



Mills Act

Overview

The Mills Act was adopted in 1974 and has been available in Santa Monica since 1992. *It provides for a reduction in property taxes for designated historic landmarks as financial compensation for the upkeep, restoration and rehabilitation of the landmark.*

Under the Mills Act, property owners enter into preservation contracts with the city. In exchange for property tax relief, the contract requires the owner to commit to a *restoration and maintenance work plan*, developed through an evaluation by an architect. The original contract term is 10 years, automatically renewing indefinitely.

Periodic inspections of Mills Act properties by city staff ensure that the work plan is being followed.

The contract remains in effect for the property even if it changes ownership. The tax savings serves as an incentive for buyers in the real estate market.

Completed applications submitted to city staff by August 15th annually can be processed and recorded in time for the following year's tax bill.

How Property Taxes are Reduced.

Usually, property taxes are a set percentage of the market value, or purchase price, of a property. When applying the Mills Act, the county reassesses property taxes based on a property's ability to produce rental income. If it is owner-occupied, a rental value is determined based on comparable properties in the area. A capitalization rate determines a fair value based on the income stream. This will be the new assessed property value to be taxed.

SAMPLE MILLS ACT CALCULATION

Value

market value	net annual income
\$1,000,000	\$3500/mo = \$42,000/yr

Capitalization Rate

mortgage rate: 5%	+	property risk component: 2%	+	tax rate: 1%	+	20 year life 5%
= 13%						

New Assessed Value

$\$42,000 \div 13\% = \$546,000$

current property tax: \$10,000
mills act property tax: \$5,460

TOTAL TAX SAVINGS: \$4540
(45.4% savings)

Who Benefits the Most?

Properties that have been recently purchased with high property tax valuations will benefit more than those that have not changed hands and are thus already taxed at a low rate. Properties that have sold within the last 10 years are likely to see the greatest tax reductions. The Mills Act Contract Program does not guarantee a reduction amount for any property.

A Mills Act Valuation Notice is sent annually to the property owner and the city, analyzing three components of the property: the Base-Year Value (original purchase price of current owner), the Fair Market Value and the Mills Act Value. The Assessor is obligated to base the property tax levy on the lowest of the three components.

What's in a Mills Act Work Plan?

A Mills Act work plan is a 10-year restoration and maintenance schedule prepared by a certified architect hired by the owner. A Mills Act Contract regulates only exterior restoration, rehabilitation and general maintenance of your property but interior work is often included in the plan as well. The plan starts with a narrative that describes all periodic and ongoing maintenance needs of the structure including plumbing, electrical, roofing and structural systems. This is followed by a table showing the cost estimate of each activity by year.

Mills Act

The Mills Act is a state program that allows for a significant reduction in property taxes for designated historic landmarks whose owners are committed to restoring and rehabilitating their buildings.

The City of Santa Monica participates in this program. Over half of the city's landmarks are already taking advantage of it.

The Mills Act applies to both residential and commercial properties, both owner-occupied and income-producing properties.

Source of Authority

Constitutional authority to provide property tax relief for historic properties (CA Constitutional article XIII-8). Historic property contracts (CA Govt. code 50280-50289).

Reassessment of property subject to a Mills Act contract (CA Revenue and Tax Code 439-439.4).

County assessor is directed by state law to adjust value of property downward to reflect restrictions placed on property.

To learn more:

<http://www01.smgov.net/planning/planningcomm/millsact.html>

City Planning: 310-458-8341

Other publications in this series

[Historic Resources Inventory](#)

[Landmarks & Historic Districts](#)

[California Historic Building Code](#)

Sample Mills Act Work Plan

Year	Task	Estimate
2010-11	Seismic anchor bolting	\$16,000
2010-11	Framing beneath house - repair damaged members	\$22,000
2011-12	Exterior siding - replace rotted boards and casings	\$32,000
2011-12	Add insulation	\$4,000
2011-12	Paint exterior	\$18,000
2013-14	Repair masonry - repoint, replace broken bricks	\$15,000
2013-14	Repair or replace window in entry vestibule	\$28,000
2013-14	Improve landscape drainage	\$12,000
2013-14	Replace landscaping	\$9,000
2014-15	Upgrade mechanical (HVAC)	\$8,000
2015-16	Replace/repair rear porch	\$10,000
2015-16	Replace non-original window on east side	\$4,000
2017-18	Grade earth away from foundation beneath house	\$8,000
2017-18	Remove abandoned electrical components	included above
2017-18	Remove abandoned plumbing components	included above
2019-20	Replace firebox, flue and flue framing for fireplace	\$18,000
	Total	\$204,000

The City of Santa Monica



Mills Act



Potential savings on annual property taxes for Historic Landmarks.