



# CITY OF DANA POINT

## MILLS ACT PROGRAM

The Mills Act, adopted by the California Legislature in 1976, authorizes local governments to grant property tax relief to owners of qualified historic properties. The overall intent of the Mills Act is to provide an incentive for owners to preserve and maintain historic resources within a community.

### EXPECTED PROGRAM BENEFITS

The Mills Act provides a tax break to property owners that preserve and maintain their historic property. Recognizing these properties' contribution to the cultural history of the community, region and state has beneficial, indirect effects on local contracts, businesses, property values and community pride.

### PROGRAM ELIGIBILITY

Any architecturally or historically significant property listed with the Dana Point Historic Resources Register is eligible to participate in the Mills Act program.

### PROPERTY OWNER REQUIREMENTS

Property owners must agree to maintain and preserve their properties for at least ten years in

accordance with the “*Secretary of Interior Standards for Rehabilitation*”.

### KEY PROGRAM FEATURES

- Provides property tax relief in the form of reduced property tax assessments of up to 50 percent to registered historic properties.
- Can be applied to owner-occupied and/or income-producing commercial historic properties.
- Voluntary participation that is formalized through a 10-year contract between the registered historic property owner and the City of Dana Point, to be renewed annually, unless renewal is cancelled by the owner or the City.
- Property owner(s) must agree to prevent deterioration of the property via the “*Secretary of Interior Standards for Rehabilitation*,” and determine a flexible but scheduled plan to carry out maintenance of property.
- Contract automatically remains in effect upon change of ownership, thereby passing the tax savings to the new owner.
- Early termination of the contract results in a penalty of 12.5 percent of the full market value of the property, only if the contract is cancelled before the current 10-year contract expires.

### MILLS ACT CONTRACT PROVISIONS

Properties must be listed on the Dana Point Historic Resources Register to participate in the Mills Act program. Applications for inclusion on the Historic Resources Register and participation in the Mills Act program can be submitted and reviewed concurrently. The Historic Resources applications are available from the Community Development Department or on the City’s website ([www.danapoint.org](http://www.danapoint.org)).

Periodic interior and exterior inspections of the property by City staff may be conducted, and the property owner is responsible for correcting any identified deficiencies.

The minimum term of a Mills Act contract is ten years with automatic yearly renewal unless renewal is cancelled by the owner or the City. If renewal of the contract is cancelled, the contract concludes at the end of the current 10-year term and *not the end of the 10-year term initially entered into*. Each year begins a *new* 10-year term.

If, for any reason, the property owner terminates the contract prior to the end of the current 10-year period, a penalty fee equivalent to 12.5 percent of the full market value of the property will be assessed.

### HOW PROPERTY TAXES ARE CALCULATED

<b>Traditional Sample Property Tax Calculation</b>	
Assessed Property Value	\$250,000
Percentage Rate	1%
<b>Taxes</b>	<b>\$2,500</b>
<b>"Sample" of the "Mills Act" Income Method</b>	
Gross Income (Yearly amount property could be rented for Single Family Home) (\$1200 x 12 mo.)	\$14,000
Less Expenses (repairs, insurance, etc.)	\$2,000
Net Income	\$12,400
<b>Capitalization Rate</b> =	<b>18%</b>
<b>Interest Component</b>	<b>8%</b>
Figured by the state board annually (usually 8-10%).	

<u>Historical Property Risk Component</u>	4%
4% for owner-occupied single-family dwellings. 2% for all other properties.	
<u>Amortization Component</u>	5%
A percentage equal to the reciprocal of the remaining life of the property's structures (depreciation is figured in this component).	
<u>Tax Rate</u>	1%
Percentage of the estimated total tax rate applicable to the property tax (typically 1%).	
New Valuation = (\$12,400 / 0.18)	\$68,888
<u>New Taxes</u> = (\$68,888 x 0.01)	\$688 (1%)
Total Savings = \$2,500 - \$688	\$1,812

The Mills Act reduces the owner's property tax bill by calculating using the "income" method instead of the traditional approach to figuring property taxes. The property tax savings are revalued for a property January 1 of each year with the actual "tax savings" observed July 1 of that same year.

The income method is not figured by the City of Dana Point, but from the County Assessor's office. The County Assessor will calculate an individual property's tax savings for the year, after a contract has been entered into between the property owner and the City. The paragraph below roughly explains the income method.

The County Assessor conducts a survey of the rental values of similar properties, thus determining a property owner's gross income. Certain expenses necessary for the maintenance and operation of that property are then deducted from the gross income (i.e. *home repairs to maintain the property, insurance and utilities*). Some expenses cannot be counted as an "expense" under the Mills Act program (i.e. *home improvements such as building a porch or installing central heat and air, debt service, property taxes and depletion, and interest on funds invested*). Only the County Assessor can determine a legitimate "expense." The amount of permitted deductions for expenses is determined by the County Assessor's office and is based on the different necessary expenses for each individual property. Once the expenses are deducted from the gross income, the net income is divided by the "Capitalization Rate" for the property. This rate consists of four components that are listed and defined in the matrix to the left. A new "valuation" of the property is calculated, and with it a new tax bill that may reflect as much as 50% savings to a historic property owner, for some properties.

However, it is important to note that a property owner's base year value (the price and year for which the current property owner purchased the property) plays an important role in determining if the Mills Act program will be a valuable undertaking. For example, properties purchased many years ago (i.e. *30+ years*) may produce a tax savings that would not provide a significant, or any, difference from traditional property tax calculations. It is therefore recommended that prior to entering into a contract with the City, an estimate of the tax savings a property owner would acquire from participation in the Mills Act program be determined by contacting the County Assessor's office directly, at the number located at the bottom of this pamphlet.

## APPLICATION PROCESS

The application shall include the following:

- Completion of a Historic Resources Application.
- Interior and exterior property photographs.
- Title report.
- Schedule of improvements and maintenance.
- \$40.00 application fee.

The City will conduct a pre-contract inspection looking for code compliance and general condition of the property including intactness of historic fabric. The City's inspection may result in recommendations to include in the schedule of improvements and maintenance.

## CITY CONTACT INFORMATION

*Planning:* (949) 248-3563

Historic Resources Register  
Preservation Incentives  
Development Standards  
Development Review  
Environmental Review

*Building:* (949) 248-3594

Permit Requirements  
State Historic Building Code

*County Assessor's Office* (714) 834-2727

Public Service  
www.oc.ca.gov/assessor