qualify for the one percent assessment ratio for a commercial historic property.

### 3. **“Historic Renovation” (restoration and rehabilitation) improvement value.**

This portion of the improvement value will represent the value-added portion for modifications intended to restore or rehabilitate those improvements that are approved by the SHPO. This value will be assessed with a one percent assessment ratio during the ten-year period that a property is qualified for classification as a commercial historic property.

Once a property has been accepted into the program, the Assessor will annually determine the market value of the property, subtract the land value and the “base” improvement value, and assess the remainder of the improvement value at one percent.<sup>6</sup> The historic value component of the property will include the increased value, over time, associated with only those modifications that are intended to restore and rehabilitate the historic structures.

### **Valuation using the Market Sales Comparison Approach**

If there are an adequate number of comparable sales available to use to generate a market sales comparison approach value for a historic property, the County Assessor may apportion the value of the site and building improvement modifications using the “percent complete” commercial component section of the Arizona Department of Revenue’s Construction Cost System Manual as a guide. As an example, if the roof system (14.7%), interior (19.2%), plumbing (6.4%), heating and cooling (9.1%) and electrical (10.5%) components are all replaced to rehabilitate a commercial historic property, 59.9 percent of the improvement value then qualifies for the one percent assessment ratio.

**Note:** If the Department’s Construction Cost System value estimation program is not used, a comparable construction cost system should contain similar improvement identification and section segregation functions, and should produce equivalent construction cost values for the appropriate components.

<sup>6</sup> This method requires no accounting of construction costs by the property owner or any analysis of the value of the modifications approved by the SHPO. The SHPO will merely review the modifications for adherence to the Secretary of the Interior’s Standards for Rehabilitation.



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**Apportioned “Base” and “Historic” Component Calculations**

The following example demonstrates the “base” and “historic” component apportionment calculations for a Legal Class Seven commercial historic property. This process would be applicable to a Legal Class Eight property as well. The hypothetical property is a commercial use building that has been designated as a historic property. The market value of the land, based on the sale of comparable parcels, is \$80,000. The total market value of the improvements is \$200,000. The renovations are 59.9 percent of the improvement value, or \$119,800. The “base” value of the improvements is \$80,200. The total market value of the overall property is \$280,000.

Total Market Value of Property:	<b>\$280,000</b>
Less Land Value:	<u>- 80,000</u>
Total Improvement Value:	\$200,000
Restoration / rehabilitation value: (59.9 %)	<u>- 119,800</u>
“Base” Value of Original Improvement:	\$ 80,200

**Calculation of apportioned “base” and “historic” components:**

“Base” value: Land \$80,000 + original improvement value \$80,200	=	\$160,200
“Base” Value of Total Property: \$160,200 ÷ \$280,000 (Market Value)	=	.572
“Restoration / rehabilitation”: \$119,800 ÷ \$280,000 (Market Value)	=	.428
“Base” land and improvement values assessed at 22.0 % (.22 x .572) (Legal Class One assessment ratio in example represents 2009 tax year)	=	.126
“Restoration / rehabilitation” value assessed at 1 % (.01 x .428)	=	<u>+ .004</u>
<b>Overall Assessment Ratio:</b>	=	<b>.130</b>
Overall Assessed Value: \$280,000 x .130 (13.0 %)	=	<b><u>\$ 36,400</u></b>

**Note:** See also Exhibit 3 on page 23.



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### **Valuation using the Cost Approach**

A.R.S. § 42-12104(B) limits the County Assessor to using either the market sales comparison approach or the cost approach to value all historic real property. If no comparable sales can be found to generate a market sales-based value, the Assessor can generate an accurate cost approach value using the Arizona Department of Revenue's Construction Cost System - or a comparable construction cost estimation program. The following improvement listing method will allow the Assessor to determine the appropriate "base" and "historic" value portions of all qualified improvements.

All improvements should be listed in detail to provide a complete cost record for the entire property. Each separate improvement will consist of at least two sections. Section One will represent the original structure (or "Base") as it existed at the time the property was accepted into the SHPO's historic property program. Section Two will represent that portion of the improvement (or "Historic Renovation") that has been restored or rehabilitated.

The percent complete field on the baseline of the DOR data collection forms, or the same field in the DOR's on-line program, for each section can be used to address the appropriate percentage of total value associated with that section.

