

Mills Act Background & Criteria

CITY COUNCIL

APRIL 11, 2024



Mills Act - Background

Legislation enacted in 1972 - Authority for Local governments to enter contracts with owners of qualified historic properties who **actively participate in the restoration and maintenance of their historic properties** according to the US Secretary of Interior Historic Standards, in exchange for receiving property tax relief.

Each local government establishes their own criteria and determines how many contracts they will allow in their jurisdiction.

Involved Agencies: City of Palm Desert, CA Board of Equalization, Riverside County Tax Assessors Office

Framework established in:

[California Government Code, Article 12, Sections 50280 - 50290](#)

[California Revenue and Taxation Code, Article 1.9, Sections 439 – 439.4](#)

Mills Act – How does it work



Mills Act assess using the Income Approach to Value vs. Market Approach to Value



For owner-occupied properties, the "income" is determined based on comparable rents for similar properties in the area.



For income-producing properties, the income amount is based on actual rent received and typical rents for similar properties with similar uses.

Mills Act – Hypothetical Example

Single Family Home Assessed Value: \$500,000 Taxes: \$5,000 (1.0%)		
Gross Income	\$48,000	(\$4,000 * 12 mo.)
Less Expenses	\$5,000	(insurance, repairs, utilities)
Net Income	\$43,000	(\$48,000 - \$5,000)
Capitalization Rate (Riverside County Assessor)	13.55%	Interest component at 4.25% Historic property risk component at 4% Amortization component at 4.3% Property tax component at 1.0%
New Valuation	\$317,344	(\$43,000 / 0.1355)
New Taxes	\$3,174	(\$317,344 * 0.01)
Annual Tax Reduction	\$1,826 (37%)	(\$5,000 - \$3,174)

Contract – 10-YR Rehabilitation/Restoration Plan

Mills Act contracts require a 10-year work plan indicating how the tax savings will be reinvested into the rehabilitation, restoration, and/or ongoing maintenance of the property.

The intent is to:

- Preserves life of the historic features of the property
- Corrects any critical systems or structural deficiencies
- Reverses inappropriate alterations
- All work must meet the Secretary of the Interiors Standards for Rehabilitation

There is no requirement that the cost of the rehab/restoration and maintenance equal the amount of tax savings.

Contract Compliance

Under the state legislation enabling Mills Act Contracts, the City is required to conduct an in-person inspection once every five years to ensure that the property is being properly maintained (or restored) in accordance with the Mills Act program.

As part of the annual self-reporting, the property owner will be asked to submit the following to staff:

- Copies of invoices and receipts for all work completed (materials, labor, etc.);
- A list of any additional work completed on the property since initiation of the contract, that may not have been included on the Rehabilitation Plan;
- An updated Rehabilitation Plan indicating items completed with dates to indicate if completion is ahead or behind schedule;
- Photographic documentation of any completed or in-progress work.



Contract – 10-YR Rehabilitation/Restoration Plan

Eligible Improvements & Maintenance Items

- Eligible work currently includes “any necessary repair, maintenance, restoration, or rehabilitation of a Historic property”
- Previously approved Plans have included:
 - New appliances (washer & Dryer, refrigerator)
 - Drapes and curtains
 - HOA fees

Riverside County Appraiser

Interior items such as drapes, appliances, paint, etc don't significantly impact valuation.

Valuation only impacted if it's more of a construction level project. If it's interior, it can't be items that are easily replaced

Consideration – Eligible Improvements

1. Staff seeking Council’s input on updating Appendix A of Guidelines to have clearer eligible improvements in the work plan
 - CRPC recommended approval of the updated guidelines on January 24, 2024
 - Updated Appendix A categorizes improvements as either contributing to “Structure Integrity”, “Architectural/Historical Integrity” or Ineligible
 - Additional input received at the March CPRC meeting from an existing property owner/Mills Contract that there should be no changes - primarily interior improvements

