STATE OF CALIFORNIA

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PROPERTY AND SPECIAL TAXES DEPARTMENT
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No. 2005/020

TO COUNTY ASSESSORS:

GUIDELINES FOR THE ASSESSMENT OF HISTORICAL PROPERTY

Certain historical properties that are enforceably restricted by contract with local government are subject to assessment under article XIII, section 8 of the California Constitution. In general, this section provides that an enforceably restricted historical property is to be valued on a basis that is consistent with its restrictions on use.

Board staff is developing guidelines to clarify the assessment treatment of these enforceably restricted historical properties. The guidelines, once approved by the Board, will supersede advice contained in Letter To Assessors Nos. 77/174, dated December 19, 1977, and 79/187, dated October 19, 1979.

Enclosed is a draft of the proposed guidelines. Staff asks interested parties for comments or proposed language. The cutoff date to provide comments or proposed language is April 1, 2005.

The guidelines are scheduled for discussion at the Board's Property Tax Committee meeting on May 24, 2005. The meeting will begin at 9:30 a.m. in the Board Room at 450 N Street, Sacramento. If necessary, an issue paper will be prepared and available for review by May 16, 2005.

If you have any questions regarding this project, please contact either Mark Nisson at (916) 324-0295, e-mail mark.nisson@boe.ca.gov; or Glenna Schultz at (916) 324-5836, e-mail glenna.schultz@boe.ca.gov; fax number (916) 323-8765.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:grs
Enclosure

GUIDELINES FOR THE ASSESSMENT OF HISTORICAL PROPERTY

HISTORY

Effective March 7, 1973, Chapter 1442 of the Statutes of 1972 (also known as the Mills Act) added sections 50280 through 50289 to the Government Code to allow an owner of qualified historical property to enter into a preservation contract with local government. When property is placed under such a contract, the owner agrees to restore the property if necessary, maintain its historic character, and use it in a manner compatible with its historic characteristics.

Prior to the passage of Proposition 7 in 1976, these agreements (i.e., Mills Act contracts) constituted enforceable restrictions on the use of land within the meaning of Revenue and Taxation Code section 402.1[1] (Property Tax Rule 60, repealed January 10, 1978). However, Proposition 7 added the second paragraph to section 8 of article XIII of the California Constitution:

> To promote the preservation of property of historical significance, the Legislature may define such property and shall provide that when it is enforceably restricted, in a manner specified by the Legislature, it shall be valued for property tax purposes only on a basis that is consistent with its restrictions and uses.

To implement Proposition 7, Chapter 1040 of the Statutes of 1977 (Senate Bill 380) added sections 439 through 439.4 to the Revenue and Taxation Code. These statutes, in particular section 439.2, prohibit a valuation of enforceably restricted historical property based on sales data and instead require that such property be valued by a prescribed income capitalization method.

ENFORCEABLY RESTRICTED HISTORICAL PROPERTY

Under section 439, historical property is "enforceably restricted" if it meets the definition of a "qualified historical property" as defined in Government Code section 50280.1 and is subject to a historical property contract executed pursuant to Government Code section 50280 and following. A qualified historical property includes qualified historical improvements and the land on which the improvements are situated, as specified in the historical property contract. If the contract does not specify the land to be included, the qualified historical property includes only a land area of reasonable size to situate the improvements.

A qualified historical property is privately-owned property that is not exempt from property taxation and that also meets either of the following criteria:

[1] Unless otherwise noted, all statutory references are to the Revenue and Taxation Code.

- The property is listed in the National Register of Historic Places, or is located within a registered historic district; or

- The property is listed in any official state, county, city, or city and county official register of historical or architecturally significant sites, places or landmarks, including the California Register of Historical Resources, California Historical Landmarks, State Points of Historical Interest, local landmarks, and local survey listings of historical properties.

