Mills Act 101
Preservation Through Tax Incentives
Presented by the City of San Luis Obispo and Office of Historic Preservation
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What is the Mills Act?

• A local property tax incentive to encourage restoration, rehabilitation and preservation of privately owned historic resources.
• A historic preservation tool to revitalize historic residential neighborhoods and commercial districts.
• Program designed and administered by the city with help from the assessor. No state government oversight.
State’s role in Mills Act

- No state oversight. Authority rests with cities and counties. Disputes handled by courts.
- Office of Historic Preservation advises and consults with property owners and local governments; serves as clearinghouse of information.
- Board of Equalization advises and interprets for County Assessors.
Benefits to Property Owner

• Incentive to keep historic property rather than develop or sell.
• Only financial incentive available to historic homeowners in California.
• For commercial owners, can be packaged with other incentives.
• Tax benefit runs with title — a selling point.
• Accepting tax benefit is voluntary.
• Tax benefit is indefinite.
Benefits to Local Government

• Helps retain and maintain historic properties.

• Can foster preservation of historic neighborhoods.

• Incentive can help revitalize downtown commercial districts.

• Can preserve historic fabric of community, boost cultural tourism and increase civic pride.
More Benefits to Local Government

- Program is flexible. Can be designed to target specific resources.
- City controls number of contracts, property values that can be included. This allows cities to cap revenue loses.
Addressing cost- lost revenue

• Lost revenue is property tax, often a small portion of city revenue stream.

• Fees can offset administrative costs.

• Mills Act investment can generate positive economics increasing property values and promoting businesses growth.
How Does Mills Act Work?

- Cities may enter into a contract with property owner. In exchange for tax relief, owners agree to restore or maintain historic property in accordance with federal, state and local standards.
Mills Act Framework

• Properties must be on a local, state, or national register of historic places or contribute to a national historic district. Cites can narrow that definition.

• Properties must be privately owned and subject to property tax.

• Contracts are 10 years minimum. Contracts extend one year annually unless either party chooses not to renew.
Mills Act Framework, Cont’d.

• Local government administers program. Local government controls application process and does annual inspections.
• Contract specifies what maintenance or rehabilitation is to be done.
• Property must be restored and maintained in manner compatible with its architecture and uses and original fabric retained where feasible. Federal and local standards apply.
Mills Act Framework, Cont’d.

• Local government can enforce a contract by judicial means. If that fails a contract can be cancelled for breech and after a hearing. There is a penalty of 12 ½ percent of value of property for owners whose contract is cancelled, paid to State.

• Assessor calculates Mills Act tax assessment annually.
Mills Act History

- 1976 – Voters approve constitutional amendment.
Mills Act History, Continued

- 1985 - Mills Act amended to reduce minimum contract period, eliminate visibility to public and public access and reduce penalty for cancellation.

- 1993 – Act amended to define restoration and rehabilitation as meeting the standards of the OHP, State Historic Building Code and Secretary of Interior’s Standards.
Mills Act Participation

• 85 Mills Act cities in California.
• More than 2,375 contracts.
• Three cities added program in 2006.
• At least four cities considering now.
• Interest growing rapidly as property values soar and resources are lost.
Mills Act Mathematics

- “Income” or capitalization formula used.
- Can result in tax savings of 50 percent or more.
- Formula complex.
- Only assessor can calculate actual savings.
- Assessor determines key elements.
Basic Formula:

**Single-family Owner-Occupied Home**

Gross income (fair rent)
$1,500 per month x 12 months $18,000

Less anticipated vacancy and collection loss
$18,000 x 5 percent -900

Effective gross income $17,100
Basic Formula:

Single-family Owner-Occupied Home

Maintenance costs

Operating expenses $600
Grounds maintenance $400
Fire Insurance $360
Management fee $360
Water and Garbage $240
Building maintenance $500 $2,100

Net Operating Income

$17,100 - $2,100 = $15,000
Basic Formula:

Single-family Owner-Occupied Home

Restricted Capitalization rate

*Rate Components*
Interest Rate \( .080 \)
Risk \( .040 \)
Property tax (basic tax plus any special taxes for district) \( .015 \)
Amortization rate* (50-year remaining life; improvements 70% of total property value) \( .02 \times .70 = .014 \)

Restricted value \( $15,000 \div .149 = $100,671 \)
Basic Formula:

**Single-family Owner-Occupied Home**

Tax Value - Three way comparison

Restricted value

$100,671 \times 0.015 = $1,510$

Factored base year value (prior change in ownership)

