



LOS ANGELES CITY PLANNING OFFICE OF HISTORIC RESOURCES

221 N. Figueroa Street, Suite 1350 • Los Angeles, CA 90012

DATE: December 1, 2022

TO: Cultural Heritage Commission

FROM: Vincent P. Bertoni, AICP 

SUBJECT: Status Update on Implementing Mills Act Historical Property Contract Program Policy Changes and Ordinance Amendments

Staff continues to refine the approach to developing and implementing the recommendations of the Mills Act program assessment. Now that the initial public comment period has closed, we wanted to provide a summary of the feedback received so far from contract holders and members of the public, and an outline of next steps the Department is contemplating to enhance the Mills Act program.

Background

The Mills Act Historical Property Contract program is California's and Los Angeles's leading financial incentive for historic preservation. A contract between the City and a property owner allows for a potential reduction in property taxes to assist in the restoration and rehabilitation of historic properties. The City's program began in 1996 and the first year of contracts were recorded in 1997. As of 2022, the City has 951 contracts enrolled in the program including single-family, multifamily, commercial, industrial, and recreational properties.

The current Mills Act ordinance is based on the State enabling legislation which outlines the minimum term and required provisions of a contract as well as procedures for contract cancellation and non-renewal. The ordinance describes the City Council's intent to cap the City's share of uncollected property tax revenue through limitations on program eligibility and establishes priority consideration criteria for the review of new applications.

In 2020, Los Angeles City Planning undertook a comprehensive assessment to evaluate the sustainability and equity of the City's Mills Act program. LA City Planning contracted with historic preservation consultant Chattel, Inc. and subconsultant AECOM to conduct the assessment. The assessment analyzed staffing requirements, revenue streams to support the program, data management, and the allocation of property tax savings among existing contracts to inform a more equitable distribution of program participation across the City. LA City Planning has not been accepting applications for new contracts while the program assessment has been underway.

Program Assessment Report

The program assessment report identified operational strengths and challenges, as well as goals, strategies, and recommendations for the Mills Act program that addressed program sustainability and program equity.

Overall, the assessment report highlighted that, due to its success over the years, the number of Mills Act contracts has expanded beyond the capacity of City staff to properly administer the program. The City's total foregone property tax revenue under the Mills Act program may have also reached the maximum subsidy intended by the City Council for properties included in the program.

In addition, the assessment report found that existing funding for the program is insufficient to effectively manage the growing number of contracts, and there is not enough staff time devoted to fee collection, inspections, and contract compliance. It recommends that the program has the potential to generate adequate revenue to support additional staffing through the collection of existing and new fees. More specifically, the assessment report suggests that an expansion of the contract maintenance fee could be collected directly from property tax bills, through a Direct Assessment agreement with the County of Los Angeles.

Recent inspections by the City have determined that approximately 20 percent of properties in the program are not in compliance with their contract. Currently, the Mills Act ordinance only outlines procedures for the cancellation of a contract and would benefit from strengthened provisions addressing noncompliance.

The assessment report also considered strategies to address program capacity by limiting the contract duration for new contracts to 20 years and not renewing contracts older than 10 years. The report further recommends expanding the program eligibility requirements to include National Register 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).

The retention and preservation of affordable, multi-family housing was a key founding goal of the Mills Act program. To better reintegrate this concept into the program and achieve a more equitable distribution of program benefits, the assessment report recommends prioritizing new Mills Act applications from multi-family properties and adaptive reuse projects that include affordable or rent-stabilized housing. The assessment report 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.

A goal of the program 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. An analysis conducted of the distribution of Mills Act financial benefits among existing contracts shows that existing Mills Act contracts are disproportionately benefitting property owners in communities with lower barriers to opportunity (also called “Higher Opportunity Areas” within the City's 2021-2029 Housing Element). The assessment report provides recommendations for enhancing program access to ensure an equitable distribution of Mills Act benefits across the city.

