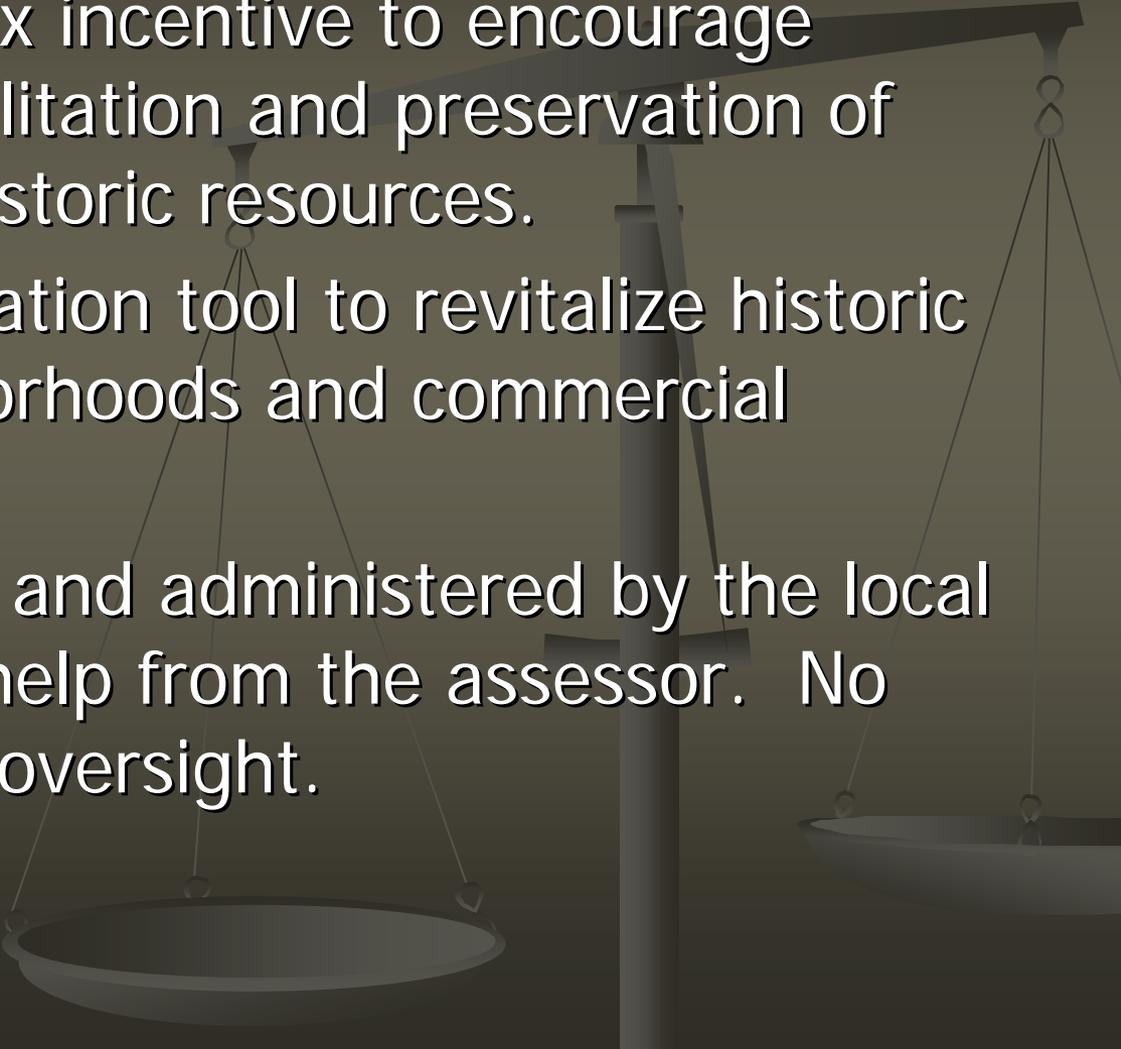


Mills Act 101

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

City of Ventura
February 26, 2008

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 local government with help from the assessor. No state government oversight.
- 

Mills Act History



- 1972 – Sen. James Mills authors “Mills Act” in response to plight of Coronado Hotel in San Diego.
- 1973 – The law is 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 penalty for cancellation.
- 1993 – The Act was amended to define restoration and rehabilitation as meeting the standards of the OHP, State Historic Building Code and Secretary of Interior's Standards



