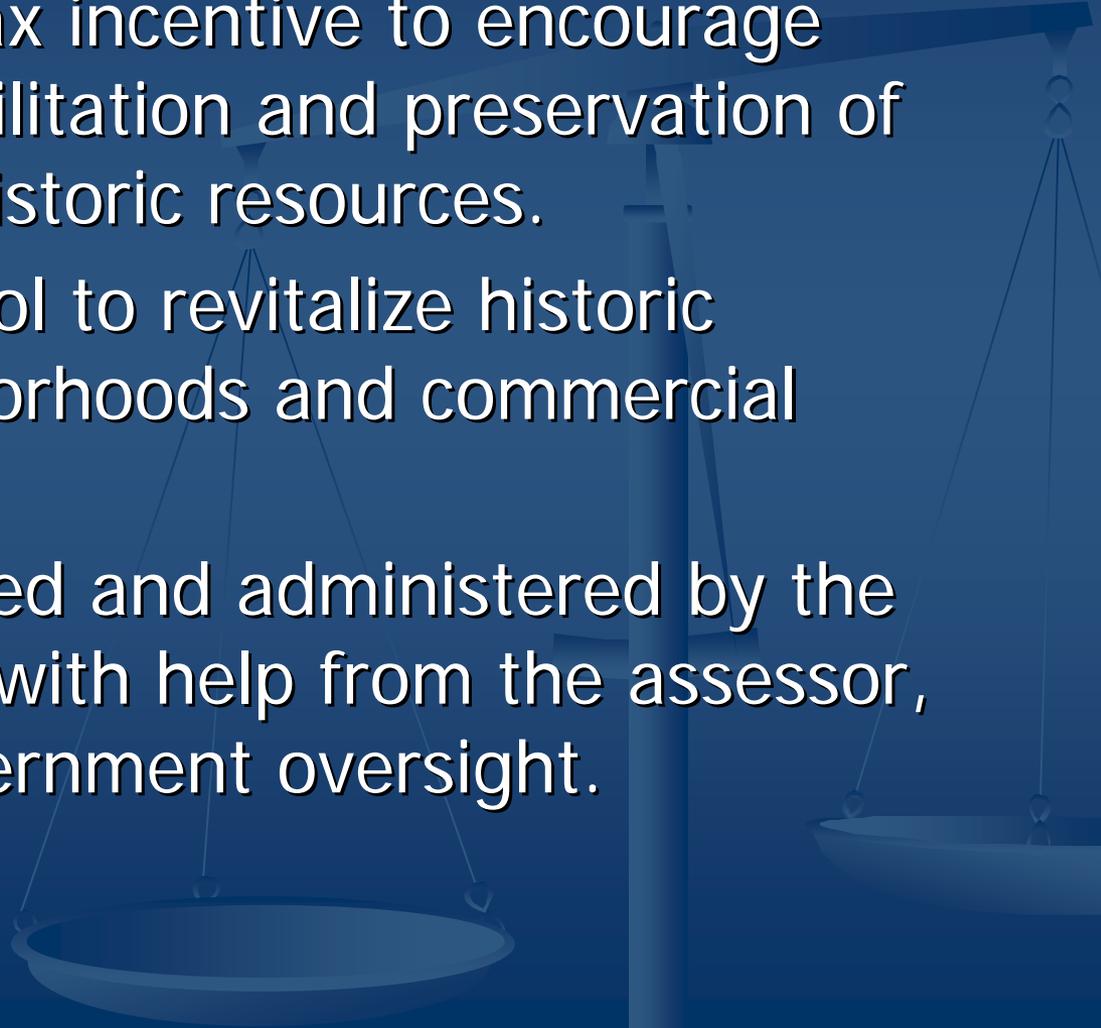


The Mills Act & Your Local Government

Preservation Through Tax Incentives

Presented by
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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 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



