

CITY OF OAKLAND
AGENDA REPORT

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2009 DEC -3 PM 6:21

TO: Office of the City Administrator
ATTN: Dan Lindheim
FROM: Community and Economic Development Agency
DATE: December 8, 2009

RE: **A Supplemental Report for a Public Hearing regarding:**

(A) City Resolution To Approve Eleven Mills Act Contracts Between The City Of Oakland And The Following Properties: 1782 8th Street, 227 John Street, 1225 12th Street, 2429 13th Avenue, 1024 Adeline Street, 614 Haddon Road, 712-716 Peralta Street, 1676 12th Street, 3415-3417 Martin Luther King Jr. Way, 1717 16th Avenue, 460 W. MacArthur Boulevard, Pursuant To Ordinance No. 12784 C.M.S. [Two-Year Pilot Mills Act Program], To Provide These Owners With Property Tax Reductions In Exchange For Their Agreement To Repair And Maintain Their Historic Property In Accordance With Submitted Work Program.

(B) City Ordinance expanding and making permanent the Mills Act Property Tax Abatement Program For Qualified Historic Properties which was established as a Two-Year Pilot Program via Ordinance No. 12784 C.M.S.

SUMMARY

At the December 1, 2009 CED Committee meeting, staff was asked to provide the following information in a supplemental report:

- 1) Provide a Tax Assessment Projection Chart for the Mills Act Property Tax Abatement Program tax revenue losses/gains for 10 or 15 years, to include the existing Ordinance maximums and actual losses/gains based on the 2008 and 2009 current applications under the Mills Act Pilot Program; and
- 2) Include a copy of the Mills Act Evaluation Form and develop additional criteria for the proposed Central Business District Expansion for larger commercial properties to participate in the Mills Act Program.

KEY ISSUES AND IMPACTS

Tax Assessment and Revenue Projections

Table 1 in *Attachment A* to this supplemental report provides Year 1, 5, 10 and 15 projections for the annual maximum tax revenue losses permitted by Ordinance and the cumulative tax revenue losses/gains, based on the 2008 and 2009 Mills Act applications, utilizing the Mills Act Tax Calculator estimates. Also included are the projected tax net gains based on the proposed

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expanded Mills Act Program for larger commercial buildings in the Central Business District, based on two 2008 applications, utilizing the Mills Act Tax Calculator estimates for the current assessed building value and the Developer's projected assessed value following rehabilitation.

Tables 2 and 3 in *Attachment B* to this supplemental report provide specific data on all executed 2008 Mills Act Contracts and all 2009 applications processed and under consideration by the Council. Table 4 within *Attachment B* provides specific data on the two Central Business District properties that submitted applications, but were not processed.

Please note that the Table projections are based only on the two-year Pilot Program submittals and the Mills Act Tax Calculator estimates. There are many variables that will determine actual losses/gains in future years, making the 15 year analysis speculative at this time. Some of these variables are:

- Number of applications submitted each year: The first year of the Pilot Program yielded 21 applications. The second year yielded only six applications.
- Mix of applications submitted each year: Preliminary projections illustrate that larger commercial building net gains would offset smaller residential losses.
- Property size and timing of rehabilitation completion: The work programs submitted and tax revenue estimates for the larger Central Business District commercial buildings indicate a short rehabilitation completion time (1 to 2 years) and a subsequent early tax revenue net gain.
- Percentage of loss/gain to actual gross annual tax revenues (not considered as part of the analysis): Current percentages of the *maximum allowed* losses indicate a small loss, based on this years projected gross tax revenues - 0.02% of the City's annual tax revenues, and 0.21% of the Redevelopment Agency's annual tax revenues. The projected loss estimates in the Tables indicate that the losses are well below the *maximums allowed* by Ordinance. Tax revenues can increase or decrease in the future years. The Mills Act tax revenue losses/gains as a percentage of these yearly gross revenues are important criteria in evaluation of the Program.
- County Tax Assessor's interpretation of repairs/maintenance versus improvements: Improvements trigger assessment increases, while repair/maintenance do not.

