



OFFICE OF THE CITY MANAGER

March 11, 2002

TO: CITY COUNCIL

FROM: CITY MANAGER

SUBJECT: **MILLS ACT PROPERTY TAX INCENTIVE FOR  
HISTORIC PRESERVATION**

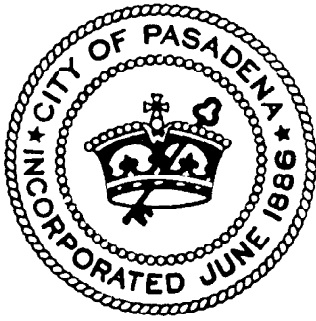
On Wednesday, March 6, 2002, the Economic Development and Technology Committee reviewed the proposal for a local Mills Act program.

The members of the committee focused their discussion on the criteria for selecting properties for the contracts. Among their concerns were: targeting the program to assist homeowners unable to afford improvements and maintenance of their houses; linking the commercial contracts to preferred land uses and businesses (e.g., bio-tech firms); and seeking a geographic distribution throughout the City. They asked that these considerations be included in the implementation ordinance, which will be presented to the City Council for final review and approval.

Respectfully submitted,

Cynthia J. Kurtz  
City Manager

3/11/2002  
5.A.(1)



# Agenda Report

TO: CITY COUNCIL                      DATE: MARCH 6, 2002

THROUGH: ECONOMIC DEVELOPMENT & TECHNOLOGY COMMITTEE

FROM: CITY MANAGER

SUBJECT: MILLS ACT PROGRAM  
PROPERTY TAX INCENTIVE FOR HISTORIC PRESERVATION

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## RECOMMENDATION

It is recommended that the City Council:

- Acknowledge that adoption of a local Mills Act program is categorically exempt from the California Environmental Quality Act (§15308, Class 8 exemption, Actions by Regulatory Agencies for Protection of the Environment);
- Find that a Mills Act program supports the objectives and policies for historic preservation in the Land-use Element of the General Plan, specifically Objective 6 (promote preservation of historically and architecturally significant buildings and revitalization of traditional neighborhoods and commercial areas);
- Adopt a local a Mills Act program to encourage rehabilitation and adaptive use of designated historic resources (both commercial and residential);
- Authorize the City Manger to enter into Mills Act contracts on behalf of the City including an initial contract for the adaptive use of the former Royal Laundry complex (443-449 South Raymond Avenue); and
- Direct the City Attorney to prepare an ordinance to implement a Mills Act program.

### **Recommendation from the Planning Commission.**

At a public meeting on January 23, 2002, the Planning Commission reviewed the proposal to enact a local ordinance for a Mills Act program. The Commission voted unanimously to recommend approval of the program (as outlined in the recommendation from the City Manager) with the understanding that the City will monitor the fiscal impacts of the property tax incentive.

## **Recommendation from the Cultural Heritage Commission.**

The Cultural Heritage Commission reviewed the proposal on January 22, 2002 and voted unanimously to recommend approval of an ordinance creating a local Mills Act program. The recommendation from the Cultural Heritage Commission is identical to the recommendation from the City Manager.

## **EXECUTIVE SUMMARY**

The Mills Act is a State-sponsored legislation granting local jurisdictions the authority to offer an incentive for historic preservation. Created in 1972, and amended in 1985, it enables owners of designated historic properties to enter into a preservation contract with local jurisdictions and receive a reduction in property taxes (ranging in some cases up to 75%). The initial contract is ten years; it automatically renews each year on its anniversary date creating a new ten-year contract. In exchange for a reduction in property taxes, owners of historic properties are required to complete maintenance, rehabilitation, and restoration work over the life of the contract.

Local jurisdictions must adopt an ordinance to implement the Mills Act. Approximately fifty cities in California currently have active Mills Act programs.