The historical property contract must have a minimum term of ten years, and, as applicable, must contain certain other elements, including the following:

- A provision relating to the preservation of the qualified historical property and, when necessary, the restoration and rehabilitation of the property in conformance with state historic preservation guidelines;

- A requirement for the periodic examination of the property to ensure compliance with the agreement;

- A requirement that the historical property agreement be binding upon successor owners of the qualified historical property; and

- A provision for an automatic one-year extension of the contract, with an additional year added to the initial contract term on each anniversary of the contract, unless either party provides notice of nonrenewal. If a notice of nonrenewal is given, the contract runs for its remaining term.

Once a contract is signed, accepted, and recorded, the property subject to the contract must be assessed under section 439.2 on the ensuing lien date. For example, if a contract were recorded in August 2004, the property should have been valued pursuant to section 439.2 for lien date January 1, 2005.

Local authorities may cancel a historical property agreement for breach of contract or failure to protect the historical property. Alternatively, the local entity may take legal action to enforce the contract.

ASSESSMENT

The assessment of an enforceably restricted historical property involves the following aspects: (1) valuing the restricted historical property; (2) properly applying certain assessment provisions relating to article XIII A of the California Constitution (Prop 13); (3) valuing the restricted historical property following a notice of nonrenewal; and (4) valuing the restricted historical property following cancellation of the contract.

Valuing the Restricted Historical Property

Section 439.2 prohibits the assessor from using sales data relating to similar properties, whether or not enforceably restricted, to value an enforceably restricted historical property. Instead, the assessor must annually value a restricted historical property using an income approach that follows the specific provisions of section 439.2. These provisions explicitly address (1) the determination of the income to be capitalized, (2) the development of the capitalization rate, (3) the capitalization technique to be used, and (4) the determination of the restricted historical property's taxable value on each lien date.

Income to be Capitalized

As provided in section 439.2(a), the income to be capitalized when valuing a restricted historical property is the property's fair rent less allowed expenditures, or allowed expenses. In general, section 439.2(a) follows Property Tax Rule 8(c), with fair rent in section 439.2 corresponding to gross return in Rule 8(c); allowed expenditures, or allowed expenses, in section 439.2 corresponding to gross outgo in Rule 8(c); and the income to be capitalized in section 439.2 corresponding to net return in Rule 8(c). In addition, for the purposes here, "gross income" is synonymous with fair rent, and "net operating income" is synonymous with the income to be capitalized.

The parties to a historical property agreement may stipulate a minimum annual income to be capitalized, in which case the income to be capitalized may not be less than the stipulated amount.

Fair rent, or gross income. The gross income of a restricted historical property is the fair rent for the property considering the restrictions on the property's use. When establishing the fair rent for a restricted historical property, the appraiser should consider the actual rent and typical rents in the area for similar properties in similar use, where the owner pays the property taxes.

The actual rent received by the owner of the subject restricted historical property is relevant to an estimate of fair market rent only if the actual rent is the same rent that would be expected if the existing lease were renegotiated in light of current market conditions, including the subject property's enforceable restrictions on use. With respect to rents from similar, or comparable, properties, if such rents are from properties outside the geographic or market area of the subject property, or from properties that are otherwise dissimilar to the subject property, the rents may not be relevant to an estimate of the subject property's fair rent.

Comparable rental data for single-family residences can be obtained from real estate brokers, rental agencies, and newspaper ads. Many assessors offices maintain rental data for commercial properties, and this data may be helpful when establishing the fair rent for restricted historical property when the contract allows a commercial use. Rental data for commercial property also can be obtained from commercial real estate brokers. Actual rental and expense data for existing restricted historical properties can be obtained through an annual questionnaire sent to property owners.

If sufficient rental data are not available, or such data are unreliable, the appraiser must impute a gross income for the subject restricted historical property. The imputed income should be based on what an informed investor would reasonably expect the property to yield under prudent management, given the provisions under which the property is enforceably restricted.

Allowed expenditures. Section 439.2(a)(3) defines allowed expenditures, or allowed expenses, to include expenses ordinary and necessary for the maintenance of the property's income. Typical expenses include insurance, utilities, repairs, and management fees. Expenses also may include amounts owing for special assessments or special taxes. Expenses that are not ordinary and necessary for the maintenance of the property's income should not be deducted. Such expenses include debt service, general property taxes, depletion, and interest on funds invested. As stated above, in general, allowed expenses are consistent with those allowed under Property Tax Rule 8(c).

