



# LOS ANGELES CITY PLANNING OFFICE OF HISTORIC RESOURCES

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## **Mills Act Historical Property Contract Program Draft Policy Updates and Ordinance Amendments March 2025**

### **Introduction**

In 2020, Los Angeles City Planning undertook a [comprehensive assessment](#) to evaluate the sustainability and equity of the City's Mills Act Historical Property Contract program. City Planning contracted with historic preservation consultant, Chattel, Inc., and subconsultant, AECOM, to conduct the assessment and prepare a report with recommendations. The assessment analyzed a variety of program components, including staffing requirements, revenue streams to support the program, data management, and the allocation of property tax savings among existing contracts to determine the geographic distribution of program participation. The assessment found that there are insufficient dedicated financial and staffing resources to effectively manage the program and an unequal distribution of program benefits across the city.

The assessment report was published in June 2022. Public workshops were held on July 21, 2022, and August 8, 2022, and a public comment period on the report findings and recommendations was extended through September 2022. On December 1, 2022, City Planning presented an update to the Cultural Heritage Commission and a review of the feedback received from current Mills Act contract holders and other members of the public.

On May 23, 2023, the Los Angeles City Council adopted a [motion](#) ([Council File No. 23-0331](#)), introduced by Councilmember Marqueece Harris-Dawson and seconded by Councilmember Paul Krekorian, directing City Planning to prepare a report with recommendations, ordinance amendments, and administrative changes to the Mills Act program, based on the assessment report and community input, for review and consideration by the Cultural Heritage Commission. The motion further directed the Cultural Heritage Commission to submit its recommendations to the City Council for its consideration.

City Planning has not accepted applications for new contracts while the program assessment and development of policy and ordinance amendment recommendations have been underway.

In consideration of the assessment report recommendations and public comments received to date, City Planning proposes the following administrative changes and amendments to the Mills Act Ordinance with the goals of long-term sustainability of the program and a more equitable distribution of program benefits throughout the city:

- Establish a mechanism to collect the approved contract maintenance fee and track fee revenues;
- Manage contract data more effectively and provide greater transparency about the program to the public;
- Implement stronger contract compliance and enforcement-related provisions;
- Encourage participation from geographically underserved communities through outreach and the prioritization of applications for new contracts for properties located in lower resource areas;

- Create more capacity in the program through the non-renewal of existing contracts based on geographic equity considerations or length of time a contract has been in effect;
- Reassess the program on a regular basis and communicate annually with contract holders to confirm contact information;
- Eliminate the program-wide annual threshold of the City's unrealized property tax revenue;
- Amend the existing program fee structure and recover administrative costs for processing non-compliant and contract cancellation cases;
- Expand participation in the program by broadening eligibility requirements to achieve a more geographically equitable distribution of benefits; and
- Refine and refocus existing eligibility criteria and priorities for new contract applications.

The implementation of these proposed changes and the ability to accept new contract applications are predicated on the allocation of the additional staffing resources required (see 'Resource Allocation').

## Background

The Mills Act Historical Property Contract program is California's and Los Angeles's leading financial incentive for historic preservation. The program consists of a contractual agreement between the City and a property owner that allows for a potential reduction in property taxes to assist in the restoration and rehabilitation of historic properties. Contracts are established for a minimum term of 10 years, are automatically renewed annually, and are transferred to new owners when a property is sold. Currently, contracts run in perpetuity.

The City's program began in 1996, and contracts were first recorded in 1997. Los Angeles has the largest program in the state and has seen increasing interest over the past 25 years. As of 2022, the City has 947 contracts<sup>1</sup> enrolled in the program including single-family, multi-family, commercial, industrial, and recreational properties. The program is administered by two staff members in City Planning's Office of Historic Resources (OHR) who dedicate less than half of their time on the Mills Act program, due to managing other programs in OHR.

The City's Mills Act Ordinance (Los Angeles Administrative Code (LAAC) Division 19, Chapter 14, hereinafter referred to as the "Ordinance") is governed by state law under California Government Code Sections 50280-50290. The state code outlines the required provisions of a contract, including a minimum term of 10 years, procedures for contract enforcement, cancellation, and non-renewal, and a requirement that each contract allow for compliance inspections to be conducted every five years. The Ordinance describes the City Council's intent to limit the City's share of uncollected property tax revenue and focus program eligibility based on Priority Consideration Criteria consisting of metrics to assess a property's need for rehabilitation; historical uniqueness; an owner's commitment to investing in the property; and the affordability and employment opportunities for multi-family and commercial properties.