The same method of apportionment as demonstrated in the market sales comparison approach example above can also be used to determine the appropriate percentage to be applied to each section. Both sections for each improvement should have identical component listings and baseline data, with the exception of the "construction year" field and the "percent complete" field. Section One would have the original construction year listed, while Section Two would list the calendar year in which the restoration or rehabilitation construction work took place. The percent complete fields will be used to distinguish what percentage of total value should be associated with each section.



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By listing all improvements in this manner, the Assessor will be addressing the appropriate overall effective age of the subject property and applying the appropriate amount of depreciation to the two different categories of improvements. Any additional work on the property that has occurred, but that has not been approved by the SHPO, would require an additional sectionalized listing of only those improvements.

For example, an addition that has been constructed to allow for an expansion of a facility would be treated separately, having a different section number. The value of this separate section (addition) would be included in the “base” value when the County Assessor performs the calculation to determine the overall assessment ratio of the property. Once a property has been approved for acceptance into SHPO’s Historic Property program, the Assessor will calculate both the “base” improvement assessed value and the land’s assessed value using the current valuation year’s assessment ratio for Legal Class Seven property, or a ten percent assessment ratio for Legal Class Eight property.

Again, the “base” improvement value represents the value of the structures as they existed at the time the property was accepted into the Historic Property Program. The value of any additional improvements attributable to the “historic renovation” modifications, made to restore or rehabilitate a historic property as approved by the State Historic Preservation Officer, is assessed at one percent.



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**A Sample DOR Construction Cost System Cost Record Apportionment**

As shown below, Improvement One / Section One represents the original structure, constructed in 1936. Improvement One / Section Two represents those portions of the improvements that were restored or rehabilitated in 2006. Improvement Two / Section One represents the original commercial yard improvements, also constructed in 1936.

<b>IMPR NBR</b>	<b>0001</b>	<b>SECTION</b>	<b>01</b>	<b>RETAIL STORE</b>		<b>% OWNED</b>	1.0000
MODEL	1113	GRADE	A	CLS C <b>CONST YR</b>	<b>1936</b>	APPRAISAL DATE	08/02/2005
COND	1.00	OBSOL	.00	IPR 0 MKT ADJ	0.82	UPDATE DATE	01/08/2006
<b>PCT COMP</b>	<b>.55</b>	MOD	1.00	SQFT N GRFLPRM	280	REPL COST	267945
STORIES	1.0	ST HT	12	GRND FLR AREA	4900	LOC REP CST	147370
DEPREC	.600	LOC	1.00	TOTAL AREA	4900	<b>ASSESS FCV</b>	<b>48337</b>
<b>IMPR NBR</b>	<b>0001</b>	<b>SECTION</b>	<b>02</b>	<b>RETAIL STORE</b>		<b>% OWNED</b>	1.0000
MODEL	1113	GRADE	A	CLS C <b>CONST YR</b>	<b>2006</b>	APPRAISAL DATE	08/02/2005
COND	1.00	OBSOL	.00	IPR 0 MKT ADJ	0.82	UPDATE DATE	01/08/2006
<b>PCT COMP</b>	<b>.45</b>	MOD	1.00	SQFT N GRFLPRM	280	REPL COST	267945
STORIES	1.0	ST HT	12	GRND FLR AREA	4900	LOC REP CST	120575
DEPREC	.000	LOC	1.00	TOTAL AREA	4900	<b>ASSESS FCV</b>	<b>98871</b>
<b>IMPR NBR</b>	<b>0002</b>	<b>SECTION</b>	<b>01</b>	<b>COMM'S MISC YARD IMPS</b>		<b>% OWNED</b>	1.0000
MODEL	1013	GRADE	A	CLS C <b>CONST YR</b>	<b>1936</b>	APPRAISAL DATE	08/02/2005
COND	1.00	OBSOL	.00	IPR 0 MKT ADJ	0.82	UPDATE DATE	01/08/2006
<b>PCT COMP</b>	<b>1.00</b>	MOD	1.00	SQFT N GRFLPRM	1	REPL COST	1913
STORIES	1.0	ST HT	1	GRND FLR AREA	1	LOC REP CST	1932
DEPREC	.600	LOC	1.01	TOTAL AREA	1	<b>ASSESS FCV</b>	<b>634</b>

The above example is based on the same method of apportionment that was used in the previous market sales comparison approach example using the "percent complete" commercial component section of the DOR Construction Cost System Manual. This hypothetical historic property had the interior (19.2 %), plumbing (6.4 %), electrical (10.5 %) and heating and cooling (9.1 %) components replaced in calendar year 2006. A total of 45.2 percent (rounded down to forty-five percent) of the structure was new for valuation year 2006.