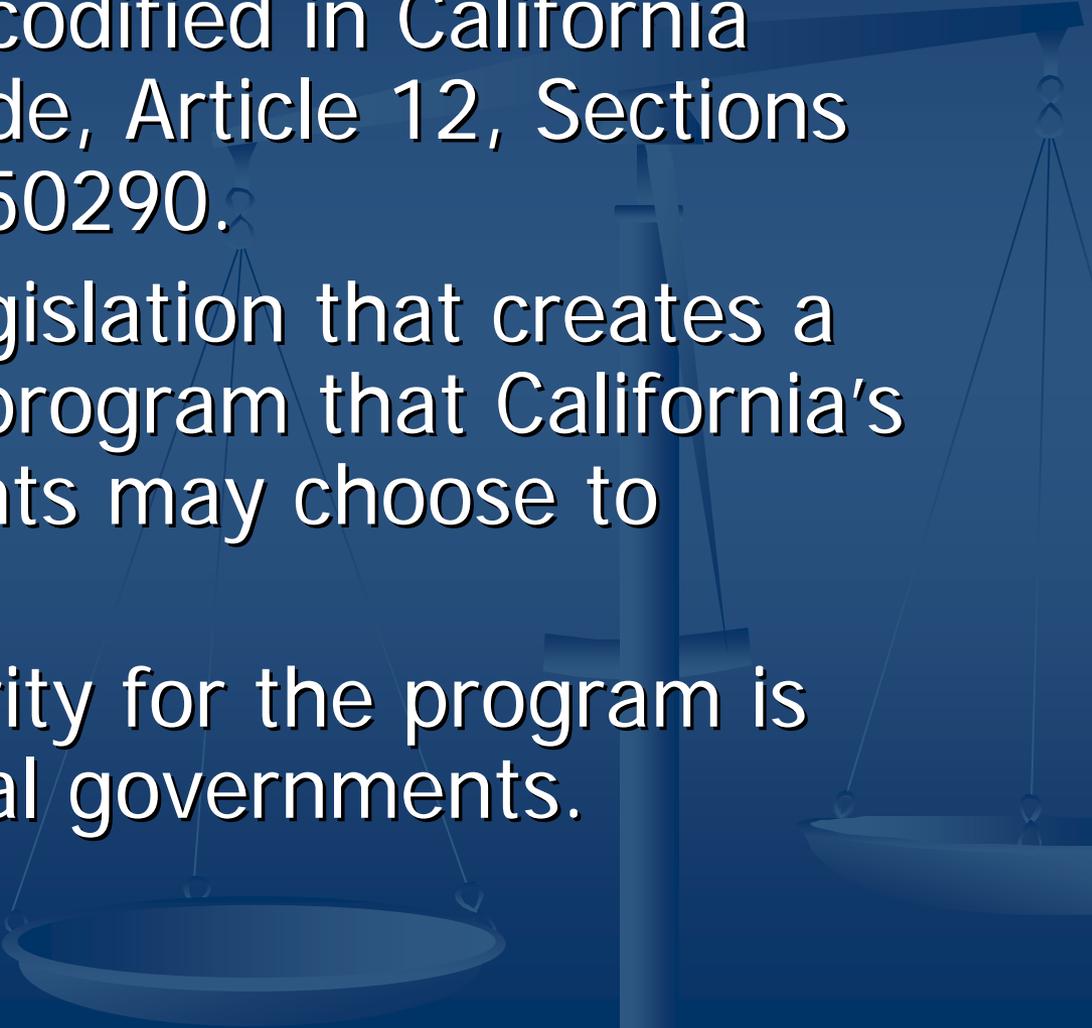
- In 1972 State Senator James Mills authored the “Mills Act” in response to the plight of Coronado Hotel in San Diego.
- In 1973 the law was determined unconstitutional.
- Then in 1976 voters approved a constitutional amendment which allowed the program to be utilized by local governments.

Mills Act History Continued

- In 1985 the Mills Act was amended to reduce the minimum contract period, eliminate mandatory public access, and reduce the penalty for cancellation.
- In 1993 the Act was, again, 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 Law

- The Mills Act is codified in California Government Code, Article 12, Sections 50280 through 50290.
 - It is enabling legislation that creates a loosely framed program that California's local governments may choose to participate in.
 - All of the authority for the program is given to the local governments.
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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?