This report proposes a local program that:

- Offers up to ten contracts a year for residential properties and three for commercial properties.
- Limits the annual loss of revenue to the City.
- Authorizes the City Manager to execute the contracts (with approval by the City Council for individual contracts over \$25,000 and total annual amounts over \$75,000).
- Limits availability of the Mills Act to properties that are locally designated (landmarks, landmark districts) or listed in the National Register of Historic Places (individually, contributing in districts).
- Offers priority consideration to cases where tax relief would substantially contribute to the preservation of a historic resource threatened by deterioration, abandonment, or conflicting regulations; enhance opportunities for maintaining or creating affordable housing; or facilitate preservation and maintenance of a property in cases of economic hardship.
- Additionally offers priority consideration to cases where a Mills Act contract would support substantial reinvestment in a historic property and rehabilitation of historic buildings in the Enterprise Zone and other areas where the City is concentrating resources on façade improvements, home rehabilitation, or revitalization efforts.

## BACKGROUND

California state law authorizes cities to enter into contracts with owners of qualified historic properties to provide a property tax reduction for the use, maintenance and restoration of designated historic properties. The minimum requirements for a Mills Act Agreement, as mandated by State law, include:

- A minimum contract term of ten (10) years, automatically renewable on an annual basis,<sup>1</sup> to be recorded against title to the property and running with the land;
- An owner(s) must maintain the regulated characteristics of historical significance of the historic resource in accordance with the rules and regulations published by the Secretary of the Interior;
- An owner(s) must allow reasonable periodic examination of the historic resource, if a request is made and by prior appointment, by representatives of the County Assessor, State Department of Parks and Recreation and the State Board of Equalization; and
- A City may cancel the agreement following a duly noticed public hearing if it is determined that the owner(s) breached any mandatory conditions of the contract agreement.

In Pasadena, an unusually large number of properties qualify for the Mills Act program; for this reason, the incentive—with its reduction in revenues from property taxes—should be controlled by targeting projects that support well-established goals and priorities of the City: preservation of designated historic buildings; adaptive use of historic buildings; productive use of vacant or severely deteriorated buildings. The City Council has authorized a Mills Act program for only one property, existing bungalows at the Vista del Arroyo. The West Gateway Specific Plan—adopted by the City Council in 1998—proposes a Mills Act program as an incentive for preservation and rehabilitation of the bungalows.

### Other Cities

Enactment of a Mills Act program occurs at the discretion of city and county governments. California's four largest cities (Los Angeles, San Diego, San Francisco and San Jose) have instituted Mills Act programs. In Los Angeles County, Glendale, Glendora, La Verne, Long Beach, Monrovia, Redondo Beach, Santa Monica, Sierra Madre, West Hollywood and Whittier have adopted programs (see Appendix B for current list of California cities that have a program).

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<sup>1</sup> The time mechanism is identical to the Williamson Act, which offers financial incentives for preservation of land in agricultural use.

## ANALYSIS

### Qualifying Properties

California Government Code, Article 12, §50280–50290 limits the program to “qualified historic properties.” These properties include a designated historic resource that is listed (individually or as part of a district) in any local, state or national register. In Pasadena, the large number of qualifying historic properties—approximately 2,000—suggests the eligibility for the tax incentive should be linked to such goals and priorities as business retention, neighborhood revitalization, rehabilitation of vacant or severely deteriorated buildings. Some cities open the program to all qualifying properties on a first-come, first-serve basis. Other cities, however, select properties based on criteria.

### Selection Criteria

This report proposes that the City Council authorize the City Manager to award the contracts: a maximum of three commercial properties and ten residential properties each year. Any individual contract exceeding \$25,000 in annual loss of property tax revenue to the City would require the approval of the City Council and a combined annual loss of property tax revenue above \$75,000 from all of the contracts would also require the approval of the City Council. A selection panel, including members of the Cultural Heritage Commission, may be asked to review the applications and forward recommendations to the City Manager. Final details of the selection procedure and criteria will be presented to the Council with the implementing ordinance.