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Therefore, the original structure, constructed in 1936, represents only fifty-five percent (100 % - 45 % = 55 %) of the structure's total components. The baseline of Improvement One / Section One lists the original construction year of 1936 and the percent complete field shows the figure 55 percent. That is, fifty-five percent of the original structure's components have not been restored.

Improvement One / Section Two represents that portion of the structure that had been restored or rehabilitated during 2006. The baseline of this section lists the construction year of 2006 and the percent complete field shows the figure 45 percent. By listing the improvements in two separate sections, the Assessor will have the values for both the "base" and "historic renovation" portions of the improvements that are needed when calculating the overall mixed-use assessment ratio. The Assessor can also be assured that the property is receiving the appropriate depreciation, based on the original construction year and the year that the restoration or rehabilitation work occurred.

The example shown on the following page demonstrates the "base" and "historic" component apportionment calculations for a Legal Class Seven property. This process would be applicable to a Legal Class Eight property as well. The land value, based on market sales of comparable properties, is \$122,500. The total replacement cost new of the improvements less depreciation (RCNLD) is \$147,842. By sectionalizing the improvements, the Assessor has already determined how much of the improvement's value to allocate to both the "base" and "historic" portions of the property.





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**RCNLD + LAND VALUE = COST APPROACH VALUE**

<b>RCNLD</b>	<b>BASE</b>	<b>HISTORICAL</b>
<b>IMPROVEMENTS:</b>		
Improvement One / Section One	\$ 48,337	0
Improvement One / Section Two	0	\$ 98,871
Improvement Two / Section One	\$ 634	0
<b>LAND:</b>		
Market Value of Land	+ \$ 122,500	+ \$ 0
<b>TOTAL:</b>	<b>\$ 171,471</b>	<b>\$ 98,871</b>
<b>RCNLD + LAND VALUE</b>	<b>= (\$48,337 + \$98,871 + \$634) + \$122,500</b>	<b>= <u>\$ 270,342</u></b>

**Calculation of apportioned “base” and “historic” components:**

<b>“Base”</b> Value (Land + Original improvement value)	=	\$ 171,471
<b>“Historic Renovation”</b> Value (restoration or rehabilitation)	=	\$ 98,871
<b>“Base”</b> Value divided by RCNLD + Land	=	\$171,471 ÷ \$270,342 = .634
<b>“Historic”</b> Value divided by RCNLD + Land	=	\$ 98,871 ÷ \$270,342 = .366
<b>“Base”</b> land and improvement value assessed at 22.0 %: (Assessment ratio represents 2009 tax year)	=	(.22 X .634) = .140
<b>“Historic Renovation”</b> Value (Restoration or rehabilitation value assessed at 1 %)	=	(.01 X .366) = <u>+.004</u>
<b>Overall Assessment Ratio (Effective Rate):</b>	=	<b>.144</b>
<b>Overall Assessed Value:</b> (RCNLD + Land) X Effective Rate	=	\$270,342 X .144 (14.4 %) = <u><b>\$ 38,929</b></u>

**Note:** See also Exhibit 3 on page 23.



## DEPARTMENT OF REVENUE

Property Tax Division

## HISTORIC PROPERTY

# GUIDELINE

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### Legal Classification

For property tax assessment purposes, noncommercial historic property qualifies as Legal Class Six, Subclass One and is assessed at five percent of its full cash and limited values. However, with commercial use properties the County Assessor must segregate both Legal Class Seven and Legal Class Eight into two subgroups to allow for differing assessment ratios. These subgroups are identified by the letter “B” for the “Base” value components and the letter “H” for the value-added “Historic Renovation” components of the improvement’s values. The value-added component (H) represents the value of those modifications that are intended to restore and rehabilitate the historic improvements. This value qualifies for the historic property assessment ratio of one percent.

For example, Legal Class Seven (B) will have the same assessment ratio as Legal Class One, Subclass Twelve real property (in valuation year 2009, the ratio is twenty-two percent), and the assessed value derived from its application will represent the “base” component’s improvements value of the historic property. Legal Class Seven (H) will have a one percent assessment ratio, and the value derived from its application represents the value associated with that portion of the improvements which had restoration and rehabilitation work completed.