Income to be capitalized, or net operating income. The income to be capitalized, or net operating income, is simply the fair rent, or gross income, described above less the allowed expenditures described above.

Capitalization Rate

The method of developing the capitalization rate to be used when valuing restricted historical property is prescribed by statute; a capitalization rate derived from sales data or the band of investment is not permitted.

Section 439.2 prescribes two types of capitalization rates for restricted historical property: (1) a capitalization rate to be used when valuing restricted historical property that is an owner-occupied single-family residence and (2) a capitalization rate to be used when valuing all other restricted historical property. Both types of capitalization rates include components for interest (i.e., yield), risk, property taxes, and amortization of improvements; in fact, the two rates are identical except for the amount of the risk component. The capitalization rate contains the following components:

- An interest component annually determined by the State Board of Equalization and based on the effective rate on conventional mortgages as determined by the Federal Housing Finance Board. The interest component is announced annually, in a Letter To Assessors, by October 1 of the preceding assessment year.

- A historical property risk component determined by property type. For owner-occupied single-family residences, the rate is 4 percent; for all other types of restricted historical property, the rate is 2 percent.

- An amortization component defined as a percentage equal to the reciprocal of the remaining life of the improvements (e.g., if the remaining economic life of the improvements were 20 years, the amortization component would be 5 percent).

- A property taxes component equal to the percentage of the estimated total tax rate applicable to the property for the assessment year multiplied by the assessment ratio. Typically, the property tax component includes the basic tax rate of 1 percent plus an additional ad valorem rate related to any bonded indebtedness pertaining to the tax rate area in which the property is located. Special district assessments and special taxes are not included in the property tax component. As noted above, they should be treated as allowed expenses.

Capitalization Technique

The capitalization technique to be used when valuing a restricted historical property is prescribed by statute and is formulaic. Section 439.2(e) provides that the restricted value shall be the income to be capitalized, or net operating income, developed as prescribed by statute, divided by one of the two types of capitalization rates prescribed by statute. In other words, the restricted value is the simple quotient of the prescribed income to be capitalized and the prescribed capitalization rate.

Determination of Taxable Value on Each Lien Date

Section 439.2(d) provides that a historical property's restricted value may not be enrolled if it exceeds either (1) the value of the subject property as determined under section 110 (i.e., current market value) or (2) the value of the subject property as determined under section 110.1 (i.e., factored base year value). In other words, section 439.2 states that the taxable value of a restricted historical property on each lien date shall be the lowest of its restricted value, current market value, or factored base year value. The factored base year value for an enforceably restricted historical property is the value that was established for the 1975 lien date[2] or as of the date of the most recent change in ownership, whichever is later, adjusted by the annual inflation factor.

Article XIII A (Prop 13) Considerations

This section discusses how three important elements relating to implementation of article XIII A—change in ownership, new construction, and supplemental assessment—relate to the assessment of restricted historical property. Also discussed is the case in which only a portion of a property is subject to the historical property agreement—that is, the case in which a single property unit contains both restricted and unrestricted portions.

Change in Ownership

When a property subject to a historical property contract undergoes a change in ownership, a new base year value should be established for the property as of the date of change in ownership, as provided in section 110.1. Typically, a restricted historical property's base year value will be greater than its restricted value determined under section 439.2 and hence will not be enrolled as the property's taxable value. However, the establishment of a new base year value enables the assessor to perform the three-way value comparison prescribed by section 439.2(d) and described above. The establishment of a base year value is also necessary in order to calculate

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[2] Sections 110.1(d) and 405.5 do not apply to historical properties under contract as of lien date 1975 because the constitutional amendment which placed the valuation of historical property under article XIII rather than article XIII A had not yet been passed and, thus, was not in effect for the 1975 lien date.

the assessed values of historical property should the historical property agreement enter nonrenewal status.