Appendix A

SCOPE OF WORK	ELIGIBLE		INELIGIBLE
	Structure Integrity	Architectural and/or Historical Integrity	
Interior			
1. New/repair appliances			X
1. New/repair carpet			X
1. New/repair countertops			X
1. New/repair flooring		X	
1. Interior painting			X
1. Changes to interior walls			X
1. Carpentry restoration work (example: Windows, molding, framing)		X	
Roofing			
1. Patch/Repair Roof		X	
1. New Roof (different material)			X
1. New roof (original material)	X	X	
1. Altering Building Roof (ridge, dormers, gables, etc.)		X	
1. Repair roof framing	X		
1. Repair of eaves/overhangs	X		
1. Flashing/waterproofing	X		
1. Install rooftop photovoltaic system (Solar panels)			X
Windows/Doors/Awning/Shutters			
1. Replace exterior doors and/or windows		X	
1. Alteration/creation of window or door opening			X
1. Replacement/repair of shutters or awnings		X	
1. Install or remove shutters or awnings			X

SCOPE OF WORK	ELIGIBLE		INELIGIBLE
	Structure Integrity	Architectural and/or Historical Integrity	
1. Whole house exterior painting		X	
1. Touch up paint		X	
1. Re-stucco (like for like)		X	
1. Stucco repair (like for like)		X	
1. Repair, restore, or repaint masonry		X	
1. Cleaning of walls			X
1. New/replacement wall cladding		X	
Architectural Elements			
1. Repair, remove, or alter existing patios, balconies, and/or chimneys		X	
1. Construct new patio, balcony, and/or chimney			X
1. Construct new attached wall			X
1. Repair or replace gutters and downspouts	X		
1. Repair existing architectural element		X	
1. Add new architectural element			X
Mechanical			
1. New HVAC system(s)	X		
1. New venting or duct work	X		
1. New water heater			X
1. New fans			X
1. HVAC system maintenance/repair	X		
Electrical			
1. New electrical outlets, circuits, panels			X
1. Whole house rewiring	X		
1. Electrical panel upgrade			X
1. New service lines to detached structure			X
1. Electric vehicle charger			X
1. Battery storage or generator			X
1. Security lighting and/or alarm system			X
1. Exterior lighting fixtures		X	
1. Interior lighting fixtures			X

SCOPE OF WORK			INELIGIBLE	SCOPE OF WORK			INELIGIBLE
	Structure Integrity	Architectural and/or Historical Integrity			Structure Integrity	Architectural and/or Historical Integrity	
1. Whole house repiping	X			Accessory Structures			
1. New plumbing fixtures (sink, tub, shower, faucets)			X	1. New/repair of walls or fences		X	
1. Plumbing repairs			X	1. Landscaping and hardscape			X
1. New service or supply lines			X	1. ADU or JADU construction			X
Fire Protection				1. Install/remove/repair swimming pool			X
1. Install fire sprinkler system	X			1. Construct/repair/removal of original accessory structure		X	
1. Install smoke/CO2 alarms			X	1. Construct/repair/removal of non-original accessory structure			X
Structural/Foundation				General Maintenance			
1. Foundation bolting, wall bracing, and related seismic work	X			1. HOA Fees			X
1. New/repair foundation				1. Regular common area or landscaping fees			X
1. Seismic retrofitting				1. Termite Treatment	X		
1. Repair or reinforce wall/ceiling framing or bracing			1. Mold remediation				
Drainage/Water Protection				1. Abestos remediation			
1. Flashing	X			1. Radon gas prevention/remediation			
1. New/repair Exterior Drains				1. Lead-based paint removal			
1. Water damage repair (interior/exterior)							
1. Re-grading of property for drainage purposes							

Consideration – Value of Improvements

2. Whether the cost of the rehab/restoration and maintenance improvements proposed as part of the 10-year Plan should at a minimum equal the amount of annual tax savings for all new 10-year Contracts and renewals of 10-year Contracts.

Next Steps

Based on input received, Staff will prepare an action item for City Council consideration on April 25th