

# CITY OF ORANGE MILLS ACT PROGRAM

A Property Tax Incentive Program for Owners of Historic Properties





The Mills Act is an agreement between the City of Orange and the property owner that provides for reduced property taxes on eligible historic property if the property owner agrees to maintain and preserve the property for a minimum of ten years.

#### **BACKGROUND**

Adopted by the California Legislature in 1976, the Mills Act gives local governments the authority to grant property tax relief to owners of qualified historic properties, including owner-occupied and income producing properties. In exchange for this relief, the property owners must agree by contract to maintain the properties in accordance with specific historic preservation standards and conditions. The overall intent of the legislation is to provide an incentive for owners to preserve and maintain the community's historic resources.

#### **KEY PROGRAM ELEMENTS**

- Is a completely voluntary program.
- Is an economic incentive to encourage preservation of historic properties by reducing property taxes.
- Can be used by homeowners as well as income producing historic properties.
- Includes a commitment to preserve and maintain the property for a minimum period of 10 years.
- Is a contract between the City and the owner of a designated historic property.

#### EXPECTED PROGRAM BENEFITS

The Mills Act serves as a financial incentive to owners to preserve and maintain their historic properties for the benefit of the entire community. The preservation of important resources and neighborhoods would have beneficial indirect effects on local contractors, businesses and community pride. Recent studies indicate that ongoing maintenance to maintain the integrity of historic homes increases both property values of the structure and the historic district in general.

## **DOES YOUR PROPERTY QUALIFY?**

Only certain properties can use this preservation incentive. Properties listed on an official federal, state, county, or city register, including the National Register of Historic Places, the California Register of Historical Resources, the California Register of Historical Landmarks, California Points of Historical Interest and local survey listings are eligible for Mills Act contracts.

Any architecturally or historically significant (contributing) properties listed in the City's Historic Survey would be eligible to participate in the Mills Act Program. This includes all historic structures located within the Old Towne Orange National Register Historic District.

#### AVAILABILITY OF PROGRAM

The Mills Act program implemented by the City Council limits the total number of Mills Act contracts at 20 new contracts per tax year. The City Planning Department maintains a waiting list, and applicants can apply throughout the year.

### **OWNER REQUIREMENTS**

In exchange for the property tax relief realized under Mills Act contracts, property owners must agree to maintain and preserve their properties for at least 10 years in accordance with specific historic preservation standards and conditions. Subject to the discretion of the local government, the contract may provide for the restoration or rehabilitation of properties according to the Secretary of the Interior's Standards for Rehabilitation. This program would not affect owners who wished to make interior improvements or remodel their homes.

### **MILLS CONTRACT PROVISIONS**

The minimum term of a Mills Act contract is 10 years, with automatic yearly renewal thereafter, unless terminated by the owner or the City. If terminated, the contract would conclude at the end of the current 10-year term. The property owner is assessed a penalty fee (of  $12\frac{1}{2}\%$  of the full value of the property) if the contract is cancelled prior to the end of the 10 year period.

A requirement for periodic exterior inspections of the property and inspections of required repairs by City staff may be incorporated into the contract. Other conditions regulating outdoor storage and the maintenance of landscaping, driveways, and fencing are included in the contract.

#### **DETERMINING ASSESSED VALUE**

The Mills Act reduces the owner's property tax bill by creating an alternative method for determining the assessed value of the qualified historic property. The property is assessed according to the "income" method. The assessed value is determined by calculating the projected income or theoretical rental value, less certain expenses, divided by a "capitalization rate". The property tax savings can be significant for some properties.

When a property is owner-occupied, the determination of "income" is based on what the property could reasonably be expected to yield if rented. The income projection is based on comparable rents for similar properties in the area.

The expenses to be deducted from income include those necessary for the maintenance and operation of the property. Typical expenses include: insurance, utilities and repairs. Expenses that are excluded include: debt service, property taxes and deflation and interest on funds invested. The actual permitted amount of deductions for expenses is determined by the County Assessor's Office and is based on a different formula for each individual property.

During the term of the Mills Act contract, the assessed value of the property is recalculated each year based on changes in the factors used in the calculation. If the property appreciates significantly in value and is then sold, the tax savings will be increased because the Mills Act contract is automatically passed on to the new owner.

Prior to committing to the Mills Act Program, an estimate of property tax savings can be obtained from the Orange County Tax Assessor at (714) 796-8048.

## **QUESTIONS?**

Please contact the Community Development Department with any questions about the program or to obtain an application at:

300 East Chapman Avenue Orange, CA 92866 Phone: (714) 744-7220