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Date: January 31, 2014

To: Mayor & City Council

**From: Patrick H. West,
City Manager**

**Subject: Mills Act Contracts for
Historic Properties**

**Comments: Supplemental
Information related to Agenda
Item #R-10 on the February 4,
2014 City Council Agenda**

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Date: January 29, 2014
To: Patrick H. West, City Manager *[Signature]*
From: Amy J. Bodek, Director of Development Services *[Signature]*
For: Honorable Mayor and Members of the City Council
Subject: Mills Act Contracts for Historic Properties

The Mills Act was enacted by the State of California in 1976 to permit a legal contract to be executed between a local government and the owner of a historic property, permitting a reassessment of property tax in return for historic preservation restrictions (Government Code Sections 50280-50290). Property owners benefit from property tax relief as compensation for the costs they assume in restoring and maintaining a designated historic property, providing a public benefit by preserving the heritage of a community. To qualify, a property must be officially designated as a historic building by a local, state or federal register of historic places.

Mills Act contracts provide the following:

- The preservation of the property, and where necessary, a restoration program to comply with historic preservation architectural standards.
- Periodic inspections to determine compliance. Failure to comply can bring a highly punitive penalty, a fine of up to 12.5 percent of the property value.
- The contract runs with the title of the land and is binding on all successors in interest.
- A ten-year term for the contract. However, the contract is automatically renewed at the end of each year unless either party elects not to renew. If that occurs, the contract expires at the end of the ten year term.

A Mills Act contract results in a property tax reassessment by the County Tax Assessor, who assesses property value by applying a complicated formula based on income capitalization, risk factors, and expected life of the property. For owner-occupied property with no income generated, income figures are derived from market data. Generally, experience with such contracts indicates that owners benefit from approximately a 50 percent reduction in property tax.

The Mills Act Program in Long Beach

The City Council established a local Mills Act program in 1993. The first Mills Act contracts were executed in 1993 for the Lord Mayor's Inn at 435 Cedar Avenue and the Lowena Drive apartments at 260 Lowena Drive. The most recent Mills Act contract was executed in 2006 for the Henry Clock House at 4242 Pine Avenue. At that time, the City stopped accepting new applications for Mills Act contracts in order to assess the merits of the program and to conduct compliance audits on the agreements.

The City hired Galvin Preservation Associates to help conduct Mills Act inspections. A total of 31 single-family and duplex properties were inspected by staff and consultants and reports for each property have been prepared. Staff is now preparing audit letters to those homeowners to verify completion of contract improvements. If improvements have not occurred, then development of a plan for new improvements or cancellation of the contract due to non-compliance would occur.

In addition to the single family and duplex property inspections, there are three multi-family properties that also have applicable Mills Act contracts: the Villa Riviera, Rose Towers (El Cordoba), and the Lafayette Tower. However, the Mills Act contracts for these properties include some, but not all, of the individual condominium units, making it difficult to audit the buildings in their entirety. Visual inspections of the individual units in these three buildings are being conducted currently.

Long Beach has potentially thousands of properties that currently would qualify for the Mills Act property tax reduction under the terms of the State legislation. There are now 13 designated local historic districts and 113 individually designated local historic landmarks that would be eligible for the contracts. In the historic districts, it is estimated that approximately 2,500 property owners could be eligible to apply for the contract.

Therefore, in order to control a potential flood of applications that could have a significant affect in reducing local tax revenues, the Cultural Heritage Commission adopted a policy to ensure that substantial public benefit would result from a contract. It is typically recommended that properties for a Mills Act contract have a high level of architectural integrity and significance, the preservation and restoration of which result in enhancement of the architectural heritage of the whole community.

Because the property tax reduction is related to the public benefit of historic preservation, it is the staff's view that a multiple-owner property should have 100 percent participation among all owners, because it is not possible to segment the mutual responsibilities of all owners for the building. In addition, there would be a contract with the homeowners association, as it is the homeowners association that is responsible for the common areas of the

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building. The contract would contain specific obligations of restoration and maintenance of the building. This would be a departure from existing practice, but would resolve several significant issues when dealing with multi-family properties.

It is staff's recommendation that new contracts continue to be placed on hold until all audits are completed and new program recommendations can be proposed.

If you have any questions, please do not hesitate to contact Amy Bodek, Director of Development Services, at extension 86428. Thank you.

AJB: slg

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