New Construction

Section IV of National Register Bulletin #15 defines a "building" as follows:

> A building, such as a house, barn, church, hotel, or similar construction, is created principally to shelter any form of human activity. "Building" may also be used to refer to a historically and functionally related unit, such as a courthouse and jail or a house and barn.

Section IV further specifies that "[b]uildings eligible for the National Register must include all of their basic structural elements. Parts of buildings, such as interiors, facades, or wings, are not eligible independent of the rest of the existing building. The whole building must be considered, and its significant features must be identified." Thus, eligibility for the National Register is determined by the extent to which the basic structural elements of an existing building are intact. In general, a newly constructed building would not be eligible because it is not an existing building with basic structural elements.[3]

Also, a newly constructed building is not a historic resource, and, thus, is not a qualified historical property within the meaning of Government Code section 50280.1. For example, a newly constructed detached garage (assuming it is not a reconstruction of a historical garage) clearly would not be eligible because it has no significance in American history or architecture, nor does it meet any of the other requisite criteria.

Bulletin 15, however, does list one type of newly constructed property that may be eligible for inclusion under the Mills Act. A reconstructed historic building is eligible for the National Register if the reconstruction is "accurately executed in a suitable environment and presented in a dignified manner as part of a restoration master plan, and when no other building or structure with the same association has survived."

The historical property contract typically specifies the scope and type of any work to be performed on the historical improvements. A review of the contract and other documents filed with the local planning department may help the appraiser determine whether any new construction to the existing structure is subject to the historical property contract and therefore subject to the provisions of section 439.2.

Assuming that the newly constructed property is subject to the historical property contract, a base year value should be established for the newly constructed portion and this value added to the factored base year value of the existing restricted property.

In some cases, an existing historical property may include a portion that is restricted (i.e., subject to a historical property contract) and a portion that is unrestricted. In this case, separate factored

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[3] National Register Bulletin 15, "How to Apply the National Register Criteria for Evaluation," U.S. Department of the Interior, National Park Service (www.cr.nps.gov/nr/publications/).

base year values should be maintained for the restricted and unrestricted portions and the base year value of any newly constructed property added to the appropriate portion. The assessment treatment of this type of property is discussed further below.

Supplemental Assessment

Although the assessor is required to establish a new base year value upon a change in ownership or completed new construction involving restricted historical property, such property is not subject to supplemental assessment. As provided in Revenue and Taxation Code section 75.14:

> **Supplemental assessment; limitation**. A supplemental assessment pursuant to this chapter shall not be made for any property not subject to the assessment limitations of Article XIII A of the California Constitution. All property subject to the assessment limitations of Article XIII A of the California Constitution shall be subject to the provisions of this chapter, except as otherwise provided in this article.

As discussed above, the assessment of enforceably restricted historical property is subject to the provisions of article XIII, section 8 of the California Constitution, not article XIII A. Thus, section 75.14 precludes the assessor from enrolling supplemental assessments for enforceably restricted historical property.

Historical property not yet under contract that undergoes a change in ownership or new construction is subject to supplemental assessment, even if the property owner later executes a historical property contract in the same fiscal year. Also, any new construction involving a historical property that does not come under the existing historical property contract (e.g., a detached garage added to a restricted historical property) would be subject to supplemental assessment.

When a Property Contains Both Restricted and Unrestricted Portions

When only a portion of a property that would normally be considered a single appraisal unit is restricted by a historical property contract, the assessed value should be determined by making a comparison of three values, determined as follows. First, the portion under contract should be valued using the capitalization method prescribed by section 439.2. Added to this figure should be the lower of the unrestricted portion's fair market value or factored base year value. The resulting sum should be compared to both the fair market value and the factored base year value of the entire property (i.e., both restricted and unrestricted portions) and the lowest of the three figures should be enrolled.

Valuing Property Under Notice of Nonrenewal

As provided in Government Code section 50282, either the owner of a restricted historical property or the local government entity may serve notice that it does not intend to renew the historical property contract. If such notice is not given, another year is automatically added to the term of the initial contract, thus creating a "rolling" contract term that is always equal to the initial contract term.