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<sup>1</sup> The assessment report states that as of 2022 there are 948 contracts in the program. The December 1, 2022 Memo to the Cultural Heritage Commission and the May 23, 2023 City Council Motion list 951 contracts enrolled in the program. There were discrepancies in the data due to a lack of a database system that have now been accounted for. The confirmed number of properties in the program is 947 (note that there is a 2001 contract for one unit at the Village Green that has been superseded by the 2010 contract for the entire property).

There are fees for the Mills Act program related to new applications and ongoing contract maintenance that are outlined in Section 19.01 F. of the Los Angeles Municipal Code.

### **Program Assessment Report**

The program assessment report, dated June 2022, identified operational strengths and challenges, as well as goals, strategies, and recommendations for the Mills Act program that addressed program sustainability and program equity.

With regards to program sustainability, the assessment report highlighted that the number of Mills Act contracts has exceeded the capacity of current staff to effectively manage. There are not enough resources devoted to fee collection, inspections, and contract compliance. The program cannot continue to grow due to the constraints of limited funding and staffing; additional resources are required to properly administer the program. Additionally, the report indicated that the City's total foregone property tax revenue under the Mills Act program has reached the maximum subsidy intended by the City Council for properties included in the program.

The assessment report recommended changes to the program to potentially generate adequate revenue to support additional staffing through the collection of existing and new fees. Relatedly, the report recommended that the City track Mills Act funding through a designated revenue code. To date, the City has mostly relied on the General Fund to cover costs of administering the program, and fees collected are deposited into the Planning Case Processing Fund. In order to track revenue and fee collection and ensure that fees are directly supporting the Mills Act program, City Planning's administrative staff have created a designated revenue code tied specifically to Mills Act revenues. The use of this revenue code will help enable future tracking, financial accountability, and fiscal reporting for the Mills Act program.

Currently, the Mills Act Ordinance does not describe contract enforcement protocols: it only outlines procedures for the cancellation of a contract. Recent inspections by the City have determined that approximately 20 percent of properties in the program may not be in full compliance with their contract, however, to work more closely with property owners to bring their properties into full compliance, additional staff are required to follow-up with property owners. Therefore, the assessment report recommended that the City strengthen provisions addressing contract compliance and enforcement, as well as the expansion of staffing to include one (1) full-time Architect or City Planner, one (1) full-time City Planning Associate/Assistant, and one (1) full-time Management Analyst.

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 recommended 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 is 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 recommended prioritizing new Mills Act applications from multi-family properties and adaptive reuse projects that include affordable or rent-stabilized housing. The assessment report further suggested that safeguards against displacement and a policy of no net loss of affordable, multi-family rental housing need to be incorporated into the program.

Another goal of the program assessment was to better understand which areas of the city have benefitted the most – and the least – from the Mills Act program, in terms of participation and the allocation of property tax savings. An analysis conducted of the distribution of Mills Act financial benefits

among existing contracted properties showed that existing Mills Act contracts are disproportionately benefitting property owners in geographical areas denoted as having lower barriers to opportunity (also called Higher Opportunity areas within the City's 2021-2029 Housing Element). To ensure a more equitable distribution of Mills Act benefits across the city, the assessment report provided recommendations for enhancing program access. These recommendations were based on data from the Los Angeles City Controller's Equity Index; however, moving forward, City Planning will be aligning with the City's 2021-2029 Housing Element which uses the [California Tax Credit Allocation Committee \(CTCAC\)/California Department of Housing and Community Development \(HCD\) Opportunity Map](#) (Opportunity Map). The Opportunity Map identifies the geographic areas that score better across eight economic and educational indicators relative to other neighborhoods in the region. Therefore, throughout this document, we will refer to areas facing higher barriers to opportunity as Low Resource areas, and areas facing lower barriers to opportunity will be referred to as High and Highest Resource areas, as identified on the Opportunity Map.

## **Current Proposal**

To make the Mills Act program more sustainable and equitable, policy changes and Ordinance amendments are essential to address program capacity, fiscal sustainability, contract enforcement, and program management. These changes can also help foster the retention and preservation of affordable multi-family housing and expansion of the program in geographically underserved communities.

There are two main categories of policy changes: administrative changes that City Planning can implement and/or Ordinance amendments and resource allocations that require City Council approval, as outlined in more detail below.

### **Administrative Changes**

City Planning is proposing several changes that can be implemented without requiring Ordinance amendments. The proposed administrative changes are as follow:

#### **1. Collect Contract Maintenance Fees**

Application processing fees for new contracts are the only program fees currently collected that offset the City's costs of administering those services. Funding for the remainder of the program's services, including periodic inspections, is supported by the City's General Fund.