The State's Role in Mills Act



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

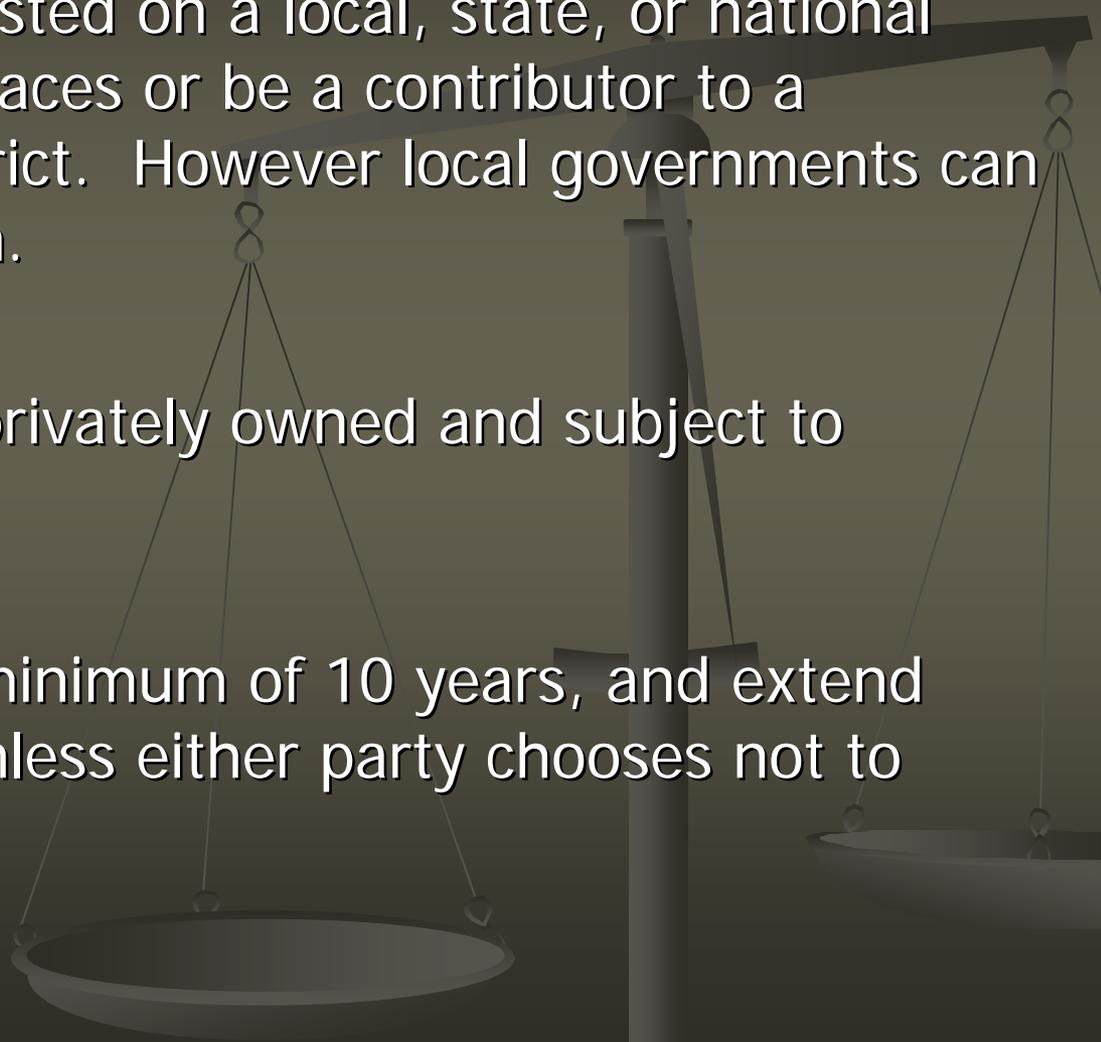
How Does Mills Act Work?



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.