Section 439.3 prescribes the valuation method for a restricted historical property in nonrenewal status; this valuation method applies until the end of the restricted period (i.e., until the existing contract expires). In essence, the method results in a restricted value that gradually approaches the historical property's factored base year value as the remaining term under the contract decreases. For a property in nonrenewal status, the assessor must annually value the property as follows:

1. Determine the full cash value (i.e., factored base year value) of the property in accordance with section 110.1. (Alternatively, if the property will not be subject to section 110.1 when the historical property agreement expires, determine its fair market value in accordance with section 110, as if the property were free of the agreement's restrictions; or, if the property will be subject to another type of restricted value standard when the historical property agreement expires, determine the property's value as if it were subject to the new restrictions.)

2. Determine the restricted value of the property by the capitalization of income method provided in section 439.2.

3. Subtract the restricted value determined in Step 2 from the factored base year (or other) value determined in Step 1.

4. Using the amount for the interest rate component (section 439.2(b)(1)) announced by the Board, discount the amount obtained in Step 3 for the number of years remaining until the termination of the contract.

5. Determine the restricted value of the property in nonrenewal status by adding the value determined in Step 2 to the amount obtained in Step 4.

The historical property's restricted value in nonrenewal status—that is, the value determined above, in accordance with section 439.3—should be compared with the historical property's factor base year and current market values, and the lowest of these three values should be enrolled as the property's taxable value.

Cancellation of Contract

The government entity party to a historical property contract may cancel the contract, after notice and a public hearing, if it determines that either the owner has breached the agreement or the property has deteriorated to the extent that it no longer meets the standards of a historical property. If the contract is cancelled, the property owner must pay a cancellation fee equal to 12½ percent of the property's current fair market value as though free of the contractual restriction, such value to be determined by the county assessor. After a contract is cancelled, the lower of the property's factored base year value or current market value should be enrolled for the ensuing lien date.

SUMMARY

The key points contained in these guidelines can be summarized as follows:

1. An owner of qualified historical property may enter into a preservation contract with local government. When property is placed under such a contract, the owner agrees to restore the property if necessary, maintain its historic character, and use it in a manner compatible with its historic characteristics. Such property receives the special valuation treatment prescribed under Revenue and Taxation Code sections 439 through 439.4.

2. Enforceably restricted historical property is to be annually valued by the income capitalization method prescribed in section 439.2, which contains specific instructions with regard to the income to be capitalized, the capitalization rate, and the capitalization technique to be used. The restricted value must be compared to the property's current market value and factored base year value, with the lowest of these three values enrolled as the property's taxable value.

3. When assessing restricted historical property, the appraiser should consider how three important elements of article XIII A—change in ownership, new construction, and supplemental assessment—relate to the assessment. The appraiser should consider how a property should be assessed when only a portion of it is subject to a historical property agreement.

4. Restricted historical property under a notice of nonrenewal should be valued in accordance with section 439.3.

5. The government entity party to a historical property contract may cancel the contract. The cancellation fee is 12½ percent of the property's current fair market value as though free of the contractual restriction, with such value to be determined by the local assessor.

Additional information about Mills Act contracts may be obtained from the state Office of Historic Preservation, either by telephone at (916) 653-6624, or from their Web site (http://ohp.parks.ca.gov).

(Note: Please see the assessment examples following.)

EXAMPLE 1 (OWNER-OCCUPIED SINGLE-FAMILY RESIDENCE)

Subject Restricted Historical Property
Restored, 105-year-old, Victorian single-family residence. Excellent condition. Under Mills Act contract since 1985 and not in nonrenewal status. Owner-occupied.