Although there is an approved contract maintenance fee, City Planning does not currently have a structure in place for collecting the fee once a contract has been recorded. The assessment report recommendation was for the City to establish a direct assessment with the Los Angeles County Auditor-Controller. However, after further investigation, it was determined that this was not a feasible option given the lack of an underlying authority in state law. City Planning will explore alternative options for collecting the contract maintenance fee; however, fee collection will require additional staffing resources.

As of July 1, 2024, the contract maintenance fee is \$2,924<sup>2</sup> every five years. For properties such as condominiums, which have a parcel number assigned to each individual unit, City Planning will explore assessing a fee based on the number of units on the property (see item 2 below). Collecting the contract maintenance fees would support the efforts of performing contract compliance inspections every five years, an important aspect of the program required under state law.

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<sup>2</sup> Departmental fees are subject to an annual inflation adjustment.

Contracts executed between 1997 and 2013 do not include contract provisions for fee collection. Starting in 2014, language was added to the contracts that enables fee collection, so initially, contract maintenance fees would be collected for post-2014 contracts (a total of 246 contracts).

**2. Refine existing fee schedule in Section 19.01 F. of the Los Angeles Municipal Code to address variable costs associated with the periodic inspections of different property types**

Feedback that City Planning has received from consultants conducting periodic inspections on behalf of the City indicates that substantially more time and effort is required to inspect and document larger, more complex properties in comparison to other property types. The current contract maintenance fee structure consists of one fee for all property types as mentioned above in Item 1. The proposal is to develop a two-tier contract maintenance fee structure that establishes one fee for single-family residential and multi-family residential properties with four units or fewer, and a separate fee for multi-family residential properties with five or more units, and other property types. City Planning will initiate a fee study to determine the new fee amounts that will require approval from the City Council.

**3. Amend pre-2014 Mills Act contracts to enable fee collection**

As noted in Item 1 above, contracts executed between 1997 and 2013 do not have provisions enabling collection of a contract maintenance fee. Beginning in 2014, fee collection enabling language was added to all new contracts. To treat all Mills Act contract holders consistently, City Planning will coordinate with the City Attorney's Office and the City Council to amend pre-2014 Mills Act contracts to add enabling language for fee collection.

**4. Create a database system to manage and track individual contracts**

Among the challenges to managing the program effectively include collecting, organizing, and tracking data, including fees, as well as enhancing communication with contract holders.

To manage the program, OHR currently uses a spreadsheet listing all active Mills Act contracts and some associated information. Separately, hard copy and electronic files are maintained for each property in the program. OHR also uses the Planning Case Tracking System (PCTS) to create cases and track property tax savings and the City's lost revenue per contracted property. However, PCTS is not configured to manage properties in the program, track contract compliance, or run reports. PCTS is for cases that have a specified timeline for completion, whereas the Mills Act contracts potentially run in perpetuity. The implementation of a database system will allow more efficient tracking of contract compliance, inspection dates, notifications, owner contact information, and correspondence between the City and property owners.

To more effectively manage the program, it is proposed that the City collect, manage, and track data digitally through a database system that enables program administrators to document communication, notifications, inspection records, compliance timeframes, and updated owner information. The effective management of data will make it easier to run reports and share this information publicly. City Planning will consult with the City Planning Information Technologies Division to determine a feasible database system, as well as any associated costs that would need to be appropriated by the City Council.

## **5. Maintain an online list of Mills Act properties**

To increase transparency and accountability, OHR will maintain a publicly accessible, online list of properties with a Mills Act contract.

## **6. Enhance enforcement of contract compliance**

State law mandates that municipalities inspect the interior and exterior of all properties with Mills Act contracts prior to a new contract being awarded. Mills Act contracts then provide for inspections every five years thereafter to ensure compliance.

Currently, the City relies on a mix of voluntary owner self-reporting and staff follow-up to process contract compliance after an inspection report has been issued. For those properties found to be out of compliance, owners are notified that they have 30 days to bring the property into compliance; however, depending upon the amount of work required, staff expect to be in communication with the owner to develop a plan to bring the property into compliance. A small percentage of owners may not respond and, as a result, may be considered in breach of their contract.

The City's most effective mechanism to enforce compliance is the ability to cancel a contract; cancellation results in a penalty fee amounting to 12.5 percent of the current fair market value of the property. Staff proposes to implement a more rigorous approach to contract enforcement. These measures would include additional post-inspection follow-up, coordinating meetings with owners, imposing a non-compliance penalty fee (see item 7), and in severe cases, taking legal action to enforce the contract.

In cases where unpermitted work is observed, City Planning will coordinate with the Department of Building and Safety and the Los Angeles Housing Department to investigate potential code violations and issue Orders to Comply, if appropriate.

Given the current limited staffing capacity, additional staff is needed for enhanced enforcement (see 'Resource Allocation'). New fees would be utilized to recoup the costs associated with additional contract enforcement.