$357,000 \times 0.015 = $5,355$

Current market value (based on comparable sales)

$450,000 \times 0.015 = $6,750$

Potential Tax Savings $5,240
Basic Formula:

Commercial Property

Gross income (fair rent)
140,000 sq. feet @ $1.75/sf – 245,000
X 12 months = $2,940,000

Less anticipated vacancy and collection loss

$2,940,000 x 5 percent - $147,000

Effective gross income $2,793,000
Basic Formula:

Commercial Property

Maintenance costs
Operating expenses $140,000
Insurance $75,000
Management fee $290,000
Utilities $360,000
Building maintenance $95,000

Total Costs $960,000

Net Operating Income
$2,793,000 - $960,000 = $1,833,000
Basic Formula:

Commercial Property

Restricted Capitalization rate

Rate Components
Interest Rate \(0.080\)
Risk \(0.020\)
Property tax (basic tax plus any special taxes for district) \(0.011\)
Amortization rate (50-year remaining life; improvements 75% of total property value) \(0.02 \times 0.75 = 0.015\)

Restricted value
\(\frac{1,833,000}{0.126} = 14,547,619\)
Basic Formula:

**Commercial Property**

**Tax Value - Three way comparison**

Restricted value

$14,547,619 \times 0.011 = $160,024$

Factored base year value (prior change in ownership)

$18,181,077 \times 0.011 = $199,992$

Current market value (based on comparable sales)

$21,000,000 \times 0.011 = $231,000$

Potential Tax Savings $71,000
Where Mills Act Formula components come from

Gross income (fair rent) - *Determined by assessor.*

Maintenance costs - *Determined by assessor, based on information provided by property owner.*

Interest Rate - *Determined annually by Board of Equalization as of the preceding December.*

Risk – *Set by Mills Act statute (4% residential, 2% commercial)*

Amortization rate – *Determined by assessor.*
Non-renewal

- Once either party notifies the other of a 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 the Mills Act.
Implementing a Mills Act Program: Choices are city’s

- Can be formal ordinance or less formal resolution.
- Can target certain properties by limiting what qualifies.
- Can choose level of enforcement.
Ordinance approach

• Spells out Mills Act in Historic Preservation Ordinance.
• More structured approach, less flexible.
Resolution Approach

- Council approves program. Delegates to staff administer.
- Council approves final contracts.
- Approved Council resolution forwarded to County to initiate program.
Work in Advance With Assessor

- Mills Act may be new to assessor.
- Assessor needs lead time to prepare tax assessment.
- Assessor must keep information up to date.
- Get political buyoff.
Sell Community on Mills Act

• Hold Informational meetings.
• Be ready for tax reduction opponents.
• Address perceptions.
• Work with other government agencies that share property tax revenue. Schools redevelopment agencies especially sensitive.
Mills Act Quirks

• Longtime owners (pre-1985) may not benefit.
• Law does not address multiple owners.
• Surprise increases if assessors don’t keep up on data.
• Government owner/developer lease deals addressed by law.
• Tax benefits may take effect in year following approval of Mills Act contract.
Summary of Mills Act Pros

- Only incentive available to historic home owners.
- Can be used with other commercial property preservation incentives.
- Tax incentive especially helpful to recent buyers.
Summary of Pros

- Mills Act contract goes with title - a selling point.
- Program permissive, city can craft to its needs.
- Contracts don’t have to be renewed if city/owner needs change.
- Fees can offset program costs.
- Can encourage owners to seek historic designation.
Yet more Pros

- Can help revitalize, maintain historic civic cores.
- Helps keep up historic neighborhoods.
- Boosts civic pride.
- Helps retain civic history, character.
Mills Act Cons

- Lost tax revenue.
- Program costs.
- Lost revenue to other agencies.
- Not much benefit to longtime owners.
- Perception issues.
Note:
There are More Pros than Cons
Questions/Contact Information

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– Lucinda Woodward, OHP Mills Act contact, (916)653-9116 or lwoodward@parks.ca.gov

– Lisa Gofourth, SLO County Assessor’s Office, (805) 781-5643
Handouts

- Mills Act Statute (Government Code and Tax and Revenue Code)
- Example of council resolutions
- Examples of Mills Act contract
- Secretary of the Interior's Standards
Mills Act 101

PowerPoint created by Dennis Weber, OHP and Jeff Hook, City of San Luis Obispo