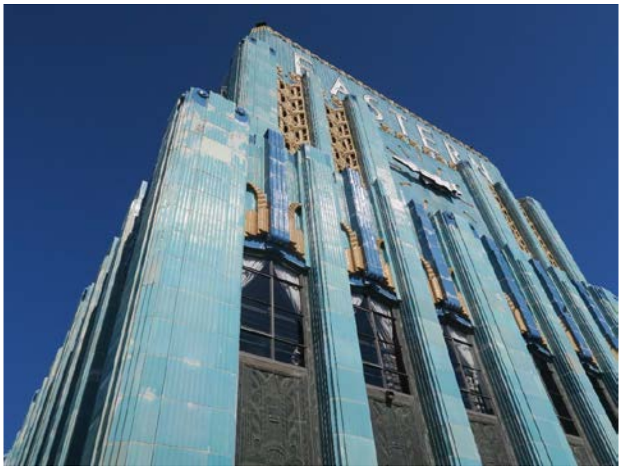


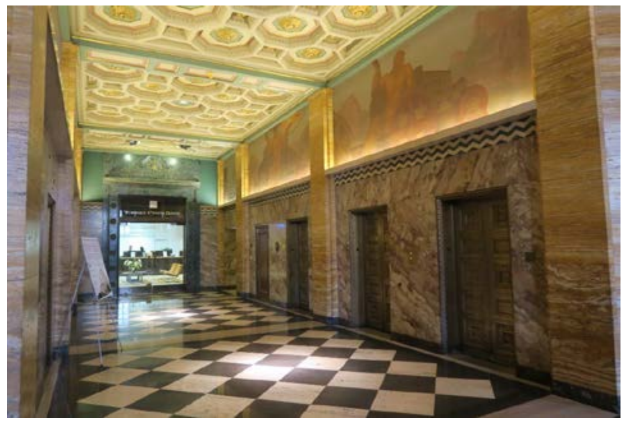

City of Los Angeles Mills Act Program Assessment and Equity Analysis

Prepared for:

City of Los Angeles, Department of City Planning | Office of Historic Resources

Prepared by:

Chattel, Inc. | Historic Preservation Consultants

with

AECOM Technical Services, Inc.

June 2022

Executive Summary

The City of Los Angeles has the largest Mills Act Historical Property Contract program in California, and it is the most significant financial incentive for historic preservation citywide. November 2021 marked the 25th anniversary of Los Angeles's Mills Act program.

Enabled by state legislation in 1972, the Mills Act offers a unique tool for historic preservation through a revolving 10-year contract between the City and the property owner. Contracts are automatically renewed each year and are transferred to new owners when the property is sold. The program's strength is that it incentivizes – through a property tax abatement – significant investment in historic preservation to retain and protect historic resources. In California, 90 municipalities have adopted the Mills Act.

The City of Los Angeles's Mills Act program was established in 1996 with the retention and preservation of affordable, multi-family housing being a key founding goal. The first year of contracts were recorded in 1997. To qualify, a property must be designated as a Los Angeles Historic-Cultural Monument (HCM) or a contributor to an Historic Preservation Overlay Zone (HPOZ). Each contract specifies rehabilitation and restoration work to be undertaken on a property. As of 2022, Los Angeles has 948 contracts enrolled in the program including single-family, multifamily, commercial, industrial, and recreational properties.

The annual property tax savings for all Mills Act property owners in Los Angeles is over $20,000,000, representing a significant investment in historic preservation by the City, County, and State. These savings are reinvested into the local economy through the hiring of tradespeople, contractors, and preservation professionals to rehabilitate, restore, and maintain the properties in the program. The property tax savings realized by owners represents a small percentage of the City's portion of general levy property taxes collected by the County. The City Council has expressed its intent to limit the City's share of unrealized property tax revenue to $2 million annually; the program has currently exceeded this amount by 10 percent. With property values changing from year to year, especially at time of sale, it is difficult to forecast future unrealized property tax revenue. In addition to the property tax relief provided by the Mills Act program, property owners receive support from the City's Office of Historic Resources, which reviews projects for conformance with the Secretary of the Interior's Standards for Rehabilitation. In this way, the program creates a partnership between the City and property owners, with active input and assistance provided to owners as they restore, rehabilitate, and maintain their properties.

In 2020, Los Angeles City Planning undertook a comprehensive assessment to evaluate the program. LA City Planning contracted with historic preservation consultant Chattel, Inc. and subconsultant economist and planners AECOM to conduct the assessment. The assessment analyzes staffing requirements, revenue streams to support the program, and the allocation of property tax savings among existing contracts to inform a more equitable distribution of program participation across the City. The study identifies operational strengths and challenges, as well as opportunities and goals for the program.

Due to its success over the years, the total number of contracts has expanded beyond the capacity of City staff to properly administer the program. State law has also evolved to require more rigor in program management by municipalities. Furthermore, since the Mills Act program's inception, housing affordability, production of housing, and equity considerations have further increased in importance for the City. The assessment therefore organizes its analysis and recommendations into two primary sections, addressing program sustainability and program equity.

Program Sustainability

The assessment found that existing funding for the program is insufficient to effectively manage the number of contracts and bring the program into complete compliance with state law. As the number of Mills Act contracts continues to grow, there is not enough staff time devoted to fee collection, inspections, and contract compliance. State law requires that compliance inspections be conducted for each contract every five years; to date, the City has completed approximately 25 percent of inspections required annually.

Program sustainability should be an immediate goal for the City. The program has the potential to generate adequate revenue to support additional staffing through the collection of existing and new fees. The City has an adopted fee for contract maintenance costs that is not currently being collected due to the lack of staffing. A direct assessment can be established with the County Assessor to collect the fee. However, additional staffing is required to implement this process and track the fees.

