



City of Redlands Mills Act Program

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Thank you for your interest in the City of Redlands' Mills Act Program. In order for your property to be considered for a contract you must have a designated historic resource listed on any city, county, state or federal register. If you are unsure whether your property is included within any of these designations, or wish to seek designation of your property, please contact us.

The City of Redlands can approve up to seven (7) Mills Act contracts per year, consisting of five (5) residential and two (2) commercial properties. There is no limit on the assessed value of the property in order to be considered for a Mills Act contract. Applications will be selected for approval using the adopted eligibility criteria for the program. Applications must include all requested information to be considered. All contracts are prepared and reviewed by staff and City Attorney, and then referred to the City Council for approval.

A ten-year rehabilitation plan is required as part of the application and will be re-evaluated as needed. Staff may request modifications to the plan to show compliance with the Secretary of the Interior's Standards for Rehabilitation of Historic Properties. Pictures must be submitted with the application to document the current condition of the property. After the contract is recorded, the property owner will be required to submit annual reports on completed project(s), along with copies of receipts and building permits where applicable. City staff may conduct property inspections at any time to ensure that proposed work has been completed per contract agreement and meets all applicable City standards. Significant penalties may be imposed for breach of contract or failure to maintain the historic property.

This packet is designed to assist you in completing the Mills Act Application. The application packet is also available on line at www.cityofredlands.org. If you have any questions please contact the Development Services Department at (909)798-7555.

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MILLS ACT FACT SHEET

- The Mills Act (a state sponsored legislation enacted in 1972) is a self-directed, economic incentive program for owners of historic buildings that are listed in the National Register of Historic Places or on a state, county, or city official register. The Mills Act it is the single most important economic incentive program available in California for private property owners of qualified historic buildings. It is also applicable to income producing properties. A Mills Act program must be developed according to two California State Codes: California Government Code, Article 12, Sections 50280-50290 and California Revenue and Taxation Code, Article 1.9, Sections 439-439.4.
- Under the program, property owners receive a significant reduction in local property taxes in exchange for their promise to actively participate in restoring, rehabilitating, repairing and preserving their properties. Participants enter into a perpetual 10-year contract with the City.
- Contracts are automatically renewed each year and may be transferred to new owners when the property is sold.
- City officials may periodically inspect properties to ensure proper maintenance.
- Penalties may be imposed for breach of contract or failure to maintain the historic property. The California Codes listed above require the owner to pay a cancellation fee of twelve and one-half percent (12-1/2%) of the current fair market value of the property, as determined by the county assessor, in the event of breach of contract.
- The county assessor's office re-assesses property taxes based on a capitalization of income formula rather than on market value. Mills Act participants may realize a property tax savings of approximately 30 to 60% each year depending on property value, net operating income, and other variables.

MILLS ACT APPLICATION CHECKLIST

- Mills Act Program Application
- Mills Act Program Ten-Year Rehabilitation Plan
- Mills Act Program Financial Analysis Form
- Mills Act Program Tax Adjustment Worksheet
- Copy of Grant Deed with legal description of property

IMPORTANT: All parties listed on the grant deed will need to sign the contract.

- Copy of the current property tax statement
- Cost estimate for each improvement listed in the ten-year improvement plan completed by licensed architect/contractor
- Estimated rental value of the home completed by a licensed realtor
- Exterior Photographs of Property
- Any available historic photographs and information
(This can be obtained from the Heritage Room at the Smiley Library)

MILLS ACT APPLICATION FORM

PROPERTY INFORMATION:

Property Address: _____

APN: _____

Owner: _____

Owner Address: _____

Owner Telephone Number:

Daytime: _____ Evening: _____

E-mail: _____

Use of Property: _____

ELIGIBILITY FOR PROGRAM:

In order for your property to be considered for a contract you must have a designated historic resource from the list below:

_____ City Historic Landmark _____ City Historic Resource

_____ City Historic District _____ County Landmark

_____ California Register _____ State Point of Historical Interest

_____ State Landmark _____ National Register

_____ National Historic Landmark

Date of Designation: _____

_____ (Initials Required) I authorize the City of Redlands to act as my agent for the purpose of recording the Mills Act Contract.