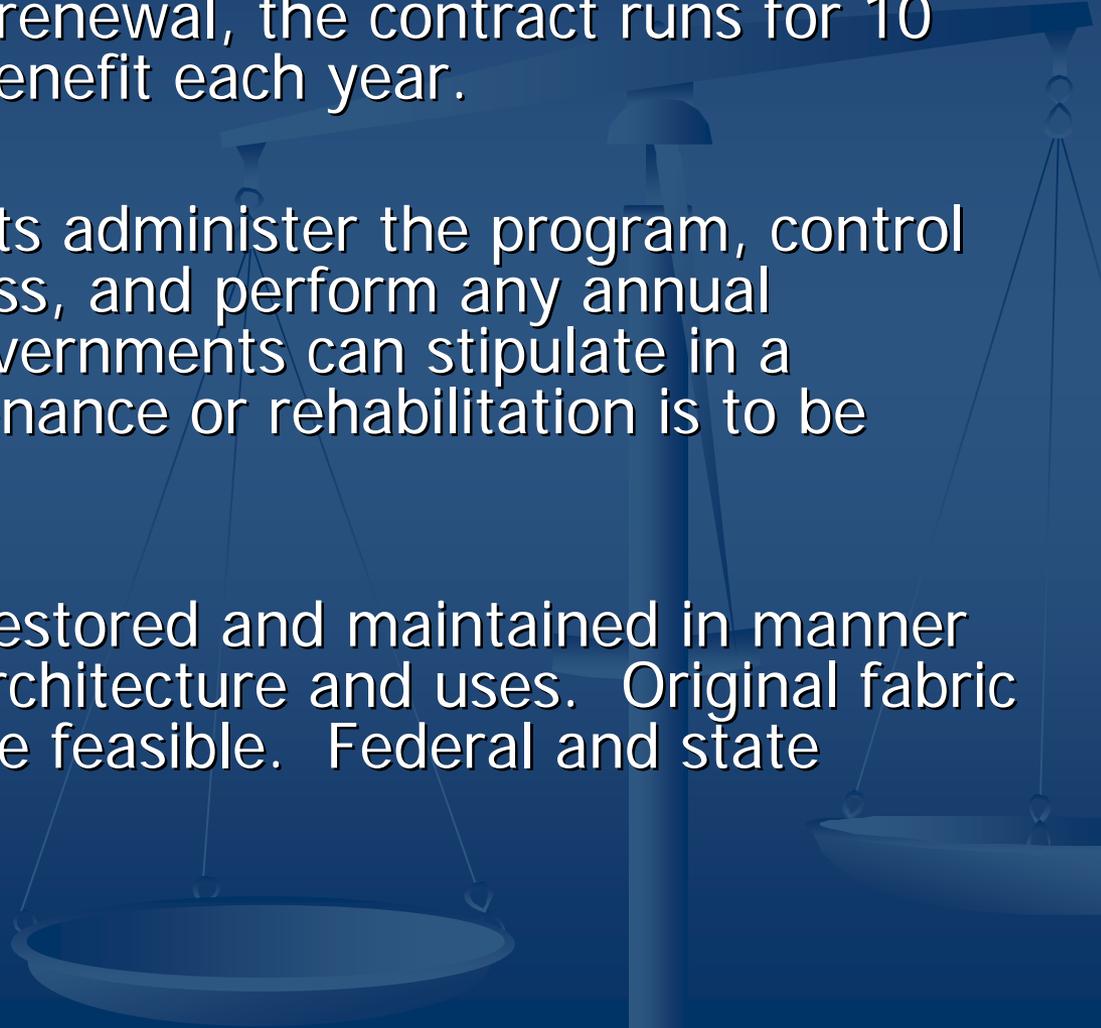
Local governments may enter into a contract with a property owner. In exchange for tax relief, the property owner agrees to restore or maintain their "qualified historic property" in accordance with federal, state and local standards.