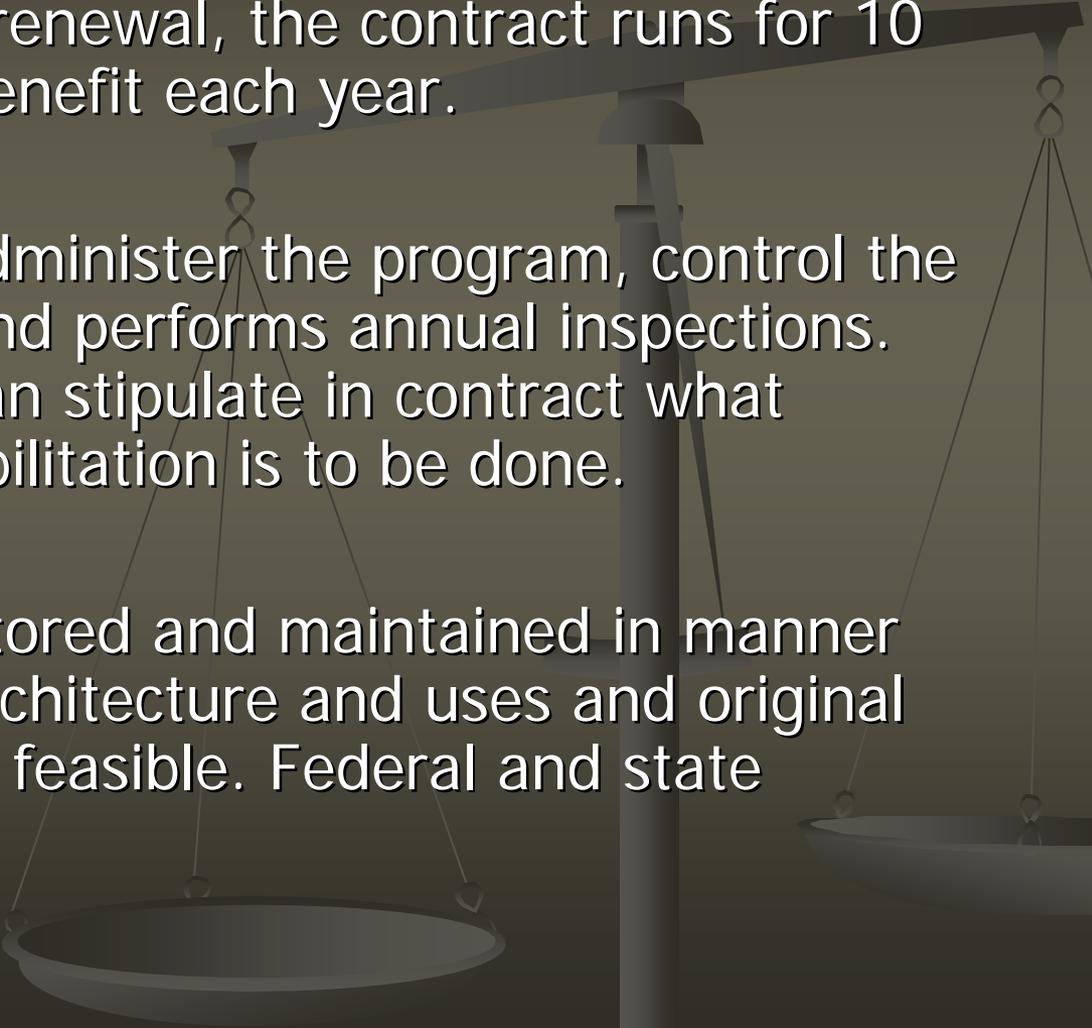


Mills Act Framework

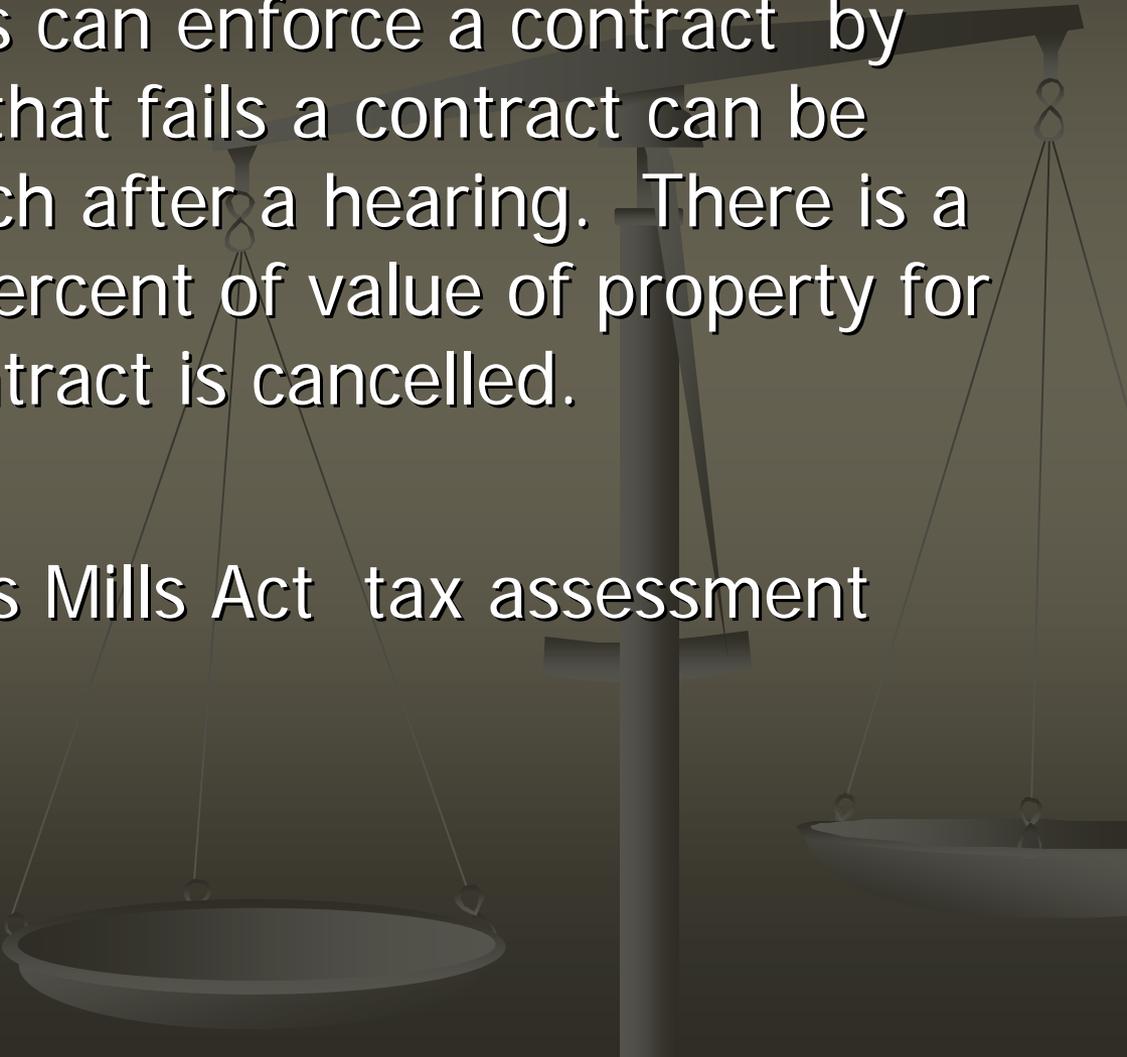


- Properties must be listed on a local, state, or national register of historic places or be a contributor to a national historic district. However local governments can narrow the definition.
- Properties must be privately owned and subject to property tax.
- Contracts are for a minimum of 10 years, 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.
 - Local governments administer the program, control the application process and performs annual inspections. Local governments can stipulate in contract 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 state standards apply..
- 

More on the Mills Act Framework