## **7. Develop additional fee for contract non-compliance**

Overseeing the enforcement of contracts, particularly for non-compliant properties, utilizes staff resources that are not currently accounted for in any of the fee schedules adopted by City Council as outlined in Section 19.01 F. of the Los Angeles Municipal Code. As discussed above, the cancellation of a contract incurs a penalty fee. However, the funds are intended to reimburse the governmental agencies that lost property tax revenue under the contract and do not account for the staff time necessary for enforcement follow-up and processing contract cancellations.

There are other municipalities with Mills Act programs that currently collect or are planning to collect fees to partially recover the costs of staff time devoted to enforcement or compliance processing. These include the City of San Diego, which charges \$756 for the enforcement of Mills Act agreements when remedies for violations are sought, and the City of Long Beach, which levies a \$1,000 non-compliance fee for properties that remain in non-compliance following requests for the property to be brought into compliance with the terms of their contract. City Planning proposes to initiate a fee study that will determine the staff time required to process non-compliant properties; this will determine the fee amount that will ultimately require approval from the City Council. City Planning will also work with the City Attorney's Office to add enabling language to the standard contract.

## **8. Pursue contract cancellation for habitually noncompliant properties**

The Mills Act contract incorporates enforcement language that stipulates that in the event of a breach of the contract, the City must give written notice to the owner and if the violation(s) is/are not corrected to the reasonable satisfaction of the City within thirty (30) days thereafter, or if not corrected within such a reasonable time as may be required to cure the breach then the City may declare a default under the terms of the contract, and may bring any action necessary to specifically enforce the obligations of the contract.

As of December 2022, 16 percent of 249 inspected properties (40 properties) were preliminarily found to be out of compliance with the terms of their Mills Act contract. Of the 40 non-compliant properties, 36 have since brought their properties into compliance. Examples of contract non-compliance include missed inspections, substantial non-completion of any contract-mandated work, and properties that are in a state of disrepair.

As of June 2023, 100 additional properties were inspected; 45 of those were preliminarily found to be out of compliance with the terms of their contracts. Of these non-compliant properties, 31 were brought into compliance while 14 properties remain out of compliance as of January 2025.

In the event that the City cancels a contract, the owner is assessed a penalty fee of 12.5 percent of the current fair market value of the property by the County of Los Angeles and the City would receive a pro rata share of the fee under state law.

To date, there have been no Mills Act contract cancellations fully realized by any municipality statewide. In 2007, the City had a potential Mills Act contract cancellation at the Laurelwood Apartments in Studio City (CF 07-3645). The owner failed to complete the rehabilitation work outlined in the contract, and the City pursued compliance under the terms of the contract. The case for cancellation was heard before the Cultural Heritage Commission and the City Council's Planning and Land Use Management Committee. Ultimately, the property was brought into compliance with the contract before cancellation occurred. The City of Palo Alto and the City of Redondo Beach each had a Mills Act property that underwent contract cancellation proceedings, both of which resulted in non-renewal rather than cancellation.

Under the proposed more rigorous approach to enforcement, in situations where an owner remains unresponsive after six months of attempted communication and/or is not diligently acting to cure the breach or default, the City would declare the property in default under the terms of their Mills Act contract and pursue cancellation.

## **9. Non-renewal of Contracts**

In an effort to make the program more sustainable, the assessment report recommended limiting the number of contracts in the program. The recommendation was to amend the Mills Act Ordinance to provide a 20-year contract term limit for new contracts and to not renew existing contracts older than 10 years. Non-renewal of a contract begins a 10-year wind down during which time an owner's property tax valuation is reset to the base year or Proposition 13 value and at the end of the ten years the contract is no longer in effect.

Some existing contract holders and other members of the public voiced opposition to this recommendation, arguing that maintaining an historic property is a long-term financial commitment that should be subsidized by the Mills Act and that additional protections of a property's historic features afforded by the contract could be lost if a contract were not renewed. However, the impetus of a contract is to incentivize a scope of historic rehabilitation work to be completed over an initial 10-year period; the property tax savings is meant to offset the costs of implementing the contract-mandated work, while the

additional 10 years under potential non-renewal would provide incentives for maintenance of the rehabilitation work.

In addition, reducing the number of existing contracts in the program would free up capacity for new applications and, under the assumption that additional resources are procured, enable the program to be managed more effectively.

Below are two alternative approaches City Planning is considering to address non-renewals. One approach is to look at equity considerations related to the distribution of public resources through the use of Opportunity Map data. Another approach is to base potential non-renewals on the length of time a contract has been in effect.