### Workload Impact

Beyond the initial tasks of devising a program and selection criteria, a Mills Act program carries ongoing administrative tasks such as advertising the program, responding to public inquiries, soliciting and screening applications, executing contracts, interacting with the County, inspecting properties, monitoring projects, renewing contracts, and quantifying the changes to revenues. In the future, if the City becomes responsible for a large number of contracts, the workload may require additional resources beyond those presently available to assist with a Mills Act program. In Los Angeles, for example, the City dedicated a half-time position for the Mills Act program after it had executed more than 40 contracts and increased to a full-time position with 135 contracts.

### Fiscal Impact

Typically, the loss of revenue to local jurisdictions from a Mills Act contract is modest, especially if the contracts are primarily for single-family residences. A recent estimate of contracts for ten historic houses in Pasadena projects a total loss of revenue to the City of \$18,562 for the first year. In this sampling, the reduced revenue to the City ranges from \$300 a year for a small house up to \$5,000 a year for a large house. Extended over a ten-year period, with 2% annual inflation, this amount totals \$203,245.

The amount of lost revenue increases for contracts on large commercial properties. As an example, the alternative property tax assessment for the Royal Laundry complex (443 S. Raymond Avenue) would decrease revenues to the City by \$26,508 during the first year of a contract.<sup>2</sup> Extended over a ten-year period, with 2% annual inflation, this amount totals \$290,257.

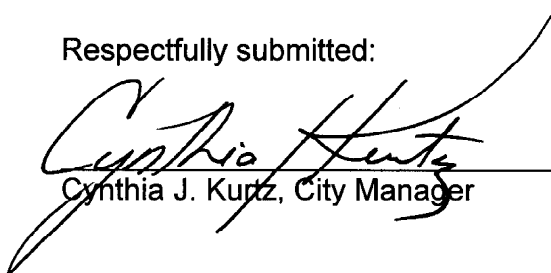
Limiting the number of contracts each year to a maximum of ten for residential properties and three for commercial properties should constrain the overall fiscal impact of the program. An additional constraint would be to require the City Council to approve any contract with an annual loss of revenue over \$25,000 and a total annual loss of revenue—from all of the contracts—over \$75,000. The staff estimates that a first-year program with ten residential contracts (\$18,000 loss in property tax revenue to the City) and one commercial contract (\$26,000 for Royal Laundry) would result in a total loss of approximately \$44,000 to the City. This amount would be higher with two additional contracts for commercial buildings. Attached to this report are two spreadsheets with estimates for two residential properties and the Royal Laundry (ATTACHMENT B).

Other cities in California restrict the loss of property tax revenue by limiting the number of contracts issued each year (e.g., a maximum of 30 in Anaheim), by charging fees to manage each contract, or by limiting the total amount of lost revenue (e.g., one-million dollar annual cap in the City of Los Angeles).

The primary beneficiaries of a Mills Act program appear to be owners of properties with recently updated assessments; the program does not benefit households with low assessments because of long-term ownership.

The long-term benefits of a Mills Act program, such as improving the housing inventory in neighborhoods, productively using vacant or deteriorated buildings, and facilitating the use of affordable housing, all carry fiscal dividends as well.

Respectfully submitted:

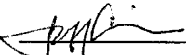


Cynthia J. Kurtz, City Manager

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<sup>2</sup> The new parking structure would be ineligible for Mills Act; that portion of the property would receive a conventional assessment.

Prepared by:



Jeff Cronin, Principal Planner

Approved by:



Richard J. Bruckner, Director of Planning & Development Department

Concurrence:



Jay M. Goldstone  
Director of Finance

## ATTACHMENTS

ATTACHMENT A: State of California Office of Historic Preservation, *Mills Act Information Packet*

1. Introduction
2. Communities Participating in Mills Act
3. California State Codes Relating to Mills Act Program

ATTACHMENT B: Estimated Projections of Alternative Tax Assessment for Two Residential Properties (272 S. Los Robles; 645 Crescent Place) and One Commercial Property (443 S. Raymond Avenue).