

CITY OF WEST HOLLYWOOD
Department of Community Development



MILLS ACT CONTRACT
Information and Instructions

Rehabilitation Incentive and
Property Tax Reduction for Cultural Resources

Mills Act Contract

Information and Instructions

Introduction

The City of West Hollywood's Mills Act Program was established under the authority of a State enabled program known as the Mills Act (California Government Code, Article 12, Sections 50280-50290). Under this act, local governments can enter into historic property contracts with owners of qualifying privately-owned historic properties who agree to rehabilitate, restore and maintain their property. The contracts are executed between the City and the property owner for a minimum ten-year term and are automatically renewed each year. The contracts are transferred to new owners when the property is sold.

What follows is a summary of the main features of the Mills Act Program in West Hollywood and a brief application guideline. The complete regulations are in the legal texts of the California Government Code and the City of West Hollywood Zoning Ordinance. The Mills Act contract application is available at the 2nd floor Planning Counter at City Hall.

The Purpose of a Mills Act Program

The Mills Act Program is a financial incentive that encourages the protection of West Hollywood's designated Cultural Resources. The benefit to the owner is a reduction in property taxes, while the benefit to the City is the preservation of a significant historic or cultural resource.

Properties Qualified for a Mills Act Contract

Only privately-owned properties that are listed on the local or National Register of historic places are eligible for consideration. This includes owner-occupied residences and income-producing commercial properties.

NOTE: Owners of properties with comparatively low property taxes because of Proposition 13 will not benefit by a Mills Act Contract, because the assessment used for the Mills Act will likely increase their property taxes. In most cases, relatively new owners of historic properties stand to gain the most from entering into a Mills Act Contract.

The Terms of a Mills Act Contract Agreement

Duration – A Mills Act Contract is for a minimum of 10 years. It automatically renews each year on its anniversary date and a new 10-year agreement becomes effective.

Termination of Contract – To end the contract, either party may submit a notice of non-renewal which will terminate the contract at the end of the 10-year period.

Alterations or Additions to the Property – Work that may affect the historic architectural features of the property must comply with the Secretary of Interior's Standards for Rehabilitation and must have the appropriate permits.

Inspections for Compliance – The City requires periodic inspections of the property by prior appointment, to ensure compliance with the terms of the agreement. Inspections may also be required by the County Assessor, State Office of Historic Preservation, and/or State Board of Equalization, which are the larger regional offices responsible for the Mills Act Program.

Breach of Contract Penalty – Cancellation of the contract by the City due to non-compliance requires a public hearing and will result in the immediate termination of the contract and a penalty equal to 12.5% of the assessed market value of the property. The penalty fee must be transferred to the County Auditor (AB 1789). Although contracts can be approved at any time, new valuations will not take effect until March of any given year.

Administration of Contract Agreements

Staff of the Planning Division will periodically monitor all work that is proposed in a contract agreement to ensure compliance with the terms of the agreement and will perform inspections after all work specified in the agreement has been completed and in the month of the contract execution date as long as the contract agreement is in effect.

Los Angeles County Administration

The City is responsible for recording executed Mills Act Contract documents with the County Recorder before December 31 of the applicable calendar year. After recordation, the City transmits the contract and the documentation of description of the property to the Los Angeles County Assessor where the calculation for the exact property tax under the Mills Act is performed. Contracts that are recorded by December 31 are reassessed by June 30 of the following year so that the reduced tax appears on the tax bill of October of that year.

State of California Administration

Within six months of entering into a Mills Act Contract with the property owner, the City submits written notice to the State Office of Historic Preservation. This notification states that the property owner has entered into a Mills Act Contract.

The Application Process

Mills Act Contracts are granted by the City Council following review and recommendation by the Historic Preservation Commission.