### *Opportunity Map Approach*

City Planning's goal is to shift the focus of the program to facilitate equity across the city in terms of the investment of public resources. Currently, the majority of tax savings is being realized by properties located in the Opportunity Map's High and Highest Resource areas where owners generally have more means to rehabilitate and restore their historic properties. The data indicates that there are 494 properties with contracts located in the Highest and High Resource areas: this includes 214 properties in the Highest Resource areas, representing 23 percent of the program, and an additional 280 properties, or 30 percent of the program, in High Resource areas. Inversely, there are 283 properties with contracts in Low Resource areas, which make up 30 percent of the program. The remaining 17 percent are located in Moderate Resource areas.

By non-renewing contracts in the Highest and High resource areas under this approach, capacity could be freed up to expand the program in lower resource communities. Based on the Opportunity Map data, there are over 5,000 properties in the Low Resource areas that would potentially qualify for the Mills Act program under the proposed expanded eligibility criteria (see item 7 under 'Ordinance Amendments').

An additional goal is to realign a guiding principle of the program to retain and create affordable multi-family rental housing. Los Angeles is a majority renter city, with renters making up approximately 63 percent of the housing market. However, multi-family residential properties, excluding condominium buildings, represent only 23 percent of the program, totaling 217 properties. There are 59 multi-family properties with contracts in the Highest Resource areas and 60 multi-family properties with contracts in the High Resource areas, together representing 13 percent of the program. Sixty-eight percent of the program is made up of single-family residences totaling 649 contracts, with approximately 56 percent of these single-family properties being located in the Highest and High Resource areas—152 and 213 contracted properties, respectively.

Based on the assessment report findings and in order to meet equity goals, under this approach, City Planning would evaluate and pursue potential non-renewal of contracts focused on properties located in the Highest and High Resource areas, but also taking into consideration the following factors:

- length of time the contract has been in effect
- property type and number and range of affordable rental units
- completion of contract-mandated work
- additional, substantial investment required to rehabilitate the property beyond the scope of work outlined in the contract
- current amount of tax savings
- outstanding code enforcement issues



Initially, the focus of non-renewals would be on existing single-family residences with contracts located in the Highest and High Resource areas, which total 365 properties or 39 percent of all contracted properties in the program.

### *Contract Length Approach*

The Mills Act contract has historically been used by long-term owners to help offset the costs of substantial rehabilitation of their property through a reduction in property taxes. However, based on how the tax savings is calculated, the amount of savings decreases over time. Recent data from the Los Angeles County Assessor's Office confirms that many long-term property owners who have older contracts (generally 10-15 years old) are minimally saving or not receiving any benefit. In some of these cases, the cost to remain in the Mills Act program might exceed any savings.

Inversely, County Assessor data, in conjunction with recent compliance inspection results, shows that a significant number of newer owners of Mills Act properties with older contracts are saving substantially, but all of the major work identified in the contract has been completed. In these instances, the City is subsidizing the higher property taxes for new owners with no substantial investment in preservation-related work required.

Recent inspections have also shown that as property tax savings are reduced over time, some owners have fewer resources and incentives to maintain the property to the standards required by the contract.

Under the contract length approach, non-renewal of contracts would be based on the length of time that a contract has been in effect, with contracts 20 years and older being the first priority for non-renewal. However, City Planning would also take into consideration the following factors to evaluate potential non-renewals:

- completion of contract-mandated work
- current amount of tax savings
- additional, substantial investment required to rehabilitate the property beyond the scope of work outlined in the contract
- property type and number and range of affordable rental units
- outstanding code enforcement issues

Currently, there are 184 contracts that have been in effect for at least 20 years, representing 20 percent of the program. These contracts include 8 condominium properties, 61 multi-family properties, and 104 single-family properties. The remaining 11 contracts consist of 1 institutional, 1 industrial, and 9 commercial properties.

If non-renewal is implemented under either approach, City Planning would establish a list of eligible properties. City Council approval would be required to effectuate the non-renewal of a contract.

## **10. Identify dedicated equity-related funding sources and partnerships**

To provide necessary funding to do outreach in communities located in Low Resource areas as described on the Opportunity Map, City Planning will investigate potential equity-focused funding sources, as well as new partnerships with community-based organizations. City Planning will also work with Council Offices to expand outreach efforts to reach those who would not typically be aware of the Mills Act program and its benefits, particularly in geographically underserved areas.

**11. Prepare and implement a strategic outreach plan that provides education, access, and multilingual support to encourage program participation in Low Resource areas**

A multilingual and accessible outreach program is important to help educate potentially eligible property owners about historic preservation and the benefits of entering into a Mills Act contract. It also ensures that the civic engagement and outreach process is equitable.

