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Mills Act Property Tax Program FAQ

What is the Mills Act Property Tax Incentive Program?

The Mills Act Program is a voluntary financial incentive program, enabled by California Government Code, Article 12, Sections 50280-50290, established in 1972 (commonly known as the “Mills Act”). The Mills Act allows municipalities to enter into a Historic Property Preservation Agreement (Mills Act Contract) with owners of qualified historic properties for the purpose of preservation, rehabilitation, and maintenance of designated Historic Resources, which allow the owner to receive a reduction in property taxes in exchange for a commitment to specific repair, restoration, or rehabilitation improvements and satisfactory maintenance of the property in accordance with the Secretary of the Interior's Standards and other applicable criteria. Under the terms of the Mills Act Contract, the property owner agrees to preserve, maintain, and rehabilitate the historic property in conformance with the Secretary of the Interior's Standards for the Treatment of Historic Properties (Secretary's Standards) and with local historic preservation standards. In 2017, the City of Torrance took action to allow Mills Act Contracts.

Under a Mills Act Contract, the historic property is re-assessed by the Los Angeles County Office of the Assessor to determine the “Historical Property Value”. The Historical Property Value is based on the property's income-producing potential (generally from rental income) and is used to determine property taxes under the Mills Act Contract. Property tax reductions vary based on each property's income-producing potential and current assessed value.

Which Properties are Eligible?

Properties eligible for a Mills Act Contract include:

- Contributors and altered contributors identified in the Historic Resources Survey.
- Properties separately listed in the National Register of Historic Places or the California Register of Historical Resources.

Properties must be privately owned and may not be exempt from property taxation. Both owner-occupied and income-producing properties are eligible for a contract. Properties with outstanding code violations are not eligible to apply. Code violations must be corrected before an application will be accepted. Properties with delinquent property taxes area also ineligible.

WHAT IS YOUR RESPONSIBILITY UNDER A MILLS ACT CONTRACT?

Mills Act Contracts are intended for property owners who are planning to rehabilitate their properties. Property tax savings under a Mills Act Contract are intended to offset the cost of the rehabilitation. In general, the total cost estimate in your Rehabilitation/Maintenance Plan should equal the approximate amount of property tax savings over the first ten year term of the contract.

Under a Mills Act Contract, you are required to return a building to its appearance during a specific historic period; however, you are required to complete work that supports the long-term preservation of the building. Examples of appropriate work items under a Mills Act Contract include seismic retrofit, re-roofing, and plumbing, electrical, and mechanical upgrades. Smaller work items and general maintenance such as window repair or painting are also



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eligible. All work must be related to the exterior or building systems. Cosmetic improvements to the interior of historic buildings, such as kitchen or bathroom renovations, are not considered eligible work items under the Mills Act Program.

All work on a property with a Mills Act Contract must be in conformance with the Secretary of the Interior's Standards. For contributors in the City's historic districts, rehabilitation also must conform with the historic preservation design principles for the historic district in which the property is located. Please familiarize yourself with the applicable historic preservation regulations prior to submitting your application.

For the Application, property owners are required to submit a description of work, timeline, and cost estimates for rehabilitation of the property during the first ten year term of the Contract (see Rehabilitation/Maintenance Plan). Please note that the Rehabilitation/Maintenance Plan is binding on all future property owners, so it should address the critical preservation needs of the property and not the personal preferences of the property owner.

HOW WILL YOUR PROPERTY TAXES CHANGE UNDER THE MILLS ACT?

Mills Act properties are re-assessed annually by the Los Angeles County Office of the Assessor to determine the Historical Property Value. The Historical Property Value is based on the property's ability to produce income. For owner-occupied property, income is based on potential rental value. For commercial, industrial and multi-family properties, income is based on actual rent rolls. The property's income less expenses is then divided by a capitalization rate to establish the Historical Property Value. Under the Mills Act, three property values are determined:

1. Base Year Value, or the purchase price under Proposition 13 with an annual 2% rate of increase
2. Fair Market Value, or the potential sale value of the property at the time of the assessment; and
3. Historical Property Value, calculated as described above.

The assessor will base property taxes on the lowest of these three value. This generally results in a significant property tax reduction unless the property already benefits from low property taxes under Proposition 13. Entering into a Mills Act Contract does not automatically guarantee a reduction in property taxes you are most likely to benefit from a Mills Act Contract if you purchased the property within the past 10 years.

WHAT ARE THE CONTRACT TERMS?

Mills Act Contracts run for a ten year term and are automatically renewed each year on the anniversary of the Contract's approval by City Council. In effect, the contract is always 10 years away from termination, unless the property owner or the City submits a notice of non-renewal. The property owner must provide written notice of non-renewal to the City at least 90 days prior to the renewal date, or another year is automatically added to the Contract. Following submittal of a notice of non-renewal, the contract will be terminated at the end of the current ten year term.