Mills Act 101

An Incentive for Preserving Your Community's Past

Presented by Shannon Lauchner
California Office of Historic Preservation
City of Long Beach
March 23, 2018

What is the Mills Act?

A local property tax incentive designed to encourage restoration, rehabilitation and preservation of privately owned historic resources.

Where is the Mills Act?

- The law known as the Mills Act is found in the California Government Code, Article 12, Section 50280 through 50290.
- It is state enabling legislation that creates loose framework for Mills Act programs.
- All of the authority for the program is given to local governments.

Mills Act History

1972- State Senator James Mills authored the “Mills Act” in response to the plight of the historic Hotel Del Coronado.

-Modeled the bill on the Williamson Act.

1973- The Mills Act was determined unconstitutional.

1976- Voters approved a constitutional amendment and local programs were adopted.

1985- The act was amended to reduce the minimum contract period to 10 years (from the original 20), eliminate the mandatory public access, & reduce the penalty for contract cancelation to 12.5% of the fair market value (from 50%).

1993- The act was amended to define restoration & rehabilitation.

2012- The act was amended to include mandatory property inspections (before a contract is issued & every five years after) & to allow local governments to charge a fee for administrative cost recovery.

Mills Act Basics

Mills Act Roles

- Local governments have all of the authority and disputes are handled by the courts.
- The Office of Historic Preservation advises local governments and property owners.
- The Board of Equalization advises and interprets the law for County Assessors.

How The Mills Act Works

A local government with a Mills Act Program may enter into a contract with the owner of a property to restore, rehabilitate, or maintain their property in exchange for property tax savings.

Mills Act Framework

- Local governments administer the program:
  - Control the application process
  - Charge fees
  - Perform inspections
- Properties must meet the definition of a “qualified historical property.”

Mills Act Framework

- Properties must be privately owned & subject to property tax.
- Contracts run with the title of the property.
- Contracts are for a minimum of 10 years & extend one year annually- unless either party chooses not to renew.
- The County Assessor calculates the Mills Act tax reassessment annually.

Framework Specifics

What Qualifies?

A "***qualified historical property***" is a privately owned property that is not exempt from property taxation and is either:

- Listed in the National Register of Historic Places

  or

- Listed in any state or local register of historical or architectural resources, sites, or landmarks:
  - California Register of Historical Resources
  - California Historical Landmarks
  - California Points of Historical Interest
  - Locally designated properties (such as City of Benicia's City Landmarks)

Local government can narrow the definition of what qualifies!