Likewise, Legal Class Eight (B) will have the same assessment ratio as Legal Class Four, (ten percent), and the assessed value derived from its application represents the “base” component’s improvement value of the historic property. Legal Class Eight (H) will also have a one percent assessment ratio and the value derived from its application represents the value associated with that portion of the improvements which had restoration and rehabilitation work completed.



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Property Tax Division

## HISTORIC PROPERTY

# GUIDELINE

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### **Mixed-Use Properties and Mixed-Use Assessment Ratios**

As is true in many other assessment situations, properties designated as “historic” may also have more than one category of use occurring on a parcel at one time. For example, a property owner may occupy only a portion of a residential use structure as their primary residence, while using the remainder of the structure for a commercial or residential-rental purpose. The Assessor should calculate a mixed-use assessment ratio that reflects the value attributed to each use currently occurring on the property. As discussed earlier, the Historic Property Program does not permit an income-producing activity to be conducted (with the intent of earning a profit) on a Legal Class Six, Subclass One noncommercial use historic property. Only the portion of the property that is occupied by the owner as a primary residence would qualify as Legal Class Six, Subclass One. For all historic properties, the value associated with any unqualified portions of a property would be assessed using the appropriate legal classification, so the Assessor should also value and classify the qualifying portions of the property according to their current use as approved by the SHPO (i.e., as a commercial or a noncommercial historic property). Refer to the Assessment Procedures Manual for further information on mixed-use legal classification and assessment ratio calculations.

### **Assignment of Property Use Codes**

The Assessor should assign property use codes to historic properties in the same manner as is done for any other properties. That is, a property use code should be assigned to a parcel according to the predominant current use occurring on the parcel. The applicable legal classifications may be used to identify historic properties. For example, a Legal Class Seven property with a property use code of 15-11 would indicate that the subject parcel has a one-story office building located on it which has been qualified for commercial historic classification and valuation status by the SHPO.



## DEPARTMENT OF REVENUE

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## HISTORIC PROPERTY

# GUIDELINE

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### EXHIBIT 1

When any property is reclassified due to a change in use, the property should be revalued and reassessed based on the applicable new use (or uses) occurring on the property in the valuation year in which the change occurred. A.R.S. § 42-11001(16) establishes the tax year for all property, while § 42-1100119(a) establishes the valuation year for real property. A.R.S. § 42-11001(16) states that the tax year is the calendar year in which the taxes are levied, while § 42-11001(19)(a) states that the valuation year for real property means the calendar year preceding the year in which the taxes are levied.

However, in general property tax assessment administration practice the annual valuation cycle begins October 1 of a given calendar year and ends September 30 of the following year. By the authority of A.R.S. § 42-15105, the County Assessor also has until September 30 of each valuation year to notify property owners of any changes being made in the valuation or classification of their property. September 30 is the effective end of the valuation cycle for property tax assessment administration purposes, as this is when the administrative appeals process has concluded, the property tax rolls have been finalized, and tax rates have been determined.

If a property is approved for historic classification from January 1 through August 1 of a current valuation year, the Assessor can issue a Supplemental Notice of Change no later than September 30 to correct the property's status for that valuation year, pursuant to A.R.S. § 42-15105. Pursuant to A.R.S. § 42-12103(B), an application that is not approved by August 1 of a calendar year is considered to be denied for that valuation year and the accompanying tax year.

The following illustrates how the Annual Calendar of Legal Events and Assessments applies to properties approved for historic designation by the SHPO at different times during a calendar year:



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<b>Date of SHPO approval</b>	<b>Valuation Year</b>	<b>Tax Year</b>
08-01-2008	2008 Notice of Change must be sent by 9-30-2008	2009
09-01-2008	2009 Valued as of 1-1-2009	2010
04-15-2009	2009 Notice of Change must be sent by 9-30-2009	2010
10-15-2009	2010 Valued as of 1-1-2010	2011