A request for a Mills Act Contract is initiated by a property owner upon submitting a completed Mills Act Contract Application to the Community Development Department. Staff then prepares a report for consideration by the Historic Preservation Commission, based on the information turned in by the applicant, recommending approval or denial of the application. The Commission reviews the application, required documentation and the staff report, and recommends approval or denial to City Council. The Historic Preservation Commission must also approve a Certificate of Appropriateness for a restoration/rehabilitation plan for the cultural resource before or in conjunction with their review of the Mills Act Contract Application. Both the owners and the occupants of the property are notified of the pending request in advance of the meeting at which the Historic Preservation Commission considers the application.

To grant approval of a Mills Act Contract Application, the City Council must make the following findings:

1. The Mills Act Contract incentive serves to compensate the property owner for the increased burden, in terms of maintenance and expense, that rehabilitation would entail;
2. The proposed incentive would not impair the aesthetic, architectural, or historic integrity of the resources;
3. The proposed incentive would not be detrimental to the public health, safety or general welfare.

Application Submittal Requirements

Application packages are available at the West Hollywood Community Development Department:

City of West Hollywood
Community Development Department
Planning Division, 2nd Floor
8300 Santa Monica Boulevard
West Hollywood, CA 90069

Completed submittals should be returned to the Planning Division and shall include:

1. Completed application form with a notarized Owner's Affidavit;
2. Application fee;
3. Copy of the legal description of the property (generally this is "Exhibit A" of a deed);

4. An architectural report identifying the status of all character defining features of the building and site (photographs required);
5. A systems/structural report of the building's plumbing, electrical, roofing and structural systems;
6. A restoration/rehabilitation plan for the designated cultural resource. If the building is already restored in good condition, a maintenance list must be submitted to support the need for tax relief. The plan shall be prepared by a specialist in historic preservation and include a time table for the work;
7. A cost estimate of the restoration/rehabilitation from a City approved preservation consultant (list available at the Planning Counter); and
8. A completed Financial Analysis which includes documentation of income, expenses, etc. (see below). The final financial analysis is prepared by the County Appraiser's Office.

NOTE: It is recommended that you seek the assistance of a Preservation consultant to complete the application.

Instructions for Completing the Financial Analysis Worksheet

The Mills Act Financial Analysis Worksheet is included in the application packet so that the property owner may compare their current taxes with a projected Mills Act reassessment. It is important to note that the form is an estimation only; it does not guarantee the exact reduction that the property will receive. The actual calculation is completed by the County Assessor.

- A. Determine the Monthly/Annual Rental Income and Net Operating Income.** For purposes of the Mills Act, a property is assessed as an income-producing property even though it may be owner occupied. For example, assume that a house with a current assessed value of \$250,000 has a fair rent or income of \$1,600 per month or \$19,200 per year. Annual expenses for maintenance, repairs, insurance, water, gardener, etc., are subtracted for a **Net Operating Income**. (*Note: Mortgage payments and property taxes are not deductible expenses*).
- B. Determine the Capitalization Rate.** This rate is determined by adding the following:
 - The *Interest Component* as determined by the Federal Housing Finance Board that is based on conventional mortgages. This component will vary from year to year.
 - The *Historical Property Risk Component* of 4% for owner occupied single-family houses, and 2% for multi-family, commercial and industrial properties
 - The (post Prop. 13) *Property Tax Component Rate* of 1%.

- An *Amortization Component* that is a discretionary rate determined by the Los Angeles County Assessor that depends on the individual property. Typically, the remaining life of a wood frame building is 20 years, and the amortization would be $100\% \times 1/20 = 5\%$.

Add all components for Capitalization Rate. Example:
 $6\% + 4.0\% + 1\% + 5.0\% = 16\%$

- C. Calculate New Assessed Value and Estimated Tax Reduction.** The new assessed value is determined by dividing the Net Operating Income by the Capitalization Rate. The new assessed value is taxed at a rate of 1.035146% (assessed value multiplied by .01035146 = Tax under Mills Act). To determine the amount of the tax savings, subtract the Tax under Mills Act from the Current Tax Rate (2% of the transfer value of the property).