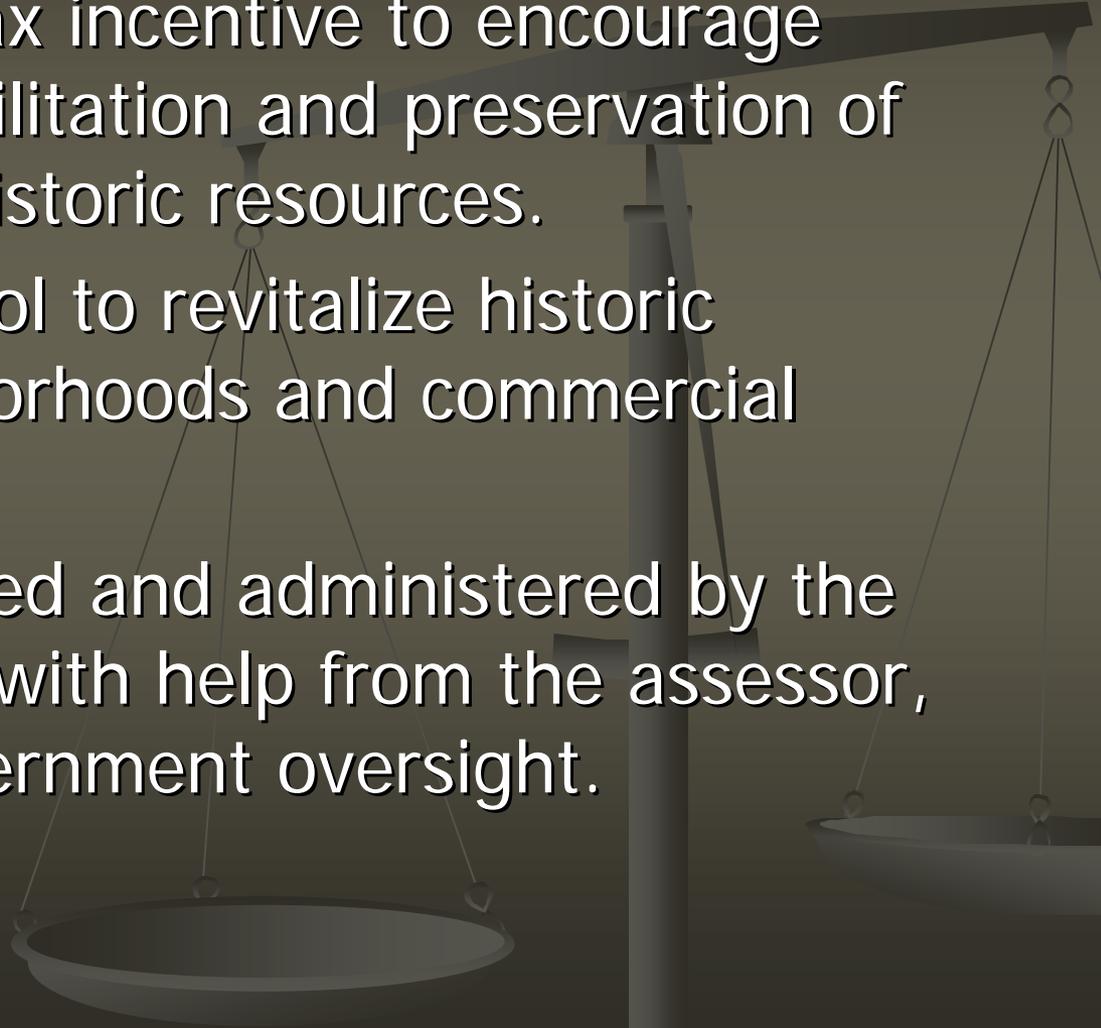


Mills Act 101

Preservation Through Tax Incentives
Presented by
Shannon Lauchner
Mills Act Coordinator
Office of Historic Preservation

What is the Mills Act?

- A local property tax incentive to encourage restoration, rehabilitation and preservation of privately owned historic resources.
 - A preservation tool to revitalize historic residential neighborhoods and commercial districts.
 - A program designed and administered by the local government with help from the assessor, without state government oversight.
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Mills Act History



- 1972- State Senator James Mills authored the “Mills Act” in response to the plight of Coronado Hotel in San Diego.
- 1973– The law was determined unconstitutional.
- 1976– Voters approved a constitutional amendment.

Mills Act History Continued

- 1985– The Mills Act was amended to reduce the minimum contract period, eliminate mandatory public access, and reduce the penalty for cancellation.
- 1993– The Act was amended to define restoration and rehabilitation as meeting the standards of the OHP, the State Historic Building Code and the Secretary of the Interior's Standards.



