The Mills Act
A Tax Incentive Law for Historic Properties

Prepared by the City of Redondo Beach Planning Department
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what it is…

The Mills Act is a state law that allows cities to enter into contracts with the owners of historic structures. This contract provides a method of reducing property taxes in exchange for the continued preservation of the property. Property taxes recalculated using the special Mills Act assessment method can be reduced **50 percent or more!**

On October 6, 1992 the Redondo Beach City Council acted to endorse the approval of Mills Act contracts with owners of locally-designated historic properties. Based on this action, the Preservation Commission is attempting to promote awareness and use of the Mills Act as an incentive for the preservation of local historic buildings.

how it works…

The State law enables the City Council to enter into 10-year contracts with owners of historic properties in which the owners agree to maintain and, if necessary, rehabilitate their historic structure. The contract renews itself annually; hence, the owner is always 10 years from termination unless there is a notice of nonrenewal. Either the property owner or the City may elect not to renew for any reason. The effect of nonrenewal is to terminate the contract at the end of the current ten year term. The owner may also petition the City to initiate an immediate cancellation. If cancelled, a penalty equal to 12 ½ percent is imposed. The City may also cancel the contract, but only in the case of breach of the contract conditions.

who is eligible…

To qualify for the Mills Act in Redondo Beach, a building must first be designated as a local landmark, or be a contributing structure within a designated local historic district. This requires application to and approval by the City's Preservation Commission.

calculating property tax…

Mills Act contracts are unusual among preservation incentives in that tax benefits are available not only for income property, but also for owner occupied property. Property valuation is determined by the "income" method set out in Revenue and Tax Code, Section 439.21. Generally, the income, or projected income, less certain expenses, is divided by a capitalization rate to determine the assessed value of the property. When a property is owner occupied, the determination of "income" is based on what a property could reasonably be expected to yield, or an amount stipulated in the contract as the minimum income to be used. The income projected for owner occupied property is based on comparable rents for similar property in the area or, if insufficient rental information is available, the income that it could reasonably be expected to produce under prudent management. In the case of income producing property, the income amount is based on rent actually received and on typical rents received for similar property in similar use. The capitalization rate for both owner occupied and income property is determined by adding together in interest component, a historical property risk component, and amortization component and a property taxes component.

- **Interest component** is determined by the State Board of Equalization by September of the year preceding the assessment year and is based on the effective rate on conventional mortgages as determined by the Federal Home Loan Bank Board. In recent years, this rate has ranged from 8% to 10%.

- **Historical property risk component** is 4% in the case of owner occupied single family dwellings. In all other cases, the property risk component is 2%.

- **Amortization component** is a percentage equal to the reciprocal of the remaining life of the improvements. Although this calculation varies by individual structure, as an estimate, a typical remaining life of a frame building would be 20 years (or 0.05); for masonry buildings the remaining life might be up to 50 years (or 0.02).

- **Property taxes component** is defined as the "percentage of the estimated total tax rate applicable to the property for the assessment year times the assessment ratio". Typically, this component will be 1% (0.01 post-Prop. 13 tax rate).

hypothetical example of property tax calculation

Current assessed valuation	= $250,000
Current taxes	= $ 2,500 ($250,000 X 0.01)

Recalculation using Mills Act assessment method

Gross income	= $ 14,000 ($1,200 mo. X 12)
Less expenses	= $ 2,000 (insurance, repairs, utilities)
Net income	= $ 12,400
Capitalization rate	= 18% (mortgage rate @ 8% + risk component @ 4% + tax rate @ 1% + amortization @ 5%)
New valuation	= $ 68,888 ($12,400/0.18)
New taxes	= $ 688 ($68,888 X 0.01)

TOTAL SAVINGS OF $1,812 in annual property taxes

The Mills Act offers owners of historical buildings in Redondo Beach the opportunity to realize significant property tax savings in exchange for preserving their buildings and acts as a tangible incentive for the City's preservation program. For more information regarding landmark designation and applying to enter into the Mills Act agreement, please contact the:

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