



Staff Report

DATE: February 10, 2025
 TO: MAYOR AND CITY COUNCIL
 FROM: MICHAEL BLAY, CITY MANAGER
 PREPARED BY: ROBERT D. DALQUEST, DEVELOPMENT SERVICES DIRECTOR
 ANDREW R. ARELLANO, ASSISTANT PLANNER
 SUBJECT: CONSIDER APPROVAL OF A 2025 MILLS ACT CONTRACT FOR AN HISTORIC PROPERTY LOCATED AT 506 N. EIGHTH AVENUE

RECOMMENDED ACTION:

It is recommended that the City Council approve the Mills Act contract for one historic property located at 506 N. Eighth Avenue and authorize the City Manager to execute the documents.

GOAL STATEMENT

The proposed action supports the City's efforts to preserve, protect and restore the sites, structures and districts which have architectural and historical significance to the City of Upland.

BACKGROUND

On May 24, 1993, the City Council adopted Upland's Historic Preservation Ordinance (Ordinance No. 1580), which contains citywide policies and procedures for historic preservation. The Historic Preservation Ordinance (UMC Chapter 17.26) promotes the use of appropriate preservation incentives to encourage property owners to maintain their cultural resources through preservation incentives, such as a Mills Act contracts.

The Mills Act, adopted as State Law in 1972 and codified under California Revenue and Taxation Code Section 439, created an alternative method for determining assessed value for certain qualified historic properties. This legislation allows owners of properties listed on Upland's Local Register of Historic Places to obtain a reduction of property taxes in exchange for preserving or rehabilitating their properties. The Mills Act process involves the County Tax Assessor's re-evaluation of property values using the income/capitalization method rather than calculating market value of the properties. This method is calculated by determining what the property could reasonably be expected to yield or produce and divided by a capitalization rate. The Mills Act process could save a property owner an average of 40 percent on their property taxes for approved properties.

Each historical property within the City has been assigned a National Register of Historical Places eligibility code to determine the level of significance and potential for listing on the local, state, or national level. See Table 1 -Eligibility Codes.

Table 1 – Eligibility Codes

| | |
|-----------|---|
| 1 | Listed on the National Register. |
| 2 | Determined eligible for listing in the National Register in a formal process. |
| 3 | Appears individually eligible for listing in the National Register in the judgment of the person completing or reviewing the inventory. |
| 3D | Appears eligible for listing only as a contributor to a potential National Register District. |
| 4 | May become individually eligible for listing in the National Register when: <ul style="list-style-type: none"> • More architectural or historical research is performed; • The property is restored to an earlier appearance; • More significant examples of the property's architectural style are demolished; or • The property becomes old enough to meet the Register's 50 year requirement. |

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|------------|--|
| 4D | May become individually eligible for listing in the National Register (as above) only as a contributor to a district. |
| 5 | Is individually listed or is eligible for listing under a local preservation landmark ordinance. |
| 5D | Is listed or eligible for listing as a contributor to a locally designated district or preservation area. |
| 5S3 | Is not eligible for separate listing under an existing or likely local ordinance, but is eligible for special consideration in the planning process. |
| 5D3 | Is a contributor to a district that is unlikely to be designated as a local district, but is eligible for special consideration in the planning process. |
| 6 | None of the Above/Not eligible. |

To be eligible for a Mills Act contract, a property must be on the City’s Local Register of Historic Places and be rated at least a 5D. There are currently 589 properties listed on the City’s Local Register of Historic Places of which 182 properties have Mills Act contracts.

ISSUES AND ANALYSIS

As shown in Table 2 below, the property owner of the subject historic property is requesting the City Council’s authorization to enter into a Mills Act contract for their historic property.

Table 2 – Properties

| Application | Applicant | Address | APN | District | Year Built | Code | Local Register |
|--------------------|------------------|----------------------|-------------|---------------------------------|-------------------|-------------|-----------------------|
| MA-24-0001 | Diana Sjol | 506 N. Eighth Avenue | 1046-212-01 | Pleasant View Historic District | 1913 | 5D | 5/28/03 |

In return for lower property taxes, the property owners must commit to restoring and/or rehabilitating their property over a ten-year period. These improvements include restoring or replacing both the interior and exterior elements of the property such as roofs, floors, windows, exterior and interior paint, siding, landscaping, and fencing. A list of specific improvements for each of the properties is attached to each contract. The proposed improvements meet the following requirements:

- Improvements should meet or exceed the annual savings in tax dollars to the property owners;
- At least one of the improvements is to be completed annually over the ten-year duration of the contract.