- Local governments can enforce a contract by judicial means. If that fails a contract can be cancelled for breach after a hearing. There is a penalty of 12 ½ percent of value of property for owners whose contract is cancelled.
 - Assessor calculates Mills Act tax assessment annually.
- 

Implementing a Mills Act Program: The Choices are the Local Governments '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.

Get Your Community Excited about the 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 Mathematics

Annually, the Assessor's Office reviews:



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

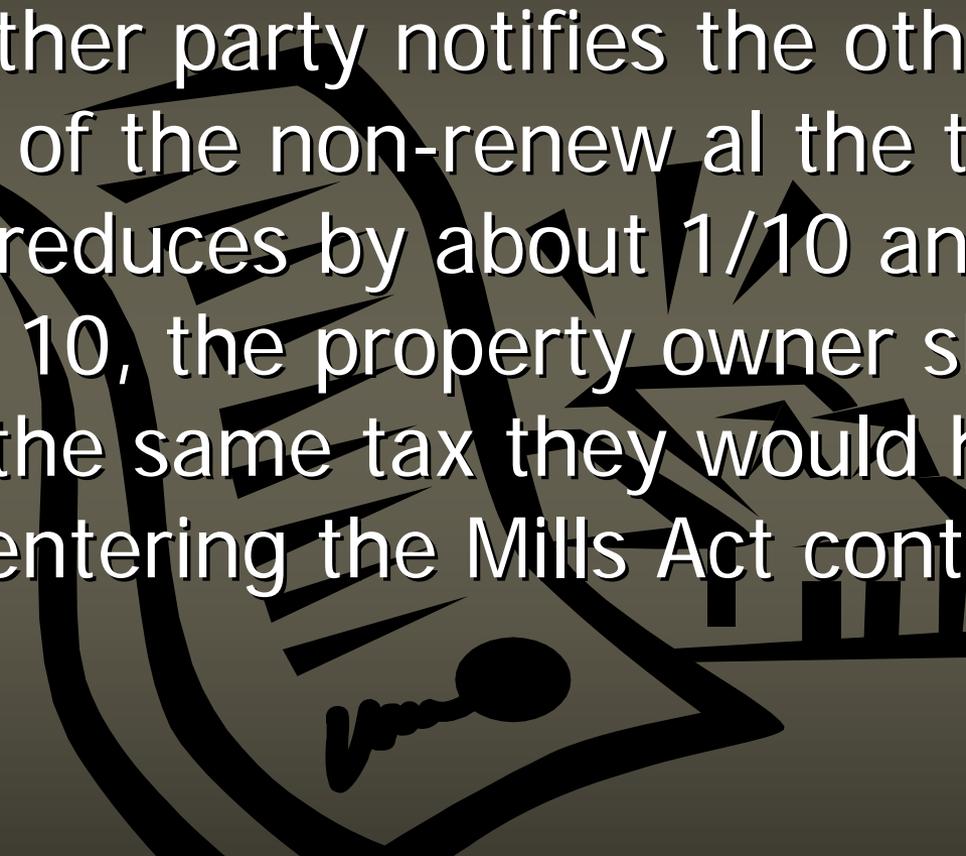
The lowest of the 3 values is used to calculate the General Levy Property Tax