Property Owner Signature(s) _____

Date _____

MILLS ACT PROGRAM FINANCIAL ANALYSIS FORM
(Instruction Guide follows)

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
1. Monthly Rental Income										
2. Annual Rental Income										
Annual Expenses	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
3. Insurance										
4. Utilities										
5. Maintenance										
6. Management										
7. Other Operating Expenses										
8. Total Expenses										
NET OPERATING INCOME	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
9. Net Operating Income										
CAPITALIZATION RATE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
10. Interest Component										
11. Historic Property Risk Component										
12. Property Tax Component										
13. Amortization Component										
14. TOTAL=CAPITALIZATION RATE										
NEW ASSESSED VALUE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
15. Mills Act Assessed Value										
NEW TAX ASSESSMENT	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10
16. Current Taxes										
17. Taxes under Mills Act										
18. Estimated Tax Reduction										

Mills Act Property Tax Adjustment Worksheet

Step 1: DETERMINE PROPERTY INCOME FOR EACH OF TEN YEARS

PROPERTY INCOME	CURRENT	EXPLANATION
1. Monthly Fair Rent, or Gross Income		Even if property is owner-occupied, an estimated monthly rental income is needed as a basis for this formula. Remember to include all potential sources of income (i.e. filming, advertising, photo-shoots, etc.).
2. TOTAL ANNUAL INCOME		Multiply line 1 by 12 months.

STEP 2: CALCULATE ALLOWED EXPEDITURES FOR EACH OF TEN YEARS

ANNUAL EXPENSES	CURRENT	EXPLANATION
3. Insurance		Fire, Liability, etc.
4. Utilities		Water, Gas, Electric
5. Maintenance and Repairs		Includes: painting, plumbing, electrical, gardening, cleaning, mechanical, heating repairs, and structural repairs.
6. Management		Standard fee (usually 5% of rent)
7. Other Operating Expenses		Security, services, etc. May also include special district assessments and special taxes; however, general levy property taxes are not allowed expenditures. Provide breakdown on separate sheet.
8. TOTAL ANNUAL ALLOWED EXPEDITURES		Add lines 3 through 7

STEP 3: DETERMINE NET OPERATING INCOME, OR INCOME TO BE CAPITALIZED FOR EACH OF TEN YEARS

NET OPERATING INCOME	CURRENT	EXPLANATION
9. TOTAL ANNUAL INCOME TO BE CAPITALIZED		Line 2 minus line 8

Mills Act Property Tax Adjustment Worksheet

STEP 4: DETERMINE CAPITALIZATION RATE FOR EACH OF TEN YEARS

CAPITALIZATION RATE	CURRENT	EXPLANATION
10. Interest Component	5%	Annually determined by the State Board of Equalization and based on the effective rate on conventional mortgages as determined by the Federal Housing Finance board. The interest component is announced annually in a Letter To Assessors, by October 1 of the preceding assessment year (5% for 2011, refer to historical interest rates, attached).
11. Historical Property Risk Component		Determined by property type. Single-family home = 4% All other property = 2%
12. Property Taxes Component	1%	.01 times the assessment ration of 100%
13. Amortization Component		Because the land is a non-depreciating asset, it is necessary to adjust the amortization component. Estimate the percentage of total property value attributable to improvements, multiplied by the reciprocal of the remaining life of improvements. Wood frame is typically 20 years, masonry is typically 50 years. If 70% of the property value is attributed to improvements, and the life of the improvement is 20 years, use $70\% \times \frac{1}{20} = 3.5\%$.
14. TOTAL CAPITALIZATION RATE		Add lines 10 through 13

Mills Act Property Tax Adjustment Worksheet

STEP 5: CALCULATING TAXABLE VALUE FOR EACH OF TEN YEARS

NEW TAXABLE VALUE	CURRENT	EXPLANATION
15. Mills Act Assessed Value		Line 9 divided by line 14 Example: Line 9 divided by 0.15 (15%)