In order to increase equity across the Mills Act program, City Planning will identify properties in Low Resource areas as described on the Opportunity Map that would potentially benefit from a Mills Act contract. Contingent upon available funding, City Planning will then develop and implement a strategic outreach plan that includes identifying key languages for translation as needed in those areas and making materials easily accessible in a variety of formats, both physically and digitally.

**12. Provide for program assessments every five years to ensure program goals are being met**

Ongoing program assessments are necessary to evaluate current policies and program efficacy, and therefore, City Planning is proposing to reassess the Mills Act program every five years. This will require budget allocations to perform the updates.

**13. Communicate annually with all Mills Act program participants to confirm contact information**

Changes in ownership pose challenges for administration of the Mills Act program, particularly for condominiums and large apartment buildings. Homeowners association board representatives and/or property management companies often change after Mills Act contract execution and contact information for purposes of periodic inspection notices and other communication is difficult to track. OHR will send out electronic and hardcopy letters to obtain updated owner contact information on an annual basis.

**Ordinance Amendments**

The proposed amendments to the Mills Act Ordinance (LAAC Division 19, Chapter 14) are as follow:

**1. Update the Mills Act Ordinance to eliminate the annual threshold of unrealized property tax revenue**

The City's unrealized revenue from the loss of property taxes not collected has exceeded the \$2,000,000 annual threshold expressed as the intent of the City Council in the Ordinance; as of 2023, the City's total unrealized property tax for all executed Mills Act contracts was \$2,702,349.

When the program was established in 1996, the City Council approved a not-to-exceed threshold of \$500,000 in unrealized City property tax revenue for all executed Mills Act contracts. In 1999, the Mills Act Ordinance was amended to increase the threshold to \$1,000,000, and in 2012, the City Council increased the threshold to \$2,000,000. To compare this foregone revenue to the City's overall property tax revenue, the gross property tax reimbursement from the County to the City was \$2,186,262,081 in 2023; the City's share of lost revenue under the Mills Act is therefore approximately 1/10th of one percent of its total property tax revenue and approximately 1/35th of one percent of overall General Fund revenue.

Most municipalities with Mills Act programs do not have an annual program-wide threshold of unrealized property tax revenue. The year-to-year changes in revenue loss are unpredictable, varying based on prevailing real estate market trends and a capitalization rate that is tied to changes in mortgage interest

rates. To allow for fiscal oversight of the program with the elimination of the annual threshold of unrealized property tax revenue, City Planning will report annually to the Cultural Heritage Commission, the Mayor, and City Council on the projected unrealized property tax revenue anticipated by new contracts.

**2. Separate pre-contract assessed value limits for multi-family buildings from commercial and industrial buildings, and increase pre-contract assessed value limits for multi-family buildings to \$10,000,000**

The Mills Act program currently limits pre-contract assessed property values to \$1.5 million for single-family residential properties and \$3 million for multi-family residential, commercial, and industrial properties.

In 2008, the assessed values for multi-family residential, commercial, and industrial properties were increased by the City Council from \$1,500,000 to \$3,000,000. As of the third quarter of 2024, the average sales price for multi-family rental properties in Los Angeles County was \$302,526 per unit.<sup>3</sup> Since multi-family property values have appreciated significantly over the years, it is necessary to increase this valuation limit in order to facilitate the inclusion of larger properties that provide affordable housing without the need for an exemption. The proposal is to separate pre-contract assessed value limits for multi-family residential properties from commercial and industrial properties and increase the multi-family valuation limit to \$10,000,000. Based on the current average price per unit, this would allow for larger multi-family properties to more easily access the program.

**3. Eliminate the current valuation exemption areas, and apply the exemption from property valuation limits to Adaptive Reuse Ordinance (ARO) projects citywide**

The pre-contract assessed property valuation limits referred to in Items 2 and 4 do not apply to properties located in Greater Downtown Los Angeles and the Figueroa Corridor Economic Strategy areas, and the Hollywood Boulevard Commercial and Entertainment National Register Historic District.

Downtown Los Angeles and Hollywood have seen significant revitalization, and acceleration of their real estate markets in the two decades since these exemptions were established. ARO properties across the city represent approximately \$750,000 of the annual threshold of unrealized property tax revenue, including \$433,000 for AROs in exemption areas, and \$315,000 for those outside of exemption areas. It is widely held that the ARO has helped transform downtown Los Angeles by creating a vibrant 24-hour community with residential and mixed-use projects utilizing rehabilitated historic buildings. ARO projects consist of both rental apartments and condominiums, and new projects have built on the success of the first ARO projects. Of the top 10 Mills Act contracts with the largest amount of property tax savings, six properties are ARO projects, all of which are condominium buildings.