Existing staffing consists of two staff members who dedicate less than half of their time on the Mills Act program due to other responsibilities, as well as contract staff who perform inspections. Currently, the two staff members balance priorities for the review and processing of new applications; responding day-to-day to contract holders, prospective applicants, general public inquiries; coordinating with contract staff to conduct an annual workshop for applicants; reviewing and processing of projects on Mills Act properties; responding to contract holders on compliance issues; and managing contract staff. This study found that to effectively manage the program at least three full-time staff positions are required, including an administrative staff dedicated to financial management. Other additional staff would handle day-to-day contract management and compliance, outreach, and coordination with contract staff to carry out periodic inspections. Contract staff would continue to be engaged to implement inspections necessary to comply with state law. To ensure compliance with state law, the City should be inspecting a minimum of 200 properties annually based on the existing number of contracts, which will increase as the program expands.

Additionally, costs for processing contract noncompliance and cancellation are currently not recovered and should be included in the City's adopted fee schedule. Recent inspections have determined that approximately 20 percent of properties in the program are not in compliance. Increased staffing and financial resources are needed to address non-compliant properties.

To improve program management, recommendations include creating a comprehensive database system to organize contracts, track compliance, track fee collection, and correspondence; and maintaining close coordination with the County Assessor, City Attorney, and other departments.

Recommendations to address program capacity include a review of the annual threshold on the City's share of unrealized property tax revenue and the manageable number of contracts in the program based on dedicated resources. The City may want to consider eliminating the annual threshold, and instead limit the number of new contracts annually and the contract duration.

The study also looks at strategies to expand participation in the program. While the City has implemented more zoning provisions intended to preserve historic neighborhoods, those regulations do not include eligibility for preservation incentives such as the Mills Act. The report recommends expanding the program eligibility requirements to include National and California Register-listed properties, and eligible historic resources within adopted plans and ordinances that require historic preservation review such as Community Plan Implementation Overlays (CPIOs) and Community Design Overlays (CDOs).

Over the past 10 years, property values have substantially increased in Los Angeles. To address the increase, the report recommends increasing the valuation limits for single-family properties from $1.5 million to $2.5

million, and multi-family properties from $3 million to $10 million. There is also a recommendation to more broadly utilize the Adaptive Reuse Ordinance to incentivize use of the Mills Act for those projects.

Program Equity

A goal of the assessment was to better understand which communities have benefitted the most – and the least – from the Mills Act, in terms of participation and allocation of property tax savings. The City Controller's Los Angeles Equity Index was used as a framework to analyze the distribution of existing Mills Act contracts in communities facing varying barriers to opportunity, ranging from "low barriers to opportunity" to "high barriers to opportunity." An analysis was also conducted of the distribution of Mills Act financial benefits among existing contracts. Based on the outcome of both analyses, the report provides recommendations for enhancing program access to ensure an equitable distribution of Mills Act benefits across the City.

The largest number of existing Mills Act contracts are for single-family properties located in communities facing low barriers to opportunity. Though this property type represents 71 percent of the program (659 properties), only 25 percent of Mills Act savings went to single-family properties. The remaining 75 percent of program savings went to multi-family and commercial properties located in communities facing both low and high barriers to opportunity.

Multi-family residential properties, excluding condominium buildings, represent 20 percent of the program (185 properties), accounting for 25 percent of Mills Act savings. Commercial properties represent 5 percent of the program (47 properties), accounting for 17 percent of Mills Act savings. Recreational and industrial properties make up the remaining 1 percent of the program (13 properties).

Condominium properties represent only 3 percent of the program (26 properties), but 33 percent of Mills Act savings went to this property type. 90 percent of total savings for condominiums occurred in areas facing low barriers to opportunity.

The analysis shows that existing Mills Act contracts are disproportionately benefitting property owners in communities with lower barriers to opportunity. Eighty-three percent of Mills Act savings went to properties located in communities facing lower barriers to opportunity, whereas 17 percent of savings went to properties located in communities with medium to high barriers to opportunity. In addition, 50 percent of Mills Act savings went to Mills Act properties located in Downtown, which has the highest concentration of Adaptive Reuse Ordinance (ARO) multi-family rental, condominium, and commercial properties, such as hotels. Of the top 10 Mills Act contracts with the largest amount of savings, eight properties were ARO projects, including six condominium properties and two commercial properties. The remaining two properties that were not ARO projects included a condominium and a multi-family residential rental property.

Since the program's inception, the retention and preservation of affordable, multi-family housing has been a key founding goal, and there are a high number of properties potentially eligible for the Mills Act located in communities facing high barriers to opportunity. To better reintegrate this concept into the program and achieve a more equitable distribution of program benefits, the report outlines an approach that prioritizes new Mills Act applications from multi-family properties and ARO projects that include affordable or rent-stabilized housing in communities facing higher barriers to opportunity. The assessment further suggests that safeguards against displacement and a policy of no net loss of affordable, multi-family rental housing need to be incorporated into the program. Through a concerted effort to prioritize expanding opportunity and access, the program may achieve more equitable outcomes in historic preservation and housing.

Consistent with equity approaches used across multiple disciplines and fields, the report develops a series of equity-based recommendations using procedural, distributional, and structural equity objectives. These recommendations include: strategic outreach targeting high priority areas to educate prospective applicants about the Mills Act program; prioritizing at least half of new applications to meet high priority criteria; and ensuring that displacement does not happen as a result of program participation.

Future Direction

The 25th anniversary of Los Angeles's Mills Act program offers an opportunity to reflect on the current status of the program and to define future goals. During the program's first quarter century, many local leaders and community members have worked hard to build a strong program, which has become the most robust in California. The goal of this assessment is to provide direction for the City as it seeks to establish a more sustainable and accessible program.