STEP 6: DETERMINE ESTIMATED TAX REDUCTION FOR EACH OF TEN YEARS

NEW TAX ASSESSMENT	CURRENT	EXPLANATION
16. Current Tax		General tax levy only – do not include bonded indebtedness, special district assessments, and special taxes, which are treated as allowed expenses.
17. Tax under Mills Act		Line 15 multiplied by 0.01
18. ESTIMATED TAX REDUCTION		Line 16 minus 17

Mills Act Property Tax Adjustment Worksheet Guide

The following is an example showing the possible tax benefits to the historical property owner of an owner-occupied single-family dwelling. ***THIS IS ONLY A SAMPLE. Your reduced property tax under a Mills Act contract is not guaranteed to match this calculation because some figures are determined at the discretion of the assessor. The parties to a historical property agreement may stipulate a minimum annual income to be capitalized, in which case the income to be capitalized may not be less than the stipulated amount.***

EXAMPLE: Single-family Dwelling
Current Assessed Value (GENERAL LEVY TAXES ONLY) =
\$100,000
Estimated Monthly Rent = \$800

DETERMINE ANNUAL INCOME AND ANNUAL OPERATING EXPENSES

\$800 per month income minus approximately \$100 per month expenses for maintenance, repairs, insurance, utilities, and gardener, only as permitted in a traditional landlord/tenant relationship, equals a net income of \$700 per month. Multiply by 12 months for an annual net income of **\$8400**. (Mortgage payments and property taxes are not considered expenses.)

DETERMINE CAPITALIZATION RATE

Add the following to determine the Capitalization Rate:

- The Interest Component is determined by the Federal Housing Finance Board and is based on conventional mortgages. While this component will vary from year to year, the State Board of Equalization has set this at **4.75%** for 2012;
- The Historical Property Risk Component of **4%** (as prescribed in Sec. 439.2 of the State Revenue and Tax Code) applies to owner-occupied single-family dwellings. A **2%** risk component applies to all other properties;
- The Property Tax Component (Post-Prop. 13) of .01 times the assessment ratio of 100% (**1%**).
- The Amortization Component for improvements defined as a percentage equal to the reciprocal of the remaining life of the improvements (e.g., if the remaining economic life of the improvements were 20 years, the amortization component would be 5 percent). Since the amortization

component applies only to improvements, not to land, which is a nondepreciating asset, it is necessary to adjust the amortization component described in the statute.

Mills Act Property Tax Adjustment Worksheet Guide

- Based on market data, estimate the percentage of total property value attributable to improvements. *In this example, 70% of the value is attributable to improvements, and the remaining life of a wood frame building is typically 20 years.* The amortization component is calculated thus: $70\% \times 1/20 = 3.5\%$. Use 3.5% for your calculation.

Now add the following:

$4.75\% + 4\% + 1.0\% + 3.5\% = 13.25\%$ **Capitalization Rate** (single-family dwelling).

CALCULATE NEW ASSESSED VALUE AND ESTIMATED TAX REDUCTION

The new assessed value is determined by dividing the annual net income (**\$8,400**) by the capitalization rate **0.1325** (13.25%), to arrive at the new assessed value of **\$63,396**.

Lastly, determine the amount of taxes to be paid by taking 0.01 (1%) of the assessed value \$63,396. Compare with current property tax rate for land and improvements only (be sure to exclude voter indebtedness, direct assessments, tax rate areas and special district items on your tax bill):

- Current general levy property tax; 1% of original assessed valuation of \$100,000 ($\$100,000 \times 0.01 = \$1,000$);
-
- Mills Act property tax: 1% of new assessed value of \$63,396 is **\$634**.

Annual property taxes have been reduced by **\$366** ($\$1,000 - \634), almost a **37% property tax reduction**.

Mills Act TEN-YEAR REHABILITATION PLAN

Year	Proposed Project	Estimated Cost
Year 1		
Year 2		
Year 3		
Year 4		
Year 5		
Year 6		
Year 7		
Year 8		
Year 9		
Year 10		

Projects must be exterior and must utilize all of your tax savings. All projects are subject to Historic and Scenic Preservation Commission and Staff review and approval before work begins. Work must meet all City requirements and the *Secretary of the Interior's Standards for the Treatment of Historic Properties*. Retain copies of all receipts and permits for submittal with the required annual reports. Photograph the before and after condition of each project for submittal with the annual reports.

