

**CITY OF TEMECULA
AGENDA REPORT**

TO: City Manager/City Council

FROM: Luke Watson, Director of Community Development

DATE: August 27, 2019

SUBJECT: Approve a Resolution Adopting the Mills Act Program (At the Request of Mayor Pro Tempore Stewart)

PREPARED BY: Lynn Kelly-Lehner, Principal Management Analyst

RECOMMENDATION: That the City Council:

1. Adopt a resolution entitled:

RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF TEMECULA ESTABLISHING A MILLS ACT PROGRAM INCLUDING DEVELOPMENT OF AN APPLICATION PROCESS, AND REQUIRED CONTRACT PROVISIONS FOR IMPLEMENTATION OF THE ACT AND MAKING THE DETERMINATION THAT THE PROPOSED PROJECT IS EXEMPT FROM FURTHER ENVIRONMENTAL REVIEW UNDER THE CALIFORNIA ENVIRONMENTAL QUALITY ACT (LONG RANGE PLANNING PROJECT NO. LR16-1483)

2. Direct staff to draft an agreement, for future Council consideration, with the Temecula Valley Historic Society to act in an advisory capacity for the Mills Act Program;
3. Direct staff to conduct a fee study of the Mills Act Program for consideration at a future date.

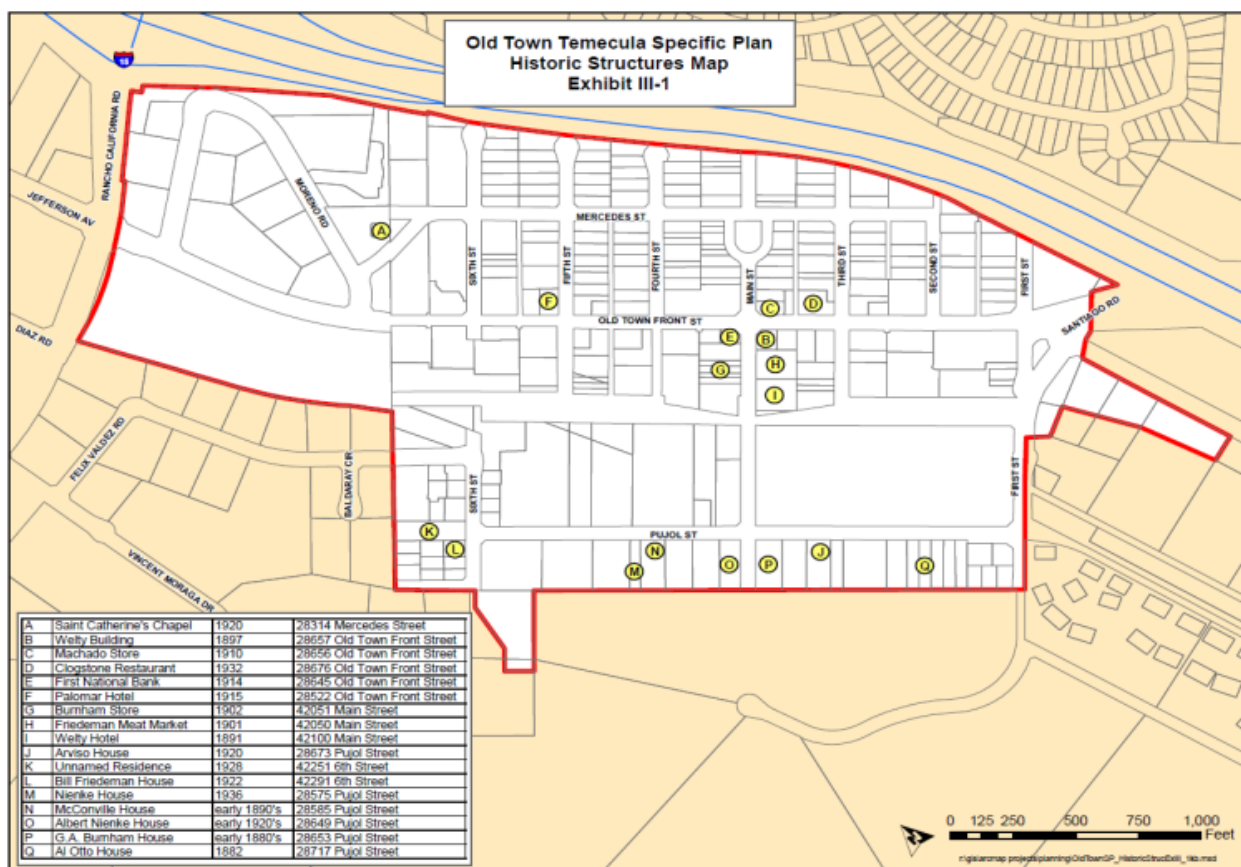
BACKGROUND: The Mills Act is an economic incentive program in California for the restoration and preservation of qualified historic buildings by private property owners. Implemented by the State in 1972, Mills Act legislation grants participating local governments the authority to enter into contracts with owners of qualified historic properties who actively participate in the rehabilitation, restoration, preservation, and maintenance of their historic properties. Since the costs of doing so can be prohibitive, property tax relief may offset these costs.

