

UNDERSTANDING THE MILLS ACT PROPERTY TAX ABATEMENT PROGRAM

The Good, the Bad and the Ugly
By Catherine Morley

Background of the Mills Act

The history of the establishment of the Mills Act goes back over 30 years to the statutes of 1972 which added sections 50280 – 50289 to the government code, allowing owners of qualified historic properties to enter into a preservation contract with local governments.

The purpose of these contracts is to provide financial incentive for owners to restore and maintain the historic character of the property, within the state historic preservation guidelines, and to use it in a manner compatible with its historic characteristics. In return the owners may be eligible for property tax relief.

Each city which chooses to participate in the program administers and establishes criteria as to eligibility, as well determining how many contracts they will accept into their jurisdiction.

In 1993 the City of Long Beach adopted the Mills Act Historic Property Contract Program. To qualify as an historic property and therefore become eligible for the program, a property must be listed on either the National Register of Historic Places, California Register of Historical Resources, a California Landmark, or a locally designated landmark. Long Beach has 17 Historic Districts with potentially eligible homes, and over 100 Landmark Properties. To date approximately only 30 contracts have been enacted.

THE GOOD

Typically the Mills Act contracts are for 10 years, are automatically renewed each year and can potentially continue in perpetuity. When a property transfers ownership the new owners have the same benefits and obligations as the contract originators.

Interestingly the tax valuation of the property is not based upon sales data but instead require that the property be valued by a prescribed income capitalization method.

Simplified, the potential typical income of an owner occupied property is based on comparable rents for similar properties in the area. Commercial property is based on actual rent received. A formula with allowed expenditures and using a capitalization rate is then calculated to determine the new tax basis. Typically a property will see a tax savings of between 40 to 60% each year. The County Assessors are required to assess all properties annually and Mills Act properties may see slight increases in taxes each year.

It is important to note that even with the downturn in today's real estate market, and depending upon when you purchased your home, it may not be feasible to apply for the tax relief program as your taxes would not be significantly reduced. However, it would be a good selling point for potential buyers to have the option for the tax benefit.

On that note I would like mention the economic incentives supporting the preservation of residential neighborhoods, individual homes and the surrounding commercial districts.

Jobs, sales tax revenue, increased property values, desirability of property, and pride in the city are only a few of the benefits. Not only does the city look better but its historic character is preserved while integrating with newer buildings developed over time, giving the community a sense of architectural interest. The Mills Act is the single most important economic incentive program in California for the restoration and preservation of qualified historic buildings by private owners.

THE BAD

Sadly the City of Long Beach has placed a moratorium on the program and has not enacted any Mills Act Property Tax Abatements programs since 2006.

Local Realtor Mike Norton, and his partner Chris Mynit, purchased their late 1800's era home, located on Orziba, in 2004, and began a major restoration that has taken them several years to complete. As caretakers of historic homes we all know the restoration never completely stops. Their home is a significant local landmark property, as well as part of the Bluff Heights Historic District.

In a recent conversation with Mike, he told me that they had applied for the Mills Act in 2006, completing all of the

approval processes with the Cultural Heritage Commission and City Council but the application has never been submitted to the LA County Recorders office. They are still unsuccessful in their attempts to process the application and have been on hold for the past two years.

Also, I am told that the city is not even accepting new applications. Recently I requested an update on the progress of reinstating the program from Jan Ostashay, Preservation Officer for the City of Long Beach.

She replied to me through e-mail the following statements: “ *The Director of Development Services has asked us to do some research into the economics of the Mills Act program. So we are doing that now. We are also rewriting the application and reconfiguring the application process. We are hopeful that the program will be available to qualified property owners early next year.*”

THE UGLY

We are all aware of the financial challenges facing the city of Long Beach, which have been on going for the last several years. As well, we all are experiencing changes to our own individual lifestyles.

We live in uncertain times, but, we cannot let our standards and rights as citizens be forgotten and dismissed. The argument that the city would suffer in tax loss is not relevant, as the amount of revenue the city receives from property taxes is a small portion of the taxes we pay. Most of our property tax goes to the county. The tax savings the home owner receives more than compensates any city tax loss by increasing home restoration projects which provides jobs and sales tax revenue.

THE END

If you would like more information about the Mills Act, and how it would apply to your particular financial situation, it is always recommended to consult your tax advisor or accountant.

A call to your city council representative, and to the City of Long Beach Preservation Office to make them aware of your support to reinstate the tax program without unnecessary delay would also be advisable. Our city employees need to know what their constituents expect and want. After all, they do work for us.