Mills Act - General Information

Q: How does the Mills Act benefit Owners of Historical Properties?

A: Owners of historic buildings *may* qualify for property tax relief if they pledge to rehabilitate and maintain the historical and architectural character of their properties for at least a ten-year period. The Mills Act program is especially beneficial for recent buyers of historic properties and for current owners of historic buildings who have made major improvements to their properties.

Mills Act participants *may* realize substantial property tax savings of between 40% and 60% each year for newly improved or purchased older properties because valuations of Mills Act properties are determined by the Income Approach to Value rather than by the standard Market Approach to Value. The income approach, divided by a capitalization rate, determines the assessed value of the property. In general, the income of an owner-occupied property is based on comparable rents for similar properties in the area, while the income amount on a commercial property is based on actual rent received. Because rental values vary from area to area, actual property savings vary from county to county. In addition, as County Assessors are required to assess all properties annually, Mills Act properties may realize slight increases in property taxes each year.

Q: ***My property or a property I am considering buying, is already under a Mills Act contract. What does that mean to me as a property owner?***

A: Mills Act contracts are for 10 years initially with automatic yearly extensions and stay with the property when transferred. Subsequent owners are bound by the contract and have the same rights and obligations as the original owner who entered into the contract. Because the local government and the property owner negotiate other specific terms of the contract, you need to contact your local government to determine the rights and obligations a Mills Act contract creates.

Change in Ownership When a property subject to a historical property contract undergoes a change in ownership, a new base year value should be established for the property as of the date of change in ownership, as provided in section 110.1. Typically, a restricted historical property's base year value will be greater than its restricted value determined under section 439.2 and hence will not be enrolled as the property's taxable value. However, the establishment of a new base year value enables the assessor to perform the three-way value comparison prescribed by section 439.2(d) and described above. The establishment of a base year value is also necessary in order to calculate the assessed values of historical property should the historical property agreement enter nonrenewal status.

The Mills Act was enacted in 1972. Its provisions are found in sections 50280 -- 50290 of the California Government Code and sections 439 -- 439.4 of the California Revenue and Taxation Code. The Act has been called "the single most important economic incentive program in California for the restoration and preservation of qualified historic buildings by private property owners." What it does is to give participating local governments "the authority to enter into contracts with owners of qualified historic properties who actively participate in the restoration and maintenance of their historic properties while receiving property tax relief."

Under the Mills Act a local jurisdiction may enter into an "Historic Property Preservation Agreement" (HPPA) with owners of historic properties whereby those owners agree "to preserve and maintain the Historic Property and its character-defining features". In return for the owners' pledge, the local jurisdiction agrees that the property's assessed value will be determined by the procedures set out in the tax code.

The Mills Act method of determining a property's assessed value is based on an income approach. It will use actual rents or, in the case of a non-rented property, market-based projected rents. A capitalization rate is computed according to a formula that is distinctive to the Mills Act.

Generally, the valuation of a property based on a Mills Act calculation will be much lower than valuing the property on the basis of purchase price or comparable sales. It is not uncommon for a Mills Act valuation to be 50% or more lower than it would be by using those standard methods. This, then, results in a comparable reduction in property tax.

The Mills Act assessment value is reviewed each year. It can change based on changes of its component factors (e.g. interest rates or projected rents).

The HPPA has a ten-year term. Unless the owner has filed a notice of non-renewal, each year it automatically adds on a one-year extension, thus continuing the ten-year term.

Prior to entering into the agreement, the jurisdiction and owner will have agreed on any restoration work needed, and a time frame by which it is to be completed. There is a significant financial penalty if the owner fails to maintain the property according to the terms of the agreement.

An important point to note is that the terms of the agreement "run with the land." If a property under the Mills Act is sold, the new owner will have the same rights and obligations as did the former owner. Moreover, a new owner will benefit from the assessed valuation received by the original owner.

Not every California city or county participates in the Mills Act program. That must be determined locally. Any property listed on a Federal, State, county, or city register will qualify for the Mills Act program. The property may be commercial or residential, leased or owner occupied.

Not everyone who owns qualifying property will want to participate in a Mills Act program, but it is certainly worth investigating.

How much will I save on my property taxes?

The amount you save will depend on your property's location, size and comparable rents in the area. The value continues to be assessed by the County Tax Assessor's office(link is external) using a formula and procedures contained in state law. Property tax reductions result when the property tax amount that is based on the Mills Act value is compared to the previous property tax amount. The savings vary from property to property, and have ranged from 20% to 70% based on the County Tax Assessor's property valuations in accordance with the state law formula. Properties that have been under the same ownership for a long time (e.g., pre-Prop. 13), where the property taxes are already low compared to homes sold at the peak of the market, will most likely not benefit from the Mills Act.