The State's Role in Mills Act



- There is no state oversight. The authority rests with the local governments and disputes are handled by the courts.
- The Office of Historic Preservation advises property owners and local governments.
- The Board of Equalization advises and interprets the law for County Assessors

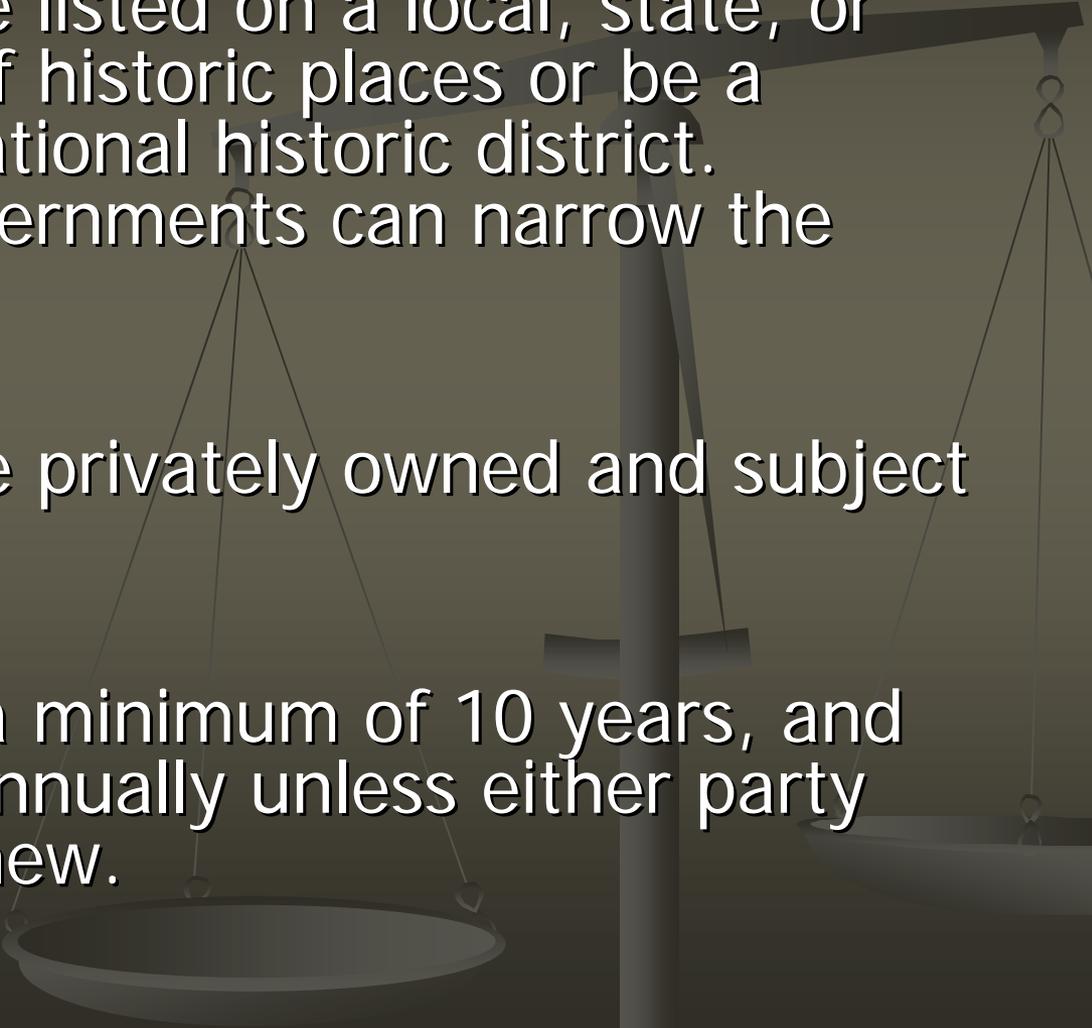
How Does Mills Act Work?



Local governments 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.