Due to the time lag from a Mills Act application to the County Tax Assessor's actual calculation and distribution of tax bills, the City's first Mills Act Contracts property owners have just recently been forwarded their initial Mills Act adjusted 2009-2010 tax bills. Staff has requested a copy from each 2008 Mills Act Contract property owner, but has not yet received all of them. This hard data will begin to accurately track tax revenue losses/gains, and over the years will provide data for cumulative analysis.

Because the City Council will review the Mills Act Contract applications each year for Approval, this review will provide an opportunity for the Council to evaluate the cumulative

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effects of the program on a yearly basis. At this time, it is premature to comprehensively evaluate the Program because there has not been sufficient hard data available for this type of definitive analysis. On the other hand, the data available from the 2008 – 09 applications indicates that the projected yearly losses are significantly lower than the maximums allowed in the proposed Ordinance. Also, should the expansion be approved, it appears that the larger commercial buildings’ estimates demonstrate a substantial net gain that would exceed the cumulative losses of smaller residential properties.

SUMMARY

	2008-2009 TOTAL TAX LOSSES	TAX GAINS FOLLOWING REHAB	2008-2009 MAXIMUM LOSSES ALLOWED PER ORDINANCE	2008-2009 NUMBER OF CONTRACTS (AVERAGE/ YR)	AVERAGE LOSSES PER YEAR	AVERAGE GAINS PER YEAR AFTER REHAB
CITY REVENUES	(\$ 7,828)		(\$ 50,000)	7 (3.5)	(\$ 3,914)	UNKNOWN
REDEVELOP- MENT REVENUES	(\$ 27,433)		(\$ 500,000)	11 (5.5)	(\$13,717)	UNKNOWN
CBD ORDINANCE EXPANSION	\$ 0 ¹	\$93,600/yr	(\$250,000.yr)	2 (1.0)	\$ 0	\$ 93,600

The summary indicates that the 2008-09 total tax losses are significantly below the maximum losses allowed per the Ordinance enabling the Pilot Program. It also indicates that one large commercial building (two are summarized) could more than offset losses of smaller residential properties. The summary also demonstrates an average of 10 Mills Act applications per year. At the 15th year of the Program, this would result in the rehabilitation of 150 properties.

Mills Act Evaluations

The Mills Act Evaluation Form is included as *Attachment C* to this supplemental report. Staff recommends that the following criteria be added to the Form to address the proposed expansion to include larger commercial buildings in the Central Business District:

¹ The Mills Act Tax Calculator shows an increase in taxes based on the Mills Act tax formula. Therefore, until the property was rehabilitated and reassessed by the County Tax Assessor, the property taxes would not change due to a Mills Act Contract. Following rehabilitation, which typically occurs over a 1-2 year period for a commercial rehabilitation, the Mills Act Tax Calculator indicates a significant tax increase in the two property applications received by the City.

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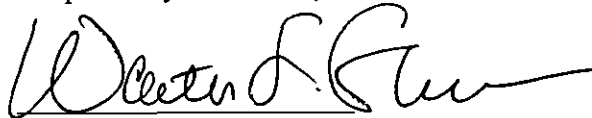
CBD Commercial Properties – up to 5 points:

- i. Mills Act Tax Calculator estimates a net gain following rehabilitation;
- ii. The work program time line is expedited indicating completion of the rehabilitation in 1 to 2 years;
- iii. Revitalization of a vacant or underutilized building;
- iv. 1st floor proposed uses have potential to enhance pedestrian activity;
- v. Proposed uses are supportive or complementary to adjacent uses.

ACTION REQUESTED OF THE CITY COUNCIL

- 1) Accept this supplemental report, and adopt the Resolution approving eleven Mills Act Contracts between the City of Oakland and the properties outlined in this report; and
- 2) Adopt the Ordinance expanding and making permanent the Mills Act Property Tax Abatement Program for Qualified Historic Properties.