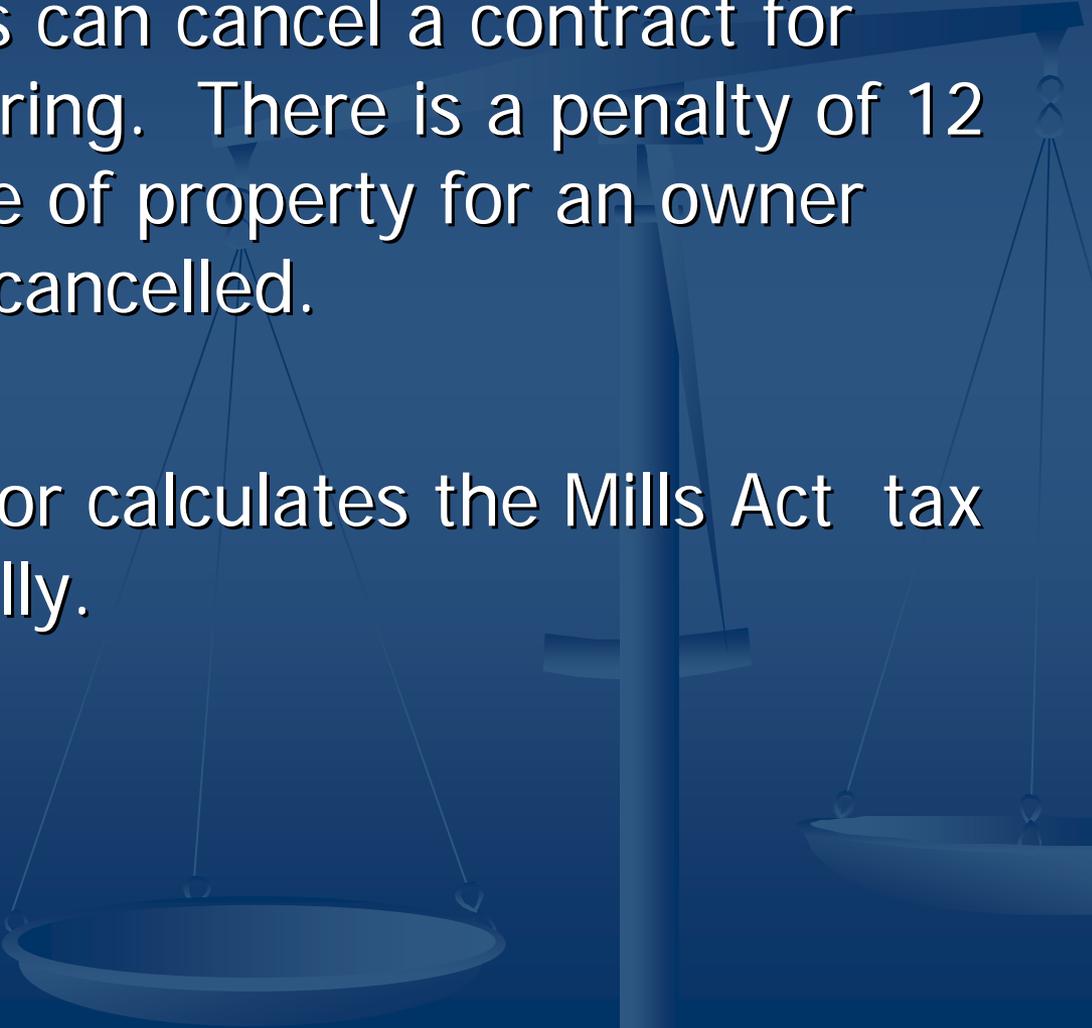
Mills Act Framework

- Properties must be listed on a local, state, or national register of historic places or be a contributor to a national historic district in order to be considered a qualified historic property. However, local governments can narrow the definition even further if they so choose.
- 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 is to be done.
 - A property must be restored and maintained in manner compatible with its architecture and uses. Original fabric should retained where feasible. Federal and state standards apply.
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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 an owner whose contract is cancelled.
 - The county assessor calculates the Mills Act tax assessment annually.