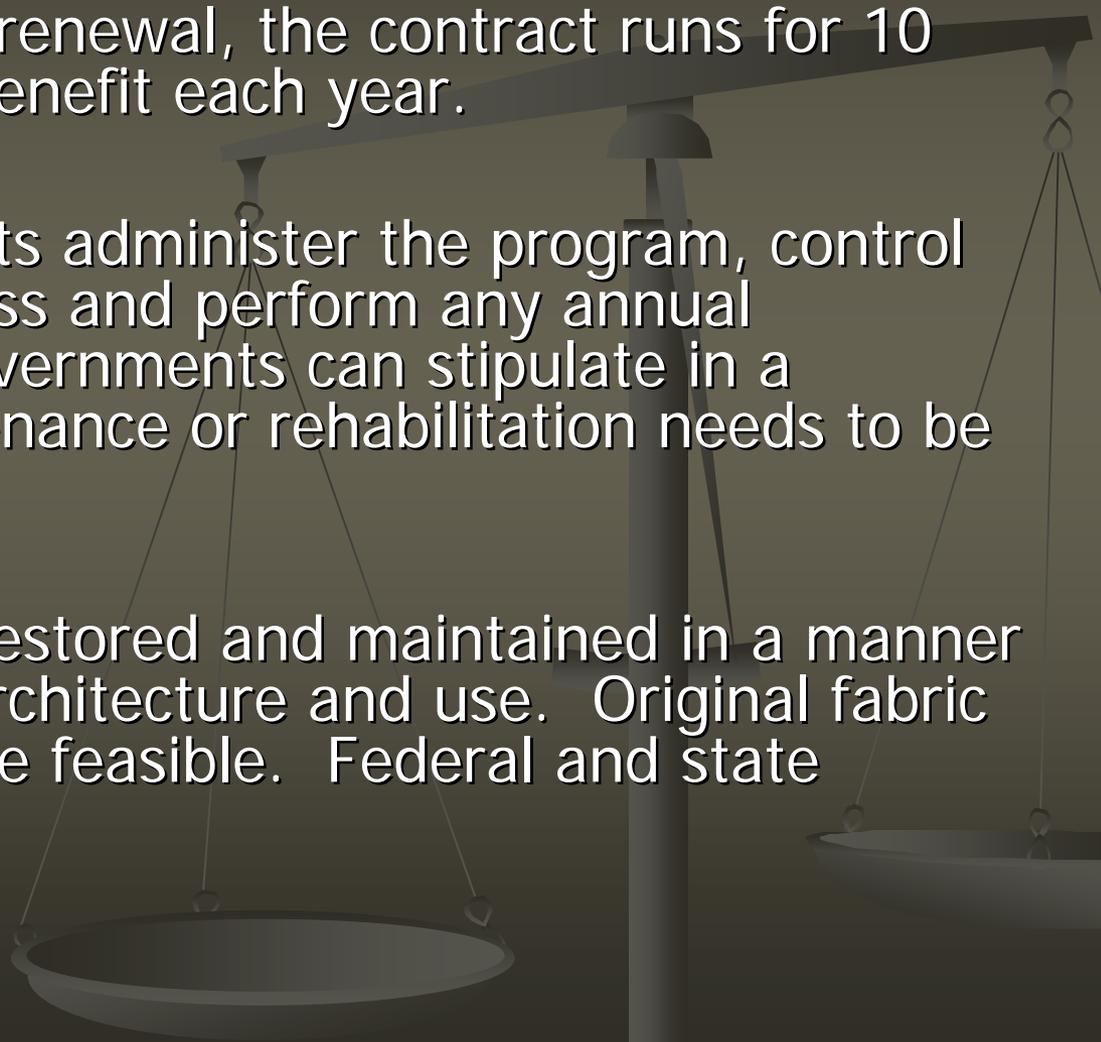


Mills Act Framework



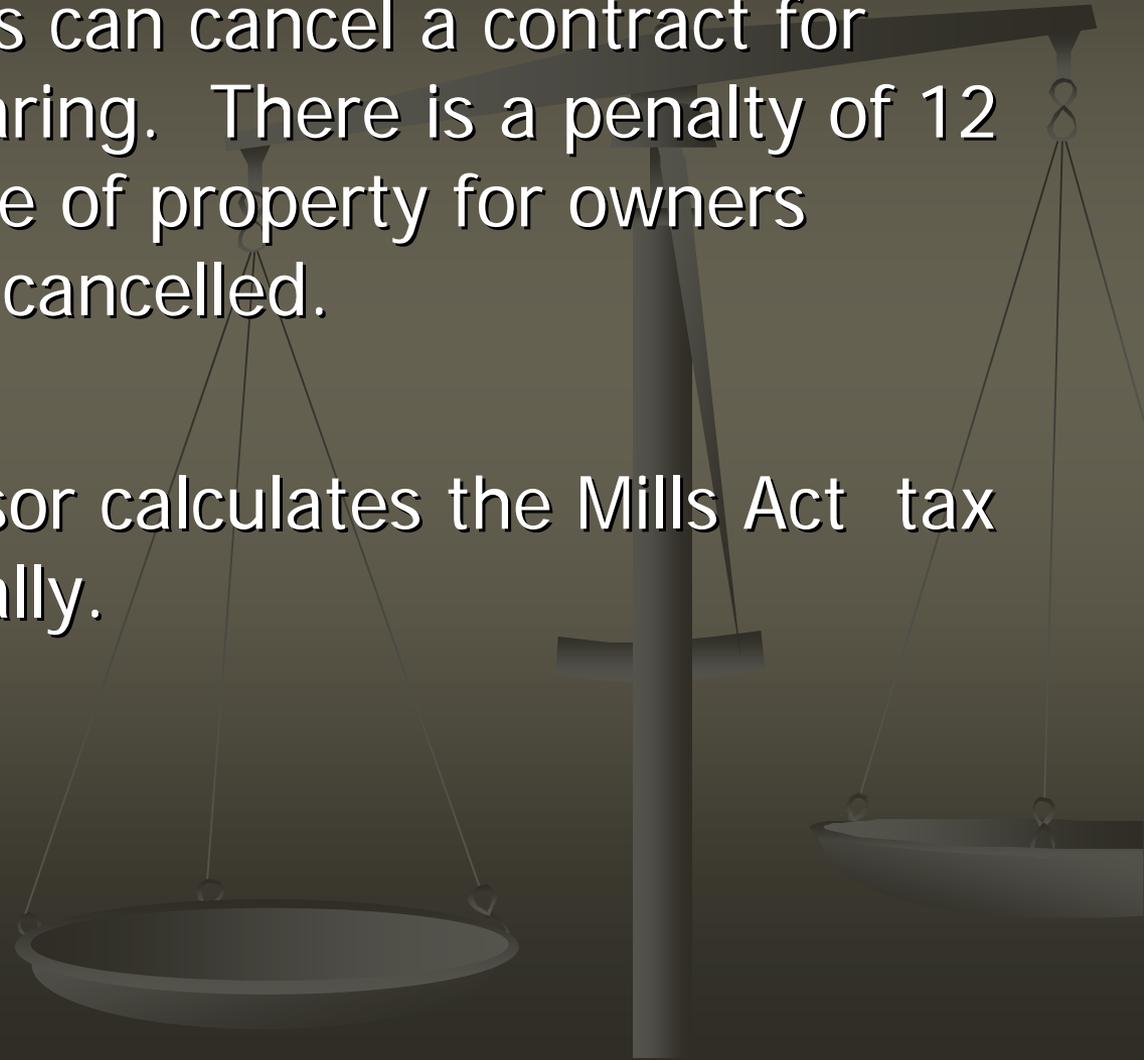
- Properties must be listed on a local, state, or national register of historic places or be a contributor to a national historic district. However local governments can narrow the definition.
- Properties must be privately owned and subject to property tax.
- Contracts are for a minimum of 10 years, and extend one year annually unless either party chooses not to renew.