The proposal is to eliminate the current valuation exemption areas, and instead apply the exemption to ARO projects citywide to reflect the recent update to the ordinance to be citywide. Properties would still be required to be designated historical resources to qualify. Expanding access to the Mills Act for ARO properties would increase interest in the development of ARO projects and result in twofold benefits to the City: creation of additional housing units and the preservation of historic buildings.

**4. Exempt properties in Low Resource areas from the assessed valuation limits citywide**

As stated in Item 2 above, the program currently limits pre-contract assessed property values at \$1.5 million for single-family residential properties and \$3 million for multi-family residential, commercial, and

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<sup>3</sup> Los Angeles County Multifamily Market Outlook Q3 2024. NAICapital. <https://www2.naicapital.com/wp-content/uploads/sites/2/LA-Multifamily-Outlook-3Q24.pdf>.

industrial properties (as per Item 2 above, it is proposed that the pre-contract assessed property value limit for multi-family properties be increased to \$10 million). An exemption to these limits requires an additional fee in the amount of \$3,355 as of July 2024, the preparation of an Historic Structure Report, and approval from the Cultural Heritage Commission based on the exemption criteria. The valuation limits do not apply to properties located in Greater Downtown Los Angeles and the Figueroa Corridor Economic Strategy areas and the Hollywood Boulevard Commercial and Entertainment National Register Historic District (as per Item 3 above, these exemption areas are proposed to be eliminated).

To remove the barrier of applying for an exemption from the pre-contract assessed valuation limits, City Planning proposes to exempt properties in Low Resource areas as described on the Opportunity Map if they are single-family properties or multi-family rental properties containing restricted affordable units where at least 40% of the total units or guest rooms are dedicated for moderate income households, or at least 20% are dedicated for low income households, or at least 11% are dedicated for very low income households, or at least 8% are dedicated for extremely low income households, for 55 or more years, where a covenant has been made with the Housing and Community Investment Department (HCIDLA). Eliminating the need for an exemption from the assessed valuation limits would potentially help increase the number of applications received from property owners in these areas.

#### **5. Add new Priority Consideration Criteria for properties in Low Resource areas**

Currently, the Mills Act Ordinance requires that an application demonstrates that the property meets a minimum of three out of five Priority Consideration Criteria to be eligible for the program: Necessity, Uniqueness, Investment, Affordability, and Employment. The proposal is to expand the Priority Consideration Criteria to include the identification of the property within Low Resource areas as indicated on the Opportunity Map.

Prioritizing applications and contract approvals in Low Resource areas would potentially increase and diversify the distribution of public benefit across the city and help improve neighborhoods in these areas through the retention and preservation of important historical resources.

#### **6. Reduce or eliminate application fees for properties located in Low Resource areas**

As of July 2024, the application fee to apply for a Mills Act Contract is \$736 and upon approval of an application, the contract execution fee is \$3,088. To encourage more applications for Mills Act contracts for properties located in Low Resource areas as described on the Opportunity Map, the proposal is to reduce or eliminate the application fees. City Planning will develop criteria for creating a fee waiver program that would require adoption by the City Council, recognizing that fee waivers would require a subsidy from the General Fund.

#### **7. Revise the eligibility requirements to include National Register- and California Register-listed properties**

To be eligible to apply for the Mills Act program, currently a property must be designated as a Los Angeles Historic-Cultural Monument (HCM) or Historic Preservation Overlay Zone (HPOZ) contributor.

To extend the financial benefits of the program to a broader reach of communities, City Planning proposes to expand the eligibility requirements to include properties listed in the National Register of Historic Places and the California Register of Historical Resources. This would align with the Mills Act enabling state legislation under California Government Code Sections 50280-50290 that identifies qualified properties as being those listed in the National Register of Historic Places or located in a registered historic district as well as properties listed in any state, city, county, or city and county official register. These properties are designated historical resources and are subject to historic preservation review under Los Angeles Municipal Code Section 91.106.4.5 (permits for Historical and Cultural

Buildings). As such, expanding the eligibility requirements would also allow for a balance of regulations and incentives to benefit historic preservation in the city.

#### **8. Prioritize applications for multi-family properties and ARO projects with affordable housing components located in Low Resource areas**

In order to better integrate a key, founding goal of the Mills Act program to retain and preserve affordable, multi-family housing as well as to ensure equity, the proposal is to prioritize applications for multi-family residential properties and ARO projects with affordable housing components located in Low Resource areas as described on the Opportunity Map. City Planning will conduct a more in-depth review of the requirement under the affordability component of the Priority Consideration Criteria on applications for new contracts to help ensure that housing stock in multi-family properties remains affordable. Additionally, City Planning will coordinate with the City Attorney's Office to add provisions for no net loss of affordable units to the standard Mills Act contract to safeguard against displacement of tenants as buildings are rehabilitated.