A Mills Act Program can preserve the City's historic and cultural resources and enrich the sense of place and understanding of City's history.

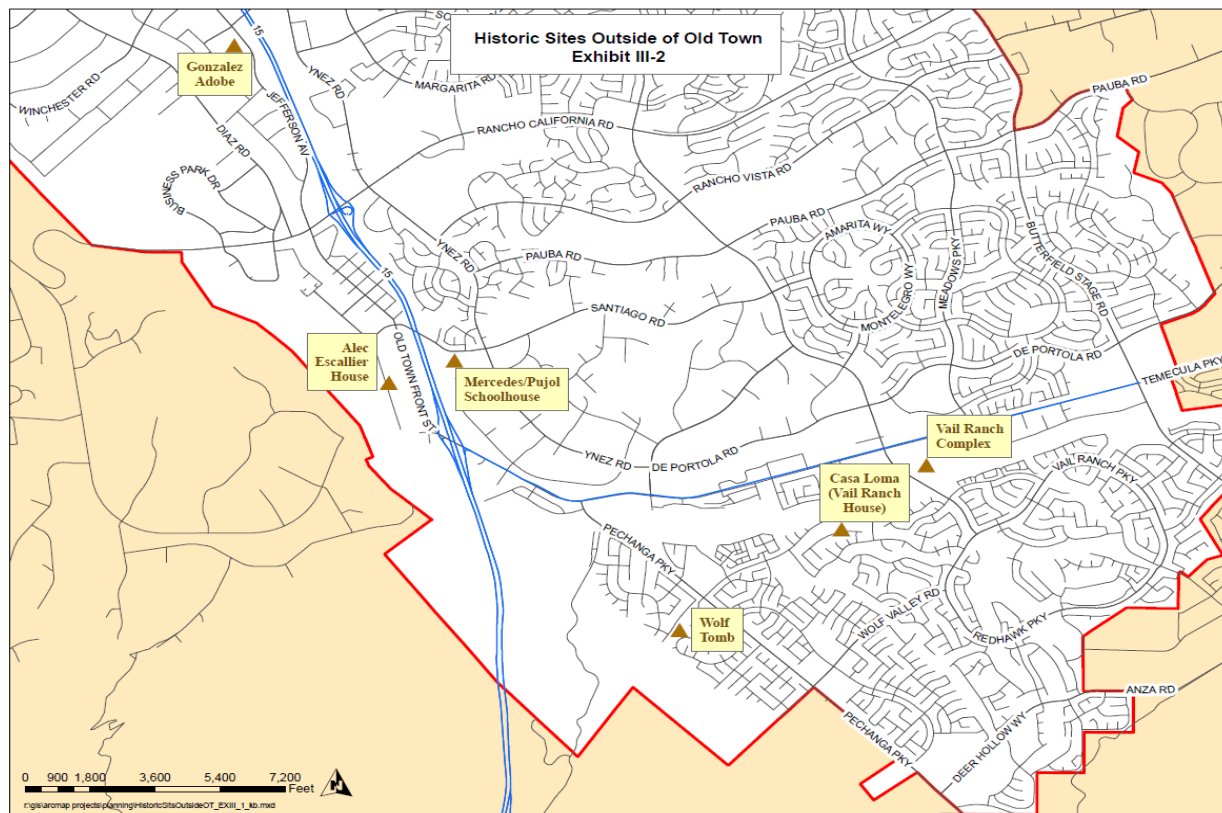
The Strategic Fiscal Planning Ad Hoc Subcommittee, consisting of Mayor Pro Tem Stewart and Council Member Edwards, met with representatives of the Temecula Valley Historical Society on May 14, 2019 to discuss the parameters of the proposed Mills Act Program. (Council Member Edwards abstained from the item, due to a potential conflict of interest.) The Historical Society is supportive of the program, and has agreed to act in only advisory capacity to the City and Mills Act Program participants.