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### EXHIBIT 2

#### R12-8-306. Minimum Maintenance / Restoration Standards

- A.** The owner of a certified Commercial or Non-Commercial historic property shall maintain the property to preserve the historical integrity of the features, materials, appearance, workmanship, and environment, according to the following standards:
1. Protect the Historic Property against accelerated deterioration due to:
    - a. Vandalism;
    - b. Structural failure;
    - c. Climatic weathering including the affects of water infiltration;
    - d. Biological affects due to insects, animals, or plants;
    - e. Fire; or
    - f. Flooding.
  2. Maintain the historic property by:
    - a. Keeping it secure;
    - b. Maintaining the windows and doors, or covering them in a manner that does not injure the property's integrity;
    - c. Maintaining security fencing, if applicable;
    - d. Maintaining roofs and drainage systems;
    - e. Minimizing damage from insects, birds, or animals; and
    - f. Maintaining landscaping to reduce fire potential.
- B.** The Officer shall decertify any certified Historic Property that is condemned by a local authority.
- C.** Before implementation of any rehabilitation project, the owner shall submit both a written and graphic proposal (Construction Documents) for the proposed rehabilitation project to the Officer. The Officer has 30 calendar days from receipt of the proposal in which to comment on the appropriateness of the project in relationship to The Secretary of the Interior's Standards for Rehabilitation.
- D.** The Officer shall review all rehabilitation projects done to ensure that the planned project for rehabilitation of the Historic Property is in accordance with the guidelines established by the U.S. Government, Cyclical Maintenance for Historic Buildings, J. Henry Chambers, AIA, 1976, available from the U.S. Government Printing Office and the U.S. Department of the Interior, the National Park Service publication titled, The Secretary of the Interior's Standards for Historic Preservation Projects, Section III, Guidelines, 1983 and The Secretary of the Interior's Standards for Rehabilitation, National Park Service, 1995 available from the National Park Service Technical Preservation Services Division, the State Historic Preservation Office, or the U.S. Government Printing Office. These three documents are incorporated by reference and on file with the Board and the Office of the Secretary of State. The materials incorporated by reference contain no future editions or amendments.
- E.** The owner shall submit pictures of rehabilitation projects no later than 30 calendar days after completion of the rehabilitation project that illustrate compliance with the standards established in subsection (D).
- F.** If a conflict occurs between the requirements of the Officer or the Officer's representative and local building officials or any applicable laws, a meeting of the appropriate representatives shall be called by the owner to discuss the question and reach an equitable solution.

#### Historical Note

New Section R12-8-306 renumbered from R12-8-303 and amended by final rulemaking at 7 A.A.R. 1010, effective February 8, 2001 (Supp. 01-1).



# GUIDELINE

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## EXHIBIT 3

### Historic Property Classification at a Glance

#### Re: Commercial use properties:

#### **A.R.S. § 42-12101. Definitions**

In this article, unless the context otherwise requires:

1. "Commercial historic property" means real property that:
  - (a) Meets the criteria for classification as class one, paragraph 12 pursuant to section 42-12001 or class four pursuant to section 42-12004.
  - (b) Is listed in the national register of historic places established and maintained under the national historic preservation act (P.L. 89-665; 80 Stat. 915; 16 United States Code section 470 et seq.), as amended.
  - (c) Meets the minimum standards of maintenance established by rule by the Arizona state parks board.

#### **Assessment Ratios:**

<u>Legal Class One</u> use [see A.R.S. § 42-12007]	= Legal Class 7 <b>B</b> at 22 % (for tax year 2009) = Legal Class 7 <b>H</b> at 1 % (for <u>ten</u> tax years)
<u>Legal Class Four</u> use [see A.R.S. § 42-12008]	= Legal Class 8 <b>B</b> at 10 % (in all tax years) = Legal Class 8 <b>H</b> at 1 % (for <u>ten</u> tax years)

#### Re: Noncommercial use properties:

#### **A.R.S. § 42-12101. Definitions**

2. "Noncommercial historic property" means real property:
  - (a) That is listed in the national register of historic places established and maintained under the national historic preservation act (P.L. 89-665; 80 Stat. 915; 16 United States Code section 470 et seq.), as amended.
  - (b) That meets the minimum standards of maintenance established by rule by the Arizona state parks board.
  - (c) On which no business or enterprise is conducted with the intent of earning a profit.

**Note:** For property tax assessment purposes, this includes all noncommercial properties except Legal Class Four property.

#### **Assessment Ratio:**

<u>Legal Class Six, Paragraph One</u> use [see A.R.S. § 42-12006(1)]	= Legal Class Six at 5 % (for <u>fifteen</u> tax years)
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