More on the Mills Act Framework

- In the case of a non-renewal, the contract runs for 10 years with reduced benefit each year.
 - The local governments administer the program, control the application process and perform any annual inspections. Local governments can stipulate in a contract what maintenance or rehabilitation needs to be completed.
 - A property must be restored and maintained in a manner compatible with its architecture and use. Original fabric should be retained where feasible. Federal and state standards apply.
- 

More on the Mills Act Framework

- Local governments can cancel a contract for breach after a hearing. There is a penalty of 12 ½ percent of value of property for owners whose contract is cancelled.
- The county assessor calculates the Mills Act tax assessment annually.



Implementing a Mills Act Program: The Choices are the Local Government 's



- Can be a formal ordinance or a less formal resolution.
- Can target certain properties by limiting what qualifies for the program.
- Can choose level of enforcement.

Mills Act Communities



- There are currently 84 local governments participating in the Mills Act.
- Seven counties and 77 incorporated cities have adopted the Mills Act.
- Three to five local governments have adopted the program in each of the past five years.

Mills Act Mathematics

Annually, the Assessor's Office reviews:



1. Proposition 13 Base Year Adjusted Value
2. Current Fair Market Value
3. Mills Act – Actual or Potential Income Valuation

The lowest of the 3 values is used to calculate the General Levy Property Tax

The Mills Act Value Calculation

Fair Rent

- Anticipated Vacancy
- Maintenance Cost

Net Operating Income

Interest Rate (determined by the Board of Equalization)

- + Risk (set by Mills Act)
- + Amortization Rate (determined by Assessor)