Eligibility Requirements

To qualify for the Mills Act Program, a building must first be designated by the City of Temecula as a historic structure in the Temecula Local Historic Preservation District. The exhibit below, which is referenced in the Old Town Temecula Specific Plan, demonstrates the historic structures within Old Town that are eligible for the Program.



In addition, there are several properties outside of Old Town that would qualify for the Program as seen in the following exhibit.



Properties with outstanding code violations or delinquent taxes are not eligible for the Program.

Eligible Rehabilitation

Once a property has been designated on the City's Temecula Local Historic Preservation District, and has applied for participation in the Mills Act Program, it is subject to the rules and regulations of the Office of Historic Preservation of the Department of Parks and Recreation, the U.S. Secretary of the Interior's Standards for Rehabilitation, and the Historic Building Code. The owner must protect, maintain, and rehabilitate the property for the length of the contract.

Work performed on the property (interior, exterior, and grounds) must meet all City requirements and comply with the Secretary of the Interior's Standards for Rehabilitation. A Ten Year Property Improvement Plan is required as part of the application and will be evaluated by the City. Property owners will be required to consult with the Temecula Valley Historical Society for the development of the Ten Year Property Improvement Plan.

The applicant must obtain all required permits for rehabilitation work.

Terms of a Historical Property Preservation Agreement

Participants of the Mills Act Program must enter into a historical property preservation agreement (Preservation Agreement) with the City. Specific terms of the Preservation Agreement may be negotiated with each property owner, but general terms for the Program are outlined below.

Duration: According to State law, a Preservation Agreement has a minimum term of ten years. An Agreement is renewed automatically each year on its anniversary date, effectively in perpetuity. Preservation Agreements are transferred to new owners when the property is sold. The new owner would also receive the full benefit of the Agreement, as the Agreement is attached to the property.

Termination: The property owner may terminate the Preservation Agreement by notifying the City at least ninety (90) days prior to the annual renewal date. The City may terminate the contract by notifying the owner at least sixty (60) days prior to the renewal date. Either the property owner or the City may elect not to renew for any reason. The effect of non-renewal is to terminate the Agreement at the end of the current ten-year term.

If an Agreement is terminated prior to the end of its term, the property taxes increase gradually to the pre-Mills Act Program level.

Rehabilitation of a Property: Work performed on the property (interior, exterior, and grounds) must meet all City requirements and comply with the Secretary of the Interior's Standards for Rehabilitation. A Ten Year Property Improvement Plan is required as part of the application and will be evaluated by the City.

Failure to rehabilitate the property may cause cancellation of the Preservation Agreement and a penalty equaling 12.5% of fair market value, according to the California Government Code.

Annual Reports: Property owners are required to submit an annual report to the City indicating work completed, per the Ten Year Property Improvement Plan. The report should include copies of receipts and building permits where applicable.

Inspections: City staff will conduct a property inspection prior to entering into a Preservation Agreement with the property owner. Conditions not conforming to the Secretary of the Interior's Standards for Rehabilitation may be required to be brought into compliance before an Agreement is executed.

City staff will conduct property inspections at a minimum of every five years to examine the progress made towards the Ten Year Property Improvement Plan. Depending on the nature of the rehabilitation, inspections may also be required by the County Assessor, State Office of Historic Preservation, or the State Board of Equalization.

Transfer of Ownership: A Preservation Agreement is attached to the property. Subsequent owners are bound by the terms and conditions of the Agreement, and obligated to complete any work identified in the Ten Year Property Improvement Plan and perform required maintenance.

It is incumbent upon the seller of a Mills Act property to disclose the Preservation Agreement to potential buyers. For example, if an owner completes some of the mandated work in the first five years and then sells the property, the new buyer would have five years to complete the rehabilitation or restoration of the property.

Administration of the Mills Act Program

The Community Development Department will administer the Mills Act Program for the City. Proposed Preservation Agreements and Ten Year Property Improvement Plans will be reviewed by the Old Town Local Review Board for recommended approval to the City Council.

The County Assessor records executed Mills Act documents with the County Recorder before December 31 of the applicable calendar year. After recordation, the City transmits Agreement documents to the Riverside County Assessor where the calculation for the exact property tax under the Mills Act is completed.

Within six months of entering into a Preservation Agreement, the property owner must submit written notice to the State Office of Historic Preservation. This notification states that the property owner has entered into a Preservation Agreement. The Office of Historic Preservation is not a signatory to Mills Act contracts.

