



Date: April 26, 2021

To: Thomas B. Modica, City Manager 

From: Oscar W. Orci, Director of Development Services 

For: Mayor and Members of the City Council

Subject: **Update on the Mills Act Historic Preservation Program**

The Mills Act, enacted by State law in 1972, allows local governments to enter into tax abatement contracts with property owners of historic structures. The City Council established a local Mills Act program in 1993. Between 1993 and 2006, the City awarded 31 contracts for historic properties around the City. The program did not accept new applicants between 2006 and 2014. The City re-opened the program in 2015 and since that time, 80 contracts have been offered to owners of historic properties. During calendar year 2021, the City will not be accepting new contract requests, but instead will be inspecting and evaluating compliance on existing contracts. Depending on staffing and resources, the Department of Development Services (Department) expects to solicit applications for new Mills Act contracts again in 2022.

The Mills Act offers substantial property tax reductions to owners of historic properties in exchange for a contractual obligation to restore and maintain the historic structure. As provided by State law, entering into a Mills Act contract results in a property tax reassessment by the local County Assessor, who assesses property tax based on a modified income capitalization method. The program is highly effective in motivating property owners to restore and maintain their properties, but the cost of the program is shared between the City and other taxing authorities. Based on the most recent audit in 2019-20, the Mills Act program causes the City to forego between \$57,511 to \$95,582 in annual revenue.

Under State law, cities that issue Mills Act contracts are required to conduct inspections every five years to assure compliance with the restoration and maintenance contracts. The City conducted field inspections of existing contracts in 2014 and 2015. During 2020, the City contacted all contract holders and requested a self-certification and documentation of compliance. This self-certification process has been used in other cities and was expected to be appropriate and effective during the time of COVID-19. Unfortunately, 84 percent of contract holders either did not respond to the self-certification request or provided inadequate information.

During calendar year 2021, Planning Bureau staff will be following up with each Mills Act contract holder. Staff will conduct visits to all properties that do not provide sufficient documentation. These visits are anticipated to occur during the summer months, depending on when staff obtain their COVID-19 vaccinations, and in accordance with any Health Order guidelines. Properties that are out of compliance will be given the opportunity to correct any deficiencies and are subject to substantial penalties if the City is not able to achieve compliance.

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Some Mills Act contracts have now been in place for 28 years. These older contracts will be evaluated for cancellation. In some cases, the terms of the contract have been achieved and there is not a rational basis for continuing with the tax abatement. For example, an individual home may have entered into a Mills Act contract in 1994; under the terms of the agreement, this home should have undergone substantial restoration by 2004 and has since had more than sufficient time to recoup that investment through a tax abatement. Owners subject to cancellation on their contract will first have an opportunity to propose new or additional restoration work to the City. Ultimately, cancelled contracts go through a multi-year phase-out of the tax abatement to smooth the transition.

Obtaining compliance on existing contracts and cancelling older contracts that have outlived their purpose will protect the City's financial interest, assure continued proper restoration and care of historic resources, and prepare the City to issue new contracts in 2022. In addition, the City is undertaking various historic preservation efforts that should conclude in 2021, including the Historic Context Statement, focused studies on race and suburbanization, expansion of the Craftsman Village historic district, and restudy of the Drake-Willmore historic district. These efforts are ongoing despite staff vacancies and past furloughs.

Planning Bureau staff will be communicating these changes and efforts to the general public, Cultural Heritage Commission, and advocacy organizations in the coming weeks.

If you have any questions, please contact Patricia Diefenderfer, Planning Bureau Manager, at (562) 570-6261.

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