The proposed Mills Act contract includes the following general provisions:

- A ten-year duration with automatic renewal on an annual basis unless notice of non-renewal is filed by the property owner or the City.
- Requirements for restoration improvements or preservation of the property over a minimum ten-year period.
- Transferable with no re-assessment of the property upon sale.
- Cancellation provisions by the City, if the contract terms are breached.
- A penalty of 12.5% of full property value, assessed to the property owner for early cancellation.

The Mills Act contract remains with the property and would keep taxes at a reduced rate for the benefit of a future owner. Therefore, the Mills Act is a good selling point for future buyers, due to the prospect of lower property taxes.

All of these provisions are implemented to provide an incentive-based program to assist in the continuing improvement of Upland’s historic districts and resources. This program is consistent with Community Character Element Goal CC-9 of the General Plan. Attached, please find a Standard Mills Act Contract, which has been reviewed and approved by the City Attorney and the proposed Mills Act improvement list.

Work Plan/Improvement List

A 10-year work plan has been included in Exhibit C of Attachment A (Draft Mills Act Agreement). Over the 10-year work plan, the applicant will take on major projects which will aid in the repair, maintenance, restoration, and long-

term use of the historic structure. These projects include: a complete re-roof and installation of weather proofing material; repainting of the exterior of the dwelling to cover and protect exterior materials from the elements; restoration of the front porch by removing floor tiles that were historically inappropriate for the period of significance and architectural style of the home and had sustained serious damage over time and restoring the original concrete flooring beneath; repairing of drain pipes; and the replacement of galvanized water pipes with updated piping to prevent water leaks that could lead to structural damage.

The property owner will also be required to ensure all work follows the Secretary of the Interior’s Standards for the Treatment of Historic Buildings, for Rehabilitation, as included in Exhibit C of Attachment A.

Lastly, staff has worked with Upland Heritage to review and provide input on the Mills Act contract’s work plan. Upland Heritage has provided a written letter of support for the Mills Act contract, which as been included as Attachment B.

ENVIRONMENTAL DETERMINATION

The project is exempt from review under the California Environmental Quality Act ("CEQA") (California Public Resources Code Section 21000, et seq.), pursuant to State CEQA Regulation §15061(b)(3) (14 Cal. Code Regs. § 15061(b)(3)), the commonsense exemption covering activities with no possibility of having a significant effect on the environment because the action only approves of the Mills Act Agreement, which does not include any physical changes to the environment. Future improvements to the properties outlined in the Mills Act Agreements will be reviewed on a case-by-case basis, which will include a CEQA determination at the time of review and approval.

FISCAL IMPACTS

The City of Upland receives approximately 9.35% of the 1% ad valorem tax levied by the County of San Bernardino Tax Assessor. As shown Table 3 below, the San Bernardino County Tax Assessor’s estimates of annual tax savings for the historic property and the estimated annual reduction in property tax revenue to the City.

Table 3 - Taxes

| Address | APN | Approximate Total Tax Reduction | Approximate Annual Loss to Upland |
|----------------------|-------------|--|--|
| 506 N. Eighth Avenue | 1046-212-01 | \$2,479 | \$232 |

As shown above, with approval of the proposed Mills Act Contract the reduction in City property tax revenue will be approximately \$232. The annual reduction will change from year to year as property valuations are reassessed due to fluctuations in the market, or if the property becomes for rent which are assessed at a higher tax rate. On average, the County Assessor estimates that the average increase in property valuation is 2% per year; the most allowed under Proposition 13. The property is estimated to be reassessed in 2025, with the tax relief for the property owners reflected on the fall 2025 property tax bills.

The total approximate fiscal impact of all existing Mills Act contract on the City’s revenue was also analyzed. To estimate the annual property tax reduction associated with the existing contracts, staff used an average of \$2,150 per property per year. Because the City of Upland only receives \$0.0935 for every dollar of property tax collected, the average loss of revenue per property is estimated at \$201.00. Currently, a total of 182 properties have active Mills Act Contracts which result in an approximate total loss of \$36,585 in property tax revenue for the City per year. The approval of the application this year would bring the annual total of lost revenue to approximately \$36,817.

As noted in the previous section, it is mandated that tax dollars saved by the property owners is to be reinvested into the property for the completion of specific improvements included in the Standard Residential Mills Act Contract. The estimated tax losses are expected to be offset by the overall enhancement, stabilization, and increased value of the surrounding properties, which could otherwise age and become a potential blight to the City.

ALTERNATIVES

1. The City Council could deny the Mills Act contract for the property. This would save the City approximately \$232.00 per year in lost property tax revenue, however this alternative is not consistent with the City's goal of promoting historic preservation. Also, the proposed improvements to the historic homes and buildings have much greater value to those properties, as well as the neighborhoods in which they are located.
2. Provide alternative direction to staff.

CEQA: Determined to be Exempt pursuant to Section 15061(b)(3)