The Mills Act Value Calculation

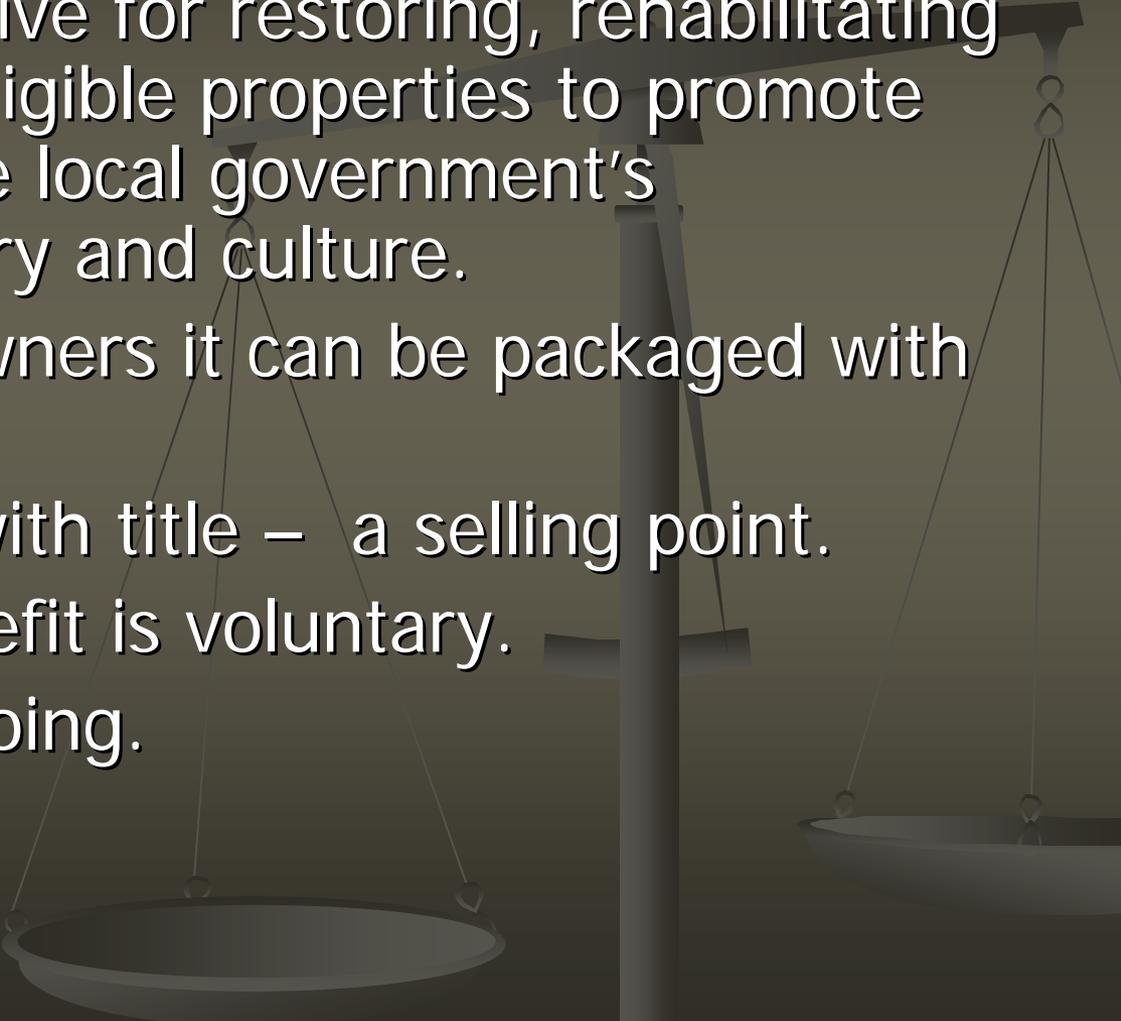
- Fair Rent – Anticipated Vacancy – Maintenance Cost = **Net Operating Income**
- Interest Rate (determined annually by the Board of Equalization) + Risk (set by the Mills Act Statute) + Amortization Rate (determined by the assessor) = **Restricted Capitalization Rate**
- **Net Operating Income/Restricted Capitalization Rate = Mills Act Restricted Value**