Determination of Restricted Value (current lien date)

Gross income (Fair rent)		
$1,500 per month x 12 months =		$18,000
Less: Anticipated vacancy and collection loss		
$18,000 x 5%		- 900
Effective gross income		17,100
Less: Anticipated operating expenses		
Grounds maintenance	$600	
Fire insurance	400	
Management Fee	360	
Water and garbage	240	
Building maintenance	+ 500	- 2,100
Net Operating Income		$15,000
Restricted Capitalization Rate		
Rate Components:		
Interest rate	.08	
Risk (owner-occupied SFR)	.04	
Property tax (ad valorem)	.015	
Amortization		
(50-year remaining life)	+ .02	.155
Restricted Value		
$15,000 ÷ .155		= $96,774

Taxable Value—Three-Way Value Comparison

Restricted value	$96,774
Factored base year value (based on prior change in ownership)	$357,000
Current market value (based on comparable sales)	$450,000

The lowest of the three possible values is the restricted value. Thus, the net taxable value would be $89,774 ($96,774 restricted value less the homeowners' exemption of $7,000).

(Note: If this property had been a non-owner-occupied SFR, the only difference in the determination of the restricted value would have been the use of a risk rate component of 2% rather than 4% in the capitalization rate.)

EXAMPLE 2 (OFFICE USE)

Subject Restricted Historical Property
Multi-tenant, restored historical office building in a downtown commercial district. Under Mill Act contract since 1985 and not in nonrenewal status.

Gross Income (Fair rent):			
Offices	140,000 sf @ $1.75/sf =	$245,000	
		x 12 months	= $2,940,000
Less: Anticipated vacancy and collection loss			
$2,940,000 x 5%			- 147,000
Effective gross income			2,793,000
Less: Anticipated operating expenses			
Management		$290,000	
Maintenance		95,000	
Insurance		75,000	
Utilities		360,000	
Janitorial		+ 140,000	- 960,000
Net Operating Income			$1,833,000

Restricted Capitalization Rate		
Rate Components:		
Interest component	.08	
Risk	.02	
Property tax (ad valorem)	.011	
Amortization (50-year remaining life)	+ .02	.131

Restricted Value	
($1,833,000 ÷ .131)	= $13,992,366

Taxable Value—Three-Way Value Comparison

Restricted value	$13,992,366
Factored base year value (based on prior change in ownership)	$18,191,077
Current market value (based on comparable sales)	$21,000,000

The lowest of the three possible values is the restricted value. Thus, the taxable value would be $13,992,366

EXAMPLE 3 (MIXED USE—RESIDENTIAL AND OFFICE)

Subject Restricted Historical Property

Two-story, restored historical property in a downtown district. Upper level is residential unit occupied by owner. Lower level contains three office spaces subject to short-term rental agreements. The income stream for the upstairs unit must be calculated separately from the downstairs unit because the risk rate is different for the owner-occupied unit.

Determination of Restricted Value

Separate restricted values for the upper-level residence and the lower-level office space must be determined, because the risk components are different for the two types of use. The total restricted value is sum of these two values.

Upper-Level Unit

Gross income (Fair rent) based upon comparable rent data		
$975 per month x 12 months =		$11,700
Less: Anticipated vacancy and collection loss		
$11,700 x 5%		- 585
Effective gross income		$11,115
Less: Anticipated operating expenses		
Grounds maintenance	$300	
Fire insurance	200	
Management Fee	180	
Water and garbage	120	
Building maintenance	+ 250	- 1,050
Upper-Level Net Operating Income		$10,065
Restricted Capitalization Rate (owner-occupied SFR)		
Rate components:		
Interest rate	.08	
Risk	.04	
Property tax	.01025	
Amortization (50-year remaining life)	+ .02	.1502
Upper-level Restricted Value ($10,065 ÷ .1502)		= $67,011

Lower-Level Offices

Gross income (Fair rent)		
1000 sf @ $1.60/sf = $1,600 x 12 months		$19,200
Less: Anticipated vacancy and collection loss		
$19,200 x 5%		- 960
Effective gross income		$18,240
Less: Anticipated operating expenses		
Grounds maintenance	$300	
Fire insurance	200	
Management Fee	180	
Water and garbage	120	
Building maintenance	+ 250	- 1,050
Lower-Level Net Operating Income		$17,190