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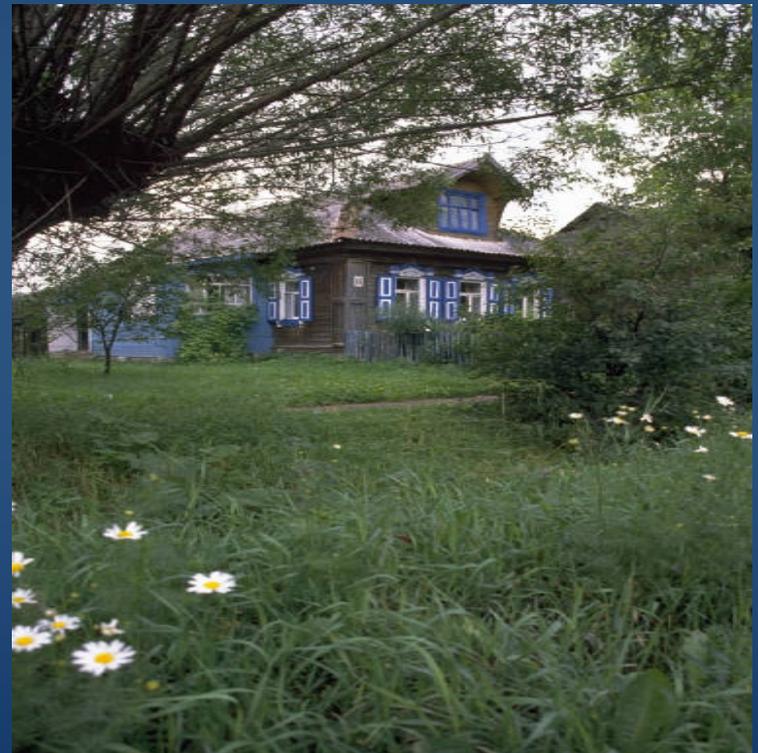
Implementing a Mills Act Program: The Choices are the Local Government's



- Local governments can adopt a formal ordinance or pass a less formal resolution to establish their program.
- Programs can target certain property types by limiting what qualifies for the program.
- Local governments can choose the level of enforcement.

Get Your Community Excited about the Mills Act

- Hold informational meetings about the program.
- Be ready for tax reduction opponents.
- Work with other government agencies that share property tax revenue. Schools and redevelopment agencies are 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

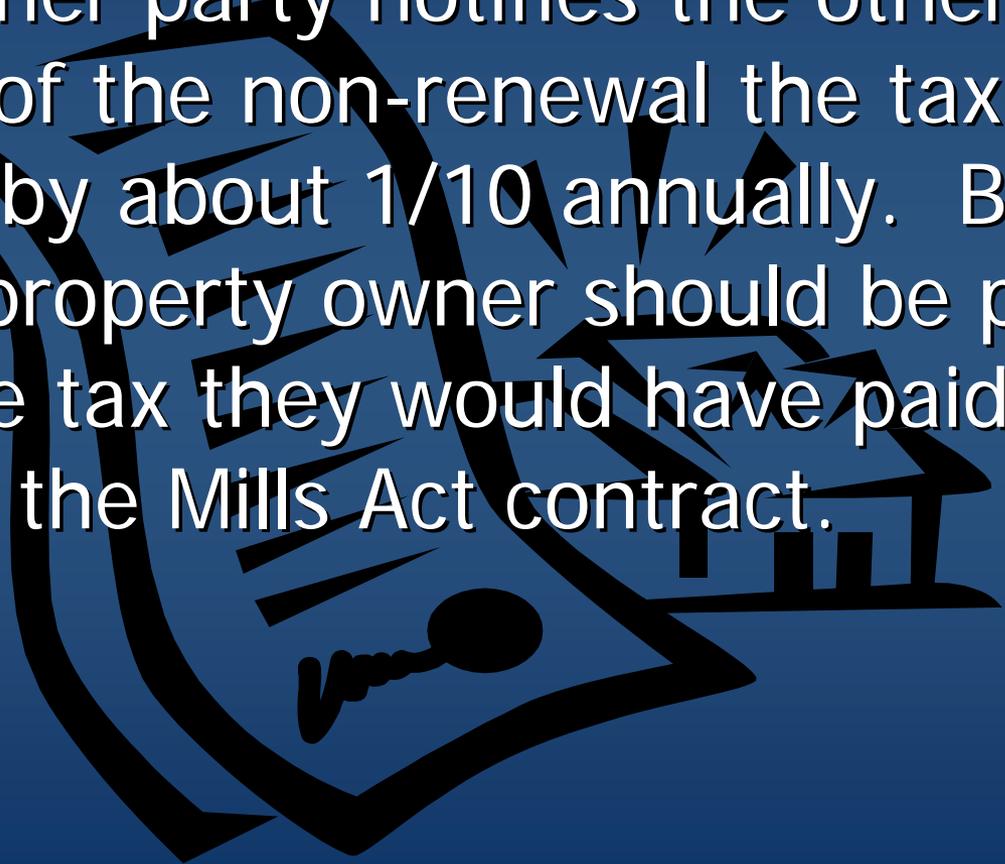
The lowest of the 3 values is used to calculate the 1% General Levy Property Tax