Non-renewal

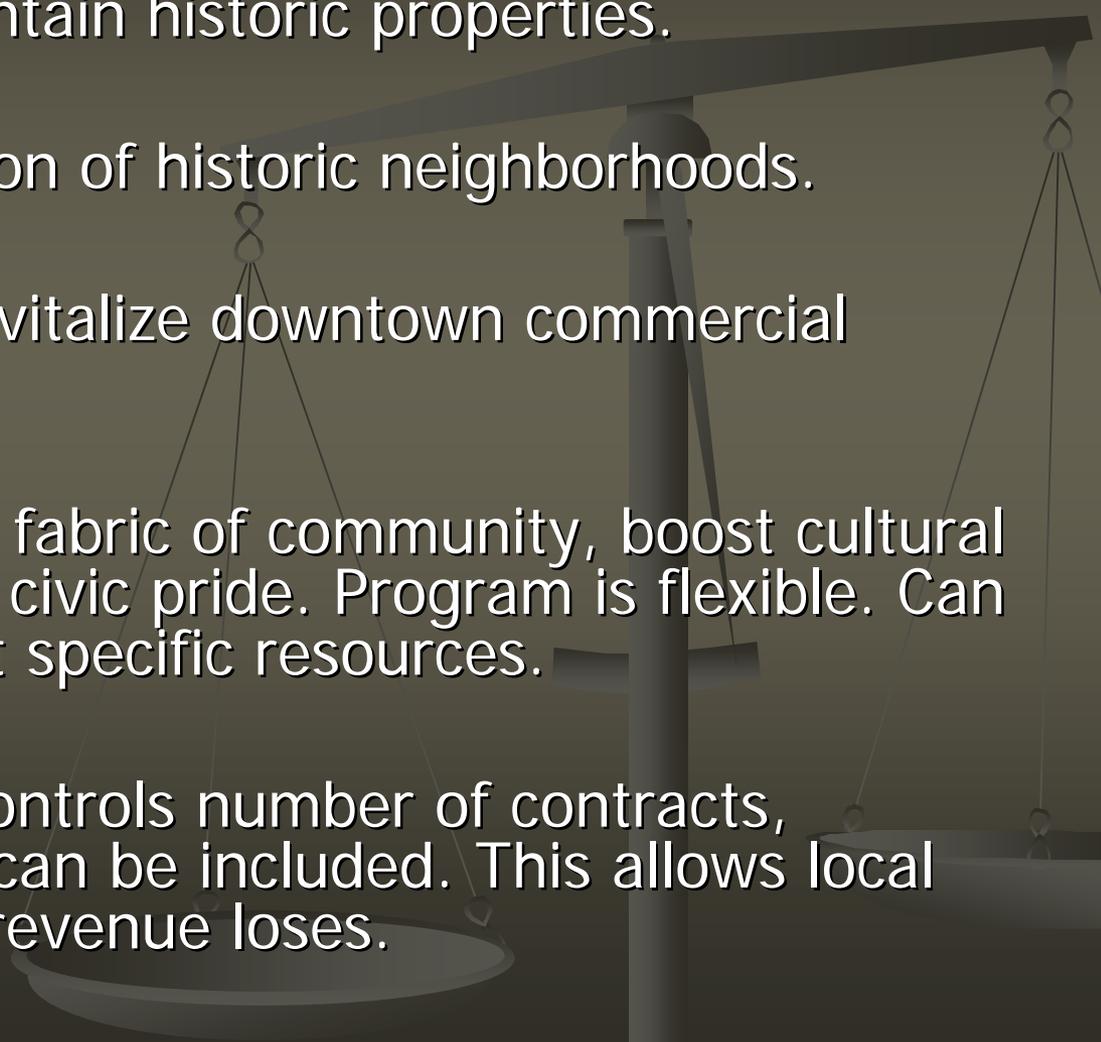
Once either party notifies the other, in writing, of the non-renewal the tax benefit reduces by about 1/10 annually. By year 10, the property owner should be paying the same tax they would have paid before entering the Mills Act contract.