Restricted Capitalization Rate

Net Operating Income

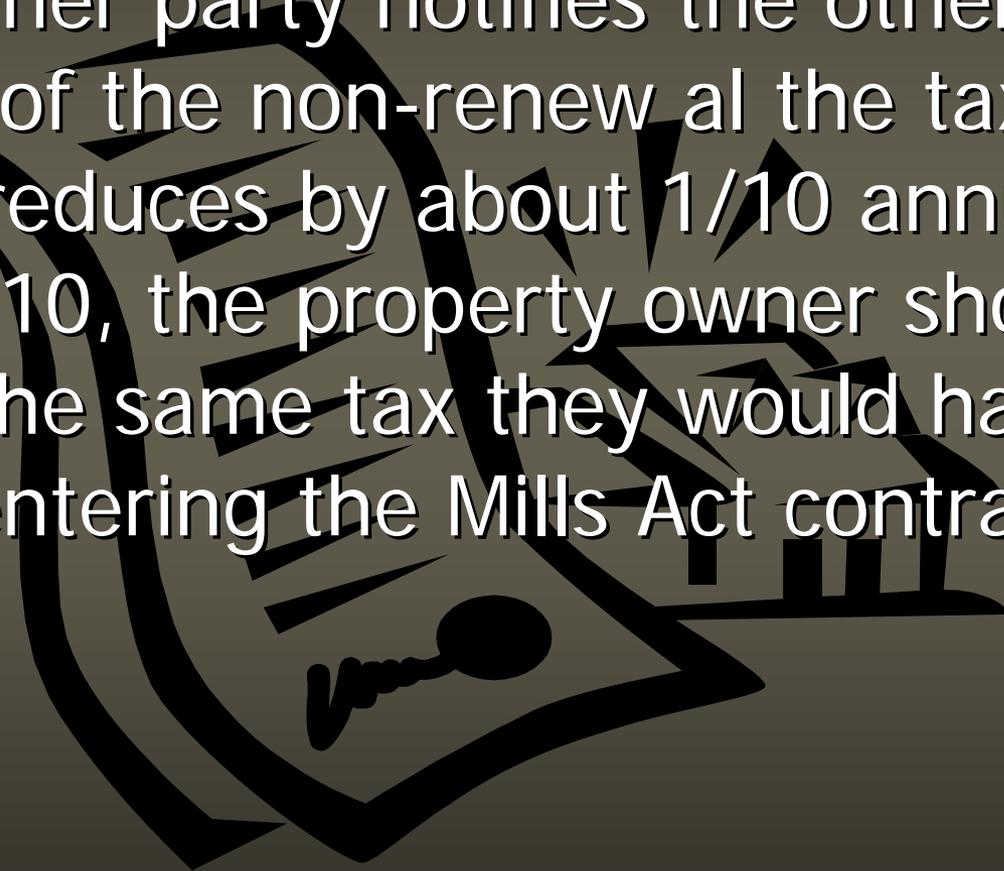
Restricted Capitalization Rate

= Mills Act Restricted Value

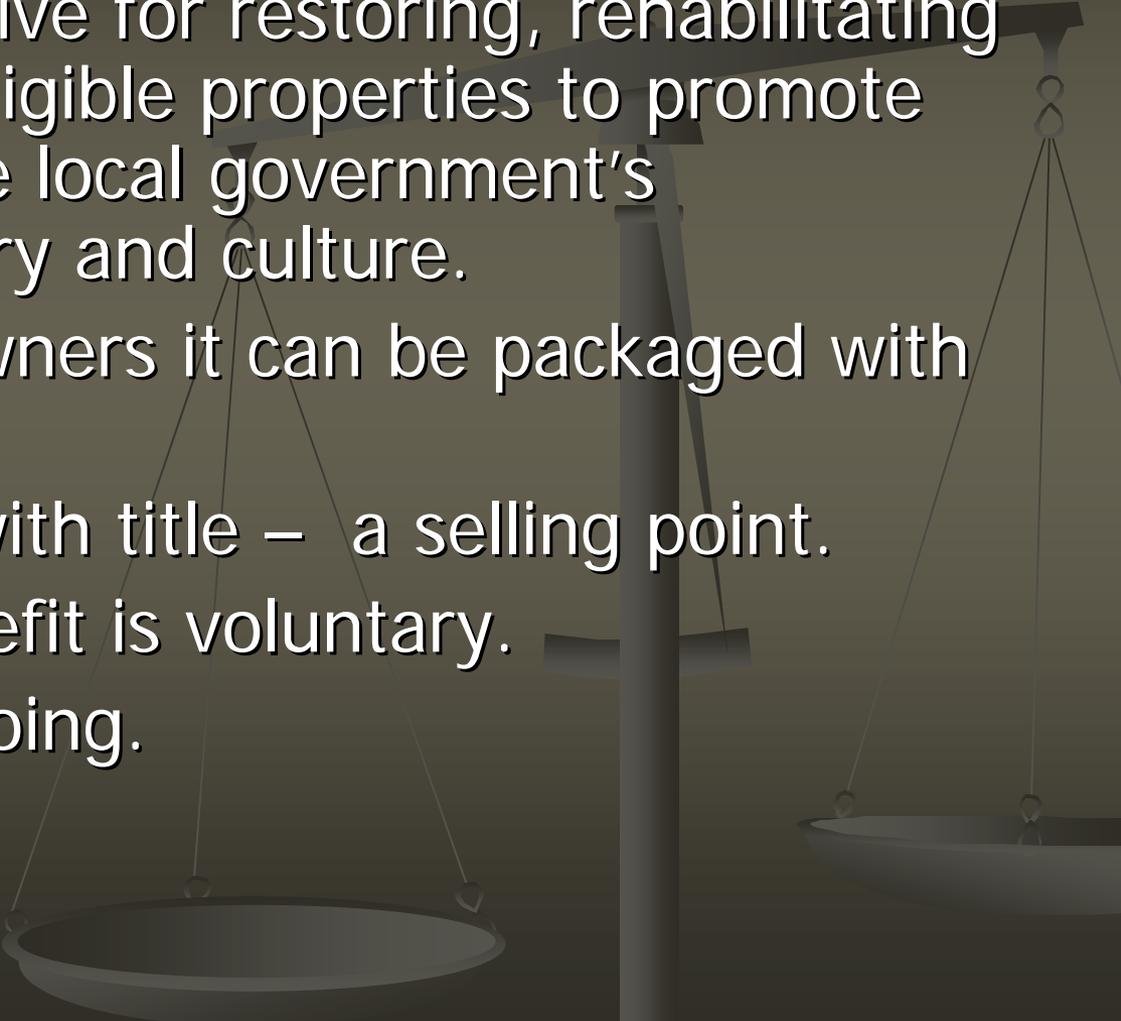


Non-renewal

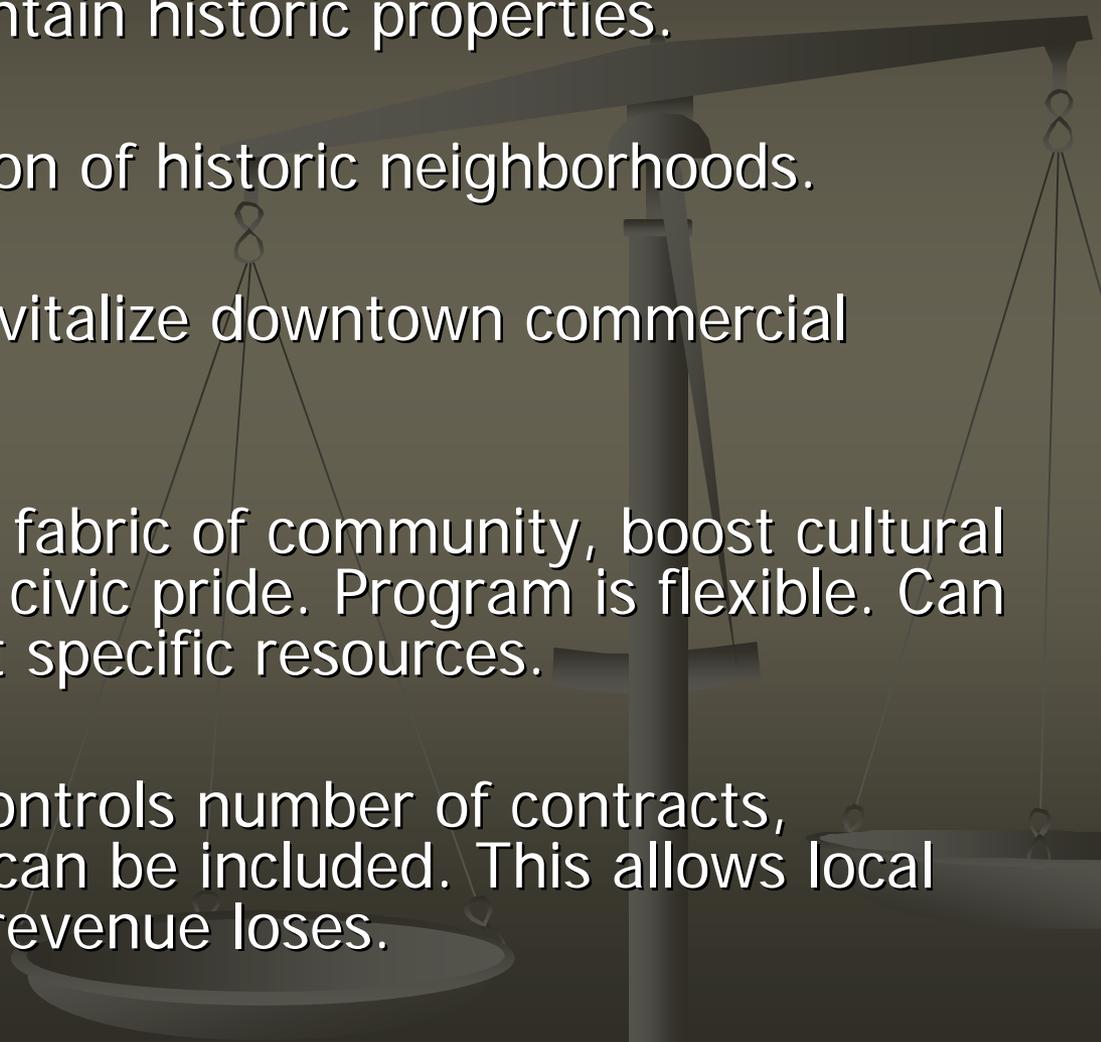
Once either party notifies the other, in writing, of the non-renewal the tax benefit