Outreach and Feedback Summary

In June 2022, the assessment report was publicly released in a first phase of outreach via a newly created web page. A postcard was mailed to each contract holder to notify them of the report and presentation dates, and City Planning's interested parties list and Neighborhood Councils were

also notified. An overview of the assessment report findings and recommendations were presented at online public workshops held on July 21, 2022 and August 8, 2022.

City Council office briefings are ongoing, and the assessment report and recommendations have been presented to stakeholder groups including the Los Angeles Conservancy, West Adams Heritage Association, Hollywood Heritage, Art Deco Society of Los Angeles, and the Central City Association.

Staff collected feedback from contract holders, preservation advocacy organizations, and members of the public via an online survey form and email. The Department received a total of 383 responses; 274 of those were through the online form. 59 percent of survey form responses (161) were from individuals who do not currently have a property under a Mills Act contract. Below is an overview of the feedback responses:

- 82 percent of online survey form respondents (224), and the majority of those who e-mailed their comments, did not support limiting the term of Mills Act contracts to 20 years. Many emphasized that caring for an historic property is a long-term commitment and maintenance is constant. A few respondents stated that since preserving original, historic features is expensive, it often takes a homeowner multiple years to save up the funds to complete contract work.
- Many respondents supported the concept of collecting a contract maintenance fee to pay for additional staffing. In addition, quite a few respondents commented that the City should increase enforcement efforts and terminate contracts for those not in compliance.
 - Respondents indicated that non-renewal of Mills Act contracts would de-incentivize property owners to maintain their historic buildings and/or render their ability to do so financially infeasible.
 - Respondents were also concerned about the loss of protection of historic interior features, particularly for HPOZ contributors, since under the HPOZ preservation plan, review is limited to the exterior.
- 9 percent of online survey form respondents (26) indicated that the program did not provide an adequate benefit. These individuals cited higher material and labor costs for rehabilitation than what the Mills Act program benefits provide.
- Several respondents who are existing contract holders reported that they front-loaded funds to rehabilitate their properties and that they count on Mills Act benefits over time to reimburse the funds spent.
- 38 percent of online survey form respondents (104) did not support the Mills Act program focusing on underserved communities. The main reason cited was that historical properties exist across the entire city, not just in underserved areas. Some also stated that outreach and education programs, as well as technical assistance, should be conducted in the underserved neighborhoods.
- While many respondents were generally supportive of the concept of creating more affordable housing, they indicated that the focus of the Mills Act program should be on

historic preservation, as intended. Respondents residing in both single-family homes and condo buildings stated that the Mills Act program already provides affordable housing in that it subsidizes homeownership and enables rents to be cheaper due to the landlord not having a higher property tax bill. The general sentiment was that if existing contracts were not renewed or otherwise terminated, it would lead to a loss of affordable housing and the displacement of tenants and owner-occupants.

- The Los Angeles Conservancy and the West Adams Heritage Association (WAHA) were the only two preservation organizations that provided feedback on the Mills Assessment report findings and recommendations. The highlights of their comments are as follows:
 - There is support for collecting fees, including a fee for non-compliant properties, as well as the establishment of a mechanism through which fees are collected, tracked, and set aside specifically in the budget for the management and operation of the Mills Act program, particularly for additional staffing.
 - Both organizations are in opposition to the recommendation not to renew older contracts.
 - Many historic resources will be left vulnerable in the future, and this recommendation goes against the original intent of the Mills Act program. In addition, it will unwind more than twenty-five years of historic preservation progress and a system through which historical resources are afforded strong protections.
 - While a long-term owner may have benefitted from a Mills Act contract for many years, they will experience diminishing financial returns over time and the property becomes less of a financial “drain” on the overall program. However, when and if a longtime Mills Act contract property is sold, there is a built-in incentive to a new owner to do right by the historical property and continue its preservation stewardship.
 - Not renewing any of the 412 existing contracts in areas with fewer resources would run counter to the equity priority considerations outlined in the report.
 - The raising of pre-contract assessed value limits for both single-family and multi-family properties would ensure eligibility for additional important historical resources and an exemption for Adaptive Reuse Ordinance (ARO) projects would incentivize the creation of more housing in existing buildings.
 - The Conservancy specifically opposed expanding the eligibility criteria beyond current Historic-Cultural Monuments (HCMs) and HPOZ contributors, arguing that this could potentially dilute the overall effectiveness of the Mills Act and designation programs.
 - The Conservancy argued that, if the City were to set Mills Act priorities for affordable housing or ARO conversions, this may lead to a desire to push out existing tenants, and therefore, tenant anti-displacement safeguard measures should be implemented.