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.
- 

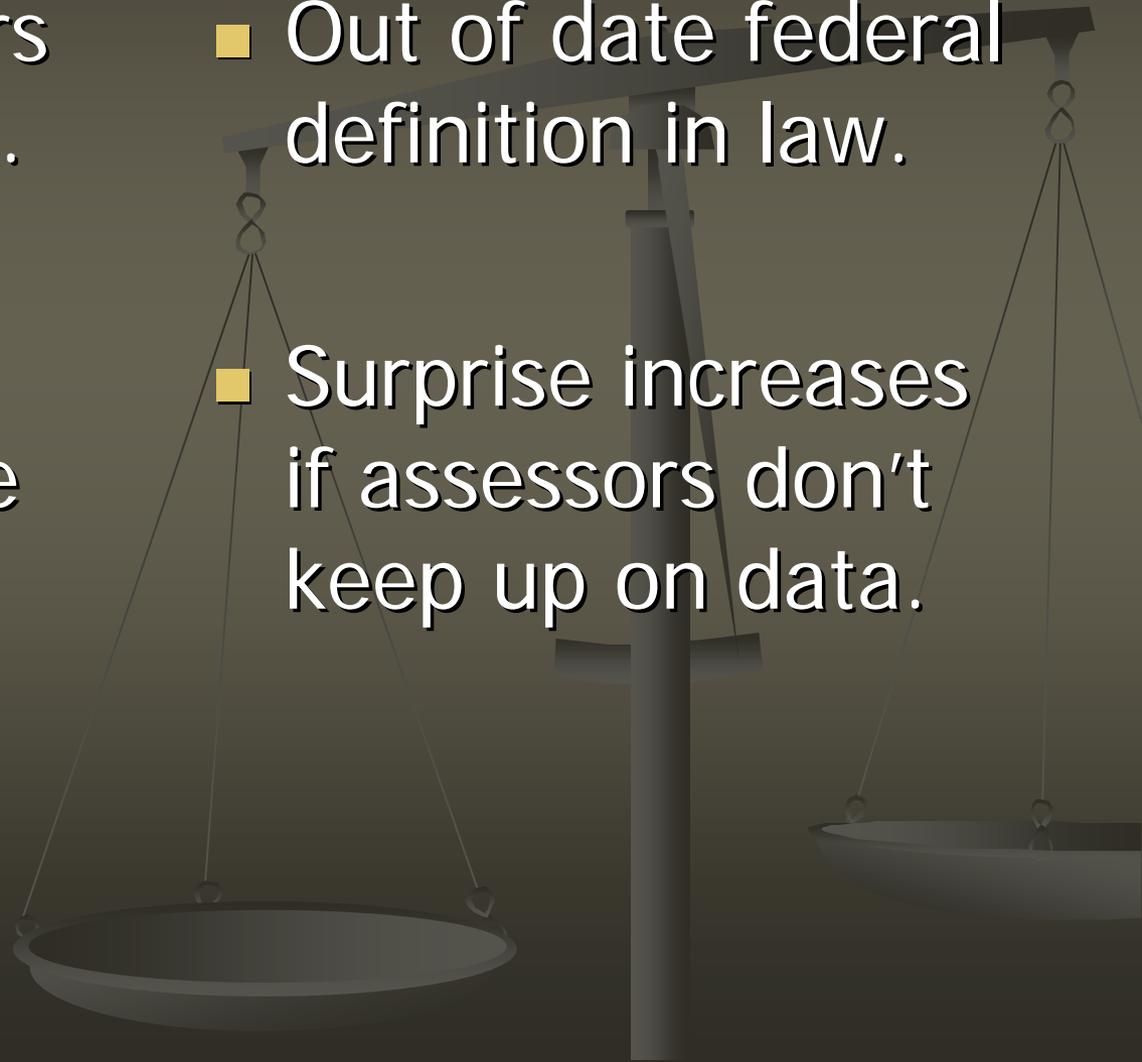
Benefits to Local Governments



- 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

- Longtime owners may not benefit.
- Law does not address multiple owners.
- Out of date federal definition in law.
- Surprise increases if assessors don't keep up on data.