Respectfully submitted,



Walter S. Cohen, Director
Community and Economic Development Agency

Reviewed by:
Eric Angstadt, Deputy Director

Prepared by:
Joann Pavlinec, Planner IV
Planning

APPROVED AND FORWARDED
TO THE CITY COUNCIL:



Office of the City Administrator

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TABLE 1
MILLS ACT CONTRACT
TAX REVENUE CUMULATIVE LOSSES/GAINS
MAXIMUM YEARLY ALLOWANCES
15 YEAR PROJECTION

	2009 Year 1	2013 Year 5	2018 Year 10	2023 Year 15
City Tax Revenue Losses: Based on Actual 2008-2009 Applications	(\$ 3,914)	(\$ 58,710)	(\$ 215,270)	(\$ 469,680)
Ordinance Maximum City Tax Revenue Loss Limits	(\$25,000/yr)	(\$25,000/yr)	(\$25,000/yr)	(\$25,000/yr)
Redevelopment Tax Revenue Losses: Based on Actual 2008-2009 Applications	(\$ 13,717)	(\$ 205,755)	(\$ 754,435)	(\$ 1,646,040)
Ordinance Maximum Redevelopment Tax Revenue Loss Limits (\$25,000/yr in any single area with a cumulative limit of \$250,000/yr in all Redevelopment areas except CBD; additional \$250,000/yr in CBD.)	(\$250,000/yr)	(\$250,000/yr)	(\$250,000/yr)	(\$250,000/yr)
Proposed CBD Expansion -Larger Commercial Properties Potential <u>Net GAINS</u> : Based on Actual 2008-2009 Applications (2 applications not processed)	\$ \$ 93,600	\$ 1,404,000	\$ 5,148,000	\$ 11,232,000

TABLE 2 - 2008 MILLS ACT TAX CALCULATOR ESTIMATES

(21 Applications Submitted, 10 Contracts Approved, 7 Contracts Signed)

MILLS ACT APPLICATION NUMBER	CITY (C) / REDEVELOPMENT AREA (R)	CURRENT PROPERTY TAXES W/O MILLS ACT	MILLS ACT TAXES BASED ON MILLS ACT CALCULATOR ESTIMATOR	CHANGE IN TAXES (CURRENT VS. MILLS ACT)	CITY TAX REVENUE LOSS (27.28% OF TAXES) - Year 1	REDEVELOPMENT TAX REVENUE LOSS (80% OF TAXES) - Year 1
MA07-002	R	\$ 6,260	\$ 3,440	\$2,820		(\$2,256)
MA-08-001	R	\$ 7,377	\$ 2,600	\$4,777		(\$3,822)
MA-08-004	C	\$ 7,035	\$ 4,558	\$2,477	(\$ 676)	
MA08-008	C	\$ 8,246	\$ 2,923	\$5,323	(\$1,452)	
MA08-009	C	\$26,114	\$32,764	N/A		
MA08-010	C	\$12,345	\$ 4,036	\$8,309	(\$2,267)	
MA08-016	R	\$14,943	\$15,402	N/A		
				TOTALS	(\$4,395) 3 properties	(\$6,078) 2 properties

TABLE 3 - 2009 MILLS ACT TAX CALCULATOR ESTIMATES

(6 Applications Submitted, 5 Rolled Over from 2008)

MILLS ACT APPLICATION NUMBER	CITY (C) / REDEVELOPMENT AREA (R)	CURRENT PROPERTY TAXES W/O MILLS ACT	MILLS ACT TAXES BASED ON MILLS ACT CALCULATOR ESTIMATOR	CHANGE IN TAXES (CURRENT VS. MILLS ACT)	CITY TAX REVENUE LOSS (27.28% OF TAXES)- Year 1	REDEVELOPMENT TAX REVENUE LOSS (80% OF TAXES) - Year 1
MA08-002	R	\$4,990	\$2,215	\$2,775		(\$2,220)
MA08-006	C	\$6,622	\$4,494	\$2,128	(\$ 581)	
MA08-011	R	\$5,546	\$1,832	\$3,714		(\$2,971)
MA08-012	C	\$9,144	\$2,233	\$6,911	(\$1,185)	
MA08-014	R	\$8,535	\$3,154	\$5,381		(\$4,305)
MA08-015	C	\$9,527	\$3,415	\$6,112	(\$1,667)	
MA09-001	R	\$6,332	\$4,743	\$1,589		(\$1,271)
MA09-004	R	\$5,874	\$3,124	\$2,750		(\$2,200)
MA09-005	R	\$7,974	\$2,884	\$5,090		(\$4,072)
MA09-006	R	\$2,372	\$1,443	\$ 929		(\$ 743)
MA09-007	R	\$7,538	\$3,072	\$4,466		(\$3,573)
				TOTALS	(\$3,433) 3 properties	(\$21,355) 8 properties

