



Legislation Text

File #: 15-0022, **Version:** 1

Recommendation to adopt recommended revisions to the City's Mills Act Property Tax Incentive Program for historic properties. (Citywide)

On February 4, 2014, the City Council requested an update on the status of re-instituting the Mills Act property tax incentive program for historic properties. Staff has now completed the research of existing Mills Act programs in a variety of other California cities, and consulted with the State Office of Historic Preservation and the LA County Assessor's office.

Based on that research, a series of recommendations have been developed, including evaluation and prioritization criteria for eligible properties, and an annual timeframe for application review and approval to streamline the process (Exhibit A - Recommendations Summary). The Cultural Heritage Commission (CHC) discussed the Mills Act program recommendations at its October 13, 2014 meeting and made several recommendations that are contained herein.

As provided by State law, entering into a Mills Act contract results in a property tax reassessment by the local county tax assessor, who assesses property value by applying a complicated formula based on income capitalization, risk factors, and expected life of the property. Generally, experience with such contracts indicates that owners benefit from approximately a 30-50 percent reduction in property tax, which, in turn, lowers City revenue from property taxes for these properties. The contract runs with the property and is passed on to subsequent owners. The contract is for a period of 10 years and automatically renews itself on a continuous basis unless steps are taken by the City to cancel the contract. Upon cancellation of the contract, the actual termination date of said contract is 10 years from the date of cancellation.

There are 31 single-family and duplex properties currently with Mills Act contracts. There are three multi-family properties with a cumulative total of nearly 100 individual units that also have applicable Mills Act contracts in the Villa Riviera, Rose Towers (El Cordoba), and the Lafayette Tower. Because the Mills Act contracts for these properties include some, but not all, of the individual condominium units, it is difficult to comprehensively inspect and audit the maintenance of these grand buildings. It is the staff's view that a multiple-owner property should strive for 100 percent participation among all owners, through its homeowners association going forward, because it is not possible to segment the mutual responsibilities of all owners for the building.

Throughout the City, there are a number of smaller residential and commercial properties that could qualify for the Mills Act property tax reduction under the terms of the State legislation.

There are 113 designated local historic landmarks that would be eligible for the contracts. In addition, there are now 17 designated local historic districts where it is estimated that approximately 2,500 contributing properties could be eligible. Only a portion of these structures could meet the more stringent landmark eligibility criteria. As word has gotten out about the City's interest in revitalizing the program, the number of inquiries about the Mills Act have continued to increase.

Therefore, in order to control a potential flood of applications that could have a significant effect in reducing local tax revenues, the CHC adopted a policy to ensure that substantial public benefit would result from a contract. Owners of historic landmarks benefit from property tax relief under the Mills Act as compensation for the additional costs they assume in restoring and maintaining a designated historic property, providing a public benefit by preserving the architectural heritage of a community. The CHC expressed caution in opening up the Mills Act to commercial structures, and consider residential structures to be more appropriate for the program. However, some smaller historic non-residential buildings could benefit from the program, particularly those which have not yet undertaken restoration.

It is typically recommended that properties considered for a Mills Act contract have a high level of architectural integrity and significance, and be in need of significant restoration resulting in enhancement of the architectural heritage of the whole community. This high degree of public benefit would help justify the potential offset in reduced property tax revenues that the City would receive.

Staff is suggesting that the number of applications be limited, and that the valuation of structures be considered as one of several key factors in prioritizing applications. The applications would undergo a series of reviews to generate a priority listing that would be approved by City Council each year. At that time, the City Council could determine how many contracts will be issued in any particular year, and direct staff to execute the contracts.

This matter was reviewed by Assistant City Attorney Michael Mais on November 5, 2014, and by Budget Management Officer Victoria Bell on December 18, 2014.

SUSTAINABILITY

Implementation of the Mills Act helps retain and restore local historic landmarks. This work often is completed by reusing or reclaiming existing building materials, reducing construction waste as compared to new construction.

City Council action is requested on this matter at this time in order to allow the program to be re-instated for the 2015 tax year. Reinstatement of the Mills Act program is called out as an implementation item in the Historic Preservation Element of the General Plan, adopted by City Council in 2010.

The exact fiscal impact of the proposed recommendation cannot be determined due to the numerous variables involved in determining the value of a Mills Act property for tax purposes. Under the Mills Act, the value of a property is determined by the "income" method presented in the California Revenue and Taxation Code Section 439.2. The County of Los Angeles County Assessor's Office (Assessor) annually calculates the property valuation using this income method and compares it with the valuation under Proposition 13 and market value; the least of the three valuations is used to determine the property's taxes.

Based on information provided by the Assessor and other data, staff used three different approaches to estimate what the potential fiscal impact of adding approximately 315 new Mills Act properties (250 multi-family units, 60 single-family units and five non-residential properties) might be on the City's property tax revenue annually. The analysis assumes that it will take five years to review and process all 315 Mills Act contracts. Under the three different approaches, in that fifth year, the fiscal impact could range from an estimated \$146,000 to \$199,000 reduction in General Fund revenue per year. Based on anecdotal information from the Assessor, assessments fluctuate in range from 0 to 2 percent annually. When a priority listing is presented to City Council, staff will be able to provide a more accurate estimate of the fiscal impact because the property taxes and other specifics for the proposed Mills Act properties will be known. There is no local job impact associated with this recommended action.

Approve recommendation.

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APPROVED:

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