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 Mills Act Pros



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

Mills Act Cons

- The loss of tax revenue
- Program costs
- Lost revenue to other agencies
- Not much benefit to longtime owners
- Perception issues

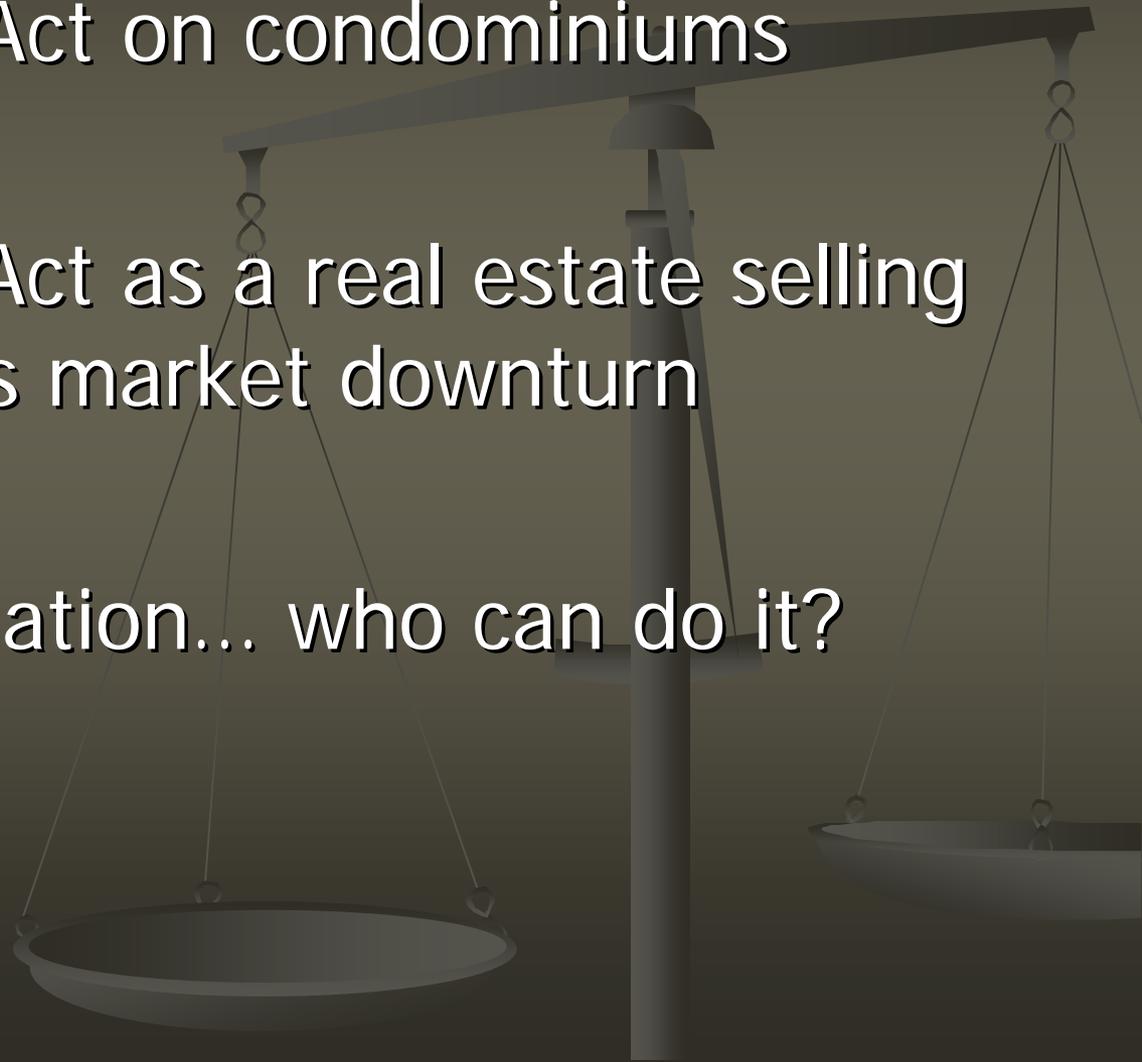


Take Note: There are More Pros than Cons!



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
www.ohp.parks.ca.gov
- Board of Equalization at (916) 445-4982
or www.boe.ca.gov/info/email.html
- Shannon Lauchner, Mills Act Coordinator,
(916)653-5649 or slauchner@parks.ca.gov