ENVIRONMENTAL DETERMINATION:

The program is being requested to administer a Mills Act program in the City, consistent with the General Plan. The Mills Act Program is intended to propose the rehabilitation and maintenance of historic properties, thereby ensuring protection of the environment. Section 6. Pursuant to the requirements of the California Environmental Quality Act (CEQA), the City environmentally evaluated the establishment of a Mills Act Program. The Mills Act Program establishes a property tax reduction for property owners that rehabilitate, restore, maintain, and preserve properties that are determined to be of historic significance. The establishment of a Mills Act Program does not authorize any new development or construction of buildings, nor does it authorize any new land uses. The program encourages the continued use of existing structures and the continuance of existing land uses. For these reasons, it can be seen with certainty that the Mills Act Program will not result in any significant adverse impact on the environment. Thus, the establishment of the Program is exempt from the CEQA environmental review requirements pursuant to Section 15061(b)(3) of Title 14 of the California Code of Regulations ("CEQA Guidelines"). Further, the Mills Act Program is categorically exempt from environmental review pursuant to section 15331 of the CEQA Guidelines, which exempts projects limited to maintenance, repair, stabilization, rehabilitation, restoration, preservation, conservation or reconstruction of historical resources in a manner consistent with the Secretary of the Interior's Standards for the Treatment of Historic Properties with Guidelines for Preserving, Rehabilitating, Restoring, and Reconstructing Historic Buildings in that it is a program that encourage the preservation and maintenance of historic resources in exchange for property tax reductions. In addition, the Program is categorically exempt from CEQA, pursuant to CEQA Guidelines Section 15308 because it is an action by a regulatory agency (the City) to maintain, restore and protect the environment through protection of historical resources in the community and does not authorize construction or relaxed standards that would degrade the environment.

FISCAL IMPACT:

Because the new assessed property tax is calculated by the County Assessor, it is difficult to determine the exact impact on the City's General Fund. An analysis of property tax revenues for eligible properties estimates that the maximum loss of property tax revenue to the City's General Fund of \$6,709 annually as demonstrated below.

APN	Historic Structure Name	Address	Secured Net Taxable Value	
918-381-010	Wolf Tomb	45334 MAGUEY CT	\$	11.00
921-070-034	Saint Catherine's Church	28314 MERCEDES ST	\$	-
921-480-058	Gonzoles Adobe	27645 JEFFERSON AVE	\$	5,473,449.00
922-024-009	Palomar Hotel	28522 OLD TOWN FRONT ST	\$	379,603.00
922-036-011	First National Bank	28645 OLD TOWN FRONT ST	\$	1,428,000.00
922-036-034	Burnham Store	42049 MAIN ST	\$	83,031.00
922-036-041	Burnham Store	42049 MAIN ST	\$	1.00
922-044-009	Clogstone	28676 OLD TOWN FRONT ST	\$	373,857.00
922-044-025	Machado Store	28656 FRONT ST	\$	764,925.00
922-045-019	Friedeman Meat Market	42050 MAIN ST	\$	1,530,706.00
922-045-020	Welty Hotel	42100 MAIN ST	\$	1,362,581.00
922-045-025	Welty Building	28657 FRONT ST	\$	512,060.00
922-052-009	Unnamed Residence	42251 6TH ST	\$	450,000.00
922-052-026	Bill Friedeman House	42291 6TH ST	\$	199,788.00
922-054-009	Nienke House	28575 PUJOL ST	\$	24,057.00
922-054-010	McConville House	28585 PUJOL ST	\$	453,772.00
922-054-024	Albert Nienke House	28639 PUJOL ST	\$	-
922-062-001	G. A. Burnham House	28653 PUJOL ST	\$	66,796.00
922-062-008	Al Otto House	28717 PUJOL ST	\$	16,096.00
922-130-016	Mercedes/Pujol Schoolhouse	29825 SANTIAGO RD	\$	-
960-010-044	Vail Ranch Headquarters Complex	32115 TEMECULA PKWY	\$	-
961-102-027	Vail Ranch House	31658 VIA SAN CARLOS	\$	800,000.00
			Total	\$ 13,918,733.00
			Property Tax Revenue @ 1%	\$ 139,187.33
			Temecula General Fund Share @ 4.82%	\$ 6,708.83

After a review of other communities that administer Mills Act programs, staff found that application fees for the Program range from approximately \$300 to \$3,000. It is recommended that staff complete a full analysis for the fiscal impact of the Mills Act Program and bring to the City Council at a future date for consideration.

ATTACHMENTS: Resolution