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

- The Mills Act 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 financial incentives.
- The tax benefit runs with title – a real estate selling point.
- Accepting tax benefit is voluntary.
- The tax benefit is ongoing.

Benefits to Local Governments

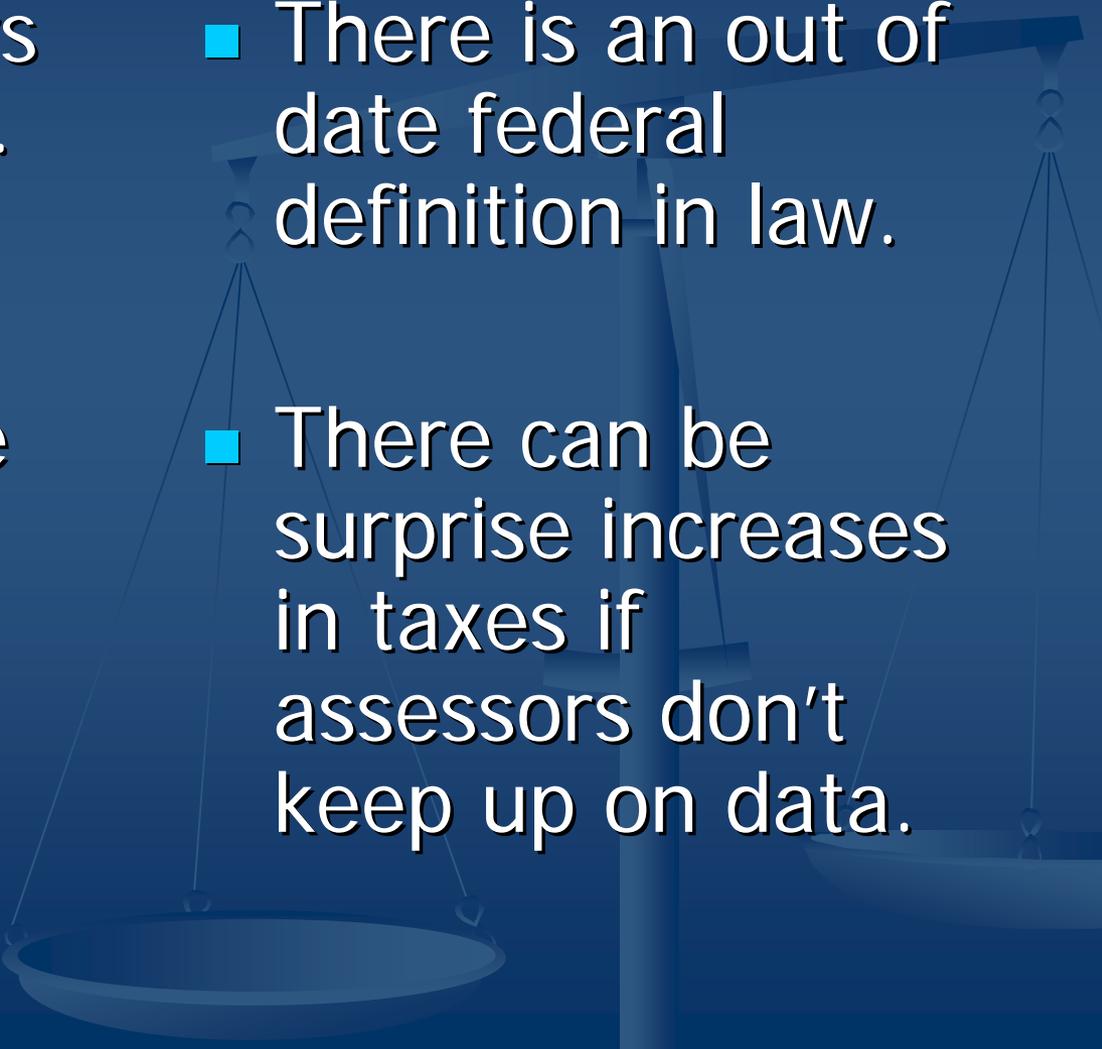
- Helps retain and maintain historic properties.
- Can foster preservation of historic neighborhoods.
- The tax incentive can help revitalize downtown commercial districts.
- Can preserve historic fabric of community, boost cultural tourism and increase civic pride. The program is flexible and can be designed to target specific resources.
- The local government controls the number of contracts and the property values that can be included. This allows local governments to cap revenue losses.