### **Additional Policy Considerations**

The assessment report made several other recommendations which staff are not proposing to pursue at this time. Some of the recommendations will require coordination with other City departments and/or further investigation regarding their feasibility. A couple of the recommendations to highlight are: increasing the assessed value limits for single-family properties, and further expanding the property eligibility requirements.

An additional recommendation in the assessment report was to increase the pre-contract valuation limits for single-family residences from \$1.5 million to \$2.5 million. Although values for single-family residences have increased over the past few years, this value has not exceeded \$1.5 million in Low Resource areas across the city. For instance, as of September 2024, in Southeast Los Angeles and the University Park community the typical single-family home value was \$970,127, while in Lincoln Heights the value was \$819,023.<sup>4</sup> The median prices within the two largest HPOZs were \$867,832 in Jefferson Park and \$1,035,929 in Highland Park-Garvanza.<sup>5</sup> As of September 2024, the median price of a single-family home in Los Angeles County was \$960,370.<sup>6</sup>

The assessment report further recommended expanding eligibility for the Mills Act program to include all properties identified as potentially eligible for historic designation. These include properties identified through SurveyLA, the citywide historic resources survey, Community Plan Areas, Community Plan Implementation Overlays, and Community Design Overlays. Staff are not pursuing this recommendation at this time as it may diminish the overall effectiveness of the formal registration programs at the local, state, and national levels and it runs counter to the state Government Code provision (Section 50280.1), which ties program eligibility to formal listing in a national, state, or local historic register.

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<sup>4</sup> Typical Home Values - Single Family Residences: By Los Angeles County Zip Codes, Years 2019-2024. Los Angeles Almanac. <https://www.laalmanac.com/economy/ec37b.php>. Accessed October 2024.

<sup>5</sup> Ibid.

<sup>6</sup> Median Home Prices Southern California: Existing Detached Homes by County, 1990-2024. Los Angeles Almanac. <https://www.laalmanac.com/economy/ec37.php>. Accessed October 2024.

## Resource Allocation

Due to the substantial increase in the number of contracts over the past two decades, the program has grown beyond the capacity of existing City staff to properly manage. The number of contracts has grown exponentially with no increase in staffing or resources. Existing staffing consists of two staff members who have many other responsibilities, as well as contract staff who perform inspections. The program is also minimally supported by an administrative staff member who processes fees and creates case files.

To effectively manage the current number of contracts in the program, the estimated required annual staff time equates to 10,840 hours. Given that one full-time staff member's time amounts to approximately 2,000 hours per year, current staffing is insufficient to cover the requirements for managing the Mills Act program. Based on the assumption that contract staff continue to carry out inspections, the time estimates demonstrate that three full-time staff are necessary for management of the program. If City staff assumed all inspection responsibilities, the program would need five full-time staff. Alternatively, if full-time City staffing dedicated to the Mills Act program is not secured, dependence on contract staff will need to be increased in order to perform all services necessary to effectively manage the program and be in compliance with state law.

Additional staffing and budget allocations are required to implement all of the proposed policy changes and enable the goal of re-opening the program for new contract applications. These include funding for the development of a comprehensive database system to manage contracts, a strategic outreach plan, and completing program assessment updates every five years. Requests for these items will occur as the budget amounts are developed.

City Planning's proposal for the Mayor's and City Council's consideration is to:

### **Expand staffing to include 1 full-time Architect or City Planner, 1 full-time City Planning Associate/Assistant, and 1 full-time Management Analyst**

The Architect or City Planner would be the Historical Property Contracts Manager for the City and would review and approve all matters pertaining to the program. The Architect or City Planner would supervise the City Planning Associate/Assistant and the Management Analyst.

The City Planning Associate/Assistant would coordinate the annual workshop for prospective applicants; prepare materials for the yearly application cycle; review and process new contract applications; process appeal and exemption cases; respond to inquiries from existing contract holders and the general public; and review projects for potential and existing Mills Act properties.

Additional staff at the level of Management Analyst would provide necessary support to the Historical Property Contracts Manager and City Planning Associate/Assistant in administration of the program, including fiscal and administrative tracking; coordination with the Los Angeles County Assessor and Los Angeles County Treasurer and Tax Collector to track revenue; mailing correspondence to owners; regularly updating databases and running financial analysis reports; managing logistics of inspections; coordinating Mills Act related tasks with various City departments and Council Districts; and managing both the physical documents and digital data related to the program.

Existing and proposed fee revenues for the Mills Act program will help support the increased staffing. Future staffing allocations would be directly tied to increases in the number of contracts in the program.