reduces by about 1/10 annually. By year 10, the property owner should be paying the same tax they would have paid before entering the Mills Act contract.



Benefits to the Property Owner

- Provides an incentive for restoring, rehabilitating and maintaining eligible properties to promote appreciation of the local government's architecture, history and culture.
 - For commercial owners it can be packaged with other incentives.
 - Tax benefit runs with title – a selling point.
 - Accepting tax benefit is voluntary.
 - Tax benefit is ongoing.
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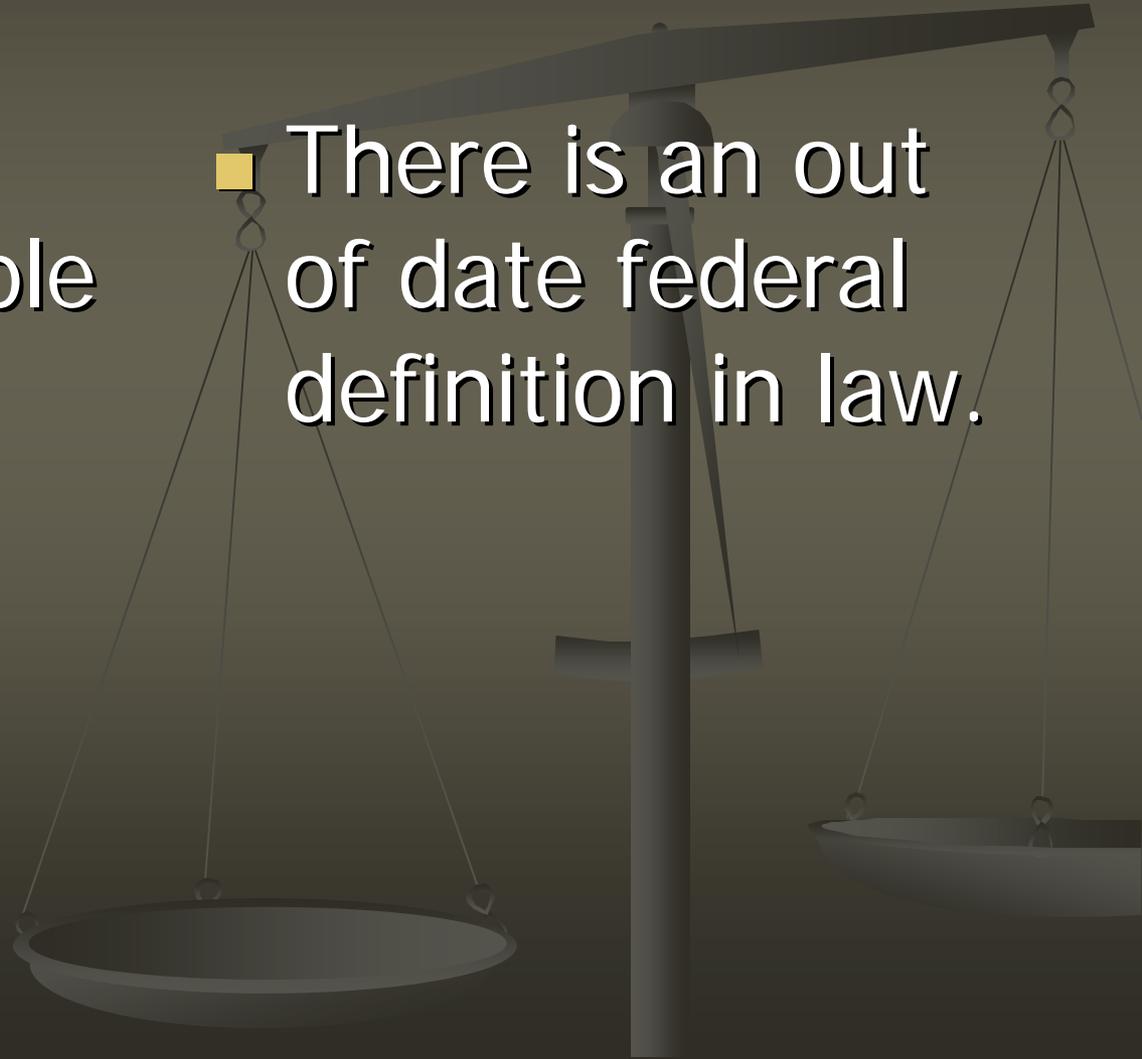
Benefits to Local Governments