Mills Act Participation



- 86 California local governments participate in the Mills Act.
- There are currently more than 2,400 contracts.
- There are at least three communities considering adopting a program right now.
- Interest has grown rapidly in the last few years as property values soared and valuable historic resources have been lost.

Mills Act Quirks



- Longtime owners may not benefit.
- Law does not address multiple owners.
- There is an out of date federal definition in law.
- There can be surprise increases in taxes if assessors don't keep up on data.

Summary of Mills Act Pros



- It is the only incentive available to historic home owners.
- Contracts can be used with other commercial property preservation incentives.
- The tax incentive is especially helpful to recent buyers.

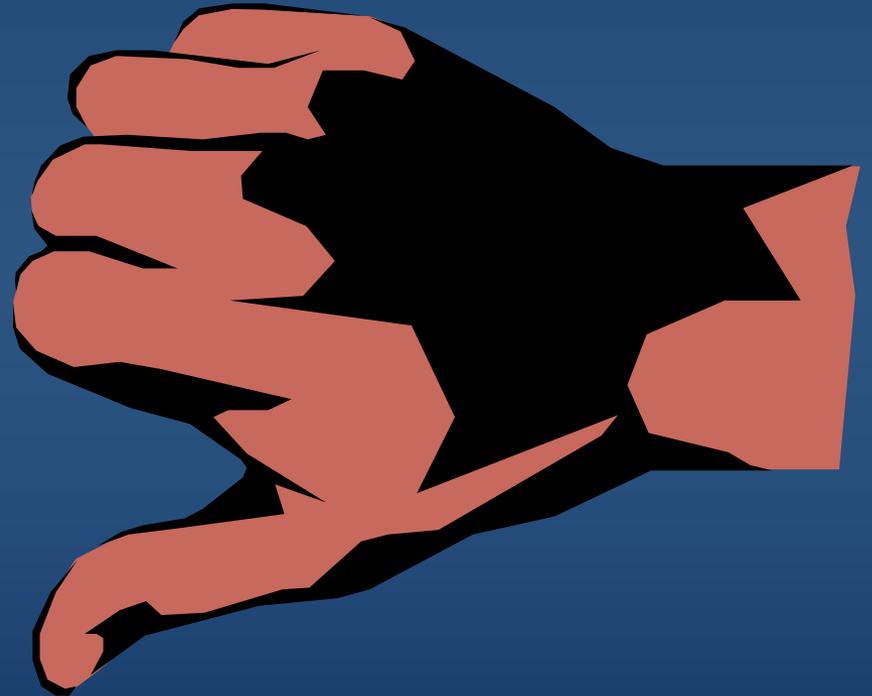
Summary of Mills Act Pros



- The program can help revitalize, maintain historic civic cores.
- It helps keep up historic neighborhoods.
- It boosts civic pride.
- It helps retain civic history & character.

Mills Act Cons

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



**Take Note:
There are More Pros than
Cons!**



Hot Topics!!!

- Can basic maintenance be included in the work plan?
- Local governments capping the number of contracts entered into each year.
- Contract cancellation... who can do it?
- Using the Mills Act on condominiums...?
- Use of the Mills Act as a real estate selling point during this market downturn... .

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