- WAHA highlighted that prioritizing multi-family housing with affordable units may not be realistic for the program given that the State Revenue and Taxation Code combined with the Los Angeles County Assessor's implementation procedures do not consider forcibly-restricted rents (whether they are RSO units or covenanted affordable units) as the basis for the annual Mills Act valuations; the owner of a Mills Act contract property therefore may or may not receive tax relief.
- WAHA also stated that requiring participating properties to have a substantial amount of structural, systems and historical rehabilitation work is a barrier to participation in the program and is disconnected from the equity goals stated in the report.
- Although the City's foregone property tax revenue from Mills Act properties exceeds \$2 million, the City's total revenue from its share of property taxes overall has increased by \$43 million from 2016 to 2021.
- To ensure more compliance with Mills Act contracts, there should be annual reporting required by every property owner.
- A suggestion was that the City investigate additional, less burdensome initiatives to incentivize historic preservation.

Implementation Strategy

The assessment report highlights that program and fiscal sustainability should be immediate goals for the City. To make the Mills Act program more sustainable and equitable, the assessment report makes several recommendations which will be implemented through developing policy changes and ordinance amendments. Policy changes to address program sustainability will be focused on program capacity, fiscal sustainability, contract enforcement, and program management. To address equity, policy changes and ordinance amendments will be focused on the retention and preservation of affordable multi-family housing and expanding the program in areas facing higher barriers to opportunity (also called "Lower Opportunity Areas" within the City's 2021-2029 Housing Element).

Develop Policy Recommendations

To address the recommendations from the assessment report, the Office of Historic Resources will develop policy recommendations that focus on the following:

- Amending existing program fee structure and recovering administrative costs for processing non-compliance and contract cancellation cases;
- Establishing stronger contract compliance-related provisions and mechanisms for enforcement;
- Refining and refocusing existing eligibility criteria and priorities for new applications;
- Expanding participation in the program by broadening eligibility requirements to achieve a more equitable distribution of benefits;

- Managing data more effectively and providing greater transparency about the program to the public; and
- Developing refined strategies, responsive to the public input received on the assessment report, that will address program capacity in order to enable new applications and the continued expansion of the program

Where necessary, staff will also propose amendments to the Mills Act Ordinance (LAAC Sections 19.140-19.146) and the Fee Ordinance (LAMC Section 19.01 F). To collect contract fees through a Direct Assessment with the County of Los Angeles, approval from the City Council is required for the City to enter into an agreement.

The implementation of policy recommendations is contingent upon receiving dedicated staffing resources which will require a budget request for additional staffing for FY 2023-2024.

Next Steps

As staff continues to refine the approach to developing the policy recommendations, we will focus on two main categories: administrative changes that Los Angeles City Planning can implement and Ordinance amendments or resource allocations that require City Council approval.

Looking ahead, the Office of Historic Resources intends to release its draft policy recommendations and ordinance amendments during the first quarter of 2023. A second round of outreach in Spring 2023 will allow for additional public input on these recommendations and draft amendments. Forums will include a workshop and presentation at the Cultural Heritage Commission. Additional outreach to Neighborhood Councils, Historic Preservation Overlay Zone boards, and other stakeholder groups will also be included.

Targeted Time Frames

Release of Draft Policy Recommendations and Ordinance Amendments: February 2023

Presentation at Cultural Heritage Commission: March 2023

Second Phase of Outreach: March-April 2023

Transmittal to City Council: April 2023

PLUM Committee and City Council hearings: May 2023

Final Ordinance: October 2023

Relaunch Acceptance of New Applications: January 2024