- 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. Program is flexible. Can be designed to target specific resources.
- Local governments controls number of contracts, property values that can be included. This allows local governments to cap revenue loses.

Mills Act Quirks

- Law does not address multiple owners.
- There is an out of date federal definition in law.



Summary of Mills Act Pros



- Only incentive available to historic home owners.
- Can be used with other commercial property preservation incentives.
- The tax incentive is especially helpful to recent buyers.

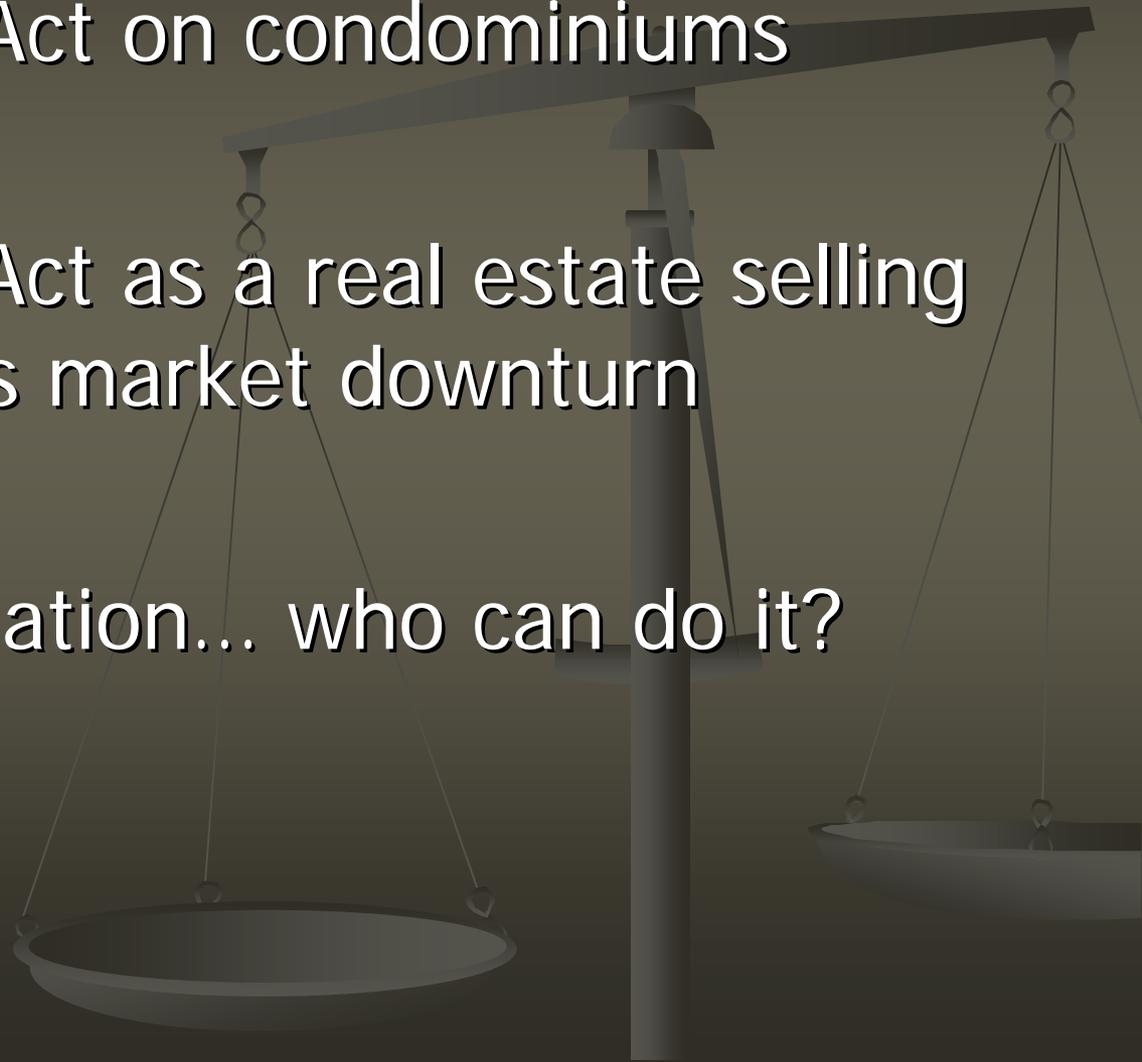
Summary of Mills Act Pros



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

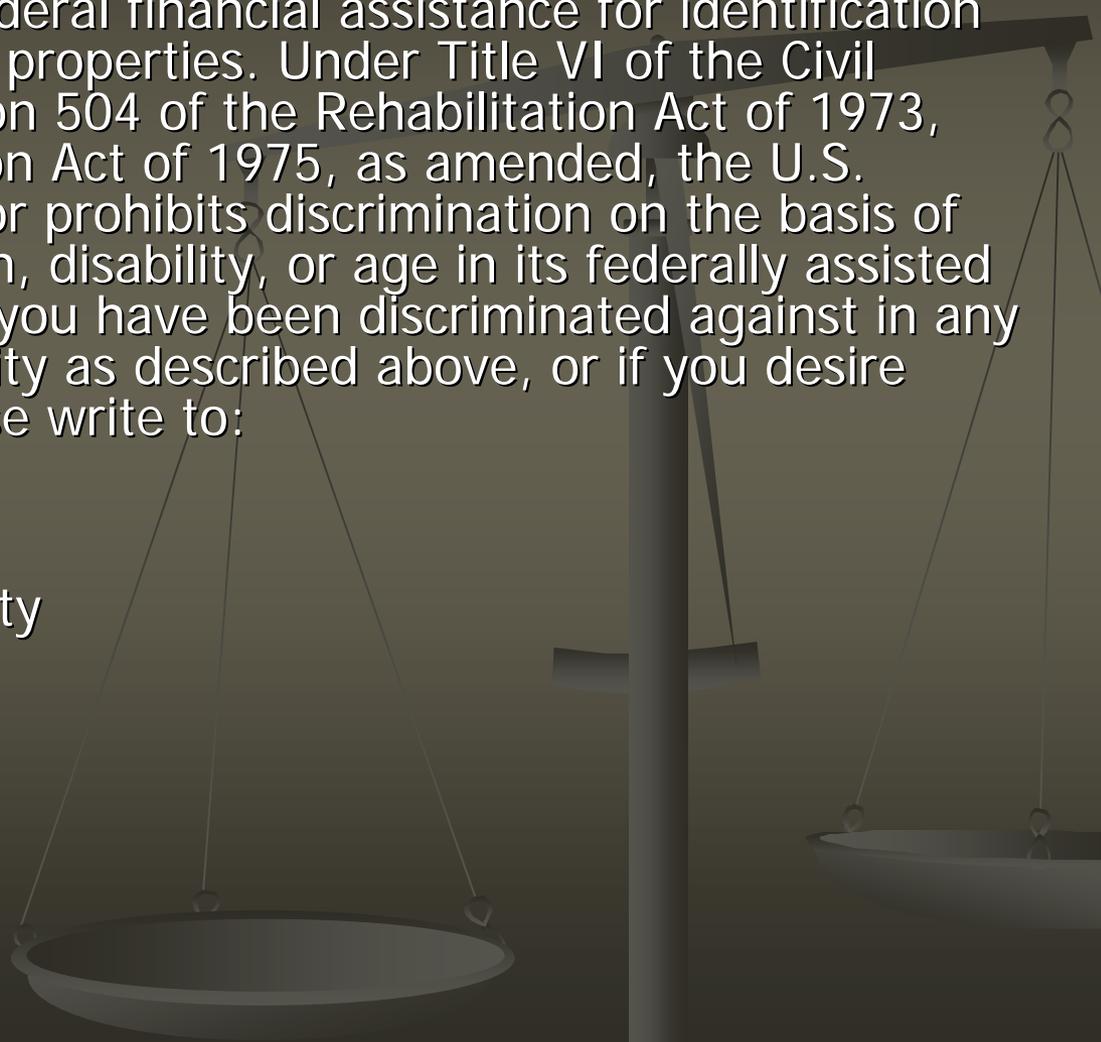
Hot Topics!!!

- Using the Mills Act on condominiums
- Using the Mills Act as a real estate selling point during this market downturn
- Contract cancellation... who can do it?



Information & Contacts

- California Office of Historic Preservation website- Mills Act Information
http://www.ohp.parks.ca.gov/?page_id=21412
- Assessment Policy and Standards Division of the Board of Equalization at (916) 445-4982 or
<http://www.boe.ca.gov/info/email.html>
- Shannon Lauchner, Mills Act Coordinator, OHP
(916)653-5649 or slauchner@parks.ca.gov



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Washington, D.C. 20240