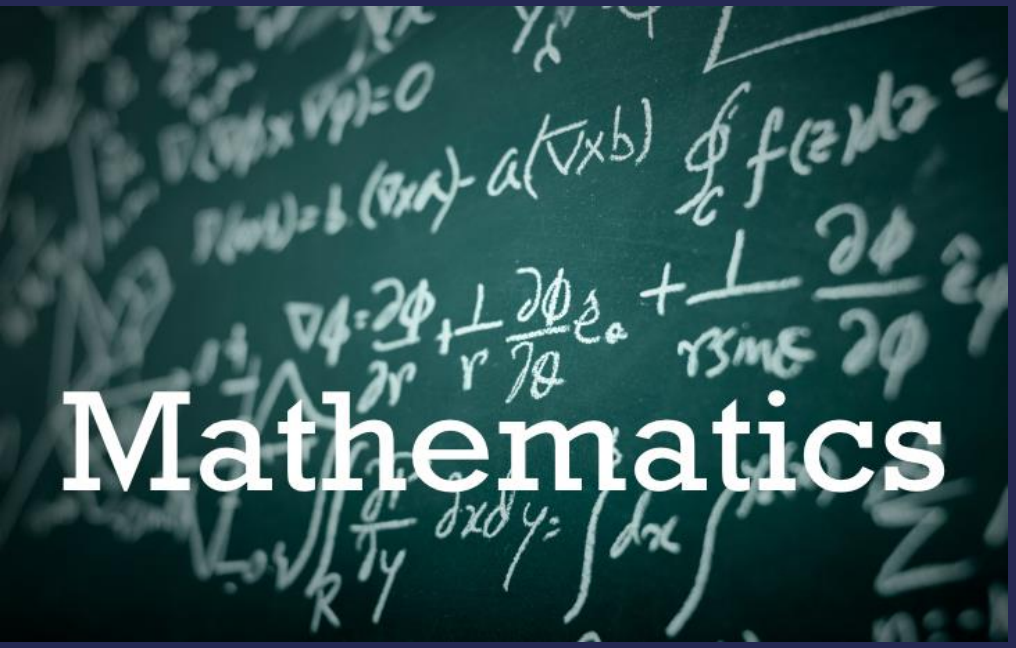
Non-Renewal VS Cancelation

Non-Renewal

Once either party notifies the other, in writing, of the non-renewal the tax benefit reduces by about 1/10 annually. By year 10, the property owner should be paying the same tax they would have paid before entering the Mills Act contract.

Cancelation

Local governments can enforce a contract by judicial means. If that fails a contract can be cancelled for breech after a hearing. There is a penalty of 12 ½ percent of value of property for owners whose contract is cancelled.



Mills Act Mathematics

Annually the Assessor's Office reviews:

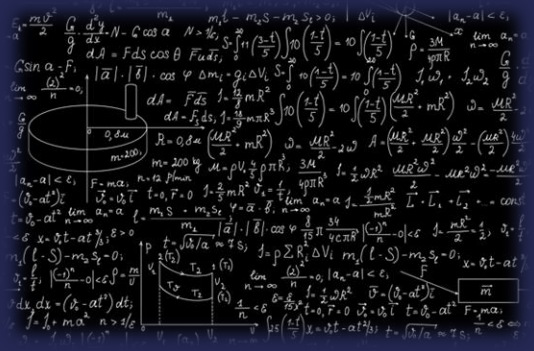
1. **Factor Base Year Value**
   (prior change in ownership)

2. **Current Fair Market Value**
   (based on comparable sales)

3. **Mills Act or Restricted Value**
   (based on real or potential rental income)

The lowest of the 3 values is used to calculate annual property tax.

“Income” or “Capitalization” formula is used



Net Operating Income/ Restricted Capitalization Rate= Mills Act Value

- Fair Rent - Anticipated - Maintenance Cost = **Net Operating Income**
- Interest Rate (determined annually by the Board of Equalization) + Risk (set by Mills Act Statute) + Amortization Rate (determined by the Assessor) = **Restricted Capitalization Rate**

Local Government Issues

Why Adopt a Mills Act Program?

- Helps retain & maintain historic properties.
- Can foster preservation of historic neighborhoods.
- Can incentivize the revitalization of downtown commercial districts.
- Preserves historic fabric which helps heritage tourism.
- The program is flexible.
- The program is voluntary (both for local governments and property owners).
- It is the only statewide incentive available to single family residential property owners at this time!!!!

Implementing a Program

- Local governments can adopt a Mills Act Program by either adopting an ordinance or a resolution.
- The program can target certain properties by limiting what qualifies.
- Local governments can choose their method of inspection and level of enforcement.

Promoting a Program

- City of Anaheim received a 2017 Governor's Award for the video series staff produced to explain & promote their Mills Act program.

Applause!!!!

- The cities of Sacramento & San Francisco have begun attending neighborhood association meetings and holding public workshops to discuss the benefits of the program.

City of SACRAMENTO

THE SEAL OF THE CITY AND COUNTY OF SAN FRANCISCO

Statewide Perspective

- There are approximately 90 Mills Act programs statewide.
- Some local governments have a program and have no other historic preservation program.
  - County of Orange

Mills Act Programs in Contrast

No two programs are a like & the statewide variation can be dramatic!

Common Areas of Difference:

Contracts:

- San Diego has over 1000 contracts
- Oakland has less than 50

Fees:

- Some local governments still do not charge a fee for Mills Act applications.
- Fees have been reported as high as $6500
- Most local governments charge a fee to recover some administrative costs.

Current Issues of Interest!

- 2012 amendment to include property inspections by the local government before a contract and every five years thereafter.
  - Local governments are being very creative in their efforts to meet this new requirement.

- The use of the Mills Act in condominiums.
  - Who holds the contract?
    - Long Beach model compared with Los Angeles model.

Questions & Discussion

Thank You!

Contact Information:

Shannon Lauchner, State Historian II
Local Government & Environmental Compliance Unit
California Office of Historic Preservation
shannon.lauchner@parks.ca.gov
(916)445-7013
www.ohp.parks.ca.gov