Restricted Capitalization Rate		
Rate components:		
Interest component	.08	
Risk	.02	
Property tax	.01025	
Amortization (50-year remaining life)	+ .02	.1302
Lower Level Restricted Value ($17,190 ÷ .1302)		$132,027
Add: Upper Level Restricted Value		+ $67,011
Total Restricted Value		$199,038

Taxable Value—Three-Way Value Comparison

Restricted Value	$199,038
Factored base year value (based upon prior change in ownership)	$364,140
Current market value (based upon comparable sales data)	$400,000

The lowest of the three possible values is the restricted value. Thus, the net taxable value would be $192,038 ($199,038 less the homeowners' exemption of $7,000).

EXAMPLE 4 (MIXED VALUATION—PORTION RESTRICTED AND PORTION UNRESTRICTED)

Description of Subject Property (Comprises Both Restricted and Unrestricted Portions)

The subject property is a 10-acre parcel with a farmhouse and barn situated on 2 acres; the remaining 8 acres are farmland. The farmhouse and barn are used as an owner-occupied single-family residence; this portion of the property is restricted under a Mills Act contract. The remaining 8 acres of farmland are unrestricted.

Value of Restricted Portion (current lien date)

Gross income (Fair rent) for farmhouse and barn		
$2,000 per month x 12 months =		$24,000
Less: Anticipated vacancy and collection loss		
$24,000 x 5%		- 1,200
Effective gross income		$22,800
Less: Anticipated operating expenses		
Grounds maintenance	$600	
Fire insurance	400	
Management Fee	360	
Water and garbage	240	
Building maintenance	+ 500	- 2,100
Net Operating Income		= $20,700
Restricted Capitalization Rate		
Rate components:		
Interest component	.08	
Risk (owner-occupied)	.04	
Property tax (ad valorem)	.0101	
Amortization (50-year remaining life)	+ .02	.1501
Restricted Value ($20,700 ÷ .1501)		= $137,908

Taxable Value—Three-Way Comparison

Total Property Restricted Value (sum of restricted value above and lower of FBYV or current market value of unrestricted portion)

Restricted Value (portion under contract)	$137,098
FBYV (unrestricted portion)	+ $102,000
Restricted Value (total property)	$239,098

Factored base year values (based upon a prior change in ownership of the entire property, allocated between restricted and unrestricted portions):

Farmhouse, barn, and 2 acres (restricted portion)	$204,000
8 acres (unrestricted portion)	+ $102,000
Total FBYV (total property)	$306,000

Current market values (based upon comparable sales data):

Farmhouse, barn, and 2 acres (restricted portion)	$230,000
8 acres (unrestricted portion)	+ $120,000
Total Current Market Value (total property)	$350,000

The lowest of the three values is the Restricted Value (total property), $239,098. Thus, the net taxable value would be $232,098 ($239,098 less $7,000 homeowners' exemption).

EXAMPLE 5 (PROPERTY IN NONRENEWAL STATUS)

Description of Subject Restricted Historical Property
The same property as in Example 2, except the property owner has served notice of renewal. The Mills Act contract covering the property was originally executed in September 1995, and the owner served notice of nonrenewal in June 2004. Value the property for the 2005 lien date, reflecting its nonrenewal status. Assume that the property's restricted, current market, and factored base year values from Example 2, provided below, also refer to January 1, 2005.

Restricted value	$13,992,366
Current market value	$21,000,000
Factored base year value	$18,191,077

Restricted Value in Nonrenewal Status

Value as if unrestricted (factored base year value)	$18,191,077
Restricted value	- 13,992,366
Difference	$ 4,198,711
Present worth of difference	
PW1 @ 6.00 %, 9 years (interest component for lien date 2005)	x .591898
	= $ 2,485,209
Plus restricted value	+ $13,992,366
Restricted value in nonrenewal status—lien date January 1, 2005	$16,477,575

Taxable Value
Since the restricted value in nonrenewal status, $16,477,575, is less than either the property's current market value or its factored base year value, this is the taxable value.