TABLE 4 - 2008 MILLS ACT TAX CALCULATOR ESTIMATES

(2 CBD Large Commercial Applications Submitted)

MILLS ACT APPLICATION NUMBER	CITY (C) / REDEVELOPMENT (R) AREA	CURRENT PROPERTY TAXES W/O MILLS ACT	MILLS ACT TAXES BASED ON MILLS ACT CALCULATOR ESTIMATOR	CHANGE IN TAXES (CURRENT VS. MILLS ACT)	CITY TAX REVENUE LOSS (27.28% OF TAXES)- Year 1	REDEVELOPMENT TAX REVENUE LOSS (80% OF TAXES) – Year 1
Prior to rehab.	R	\$40,754	\$90,304	N/A (Taxes remain the same)		
After rehab. and reassessed			\$90,304	\$49,550		Approx. \$40,000
Prior to rehab.	R	\$41,952	\$109,654	N/A (Taxes remain the same)		
After rehab. and reassessed			\$109,654	\$67,702		Approx. \$53,600
Net Gains				TOTALS		\$93,600 2 properties

MILLS ACT EVALUATION FORM

Mills Act No.:

Mills Act Address:

		POINTS	NOTES
GENERAL CRITERIA			
1. COMPLETE APPLICATION	<i>PREREQUISITE</i>		Complete Date
2. HISTORIC STATUS			
City of Oakland Landmark	5 points		
Potentially Designated Historic Property, with existing rating of "A" or "B"	4 points		
Contributor to a designated Historic District, a Heritage Property, a Designated Historic Property Landmark, Historic District Contributor) or on the Preservation Study List	3 points Pres. Study List Requires Heritage Property Des.		
Contributor to an API (Area of Primary Importance)	2 points Requires Heritage Property Des.		
Potentially Designated Historic Property, with rating of "C" or a Contributor to an ASI (Area of Secondary Importance)	1 point Requires Heritage Property Des.		
3. TAX DED=EXT. WK.PRGRM.	<i>PREREQUISITE</i>		
<ul style="list-style-type: none"> i. needs exterior work ii. no interior work iii. cost of exterior work =/greater than the potential reduction of property taxes 			
4. LOCATION, SCOPE, SCALE	up to 5 points		
<ul style="list-style-type: none"> i. visibility of work program prominent location secondary location ii. scope of the work in proportion to the scale of the building iii. part of a continuous group/streetscape whose continuity would be improved by work program 			
5. NEIGHBORHOOD IMPACT	up to 5 points		
Strong potential to act as a catalyst for neighborhood revitalization: <ul style="list-style-type: none"> i. increasing architectural integrity ii. preserving neighborhood character iii. conserving materials and energy embodied in existing building 			

		POINTS	NOTES
6. WORK IMPACT	up to 5 points		
Potential positive impact of the work on the stabilization of the historic integrity of the property: <ul style="list-style-type: none"> i. stabilization/structural/seismic work ii. reversal of inappropriate work iii. restoration of character defining features iv. major repair/maintenance v. maintenance of minor wear/tear 			
7. TIMELINE PRIORITY	up to 5 points		
Timeline prioritizes work early on in the ten year work program to <ul style="list-style-type: none"> i. the character of the resource ii. highly visible areas or arch. integrity iii. reversal of inappropriate work iv. contributes to the neighborhood 			
OVERLAY CRITERIA			
8. REDEVELOPMENT REQUIREMENT	1 point		
<ul style="list-style-type: none"> i. West Oakland Redevelopment Area ii. Central City East Redevelopment Area 			
9. NEIGHBORHOOD DIVERSITY	1 point		
Location contributes to the goal of Mills Act contract representation in neighborhoods throughout the City			
10. BUILDING TYPE DIVERSITY	up to 2 points		
<ul style="list-style-type: none"> i. Property's building type contributes to goal of a variety of Mills Act contract building types (e.g., residential, commercial, industrial, etc.) ii. rarity of the historic resource with respect to age, style, quality, character and use 			
ADDITIONAL			
Thoroughness of application, above and Beyond completeness	BONUS POINTS		

TOTAL